

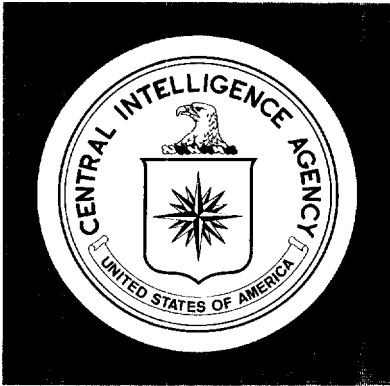
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# Weekly Summary

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No. 0028/75  
July 11, 1975

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CONTENTS (July 11, 1975)

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, the Office of Geographic and Cartographic 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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**SPAIN: THE GOVERNMENT RESPONDS**

Madrid is moving to defuse tensions in Spain's Basque provinces. At the same time, the Arias government is likely to face new problems with labor following the recent nationwide labor elections, in which opposition candidates soundly trounced the government-supported incumbents.

In response to a "unanimous outcry" from the press associations, the government has announced its decision to lift restrictions on news reporting of disturbances in the Basque area. Madrid also hopes to improve its image among the Basques by declaring disaster zones of areas of Vizcaya Province recently hit by torrential rains, thus making them eligible for special aid.

Prime Minister Arias and his interior minister have met with parliamentary and church leaders from the Basque area to discuss a solution to Basque unrest. The information minister told newsmen that in his personal view the three-month state of emergency imposed on April 25 would not be extended unless there are new developments before it expires. Terrorist incidents in the Basque area have decreased in the past several weeks.

Meanwhile, the government suffered a serious setback in the nationwide labor elections held last month. Nearly complete tabulations reveal that more than 75 percent of the 360,000 incumbent shop stewards—the lowest echelon of worker representation in the Spanish syndical system—were voted out. Indications are that most of the winners are members of illegal labor organizations, including the Communist-dominated Workers' Commissions.

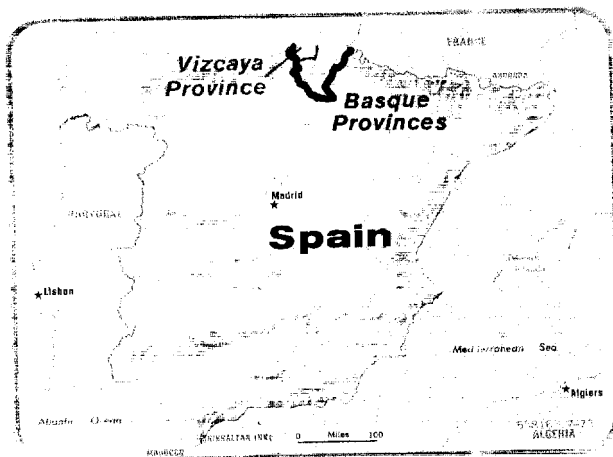
The marked gains by the leftists in the elections sets the stage for a battle over loosening the government's tight control of the Syndical Organization. Many of the winners favor radical changes in the system, which at present places workers and management together in one organization dominated by management and government.

Although the winners are opposed to the government, it is by no means certain that the majority of them are communists. In fact, the government eliminated the most radical candidates through strict eligibility rules and might invalidate the election of known communists, as it has in the past.

The labor elections will resume in the fall when posts are filled at the local, provincial, and national levels in the Syndical Organization. Labor representatives in the Cortes also will be chosen at that time. The results of the first round will make it more difficult for the appointed syndical hierarchy to manipulate these elections.

Prime Minister Arias favors limited reform of the syndical system to meet worker discontent, but he has been blocked by the conservative syndical bureaucracy, supported by ultrarightists with ready access to Franco. Failure to respond to demands for change at the grass-roots level will lead to heightened tensions between the government and labor.

The government also moved on July 4 to quell speculation that Franco will announce his retirement this month. The information minister told the press that there would be no exceptional political announcements on July 18—the anniversary of the outbreak of the Civil War.

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This is a date often used by Franco in the past for important announcements. There have been rumors that Franco would turn over some of his power to Prince Juan Carlos or would strengthen the Prince's position by making him a captain general—Spain's highest military rank, now held only by Franco. [redacted]

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**CYPRUS: RELATIONS WORSEN 5-9**

Relations between the two ethnic communities on Cyprus worsened last week following the expulsion of some 800 Greek Cypriots from the Turkish zone. The expulsions were in retaliation for rough treatment received by some of the 48 Turkish Cypriots apprehended by Greek Cypriot police while trying to make their way to the north. The Greek Cypriots' discovery of a large-scale resettlement of mainland Turks in northern Cyprus has also contributed to increasing tensions.

The Makarios government has lodged protests with UN Security Council members, charging that the expulsions and the colonization were part of a Turkish effort to achieve de facto partition and modify the island's population ratio in order to reinforce the Turks' claim to the two fifths of the island they now control. Fewer than 8,000 Turkish Cypriots remain in the south, with an equal number of Greek Cypriots in the north.

The Turkish side wants complete separation of the two communities in a biregional federation. The Greek side, on the other hand, has called for a multiregional federation in which the two communities would remain interspersed in several regions. Except for hardship cases, the Makarios government has generally discouraged Greek Cypriots in the north from moving south and has refused to permit Turkish Cypriots in the Greek Cypriot zone to move north.

Turkish Cypriot leader Denktash earlier had threatened to expel the remaining Greek Cypriots unless all of his countrymen in the south were allowed to move north, but he was persuaded by the UN special envoy to Cyprus to halt the expulsions in return for transfer to the north of the injured Turkish Cypriots and their families. There are indications, however, that the Turks have now embarked on a campaign to secure release of the rest of their kinsmen in the south. The inhabitants of several Turkish Cypriot villages in the Greek Cypriot zone have already petitioned the UN for transfer to the north.

The expulsions and the colonization, along with the poor prospects for the talks, have increased the frustrations of Greek Cypriots at a time when both sides are planning large-scale demonstrations marking the first anniversary on July 15 of the coup against Makarios and the Turkish invasion five days later. These demonstrations are likely to raise feelings along the cease-fire line to fever pitch and could lead to outbreaks of violence before or during the anniversary week.

The growing tensions have dimmed the prospects for the next round of intercommunal negotiations, set to begin in Vienna on July 24. Denktash, who has adopted a tougher stance than Ankara in recent months, has yet to present proposals on the powers of the central government or to elaborate his plan for a joint provisional government as he has promised earlier. He hinted last week that the talks may have to be postponed. [redacted]

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Rauf Denktash

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### UK: WARY COOPERATION BY UNIONS

Leaders of the Trades Union Congress and the Confederation of British Industry this week opted to cooperate with the government's plan to limit wage increases voluntarily during the coming year. By restraining wage demands the Wilson government hopes to reduce Britain's annual rate of inflation from 25 percent—the highest in Europe—to 10 percent by sometime next year. The key to the success of the government's anti-inflation program, however, is the assent of individual unions and their members rather than the TUC.

The National Union of Mineworkers gave the government the first glimmer of hope for voluntary restraints when the miners decided this week to "seek" rather than "demand" pay increases of over 60 percent. The miners did not set a deadline for the increase. The miners had refused to abide by the statutory controls imposed by the Heath government, and their recalcitrance was one of the leading factors in the Tory defeat in the election of February 1974.

Despite the miners' apparent cooperation on wage hikes, their demand for immediate negotiations for a four-day workweek suggests that the government may face trouble by early next year. Chancellor of the Exchequer Healey has said privately that the government is planning to stockpile coal in anticipation of a strike.

The general council of the Trades Union Congress—by a vote of 19 to 13—decided to limit weekly wage increases to \$13 during the coming year. This amount is within the guidelines suggested by Healey and a significant reduction from the amount the union leaders had discussed earlier. As their price for cooperating, the TUC leaders have asked the government to deny pay raises to persons with annual income exceeding \$15,000, to work diligently to reduce unemployment, and to hold down prices for six months.

Jack Jones, head of Britain's largest union, has repeatedly reminded the trade unions that



Prime Minister Wilson addresses National Union of Mineworkers

failure to cooperate with Prime Minister Wilson could result in the government's defeat. The union leaders, while not enthusiastic about any kind of wage limitations, are adamantly opposed to statutory controls and realize that it is not in their interests to topple the government.

The Confederation of British Industry, for its part, is unenthusiastic about the government's plan, because it believes the onus for implementation is being placed unfairly on industry. The government has said that it does not intend to take legal action against the unions for violation of the wage guidelines, because such sanctions generally result in labor disputes and would negate efforts to solve the country's economic ills. The government will take legal action against companies that do not adhere to the guidelines, but it plans to set up an insurance fund to aid private employers who resist strikes aimed at breaking the wage guidelines.

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## PORTUGAL: BYPASSING THE PARTIES

The 240-member armed forces general assembly has issued proposals detailing the establishment of direct links between the people and the Armed Forces Movement. The plan, clearly a compromise between extreme left-wing, Communist, and moderate views, will easily enable the Movement to bypass political parties and retain full military control of public assemblies.

The new governing system, as described by the assembly's document, will include three parallel structures: the military, the government, and the popular assemblies. The popular assembly structure is envisioned as a pyramid, building from the local level to the municipal, district, regional, and national levels. The reorganization will begin with the already numerous "popular organizations" formed on the local level. The Movement assures that it will control the process by determining which worker and neighborhood organizations will be recognized. Each phase of the process will be carried out only after the next lower level has been completed and will involve the participation of Movement delegates.

Although the document states the Movement has "no intention of ignoring political parties devoted to the construction of socialism," moderate parties see little hope for their existence over the long term if the Movement's plan is implemented. According to the document, the Movement expects the parties gradually to merge with the popular committees "for the correct consolidation of the political vanguard of the revolutionary process."

The moderate parties have reacted negatively, with the Socialists announcing their refusal to accept any system of popular committees and calling on party militants to mobilize in protest against this latest "threat to democracy." The center-left Popular Democrats have accused the Movement of violating the pact signed last spring between the parties and the military, while the center-right Social Democratic Center has complained that the parties should have been consulted before such wide-reaching reforms were proposed.

The Communists and their allies, on the other hand, quickly approved the proposals. They are probably encouraged by the similarity between the assembly's plan and the "committees for the defense of the revolution" advocated by the Communist Party. The Communists are probably also pleased that decisions within the committees will be made by a "show of hands," and not by secret ballot as the moderates would prefer. The Communists, who have already made progress organizing on the local level, are planning to intensify their efforts in order to gain a strong foothold in the new structure while staying on the good side of the military.

The armed forces assembly's document, which apparently did not precipitate a power struggle between factions, recommends tighter government control in the form of extensive state control of industry and a global economic policy, while at the same time advocating decentralized decision-making through the popular assemblies. The proposal will be presented for final approval in the Revolutionary Council, where moderates have shown increasing strength.

The Revolutionary Council, however, is having a difficult time both in making decisions and then following through on them. The council was perturbed by a wave of social unrest, labor strikes, and street demonstrations last week but was unable to take decisive action against extreme leftists responsible for the trouble, apparently out of fear that internal security forces, sympathetic to the far left, would refuse to carry out the orders. After ordering extremists occupying the church-owned radio station to return the facility to the control of the Catholic hierarchy, the council reversed the decision in response to left-wing street demonstrations and called for nationalization of all radio and television stations. Leftist workers are still occupying the offices of the Socialist newspaper *Republica*—in defiance of the military government but with the support of the security forces. The workers announced they would begin publishing their version of the newspaper this week.

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**SECRET****CSCE: SUMMIT DELAYED***18*

Prospects for concluding the European security conference this month with a meeting of the heads of state, as the Soviets desired, have virtually disappeared because of the participants' failure to resolve differences on several issues. The Finns announced that they will require three weeks' notice to complete the complex arrangements necessary for a summit in Helsinki. This requirement almost eliminates the possibility of a July date.

Given the Finnish requirements and delays caused primarily by Malta and Turkey, it now appears that the summit cannot be held until August. Moreover, if agreement is not reached soon, the meeting may have to be postponed until after the start of the UN General Assembly and the holding of Finnish elections in September.

Considerable progress was made in this week's negotiations, but agreement on a summit date is still held up by the demands of several states. Turkey and Malta are firmly opposed to setting a date, and Romania, West Germany, the Netherlands, Belgium, and Spain also have objections. Tentative agreement was reached on most outstanding East-West issues. Seeking to speed up a conclusion, the Soviets have generally compromised on most points and now expect the other participants to reciprocate. Despite strong divisive pressure from the Warsaw Pact countries and disagreements behind the

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scenes, the NATO states—and the EC in particular—have maintained a united front on the conference floor.

The participants have worked out a fragile compromise on follow-on procedures for the conference. The French—who had been holding out—agreed to permit additional follow-on meetings of senior officials and an eventual second conference. Difficult negotiations remain on a number of minor points, however, and at midweek several smaller countries were threatening to withdraw their earlier approval.

Agreement was reached in principle last weekend between the British, representing NATO, and the Soviets on military-related confidence-building measures. Advance notification of military maneuvers will apply to the territory of all European participants in the security conference and to a 250-kilometer zone along Soviet frontiers with other participants, as well as along the Baltic and Black Sea coasts. Final agreement was made possible when the West Germans gave up their demand for a 275-kilometer zone.

20 **USSR: JOINT MISSION NEXT WEEK**

Preparations for the Soviet portion of the Apollo-Soyuz Test Project seem to be proceeding smoothly.

The joint mission plan calls for launch of the Soyuz spacecraft at 8:20 a.m. EDT on July 15. About noon on the 17th, the US Apollo spacecraft is to dock with the orbiting Soyuz, and various crew exchanges and joint scientific experiments will begin. Final separation of the two spacecraft is planned for about 11 a.m. EDT on the 19th, and the Soyuz spacecraft is scheduled to return to earth at about 7 a.m. EDT two days later.

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The remaining provisions of the agreement place the threshold for notification at 25,000 troops, with amphibious and airborne troops to be counted in any combined exercises with regular ground forces. Notification is to be given 21 days in advance of maneuvers. All three provisions will be voluntary, however, as the Soviets have insisted.

The Turks' demands for a special clause exempting them from certain provisions of military-related confidence-building measures, and for Turkish Cypriot representation at the Helsinki summit, remain major obstacles to a final agreement. Ankara wants a reduction in the area of notification for military maneuvers in the southern region of Turkey, as well as a lower threshold for notification of all amphibious and airborne troop maneuvers.

Western delegates believe that most of the resistance to confidence-building measures originates with the Turkish military. During talks in West Germany this week, Bonn pressed the chief of the Turkish armed forces, General Sancar, to show more flexibility on this issue, and several other NATO members made strong demarches in Ankara. The Turks want to shift discussion of these issues from Geneva to Brussels, but the NATO allies fear that such a move would merely prolong the negotiations.

France and Canada led several attempts this week to break the impasse over the summit date. They sought to establish the end of July as a target date, while giving the participants another week to work out their differences on the most important issues. Maltese Premier Mintoff's demands for the inclusion of a special declaration on Mediterranean security in the conference, however, prevented agreement on a July 30 date. Since all conference decisions must be by consensus, Malta thus has succeeded in blocking agreement on a summit date, despite intensive efforts by the EC to work out a compromise.

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INDIA: NO CHALLENGERS

30-33

Prime Minister Gandhi continues to tighten her control over the nation in the wake of the proclamation of a state of emergency on June 26. The transition to a more authoritarian regime has been surprisingly smooth, with peaceful acquiescence in all but three of India's 22 states.

The chief potential trouble spots for the government are the states of Tamil Nadu and Gujarat, which are not ruled by Mrs. Gandhi's Congress Party, and Bihar, the home state of jailed reform leader J. P. Narayan. So far the month-old Gujarat government has carefully avoided antagonizing New Delhi, lest it be dissolved. The autonomy-minded government of Tamil Nadu in south India is taking that risk by making only a limited effort to enforce the emergency regulations. Moreover, leaders of the state's ruling party are openly critical of Mrs. Gandhi's actions. She could dismiss the state government and impose rule from New Delhi, but only at the expense of fanning latent feelings of separatism that have long existed in Tamil Nadu.

This month, as schools reopen, students may try to demonstrate against the suppression of civil liberties. Mrs. Gandhi will not hesitate, however, to use the sizable and effective security forces at her disposal to crush any protest. Tight press censorship will continue to limit public knowledge of events that could embarrass the government.

Parliament has been convoked for the week of July 21 to approve the emergency proclamation; the constitution requires such action within 60 days. The Congress Party's large majority ensures easy passage. Government officials claim the proceedings will be valid, despite the fact that opposition leaders are now in jail. Mrs. Gandhi has been anxious to emphasize that she is operating entirely within constitutional limits.

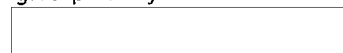
The Supreme Court is scheduled to take up next week Mrs. Gandhi's appeal against her recent conviction of illegal campaign practices in 1971. Although the court is unlikely to render a full written decision before late summer, an oral judgment could be issued earlier.

Some segments of society are showing approval for Mrs. Gandhi's authoritarian moves. Her apparent determination to press for greater national productivity, for austerity among the middle and upper classes, and for a crackdown on racketeers, smugglers, and hoarders has been well received by much of the public as well as the military.

This week the Prime Minister also secured promises of cooperation from industrialists and labor union leaders. Some businessmen maintain that Mrs. Gandhi wants tangible economic improvements to justify her emergency actions and that she may not hold national elections until there is enough economic improvement to compensate for the curbs on political freedom.

The majority of the population will focus on Mrs. Gandhi's sweeping promises to improve economic conditions for the poor—many of these promises being reminiscent of campaign pledges made five years ago.

One way the Prime Minister could demonstrate that she now means business would be to start implementing long-sought economic measures, such as land reform, that would hurt some prosperous supporters of the Congress Party. Another would be to strengthen central government control over the economic affairs of the states. Since independence, legal and political considerations have allowed the states to pursue agricultural and financial policies that give priority to local rather than national goals.

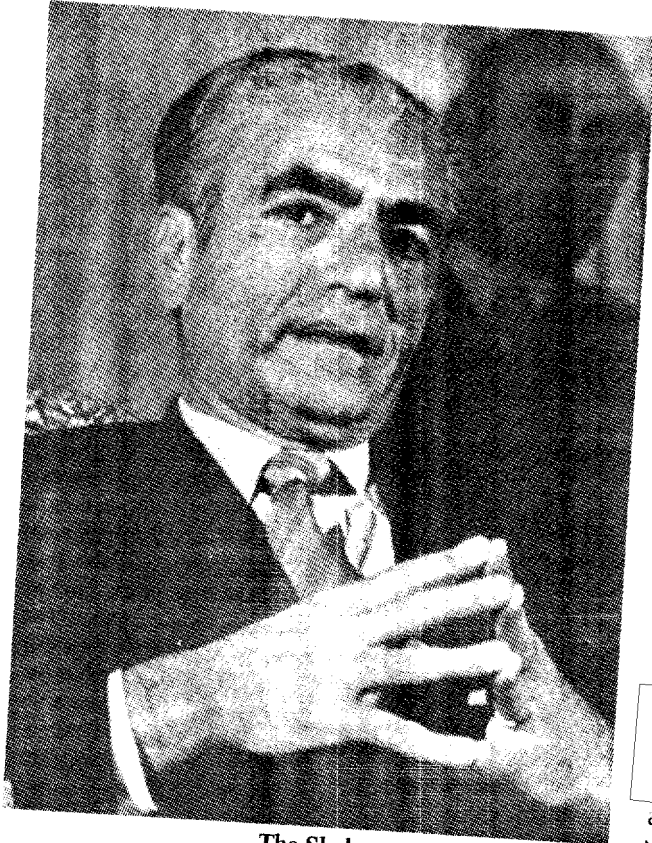


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The Shah

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PERSIAN GULF: DIFFERENT TUNES

Iran's Shah is unlikely to realize soon his ambition to be the architect of a comprehensive Persian Gulf security pact. Sharp differences have developed between Tehran and Baghdad over the scope of the proposed arrangements, and Saudi Arabia's rulers are clearly wary of any formal multilateral scheme.

The Shah has long been promoting an area defense accord that would be directed against both externally mounted threats to regional peace and subversive efforts against local regimes. He had apparently come to believe that Baghdad, following the rapprochement between

Iran and Iraq last March, was thinking along the same lines. Last month, however, the Iraqis began making it known that their idea of regional security cooperation was limited to an agreement to ensure freedom of navigation in the gulf and the narrow Strait of Hormuz.

Persian Gulf security was one of the topics discussed during the visit to Tehran last week by Saudi Crown Prince Fahd. A Saudi official who accompanied Fahd described the talks on the subject as "useful." According to the final communique, the two sides agreed that the gulf should remain a "peaceful, secure, and stable region, free from foreign interference and foreign bases."

Although Fahd thus agreed with the Iranians that foreign activity in the Persian Gulf should be opposed—a position spelled out previously in Saudi policy statements—he apparently displayed little enthusiasm for Tehran's regional security proposals.

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The Saudis contended that complete agreement on security arrangements should be worked out in bilateral contacts before any such conference is held; otherwise the smaller states might be forced to accept positions with which they do not agree. In fact, the Saudis almost certainly oppose the Shah's concept, fearing that such an accord would mean a stronger Iranian role on the Arab side of the gulf.

The disparity of views among these three key countries would seem to rule out any serious discussion of a regional security pact when the foreign ministers of the Persian Gulf states meet informally in Saudi Arabia this week during the Islamic foreign ministers' conference. The Iranians themselves may now feel constrained to back off from the project, at least for the present. The Shah's foreign minister, in a statement to the press while Fahd was still in Tehran, denied that a regional defense accord is under discussion.

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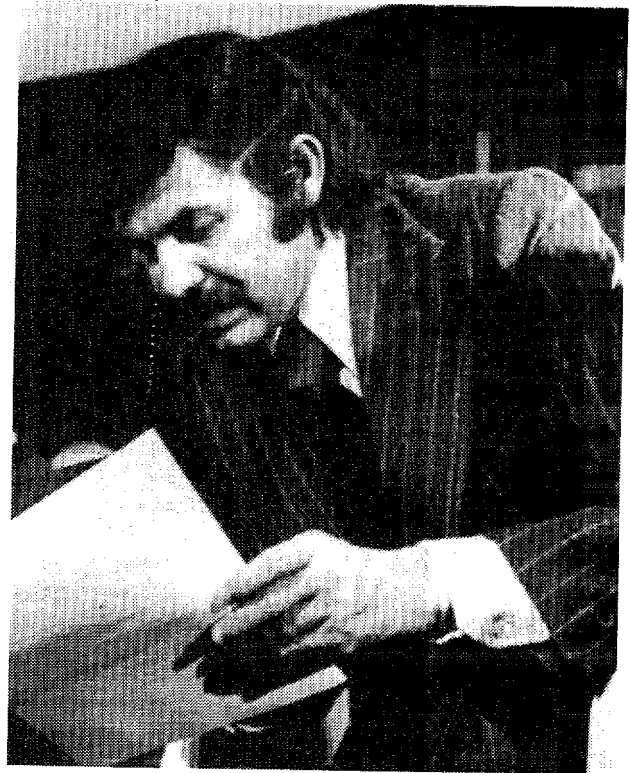
**SPANISH SAHARA: POSSIBLE DEAL**

Tensions between Morocco and Algeria over the eventual disposition of Spanish Sahara have eased, following the recent publication of a joint statement professing a common understanding on the future of the territory. If a deal has in fact been struck and holds up, it would clear the way for a peaceful solution of the dispute over the territory that for years has embroiled Spain with rival North African claimants.

In a joint communique issued on July 4 at the end of a four-day visit to Rabat by the Algerian foreign minister, the Algerians noted "with complete satisfaction" the "understanding" between Morocco and Mauritania regarding the future of Spanish Sahara. This long-rumored understanding envisages partition of the disputed territory, with the phosphate-rich northern region going to Morocco and the southern portion, which contains iron ore deposits, to Mauritania. The communique also stated that the two sides are determined to implement projects that have been agreed to but never acted upon.

So far there has been no confirmation from Algiers of the understanding other than publication of the joint communique, which is vague enough to give the Algerians room for maneuver. Algerian President Boumediene has consistently opposed Morocco's claim and has supported self-determination for the territory.

The reference to unimplemented projects presumably is to a border agreement signed in 1972 in which Morocco renounced all claims on Algerian territory, as well as to an accompanying protocol providing for joint exploitation of iron deposits in southwestern Algeria. Rabat's failure to ratify the border agreement, in part because Moroccan political parties denounced it, has been a major sticking point in relations with Algeria. Algiers ratified the agreement in 1973. Last November, Boumediene announced plans to push ahead with unilateral exploitation of the iron deposits in southwestern Algeria.



**Algerian Foreign Minister Bouteflika**

Meanwhile, clashes have erupted in Spanish Sahara between rival political groups. According to Spanish press accounts, more than 50 people were wounded on July 6 in street fights between members of the pro-Spanish Saharan National Union Party and followers of the pro-independence Polisario Front backed by Algiers. The fighting was attributed to tribal rivalries between the two competing groups. Spanish Foreign Legion troops reportedly sealed off the capital city of El Aaiun and local authorities arrested some 150 Polisario demonstrators before order was restored.

The Spainards have had difficulty in their effort to build a political structure that could assume power in the Sahara if Madrid should decide to withdraw. The Polisario Front, the dominant indigenous political force, claims to be the sole representative of the Saharan people and refuses to participate in Madrid's effort to organize a political coalition.

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**BAHRAIN: TWO-YEAR GRACE**

After months of deliberation, Bahrain informed Washington in late June that the US navy's Middle East Force must quit the Persian Gulf island by June 30, 1977. Bahrain has indicated it will extend the stationing agreement until that time on the basis of new terms reached in recent talks.

gulf. Although Bahraini officials have indicated they consider any such security pact to be years away, the government clearly wishes to strengthen Bahrain's credentials for bargaining purposes.

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During the Arab-Israeli war in October 1973, Bahrain announced its intention to terminate the stationing agreement as of October 1974. A few months before the expiration of that grace period, the government reversed itself and said it would permit the small US navy detachment to remain if a new agreement could be negotiated. The two sides subsequently came to terms, but the Bahrainis—under pressure from local leftists as well as from neighboring gulf states—were reluctant to complete formal arrangements for the accord's renewal. This foot-dragging was in part due to the government's desire not to give the national assembly another issue on which to attack the ruling family.

By its latest solution, Bahrain is trying to maintain friendly relations with the US and at the same time mollify government critics. The decision to terminate the agreement two years hence seems to have been sparked, in part, by proposals emanating from various gulf states that call for some form of a regional security arrangement. The proposals have been accompanied by statements from regional leaders opposing the presence of foreign powers in the



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JAPAN: MIKI'S DIET DIFFICULTIES

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Takeo Miki's operating style and last-minute reverses in his first Diet session as Prime Minister have caused some resentment within the ruling Liberal Democratic Party. For the first time in years, two budget-related proposals failed to reach a final vote before the Diet adjourned on July 4, a development that shocked LDP leaders and overshadowed Miki's otherwise satisfactory legislative performance. Rank-and-file party members also renewed complaints that Miki's tactic of cooperating with the political opposition for support of certain legislation had worked against Liberal Democratic unity. Previously, a dozen LDP members had abstained from voting on an electoral reform bill—a move that nearly led to the defeat of one of Miki's major reform proposals.

Meetings of the major LDP factions the day after the Diet closed indicate no change in the balance of power sustaining Miki in office. The followers of party Secretary General Nakasone and Deputy Prime Minister Fukuda voiced support for Miki, while the factions of former prime minister Tanaka and Finance Minister Ohira remained sharply critical. Significantly, Ohira appeared with Miki, as scheduled, at a political rally the following day; as a major

contender for power, and having been especially stung by the failure of the budget proposals, the finance minister might have used this occasion to withdraw from the cabinet. The emotions of the past week should subside somewhat, now that the Diet has adjourned.

At a press conference on July 5, Miki admitted the need for closer consultations within his own party, but he reaffirmed his intent to cooperate with elements of the opposition. He ruled out any immediate shuffle of the cabinet or party leadership and vowed to push the budget proposals through an extraordinary Diet session in the fall.

But Miki's stratagem—using opposition support as leverage within his own party to push various reform proposals—has suffered. Lacking a strong power base of his own, he will at least have to assuage some of the factions within his party and try to be more sensitive to their criticism in the future. Miki is banking on a gradual economic upturn and favorable publicity from his trip to the US next month—and from a similar trip by the Emperor in October—to set the stage for a successful general election near the end of the year.

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Prime Minister Miki appears with Deputy Prime Minister Fukuda (front l), Finance Minister Ohira (front r)

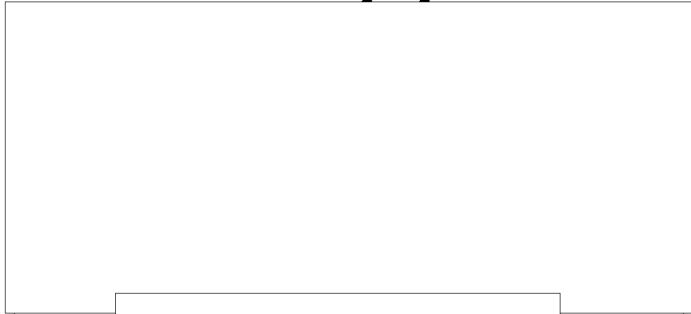


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**MALAYSIA-CHINA: DISENCHANTMENT**

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The Malaysians had some misgivings over the opening of diplomatic relations with the Chinese a year ago, but for a time were favorably impressed by Peking's correct behavior. Disenchantment began setting in slowly and increased sharply in April when the Chinese Communist Party sent anniversary greetings to the Malayan Communist Party. Prime Minister Razak reacted with extreme annoyance, even though the Chinese had attempted to impress on him during his visit to Peking last year that their moral support for liberation movements should not be considered incompatible with amicable state relations. There is no evidence that the Chinese are materially aiding the Malaysian communists.

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The Chinese seem to be persuaded that their interests would not be served by stepping up their involvement with the Malaysian communists, but their anniversary greetings coincided with a spurt in communist terrorism that had already raised Kuala Lumpur's concern over the consequences of the communist victories in Indochina.

The Malaysian government is also apprehensive about the growing activity of the Chinese embassy among Malaysians of Chinese ancestry. Kuala Lumpur describes these contacts as "on the fringes of the diplomatically acceptable"—although Malaysia's limits on diplomatic propriety in this case are extremely narrow. Some Malaysians see embassy cultivation of local Chinese as confirming their fears that a Chinese diplomatic presence would lead to subversion.

To show its displeasure, Kuala Lumpur has decided to scale down cultural and other exchanges. It has canceled the visit of a Chinese acrobatic troupe and postponed the visit of a trade mission to China.

Malaysia's disillusionment also reflects in part the fact that it has not gained the trade benefits it expected as the first member of the Association of Southeast Asian Nations to recognize Peking. Nevertheless, rapprochement with Peking remains central to Malaysia's non-aligned foreign policy. Kuala Lumpur's disappointment with the Chinese may, however, reinforce the cautious attitude of Indonesia, which suspended its ties with Peking in 1967, and of Singapore, which has not yet established diplomatic relations with the Chinese.

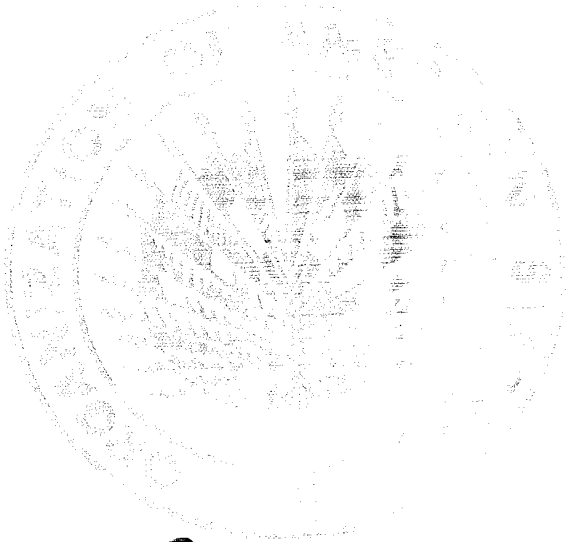
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58-59

#### OAS: RIO TREATY CONFERENCE

The OAS meeting opening in San Jose, Costa Rica, next week was called to dispose of one of several items of unfinished business connected with the two-year effort to restructure the inter-American community. The conference will try to refine the draft protocol of amendment to the Rio Treaty. Any changes adopted would become effective after ratification by two thirds of the treaty signatories, a process that will probably take about two years.

The amendments under consideration are relatively minor, and their enforcement would not only leave the inter-American security alliance intact but also constitute a vote of confidence in the concept of pan-Americanism. Despite the hard times that have befallen US - Latin American relations, the overwhelming

majority of Latin governments value the protection of the US security umbrella and the mechanisms for peaceful settlement that the Rio Treaty provides.

Although painstaking groundwork for the conference has been laid, the agitated state of US-Latin relations introduces uncertainty about what might develop at the meeting, which will probably span a two-week period. The issue of Rio Treaty sanctions against Cuba remains a source of friction; some of the delegates will want to devise some formulation to negate the ineffective but technically obligatory sanctions, while the adamant anti-Castro governments will work to prolong condemnation of Havana. Also, the more vociferous critics of the US habitually depart from the stated purposes of international conferences to draw attention to their particular grievances. Peru, Panama, Mexico, and Venezuela all fall into this category.

President Lopez of Colombia suggested in an interview last week that because of US congressional efforts to halt funding of the Panama treaty talks, the Panama problem would eclipse discussion of Cuba at the San Jose meeting.

[Redacted]

60-62

#### ARGENTINA: WAGE SETTLEMENT

The government this week suffered economic and political setbacks when it was obliged to yield on the wage increases demanded by labor and was pressed hard to replace at least three cabinet officials.

Mrs. Peron finally agreed to revalidate previously negotiated wage contracts calling for increases of up to 130 percent, following a two-day general strike by the Peronist labor confederation that almost paralyzed the country. The massive work stoppage followed weeks of

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sporadic demonstrations protesting the government's move to cancel last month's wage hikes. The settlement indicates the strength of the labor confederation, which represents perhaps 3.5 million workers. Moreover, labor's success in gaining its demands virtually wrecked the administration's hopes of stabilizing the ruinous rate of inflation by imposing limits on wage increases.

Mrs. Peron was also challenged by the Senate, which against her vigorous objections filled the long-vacant presidency of the chamber. The holder of the post is constitutionally next in line to succeed the President; for this reason Mrs. Peron repeatedly claimed that a move to fill the job could be interpreted only as an expression of dissatisfaction with her performance. Moreover, by keeping the job open, the President hoped to complicate the succession process and thus lessen the chance of an eventual move against her.

Mrs. Peron paid a political price for the wage settlement, reportedly agreeing to replace the three cabinet officials—including Lopez Rega—deemed most objectionable to labor. Union leaders had become particularly vehement in their opposition to the continued presence of Lopez Rega, who for some time sought to undermine their influence.

The top unionists were joined in their defiance of Lopez Rega by the military and leading politicians, the first time there has been such concerted opposition to him. The effort was not entirely successful, however, since he apparently remains presidential private secretary. His opponents reportedly plan to press for his complete ouster. Unless Mrs. Peron is prepared to remove her confidant from the picture completely, opposition to his influence on government policies will prove a continuing detriment to her ability to govern.

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Argentina's top labor leaders call off the 48-hour general strike

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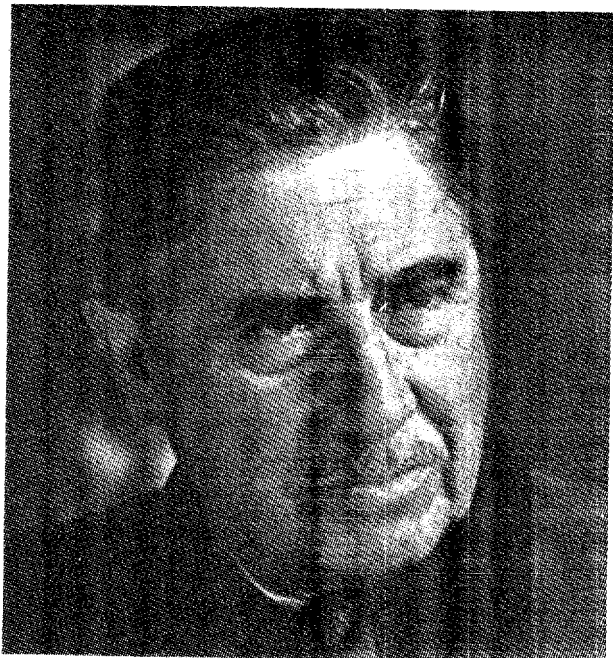
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63-67

**CHILE: BACKTRACKING ON RIGHTS**

President Pinochet's abrupt decision to cancel the visit of the UN Human Rights Commission is likely to damage his government's efforts to obtain badly needed credits and new foreign investment. A number of West European nations are already sour on Chile because of its abuse of human rights and its shaky economic situation and poor credit standing. Pinochet's latest action will probably complicate Chile's attempts to renegotiate its foreign debt, on which principal payments amounting to \$490 million are due this year. The British strongly oppose renegotiation of the debt, and other creditor nations may now adopt the same attitude.

In a speech announcing the banning of the visit, Pinochet reiterated that Chile would not receive such groups unless the USSR and Cuba were likewise made subjects of investigation. His allusion to Marxist infiltration of such investigation commissions demonstrates his concern over the possibility that they might pry into internal security matters. More than anything else, Pinochet's sharp words about the international Marxist campaign directed against Chile



President Pinochet

probably reflect his annoyance with recent resolutions by the International Labor Organization in Geneva and the International Women's Conference in Mexico City, both of which harshly condemned the military government.

Reports that the UN group had already interviewed Chilean exiles probably heightened the Chilean leader's fears over the prospect of yet another rebuke by an international organization. At the time of the announcement, the UN ad hoc working group was gathering testimony from exiles in Lima; it had already accumulated material in Paris, New York, and Mexico. The commission reportedly intends to complete its report for Secretary General Waldheim even if it cannot make a fact-finding mission to Chile.

Pinochet evidently opposed from the start any offer to invite independent observers to Chile to study alleged violations of human rights. Favorable responses to earlier overtures probably can be attributed solely to efforts by those junta advisers who want to improve the country's international image.

The government's nervousness over reported plans by communist and other political opponents to step up labor and peasant agitation may also have played a part in Pinochet's decision. The press claimed recently that the outlawed Communist Party had instructed militants to take asylum in foreign embassies so as to embarrass the government during the UN group's visit.

The President's decision to adopt a hard line on the human rights issue will make it increasingly difficult for Chile to obtain financial and military aid. If such aid is not forthcoming, mounting economic troubles and the unfavorable balance in military hardware vis-a-vis Peru—Chile's principal adversary—could cause discord within the junta, especially if Pinochet is unable to produce solutions. His failure to consult other junta members on key decisions has already caused some friction, and unless the situation improves there may be a gradual erosion of unity within the military over the longer run.

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68-73

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MEXICO: CAMPAIGNING ABROAD

President Echeverria, who has traveled abroad more than any Mexican president, began a 42-day trip this week, which he regards as the most important of his administration. He hopes it will strengthen Mexico's and his own ties with nonaligned countries and lay the groundwork for increased trade. Echeverria will visit Guyana, Senegal, Algeria, Tanzania, Iran, India, Sri Lanka, Egypt, Saudi Arabia, Kuwait, Israel, Trinidad-Tobago, and Cuba, spending about three days in each country.

A major concern at each stop on the trip will be the promotion of Echeverria's ambition to become the next UN secretary general. Press stories pushing his candidacy have been appearing for several weeks, and last week the campaign began in earnest when Foreign Minister Rabasa raised the matter officially with a European diplomat.

Echeverria is certain to dwell at length on concepts contained in the UN Charter of Economic Rights and Duties of States, which he sponsored. The charter, which aims at reordering priorities in international economic activity, is his chief claim to recognition among the non-aligned. Thanks to a broadening consensus among lesser developed countries, Mexico has succeeded of late in injecting the charter and other essentially irrelevant political issues into several international meetings.

To enhance his designs on Third World leadership, Echeverria has played host to a steady stream of visiting VIPs in the past few months. The visits have produced few actual agreements, but they have brought the desired international attention to Mexico and Echeverria.



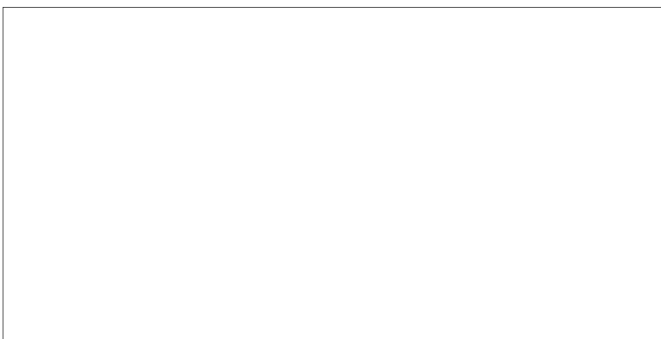
President Echeverria

Third World causes. Also while in the Middle East, he will try to get Arab investments for Mexico.

Echeverria is understood to have long wanted to meet with Fidel Castro. He has stated several times in the past that he had no intention of going to Cuba, but in recent months two Caribbean leaders—Trinidad and Tobago's Williams and Guyana's Burnham—have gone, and another, Manley of Jamaica, was in Havana this week. Echeverria apparently now considers it important for him to meet with Castro in order to demonstrate Mexico's "bold and independent" foreign policy.

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The President's long absence from the country indicates that he is relaxed about the presidential succession process and confident that he has it under control. It may mean that the decision on a successor, due to be announced in October, has already been made.



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VENEZUELA: NATIONALIZATION DEBATED

80-84

Leftist student and political groups are planning nationwide protests against the government's petroleum nationalization bill, now undergoing prolonged debate in Congress. The first of these demonstrations, a nationwide student protest, began on July 10. Extreme leftists, will almost certainly join the protests, hoping to provoke violence and confrontations with the police and security forces.

where the companies could operate. Nevertheless, party leaders have gone along with Perez' demand that Article 5 be kept intact, and if necessary they will use their majority in both chambers to force passage of the entire bill.

The Perez administration is showing no intention of backing down on the terms of the nationalization measure and has used its majority in the Chamber of Deputies this week to approve Article 5, which gives the President considerable flexibility in entering into "association agreements" with foreign petroleum companies after reversion. The governing party is committed to a future role for the petroleum companies, but it has been trying to play down their participation in the state industry, stressing that the state will manage every phase of its operations.

The current session of Congress has been extended for 30 days beyond the scheduled recess date of July 5 so as to complete work on the nationalization bill. Because Venezuelan parliamentary procedure requires multiple readings and separate article-by-article vote in both legislative chambers, final passage may not come before August. Nevertheless, following the affirmative vote on Article 5 this week the government will begin serious negotiations with the oil companies over compensation, technological assistance, and marketing.

Party leaders have seemed more sensitive than government officials to opposition charges that Article 5 will give the petroleum companies a major role in management of the industry. For this reason, some members of the President's own party would prefer to avoid a showdown on this particular issue and, for the sake of achieving a "national consensus," would like to compromise by setting restrictions on the areas

In the meantime, Perez has characteristically taken the offensive against his critics. In a major address to the nation on July 5, Independence Day, Perez vigorously defended the draft bill, assuming full responsibility for Article 5 and charging that opponents of the measure are playing politics with the nation's economic future. In the bluntest appraisal yet of the country's ability to operate the huge extractive industry, Perez admitted that the country does not possess the needed technology to give "our industry the dynamism required for its normal development."

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