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European Review

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20 December 1985

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EUR ER 85-028
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European Review [redacted]

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The presidential election early next year probably will continue a shakeup of Portuguese politics that began with the parliamentary election on 6 October. The shakeup may increase political instability, expand Communist influence, and accelerate the cooling trend in Portugal's relations with the United States. [redacted]		25X1	

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Turkey: Recent Political Trends and Prospects

[Redacted]

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[Redacted]

Despite a recent merger of the principal leftist parties, some gains in support for a rival party on the right, and apparent slippage in the government's popularity, Prime Minister Ozal's ruling center-right Motherland Party is unlikely to be challenged seriously by next summer's byelections for vacancies in Turkey's parliament. Looking ahead to the next general elections in 1988, however, Ozal may face stronger opposition if he fails to demonstrate some success in coping with economic problems. [Redacted]

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[Redacted]

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views. [Redacted]

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Briefs

Cyprus

Election Results

[Redacted]

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President Kyprianou is likely to read the parliamentary election in early December as vindicating his hard line on the UN-sponsored Cyprus peace talks. Kyprianou's centrist party captured about 27 percent of the popular vote, as compared with 20 percent in 1981. The conservatives maintained their traditional one-third of the vote, but the Communists were the big losers, down from 33 to 27 percent.

[Redacted]

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While Kyprianou's opponents are claiming success and calling for the President's resignation, they failed to capture the two-thirds vote necessary to try to amend the Constitution and limit his authority. Since the Communists' losses can be attributed in part to their supporters' dissatisfaction with cooperation with the conservatives, they may distance themselves from the conservatives in the future.

[Redacted]

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Kyprianou almost certainly is relieved and heartened by the outcome. He is less likely to compromise further in the UN peace talks and undoubtedly sees the election results as endorsing his hardline approach to Turkish troop withdrawals, return of refugees, and freedom of movement between the northern and southern sectors of the island. While Kyprianou's party still lacks a majority in parliament, he is now better able to play the balancing role he has perfected during his eight years in office.

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Secret**Sweden****Limited Liberalization of Exchange Controls**

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Despite eight years of work, a divided parliamentary commission has proposed only minor reforms in loosening Sweden's foreign exchange and capital flow restrictions. The commission majority, appointed from Prime Minister Palme's Social Democrats and the trade unions, argued that balance-of-payments constraints preclude more extensive liberalization.

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The influential trade unions are especially concerned about a more liberal exchange regime because they fear that increases in Swedish investment overseas would cost jobs at home and require greater wage restraint in order to maintain Swedish industrial competitiveness. Consequently, the report recommends only minor changes, such as permitting Swedish firms to hold foreign securities as a hedge against exchange risk and allowing small firms to retire foreign debts before maturity. Some of the proposals would strengthen the central bank's control over Swedish overseas investment and thus may run counter to Stockholm's agreements within the OECD not to make existing regulations more restrictive.

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Minority members of the commission, chosen from the opposition parties and the business community, had sought much more extensive deregulation as a way to impose discipline on domestic economic policy and control inflation. The report's main recommendations are subject to a six-month review process before the government can introduce legislation to carry them out.

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East Germany**Economic Targets for 1986**

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East Germany's economic plan and state budget for 1986 suggest that East Berlin will continue most of its current economic policies into the first year of the new five-year plan (1986-90):

- Projected national income growth of 4.4 percent is the same as this year's target, and goals for industrial production, labor productivity, cost reductions, and retail sales are similar to 1985 objectives.
- Production of lignite is to rise 6 percent, further reducing East German dependence on imported—mainly Soviet—energy.
- A 13-percent increase in investment reverses the declines of recent years and could indicate increased purchases of capital goods from the West.
- Steel production is to reach 9.24 million tons, up from 7.57 million tons in 1984, which probably reflects completion of a new Austrian-built mill.
- The state budget includes another big increase in subsidies for consumer goods—a reflection of the Honecker regime's understanding that it is politically important to maintain stable prices for basic consumer goods.

Also noteworthy is a 7.7-percent increase in defense spending, a slightly higher growth rate than in recent years.

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The plans suggest that the economic "strategy of the 1980s" promulgated at the last Communist party congress in 1981 will continue through 1990 and that the next party congress scheduled for April 1986 may bring few new economic initiatives. The plans and regime rhetoric at a recent party plenum indicate that the government will continue to stress science and technology, including computers and microelectronics, as a means of increasing efficiency and improving labor productivity. The growth target for 1986 could be a harbinger of goals for the next five years, implying continued rapid growth by East European standards. We believe the current strength of the economy should make next year's goals attainable. Over the longer term, however, the regime will have to overcome numerous problems, such as inefficient industrial plants, a growing pollution problem, a poor resource base, and a steadily declining population. [redacted]

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Bulgaria**New Reform Legislation** [redacted]

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The National Assembly is considering a law that would reorganize unprofitable enterprises under new management, according to the US Embassy in Sofia. The law is designed to reduce complacency among managers by removing traditional guarantees of job security and making managers responsible for enterprise performance. The new legislation is a response to Bulgaria's poor economic performance this year and Soviet demands for greater efficiency. The Soviet Ambassador to Bulgaria last July publicly criticized Bulgarian economic management, and the official press has subsequently denounced managers for corruption, cronyism, and failure to adopt more efficient technologies. [redacted]

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The proposed law is not likely to be implemented broadly. Cronyism, a preference for the status quo, and fear of jeopardizing their own position will discourage party and government bureaucrats from approving more than token dismissals. The regime is unlikely to cut subsidies and liquidate unprofitable firms because any resulting unemployment would contradict official ideology and bottlenecks in supply would complicate planning. [redacted]

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Articles

**NATO: France's
Role in the
European Fighter Aircraft**

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In September, only a month after withdrawing from the European Fighter Aircraft (EFA) program, the French Government proposed the creation of a joint aerospace industry group to study and consolidate future aircraft development in Western Europe. Then, in early November, President Mitterrand announced that France would rejoin the EFA program on a limited basis. These two developments, we believe, spring in large part from Paris's concern over the high development costs of its own Rafale fighter program and its desire to gain access to EFA-related technology advances and potential export markets. It also reflects in part Mitterrand's unwillingness to jettison French participation—however minimal—in a project that has become an important symbol of European defense cooperation. Although the EFA program faces difficult decisions ahead, progress has been made toward meeting first flight dates for the two demonstrator aircraft—Britain's Experimental Aircraft Program (EAP) version and France's Rafale—which will form the basis of an eventual EFA design.

Background

A five-nation working group comprised of the United Kingdom, France, West Germany, Italy, and Spain was formed in 1983 under NATO auspices to study joint development of an advanced fighter. Officially designated the European Fighter Aircraft, it would replace with a common aircraft the countries' aging F-4 Phantom, Jaguar, Mirage-3, and F-1 aircraft. Motivated by the potential for minimizing R&D and production costs, the Europeans also wanted to reduce their dependence on US technology and weapons and keep their armaments industries alive. Under the EFA program, development and production would be

undertaken by the principal aircraft companies of each nation.¹

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Disputes among the partners quickly arose over project leadership, aircraft design, and production sharing, and, last August, France withdrew from the consortium. The United Kingdom, West Germany, and Italy subsequently decided to proceed with joint development of the fighter on their own, leaving France to develop its aircraft independently. In September, Madrid—after having tried in vain to convince Paris to return to the consortium—announced that it would join London, Bonn, and Rome in EFA development and production.

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Contrasts in Concept

Disagreements among the original five partners were fundamental and ultimately irreconcilable. France viewed the ground attack role as the primary design criterion for EFA, with air defense as a secondary requirement; the United Kingdom and West Germany, however, wanted the fighter's primary mission to be air superiority and ground attack to be secondary. The French Government, moreover, was not eager to participate in the design and production of an advanced air defense fighter which would compete directly for sales with the Mirage 2000; nor were the British or West Germans interested in a ground attack fighter that would compete with the Tornado.

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Another area of disagreement was over performance characteristics of the aircraft. France wanted a lightweight, twin-engine, relatively unsophisticated

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¹ France's Dassault-Breguet, the UK's British Aerospace, West Germany's Messerschmitt-Boelkow, Italy's Aeritalia, and Spain's Construcciones Aeronauticas S.A.

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aircraft with comparatively small development costs that would be competitive in Third World markets. The British and West Germans, however, were interested in a much heavier, more complex two-engine fighter capable of countering first-line aircraft of the Warsaw Pact. [redacted]

A third major reason for the lack of consensus concerned project leadership and the sharing of costs and manufacturing tasks. Both France and the United Kingdom insisted that their own aerospace companies head up the EFA project. In addition, Paris initially insisted on a much larger share—40 percent—of the program's development and production than any of the other participants. With Paris out of the consortium, the four remaining partners agreed on a participation formula whereby the United Kingdom and West Germany would share equally in the major development and production costs, with Italy and Spain contributing smaller shares. [redacted]

France Rejoins the Consortium

On 26 September, President Mitterrand sent a personal message to the leaders of West Germany, Italy, Great Britain, and Spain proposing the formation of a joint European aerospace industry to study and consolidate future aircraft development. The study group would promote periodic meetings of Foreign and Defense Ministers as well as frequent contact among armament directors and manufacturers. Paris would like this cooperative agreement to extend to all types of military aircraft. [redacted]

Mitterrand then announced on 8 November that France would rejoin the EFA program. Paris now expects its financial share in the project to be between 5 and 10 percent of the total—considerably less than the 40-percent share it had insisted on earlier. At the same time, Mitterrand also announced that he has invited other European governments to join France's own new fighter project—the Rafale—which will continue. [redacted]

French Motives

Mitterrand's proposal for a joint aerospace industry underscores France's desire to foster European defense industrial cooperation, preferably with minimal US participation. Paris will promote the

Likely Areas of French Participation

We believe France could contribute to EFA in three main areas:

- Avionics. *The French will offer communications equipment and inertial navigation sensors including high-accuracy ring laser gyroscopes developed by SFENA. Cockpit avionics, including color-screen and holographic headup displays developed by Thomson-CSF, may also be offered to EFA.*
- High-tech materials. *Paris also will probably offer to cooperate with the other EFA partners in developing advanced materials such as aluminum-lithium and carbon composites for the aircraft. All the partners will benefit from such cooperation because European experience with these materials is relatively limited and both Rafale and EFA designs use them extensively. A pooling of their knowledge would help advance Europe in this critical technology and could reduce costs and minimize program delays.*
- Airframes and control systems. *Rafale and EFA will have similar twin-engine, delta-wing canard airframe designs which make a pooling of efforts technically and financially attractive. French experience with fly-by-wire control systems also may provide valuable design know-how to the EFA consortium. In addition, French R&D in fiber optics used in these control systems may prove useful to EFA members.* [redacted]

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consortium as an effort to avoid duplication among competing national firms and the less efficient project-by-project cooperative approach. [redacted]

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The proposal to rejoin EFA is being touted as an indication of Mitterrand's personal commitment to European cooperation. Mitterrand has made the "relaunching of Europe," promotion of greater European integration, and enhanced European defense cooperation the centerpiece of his foreign

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policy. Defense Minister Quiles was quick to point out that France's participation was not a return to the original five-nation venture, but he did suggest that France's limited participation in EFA was ultimately to lead to cooperation among European countries for the next-generation fighter. [redacted]

the French Rafale. The new technologies being tested in the demonstrator aircraft will be needed to complete EFA design specifications. The final design of EFA probably will incorporate design features from both the EAP and the Rafale. [redacted]

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We believe French participation is calculated to cushion the effect of France's withdrawal from the original EFA cooperative development program and provide access for French industry to EFA technology and markets. The commitment to the Rafale program ensures priority for French industrial and financial resources, but French participation in EFA should reduce R&D costs for both EFA and Rafale. [redacted]

The EFA consortium still has some potentially divisive decisions to make on design responsibility for sections of the aircraft and corresponding workshares allocated to the partners. The British and West Germans are likely to receive the largest and roughly equal shares, the Italians a somewhat smaller share, and Spain and France about 10 percent of the work. The British will push hard for the nose section of EFA, including the cockpit. France probably will make most of its contribution by providing specific components. We expect EFA will have Italian wings, a West German fuselage center section, and a Spanish tail section. Workshares for the new engine also will have to be adjusted to accommodate the Spanish engine subcontractor and probably will provide for some French involvement. [redacted]

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Prospects for EFA

All members of the EFA consortium are receptive to the broad outline of the French proposal for aircraft development cooperation and EFA membership but are skeptical of the French motives. Thus, the British and West Germans will be careful not to allow France to slow the EFA project or concentrate its limited contribution on design and development of a single subsystem. [redacted]

Implications for US Participation

French involvement in EFA could alter the potential contribution of US industry to the project. France is a leader in avionics and design and development of flight control systems. Equipment in these areas is difficult to develop and expensive to produce, and French collaboration with the UK and FRG will reduce the need for the consortium to turn to US companies for help. Even before France's decision to participate, US firms were not likely to be invited to join in materials research—an area in which we believe the Europeans possess a slight lead over the US. [redacted]

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EFA project management activities probably will use the existing Panavia complex in Munich, set up in 1969 to coordinate the design and development of Tornado, because of the costly investment in these facilities.² EFA is unlikely to employ the same Panavia management team, however, since this group will be occupied for some time in completing the Tornado program. Rather, a new team probably will be created, with new personnel to manage another 10-year program but operating from the same facility. Joint work on engine development will be coordinated through Turbo-Union, the three-nation partnership that produced the Tornado engine. [redacted]

Potential US involvement in EFA probably lies at the subcontractor level, providing components for major aircraft subsystems. [redacted]

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Disagreements within the EFA consortium have not affected progress toward the most critical phase of the effort—first flights in 1986-87 by two demonstrator aircraft, the British EAP version and

² The Tornado is a twin-engined two-seat supersonic aircraft manufactured by British Aerospace, MBB, and Aeritalia. It is deployed in interdiction/counter air strike and air defense roles by the producing countries. [redacted]

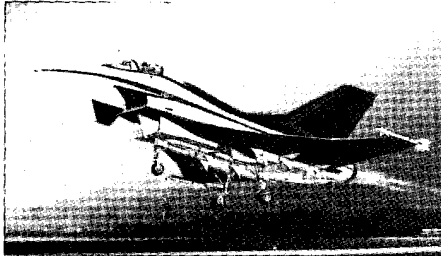
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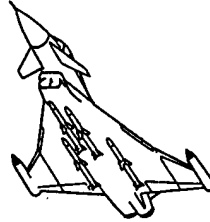
European Fighter Aircraft: Demonstrator Models and Design Features

Demonstrator Models

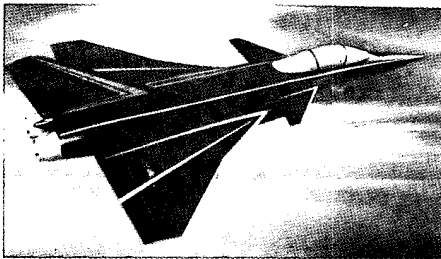


Aviation Week ©

Design Features



Interavia ©



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British EAP (top)

<i>Airframe</i>	<i>Single seat twin engine</i>
<i>Maximum engine thrust^a</i>	<i>75.6 (RB 199-104 engine)</i>
<i>Combat weight^b</i>	<i>16</i>
<i>Empty weight^b</i>	<i>11.75</i>
<i>Control system</i>	<i>Digital, fly-by-wire</i>
<i>Radar</i>	<i>Advanced multitarget</i>

European EFA

<i>Airframe</i>	<i>Single seat, twin engine</i>
<i>Maximum engine thrust^a</i>	<i>90</i>
<i>Combat weight^b</i>	<i>17</i>
<i>Empty weight^b</i>	<i>9.75</i>
<i>Control system</i>	<i>Digital, fly-by-wire</i>
<i>Radar</i>	<i>Multitarget handling capability</i>

French ACX (Rafale) (bottom)

<i>Airframe</i>	<i>Single seat, twin engine</i>
<i>Maximum engine thrust^a</i>	<i>71.2 (GE-F404 engine)</i>
<i>Combat weight^b</i>	<i>14</i>
<i>Empty weight^b</i>	<i>9.47</i>
<i>Control system</i>	<i>Digital, fly-by-wire</i>
<i>Radar</i>	<i>Lookdown/shootdown</i>

^a Kiloneutrons each.
^b Metric tons.



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**Eastern Europe:
Expanding Trade With China** [redacted]

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Eastern Europe's economic links to China are on the upswing after languishing for decades since the Sino-Soviet split. Trade with China has increased this year, and several agreements signed by trade delegations have paved the way for future growth in commercial contacts. Chinese Vice Premier Li Peng in May led a delegation—the highest ranking group to visit Eastern Europe in more than 20 years—to East Germany, Poland, and Hungary that underscored each side's interest in expanded ties. Nonetheless, Beijing's continued interest in acquiring advanced Western technology and growing Soviet pressure for closer CEMA integration are likely to prevent such trade from acquiring major significance for either China or Eastern Europe. [redacted]

In the past two years, however, both sides have sought to revive commercial ties. In 1984, a delegation from the Chinese State Economic Commission followed by Chen Muhua, then the Minister of Foreign Economic Relations and Trade, visited several East European countries. Several exchange delegations explored issues of mutual cooperation and ways to improve economic efficiency. [redacted]

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[redacted] Chinese Vice Premier Li Peng's May visit to Eastern Europe resulted in five-year trade pacts with Warsaw and Budapest. Since then, the other East European states except Bulgaria have concluded bilateral five-year trade pacts with the PRC as well as other formal economic agreements. Li Peng is scheduled to visit Bulgaria in mid-December to promote trade and sign a five-year trade pact, according to press reports. [redacted]

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Renewal of Trade Ties

Soviet and East European advisers helped China build many industrial plants in the 1950s but left abruptly when Moscow and Beijing broke relations in the early 1960s. Although Beijing continued some cooperation with Eastern Europe, such as a Sino-Polish joint shipping company, most ties were suspended. The first signs of a thaw in relations did not appear until the early 1970s when Romania's desire to demonstrate its independence from Moscow led Bucharest to establish closer links to the PRC. Romania soon became China's single-largest trading partner in Eastern Europe, but economic relations with the other countries remained minimal. [redacted]

Of all the East European countries, Poland is expanding its trade with China the fastest. According to the Polish press, two-way trade will nearly triple this year, led by large sales of Polish mining equipment and vehicles. Polish exports to China in the first half of 1985 were 72 percent greater than those for the same period of last year, according to Polish trade statistics. On 23 November, the senior economic planning officials for China and Poland signed an agreement calling for closer contacts between the state planning commissions of the two countries. At the signing, both officials said that bilateral trade between the two countries over the next five years would actually be about 40 percent greater than the amount planned in their five-year trade protocol signed last May. Hungary's trade with the PRC also increased in the first half of 1985, with exports rising 90 percent and imports 74 percent over the same

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When Beijing—after ending its self-imposed detachment from international trade—entered world markets in the late 1970s, Eastern Europe did not initially benefit. In fact, in the early 1980s trade with China accounted for only about 1 percent of all East European trade. Moreover, while Sino-East European trade turnover declined about one-third from 1980 to 1984, China's trade with the industrial West was rising. As a result, Eastern Europe's share of China's trade dropped from 6 percent in 1980 to 3 percent in 1984. [redacted]

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Table 1
China-East European Five-Year Trade Pacts ^a

Country	Date	China Delivers	China Receives
Poland	May	Rice, maize, soybeans, shoes, cotton, clothes, textiles, porcelain, minerals, tea	Power generators, trucks, mining equipment, copper
Hungary	June	Rice, fruits, shoes, tea, cotton, clothes, vegetables, cooperation in agriculture	Steel, aluminum, trucks, medical instruments
GDR	July	Rice, oil, corn, textiles	Railroad cars, trucks, combines, agricultural harvesters
Romania	October	Coal, coke, crude oil, chemicals, non-ferrous metals, clothing	Railroad cars, tractors, oil drilling and mining equipment
Yugoslavia	October	Textiles, rice, soybeans, oil	Sheet metal, trucks, buses, fertilizer
Albania	December	Cotton, rice, tires, chemicals	Chromium, copper
Czechoslovakia	December	Cereals, meats, tea, chemicals, minerals, clothing	Machinery, iron, steel, railroad cars, technical assistance in energy production
Bulgaria	^b		

^a China has signed bilateral trade protocols this year with virtually every country in Eastern Europe. Bulgaria, the sole exception, is still negotiating and may conclude an agreement with Beijing in late December. Coming as the countries' five-year plans are being completed, the trade agreements are intended to assist central planners in coordinating their long-term foreign trade. Each agreement sets out a general framework for negotiating annual trade protocols plus broad targets for the volume of trade over the 1986-90 planning period. Moreover, the pacts provide the Chinese and East Europeans with a rationale for continued dialogue and improvements in overall political and economic relations.

^b Negotiations continue.

period last year. Czechoslovakia and Bulgaria planned 30-percent increases in their trade with the Chinese this year. Although Romania continues to be China's major trading partner, Beijing is resisting Romania's pitch for even greater trade, in part because of improved ties to the rest of Eastern Europe, according to the US Embassy in Bucharest.

Chinese trade with Yugoslavia and Albania also is increasing. According to the Yugoslav press, total trade between China and Yugoslavia for the first 10 months of 1985 was double that for the same period last year. The two countries signed a five-year trade protocol in October that calls for Sino-Yugoslav trade in the 1986-90 period to increase fourfold over the

level for the previous five years. Politburo member Hu Qili visited Yugoslavia in November mainly to encourage greater economic cooperation, according to the US Embassy in Belgrade. On 3 December, China and Albania signed a trade protocol for 1986 and a trade pact for 1986-90, their first long-term trade accord since they split in 1978.

Motives for Expanded Trade

Both Eastern Europe and China can profit from closer economic cooperation. Trade may expand without using limited hard currency reserves because each produces goods the other can use and is willing to

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Table 2
Chinese Trade With Eastern Europe, 1983-84 ^a

Million US \$

	Exports		Imports		Balance	
	1983	1984	1983	1984	1983	1984
Total	668.1	587.4	840.2	1,042.6	-172.2	-455.2
Bulgaria	23.9	27.9	14.7	20.2	+9.1	+7.7
Czechoslovakia	90.1	103.8	112.7	124.6	-22.6	-20.8
East Germany	59.0	85.9	186.8	131.2	-127.8	-45.3
Hungary	25.9	27.8	45.3	58.9	-19.4	-31.1
Poland	163.5	100.6	99.8	160.0	+63.7	-59.5
Romania	289.7	222.8	309.1	448.9	-19.4	-226.1
Yugoslavia	16.0	18.6	71.8	98.8	-55.9	-80.2

^a Although Eastern Europe's trade with China is conducted primarily in barter, prices are attached to traded goods and any deficits are registered in clearing accounts. Through the 1980s, the Chinese have run sizable deficits with Eastern Europe and are pressing them to close the deficits by importing more Chinese goods.



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barter. Also, each side gains an outlet for goods that are not competitive in international markets because of low-quality, low-demand, or protectionist measures. East European exports of medium-technology manufactured goods—vehicles, machine tools, agriculture and mining equipment, and electric power generating equipment—are useful in China's modernization effort. Chinese deliveries of low-technology, labor-intensive products—shoes, textiles, agricultural products, clothing—can help ease chronic shortages of food and consumer goods in Eastern Europe.

Political motives also have figured in the recent moves to expand economic relations. The upswing in trade discussions has coincided with a revival of other contacts. The Chinese probably see trade as a lever to increase their influence in Eastern Europe and partially offset current Soviet efforts at closer CEMA integration. For their part, the East Europeans apparently have concluded that closer economic links are now acceptable given the warming of Sino-Soviet relations, particularly the signing of a Sino-Soviet five-year trade accord earlier this year. Moreover, the

East European regimes have their own interest in cultivating Beijing. East Germany, for example, sees this as enhancing its international prestige while the reform-minded Hungarians want to build relations with a similarly inclined socialist state. Outside the Bloc, Albania and Yugoslavia probably want to improve their relations with another nonaligned Communist country. Albania's recent agreement to a five-year trade pact with China may indicate that the successors to the late party boss Enver Hoxha want to modify his xenophobic and autarkic external policies.

Outlook

The recent bilateral trade and cooperation agreements set the stage for growth in trade between the two regions through the rest of the decade. Nonetheless, several factors will prevent the trade flow from acquiring major significance:

- Eastern Europe lacks sufficient production capacity to meet a large share of China's total demand for manufactured goods.

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- China's main foreign needs are products embodying higher levels of technology available only in the industrial West.
- Eastern Europe's need to satisfy increasing Soviet demands for more and higher quality exports will limit the amount of goods available to support trade with China.
- Each side's need to maximize hard currency earnings means the Sino-East European barter connection will receive only secondary attention.
- The inflexibility of a barter system will restrict trade to the extent that each has only a limited need for the products of the other.

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We believe that political developments will continue to influence the growth of East European-Chinese trade. The East Europeans will watch closely the evolution of Sino-Soviet relations in deciding how to approach their commercial dealings with Beijing. While the Chinese will assign a small role to Eastern Europe in their trade as long as they continue to expand relations with the West, this could change if political or economic considerations forced Beijing to curtail trade with the West.

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**Portugal:
Prospects for Instability**

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The presidential election, an almost certain two-round affair in late January and early February, will probably continue the major political realignment in Portugal that began with the parliamentary election on 6 October. The shakeup may undermine political stability, help the Communists reduce their political isolation, and accelerate the trend toward less warm relations with the United States.

Nonetheless, the Communists may still expand their influence, since the Portuguese left is simply too strong to be excluded from power for any extended period. In addition, the PRD appears more open to dialogue with the Communists than the strongly anti-Communist Socialists have been during the past decade.

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Potential Destabilizing Factors

Increased fragmentation of the party system evidenced in the parliamentary election provides the clearest signal of an upheaval in the political landscape. The emergence of the leftwing Democratic Renewal Party (PRD)—a new group backed by President Eanes—increases the number of major parties to five and raises from two to three the number that could be necessary to produce a government with a parliamentary majority. Personality and policy conflicts among the key political leaders, moreover, are probably greater now than at any time since the revolution of 1974-75 and will increase the difficulty of forming stable governments. Indeed, the center-right Social Democratic government of Prime Minister Anibal Cavaco Silva enjoys support from only his party's 88 deputies in the 250-member Assembly of the Republic, and it may not last long into the new year.

Next Milestone: The Presidential Election

The presidential election appears likely to reinforce the political trends that emerged in the parliamentary race. Of the four principal candidates, only former Prime Minister and long-time Socialist chief Mario Soares appears likely to push Portuguese politics back in a centrist direction, and he is a decided underdog. The odds favor former leftwing Socialist dissident Salgado Zenha, who is running with PRD backing, or—somewhat less likely—-independent Catholic leftist Maria Lourdes Pintasilgo. The election of either would weaken the Socialist Party which stands in the middle of the country's five-party political spectrum and would probably tilt that party to the left. Those developments, in turn, could reinforce the trend toward polarization in Portuguese politics and expand opportunities for cooperation among the Communists, the Socialists, and the PRD, though, in the near to medium term the democratic Portuguese left will probably remain suspicious of Communist intention. In the somewhat less probable event that the conservative candidate, Diogo Freitas do Amaral, became president, he would be overtly anti-Communist, but there is also a good chance that he would support Cavaco Silva and thereby help weaken the Socialist Party and polarize Portuguese politics—developments that would help the Communists expand their influence.

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Portuguese politics are becoming more polarized as well. Cavaco Silva believes that the centrist-oriented politics of much of the past decade favored the center-left Socialist Party at his party's expense, and he is trying hard to generate a sharp split between left and right. He hopes that most voters will opt for a right-of-center government led by the PSD rather than take a chance on a leftist coalition, which could be dependent on at least indirect Communist support. If Cavaco Silva pushes ahead with this strategy, he almost certainly would succeed in rousing anxiety among many centrist and conservative voters about Communist participation in government.

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Implications for the United States

The weaker governments that are likely to take shape in the short to medium term will not be in the US interest. Even right-of-center governments of that sort would be more vulnerable to Communist pressure tactics, and left-of-center cabinets in which the PRD participated would be even more susceptible to Communist influence. Such developments would strengthen the existing trend away from an American-oriented diplomacy to a more independent and European-oriented approach. Although Portugal almost certainly will remain a firm member of the Western camp, it is likely to become more prickly and demanding as a US ally.

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Turkey: Recent Political Trends and Prospects

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Despite a recent merger of the principal leftist parties, some gains in support for a rival party on the right, and apparent slippage in the government's popularity, Prime Minister Ozal's ruling center-right Motherland Party (ANAP) is unlikely to be challenged seriously by next summer's byelections for vacancies in Turkey's parliament. Only seven or eight seats will be contested, and Ozal's party presently holds 208 of the 400 parliamentary seats compared to 86 by its chief opposition—the newly formed Social Democratic Populist Party. Looking ahead to the next general elections in 1988, however, Ozal may face stronger opposition if he fails to demonstrate some success in coping with economic problems.

as its leader. Mrs. Ecevit is acting as her husband's proxy: under a provision of the 1982 Constitution he is banned from politics until 1992 along with his rightist rival, Suleyman Demirel, and other party leaders in power before the 1980 military coup.

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Party Merger on the Left

Two leftist parties, the Populist Party (PP) and the Social Democracy Party (SODEP), merged into the Social Democratic Populist Party (SDPP) on 3 November. The Social Democrats, who had shown their strength by garnering 24 percent of the vote in local elections in 1984, had been barred from participation in the 1983 national elections and were not represented at the national level. The Populists were represented, having won 114 seats and finishing second to the center-right party in the 1983 elections, but had been in decline since their poor showing relative to the Social Democrats in local elections the following year. On the eve of the merger, the number of Populist deputies in parliament had shrunk to 100 as a result of desertions to independent status. Resignations have continued, and with a recent death the new Social Democratic Populist Party had only 86 deputies by the end of November, versus 46 independents.

The nearly simultaneous formation of the Social Democratic Populist Party and Democratic Left Party illustrates the depth of divisions which still plague Turkey's left. Earlier negotiations between Mrs. Ecevit and the Populist leader, Aydin Guven Gurkan, about the possibility of a Populist–Democratic Left union, had collapsed because the Ecevits found the Populists lacking in “true” social democratic spirit. The Ecevits regard the Social Democratic Populists as similarly wanting. The real problem appears to have been the unwillingness of the Populists—and now the Social Democratic Populists—to acknowledge Bulent Ecevit's de facto leadership of the left and work toward his eventual return to active politics. It is not surprising that the current leftist political leaders are unwilling to defer to Ecevit, but there is also some cost to the left as a whole in this—no one else has Ecevit's stature in bodies like the Socialist International.

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Given the existence of the Social Democratic Populist Party, the future of the Democratic Left seems rather dim. In fact, the Democratic Left Party appears a bit unsure of itself. There are rumors that it might forgo next summer's byelections for fear of a poor showing. Were it to compete, however, the new party might be able to siphon enough votes from the Social Democratic Populists to undermine them as an effective opposition party. A recent poll by a left-leaning magazine showed that among leftist voters one-fifth would prefer the Democratic Left, leaving 80 percent for the Social Democratic Populists. Even

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Four of those independents who were recent Populist/Social Democratic Populist defectors became founding members of another new party, the Democratic Left Party (DLP), which finally came into being on 14 November after a number of false starts. The Democratic Left has elected Rahsan Ecevit, wife of former left-of-center Prime Minister Bulent Ecevit,

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Turkey: Election Results and Public Opinion Surveys*Percent of total^a*

Political Parties	General Elections 6 Nov 1983	Local Elections 24 Mar 1984	Public Opinion Surveys	
			17 Aug 1985	27 Oct 1985
ANAP	45.1	41.5	35.7	30.1
PP	30.5	8.8	15.2	13.5
SODEP	c	23.4	22.9	25.7
CWP	c	13.2	15.1	18.5
AP ^b	c	4.4	2.2	2.0

^a Columns do not sum to 100 because data excludes eligible voters who did not vote in the elections and persons who expressed no opinion in the surveys.

^b Affluence Party (conservative, religiously oriented).

^c Parties did not participate in the elections.

Source: US Embassy, Ankara, citing Turkish press reports

the Democratic Left's failure to participate could affect the outcome by leading to the abstention of a significant number of disaffected leftist voters. [redacted]

Maneuvering on the Right

The Motherland Party's competition on the right is also in disarray, though it too retains some capacity for a spoiling role. Late in October, the Correct Way Party (CWP), indirectly controlled by former right-of-center Prime Minister Demirel, entered merger discussions with the Nationalist Democracy Party (NDP), the former military government's favorite in the 1983 elections. After a month, however, the merger talks collapsed over the seemingly minor issue of which party's name was to grace the new organization. [redacted]

What the Correct Way had to gain from merging with the faltering Nationalist Democrats is not clear. The latter garnered only 71 seats in 1983 despite strong military backing and have since lost much of their remaining support. Their parliamentary group has shrunk to 53. This is apparently not enough to lure the Correct Way, which was barred from participating in the 1983 general elections but gained a respectable 13 percent of the vote in local elections in 1984. [redacted]

The Correct Way seems to believe it will fare better in future elections if it is unencumbered by any ties to the Nationalist Democrats. It enjoys the dominant, though unofficial, influence of Demirel, who retains considerable popular support—even among members of Ozal's party who once belonged to his now banned Justice Party. The Correct Way seems capable of cutting into Motherland support but hardly appears likely to overturn Motherland as the dominant right-of-center party in the near future. The Correct Way's prospects could receive a dramatic boost, however, in the event of a sudden change for the worst in Ozal's health— [redacted]

Outlook

With the return to a more normal political environment in Turkey and the persistence of economic problems resolvable only in the long term, the ruling Motherland Party has dropped sharply in public opinion polls—especially in comparison with its performance in the 1983 elections—to the apparent benefit of the combined left (Populists plus Social Democrats) and the Correct Way. However, adding separate Populist and Social Democratic support

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together may not be indicative of the combined leftist party's actual standing. More important, there is often a difference between public attitudes in a survey and attitudes on election day, when the public's choices have real consequences. The opposition has yet to surface any leader of real stature.

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Eventually, however, the Motherland Party will face consolidated opposition on the left and coherent competition on the right, the combined effect of which could pose a serious challenge to the continuation of its parliamentary majority. In the absence of perceived short-term economic progress, that challenge will be all the more severe. Ozal clearly recognizes this and is looking to the US for help in the form of "more trade instead of more aid," as he repeatedly has phrased it.

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**Belgium's
New Defense Minister** [redacted]

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Profile

The appointment of Walloon Liberal Francois Xavier de Donnea to the Defense portfolio in Prime Minister Martens's reelected Social Christian-Liberal coalition testifies both to the influence of Walloon Liberal leader Jean Gol and to de Donnea's success in Belgian politics. [redacted]



Minister of Defense Francois X. de Donnea

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US Embassy officers reported that several prominent Belgian politicians, including the chairman of Martens's Flemish Social Christian party and Gol himself, were interested in the Defense post. Appointment of 44-year-old de Donnea, a rising star in Liberal politics, restores the traditional Cabinet balance on security affairs—a Fleming (Leo Tindemans) at the Foreign Ministry and a Walloon at Defense. More important, de Donnea is an ambitious protege of Gol, whose patronage should increase de Donnea's clout within the Cabinet. [redacted]

deployments—not due until late 1987 under current policy guidelines. Maintaining current levels of defense spending may be harder to achieve, given the new government's mandate to cut the budget deficit and Liberal success in avoiding new taxes in the coalition agreement. [redacted]

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According to US diplomats, de Donnea may give the Defense job a higher profile than in the past. The Defense job has often been considered a second-class appointment, and de Donnea's predecessor was a political lightweight. De Donnea presumably plans to change this in order to enhance his future prospects. The Belgian press speculated that de Donnea's aggressiveness as a junior minister in reshaping Belgium's foreign aid policy aroused the ire of Foreign Minister Tindemans. While we expect de Donnea and Tindemans to be in accord on major issues, a more assertive voice at the Defense Ministry could create new conflicts with the Foreign Minister. Tindemans and Gol are rivals in Belgian politics and after four years of almost unchallenged primacy on foreign policy decisions, Tindemans would probably resent any intrusion on his prerogatives. The fact that Tindemans is a Fleming and de Donnea a Walloon may add an acerbic note to any "jurisdictional" disputes. [redacted]

De Donnea, like Gol, will probably be sympathetic to US concerns on technology transfer issues and on nuclear cooperation with Libya. Like Gol, however, we expect de Donnea to be a vigorous defender of Wallonia's economic interests [redacted] De Donnea's economic background—he holds an MBA from the University of California and was once a member of the Board of Directors of Wallonia's troubled Cockerill-Sambre steel complex—probably makes him especially conscious of the economic impact of defense decisions. [redacted]

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We expect the new Defense Minister to maintain staunch support for INF deployment and perhaps even argue for speeding up the next round of

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Economic News in Brief**Western Europe**

Austria's largest government-owned company, steelmaker Voest-Alpine, suffered record losses in 1985 . . . new management to break up firm into smaller units . . . other changes in policies toward nationalized industry likely, but sales to public not under consideration. []

Canada's sale of government-owned de Havilland aircraft corporation to Boeing part of divestiture program . . . Tories under fire in parliament for allowing control of high-tech firm to go to foreign concern. []

Portugal's current account recorded first surplus since 1979 . . . reached \$94 billion through August, in contrast to \$504 billion deficit in 1984 . . . reflects 40-percent decline in trade deficit and 12-percent drop in services deficit . . . likely to be temporary in view of new government's expansive policies and Lisbon's entry into EC next month. []

Denmark planning austerity package to reduce persistent current account deficit . . . includes government spending cuts, consumer lending restrictions, higher energy taxes . . . defense spending maintained . . . other measures may be needed next year. []

West Germany's 1986 budget calls for 2.2-percent increase in expenditures to \$105 billion . . . further fall in deficit to \$9.5 billion, or 1.2 percent of GNP. []

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Eastern Europe

Yugoslav parliament approved long-awaited laws on foreign exchange and credit . . . to provide incentives for export while tightening borrowing practices . . . will give central government greater say in allocating scarce foreign exchange. []

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Looking Ahead

*January/February
Western Europe*

Spanish Premier Gonzalez has set 4 February for long-delayed parliamentary debate on foreign policy . . . date represents his deadline for deciding whether to call an early national election rather than the promised referendum on membership in NATO.

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First round of Portuguese presidential election scheduled for 26 January . . . if no candidate wins majority, as is likely, a runoff will held within three weeks.

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