

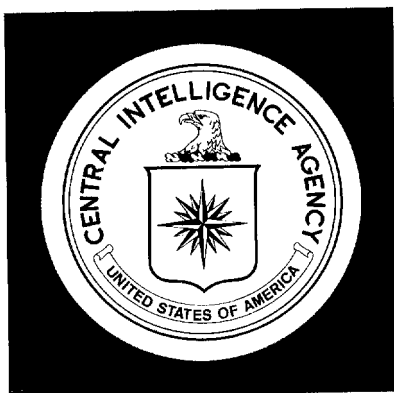
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# Weekly Summary

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CI WS 76-035  
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August 27, 1976

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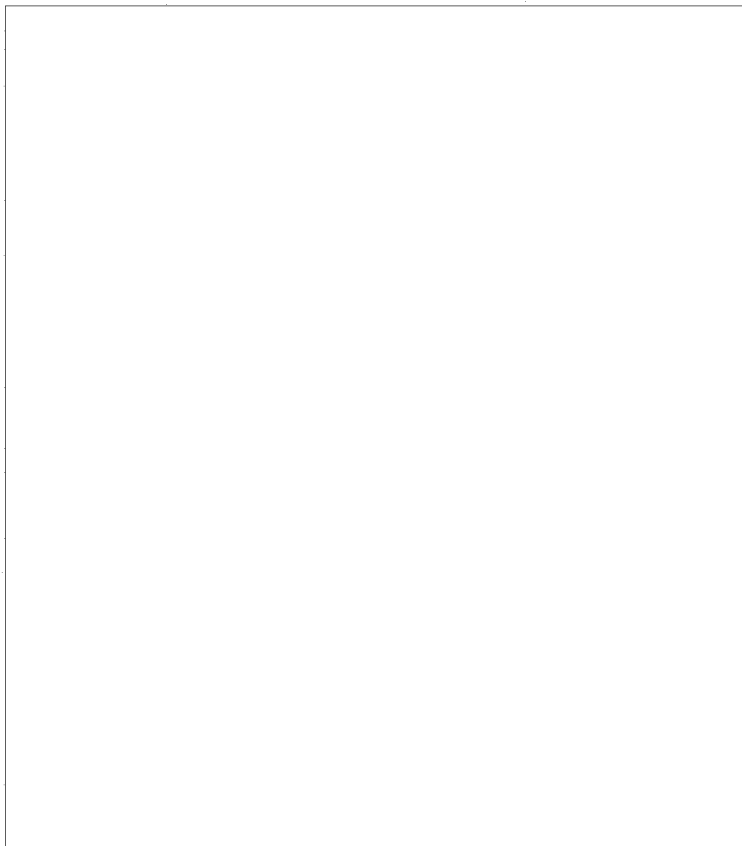


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August 27, 1976

The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology.

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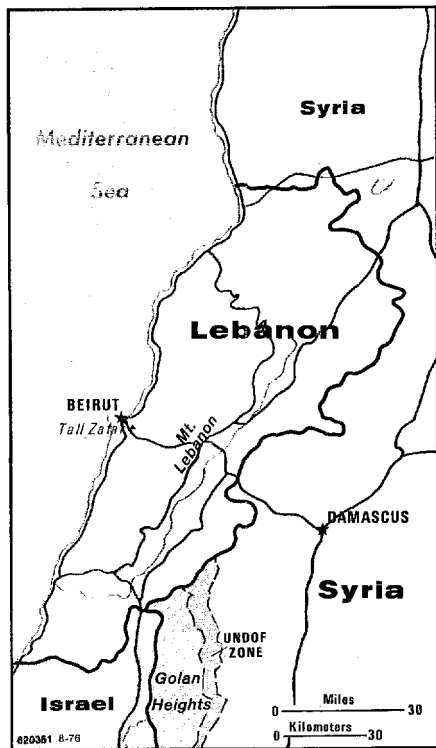
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# Middle East

## LEBANON

Neither the threatened "massive" Palestinian reprisals nor the Christian offensive against Palestinian strong points in the Mount Lebanon range have materialized in the wake of the fall of the Tall Zatar refugee camp. All sides continued to mark time this week as fighting was limited largely to sporadic heavy artillery exchanges and ground skirmishes in and around Beirut and Tripoli.



The Syrians reportedly reiterated their terms for a settlement—a Palestinian withdrawal from the mountain area east of Beirut, the end of Palestinian propaganda attacks on Syria, and the participation of pro-Syrian Shiite Muslims in a four-party committee to supervise any new cease-fire. The Palestinians have consistently refused to withdraw from their mountain strong points except in the context of an overall peace settlement. Leftist leader Kamal Jumblatt flatly rejected the Syrian demands, insisting that the leftists would fight on indefinitely.

There have been recent signs of Palestinian weaknesses, however, that might make them more willing to reach an accommodation with Syria. Palestinian leaders, for example, have had to introduce conscription, suggesting that they are suffering a severe manpower shortage. They may also take seriously recent Syrian threats to start a new offensive.

The Syrians would probably be willing to entertain any new Palestinian offer to negotiate at least until president-elect Sarkis has assumed office. Damascus seems confident that President Franjyah will step down when his term ends on September 23. Franjyah does appear ready to step aside at that time.

After so many broken cease-fire agreements, however, the Syrians are unlikely to try to restrain the Christian militias until Damascus is convinced that the Palestinians are ready to cooperate and are not simply playing for more time to rearm and fortify their positions. Syria seems almost certain to insist on some tangible evidence of Palestinian sincerity rather than vague promises.

Should the Syrians and Palestinians finally reach a genuine accommodation, Damascus might find it difficult to rein in

the more extremist Christians, such as Interior Minister Shamun, who seem convinced that they can win militarily. Any Syrian-Palestinian agreement, in fact, would arouse Christian suspicions that the PLO and Damascus have reached a secret understanding detrimental to Christian interests. For the moment, therefore, the prospects for a negotiated settlement remain precarious at best.

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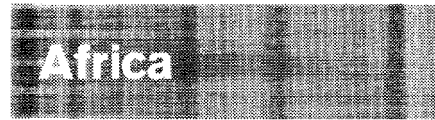
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international banking community—continued to close lucrative deals. The real losers were Arab investment institutions that excluded themselves from participation in or management of large international offerings. [redacted]



**SOUTH AFRICA** [redacted]

A three-day work stoppage among Soweto residents this week showed that student militants are making significant headway in their effort to involve South Africa's urban blacks in a disruptive protest movement against the apartheid system. Some blacks in Soweto, however, have reacted violently against the militants' tactics.

On August 23, roughly 80 percent of the 200,000 industrial workers who usually commute from the black township to Johannesburg were absent from their jobs. Absenteeism declined only slightly during the week. The latest militant effort in Soweto was well organized. Student leaders called meetings in high schools

late last week to recruit other students who distributed leaflets over the weekend calling for the work stoppage.

Police authorities encouraged Soweto residents who want to continue working to arm themselves with clubs to fend off harassment by the militants. Hundreds of Zulu tribesmen living in Soweto's bachelor barracks attacked student militants on August 24 and 25.

Many of the pamphlets distributed in Soweto last weekend reportedly carried the name of the African National Congress, the outlawed revolutionary organization that has been suppressed inside South Africa since 1960, although its exiled leaders have maintained a prolific propaganda apparatus. Evidence is inconclusive, but remnants of the Congress inside South Africa could be asserting some influence over the student movement that has burgeoned since June.

The government continues to round up prominent black adults who are suspected of involvement with student militants. Within the past two weeks, at least 100 such blacks have been arrested, including teachers, clergymen, physicians, and a school principal who had been among the Soweto residents who consulted with government leaders last month.

The recent disorders seem to be forcing even the conservative leaders of the tribal

**ARAB STATES** [redacted]

Arab financial institutions have relaxed their self-imposed ban against participating in underwritings led or co-managed by "Jewish firms." The Arab institutions found that they were losing lucrative business opportunities by abiding strictly with the Arab League boycott.

The Saudi Arabian Investment Company was recently listed as an underwriter of an issue of UK National Coal Board notes managed by Warburg and Company and Rothschild and Sons—both blacklisted firms. A Saudi-Japanese firm and the Saudi Arabian Investment Company also have reportedly joined in offerings with blacklisted firms.

The Arab boycott against these financial houses was never very effective. Blacklisted firms—well-connected in the



*Recent South African disturbances* [redacted]

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homelands to side with the forces for change. On August 21, the leaders of seven of the nine tribal homelands met in Johannesburg and issued a statement demanding not only better living conditions for urban blacks, but release or fair trial of all blacks now under detention. The manifesto also denounced the government's plan to grant nominal independence to the homelands without providing adequate resources—a stand that will further discredit the Transkei and Bophutatswana leaders who have agreed to early independence on the government's terms. [redacted]

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**NAMIBIA** [redacted]

The statement publicized by the South African government last week setting December 31, 1978 as the target date for Namibian independence is an agreement only in principle and leaves crucial issues dealing with the territory's future unresolved.

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The US embassy in Pretoria believes South Africa put pressure on white conservatives in Namibia to agree to the statement in an effort to avert further attempts at the UN to impose the terms of Namibian independence. Early this year, the Security Council set August 31 as the deadline for South Africa to arrange UN-supervised elections in the territory.

The UN Council for Namibia has condemned the statement for failing to comply with the Security Council's order.

According to the statement, which was issued by a committee of the multiracial constitutional conference that South Africa set up last September, an interim government will be established in Namibia only after a constitutional "foundation" has been agreed upon.

During the interim period, the details of the constitution will be worked out and preparations made for a transfer of power to a permanent government.

Black and mulatto representatives at the conference reportedly hope a mul-

tiracial interim government can be established by March 1977. They have the support of white moderates, but white conservatives who control the Namibian branch of the ruling National Party are not reconciled to losing control of the territory.

The moderates had hoped to capture leadership of the party at a congress held this week but failed in their effort. Fearful whites in Namibia will now be reassured that Pretoria will not be stampeded into precipitate action on the future of the territory.

The South-West Africa People's Organization, which is leading the insurgency against South African control of Namibia, immediately condemned the statement. There is some sentiment within the constitutional conference to invite SWAPO to participate, but thus far SWAPO has indicated it would refuse. [redacted]

**East Asia-Pacific**

**KOREA** [redacted]

Tensions eased along the Demilitarized Zone in Korea following the UN Command's tree-clearing operation at Panmunjom last weekend. North Korean soldiers made no attempt to interfere, and Pyongyang moved promptly to defuse the crisis atmosphere.

Three hours after the tree-clearing operation, the senior North Korean representative on the Military Armistice Commission conveyed a private message from President Kim Il-song to the UN commander. The message termed the incident on August 18 that resulted in the deaths of two US army officers "regrettable" and urged both sides to make efforts to avoid future incidents.

At a meeting of the Military Armistice Commission on August 25, the North proposed that the two sides physically

separate their security personnel in the Joint Security Area. The proposal is designed to create a favorable impression abroad of Pyongyang's "reasonableness." The North Koreans, in effect, are taking up a proposal made years ago by the UN Command. The UN has no guard posts in the North's sector, and only the North Koreans would have to pull guard posts back in order to implement the proposal. The meeting was businesslike and devoid of the usual communist invective.

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UN forces felling the tree [redacted]

North Korean media continue to depict the US as the major source of tension on the Korean Peninsula. This is part of Pyongyang's overall political strategy to build pressure for a withdrawal of US forces.

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Both the USSR and China have adopted a low profile on the Korean situation. *Pravda* has carried brief press items noting increased tensions in Korea, but the USSR has yet to replay any of the North Korean accounts of the recent actions at Panmunjom. Chinese media have reported some North Korean statements but have not commented directly. [redacted]

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**THAILAND**

With the departure of former military strong man Praphat on August 22, the Seni government has successfully gotten past its first serious political challenge. Without any forewarning of Praphat's arrival and mindful of his own limited powers in dealing with the military, Prime Minister Seni seems to have moved carefully to take advantage of the factional rivalries within the military to secure Praphat's departure and to disarm an explosive situation.

The death of two students and the wounding of another 30 to 40 in civilian disturbances sparked by Praphat's return gave the government leverage to bring pressure on Praphat and his supporters to cut short his stay.

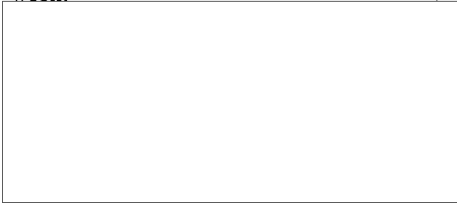
Seni nevertheless has given the impression of a man reacting to events over which he had little control, and confidence in his leadership has been eroded. The formerly moribund student dissident movement, moreover, has been revived and reunited.

The sketchy evidence suggests that Praphat's presence precipitated political maneuvering aimed at bringing down the Seni government. General Yot, commander of the 1st Army garrison in Bangkok where Praphat stayed, and several other generals are suspected of conspiring to this end with the leaders of a conservative political party, the Thai Nation Party. Thai Nation party leader Praman, who is a deputy prime minister, was widely thought to be part of a group that tried to overthrow the Khukri government last February.

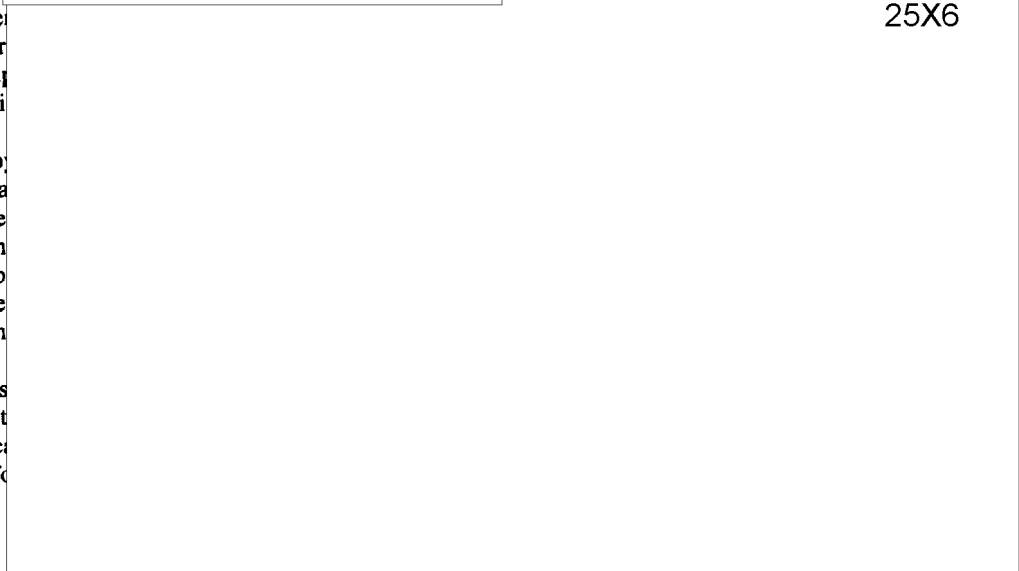
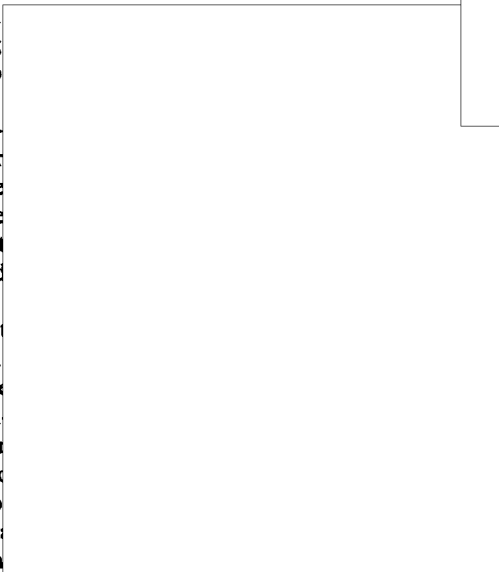
Seni kept Praman in line last week by appointing him and two of his political cronies to a government committee tasked with getting Praphat out of the country. The government, supported by army commander Bunchai, also warned the 1st Army garrison not to follow an illegal order from General Yot.

The resignation of Thai Defense Minister Thawit, who cooperated with allies of Praphat during the political maneuvering, may open the way for

Prime Minister Seni to reward military leaders who stood by the government last week.



Seni's first major parliamentary test of strength will come in mid-September, when the government's budget bill comes up for a final vote in the National Assembly.



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CHINA

Economic factors may be working to the advantage of Chinese moderates in their efforts to check the campaign against former vice premier Teng Hsiao-ping and his supporters.

A *People's Daily* editorial published August 23 appears to reflect a growing concern within the Chinese leadership over the effects of the campaign on industrial production. It calls for tighter party control over anti-Teng activities, for more leniency in dealing with other alleged "capitalist roaders," and for an end to factionalism. These guidelines take the hardest line against disruptive activities since Teng first came under attack and may reflect rising moderate influence.

Campaign-related factionalism and wall poster attacks on provincial leaders have been evident in a number of places for some time, particularly in Fukien and Chekiang provinces. As early as June, there were indications that Peking was starting to slow the campaign and re-emphasize productivity.



General Secretary Brezhnev meeting with Japanese businessmen in the Crimea

are under radical fire.

projects in Siberia. He urged Japan to grant the USSR untied, government-to-government credits of 10 to 15 years and proposed the establishment of a joint cabinet-level economic committee. The Japanese countered with a suggestion that Brezhnev accept Prime Minister Miki's invitation to visit Japan as soon as possible and implied there should be movement on the Northern Territories problem. Brezhnev was noncommittal.

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JAPAN-USSR

General Secretary Brezhnev's recent decision to stand in for ailing Premier Kosygin and meet with a group of Japan's top industrialists underscores the importance Moscow attaches to its economic relations with Japan.

Brezhnev was trying to give new impetus to the USSR's economic ties with Japan and to elicit additional Japanese involvement in Siberian development projects. The Soviets may calculate that the Japanese industrialists will be receptive because of their pessimism about short-term prospects for increased Japanese economic dealings with China.

the Chinese media have devoted more attention to a variety of economic conferences throughout the country and have played up the importance of meeting production goals.

The recent earthquakes in China have also probably worked to the advantage of the moderates who are undoubtedly contending that substantial industrial losses make it imperative that production receive high priority. This argument seemed to be tacitly acknowledged in a *People's Daily* editorial two weeks ago that warned against using the quakes to divert attention from the anti-Teng campaign.

The moderates may now be in a better position to defend certain economic policies closely associated with Teng that

Brezhnev surprised the Japanese visitors with his knowledge of the joint

The prospects for trade relations are brighter. Last year, Japanese sales to the USSR reached a record \$1.6 billion, and Japanese sales through May of this year were running some 10 percent above that level.

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**Western Hemisphere**

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on such issues as human rights and the economic plight of the poor in Chile. One result may be to encourage other critics of the military government, such as Christian Democratic followers of former president Frei, to step up their attacks.

The church has blamed the government for the hostile demonstrations that greeted three prominent Chilean bishops when they returned home from a recent conference in Ecuador. President Pinochet denied allegations that security agents orchestrated the anticlerical violence, [redacted]

[redacted] The church reacted by excommunicating security personnel accused of roughing up the bishops.

Later, the church issued a sharp attack on the government for the summary expulsion of two prominent civil rights attorneys on August 6. It censured the government for practices that create a "moral problem" on which the church cannot remain silent. It charged that the junta's refusal to define the grounds for the lawyers' expulsion was "unacceptable and closes the road to all reconciliation."

The incidents will give Chilean and foreign critics of the government new ammunition at a time when fresh reports are circulating of illegal detentions and unexplained disappearances of persons in

Chile. The UN Human Rights Commission will probably find new justification for pressing its mandate to investigate the Chilean situation.

President Pinochet has reacted by personally denying that relations with the church have been impaired. He arranged a meeting with the Chilean cardinal and other bishops, and government sources say it took place in "a climate of frankness and cordiality." Despite these disclaimers, the government has banned any radio or television reporting on the recent incidents. [redacted]

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**ARGENTINA**

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Leftist guerrillas marked last weekend with a number of bombings and machine-gun attacks, but their actions were overshadowed by killings by security forces and right-wing groups.

The guerrillas, commemorating the deaths of 17 comrades at the hands of government forces four years ago, bombed or fired on several targets in Buenos Aires, including local police and subway stations. No deaths were reported.

Security forces killed some seven terrorists in official counterinsurgency

**Cuba Steps Up Contacts with US Companies**

Cuba has stepped up direct contacts with US companies, despite its public statements playing down the importance of the US market.

Since last October, the Cuban government has financed visits by representatives of at least eight US companies to explore bilateral trade possibilities once commercial relations between the two countries are re-established. It has tentatively scheduled visits by five additional companies within the next two months and has continued to communicate with a number of other US firms.

In at least one instance, Cuba has re-

quested a company to waive its claim for compensation for nationalized properties in return for future access to the Cuban market. The Cubans have also hinted at the possibility of management contracts and joint ventures.

These Cuban actions appear to be an effort to undermine the US business community's support for the embargo. Cuba can now obtain most of the products it desires from the US through US-owned foreign subsidiaries, but lifting of the embargo would give the Castro government a psychological victory. [redacted]

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**CHILE**

Church-state relations in Chile have become more strained. An open split will probably be averted, but the Catholic hierarchy is likely to be more outspoken

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operations in Cordoba and Buenos Aires, but the bloodiest right-wing action was the murder of 30 people on the outskirts of the capital. The vigilantes left signs describing the victims as leftist guerrillas. The massacre apparently was in retaliation for the killing of a retired general by terrorists last week.

The massacre has disturbed the government, perhaps more than any other single such incident, and may even prompt an effort to curb the vigilantes. A ranking official in the office of the presidency told the US embassy that the government is absolutely certain who authorized the crime and has evidence to prove it. He stressed that those responsible will definitely be punished and that the embassy will be informed even if the sanctions are not made public.

Europe

FRANCE

President Giscard on August 25 named Raymond Barre as the second prime minister of his two-year-old administration. Barre succeeds Jacques Chirac, a Gaullist, who resigned after increasing disagreement with the President over government policy and political strategy. It was the first resignation by a prime minister under the Fifth Republic. A new cabinet was to be named by the end of the week.

Barre, 52, has no political affiliation; he listed himself as a member of the "presidential majority" when named minister of foreign trade in January. Barre's appointment does not appear to indicate that the President is ready for a break with the Gaullists. The cabinet shuffle may, in fact, be a holding action, precipitated by Chirac's determination to get out. Some reports indicate that Giscard would have preferred to wait until after the municipal elections next March

to make major changes in his administration.

In a press conference that followed the announcement, Giscard indicated Barre would be carrying out the President's instructions rather than initiating policy. Giscard also noted that he has asked Barre to try to enlarge the "presidential majority," with special emphasis on incorporating parts of the center left.

One of the objectives of the new government, according to Giscard, will be to fight inflation. Barre, an economic expert,



Raymond Barre

can also be expected to address the problems of unemployment and monetary stability. All three are of primary public concern and a crucial factor in the coalition's chances in 1977 and 1978.

The cabinet and sub-cabinet will have a number of new faces,

Under Chirac, the Justice Ministry was held by Jean Lecanuet, the leader of the coalition's centrist parties. Foreign Minister Sauvagnargues, who has long been rumored to be on the way out, may be replaced by Lecanuet.

GREECE-TURKEY

The prolonged UN Security Council debate over the Aegean continental shelf dispute ended with a compromise resolution this week. The Turkish seismic research ship Sismik I, meanwhile, returned to port for repairs before beginning the fourth phase of its operations next week.

Worded to placate Greece without unduly antagonizing Turkey, the resolution urges both parties to exercise restraint, calls on them to resume direct negotiations, and reminds them of the role the International Court of Justice could play in settling their differences.

The resolution was passed by consensus after two weeks of hard bargaining. The Greeks originally sought strong references to Turkish seismic exploration in contested areas and to international adjudication. The Turks fought hard to dilute such references after they failed to fend off a formal resolution.

Turkish Foreign Minister Caglayangil, who along with Greek Foreign Minister Bitsios is in New York, welcomed the call for direct negotiations even as he questioned whether any Council action was necessary. He added that the Greek appeal to the International Court was contrary to the spirit of the resolution and that Turkey would not consider Court action as binding. The Turks have declined to participate in the Court's hearings, which began on August 25.

In Athens, Greek Prime Minister Caramanlis expressed satisfaction with the resolution—especially its reference to the Court—and called on Turkey to abide by its recommendations. Caramanlis has

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staked his prestige on Greece's simultaneous appeals to the Council and the Court.

In a meeting after the resolution was passed, Bitsios and Caglayangil agreed to resume talks in the near future. The Greeks had earlier insisted that the resumption of talks must be preceded by a cessation of Turkish seismic exploration in disputed waters. Although Caglayangil told the press that the Sismik would continue its exploration, he may have hinted to Bitsios that the Turks might change the ship's schedule as a goodwill gesture. Caglayangil could have difficulty persuading his colleagues in Ankara to go along, however, in light of strong criticism of the government's handling of the dispute from the political opposition.

USSR-INDIA

A long-standing dispute over exchange rates is threatening to damage the close political relationship between India and the USSR.

An official of the Indian External Affairs Ministry whose responsibilities include relations with the USSR told US embassy officials on August 23 that he did

not expect an agreement to come from negotiations slated to take place in New Delhi next week on the Soviet demand for a new rate favorable to the USSR.

The official indicated his government is prepared to agree to a new rate for future transactions but opposes retroactive application of any change. The Indians assert they stand to lose about \$500 million if a new rate is applied to outstanding Soviet loans.

According to the official, the Indian government considers the issue to be of great political as well as economic significance and will not succumb to Soviet pressure. He added that "very senior people" in the Indian government are ready to accept a major change in Indo-Soviet relations, such as a reduction in Indian arms purchases and bilateral trade, if the USSR does not back down.

Recent reports indicate that the Indians are increasingly dissatisfied with numerous aspects of Indo-Soviet economic relations. Repeated Indian attempts to secure more advantageous terms on aid and trade have been largely unsuccessful. India's frustration—at a time when Indian planners are trying to spur economic development and have come to recognize the limitations of Soviet aid—probably partially accounts for the emotional overtones that have sur-

rounded the rupee-ruble issue.

The Indian official could be overstating the willingness of his government to accept a major change in its relationship with Moscow. Prime Minister Gandhi is unlikely to take any action that would abruptly jeopardize relations with India's major arms supplier.

Gandhi has, however, permitted a gradual cooling in Indo-Soviet relations over the last several years. Her self-confidence has grown as a result of her assumption of authoritarian power and India's somewhat improved relations with China, Pakistan, and the US. Such factors probably are encouraging the Indians to stand up to the USSR on a matter in which they see their economic and political interests deeply involved.

POLAND

In compliance with the Helsinki Accord, Poland gave notification last week of the major military exercise Shield-76, a multinational Warsaw Pact exercise that will involve as many as 35,000 ground and air force troops. It is scheduled to be held from September 9-16 in western Poland.

Polish officials said troops from Poland, East Germany, Czechoslovakia, and the USSR will participate. Observers from at least four countries outside the Pact—Austria, Denmark, Finland, and Sweden—have been invited.

Shield-76 is the first multinational Warsaw Pact exercise held since the Helsinki summit meeting last summer.

Poland is the first East European country to announce a major military exercise—one involving more than 25,000 ground troops—in compliance with the confidence-building provisions of the Final Act of the European Security Conference. Hungary announced a smaller exercise in April, and the USSR announced two exercises earlier this year involving only Soviet troops. Yugoslavia has announced two exercises.

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*The nonaligned summit ended last week with the expected resolutions critical of the US. Overall, however, the radical states were unable to push the nonaligned movement much beyond its earlier positions.*

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## Nonaligned States Conclude Conference

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The fifth summit of nonaligned countries that ended in Colombo, Sri Lanka, last week approved broad political and economic declarations that were critical of US actions on a number of issues, particularly Korea, Puerto Rico, Panama, and the Middle East. The section of the political declaration dealing with Indochina referred to "aggressive US imperialism" and called on the US to help "heal the war wounds" of that area.

The political declaration does not reflect a significantly more leftward shift in its rhetoric than previous nonaligned documents. Reports from Colombo indicate that it was hammered out only after stormy debate in the drafting committee. Over a hundred amendments reportedly were submitted to the moderate draft declaration that Sri Lanka, as host, had prepared.

Most amendments came from the radical members of the movement—Cuba, Vietnam, and Syria, for example. These states tried hard to include tougher language in the final declaration, but they apparently did not succeed in pushing the nonaligned movement much beyond positions adopted at earlier sessions. The final resolutions do reflect a more radical orientation than the political and economic declarations.

The radicals were not more successful primarily because the nonaligned moderates—notably India, Yugoslavia, and Sri Lanka—played an unexpectedly active role in opposing their initiatives. Algeria, usually an effective leader of the



*Sri Lankan Prime Minister Bandaranaike welcomes Cambodian leader Khieu Samphan to the nonaligned summit*

radicals, was preoccupied with its dispute with Morocco over Western Sahara, and the radical wing was thereby deprived of an influential spokesman.

The moderate nonaligned states may have worked as hard as they did because this may have been their last opportunity to imprint their philosophy of nonalignment on the movement—that is, non-association with any of the major powers. The next summit is scheduled to be held in Havana in 1979, and it is likely that the Cubans will begin immediately to try to use this fact to bolster their influence.

The Colombo meeting also marked renewed participation in the movement by the communist Indochinese states—Viet-

nam, Laos, and Cambodia—which tried in private negotiating forums to ensure recognition of nonalignment as an essentially socialist and pro-communist movement. The increasing prominence of this emphasis in nonaligned councils may well lead to some splintering of the movement between now and its next session.

On Korea, the conference called for withdrawal of all foreign troops from South Korea, the closure of all foreign military bases, the termination of the UN Command, and the replacement of the armistice agreement by a peace settlement. It made no mention of last week's incident in the demilitarized zone.

On Puerto Rico, the conference

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demanded an end to what it termed US political or repressive maneuvers that perpetuate Puerto Rico's "colonial status."

On **Panama**, the conference reaffirmed support for Panamanian control of the canal and stated that US bases in Latin America "represent a threat to the peace and security of the region."

On the **Middle East**, the US was criticized for its "political, economic, and military" support of Israel, which encourages Israeli "dilatatory tactics" and prolongs the occupation of Arab

territories.

The conference called for an oil embargo against France and Israel because of their alleged violations of UN resolutions against supplying arms to South Africa.

In its economic declaration, the conference broke new ground by emphasizing actions that the nonaligned and developing states themselves can take to further their own development. The usual criticism of the developed states for their alleged lack of concern about the economic problems of the third world still

figures prominently in the declaration. The rhetoric, however, reflects a more moderate indictment of the international economic system than other nonaligned and developing country manifestos.

The accompanying action program places strong emphasis on promoting commercial, trading, and banking relations among the nonaligned nations. It calls for feasibility studies on the establishment of a common third world currency and commercial banking system—as proposed by Sri Lanka.

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*The North-South dialogue, which resumes this fall, has received some impetus from the decisions reached at the UN Conference on Trade and Development in May. The major issues will probably be fewer and more narrowly focused than they have been, but many participants expect no breakthroughs until after the US and West German elections.*

## North-South Dialogu<sup>25X1</sup>

The decisions made at the UNCTAD meetings in May will accelerate discussions on issues the developing countries consider vital. The conference in Nairobi agreed:

- To hold a series of consultations leading to negotiations for formal commodity agreements.
- To convene a negotiating session on the common fund for commodities by March 1977.
- To drop the demands of the developing countries for a debtor-creditor conference and for rescheduling commercial debt in return for the agreement of the developed countries to discuss debt relief in the CIEC.

Most developing countries have become disenchanted with the CIEC, but they are probably not ready to let it collapse. They believe the issues are being studied to death and see little chance for

action before the West German, and more important, the US elections. The OPEC countries, particularly Iran and Algeria, are interested in shifting talks to a different forum where they will be out of the limelight and less subject to pressure from the non-oil developing countries.

### The Debt Relief Issue

The 19 developing countries participating in the CIEC, believing they have little to lose, provoked a deadlock in July in the hope of pressuring the major industrial countries into concessions. Their immediate pretext was the wording of the agendas for the CIEC commissions, which were to resume work in September. The developing countries insisted on language that would commit the commissions in advance to meet their demands for immediate and automatic debt relief and for indexing commodity export prices. The developed countries refused.

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At the nonaligned summit that ended last week, the developing countries took a somewhat more flexible approach to economic issues and now may retreat somewhat from the hard line that led to the breakdown in CIEC. The nonaligned meeting rejected a Cuban resolution critical of the CIEC.

The major industrial countries are united in their opposition to indexing commodity export prices for the developing countries, and the latter have privately admitted that indexing is a dead issue. For OPEC countries, justification of higher oil prices through indexing was the only significant issue in the CIEC.

On debt relief, the major industrial countries believe existing methods are working well and oppose any plan that would treat the debt problems of all developing countries alike or that would provide criteria for automatically triggering cancellation or rescheduling of debts. The talks are now likely to focus more on how to help the poorest developing countries.

The process of reaching even a limited agreement on debt relief holds risks for both sides.

- The developing countries must try to juggle the conflicting interests of countries that need debt relief and those that prize hard-earned credit ratings on commercial markets.

- The developed countries are divided on how to treat debt problems of developing countries. Many West European governments are willing to grant immediate debt relief—which they can do simply by treating it as development aid—in order to gain political points with the developing countries. The US cannot link debt relief and aid, since Congress views debt relief as an unauthorized expenditure.

The developed countries have a stake in continuing the CIEC. From their point of view, the issues would be more difficult to control in UNCTAD or any other UN forum dominated by the developing countries. The West Europeans, especially the French who would lose political face if CIEC breaks down, are reluctant to give

up the only forum where oil producers and consumers are meeting together.

The EC attempted to get talks moving again last month by proposing that the developed countries take a "positive attitude" toward relieving the debt burden of the developing countries. The unofficial response from the developing countries has been that a "positive attitude" is not enough.

#### **Commodity Agreements**

In the next six months, the major industrial countries will try to cooperate with UNCTAD efforts to open talks on commodity agreements and the common fund, but they will have to stall for time to develop agreed positions among themselves. Most recognize that reaching a unified position—both within the EC and among the developed nations as a group—will not be easy in any case and will be especially difficult until after the West German and US elections.

The key to EC unity is bridging the differences between Bonn and Paris. The fiscally conservative West Germans are willing to negotiate two or three commodity agreements but reject the common fund. The French, who are inclined to accept controls over commodity markets, would go along with more commodity agreements and could accept a limited form of the common fund. Although French - West German talks began following the Schmidt-Giscard meetings earlier this summer, they probably have not progressed very far. Bonn probably will review its policies after the October election and might be willing to shift toward the French position.

#### **The Common Fund**

EC members reportedly will study an EC Commission proposal on the common fund when they meet on September 20. According to the Commission, the common fund should:

- Serve only as a financial mechanism rather than an overall regulatory body for the various commodity pacts.

- Finance buffer stocks only when consumer-producer financing proves temporarily inadequate.

The Commission's position reflects European concern about turning over control of commodity agreements to an international bureaucracy. Most West European governments, but not the West German, are resigned to some common funding of commodity agreements but want management left in the hands of producers and consumers.

The Japanese—still opposed to the developing countries' commodity demands—are remaining on the sidelines, hoping for US-EC agreement. They probably would agree to the EC Commission proposal only if they were assured of full support for it by the West European countries and saw no way to avoid making even more costly concessions to the developing countries.

The developing states, for their part, will be less concerned than the industrial states about preparing positions for the UNCTAD meetings because their initial negotiating posture is unchanged. They consider the timetable fixed and believe the onus is on the developed countries to respond to their demands for commodity agreements and the common fund.

They will be focusing greater attention this fall on improving cooperation among themselves. The Group of 77 will meet in Mexico City next month to discuss economic cooperation and try to devise the institutional structures many states feel are required to achieve it.

To date, efforts to enhance development cooperation among these countries have had little success. Political and economic differences among governments have dominated meetings despite efforts to focus on specific and practical measures such as a third world preferential trading system, import and export cooperation schemes, or multinational production enterprises.

Although a 21-member group of experts is preparing an agenda for Mexico City and regional groups are likely to hold preparatory sessions, we do not expect much to ensue beyond an affirmation of the importance of cooperation and the first steps toward setting up formal institutions.

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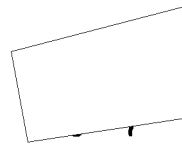
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*The hard-currency debts of the USSR and the East European countries have been rising since the end of 1973 and are likely to reach \$40 billion by the end of this year. The debt problem will be one of the many factors tending to slow economic growth and improvements in living conditions. Poland's problems are particularly serious.*



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## **USSR-Eastern Europe: Hard-Currency Debt**

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The Soviet and East European hard-currency debt increased from \$13 billion at the end of 1973 to \$29 billion at the end of 1975 and will probably reach \$40 billion by the end of this year. The Western economic recession and inflation were the main causes, but massive grain imports also added to the USSR's hard-currency deficit and increased its borrow-

ing needs.

The USSR's hard-currency trade deficit reached a record \$6.3 billion last year and a similar deficit is likely in 1976. Industrial imports, especially of machinery and steel, are rising; grain imports during this calendar year will continue at near record levels. There are no indications that Moscow intends to cut nongrain imports sharply—the only step that could substantially reduce this year's trade deficit.

Eastern Europe incurred a record \$6.5-billion trade deficit in 1975, of which Poland accounted for about \$3 billion. The other East European countries recorded much smaller deficits; only East Germany's exceeded \$1 billion.

The East European deficit will probably decline moderately this year, reflecting some increase in exports and a slowdown in import growth. Hungary's imports will actually decline. In marked contrast to the rest of Eastern Europe,

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Poland will match or exceed its 1975 deficit of \$3 billion.

#### Financing the Deficits

Moscow had no great difficulty financing its 1975 deficit. Medium- and long-term credits covered about half; most were guaranteed by governments, but Eurodollar borrowings rose to a record level as well. In addition, the USSR had to rely heavily on short-term financing to cover its unexpected hard-currency shortfalls. By the end of 1975, Moscow's medium- and long-term hard currency debt had risen to \$7.5 billion and its total debt to \$10 billion.

The East Europeans also were forced to draw heavily on the Eurocurrency markets, and their net liabilities on these markets rose to \$8.5 billion. Poland's total debt rose to \$6.9 billion, and East Germany and Romania had debts of \$3.8 billion and \$3.0 billion, respectively.

The prospective hard-currency deficits for 1976 are likely to raise the Soviet debt to between \$13 and \$15 billion and Eastern Europe's to as much as \$24 billion. Although no Soviet or East European borrower has been turned down, the cost of Western credit and the difficulty in obtaining it have been increasing. The international banking community is becoming concerned about the debt problem and the persistence of hard-currency deficits.

Most Western governments are continuing to guarantee long-term credits but are examining them more closely than in the past. West European governments believe they have a political stake in ex-

panded trade with the East and are willing to provide large credits to sustain its growth. If Soviet and East European hard-currency deficits continue for long at high levels, these countries will have increasing difficulty in obtaining new credits.

The USSR is still viewed as a good credit risk while Poland's credit status is the poorest.

The seriousness of the Soviet and East European debt problem depends greatly on whether and how quickly the hard-currency deficits decline. On the whole, prospects are good for substantial improvement in these countries' hard-currency trade balance during the next two years or so.

#### Export Earnings

Soviet and East European exports during 1977 to 1978 will benefit from what should be a period of rapid economic recovery and expansion in the West. Even if Western economic expansion falters in early 1978, East-West trade would continue to grow for the balance of the year, reflecting the sizable lag between changes in Western economic activity and their impact on trade flows.

Higher export earnings should allow the USSR to meet its debt obligations, reduce its current-account deficit to manageable levels, and, given good harvests, still increase nongrain imports at a respectable rate.

In some countries, export earnings may prove insufficient both to reduce trade deficits and to meet increasing debt ser-

vice obligations and import needs. Poland's problems are particularly serious. It will likely have difficulty raising the substantial amounts of credit it will need to finance politically necessary import growth.

The debt problem will be one of the many factors tending to slow economic growth in the USSR and Eastern Europe. In the USSR, a slowdown in the growth of hard-currency imports for two or three years may hamper achievement of plans for production and productivity in some industries, but it is not likely to affect overall economic growth appreciably. In Eastern Europe, the improvement in living conditions will slow markedly.

Debt problems are bound to complicate relations between the East European countries and the USSR. All react to hard-currency shortages by diverting to the West as many readily salable goods as possible—mainly agricultural products, raw materials, and the relatively small amounts of quality manufactures. For the most part, Eastern Europe is not in a position to divert such goods from the USSR; indeed, Moscow is insisting on a better deal.

The USSR could solve some of its problems at Eastern Europe's expense. For example, it could free crude oil and other materials for hard-currency export and reduce grain import requirements by cutting exports of these goods to Eastern Europe and/or demanding higher prices for those goods it continues to export.



*Soviet excavators awaiting export to Eastern Europe and the West*

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