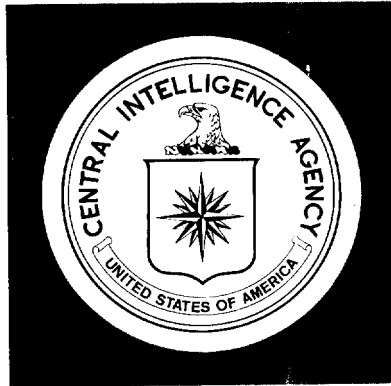


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Weekly Summary

STATE DEPARTMENT REVIEW COMPLETE

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No. 0036/75
September 5, 1975

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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, 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. 25X1

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PORTUGAL: ISSUE STILL GONCALVES

President Costa Gomes' attempt to retain pro-Communist former prime minister Vasco Goncalves as armed forces chief of staff has been met by intensified efforts to purge Goncalves entirely from the government. Although Goncalves' antagonists—the Antunes group and the democratic parties—still hope to succeed by political means, a military confrontation with Goncalves' supporters remains a possibility.

The announcement on August 29 that Goncalves would be replaced as prime minister by Naval Chief of Staff Azevedo has prompted some negative comment from the anti-Goncalves forces, but they have reserved their heaviest fire for the appointment of Goncalves as head of the armed forces. The apparent realization that such a step could increase rather than diminish Goncalves' power and foster the growth of Communist influence in the armed forces has caused some key officers to close ranks behind the Antunes faction.

In addition to the commanders of the central and southern military regions, who were among the original signers of the Antunes document, such political fence-straddlers as security forces chief Carvalho, Army Chief of Staff Fabiao, and even Air Force Chief Morais da Silva have now attested to the undesirability of confirming Goncalves in his new position.

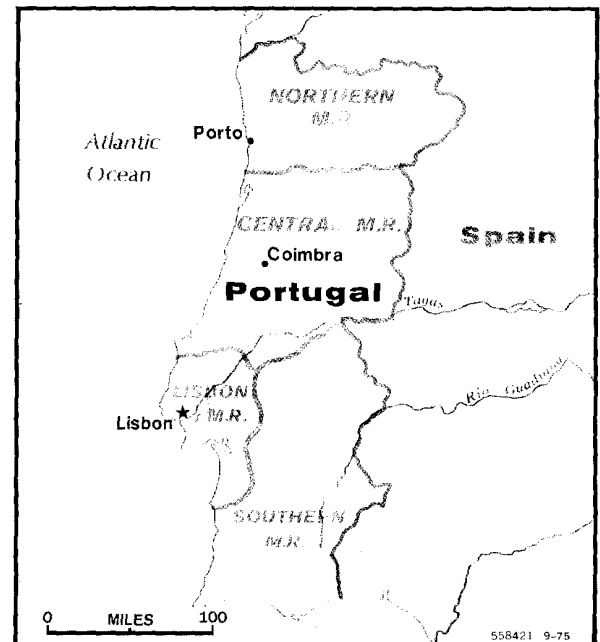
The support of such important military figures has given a strong boost to the Antunes group, which has been pursuing a joint strategy with the Socialist and Popular Democratic parties to force Goncalves out peacefully. The dissident officers hope to outflank Goncalves by gerrymandering the army and air force delegations to the armed forces general assembly meeting on September 5. The assembly is expected to revise the membership of the Revolutionary Council and, by implication, decide Goncalves' future.

The army assembly reportedly met for this purpose on Tuesday, and although the results of

the meeting were not announced, press reports quoted well-informed sources as saying the vote went heavily against Goncalves. Although the air force chief of staff has publicly condemned the Goncalves appointment, there are conflicting reports on how the other air force representatives will vote. The navy earlier endorsed Goncalves' bid to remain prime minister, and its assembly, which is under Admiral Azevedo, is expected to give Goncalves another vote of confidence.

Meanwhile, the Socialist and Popular Democratic parties have refused to participate in the Azevedo government as long as Goncalves remains in a position of influence. They have remained faithful to the joint strategy in spite of reportedly attractive offers of key ministerial posts.

If the Antunes group fails to achieve its aims by political maneuvering, a variety of reports now suggest that they will resort to military force. Their



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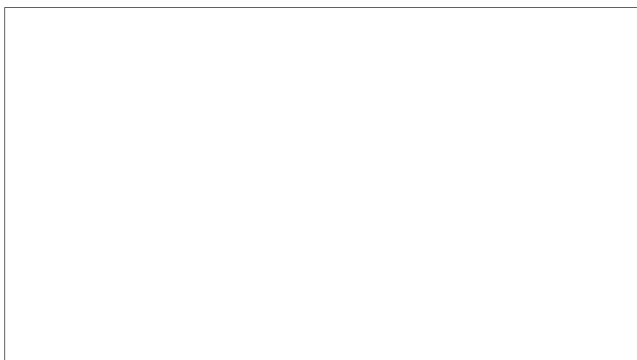
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most likely military strategy would be to join up with units in which they enjoy strong support, as in the Central Military Region, and progressively isolate Lisbon and other strongly pro-Communist areas from the rest of the country.

On the other hand, if the political efforts against Goncalves succeed, there is a good chance that the Socialists and Popular Democrats will agree to join the Azevedo government. It is too early to predict, however, just what the composition and overall political coloration of such a government would be. [redacted]

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USSR-EGYPT: PLAYING TOUGH



One issue irritating Moscow is Egypt's decision to permit minesweeping operations in the Port Said area by the US navy. The Soviet military attache in Cairo recently remarked that Moscow was "furious" over the decision and regarded the action as a violation of an agreement under which Egypt would not make Soviet-supplied military equipment available to a third state without Moscow's permission. According to Egyptian Foreign Minister Fahmi, the Soviets have formally protested this activity.

The Soviets may find the US role particularly galling, since they themselves sought to undertake this venture last winter. At that time, Moscow publicly announced that, in response to an Egyptian request, it would sweep the port free of charge. The Egyptians subsequently denied privately that they had ever made such a request.

In what may well be another aspect of the Soviet campaign against Cairo, an anti-Sadat manifesto attributed to the central secretariat of the Egyptian Communist Party appeared last month in a radical newspaper in Beirut. The manifesto, which presented a detailed indictment of Sadat's foreign and domestic policies, said that while the Communist Party did not have the overthrow of Sadat as a goal, it would seek to stimulate and organize opposition to his policies. Egyptian Prime Minister Salim recently confirmed that the document was drafted and circulated by some Egyptian Communists.

The Egyptian Communist Party was formally disbanded in 1965, and its members joined the ruling Arab Socialist Union. It is not clear whether the party, which is illegal but has existed as a loose underground grouping, has formally reconstituted itself. It may be that Communist Party members, with Soviet encouragement, prepared the manifesto to threaten Sadat with the possibility of the party's re-emergence. If indeed this is the Soviet game, it has not rattled Cairo. Salim dismissed the manifesto as insignificant, saying Egyptian Communists are under control.

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Moscow's distaste for Sadat's policies, particularly his increasing ties with the US, is so intense that the Soviets are willing to risk further restrictions on their remaining privileges in Egypt, particularly their naval access to Alexandria and its dockyards. Moscow must certainly realize that, in light of the success of the current disengagement talks, Sadat will be in a stronger position. The Soviets, however, have not burned all their bridges; for example, they have not engaged in direct personal invective against Sadat. [redacted]

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SPAIN: CRACKDOWN ON DISSENT

The contradictions between Prime Minister Arias' public commitment to political liberalization and the government's turn toward tougher restrictions and controls are becoming increasingly apparent in Spain. The recent crackdown on terrorism and political dissent, in particular, has raised a gathering storm of protest that could test the cohesiveness of Spain's dominant political and military forces.

The tough new anti-terrorist law, which took effect last week, imposes an automatic death penalty on anyone convicted of killing a member of the security forces or a hostage. Despite government denials that the law will be applied retroactively, some 20 terrorists awaiting trial are now more likely to receive the death sentence. Two Basque terrorists convicted last week of killing a member of the paramilitary civil guard have already been sentenced to death. The verdict has been appealed, and Spain's supreme military court must reach a decision before the end of next week.

The case is being compared to the famous Burgos trial of 1970 that became a testing ground between hard-liners and those who favor a liberalization of the regime. At that time six Basque terrorists were condemned to death. Franco commuted the sentences to 30-years' imprisonment, but not before there had been strong protests from abroad and widespread demonstrations in Spain involving students, workers, and the church. More importantly, the Burgos affair revealed serious disagreements among various sectors of the power elite—the government, the military, and the church—over how the disturbances should be handled and what path Spain should follow in its future evolution.

The conviction of the two Basque terrorists last week had already sparked domestic and international reactions:

- The Spanish Communist Party and the Communist-dominated Spanish Democratic Junta have called for mass popular action to prevent the executions.

- There have been strikes and violent demonstrations in the Basque provinces of Spain, resulting in one demonstrator being killed by police and several others wounded.

- Violent demonstrations directed primarily against Spanish consulates and businesses have also taken place in France, Belgium, and Portugal.

- The governments of Italy, Sweden, Portugal, and the Netherlands and several international organizations have asked Franco to intervene and commute the sentences.

Meanwhile, provisions in the anti-terrorist law for closing newspapers that show sympathy for the terrorists, as well as the government's recent threat of legal action against papers spreading rumors about Franco stepping down, are likely to add fuel to opposition protests and may divide regime supporters. Editions of five of Spain's leading weekly newspapers were confiscated after the new law came into effect last week. Since then some political columnists have responded sarcastically by writing on arcane topics like "On the Subject of Alligators" or "Let Us Talk about Thailand."

No visible cracks have appeared yet in Franco's power structure, but the strain imposed by the new law could be compounded by any publicity given to the recent arrests of military officers for illegal political activity. Should the defense decide to focus international attention on the case, it could highlight important divisions in the armed forces and the government between hard-liners who oppose any political evolution and those who favor a gradual liberalization.

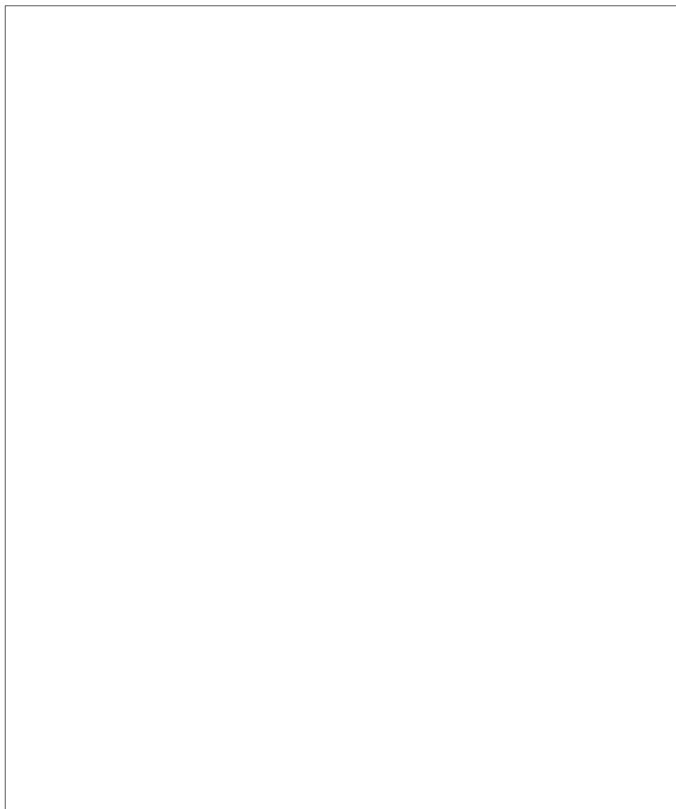
Within the government, the tough approach has clearly been in the ascendancy recently. A sharp reaction to the anti-terrorist law or to the trial of the military officers, however, could lead to a more forceful stand by those, such as Prime Minister Arias, who advocate liberalization of the political system, who are seeking to improve Spain's image abroad, and who believe the only way to achieve a smooth transfer of power is to begin now to ease political restrictions.

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Europe, and subsequent planting of lower yielding spring grains has covered only part of the deficit.

Yields were lowered this summer by floods and drought. Further reduction in corn yields in Bulgaria and fodder crops in East Germany and Poland may result if the drought continues.

East Germany and Poland, usually the largest importers of grain, are likely to have higher than average requirements this year. Although the number of livestock is up only slightly over last year, reduced output of forage crops and poor pasture conditions point to a need for more feed grains than usual. The Czechoslovaks, also large importers, have privately estimated their grain import requirements at about the same as last year.

Romania, normally a grain exporter, will probably require 600,000 tons of grain to replace flood losses. Bulgaria will probably require some corn and other feed grains because of a second year of drought, and Hungary is likely to import its usual amount of barley.

Only Hungary will harvest enough grain to permit net exports, but an unexpectedly poor wheat crop will limit exports to corn. Hungarian corn will probably meet about 500,000 tons of the total import requirements of other East European countries.

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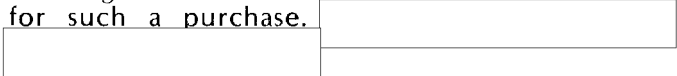
EAST EUROPEAN GRAIN CROP AVERAGE

Eastern Europe's grain production will reach about 86 million tons and grain import requirements about 9 million tons, both close to the average of recent years. Because of poor harvest prospects in the USSR, Eastern Europe is looking to the West, mainly the US, for the bulk of its grain imports. By last week, Eastern Europe had contracted for some 4 million tons of US grain for this fiscal year. Last year, the US sold about 2.5 million tons of grain to Eastern Europe.

Above-average harvests are expected in Czechoslovakia, East Germany, and Hungary, where major grain areas have escaped extensive weather damage. Heavy rains last fall limited planting of winter grains elsewhere in Eastern

The USSR usually supplies about one half of Eastern Europe's grain imports. This year, according to one report, Moscow has asked East European governments to purchase all of their grain in the West. The request is unprecedented, but plausible because of poor harvest prospects in the USSR and the current US embargo on grain sales to the Soviet Union.

In addition to their own requirements, East Europeans may pick up grain for transshipment to the USSR or to replace domestic grain shipped to the Soviets. Yugoslavia is in the market for 500,000 to 700,000 tons of wheat. Neither our estimates nor Belgrade's statements show a domestic need for such a purchase.



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MIDDLE EAST: NEW SINAI ACCORD

Both Israeli and Egyptian leaders are engaged in an intensive campaign to sell to their skeptical constituents the second-stage disengagement agreement the two parties initialed on September 1. For the Israelis, the worst is largely over; the Knesset ratified the agreement on September 3 by a 70-43 majority, and the widespread protest demonstrations during Secretary Kissinger's mission have ceased. For Egypt, which has undercut its leading position in the Arab struggle for the next few years, the worst may be yet to come.

Disengagement Terms

The agreement commits the two parties to refrain from the use and even the threat of force for what amounts to an indefinite period. The agreement is stipulated to be in effect until superseded by another agreement, and it carries an open-ended call for annual extensions of the mandate for the UN buffer force. Egypt is openly committed to permit the transit of Israeli cargoes, although not Israeli ships, through the Suez Canal.

An annex to the agreement—which, unlike the first disengagement in January 1974, has been made public—delineates zones on each side of the buffer zone in which Egyptian and Israeli forces will be limited to 8,000 troops, 75 tanks, and 72 artillery pieces. Weapons that can reach over the buffer zone to the other side's territory are prohibited in these limited arms areas.

Within the buffer zone, which covers the strategic Gidi and Mitla passes, Egypt and Israel will each maintain an early warning station monitored by US personnel. The US will maintain three watch stations for the purpose of reporting unauthorized movements of armed forces. Egypt will gain access to the Abu Rudays oil fields on the Suez Gulf coast. Access to the area will be controlled by the UN, and no military personnel will be allowed in the area.

The agreement was signed by military representatives of both Egypt and Israel in Geneva on September 4. Within five days of that date, the two sides must meet to draw up a protocol for implementing the redeployments called for in the

agreement. The protocol must be concluded within two weeks, and the agreement is to be fully implemented within five months after that.

Israel

Opposition to the agreement in Israel has been more strident than sizable. Despite acrimonious debate and open opposition from such prominent individuals as former defense minister Moshe Dayan, the government had little trouble in winning a majority of the Knesset over to support of the agreement. Public opinion polls also show lessening domestic opposition.

During the final negotiations and since, Israeli leaders have conducted an intensive campaign to justify the agreement and point out its advantages. The benefits of the close US-Israeli relationship that will result from the agreement have been emphasized, and "objective" military commentators have been enlisted to enumerate for the press the military advantages of the accord. Defense Minister Peres and other officials have attempted to minimize the effects of Israel's withdrawal from the passes.

The government's hard-sell is in large measure an effort at self-persuasion. Despite the expressions of support and the justifications, there is no elation in Israel over the agreement, either within or outside the government. It is looked on with resignation as an inevitability that, in light of recent US pressures, will bring less harm to Israel's long-term interests than would have resulted from a refusal to negotiate. The Israelis are aware that they will be under pressure to repeat the performance with Syria, but their attitude toward the Egyptian agreement makes concessions to Syria more problematical.

Egypt

Egyptian officials are using the same arguments to justify this agreement that they used for the first disengagement—that it is a military agreement that does not detract from, but in fact gives impetus to, efforts to regain other Arab territories. The Egyptians are unable to hide—and not easily able to justify for the other Arabs—the

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fact, however, that this agreement is radically different from the first.

Despite Egypt's claims that the accord has no political content, the agreement to renounce the use of force is in fact a political step by which Egypt effectively denies itself, at least for the next few years, the right to use the one means of leverage it has had with Israel. By thus taking itself out of the fray, Egypt also undercuts the other Arabs' ability to apply meaningful pressure on Israel.

Arab Reaction

Whether in fact Egypt loses its ability to influence Arab politics and to continue as a moderating factor in the Middle East will depend almost entirely on who among the Arabs it can line up either to endorse or at least to remain silent about the agreement.

Saudi Arabia gave Egypt a considerable boost by acclaiming the agreement, during Secretary Kissinger's visit to Taif, as "a significant and important step toward the final settlement of the Palestinian problem." Saudi Foreign Minister Saud announced that the Saudis were deeply appreciative of the US effort to effect a settlement.

Much of the favorable impact of the Saudi endorsement will be negated, however, by the Syrian Baath Party's official denunciation of the agreement on September 3. Although the Damascus press had earlier charged that the agreement would only increase Israeli intransigence, Syrian brickbats had until the Baathist statement been few and directed at Israel and the US rather than at Egypt. The statement, issued after a party meeting with President Asad, condemned Egypt's commitment to refrain from the use of force as a move that "freezes the Egyptian front" and "practically and contractually ends the state of war." The statement also condemned Egypt, at least indirectly, for ignoring past Arab injunctions against negotiating with Israel and for "weakening the march of Arab solidarity."

The Palestinians have also been strident in criticizing the accord, although less radical elements have attempted to avoid direct attacks

on Egypt. Palestine Liberation Organization leader Yasir Arafat has denounced the accord as an "American solution" and called for coordinated Arab action to thwart it. Arafat and other PLO leaders are obviously uncomfortable that their inability to benefit from negotiations leaves them more vulnerable to attack from radical Palestinians, and they are moving to cover their flanks.

Soviets Negative on all Counts

The Soviets are clearly unhappy with the new second-stage Sinai disengagement agreement. Not only have they decided to boycott the formal signing ceremony in Geneva, but they are also taking an exceedingly tough line against any UN participation there. Moreover, Moscow has weighed in with its first authoritative comments on the agreement since Secretary Kissinger's trip to the Middle East began. The Soviets are predictably negative on all counts.

A Soviet Foreign Ministry official told the West German ambassador in Moscow last week that, in ignoring the Syrians and the Palestinians, the new Sinai agreement "does not help at all" and serves only to "divide the Arabs further." He criticized the West Germans and other West Europeans for providing help to Secretary Kissinger.

The Soviet official urged resumption of the Geneva conference as the best forum for reaching an overall settlement and conceded that, in the end, Moscow will probably "take no position one way or the other" on the new Sinai accord.

The same message is being conveyed by Soviet media. After a lengthy silence, *Pravda*, in a major commentary, belittled the new Sinai agreement, calling it "partial" and "limited in significance" and arguing that it does not bring a general political settlement any closer. The commentary zeroed in on the "complicating element" posed by the expected presence of US technical observers in the Sinai, claiming that effective observation of the cease-fire is already being provided by the presence of UN contingents.

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With slightly over two months remaining before Angola is scheduled to become independent, the Portuguese are making a last-ditch attempt to establish a new coalition government in the territory capable of assuming power on November 11. Lisbon's plans conflict with those of the liberation groups, however, particularly the Popular Movement for the Liberation of Angola, which appears determined to establish its own political and military predominance.

A new Portuguese high commissioner for the territory was sworn in on August 30 in Lisbon and should arrive in Luanda in the near future to take up his duties. His appointment has been denounced by the Popular Movement and the National Front for the Liberation of Angola. Both groups have refused to recognize the collapse of the transitional government in which Lisbon shared power with the three liberation movements, although only the Popular Movement still has official representatives in Luanda.

The new high commissioner will have broad executive, judicial, and defense responsibilities not assigned to his predecessor under the terms of the agreement Portugal signed with the liberation groups last January. The Portuguese formally suspended that agreement last week hoping to clear the way for the establishment of an "administrative" government in which the liberation groups would participate, but with diminished

authority. Such a government would only barely fill the political vacuum but, the Portuguese calculate, would be enough of a structure to assume political power and allow Lisbon to claim it had carried out its duty toward decolonizing the territory.

The major obstacle to Lisbon's plan is the Popular Movement, which maintains that it alone of Angola's liberation groups has lived up to its responsibilities and that it expects to "assume total responsibility for governing Angola" on November 11. The Movement intends to gain military and political control over as much of Angola as possible between now and independence so the Portuguese will be forced to admit that it is the only group capable of running the country.

The National Front and the National Union for the Total Independence of Angola have been preoccupied with maintaining their military credibility in the face of the gains made by the Popular Movement in recent weeks. The National Front announced from Zaire earlier this week that its troops have advanced to within 10 miles of Luanda. The Front reportedly does not plan to force its way back into the capital. Rather, it hopes that its military presence close to the capital will discredit the Popular Movement's claim of military dominance and force the Portuguese to overrule any opposition by the Movement to a renewed Front political presence in Luanda.

The National Union is isolated in central and southern Angola. It is attempting to buy time to build its military capabilities by negotiating a cease-fire with the Popular Movement.

In the final analysis, both the National Front and the National Union, to succeed, must maintain enough political and military strength to convince the Portuguese and the Popular Movement that all three liberation groups must share responsibility in Angola's independent government. So far, however, the Popular Movement has the upper hand and it may be too late to redress the balance.



Jonas Savimbi
UNITA Head

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Morales Bermudez

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PERU: A NEW PRESIDENT

After taking over the presidency last Friday, General Morales Bermudez has appointed the first civilian cabinet minister since the military took power in 1968, filled several other cabinet-level posts with his own supporters, and loosened restraints on the media and civilian critics of the regime. The President's actions thus far indicate an intention to continue many of his predecessor's programs, although the conduct of affairs will be more businesslike and less repressive. He is likely to seek a less rancorous, but still arm's length, relationship with the US.

Morales Bermudez' accession to Peru's top post came after an extended period of dissatisfaction with former president Velasco's radical and often arbitrary exercise of power. The smooth seizure of the presidency clearly rested on careful planning and came only after all important military and national police leaders had declared their support. Morales Bermudez had been assuming more important decision-making duties since last February and had already obtained Velasco's blessing as his eventual successor. In the

end, the former president's continued predilection for personalistic rule, repressive domestic measures, and radical foreign policy actions apparently galvanized military support for a complete take-over.

There has been no indication thus far that the more radical officers will oppose Morales Bermudez, and civilian reaction has been generally favorable. Some civilian political groups have publicly welcomed the change in leadership, and even the communist-controlled labor confederation has declared itself in support of the new President. Certain leftist elements, however, are probably uneasy over Velasco's ouster, and the communist group's declaration may reflect more pragmatism than conviction. Nevertheless, for the time being, Morales Bermudez' broad military backing and his decisive victory over Velasco place him in a strong position to carry out his programs.

The President's decisions to allow previously closed publications to reopen and permit

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deported civilian critics to return are a clear indication of his sensitivity to the military's continued inability to attract needed civilian support. Although Morales Bermudez remains committed to Velasco's goal of restructuring Peruvian society along socialist lines, his pragmatism and less extreme political views presage a more open and presumably more effective government.

Another aspect of this approach may be seen in his appointment of a civilian economist as minister of economy and finance. This apparently reflects a conclusion that the economic expertise necessary to resolve the country's serious problems cannot be found in the armed forces.

These moves do not signal a rapid return to civilian rule, but pragmatic and political reasons may dictate further increasing civilian participation in national policy making. At the same time, Morales Bermudez' sensitivity to concerns of other officers, including more radical generals who supported Velasco, augurs against a change in the military's basic programs.

ARGENTINA: WIDENING SPLITS

The crises that have rocked Argentina recently have weakened the unity of conservative Peronist groups that still profess loyalty to President Peron. Politicians and labor leaders are attempting to preserve a strong image, but events of the past week demonstrate that this is only a facade.

Peronist party leaders, elected in a convention last week, are calling for a return to "consensus politics"—the dialogue with political allies that was begun by Juan Peron. The directive that is to accomplish this, however, contains no guidelines for reconciling groups that are openly antagonistic toward each other. In addition, the leaders ignore the fact that Peronists who disap-

proved the party slate have organized a rival group called the "Peronist Affirmation." This appears to be the first time in Peronist history that any group has formally challenged the leaders without resigning from the party.

Meanwhile, tensions within the Peronist labor movement—long the dominant civilian political force in the country—have been exacerbated by the recent conflict between President Peron and the military over the appointment of an army officer as minister of interior. According to reliable press reports, the leaders of the two major union organizations, Casildo Herreras and Lorenzo Miguel, disagreed strongly last week on the issue of taking sides in the dispute and are unlikely to reconcile their differences. Although Herreras and Miguel have generally cooperated on important issues, their relationship is a confusing one since the organizations they head overlap each other in terms of political responsibilities. In addition, the future of both union bosses is in jeopardy because of their past ties to the now-discredited Lopez Rega and their inability to prevent price hikes and to curb rising unemployment.

Their latest disagreement will probably be papered over publicly, but behind the scenes it appears that Miguel, who backed President Peron during her most recent confrontation with the military high command, has lost political ground to Herreras. A protracted fight could seriously weaken the movement by causing a collapse of union discipline.

This latest flare-up is a further indication of the lack of organization cohesiveness that prevents labor as well as the military from exercising the leadership needed to cope with major political and economic problems. Although power passed to military and labor leaders two months ago with the downfall of Lopez Rega, they have been unable to work effectively with Mrs. Peron, are unwilling to oust her, and cannot agree among themselves on a course of action.

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ECUADOR: SHORT-LIVED COUP

The first armed effort to oust the three-and-a-half-year-old Rodriguez regime occurred on September 1 when a small group of senior army officers led by joint command chief of staff General Raul Gonzalez Alvear captured the presidential palace and held it briefly.

The poorly conceived plan was doomed when navy, air force, and other army units did not join in with the small armored force supporting Gonzalez. The rebels failed to capture Rodriguez, who promptly began to marshal support in Riobamba, a hundred miles south of Quito. The rebels also inexplicably failed to secure key transportation and communication centers in Quito, thus permitting loyalist units stationed near the airport to rally a successful countermove.

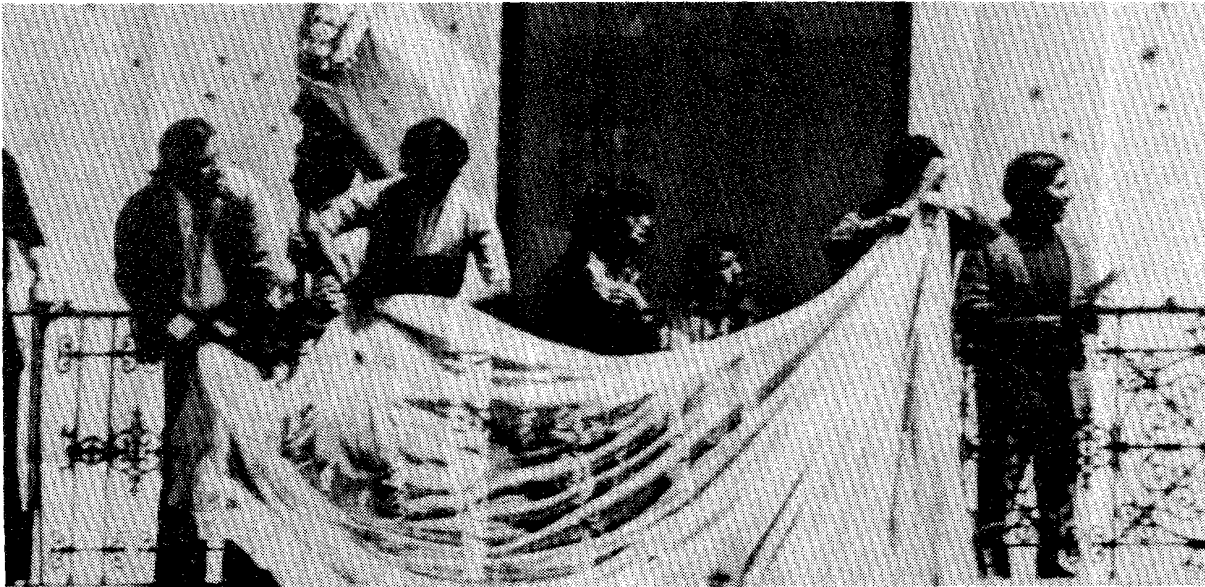
Several dozen officers and civilian sympathizers have been arrested, and Gonzalez has taken asylum in the Chilean embassy. Other opponents of the regime have gone into hiding in anticipation of a government crackdown. Press censorship and a strict dusk-to-dawn curfew in

Quito and Guayaquil helped maintain calm following the attempted coup. The loyalties of several troop commanders remained ambiguous at week's end, leaving open a small chance of further tensions and possible troop movements.

Although there has been no other armed move against the Rodriguez regime, there have been periodic reports of plotting by conservative business and political leaders. Conservative backing for the rebel officers was apparent in the wording of a communique issued by Gonzalez attacking the President for mismanaging the country's oil resources and making other economic and political errors. The communique also pledged to abolish a recent 60-percent surtax on imports, carry out an economic reform program, and hold elections in two years—promises that echoed demands often heard from the conservative business community.

Since the coup attempt, Rodriguez has begun to strike out at these critics of his government,

Rebels temporarily occupy the national palace in Quito



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particularly at their spokesmen among the country's civilian politicians. In his first public statement on returning to Quito on Monday, he charged that "treasonous and disloyal politicians" instigated the rebellion, obliquely recalling the concerted civilian plotting that surfaced last March. Courts-martial are likely to be convened against those individuals—both military and civilian—who tried to oust Rodriguez.

How these events will affect the government's disputed economic policies is a matter on which Rodriguez has not commented. He has always been fairly responsive to criticism, however, and had already begun moderating some policies several months ago. He will probably continue in that direction and may now make some cabinet changes in an effort to deflect further criticism from himself. A new minister of industries and commerce was appointed 1st month; now the ministers of finance and natural resources, the former a civilian and the latter a naval officer, appear to be handy scapegoats. The main thrust of government policy making—regarding petroleum, tuna fishing, foreign oil companies and tuna boats, and foreign policy in general—is unlikely to change significantly.

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CHINA: FERTILIZER PROSPECTS

Because of its inability to expand production sufficiently through domestic industries, China began in late 1972 to contract with US, Dutch, French, and Japanese firms for 13 of the world's largest ammonia-urea complexes. Each of the ammonia plants will have a daily capacity of 1,000 tons, which will serve as feedstock to associated urea plants, each to produce 1,600 or more tons per day. Upon completion, these plants will provide an additional 3.5 million tons of nitrogen annually to the more than 3.2 million tons produced in 1974.

Increased emphasis in the Chinese press on production and use of organic fertilizer suggests there is little official hope of any substantial increase soon in the supply of chemical fertilizer. Over the longer term, the key to increased output is prompt completion of the imported plants. The first of these will operate in early 1977, with completion of the remainder scheduled for 1978.

Construction lags and a lack of sufficiently trained technicians may prevent rapid implementation of full plant production. Moreover, maintenance of an accelerated growth rate for production will depend on the ability of complementary industries—chemical, machine tool, and metals—to provide additional chemical equipment. Nevertheless, the output from the new plants, added to production from existing plants, should enable China to produce 8 million tons of nitrogen fertilizer annually by 1980, removing the need to import nitrogenous fertilizers.

China's production of fertilizer will fall about 20 percent short of the goal unless dramatic increases can be made during the remainder of the year. Peking expected output to reach 35 million tons in 1975, the last year of the fourth five-year plan.

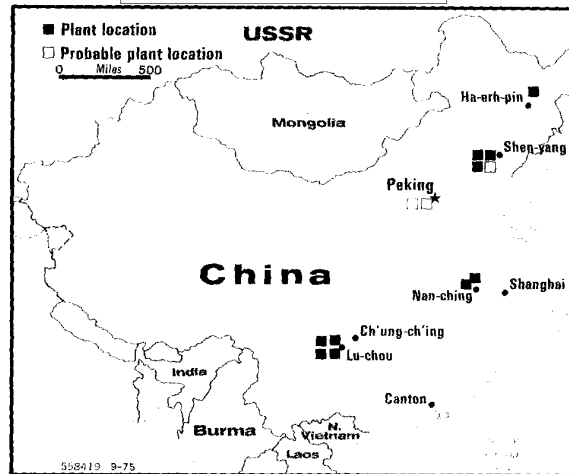
Despite a more than doubling of production since 1969, China has been unable to supply the agricultural sector with enough fertilizer. The increase in domestic production of chemical fertilizer last year was negligible, as increases in nitrogenous and potassium output were offset by a sharp decline in the production of phosphorus,

a result of a quadrupling of the price of imported phosphate rock. Disruptions related to the campaign to criticize Lin Piao and Confucius caused transportation bottlenecks and shortages of coal, a major raw material for the nitrogenous fertilizer industry.

Imports of fertilizer have also lagged. Last year they fell by one third because of skyrocketing prices and a shortage of foreign exchange. Purchases were cut back even more the first half of this year. Nevertheless, China is still among the world's largest importers of fertilizer. Peking has recently signed or is negotiating new contracts as fertilizer prices are falling. Much of this, however, will be delivered too late for use this crop year.

This massive expansion could result in rapid increases in agricultural output by the end of this decade. Full utilization of the increased supply of fertilizer, however, will depend on development of other inputs. Without improved water control and advanced seed strains, returns on unit fertilizer applications will decline. The most suitable of China's arable lands are already under water control. Much of the remainder, moreover, is either unsuitable for such projects or, as in North China, will require large, multipurpose works—high dams, extensive reservoir and delivery systems, and soil conservation programs.

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TIMOR: DYNAMIC INACTION

Indonesian military forces are poised to intervene in Portuguese Timor, but President Suharto has not authorized an invasion. He is awaiting the outcome of negotiations by Portuguese special envoy Almeida Santos to organize a multinational effort—including Australia, Malaysia, Indonesia, and Portugal—to restore order in Timor. For domestic political reasons, Lisbon does not believe it can publicly sanction unilateral Indonesian intervention. Portuguese President Costa Gomes evidently fears that Jakarta will be too heavy-handed in dealing with Timorese dissidents and increase rather than end the bloodshed.

During discussions in Jakarta last week, Santos and the Indonesians worked out a proposal for a four-party peacekeeping effort. Indonesia under the general guidance of the others would send in forces to restore order. The four powers would then jointly supervise the peace and guide the decolonization process in accord with the arrangements worked out in Macao last June. Lisbon's initial reaction to the proposal was negative; President Costa Gomes probably wants

firmer guarantees that Jakarta will not deal too roughly with the Timorese.

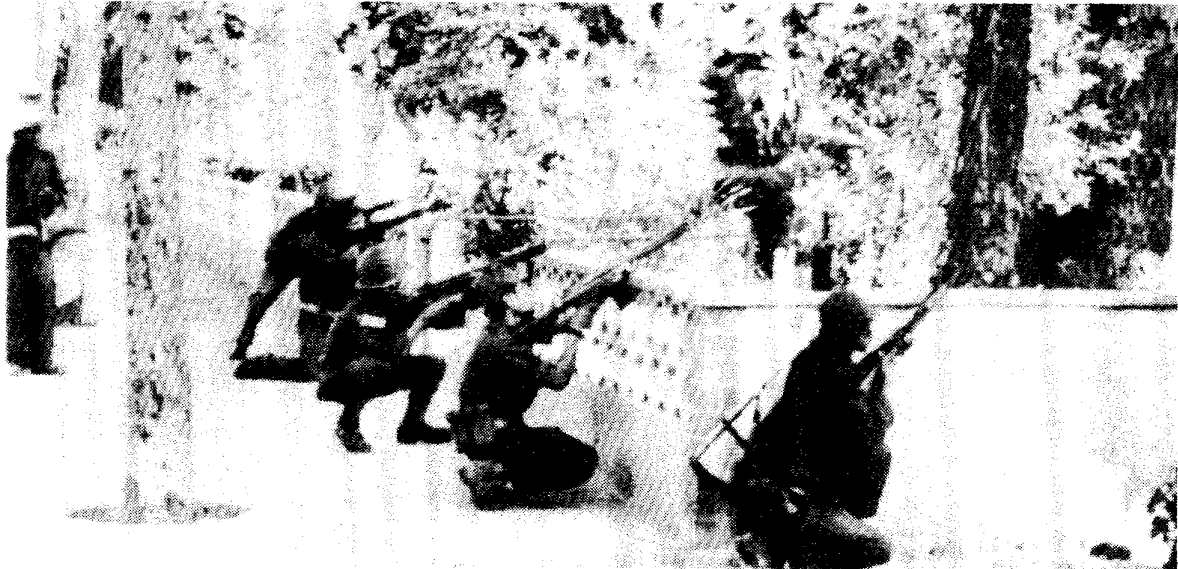
Over the weekend, Santos visited Canberra to sound out Prime Minister Whitlam on Australian participation in the proposed joint effort. Whitlam is unlikely to agree to direct Australian participation in a military intervention but government spokesmen left open the possibility that Canberra might participate in a multilateral supervisory body. Whitlam has been criticized recently by members of his own party and by the opposition for his allegedly indifferent attitude about the fate of the Timorese. From Canberra, Santos flew to Timor for consultations with the governor, currently headquartered on a small island off the Timor coast. At the end of the week he is scheduled to return to Jakarta.

The possibility that some sort of multinational peacekeeping effort may be forthcoming has strengthened Suharto's hand against his top military advisers, who believe that immediate unilateral action is necessary. [redacted]

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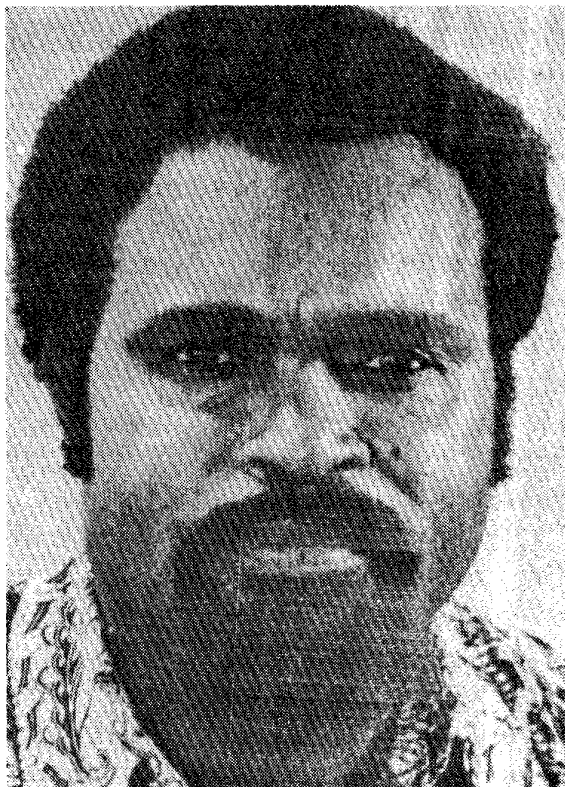
Fretilin guerrillas during recent action in Dili



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PAPUA NEW GUINEA: SEPARATISM

Two weeks short of independence on September 16, Papua New Guinea is already threatened with schism. The announcement of secession by Bougainville separatists on September 1 illustrates the deep-seated divisions that will plague the new nation.

The separatists hope that the announcement will underscore their contention that the copper-rich island, which contributes heavily to the central treasury, is not getting its share of central government development funds. Few workers

stayed off the job on the proclaimed independence day, however, and celebrations were orderly.

Authorities in the Papua New Guinean capital of Port Moresby are taking a relaxed view of the Bougainville situation in the belief that it will blow over. Central government offices in Bougainville remain open, and the island police are still under central control.

Although Bougainville independence lacks island-wide support and one leading separatist admits that the goal of being a separate state is a long way off, the breakaway movement is better-defined and better-led than similar groups elsewhere in the country, such as the one in Papua. As a sop to local sentiment, Bougainville was granted provincial status last year. No other region in Papua New Guinea has comparable status, and it has given the separatists added experience in handling island affairs.

So far, the separatists have stopped short of any action that would impel the central government to intervene. The separatists contend, however, that the giant Bougainville Copper Limited must come to terms with the new "independent government." The separatists are confident of union leadership support and may take a tough line with the copper combine. Any move to divert substantial copper tax revenues now paid to the central government would force Port Moresby to act.

Bougainville has been unable to muster any international support. Australia, which has administered Papua New Guinea as a UN trust territory, has made clear its disapproval of the separatists, and a plea for Bougainville independence to the UN trusteeship council was unanimously rejected. But lack of such support is unlikely to deter the separatists, who see prospects of self-sufficiency from copper profits. Some separatists may accept Chief Minister Somare's offer of further discussion of the island's grievances, but an early damping down of separatist activity does not seem in the off-

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NONALIGNED: ON TO SRI LANKA

Fraternal secrecy fortified the facade of non-aligned unity, but bitter differences were aired at the meetings of foreign ministers at Lima. The controversy and confusion that permeated the closed sessions, and particularly the bad blood between the African group and a bloc of Arabs and some Asians, seem to promise further fireworks when Sri Lanka hosts the nonaligned summit next August. Public solidarity nevertheless seems likely to endure.

The Arabs' style of ramrodding their own pet issues while cavalierly dismissing the interests of the poorer Africans has created deep resentment and evidently the beginning of some resistance. Syrian militancy on the expulsion of Israel from the UN failed at Lima, and this defeat of the hard line perhaps will stiffen the resolve of the Africans and other nonradical members to think positively about defending their positions in future non-aligned assemblies.

The relative mildness—in the Third-World context—of the Document of Lima, however, only partly reflects a revolt by the more conservative in the movement. Discord within the Arab bloc itself may have been the strongest brake on the radical steamroller, and outside considerations served also to temper the hard line. Forward movement in the Middle East negotiations certainly affected the Israeli issue. In the economic sphere, signs that the developed world was beginning to accept some of the principles formulated by the have-not nations also had an impact. Algeria's standard-bearer of Third-World radicalism, Foreign Minister Bouteflika, for example, spoke at Lima in measured and conciliatory terms that suggested he anticipated the start of constructive compromise with the industrialized nations.

While the radical bloc withdrew or suffered losses on certain key questions, overall, the hard

The opening session of the conference



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line carried the conference. Extreme positions were maintained on most purely political issues, with heavy rhetoric launched against imperialism, Zionism, racism, and other code words selected for the West and its allies. The cause of "evenhandedness" toward applicants for membership among the nonaligned suffered badly. North Korea was enthusiastically admitted, while Seoul's bid was rejected. The Philippines were permitted to attend only in the category of "invited guest."

Given the tight security that characterizes nonaligned meetings, specific points of dissent and friction will begin to leak only slowly and piecemeal as the nonaligned delegates review their experiences at Lima. An Austrian diplomatic guest and frequent apologist for the nonaligned described the atmosphere of the conference as "wild" and asserts that the four new Asians involved—Cambodia, the two Vietnams, and North Korea—will move the group another notch to the left. [redacted]

DEVELOPING COUNTRIES

Payments Problems

The payments position of those developing countries that do not export oil deteriorated rapidly in the first six months of this year. Changes in bank borrowing, aid flows, and reserve levels indicate that their current account deficit taken as a group increased by \$4 to 6 billion.

We estimate that the deficit in the last half of 1974 was about \$16 billion. Because the current level of their borrowing is unsustainable, they have already begun to cut back on imports. Thus the deficit in the second half of this year, while still formidable, will decline. Some debt rescheduling is inevitable, and exchange holdings will continue to dwindle.

Preliminary statistics on trade alone indicate that the developing countries' deficit with the major developed countries increased \$2.7 billion in the first half of 1975. Indirect evidence indicates that the current account balance deteriorated by roughly \$5 billion.

Based on data through May, we estimate the developing countries borrowed a net \$5.5 billion from US commercial banks in the first half of 1975. South Korea and Mexico borrowed nearly \$500 million each and Chile about \$100 million. Incomplete data for 1975 on developing countries' borrowing from commercial banks in London, the other major market, show a surge of new credits, perhaps amounting to \$3.5 billion net.

Owing to increases in concessionary lending, total aid flows to the developing countries rose by roughly \$2 billion in the first half of 1975. OPEC accounted for most of the increase, growing from \$3 billion for the whole of 1974 to an estimated \$3.5 billion in January through June of 1975. Muslim countries received about 70 percent of the OPEC total. We estimate aid from the remainder of the world, mainly from OECD countries, at \$5.5 billion compared with roughly \$5 billion in second half of 1974.

The rate of lending by the International Monetary Fund declined from last year's record pace. On balance, the developing countries withdrew \$570 million from the IMF in the first half of 1975, compared with \$1.1 billion in the second half of 1974. The new oil facility accounted for 80 percent of the 1975 total.

Foreign Reserves Fall

Despite the increased aid and borrowing the developing countries' foreign reserves fell from \$30.1 billion at the end of 1974 to \$29.6 billion by May 1975. Aid flows are unlikely to increase substantially in the second half of 1975. Any increases will probably be concentrated in those Muslim countries that received the bulk of OPEC aid in the first half. We expect export earnings to pick up moderately as raw material prices start to recover. A substantial increase in volume, however, will not happen until the economic upturn in the developed countries picks up steam.

The developing countries are under pressure to reduce the size of their current account deficits during the remainder of the year, if only because they cannot continue to borrow at the same rate from US and UK banks. Most of the cut in the deficit will have to be accomplished by reducing imports. Some governments have already taken steps to cut back foreign purchases. [redacted]

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