

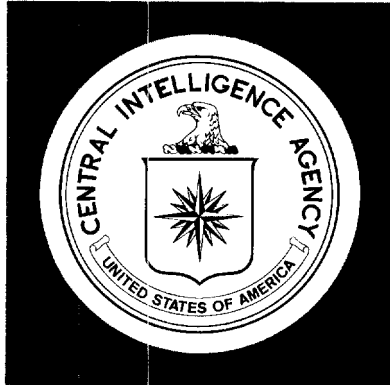
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WEEKLY SUMMARY

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8 June 1973

No. 0373/73

Copy No 50



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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, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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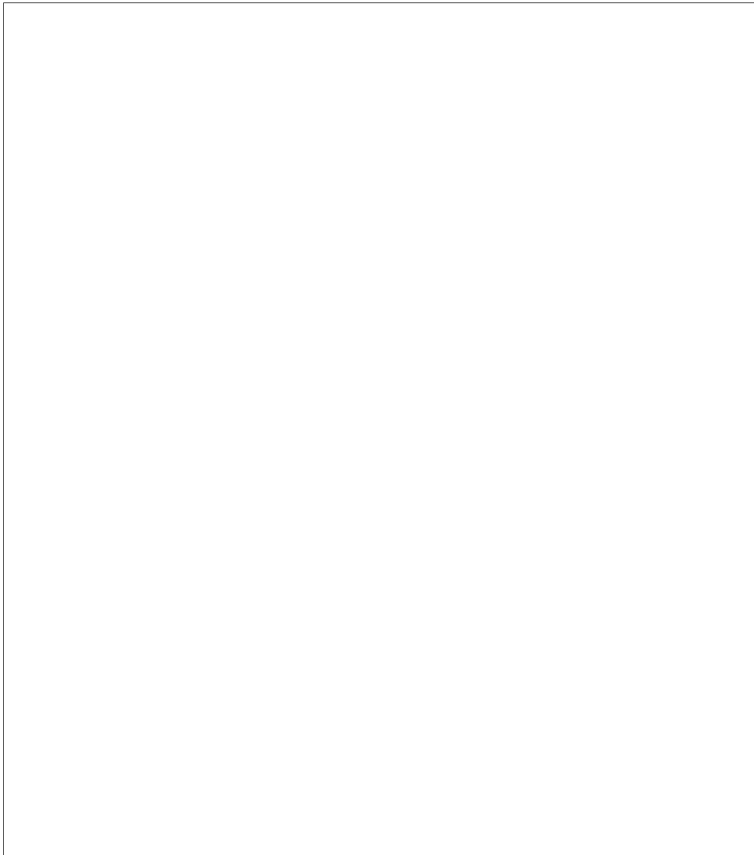
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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary,

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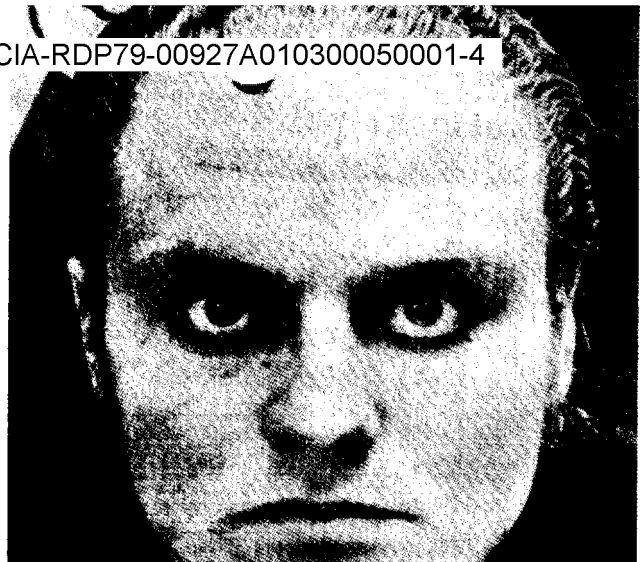
ARGENTINA

THE LINES ARE DRAWN

3 [In his inaugural address, President Campora took particular aim at the "imperialists," but it has been the extreme left that has come under attack in the first two weeks of his administration. The Peronists have formed a quasi-official vigilante organization that has put the Trotskyist terrorists and other "communists" on notice to lay down their arms or suffer serious consequences. Further evidence that the Peronist movement still contains many die-hard anti-communists was provided when the Cuban and Chilean delegations hastily walked out of a labor conference after they were hooted and jeered at.]

3 [Prior to his inauguration, Campora publicly called on the Trotskyist terrorists to observe a truce and to join in the reconstruction of the fatherland. In a follow-up effort, Trotskyists were included in the general amnesty. The terrorists refused to heed Campora's call and, after the Peronists were installed, the Peoples Revolutionary Army issued a statement charging that the new government represented bourgeois and capitalist interests. Finance Minister Gelbard was singled out as a "big-time capitalist," and the new labor minister was labeled just another "bureaucrat." At the same time, the terrorist group continued to hold two kidnaped military officers and extorted a million dollars from the Ford Motor Company.]

2 [If this was not enough to spur the Peronists into action, Lorenzo Miguel, one of Argentina's most important labor leaders, warned Campora that the Trotskyists could gain control of large sectors of the labor movement by infiltrating Peronist ranks. Dealing with the terrorists and the "communist infiltrators" thus became the first big order of business for the new government. The labor and youth sectors of the Peronist movement were charged with organizing commando groups to fight the terrorists with their own tactics. On 31 May, the newly created Central Security Command of the Justicialista Movement issued a communique warning the terrorists to



Rodolfo Galimberti
Counter-terrorist Leader

3 [cease operations or face the loss of ten of their number for each fallen Peronist. To head the counter-terrorist operation, Peron picked Rodolfo Galimberti, who was sacked a short month ago for publicly advocating the formation of armed militias. His resurfacing in this context indicates that Peron may see the present circumstances as offering an opportunity to form the militias without drawing the wrath of the military or alienating political moderates.]

3 [The mounting pressure appears to have had some effect already. One of the two kidnaped military officers was released this week, and some Trotskyists publicly disassociated themselves from the hard liners. Despite this split, the main terrorist group still seems bent on challenging the Peronists, and the stage is being set for a bloody guerrilla struggle.]

3 [The military has been ordered to stay on the sidelines while the Peronists and the police battle it out with the terrorists. The odds definitely favor the Peronists, particularly since they can call in the army if things start to go wrong. The real danger, however, lies in the creation of a paramilitary organization of fanatics willing to enforce the tenets of Peronism by force. Such a group could be turned against other groups of heretics at a later date or even used against the government itself if it fails to live up to the revolutionary demands of the more radical Peronists. The potential for direct conflict with the military also exists, as the armed forces have already declared their total opposition to the formation of armed militias.]

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JAPAN

SOMETHING NEW

No longer content to accept the dictates of Tokyo, increasing numbers of Japanese are banding together in citizens movements to gain a hand in decisions that affect their home towns. Although the movements focus on local environmental issues, they are having an unprecedented impact on politics as the participants take a more critical look at the over-all performance of the ruling Liberal Democratic Party. This in turn is significantly strengthening the position of the Communists and Socialists in regional and national elections.

4 } Urbanization and industrialization have brought prosperity to Japan; they have also created the massive environmental problems upon which these movements focus, and they have destroyed the normal neighborhood and village bonds that were once the building blocks of conservative party support. Up to 3,000 citizens movements are flourishing. These groups are by no means associations of professional politicians; a large proportion of their leaders and members are housewives.]

4 } More than half of the citizens movements are non-partisan in orientation. By the nature of



Protest of industrial development plans in Tanaka's home constituency

their protest activities, however, they are generally anti-government and anti-Liberal Democratic Party in coloration. Most of those that do identify with a specific party line up with the Communists or Socialists. The two parties effectively exploited the issues and organizational strengths of the citizens movements in the election last year. Observing this, the Komeito, Liberal Democratic, and Democratic Socialist parties, each of which suffered losses in that election, are seeking closer affiliation with these groups.]

5 } One group in Kagoshima Prefecture is waging a well-publicized campaign against plans to locate a petro-chemical complex there. Spearheaded by a federation of ten groups, the campaign is similar to others throughout Japan and points up the growing resistance to Prime Minister Tanaka's blueprint for dispersing heavy industry to less developed areas. In Osaka, a large group has sought for four years to block construction of a new international airport. In Ehime Prefecture, citizens are protesting government plans for an atomic energy facility.]

4 } These citizens movements rarely tackle problems beyond the goals for which they were set up. Still, the Japanese voter casts his ballot in regional and Diet elections on the basis of such local issues rather than on broad national ones.] In the Diet elections last year, Osaka, which followed the urban pattern of increased support for the Communists, moved sufficiently to the left to cost the Liberal Democrats a seat. The conservatives held on to seats in their rural strongholds of Kagoshima and Ehime, but, given the role of the citizens movements, the opposition parties are now within striking distance of winning seats in these two districts in the next election.]

LOWER TRADE SURPLUS

6-70 } Despite these problems, the Japanese economy is surging ahead. Boosted by government spending, heavy consumer outlays, a high rate of housing construction, and rising industrial investment, real gross national product rose an extraordinary 15 percent between the first quarter of 1972 and the corresponding quarter of this year.

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When the present boom began in the spring of 1972, there was substantial excess productive capacity, but in recent months output in a number of key industries has approached capacity.

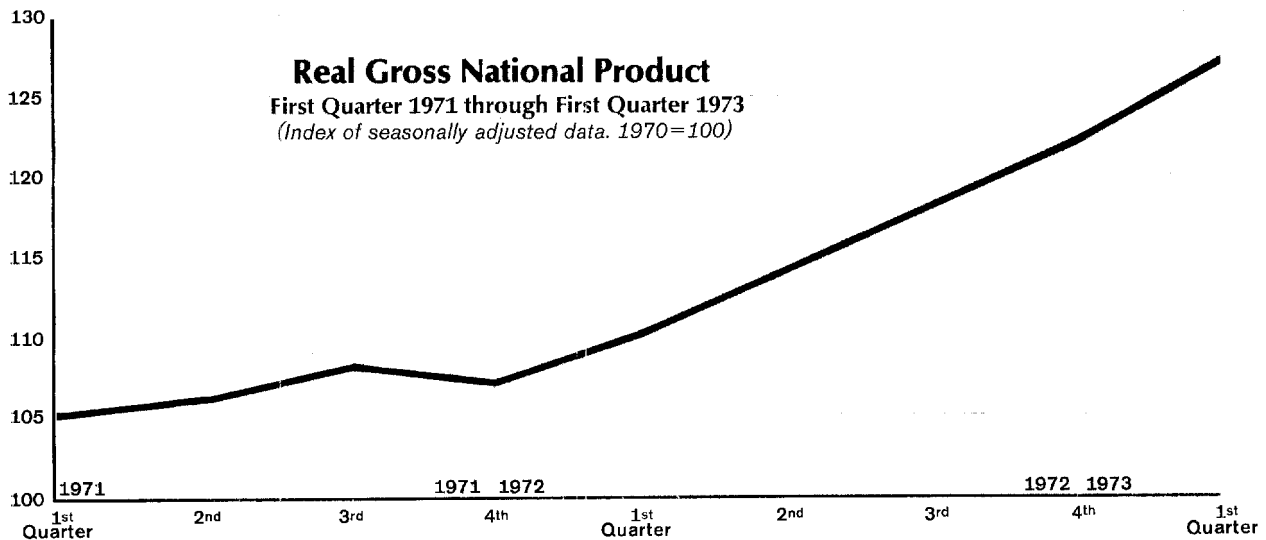
This pressure on capacity is pushing price levels up sharply. Wholesale prices have been rising rapidly for over six months and by May were about 12 percent higher than a year earlier. Consumer prices rose some 10 percent between May 1972 and May 1973 on a nationwide basis; the rise in Tokyo was nearly 12 percent. Wages also are soaring. A survey of 241 large firms shows that increases so far this year have averaged some 20 percent—well above the gains in labor productivity expected for the year.

Tokyo has taken a number of steps to slow the growth in demand. The discount rate was boosted three fourths of a point in early April and another half point in late May to 5.5 percent. Commercial banks have been ordered to limit business loans, and the government is postponing public works spending and accelerating bond

sales. Japanese business leaders continue to plan large investment outlays, however, and a further tightening of fiscal and monetary controls may be required to cool the economy in the months ahead.

The continuing economic boom is the major factor in the reduction of Japan's trade surplus this year. Rising production, primarily for the domestic market, is stimulating imports of raw materials. Imports during the first four months were up 44 percent over the same period last year. Meanwhile, exports grew less than 25 percent. The trade surplus for the period came to \$1.8 billion—about \$600 million less than in the first four months of 1972. About half of this decline is related to changes in US-Japanese trade. Japanese imports from the US rose by one third between January-April 1972 and the corresponding period in 1973, while exports rose less than 8 percent. If this trend continues, Japan's 1973 trade surplus with the US will be \$1 billion less than the \$4.1 billion figure reached last year.

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GREECE THE KING IS OUT

15 } Pressures on Prime Minister Papadopoulos have eased, at least for a while, as a result of his decree on 1 June abolishing the monarchy and establishing a presidential republic. Supporter and critic alike will be pre-occupied during the next few months with constitutional questions. So far, there has been little reaction from the Greek

public, which seems to have adopted a wait-and-see attitude.

// } The cabinet will meet frequently this month to prepare amendments to the 1968 constitution. These amendments will formalize the conversion of Greece from monarchy to republic, and if



Constantine
and
Papadopoulos

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Papadopoulos holds to his timetable, they will be announced by 1 July and voted on in a plebiscite by 1 August. If the voters ratify the amendments, Papadopoulos has promised parliamentary elections by the end of 1974.]

[Redacted]

15 US officials report few expressions of regret that King Constantine has finally been deposed. Popular reaction has generally been non-committal, even cynical. 17 Citizens in Greece's second largest city, Thessaloniki, are said to question whether an unrigged plebiscite is possible and whether Papadopoulos will in fact honor his pledge to hold elections before the end of 1974. 13 Nine former politicians have denounced Papadopoulos' move and may try to fan Greek skepticism into opposition. They do not have much chance of success.]

15 Meanwhile, Papadopoulos has ridden out the threat posed by the navy plot to unseat him and return the King. The prime minister is in

complete control, and the weeding out of monarchists in the military will certainly continue. Rather than open up more fissures by a wholesale purge, Papadopoulos may decide to use transfers and retirements to deal with royalists still on active duty.]

15 Papadopoulos draws his chief support from army officers who are anti-monarchist, and his abolition of the monarchy won their continuing favor. The same officers, however, oppose elections or any change that would decrease their powerful positions. Therefore, when discussions on elections come up, military opposition is likely to reappear.]

15 Changing the form of government, purging the military, and a pending cabinet reorganization are needed to perpetuate the regime, but these steps will not in themselves solve the serious political problems Papadopoulos still faces. Over the longer run, he must overcome the corruption and inefficiency that plagues his lackluster government. He must also find acceptable solutions to other problems like the church, the students and Cyprus. [Redacted]

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INTERNATIONAL MONEY

16 After falling to a record low in major European exchanges early in the week, the dollar rallied. Despite the comeback, it has depreciated more than 4.6 percent in terms of the mark since 28 May. The pound sterling has also risen sharply against the dollar, and gold reached a record high of \$127 an ounce in London before declining. The speculative run on the dollar eased at mid-week when profit-taking bolstered dollar demand, at least temporarily.]

16 The new speculative surge was prompted by continuing political uncertainty in the US, and the jump in exchange rates was the sharpest since February and March. 17 After holding fairly steady since the beginning of the joint float on 19 March, all of the major European currencies have now appreciated against the dollar. The German

mark has made the strongest gain, advancing 7.0 percent, and now stands at the top of the joint European float band. The Japanese yen, however, has appreciated only 0.3 percent since March, indicating that the informal agreement made in March to keep the yen at a higher level of appreciation than the mark has been allowed to lapse.]

17 Despite the substantial appreciation of the European currencies, there has been little central bank intervention. So far, only Ottawa and London have entered the market to slow the appreciation of their currencies. For the present, Europeans generally are not too concerned about the impact of their currencies' appreciation on their trade positions, since domestic demand is very strong. [Redacted]

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INDOCHINA

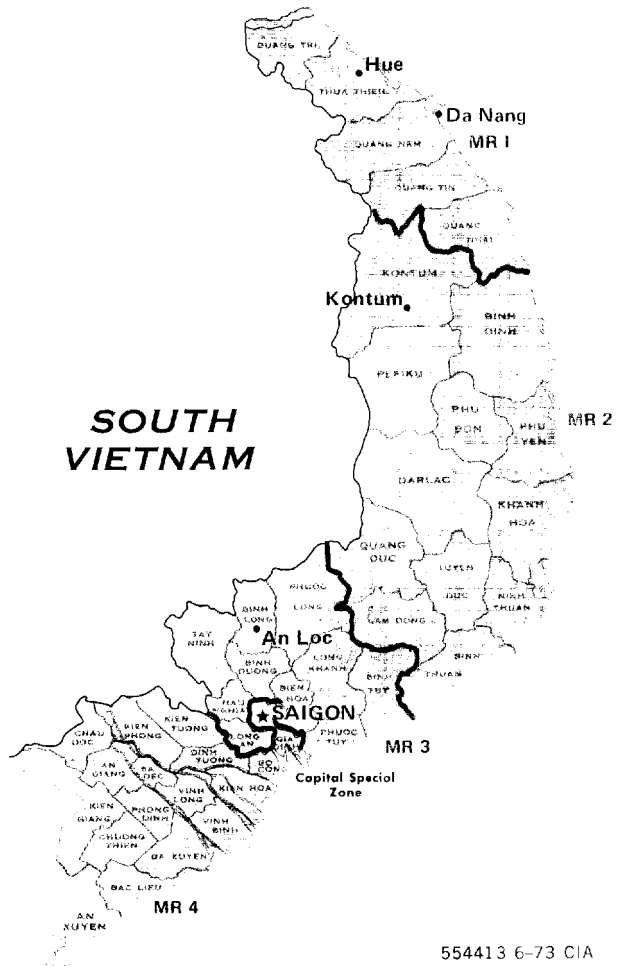
LE DUAN IN PEKING

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197 74
Party boss Le Duan and Premier Pham Van Dong arrived in Peking on 4 June for what was described as a "friendly official" visit. The presence of Le Duan, the top-ranked figure in the North Vietnamese hierarchy makes the visit unique; he has never before made this sort of trip to China. Moreover, amid all the protestations of solidarity, there are signs that Hanoi and Peking are not seeing eye-to-eye on some important issues.]

20
197 74
[The two sides will undoubtedly be reviewing the whole range of their relationship in the light of the Paris accord and the Sino-US rapprochement. The current effort to make the accord more effective is also likely to come under discussion. Hanoi has given a couple of indications in the last two months that it is piqued over pressure from its big-power patrons to hew more closely to its commitments. Indeed, differences in nuance between Le Duan's and Chou En-lai's speeches on 5 June suggest that Hanoi remains skeptical and Peking enthusiastic about the benefits of a tighter cease-fire agreement.]

197A [A good many other issues may come up. The inclusion in Hanoi's delegation of the men who negotiate both economic and military assistance with Peking indicates that aid will be one specific item. Chinese treatment of the Cambodian issue, coupled with the prominence accorded Sihanouk's followers in the Chinese accounts of Le Duan's doings, suggests that the possible forms of a negotiated settlement in Cambodia have also received attention.]

197A [There is nothing official to indicate whether either Le Duan or Pham Van Dong is going on to other capitals. According to the diplomatic rumor mill in Hanoi, however, Dong is on the first leg of a swing through all the countries that have assisted Hanoi. Le Duan might go along at least as far as Moscow, if only to balance off his visit to Peking.]



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Thieu Scores at the Polls

23 [While both sides worry about enlarging and consolidating the territory they hold in the countryside through military action, the Thieu government is busily strengthening its administrative control at the grass-roots level. The government has been proceeding with village council elections throughout the country, and Thieu's Democracy Party has rolled up victories in most of the contests to date.]

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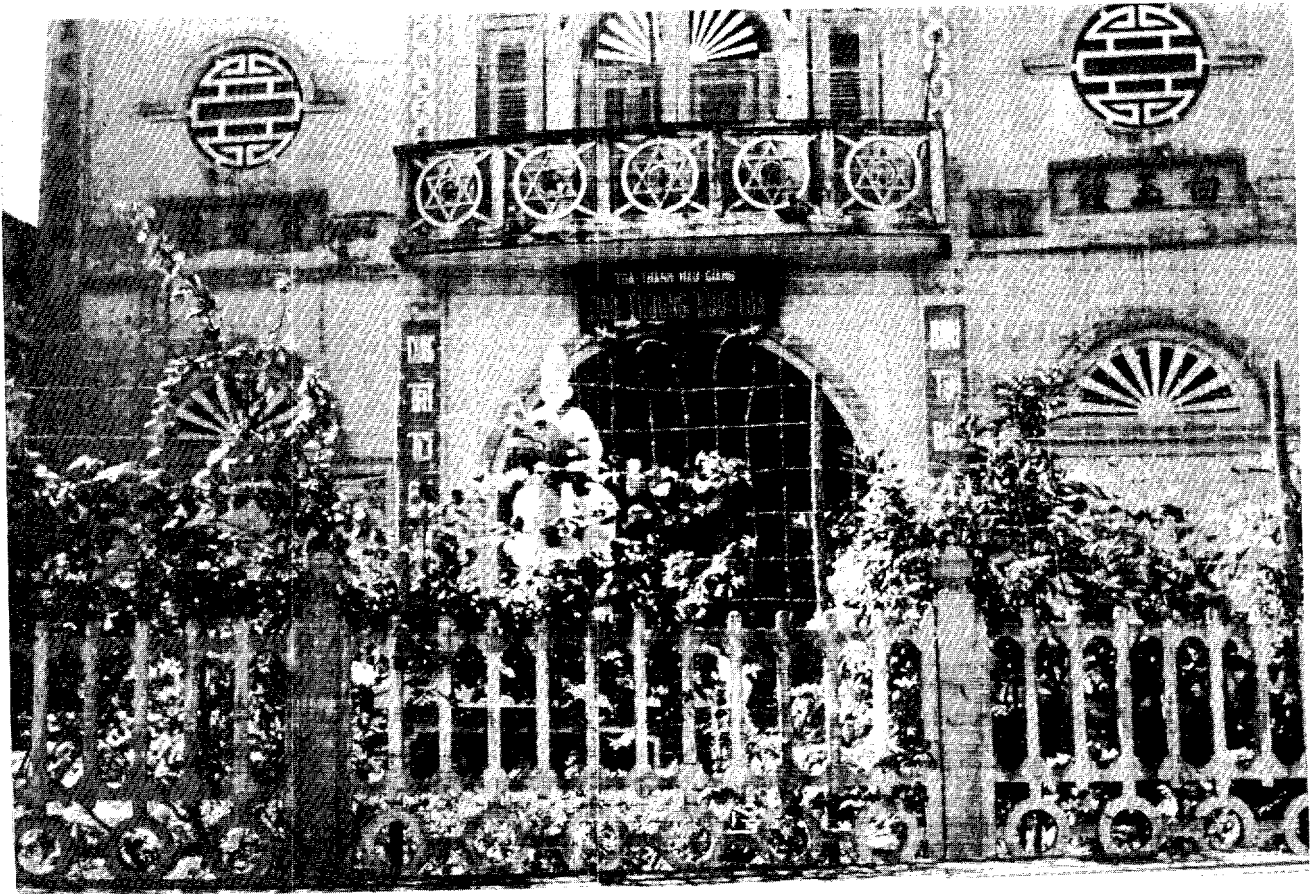
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19A [The party's success appears largely the result of the tight control exercised by local officials and the refusal of some independent and opposition candidates to run. In some 200 elections held thus far in the delta, more aspiring candidates apparently were disqualified than in the past, and Democracy Party members won about 80 percent of the contests.] Some elections were postponed because not enough candidates were on the ballot, and others were canceled because officials believed that Viet Cong influence was too strong.]

19A [Many more local elections are scheduled in the coming weeks, and Thieu's Democracy Party is likely to run up more victories. Some local officials apparently are determined to ensure a sweep of the village council elections by the gov-

ernment party, although in at least one opposition-oriented area, they are actively working for a more balanced outcome.]

19A [Political figures outside the government have thus far reacted mildly to the Democracy Party's successes. Some leaders of independent parties that have lost members to the Democracy Party profess to be unconcerned, believing that these defectors will remain loyal to their original parties. Some bitterness is reported, however, in areas where the government's election tactics have been especially heavy handed. For his part, Thieu appears willing to risk antagonizing his opponents further in order to strengthen the government's ability to meet the Communist threat at the local level.]



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SECRET**CAMBODIA: BACK ON THE ATTACK**

(22)
 After a brief lull, Khmer Communist military activity has picked up again in the Phnom Penh area. The Communists shelled a number of government positions along Route 4 about 15 miles west of the capital. The attacks appeared to signal the beginning of a determined enemy campaign to interdict the highway. Although the Cambodians were forced to withdraw from several positions near Route 4, they did manage to mount some counterattacks and clearing operations to try to keep the highway open. By mid-week, however, the situation along Route 4 was still uncertain, and truck convoys had been temporarily suspended. East of Phnom Penh, Khmer Communist combat activity along the Mekong River corridor was notably reduced. After five months of continuous fighting and resultant heavy casualties, primarily from air strikes, the Communists apparently have had to withdraw to rest and refit. But the insurgents nevertheless can be expected to continue to harass resupply convoys on the Mekong.

The Peace Front

In a conciliatory gesture aimed at Sihanouk and the Khmer Communists, the ruling High Political Council released 46 members of the royal family and other persons imprisoned or placed under house arrest following the bombing attack on President Lon Nol's residence on 17 March. Among those freed were Sihanouk's mother and one of his sons. As a further indication of its interest in peace prospects, the council dispatched former prime minister Hang Thun Hak to Paris as a special representative to follow the progress of the talks between Dr. Kissinger and Le Duc Tho. Hak was accompanied by former defense minister Sak Sutsakhan.

Sihanouk, who arrived in Albania on 4 June for a private visit following a month-long tour of various African countries, is still taking a tough line on negotiations. In Mauritania, he told the press that there would be no cease-fire in Cambodia until his forces "liberate" Phnom Penh. And in Morocco, the Prince called again for the exile of Lon Nol and "the dozen traitors in power in Phnom Penh."



Sihanouk

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CHINA: HIGHER PRICES

(29 - 34)

High prices for Chinese goods and favorable prospects for sales of US equipment were the highlights of the spring Canton fair in May. Peking claimed that attendance at the fair and the value of transactions topped all previous records. Because of higher prices, the value of contracts signed probably topped the \$1.2 billion worth of business conducted at the 1972 fall fair.

The Chinese apparently took advantage of rising demand for their goods to increase prices. Price hikes ranged from 40 percent for foodstuffs and light manufactures to more than 100 percent for luxury goods like antiques, silk, carpets, and porcelain. Not only were prices steep but the Chinese were reluctant to meet labeling, packaging, and other purchaser requirements. As a result, some would-be importers were discouraged and left Canton before the fair closed; others made only token purchases to maintain goodwill.

The spring fair did find a record number of US businessmen in attendance, almost 150 in all. Contracts concluded by US firms probably sur-

passed the \$20 million negotiated last fall. The Chinese invited a number of big US manufacturers of capital equipment, particularly in the petroleum industry. Representatives from Mobil, Exxon, Caltex, Continental Oil, and US Steel's oil-well supply division were invited. Continental Oil was asked to prepare plans for seven petrochemical plants, and three additional firms were invited to Peking to continue discussions on sales of plants and technology. Although talks with US firms should lead to increased sales to China, negotiations with the Chinese on major contracts have often taken a year or more to complete.

The Japanese were again out in force, as some 2,800 representatives from over 300 firms attended. Business transacted by the Japanese reached about \$230 million, a small increase over the fall fair but well below the \$300 million they had predicted. The high prices and shortages of some foodstuffs held down Japanese purchases. Price hikes by Japanese firms—averaging 40 percent for machinery, chemicals, and other goods—dampened their sales.

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Canton Trade Fair

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USSR

HARD-CURRENCY PINCH

38, 40 Moscow had a hard-currency deficit of about \$1 billion last year, the largest ever. Spurred by record imports of capital goods and grain, imports from the developed West rose to \$4 billion, compared with \$2.9 billion in 1971. Imports of Western machinery and equipment went up about one third to \$1.4 billion, and deliveries under the huge grain orders of last summer were valued at about \$600 million, compared with \$158 million in 1971.

39, 40 To help finance this large deficit, the USSR last year sold significant quantities of gold for the first time since 1965. The sale of more than 150 metric tons of gold may have brought the USSR as much as \$300 million. Credits from Western institutions also helped. Imports of grain worth \$100 million were financed by three-year loans from the US Commodity Credit Corporation. Western government-guaranteed medium- and long-term credits for machinery and equipment imports probably totaled \$500 million. The remainder was apparently financed by Soviet borrowing on the Eurocurrency market.

40, 41 This year, the USSR should end up with an even larger hard-currency deficit—perhaps as high as \$2 billion. Grain imports on orders already placed are expected to be well above \$1 billion, and machinery and equipment imports are expected to rise as well. To help finance these imports, the Soviets have again been selling gold—93 tons in the first quarter of this year. These sales may have brought in as much as \$250 million at the high 1973 gold prices. If the USSR were to sell all of its estimated current net production of more than 200 tons, it could earn at present prices more than \$600 million. Other sources of financing are expected to be Western credits for machinery and equipment, Eurocurrency loans, and Commodity Credit Corporation credits for grain. The last named will total about \$400 million this year.

40 Despite the large hard-currency deficits, Western financial institutions still consider the USSR a good risk and are continuing to offer it loans at prime rates. Substantial gold reserves (about 2,000 tons) and a history of prompt repayment contribute to this confidence.

THE END OF LUNOKHOD-2

46 The most recent Soviet moon-rover, Lunokhod-2, has ceased operating after some four months of activity. The manned vehicle was placed in the Sea of Serenity in January by Luna 21 and subsequently traveled more than 20 nautical miles. This distance was about three times greater than that covered by the first Lunokhod, which operated for more than ten months from November 1970.

46 A TASS announcement on Lunokhod-2 earlier this week provided no explanation of the vehicle's relatively short life span. It may be that the vehicle experienced a mechanical failure or suffered some accident.

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46 The Soviets had hinted earlier that one goal of Lunokhod-2 was to reach the Taurus Mountains near the LeMonnier crater—a goal apparently not achieved.

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THE GERMANIES

OSTPOLITIK AND ABGRENZUNG

41 The West German constitutional court decided on 5 June not to prevent President Heinemann from signing the ratification bill for the inter-German basic relations treaty. Heinemann signed it on 6 June, and the treaty could come into effect soon after 13 June, when the East German Volkskammer acts. The decision on 5 June, however, does not disperse all the clouds over the pact. The court still has to rule on the treaty's constitutionality next month. If Bonn and Pankow complete the formalities beforehand, the court's ruling would not affect the validity of the treaty, since international agreements already in force are beyond the court's competence. Bonn may still choose to await the ruling to avoid the appearance of acting opportunistically.

41 The court's action had to share public attention this week with the surprise visit to Pankow on 30-31 May by Herbert Wehner and Wolfgang Mischnick, parliamentary leaders of the Brandt coalition. Wehner is one of Brandt's closest advisers, and Honecker may have felt the need for another channel to Brandt in addition to Egon Bahr. It has been rumored that the East Germans are distrustful of Bahr because of his close cooperation with the Soviets; the Soviets seem to have little use for Wehner, who is one of the most prominent German defectors from communism.

41 Ostensibly, the visit has been billed as a new stage in inter-German relations, the first in a series of exchanges between political leaders. It is more likely that Wehner's mission was to assess prospects for relations in the midst of confusion over the court deliberation on the treaty and to reassure the East Germans. After his talk with East German party chief Honecker, Wehner strongly implied to correspondents that he believed he had been successful. He said that despite a "certain irritation" in Pankow over the delay, the East Germans had agreed not to apply for UN membership until Bonn is ready to do so.

41 Honecker, according to an East German commentary, pinned improvements in relations

on the treaty's coming into effect. This demand also dominated the Bahr-Kohl negotiating session on 30 May. Little of substance was discussed, largely because of the court case. Kohl later explained that although they would continue to meet, the court's review would "handicap" their discussions.

41 While Pankow leaders explain the move toward better relations with West Germany as an element of peace and detente, they continue to warn their people not to expect "convergence." Honecker addressed a central committee meeting on 28 May, his first major statement since Brezhnev's visits to Pankow and Bonn last month. Honecker made it clear that the policy of *Abgrenzung* (keeping apart) was unchanged. His remarks, intended primarily for a domestic audience, disappointed those Germans who had hoped that Brezhnev's visit might lead to a softening of prescriptions against contacts with other Germans. 25X6

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NATO: OFF TO COPENHAGEN

51, [The foreign ministers of the NATO countries realize that in Copenhagen next week they will begin what amounts to a fundamental review of the alliance. They will be considering how NATO should respond to the US call for a "new Atlantic Charter"; they will also be looking into ways of relieving the balance of payments burden to the US of stationing troops in Europe and into an allied position for the force-reduction talks.]

51, [Since Dr. Kissinger gave his speech on Atlantic relations in April, most NATO members have agreed that the time may indeed have come for a new "declaration of principles," but they fear that the effort to draft one might be tantamount to performing unneeded major surgery on the alliance. They admit that trade, monetary, and defense issues are related, but they are against the use of a single forum to resolve all these problems.]

51, [The US has proposed that the allies pay a larger part of the balance of payments costs the US incurs from stationing troops in Europe. The proposal is likely to get a skeptical reception. A number of allies have questioned the precise dimensions of the US balance of payments problem and have suggested that other countries incur costs in stationing forces elsewhere in Europe. Some feel that the US is asking too much of the alliance. The British have been sharply negative toward the new burden-sharing initiative. A Foreign Office spokesman said that he considers the

proposal "one-sided" and that Britain itself should be the principal claimant for balance of payments relief. The most the US could hope for from the Copenhagen meeting, he continued, was a commitment to study the problem. In his opinion US efforts to obtain more might cause some of the allies to insist on cutting their own forces at the force reduction talks in the fall.]

55 [Such a stand would introduce new complications in the effort to arrive at a common allied negotiating position for these talks. So far, the NATO discussions have not hit major snags, but they are still in the early stages. The ministers will consider, and perhaps approve, guidelines for detailed discussion this summer. With a few reservations, Washington is pleased with the guidelines as they exist now because they follow closely the US position paper.]

55 [The ministers may also discuss the relationship between force reduction talks and a European security conference. If the Soviets are still being uncooperative about setting a starting date for the force-reduction talks, there may well be discussion of how the allies should react and whether they should slow the pace toward a security conference.]

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Copenhagen

SWEDEN: DOWN BUT NOT OUT

(5-5-62)

[Prime Minister Palme's Social Democrats appear headed for defeat in the parliamentary elections next September, but disarray among the opposition parties may nevertheless offer Palme an opportunity to remain in power.]

Public opinion polls for May show the three non-socialist parties holding a steady 52.5 percent of the vote, five percent above their showing in the election of 1970. The Social Democrats, who rely on the Communists for their parliamentary majority, were supported by 40 percent in the poll, three percent off their January showing and down more than five percent from their 1970

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election tally. This means that the Social Democrats failed in their carefully planned effort to use the spring session of parliament to win back voter sympathy. The May poll is significant, since 75 percent of Swedish voters normally decide four months before the election whether to vote and which party to vote for.

Palme's problems stem primarily from a general public mood that it is time for a change. After 41 years in power, the Social Democrats can no longer win voter support simply by citing their record. Today, the public is more concerned over such issues as indiscipline in the classrooms, disorder in the streets, and a remote and bureaucratized government. Foreign policy issues do not loom large and, even here, the government may not have the edge. The Social Democrats attempted to appear moderate in the spring foreign-policy debate, but were provoked into intemperate remarks.

The opposition parties, pledged to attempt to form a non-socialist government, began the year by announcing a joint economic program intended to show they represented a viable alternative. Their united front held up through parliament's general economic debate on 4 June. The opposition also remained united against the government's program for depressed areas, another key election issue, but has been unable to agree on a program of their own. Cohesion has completely eluded them in many other policy areas. In April, the Moderate Party (conservatives) sided with the government on foreign aid, in May the Center voted with the government on pension matters, and in late May both the Center and Liberals supported the government's defense budget.

This disarray stems from the basic fact that the opposition parties compete against each other, as well as against the Social Democrats. The gains of the Moderate Party on the right have sent waves of anxiety through the Center and Liberal parties. Parochial interests may yet, therefore, frustrate these parties' efforts to form a coalition government, even should they together poll a majority. The Center or Liberal parties might even come to see an advantage in forming a

coalition with the Social Democrats. [redacted]

FINLAND: EC TREATY STALLED

63) [The Communist-dominated Finnish People's Democratic League handed the government another setback in its efforts to sign the draft free-trade agreement with the European Communities. The league blocked a motion on a bill in parliament last week that would have facilitated passage of one of four items of domestic legislation, which the Social Democrats have set as prerequisites for the signing. The Communist move, on the eve of the parliamentary summer recess, could delay the signing until next fall unless the Social Democrats can be persuaded to forgo the domestic legislation requirement.]

63) [The market disturbance bill that was defeated on 1 June would have given the government power to regulate imports. Its government sponsors had hoped to get parliament to label the bill "urgent," which would have circumvented debate and assured quick passage. A bill cannot qualify as urgent unless five-sixths of the members of parliament approve; the league controls 37 of the parliament's 200 seats, three more than necessary to defeat such a motion.]

63) [In addition to the market disturbance bill, the Social Democrats have been insisting that bills regulating capital investment and providing counter-cyclical control of the economy must also be enacted. The fourth bill, which regulates rents and prices, was approved in April.]

63) [The Communists are the only Finnish party opposed to the EC agreement and, while badly split on most matters, are united on this one. Their action last week could cause problems for the Social Democrats, the major party in the four-party coalition. Nearly all other Finnish parties would rather sign the EC accord as soon as possible and straighten out the domestic legislation issues later. The Social Democrats are therefore likely to come under pressure in the weeks ahead to forgo the legislation and sign the treaty.] [redacted]

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BANGLADESH: FADING DREAMS

70 Disillusionment and discontent are spreading in Bangladesh as a result of the failure of Prime Minister Mujibur Rahman's government to meet popular expectations and deal effectively with such burgeoning domestic problems as:

- rising prices;
- shortages of food and clothing;
- shortages of power and fuel plaguing an already sagging economy;
- corruption in government, political assassinations, general lawlessness, and black-marketeering;
- lack of qualified administrators and planners, both in government and industry;
- growing anti-Indian sentiment.

66 Opposition parties, while still too weak to be a serious threat to the government, have taken advantage of the confusion and disaffection to step up their activities and criticism of Mujib's leadership. The most energetic of these critics are the young leftists of the Jatiya Samajtantrik Dal, who have pledged a "bloodless" struggle to overthrow the government. 67 They have staged a series

Mujib



of well-attended rallies. Some of these rallies have resulted in clashes with government supporters. 68 Recently, the group spearheaded a general strike that paralyzed Dacca for eight hours. At this time, however, the party remains small and essentially urban-oriented in a largely rural nation. 70

69 Nonagenarian oppositionist Maulana Bhashani, leader of a peasant-oriented and pro-Maoist party, recently gained the spotlight with an eight-day hunger strike protesting government inaction on economic problems and alleged political harassment. 70 Bhashani may have attracted added support for his long-held view that Bangladesh's troubles stem in large part from Indian exploitation and interference.

65 Even within the ruling Awami League, dissidents have begun to speak out against the government. So far, these divisive elements in the party have been subdued, but defections from the party are potentially a serious problem.

65 In this atmosphere of growing political turbulence, the US has again become the target of allegations by spokesmen for both government and opposition that Washington is engaged, along with Pakistan and China, in an anti-Bangladesh conspiracy. 70 Although there are anti-US elements in the government, the attacks from this quarter may in part be an effort to divert attention away from Bangladesh's domestic problems. Mujib is well aware that the US is Bangladesh's largest aid donor and he can be expected to limit such criticism.

65 Despite the growing discontent, Mujib is still enormously popular and remains firmly in control of the government. 70 He has taken measures to check corrupt practices in business, has made some administrative changes, and has arranged for food imports. 65 The pressure on Mujib will almost certainly grow, however, and he may seek relief by taking action against his opponents, using the increase in political violence as his excuse.

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LEBANON: ARMED TRUCE

77) The shooting stopped in Lebanon some three weeks ago, but the level of tension and distrust between the Lebanese and the fedayeen remains high. For the moment, neither side seems anxious to resume the fighting, but each is preparing for another round.

77) An army attempt to move armed fedayeen or their heavy weapons out of the Palestinian refugee camps near the big towns would probably set off another round of fighting. The guerrillas are smuggling additional arms in from Syria.

77) Under the terms of the agreement reached on 17 May, fedayeen units are slowly leaving villages in southeastern Lebanon to take up positions in uninhabited areas away from the Syrian and Israeli borders. The fedayeen are not, however, about to move out of urban areas, especially Beirut and Tripoli, to isolated encampments in the countryside.

77) The truce could be upset in other ways. Although the main fedayeen organizations are exercising restraint, extremist elements could touch off another clash at any time. There was a close call on 27 May when members of the Popular Front for the Liberation of Palestine kidnaped three soldiers. A similar provocation triggered the fighting in early May, but army action was avoided in the more recent incident when fedayeen leaders forced the release of the hostages.

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77) The Franjiyah government is not anxious for another flare-up and has ordered the army to delay implementation of the more sensitive provisions of the agreement. Some in the military, however, are impatient to move the guerrillas out

IRAN: ACT OF TERRORISM

82) The assassination on 2 June of Lieutenant Colonel Hawkins, a US Army adviser in Tehran, by two terrorists was probably the work of local radicals; the assassins may have been trained abroad. Publicity given the event focused attention on US-Iranian cooperation at a time when regime critics are deploring the Shah's \$2.5-billion arms deal with the US. The timing of the attack may also have been related to the execution of eight terrorists a week earlier or to the trial—now in progress—of seven guerrillas charged with attempting to kidnap the US ambassador in 1970.

heavily guarded ambassador or embassy staff. As one of about 580 US military advisers in Iran, he was representative of the expanding US role in building up the Shah's armed forces. Within the year, an additional 500 US advisers are expected in the country to train Iranians on the new equipment the Shah has ordered. Although the Iranian Government reacted quickly and bolstered security around American installations, another attack like the one on Hawkins is certainly a possibility. Over the past five years, Iranian security has made vigorous efforts to curb such violence, but it is all but impossible to prevent small and determined groups from such actions.

83) Hawkins was almost certainly chosen because he was an easier target than the

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of the capital and, sooner or later, another test of strength seems all but inevitable. Against this day, the Lebanese are strengthening their armed forces by stepping up recruitment and procuring military equipment, including armored vehicles and helicopters to increase the army's mobility.

The Syrians have kept pressure on Franjiyah by keeping the border closed, which puts a damper on the Lebanese economy. Damascus reportedly hopes that the closure will aid its own economy by instigating new trade arrangements that would direct ship traffic away from Beirut to the Syrian ports of Latakia and Tartus.

[Redacted]



Yemeni tribesmen

THE YEMENS: END OF AN AFFAIR

84 The union agreement signed last November by the presidents of Yemen (Sana) and Yemen (Aden) is for all practical purposes dead. Desultory negotiations on the merger are breaking down as a result of a steadily growing campaign of sabotage and terrorism that Aden has been conducting against the Sana government for several months.

84 Playing on the anti-government sentiments of Sana's southern Shafai tribesmen and other disaffected elements, Aden has established an extensive network of saboteurs and terrorists in many of Sana's principal cities. The operations of these agents increased after Sana arrested and tried a large group in late April and early May. Since then, over 25 people have been killed in actions initiated by these Adeni-backed elements. Among the victims were Muhammad Ali Uthman, a highly respected member of Sana's ruling Republican Council and three of Sana's local military commanders.

87 Despite the bloodletting, both Yemens are maintaining the fiction of good relations. Sana has not publicly linked Aden with the killings and sabotage, and Aden, which would disclaim them in any case, offered to send a high-level representative to Uthman's funeral; the offer was refused. Nonetheless, neither side seems likely to maintain the fiction to the point of continuing the unity talks. Indeed, Sana had decided that further negotiation would be fruitless even before Uthman's murder.

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Sana authorities will continue the trials of Adeni saboteurs, however, and Aden is expected to continue its own subversive campaign. Under the circumstances, the prospects for increased hostilities are high.

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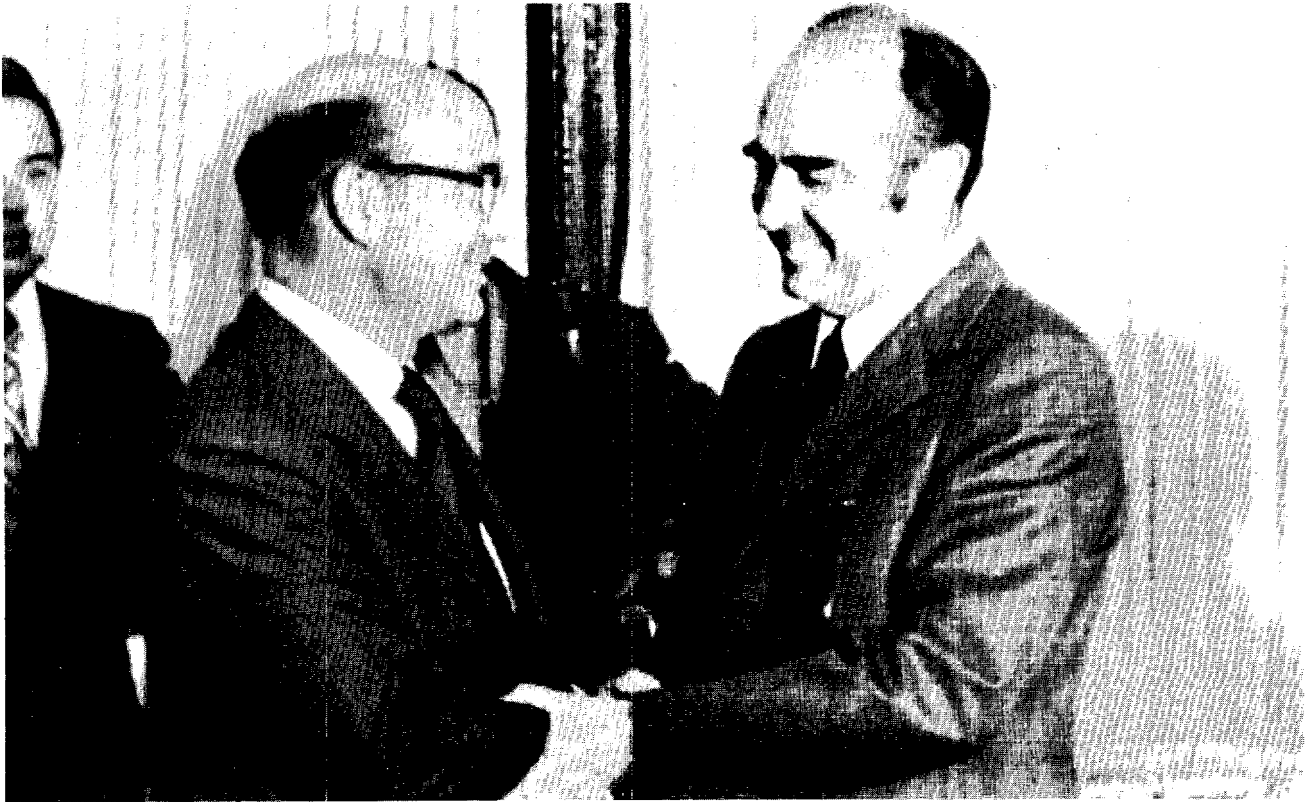
MEXICO: NEW MAN IN TREASURY

94 The number-one topic in Mexico's economic and financial circles this week was the new man at the finance ministry. The new head of the ministry is Jose Lopez Portillo, a close associate of the nationalistic secretary of national properties, Horacio Flores de la Pena. Lopez replaced Hugo Margain, a fiscal moderate who holds conservative views on national development through private investment and who is respected by the business community. Some businessmen feel that Margain's departure will bring an abrupt shift to the left in Mexico's financial affairs, while others believe that few changes in policy will occur. 94 Neither extreme is likely. The most probable result will be further steps by the Echeverria government toward more involvement in the economy, more spending on social development programs, and a more rigid application of the new restrictions on foreign investment than had been expected.]

91 One of the reasons Margain gave way is that he found himself more and more out of line with President Echeverria and a group headed by the socialist-leaning Flores de la Pena. This group, which has gained the upper hand in economic policy, advocates greater government control over private industry, more money for social development, and redistribution of wealth. Flores de la Pena, a long-time critic of Margain, has been one of the chief exponents of Echeverria's moves to restrict some foreign investment. He has built a formidable team of supporters.

90 Margain reportedly was frustrated by his inability to control government spending and was concerned that the money being poured into social welfare programs was increasing

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Margain and Lopez
The old and the new

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inflationary pressures. His authority to say where money should be spent was being eroded steadily. His ministry's role in coordinating economic planning was shifting to the President's executive staff. His ministry's control of the financial activities of state-owned agencies, such as Petroleos Mexicanos, had been taken over by a commission chaired by Flores de la Pena. Margain was disturbed, too, that political considerations were dictating economic decisions. Obvious examples of this were the recent over-ambitious trade agreement with China and the give-away credits to Chile for petroleum sales.

92 The new secretary's first public statements indicate that he will be more in step with Echeverria's economic desires. He said his ministry will lead the fight against inflation, supply more credit to rural farmers, support the growth of small and medium firms, and, internationally, give continued support to the "third world." He says he plans to emulate Echeverria's approach, by taking off his coat and tie and going out where the problems are.

94 Margain's departure and his replacement by a political disciple of Flores de la Pena are viewed by the financial community as an indication that its ability to influence economic policy is diminishing. Since the new minister will have a major role in investment policy, the change will increase the concern of potential investors over how the recently promulgated laws on foreign investment and technology will be implemented.

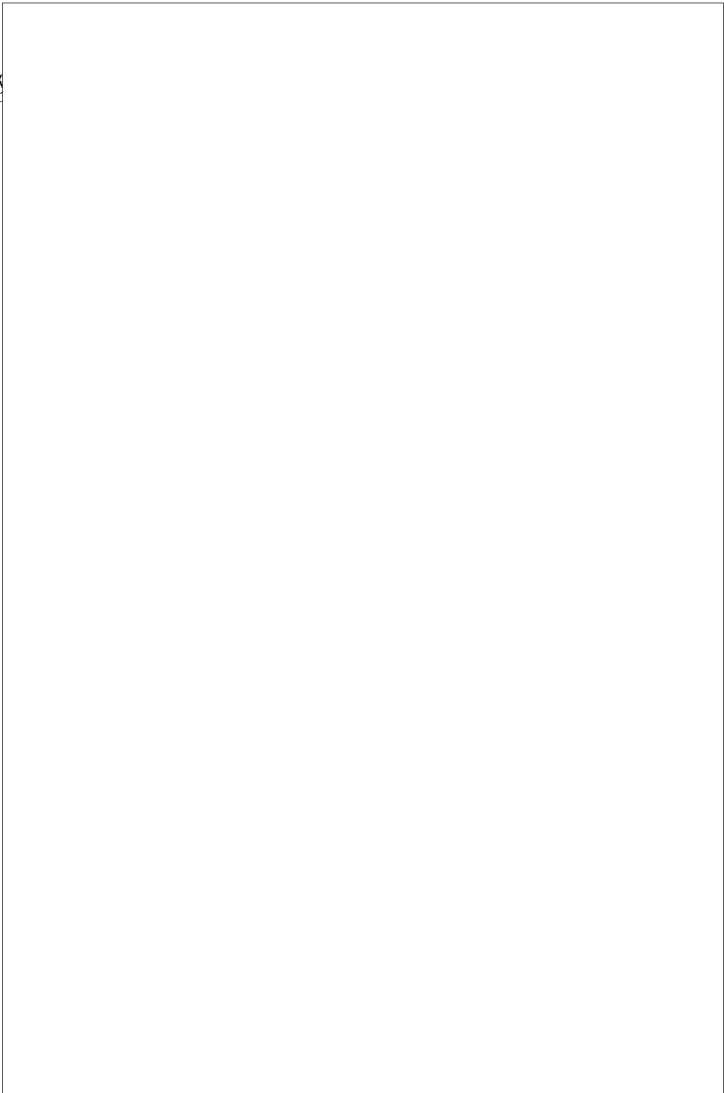
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CHILE: A HARDER LINE

95 Influential Communists and Socialists reportedly now believe that President Allende's lack of firmness is damaging the Popular Unity government. Since the two dominant parties in the coalition seldom agree on anything except that they must hang together, Allende will have difficulty ignoring their insistence on a tougher stance against the opposition.

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97 The El Teniente strike, now in its eighth week, has repeatedly erupted into violence and has cost an estimated \$50 million in foreign-exchange earnings, Chile's most urgent economic need. On 4 June, the government bowed to reality and suspended most copper shipments scheduled for this month as well as a large part of those for July. Although some workers have abandoned the strike, a growing sympathy strike at the Chuquicamata mine will strongly test the government's determination to hold out against the copper workers' demands.

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UN - MIDDLE EAST: PREDICTABLE BEGINNING

The UN Security Council debate on the Middle East began on 6 June with strong statements from both Egypt's Foreign Minister Zayyat and Israel's UN Ambassador Tekoah. Zayyat led off the debate with the standard Arab demands for a total Israeli withdrawal from the occupied territories and for recognition of Palestinian rights. At one point in his speech, Zayyat, alluding to Israel's demand for direct negotiations without preconditions, noted that Egypt would agree to talks were it not for Israel's refusal to agree to a complete withdrawal—a position that the Arabs regard as a precondition. Egypt has consistently refused direct talks, and Zayyat's

comment was thoroughly qualified and made in the context of criticism of Israel.

Although Cairo has portrayed the UN debate as its final effort toward peace, it has apparently not yet charted a definite course for the debate. The Egyptians will probably play developments by ear; they appear now to be inclined toward a long debate. The session is expected to proceed slowly during the period before the US-USSR summit talks begin on 18 June. The council will probably adjourn during the summit and reconvene in late June or early July.

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