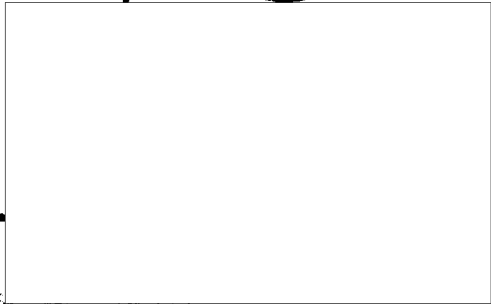


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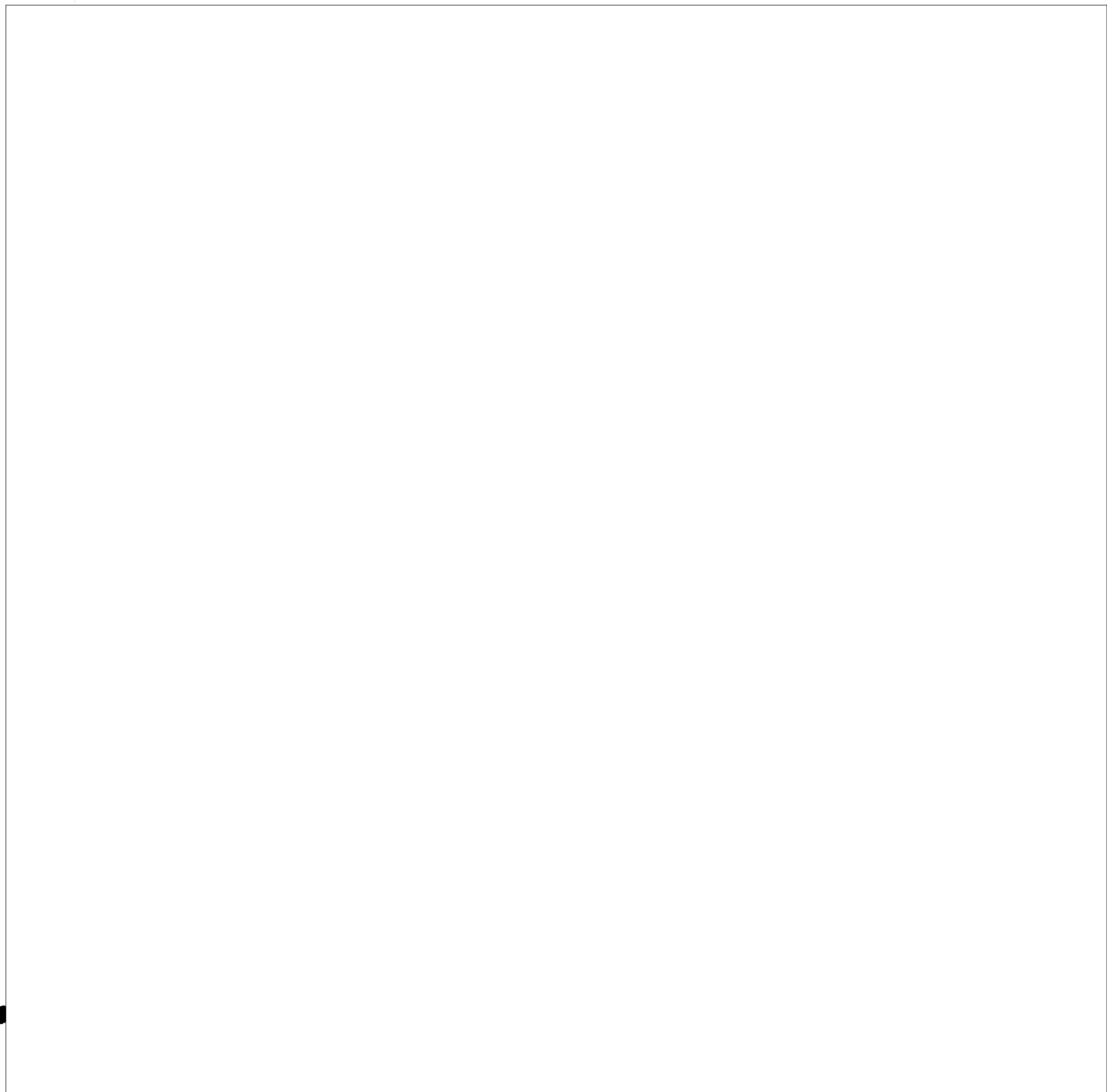
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ITALY:

Domestic Roots of the Crisis

The Achille Lauro hijacking precipitated a crisis that had long been brewing over policy differences and personal rivalries among the five coalition partners. [redacted]

Comment: Over the past several months differences between Socialist Prime Minister Craxi and the Republicans have become acute. Academic studies suggest that the Christian Democrats and the Communists, the two largest parties, will continue to lose votes over the long term, leaving the Socialists and the Republicans in direct competition for these floating voters. The two smaller parties also are hoping to profit from problems within the Social Democratic and Liberal Parties. [redacted]

Craxi almost certainly believes he can talk the Social Democrats into a merger before long. Republican Defense Minister Spadolini probably believes his party will benefit from a collapse of the Liberal Party. [redacted]

Tensions between the Socialists and Republicans are reflected in the personal animosity between Craxi and Spadolini. Spadolini probably holds Craxi responsible for the machinations that led to the fall of his own government in 1983. He is now worried, moreover, that Craxi's longevity in office has provided the basis for a Socialist surge. Craxi, indeed, may be growing anxious to exploit his growing strength in public opinion polls and to capitalize on the Communists' current disarray in an early election. [redacted]

Deep divisions over economic policy also lie behind the current crisis. Preliminary discussions of next year's budget have underscored disagreements between the Christian Democrats and the Republicans. The Republicans, who have the Finance portfolio, argue that the government must cut spending and avoid higher taxes. [redacted]

Although Spadolini and Craxi agree that sharp spending cuts are needed, Craxi probably feels that the Republicans are being too unyielding. The latter are upset that Craxi is being praised for the positive effects of economic policies they initiated. [redacted]

Economic policies will figure prominently in the negotiations to end the crisis. Craxi may try to use concessions on the budget as a lever to bring the Republicans back into the fold. [redacted]

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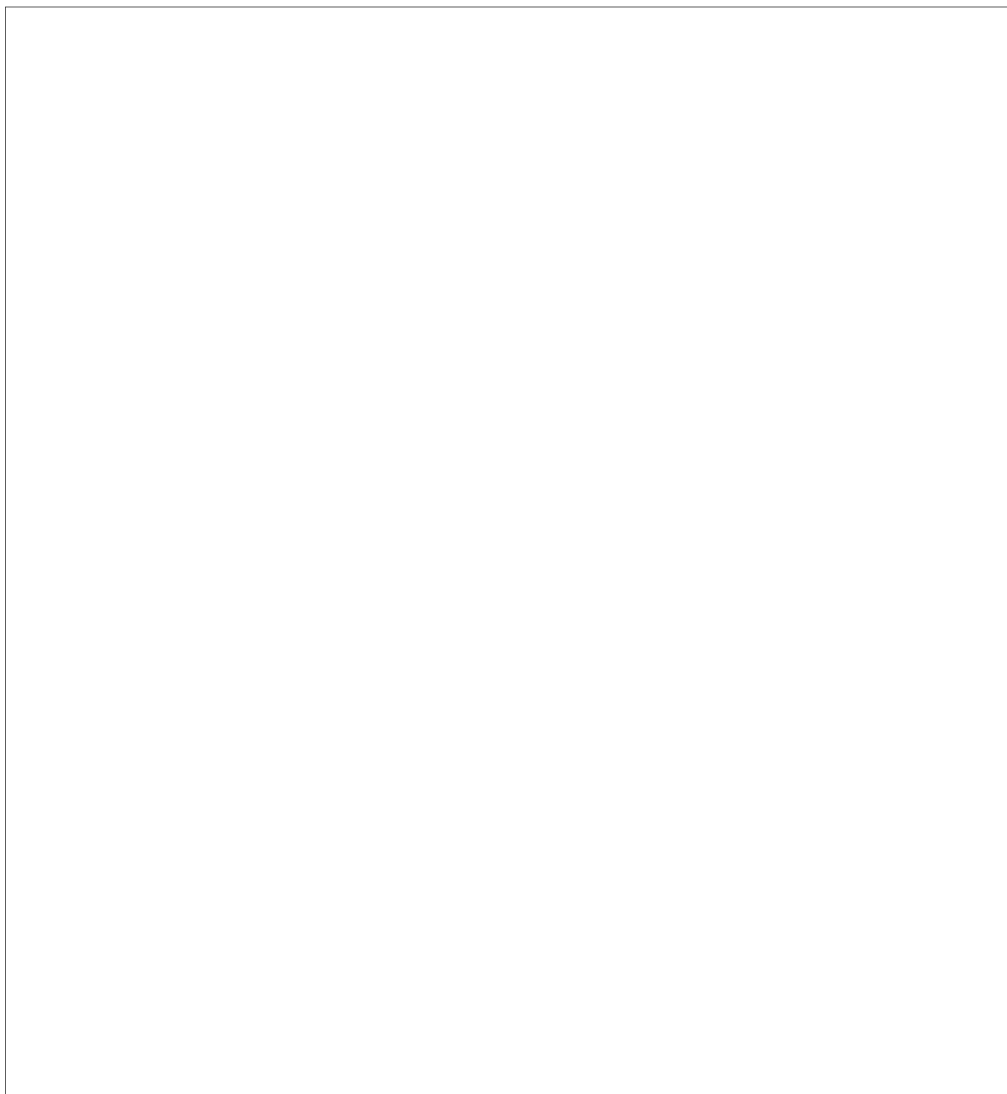
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SYRIA-LEBANON: Security and Political Reform Program

Syria is determined to begin its latest security and political reform program in Lebanon before a possible Arab summit and the meeting between President Reagan and General Secretary Gorbachev next month.

Lebanese factional leaders have agreed in principle to a Syrian-sponsored security plan for Beirut that paves the way for President Gemayel to invite Syria's Arab Deterrent Force to return to the capital shortly.

The factional leaders have reached tentative agreement on the Syrian-sponsored proposals, which also call for a three-year transition during which the Lebanese political system will be overhauled. A key provision is a reduction in the powers of the Christian presidency. The plan has drawn strong criticism from Sunni and Shia fundamentalists, who have been excluded from the deliberations.

Comment: Syrian leaders are worried that, unless they move to bring Lebanon's quarrelsome factions into line before the summits, the Arab states or even the superpowers might make moves inimical to Syrian interests in Lebanon.

Factional leaders are certain to encounter resistance from their constituencies as they try to sell Syria's latest proposals, particularly for the handing over of heavy weapons. Hardline Christians determined to resist a Syrian presence in East Beirut will view acceptance of the agreement by Lebanese Forces leaders as a sellout. Shias are likely to balk if the agreement fails to grant them a political role commensurate with their growing strength.

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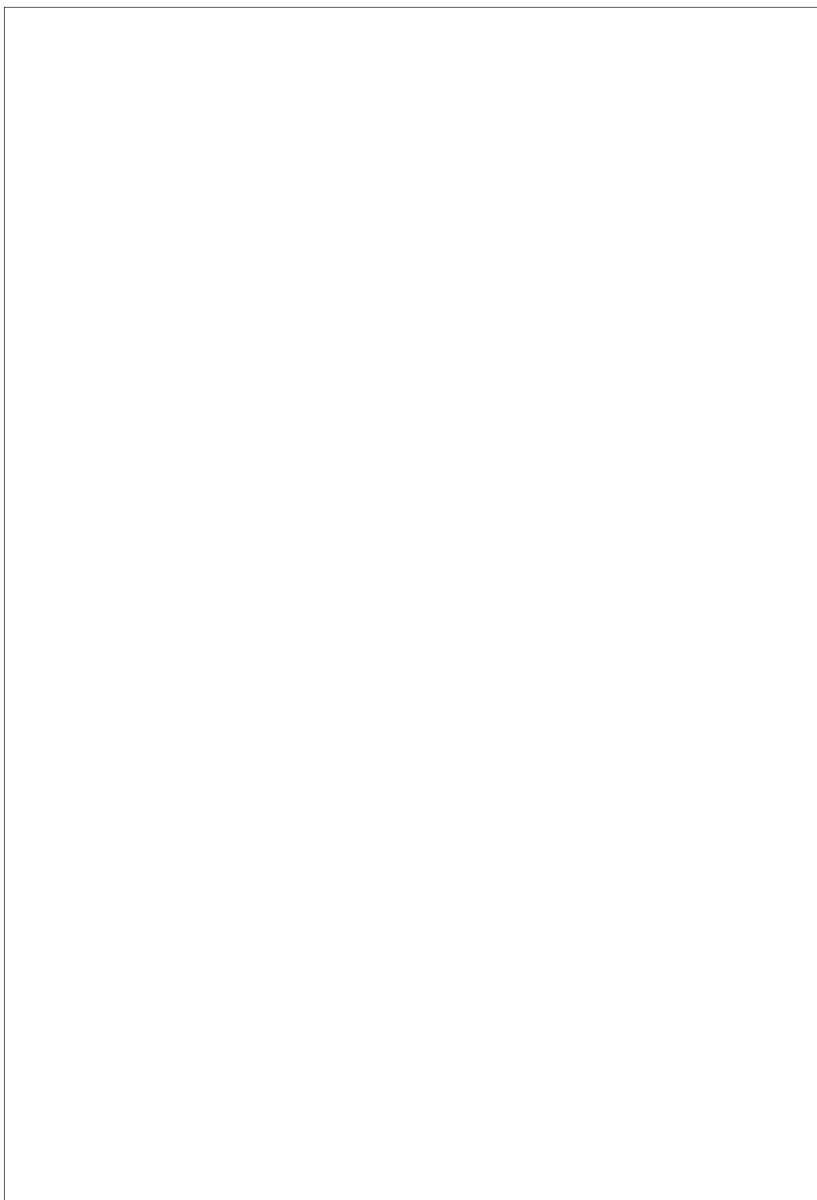
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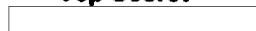
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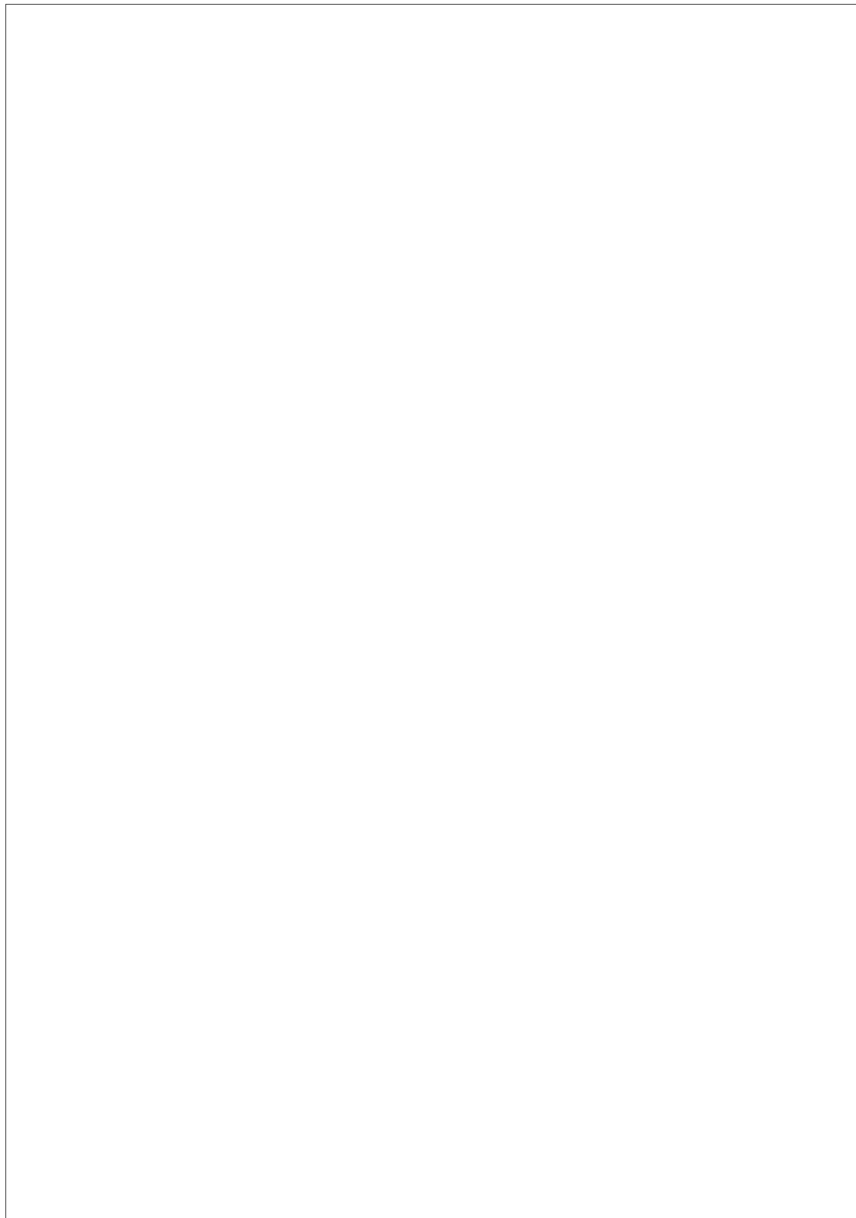


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EC-US: Dispute Over Wheat Trade

The EC intends to file a complaint with the GATT against the US export support program for wheat in response to the US decision to begin an action against EC wheat export subsidies. The EC contends that US subsidies have undercut world prices, whereas EC subsidies only close the gap between international and domestic prices.

Comment: Bilateral consultations on the wheat subsidies question are unlikely to produce a solution, and the dispute probably will be referred to a GATT panel by the end of the year. The dispute almost certainly will complicate EC-US negotiations on other agricultural trade problems, including the EC's preferential treatment for imports of Mediterranean citrus and its production subsidies for Community fruit canners. The US complaint will increase EC fears about the way agricultural subsidies will be treated in the new round of GATT talks. It also is likely to intensify the continuing debate within the EC on reform of the Common Agricultural Policy and on how to cut cereal production.


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GREECE: Government Response to Labor Unrest

Prime Minister Papandreou has expelled eight labor leaders from his PASOK party, according to press reports. The eight had joined the Communists in calling for a nationwide strike in opposition to the economic austerity program announced last week. In Athens, only about 20,000 workers responded to the call. 

Comment: The expulsions reflect growing dissension within Papandreou's party over the government's latest austerity measures, which will reduce the real income of workers. They also reflect Papandreou's determination to maintain tight control over the party and to stifle leftwing criticism of his economic policies. At a party Central Committee meeting last month, Papandreou laid the groundwork for the expulsions by accusing dissident unionists of pursuing narrow economic ends at the expense of the national interest. 

ROMANIA: Energy Emergency Declared

President Ceausescu this week imposed a state of emergency in the energy sector, fired the minister and deputy premier responsible for electrical power production, and put the military in charge of running the entire power system. Military command teams are to take control of thermal power plants and punish civilian employees for any failure to obey orders to maintain production schedules. 

Comment: The move reflects Ceausescu's desperation over the effect of energy shortages on the economy this year, but it will probably do little to augment the supply of electricity. Coal production is far below planned targets and snarls in traffic have interrupted coal deliveries. Much of the coal is low-grade lignite that causes equipment to break down, and 



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NORDIC COUNTRIES-SOUTH AFRICA: Oil Shipments

Norway has begun talks with other world shipping powers, including Greece, Panama, and Liberia, to halt oil shipments to South Africa.

[redacted] there was considerable foreign and domestic opposition to the plan; some African states flatly refuse to take part. Meanwhile, the Foreign Ministers of Denmark, Sweden, Finland, and Iceland voted to support the Norwegian initiative as well as to extend the Nordic countries' program of trade restrictions against South Africa at their semiannual meeting 17 and 18 October. [redacted]

Comment: Norway probably realizes that the chance of winning the cooperation of other major shipping countries is slight, but Prime Minister Willoch, whose coalition was narrowly reelected last month, hopes that the effort will satisfy demands from the opposition for stronger measures. The talks may also have been a political gesture designed to reinforce the actions taken at the Foreign Ministers' meeting. Even if Norway won agreement on banning oil shipments, the impact would be minimal because South Africa has large reserves and could obtain oil through other means, including clandestine transactions. [redacted]

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SOUTH YEMEN: Results of Party Congress

President Hasani withstood challenges to his rule during the recent Yemeni Socialist Party congress but emerged politically weakened.

[redacted] one of Hasani's opponents, former President Abd al-Fattah Ismail, has been appointed to the Politburo and that the Governor of Shabwa Province, one of Hasani's key supporters, did not attend. There are no signs, however, that Hasani is planning to abandon his relatively moderate, pragmatic policies. [redacted]

Comment: Hasani's political control appears to have slipped slightly, even though holding the congress as scheduled represents a major political achievement. Ismail's appointment means that Hasani did not have the clout to stack the Politburo with his backers and was forced to compromise with the man he deposed as president in 1980. The governor's absence suggests that members of the party's right wing, traditionally Hasani loyalists, are unhappy with the concessions to Ismail and other hardliners. If Hasani cannot show a greater payoff from his policies of expanded contacts with the West and improved relations with Oman and Saudi Arabia, he will be open to increasing political challenges from Ismail and the leftists. [redacted]

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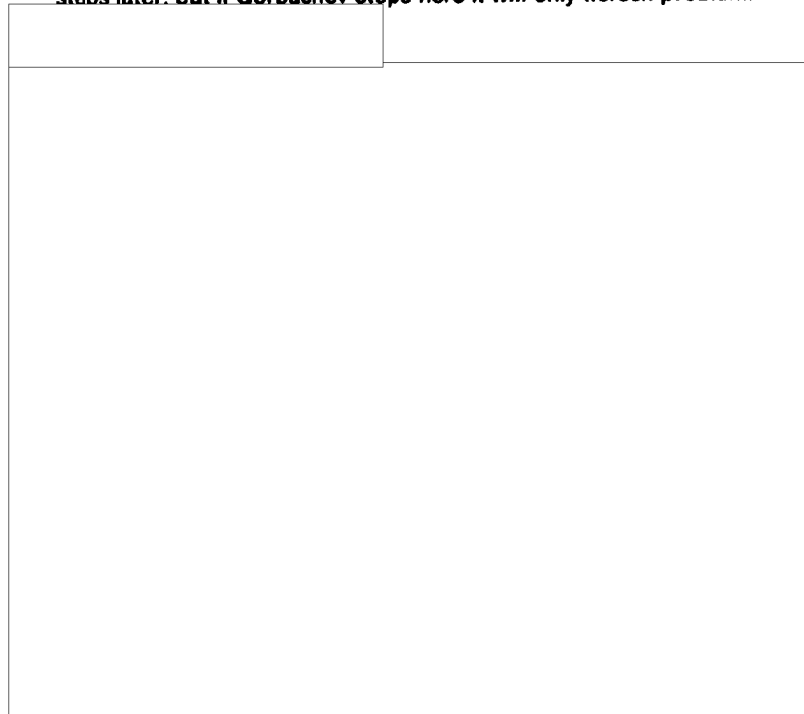
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USSR: Reorganizing Machine-Building Industry

Soviet media report that on Thursday the Politburo approved the creation of a bureau within the Council of Ministers to coordinate the work of the various machine-building industries. The new bureau reportedly is to have the power to issue binding decisions and reallocate resources among the ministries. There are currently 11 machine-building ministries in the civilian sector and another nine engaged primarily in military production. 

Comment: It is unclear which ministries will be affected or whether the powers given to the new bureau will enable it to function more successfully than did a similar unit set up for the agro-industrial sector in 1982. While stressing the need to improve coordination among ministries, General Secretary Gorbachev had earlier called for a major shakeup of the ministerial bureaucracy to reduce its size, eliminate overlap, and remove superfluous layers. The creation of the new bureau may be a move designed to prepare the way for bolder steps later, but if Gorbachev stops here it will only worsen problems.



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In Brief

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— **Mexico** to expropriate 7,000 quake-damaged properties in capital to reduce frustrations of homeless . . . right wing, private sector opposed . . . fear compensation will be inadequate and may encourage other actions against property. [Redacted]

Middle East

— Prime Ministers of **Syria** and **Jordan** to resume reconciliation talks in Riyadh tomorrow . . . seeking minimal consensus for possible **Saudi-sponsored Arab summit** next month . . . will probably steer clear of Hussein-Arafat peace initiative. [Redacted]

— Radio Monte Carlo, citing Palestinian source in **Tunisia**, claims Palestinian Liberation Front leader Abu Abbas will attend forthcoming **PLO Executive Committee meeting** in Baghdad . . . no date set, but should meet within next few days. [Redacted]

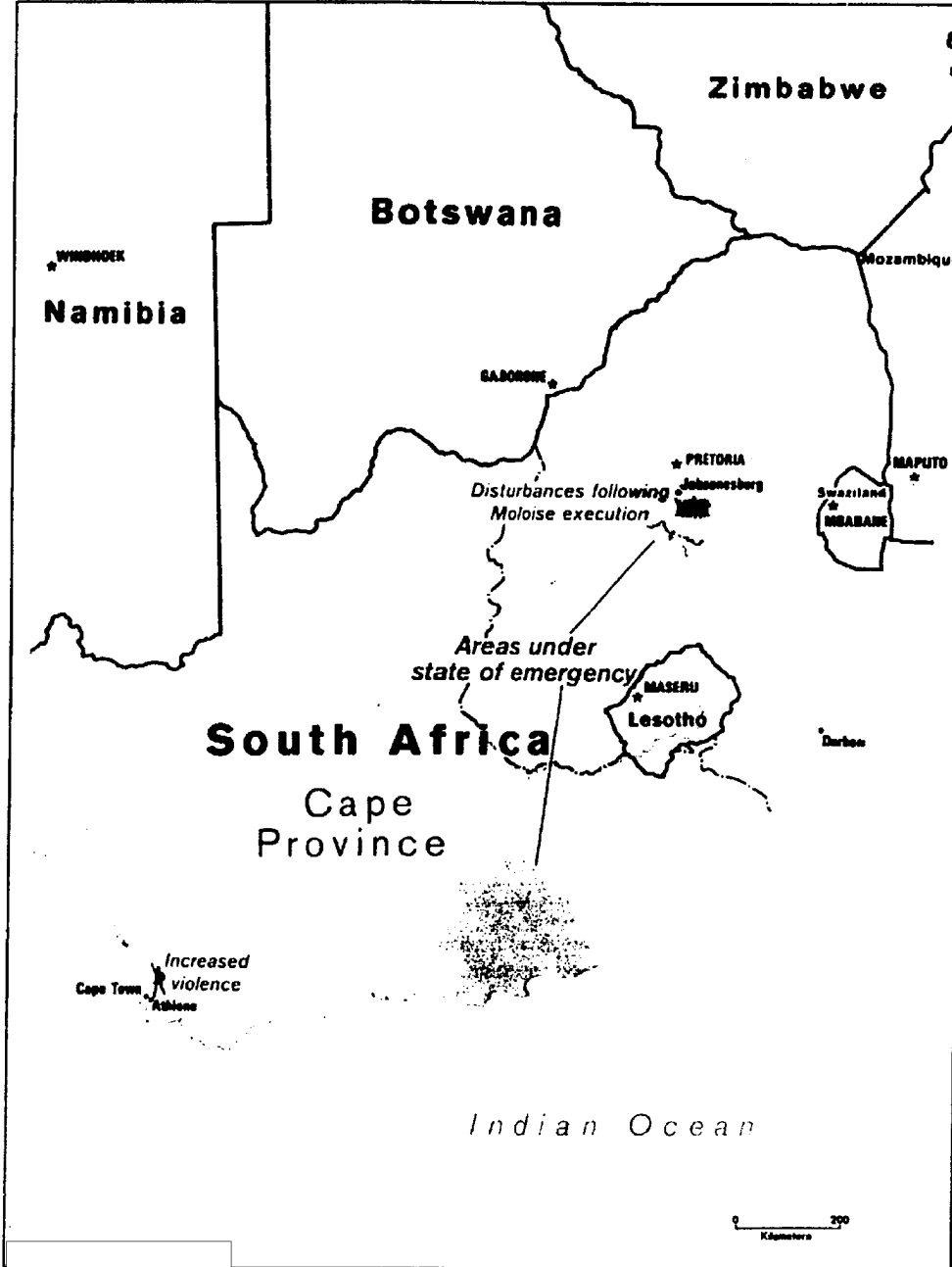
Europe

— **Greek Cypriot** legislature to be dissolved on 31 October . . . election set for 8 December . . . election likely to strengthen Conservative and Communist Party opposition to President Kyprianou, handling of UN peace negotiations. [Redacted]

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Continued Unrest in South Africa



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Special Analysis

SOUTH AFRICA: Status of Violence

Recent efforts by activists to mount national protests have been largely ineffective, but militant youths show no signs of abandoning soon their low-level war against security forces and black "collaborators." Excesses by security personnel in clashes with nonwhites are keeping antigovernment sentiment high.

Several white passers-by and security personnel were injured yesterday when police dispersed some 3,000 nonwhites outside the memorial service for Benjamin Moloise, the black African National Congress member executed for killing a policeman in 1982. The service was held at a building in downtown Johannesburg that houses offices of various activist groups, including the United Democratic Front. Winnie Mandela, wife of imprisoned ANC President Nelson Mandela, defied government restrictions by speaking at the service—her first public speech in eight years.



While the violence generally appears to be reduced in districts under the state of emergency, it is up in other areas, including western Cape Province, now the center of the worst unrest. The eight funerals being held today for riot victims in the western Cape Province are likely to occasion more clashes with security forces. Meanwhile, antigovernment disturbances in the Durban area have been overshadowed by a violent struggle for influence in nearby nonwhite townships between the multiracial United Democratic Front and Chief Buthelezi's powerful Zulu group, Inkatha.

The Government's Tactics

Since a state of emergency was declared in July, the rate of deaths—averaging 3.5 a day—is more than twice as high as during the first half of the year. This probably is partly the result of the increased security presence in the townships, which has led to more attacks on police and soldiers as well as retaliatory actions. Detentions without trial and arrests continue at a high rate, affecting more than 15,000 nonwhites since mid-1984, according to government figures.



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The use of particularly harsh tactics frequently has backfired. This week security personnel hiding in a truck shot at Colored youths who had begun stoning the vehicle, killing three, provoking some of the worst rioting in the area in the past year. [REDACTED]

Pretoria undoubtedly realizes its announcements on black citizenship and political rights and the eradication of some racial restrictions will not end the unrest, but these actions signal an understanding that this violence, as well as earlier cycles, stems from deep-seated black frustrations. The timing of the announcements, many of which had been planned for some time, is designed both to provide hope to black moderates that more substantial changes will follow and to deflect international criticism of Pretoria's policies. [REDACTED]

Pretoria recently began a new jobs program to try to reduce the high black unemployment rate—at present about 30 percent—which is contributing to the unrest. Revisions also are due in the pass laws, originally designed to keep excess black labor out of nominally white areas; more than 18 million blacks have been arrested for pass-law violations in the last 75 years. [REDACTED]

Outlook

A continued stalemate is likely over the coming months, with ebbs and flows in the violence. Pretoria is not interested at this point in talks with black opposition leaders about political solutions. [REDACTED]

If the situation deteriorates rapidly and the ANC and other militant groups become more actively involved, Pretoria is likely to rely more heavily on coercion. The government has had success in the past in repressing violence, and President Botha, along with many other whites, would back stronger and more deadly security measures if necessary. [REDACTED]

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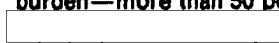
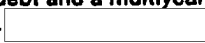


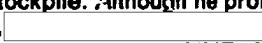
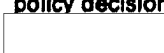
Special Analysis


ZAIRE-US:


Mobutu's Visit

President Mobutu comes to Washington next week to reaffirm close bilateral ties and seek assurances of US support to cope with formidable economic problems and increased Libyan-backed subversion. 

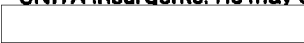
Mobutu will seek help in reducing Zaire's growing debt-service burden—more than 50 percent of government revenues in 1985.   he may propose a three-year moratorium on principal payments on its \$4.4 billion debt and a multiyear rescheduling of the interest payments. 

Mobutu is likely to point out that Zaire's poor economic prospects are due to low world prices for its leading exports—copper, petroleum, diamonds, and coffee—and stress his opposition to US plans to sell cobalt from its strategic stockpile. Although he probably will agree to another IMF arrangement,  Mobutu is frustrated with the increasing involvement of IMF officials in economic policy decisions, which he believes undermines Zaire's sovereignty. 

Despite his strong political position, Mobutu believes he must move toward more expansionary policies as the ruling elite, urban workers, and private businessmen become increasingly discontented with austerity. Rising expectations among the urban working class for improved wages and health care have increased the likelihood that another austere budget would lead to disturbances. In addition, Mobutu rearrested several opposition leaders this week because of their demands for a more open political system, possibly foreshadowing a return to more repressive government tactics. 

Mobutu is likely to seek additional US military aid and help in refurbishing military facilities to counter Libyan-backed rebel activity in eastern Zaire. The rebels are not an immediate threat to the regime, but continued small-scale attacks are forcing Mobutu to expend scarce resources on counterinsurgency operations. 



Mobutu may also raise his concern about the growing Soviet role in Angola and the success of the recent Angolan offensive against UNITA insurgents. He may offer to increase logistic support to UNITA. 

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