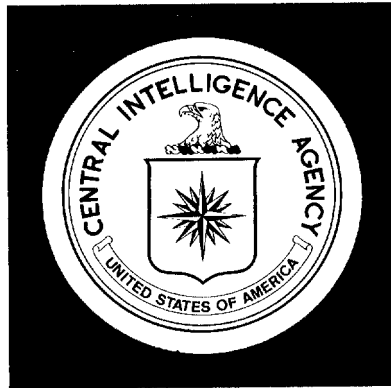


State Dept. review completed

**Secret**



# Weekly Summary

State Dept. review completed

**Secret**

25 January 1974  
No. 0004/74

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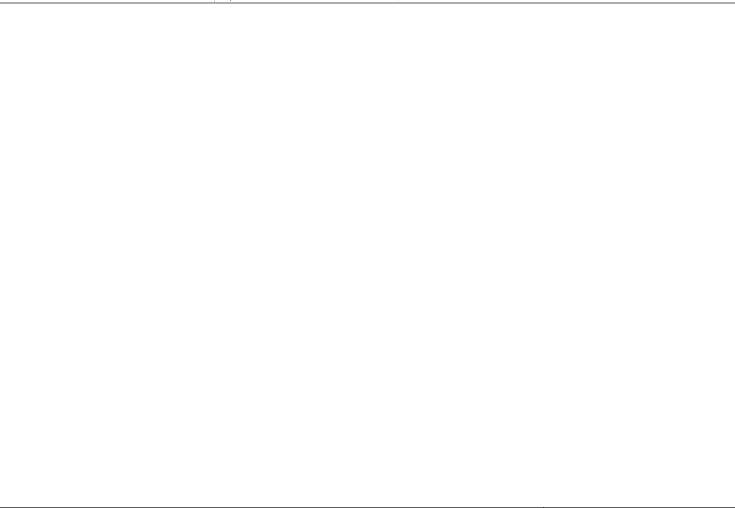


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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of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

WARNING

The WEEKLY SUMMARY contains classified information affecting the national security of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.



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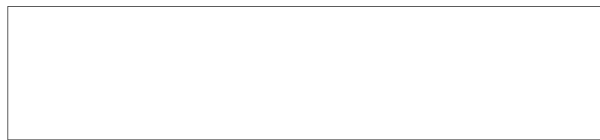
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# THE MIDDLE EAST

## Breakthrough on Disengagement

1 Israeli forces began moving off the Suez Canal's west bank this week in implementation of the Egyptian-Israeli disengagement agreement signed on January 18. During the 40-day disengagement period, the UN Emergency Force will establish a buffer zone several miles wide inside the Sinai Peninsula, to be flanked on each side by "security zones" for limited and lightly armed Egyptian and Israeli forces. The Egyptian area will be located between the canal and the UN zone; the Israeli area, between the UN forces and a point just west of the Sinai passes, thus leaving these in the full control of Israel's main force.

1 Israeli military sources have said that the evacuation of the west bank salient will be undertaken in three stages, all to be completed by February 12. The entire disengagement process is to be completed no later than March 6. According to the Israelis, forces deployed on the Cairo-Suez road blocking access to the city of Suez and the Third Army will be evacuated first, probably within the week, and as each stage proceeds, UN forces will move in to replace the Israelis briefly before turning the areas back to the Egyptians.

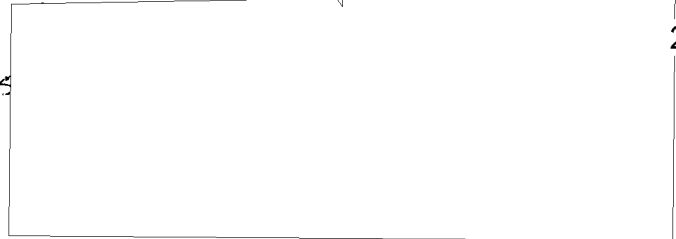
5 Both sides made concessions to achieve the agreement. By accepting limitations on its forces and armament on the east bank, Egypt conceded its freedom to use recaptured territory as it sees fit. Israel, of course, has committed itself to with-

draw from territory it has occupied for years, and it did not receive the firm assurance of an enduring peace it had apparently sought as an earnest of Egypt's sincerity in pursuing a negotiated settlement.

2,5 Reaction to the disengagement agreement in the Arab world has ranged from Syria's pointed silence, through unenthusiastic acceptance by many of the peripheral states, to the severe opprobrium of Libya, Iraq, and the majority of the fedayeen leaders. The reaction is chiefly based on widespread apprehension that Egypt intends to negotiate a unilateral settlement with Israel, in disregard of over-all Arab interests.

## Egyptian Follow-up

2 To counter this impression, President Sadat launched a wide-ranging diplomatic offensive among the Arab states immediately following the agreement's conclusion.



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1,2 Public Egyptian commentary on the disengagement agreement has been 25X1

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carefully designed to reassure the Arabs about Egyptian intentions. The media and official statements, for instance, have repeatedly emphasized that the agreement is a military accord only and that a similar Syrian-Israeli disengagement should be negotiated before the full Geneva conference can be resumed. The Cairo media have also jabbed at Arab dissenters, calling for continued joint Arab action as the best assurance of progress toward Israeli withdrawals on other fronts.

Syria has been the chief target of the Egyptian efforts. Cairo can point to the disengagement agreement to refute charges from militant Arabs that only war can bring progress toward an Israeli withdrawal, but without Syrian support, Sadat's insistence that he is not pursuing solely Egyptian interests remains suspect. Syria is a key element, in the Egyptian view, in the continued success of negotiations, and Sadat has made a particular effort to convince the Syrians that he does not intend to leave Damascus or the other Arabs behind.

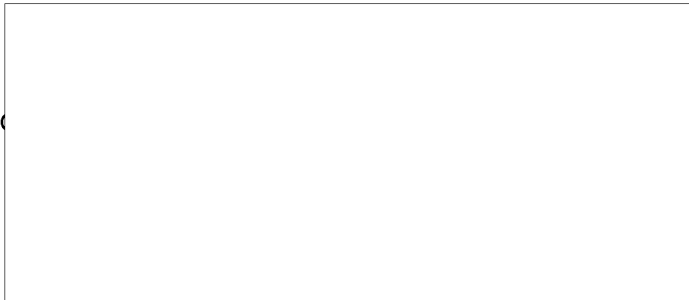


Egyptian Chief of Staff Gamasy reviews Israeli map of disengagement zones

5 He is unlikely to make any decision, therefore, on whether to turn over a POW list to Tel Aviv—an Israeli prerequisite for holding disengagement talks—until sometime after he receives a response to the suggestions he gave Secretary Kissinger to pass on to Israeli leaders. Indeed, he may wait for Secretary Kissinger to resume the shuttle diplomacy that brought the Egyptians and Israelis together.

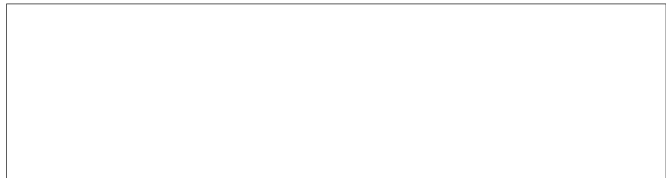
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Syria's Reaction

If anything, the Egyptian-Israeli accord seems to have sharpened Syrian distrust of Egypt and deepened the divisions within the Asad regime between those opposed to negotiations with Israel and those at least willing to explore that path. In Damascus last weekend, Sadat encountered deep skepticism among Syrian leaders, with the notable exception of President Asad, about Cairo honoring its commitments not to negotiate a separate peace settlement with Israel. Asad probably still hopes to attend the Geneva conference, but he is likely to play his cards very cautiously, not only to drive a hard bargain but to protect his own position.



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Fedayeen Disarray

1,5 The leaders of all the major fedayeen organizations but Fatah have criticized Egypt's willingness to get ahead of the other Arab states and the Palestinians by signing the disengagement agreement with Israel. Palestine Liberation Organization Chairman Arafat, sensitive to the need to cooperate with Egypt, is seeking, so far with little success, to moderate the statement denouncing the Egyptian initiative put out in the name of the organization's Executive Committee while he was in Cairo. Although he has been able to keep his followers within Fatah in line, Arafat has only

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limited influence with the leaders of the other fedayeen groups.]

1) 5 [Saiqa, the Syrian-supported fedayeen organization, will be unable to approve the disengagement accord or any Palestinian role in peace negotiations until Damascus does. The smaller and more radical organizations— whose policies often parallel those of Libya and Iraq—oppose the agreement as a sell-out of Palestinian interests. Facing this opposition, and caught between Egypt and Syria, Arafat is making little headway in his efforts to lead the Palestinians to the peace talks.]

#### Israel

1) [Israel's Knesset, meeting this week for the first time since the December election, approved the disengagement agreement after heated debate. The conservative opposition Likud bloc, which sharply criticized the accord as well as the government for signing it before referring it to parliament, was able to organize sizable public protest demonstrations early in the week. Opinion polls indicate, however, that a majority of Israelis favor the agreement.]

6) [Prime Minister Meir and other Israeli leaders are engaged in a campaign to reduce domestic opposition to the agreement. In addressing the Knesset on January 22, Mrs. Meir stressed that Israel was not required to make, nor would it undertake, any commitments beyond stabilization of the cease-fire and the separation of forces. The Prime Minister discounted claims by some Egyptian leaders that the accord placed few restraints on the deployment of Egyptian forces as designed for "public consumption in the Arab countries."]

5) [The government's public relations efforts are in large part designed to facilitate the formation of a new government. With Likud in opposition, Mrs. Meir's Labor Alignment cannot form a viable coalition without the cooperation of the National Religious Party, the third largest in the Knesset. On security matters that party's position is closer to Likud's than to Labor's.]

7) [Talks between Labor and representatives of the National Religious Party have prompted cautious optimism among Alignment leaders that the National Religious Party will ultimately soften its demands for legislation establishing rigid standards for conversion to Judaism. Such legislation is unacceptable to the Alignment. In return, the Labor Alignment is likely to agree to a policy statement which, although paralleling that of the existing government in almost all respects, leaves in abeyance official policy on the sensitive issue of withdrawal from the Israeli-occupied West Bank.]

1) [Israeli spokesmen this week have refused to confirm press speculation that a breakthrough is near on possible Israeli-Syrian negotiations.] In her address to the Knesset, Mrs. Meir claimed that contacts with Damascus have yielded no progress, and Foreign Minister Eban told reporters that talks between Tel Aviv and Damascus "had barely entered a pre-preliminary stage." Both repeated that Israel will not discuss a separation of forces with Syria until it has received a list of Israeli POWs.]

#### Soviets Unhappy with Cairo

14) [The Soviets are not saying very much in public, but privately they have made it clear they are very unhappy with Cairo. The head of the Soviet delegation in Geneva, Vinogradov, rebuked the Egyptians for "having forgotten their true friends." In Moscow, Gromyko told Egyptian Foreign Minister Fahmi that the USSR does not object to US efforts in the Middle East provided that they preserve Arab and Palestinian rights and are not detrimental to a "third party." Gromyko seemed to imply that the US-orchestrated disengagement talks did not fit the bill.]

14) [The Soviets are irritated because they were largely cut out of the disengagement talks and because the prominent, and effective, role played by the US diminished Moscow's stature all the more. The Soviets clearly would prefer to have all issues discussed and resolved at Geneva, where they have a voice.]

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Moscow is therefore apparently attempting to force the focus of the negotiating efforts back to Geneva. Fahmi's arrival in Moscow on January 21 has probably provided the Soviets an opportunity to impress upon Fahmi their disappointment at having been excluded. Moscow may be using other means to put pressure on Cairo. For example, recent articles in Soviet-influenced Arab newspapers have denounced Egypt and the disengagement agreement for betraying the Arab cause.

The unanswered question is how tough Moscow is prepared to be with Sadat. If the issue between the two countries is only a question of Egypt's recognition of the proprieties, i.e., Moscow's desire to be part of the action, then returning the next stage of the negotiations to Geneva should get their relations on a more even keel. But if Moscow is determined to do what it can to forestall closer Egyptian-US relations and a continuing prominent US role in working toward a peace settlement, then tougher days lie ahead.

#### ARAB OIL REVENUES

(NO SOURCES)  
The Arab oil producers anticipate a \$30-billion current account surplus this year, and have taken several preliminary steps since December to deal with their burgeoning reserve holdings:

- Saudi Arabia, Kuwait, Abu Dhabi, Qatar, Egypt, and Sudan formed an investment company to finance Arab agriculture and shipping ventures;

- The Arab Bank of Jordan and a London merchant bank established a joint venture to assist Arab governments in channeling surplus oil funds into large-scale development projects, such as oil refineries and manufacturing plants;

- Kuwaiti quasi-public and professional organizations will sponsor a seminar in

Kuwait next month on investment of Arab surplus funds;

- Twenty-five Islamic nations are stepping up preparations to establish an Islamic Development Bank by April 1974;

- The Arab League agreed on January 23 to set up a fund to speed economic development for African countries.

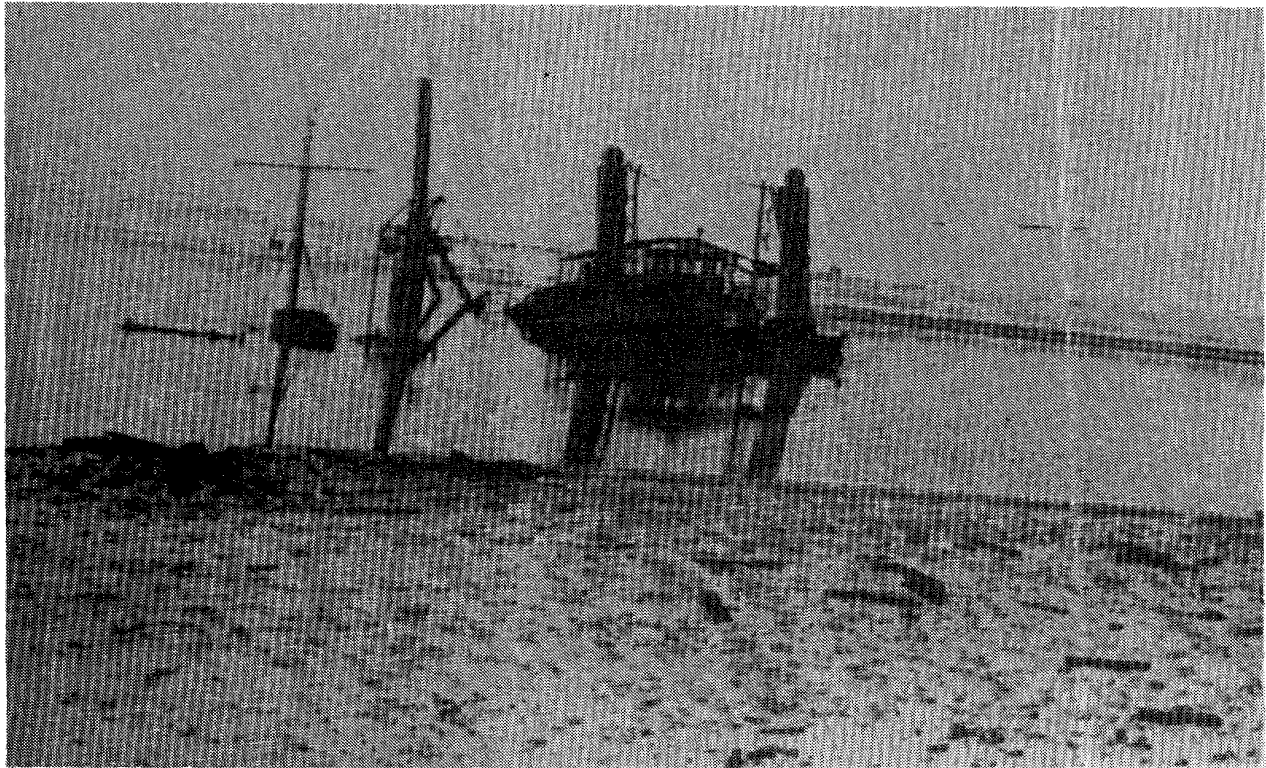
These actions should markedly increase the amount of money directed to domestic Arab development. More Arabs will also inevitably be involved in development administration—an important consideration in an area where foreigners are traditionally distrusted and where lack of trained personnel has been the greatest stumbling block in diverting investment to domestic development. Greater Arab cooperation in financial matters should also be a by-product, but because of basic differences in investment policy, the wealthier nations are unlikely to pool more than a small fraction of their assets. Western capital markets, therefore, will probably absorb the bulk of Arab funds.

#### RE-OPENING THE SUEZ CANAL

(NO SOURCES)  
The Suez Canal Authority is ready to start clearing the canal whenever disengagement of Israeli and Egyptian forces is accomplished. The immediate problem is clearing the canal and its banks of unexploded munitions and sunken obstacles, which will probably take four to six months. At the same time, the canal will be dredged to shape the bottom and restore it to its pre-1967 depth. Best estimates indicate that the dredging portion of the project will also take four to six months. Silting, once thought to be a major problem in clearing the canal, appears to be less than previously estimated.

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**A ship reportedly sunk by the Israelis during the June 1967 war**

The Egyptian Armed Forces will do most of the work of clearing the canal area of mines and unexploded munitions. The canal authority will use its own personnel to do the bulk of the dredging. Negotiations are in an advanced state with a consortium of two European firms, Ulrich Harms of West Germany and Brodospas of Yugoslavia, to do the heavy work of raising and clearing obstacles in the canal and its approaches.

Cairo has plans for widening and deepening the canal, but this depends on the canal being open, and even then would take several years to complete. Japanese Deputy Premier Miki recently promised Egypt \$140 million in credits at very favorable terms to start the job, and has indicated Tokyo's willingness to increase the loan to \$280 million if Cairo wishes, enough to cover 70 percent of the cost of repairing and enlarging the canal.

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## INTERNATIONAL MONETARY DEVELOPMENTS

(No. 200000175)

The French decision to allow the franc to float independently has for the moment relieved France of the danger of incurring potentially disastrous reserve losses but adds to the economic and political disarray in the European Communities. In addition to dealing a setback to long-established goals, such as economic and monetary union, and possibly a regional development policy, the action gives West Germany the unsought leadership of a deutschemark zone and emphasizes the growing rivalry within the community between Paris and Bonn.

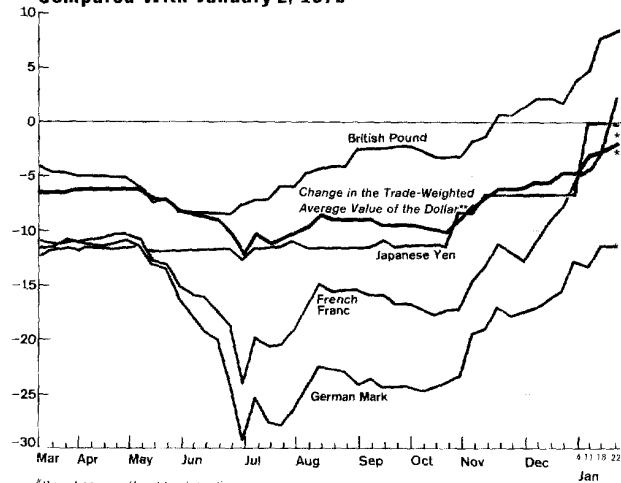
In the financial markets, the French decision created a new rush for dollars and gold.

- Gold surged to a record high of \$141 as speculation accelerated against paper currencies.
- European currencies declined sharply relative to the dollar on Monday, then regained some of the losses as speculation subsided later in the week. The mark remained the strongest major European currency.
- Rome is apparently taking action to maintain a stable exchange rate with the franc at the rate it has held since mid-December.
- Since the Tokyo exchange reopened Wednesday the Japanese have sold over \$700 million to hold the dollar rate at 300 yen. Although the market calmed Thursday as a result of new credit restrictions imposed by Tokyo, a renewal of heavy speculation will probably force the Japanese to let the rate drift down further.

Paris' move has already resulted in a substantial de facto devaluation of the franc, which has declined 5 percent against the dollar and 4 percent relative to the mark. Thus, the float will improve Paris' trade competitiveness, one of France's principal goals, and protect its currency reserves.

Protecting the joint float's parity structure—which would have had to undergo sharp revisions once the effects of oil price increases were

**Percent Change In the Value of the US Dollar  
Relative to Selected Foreign Currencies  
Compared With January 2, 1973**



\*Based on nonofficial bank trading

\*\*Relative to 16 major currencies

10-11-74

known—was causing great difficulty for France. Since last summer Paris had lost about \$3 billion in reserves in defending the franc. France also faces a \$3-billion trade deficit in 1974 compared with a \$1.5-billion surplus last year; Germany still anticipates a surplus this year.

Paris' move also increases French flexibility in pursuing domestic economic policy goals. Currency intervention had been reducing the French money supply and driving interest rates up. Now the French are free to use monetary policy—their main economic-policy tool—to head off an economic downturn if higher oil prices adversely affect employment and economic growth.

In order to keep the franc from declining drastically, Paris apparently is prepared to intervene in moderate amounts—the Bank of France has reportedly sold about \$330 million during the first four days of the float—and has moved to alleviate speculative pressure by tightening capital controls.

- Tighter restrictions were placed on foreign lending, forward currency purchases, and import payments to limit outward capital flows.

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- Paris is also keeping the two-tier exchange market to retain greater control over the exchange rate of the franc used in commercial transactions.

The remaining members of the EC float in effect now constitute a "deutschemark zone," in which the mark is floating with six other currencies. For Bonn, there is little difference between this situation and Paris' controlled float. Germany's partners, however, are unlikely to be any more willing than the French to maintain fixed parities within the joint float if a drain is placed on their reserves or if exchange rates appreciate too much relative to their trading partners outside the float.

Whatever its success in meeting French policy objectives, the independent float has killed all hopes for movement toward monetary union based on the original conception—i.e., that the EC's narrow currency band would foster harmony in economic policy and lead to a strengthening of community institutions. Some members of the commission now recognize that it was a mistake to attempt closer monetary links before establishing greater harmony in economic policy. French Finance Minister Giscard d'Estaing has said he will call for an EC meeting in July to discuss economic and monetary unification. With continuing uncertainties in the financial situation and little chance that the EC will reach agreement on policy harmonization by that time, the prospects for a new start toward monetary unification this summer remain bleak. Support may now be developing within the commission for sanctioning an independent float for all until the necessary measures can be developed to coordinate policies and goals.

The French move itself caught most EC members and the commission off guard. Although Chancellor Brandt and Finance Minister Schmidt were quick to announce that they understood the need for the measure, they expressed disappointment at the adverse implications for European cooperation. The private reaction of German officials was more critical.

Bonn is sure to resent the blatant disregard for community interest evident in the float and may want to re-examine its position on the regional fund dispute and common agricultural policy, in light of it.

The French move was regarded by nearly all the seven remaining members of the float as symptomatic of the progressive deterioration of the EC as a stable monetary group. A Dutch official said the franc float had precipitated a crisis of confidence and set in motion an "unraveling" process in the EC. Great Britain, on the other hand, probably believes that the French decision will relieve pressures on London to join the joint float.

Senior EC Commission officials now feel it imperative that the community move to counter the psychological blow dealt by the French action. They feel that the cumulative effect of the float and the inability to proceed in other areas has seriously deepened community malaise. The commission intends to bring the deteriorating state of affairs within the community to the attention of the member states and ask that they take a new look at their interests in the comprehensive development of the community.

The de facto creation of a deutschemark bloc, meanwhile, will tend to polarize further a community already badly split by self-interested French and British actions with respect to the oil problem.

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An early test of French influence will be provided by community preparations for the Washington energy conference. French disregard for community interest on the monetary issue may make it easier for a common position to emerge among members opposed to Paris' views.

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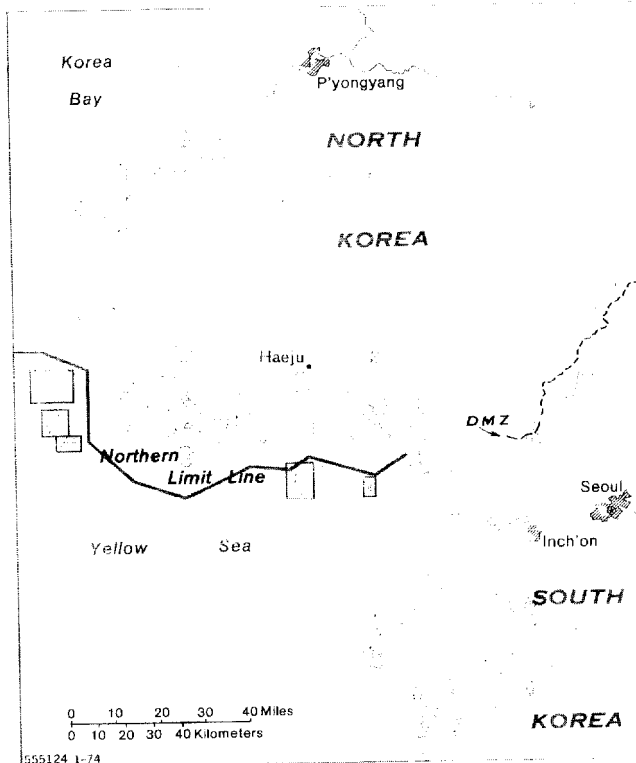
## KOREA: WATCHFUL WAITING

Since Pyongyang claimed the territorial waters surrounding South Korean - occupied islands off the west coast seven weeks ago, both Koreas have brought additional naval ships into the area, but each has carefully avoided provoking incidents. South Korean ferry and resupply ships with naval escort continue routine trips to the islands, ignoring Pyongyang's demand that they obtain prior approval for transit.

Pyongyang's rationale for its action is still not fully apparent, but it almost certainly includes the desire to establish full access to waters within 12 miles of its coasts and to associated airspace.

While pressing the limits of its territorial sovereignty, the North wants to avoid creating a situation that Seoul might exploit to divert attention from its present domestic problems. Pyongyang has passed up several chances to raise the territorial issue at recent meetings of the Military Armistice Commission, thereby preventing the South from using that forum to present the issue more credibly to a domestic audience grown increasingly skeptical of "the threat from the North."

Nor has the North broadened its earlier claims to include the islands themselves, although Pyongyang undoubtedly remains interested in negotiating their status if and when the UN Command—which technically controls them—is dissolved. It may be significant, in this connection, that in commenting on the current Paracel Islands dispute, North Korea has carefully avoided drawing parallels with the local situation.



At the same time, the North continues its propaganda attacks alleging that provocative South Korean naval and air activity off the west coast is a tactic of the South Korean President to justify his recent emergency decrees. Such allegations, of course, also provide a basis for Northern complaint or retaliatory action in the event that an incident of some sort occurs in the disputed zone.

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### CAMBODIA: GOVERNMENT GAINS

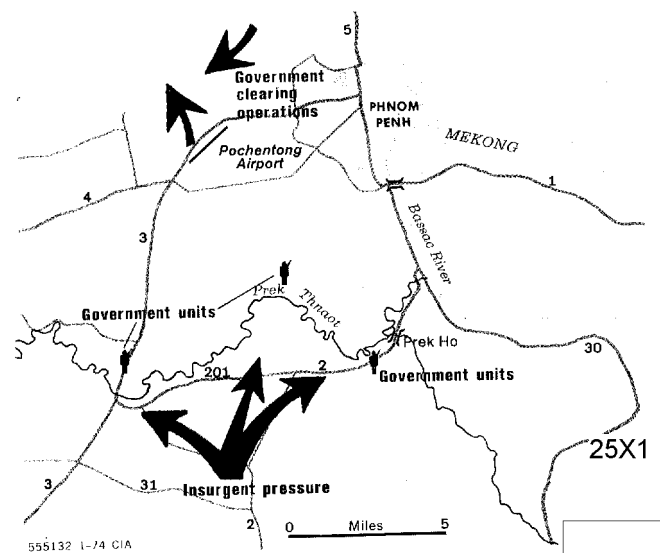
27 [Cambodian Army forces this week regained the initiative northwest of Phnom Penh's Pochentong airfield as command and control problems began catching up with the Khmer Communists' dry-season offensive.]

27 [Despite ammunition shortages and increasing casualties from artillery fire and air strikes, the Communists had held on in the northwest for over a week. They apparently anticipated that a planned offensive against the capital's southern defenses would divert government attention, but when the offensive did not materialize, Communist resistance in the north began to wilt. The airport is now beyond the range of Communist mortar crews for the first time in almost two weeks. Government troops continued mopping up operations in the northwest late in the week and claim to have captured significant quantities of arms.]

27-29 [Communist initiatives along the southern front remained limited to relatively small-scale ground attacks and shelling. Nevertheless, some fighting has occurred within four miles of Phnom Penh and government units in several areas have pulled back north of the Prek Thnaot River to more defensible terrain. A sizable Communist campaign in the south still seems likely. Barring any flare-up in the northwestern sector, however, the government can now safely commit more reinforcements and most of its aircraft and artillery to the defense of the southern front.]

29 [The new government headed by Prime Minister Long Boret this week exploited the military situation for domestic political purposes. Citing the continuing threat of Communist rocket at-

tacks, the Education Ministry temporarily closed all universities and schools in Phnom Penh. This move was aimed at undercutting a strike by the city's primary and secondary school teachers, who have been protesting the high cost of living.]



29 [Long Boret probably also hopes that the closing will dampen any sympathetic student reaction to former prime minister Son Sann's recent proposal that Lon Nol leave the country. Son Sann presented this proposal as a way to reach an immediate cease-fire and early negotiations. Before the schools were shut, several university student groups had openly endorsed Sann's scenario. One leftist student association outdid Sann by calling for a complete change of leadership in Phnom Penh and by supporting the Communists' "cause."]

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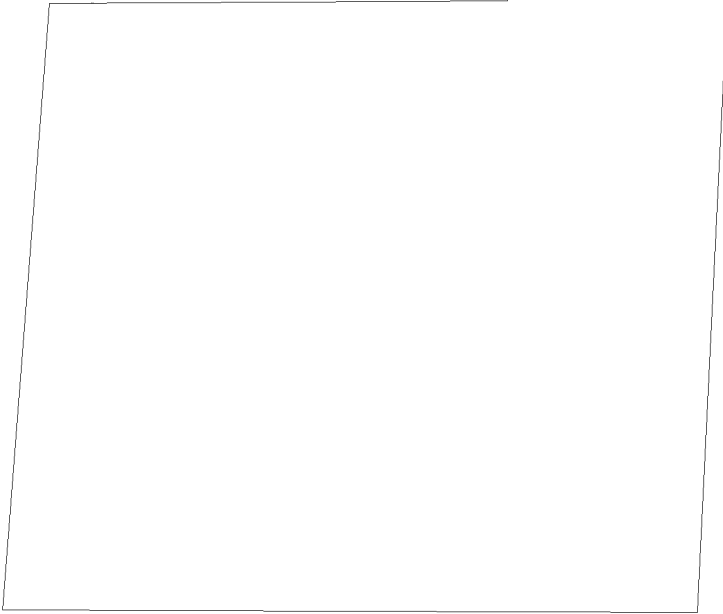
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VIETNAM: A QUIET TET

(31-36)

Military action fell off sharply during the three-day lunar new year festival.



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Prime Minister Sanya

THAILAND: THE KING TO THE RESCUE

Bangkok last week had a bad case of the political jitters, sparked by unruly student demonstrations against Japan and the US and student-instigated law-breaking. During a recent press conference, Prime Minister Sanya replied to press criticism of the deterioration in law and order by offering to resign if the press believed his government was too weak.

Sanya contributed to doubts about his ability to cope with the situation—which are held by the conservative elite, and particularly the army officers—by indicating in private that he has little stomach for the pressures of the job and was prepared to step down if the King so desired. When the Prime Minister flew off to Chiang Mai over the weekend to consult with the King, many believed Sanya would return to Bangkok an ordinary citizen. Instead, the Prime Minister returned to the capital armed with a tough statement link-

ing the survival of his government to the passage of several key tax bills that the National Assembly had earlier rejected. The Prime Minister strongly implied that his challenge to the assembly had the firm backing of the King. Sanya alluded to the King's advice on the measures that should be adopted in order to deal with the energy crisis. He also referred to the monarch's "interest" in recent student demonstrations—an oblique but still clear signal to the students to get off the streets and back into the classrooms.

The episode is illustrative of the new political forces now at play in Thailand. In particular, it points up the King's new political status and his willingness to become deeply engaged in domestic affairs. When student pressures threatened the stability of the government, it was the King's support, not the military's, that proved crucial. For the time being, at least, army chief Krit Sivara appears content to defer to the King's wishes and remain on the political sidelines.

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**LAOS: HOPE SPRINGS ETERNAL**

40 [Negotiations on a new coalition government may soon gather momentum. Prime Minister Souvanna, in a private conversation with visiting USIA Director Keogh on January 20, said he now expects the new government to be formed early next month. Souvanna indicated that Soth Phetrasy, chairman of the Lao Communist delegation to the Joint Central Commission to Implement the Agreement, informed him late last week that chief political negotiator Phoun Sipraseuth would soon be returning to Vientiane with a list of Pathet Lao ministers for the new government. 42 Phoun left Vientiane for consultations in Sam Neua on January 16.]

40 [For weeks, the Prime Minister has been pressing his half-brother, Lao Communist leader



Souvanna Phouma

Prince Souphanouvong, to submit such a roster as a means of helping move the negotiations off dead center, but up to now these requests had fallen on deaf ears in Sam Neua. Souvanna's new optimism is in marked contrast to the gloom he had exhibited in earlier discussions with senior US officials in Vientiane.]

43 [In another encouraging development, Soviet Ambassador Vdovin departed Vientiane January 19 for Hanoi and Sam Neua. Vdovin promised US Ambassador Whitehouse that he would discuss US policy objectives in Laos, including North Vietnamese troop withdrawals, with North Vietnamese and Lao Communist leaders and attempt to convince them that Souvanna was negotiating in good faith. Vdovin had earlier acknowledged to the US ambassador that the Pathet Lao were responsible for the delay in implementing the Lao accords, and that he intended to do everything possible to facilitate political negotiations on a new coalition government. He also predicted that the Pathet Lao would change their negotiating tactics early in 1974 and agree to begin serious discussions on a new government. His visit to Sam Neua marks the first time since 1969 that a Soviet ambassador has traveled to the Lao Communist headquarters.]

42 [Government and Lao Communist negotiators at the working level have also made limited progress in resolving some of the difficult problems associated with the neutralization of Vientiane and Luang Prabang. Both sides have agreed in principle on the size, duties, and prerogatives of the "joint protective military forces" called for in the neutralization of the twin capitals, but there has been no meeting of the minds on the question of "joint police forces" for the two cities—a sticking point that has hamstrung deliberations in the Joint Central Commission for several weeks.]

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**SECRET****INDONESIA: THE MORNING AFTER**

54 Jakarta is slowly returning to normal after the riots last week, the worst since the overthrow of the late president Sukarno. Official statistics show 11 dead, 139 injured, 877 automobiles (mostly Japanese-made) vandalized, and 144 buildings damaged. The intensity of the violence and the speed with which it spread caught security officials by surprise; they had anticipated relatively small, easily contained student protests.

54 Non-student youth were responsible for most of the violence and vandalism, but the government now believes that its tolerance of student protesters created a climate of permissiveness that contributed to the rioting. The government has decided therefore to crack down on all dissenters—175 persons have already been detained, including many students and intellectuals. Campus political activity is banned, and six newspapers have been closed temporarily.

54 Jakarta students are quiet for the moment, stunned by the violence spawned by their demonstrations, but the government fears that students in other cities may see the riots as an exhibition of student power and try to further the cause. The press reported on January 21 that some 1,000 university students gathered in Bandung, West Java, to protest new government strictures on campus political activity. The local security chief subsequently imposed censorship on all local newspapers "to ensure security and order." Authorities in Surabaya, East Java, are worried about student threats against local Chinese-owned

57 nightclubs and massage parlors unless they are closed down. They believe the situation in the city is still tense and that a small spark could trigger anti-Chinese rioting there.

58 The government is making appropriate noises about the validity of some student criticism, particularly regarding corruption and Indonesia's dependence on foreign money, but officials have made it clear that the government and not the students will decide what changes are needed. Major reforms that threaten the interests of important members of the ruling elite are unlikely, but the government has announced some measures to meet popular grievances. Guidelines are being issued to curtail the lavish lifestyle of government officials. The government has also promised a new policy on foreign investment to encourage projects that benefit indigenous businessmen. In addition, one of the President's advisers, bitterly attacked by the students as Japan's broker in the government, may soon be eased out—ostensibly for reasons of failing health.

58 It is not yet clear how the fallout from the riots will affect the budding student movement. The violence was a sobering experience for student leaders, but it also graphically demonstrated the validity of their original assessment of latent popular discontent. The tough new government measures against political activity will provide an acid test of the students' commitment to their cause.

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**Demonstrations in central Jakarta**

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### BELGIUM: GOVERNMENT CRISIS

61 Prime Minister Leburton's coalition of Socialists, Social Christians, and Liberals missed celebrating its first anniversary by one week when it resigned on January 19. The immediate cause of the government's collapse was Iran's cancellation of the \$200-million joint petroleum refinery (Ibramco), which Leburton and his Socialist Party have strongly supported. The root cause of Belgium's political instability, however, is the old bugbear of regional strife between the Flemish speakers in the north and the French-speaking Walloons in the south.

62 (The refinery was slated for an area near Liege and would have been of particular benefit to eastern Wallonia, where it was linked to the area's economic regeneration. The agreement was warmly supported by Walloons in all three coalition parties, but was never popular with the Flemings. The predominantly Flemish Social Christians, under the leadership of Deputy Prime Minister Tindemans, have been accused of scuttling the plan by raising eleventh hour negotiating

demands. Tindemans was apparently hoping to trade off cooperation on the refinery agreement for new concessions on issues sensitive to Flemish-speaking areas.7

63 If another government cannot be patched together, the King will dissolve parliament and new elections will be held within 40 days. A year ago when elections were unpalatable to the major parties, it took 65 days to hammer out a coalition. This time, the Socialists appear to welcome elections, which they believe will improve their parliamentary position. They have already declared that they will not participate in a new coalition unless the government is given the right to intervene in state energy matters.7

64 Leaders of the Social Christian and Liberal parties also sense that the Socialists are in a strong bargaining position. They are likely to stall elections as long as possible in order to draw attention away from the energy-related Ibramco



Premier Edmond Leburton, flanked by cabinet members, announces his resignation

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controversy and back to more traditional issues. In the interim, the outgoing Leburton government will act in a caretaker capacity]

60 [US interests will not be directly affected by the government's fall, although there probably will be a further delay in reaching a decision on selecting fighter aircraft to replace the Belgian Air Force's aging F-104s. The Belgian aircraft purchases are linked to those of the Dutch—the two countries are considering a joint purchase of either American or French planes—and possibly to those of Norway and Denmark. Belgium was said to be giving serious consideration to the Mirage, and an early decision for the French plane might have influenced the other NATO countries to opt for the Mirage]

64 [Delay may work to the advantage of the American aircraft industry. Bias for the Mirage is riding high, and the US companies need time to get their fighters into production—one of the Mirage's strong points is that it is flying now—and to work out economic inducements.]

FRANCE PROPOSES ENERGY TALKS AT UN

67 [Paris formally proposed to UN Secretary General Waldheim last week that a world energy conference be held under UN auspices. Waldheim, who is always interested in expanding UN activities, is likely to enlarge as much as possible on France's suggestion. Even before receiving the letter, he had called for a global approach to the energy problem and had established a study group in the Secretariat to review the situation]

68 [According to Quai UN Director Leprette, the French letter emphasized the magnitude and urgency of the problem but did not suggest a specific time or procedure. The General Assembly's Economic and Social Council (ECOSOC) would be the most likely forum for such a conference. Waldheim has focused his suggestions on ECOSOC, and its wide mandate would be consistent with France's desire for the conference to look beyond the immediate concerns of oil and give consideration to all forms of energy needs]

and resources. Since the next regularly scheduled session of ECOSOC is still almost three months away, an emergency session may be necessary to maintain the momentum of the proposal. Dutch representatives in New York have urged their government to request a special ECOSOC session to determine the UN's role in the energy crisis. The Dutch Government, however, may favor a broad meeting outside the UN framework, involving producers, consumers, and developing countries.]

65 [Paris maintains there is no conflict between its UN conference proposal and the February 11 meeting of oil-consuming states in Washington. The French have been concerned, however, that the Washington meeting would offend the Arab world. By promoting a world conference, Paris hopes to placate the Arabs and strengthen the French role vis-a-vis Washington in dealing with the oil-producing states. Paris also may be seeking to protect its freedom to make bilateral deals for oil.]

66 [Other consuming countries also see merit in a global approach as a way to promote dialogue with the producers and to assure that developing countries have a say. Belgium, for example, regards the UN forum as an opportunity to educate developing countries on the relationship between higher oil prices and the decreased ability of Western countries to provide development aid. London has been expressing interest in a broad consumer-producer meeting. EC Commission President Ortoli wants the community to include specific reference to the French proposal among the common positions the EC will take at the Washington conference on February 11.]

67 [The French suggestion is likely to find support from at least some of the nonaligned countries, even though a global energy conference could strain nonaligned solidarity. While these states have thus far given full support to Arab diplomatic efforts, some of the lesser developed nations—such as India—are severely threatened by the oil shortage and high prices. Soviet representatives at the UN expect Moscow—which has not suffered from any significant oil shortage—to oppose the conference.]

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## USSR-CHINA: EXPULSION AND RETALIATION

74 Moscow's token retaliation for the expulsion of three Soviet diplomats and their wives from Peking last week indicates that the USSR does not want to risk a further deterioration of Sino-Soviet relations. The language of the Soviet protest and the expulsion of only one Chinese diplomat reveal that Moscow would like the episode to fade quickly.

2 Moscow is preparing to return its chief negotiator to the border talks at Peking after an absence of more than six months.

71 The imbroglio began on January 15 when the Chinese arrested the Soviet diplomats, charged them with espionage, and put them on a plane for Moscow four days later. They were not permitted to contact the Soviet Embassy during this period. On January 16, police in Peking were still stopping traffic near one of the diplomatic compounds in a search for "Soviet revisionists." Moscow's protest note, delivered on January 21, claimed that the five Soviets were subjected to "barbaric treatment" and charged that the incident was a "carefully planned hostile act against the USSR." The note also said, however, that further consequences of the affair would rest with China, suggesting that no further actions against Peking are currently contemplated.

74 In view of the recent transfer of military commanders in China and the return of former party secretary general Teng Hsiao-ping to the

Politburo, it is likely that the Soviets had stepped up their intelligence gathering activities in Peking. If the incident was merely trumped up, it may be part of Peking's effort to focus popular attention on the alleged "threat from the north," a persistent propaganda theme since the Chinese party congress in August. In any event, the Soviet response was minimal; the Chinese diplomat expelled in retaliation, for example, was already en route to Peking, having completed a six-year tour in Moscow.

74 This Soviet restraint comes as no surprise. Even during the worst excesses of China's Cultural Revolution, particularly the two-week siege of the Soviet Embassy in 1967, Moscow resolved to hold on in Peking as long as it could. Now that the Soviets are trying to project an image of accommodation and good will toward China, they are evidently determined to contribute as little as possible to the Sino-Soviet polemic.

74 Another possible reason for Moscow's restraint may rest in its current effort to organize an international communist conference. Several prominent Communist parties are already opposed to such a conference on the grounds that it would be no more than a Soviet forum for institutionalizing the Sino-Soviet dispute. A further deterioration of the dispute would give additional parties—particularly in Asia—ample reason to boycott any communist meeting.

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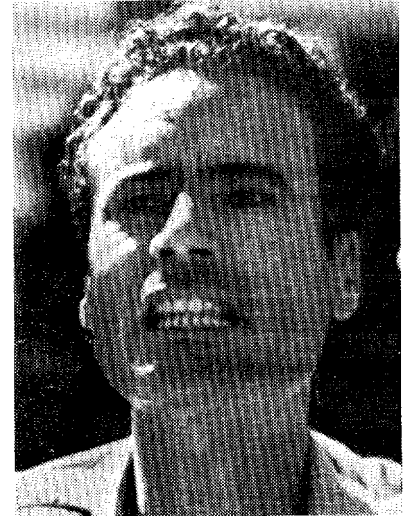
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President Bourguiba



Colonel Qadhafi

**TUNISIA-LIBYA: MARKING TIME**

Tunisian President Bourguiba departed for Geneva on January 19 for a medical checkup and several weeks of rest, leaving behind the recent merger fiasco with Libya. In his absence, Prime Minister Nourira, Nourira's deputy, and the interior minister—all opponents of the plan—will be the key leaders. They will continue to pay lip-service to the idea of union with Libya as they proceed with delaying tactics designed to let down gently both President Qadhafi and those Tunisians who favor union.

Nourira has already launched a public campaign that stresses the need for a step-by-step fulfillment of the numerous pre-conditions for unity that his government set forth last week. Nourira's attempt to convey the impression that Tunisia still supports the union reflects the apparent government position that Bourguiba's agreement to the union should not be publicly rescinded.

Although Tunisian authorities are still concerned about adverse reactions from domestic pro-union groups, there have been no significant disturbances. Students and workers whose expectations of new job opportunities in Libya have been dashed, however, are believed to be sharply disappointed.

The union affair has intensified the long-standing political rivalry between Prime Minister Nourira and the recently dismissed foreign minister, Mohamed Masmoudi. Nourira played a key role in convincing Bourguiba to back away from the merger, which Masmoudi and Qadhafi apparently worked together to arrange. The fiasco has dealt at least a short-term setback to Masmoudi, but he remains on the political bureau of the ruling Destourian Socialist Party and is making efforts to preserve his position.

There still has been no official comment from Libya since Tunisia began to back away from the union agreement. The nationwide referendum—originally scheduled for last week—was canceled by Tripoli without explanation, in an apparent effort to avoid further political embarrassment. Libyan media continue to give low-key coverage to the unity scheme, but no mention has been made of joint preparations or a future referendum date. Never enthusiastic about the merger, the Libyan public has quietly accepted the entire affair, which many apparently view as one more of Qadhafi's earnest but fruitless efforts to promote Arab unity.

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INDIA

NEW UNCERTAINTIES

(88, 81)  
As Indian farmers harvested a bumper rice crop last fall, it appeared that better days lay ahead for Prime Minister Gandhi. It is evident now, however, that India's continuing economic problems, recently aggravated by the oil shortage, have increased popular discontent with her party's rule.

Earlier this month, the Ruling Congress Party was shaken by four by-election defeats in Maharashtra State, heretofore a party stronghold. Coupled with a wave of anti-government demonstrations in many areas, these defeats have party leaders worried about what may be in store next month when four states and a union territory elect new legislatures.

The swell of popular discontent and the resulting swing against her party have probably come as a shock to Mrs. Gandhi and her supporters. The fall harvest had been expected to alleviate the serious food shortages that followed the weak monsoon of 1972. Many farmers, however, have refused to sell their crops to the government for re-sale in "fair-price" shops and are either hoarding or selling on the open market where they can get higher prices. Food at controlled prices thus remains scarce. Other essential commodities, such as kerosene and cooking oil, have also become increasingly hard to obtain, and the government has raised gasoline prices 70 percent in order to reduce consumption.

The most important of the five approaching elections is in the north-central state of Uttar Pradesh. With a population of 90 million, it is India's largest state and is Mrs. Gandhi's home base. Since its last legislative election in 1969, the state has been run by a series of shaky administrations with interludes of direct rule from New Delhi. The Prime Minister is going all out to win this one, beginning with her installation last November of an interim government controlled by the Ruling Congress party. She has also provided ample food stocks and a multitude of centrally funded development projects, and is making numerous personal appearances.

Victory in Uttar Pradesh seemed assured—until the Maharashtra debacle demonstrated the depth of public disenchantment with the Ruling Congress. The party's electoral prospects are further threatened by two particularly disgruntled groups in Uttar Pradesh, the untouchables and the Muslims. Either group or both may withhold their customary support on the grounds that the government has not provided adequate safeguards against discrimination by caste Hindus.

At this time, Mrs. Gandhi still remains unchallenged as a national leader. Her government does not face re-election until 1976, and as yet there are no indications that a viable alternative to her party and its programs is in the making. Nevertheless, it is clear that the Prime Minister's image has been tarnished and that a more effective performance by her administration will be required if she is to escape more serious political consequences.

MIG FORCE IN TROUBLE

(90, 91)  
India may have to ground all of its MIG-21FL fighters until structural fatigue problems with the aircraft are overcome. New Delhi has about 200 of these planes.



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The USSR, [redacted] has reluctantly agreed to send repair materials for the planes that were built in the USSR. Hindustan Aeronautics, the firm that constructs the MIG-21 in India, has reportedly asked for help in modifying the MIG-21s it produces under license, but the Soviets have not yet replied.

The Indians have also begun producing a newer model, the MIG-21M. This version has been modified for a tactical strike role, but does not have the range at low altitudes that the Indian Air Force wants. [redacted] the MIG-21M

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has the same wing skin as the MIG-21FL and that similar problems with the wings are anticipated.

Dissatisfaction with the capabilities of Soviet aircraft as well as a desire to diversify procurement prompted India to send evaluation teams to France and the UK in mid-1972 to look for possible alternatives. Lack of sufficient foreign exchange, however, has forced New Delhi to postpone plans to purchase any Western aircraft.

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#### GREECE BESET BY ECONOMIC WOES

(92)  
One of the legacies of the ousted Papadopoulos regime was a developing economic crisis. Soaring inflation and a deteriorating balance of payments are being aggravated by sharp rises in wages and import prices—most notably for oil—and by a too rapid expansion of the money supply. Wholesale prices increased by nearly 50 percent last year, cutting deeply into workers' real income.

The trade deficit rose to \$1.8 billion for the first nine months of 1973, compared with \$1 billion in the corresponding period of 1972; the over-all payments balance dropped by nearly \$400 million. The regime will find it difficult to redress the trade imbalance because Greece imports the major portion of the machinery and raw materials needed by its industries as well as all of its crude oil. These commodities, for which there is little possibility of substituting domestically produced goods, constitute nearly 60 percent of Greece's import bill. Because of the seriousness of the trade deficit, the government reportedly is considering an austerity program that would force cutbacks in public investment and reduced imports of foodstuffs and non-essential consumer goods.

In recent years, Greece's large trade deficit has been covered by remittances from Greek

citizens working abroad, earnings from shipping and tourism, and by capital inflows. As a result of the energy crisis, however, these receipts are likely to stagnate or decline this year. An economic recession in Western Europe, particularly in West Germany, could reduce worker remittances substantially below the nearly \$600 million recorded in 1972. In West Germany, where 270,000 Greek workers remit nearly \$300 million annually, officials are no longer issuing new permits to workers from non-EC countries. Should Europe suffer a serious recession, nearly 200,000 Greeks might have to be repatriated, resulting in a serious labor surplus in Greece.

Earnings from tourism will grow more slowly in 1974, as rapidly increasing prices have reduced the cost advantages of vacationing in Greece. The impact of oil price rises and supply problems on the cost and availability of international travel, as well as sagging incomes in countries experiencing economic slowdown, will also cut into tourism.

The aura of political instability created by the coup also will discourage investment. Much foreign investment in Greece has been based on the potential profitability of combining cheap local labor with preferential access to the EC market. But in 1973, the government permitted wages, under pressure from prices, to climb by about 20 percent. Substantial wage hikes this year are inevitable, further cutting the cost advantage for industrial investment in the country.

The bleak forecast for the economy will do nothing to aid the regime's efforts to create a "new" Greece. Economic stresses at the consumer level are bound to be blamed on the government, as consumers make adverse comparisons between the present and preceding regimes. Public dissatisfaction will probably be muted—at least for the short run—because of press censorship and the harsh penalties that the government has been meting out to critics of its policies.

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**ARGENTINA: TERRORISTS SET BACK**

94 [President Peron's dramatic call for a national mobilization to destroy terrorism has, at least temporarily, united a large part of the fractious Argentine community behind him and isolated his opponents.]

97 [The audacious and bloody attack by Marxist guerrillas on a military garrison last weekend has resulted in near universal shock and outrage, even in a society inured to growing violence. The raid also was a tactical disaster, and the terrorists are publicly admitting it. Although there are conflicting reports, as many as 20 terrorists may have been killed, and hundreds of suspected extremists are being rounded up in large-scale police operations.]

95 [Military leaders seem reassured by Peron's tough response. Although their role in the counter-terrorist drive is still not clear, most officers see recent developments as a watershed that will mark the end of Peron's policy of restraint toward the extremist groups. The President's blast against unidentified provincial authorities for being soft on leftists—a clear move to force the ouster of administrators who are out of step with his policies—was particularly welcomed by the military.]

97 [The left-leaning governor of Buenos Aires Province, where the guerrilla incident occurred, was forced to resign, and there are press reports that the province will be taken over by central government officials. Similarly, the governor and leftist labor leaders in Cordoba Province are under fire and will, at least for a while, be more cautious in their opposition to the policies of the federal government.]

94 [The left-wing youth of the Peronist Movement have denounced the terrorists' actions but they have also condemned as "repressive" the draft laws now before Congress aimed at tightening anti-terrorist legislation. While they may continue demonstrating against the laws, their position has been weakened and the legislation will undoubtedly be promulgated soon.]

94 [Although recent events clearly have presented Peron with a unique opportunity to strike a hard blow at the terrorists, there are dangers inherent in the situation. Heavy-handed actions in political purges of his movement or in security operations would soon undercut the psychological advantage he now holds and would drive the Peronist left wing into the extremist camp. On the other hand, the military could quickly become disenchanted if Peron does not follow up his pronouncements with effective action.]

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**BOLIVIA: BANZER'S PROBLEMS**

99 [Bolivian security forces are on alert following scattered demonstrations and strikes protesting official price increases of several basic food items. The government raised domestic prices by as much as 100 percent early this week in an effort to discourage the smuggling of scarce commodities, especially wheat, to external black markets.]

99 [A number of labor groups, including the volatile mine workers, initiated walkouts of 24 to 36 hours duration on January 22. Serious confrontations have been avoided thus far, and no strong leaders have arisen among the strikers to make the situation more troublesome.]

99 [The atmosphere is expected to remain tense, however, for at least a week. If the strikes are prolonged, Banzer will be in serious trouble.]

101 [Even before the price hike, the US Embassy reported that at least one demonstration by workers against food shortages and costs was broken up by police. Embassy observers also noted that the lack of meat, sugar, and cooking oil had become a "principal topic of conversation," and that there were long lines of shoppers at stores all over La Paz.]

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102 The shortages and inflated prices come at a time when Banzer can ill afford a new political challenge. Many of his former supporters—both in the military and in the two main political parties—have gone into some form of opposition. The President recently exiled former president Victor Paz Estenssoro, the nation's most prestigious political figure, who was accused of actively plotting against the government. Now in Argentina, Paz is seeking to forge an alliance with other prominent Bolivian exiles to overthrow Banzer. The serious supply situation could arouse consumers and stimulate more active coup plotting both within the country and among exiles. [redacted]

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#### COSTA RICA: THE ELECTION CAMPAIGN

107 Costa Ricans will go to the polls on February 3 to choose a president for the next four years. Voters are exhibiting little enthusiasm for the contest, a factor that may work to the advantage of the governing National Liberation Party's presidential candidate, Daniel Oduber. He must win a plurality of 40 percent in the eight-candidate race or face a run-off in April. Oduber's strategists, after some initial doubts, are confident of victory on the first ballot.

104 The candidates, especially Oduber and his chief opponent on the conservative National Unification ticket, Fernando Trejos, are not the colorful figures to which Costa Rican voters have become accustomed. For the first time in 30 years, neither of the two principal political adversaries, whose supporters fought a civil war in 1948, is participating in the campaign. One is dead, and the other, the usually irrepressible President Jose Figueres, is remaining above the battle, obeying the constitutional injunction against partisan activity.

103 Rulings by the Supreme Electoral Tribunal have also dampened enthusiasm. They have, for the most part, stopped the extra-legal tactics and mud-slinging of past campaigns. Even the newspapers, fearing that they will be fined, have refused to accept paid political ads that they consider offensive.

105 Oduber has pursued an intellectual approach, dryly describing the nation's problems and explaining how he and his party propose to cope with them. He has divorced himself as much as possible from the Figueres administration and its vulnerability to charges of corruption and inefficiency, but without openly breaking with the President and thus losing the large block of votes he controls.

104 Fernando Trejos is even more bland than Oduber. Even though there is an arsenal of potentially damaging charges available to use against the administration, he has chosen to ignore such issues. In anticipation of a possible run-off election, however, he has been even more gentle with the minor candidates.

105 Of the lesser candidates, only two stand a chance of winning even 10 to 15 percent of the votes: Rodrigo Carazo, who heads the ticket of a splinter of the governing party, and Jorge Gonzalez Marten of the right-wing National Independent Party. Although more strident than the two top contenders, neither Carazo nor Gonzalez has generated much appeal among the uncommitted. The extreme left seems to be doing even more poorly.

104 The only note of color in the campaign has been provided by a fringe candidate, Gerardo Villalobos, whose antics have delighted—though not persuaded—the electorate. He has parachuted from airplanes, wrestled with the Central American champion, and ridden a donkey to publicize the energy crisis. Although Villalobos probably will not poll many votes, in a recent television interview he was watched by 70 percent of the viewing public, an indication of the public's hunger for a candidate with some flair.

104 The uncommitted voters, many of them newly enfranchised 18-year-olds, could be a deciding factor in the election, providing the margin Oduber needs to win on the first ballot. The campaign may liven up somewhat in the remaining few days but, barring very unusual circumstances, the Costa Rican tradition of peaceful and honest elections will continue. [redacted]

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