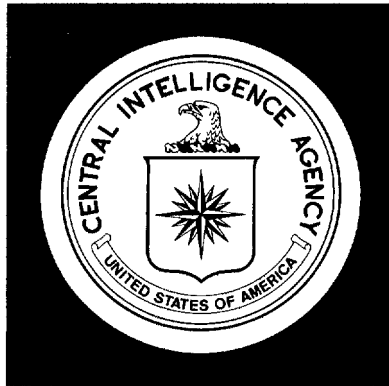


Secret



Weekly Summary

DIA review
completed.

State Dept. review
completed

Secret

1 February 1974
No. 0005/74

Copy No 59

CONTENTS (February 1, 1974)



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.

1 The Middle East

EUROPE

- 4 EC: From Floating to Drifting
- 5 International Money

25X1

- 7 Belgium: Revolving Governments
- 7 West Germany: Ostpolitik Stumbles On
- 9 West European Communists Confer

25X6

EAST ASIA
PACIFIC

- 10 Cambodia: The Guns of January

25X6

- 12 Indonesia: Political Aftershocks
- 13 Japan-China: Air Pact Moves Slowly
- 14 South Korea: Economy Faces Slowdown

WESTERN
HEMISPHERE

- 15 Bolivia: Peasant Protest Crushed
- 16 Grenada: An Inauspicious Beginning
- 17 Mexico: Promoting the Charter
- 18 Nicaragua: The Economy Recoups

MIDDLE EAST
AFRICA

- 19 The Saudi Hand in Yemeni Politics
- 19 United Arab Emirates: No Panacea
- 20 Cyprus: A Factor Removed
- 21 Turkey: The New Cabinet

SPECIAL
REPORT

(Published Separately)

Malaysia-Singapore: Neighbors with Different Perspectives

25X1

25X1

Page Denied

Next 1 Page(s) In Document Denied

SECRET

THE MIDDLE EAST

DISENGAGEMENT PROCEEDS

1,2 [Kilometer 101 this week became once again a mere marker on the Cairo-Suez road. The historic negotiating spot was returned to Egyptian control on January 28 as Israeli forces completed the first phase of their withdrawal from the Suez Canal's west bank. The Cairo-Suez road and the city of Suez were officially opened by the Egyptians on January 29, thus lifting the three-month siege of the city and of the encircled Egyptian Third Army on the east bank.]

1,2 [The withdrawal process formally began on January 25 after the two sides had initialed a detailed implementation agreement outlining the timing of the several phases of disengagement.]

2 [Under the implementation accord, Israel's withdrawal from the west bank will be completed in stages by February 21, rather than February 12 as Israeli sources had originally announced. A further pullback to the designated disengagement line inside the Sinai Peninsula will occur by March 5. The Egyptians have carefully avoided public mention of arrangements for a reciprocal thinning of Egyptian forces, but the Israelis announced in mid-week that the Egyptian Second Army had begun moving some of its troops from the northern sector of the east bank.]

4 [Among problems probably dealt with and apparently satisfactorily resolved before disengagement began was the construction, within the last three weeks, of five Egyptian surface-to-air missile sites in the Second Army area. The sites, capable of housing either SA-2 or SA-3 units, had not been occupied, but construction work had continued after the disengagement agreement was signed on January 18. The Israelis complained to the US defense attache in Tel Aviv last week about the Egyptian action, but the fact that they later agreed to terms for the implementation of the disengagement accord indicates that they obtained some satisfaction from the Egyptians on the issue.]

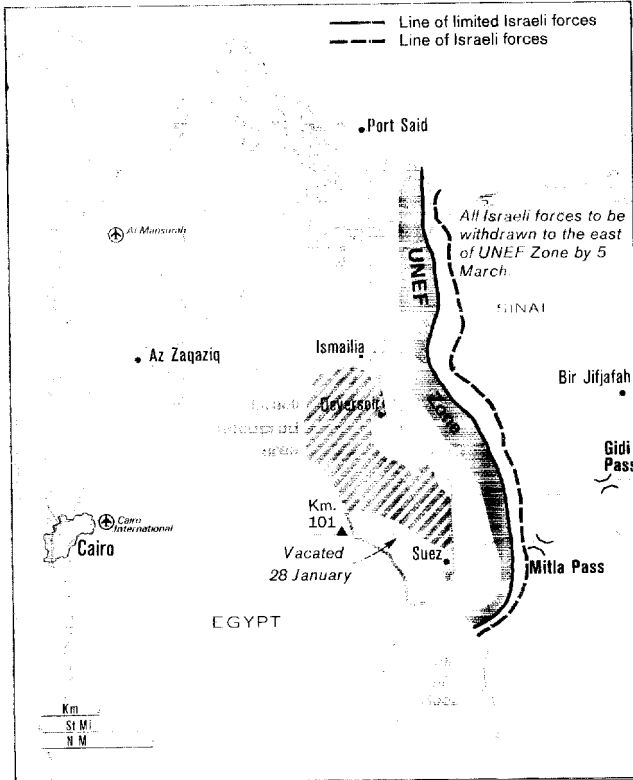
1,2 [Both the Egyptian and the Syrian fronts have been relatively quiet since disengagement was agreed upon. The cease-fire on the Suez front was reaffirmed as part of the accord, and violations dropped off markedly after it was signed. No clashes were reported on the Syrian front until last weekend, January 26-27, when the Syrians initiated minor artillery duels with Israeli forces that continued for five successive days.]

FAHMI RETURNS FROM MOSCOW

4 [Egyptian Foreign Minister Fahmi and the Soviet leaders sought to resolve differences during Fahmi's visit to Moscow on January 21-24, but

SECRET

Israeli Withdrawal



the role the US played during the disengagement talks and are hopeful of constructive US efforts in future negotiations, thus seeing no need at present for Moscow's direct aid. Therefore, while the communique calls for Egyptian-Soviet coordination at "all stages" of the Geneva conference, it also emphasizes that this cooperation "cannot inflict damage on anyone"—a clear reference to the US and its role at Geneva.

The Soviets take some satisfaction from the image of closer coordination that the communique presents, and they probably intend to take advantage of Egyptian reassurances by pressing for a greater role in planning Egyptian strategy at Geneva. They are undoubtedly under no illusions, however, that their fundamental differences with Egypt have been resolved, and they apparently made no concessions in the area of military aid, where Egypt is most anxious for Soviet assistance.

25X1

SYRIA: THINKING ABOUT GENEVA

There were more signs from Damascus this week that President Asad is preparing the ground for Syria's eventual attendance at the Geneva peace conference.

Asad plans shortly to hold a congress of the National Progressive Front—an umbrella organization encompassing all of Syria's major political parties. At this meeting, Asad reportedly intends to announce a long-awaited cabinet change and to obtain approval for Syria's participation in the peace talks. There have been rumors recently that Foreign Minister Khaddam, who is strongly opposed to negotiations with Israel, is slated to be dropped from the cabinet.

25X1

Syria's minimum conditions for participating in the Geneva conference are still unclear. Asad will probably not commit his government until a Syrian-Israeli disengagement agreement has been worked out and the related Israeli POW issue has been resolved. Tel Aviv has insisted that the Syrians must at least hand over a list of their Israeli prisoners of war before disengagement or any other talks can begin.

probably did not achieve any lasting easing of strains.

The Soviets were primarily interested in reasserting Moscow's ascendancy as the superpower champion of the Arab cause during negotiations and in registering their displeasure with Egypt's failure to permit them this role during disengagement talks. Fahmi was chiefly interested in mollifying the Soviets enough to avoid endangering their support when Egypt needs it, but without forfeiting Cairo's freedom to conduct its affairs, particularly the negotiations, in its own way.

Although the communique issued at the conclusion of the visit speaks almost exclusively of the benefits of past Egyptian-Soviet cooperation and the desirability of future coordination in negotiations, the words were an inexpensive gesture for the Egyptians. They are satisfied with

SECRET

SECRET

^{10C} [The Syrians, still determined to use the prisoners as a bargaining chip, have at times linked the transmittal of a list to the return of Syrian refugees to their homes in areas occupied by Israel during the October fighting. At other times, Damascus has taken a much tougher position, insisting that, before it will yield on the prisoner issue and engage in any talks with the Israelis, Tel Aviv must first agree in principle to negotiate a total withdrawal from the Golan Heights.]

According to an Israeli paper, Tel Aviv had also agreed with Jordan to establish military and political negotiating teams within a few weeks. A government spokesman denied that any contacts have occurred this year between Israeli and Jordanian diplomats. The possibility of negotiations with Jordan is an extremely sensitive political issue in Israel. Likud strongly opposes the return of the West Bank to the Arabs and so does the National Religious Party, which Mrs. Meir needs as a partner in a new coalition government.]

ISRAEL: DOMESTIC POLITICS

^{10C} [There was no respite for Mrs. Meir's caretaker government during the past week. Critics sniped at its foreign and domestic policies, economic problems continued to plague the country, and talks on the formation of a new coalition government dragged on.]

^{10F} [Likud's popular new Knesset member, Reserve General Arik Sharon, who led the Israeli breakthrough to the west bank of the Suez Canal, launched a strong attack in the press on the Israeli military leadership and its performance during the early days of the October war. He called for the resignation of Chief of Staff Elazar and charged that his own military career had been curtailed for political reasons. The cabinet, expressing full confidence in Elazar, roundly condemned Sharon for his public attacks.]

^{10D} [The opposition Likud called for an urgent Knesset debate because of press reports that the government was negotiating with Amman for an Israeli withdrawal from the Jordanian West Bank.]

^{10D} [The government this week took the politically unpopular step of reducing its subsidy for some basic foodstuffs. The action caused a major price increase in such items as bread, sugar, milk, butter, eggs, fish, and rice.] The move was ^{10C} prompted by Tel Aviv's desire to curb expenditures in the face of the steep rise in the military budget brought on by the October war.]



Debate in Knesset

^{10C} [In spite of these and other difficulties, the 75-year-old Mrs. Meir formally agreed on January ^{10D} 30 to President Katzir's request that she attempt to form a new government. Under the law, she ^{10E} will have 21 days to do so, with a 21-day extension if required. She may need it. Almost a month of informal negotiating has not produced an agreement between Mrs. Meir's Labor Alignment and potential coalition partners. The National Religious Party is still holding out for a firm pledge that the next government will support legislation establishing standards for conversion to Judaism only in accordance with orthodox practice. The recent spate of rumors about negotiations with Jordan could also be contributing to the delay in reaching an agreement.]

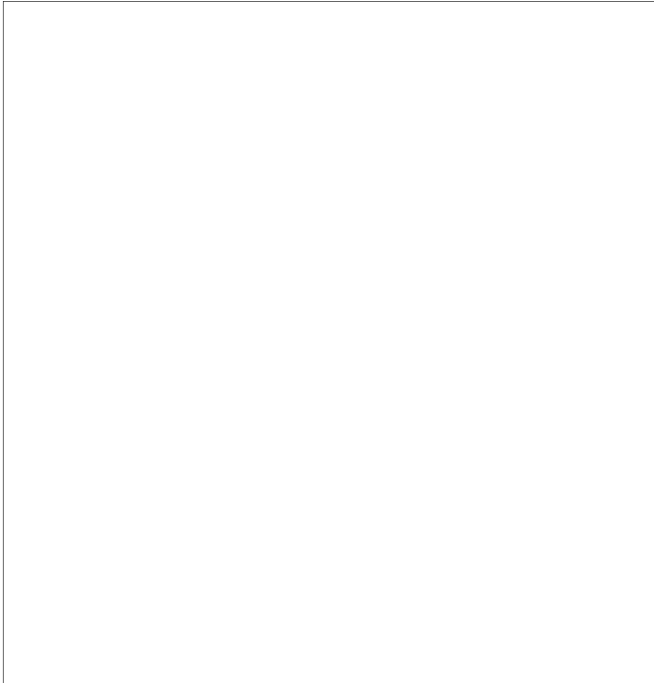
25X1

25X1

SECRET

SECRET

25X1



the smaller countries that look to the community to protect their interests. The Germans are the best candidates to provide some leadership, but they still exhibit hesitancy about using their influence, and their generally parsimonious approach is in sharp contrast with their ambitions for the community. Nevertheless, in agreeing to double its contribution to the regional fund, Germany again stressed the need for closer economic cooperation among the EC members. It will almost certainly make greater policy harmonization a condition for resurrecting a common float or changing its opposition to a pooling of community monetary reserves]

22 [The present monetary disarray within the EC contrasts with the members' awareness that solidarity may now be more necessary than ever in order to cope with the effect of increasing oil costs on their balances of payments and their widely varying debt and reserve positions. There are calls from many quarters to revive monetary cooperation by increasing the price of gold used in intra-EC transactions. The general idea is that this would make Germany's large foreign-currency reserves available to the other countries for settling their payments with oil producers. The EC Commission, France, Italy, and Belgium have all expressed interest in exchanging gold between national banks within the community, and the British may also be interested]

EC: FROM FLOATING TO DRIFTING

22 [France's decision to set the franc free from the joint float of EC currencies continues to send shock waves through the community. The decision of the Benelux countries and—outside the EC—of Norway and Sweden to remain in a float with Germany, has resulted in a Deutschemerk zone, symbolizing Germany's growing strength in West European affairs.]

22 [France, through its monetary action and its recalcitrant attitude toward the contentious regional development fund, has become increasingly isolated. Bonn has been willing to increase its contribution to the fund, which would principally benefit the UK, Italy, and Ireland, and has thereby succeeded in putting Paris on the spot. Through bilateral approaches on the oil-supply question, the British, like the French, seem bent on giving priority to their national needs, however, and the Germans and Italians are now moving along the same path]

22 [The community in consequence seems to be drifting and directionless, a situation that disturbs

22 [The gold-price question may be discussed by the EC monetary committee next week, but resolution of the problem is likely to depend on developments at such international forums as those on monetary reform and the energy crisis—where the relationship between oil prices and compensating monetary action by the consuming nations will be discussed. The US, for example, has been opposed to anything that would seem to give gold a longer lease on life within the international monetary system, and this—or, at least, the uncertainty of gold's future role—could be an important factor in determining Bonn's attitude toward the use of gold within the commu-

25X1

SECRET

SECRET

INTERNATIONAL MONEY

(26, 27)
 The appreciation of the dollar since the French decided to float the franc independently has now been reversed in most European markets. Only the franc and the lira remain below their levels of January 18. Sterling has rallied, reaching its highest point since January 4. The pound's strength is due primarily to high domestic interest rates rather than any significant improvement in Britain's economic outlook.

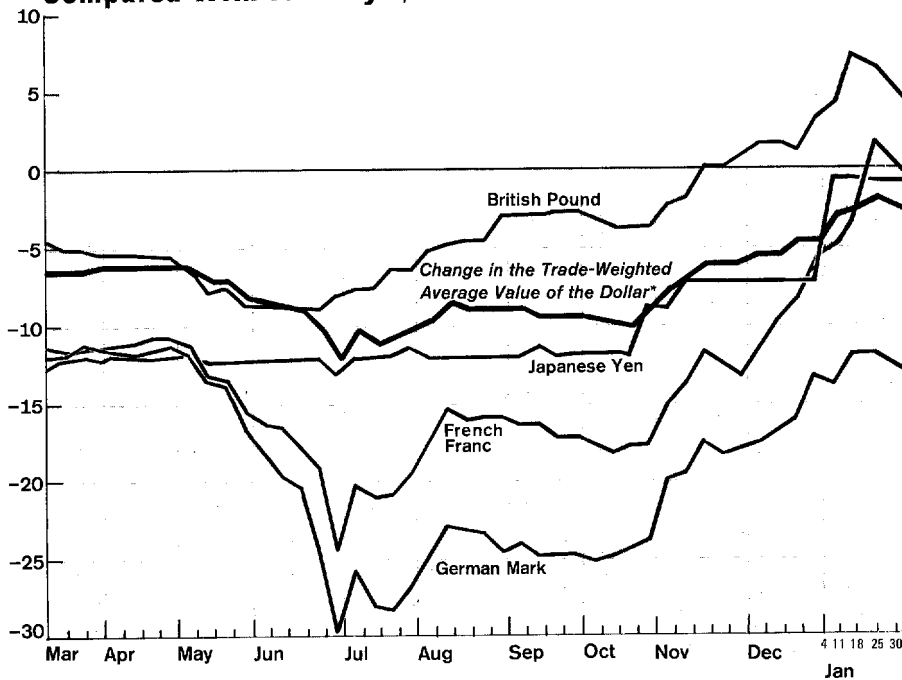
because underlying economic conditions should contribute to the dollar's long-term strength.

The recent easing of controls on capital in West Germany, Belgium, Switzerland, Canada, Luxembourg, and the US is the major factor in reversing the dollar's rise. Other European countries are likely to follow. Consequently, the dollar should continue to weaken somewhat. Nevertheless, market reaction has probably been excessive

In Tokyo, the dollar has also drifted downward, allowing the central bank to remain out of the market for the fifth consecutive day. Disciplinary action last week against three of Japan's biggest banks for speculating against the yen helped ease the situation. Hints of oil price cuts, a slightly more optimistic outlook for the Japanese economy, and the removal of restraints on the flow of capital out of the US have also played a role. Heavy dollar sales by the Bank of Japan earlier in the month probably left trading companies and others with sufficient dollar holdings.

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

25X1



*Relative to 16 major currencies

555185 2-74

SECRET

Page Denied

SECRET

BELGIUM: REVOLVING GOVERNMENTS

31 [King Baudouin dissolved the Belgian Parliament on January 29 following the failure of Leo Tindemans, leader of the Flemish wing of the Social Christian Party, to form a new coalition. Negotiations to form a new government—Belgium's 22nd since World War II—will follow national elections now set for March 10.]

31 [Spurned by the Socialists, Belgium's second largest party, Tindemans attempted to form a transitional government composed of his own Social Christians, the Liberals, and three minor ethnic parties. The primary purpose of this shaky coalition would have been to empower Parliament to enact reforms hastening the development of regional autonomy originally provided for by the constitutional revision of 1971. These reforms are opposed by the Socialists and by the French-speaking wing of the Social Christians, who believe they might encourage further separatist demands by extremists in the ethnic parties. Tindemans' failure to overcome the French-speaking opposition in his own party constitutes a defeat for the acceleration of regional autonomy. Furthermore, this internal division of the Social Christians, compounded by a further schism within the Flemish wing, bodes ill for the party's prospects in the coming election.]

32 [The Socialists hope to win enough additional seats in Parliament to allow formation of a two-party coalition with the Social Christians. They will doubtless try to capitalize on their championship of an ill-fated Belgian-Iranian refinery venture, which was intended to bring economic revival to the coal and steel area of eastern Wallonia. By appealing to Wallonian dissatisfaction with the pace of industrial expansion, the Socialists hope to strengthen their position in the government while laying the groundwork for state intervention in the energy sector.]

32 [The Liberals, the third member of the outgoing coalition government, are badly split on regional and linguistic issues and seem incapable of presenting a united front in Parliament. Their conservative views are unpopular with the Socialists, and they will be less important in a new coalition, if, indeed, they are included.]

32 [The minor ethnic parties are the most important opposition bloc, and they will probably continue to gain strength by appealing to Flemish and French-speaking ethnic sentiments. They will not, however, be in a position to shoulder their way into a coalition where their presence would be strongly opposed by Socialists and Wallonian Social Christians.]

32 [The political turmoil in Belgium does not appear to threaten US interests significantly, at least in the short term. Belgian positions on NATO and the EC are unlikely to be affected by election results. In the meantime, Leburton's caretaker government will send Minister of Foreign Affairs Van Elstande to the Washington energy conference in February as planned.]

25X1

25X1

WEST GERMANY: OSTPOLITIK STUMBLES ON

39 [West German optimism over prospects for making new strides in Ostpolitik, following the establishment of relations with Bulgaria and Hungary last December, was somewhat premature.]

36 [The economic talks between Poland and West Germany ended in a stalemate last week following a Polish decision to reopen the issue of the size of credits it was seeking. The Polish tactic was mildly surprising to German officials, who had expected quick progress following preliminary talks in November, and the Germans balked at going higher than their original promise of about \$400 million. The two sides evidently intend to meet again, but no date or place was set.]

36 [In earlier talks, the Poles had asked for credits totaling \$1.2 billion, using as leverage the large number of ethnic Germans residing in Poland who wish to emigrate to the Federal Republic. Polish Deputy Foreign Minister Czyrek is now in Bonn for talks on emigration, but the Germans expect little progress until the credit issue is resolved.]

SECRET

SECRET

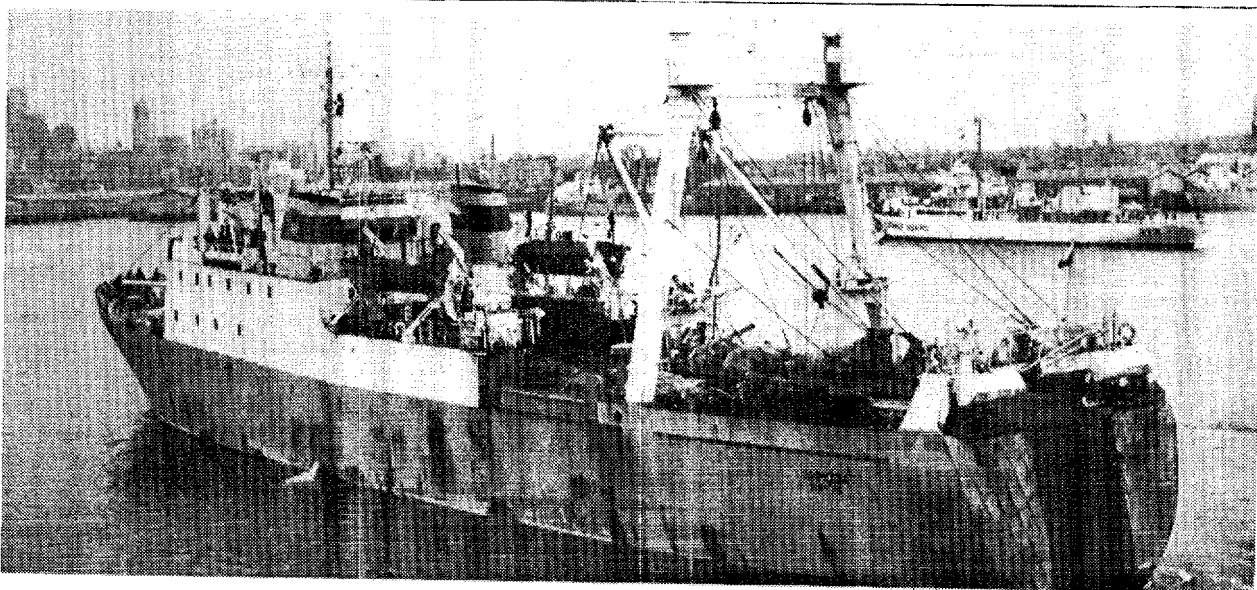
30 There is growing sentiment in government circles in Bonn to get Ostpolitik moving. The US Embassy reports widespread feeling that a more forthcoming West German attitude on economic cooperation is the only way to do this. Faced with increased Bundestag opposition to new credits for Eastern Europe, Chancellor Brandt and Economics Minister Friderichs are citing the energy crisis to gain support for their moves to expand relations with the East. They argue that, because of threatened energy shortages in Western Europe, Bonn must promote economic cooperation with the Soviet Union and Eastern Europe.]

33 Meanwhile, a West German delegation left for Moscow on January 30 to discuss Berlin problems, which have plagued Soviet - West German relations for several months. Bonn apparently hopes to smooth ruffled feelings in the Kremlin over the Federal Republic's decision to locate the

headquarters of the Federal Environmental Agency in West Berlin. The Germans, however, feel that the Soviets will stall on outstanding Berlin problems until bilateral Soviet-German talks on economic cooperation show progress satisfactory to Moscow.]

32 Elsewhere in Eastern Europe the prospects for progress appear brighter. Yugoslav President Tito is expected to visit Bonn before the end of June. The West German Foreign Office had earlier confirmed Bonn's intention to go ahead with a controversial credit package for Yugoslavia, totaling some \$200 million. Tito may use the visit to put the finishing touches on this agreement, as well as to gain assurances from Bonn that the jobs of the nearly 500,000 Yugoslav guest workers in the Federal Republic will not be jeopardized in any future cutbacks of foreign workers in West Germany. [redacted]

25X1



BULGARIAN TRAWLER IN US PORT

40, 41, 42
Sofia's decision to play down the US seizure of a Bulgarian fishing boat off the New Jersey coast on January 26 reflects its recent efforts to improve relations with Washington. Foreign Ministry officials have told the US Embassy in Sofia that their government does not consider the incident particularly serious, hopes it will be brought to a speedy conclusion, and does not intend to publicize the matter. The 80-man Bulgarian vessel was seized by the US Coast Guard for fishing illegally within the nine-mile fisheries zone beyond US territorial waters. [redacted]

25X1

SECRET

SECRET

WEST EUROPEAN COMMUNISTS CONFER

(43 + 44)

The West European Communist parties concluded their three-day conference in Brussels earlier this week with a 20-page political declaration that carefully skirts issues particularly sensitive to Moscow. It repeats the usual communist formulations on current political and economic problems facing Europe. Portions of the final declaration published in the communist press indicate that the representatives of the 19 parties participating in the conference placed particular emphasis on the desirability of closer cooperation among communists, the left-of-center parties, and "Christian" parties. In addition, the declaration acknowledged that differing domestic situations compelled the individual parties to devise their own tactics in dealing with the European Communities.

There is evidence of lively debate on touchy issues such as the Solzhenitsyn affair and China's position in the international movement. However, no statements on these topics have appeared in preliminary summaries of the declaration indicating that the parties were unable to agree on a common position.

The absence of references to "cultural freedom" and the Solzhenitsyn affair should please the Soviets, who reportedly feared that this issue would generate adverse publicity in Brussels. The last preparatory session in Geneva was followed by cautiously critical comments on Moscow's handling of the Solzhenitsyn affair by the Italian, French, Swiss, and Spanish parties.

One of the few provocative notes in the declaration is a statement affirming each party's

right to work toward socialism "in complete independence" and in accord with its national conditions and traditions. Although the Soviets can live with this formulation, it may make them uncomfortable since the statement underlines the fact that certain Western parties will not routinely accept Soviet guidance.

During preparatory sessions, the Italian and French parties had tried to secure agreement on a common document that recognized the "reality" of the EC but made specific recommendations for changes in community structure and policy. Some parties—the British and Scandinavian in particular—objected to this because they felt that domestic political considerations prevented them from supporting any document that implied acceptance of the EC.

The Italian Communists—the main organizers of the Brussels parley—were probably disappointed by the Western parties' reluctance to put more distance between themselves and Moscow. They can take some comfort from the declaration's endorsement of closer cooperation among Communists, Socialists, and "Christian" forces. The Italians have consistently maintained that such a strategy held out the promise of increasing leftist influence in Western Europe. Acceptance of this view at the regional level should help Italian Communist chief Enrico Berlinguer in his efforts to deal with party members who question the wisdom of his policy of rapprochement with Italy's largest party—the Christian Democrats.

The call for broadened cooperation with the non-communist left may, in the long run, be the most significant step taken at Brussels. Endorsement of this concept may foreshadow adoption by other Communist parties of the pragmatic tactics used by the Italian and French Communists to enhance their influence at the national level.

25X1

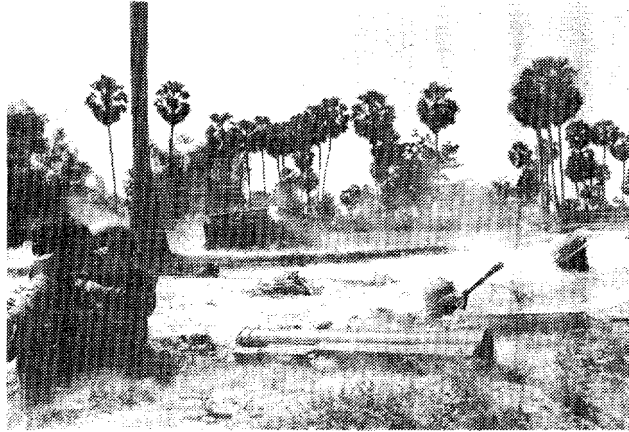
SECRET

CAMBODIA: THE GUNS OF JANUARY

Ground combat around Phnom Penh remained relatively light this week, but Khmer Communist gunners south of the city launched the heaviest artillery attacks of the war on the capital. Over 300 howitzer and rocket rounds fell on the city, causing nearly 350 casualties. Pochentong airport sustained minor damage, but the most intense shelling hit the refugee-crowded southwestern section of the capital. In the ensuing panic, thousands of civilians temporarily fled this area seeking safety in the heart of the city; most of Phnom Penh's war-weary inhabitants bore up relatively well.

The Communists were able to move within artillery range of Phnom Penh last week after government units withdrew to the north bank of the Prek Thnaot River. An attempted army counterattack south of the river quickly faltered in the face of stiff resistance. Late in the week, Communist commanders—apparently worried about being outflanked—began to pull back their artillery

Elsewhere in the capital region, small insurgent elements have gained a foothold on the east bank of the Bassac River within mortar range



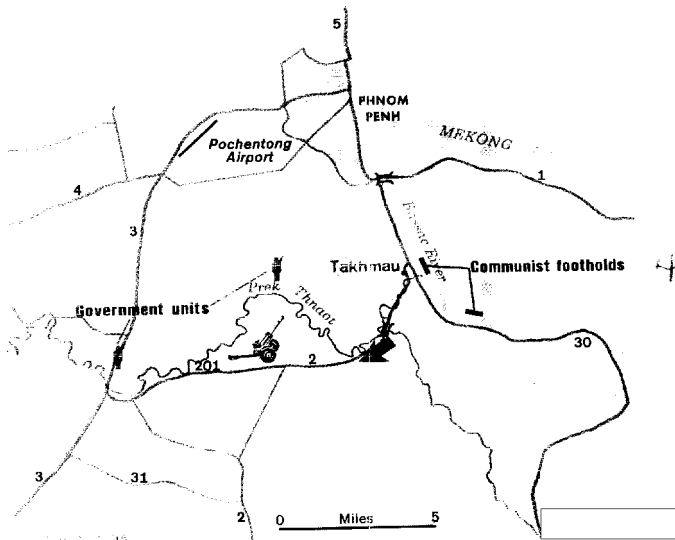
Cambodian army troops fire northwest of Phnom Penh.

of Phnom Penh's southern suburb of Takhmau. On the northwestern approaches to the city, government units continue to hold the initiative, but a Communist buildup near Route 5 points to a renewal of pressure on this front soon.

Sihanouk in Hanoi

The Khmer Communists' nominal commander, Prince Sihanouk, concluded a brief visit to Hanoi on January 26. The trip was Sihanouk's first outside China since last September. Besides observing the Tet holidays with his North Vietnamese allies, Sihanouk undoubtedly used his time with Hanoi's leaders to discuss the insurgents' dry-season campaign. The tenor of his parting remarks indicates that a major shift in the Khmer Communists' present hard line is unlikely.

Sihanouk again vetoed any negotiations with the Lon Nol government and the formation of a coalition regime. He also reiterated that diplomatic relations between his "government" and the US could be established once Washington ceases to "interfere" in Cambodian affairs and ends all forms of aid to Phnom Penh. Finally, Sihanouk thanked his hosts effusively for their aid to the insurgents.



25X1

25X1

SECRET

Page Denied

SECRET

INDONESIA: POLITICAL AFTERSHOCKS

Growing tensions and rivalries within the military leadership are behind the major government reshuffle this week. Matters were brought to a head by charges of negligence on the part of security and intelligence officials in dealing with the urban riots in Jakarta that erupted during Japanese Prime Minister Tanaka's visit last month. On January 28, President Suharto announced that he was taking over personal control of the national security command from General Sumitro. He also fired the head of state intelligence and abolished the post of personal aide to the president.

In the past few weeks, Jakarta has been buzzing with speculation about serious rivalry between Sumitro, long considered the second most powerful general, and General Ali Murtopo,



General Sumitro

Suharto's eminence grise. Sumitro had used the power of his office to extend his influence into other spheres, and his ouster is an obvious move to circumscribe his political activities. He remains deputy commander in chief of the armed forces, however, and thus continues to be an important figure in Jakarta politics.]

51 As part of the reorganization, General Murtopo and three others lost their titles of personal aide to Suharto. Suharto probably hopes that publicly downgrading Murtopo will help mollify Sumitro. Suharto's aides have recently been the target of much criticism from other officials as well as from student and intellectual leaders. General Murtopo in particular is resented for his wide-ranging interference in national political and economic policy. Murtopo's influence with Suharto, which stems from their long-standing personal relationship, does not appear to have been affected.]

52 Murtopo probably lost less than Sumitro through the changes. Murtopo retains his position as head of special operations within the state intelligence organization. The intelligence chief, General Sutopo who had often clashed with Murtopo, is being replaced by one of Murtopo's close associates. Murtopo and others disliked Sutopo's broad investigations into official corruption. Sutopo's replacement is reputed to be a much weaker and less effective individual, and Murtopo will probably now be free to run his bureau as a private fiefdom.]

53 If Murtopo has managed to retain his former influence with the President, Sumitro and other top military men may not accept Suharto's new changes gracefully. In addition, some generals may not agree with the rationale that the reshuffle was needed because the armed forces were unable to cope with the recent urban disorders. These officers believe that the riots stem from deep social and economic tensions, and that they cannot be written off as a military or intelligence failure. Their ultimate reaction to Suharto's reorganization, however, will probably depend on whether he carries out his promises of social and economic reforms.

[Redacted]

25X1

25X1

SECRET

SECRET

JAPAN-CHINA: AIR PACT MOVES SLOWLY

25X6

The Japan-China aviation proposal continues to encounter stiff opposition from both the Taipei government and conservative elements within Japan's ruling Liberal Democratic Party. Some of the intraparty opposition is only posturing, however, and Prime Minister Tanaka hopes to get party approval in the very near future to begin serious negotiations with Peking.

economic relationship with Taiwan, and Tanaka himself does not want to alienate supporters of Taiwan within his own party. Some of these conservatives are committed to the Nationalist cause for ideological reasons,

They know that they cannot scuttle the aviation agreement entirely, but they do hope to delay it.

Taipei does not like the proposed pact—called for when Tokyo and Peking established diplomatic relations more than a year ago—because it replaces the government-owned Japan Air Lines service to Taiwan with a “private” air link. Other points that irritate the Chinese Nationalists are:

Still other party members—most importantly, those in the faction of Finance Minister Fukuda—base their opposition on a desire to see Tanaka and Foreign Minister Ohira stumble politically. Ohira, whose recent trip to Peking initiated the current flurry of activity on the aviation issue, is Fukuda's principal rival in the struggle to succeed Tanaka as prime minister. In his position as member of the Cabinet, Fukuda cannot actively oppose the Tanaka-sanctioned agreement with Peking, but he has released his conservatively inclined faction to vote their personal views when the aviation proposal comes up for party vote.

modifying the name of China Air Lines to include the term Taiwan, implying that the Chinese Nationalist administration is merely a provincial government;

- discontinuing China Air Lines' busy and profitable route to Osaka;

- removing all China Air Lines' offices and airport ticket counters in Japan, turning over all business to an agent of Japanese nationality.

With upper house elections coming this summer, Tanaka does not want to run roughshod over important segments of his party. He was careful to consider the sensibilities of these groups in establishing diplomatic relations with Peking in 1972, and he will probably follow the same tactics this time—give the Taiwan boosters time to display their position publicly before moving forcefully to vote them down.

The Nationalist Chinese are particularly annoyed that Peking appears to be dictating the terms to Tokyo, with the Japanese merely transmitting them to Taipei. By being firm, Taipei hopes to get the Japanese to compromise, but the Tanaka government insists that the terms of the proposal are non-negotiable and that Peking may balk at any further accommodation.

Even if domestic political problems can be overcome, Tanaka and Ohira still have no guarantee that Peking will buy the specific proposals now being hammered out in Tokyo. But, for the moment at least, Tanaka seems optimistic that the aviation agreement can be wrapped up this spring.

In spite of its tough talk, Tokyo clearly would prefer to save face for Taipei. The Japanese are not anxious to harm their highly profitable

25X1

SECRET

SECRET

SOUTH KOREA: ECONOMY FACES SLOWDOWN

Although South Korea has been promised a normal supply of oil by Kuwait and Saudi Arabia, real growth in the gross national product is likely to slow to about 8 percent this year, compared with 17 percent last year. Weakened foreign demand for Korean exports of light consumer goods, shortages of raw material imports, and rising costs of oil will be major factors in the slowdown.

Export expansion, which sparked growth last year, will be much less impressive this year because of energy problems in Japan, Korea's major market. Japan, which purchased 39 percent of Korea's exports last year, accounted for almost

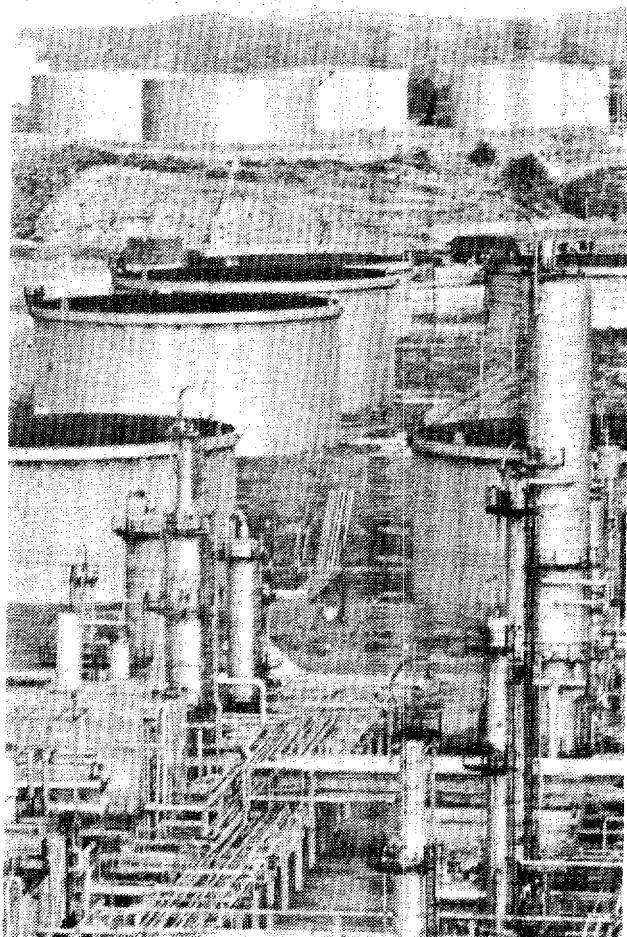
two thirds of Seoul's export growth. Sales to the US market will rise, but not enough to increase total exports as rapidly as in recent years. In fact, exports are expected to grow only 39 percent this year compared with 92 percent last year.

At the same time, import costs will rise sharply because of higher prices. South Korea's oil bill will triple this year to about \$1 billion, and there will also be increases in the cost of other imports, especially foodstuffs. The value of Korea's imports in 1974 will rise by an estimated 44 percent. The trade deficit will increase to about \$1 billion compared with last year's \$680 million as a result of the slowing export growth, and a substantial current account deficit is likely.

Korea should be able to finance a \$1 billion current account deficit without seriously straining its international financial position. Seoul enjoys relatively large foreign aid commitments—about \$1 billion at the beginning of 1973. If the country can continue to attract private capital it should have only a modest over-all balance-of-payments deficit this year. Foreign-exchange reserves are now at a record \$1.1 billion, compared with \$740 million at the end of 1972.

The domestic economy faces more serious problems. Wholesale prices rose 15 percent in 1973, with almost half the increase coming in the last two months of the year. Inflation will get worse, largely because of higher oil costs, and wholesale prices are expected to rise 25 percent for the year. Moreover, because business expansion has been export-oriented and business firms have relied heavily on borrowing to finance their operations, many bankruptcies could result from a sharp drop in demand.

Because of the decline in Japanese interest in Korean investments, Seoul is attempting to attract more US and European investment. Unless Korea is successful in attracting US and European capital, however, its long-term plans for developing heavy and chemical industries may have to be revised.



25X1

SECRET

SECRET

BOLIVIA: PEASANT PROTEST CRUSHED

63 President Banzer has crushed the four-day-
old demonstration by peasants in Cochabamba—
66 but it may cost him vitally needed political support. Although Banzer had indicated earlier that he would not use force, he sent in troops after the angry farm workers allegedly seized a general dispatched by the government to negotiate with them.

63 At least eight demonstrators were killed by
government forces on January 30, according to
66 press reports, as troops and armored cars cleared roads blockaded by several thousand protesters demonstrating against recent price increases. Military aircraft also were used, perhaps to frighten the peasants as much as for reconnaissance. Even though Banzer had admonished the troops to
66 keep violence to a minimum, the use of the armed forces could alienate some of his supporters in the
66 military who have long tried to maintain good relations with the peasants.

63 The government seems uncertain just whom
66 to blame for inciting the peasants. In the past,

Banzer has fabricated conspiracies—with both international and domestic connections—to justify action against his opponents. There may be some truth in his charges of a conspiracy this time, although it appears to be a home-grown variety. Each of the groups ostensibly supporting the regime—the military, the rightist Socialist Falange, and the National Revolutionary Movement—is split internally, and all three are concerned over the country's worsening economic situation. Middle-ranking officers contend that the government is unwilling or unable to solve
25X1 country's worsening economic problems.



Peasant roadblock in Cochabamba

SECRET

SECRET

GRENADA: AN INAUSPICIOUS BEGINNING

7 With independence less than a week away, Grenada is on the brink of civil war as Premier Eric Gairy and his supporters battle a broad-based coalition of forces opposed to nationhood under the authoritarian Premier. If the situation deteriorates further, the British may decide to postpone independence, now scheduled for February 7.

1 Gairy, who has had a number of chances during the past few months to calm the atmosphere, continues instead to ride roughshod over any real or imagined opposition. Although his more radical opponents demand his resignation, moderates—by far the most numerous—would have settled for the disbanding of his secret police. They made this demand following the brutal beating of three leaders of the radical group; Gairy promised to comply but later renege, precipitating a general strike, now in its fourth week. The strikers stiffened their determination when Gairy, in an effort to break up the protest, pushed legislation through the assembly making it illegal for businesses to close during normal working hours.

2 The strike has paralyzed and isolated the island, as telecommunications, transportation,

and practically all economic activities have ground to a halt. Dock workers in neighboring Barbados and Trinidad-Tobago have refused to handle Grenada-bound cargo, and fuel and food supplies are nearly exhausted. Looting, much of it done by the secret police in retaliation against merchants who supported the strike, has left the capital city of St. George's and two other principal towns a shambles.

3 There have already been three deaths and numerous injuries. In an effort to avoid further bloodshed, the Caribbean Council of Churches has offered to mediate, taking as a starting point the original demands of the moderate opposition. Gairy has accepted the offer, claiming—incorrectly—that he has already complied with these demands. The opposition has not replied. The council's effort has apparently come too late, since the moderates, realizing that Gairy's word cannot be trusted, have been driven to collaboration with the radical opponents and now demand his resignation.

4 The majority of Grenadians, even many who a few months ago supported Gairy, feel they cannot face independence under such a regime.



Demonstrators in St. George's



Eric Gairy

SECRET

They also fear that Gairy's lack of planning will lead to economic collapse of the island.]

67 [There are two roads out of the impasse. One is Gairy's resignation, which he has refused to submit. The other is postponement of independence by the British, which is not planned at the moment. The British have, however, canceled plans to be represented at the independence ceremonies by a member of the royal family, leaving that honor to the newly appointed acting governor.]

67 [Even if the opposition should succeed in obtaining Gairy's removal—either through resignation or assassination—it would be unable to form a viable government—at least until a strong leader emerges. The diverse coalition is united in only the one negative aim, and lack of ideological agreement would be a serious obstacle to the economic planning Grenada will need.]

- prohibit multinational companies from interfering in their internal affairs;
- abolish discriminatory trade practices;
- demand larger long-term, low-interest financial aid with no strings attached.

Echeverria wants the charter to be the basic instrument for managing economic relations between the industrialized countries and the Third World, and he is hoping the UN will approve it this year. The lesser developed countries, of course, favor the charter. Developed countries are much less enthusiastic; not only do they feel that too much emphasis is placed on the "rights" of the underdeveloped and on the "duties" of the developed nations, but they are opposed to a document that binds them legally.

25X1

MEXICO: PROMOTING THE CHARTER

(71 - 75)
President Echeverria leaves on February 1 for a two-week swing through central Europe intended mainly to promote his draft Charter of Economic Rights and Duties of States. This has been a major reason for his travels over the past two years, and he has missed no opportunity to present the charter before international groups. His chief audience this time is the Club of Rome, a private organization that sponsors discussions on international economic and social issues. For this meeting, the heads of state from 12 of the world's lesser powers will be in Salzburg, Austria, on February 4 and 5.

Echeverria's charter defines the obligations of developed countries toward developing ones in the fields of international trade and aid. Among other things, it calls for nations to:

- renounce foreign economic pressure;
- subject foreign capital to their laws;

From Salzburg, Echeverria will go to the International Atomic Energy Agency headquarters in Vienna to witness the signing of an agreement by the agency, the US, and Mexico to supply uranium for Mexico's first nuclear reactor, which is scheduled to produce electrical power by 1976.

Echeverria's itinerary will take him also to West Germany, Yugoslavia, and Italy, where he will be the first Mexican president to meet with a pope. Since the anticlericalism of the 1920s, church-state relations have steadily improved. The meeting with the Pope is being given wide press treatment in Mexico, leading to speculation that Mexico may renew formal relations with the Vatican. Church spokesmen, however, describe the audience as "not having official character," and Echeverria has told the press that he wants merely to express his gratitude for the Pope's support of the rights and duties charter.

The European trip, like the President's earlier visits abroad, also reflects the Mexican policy of seeking broader trade relations, but few specific benefits are likely to result.]

25X1

25X1

SECRET

SECRET

NICARAGUA: THE ECONOMY RECOUPS

(76, 77)
 Contrary to the government's expectations, the Nicaraguan economy did not decline during the year following the disastrous earthquake of December 1972, but registered a respectable gain. Although the estimated 1973 growth of about 3 percent in Gross Domestic Product is below the rates of preceding years, it contrasts markedly with earlier estimates of a possible 4-percent drop. The government forecasts a 9-percent growth in 1974, as construction activity in Managua picks up and as industry, commerce, and agriculture recover more fully from the earthquake and the serious drought that preceded it.

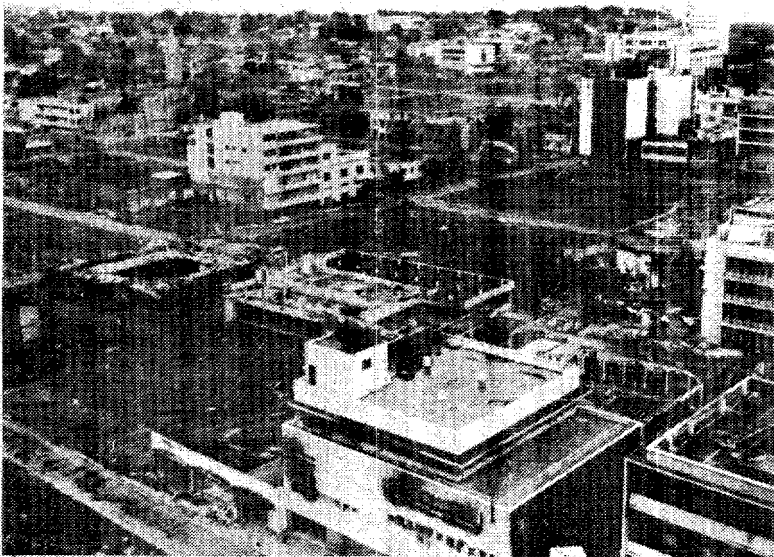
Foreign trade increased substantially in 1973, with exports up 25 percent and imports up 28 percent. Thanks to a 6.5-percent growth in agricultural production, traditional exports of agricultural products—led by cotton, coffee, and meat—rose some \$28 million to an estimated \$205 million, accounting for two thirds of total exports. Purchases of reconstruction goods and replacement of merchandise stocks caused imports to rise more rapidly than exports, but the trade balance remained positive by about \$20

million. Foreign exchange reserves, already at a record high of \$55.5 million just after the earthquake, probably reached nearly \$100 million by the end of December 1973 because the trade surplus was supplemented both by private and public capital inflows and by large earthquake reinsurance payments.

The government's fiscal situation is highly favorable. Revenues in 1973 were 40 percent ahead of 1972, mainly because of a 10-percent emergency export tax imposed after the earthquake, but also because normal revenues rose. The government had some \$25 million available to cover about one third of its planned 1973 capital expenditures and had access to loans on favorable terms from international lending institutions.

Some problem areas remain, however. Unemployment, estimated at 11 percent before the earthquake and the 1972 drought, is at best no lower now than in 1972. The inflation rate last year was well above 20 percent, perhaps closer to 30 percent.

Despite its problems, Managua appears to be in a favorable position to minimize the effects of the energy crisis on its economy, at least through this year, because Nicaragua is not highly dependent on oil. Nicaragua's foreign exchange reserves should permit an import volume adequate to sustain the construction boom even if trade results fall short of the government's optimistic estimates. Demand for Nicaragua's chief export crop, cotton, probably will remain strong because of the world scarcity of oil-derived synthetic fibers; the outlook for Nicaragua's 1974 cotton harvest is particularly good. If demand for Nicaragua's other exports slackens and if oil import prices triple, the \$20-million trade surplus the government is forecasting for 1974 could easily be wiped out, putting the trade balance in the red.



Area in downtown Managua devastated by earthquake

25X1

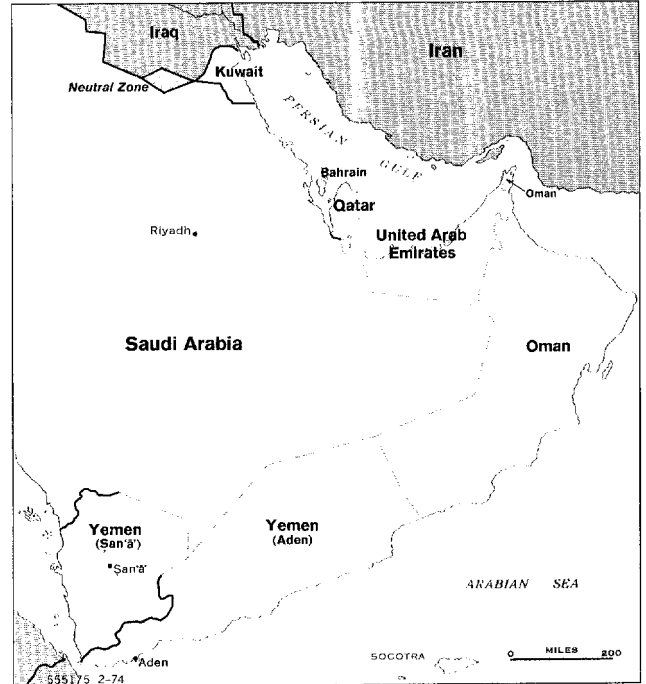
SECRET

THE SAUDI HAND IN YEMENI POLITICS

78 An attempt by North Yemeni President Iryani to install a left-of-center cabinet headed by former prime minister Muhsin al-Ayni has foundered on Saudi Arabia's strong objections. Iryani's failure to replace conservative, pro-Saudi Prime Minister Abd al-Hajari could stifle Sana's recent efforts toward rapprochement with South Yemen.

79 Iryani believes that the Marxist-oriented regime in Aden will not work seriously toward resolving differences between the two Yemens while Hajari, whom Adenis regard as a reactionary, continues to head North Yemen's government. Iryani looked upon al-Ayni, an early advocate of Yemen unity, as the man to develop further contacts with South Yemeni leaders. Iryani has met three times since last September with South Yemen's President Ali to discuss ways to reduce the risk of heavy fighting, such as occurred on the border in the fall of 1972.

80 Recurring rumors in Sana of the imminent formation of a new government proliferated again when al-Ayni, who has headed four cabinets since the overthrow of the imam's regime in 1962, returned home in early January from his ambassadorial post in London.



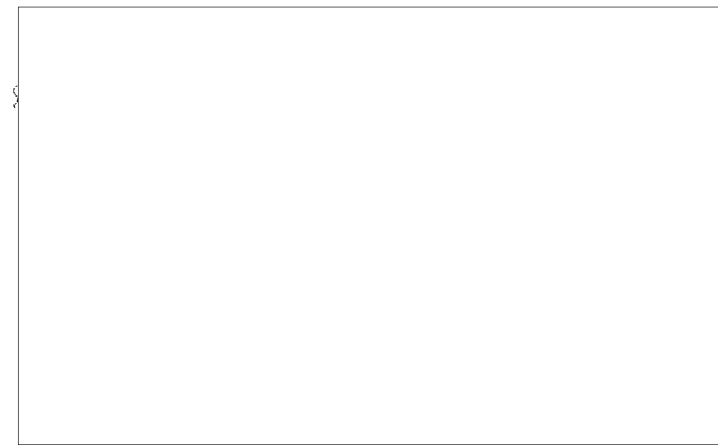
the key factor in al-Ayni's removal from the premiership in late 1972. Al-Ayni returned to his ambassadorial post last weekend.

25X1 25X1

UNITED ARAB EMIRATES: NO PANACEA

82 A recent reorganization of the government of the United Arab Emirates has strengthened on paper the central authority of the two-year-old Persian Gulf federation. The union continues to be troubled, however, by leadership rivalries and organizational problems.

82 In late December, following six months of haggling, Sheikh Zayid, president of the federation and ruler of Abu Dhabi, was able to push through a plan for expanding the powers of the central government. The plan also eliminated Abu Dhabi's separate ministries and incorporated its bureaucracy into the rudimentary federal structure. Abu Dhabi was the only sheikhdom among the seven making up the UAE that had a modern governmental apparatus.



80 Sana cannot afford to lose the Saudi dole, and Iryani is therefore unwilling to override Saudi objections. Iryani could not have been surprised at Faysal's stand, however; Saudi intervention was

SECRET

SECRET

41 [The ambitious Zayid is eager for the federation to succeed, and his goal is to establish control over it. To accomplish this, he is prepared to expend sizable amounts of Abu Dhabi's great wealth—estimated oil revenue for 1974 will be more than \$3 billion. Under the policy Zayid is following, the more the other rulers are prepared to sacrifice their authority to the federation, the more he is willing to contribute to its treasury. The central government has no income of its own, depending on the contributions of the member sheikhdoms, of which only Abu Dhabi has fulfilled its obligations.]

42 [Nevertheless, Sheikh Zayid faces a variety of obstacles to establishing his authority. His fellow rulers have conflicting ambitions, and several of them have enough wealth—or expectations of oil money—to maintain an independent course. In addition, separatist tendencies are still strong. The central government's Ministry of Defense, for example, has not been able to merge the independent armed forces of the sheikhdoms with the union's army. In fact, the sheikhdoms continue to make plans to upgrade and expand their respective military units.]

43 [Sheikh Rashid, vice president of the union and ruler of Dubai, is Zayid's main rival and an influential force against speedy amalgamation. Rashid is anxious to preserve the identity of Dubai. He fears that swarms of federal officials and a proliferation of federal laws would endanger his sheikhdom's traditional autonomy and threaten the laissez-faire economics on which it has thrived. Within the Supreme Council of Rulers, Rashid—like Zayid—has a veto over policies of the central government and this gives him some check on Zayid. Rashid's ability to counter Zayid's influence is less than it might be, however. Dubai, even with a good oil income, has yet to make a contribution to the central treasury.]

25X1

CYPRUS: A FACTOR REMOVED

46 [The death of General George Grivas on January 27, reportedly of a heart attack, is likely to deal a severe if not fatal blow to his Greek

Cypriot guerrilla organization. The guerrillas have been waging a terrorist campaign against the government of Archbishop Makarios since early 1972.]

46 [Grivas and Makarios were once co-leaders of the underground movement that fought the British in Cyprus in the 1950s with the aim of uniting Cyprus with Greece (enosis), but split when Makarios accepted the arrangement that led to Cyprus' independence in 1960. Three years later, Grivas was recalled from Greece to head the Greek and Greek Cypriot forces following the outbreak of fighting between the majority Greek and minority Turkish communities. In 1967, Turkey insisted that he be banished from the island for his role in raising the level of intercommunal violence to the threshold of war between Greece and Turkey. Grivas returned clandestinely to Cyprus in 1971 to renew his efforts to gain enosis, using violence to deter Makarios from reaching an accord with the Turkish Cypriots that might forever separate Cyprus from Greece.]

47 [Grivas' terrorist campaign has raised tensions and caused some bloodshed over the past two years but has failed to arouse the majority of Greek Cypriots, who have become lukewarm toward enosis. Now, with Grivas gone, the future of his organization has been thrown in doubt although his followers have expressed their determination to fight on. A struggle among rival claimants to the vacant leadership is probable and may hasten the disintegration of the movement.] [The organization's announcement early this week that it would suspend operations for the time being was probably prompted as much by the urgency of the leadership question as by the trauma of Grivas' death.]

48 [Magnanimous gestures by President Makarios in honoring Grivas' contributions to Cyprus may further hasten the dissolution of the general's military organization. On January 28, the government freed 123 Grivas men from prison and offered amnesty to some 70 wanted terrorists. The setback to the enosis movement should strengthen Makarios' hand in his dealings with the Greek Government, and will also enable Makarios to concentrate his attention on the Turkish Cypriots.]

25X1

SECRET

SECRET

TURKEY: THE NEW CABINET

90 Prime Minister Bulent Ecevit has named a coalition cabinet composed of 17 members of his left-of-center Republican Peoples Party and six members of the Islam-oriented National Salvation Party. Ecevit will present his proposed cabinet and legislative program to parliament this week for a vote of confidence that is expected finally to end the political stalemate that has persisted since the indecisive elections last October.]

90 [The social-democratic views of Ecevit's party clearly predominate in the new government's program, but its conservative junior partner has been given a substantial voice in economic affairs and six ministries: interior, agriculture, commerce, industry, justice, and one of the ministries of state. The leader of the National Salvation Party is deputy prime minister.]

91 [The coalition partners had a difficult time agreeing on a cabinet, with the National Salvation Party reportedly accepting a compromise one day and reneging on it the next. At one point the negotiations almost broke down, suggesting that the future course of this coalition will not be an easy one.]

90 [The cabinet is made up of relatively young technocrats, only two of whom have had ministerial experience. Professor Turan Gunes, who has been associated with the Republican Peoples Party for a long time, will head foreign affairs, while Hasan Isik, a career diplomat, will be in charge of defense. Two of the ministers are retired army officers.]

[The protocol of cooperation agreed upon by the two parties gives high priority to promoting "social justice" and to amnesty for political prisoners, including those sentenced by martial law courts during the past three years. Ecevit has, however, publicly reassured "influential quarters"—an allusion to the military—that the amnesty will not be sweeping and will exclude individuals convicted of terrorist activities.]

91 [The protocol is equivocal on repeal of the ban on opium-poppy cultivation, promising only changes that will provide for "humanitarian concerns" while ending the "unfair treatment" of



Turkish Daily News

poppy farmers. The US Embassy believes that the matter is still negotiable, and that Ecevit will first approach the US for additional funds and aid in expediting the development of substitute crops. Since last summer, farmers have been increasing pressure for an easing of the ban because compensation arrangements have not offset their economic losses.]

88 [The new government's program is equally equivocal on petroleum resources, calling for revision of the petroleum law but not for outright nationalization. US companies have over \$100 million invested in the petroleum industry in Turkey.]

88 [Turkish membership in Western security systems will continue under Ecevit's program, but Ankara plans to develop its own national defense policies and not rely exclusively on mutual arrangements. The protocol notes that common defense bases in Turkey must be under Turkish control. Within the leadership of Ecevit's party, there is some questioning of Turkey's long-standing international relationships, as well as concern over the implications of US-Soviet detente.] [The embassy believes that US military and military-related operations in Turkey will probably be given close scrutiny by the new government.]

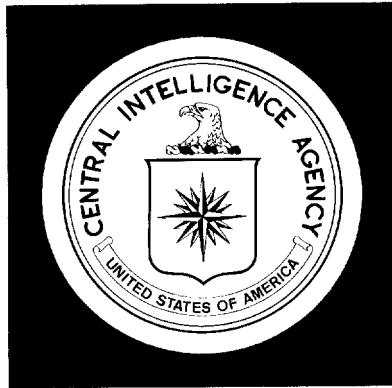
25X1

SECRET

Secret

Secret

Secret



Weekly Summary

Special Report

Neighbors With Different Perspectives

Secret

№ 59

February 1, 1974
No. 0005/74A

Page Denied

SECRET

MALAYSIA-SINGAPORE

NEIGHBORS WITH DIFFERENT PERSPECTIVES

Summary

(NOT SOURCED)

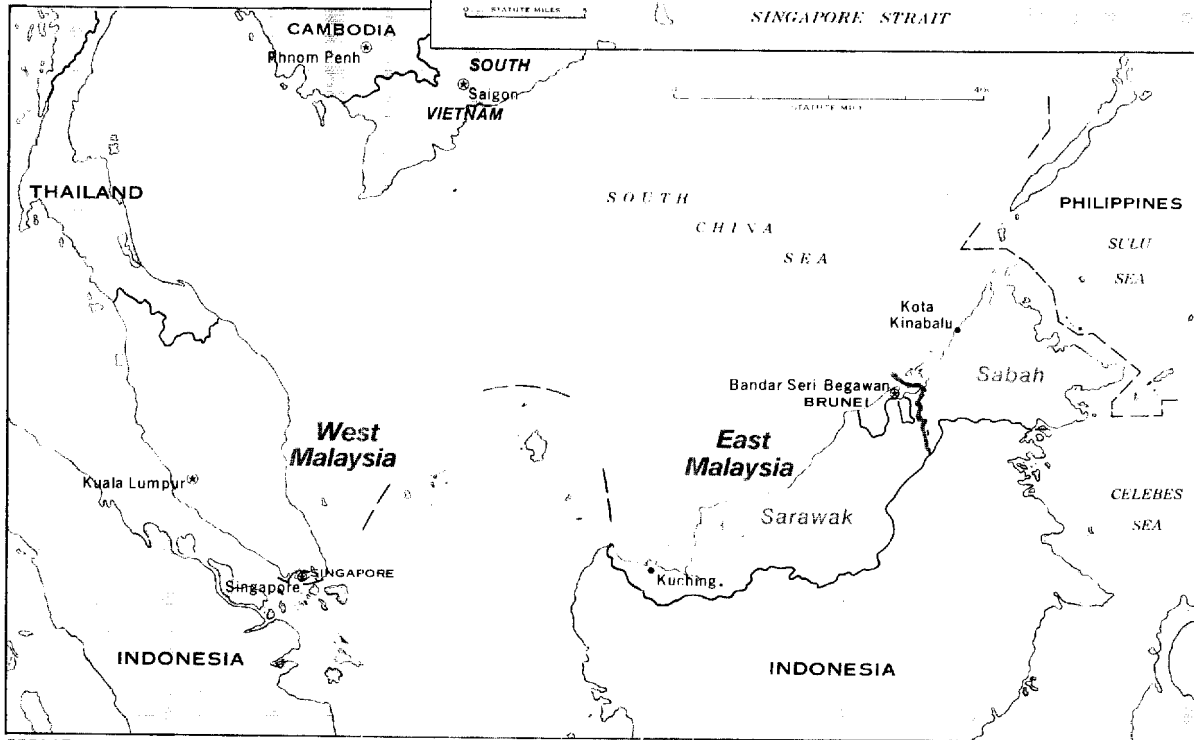
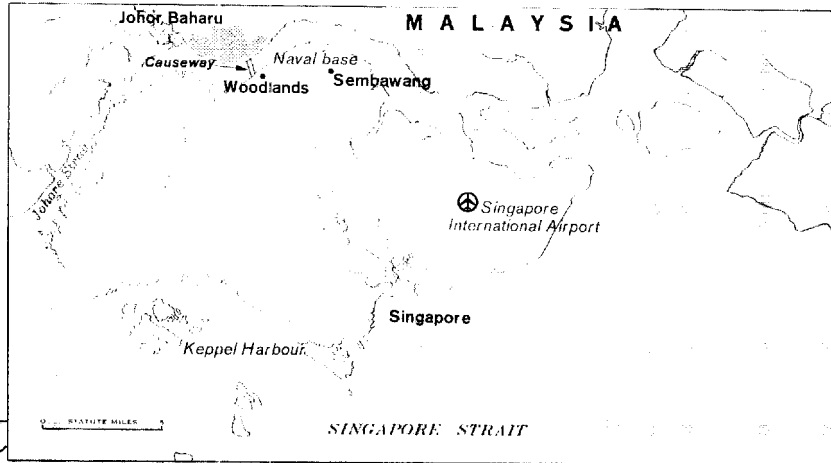
In the eight years since Singapore was expelled from the Federation of Malaysia, relations between the two states have resembled more a running feud than a diplomatic dialogue. The severing of many of the formal economic ties binding the two countries during the past year will go far toward ending the excessive intimacy of the past, even though a large measure of informal economic interdependence will persist. Many people in both countries view this as a healthy development, but a bedrock of mistrust persists, based largely on racial antagonism between an ethnically Chinese Singapore and a Malay-dominated Malaysia.

This political fact of life is primarily responsible for the many divergencies on regional issues and defense policies. Although Singapore and Malaysia are nominal allies in the Five Power Defense Arrangement with the UK, Australia, and New Zealand, each regards the other as the greatest threat to its own national security. Singapore is reluctant to see an end to a Western military presence in the region, believing it serves as a counterweight to the relative power of its ethnic Malay neighbors, Malaysia and Indonesia. Malaysia, by contrast, is committed to the neutralization of Southeast Asia. Singapore is also disturbed over Kuala Lumpur's interest in recognizing Peking, believing that a Chinese diplomatic presence on the Malaysian Peninsula will increase Singapore's vulnerability to Communist subversion. For its part, Malaysia resents Singapore's lack of support for recognition of the Strait of Malacca as an internal waterway.

Such conflicting political outlooks ensure that any improvement in bilateral relations will be gradual and fragile. But as long as racial antagonism—either within Malaysia and Singapore or in the region at large—can be contained, there will be a good chance that a more mature relationship will develop. The alternative is a revival of tit-for-tat bickering which in the future could take a highly destructive form, a gloomy prospect that in itself offers a compelling reason for both sides to get along.

SECRET

Malaysia and Singapore



555147 1-74

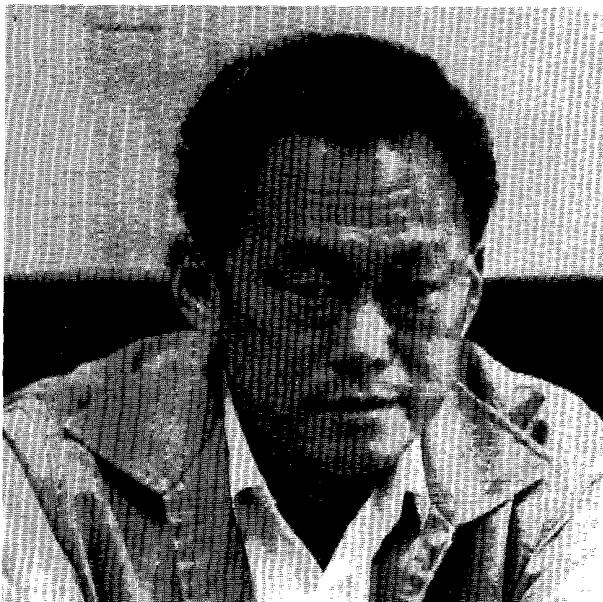
SECRET

Mutual Self-Doubts

The distrust and disharmony that mars the Singapore-Malaysian relationship stems basically from racial antagonisms. It has been fed by the intimacy and interdependence of the past and the relative insecurity of both governments. Although Lee Kuan Yew's Peoples Action Party exercises tight one-party control in Singapore and Malaysia's government "consensus" is imposed from the top, neither government is self-confident enough to tolerate serious criticism or opposition, either internally or externally.

Despite Lee Kuan Yew's occasional championing of the "domino theory," fear of Communist subversion is not a root cause of this insecurity. The once-powerful Communist movement in Singapore is virtually moribund. The Communist terrorists in Malaysia (no more than 3,000 altogether) are generally isolated in remote areas (mainly in the jungles of the Thai-Malaysian border region and of Sarawak).

In this part of the world, fear of racial conflict is the central fact of political life, and it is



Prime Minister Lee Kuan Yew

most acute in Malaysia where Malaysians are not even a majority in their own Malay land. This racial uneasiness affects almost all other aspects of relations between the two states.

Severing Economic Ties

In many instances, bad feelings have been caused not only by policy decisions but by the way decisions are translated into action. This was true of a series of steps that Kuala Lumpur took last spring to sever many of the economic ties binding the two countries. Abruptly and with little consultation, Malaysia ended the interchangeability of the currencies of the two countries, split their formerly joint stock markets and rubber exchanges, and erected other barriers between the closely interwoven economies.

For a time these "shocks" tempted Singapore to overreact and engage in a new round of the bickering that has almost always characterized Singaporean-Malaysian relations. In the stock market and currency action last May, the Singapore Government was most upset because Kuala Lumpur gave it only 30 minutes advance warning. Although publicly Singapore showed unusual restraint, privately tempers boiled.

Key leaders of the Singapore cabinet met secretly in mid-May to assess what they regarded as Kuala Lumpur's campaign of "economic warfare" and to discuss what action to take should Malaysia threaten to cut off Singapore's water supply—a move Kuala Lumpur has never seriously contemplated. Singapore quickly began to relax, however, when it became obvious that Malaysia's actions did not pose a direct, critical threat to Singapore's economy and that established patterns of trade would be altered only gradually. Despite the split in the rubber market, for example, 55 percent of Malaysia's rubber production continues to be re-exported through Singapore, and it will take time to reduce this ratio substantially. Similarly, it will also take time to alter the existing pattern whereby more than 88 percent of Malaysian pepper is exported from Sarawak via Singapore.

SECRET

SECRET

Some Malaysian moves to reduce Singapore's middleman role in Malaysia's trade have been more damaging economically to Malaysia than to Singapore, forcing merchants, manufacturers and shippers in the southern part of the peninsula into a variety of uneconomic practices. Malaysia is taking steps, however, to reduce the adverse economic impact. Malaysia, for example, is building a port, with timber processing and other industrial facilities, on the northern coast of the Strait of Johore and is constructing a new airport in southern Johore. A major shipyard is also being planned for the strait.

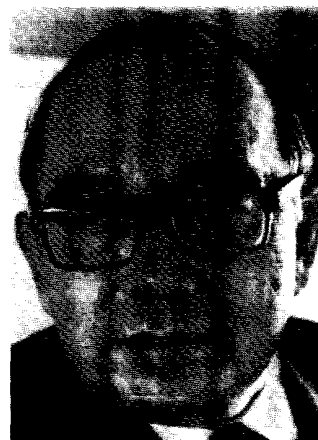
Almost all of these changes are the result of Malaysia's efforts to reduce its economic dependence on Singapore. Kuala Lumpur rightfully views the interdependence that has long existed between the two economies as a carryover from the British colonial system and, as such, not necessarily to Malaysia's advantage, although Malaysia has benefited from a variety of Singapore services.

Accepting the New Relationship

Some of Malaysia's actions, of course, have adversely affected certain economic interests in Singapore. A number of individual Singaporeans stand to lose money as a result of some of these changes. Nonetheless, if these measures add to Malaysian economic self-confidence, they will have the effect of easing one of the major irritants in Malaysian-Singaporean relations. The feeling is now growing on both sides that the recent severing of many of the ties that have bound the two countries economically is a necessary and healthy development that had to come sometime—perhaps better now than later.

The growing desire of both governments to put their sometimes testy relationship on a more businesslike basis appears to have been advanced by the two-day visit of Malaysian Prime Minister Razak to Singapore in November. Official statements and press commentary on the visit reflect a belief on both sides that differences should not be allowed to obscure basic common interests, and each now seems more comfortable over the future prospect of an even greater degree of independ-

ence and separate-ness. Lee and Razak apparently had a frank but easy exchange of ideas. Racial differences and differences in style of leadership will keep some distance in the relationship between their countries, but the greater disposition of the two leaders to address basic issues may improve coordination at the working level.



Prime Minister Razak

Remaining Interdependence

There are obvious limits to the extent to which a reduction of the economic interdependence between Malaysia and Singapore is desirable at this time: Singapore's \$50 million investment in Malaysia, mainly in southern Johore, cannot be easily erased. Neither can Singapore's dependence on at least 120,000 Malaysian day workers. For its part, Malaysia could not provide alternative employment to the workers. Malaysia's major naval base is on the northern coast of Singapore Island, and alternate facilities are not available on the Malaysian side of the strait.

Long-standing patterns of trade cannot be altered quickly without damage to both countries, and Singapore's dependence on Johore for 75-80 percent of its daily water supply is potentially the most explosive issue dividing the two countries. Singapore is expanding its existing reservoir facilities on Singapore Island in order to reduce its dependence on Johore. Even with the completion of the new facilities, however, Singapore's continually expanding daily requirements will increase its dependence on sources on the Malaysian side of the causeway.

That Beleaguered Feeling

Singapore, a tiny Western-oriented state surrounded by numerically superior Muslim

SECRET

SECRET

neighbors, tends to view its relationship with Malaysia and Indonesia as having some parallels to that of Israel in the Arab Middle East. Not surprisingly, Singapore has adopted an Israeli-type military strategy and posture, and Israeli advisers play a key role in arming, teaching, and training the burgeoning Singaporean armed forces.

Singapore's strategic planners think of themselves as hard-headed and practical. They do not assume that the Western members of the Five Power Defense Arrangement or anyone else will bail Singapore out of trouble, and they are determined to develop sufficient military capability to deter Malaysia and Indonesia, either together or separately, from aggression. Lee Kuan Yew describes it as a "poison shrimp strategy." He has in mind a combined air/ground attack force that, if necessary, could secure Singapore's water supply from southern Johore, and establish clear-cut air superiority in the region.

This objective could be obtained within the next two or three years. Singapore already has numerical air superiority over Malaysia and Indonesia in fighter/ground-attack aircraft, and this will be greatly enhanced when the first squadron of A-4 Skyhawks purchased from the US becomes fully operational by the end of 1974. A second squadron will be formed by mid-1975. Singapore is seriously interested in buying F-4 Phantom jets and a Hawk missile system.

Singapore also has developed a small armored force that presumably is sufficient to blow up the causeway and then to bridge the Strait of Johore at points of its own choosing. Singapore hopes to improve on this capability by buying about 60 M-48 tanks.

Sophisticated modern weaponry alone cannot ensure the success of Singapore's military program. More fundamental is the molding of its largely conscript army into a tightly knit, disciplined fighting force. The armed forces suffer from tremendous organizational, command, logistic, and personnel problems. Middle-level management, training facilities, and skilled technicians (particularly pilots and mechanics) are especially critical.

The government is taking steps to ease at least some of these problems. It has hired experienced Taiwanese pilots to make up for the shortage of qualified Singaporean pilot trainees and to reduce its heavy reliance on British expatriate pilots. The army is using training facilities in Brunei, Thailand, and Taiwan, and a small military/industrial complex in Singapore is being developed to include the repair and production of small arms and ammunition and ship and aircraft assembly.

Malaysian Confidence

The Malaysians, by contrast, are more relaxed about strategic planning—perhaps in part because they are unaware of all the measures Singapore is taking. Kuala Lumpur sees little reason to build up a significant military machine; it already has the means to contain its limited communist insurgent threat, and war with Thailand or the Philippines over the Muslim minorities in those countries is not considered a serious possibility. The principal reason for its self-confidence, however, is a belief that it could overwhelm the Singaporeans with sheer numbers and that, in case of real trouble, Indonesia, its ethnic Malay "big brother," would bail Malaysia out. But it is also true that Malaysia has a disciplined and well-organized army and a background of military experience as a component of the British armed forces—an advantage Singapore lacks. The Malaysians are also building up an inventory of sophisticated military equipment—from 105-mm. howitzers to the squadron of F-5 Freedom Fighters that are scheduled to arrive in 1975.

Diverging Foreign Policies

Regionalism The foreign policies of Malaysia and Singapore diverge sharply as a consequence of these fundamentally different military outlooks and differences on economic issues. Differing views on regional topics tend to divide the two even further. Malaysia is a more enthusiastic advocate of regionalism than is the more independent-minded Singapore. Kuala Lumpur places considerable value on its membership in the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, the Philippines, Singapore, and

SECRET

SECRET

Thailand—an organization that dates back to 1967 and was the first serious attempt at cooperation in the region. Conceived as a point of contact between neighbors of diverse outlooks, its deliberations were for some years purposely limited to non-controversial topics. Its development into a serious forum for consideration of regional problems has been slow and halting, but as the members became more at ease in working with one another, it tackled political subjects and has become an important forum for discussing foreign affairs. Malaysia sees it as a handy vehicle for promoting its pet foreign policy project, the creation of a Southeast Asian neutral zone. Singapore, although it actively participates, does so only to accommodate the other four members in the organization.

Despite their differing views on the importance of ASEAN, both Singapore and Malaysia agree that it is a sufficiently ambitious effort at regional cooperation for the present. Both have made clear their disinterest in the kind of broad forum encompassing all the nations of East Asia pushed by Australian Prime Minister Whitlam.

Neutralization Malaysia and Singapore are also at odds over the practicality of Kuala Lumpur's neutralization scheme. Malaysia has been vaguely advocating the neutralization of Southeast Asia for the past six years without ever clearly laying out specific objectives. Malaysia calls, for example, for Great Power guarantees, but has never approached the major countries on the subject. Kuala Lumpur glosses over such knotty problems as the proposal's compatibility with the US military presence in two ASEAN member states—Thailand and the Philippines—as well as its own participation in the Five Power Defense Arrangement. The other ASEAN members have unenthusiastically endorsed neutralization as a distant objective, but have resisted any joint efforts to make it an early reality. This lack of enthusiasm has caused Malaysia to ease up on its campaign in the past year.

Even though it accepts its colleagues' reservations, Kuala Lumpur is nettled by what it sees as Lee Kuan Yew's unnecessary sarcasm in expressing contempt for the concept. At the Com-

monwealth heads of state conference in Ottawa last August, Lee declared that ASEAN members were "whistling in the dark" and creating a "Shangri-La in their minds" if they think that the major powers are about to guarantee Southeast Asian neutralization.

Big Power Presence The two countries' differing attitudes toward regional cooperation and neutralization are reflected in the variance in their views toward a Great Power presence in Southeast Asia. Singapore, as an extremely small, predominantly Chinese country that long relied on British protection against the Malay majority in the region, sees a continuing Great Power involvement in Southeast Asia as a counterweight to the relative power of its Malay neighbors. Malaysia's visions of a Southeast Asia free of Great Power rivalries, on the other hand, reflects its belief that it has little need of protection from its neighbors. The Razak government in Kuala Lumpur, while basically pro-West, prefers to keep all the major powers at arm's length. The Lee government would like to develop a closer relationship with the US.

The US connection is becoming increasingly evident in Singapore. American investment has grown to 45 percent of all foreign investment and is approaching a total of about \$500 million. Singapore provides important services for US military forces in the region, including ship repairs for the US Seventh Fleet at the government-owned Sembawang shipyard and aircraft repairs at Lockheed Air Services Singapore. The government has stopped bunkering US naval vessels or servicing US military aircraft to avoid inclusion in the Arab oil embargo, but has turned a blind eye to continued provision of the services at British facilities on the island. Moreover, Singapore is becoming increasingly reliant on the US as a source for sophisticated military equipment and training. The Prime Minister is an outspoken advocate of a continuing US military presence in Southeast Asia, a reflection of his inclination to draw the US into the kind of protector role that the British formerly performed.

Soviet Presence Although they differ on the desirability of a continuing Western Great Power

SECRET

SECRET

presence in the area, neither Lee nor the Razak government wants the Soviet Union to play a major role in Southeast Asia. Razak is wary of the potential threat of Soviet subversion but is interested in Soviet and East European technical and economic assistance. Kuala Lumpur is also looking into the possibility of buying military equipment from the Soviets and the Yugoslavs, in part to avoid exclusive dependence on the West. The Malaysians know that support of the major military powers (the US, China, and USSR) will be necessary if their neutralization scheme is to be realized.

Singapore, for its part, welcomes Soviet commercial vessels and occasional naval auxiliaries at the government-owned Keppel shipyard—a policy calculated more to make money and to maintain some semblance of a nonaligned image than to maintain a truly even-handed policy toward the super powers.

The China Question Relations with China are a sensitive issue for both Malaysia and Singapore because of their large ethnic Chinese population. Indeed, Peking's refusal to disavow all ties to the Overseas Chinese in Malaysia has been the main stumbling bloc in negotiations over recognition that have been going on for months between Peking and Kuala Lumpur. Some compromise on both sides, however, plus Kuala Lumpur's eagerness to establish contacts with Peking, may result in recognition this spring. The prospect of Malaysian recognition has put some pressure on a reluctant Singapore to follow suit. But Singapore continues to develop close ties with the Nationalist Government on Taiwan, welcoming Taiwanese ship visits in exchange for Taiwanese military assistance in the form of pilots, aircraft mechanics, and artillery training facilities—the kind of action most apt to alienate Peking.

Strait of Malacca On another regional issue, Singapore and Malaysia differ sharply over the desirability of recognizing the Strait of Malacca as an internal waterway. The strait is less than 24 miles wide at two points and comes within the 12-mile territorial limits claimed by Jakarta and Kuala Lumpur. Both have pressed for international ac-

ceptance of their claim to at least some control over international shipping through the strait. For its part, Singapore, because of its status as a major port and because of its dependence on the entrepot trade, sides with the major naval and economic powers in advocating unhindered free transit through the strait. The issue has been downplayed by both sides for the past year, but it will be raised at the Law of the Sea Conference in 1974.

Other Area Relations Both governments agree on the importance of building closer ties with Indonesia. Singapore does so largely for economic reasons. Malaysia, with deeper, more lasting links of blood culture, has more permanent connections. Malaysia and Indonesia are already cooperating—in joint military patrols of the Malacca Strait, in countering the communist terrorists in Sarawak, and in planning for common air defense.

Singapore pays more attention to improving ties with the non-Malay ASEAN states, Thailand and the Philippines. It has arranged for guerrilla training in Thailand for its elite special forces and has tried to sell its fast patrol boats to Bangkok and Manila. Singapore's gestures toward Bangkok and Manila are in part attempts to offset Indonesian/Malaysian strength within ASEAN and, as such, arouse some Malaysian suspicion.

Middle East Complications Middle East tensions have put some strain on the foreign policies of both governments. Singapore's close ties with Israel have been a liability in the current world scramble for oil. Singapore's refineries—upon which its ship bunkering services are dependent—obtain the bulk of their crude oil from the Persian Gulf. In view of this, the government has reluctantly joined its ASEAN partners in deploring Israeli occupation of Arab territory. The Razak government, on the other hand, has spoken out forthrightly in support of the Arab cause, both out of conviction and because politically Razak cannot afford to lose the support of his substantial Muslim constituency on the emotional and potentially volatile issue.

SECRET

SECRET

Prospects

So long as racial antagonism between Malaysia and Singapore—or in the region at large—can be kept to a minimum, it should be possible for relations between the two states to improve. There will obviously continue to be many issues and problems on which their interests will conflict, but—with give-and-take on each side—compromises can be reached and workable solutions found. The alternative to amicable relations would be more damaging and far-reaching in the

future than it has been in the past. If Singapore continues to build up its military strength, Malaysia may feel compelled to follow suit, perhaps looking increasingly to the Soviet Union and other East European states for sophisticated weaponry. The revival of any tit-for-tat bickering between a better armed Malaysia and a militant Singapore could be highly destructive, and this specter alone provides the most compelling reason for both sides to make a determined effort to get along.



25X1

SECRET

Secret



25X1

Secret