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European Review



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20 June 1986

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EUR ER 86-014
20 June 1986

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European Review [Redacted]

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While the Social Democratic Party has become more critical of the Sandinistas, it remains unwilling to disavow them altogether. The party almost certainly will continue to focus its criticism on US policy toward Nicaragua, especially because the rank and file apparently remains strongly pro-Sandinista. [Redacted]

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France: Starting Positions in the Presidential Race [Redacted]	13	25X1
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With the March legislative election behind them, French politicians are looking ahead to the presidential election, which must be held by May 1988. At this early stage, they are watching closely how public opinion is shaping up on the major issues and personalities. Each of the top candidates hopes to establish a commanding lead in the polls quickly because President Mitterrand can force an election at any time. [Redacted]

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Portugal-China: Negotiations Over Macau [Redacted]

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The Chinese may envision an agreement similar to that worked out for Hong Kong in negotiations late this month on the future of Macau, but the Portuguese have made it clear they consider Macau a separate issue requiring a separate solution. Lisbon's bargaining position is weak, but we believe Beijing's desire to be seen in both Hong Kong and Taiwan as reasonable will lead to the granting of several concessions.

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Turkey: The Political Left Divided [Redacted]

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[Redacted]

In its first national convention since being organized in a merger of the leftist opposition parties last fall, the Social Democratic Populist Party evinced disunity on a scale that may undermine its ability to convert its consistently high standing in public opinion polls into effective political power. [Redacted]

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Economic News in Brief

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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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European Review [Redacted]

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Briefs

United Kingdom

Economic Prospects Questioned [Redacted]

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Britain's independent National Institute of Economic and Social Research (NIESR) blames government policies for the slower economic growth predicted for 1986 in its latest forecast. The NIESR is forecasting GDP to rise 1.9 percent, more than a full point below the Treasury's forecast. The institute argues that London's deliberate efforts to keep interest rates high to protect sterling are damaging the economy. Although Britain's base lending rates are now at their lowest level since the sterling crisis of January 1985, they remain high by international standards. The NIESR expects the rates and the sharp drop in North Sea investment caused by low oil prices to slow overall investment growth to only 0.1 percent this year. In addition, the institute believes the government's fiscal policy is too restrictive. [Redacted]

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The NIESR's forecast probably is more realistic than the government's because preliminary estimates of GDP growth in the first quarter showed an increase of only 0.5 percent. London remains hopeful that the falling oil prices will spur higher growth in the second half of the year, but the benefits of lower oil prices will be insufficient to stimulate the economy at the government's predicted rate. The best hope for a pickup in economic growth later in 1986 will come from consumer spending, which is expected to accelerate as the effects of two recent mortgage-rate cuts and a lower inflation increase real incomes. Nonetheless, overall growth will not be enough to significantly lower Britain's 13.3-percent unemployment rate [Redacted]

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France-Libya	Bad Debts <input type="text"/>	25X1
	<p>The French Communist Party will probably try to maintain its ties to the Libyan Government despite recent strains. <input type="text"/> French Communists have resisted Libyan pressure to repay a loan that was used to finance some party commercial operations, including purchases of Soviet oil. Libya reportedly also put pressure on Communist leaders to organize pro-Qadhafi demonstrations in the wake of the US raid in April and was disappointed when the effort failed. <input type="text"/></p>	25X1
	<p>The financially strapped French party cannot afford to close off sources of loans and is therefore unlikely to break its ties to Tripoli. Even more important, from the perspective of the French Communists, is the fact that support for Libya will curry favor with Moscow. <input type="text"/></p>	25X1
France-Central America	Not a French Problem <input type="text"/>	25X1
	<p>French Prime Minister Chirac redefined French interest in Central America along more familiar Gaullist lines in his recent speech before the Diplomatic Press Association in Paris. According to Chirac, France “does not have many interests, or much responsibility” in Central America, and the fighting in Nicaragua is “the United States’ problem.” <input type="text"/></p>	25X1
	<p><input type="text"/> Chirac himself highlighted the chill in relations between Managua and Paris by declining to receive Nicaraguan Vice President Ramirez during the Sandinista leader’s recent swing through Paris. <input type="text"/></p>	25X1
	<p>Paris will almost certainly meet its current obligations to Managua—mostly food aid and development assistance for agricultural and energy projects—but is unlikely to offer new assistance at anywhere near present levels. Nor is the current French Government likely to continue its predecessor’s efforts to assist mediation of the dispute between Nicaragua and Costa Rica over cross-border operations by anti-Sandinista Contras. Although decisions have not yet been made, Paris appears inclined also to shift some of the aid presently earmarked for Nicaragua to neighboring states, notably Honduras and El Salvador. <input type="text"/></p>	25X1
Greece	KKE-Interior Party Congress <input type="text"/>	25X1
	<p>At last month’s congress, the Greek Eurocommunist Party (KKE-Interior) almost split over whether or not to give up its Communist identity, the US Embassy reports. The chief proponent of change was party President Leonidas Kyrkos, who wants to widen the party’s voter appeal by turning it into a non-Communist party of the “broader left.” In the final vote, a compromise was reached whereby the party would keep its Communist title but replace its “Marxist-Leninist” orientation with a new emphasis on “democratic socialism.” Kyrkos’s principal opponent, Secretary General Yannis Baniyas, however, gave up his party post. <input type="text"/></p>	25X1

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KKE-Interior was created in the aftermath of the 1968 Soviet invasion of Czechoslovakia when Greece's Communist Party split into two wings, one remaining faithful to Moscow and the other taking a Eurocommunist line. The Eurocommunist wing has never won more than 3 percent of the vote in a national election and currently has only one seat in Greece's 300-member Parliament. Kyrkos has evidently made some progress in changing the party's orientation, but, without a clear mandate, he is not likely to take any votes away from Prime Minister Papandreou's PASOK party in this fall's municipal elections. 25X1

Portugal

New Central Bank Governor 25X1

Prime Minister Cavaco Silva's appointment of Jose Tavares Moreira as Governor of the Bank of Portugal undoubtedly will enhance the Prime Minister's control over economic policy. The new governor is expected to focus primarily on the bank's role in financial market development and leave macromanagement of the economy in the hands of Cavaco Silva and Finance Minister Cadilhe. The bank is likely to take a less independent stance—probably giving up some of the autonomy and authority it gained under the previous governor—and we expect it to back fully the government's program to revitalize the economy by reducing inflation, increasing private investment, and dismantling the public sector. 25X1

Tavares Moreira replaces Vitor Constancio, who stepped down in April to run for the leadership of the opposition Socialist Party. Tavares Moreira is a highly regarded banker, former Secretary of State for the Treasury, and has been active in reforming the antiquated Portuguese capital market and banking sector. In his new post, he is expected to continue these efforts, moving even more vigorously than Constancio in creating new financial instruments and opening up the tightly controlled, nationalized banking sector. 25X1.

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**West Germany:
The SPD and Nicaragua**

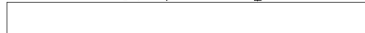


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The Social Democratic Party (SPD) has become more critical of the Sandinistas, but it remains unwilling to disavow them altogether. In public, party leaders note human rights abuses in Nicaragua, in part to refute Christian Democratic charges that they ignore repression by leftwing dictatorships. But the SPD almost certainly will continue to focus its criticism on US policy toward Nicaragua, especially because the rank and file apparently remains strongly pro-Sandinista. 




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In public, however, the Social Democrats continued to defend the Sandinistas. In February 1984, for instance, Wischnewski told the Bundestag that Managua was improving its human rights performance despite past mistakes. And the Social Democrats have vehemently attacked US economic measures against Nicaragua, mining of Nicaraguan harbors, and arming of the Contras—policies also criticized, although less stridently, by leading Christian Democrats. 

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public statements by the Social Democrats cited US assistance to the Contras as a major reason for repression by the Sandinistas. 

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Background


Like other West European leftists, the Social Democrats initially supported the Nicaraguan revolution enthusiastically, and until recently they dismissed Sandinista human rights violations as mere "mistakes." SPD leaders believed that Nicaragua was choosing the "third way" between capitalism and Communism they long had recommended for the Third World. The SPD contended that Western isolation of the Sandinistas would make them dependent on the Soviets. At the same time, criticism of US policy in Central America became another way of demonstrating West European independence and moral superiority vis-a-vis the United States. 

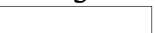
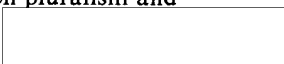
Recent Criticism

Last February, a commission of the SPD Bundestag group led by former Hamburg Mayor Hans-Ulrich Klose issued the first systematic Social Democratic criticism of the Sandinistas. Its report—based on a factfinding mission to Nicaragua in November and December—catalogued a series of repressive practices including:

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- The creation of neighborhood "Sandinista Defense Committees" with the potential of spying and informing on dissidents. 25X1
- Forced resettlement of Miskito Indians in 1981-82 along with continuing attempts to resettle peasants from war zones, in part to keep them from supporting Contra forces. 25X1
- "Popular tribunals" independent of the regular judiciary system and with looser rules of evidence.
- Detention of an unknown number of political prisoners.

Nonetheless, some Social Democrats soon began to voice concern in private about the Sandinistas' failure to implement the proclaimed objectives of the 1979 revolution: political pluralism, a mixed economy, and nonalignment. 

 SPD foreign policy experts complained to a Sandinista National Liberation Front representative in May 1982 that Daniel Ortega, a member of its national directorate and coordinator of the ruling junta, had agreed in Moscow to a joint communique so one-sided that even Castro would not have signed it. According to the US Embassy in Managua, SPD Latin American expert Hans-Juergen Wischnewski told the Sandinistas in May 1983 that the Social Democrats' continued support would depend on the degree to which pluralism and nonalignment were achieved. 

The commission urged the SPD to criticize human rights violations in Nicaragua, even though it claimed that those in El Salvador were much more serious. 25X1

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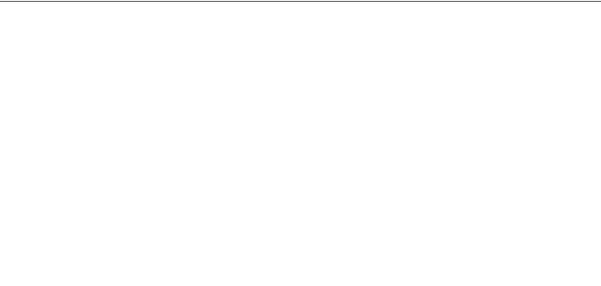
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But the report also recommended that the Social Democrats continue to seek dialogue with Managua, promote economic development in Nicaragua, and condemn US policy in the region. [redacted]

Wischnewski expressed similar opinions following a 12-day tour of Central America for the Socialist International in February. He reported to the SPD Executive Committee that the human rights situation had deteriorated considerably since his last visit to Nicaragua in early 1985. [redacted]

[redacted] He accused the Sandinistas of disenfranchising the other parties, fostering the split with the Catholic Church, and disregarding domestic and international criticism. Wischnewski repeated many of his charges to the press, although he also deplored US economic sanctions against Managua and assistance to the Contras. [redacted]

Finally, the SPD has decided not to hold an international conference on Nicaragua that it long had planned to cosponsor with Algeria. [redacted]



Little Change in Policy

Despite increasing criticism of the Sandinistas, the Social Democratic leadership has not changed its basic stance toward Nicaragua. In March, party Chairman Brandt issued a statement strongly condemning US assistance to the Contras, criticizing Bonn's suspension of development aid to Nicaragua, and endorsing the Contadora process. The statement acknowledged that the goals of the Sandinista revolution "have not always been pursued resolutely," but it laid the blame primarily on external intervention. Brandt also claimed that Nicaraguan President Ortega had assured him that Managua would pursue dialogue with the unarmed opposition and investigate alleged human rights violations. [redacted]

Other Social Democrats also have continued to voice general support for the Sandinistas. The SPD-Green majority in the Hessen state parliament, for instance, voted in April to initiate educational, scientific, and economic cooperation programs with a region of Nicaragua. Wischnewski, despite his criticism of the Sandinistas, claimed in a recent press release that they were sincerely seeking national reconciliation. After helping in June to arrange the release of eight West German leftist volunteers captured by insurgent forces, Wischnewski publicly defended the Sandinista's handling of the incident and urged Bonn to improve relations with Managua. In March, Social Democratic members of the Bundestag publicly urged the US Congress to refuse assistance to the Contras, whom the party press continues to portray as Somozistas. [redacted]

Further, one Social Democrat's acerbic public criticism of the Sandinistas recently led to his resignation from the party. Cologne University international law professor Martin Kriele, a long-time SPD member who defended the Brandt administration's treaties with Eastern Europe against constitutional challenges in the early 1970s, repeatedly has argued that the Sandinistas are Soviet- and Cuban-style totalitarians. He also has charged SPD leaders with whitewashing Nicaraguan abuses, and his most recent book expressed sympathy for the Contras. Kriele's statements prompted his local Social Democratic organization to recommend his expulsion. Kriele probably could have won an appeal to higher party organs, according to press reports, but he resigned last March in order to avoid lengthy proceedings and further embarrassment to the SPD during an electoral campaign. [redacted]

Prospects

The Social Democrats almost certainly will continue to blame the United States more frequently than the Sandinistas for instability in Central America. Even moderate party leaders believe that US assistance to the Contras hinders chances for a peace settlement and at least partly explains repression by the Sandinistas. Although some leaders—particularly chancellor-candidate Johannes Rau—may tone down

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or avoid criticism of US policy toward Nicaragua in order to undercut Christian Democratic charges of anti-Americanism, not all party members are likely to follow suit.

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The SPD may play down its views on Nicaragua during the electoral campaign, in part to avoid exposing its internal differences. Party leaders can point to their recent criticism of the Sandinistas to counter Christian Democratic charges that they ignore human rights abuses by leftwing dictatorships. But they are likely to avoid harsher attacks on Managua's human rights abuses, which probably would provoke open dissent by party leftists.

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The Social Democrats are even less likely to criticize Managua's ties to Moscow and Havana, a topic they have avoided in recent years. The SPD probably reasons that such criticism would run counter to its general emphasis on East-West detente and raise questions among the electorate about its previous uncritical support for the Sandinistas.

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France: Starting Positions in the Presidential Race

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With the March legislative election behind them, French politicians are now turning their attention to the presidential election, which must be held by May 1988. At this early stage the most closely watched aspect of the race is how public opinion is shaping up on the important issues and personalities. Each of the top candidates hopes to establish an unbeatable lead in the polls quickly because President Francois Mitterrand can force an election any time he wants.

Focus on the Presidential Election

Under the 1958 constitution of the Fifth Republic, a strong presidency is the centerpiece of the political system. The strength of the president's position depends, however, on support from parliament, and the conservative victory in March undermined Socialist President Mitterrand's status by forcing him to share power with a prime minister from the opposition—Jacques Chirac. Although power sharing has gone fairly smoothly so far, it is beginning to fray around the edges, and most pundits in France do not expect that it will last until Mitterrand's seven-year term expires in 1988. Mitterrand is on record as favoring a five-year term, and there has been considerable speculation that he might try to bring the awkward "cohabitation" to an end by forcing an early presidential election. Under this scenario he would resign at a favorable moment and then either run for reelection himself or throw his weight behind a Socialist candidate.

At present, such calculations are considerably ahead of public opinion. According to opinion polls, most people believe that cooperation between a president and a prime minister from opposing political parties is working and that this manifestation of national unity should continue. In the public mind, dealing effectively with real and pressing problems—such as reducing taxes and unemployment and providing more resources to help the police deal with crime and terrorism—is more important than political maneuvering. The election results, as well as polling data, seem to indicate that the public wants a



President Francois Mitterrand (right) with Laurent Fabius

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measured implementation of the conservatives' program of reducing taxes, expenditures, and government controls (but without dismantling the social welfare system). Politicians assume that the electorate will penalize whoever brings down the system of power sharing; or as one politician says, "It's like a shootout, except whoever fires first loses."

Preparations on the Left

Even though the Socialists lost control of parliament in March, the real prize—the presidency—remains theirs and could be won again. As long as Mitterrand remains president, he can use his office to boost the party. In addition, with 31 percent of the vote in the legislative election, the Socialists are still the largest single party in the country and command an impressive electoral machine. They hope to collect voters from a declining Communist Party as well as moderates who become disenchanted with Chirac. Three senior Socialists are the leading contenders for their party's nomination, and each is watching the polls closely and making his own plans:

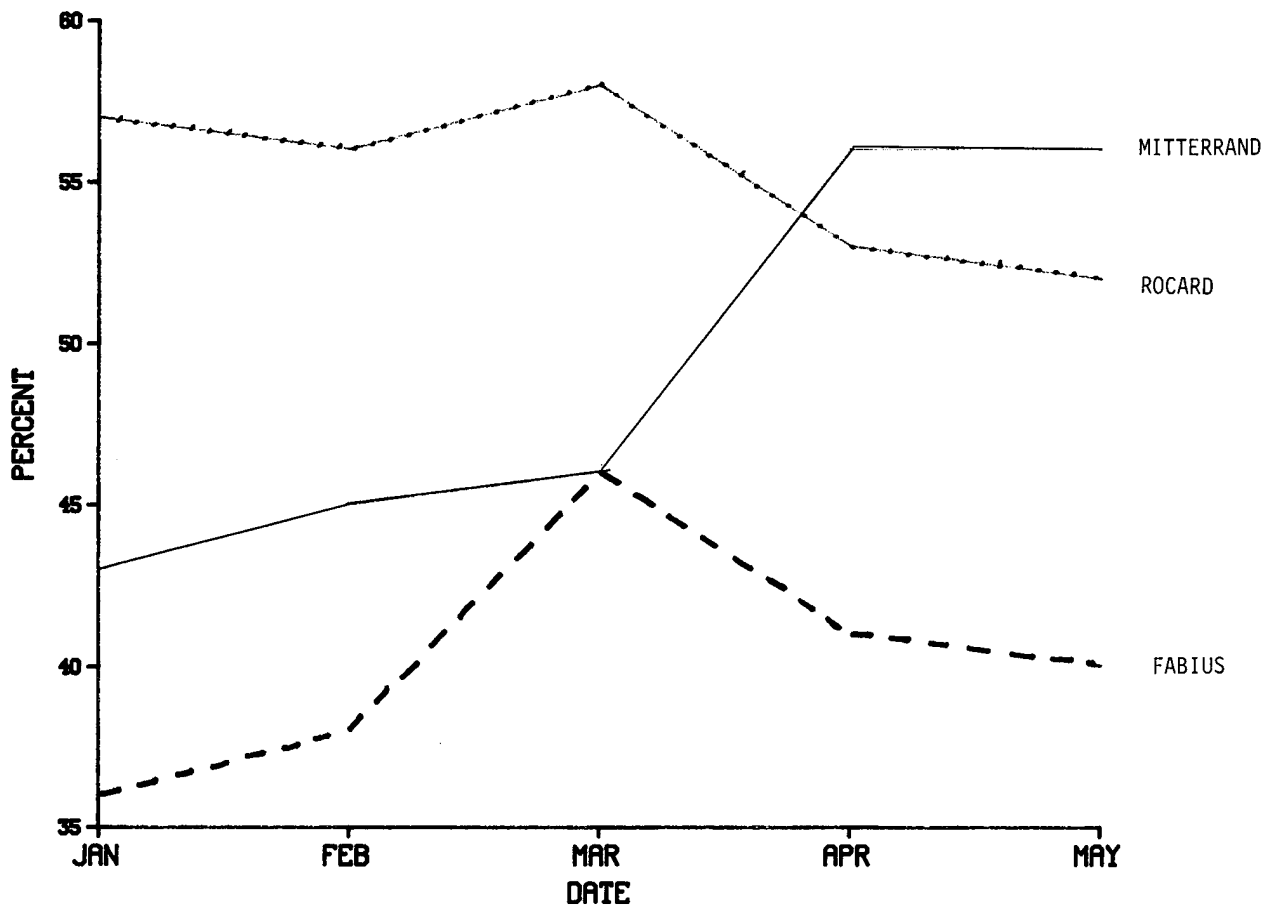
- **Mitterrand** is getting the best ratings since early 1983. Until recently he seemed ready to step down after his current term is finished, but now he shows signs of preparing to run again. He may simply be maneuvering to keep the Socialists united and mobilized, but he could decide to try for a second term if his ratings stay high, if Chirac stumbles, or

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APPROVAL RATINGS FOR SOCIALIST LEADERS



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if it looks like a battle to succeed him would weaken the Socialist Party. Mitterrand will be trying to protect his good standing in the polls, not only for ammunition as he maneuvers to establish dominance over Chirac as they share power, but also to leave his options open for the presidential election. If the election takes place within a year, it is more likely Mitterrand would run again because no successor has been prepared.

- **Laurent Fabius**, who was prime minister from July 1984 to March 1986, has slipped from an impressive position in the polls, but he is still the most likely

heir apparent. So far, however, he has failed to gain control of the Socialist Party so that he can use it as a vehicle in the presidential race. His main method will probably be to present himself as the candidate who best exemplifies the moderate and pragmatic approach that can appeal to a wide electorate.

- **Michel Rocard**, long a darling of the polls, is Fabius's chief rival for leadership of the moderates in the Socialist Party and the public at large. Unlike

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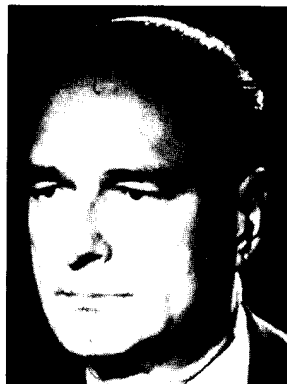
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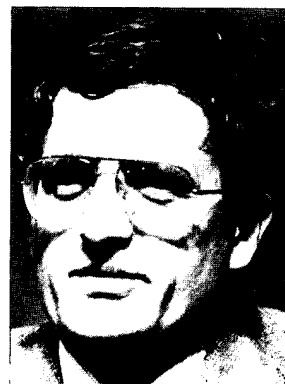
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Michel Rocard Liaison ©



Prime Minister Jacques Chirac



Francois Leotard Pictorial Parade ©



Raymond Barre Pictorial Parade ©

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Fabius, who would defer to the President, he may present himself as a candidate even if Mitterrand decides to run. His experience as a leader is not as impressive as Fabius's, however, and he does not have as a wide following in the party or as close a relationship with Mitterrand. Rocard's task will be to turn his popularity into concrete assets that can improve his chances for the presidency, and he, too, will be trying to take over the Socialist Party.

Preparations on the Right

The conservatives, like the Socialists, have not yet settled on one candidate for the presidential contest. Internal rivalries divided the rightwing vote in 1981, helping to throw the election to Mitterrand, and conservative leaders hope to avoid a similar disaster the next time around. Chirac has an iron grip on his party, the Rally for the Republic (RPR), which dominates the governing coalition, but he faces ambitious rivals—Francois Leotard and Raymond Barre—in the junior member of the coalition, the Union for French Democracy (UDF):

- **Chirac** has jumped ahead of other conservative leaders in the ratings since becoming Prime Minister. This success in the polls is only a recent development, though,

Being Prime Minister gives him important assets, such as patronage and media exposure, but it will also magnify his

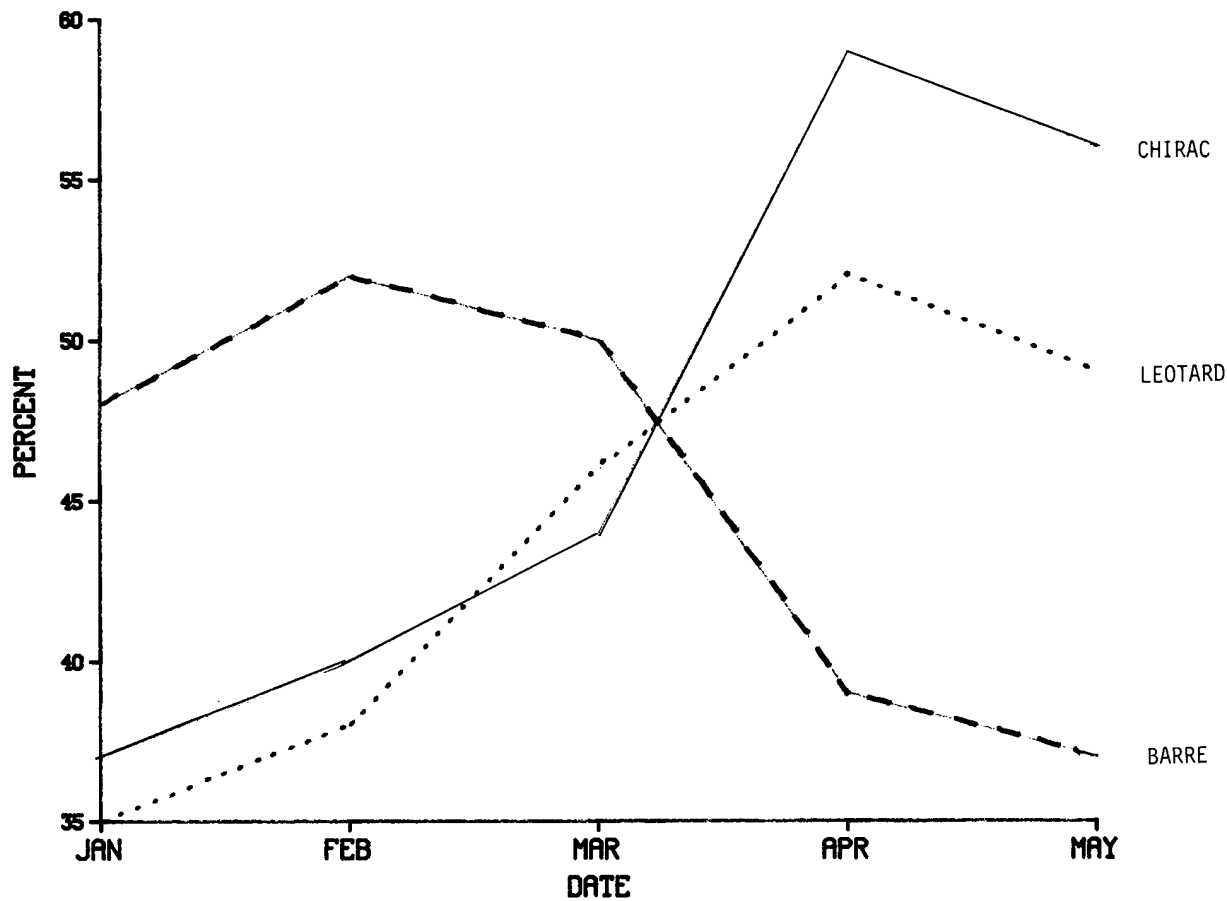
mistakes—and his rivals will be waiting to pick up the pieces.

- **Leotard**, the Minister of Culture and Communications, is one of the bright young stars of the right. He is the focus of considerable attention as the implementer of the government's first effort at privatization: the controversial sale of one of the three state-owned television channels. At 46, Leotard, is probably too young to be a serious presidential candidate in the next few years. His best hope is to win a more senior cabinet post and try to establish himself as the leader of the next generation.
- **Barre** has slid precipitously in the polls since the March election. He does not have a strong organization, the candidates he backed did not do well, and his criticism of power sharing between a leftist President and conservative Prime Minister goes against the current public mood. If power sharing dissolves in acrimony, however, he will be in the best position to benefit, since he is the only national leader of stature who rejected cohabitation all along. His popularity could soar again, especially if Chirac appeared to be responsible for cohabitation's collapse.

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APPROVAL RATINGS FOR CONSERVATIVE LEADERS



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Outlook

Public opinion in France appears to be moving away from ideological confrontation, and politicians who want to be successful will have to take this into consideration. The March election—in which both the Communists on the extreme left and the National Front on the extreme right each got only about 10 percent of the vote—appeared to confirm that political preferences are shifting toward a broad center. The public's favorable view of power sharing and preoccupation with everyday problems of jobs, taxes, and crime, rather than abrupt change in the social or political system, is another indicator of this trend. Small wonder that all of the leading contenders for the presidency are basically moderates who stress

pragmatic solutions to these problems and who do not differ greatly in their approaches. In sum, personalities and public image are becoming more important as subjects of political debate, and elections are less and less a choice between radically different visions of society.

In these early days, there are few certainties, but it seems safe to say that no radical politician from either the left or right has much of a chance. There may well be a new President of France within the next couple of years, but there will probably not be quick or important changes in policy.

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**Portugal-China:
Negotiations Over Macau**



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While the Chinese may envision an agreement similar to that established for Hong Kong in negotiations on the future of Macau—slated to begin the last week in June—the Portuguese have made it clear that they consider Macau a separate issue requiring a separate solution. Lisbon's bargaining position is weak, but we believe Beijing's desire to be seen in both Hong Kong and Taiwan as reasonable will lead to the granting of several concessions. China's hopes of developing the territory economically and the special problems it will confront in Macau should result in some specific agreements on the territory as well as the retention of private enterprise and the liberal degree of personal freedom granted to Hong Kong in the Sino-British agreement. Deputy Foreign Minister Zhou Nan, who negotiated terms for the eventual return of Hong Kong to China, will head the Beijing delegation. Lisbon is sending Rui Medina, a career diplomat and former ambassador to the United Nations, as its chief negotiator.

The Special Problems of Macau

Macau's geographical closeness to China has caused problems for Beijing's interests in the territory. After 1979, Portugal removed immigration controls at the border and took a nonchalant attitude toward the flow of Chinese labor into Macau. The Macau labor unions, which are basically pro-Chinese, found their members being forced out of jobs as a result of the huge influx of cheap manpower. Only after strenuous objection by the unions did the government step in and reestablish immigration controls. Similarly, when the PRC last year relaxed some of its controls on the peasant economy and free markets sprang up all along Macau's borders, Macau housewives simply crossed the border to do their grocery shopping. The sales volume for foodstuffs in Macau fell by 25 percent, and many pro-Chinese foodstuffs firms found themselves faced with bankruptcy. Once again, the Portuguese were forced to react—this time by instituting health controls and duty-free limits to stem the flow of produce from across the border.

Portugal's approach to governing the colony has created other problems for the transfer of sovereignty to China. The Macanese—the 3 percent of the population who are of mixed Chinese-Portuguese blood and are employed almost exclusively in the civil service—hold nearly all middle-level government posts. Senior posts are generally filled by Portuguese. Unlike Hong Kong, where Chinese has been an official language with English for more than 10 years, Portuguese is the only official language in Macau. Few of the colony's Chinese speak Portuguese or are educated enough to take over the administration during a transition period. As a consequence, the cooperation of the Macanese must be secured by both Lisbon and Beijing if the transfer of power is to be carried out smoothly. Furthermore—unlike the British, who have made it clear that Hong Kong residents will not be welcome in Britain—the Portuguese have granted all Chinese born in Macau by 1980, and any resident of Macau who is able to speak Portuguese and be self-supporting, automatic eligibility for citizenship with no limitations on travel to or residence in Portugal. Though there has been no indication of a mass exodus from Macau, both governments must consider this factor in negotiating any settlement.

Macau diverges from Hong Kong in certain economic and social features as well. Unlike Hong Kong, Macau's factories, specializing in rather mundane textiles, toys, and plastic products, will be of little benefit to China and may in fact compete with Chinese products. Its gambling industry—which attracts more than 4 million visitors a year, accounts for 20 percent of GDP, and provides half the government's revenue—could be a problem for a puritan Communist government, even if gambling is an age-old Chinese passion. Finally, the officially atheist government of China will have to contend with the strong role the Catholic Church plays in Macau, especially in educational matters.

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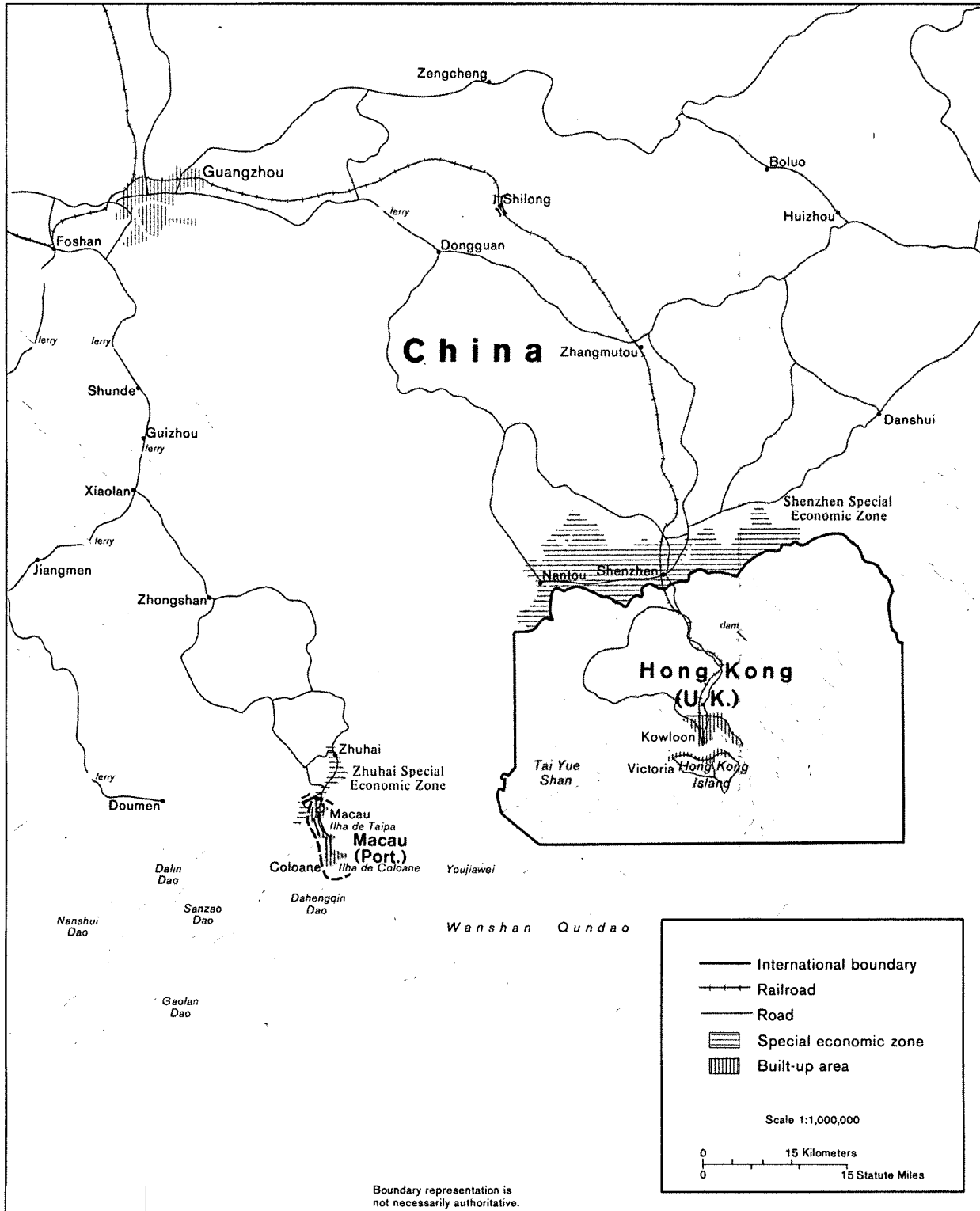
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Current China-Macau Relations

Macau already maintains strong economic ties to the People's Republic of China, due in part to its geographical location. The territory—the oldest European settlement in the Far East—consists of the mainland peninsula of Macau and nearby islands, located 25 kilometers west of Hong Kong at the mouth of the Xijiang (West River). The Xijiang is one of China's great trade arteries, and thus Macau is linked to the major economic centers along the river.

Since the establishment in 1979 of the China's Zhuhai Special Economic Zone adjacent to Macau, the level of activity between the colony and its neighbor has increased considerably. Though China is the colony's fourth-largest market after the United States, Hong Kong, and France, Macau's imports from China far exceed its exports. Likewise, Macau businessmen have been a steady source of investment capital for Chinese projects since 1978, when China's open-door policy began.

As in Hong Kong, the PRC keeps a well-developed commercial presence—which also serves as its avenue for political influence—in the colony. PRC entities in Macau include branches of state-owned firms, the Beijing-controlled Macau Daily, and the China Travel Service. The Nam Kwong Company serves as China's representative organization, issuing visas and performing other official functions. A large group of private firms also act as distributors and agents for PRC products and services. These firms belong to and are guided by the Chinese Chamber of Commerce in Macau as well as other guilds sympathetic to China. The Macao Federation of Trade Unions is linked to China and includes the vast majority of Macau's workers as members.

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Portugal's Negotiating Strategy

The Portuguese have long acknowledged Macau as Chinese territory and have repeatedly expressed a willingness to return the colony. In recent months, however, they have indicated, apparently out of concern for the population with whom they have been associated for more than 400 years and out of national pride, that they do not want China to dictate the terms of the settlement. Portuguese Prime Minister Cavaco Silva reportedly has stated that Portugal and China should have—or should at least appear to have—equal footing during the talks; thus, negotiations should be held in Lisbon as well as Beijing. He also opposes imposing on Macau the same formula as that established for Hong Kong's future.

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Portuguese Ambassador to Beijing, Octavio Valerio, further confirmed Lisbon's determination to differentiate the Macau negotiations from the Sino-UK talks on Hong Kong [Redacted]

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[Redacted] According to Valerio, the Portuguese Government chose Medina rather than himself to head the negotiating team on British advice because the UK Ambassador to Beijing, as leader of the British team during the Hong Kong talks, was unable to bypass his counterpart and appeal to higher Chinese authorities in crucial situations. Valerio also stated that Portugal and the Vatican are discussing the future relationship of the Catholic Church in Macau to the highly nationalistic Catholic Church in China. Lisbon does not want the independence of the Macanese church compromised. According to the Ambassador, Portugal also will insist on continued instruction of the Portuguese language in Macau's schools in order to keep intact Macau's Portuguese character. [Redacted]

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The Chinese Perspective

[Redacted] Beijing is open to negotiation on most of the issues relating to the future of Macau, though

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Macau: Historical Background

1557-1887 Portuguese occupy Macau.

1887 China's Manchu government reluctantly agrees to recognize Portugal's "occupation" of Macau in the Protocol of Lisbon. In return, Portugal agrees not to change the status of Macau without China's consent.

1941-45 Macau remains politically neutral under Portuguese control during the war, serving as a haven for many refugees from Hong Kong and China.

1966 Riots inspired by the Cultural Revolution cause Lisbon and Beijing to begin regular, informal consultations in Macau.

1974 New military regime in Portugal offers to return Macau to China in accordance with the 1887 Protocol, but China refuses to countenance any change in status.

May 1979 Portugal and China establish diplomatic links and agree that Macau is "Chinese territory under temporary Portuguese administration," to be returned to China at the appropriate time.

1982-84 Speculation abounds that China intends to merge Macau into the Hong Kong Special Administrative Region in 1997.

June 1985 China announces plans to establish a separate special administrative region for Macau. Portugal's President Ramalho Eanes visits China and Macau. Chinese surprise Portuguese officials by calling for negotiations on the future of the territory. Negotiations are officially to begin in 1986.

March 1986 Press reports state that negotiations on Macau will begin in late May.

5 May 1986 Portuguese President Alberto Mario Soares issues a decree naming a close political supporter, Professor Joaquim Pinto Machado, as the new Governor of Macau.

20 May 1986 Portuguese Foreign Ministry spokesman announces that talks on Macao will begin the last week in June.

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some general principles have already been formulated. [REDACTED] the Chinese have not made any firm decisions on the duration of the transition period, the organization of the educational system, the role of the Portuguese language, and Macanese officials after the transition. [REDACTED]

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Press sources have reported that Chinese authorities expect the settlement on Macau to mirror that reached for Hong Kong, which would allow for the retention of a great deal of freedom under the Chinese principle of "one country, two systems." The Chinese have announced plans to establish Macau as a special administrative region of the People's Republic of China—the model used for Hong Kong. If the agreement on Macau is patterned after the 1984 Joint Declaration with Britain on Hong Kong, the territory could expect to govern itself under its own legal and judicial system. Beijing authorities, however, would take over responsibility for foreign and defense affairs. [redacted]

The Chinese hope that the "one country, two systems" philosophy will eventually be applied to the reunification of Taiwan to the mainland. According to US diplomats in Lisbon, Vice Minister of Foreign Affairs Zhou Nan told the Portuguese Government during his visit in March that the Chinese hope to have completed negotiations on the reincorporation of the territories of Hong Kong, Macau, and Taiwan by the year 2000, suggesting that the Chinese are tailoring arrangements for Hong Kong and Macau in anticipation of subsequent negotiations with Taiwan. [redacted]

Outlook and Implications

We believe the Portuguese—in contrast to their apparent indifference about Macau in the past—will try to drive a relatively hard bargain with Beijing, both out of concern for the Macanese and for Portugal's national image. They are still demanding that the second round of talks be held in Lisbon and have further irritated the Chinese by withholding their list of delegates until the last minute. [redacted]

[redacted] the Chinese had sent a list of requirements for the new Portuguese Governor of Macau, which included requests that he be familiar with the territory's situation and be detached from internal Portuguese politics. President Soares's subsequent selection of Joaquim Pinto Machado, a close political ally with no background in Macanese affairs, seems to indicate Lisbon's willingness to stand up against Chinese demands. [redacted]

In our judgment, the Chinese will be willing to grant a number of concessions during the Macau negotiations—despite the weak Portuguese bargaining position—because of their long-term, larger goals. The special geographic, linguistic, and legal situation of Macau presents problems for the Chinese that should make the continued presence of the Portuguese during the transition period attractive. We also believe they will not want to frighten potential Western investors in the territory. Finally, and most important, the Chinese no doubt perceive that a rocky transition in Macau might alarm residents in Hong Kong, thus endangering a smooth transfer of sovereignty there. We judge that this concern will dictate the timing of the transfer of sovereignty, with the Chinese wanting to take possession of Macau not before and possibly after the return of Hong Kong. Since China's long-term goal is the recovery of Taiwan, we think they will be willing to make concessions on the less important issue of Macau in order to secure tranquility in the region and demonstrate the workability of "one country, two systems" to the Taiwanese. [redacted]

The settlement established between Portugal and China could have long-term implications for Western investors seeking to expand their business with China. Although the United States is the single largest foreign importer of Macanese products, little of the foreign investment that has poured into Hong Kong exists in Macau. But as China's economy grows, regional business centers are likely to emerge around areas of the country with flourishing economies and substantial foreign exchange reserves. Macau, bordering on one of China's new economic zones, has the necessary ingredients to become such a regional center. Initial efforts to penetrate the Xijiang market were made in 1984, when a delegation from Hong Kong's American Chamber of Commerce contacted Macau's Chinese Chamber of Commerce. According to press reports, both sides agreed that foreign firms will not be able to effectively market products solely through Hong Kong and that Macau offers advantages to businesses taking "territory-specific" approaches to the Chinese market. [redacted]

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Turkey: The Political Left Divided [Redacted]

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The first national convention of the opposition leftist Social Democratic Populist Party (SDPP) in late May turned out to be a somewhat raucous affair that called into question the effectiveness of its organization and leadership. In a startling violation of traditional Turkish hospitality to guests, a number of ambassadors attending the opening session of the convention were loudly booed. These included the US, Greek, British, Israeli, Chilean, and Bulgarian envoys. In contrast, the Soviet, Chinese, Cuban, Afghan, Polish, and Yugoslav representatives were thunderously applauded. This display of bad form shocked party officials and the press, both of whom roundly condemned it. [Redacted]

Revival of Factionalism Threatens

The incident emphasized the enormity of the challenge faced by the new party's leadership under Erdal Inonu, former chairman of the Social Democratic Party. It will have to act quickly to avoid a resurgence of the factionalism and extremism that tends to be all too common on the Turkish left. The leftist agitation at the national convention apparently was the product of a deal between the head of the Istanbul branch of the SDPP and extreme leftist elements associated with the banned Dev Sol (Revolutionary Left) movement. [Redacted]

[Redacted] the provincial chairman gave the leftists 30 to 40 percent representation of the Istanbul delegation to the national convention as well as a seat on the provincial executive committee in return for their support.

[Redacted] these maneuvers were part of a more far-reaching Dev Sol plan to gain influence over a legitimate political party—while not necessarily forswearing terrorism.

[Redacted] the principal broker of the Istanbul deal was Abdullah Basturk, former president of the banned leftist labor confederation DISK, who remains a defendant in an ongoing trial of the confederation leadership for fomenting violence before the 1980 military takeover. It was probably no

coincidence that Basturk received the loudest and longest ovation of any of the personalities formally introduced during the opening session of the national convention. Basturk's involvement was also consistent with broader leftist labor activism, as evidenced by the disruption of a February rally held by the government-recognized TURK-IS labor confederation [Redacted]

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Increased leftist activity probably does not indicate that Marxist or Communist oriented elements are in a position to seize control of the SDPP. It is in some ways a manifestation of normal political currents released by Turkey's continuing progress toward fully democratic procedures and a confirmation of the SDPP's standing as the main opposition to the ruling Motherland Party of Prime Minister Ozal. [Redacted]

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Declining Popular Appeal in Prospect

For the moment the confusion the radical leftists have caused in the SDPP serves primarily to reduce the party's prospects for eventually translating its consistent lead over the Motherland Party in public opinion polls into eventual control of the government. Indeed, the most recent poll in mid-May showed the party's lead over Motherland declining from 9 to 5 percentage points and the undecided swelling to nearly a quarter of those polled. [Redacted]

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The smart money will stay on Motherland in 11 byelections expected this fall and in general elections some time in the next two years. The ruling party already has strengthened its parliamentary majority by garnering a sizable number of the former members of a dissolved rightwing competitor party. It now can almost certainly count on gaining the adherence of some of the moderate SDPP deputies alarmed by radical leftist actions at the convention. Five SDPP deputies already have assumed independent status amid rumors that one will ultimately join Motherland. [Redacted]

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EUR ER 86-014
20 June 1986

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Another two of the new independents are said to be planning to join the Democratic Left Party (DLP), the only other leftist party represented in parliament. It remains to be seen, however, if there is any chance that DLP can grow from its current total of six deputies to the minimum 20 needed to establish a formally recognized legislative group.

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Economic News in Brief

Western Europe

France is pushing for a tough EC response to US measures in farm trade dispute planned for 1 July . . . threatening to delay new GATT round . . . other EC members favor more flexible negotiating position.



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Italian manufacturers association has renegotiated agreement with Libya to take oil for much of \$700 million owned Italian firms . . . payments suspended in January because of world oil price drop . . . first delivery expected this month.



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US Embassy reports tentative agreement for Norwegian offshore gas sales to West European customers . . . calls for deliveries of 20 billion cubic meters annually beginning in mid-1990s . . . could curb potential Soviet sales to continent.



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Finland to boost Soviet energy imports by \$40 million in effort to reduce its growing bilateral trade surplus . . . Helsinki imports mostly oil under the balanced trade agreement, but low prices sharply reducing total value of Finland's imports . . . new measure inadequate to halt growth in surplus and indicates lack of alternative proposals to meet agreement's requirements . . . Helsinki concerned it may have to cut some exports next year.



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Eastern Europe

Poland and Western banks have agreed to reschedule about \$1.7 billion in principal due this year and next . . . banks to lower interest rates . . . no new loans offered . . . financing gap for 1986 remains \$1 billion.



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