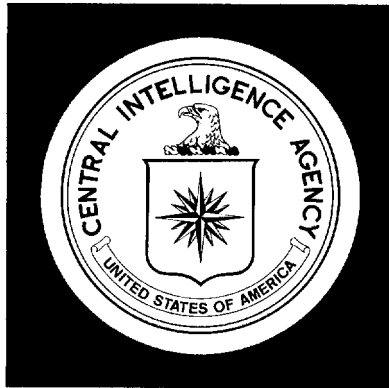


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Weekly Summary

State Dept. review
completed

NAVY review
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DIA review(s)
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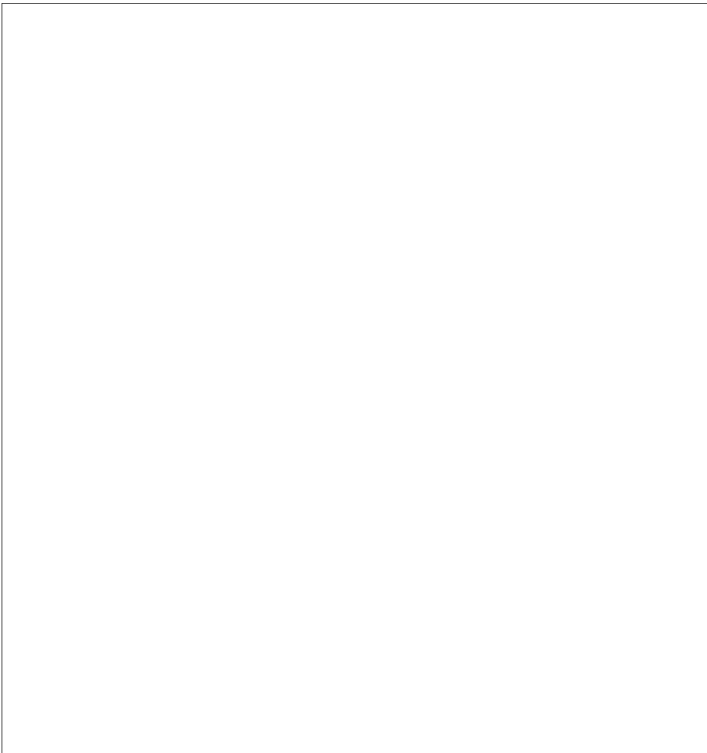
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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.



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



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Mitterrand



Giscard d'Estaing

France

GAULLISTS OUT OF THE RACE

6 Early polls on the second round of the French presidential election between Francois Mitterrand and Valery Giscard d'Estaing on May 19 indicate that the outcome may be very close. The French electorate clearly wants economic and social changes, and both candidates are promising reform. The voters must decide if they prefer Giscard's moderate proposals or if they will back Mitterrand's more radical program despite his links with the Communists.7

6 [In the first round Mitterrand took 43 percent and Giscard 33 percent of the votes. Despite a record turnout, Mitterrand failed to improve on the proportion of first round votes usually won by the left. Inasmuch as the left was almost completely united in the first round, it is thought that Mitterrand will not gain many votes in the second round. Giscard must work hard, however, to prevent abstentions on the right that would give the victory to Mitterrand.7

6 [The resounding defeat of Jacques Chaban-Delmas, who won only 15 percent of the votes, probably spells the end of Gaullism as the prime political force in France. Most Gaullists agree that their party is in trouble, but they disagree on how the damage might be repaired. The realists know they must now back Giscard if they want to go on participating in the government, and the party has officially announced its backing of Giscard in the second round. The strong feelings between those who differed over their support for Chaban or Giscard in the first round will add to earlier grudges, however, and divide the movement for years to come.7

7 [The Gaullists are now split into three factions. The first, led by Interior Minister Chirac, never did join Chaban's cause and embittered other Gaullists by aiding Giscard. This group claims the allegiance of about 70 of the 183 Gaullist deputies. It will probably soon merge with the second group, led by Housing and Development Minister Guichard. This group claims 80 deputies. Guichard stayed out of the first round infighting, but now believes the Gaullist movement will totally disintegrate if it does not come to terms with Giscard. Guichard hopes to become the spokesman for all Gaullists in the between-the-rounds negotiations with Giscard, and has been widely touted as a possible prime minister under Giscard.7

6 [The third and smallest faction is led by the Gaullist old guard which has resented Giscard for years. A member of this faction, the party secretary-general, has in fact now endorsed Giscard, but this decision probably reflects fear of a leftist victory rather than a move to repair party unity.7

6 [Regardless of which candidate wins the race, the legislative electoral law, which favors the Gaullists, is likely to be amended. Both Giscard and Mitterrand favor representation in the National Assembly based on the population of election districts. This plan would reduce the number of rural districts where Gaullists are strong and increase urban districts from which the other major parties draw their strength. The Socialists and Communists—as well as Giscard's Independent Republicans—would expect to gain many seats at Gaullist expense under a proportional system.

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Syria-Israel

Fighting on the Syrian front this week was down substantially from that of previous weeks as both sides took steps to limit military activity, apparently because of Secretary Kissinger's Middle East trip to mediate an Israeli-Syrian disengagement. The area round Mount Hermon continued to be the focal point of the action.

The heaviest activity occurred on May 2 when Israeli aircraft attacked Syrian and fedayeen targets in the Ayn Ata-Shaba area of southeastern Lebanon. Israeli aircraft continued attacks in this area on May 3 and 4, returning again later in the week for strikes in the same general area.

Israeli long-range artillery shelled Syrian military camps at Qatana and Al Kiswah on May 2. Both camps are well behind Syrian lines. Tel Aviv claimed that the shelling was in retaliation for Syrian fire that killed four Israeli soldiers and wounded two others.

Both Israeli and Syrian aircraft carried out combat missions over the front on May 6. The Israelis struck Syrian positions south of the salient into Syria, while the Syrians attacked Israeli targets behind the battle line.

By mid-week, fighting had again scaled down, with only light tank and artillery fire being exchanged along the front.

MORE SOVIET EQUIPMENT

Syria continues to receive large amounts of military equipment from the Soviet Union. During the past seven weeks, Moscow has provided Damascus with a wide assortment of air and ground forces equipment, some of which may be from a new aid agreement obtained by Syrian President Asad during his visit to Moscow in mid-April. At that time, the Soviets reportedly agreed to provide Damascus with substantial amounts of additional military equipment.

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Since mid-March, over 120 T-62 medium tanks, some 45 fighter aircraft, large numbers of armored personnel carriers, and FROG unguided rockets have been delivered to Syria.

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Press reports out of Beirut late last month claimed that Syria was using "multi-headed" surface-to-air missiles recently supplied by the USSR. These reports may have been referring to the vehicle-mounted SA-7 system.

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PORTUGAL

FILLING THE GAP

12. [A flowering of new political parties and groupings has created a fluid political situation in Lisbon and has added to the junta's difficulties in deciding who will participate in the provisional government it has promised to form by mid-May.]

13. [Thousands of returning political exiles and recently freed political prisoners have joined with other citizens in contributing their energy and political talent to a number of newly created political groupings. A majority of these new parties have a leftist orientation. Their organizers have emerged from hiding after years of clandestine operations.]

14. [Socialist Party leader Mario Soares, who has been very active since his return from exile, traveled to European capitals last week to meet with various heads of state and to drum up financial and technical support from European Socialists. He apparently met with some degree of success, because Georges Dubunne, the vice president of the International Confederation of Free Trade Unions, has said that he and other European labor leaders will visit Portugal soon to demonstrate their support for Soares. British Labor Party leaders also have promised aid to Soares and his party.]

15. [Soares is in favor of including Communists in the provisional government on grounds that it will be better to have the Communists share cabinet responsibility than leave them on the outside to criticize. He emphasized that the Communists would be denied sensitive portfolios such as the foreign, defense, and interior ministry posts. Soares implied that he would become prime minister.]

16. [Meanwhile, the climate of political tolerance in Lisbon has sparked a rash of political demonstrations and seizures of public institutions. One large group demonstrated in front of junta headquarters for better pay and shorter hours. Last week, well-organized employee groups took over operations of the telephone company, the government airline, and some local government offices.]



Soares

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17 The junta reacted to this activity on May 5 by issuing a toughly worded statement warning that such acts will be considered "insubordination and a crime against the Armed Forces Movement." The Portuguese Communist Party issued a similar warning, but it has become apparent that the party is unable to exercise effective control over the extreme left.

18 Demonstrations and seizures have diminished this week, but concern is growing within the business community that the country is headed for a period of economic disorder. To reduce the flow of wealth abroad, the junta on May 8 imposed a series of belt-tightening economic measures, reinforced by the threat of heavy jail terms for violations.

STRATEGY IN AFRICA

19 During the past week the junta leaders began to amplify their policy toward Portuguese Africa. The immediate objectives are to put the insurgents on the political defensive and to reassure the sizable white populations of the major territories that Lisbon will not abandon them.

20 In press conferences in Angola and Lisbon, General Costa Gomes, the number two man in the junta and chief of staff of the armed forces, urged the insurgents to stop fighting and participate in a free political "dialogue" along with other political forces in the territories and the metropole. His offer was, in effect, a challenge to the rebels to prove in the open their long-held claims of wide popular support. It also was apparently intended to let the insurgents know they cannot expect Lisbon to defer to them on the basis of their alleged military strength or control of territory.

21 Although insurgent leaders immediately rejected Costa Gomes' offer, they clearly have been put off balance by the sudden switch in Lisbon to a regime advocating major changes in African policy. They are under strong pressure to compromise with the junta from independent African leaders who have supported them over the years and who now sense a possible way out of a black-white military confrontation. At the same time, however, a number of insurgent organizations cannot afford to have the actual amount

of territorial control and public support they command, which is much less than claimed, brought out into the open.

22 Rather than risk such exposure they may try to force Lisbon to the negotiating table, particularly in Portuguese Guinea and Mozambique, where the rebels have strong military positions. In Angola, however, rebel groups are internally divided and in sharp competition with each other. The level of insurgency has been low for several years, and the rebels may be forced by their own limitations, and by African pressure, to enter the political arena as their only hope.

23 Costa Gomes' press conference in Angola was in part an attempt to "show the flag" in Africa and calm fears of local whites in both Angola and Mozambique that Lisbon might abandon them. The liberal policies of the junta have sharpened misgivings long held by whites over the strength of Lisbon's commitment to stay in Africa.

24 White apprehension has been particularly noticeable recently in Mozambique. There, a single unified insurgent movement has been making slow but steady military gains, which have now brought them into areas of heavy white settler concentration, leading the whites in recent months to demonstrate for stronger military protection.

25 Costa Gomes' visit to Angola was marked by reassuring public speeches and was followed up by warnings from local officials that civil disorders would not be tolerated. In the present period of political euphoria, the junta is anxious to avoid clashes among social and political organizations that are certain to emerge in response to the junta's desire for political liberalization.

26 Just prior to Costa Gomes' arrival in Angola, the junta dispatched a special representative to Mozambique to serve as an adviser to the local administration. Costa Gomes is planning to visit Mozambique shortly. Lisbon announced on May 8 that General Spínola will visit Angola in the near future.

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EC PONDERES ITALIAN IMPORT CURBS

20 In failing to agree this week on a common response to Italy's import restrictions, the EC Council gave further evidence of the community's present ineffectiveness. Using its right under the community treaties, however, the EC Commission has sanctioned the Italian measure, subject to certain limitations.

20 Commission President Ortoli said after the meeting that the commission's acceptance of the Italian action on "a strictly temporary basis" brings it within the community framework. The commission's authorization, however, was described [redacted] as a device to camouflage the inability of the ministers either to approve Italy's independent action or agree on practical alternatives.

20 France and Germany, the two EC countries hardest hit by the move, blocked a council stamp of approval, primarily because of the impact on their own agricultural producers.

20 The preparation by the commission of special recommendations to harmonize Rome's policy with the demands of the common agricultural policy will be of primary importance. German and French objections to the controls placed on beef exports will force the commission to report back to the council if an alternative cannot be found.

21 The commission will also now suggest further moves Rome might take to curtail Italy's staggering balance of payments problem. The commissioners feel Italy should limit the expansion of its money supply, increase taxes, stimulate savings and control public expenditures. The commission will work with Rome to develop an EC approach to the Italian problem and by June 30 will review the entire series of measures and products affected.

20 The council also took no action on a proposal to turn Italy's short-term EC credit line—which expires in September—into a medium-term borrowing facility. The move had been opposed

by the EC monetary committee, and in any case, Italy expressed little interest at this time. The matter of credit extension, however, is likely to remain under discussion as Italy will be hard pressed to repay its \$1.8 billion debt to the EC on schedule.

21 The new Italian measure requires the deposit of fifty percent of the value of imports in a non-interest bearing account for six months. Forty percent of Italy's annual imports are affected. The two largest categories—meat and motor vehicles—are also the EC's primary exports to Italy. US exports to Italy will be relatively less affected than those of the EC.

21 The deposit scheme aims at curbing Italy's economic problems on three fronts: cutting the trade deficit; fighting inflation by reducing the money supply; and inducing capital inflows from foreign suppliers intent on retaining their share of the Italian market.

21 While the move will probably have a beneficial effect on all three counts, it is unlikely to prove decisive in solving Italy's dire economic problems. It is designed primarily to help the economy muddle through to the end of the year.

21 Rome nevertheless had to adopt some form of import restrictions to curb Italy's rapidly deteriorating balance of payments position. Despite heavy borrowing, Italian foreign currency reserves were dwindling at a rate unacceptable to both Rome and its creditors. Alternatives to the scheme were rejected for a variety of reasons. A sharp lira devaluation would have intensified the record-breaking rate of inflation while offering only a delayed improvement in the trade balance. Differences within the ruling coalition over the wisdom of using deflationary monetary and fiscal policy made this course nearly impossible, while more extreme import restrictions would have violated the EC treaties.

21 The Nine thus had little choice but to accept Rome's import restriction plan. While the short notice given its partners may have violated the

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spirit of the Rome Treaty, the emergency measure was not illegal. The indecisiveness of the council debate again demonstrates the divergent interests of the member states and their inability to act in concert. The commission action nevertheless does prevent Italy from being isolated from the community at a time when the EC is already reeling from a succession of blows, the most recent being the Brandt resignation only the night before the ministers met.

By bringing the Italian controls under the EC treaties, the community is not only committed to search for an EC remedy to the Italian problem, as required by the treaties, but it can also defend Italy in the several international bodies investigating the propriety of the restrictions. By emphasizing the severity of Rome's problem, and making a point of its special nature, the commission may hope to discourage the use of restrictive trade measures by other states also faced with continuing inflation and balance of payments problems.

BONN'S RECORD TRADE SURPLUS

Bonn continues to rack up record trade surpluses, despite an increasing oil bill and the faltering economies of its major trading partners. The first-quarter surplus hit a record \$4.9 billion.

The large surplus last year resulted in part from German ability to make timely deliveries. Unlike other countries, where consumer demand was high throughout the year, Germany experienced a slowdown, freeing industrial capacity for export production. The ability of German producers to hold export prices down also contributed to rapid sales growth. Imports, on the other hand, grew relatively slowly because of stagnating domestic demand.

Extraordinary circumstances in the early part of 1974 accentuated these basic trends. Industrial strikes in Italy and a three-day workweek in the United Kingdom diverted orders to West German industry. Release of chemicals and other materials, which had been held off the market by

German traders during the Arab oil cutback in anticipation of price rises, also boosted sales.

First-quarter exports rose 44 percent compared with the same period last year; imports increased by 29 percent due entirely to higher prices. Import volume actually declined, while export volume rose by about 15 percent. West Germany's trade performance has been a major factor in the recent strengthening of the mark. The mark has appreciated 15 percent against the dollar since January.

As the special factors fueling the huge first-quarter surplus fade, the trade balance probably will narrow. Returns for March showed a decline in the surplus from the level in February. For this year as a whole, West Germany will probably have a surplus of about \$11 billion—\$2 billion off from last year's record total. Much higher prices, particularly for oil, will push up import costs. Slow domestic growth, however, will keep import demand depressed. Export growth will probably be down appreciably; automobile sales, particularly to other European countries, have already fallen off sharply. The growth in orders for other export goods is also declining.

WEST GERMAN FOREIGN TRADE

Quarterly 1973/1974

(\$ Millions)

	Exports (f.o.b.)	Imports (c.i.f.)	Trade Balance
1973 I	13,791	11,846	+1,945
II	15,942	13,401	+2,541
III	18,202	14,041	+4,161
IV	19,471	15,463	+4,008
1974 I	20,183	15,281	+4,902

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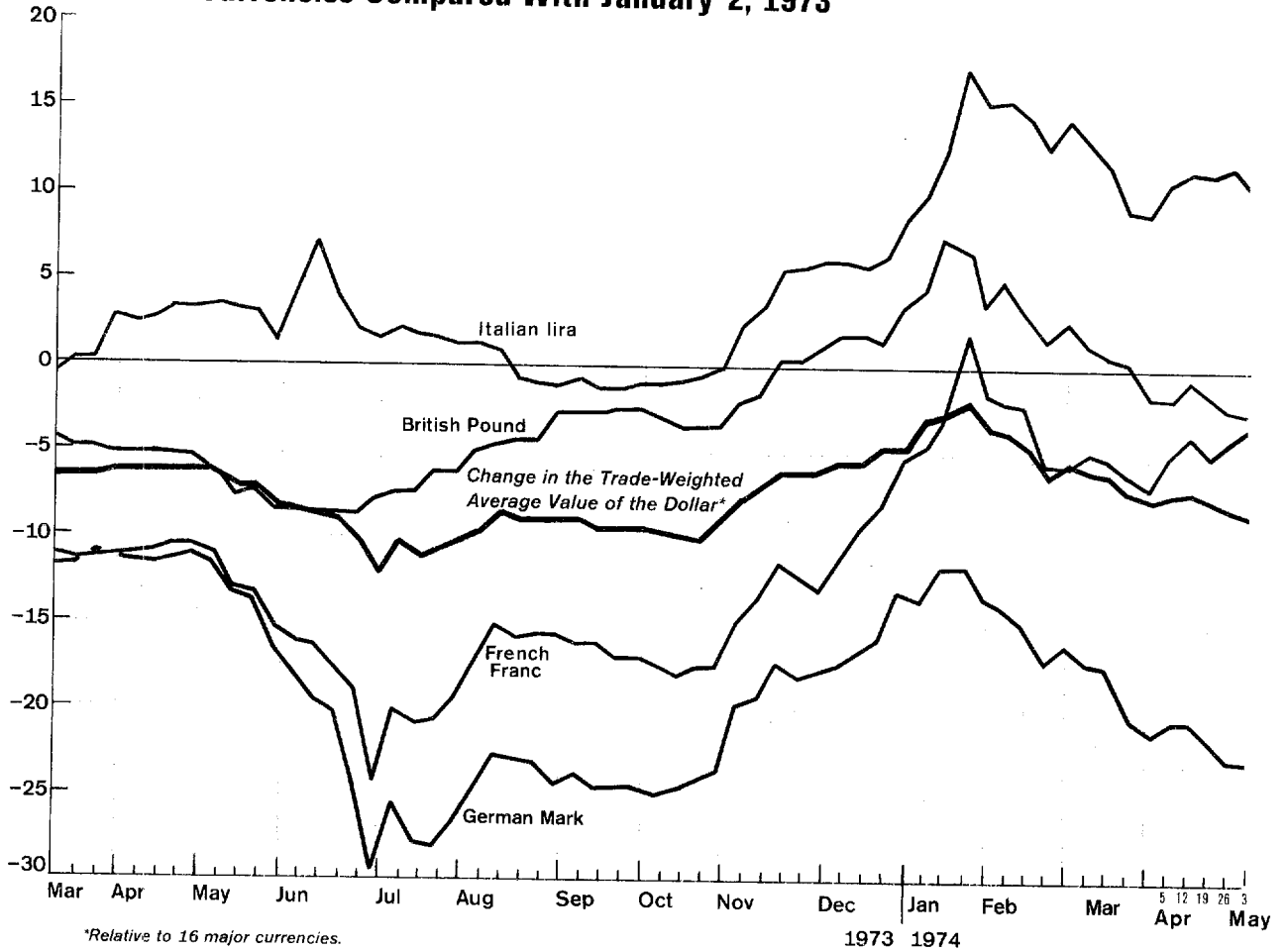
INTERNATIONAL MONEY

Over the last two weeks, the dollar has weakened substantially against most European currencies, while strengthening slightly relative to the yen. The mark, the guilder, and the Belgian franc have appreciated more than 2.5 percent against the dollar, while the pound and the lira also strengthened substantially. Because of the mark's continuing strength, the Bundesbank had to purchase Belgian francs and Danish crowns last week to keep the joint float currencies within the prescribed 2.25 percent band.

Following last week's announcement of import curbs, Rome reportedly was able to end its massive support of the lira. Market intervention has cost Italy about \$4 billion since the beginning of the year. Whether Rome can stay out of the market, without the lira declining sharply, depends largely on the success of the import measures.

West Germany's continued strong export performance in the first quarter this year and its

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



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success in bringing inflation below the US rate are major factors in the rise of the joint float currencies. Last Friday, Bonn announced a trade surplus of \$1.8 billion for March, which brought the first quarter surplus to a record \$4.9 billion. These trade figures again sparked rumors that the mark would have to be revalued.7

Uncertainties surrounding the French presidential election have caused the franc to depreciate sharply against other European currencies during the last two weeks. As in the past, fear of a leftist government has caused the flight of capital.

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MBFR: BEGINNING AGAIN

The East-West force reduction talks resume in Vienna this week with little to indicate that the new round will show more progress than the previous one. Although the chief Soviet representative, Ambassador Khlestov, recently said that the negotiations were "condemned to succeed," neither side seems prepared to advance much beyond the proposals presented last fall.

The West wants a two-phase reduction leading to a "common ceiling" on ground forces. Because the Warsaw Pact has considerably more ground forces in Central Europe than NATO does, the pact would be required to make greater reductions to reach the common ceiling. Under the allied plan, US and Soviet forces would reduce in the first phase and other participants in the second. The Soviet proposals foresee reductions that would be less asymmetrical than those proposed by NATO, with the forces of all participants reduced from the beginning, including air and ground forces as well as nuclear weapons.

This negotiating round is likely to continue the pattern of plenary meetings for the formal presentation of views and informal sessions for more candid discussion. The Soviets will probably

continue to push the idea of initial symbolic reductions—primarily designed to include West European forces from the start. To entice the allies, the Soviets have said these symbolic reductions could be very small and might only cover ground forces. But the allies remain opposed to even symbolic initial reductions of their forces.

In pressing their basic proposal and their symbolic reductions idea, the Soviets will continue to emphasize the importance of including West German forces from the very beginning. Ambassador Khlestov recently remarked to Ambassador Stoessel in Moscow that, for the Soviets, this is not just a military but a psychological necessity.

There may also be new attempts by the Soviets to deal bilaterally with the US, a move that would be staunchly resisted by the Western allies, who recently have been more cautious on a number of specific issues. While this caution is likely to increase as the negotiations become more complex, British skepticism may be somewhat relaxed.

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The caution of the West Europeans about the force reduction negotiations may be exacerbated by the uneasiness many of them feel about the course of the European security conference in Geneva. Some suspect that the West has already given away too much to get agreement on the "inviolability of frontiers," and they are concerned about how the subject of most importance to them—the freer movement of people and ideas between East and West—will be treated. Although the East has reportedly decided to be more flexible, the conference is currently stalled on the freer movement issue. The Eastern side may intend to make last-minute concessions, since it still desires a summit-level conclusion to the security conference this summer.

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UK: GOVERNMENT-LABOR HONEYMOON

NO SOURCE

Prime Minister Wilson appears to be gambling that by meeting some of the trade unions' current demands he will be able to keep industrial peace, at least until the next election, without resort to inflationary wage increases. Thus far, most union leaders have been responsive, although this week one of Britain's largest unions challenged the government by calling a one-day strike over a non-wage issue. Wilson is still under pressure, particularly from the left wing, to call an election in June, but other party leaders are urging the prime minister to wait until fall after vital labor legislation has been passed and EC negotiations are under way.

Shortly after taking office, Wilson proposed a "social contract" to leaders of the Trades Union Congress (TUC). Under such an arrangement, the unions would agree to keep wage demands within the limits of Stage Three of the previous Tory government's counterinflation program. In return, the government would try to hold down prices and rents and enact some social welfare measures. It also agreed to abolish the controversial Industrial Relations Act enacted by the Tory government.

The Wilson government lived up to its part of the bargain and last week Employment Secretary Foot introduced legislation to repeal the Act. Secondary boycotts will once again become legal, and the closed shop will be given a new lease on life. Other union demands, however, such as the restoration of former picketing rights—opposed by both the Tories and Liberals—were not included in Foot's bill. To console the unions for not pressing this demand, the government proposed cancelling more than \$20 million in tax debts incurred by unions refusing to register under the Industrial Relations Act. The failure to register deprived them of tax exemptions. The opposition could oppose the tax cancellation scheme, but the Tories, in particular, are not prepared to bring down the Labor government in the near future.

Wilson has promised to hold talks among the TUC, Confederation of British Industry, and the government to discuss "a wide range of policies of which the question of incomes is only a part."



Wilson

Subsequently, he plans to introduce an employment protection bill, which would establish, among other things, new conciliation machinery and provide for voluntary arbitration.

The only real challenge to Wilson's labor policy thus far has come from the militant Amalgamated Union of Engineering Workers, which called a brief strike earlier this week. The union decided to strike because of a decision by the National Industrial Relations Court confiscating some \$500,000 in union assets. The court action grew out of the union's refusal to pay more than \$117,000 in damages to a small engineering plant as ordered by the Court. The strike was called off after the Court accepted an anonymous offer to pay the damage levy.

Wilson's courting of the unions may result in a period of labor peace for the present, but a protracted honeymoon is not assured for a number of reasons. Inflation almost certainly will continue to plague Britain, increasing the chances that the unions will insist that wages keep at least abreast of price rises. Inflation contributed to the abrupt end to labor's cooperation with the last Labor government. The unions, particularly the TUC leadership, have a poor track record in maintaining discipline among the rank-and-file who undoubtedly would prefer cash to cooperation. Moreover, more unions now are headed by militants who are likely to take a tougher line toward employers as well as the government.

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CANADA: TRUDEAU TOPPLED

17 Prime Minister Trudeau's minority administration fell on May 8 when his New Democratic allies joined with the Progressive Conservatives to reject the government's budget proposal. Following his parliamentary defeat, Trudeau asked Governor-General Leger to dissolve parliament and set national elections for July 8.

20 Political tension has been building in Ottawa for the past month as Tory MPs hammered away at Trudeau's economic policies. April was a bad month for the Liberals: new statistics showed another rise in the cost-of-living; the prime lending and home mortgage rates increased; and widespread labor troubles were blamed on the government's inability to control inflation. Throughout this period the Liberals appeared to be floundering about without any serious direction. At one point Trudeau even gave his critics some additional ammunition by taking a week's vacation—a development few Tories overlooked in charging that the government was leaderless.

22 The Liberal New Democratic alliance had been showing signs of strain since the beginning of the year. In the face of this increasingly effective attack on the government, the New Democrats reassessed their position and decided it was time to dump the prime minister. Many New Democratic MPs were concerned that continued association with Trudeau's policies had become more of a liability than an asset, particularly among the party's traditional supporters.

24 If the tone of the budget debate is an indicator, the election campaign is likely to be hard-hitting. The dominant issue will be inflation; the cost-of-living rose 9.1 percent in 1973 and is running at about 10 percent this year.

26 In the campaign, the Liberals will stress their budget proposals, which are aimed at increasing corporate income taxes and providing hard-pressed consumers with some relief from higher prices. The Conservatives are committed to instituting temporary wage and price controls, to be followed by a comprehensive program to combat inflation. The New Democrats will advocate,



Trudeau

among other things, an excess profits tax, special reduced home mortgage rates for moderate to low income families, and a two-price system—domestic and international—for basic commodities produced in Canada.

28 It seems likely that neither the Liberals nor the Tories will be able to win a majority of the parliamentary seats in July. Much will depend on how the electorate reacts to Trudeau's performance during the campaign. In 1968, his colorful style caught the voters' imagination and he led the Liberals to an overwhelming victory. In 1972, however, he chose to run a more subdued campaign and his aloofness contributed significantly to heavy Liberal losses.

30 The course of Canadian-US relations should remain unaffected by the results of the election. All parties favor—to one degree or another—Ottawa's present policy of trying to achieve greater independence from the US.

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**Czechoslovakia
PRESIDENTIAL SUCCESSION**

(31 + 32)
Czechoslovakia's 78-year old President, General Ludvik Svoboda, is gravely ill and his death could occur at any moment. Finding a replacement for the widely respected Svoboda is a ticklish problem for the regime because the selection risks altering the leadership's delicate balance between moderates and hardliners.

25X1 The issue of Svoboda's successor has plagued the regime for some time. Last year, he was persuaded, [redacted] to accept a second five-year term in spite of his failing health. Svoboda's progressive arteriosclerosis has now worsened, and he has been under intensive care in a Prague hospital since April 25. The regime has recently begun issuing daily statements that Svoboda's respiratory and circulatory malfunctions have further weakened his health.

In selecting Svoboda's successor, the party presidium (politburo) must at the same time maintain the delicate political balance, meet Moscow's desires, and satisfy the constitutional



Svoboda

requirement that parliament elect a new president no later than 14 days after the office becomes vacant.

The issue of nationality further complicates the problem. The new President should be a Czech, because Gustav Husak, the current party chief, is a Slovak. The two most likely Czech candidates are Chairman of the Federal Assembly Alois Indra and Premier Lubomir Strougal. Each is a Presidium member, but neither would probably want to take up the largely ceremonial office of President. If both refuse, the choice might fall to a less prominent party figure such as Federal Deputy Premier Josef Korcak, who is also Premier of the Czech lands.

Another, though less likely, possibility would involve inducing the 61-year old Husak to relinquish his job as party chief in order to assume the presidency. There has been recent speculation that some party leaders believe Husak too moderate; they would like to kick him upstairs in order to install a hardliner as the party's secretary general. Conceivably, Moscow might approve such a step as a means of further tightening discipline in the face of the presumed disruptive effects of detente on Eastern Europe.

An even less likely option would be for Husak to assume the presidency while retaining the top party post. This arrangement existed during the 1960s under Antonin Novotny, but his downfall discredited the practice.

The most remote possibility is that the regime might abolish the presidency entirely. This would make Indra, as chairman of the Federal Assembly, titular chief of state, much as Nikolay Podgorny fills that ceremonial post by virtue of being Chairman of the Presidium of the Supreme Soviet. Such a step would, however, offend most Czechoslovaks to whom the post of President of 25X1 the Republic retains some of the prestige given it after 1918 by its first incumbent, Thomas Masaryk. [redacted]

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ITALY: DIVORCE DIVIDES

2 Italian voters go to the polls on May 12 to decide on repeal of a 1970 law that legalized divorce. The outcome of the referendum, however, may determine more than the fate of a specific law. Most politicians are playing for higher stakes, and the battle over divorce could further divide Italy's ruling parties and affect the Communist Party's drive for a role in the national government.

3 The referendum has been postponed twice on technicalities since 1971 when anti-divorce activists collected enough signatures to schedule a national plebiscite on the divorce law. Attempts to postpone it again failed early this year, and the campaign has been under way since early April.

4 At the outset, most participants expressed their preference for a "civil and responsible" campaign. The contest in its last week, however, has transcended the divorce issue, triggered violence, and acquired the air of a general political campaign.

5 The campaign has split the Christian Democrats—Italy's largest party—from their three coalition partners. The Christian Democrats are campaigning hard against the law while the Socialists, Social Democrats, and Republicans want it retained.

6 The referendum has also fostered embarrassing ad hoc alliances between the coalition members and opposition parties on the right and left. The neo-fascist Italian Social Movement, for example, is the only party that supports the Christian Democrats' anti-divorce stand. The other coalition parties are uncomfortably lined up with the Communists in favoring divorce.

7 The divorce issue has thus been nearly submerged as the themes of anti-fascism and anti-communism have taken the spotlight. The polar-

ization of the campaign has been encouraged by recent bomb attacks linked to right-wing extremists and the kidnaping of a prominent public official by extraparliamentary leftists.

8 A personal struggle between the leaders of Italy's two largest parties—Christian Democrat Amintore Fanfani and Communist Enrico Berlinguer—has added an additional dimension to the campaign. Berlinguer tried to get Fanfani to go along with a plan to cancel the referendum as a means of avoiding an open fight with the Christian Democrats. Berlinguer had been arguing since October that the time was ripe for better relations between the two parties, a necessary prerequisite for Communist admission to the government. Fanfani's refusal to compromise, however, gave substance to the concerns of more militant Communists who think Berlinguer has gone too far in his efforts to "compromise."

9 The political impact of the referendum will depend largely on the margin of victory for the winning side. Most observers expect the outcome to be close. Both sides would be hard-pressed to make much of a narrow win. A large pro-divorce verdict, however, would encourage Communist chief Berlinguer to keep up his pressure for an accord with the ruling parties. A resounding defeat for advocates of divorce would expose Berlinguer to criticism from Communist hardliners. It would also put the Christian Democrats—Fanfani in particular—in an even stronger position.

10 Regardless of which side wins, the Christian Democrats will retain the initiative in the political "stocktaking" following the referendum. If tensions produced by the referendum cause the government to fall, the Christian Democrats will probably try to form still another center-left coalition with the Socialists. The record of center-left governments over the last decade is unimpressive, however, and a win for the Communist side in the referendum would inevitably increase pressure for a broader coalition—including the Communists—to deal with Italy's pressing social and economic problems.

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USSR: NAVY ACTIVE AGAIN

(36, 37, 38)
Since the beginning of May, the Soviet Navy has again become active in various areas of the world.

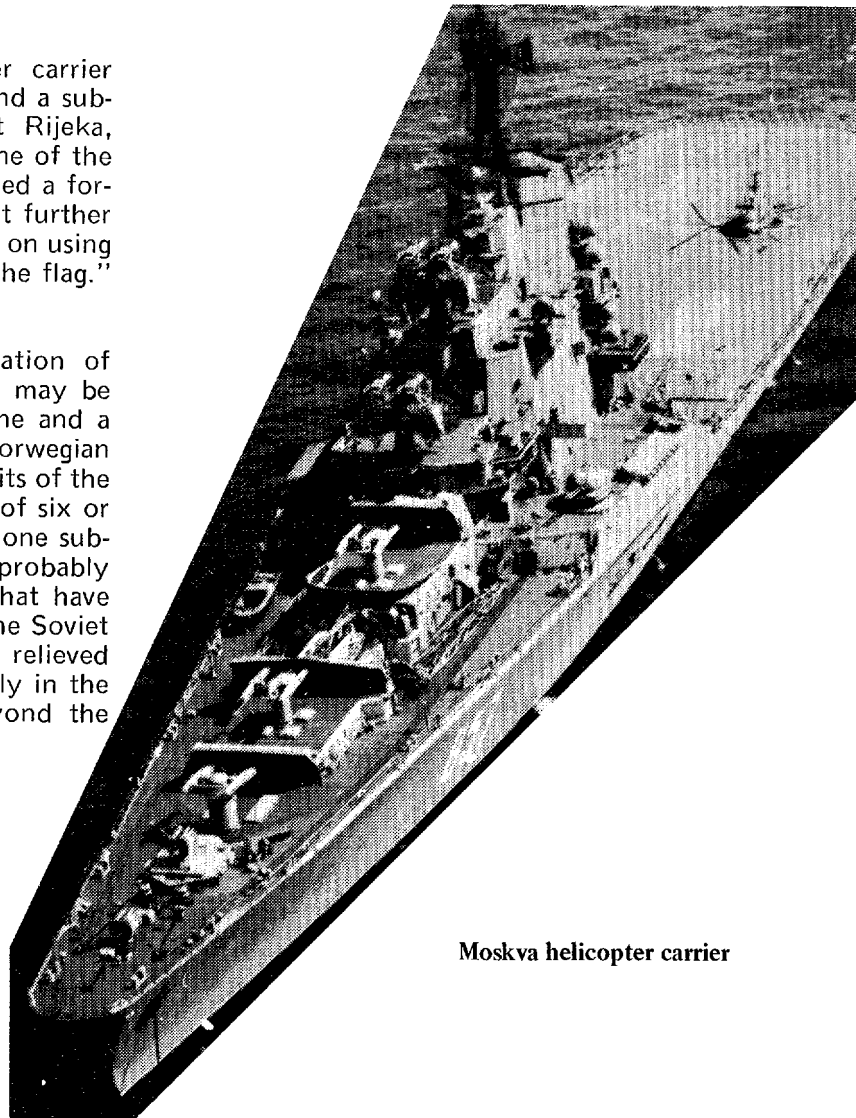
A group of Soviet ships—two guided-missile destroyers, a diesel-powered ballistic missile submarine, and a tanker—arrived in Havana on April 30 to begin a series of port calls and operations with the Cuban Navy. This well-publicized event is the eleventh visit by Soviet warships to the island since 1969.

On May 6, the Soviet helicopter carrier Moskva, accompanied by a destroyer and a submarine, began a five-day port call at Rijeka, Yugoslavia. This is the first time that one of the USSR's two helicopter carriers has visited a foreign port other than Egyptian. The visit further points up the value that the Soviets place on using their most modern ships for "showing the flag."

There are indications that a rotation of diesel submarines in the Mediterranean may be getting under way. An F-class submarine and a submarine tender, sighted off the Norwegian coast early this week, may be the first units of the replacement group that usually consists of six or seven submarines. The sighting of only one submarine to date is unusual, but there are probably additional units following the tender that have not yet been detected. Submarines in the Soviet Mediterranean Squadron are usually relieved every six months, but the group currently in the Mediterranean has been there well beyond the normal period.

In the Soviet far east, a similar rotation is taking place. Several ships of the Pacific Fleet are heading south in the South China Sea to replace units that have been in the Indian Ocean for as long as a year. This relief force—due to enter the Indian Ocean next week—is made up of a destroyer, two escort ships, two minesweepers, and at least one submarine.

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Moskva helicopter carrier

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SECRET**A TROUBLESOME MAY FOR THE KREMLIN**

(4344)
The Soviet leaders face a busy public schedule this month, at a time when difficult and perhaps controversial policy questions in several areas have come to the fore.

Late this month the 23 top leaders will begin a round of electoral speeches preceding the Supreme Soviet elections on June 16. Selection of the right formulations for these speeches will be a serious matter in light of the impending US-Soviet summit, recent signs of fluidity in cultural and social policy, and discussion of new measures in economic management. The resignation this week of West German Chancellor Brandt adds yet another element of uncertainty for policy spokesmen. The "general line" on some of these issues has not been set, and a Central Committee plenum before the election oratory begins would thus seem appropriate. Since the issues involve many unknowns and potentially divisive questions, however, the leadership may prefer to delay any formal stocktaking.

The leaders' schedule for the last half of May is already crowded: the Libyan prime minister's visit (tentatively "mid-May"), party secretary Ponomarev's visit to the US (tentatively May 19-29), the Yugoslav party congress which a senior Soviet leader is expected to attend (May 27-30), and a visit to Moscow by the Austrian chancellor ("end of May"). If a plenum is to be squeezed in, it may have to be held soon.

Ponomarev, who is also a candidate member of the Politburo, will be heading a parliamentary group scheduled to meet with members of Congress. His delegation will include such officials as the chairman of the state committee for publishing, the director general of the news agency Tass, the chief editors of *Izvestia* and *Literaturnaya Gazeta*, and a *Pravda* political observer. These men are responsible for how the world is interpreted to the Soviet people, and undoubtedly will be seeking a first hand look at the US political scene.

An elaborate celebration of the 250th anniversary of the Soviet Academy of Sciences has been postponed until later in the year. Hundreds of invitations had been sent to prominent foreign scientists for the festivities from May 14 to 20 in Moscow and Leningrad. The Academy notified foreign guests that the observances would conflict with preparations for the Supreme Soviet elections.

It seems more likely, however, that the regime wanted to avoid embarrassing incidents in a period of political stocktaking.

The ill health of Academy President Mstislav Keldysh may also have been a contributing factor in the decision to delay the celebration.

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USSR-INDIA: ANNOYANCE ANEW

15 The warm atmosphere generated by Brezhnev's visit to India last November has now dissipated, to no one's great surprise, and the two countries are again sniping at each other.

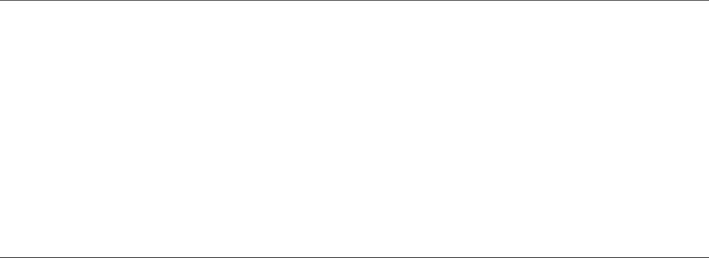
7 Moscow is unhappy about the improvement in US-Indian relations, Mrs. Gandhi's moves to the right in domestic affairs, and the Indian Defense Ministry's desire to diminish India's dependence on the USSR for arms. When the press in mid-March reported—erroneously—that India had concluded a naval aid agreement with the French, the Soviets reacted quickly, inviting the Indians to send a military delegation to Moscow. New Delhi does not expect much to be accomplished, however, because of Soviet reluctance to provide the kinds of assistance India needs to build up its armament industry.

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40 For their part, the Indians are displeased because Moscow did not respond to their request for help in restraining great power naval competition in the Indian Ocean and because the USSR has persisted in pressing for special military privileges in India.



47 New Delhi is also upset because only one new economic agreement advantageous to India has been signed with the USSR since Brezhnev's visit—a contract for one million tons of kerosene and 100,000 tons of diesel fuel. The Soviets are charging India the current high market price for badly needed fertilizer and are turning a deaf ear to requests for food grain and additional fuel.

The Kremlin apparently decided to hold back military shipments in late March or early April—perhaps in response to Sadat's intense anti-Soviet polemics, which began about that time.

48 The Soviets do not wish to be made a scapegoat for India's current economic difficulties. Recently, a Soviet official in New Delhi took the unprecedented step of calling a press conference to criticize India's performance in meeting its commitments for the Bhilai and Bokaro steel plants, two of the USSR's largest aid ventures in India. Neither is proceeding as rapidly as planned. Part of the fault rests with New Delhi, and the Soviets want to make sure they are not blamed for the delays.

The interruption of deliveries is the farthest the Soviets have ever gone in using their position as a weapons supplier to apply pressure on the Egyptians. They apparently began foot-dragging on military aid questions late last year when it became clear that Sadat was establishing a new relationship with the US and was turning to the right in Egypt's internal affairs.

50 Such bilateral problems are not unusual, particularly in the economic sphere. They tend to surface when New Delhi's relations with its neighbors on the subcontinent are relatively good and the Indians have no pressing need to curry favor with the USSR. The present frictions between the two could become more serious, however, if India continues to move closer to the US or begins to try seriously to improve relations with the Chinese.

Sadat has muted his anti-Soviet polemics during the last few weeks, and he and Brezhnev have exchanged letters discussing their differences. It is possible that, in this somewhat improved environment, Moscow might be induced to resume limited shipments of military assistance as an indicator of its good intentions.

Nevertheless, it seems likely that even if some limited shipments are resumed, the Soviets will continue to press for policies more favorable to Moscow by withholding the quantities and types of military aid that the Egyptians want. The USSR may hope that its military aid policies will trigger significant misgivings within the Egyptian military concerning the consequences of Sadat's present policies.

USSR-Egypt
MILITARY DELIVERIES CURTAILED

(51 + 52)

The Soviets appear to be tightening the screws on President Sadat by halting all arms shipments to Egypt.



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EGYPT: POSTWAR ECONOMIC BOOM

(S-04)
Most of the serious economic problems that have plagued Egypt for more than a decade now seem to have disappeared. Since the October war, Cairo has received offers of more than \$3 billion in funds from both public and private sources, creating an urban economic boom unparalleled in recent Egyptian history. Thus far the boom appears to be self sustaining, but serious problems could lie ahead if Egypt cannot quickly renovate its outdated transportation, communications, and support facilities as well as its economic institutions.

War-time aid from other Arab countries triggered the boom. Cash donations of well over \$500 million during the third quarter of 1973 enabled Egypt to repay its most urgent debts. Subsequently, an improved credit rating, the prospect of peace with Israel, and the possibility of even more Arab money have focused the attention of the international financial community on Cairo. US banks have been in the forefront of the action. Chase Manhattan has offered an \$80-million loan and has proposed establishing branch banks in Egypt. Citibank also is surveying the Egyptian financial scene, as are other Western banking institutions.

Venture capital, available for direct investment, also is pouring into Egypt. Some \$2.5 billion in international funds is now available, and the total is growing daily. Other Arabs, attracted by Egypt's relative economic sophistication and by President Sadat's liberalization measures, were the first to seek direct investment opportunities in Egypt. In rapid succession, groups from affluent Persian Gulf states agreed to finance half of the \$400-million SUMED pipeline, all of a \$400-million refinery complex at the pipeline's northern terminus, and a number of large-scale tourist ventures. Japanese firms have proposed some \$800 million in joint Egyptian-Japanese projects.

Cairo has even been relatively fortunate in the foreign trade sphere. Because Egypt is self-

sufficient in crude oil production, it has been insulated from rising oil prices. Indeed, Cairo appears to have benefited, indirectly, from the energy crisis. Lagging world output of petrochemicals and the consequent shortage of polyethylenes has caused an explosion in world demand for extra long staple cotton, Egypt's principal export. Because of soaring prices, the Egyptians have diverted cotton shipments from Communist countries to the West, enabling them to more than offset the rising cost of wheat and other imported foodstuffs on which their urban population depends.

Internal problems could multiply rapidly, however, if the investment boom continues at the present rate. During the prewar foreign exchange shortage, supporting facilities were neglected in favor of export industries, import substitution industries, and other quick yielding enterprises. Unless Cairo acts immediately to upgrade transportation, communications, power production, and other supporting facilities, expansion in the industrial and service sector will be stymied by internal bottlenecks.

Despite the flood of foreign investment capital now available, Egypt will continue to seek export credits and other financial support from other governments. Part of this financing, along with matching technical assistance, will be needed to upgrade the country's supporting facilities. With considerable justification, Cairo fears that growth financed largely with foreign venture capital will result in a reversion to prerevolutionary days when Egypt was dominated economically by outsiders. Sadat is particularly concerned that Egypt not become the handmaiden of other Arabs, a development that would deny him a free hand in his relations with Israel and the US. He also does not want to increase his reliance on the Soviet Union. Accordingly, he will look to the US and to other friendly Western governments for necessary assistance.

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JORDAN: GOOD ECONOMIC PROSPECTS

(56 + 57)
The outlook for Jordan's economy is favorable, barring a renewal of major fighting. The balance of payments was \$20 million in the black last year and will probably show a surplus of at least \$70 million in 1974. Export earnings, foreign aid payments, and the inflow of capital for development are all expected to increase. Growth in the cost of imports will probably be held to about 25 percent because of the reduced need to import grain and the continued availability of low-priced petroleum.

Export earnings will probably reach \$120 million this year, more than double those of last year. Phosphates, cement, and agricultural products, constituting 80 percent of total exports, will account for most of the increase. Because of world fertilizer shortages, phosphate prices have soared from \$14 a ton to as high as \$50 a ton in the last six months. As a result, phosphate exports alone, now projected at 1.9 million tons, may bring in as much as \$60 million, quadruple the amount they brought in last year.

Food imports made up 30 percent of Jordan's 1973 import bill, but they should be down substantially this year. Production of wheat, the major crop and dietary staple, should amount to 250,000 tons, compared with only 45,000 tons last year. The lower food bill will, in large part, offset higher import outlays for manufactured goods and machinery for development projects. The cost of petroleum imports—a major inflationary item in the import accounts of most countries—will not affect Jordan's very much, because Saudi Arabia is continuing to supply Jordan with crude oil at a long-standing price of around \$2 per barrel.

Foreign aid payments, largely from the US, Saudi Arabia, and Kuwait, are slated to reach \$190 million this year, a 15-percent increase over 1973. In past years, Jordan has diverted budget support funds to the purchase of defense equipment abroad, which has restrained economic development. Substantial new funds from the US, Abu Dhabi, and the United Arab Emirates to cover expanded military requirements should ease

further pressure on the foreign payments account and leave more funds for Jordan's economic development program. Jordan will probably also receive at least \$100 million in new foreign loans for its development program.

Prospects for economic development over the longer term are also good. Projects already under way will eventually increase the output of phosphates and farm products, add to earnings from tourism, and allow exploitation of Jordan's considerable copper reserves. Changed political conditions could alter the long-term prospects, however. Creation of an autonomous Palestinian state on the West Bank hostile to King Husayn, for example, could adversely affect the investment climate and require additional expenditures for internal security. 25X1

INDIA: RAIL STRIKE

57 Prime Minister Gandhi this week has been faced with India's gravest labor dispute since she took office eight years ago. A nationwide rail strike, which began on May 8, disrupted the flow of critical food and fuel shipments, intensifying India's economic woes. A reduced rail schedule was maintained with assistance from the army; priority went to badly needed fuel for industrial use and power plants. Food shortages are expected in urban centers. 7

57 At least half the 1.7 million employees of the nationalized rail system have rebelled because of an inflationary squeeze that has boosted prices 25 percent in the last year. The unions have demanded a steep wage increase that would place rail workers on a par with other government employees. Weeks of negotiations between the government and rail unions came to a halt on May 2 following the arrest of several hundred union leaders, including Socialist leader George Fernandes, the primary organizer of the strike. 7

58 Mrs. Gandhi has maintained a tough stance and is willing to risk the economic consequences in order to discourage other sectors of the

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population from striking for wage hikes. Although the strike could continue for weeks, she apparently is counting on it fizzling after a few days as a result of divisions among the highly politicized rail unions; previous rail walkouts have been short-lived. The government has threatened to fire strikers and arrest those who interfere with train operations or damage rail property.]

[The strike presents a particular dilemma for the pro-Moscow Communist Party of India (CPI), which in recent years has openly supported Mrs. Gandhi and her populist policies. Its leaders have become critical of her trend toward more conservative economic policies over the past few months. Continued wholehearted CPI support for the rail strike may herald the end of cooperation between the CPI and Mrs. Gandhi's Congress

Party. Mrs. Gandhi can also expect pressure from the left-wing of her own party, which is unhappy with her more pragmatic, less ideological response to the country's economic problems.]

[While the military is playing a key role in keeping essential rail traffic moving, it resents the frequent calls to assist the government in such non-military matters. So far this year, the army has reluctantly helped quell antigovernment demonstrations in several states. Given India's grim economic prospects and the likelihood of continuing civil strife, the military will probably be forced to play a more active role in maintaining law and order, and military leaders may begin to complain more openly about the way the civilian government is running things.]

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IRAN-INDIA: BETTER FRIENDS

62 The fanfare during Prime Minister Gandhi's state visit to Tehran last week attests to the considerable improvement in relations between Iran and India over the past year. In addition to concluding a number of mutually beneficial economic agreements during the visit, the two countries appear to have overcome suspicions that have inhibited their relations in the past.

60 Mrs. Gandhi's trip to Tehran was the first by an Indian prime minister in 15 years, and the Iranians went out of their way to make it more than routine. During her four days in Iran, she had two rounds of talks with Prime Minister Hoveyda and was received twice by the Shah, with whom a warm rapport reportedly developed. The ceremonial schedule was unusually full.

60 Both sides seem particularly pleased with the progress made in economic cooperation. Iran agreed to extend loans to boost production of Indian iron ore and to survey the feasibility of producing alumina. Tehran will also provide funds to help India increase production of cement, steel products, paper, chemicals, and sugar—materials sorely needed by Iran. To transport the increased trade, the two nations agreed to start a joint shipping company that might serve third country ports as well. Mrs. Gandhi welcomed the Shah's proposal to establish a fund for mitigating the impact of rising prices on the LDCs.

60 The accord also calls for India to provide Iran with technical personnel, engineers, professors, and doctors. Iran lacks the trained people to carry out many of the Shah's development programs.

60 Beyond these specific benefits, Mrs. Gandhi's visit apparently helped dispel mutual distrust. Tehran is said to be much less concerned about the 1971 Indian-Soviet Friendship Treaty than it once was, and the Indians were also able to persuade the Iranians that their developing relationship with Iraq did not imply blanket endorsement of Iraqi policy, especially with

regard to Iran. New Delhi, in turn, is more confident that Iran would not automatically assist Pakistan in the event of another India-Pakistan confrontation. The Iranians apparently indicated that they have no intention of arming the Pakistanis.

63 The Shah probably assumes this new detente with New Delhi will help his plans for regional security and his aspirations to a larger world role. India, its internal weaknesses notwithstanding, is predominant in the subcontinent, and its influence among third world countries could broaden support in international councils for Iranian initiatives. If the Shah intends to pursue his recently proposed Middle East, African, South Asian economic union—which he presumably recognizes will not come soon—he will have to have New Delhi's cooperation. A promised return visit by the Shah to India, which may be combined with his planned trip to Australia this fall, will enable the Iranian ruler to continue his personal cultivation of the Indians.

63 For its part, New Delhi is principally interested in the economic and strategic advantages of closer ties with Iran. India gets most of its imported petroleum from Iran and is pleased with the terms granted by the Shah last March, which allow India to defer payment for part of its oil purchases. New Delhi also sees Tehran as providing the best opportunity for Hindu-dominated India to offset Pakistan's expanding contacts with much of the oil-rich Islamic world, where India has few close friends.

60 Some differences in outlook remain. Although both countries endorse the principle of an Indian Ocean "peace zone," they differ on their interpretations of the US-Soviet presence in the area. The Indians believe expansion of US facilities at Diego Garcia is provocative and will lead to Soviet countermeasures. The Iranians, on the other hand, view the US activities in the area as a balance to the Soviet presence and therefore stabilizing.

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ISRAEL: STILL TRYING

66 Prime Minister-designate Rabin's hopes of forming a new government quickly ended early this week when the National Religious Party announced it would not participate. At this point, Rabin's chances of coming up with a cabinet by May 17, the date the initial three-week negotiating period granted by President Katzir expires, are not good.

67 The Religious Party's decision was not final, however, and the two sides continue to meet in an effort to hammer out a compromise on the religious conversion issue, which is the major stumbling block. Leaders of both parties appear anxious to break the impasse—Labor to obtain a comfortable majority and the Religious Party to save its cabinet representation. Some Labor Party leaders are also concerned that a final break with the Religious Party might contribute to the formation of a strong opposition force consisting of the rightist Likud group and the three Israeli religious parties that would pose a serious threat to Labor's chances in the next election.

68 An alternate solution being considered by Rabin is a coalition with the Independent Liberal Party and the Citizens Rights Movement, two small liberal parties. Rabin reportedly would personally prefer this grouping, although it would command only a one-vote majority in the 120-member Knesset. Rabin probably believes that even a brief tenure as Prime Minister would solidify his position as party leader. Such a coalition is opposed by some parts of the Labor Party, especially its conservative Rafi faction, which fear it would be too dovish in conducting Middle East peace negotiations.

69 Finance Minister Sapir, who controls much of the Labor Party machinery, has warned Rabin that an attempt to form a government with just the two liberal groups would split the Labor Party. He maintains that Labor has only two viable choices: formation of a new government with the Religious Party or continuation of Prime

Minister Meir's caretaker government until after new elections are held. The latter course is reportedly favored by a number of stalwarts of the Labor Party's old guard, including Mrs. Meir herself, although she apparently has not actively pushed for this solution.

65 Most of Labor's leaders remain adamantly opposed to the formation of a government of national unity with the Likud bloc. A minority government, either alone or with the Independent Liberal Party, also holds little attraction. The Labor Party's central committee is scheduled to meet May 12 and its negotiating team will presumably have decided by then which kind of government, if any, it can reasonably expect to form.

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RECYCLING ARAB OIL DOLLARS

74 Continuing Arab reliance on the Eurodollar market is impeding the recycling of oil producers' surpluses to consuming countries that most need the money. Financing difficulties are becoming apparent in developing countries and even in a few developed countries—notably Italy.

67 As oil revenues have flooded in, Arab investments have continued to be concentrated in private Eurodollar assets. Private dollar holdings, primarily bank deposits in London, make up a larger share of investments now than at the end of 1973. Holdings of European public issues and of private assets denominated in European currencies remain small. Oil producers remain unwilling to place their funds directly in non-Islamic developing countries. Discussions with the World Bank Group and the International Monetary Fund are only now beginning to lead to a substantial channeling of funds to these institutions.

74 The flow of surplus funds into the Eurodollar market is generally adequate to finance the

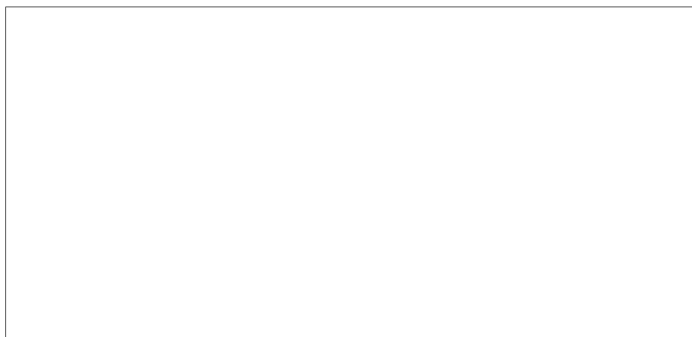
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oil-induced deficits of consuming nations. Countries that are creditworthy are easily obtaining the necessary financing through direct and indirect government borrowing. France, for example, has already secured sufficient Eurodollar financing to offset much of its oil-payments deficit for 1974. Many developing countries, however, have been unable to borrow in the Eurodollar market because of their bleak economic outlook and poor credit standing; their needs will have to be handled in other ways.

75 Because Athens has not replied to a note sent in late February proposing bilateral negotiations to divide the continental shelf, Ankara is taking steps to establish its claims and to increase pressure on Athens to begin talks. Representatives of the two countries met in New York last month, but Ankara considers the Greek suggestion that they both stop issuing drilling permits in the disputed area simply a stall. Turkish Foreign Ministry officials doubt that any decision on negotiations can be expected soon from the Greeks, because of the Greek Government's domestic problems. Athens claims virtually the entire continental shelf in the Aegean and has been saying that it is willing to "talk," but that no country can negotiate its own sovereignty.

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75 Ankara has been actively seeking a partnership with a foreign firm to conduct oil exploration activities, apparently determined to begin work this summer. It has already received seven or eight bids, some from US firms. Actual drilling is likely to be delayed by a worldwide shortage of offshore oil rigs. The Turks can, however, conduct preliminary studies without a rig, which would again draw public attention to the problem.

74 This experience was a factor in Italy's recent introduction of an import deposit scheme, which should moderate the growth of imports. Even so, Rome will have to seek further loans from private or (more likely) official sources this year to finance continuing payments deficits. In the meantime, it may impose further trade restraints while allowing the lira to depreciate.

76 There is no unusual military activity on either side of the border in Thrace. The US defense attache in Athens believes, however, that the Greek Army is putting on a small show in the north for the Turks by keeping off-duty soldiers in uniform and moving military traffic about to give the impression that more units than usual are in the area. General Ghizikis, the Greek President, has also just returned from an inspection visit to northern Greece, the latest in an unusual series of high-level military visits to the area.

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74 Unless new sources of financing outside the market are found, other developed countries with especially large current account deficits—the UK for example—may also be forced to introduce trade restrictions.



GREECE-TURKEY: A RESPITE

77 The differences between Athens and Ankara over rival claims to possible oil resources in the Aegean seabed remain unresolved, but tensions have eased. The media in both countries have moderated their sabre-rattling on orders from their governments, thus creating a period of relative quiet that allows both countries greater flexibility in dealing with each other.

75 A dangerous potential exists. Preliminary surveys in the disputed waters might spark incidents.

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CAMBODIA: THE WAR INTENSIFIES

Widely separated military activity continued this week as the Khmer Communists pressed their campaign against government enclaves in the countryside. Northwest of Phnom Penh, insurgent gunners laid some of the heaviest mortar and artillery barrages of the war on the government base at Lovek, but at mid-week Cambodian Army defenders were making cautious efforts to dislodge Communist elements from the western edge of the former training and logistics complex. The Khmer Air Force is committing all available aircraft to save the refugee-packed base.

At the provincial capital of Prey Veng, fighting has now settled into a familiar pattern of ground probes and shelling; initial Communist assaults were repulsed last week. The reinforced government garrison there has pulled back from several exposed outposts but has held the main



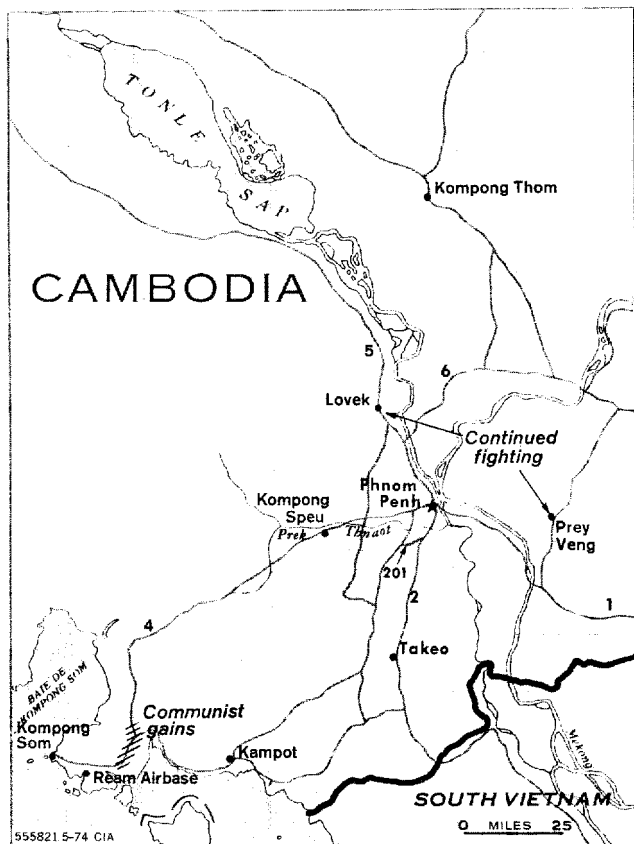
On the line

defense perimeter. Both sides are preparing for a prolonged battle at Prey Veng.

In the far southwest, Communist surprise attacks along Route 4 overran government positions along a 20-mile stretch of highway east of the port city of Kompong Som. Although government casualties apparently were light, four 105-mm. howitzers were lost when insurgents occupied two small towns. The attacks in this area may presage a Communist move against the nearby Ream Airbase which was a vital support facility in the government's recent successful defense of Kampot City.

Kompong Thom, 75 miles north of Phnom Penh, may be the next provincial capital to come under heavy Khmer Communist pressure. The Communists have been preparing for a push on Kompong Thom since early March and may have as many as 3,000 troops around the city, including some seasoned units from the Phnom Penh area.

The nearly 3,500 government troops at Kompong Thom are braced for the attacks. Morale is high as the result of successful



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81 operations in the spring which freed 33,000 villagers from Communist control. Communist assaults may force Kompong Thom's defenders to give up some recently won territory, but the city has survived sustained attacks in the past and should be able to do so again. [redacted]

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LAOS: PULLING AND HAULING

82 The Lao calendar is well-stocked with holidays, most of them celebrated with enthusiasm. The observance of Constitution Day in Vientiane on May 11, however, may be a rather glum affair. One of the day's traditional highlights is the opening of the National Assembly by the King, but that ceremony has been canceled because Prime Minister Souvanna has bowed to Lao Communist demands that the assembly not be allowed to reconvene.

83 Souvanna gave in on this issue during a cabinet meeting last week after Communist First Deputy Prime Minister Phoumi Vongvichit stressed that the Communists would not recognize or cooperate with the assembly because it



Phoumi Vongvichit



Prime Minister Souvanna

was an illegal carry-over from Souvanna's previous government. Souvanna's capitulation has probably cost him more political points with rightist civilian and military elements—many of whom are convinced that he is too accommodating to the Communists.

84 Souvanna intends to have the King assume the assembly's legislative role. After the cabinet meeting, a government spokesman stated that the budget and other important documents would be sent to the King for review in accordance with the constitution. The King would then issue royal decrees that would be the legal basis for government operations. The King, who reacted calmly to the decision on the assembly, reportedly is willing to go along with this arrangement.

85 It is unlikely that this formula will go down well with the Communists, however. Their attack on the assembly is based on their determination to shift its functions to the advisory political council, whose leadership is weighted in their favor. In another effort to undercut the Constitution Day ceremonies, Lao Communist leader Souphanouvong—the council's chairman—has called a meeting of the council in Luang Prabang on May 11. [redacted]

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CHINA: NON-INFORMATIVE MAY DAY

(85-196)

May Day is one of five major holidays celebrated in the People's Republic of China. The turnouts on these occasions generally provide some indication of the political standing of individual leaders. The festivities last week, however, raised as many questions as they answered regarding the course and objective of the anti-Lin/anti-Confucius campaign.

The Peking celebrations were notably low-keyed, as they have been each year since the Lin Piao crisis of 1971. The nation's three major papers did not publish a joint editorial. Celebrations were limited to the performance of revolutionary plays and songs in the public parks and an indoor sports rally for top party leaders that featured tighter-than-normal security precautions. By the end of the day, all active politburo members but Mao, who has not appeared in public since May Day of 1971, had put in an appearance.

The list of participants published in the party journal *People's Daily* the next day contained a few small surprises. Five government ministers—four of them military men—did not appear, suggesting some may no longer hold those posts. Among the five missing ministers was Li Chen, the head of public security; his failure to appear lends credibility to rumors that he was assassinated last year. Li has not appeared in public since January 1973. One of his deputies was also missing. The fact that two other vice ministers of security were listed under party departments rather than the usual State Council focuses further attention on this troubled ministry.

The celebrations in the provinces were highlighted by the reappearance in Liaoning of Li Te-sheng, a vice-chairman of the party and military commander of the northeast region. In several provinces Li has been attacked in wall posters as a secret follower of the disgraced Lin Piao and, according to one report, he was under arrest. *People's Daily* published Li's picture on May Day,

indicating he still has powerful supporters in Peking.

Elsewhere, the event was more notable for what did not happen. Two thirds of China's provinces failed to broadcast detailed lists of those attending local functions—in some instances, perhaps, an indication of the serious factionalism that exists in those provinces. No new first secretaries were listed for the eight vacancies, and the first secretary of Honan was conspicuously absent from a large celebration there. While there is no good evidence that he is in trouble, the provincial media have made it clear that some Honanese leader will likely be branded Lin Piao's "sworn follower."

The surface tranquility of May Day stands in contrast to recent developments in the provinces. Although critical posters have been removed in one province, attacks on several provincial leaders are continuing elsewhere. They now include civilian as well as military targets, and, in the case of Kiangsu, virtually the entire provincial leadership.

The attacks do not present a clear picture or any consistent theme. They are not officially sanctioned and have in fact been prohibited in central party documents. As a result, both the national and provincial media have re-emphasized party unity, and have called for the overwhelming majority of the cadres and masses to unite in order to expose the "small handful of class enemies." Some of the attacks seem to be part of a nationally coordinated campaign, while others are clearly locally inspired. From province to province, they vary in intensity and the dates of their inception. Moreover, both "radicals" and "moderates" are being criticized.

The difference between what the party says and what is being done reflects the divisions that exist in the national leadership. Some of the poster attacks in the provinces are the work of

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rival local factions, but in many instances they undoubtedly are inspired and abetted by competing groups in Peking. These groups are attempting to exploit the campaign for their own ends.

The way in which the May Day celebrations were handled almost certainly indicates that there will be high-level victims, perhaps including some Politburo members, as a result of the anti-Lin/anti-Confucius campaign. Military men may be in for a particularly rough time; the holiday turn-outs provided further indications that the eight military region commanders who were rotated last December are likely to be excluded from top party posts in their new provinces. In addition, many of the former army officers who now head ministries may be removed or demoted before it is over. On the whole, more factional strife in the provinces seems likely, and the nation's top leaders apparently remain deadlocked over a number of key personnel and domestic policy issues.

USSR-China

THE BEAR GROWLS CAREFULLY

7/ [Eight weeks have passed since a Soviet helicopter and its three-man crew crossed the Chinese border on March 14 and were seized by Chinese authorities. Both the Soviets and the Chinese initially played the incident in low key, but signs that Peking might be considering a show trial evidently caused Moscow to take steps last week to forestall such a development or at least take the initiative from the Chinese.]

7/ [On May 2, Moscow issued its third and toughest protest to the Chinese about the incident. The note reiterated Moscow's claim that the helicopter was on a legitimate mercy mission

and "insisted" it be immediately returned. The note said that the Chinese intended to blow the incident out of proportion, and warned that if it did, China must assume responsibility for the "inevitable consequences." As Soviet notes go, this one was not particularly bellicose, but it was the first threat Moscow has made on the helicopter affair.]

7/ [Ambassador Tolstikov in Peking subsequently called at the Chinese Foreign Ministry and "demanded" to see the Soviet crew, but was told only that the crew would be dealt with according to "Chinese law." Meanwhile, the Soviet press began to devote more attention to the helicopter story. *Pravda* ran an account of the ill-starred "mercy mission," and the weekly *Liternaya Gazeta* featured a mawkish story on the family of the helicopter's commander. Some of this was clearly for home consumption, but some was also designed to convince the West and Communist parties throughout the world that the Soviets' hands are clean and that any flare-up of the helicopter incident will be evidence of Chinese unreasonableness. Finally, Moscow's words were also meant to signal Peking that the Soviets are prepared to act tougher if the Chinese fail to maintain restraint.]

9/ [With another Soviet-US summit looming, Moscow probably hopes to avoid a clear-cut public polemic with Peking that would almost certainly result from a show trial. The situation is not without some irony, given the fact that the Chinese, apart from the March 23 charge of Soviet espionage, have not done or said anything publicly that is a clear-cut provocation. So far, the Chinese have not responded strongly to the new Soviet campaign. They have not answered Moscow's last two protests over the incident and have privately equivocated about whether they will try the Soviet airmen and whether they will make the trial results public. Given the current political tensions in China, it may well be that the Chinese are still undecided about how to play the incident.]

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GUATEMALA: OUTLOOK UNEASY

The inauguration of President-elect Kjell Laugerud on July 1 does not promise to be a peaceful one. Disturbances erupted during a labor rally on May 1 and, although calm has since returned to the capital, political tensions remain high and the security situation is fragile. If violence breaks out again, the government may resort to stronger, possibly extra-legal, measures to keep the lid on.

The government and the Christian Democrats, the major leftist opposition party, are accusing each other of inciting the May Day melee in which at least two people were killed. A week earlier, the Christian Democrats called for continued resistance to the government for rigging the presidential election on March 3; the government responded by branding the party as an "international organization in league with Communists." The press is reporting rumors that some government officials are thinking about declaring the party illegal.



Manuel Colom
A marked man

The tension has been building for more than a month. During March and April there were bombings, arson, the killing of a former police official, and kidnappings of two prominent Guatemalans aligned with the government. The Revolutionary Armed Forces, the action arm of the Communist Party, was responsible for some of these incidents. Government goon squads added to the violence by killing two leftists.

considerable political following and has aspirations for higher political office. Clearly, the government intends to disabuse him of this ambition or, failing that, possibly mark him for elimination by assassination.

The government was particularly incensed at the Christian Democratic Party for calling for the "people" to gain power this year and for the army to help in the act. The Christian Democrats and Mayor Colom appear intent on stirring up unrest and trouble for the government. They may be trying to create enough of a public upheaval before the inauguration to force the army to take over.

The government is inclined to deal with further provocations from the opposition with a heavy hand. The danger is that in doing so it might cause even more trouble for itself. For example, if the Christian Democratic Party is outlawed, a significant part of the political opposition would be further alienated. This almost certainly would lead to more of the very violence the government is trying to avoid.

The May Day disturbances prompted the government to issue ominous warnings: "unscrupulous political groups" will not be allowed to interrupt the normal transfer of power; the full force of the law will fall on "intellectual" and "material" authors of violence; and "defeated leaders" of the opposition will remain within the law or be dealt with "drastically." The government brought legal charges against the leftist mayor of Guatemala City, Manuel Colom, for allegedly inciting the violence. Colom, who leaves office on July 1, has been a major headache for the government for some time. He commands a

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