



**Director of
Central
Intelligence**

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B E T T Y

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***Thursday
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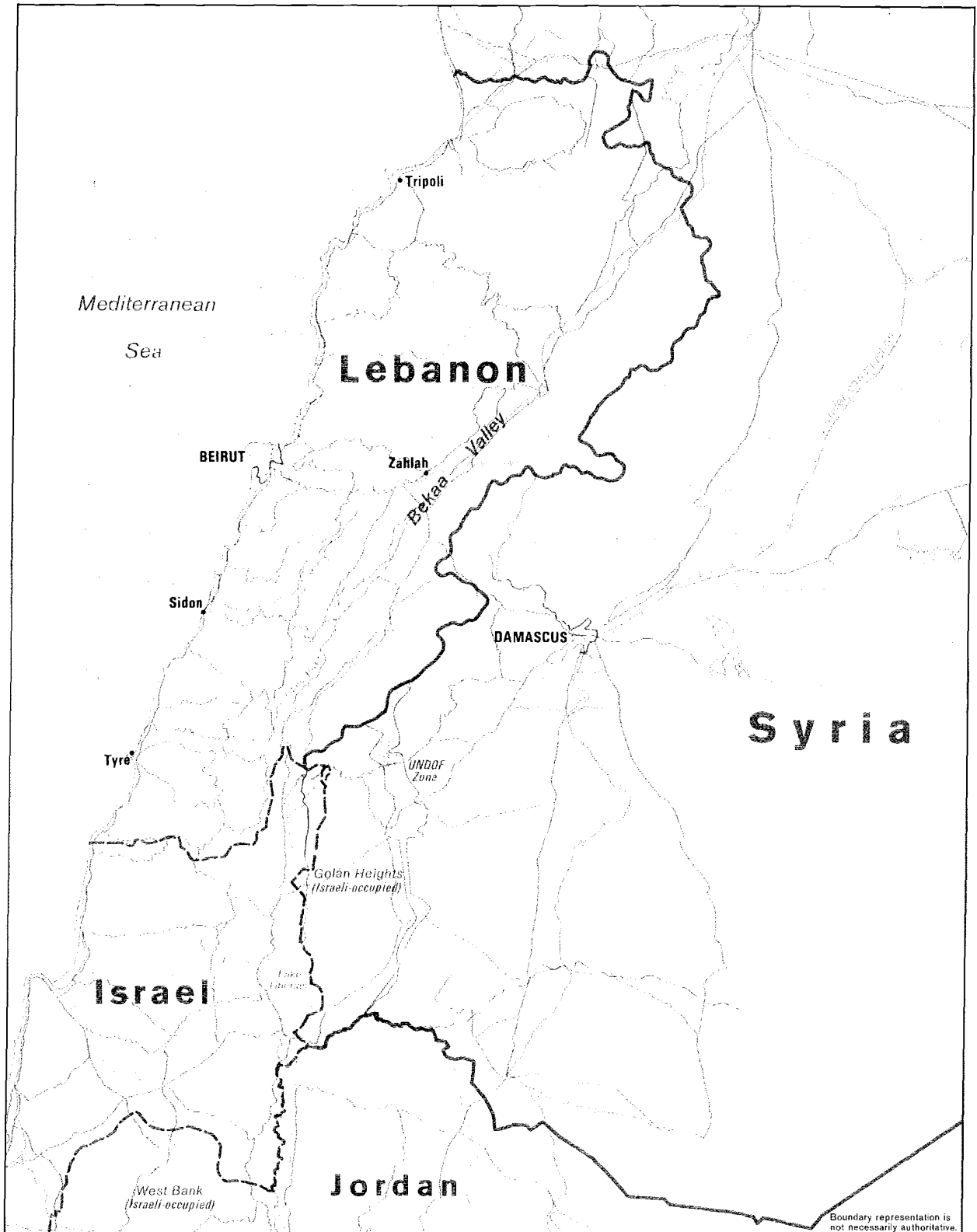


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LEBANON: Syrian Media Commentary

The Syrian media have begun to suggest cautiously that Damascus is prepared to accept a political solution to the missile crisis.



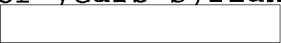
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The newspaper of the ruling Ba'th Party yesterday said that Syria has successfully defeated US and Israeli moves to divide Lebanon and made progress toward achieving a new political accord among the Lebanese factions. Such claims of victory may be intended to prepare Syrian public opinion for a compromise.



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President Assad also gave some hints of flexibility in his press conference yesterday when he said US mediation efforts should not be written off. He noted that Syria deployed missiles to Lebanon only after Israeli airstrikes last month and that for years Syrian troops in Lebanon had "no need for them."



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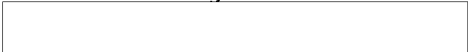
He also claimed that Saudi Arabia has agreed to resume financial support for the Syrian peacekeeping force in Lebanon.



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Prime Minister Begin praised Saudi efforts to reduce tensions yesterday--reversing his earlier criticism of the Saudi role. Begin also endorsed continued US mediation.



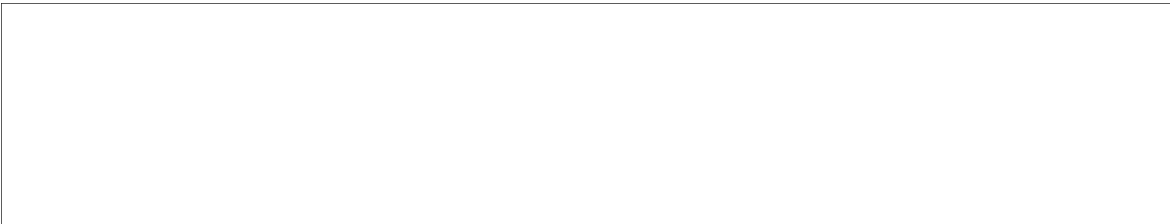
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Soviet Commentary

Soviet commentators appear increasingly uneasy that Syria may be amenable to a US-brokered solution. A TASS report yesterday urged Syria to resist any settlement that includes early withdrawal of the Syrian missiles from Lebanon or that affects Palestinian interests. The Soviets continue to push their own proposal for an international conference on the Middle East.



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Arab Foreign Ministers Meeting

Arab League Foreign Ministers will meet tomorrow in Tunisia to discuss the Syrian-Israeli situation. PLO chief Arafat has been urging such a meeting because of his concern that Palestinian interests are being overshadowed by the Syrian-Israeli crisis. Arafat will ask the Arabs to endorse the PLO's presence in Lebanon and its freedom to operate against Israel from Lebanese territory. 

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LIBYA: Aid to Syria and Palestinians

Libyan leader Qadhafi is exploiting the crisis in Lebanon to increase his influence in Syria and among Palestinian factions and to enhance Libya's standing in the Arab world.

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[Redacted]

Qadhafi is eager to demonstrate to President Assad the value of Libya's friendship and to increase his leverage over Syria. Qadhafi may hope that his support will lead to a revival of the planned merger between Libya and Syria that was announced in September 1980.

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Qadhafi has substantially increased military aid to radical Palestinian groups that he has long funded generously.

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[Redacted]

The Libyans also have been sending aid directly to various leftist Lebanese militias and to the pro-Syrian Christian forces of former President Franjiah. As a result, Libya has probably gained additional influence with radical Palestinian and leftist groups. Since Tripoli believes the fighting in Lebanon is in its interest, it probably will try to encourage more fighting even if Syria and Israel come to an agreement.

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MEXICO-USSR: Foreign Secretary's Visit to Moscow

Foreign Secretary Castaneda's visit to the USSR this week reflects Moscow's persistent effort over the past few years to cultivate Mexico and to encourage it not to cooperate with the US.

[Redacted]

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In discussing Central America, the Soviets are likely to urge the Mexicans toward greater activism in the region--a role that Moscow believes will help constrain US opposition to leftist takeovers there. President Lopez Portillo and other top Mexican officials have recently expressed increasing alarm about US policy toward Central America. They have been careful, however, to warn both the US and the USSR against making the region an area of great power competition, and Castaneda probably will be cautious about aligning publicly with the Soviets.

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[Redacted]

Both Mexico and the USSR want to expand their limited trade ties. They evidently plan to sign an agreement for the sale of Mexican sulfur, which--if delivered in 1981--would triple the value of Mexican exports last year to the USSR.

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USSR: Maneuvering on CSCE

Soviet delegates at the CSCE review session in Madrid are offering concessions on secondary issues to attract neutral and non-aligned support for Soviet positions and elicit Western concessions.

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Since the meeting resumed on 5 May, the Soviet delegates have cultivated an image of reasonableness to break the deadlock and gain agreement to convene a European security conference. The Soviets are now threatening to delay, rather than veto, the convening of another CSCE review session unless the current gathering agrees to hold a security meeting. The deputy chief of the Soviet delegation recently estimated that the next session might be held in three years if a European security conference were convened, but in five or six years if it were not.

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To expedite preparations for a security meeting, Moscow also is hinting that it would accept the Madrid rules of procedure. Since the Soviets have always held fast over this point, they are in effect offering the West a compromise on rules in order to move forward on security issues. They also are proffering concessions that would facilitate family reunifications and accommodate Western preferences on resolutions against terrorism and for strengthening of human contacts.

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Moscow hopes these concessions and its recent endorsement of the draft final communique prepared by neutral and nonaligned participants will persuade these states to urge the West to moderate its insistence on improving the human rights provisions of the Helsinki Final Act and to alter its criteria for a European security conference. The USSR seeks, at a future security gathering, Western agreement to confidence-and-security-building measures that either extend beyond Europe to the west, or cover naval and air activities if all of European Russia is subject to such measures.

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UK: Controversy Over Defense Spending

Prime Minister Thatcher has laid to rest for the time being widely published rumors of massive cuts in the UK's defense spending, but the surrounding political uproar probably has made it more difficult for the government to reduce military programs.

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The controversy erupted earlier this week when Royal Navy Secretary Speed seemed to confirm the rumors by warning publicly of disastrous consequences if the government were to make substantial reductions in the surface navy. Speed, who was then fired by Thatcher, may have overreacted to some of a wide range of defense budget options under review. He apparently was trying to force Thatcher into affirming the basic inviolability of the UK's conventional capability.

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The affair drew a strong protest from the mostly rightwing Conservative backbenchers, the heart of Thatcher's parliamentary support. Although the government almost certainly would have rejected the more extreme budget options, this reaction is a warning to Thatcher not to cut too deeply into the UK's defenses.

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During two days of heated parliamentary debate, Thatcher and Defense Secretary Nott were forced to reaffirm the government's intention to increase defense spending by 3 percent per year, in real terms. They indicated, however, that cuts will still have to be made in existing and planned programs and that difficult choices still lie ahead.

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The Trident system will remain sacrosanct, but, because of its longstanding commitment not to let the cost of the Trident prevent spending on conventional programs, the government will strive to avoid any deep cuts. The review probably will recommend that cost-cutting measures be spread across all the services rather than focused on one of them. Interservice rivalry and leaks will prompt more press speculation and demands for further government clarifications before the review is completed in July.

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CHINA-VIETNAM: Exploiting Border Tension

China is using increased tension along its border with Vietnam primarily to encourage opposition by the Association of South-east Asian Nations against the Vietnamese occupation of Kampuchea and to push for Chinese participation in a settlement.

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An authoritative article in *People's Daily* on Tuesday condemned Hanoi's support for a regional conference that excludes China instead of an international conference on Kampuchea, which Beijing and ASEAN support. With the ASEAN Foreign Ministers scheduled to meet in mid-June and the international conference tentatively planned for July, Beijing probably decided to reinforce its position that it must be involved in any settlement.

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According to press reports, the level of fighting is the highest since China invaded Vietnam in 1979. The Chinese claim to have killed more than 250 infiltrating Vietnamese troops since 7 May. Hanoi asserts that the Chinese have shelled Vietnamese villages after seizing high ground inside Vietnam.

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THAILAND: Possible Change in Refugee Policy

Thailand may be moving toward a tougher policy on Indochinese refugees. [Redacted]

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The Supreme Command of Thailand has informed the International Committee of the Red Cross that Vietnamese refugees no longer will be accepted overland via Kampuchea. The government is considering consolidating the number of refugee camps and stepping up the cross-border repatriation of Kampuchean refugees. It also hopes to expedite departures to third countries. [Redacted]

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[Redacted]

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Popular sentiment in Thailand is overwhelmingly against the refugees. Bangkok clearly hopes that by making the route more difficult it will reduce the attractiveness of Thailand as a refugee transit point.

[Redacted]

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The Thai Government has enjoyed an international reputation for humanitarian treatment of refugees, however, and the revelation of these stringent measures may endanger international support for such high-priority issues for the Thai as the impending UN-sponsored conference on Kampuchea. The new policy will meet strong opposition from the Red Cross and the UN High Commissioner for Refugees. [Redacted]

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YUGOSLAVIA: Continued Unrest in Kosovo

Belgrade is still relying on ad hoc measures to prevent additional unrest in Kosovo Province, but problems with ethnic Albanians will continue there and may spread. [redacted]

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Provincial leaders closed Pristina University after students demonstrated twice in a week and had again demanded that Kosovo, an autonomous province of Serbia, be granted republic status. Belgrade has refused, fearing that it would antagonize the Serbs and aggravate the nationalities problem in other parts of the country. [redacted]

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Although the Yugoslav leaders believe that the university is the center of nationalist activities in Kosovo, its closure is unlikely to dampen sentiments, which are apparently more widespread. Leaders in the neighboring Republics of Macedonia and Montenegro also seem worried about their Albanian minorities. [redacted]

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Five Albanian nationalists on trial in the Macedonian capital of Skopje have been convicted of "hostile activity" against the state over the past two years. In Montenegro, authorities have admitted that they are having problems with "nationalistic excesses." [redacted]

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Purges and resignations in the local party, the media, and the university in Kosovo continue, but the leadership in Belgrade appears unable to deal with the basic problems of Albanian-Serb animosity and the backward economy in Kosovo. Preoccupation with the situation in Kosovo may account for the delay in electing a new secretary of the party presidium to replace the incumbent, whose two-year term expired last week. [redacted]

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SPECIAL ANALYSIS

WESTERN EUROPE: Implications of Mitterrand's Victory

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For most of France's neighbors, the costs and benefits of Francois Mitterrand's presidency look about even. Several governments believe that the departure of President Giscard could hurt West European economic cooperation, especially within the EC. This could aggravate already strained relations on Community internal problems and increase French pressure for trade protection. Most West European governments, however, view Mitterrand as likely to be more willing to coordinate foreign policy within the EC forum. He should differ little from Giscard on major policy issues, but his attitude toward the EC's Middle East initiative is closer to the Dutch position, which leans toward Israel. Mitterrand's policy toward the Third World also may differ substantially from Giscard's.

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The EC governments' efforts to assess the economic impact of Mitterrand's election on the Community are complicated by the need to await the outcome of the French legislative elections and Mitterrand's decision on the composition of his government.

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In the short run, EC leaders will be most concerned over the effect of Mitterrand's domestic economic policies. Stimulative measures of the kind he has in mind could throw France out of phase with its partners. Higher inflation and increased EC export penetration of the French market could call into question France's continued membership in the European Monetary System and adherence to intracommunity trade rules.

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Mitterrand's election is unlikely to lead to any breakthroughs on several divisive issues and may even aggravate them. For example, EC members may find it even more difficult to agree on reform of the Common Agricultural Policy. West Germany's push for rapid phasing out of national subsidies to domestic steel industries may meet with even stiffer opposition.

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The French also will work harder for adoption of EC-wide limits on Japanese auto imports, which Bonn opposes. In addition, Mitterrand's concern over protecting jobs is not likely to ease the French position on the four-year-old debate between Paris and London over access to British coastal waters by French fishermen.

[Redacted]

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Franco-German Relations

The continuation of the close collaboration that has typified Franco-German relations since the mid-1970s will depend on the ability of Chancellor Schmidt and Mitterrand to establish a sound working relationship. While Giscard's defeat could lead to a reduction in bilateral cooperation, Schmidt will try to prevent this. Despite his lack of respect for Mitterrand and his support of Giscard's re-election, Schmidt may have an easier time dealing with Mitterrand, who is less overbearing than Giscard.

[Redacted]

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Good relations with Mitterrand could mitigate economic problems anticipated in the EC and strengthen the Chancellor's influence on foreign affairs issues. Schmidt may find that cooperation with Mitterrand appeases critics within the left wing of his Social Democratic Party who were suspicious of his deference to Giscard.

[Redacted]

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Mitterrand's victory also could facilitate West Germany's ambitions to develop greater EC political cooperation. Mitterrand is more "European" than Giscard, and he may welcome this approach, especially since EC members have announced they will include security issues in their political discussions.

[Redacted]

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Little Advantage for the UK

The British, for now, probably will not have to contend with the Franco-German partnership that has been so prominent within the EC, and London's influence on EC decisionmaking may show a slight increase. Nonetheless, Mitterrand is not likely to be more accommodating to the UK on EC internal issues, and economic doctrinal differences will place additional strain on his relations with Prime Minister Thatcher.

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London, on the other hand, may find it easier to use its approaching term as EC President to direct EC foreign policy deliberations along lines consistent with British policy, which has generally been closer to that of the US than have the policies of the other EC members. The UK's ability to win EC support for its proposals, however, will be hindered by Mitterrand's preoccupation with domestic affairs and possible French differences on Middle East and African issues.

[Redacted]

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Other Reactions

The concern displayed by most of the smaller EC members about their vulnerability to the whims of Schmidt and Giscard is offset by a new concern that the EC may be weakened by the loss of a firm Franco-German relationship.

[Redacted]

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The impact of Mitterrand's election on the domestic politics of the EC members also is cause for concern. Italy's Christian Democrats are worried that their Socialist partners in the governments will make substantial gains in regional and local elections next month. Governments in the Netherlands, Belgium, Greece, and Spain also expect that Mitterrand's victory will encourage efforts by local Socialists to exert influence.

[Redacted]

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For Spain and Portugal, Mitterrand may be an even tougher obstacle to their entry into the EC than was Giscard, who wanted to postpone enlarging the EC primarily to ensure farm support for his reelection. Mitterrand favors continued delay because of high French unemployment and concern over industrial and agricultural competition.

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EC members will delay dealing with the Community's basic problems at least until fall, when the direction of French policies should be clearer. The EC summit in late June, originally expected to launch negotiations for farm policy reform, probably will focus on exchanging ideas.

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There also will be little action in the near future to further EC political cooperation. Mitterrand's election could give the EC-Ten a face-saving way to postpone additional action on their Middle East initiative until the end of the year.

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