



**Directorate of
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European Review



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25 April 1986

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25 April 1986*

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West European governments and publics in recent months have expressed renewed concern about the Soviet presence in Afghanistan. Though this activity may reflect a growing dissatisfaction with the Soviet Union in general, we think it also signals skepticism about recent hints that Moscow may be softening its policy in anticipation of the resumption of the UN-sponsored talks on Afghanistan in Geneva next month. We also believe the Europeans are increasingly aware of the public relations value of the resistance's cause and may be displaying a willingness to assist in promoting it. [Redacted]

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Ireland: Progressive Democrats Shake Irish Politics [Redacted]

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Since Desmond O'Malley and Mary Harney established the Progressive Democratic Party (PD) in December, the traditional balance of Irish politics has been upset dramatically. After only four months of existence, the Progressive Democrats have risen from a 19-percent to a 26-percent approval rating in the polls, putting them in second place behind Fine Gael, the senior partner of the coalition government. If the Progressive Democrats can keep approximately two-thirds of their current support, they could hold the balance of power after the election due in late 1987. [Redacted]

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Portugal: Implications of the Presidential Election [Redacted]

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The election in February of pro-US Socialist leader Mario Soares as Portugal's first civilian president in 60 years removed the threat of a surge in Communist influence, but it is unlikely to end the personal and party differences that have undermined government stability over the past decade. Other complicating factors are economic problems that would test the mettle of even a strong, single-party government and a defiant Communist party supported by nearly one in six Portuguese voters. Despite the likelihood of continuing political uncertainty, we think Lisbon's commitment to NATO will remain strong. Portugal is shifting, however, from a US-oriented diplomacy to a more independent European approach. [Redacted]

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Albania: A Year Without Hoxha [Redacted]

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Ramiz Alia continues to consolidate his position a year after succeeding Enver Hoxha as the leader of Europe's most backward and isolated country, but he faces serious and growing economic problems that will likely continue to cause tensions in the leadership. [Redacted]

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views. [Redacted]

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European Review

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Briefs**Austria****Presidential Election**

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Accusations of involvement in Nazi wartime atrocities have given a boost to Kurt Waldheim, the candidate of the conservative Peoples' Party, in the campaign for Austria's presidential election on 4 May. US Embassy officials reported recently that Waldheim's standing in the public opinion polls had improved to 42 percent, versus 34 percent for the Socialist candidate Kurt Steyrer. Just prior to the publication of the charges against Waldheim, Steyrer had closed the gap to only a few percentage points.

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US diplomats in Vienna have noted that Waldheim, ironically, appears to have been the beneficiary of the accusations, not Steyrer. Politicians and public alike have reacted to the charges with indignation, associating them with attempts to dictate the country's choice of leaders and as an indirect slur on the nation's reputation. Even such respected and staid journals as Vienna's *Die Presse* have covered the issue in emotional terms that refer to "undisguised foreign interference" and Austrian "dignity" and "honor." The Peoples' Party quickly reaffirmed its support for Waldheim, seizing the opportunity to build on popular empathy for a candidate previously seen as too aloof. And the governing Socialists have been unable to exploit the issue, even finding themselves on the defensive at times; they have disclaimed responsibility for the accusations and denounced foreign involvement in the campaign.

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The other two candidates—rightwing nationalist Otto Scrinzi and environmentalist Freda Meissner-Blau—have won only negligible support in the polls and do not appear to be playing much of a role in the campaign. Scrinzi, a member of the Freedom Party, is running an independent campaign after failing to secure the support of his own party. The press speculates that former Socialist Party member Meissner-Blau, nominated by an independent committee of ecological activists, may win as much as 10 percent of the vote. While neither has a chance of winning the election, some observers still think the two could take enough votes to deny either of the major candidates a clear majority and force a runoff.

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Belgian Greens**The Identity Dilemma**

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Belgium's two ecological parties—Agalev in Flanders and Ecolo in Wallonia—have increased their representation in parliament, but, like other West European Greens, they remain ambivalent about their relationship to the political system. According to diplomatic reports, "fundamentalists" in the ecological parties fear that cooperation with established political groups dilutes the Greens' identity and alienates their natural constituency among young voters. These ideological purists

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believe the Greens pursue their goals most effectively as a pressure group outside the parliamentary arena. In contrast, Green "realists"—most of whom acquired a more pragmatic orientation as parliamentary delegates—argue that the movement can hope to implement its policies only by working *inside* the political system. To maximize voter support and influence in parliament, some Agalev and Ecolo leaders have pleaded for a less radical economic program—a stance the parties' fundamentalist base has rejected as "elitist." [redacted]

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Because of this inherent conflict in the Belgian ecological movement, Green cooperation with other parties has been difficult. In Wallonia, Ecolo has participated in the Liege city government for the past four years in coalition with the Walloon Socialists, but this experiment has not worked well. For example, the Ecolos, defending their "principles," refused to approve new plans for Liege's main square because the Socialists wanted to include an underground parking area. At the Walloon regional level, Ecolo has rejected Walloon Socialist overtures for forming a voting bloc. [redacted]

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In the longer term, Belgium's Green parties probably will continue to emphasize both parliamentary activity and "street action," but fundamental differences over party organization and the means for achieving goals are likely to impede future growth. As the mouthpiece for the young, however, Agalev and Ecolo will continue to advocate antinuclear and pacifist policies likely to have particular appeal in Catholic Flanders. [redacted]

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Spain

Renewal of Export Credits to Nicaragua [redacted]

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Madrid has renewed a credit guarantee program with Managua that will make possible additional commercial financing of up to \$26 million for Spanish exports. The new credit program provides for a maximum of \$18 million for short-term financing of consumer goods and spare parts and up to \$8 million for medium- and long-term financing of capital goods, but it still represents a 25-percent cut from a previous credit line that expired in 1985. We believe the reduction reflects Madrid's concern over the Sandinistas' restrictions on civil liberties and unwillingness to compromise in the Contadora negotiations. [redacted]

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Madrid appears to be torn between its desire to maintain economic and political relations with Managua and its suspicions of the Sandinista government. Officials are sensitive to Nicaragua's deteriorating image in West European eyes caused by the expanded state of emergency and the regime's poor human rights record. They have publicly stated that the aid is for the benefit of the Nicaraguan people and that it does not imply approval of Sandinista policies. Nonetheless, they believe that Spanish export credits can help prevent the Sandinistas from becoming more economically dependent on the Soviet Bloc. Perhaps more importantly, aid to Managua will please leftist voters, and Prime Minister Gonzalez is attempting to shore up support from that quarter as he prepares to run for reelection this fall.

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**The Netherlands-
Suriname**

Reaction to Surinamese Official's Arrest

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Dutch officials' suspicions about the character of the Bouterse regime have apparently been confirmed by the arrest of high-ranking Surinamese official Etienne Boerenveen in Miami on drug trafficking charges. Although government officials note that this issue must be discussed in the Cabinet, Dutch Foreign Minister Van den Broek and Development Minister Schoo have suggested that the case will delay disbursement of the proposed Dutch humanitarian aid package for Suriname. Parliamentary reaction to the incident was limited because of the Easter recess; spokesmen for the major parties have indicated, however, that this incident has jeopardized any further movement in Dutch policy toward its former colony.

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Dutch officials adopted a harsh stand toward Suriname and eliminated aid to the Bouterse regime when it murdered moderate opposition leaders in 1982. The proposed humanitarian aid represented an effort to improve relations with Paramaribo despite strong opposition to such measures among some ruling coalition members. however, Dutch-Surinamese relations will again become tense if an investigation reveals that the Surinamese Government is involved in the narcotics trade.

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Articles

**Western Europe: New
Protests Over Afghanistan**

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West European governments and publics in recent months have expressed renewed concern about the Soviet presence in Afghanistan. Though this activity may reflect dissatisfaction with the Soviet Union in general, we think it also signals skepticism about recent hints that Moscow may be softening its policy in anticipation of the resumption of the UN-sponsored talks on Afghanistan in Geneva next month. We also believe the Europeans are increasingly aware of the public relations value of the resistance's cause and may be displaying a willingness to assist in promoting it.

Afghan Resistance Leader Visits Great Britain
Prime Minister Thatcher and Foreign Secretary Howe extended an official welcome on 12 March to Afghan rebel leader Abdul Haq. Howe assured Haq that Britain will press for the withdrawal of Soviet troops, although direct assistance to the rebels will be limited to humanitarian aid. In fact, recent US diplomatic reporting from London indicates that British officials are now pushing humanitarian aid as one means of both helping the rebels and marketing their cause in world forums. Labor Party members of Parliament criticized the meeting as contrary to the principle of avoiding contact with political groups engaged in violent activities. Soviet officials in London also lodged complaints with the Thatcher government about holding consultations with a "known terrorist."

Petitions, Hearings, and Demonstrations

Elsewhere in Europe, the Italian Communist Youth Confederation (FGCI) unveiled a countrywide petition campaign against the Soviet presence in Afghanistan during a 5 March press conference. Within hours of the announcement, 50,000 signatures had been

collected. The confederation hopes to obtain 300,000 signatures within the next two months, which they will then deliver to the Soviet Embassy in Rome.

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A Norwegian committee, including leading personalities from the political, educational, and cultural communities, sponsored an international hearing from 14 to 16 March on Soviet war crimes in Afghanistan. Participants heard testimony from Afghan rebel leaders, a former Soviet soldier, and civilian war victims. The Counselor of the Soviet Embassy in Oslo delivered a formal protest to the Norwegian Government on 12 March, stating that the last such hearing—held in 1983—was an exercise in anti-Soviet propaganda. The US Embassy in Oslo reported the Soviets seemed particularly upset that a deserter from their own military would be testifying.

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The West German Bundestag foreign affairs committee and the entire Bundestag convened their own hearings on Afghanistan from 18 to 20 March. Again, witnesses to the conflict, including scientists, physicians, journalists, and Afghan rebels, presented testimony. In addition, several Social Democratic Party parliamentarians who had visited Pakistan and Afghanistan from 9 to 15 March recounted their findings on the state of the resistance movement and the refugees. The Soviets assailed the Bundestag debates in both their own and the German media. Nonetheless, the normally divisive German political parties demonstrated surprising consensus in their attacks against Soviet human rights abuses.

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Thousands marched in the streets of Stockholm and across Sweden on 22 March to demand the immediate withdrawal of Soviet troops from Afghanistan. The rallies were sponsored by the Swedish Afghanistan Committee (SAC)—the organization through which most government aid to the resistance is channeled—and more than 70 political, labor, and church groups participated representing all major Swedish parties and ideologies, including the Communists. Along with Afghan guerrillas, a crowd of about 9,000 in Stockholm heard Foreign Minister Under Secretary Pierre Schori vehemently condemn the Soviets' "terrorist war." In addition, for the first time parliamentarians representing every party in the Riksdag—from conservative to Communist—became members of the SAC board. [redacted]

this very fact negates the possibility for a peaceful solution, as Afghan resentment now cuts so deep that no pro-Soviet government could survive for long on its own. [redacted]

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Despite recent pro-Soviet presentations in the British media by spokesmen for the far left, we think most West Europeans see this as a public relations contest that the West could and should win. While the West must deal with "compassion fatigue" and the difficulty reporters have in gaining access to the situation, Europeans are increasingly eager to have the resistance movement speak for itself. We believe recent activities indicate that European governments would be willing to provide venues for rebel leaders to voice their cause and that such presentations would be well received by European publics. [redacted]

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Implications

In some cases this renewed European concern over Afghanistan may reflect the dissatisfaction of individual governments over bilateral issues with the Soviets. This is especially true of the Swedes, who recently have stepped up criticism of the Soviet Union on several issues—the Raoul Wallenberg case and the treatment of Soviet Jews, as well as Afghanistan—no doubt in anticipation of Prime Minister Carlsson's trip to Moscow in April. Indeed, Swedish officials have reportedly encouraged speculation that all this tough talk is meant to show their government's unhappiness with Soviet intransigence on maritime boundary disputes and submarine incursions. [redacted]

Previous West European concern that the resistance not be drowned by perceptions that Afghanistan is merely a staging ground for East-West conflict seems to have decreased, but these governments still warn that the rebels must not be too closely associated with the United States. For example, the Italian Government hesitated to support mention of Afghanistan in a forthcoming UNICEF report on children in war for fear it would prompt a list of references identified with Soviet and US interests. These officials changed their minds only after being assured that many other countries were to be specifically cited in the report. Likewise, British officials have told US diplomats that the internationalization of aid financing is critical. These officials said that they sense a reluctance among Europeans to be associated with American efforts and they have indicated a willingness to take the lead in promoting the Afghan rebels' cause both in Europe and in the Third World. [redacted]

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European governments, nevertheless, are concerned about the humanitarian and political implications of the Afghanistan conflict and are skeptical of recent conciliatory rumblings from Moscow. Both publics and governments are squarely behind the cause of the resistance and would like to see a negotiated settlement to the conflict. However, the US Embassy in London reports that British officials believe the Soviets are quite capable of conducting a two-track policy: Sovietizing the country while working for a settlement in Geneva that meets Soviet terms. Reports indicate that Norwegian and West German officials concur with this interpretation of Soviet behavior. Furthermore, British officials are convinced that Moscow will not leave Kabul unless a "reliable" regime is firmly in power. Some individuals state that

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Ireland: Progressive Democrats Shake Irish Politics

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Since Desmond O'Malley and Mary Harney established the Progressive Democratic Party (PD) in December, the traditional balance of Irish politics has been upset dramatically. After only four months of existence, the Progressive Democrats have risen from a 19-percent to a 26-percent approval rating in the polls, putting them in second place behind Fine Gael, the senior partner of the coalition government. If the Progressive Democrats can keep approximately two-thirds of their current support, they could hold the balance of power after the election due in late 1987. The early success of the PD suggests widespread dissatisfaction with the longtime dominance of Ireland's political scene by the Fianna Fail (FF) and Fine Gael (FG) parties, and may also indicate a growing Irish taste for coalition government.

Founding a Party

The birth of the Progressive Democratic Party was the direct result of a rebellion within Fianna Fail sparked by party leader Charles Haughey's policies toward Northern Ireland and family planning. After protesting Haughey's refusal to support a power-sharing arrangement for Northern Ireland between London and Dublin and the relaxation of Ireland's anticontraception laws, Desmond O'Malley was expelled from Fianna Fail in the spring of 1985. After the Anglo-Irish Accord was signed in November, Mary Harney was expelled because of her public opposition to Haughey's obdurate rejection of the agreement. Their joint launching of an official party allowed them to speak on every major issue in the Dail (the Irish lower house), a right not available to members sitting simply as independents. Early this year, the PD's parliamentary ranks were augmented by two more defections from Fianna Fail and the addition of a senator previously representing the Labor Party. In early April, a Fine Gael member of parliament also joined the ranks of the Progressive Democrats.

Out of the Gate Like a Shot

The Progressive Democrats have developed impressive momentum since their formation and by early

February had enrolled 12,000 members. This total is twice as many as that of the Labor Party, currently the junior coalition partner and one-third of Prime Minister FitzGerald's Fine Gael party. Also surprising was the jump from the PD's initial poll rating of 19 percent in January to 26 percent in February—2 points ahead of Fine Gael. Moreover, while pollsters for the *Irish Times* did not mention his name when asking voters which party leader they thought would make the best prime minister, 20 percent of the respondents named PD leader O'Malley.

Although the Progressive Democrats started out as a renegade Fianna Fail group drawing most of their support from the party's disaffected, they have begun to enlist increasing support in recent weeks from Fine Gael's middle-class and professional constituency. In February, for example, the PD drew 47 percent of its support from Fine Gael, 31 percent from Fianna Fail, and 5 percent from Labor. Significantly, the Progressive Democrats were strongest among the 29 to 49 age group that traditionally forms the core of Fine Gael's support.

The surprising strength of his new party has led O'Malley to claim that it may win as many as 40 of the Dail's 166 seats in the next election. At this point, however, several factors militate against such quick success. First, O'Malley and Harney are riding a wave of emotion and hope engendered by their audacity in founding a new party in the usually staid context of Irish politics. Some disgruntled and currently wavering Fine Gael and Fianna Fail supporters are likely to return to the fold once the PD's veneer of freshness begins to wear off. Indeed, academic studies and past election results provide evidence that the rigidity of Ireland's party politics and the loyalty of voters to longtime party allegiances are among the strongest in Europe.

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Desmond (Des) O'Malley

A longtime opponent of Fianna Fail leader Charles Haughey, Desmond O'Malley made unsuccessful bids for the leadership post in 1982 and 1983. In 1985, Haughey ousted O'Malley from the party. [redacted]

[redacted] *A member of the Dail since 1968, O'Malley has extensive government experience, having served as Minister for Trade, Commerce, and Tourism (March-October 1982); Minister for Industry, Commerce, and Energy (1977-81); and Minister for Justice (1970-73). O'Malley, 47, was educated at University College, Dublin, and the Law Society of Dublin.*

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Mary Harney

Mary Harney was elected to the Dail on the Fianna Fail ticket in 1981. Frequently at odds with the party leadership, Harney left the Fianna Fail after she supported Prime Minister FitzGerald in voting for the Anglo-Irish Accord. From 1977 to 1981, she served as a senator. Since 1979, she had been a member of the Dublin County Council. Harney, 33, was educated in convents in Dublin and at Trinity College, Dublin. [redacted]

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The present high approval rating for the Progressive Democrats is, in part, also a consequence of their not yet having announced policy positions. Because of the PD's quick start in the polls, policy prescriptions have not been demanded by its followers. This is fortunate for the party because O'Malley and Harney seem to agree on little save support for the Anglo-Irish Accord. O'Malley, for example, is a strident advocate of free market economics and particularly abhors central-government intervention that has historically characterized Dublin's economic behavior. Harney, on the other hand, is a staunch defender of both the welfare state and of aggressive economic management by government. Although O'Malley and Harney may work out a program that mixes their views judiciously, it seems likely that they are in for a measure of bickering at the PD's first formal party conference in

late May. In any event, the fading of newness and the acrimony of policymaking probably are destined to cause a decline in the party's appeal from its early lofty levels.

Influence on Irish Politics

Although it is too early to predict what sort of influence the Progressive Democrats will have on the next election, the party almost certainly is more than a flash in the pan and should solidify into Ireland's fourth major party. If O'Malley and Harney are able to reconcile their policy orientations, the Progressive Democrats could present a policy slate that is roughly similar to the one that has earned FitzGerald's Fine Gael party a solid place in the mainstream of the republic's politics.

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The quick growth of the Progressive Democrats probably also indicates that the party has struck a chord of public dissatisfaction with the traditional dominance of Irish politics by Fianna Fail and Fine Gael. Most PD support is coming from the two main parties and, perhaps more significantly, from the ranks of younger party members. The Progressive Democrats also appear to be reawakening political interest in voters who have not taken an active interest in politics in recent years. An *Irish Times* poll in February, for example, found that 12 percent of PD's support was coming from individuals who did not cast a ballot in the last general election in 1982.

orientation. Moreover, intracoalition frictions increased in February over a major cabinet shuffle and the introduction of a third consecutive austerity budget. If O'Malley and Harney can reconcile their differences and draft a coherent platform, the new party almost certainly would be a more comfortable and stable coalition partner than Labor for Fine Gael. FitzGerald recently said publicly that Fine Gael would be willing to work with any party if it does not win a majority in the next election. So long as Haughey remains the leader of Fianna Fail—and most of those in the party eager to oust him are now aligned with the Progressive Democrats—it seems unlikely that the PD would enter a coalition led by him.

Perhaps the most significant aspect of the polling is the discovery of an apparently increasing taste among Irish voters for coalition government. Indeed, the initial strength of the PD has had the direct effect of costing Fianna Fail the level of support that earlier polls showed would have allowed it to win a parliamentary majority. The growth of the Progressive Democrats has opened several possibilities for coalition arrangements after the next election.



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According to the *Irish Times*:

- Two of three PD supporters would support a coalition with Fianna Fail but only if Charles Haughey was removed as FF leader, and
- Two of five PD supporters would join in a coalition with Fine Gael so long as Garrett FitzGerald remained FG leader.



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the birth of the Progressive Democrats may mean the end of Haughey's chances of ever regaining the prime-ministership. The high level of support for FitzGerald among Progressive Democrats—polls consistently show him to be the most popular party leader—creates a second, and perhaps more viable way, for Fine Gael to block Fianna Fail's return to power, a Fine Gael-Progressive Democratic coalition.

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Although the PD is now taking most of its support from Fine Gael, it is nonetheless likely to be of long-term benefit to FitzGerald's party. The current Fine Gael-Labor coalition is proving increasingly difficult to manage because of the widening division between FitzGerald's free market bent and Spring's statist

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Portugal: Implications of the Presidential Election

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The election in February of pro-US Socialist leader Mario Soares as Portugal's first civilian president in 60 years removed the threat of a surge in Communist influence, but it is unlikely to end the personal and party differences that have undermined government stability over the past decade. Lisbon's record of weak and short-lived governments since the revolution in 1974 reflects its inexperience with democratic traditions, its multiple party system, and—most important—the highly personalized nature of its politics. Other factors complicating the country's prospects for stability are economic problems that would test the mettle of even a strong, single-party government and a defiant Communist Party (PCP) supported by nearly one in six Portuguese voters. Despite the likelihood of continuing political uncertainty, we think Lisbon's commitment to NATO will remain strong. Portugal is shifting, however, from a US-oriented diplomacy to a more independent European approach.

The Election—Few Winners

Soares's backing in the second round of the election by all parties on the left conveyed an illusory impression of unity. In fact, only the Socialist Party can be confident of benefiting from his victory, and even that Socialist gain will probably be at least somewhat tempered by the only partially healed break between the new president and Vitor Constancio—his likely successor as Socialist leader. By contrast, there were many losers, of whom the most conspicuous is former President Ramalho Eanes. General Eanes, who has been at odds with Soares since 1978, made the mistake of supporting a Socialist maverick, Salgado Zenha, in the hope of ending Soares's political career and regrouping the left under his own stewardship.

The Soares-Eanes feud has contributed over the years to the institutional conflict that has prevented implementation of cohesive national policies. Eanes's failure has left him with only one way to remain

active in politics: to take over formal leadership of the shaky left-of-center Democratic Renewal Party, whose creation he quietly encouraged last year. When he does, we expect renewal of his dueling with Soares.

The Communist Party is also reeling from the defeat of Zenha, its first choice for president. The party opted in the runoff to support its arch enemy, Soares, whom the Communists regarded as the lesser of two evils compared with conservative Freitas do Amaral. The Communists acted without receiving any commitments from Soares, and their leadership is now under pressure to produce tangible benefits to satisfy the rank and file. We strongly doubt that Soares will cooperate. Although Constancio may try to tilt the Socialists to the left, that shift would probably engender as much competition as cooperation with the Communists, and we expect that PCP leader Alvaro Cunhal will revert later this year to obstructionist tactics in parliament and on the labor front.

Threats to the Government

Prime Minister Cavaco Silva, who leads the Social Democratic minority government, suffered his first major defeat when rightist presidential candidate Freitas do Amaral lost to Soares. Personal animosity is strong between Soares and Cavaco Silva, both because Cavaco Silva brought down the Soares-led coalition government in 1985 by pulling the Social Democrats out and because Cavaco Silva actively campaigned for Freitas do Amaral in the presidential race. Soares and Cavaco Silva have promised to put aside their differences and focus on Portugal's burgeoning economic and social problems; however, Cavaco Silva's confrontational style and Soares's inevitable involvement in foreign policy issues have clearly strained relations between the presidency and the government, and we expect that this situation will worsen in the months ahead.

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Cavaco Silva is also having trouble with parliament. The uncompromising, hardline stance he took in April on the budget—his first major parliamentary test—united all three left-of-center parties against him. In the end, he made an embarrassing retreat and accepted most of the minor modifications those parties had sought. Cavaco Silva may learn from that experience and conclude that he had more to gain from trying to play those parties against each other than by uniting them against him. Over the longer term, however, his hold on office will depend less on his maneuvers than on each party's perception of how much it stands to gain or lose from bringing down the government and forcing another election. Even though the Socialists and the Democratic Renewal will want time to rebuild, we think a minority government may prove too tempting a target.

Cavaco Silva's government could, in fact, fall from within if opponents in his party conclude that he is vulnerable. Many party members objected to Cavaco Silva's support for Freitas do Amaral and may take advantage of the opportunity to unseat him if the government suffers setbacks in parliament. Cavaco Silva himself might try to force an early election to take advantage of popular approval of his government's expansionist economic policies and preempt possible opposition. If his economic program continues to persuade the public that he is correcting some of the country's ills, he would be in a strong position to gain seats.

Prospects for the Economy

Constant political maneuvering over the last 11 years has seriously impeded implementation of effective economic policies. Cavaco Silva has relaxed the Soares government's austerity program—which turned around the current account from a \$3.3 billion deficit in 1982 to a \$100 million surplus last year—and initiated a recovery program aimed at lessening the financial drain of state support for inefficient public enterprises. He also intends to reverse the downward trend in private sector investment and real income. The government's measures for 1986 include a 4-percentage point cut in domestic interest rates, a series of tax cuts, and a four-month suspension of the monthly 1-percent devaluation of the escudo. The last is designed to hold down inflation, currently hovering

at about 19 percent, by restraining the cost of imports. Other promised measures include reviving the stock market and revising rigid labor laws that make it almost impossible to dismiss workers.

The government hopes to achieve an economic growth rate of 4 percent this year, but prospects for a recovery of that magnitude are slim. We estimate that GDP will rise 3.0 percent, compared with 2.2 percent in 1985, with real income growing about 1.5 percent and private investment by as much as 5 percent. Inflation should come down to about 16 percent. The government's expansionary policies, however, probably will lead to a current account deficit because Portuguese import demand is highly sensitive to changes in income. EC membership also is likely to cause Lisbon's trade gap to widen as the liberalization of import barriers opens the economy to West European competition and the required shift to higher priced EC agricultural goods increases Portugal's import bill. We would not be surprised if the deficit approaches \$1 billion, which could force the government to seek EC or IMF financial support. Such aid almost certainly would be contingent on another policy reversal—a return to more restrictive economic policies.

Moreover, the government's present economic policy only partially addresses the fundamental problems plaguing state-owned enterprises, which account for 40 percent of domestic borrowing and 95 percent of foreign debt but only 14 percent of GDP. The promise of turning over much of the huge state sector to private enterprise has been welcomed by the business community, but the process will be slow and painful because Cavaco Silva needs the support of parliament to revise the Socialist-oriented constitution. The Socialist Party is likely to be reluctant to support such efforts since their trade union arm is as opposed as the Communist-dominated trade unions to the inevitable layoffs and factory closures. Without major reforms in the mammoth state-controlled sector of the economy, Portugal will not make much headway in its drive to move into the mainstream of modern, industrialized Western Europe.

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Implications for the United States

Despite the probability of continuing governmental instability, Portugal is unlikely to undergo a marked shift to the left or right over the next few years. All of the political elites are committed to a democratic system, and the voters overwhelmingly opt for the moderate and centrist parties. We think Portugal will also remain generally pro-US and a member of NATO. But the nature of the bilateral relationship with the United States is changing, and Portugal—traditionally among the most cooperative allies—is likely to become a more prickly partner. This is partly a result of Portugal's entry into the EC and partly a result of the growing belief—encouraged by the center-right parties as well as the left—that Portugal has not been treated fairly by the United States in economic matters or security assistance.



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**Albania: A Year
Without Hoxha**

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Ramiz Alia continues to consolidate his position a year after succeeding Enver Hoxha as leader of Europe's most backward and isolated country, but he faces serious and growing economic problems that will probably continue to cause tensions in the leadership.

reports, Albanian workers are now facing hardship, and the debate on economic strategy within the leadership is therefore likely to pick up.

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Widening Outside Contacts

Alia has stepped up Hoxha's efforts to broaden trade contacts in the West partly to increase access to Western technology. Tirane, which in 1970 had diplomatic relations with only 27 countries, now has diplomatic links to over 100 nations, including most of those in Western Europe. Socialist solidarity apparently impels links to a few Third World Communist regimes, including Vietnam and Cuba. The majority of the more recent links amount to only thin ties to developing countries. But the desire for increased trade is behind the most important contacts, including those with the West.

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Domestic Situation

Alia has vigorously cultivated his image as Hoxha's handpicked successor, and he has done nothing so far to alter the foundation of his predecessor's Stalinist system. Alia has moved gradually, however, to put more of his own men in key positions and to firm up control of the bureaucracy.

Good relations with Italy have been taxed but not ruptured by a controversy over six Albanians seeking political asylum in the Italian Embassy in Tirane where they have been holed up since December.

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Alia replaced the planning chief last summer and at about the same time moved an ally onto the party Secretariat. In January he reportedly sacked his independently based security minister, Hekurah Isai, although Isai recently showed up still holding his Politburo rank. Several other party officials may be in trouble. Significantly, Defense Minister Prokop Murra—whose several predecessors were all purged—is still at the head of the armed forces. Alia's position, as well as the relative influence of other leaders, will probably become clearer as the party congress scheduled for 3-8 November approaches.

In March Tirane and Bonn completed their fourth round of talks and, despite some unresolved issues, the two countries could reestablish relations within the next year. Relations with neighboring Greece also continue slowly to improve. According to a recent media report, this May Athens plans to announce an end to the formal state of war existing since World War II.

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The Economy

Alia is holding to Hoxha's insistence on self-reliance that followed Albania's successive breaks with Yugoslavia, the Soviet Union, and China. Growth has stagnated since the split with Beijing in 1978, and a drought last year further dimmed prospects for near-term recovery. World prices for Albania's commodity exports, moreover, are likely to remain low for at least the next several years.

Alia also is following Hoxha's lead in establishing stronger trade links to individual CEMA countries and China, which are more receptive to both countertrade arrangements and imports of inferior Albanian manufactures. In early December, Albania signed its first five-year trade pact with China since

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Alia now appears determined to maintain austerity rather than seek another Communist patron or abandon Hoxha's constitutional prohibition against foreign credits. But, according to Western press

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Alia during recent meeting with students and teachers in southern District of Gjirokastra.

hints of renewed economic and technical assistance and by pursuing an aggressive diplomatic campaign to woo the new leadership. But Tirane has strongly rebuffed the Soviet overtures, and prospects for a reconciliation appear slim.

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Western nations, sensitive to the Soviet threat, are cultivating Alia by considering his requests for economic cooperation and by minimizing criticism. But they will continue to run up against Tirane's self-imposed limits on external relations and criticism from their own publics for cultivating a militant Communist regime with a dismal human rights record.

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the mid-1970s. However, Alia continues to take pains to ensure that these growing contacts—both Western and Eastern—have no impact on Albania's remarkably closed political and social institutions.

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Tirane's longstanding fears of Yugoslav intentions continue to preoccupy Albanian leaders. Concern over Belgrade's treatment of its 2 million ethnic Albanians—which has probably increased with recent Serb protests against Albanian domination in the southern province of Kosovo—assures that relations will remain strained. Still, the two sides will probably open their first rail link this year.

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Hostility Toward the Superpowers

Alia has continued to make open hostility toward both the United States and the Soviet Union a cardinal principle of foreign policy. The Soviet Union has stepped up efforts to regain influence in Albania by

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