



Director of
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ITALY: Budget Battle Looming

The new austerity budget calling for increased taxes and substantial cuts in social spending emphasizes proposals that already are causing friction in the five-party coalition government. 


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Prime Minister Craxi unveiled a draft budget for 1984 last week. It is designed to reduce the deficit from a projected \$88 billion to \$58 billion, about 15 percent of gross domestic product. The package calls for \$5.1 billion in social spending cuts, including reductions in family allowances and in pension and health benefits. 

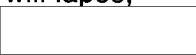
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The draft budget also cut capital spending by \$5.3 billion and anticipated \$3.8 billion in savings from reduced interest payments on public debt. At the same time, the budget aims to increase tax revenues by \$8.1 billion, in part from increased corporate taxes and higher taxes on interest income. 


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The Christian Democrats lost heavily in the national election in June, and some of the party's leaders are especially sensitive to proposed cuts in social services, which will hurt a number of important party constituencies. Trade union leaders, including some from Craxi's Socialist Party, also have criticized the proposals. The fiscally conservative Republicans strongly support the budget, but they are concerned that eventual compromises will lead to greater tax increases rather than spending cuts. 

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Press reports state that the measures were presented to parliament as a decree law effective 1 October. The law will lapse, however, unless approved by parliament within 60 days. 

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Comment: The budget cuts are the most severe in decades, and voter constituencies important to the coalition parties will be hit hard. The debate on the budget probably will be protracted, despite government efforts to push through a bill making parliamentary action on the annual budget mandatory by 31 December. The final package, however, is likely to be more expansionary and inflationary than the government wants. 

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EAST GERMANY: Meeting of Church Leaders

Lutheran leaders recently reaffirmed positions that conflict with the regime's policy on several sensitive issues, but their careful balancing may satisfy neither the government nor the church's youth and peace activists. 


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The synod endorsed several steps toward disarmament and appealed to the regime to work within the Warsaw Pact against the stationing of short-range nuclear weapons on East German territory. It also called on the government to live up to the terms of the Helsinki Agreement of 1975—which include freedom of emigration—and to facilitate travel between East Germany and West Germany. 


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The church leaders deferred a decision, however, on whether pacifism is a basic tenet of faith. Such a stand could lead to direct conflict with the highly militarized East German state, which faces shortages of conscripts for the next several years. 

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The synod also made no direct statement on official delays in processing applications for emigration, in part because many bishops believe Christians should stay and work within the system. Although a leading bishop deplored the regime's mistrust of young people, the meeting sought to discourage spontaneous public demonstrations and other activities that might lead to repression. 

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Comment: The synod's caution reflects its concern that, with the end of the Martin Luther 500th birthday celebrations and with the peace campaign against INF, the regime will soon move against the church's activities on peace, environmental, and emigration issues. The church's failure to take stronger positions probably is already alienating young people and peace activists, which could tend to divide the church. Any crackdown might differentiate between church-related and more autonomous activities, putting even greater strain on the church. 

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LEBANON: Tougher Negotiating Positions

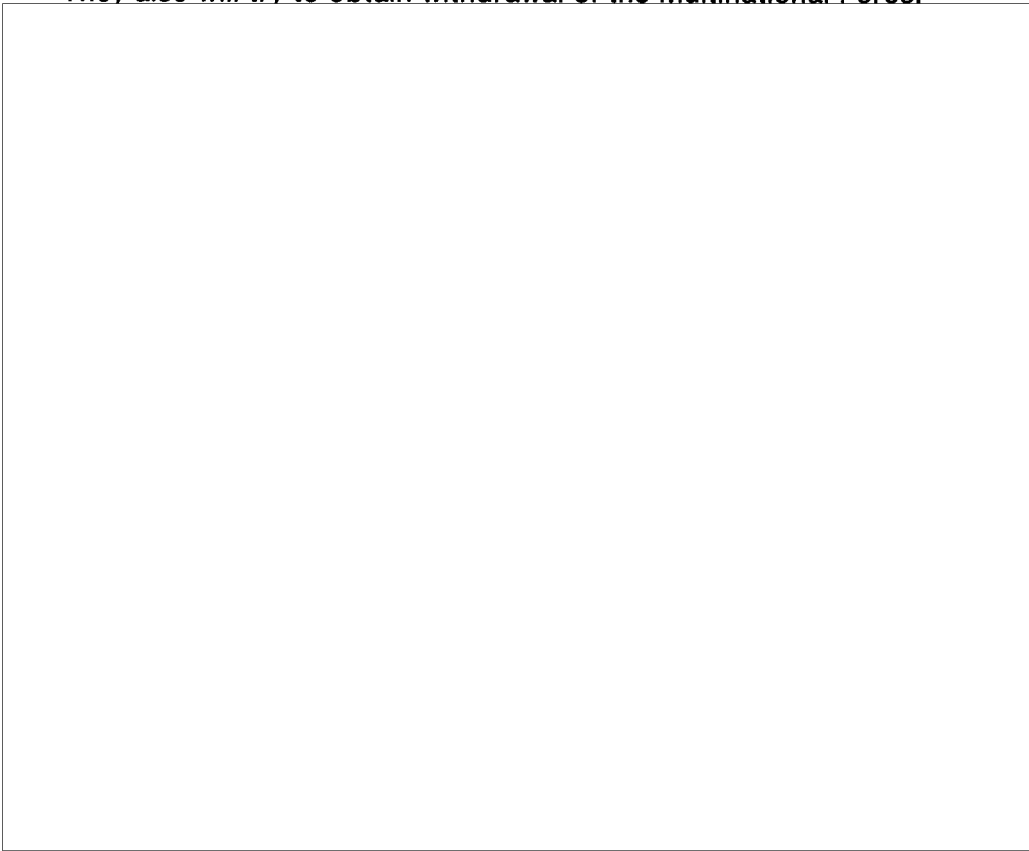
Lebanese factional leaders are hardening their positions toward national reconciliation talks. Former President Franjyah, a member of the opposition National Salvation Front and one of 11 politicians invited to attend the talks, said yesterday that he would not participate unless President Gemayel first abrogated the Lebanese-Israeli withdrawal agreement.



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Comment: Franjyah, who has long been allied with Syria, probably is acting on behalf of Damascus to keep the withdrawal agreement at the forefront of any talks. The Syrians will continue to push this issue and to demand political concessions that would weaken the influence of the Phalange Party in the central government. They also will try to obtain withdrawal of the Multinational Force.



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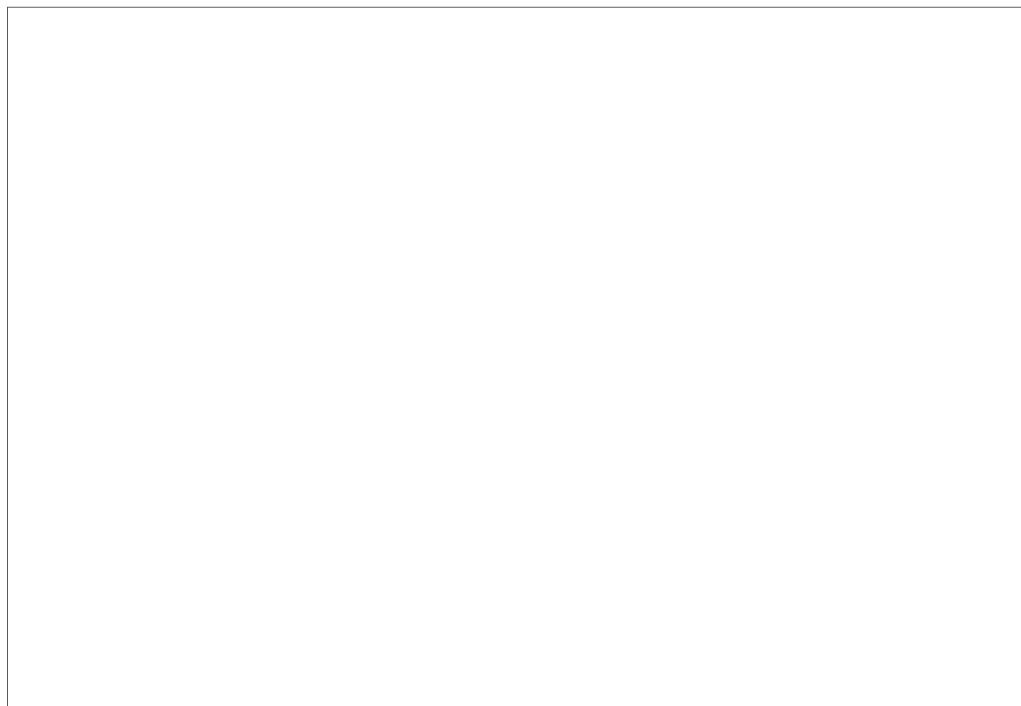


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CHILE: New Protests Planned

Protest marches to be staged on 11 October by the Democratic Alliance and a leftist-sponsored sixth day of national protest planned for 13 October are designed to put pressure on the government to make more political concessions. The Alliance is taking precautions to ensure that its marches in Santiago and other cities remain peaceful. Two newly formed leftist coalitions are planning the day of national protest. The Democratic Alliance has refused to participate in their activities. 

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Comment: The Democratic Alliance is trying to maintain the leadership of the opposition movement and the momentum of the talks that resumed with the government last week. Leaders of the Alliance hope that by carefully controlling their rally and refusing to participate in leftist activities, they can avoid responsibility for whatever violence may occur. The arrest yesterday of Rodolfo Seguel and other labor leaders during a march demanding reinstatement of fired copperworkers indicates the government is trying to discourage the protests planned for next week. 

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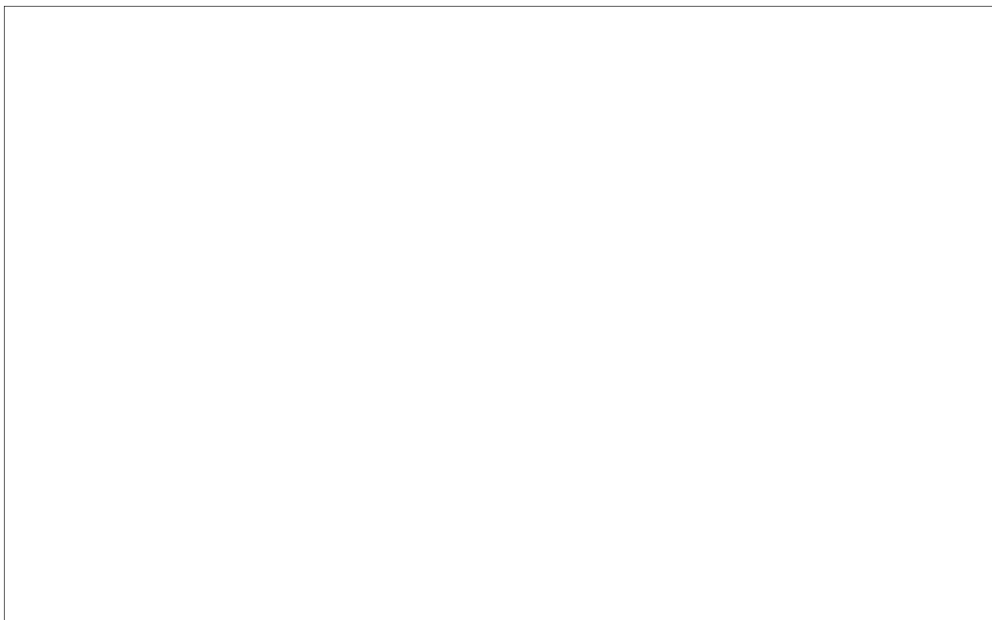
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USSR-US: Criticism of INF Proposals

An editorial in *Pravda* yesterday repeats General Secretary Andropov's characterization, made on 28 September, of the most recent US proposals on INF as "another deception." It notes that the US position on the basic issues of nondeployment of US missiles and inclusion of British and French systems has not changed. The editorial then makes a detailed rebuttal of the proposals and concludes by criticizing those West European leaders who support the US position "contrary to the will of the majority." 

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Comment: This is the first Soviet commentary to discount the US offer point by point. Although Soviet negotiators in Geneva are still interested in receiving elaboration of the proposals, the editorial is further evidence that Moscow is focusing its efforts on appeals to public opposition to INF in Western Europe. The meeting next week of Warsaw Pact foreign ministers in Sofia could be used to launch a new Soviet propaganda initiative aimed at this audience. 

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LIBYA-GHANA: Strains in Relations

Libya has cut off oil supplies and credits to Ghana, [Redacted]

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Ghana also

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has been unable to obtain oil from Nigeria, because of its inability to repay large debts from previous purchases. According to the US Embassy, Accra will have to spend scarce foreign exchange to buy oil on the spot market. [Redacted]

Comment: The oil cutoff, coupled with Rawlings's tentative attempts to improve relations with the West, indicates serious strains in Libyan-Ghanaian relations. The lack of Libyan oil on easy credit terms will jeopardize Ghana's fledgling economic reform program and hinder compliance with the recent IMF agreement. As the economic situation deteriorates, Rawlings could be forced to come to terms with Libyan leader Qadhafi. [Redacted]

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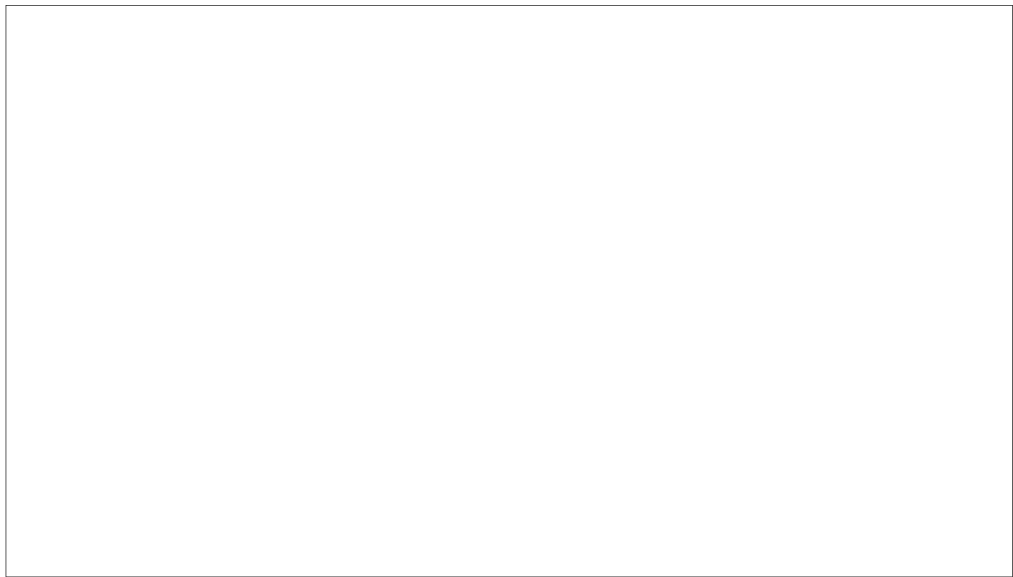
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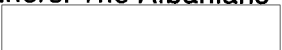
ITALY-ALBANIA: Foreign Ministers Meet

Italian officials are satisfied with the meeting last week between Foreign Minister Andreotti and Albanian Foreign Minister Malile, who now is trying to cultivate better economic relations with the West. The two met at the UN General Assembly, at Albanian request, to discuss expanding bilateral trade. Malile expressed satisfaction with relations with Greece and Turkey as well as with Italy, but reiterated his country's fears that Yugoslavia intends to absorb Albania. He stated that Albania hopes to attract more Western tourists, and he showed interest in Andreotti's suggestion that he visit Italy soon.



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Comment: This meeting is the first with a Western foreign minister in several years. It is the latest step in Albania's campaign to gain access to Western goods and markets while avoiding political ties. Malile rejected Andreotti's suggestion that Albania accept trade credits, and Tirana probably will continue to insist on a strict barter or cash-and-carry relationship with Western partners. The Albanians remain determined to protect their neutrality.



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Special Analysis

USSR-CHINA: Status of Relations

Moscow and Beijing are still talking past each other on the major issues dividing them, but they are continuing to make progress toward better relations. The Chinese apparently believe that their bargaining position has been strengthened as a result of their improved ties with the US and the deterioration in Soviet-US relations. Moscow appears intent, however, on continuing to deflect Beijing's demands for movement on major security issues. Normalization talks, which are slated to resume later this week, are likely to continue the trend of gradually improving relations while failing to produce much progress on key issues.

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Press and diplomatic sources report that during Soviet Deputy Foreign Minister Kapitsa's visit to Beijing in mid-September the two sides agreed to open a second channel of communications at the deputy foreign minister level. Chinese Vice Foreign Minister Qian Qichen will visit Moscow next year.

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The Soviets evidently made the suggestion in the hope of channeling talks about the Kampuchean, Afghan, and Mongolian issues into the new forum. They also may have hoped to persuade the Chinese to cooperate on those foreign policy issues where the two sides have similar positions.

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Although the Chinese agreed to the new talks, they apparently did not drop their right to raise international issues at the normalization meetings. They evidently wanted in part to demonstrate progress in Sino-Soviet relations on the eve of Secretary of Defense Weinberger's visit. Beijing actually may view the new forum as another channel for putting pressure on Moscow for movement on Vietnam, Afghanistan, and the Soviet military buildup on the border.

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Reporting from Soviet and Chinese sources indicates China also accepted a Soviet offer to assist in rehabilitating two to four Soviet-built industrial plants, Soviet suggestions for substantially increased bilateral trade and student exchanges next year, and more cultural and scientific contacts. The Chinese, however, reportedly rejected a Soviet proposal for regular meetings at the foreign minister level and for a resumption of the border talks. The USSR is likely to continue pushing the latter proposal.

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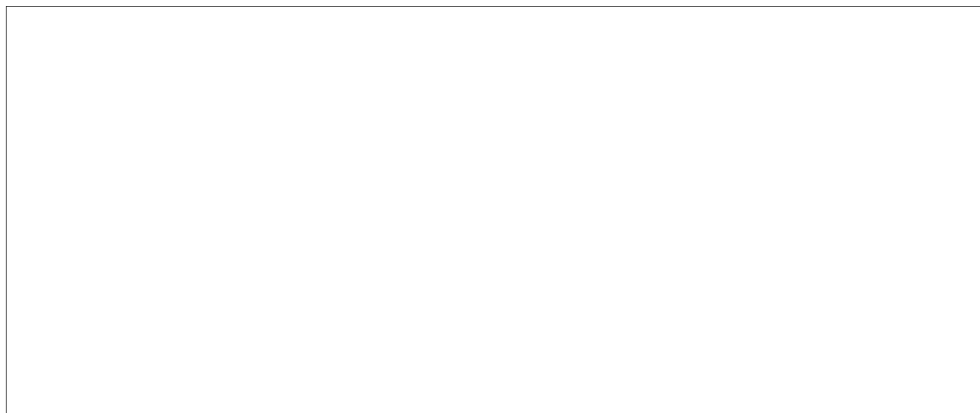
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Each Side's Objectives



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The Chinese have rejected generalized agreements on "principles" and submitted specific suggestions for reducing what they see as the Soviet threat to China. China calls for Vietnam to withdraw its troops from Kampuchea, for the USSR to withdraw its forces from Mongolia and Afghanistan, and for the reduction of the number of Soviet troops and missiles along the Chinese border—preferably to the level existing in 1964.



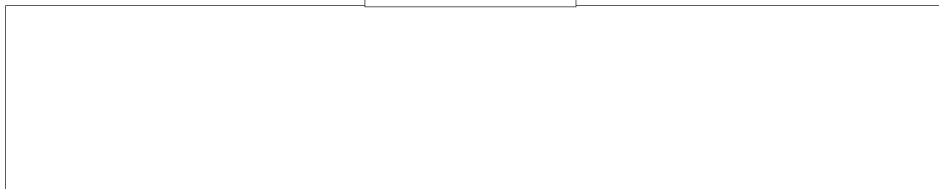
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Positive Moves

Moscow and Beijing also have generally been muting their criticism of one another. For example, the two sides handled Mongolia's expulsion of most of its Chinese minority and China's artillery attacks on Vietnam's territory in a restrained fashion. In addition, the Chinese refused to endanger their incipient opening to Moscow and abstained from the UN resolution on the shootdown of the South Korean airliner.



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In August leaders of both countries made statements that went part way toward meeting the other's security concerns. On 27 August, for example, General Secretary Andropov promised to destroy all missiles that might be removed from the European USSR as a result of an INF agreement in Europe rather than deploy them in the Far East. On 29 August General Secretary Hu Yaobang tried to meet Soviet concerns that normalization of relations would not damage the USSR's third-party interests by noting that China never had harmed or would harm Vietnam, Kampuchea, Mongolia, or Afghanistan.



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Prospects for the Next Round

Despite the increase in bilateral contacts, there is little chance of a major breakthrough during this round of normalization discussions. Soviet Deputy Foreign Minister Ilichev probably will find the Chinese considerably tougher after Secretary of Defense Weinberger's visit.

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Beijing is likely to hammer home its objections to all SS-20 deployments in Asia. Moscow probably will not try to engage in a bidding war with the US for Beijing's favors.

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Although the two sides have moved a long way since the discussions began a year ago, the legacy of mutual mistrust and suspicion will not be dispelled soon. The continuing gradual buildup of Soviet forces opposite China testifies to Moscow's pessimism about the prospects for a real rapprochement. Nonetheless, the two sides probably will continue to try to take small steps toward improved ties while remaining steadfast on the major security issues dividing them.

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