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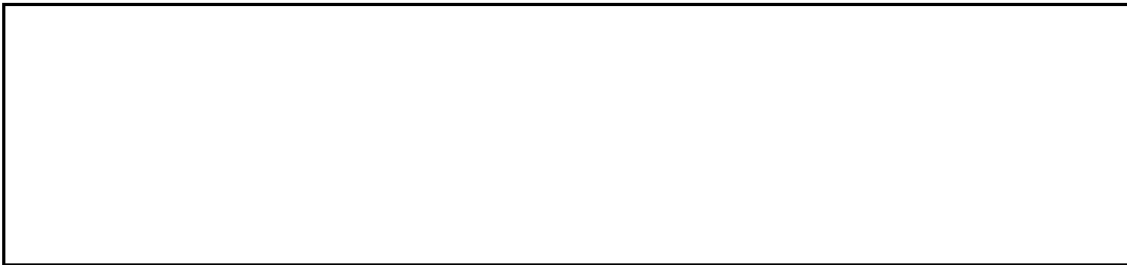
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## LEBANON

The cease-fire in Beirut continued to hold over the weekend, thereby improving the atmosphere for the second meeting of the national reconciliation committee, scheduled for today. Isolated clashes between Christians and Muslims have occurred in the suburbs, underlining the fragility of the truce.

A participant at the committee's opening session last Thursday told US embassy officials that the date for the second meeting was set in order to avoid the appearance of deadlock while fighting was still widespread. He added that Prime Minister Karami has been charged with exploring ways to broaden representation on the committee.

There is little public sign of compromise by Christians and Muslims. In an apparent response to earlier intemperate remarks by Phalangist leader Pierre Jumayyil, Lebanese socialist leader Kamal Jumblatt declared Saturday there would be no reconciliation with the Phalanges Party before basic leftist demands are met. He also attacked long-time leader Saib Salaam for seeking control over Beirut Muslims, whom Jumblatt feels he should represent.



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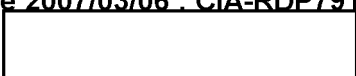
Sporadic incidents and sniper fire have recurred each night in Beirut suburbs, but have not developed into a serious clash. Renewed fighting occurred Saturday night in Zagharta, in northern Lebanon, but was contained by the army.



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### EGYPT

Cairo experienced its first open opposition to the Sinai disengagement agreement last week when leftist and Nasirist students conducted three days of protest demonstrations at a Cairo university.

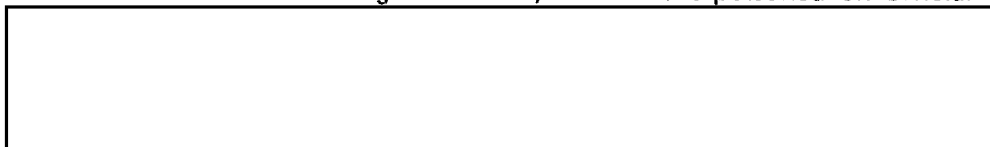
The demonstrations were confined to the campus and apparently were quelled when police arrested several leftist agitators. Although authorities had hoped that students would refrain from open protest until the beginning of the school year in mid-October, opposition by the students to the disengagement was not unexpected.

Students are traditionally prone to agitation and susceptible to leftist blandishments. The majority of Egyptians, however, still appear to support the disengagement agreement.

Student demonstrations have worried government officials, who apparently have censored press coverage of the protests. The lack of publicity about this domestic criticism is in stark contrast to the full coverage given criticism from other Arab quarters. Egyptians deeply resent this outside criticism, which has served to rally domestic support for President Sadat.

One aspect of last week's demonstrations that causes the government particular concern is the participation of a former member of the Free Officers Movement, which led the revolution in 1952. Kamal Rifat, who was arrested during the protests, has no organized following, but he is well known—and well regarded in some circles—both for his association with the Nasir revolution and for his leftist views.

Perhaps in anticipation of just such protests from Nasirist elements, the government recently revived a campaign to highlight the abuses of Nasir's era. Among the most prominent cases now being publicized is an effort to prove that Abdul Hakim Amir, armed forces commander during the 1967 war, who Nasir claimed committed suicide following the defeat, was in fact poisoned on official orders.



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**SPAIN**

Repeated expressions of concern about the prospects for violence in the Spanish Sahara reflect Madrid's desire to enlist international support for a peaceful solution at a time when it fears that the chances for an armed conflict are increasing.

Spain last week delivered to the US a policy memorandum that stressed its continuing attempts to involve the UN in the area. Madrid's own efforts to negotiate a settlement with the interested parties—Morocco, Mauritania, and Algeria—have failed. The policy statement reiterated Spain's determination to withdraw from the territory and called for a resolution in the UN General Assembly that would permit Madrid to terminate its role and transfer sovereignty to officials selected by the Saharans themselves.

Madrid has made it clear that it does not want to remain in the Sahara or fight a colonial war. It is concerned, however, that even a unilateral pullout at this point would trigger an armed conflict between those countries contesting the area. Such a development might result in serious casualties to the Spanish army, which would be caught in the middle.

The US defense attache in Madrid reports that Spain recently increased its airborne forces in the Sahara slightly, in response to some repositioning of Moroccan forces along the northern border. A Spanish officer assigned to the airborne brigade in the Canary Islands said that as of mid-September, an entire parachute battalion—some 700 men—was in the Sahara, rather than the two companies normally stationed there.

Morocco, Mauritania, and Algeria have deferred further action on Spanish Sahara, pending an advisory opinion of the International Court of Justice on Moroccan-Mauritanian claims to the territory, which is expected in October or November. The Moroccans are nonetheless concerned that the Court's opinion may be ambiguous or unfavorable to Rabat.

The Moroccans also are annoyed by what they perceive as collusion between Spain and Algeria to set up a puppet government in the Sahara responsive to Algerian political interests and Spanish economic interests. King Hassan, who again vowed last month to recover Spanish Sahara before the end of the year by force, if necessary, is keeping his military option open by continuing to improve the capability of military units already stationed in southern Morocco.

Algeria has not given further support to Morocco's Saharan policy since the joint communique of July 4 in which Algiers publicly accepted a Moroccan-Mauritanian understanding that would partition the disputed territory. It



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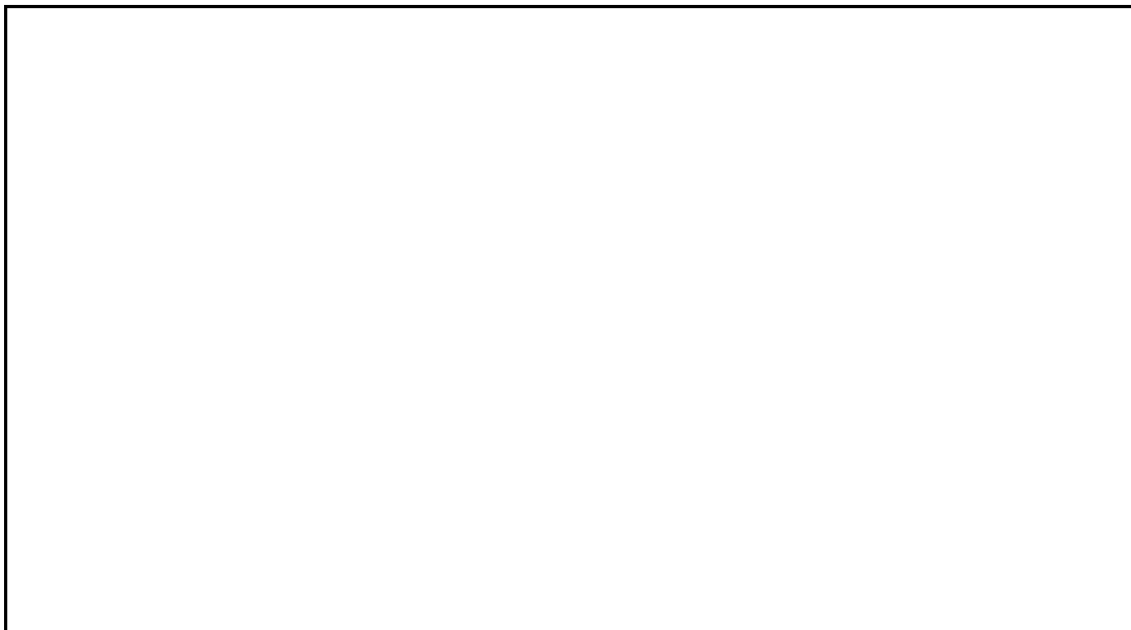
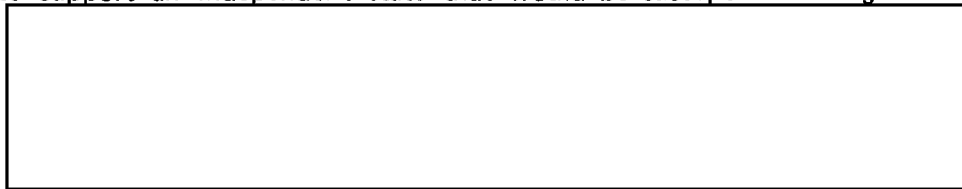
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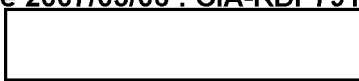
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is continuing to espouse self-determination for Spanish Sahara and to support a pro-independence Saharan political group, the Polisario Front. Algiers is clinging to this position so that if the Court's opinion favors self-determination, it will be in a position to support an independent state that would be susceptible to Algerian influence.

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### JAPAN-CHINA

The Sino-Japanese talks in New York last week apparently did not achieve a breakthrough on a treaty of peace and friendship. The Chinese reportedly insisted that it include the controversial anti-hegemony clause.

Negotiations have been stalled since June over Chinese insistence on a clause against "third-party hegemony" in Asia, a thinly veiled anti-Soviet formulation. While the Japanese originally wished to avoid including the clause altogether, their position has gradually softened.

Prime Minister Miki wants to conclude a treaty, but among his major concerns are Moscow's hostile reaction and a conflict with his own party's more conservative elements. In the latest offer, Foreign Minister Miyazawa proposed that at the time the treaty is signed, both Tokyo and Peking state that the anti-hegemony clause is not directed at any third country. Miyazawa emphasized that Tokyo's desire to treat the clause as a "general peace principle" rather than as an anti-Soviet principle stemmed from Japan's no-war constitution; he said Tokyo could not agree to a clause aimed at a third country or take military action based on it.

Chinese Foreign Minister Chiao Kuan-hua reportedly claimed that Peking will be satisfied if Japan simply remains neutral in its relations with China and the USSR, but at the same time he re-emphasized the importance Peking attaches to including the anti-hegemony principle in the treaty. He stated that China can "wait" for the treaty.

Peking will not accept any joint statement qualifying anti-hegemony. Chiao's agreement to study the Japanese proposal suggests that the Chinese see at least some possibility for additional Japanese concessions. In the meantime, they seem confident that bilateral relations will continue to progress even if agreement on the treaty is further delayed.

Tokyo does not expect rapid movement on its latest initiative. Miyazawa indicated the Chinese response might be several weeks off.

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### PERU

In a move that will test the political strength of President Morales Bermudez four weeks after taking office, the military government of Peru on September 26 announced a 12.8-percent devaluation of the country's currency.

The devaluation, which takes effect today, will unify the previous dual-rate system, increase import costs, and make Peru's exports—primarily minerals and fish products—more competitive.

The move is likely to cause some civilian opposition. Devaluation has been a particularly sensitive problem for the seven-year-old military government; the previous devaluation, by civilian president Belaunde, figured prominently in his ouster by the armed forces in 1968.

Although yesterday's announcement is likely to have a calming effect on the country's financial community, labor groups may view it as an effort to negate recent wage increases. The unions probably are still smarting from the effects of austerity measures announced last summer by then prime minister Morales Bermudez.

Morales Bermudez, who hopes to begin building civilian support for the military-led revolution—a goal that eluded his predecessor for nearly seven years—has placed his reputation on the line and now appears to be taking a firm hand in setting the direction of the revolution. Given his strong military backing and his economic expertise, Morales Bermudez probably has sufficient support to withstand opposition.

Further economic policy changes are likely, and there are other military leaders—particularly those who strongly supported former president Velasco—who may oppose Morales Bermudez if prolonged or serious objections to such policies develop.



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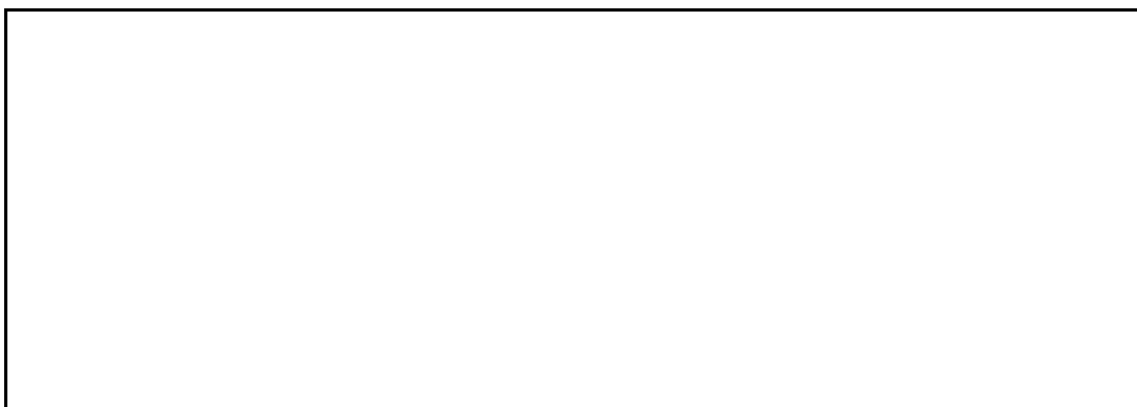
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### PORTUGAL - EASTERN EUROPE

Portuguese President Costa Gomes arrived in Warsaw on Saturday to begin a week's official visit to Poland and the USSR.

Foreign Minister Melo Antunes, who was to accompany him, delayed his departure until today. According to a Portuguese official, the troubled situation in Angola is responsible for the change in the foreign minister's plans.

Early yesterday, soldiers in Lisbon dispersed a crowd of disabled war veterans who tried to block the exit of cabinet members from a meeting. The veterans have been pressing for increased benefits and rehabilitation programs for more than a week.



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**ANNEX****Echeverria's Successor Prepares for Leadership of Mexico**

Mexico's next president, Jose Lopez Portillo, will continue President Echeverria's policies and programs, especially those aimed at achieving sustained economic growth and improved conditions for the country's poor. Lopez Portillo is considered a top-notch administrator with left-of-center economic and political views. Now that he has been selected by the ruling party, he is certain to be elected next July and take office six months later.

Echeverria has moved as President to modify the development policies followed by Mexican governments since 1940. While these policies produced a sustained real growth rate of about 7 percent a year, they also produced one of the most inequitable systems of income distribution in Latin America. Echeverria's recognition that attempts to correct this imbalance will have to be pursued during the next presidential term was presumably a factor in his choice of Lopez Portillo.

With inflation running at about 17 percent, Echeverria may have concluded that his successor should bring more economic expertise to the job than he did. Lopez Portillo has not, however, had much luck in controlling inflation from his treasury post. As treasury secretary, he has faithfully carried out Echeverria's directives and has emerged as a leading political spokesman for the administration. Echeverria probably felt that the treasury job had given Lopez Portillo the necessary political experience to govern.

Lopez Portillo is no doubt acceptable to the influential business and financial community. Because of his generally restrained performance in the cabinet, he has allayed the fears of many businessmen who initially regarded him as a radical. His associates predict that he will tone down the government's leftist rhetoric and act as a "consolidator," following up on Echeverria's initiatives in a more orderly way.

The next president has not advocated reduced government spending as an anti-inflationary measure. He apparently believes this would trigger a recession that Mexico could not afford because of the already high number of unemployed and underemployed workers.

Lopez Portillo strongly supports the role of state-owned enterprises in the economy. He favors expanding government credit to agriculture in an effort to stem the massive migration of rural poor to the cities. He may well advocate higher taxes on the rich and middle classes to help out the impoverished rural areas.

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He has pledged full support to industry and has promised to obtain credit for industrial expansion. He appears fully cognizant of the need to foster this wellspring of the country's economic growth. Still, he probably will continue in the Echeverria vein, portraying himself as a populist president doing his best to lift up the downtrodden and curb the rich privileged class.

Lopez Portillo subscribes to Echeverria's policy on foreign investment, welcoming it if it is in accord with Mexican goals and development needs. Concerned over losses of foreign capital, he decided to go easy on enforcing the tough foreign investment law enacted in 1973. Looking forward to large oil revenues, he wants Mexico to exploit its large reserves and become a major oil exporter. He has said that Mexico will give preferential treatment to developing nations in the sale of oil, but that such sales will be at current market prices. He has expressed concern about the impact of high oil prices on developing countries.

At international financial meetings, Lopez Portillo has supported Third World causes and has pushed Echeverria's charter of economic rights and duties of states. He is not likely to alter Mexico's tilt toward the Third World in international economic relations, but he will probably be less vocal and less inclined than Echeverria to take on the role of spokesman for the developing world.

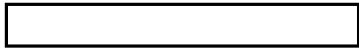
Lopez Portillo has traveled to Washington on occasion as head of economic delegations. He has been cordial and cooperative in his dealings with US officials. Although he has not criticized the US publicly, he can be expected, like all Mexican presidents, to be alert for any US action that infringes on Mexican national interests.

Of all the presidential hopefuls, Lopez Portillo is the closest personally to Echeverria. The two were university classmates in the 1940s and traveled together to Chile. According to Mexican businessmen, Lopez Portillo is the only cabinet member who is willing to disagree with or stand up to Echeverria on sensitive issues.

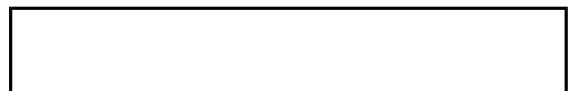


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