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# Weekly Summary

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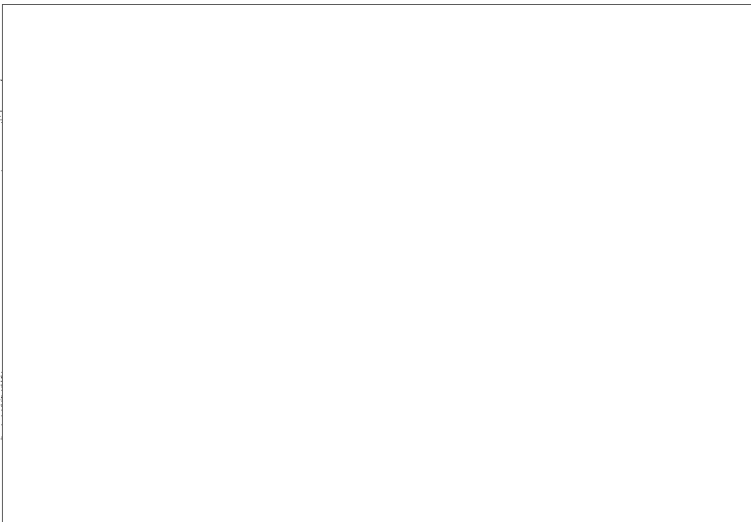
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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of 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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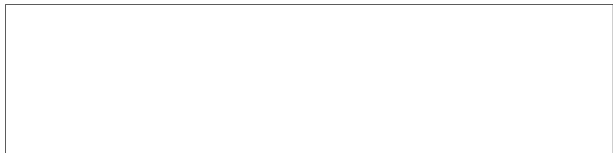
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# THE MIDDLE EAST

## IN ISRAEL: A SHIFT TO THE RIGHT

2 [The parliamentary elections on December 31 resulted in a shift to the right that weakened Prime Minister Meir's Labor Alignment but left it the strongest party in the Knesset. The Alignment will almost certainly be the core of the next government, which will be a coalition as have been all previous Israeli governments.]

1 [Final results are not yet available, but the Alignment so far has received about 42 percent of the vote and appears to have lost six of its 57 Knesset seats. The National Religious Party, the Alignment's major coalition partner in the old government, lost one of its 12 seats. As of noon Thursday, the Alignment-led coalition that has governed since the 1969 elections appeared to have lost eight of the 77 seats it controlled in the 120-member Knesset. Twenty-one parties vied for seats, with ten parties having so far received at least the minimum 1 percent of the vote required for representation in parliament.]

1 [As anticipated, the rightist opposition group, Likud, made substantial gains, receiving just over

27 percent of the vote and increasing its strength from 31 to 38 seats, according to incomplete returns. Its leader, Menahem Begin, claimed at a post-election rally that Likud's strong showing demonstrated to all the world that Israelis reject any concessions that would result in a "repartition of the land of Israel," meaning primarily a return of the occupied West Bank to the Arabs.]

2 [Attempts by Mrs. Meir to form a new Alignment-led government coalition are expected to be difficult and protracted, but eventually successful. The National Religious Party, more sympathetic to Likud's hard-line position on the territorial question, will undoubtedly see the Alignment's poor electoral showing as enhancing the Religious Party's ability to wring concessions from Mrs. Meir in return for continued participation in the coalition. The Alignment's strategy, while based on maintaining the old coalition, will also include attempts to induce more moderate opposition elements, especially some within Likud, to come over to its side. It seems likely, however, that no matter what coalition eventually

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Listening to the election returns in Israel

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emerges, Tel Aviv's flexibility will be impaired in negotiating with the Arabs.]

1 [Municipal elections held concurrently with the national balloting also reflected a shift away from the Alignment toward more conservative parties. In Jerusalem, for example, the Alignment lost its absolute majority on the municipal council, although it still remained the strongest party.]

1,2 [Arab voters stayed away from the polls in droves, partly as a result of threats from Palestinian guerrillas and calls by Egyptian and Jordanian media for a boycott. Many of those who did vote reflected the rise in Arab nationalist sentiment that has occurred since the recent war by switching their support to Rakah, the Arab Communist Party, which has long espoused the Arab cause. These additions helped Rakah gain a fourth Knesset seat. In the Jerusalem elections, only 11 percent of the city's eligible Arab voters cast their ballots.]

#### IN GENEVA: LOOKING FOR PROGRESS

2 [With the Israeli election now completed, Egypt will look for quick progress toward a disengagement of forces along the Suez Canal. Cairo wants this both to satisfy its own need for an Israeli withdrawal and to serve as a salutary example, for the benefit of doubting Syrians, of the wisdom of the decision to proceed with negotiations. Although content to let the initial sessions of the military talks in Geneva proceed slowly in anticipation of the election, Cairo is unlikely to view the process of governmental reorganization in Israel as sufficient reason for further postponement of an agreement on disengagement.]

1 [The Egyptians used the slow start of the talks to advantage, attempting to pin down the basic principles that will govern disengagement before turning to the specifics of territorial delineation. This is undoubtedly an effort to establish clear guidelines for the talks in order to prevent some of the inconclusive haggling that marred and

ultimately caused the breakdown of the Kilometer 101 talks.]

1,2 [Egyptian and Israeli military negotiators apparently reached general agreement on some of their respective negotiating principles at the first three sessions on December 26 and 28 and January 2. There remains, however, a major divergence of view on at least one Israeli principle, that of "mutuality." Tel Aviv insists that any Israeli withdrawal under a disengagement formula be accompanied by a reciprocal Egyptian withdrawal, while Cairo is equally insistent that the territory it has retaken on the canal's east bank remain under its full military control.]

#### IN EGYPT

1,2 [Cairo media commentary on the Israeli election, although thus far sparse, has reflected misgivings that right-wing gains will in fact lead to Israeli procrastination. Cairo's message is clear: that the Egyptians cannot tolerate further dallying and have the military strength necessary to achieve Egypt's goals forcibly if this cannot be accomplished through negotiation.] Although the Egyptians have not, in public commentary, tied the election question directly to the disengagement talks, the media's constant reminders that Egypt has a force to be reckoned with on the canal's east bank are an indication that Cairo does not intend to relinquish that bridgehead.]

#### ALONG THE FRONTS

Heavy artillery fire erupted along the Suez front on January 2 after several days of relative quiet. The firing took place throughout the day and apparently was more intensive than previous sporadic incidents. Eight Israeli soldiers were wounded in the shelling. It was not clear which side began the shooting, but harassing artillery fire provides Cairo with a means of pressuring Tel Aviv and keeping world attention on the battlefront. Artillery fire also was exchanged on the Syrian front and three Israelis reportedly were killed there.

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### Peking Rotates Military Region Commanders



<b>LAN-CHOU</b>	← Han Hsien-chu	→ Pi Ting-chun	<b>FU-CHOU</b>
<b>NAN-CHING</b>	← Ting Sheng	→ Hsu Shih-yu	<b>CANTON</b>
<b>WU-HAN</b>	← Yang Te-chih	→ Tseng Ssu-yu	<b>TSINAN</b>
<b>SHEN-YANG</b>	←	→ Chen Hsi-lien	<b>PEKING</b>
<b>General Political Department, Peking</b>	←	→ Li Te-sheng	<b>SHEN-YANG</b>

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**CHINA: THE BIG SWITCH**

14 [Over the years, dramatic purges, advances, and put-downs of Chinese leaders have become almost commonplace. The startling shuffle of top regional military leaders that was revealed this week, however, is absolutely unprecedented and must rank near the top of the inscrutable moves made by Peking in the seemingly endless jockeying for position among power-holders in China.]

14 [Seven of the eleven commanders of Peking's regional military forces—its main-line armed strength—were switched from one regional post to another, in several cases leaving power bases they had held since the 1950s. One of the commanders, Chen Hsi-lien, was pulled out of his stronghold in Manchuria and sent to Peking, doubtless to be under the eye of the central leadership although he may retain an ability to make some mischief at the center. Hsu Shih-yu, who held a strategic regional post in east China, traded places with his neighbor in the Canton Military Region, an assignment of less importance.]

15 [From all appearances, it looks as if Chou En-lai and his associates masterminded the move, doubtless with the close collaboration of Mao, who is known to endorse reduction of military influence in party affairs. Actually the reduction of the authority of these military commanders, who garnered their power in the course of supporting the restoration of order after the excesses of the Cultural Revolution, has been under way for some time. Military membership on the Central Committee and Politburo was substantially reduced at the Tenth Party Congress in August.]

15 [The move will almost certainly result in confining the shuffled leaders to their military duties

for the time being and reduce their ability to influence civilian affairs in their new areas. Six of them had held the top civilian posts in their headquarters' province and had greatly influenced the implementation of government policy throughout their regions. Peking, perhaps slowly, but doubtless surely, will give the civil posts to civilian provincial figures, a process which has also been gradually under way during the past several years.]

15 [While the moves testify to Chou's upper hand in party councils, the measured nature of the switches reveals that the military is still a powerful force in China with an important role to play. No leaders were purged, and the shuffle was a carefully balanced tradeoff. The moves seem to indicate that the top party leadership has endorsed the continuation of existing defense policy and authority in China. Some continued military influence on civilian policy can probably be anticipated, but the ability of the armed forces to bring extensive pressure to bear has been greatly reduced for some time to come.]

15 [The careful, measured nature of the shuffle suggests that a majority of the military leadership in China was in agreement with the switches, although there may have been strong resistance by one or two of the commanders in the months prior to the move. It can be speculated that they have been given some assurances by Chou and his associates on the political cast—if not the identity—of the civil leaders to be appointed to the vacated first secretaryships. And some agreements may have been reached on the men to be appointed to the post of minister of defense and other key military jobs at the center, which have gone unfilled since the purge of Lin Piao and his associates.

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## JAPAN

### MIDDLE EAST PRESSURES EASING

28 [Japan is emerging from its first serious brush with Middle Eastern politics with heavier economic commitments and a profound hope that it has found the key to a "friendly" relationship with the oil-producing Arab states. In Tokyo's view, the period of intense Arab pressure on Japanese foreign policy—with consequent strains in Japanese-US relations—may be over.]

25 [Japan has courted the Arab oil suppliers with pro-Arab political statements and travel diplomacy. Two formal statements sufficed to get Tokyo off the hook—the first, on November 22, called for Israeli withdrawal to pre-1967 boundaries; the second, on December 13, demanded an immediate Israeli pullback to the October 22 cease-fire lines. Although Arab spokesmen frequently requested further Japanese moves to follow up these expressions of generalized support, the Arab leadership has not chosen to press the matter. The Arab nations were more interested in the pressures Tokyo might bring to bear on US policy. With almost 45 percent of Japan's oil coming from their wells, Arab leaders no doubt hoped that Tokyo's economic dilemma would translate into pressure on Washington—even if Japan did not openly criticize US policy in the Middle East.]

22 [To underline Tokyo's interest in the Arab cause, a mission headed by Deputy Prime Minister Miki was dispatched in mid-December to visit eight Arab capitals. Miki's explanations of Japanese Middle Eastern policy and his offers of aid and technical assistance helped pave the way for Japan subsequently being declared a "friendly" country by Arab leaders.]

22 [To Japan's pleasant surprise, its accession to the Arabs' "friendly" list was accompanied by the OAPEC announcement that oil shipments to Japan would, in effect, be restored to pre-October levels. The initial public euphoria in Japan, however, quickly gave way to the sober recognition that the nation will still not get all the oil it needs and that the cost will increase sharply. A major Japanese newspaper suggested that Arab oil strategy, because it focused on control of production

28 rather than distribution, would continue to hit Japan and Western Europe harder than the so-called "unfriendly" countries—like the US.]

23 [Some Japanese believe that the US may even see some benefit in the current oil crisis because it tends to increase US economic strength relative to Japan and Western Europe. Other Japanese believe that the cool US attitude toward Japan's pro-Arab statement on November 22 could, in time, lead to even more conflict with the US. They claim, somewhat defensively, that if Secretary Kissinger had offered more assurances about the prospects for a Middle East solution during his visit to Japan in November, Tokyo probably would not have made such clear cut statements in support of the Arabs. In view of the serious economic repercussions generated in Japan by the initial Arab oil cutbacks, Tokyo probably would have felt compelled to take such a pro-Arab stance regardless of any verbal assurances from the US.]

28 [Tokyo may now feel that it no longer has to cope with the sort of intense pressure the Arabs brought to bear in November. In addition to its own certification by the Arab leadership, Tokyo probably judges that the initiation of Arab-Israeli peace negotiations and the evident concern among conservative Arab leaders lest they damage the economies of their Western friends will moderate Arab use of oil as a weapon.]

28 [At this point, therefore, it is likely that Japan feels constrained to do only enough to convince the Arabs of continuing support for their case against the Israelis. This may amount to more active Japanese diplomatic backing for the Arabs in the UN or additional public statements. At this point, however, the Japanese certainly do not foresee any requirement for a diplomatic break with Israel or for any other drastic move likely to cause serious friction with the US.]

### CURRYING ARAB FAVOR

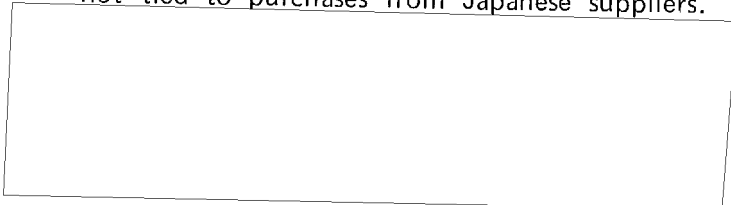
28 [Economic assistance will be Tokyo's most effective way of demonstrating support to the Arabs. Such aid is likely to be dispersed rather liberally, despite the expected limitations caused

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by a slowing of Japan's economic growth. Tokyo will move quickly to implement pledges made during the Miki mission, and a variety of new aid-related delegations will be dispatched shortly. Trade Minister Nakasone, the most outspokenly pro-Arab member of the Tanaka cabinet, for example, will make substantial offers of assistance during his upcoming trip to Iran and Iraq, although neither was part of the oil boycott.

- 29 By far the largest new offer is a loan pledge of \$140 million to Egypt to help pay for clearing
- 30 the Suez Canal. The loan terms offered by Deputy Prime Minister Miki are the most generous
- 31 Japan has ever extended. Moreover, the loan is not tied to purchases from Japanese suppliers.



Tokyo also is considering loan requests totaling roughly \$1 billion from Iraq, Jordan, Libya, Algeria, Sudan, Morocco, and Tunisia. The government and private banks will probably extend a \$500-million credit to Iraq to finance oil refinery pipelines and a liquefied petroleum gas plant. Although they do not need money, Saudi Arabia and Libya would like Japanese technical assistance.

Even before the Arab oil cutback, Japan was supplying increased amounts of capital to the Middle East. Earlier this year, the government concluded its first loan agreements with Arab countries—a \$30-million project loan to Syria and a \$10-million commodity loan to Egypt. Since the onset of the oil crisis, Japan has promised to speed disbursement of these loans. Tokyo is also financing the \$780-million purchase by a Japanese firm of a share in a West European oil concession in Abu Dhabi.

**OIL ALTERS THE ECONOMIC OUTLOOK**

Getting on the Arabs' list of friendly countries should ease Tokyo's energy pinch, but sharply increased oil prices foreshadow financial

**INVESTING MORE ABROAD**

Japan's direct investment abroad has increased rapidly since 1971, when, in response to growing international pressure to reduce its foreign exchange reserves, the government removed most controls on the export of capital. Foreign investment now amounts to about \$7 billion and should continue despite balance-of-payments constraints.

The Japanese have concentrated on the developing countries, with Latin America, Southeast Asia, and the Middle East accounting for almost 55 percent of investments. Among the developed countries, the US has the largest share, receiving about one fifth of Japan's global total.

The Japanese are investing overseas in an effort to gain direct access to raw material supplies and to protect their sales position in foreign markets. Investments in mining and other extractive industries have increased rapidly and now account for about half the total. Large investments have been made in oil concessions, but most mining ventures are relatively small operations.

Japan's weakening competitive position in some manufacturing industries—largely as a result of rising wage rates at home and international currency realignments—is spurring interest in low-wage countries. The major outlays have been in Southeast Asia, where wholly or partly owned firms are producing goods for export to third-country markets, especially the US.

Another new wrinkle during the past two years is the investment of substantial amounts of money in US manufacturing plants. Much of the money has gone into industries such as textiles and electronics, which have experienced stiff competition from Japanese exports in the past. The US is also becoming an important site for Japanese investment in real estate, service industries, and banking operations.

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CAMBODIA: A FRESH START

problems. Arab oil deliveries will probably increase substantially within two months, and unless the amount of non-Arab oil now being diverted from Japan to other countries increases, Japanese oil supplies should return to near the pre-crisis level of 5.6 million barrels per day by March.

If total oil imports for 1974 are close to the pre-crisis level, gross national product is likely to grow by 3-5 percent in real terms, compared with the long-term average of 10 percent. Before the latest change in Arab policy, the outlook was for a slight decline in the gross national product. The rate of growth now anticipated reflects not only the constraints on energy supplies but also a likely weakening in business confidence, which will aggravate a previously expected slowdown in private investment.

The recent price hike for oil will intensify already strong inflationary pressures, and even higher prices for oil are anticipated. Consumer prices increased by 16 percent and wholesale prices by 22 percent during the 12-month period ending in November. Tokyo expected a further rise of 5.5 percent in the December wholesale index, and additional sharp increases will occur in early 1974, reflecting the full effect of the oil price hike. At least one fourth of the increase in wholesale prices in 1973 was directly attributable to higher prices for imported materials, including oil.

Higher oil prices could result in Japan's first trade deficit in a decade. With deliveries at the pre-crisis level, the 1974 oil import bill would probably amount to \$16 billion, compared with \$6 billion in 1973. Although the physical volume of imports as a whole is unlikely to increase much, the value of imports will probably rise by about 35 percent to \$43 billion. In this event, exports would have to increase by about \$7 billion, or 20 percent, to avoid a trade deficit in 1974. Such an increase will be difficult to achieve and the balance of payments almost certainly will be in deficit again this year.

(20, 21)  
[The new government, relatively well-qualified to tackle the country's increasingly difficult economic and political problems, has lost no time in getting down to business. It has already announced that it intends to combat inflation, impose austerity measures and fiscal reforms, increase the salaries of military personnel and civil servants, and improve the distribution of rice. It has also pledged closer military-civil cooperation and better results in conscription and pacification. Prime Minister Long Boret will have to make full use of his political skills to move toward these objectives, but his solid standing with President Lon Nol should help.

The Khmer Communists quickly sounded the usual negative note about the new government, predicting that it will soon be "crushed" by economic crises and insurgent military pressure. In a new year's message, Sihanouk's "prime minister" Penn Nouth said the war is in its final phase and expressed hope for victory in 1974, but then backtracked a bit to state that the Communists are getting ready for a "long-range struggle."

The military situation had a familiar look. In the Phnom Penh area, the Communists remained active on the east bank of the Mekong, firing more rockets into Phnom Penh. Several landed close to the US Embassy and one exploded in the nearby presidential compound, but damage was light. For the first time, the Communists also used 105-mm. howitzers to shell the city.

The Communists kept Route 4 closed southwest of Kompong Speu, although at midweek government forces made limited gains 15 miles from the city. North of Phnom Penh, government units made little headway in their attempts to clear a section of Route 5 some 15 miles from the capital. [redacted] rallier has indicated that the Communists plan to launch a major offensive in this area aimed at defeating the Cambodian Army's 7th Division and opening the way to attacks on Phnom Penh itself. Although Communist commanders hope to be able to carry out such attacks this month, the rallier stated that the attacks could be delayed until March if troop reinforcements and munitions do not arrive in time.

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## UN General Assembly PROMISE AND PROBLEMS

65-8+A] The 28th General Assembly, which concluded in December, had opened last fall with a promise of improved relations among the major powers and greater solidarity among the non-aligned members. 66-8] US-Soviet consultations on assembly issues did bring about concurrence on issues ranging from terrorism and Law of the Sea to the UN budget. China continued to act with self restraint and finally de-emphasized the most contentious issues, such as Cambodia and Korea. Both the USSR and China again competed for third-world favor, however, and engaged in a certain amount of anti-US rhetoric. The assembly witnessed the growing determination of the non-aligned members to air their political and economic grievances, a determination clearly exhibited at the Algiers Nonaligned Conference, which immediately preceded the opening of the assembly.]

65-8] Several landmark steps were taken at the General Assembly: membership for the two Germanies, scheduling of both the Law of the Sea and the World Food conferences, financing for the UN Emergency Force, and approval of the Convention on the Protection of Diplomats. 66-8] Many important political questions, however, never came to a decisive vote: the UN military command in Korea, the Cambodian representation issue, terrorism, the Middle East, representation for Guinea-Bissau, and several disarmament proposals either never came up for debate or were postponed until next year.]

65-8] The nonaligned states were more cohesive and better organized this year than previously. Dominated by the militant Afro-Arab states, the nonaligned states were also more aggressive and took advantage of a growing reluctance on the part of the Latin Americans and Western Europeans to challenge the nonaligned leadership on most issues. In the face of strong opposition from the major powers, however, the nonaligned states suffered setbacks on several major issues. The nonaligned caucus by a small margin failed to prevent postponement of a resolution to seat a Sihanouk delegation as the legal representatives of Cambodia. They were unable to prevent an off-the-floor agreement that put off the challenge to a US military presence in Korea. The nonaligned themselves concluded that they could not muster sufficient support this year to gain recognition for the revolutionary state of Guinea-Bissau and accepted instead a resolution simply welcoming its declaration of independence.]

65-8] The Western states, however, were unable to overcome nonaligned resistance to measures against terrorism. The problem of terrorism was never brought to debate because the blocs of the major powers and the nonaligned states were each sufficiently strong to block the other's proposals but not strong enough to press their own initiatives.] The primary question for the assembly next year is whether the nonaligned, assisted by Algeria's position as president of the assembly, will be able to unite sufficiently to attain the political potential that their numbers alone would suggest is in their grasp.

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**OIL: EUROPE GETS THE BAD NEWS**

36 The initial sense of relief felt by the oil importing countries of Europe over the easing of the Arab oil cutbacks was quickly replaced last week by concern over the effects of the large increase in crude prices. The promise of more oil did not prompt any of the EC partners to ease consumption restrictions imposed since the beginning of the cutbacks.

36 Of particular concern is the huge increase in the world's oil import bill—estimated at \$50 billion for the OECD countries. The Europeans fear this will fall unevenly on the importing countries and lead to national rather than cooperative measures to protect trade and payments balances. The sharp increases in oil prices and their unpredictable impact on payments balances will probably further delay progress toward monetary reform.

35 Almost all the EC countries have been trying to strike bilateral deals with the Arabs to guarantee a steady, long-range supply of oil. Most of the deals, either proposed or already concluded, call for development aid and industrial investment in exchange for oil. France, which recently negotiated an agreement with Saudi Arabia, is unhappy over the meager quantities of oil involved in that deal. Should other bilateral arrangements also fall short of expectations, cooperation among consuming countries—and then between consumers and producers, as envisaged in Secretary Kissinger's call for an energy action group—might be encouraged.

37 The EC countries have still not formulated a position on the Kissinger proposal. Although participation in an energy action group is favored by Henri Simonet, the EC vice president in charge of energy matters, some members of the community will probably want more progress toward an EC energy policy before agreeing to a joint response. Moreover, the Europeans are far from clear about the extent to which the US proposal might preempt an eventual European approach to the Arab producers.

37 Although approval of the energy proposals agreed to in principle at the Copenhagen summit is still stalled, the Nine are reportedly prepared to provide, on a voluntary basis, information con-

cerning oil movements and availabilities to the EC Commission. It is not certain, however, that the governments will be able to produce all the information requested, particularly regarding prices.

**WEST EUROPEAN COMMUNISTS PREPARE**

38 Sharp disagreements have surfaced in the most recent preparatory sessions for the conference of West European Communist parties, scheduled to convene in Brussels in late January.

39 Some Western parties, because of domestic political considerations, are reluctant to go along with the suggestion of the Italian and French Communists to issue a joint position paper on West European problems. During meetings in Rome in late 1973, the Italians and French supported the view that a paper that took a generally positive view of the EC but that would also make specific recommendations on community issues would be an important step toward increasing communist influence on EC decisions.

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The Swedish and Danish delegates are also wary of associating themselves with the proposed document because of conflicting opinions in their countries on the merits of the EC.

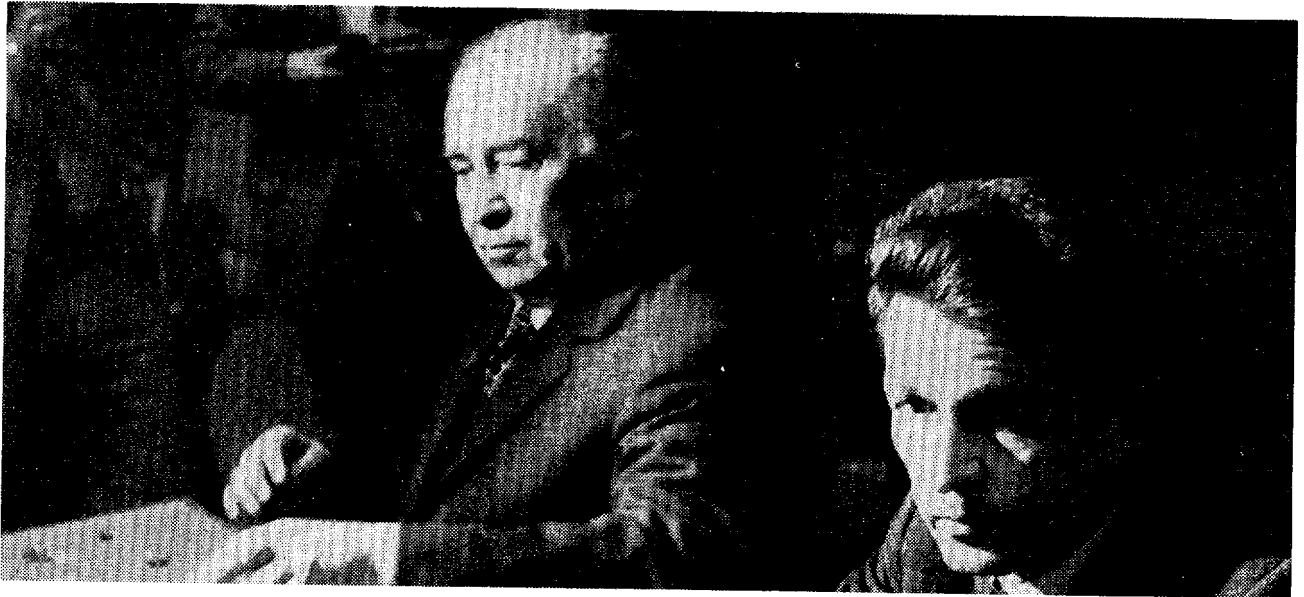
40 The Italian Communists, who are the main organizers of the Brussels parley, have encountered other stumbling blocks—especially the reluctance of several parties to follow the Italians toward greater independence from the Soviets on European issues. The Austrian and West German parties insisted that the conference avoid any issues that might sour their relations with Moscow. The French Communists, though supporting the joint position paper, have tried to restrain the Italians from airing other issues more sensitive to

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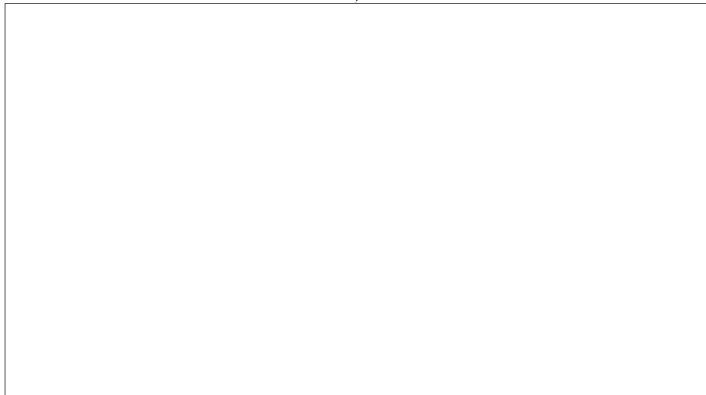
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Italian Communist leaders Luigi Longo (l.) and Enrico Berlinguer

the Soviets, such as the question of Moscow's policy toward dissidents.]

the other parties not to let the Kremlin influence their stands on European issues.]



40 [In contrast to the British and Scandinavian parties, the Italians feel that such actions would help them domestically. As the largest Communist party in Western Europe, they are more confident about eventually gaining representation in government than the other parties, but they are caught between the conflicting attitudes of their rank-and-file and those of Italians generally. The party's most ardent supporters value its membership in a powerful international movement, but it is this aspect of the party's activities that is most worrisome to the majority of the Italian electorate.]

40 [Failure of the Brussels conference to agree on a joint policy toward the EC or to take positions independent of Moscow would be a major setback for the Italian Communists. They were among the first of the West European communists to urge recognition of the "reality" of the EC, and the Brussels conference represents the culmination of several years of lobbying for a coordinated communist strategy toward the community. Although the Italians have never advocated a complete break with the Soviets, they have urged

40 [The Italian party leadership is trying to appeal to both groups through its European policy. By taking positions independent of Moscow on such issues as the EC, they hope to identify the party more closely with Italian national aims and to reassure non-communists. By securing, at the same time, a dominant role in a regional grouping of Communist parties, the leadership hopes to retain the loyalty of its internationally minded membership.]

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**SECRET****INDIA: A TROUBLED ECONOMY**

This year's favorable monsoon will bring record harvests of food grains and commercial crops, increasing national income 5 percent or more for the fiscal year ending March 31, 1974. Industrial production remains low, however, and strong inflationary pressures persist. In addition, economic stagnation has been encouraged by government inaction and bureaucratic discouragement of private investment.

The failure of supply to keep pace with demand pushed October prices 21 percent higher than a year earlier, and further price increases seem certain. An excellent harvest should reduce inflationary pressure on foodstuffs, but the sharp increase in the money supply, due primarily to government financing, is stimulating demand. In August, the government announced a 10-percent



(NO SOURCES)

reduction in non-defense expenditures to offset sharply increased outlays for food subsidies, drought relief, and government salaries. Non-capital expenditures, however, continued to rise. The deficit of over \$500 million for the first six months of the fiscal year ending in March 1974 is more than five times the deficit budgeted for the entire year. New Delhi remains reluctant to increase revenues by taxing agricultural incomes, the only potentially large tax source left.

Industrial production has increased less than one percent so far this year compared with 7 percent in 1972. Factors hampering production include:

- tightened government restrictions on imports of raw materials and spare parts;
- the slow tempo of government capital spending;
- government hostility toward most private foreign investment;
- chronic energy shortages.

Electric power station construction is far behind schedule, coal production has stagnated, and petroleum imports have been curbed by soaring world prices and the Arab production cutback. The adverse effect of fertilizer shortages on agricultural production has not been apparent because of the favorable weather.

New Delhi's international financial position has substantially improved and appears more than adequate to meet the country's crucial short-term import requirements, essential for increasing industrial production and exports. Foreign exchange reserves are \$1.2 billion, the equivalent of about five months' imports; additional International Monetary Fund monies available stand at \$1.1 billion, and unused non-project aid is about \$450 million. Moreover, prospects for foreign aid, both from the USSR and the Western Aid Consortium, are good. The government, however, is reluctant to draw down reserves or to borrow from the IMF, even though economic growth might be stimulated by doing so.

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Exports are increasing at a much lower rate than imports. In the first five months of fiscal year 1973, exports increased 12 percent while imports rose 34 percent, resulting in a trade deficit of \$97 million, compared with the \$245 million surplus for all of fiscal year 1972. The increase in imports reflects increased food grain purchases and higher prices for petroleum and fertilizers rather than substantially increased purchases of industrial commodities.

Government indecision and a cumbersome bureaucracy are fundamental problems inhibiting the growth of the industrial sector. New Delhi has expanded its role in trade and industry through restrictive legislation, licensing, and nationalization. Private investment has slowed while businessmen await a clearer picture of the Indian Government's intentions. Critics have called for greater use of market mechanisms in all phases of economic policy. Suggested changes include:

- reduced government spending;
- elimination of widespread price controls, which foster a massive black market and a reduced tax and investment base;
- increased agricultural prices to farmers and consumers;
- liberalization of licensing restrictions on private sector industrial production.

The government, however, has continued to move slowly. The proposed fifth Five-Year Plan, scheduled to begin on April 1, 1974, fails to address the country's current economic problems. A leading economist in the Planning Ministry has resigned in protest over the plan's unrealistic trade and production goals, and a key member of the prestigious National Council of Applied Economic Research has recommended that the plan be delayed a year. [redacted]

## GREECE: ACTING IN CHARACTER

52 [The new junta this week abolished the constitutional court that had been set up three months ago by Papadopoulos to rule on which political groups would be allowed to participate in elections. Earlier, it had removed all references to municipal and parliamentary elections from the constitution. The government clearly does not wish to encourage even speculation about elections or other political expression.]

52 [The junta has eased the current ban on public meetings of more than five people—it will allow the executive boards of banks and other state-controlled institutions to meet, but with police permission. This mild concession is unlikely to placate critics who have become more vocal as the authoritarian character of the new regime has become clearer. Thirty-six former members of parliament recently issued a statement to foreign news agencies calling for the release of political prisoners and the restoration of normal political conditions in Greece.]

52 [Some 30 individuals reportedly still are under arrest because of their participation in the rioting and demonstrations last November that precipitated the latest military coup. Relatives of the prisoners have charged that they are being held in the island prison camps that have recently been reopened. The government has not responded to these charges, which have appeared so far only in the English-language local press and are unlikely to have wide circulation because of press censorship.]

52 [The government, meanwhile, has generously rewarded the military officers who backed the coup and on whose continued support it depends. About 50 officers have been promoted to brigadier general and another 50 made colonel. Key supporters of the coup—such as armed forces chief Bonanos—have received one of the country's highest military decorations. [redacted]

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**ARGENTINA: PERON UNVEILS A "PLAN"**

54 After much advance fanfare, President Peron outlined the details of his government's three-year, \$10-billion development plan in a speech on December 21. Although the program is being billed as a panacea for Argentina's economic and social ills, it provides few specifics on how the country will finance the extensive projects for expanding social welfare and improving the economic infrastructure.

55 Peron revealed no major policy innovations in his generally moderate—if overly optimistic—speech. Indeed, for the most part he merely reiterated well-known Peronist doctrine such as accelerating the distribution of income to workers, achieving economic and political independence, and promoting Latin American integration.

55 In addition to projecting increased economic growth, Peron frequently cited successes already achieved in cutting inflation and unemployment, buoying foreign-exchange reserves, and raising income and retirement benefits for wage earners.

56 Such achievements, as well as the lofty aims of "Plan Trienal," may be ephemeral. Even if political leaders remain committed to the plan, a downturn in foreign trade accompanied by an inability to generate necessary domestic savings and foreign investment could force Peron to scale down his development program. Moreover, there are signs that union pressure for higher wages could erode the tenuous agreement between workers and management to hold the line on increases. Disintegration of that agreement could undermine even the limited economic advances made so far.

**PANAMA: AN ANNIVERSARY**

58 The tenth anniversary of the bloody protests in January 1964 against the US presence in the Canal Zone is likely to pass free of violence, and the rhetoric in observance of the anniversary may even be muted. The atmosphere is relatively calm, and prospects for negotiation of a new treaty are better than at any time since the riots. If General Torrijos decides to speak, he can point to one specific gain—Washington's plan to transfer to Panama two airfields that will provide expansion room for the growing Atlantic port of Colon.

58 A large factor in the improved prospects for productive negotiations is a notable softening in Torrijos' approach. After his tough tactics during the UN Security Council meeting in Panama last March provoked a US veto of Panama's resolution on the canal, Torrijos apparently became convinced that some moderation was necessary to preserve any hope of getting a new treaty. He took several steps to improve the negotiating climate, including toning down anti-US propaganda on the canal issue. He and Foreign Minister Tack have also adopted a moderate tone in talks with the chief US canal negotiator, Ambassador Ellsworth Bunker.

58 Although the horizon is brighter for a new canal treaty than at any other time during the Torrijos regime, hard bargaining lies ahead. The Panamanians have hinted at some flexibility in their negotiating positions on the duration of US jurisdiction in the Canal Zone and on the transition of authority from the US to Panama. In many other areas, such as the amount of compensation to be paid by the US and the possibility of building a new sea-level canal, Panama's positions remain almost completely undefined.

58 As in the past, the Panamanians are likely to work out their positions on these issues largely in terms of responses to US initiatives. Torrijos still prefers to deal with broad principles that do not entail specific commitments. He will probably continue to leave the bargaining on details to Foreign Ministry technicians, whose actions will then be subject to his review.

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## PERU

## A DECISIVE YEAR

62 } This could be the most crucial year for the military government. With several key economic and political problems likely to come to a head, the government's response will determine the long-range course of the revolution.

62 } The nationalization of the US-owned Cerro de Pasco Corporation on January 1, 1974 will give the regime some much-needed public support. The honeymoon may be short, however, as the government must learn to manage the giant mining complex and to deal with recalcitrant unions. Foreign "imperialists" will now no longer be available to bear the brunt of leftist labor demands or the blame for economic downturns.

62 } A seriously disruptive strike by teachers and another by copper miners in late 1973 were "settled," but anti-government radical leftists remain in control of both groups. The fishmeal industry is still stagnant, and the labor situation will be further aggravated by continuing inflationary pressures.

62 } President Velasco, who has been in power since October 1968 and had serious health problems in 1973, may step down by the end of the year. Of prime concern to him will be the preservation of the leftist-nationalist character of the revolution. At present, however, no single candidate has emerged with sufficient support from both military "radicals" and "moderates" to avoid a divisive struggle for the succession.

62 } Recently announced cabinet shifts afford no evidence of any significant change in the relative balance between moderates and radicals; further changes are likely, however. Military command reassignments appear designed primarily to solidify Velasco's control. Prime Minister Mercado is slated for retirement at the end of the year but a moderate, General Morales Bermudez, is in line to replace him; he would then become the logical successor to the President. The more radical generals, however, would be unlikely to welcome Morales Bermudez, and he apparently does not have the wide base of support enjoyed by Mercado.

61 } Relations between President Velasco and Mercado are reported to have worsened since

Velasco's unusual public announcement in November about Mercado's pending replacement. Mercado may try to oust Velasco and assume the presidency but—given the relative balance of power between moderates and radicals and the considerable personal support still enjoyed by Velasco—this would be a risky move.

62 } Peru's leaders remain acutely aware that their government stands out as South America's most radical since Chilean President Allende's downfall. The military take-over in Santiago reinforced long-standing Peruvian fears of Chilean intentions. Equally persistent fears in Chile of Peru's attitude has probably been strengthened by the arrival of a shipment of Soviet tanks in Peru last November. These mutual suspicions, however exaggerated, will continue to influence the Velasco regime's reaction to domestic opposition and foreign criticism.

## BUYING FOR THE NAVY

(NO SOURCES)  
Peru has embarked on a program to modernize and expand its navy. It has recently purchased ships for its formerly US-supplied navy from Italy, the UK, the Netherlands, and West Germany and is reportedly considering a Soviet offer of patrol boats.

Peru acquired three naval vessels during 1973. Two British destroyers were delivered, both reconditioned and modernized with EXOCET anti-ship missiles, and the Netherlands turned over a reconditioned cruiser that is to serve as the Peruvian Navy's flagship. Two submarines being built by West Germany are slated for delivery within the next few months.

In late 1973, Peru concluded negotiations with Italy for the purchase of four missile-armed destroyer escorts. The \$200-million sale provides for the assembly of two of the ships at the Peruvian Navy yard, with Italy providing all necessary machinery, weapons, electronics, and technical assistance. These will be the first warships built in Peru.

Lima's decision on whether to accept a long-standing Soviet offer of patrol boats will be

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influenced more by their price and quality than politically inspired reluctance to deal with the USSR, since Peru recently purchased tanks from the Soviet Union. Other Free World suppliers reportedly have not matched the credit terms offered by the Soviets. Peru is also considering building patrol boats with some technical assistance from Spain.

The shift away from the US as a primary source of arms was prompted by congressional

cutbacks in military assistance, restrictions on US arms transfers to less-developed countries, and US suspensions of arms sales in response to Peru's seizure of fishing boats. Although the US has lifted its most recent suspension, Lima is unwilling to rely on the US as a military supplier. Peru's recent purchases will add speed, range, and firepower to its naval inventory and lend further credibility to its claim to a 200-mile territorial sea.

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