

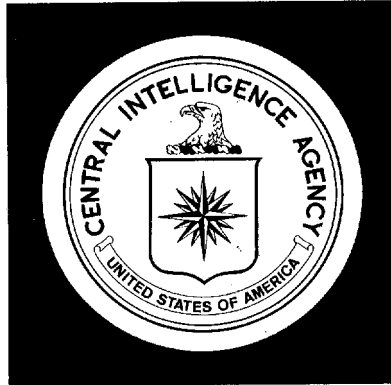
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Weekly Summary

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January 23, 1976

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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.

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

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A mixed force of Palestinians and Muslim leftists capture Lebanese army armoured car

AP

LEBANON: WORSE YET

1-5

Fighting intensified ominously this week as more mainline Palestinians entered the country in support of the Muslims and leftists, and the Lebanese armed forces became more heavily involved on the side of the Christians. The deterioration resulted in an immediate sizable jump in the aggregate death toll since armed clashes first broke out last spring, and prompted an announcement by Prime Minister Karami that he would resign. New hopes that the adversaries might at last be ready to defuse the situation, nourished initially by little more than the sheer magnitude of the carnage, were encouraged by President Franjijah's public claim on January 22 that all parties had agreed on a new plan to resolve the basic political issues underlying the protracted crisis. In fact, such agreement is apparently still being sought.

Warfare Spreads

For the first time since the conflict began last April, the Lebanese air force, apparently on orders from Christian Interior Minister Shamun, made several strikes against Palestinian and

Muslim forces. The target groups had surrounded a group of small Christian villages south of Beirut early last week. The action was not cleared with Karami, who also serves as defense minister, and triggered his resignation statement. Lebanese ground forces sided more openly with Christian militiamen in the battle to fend off combined Palestinian and Muslim advances on the Christian city of Zagharta in the north and Zahlah, the major Christian enclave in eastern Lebanon.

Meanwhile, the main Christian militias supported by some elements of the army concentrated on tightening their blockade, established two weeks ago, of two large Palestinian refugee camps in eastern Beirut. They also strove, with some success, to consolidate their hold over the northeastern portion of the capital on both sides of the Beirut River. The Christians now have access to a major supply route north of the city and have established control over a large area from the northeast sector of the capital that is contiguous to the predominantly Christian Mt. Lebanon area.

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These gains were offset, however, by heavy Christian losses in northern and eastern Lebanon, where approximately 3,000 troops of the Palestine Liberation Army have crossed the border from their bases in Syria. These troops have not yet become significantly involved in clashes with either the Lebanese army or the Christian militias. They have provided important support, however, to the fedayeen and Lebanese Muslims who are tightening their hold on large areas of the north and the east.

The battlelines that have developed over the week have begun to create a de facto partition of the country as Muslim and Christian enclaves have fallen one after another. This emerging geographic division and the heavy losses on both sides have had a sobering effect on all parties to the conflict that may help in further negotiations.

Political Developments

Syrian President Asad played a major role in working out the "comprehensive political settlement" announced by Franjiyah's office; it is a revision of the five-point peace program proposed by the Syrians last month and rejected by the Christians. The new agreement calls for the formation of a military committee composed of Syrian, Lebanese, and Palestinian representatives to fix a date for a cease-fire. The committee is then to name a number of subcommittees to implement the truce.

Few specifics have been announced, suggesting that many details remain to be worked out on the terms of a political settlement and even on how a cease-fire is to be implemented. The new plan reportedly retains Muslim demands for equal representation in parliament and the continued election of the prime minister by the parliament. Unlike the earlier proposal, however, it would allow the Christians to keep their predominant representation in top civil service and army posts.

Karami's threat to resign on January 18 gave a greater sense of urgency to political negotiations

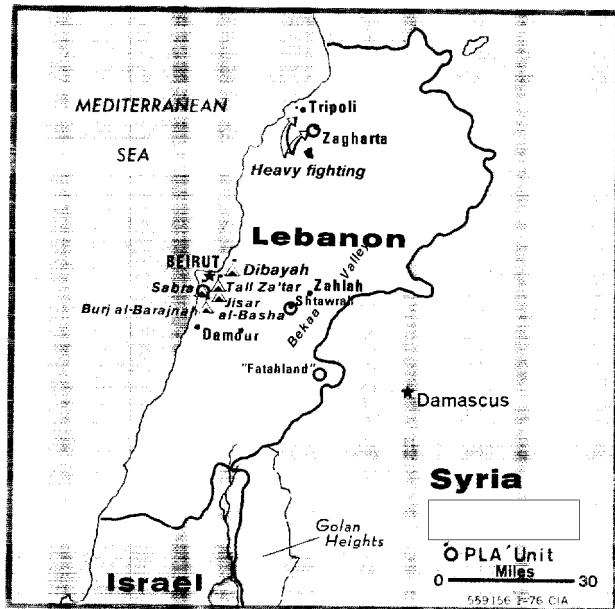
throughout the week, and probably shocked Muslim and more pragmatic Christian leaders into greater flexibility. Concern that remaining government authority might collapse should Karami decide to carry out his threat has probably given added impetus to Syria's mediation effort. By threatening to withdraw, Karami has also strengthened his own hand, which has been a force for reconciliation and compromise.

On the Christian side, Franjiyah and Phalanges Party leader Jumayyil seem inclined to accept the Syrian plan; Shamun, however, appears to be resisting. Leftist spokesman Jumblatt has not been heard from nor have other representatives of the more radical leftist and Muslim factions. Even if the top leadership of rival groups can be brought in line, there is still a serious question of whether undisciplined forces on both sides would accept a truce.

Economy Near Standstill

6-10

Months of civil war in Lebanon have brought the economy close to a standstill. Although many



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of the foreign firms that have left may eventually come back, a return to prewar levels of economic activity is unlikely for many years.

With few natural resources of its own, Lebanon has relied on commerce and banking. Its economic policies, together with a strong currency, have promoted large capital movements into the country and rapid growth in earnings from banking and commercial services. Beirut became the key international commercial center in the Middle East.

Lebanon's prosperity hit a peak in 1974. Buoyed by Arab oil money, Lebanon achieved a record balance-of-payments surplus and added \$650 million to its foreign exchange reserves. Net capital movement into the country reached \$875 million in 1974 compared with a previous high of \$280 million three years earlier. Tourism rebounded sharply from 1973 when it was dampened by the October war.

The fighting that began last April totally reversed this picture of prosperity. The foreign business community—the backbone of banking-commercial activity that had been generating some 70 percent of Lebanon's gross national product—left and so did hundreds of thousands of skilled foreign workers. Lebanese white collar workers have also begun to leave.

The country has been split into isolated units, production has all but stopped, unemployment is high, and distribution problems are severe. There are serious food shortages in sections of Beirut.

The latest Lebanese estimate of the economic cost of the war, made in October, put physical damage and commercial losses at nearly \$3.5 billion—equivalent to the country's gross national product in 1974. Heavy fighting since then has added to the toll. The gross national product in 1975 could be down as much as 20 percent, and Lebanon may have run up its first balance-of-payments deficit since 1967. Beirut will have to dig into its \$1.7 billion in foreign exchange reserves to cover the large balance-of-payments deficit likely this year.

Even if the fighting were to end soon and some sort of political stability were restored, the country would still be left facing a long recovery period and a need for substantial foreign assistance. Foreign businesses have set up elsewhere and will not return quickly. Many foreign workers who have fled the country have found niches in Amman, Kuwait, and other Arab cities and are not likely to rush back to Beirut.

Lebanon will also be saddled with economic problems that are unrelated to the fighting. An agreement with Iraq, which provided half of Lebanon's petroleum consumption, expired in December. The contracted price was \$3.05 per barrel, and a new contract will probably be at world market prices, thus adding \$175 million to Lebanon's import bill. Lebanon owes the Saudi pipeline carrier \$100 million in back payments.

ANGOLA:

13, 15, 18

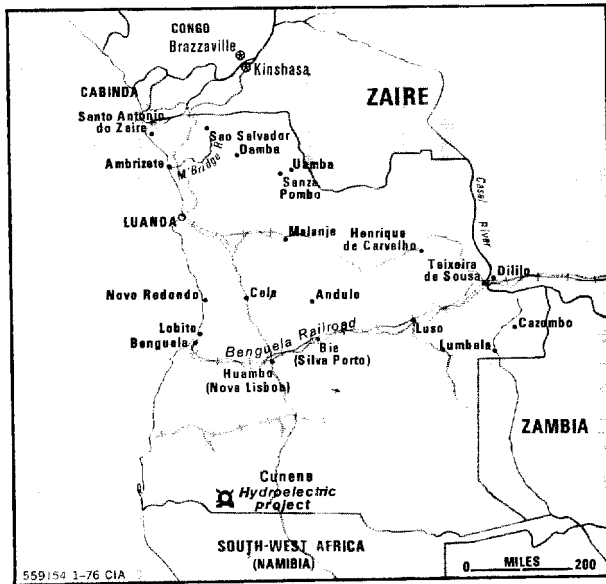
The Popular Movement for the Liberation of Angola moved quickly to expand military operations on its southern front following the collapse in the north of the National Front for the Liberation of Angola. In heavy fighting in several areas of central Angola during the past week, the Popular Movement met stiff resistance from units of the National Union for the Total Independence of Angola that South Africans have been aiding. The National Union's position may soon deteriorate rapidly, however, as a result of the reported decision by Pretoria to withdraw its forces from the Angolan conflict. The number of Cuban troops in Angola spearheading the Popular Movement's drives now probably exceeds 10,000 men.

South Africans Leaving

Prime Minister Vorster's government apparently reached its decision some days ago.

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South African troops that have been operating in the eastern and western sectors of central Angola reportedly have already begun a pullback to Namibia. Some South African forces will almost certainly remain on the Angolan side of the border to protect the important Cunene hydroelectric project.

ment in Angola at the recent OAU emergency summit meeting. The National Union itself has neither the technical know-how nor the equipment to compete with the Cuban-backed and Soviet-equipped Popular Movement forces. Its only chance for survival may be to revert to guerrilla tactics.

Military Situation

In northern Angola this week, the Popular Movement concentrated on consolidating its position at Ambrizete. It has not attempted to push farther north toward the Zairian border, suggesting that some forces from this sector have already been shifted to operations in the south against the National Union.

Reports from central Angola are fragmentary and contradictory, but it is clear that fighting

between the National Union and the Popular Movement has intensified. One of the most heavily contested positions was Cela.

In the east, the National Union appears to be maintaining pressure on Popular Movement forces ensconced in the important railway town of Teixeira de Sousa, close to the Zairian border. Last weekend, Popular Movement troops in this battle area were hit from another direction when Zairian jet fighters strafed the Soviet-backed group's positions at two locations. The strikes apparently were in retaliation for the Popular Movement's earlier destruction of a bridge linking Teixeira de Sousa with Dililo on the Zairian side of the Cassai River; at least one of the strikes may have been coordinated with a ground move by National Union troops.

Political Developments

The loss of the South African troops is a major blow to the National Union, which was counting heavily on them to help it cope with expected new drives by the Popular Movement and its Cuban legions. National Union officials apparently had expected Pretoria to step up its assistance in view of the failure of the Organization of African Unity to condemn South Africa's involve-

The military collapse of the National Front—historically the Popular Movement's most bitter adversary—is stimulating new talk of a possible political settlement between the other two groups. Reports indicating that such a deal was under active consideration have circulated

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for months; it would probably be favored by most of the 22 African countries that refused to accept Agostinho Neto's Popular Movement regime as Angola's legitimate government at the OAU summit and by at least some of those who supported the Popular Movement. Since that meeting, an Egyptian official told the US embassy in Cairo that a new effort is under way to bring about "unity" between the Popular Movement and the National Union. He professed not to know whether the effort was meeting with any success.

The National Union's Savimbi has consistently favored a compromise arrangement that would enable all three Angolan groups to be included in a national unity government as envisaged in the independence agreement they concluded with Portugal a year ago. The National Union formally reiterated this position—rejected by the National Front since last summer—at its annual conference late last month. This week, Savimbi, in Kinshasa for a strategy meeting with President Mobutu, publicly denied current press reports of secret contacts between his group and the Popular Movement looking toward formation of a two-party coalition. Nevertheless, in view of recent military developments, Savimbi might now be willing to conclude such an arrangement.

The real problem, of course, is gaining the agreement of the Popular Movement, which for months has also rejected the unity solution. At present, Neto's regime is publicly proclaiming that the defeat of the Front changes nothing and that no coalition is possible with any of the "lackeys of imperialism." In the past, some officials of Neto's group have stated privately that a coalition might be concluded with the National Union provided the South Africans leave and Savimbi steps down. The first condition now is apparently being satisfied; the second might be negotiable.

If key African supporters of the Popular Movement were to press for an accommodation with the Union, political leaders of the Movement might still be amenable. But at this stage the chances that Neto's military hardliners, who are surely anticipating additional major victories for their forces, could be brought into line any time soon seem dim indeed.

24, 25, 27

Soviets Maintain Uncompromising Line

Moscow is continuing its tough, uncompromising public line on Angola in the wake of the OAU summit.

Pravda, in its weekly roundup of international affairs, poured cold water on the notion of a coalition government as a solution to the Angolan conflict. There is no "realistic" basis for a government of national unity in Angola, *Pravda* said, adding that such an idea is obviously the product of "pressure from Western imperialist circles." In an effort to put the best possible face on Soviet disappointment over the OAU's failure to recognize the Popular Movement as Angola's legitimate government, *Pravda* claimed that the deadlock at Addis Ababa was really a defeat for the "imperialists," who were unable to "dictate" the course of events in Angola.

In addition to reaffirming strong Soviet and Cuban support for the Popular Movement, *Pravda* and all other components of the USSR's media have been giving heavy play to the military collapse of National Front forces in northern Angola. The commentaries stress the opportunity this presents for major Popular Movement gains against National Union forces on the eastern and southern fronts.

Despite the Kremlin's hard public line, hints that the USSR's position on Angola may not be entirely inflexible are continuing to come from Soviet officials in Moscow and abroad. There is some talk of a coalition government that is clearly dominated by the Popular Movement.

The idea of a coalition government undoubtedly reflects one strain of Soviet thinking on the Angolan problem, but it is not likely to be in ascendance so long as the Popular Movement and the Cubans appear to have an opportunity to crush their rivals on the ground in Angola. If the National Union collapses as a fighting force and the South Africans pull out, however, it is possible the Soviets will urge Neto to make some gesture of reconciliation to the Savimbi remnants in the interest of gaining stronger control over the Angolan countryside and its divided, tribal populations.

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INDIA: DEPENDING ON FOREIGN OIL

India's oil production of 150,000 barrels per day covers only about 30 percent of domestic requirements of about 520,000 barrels per day. Since 1965 the use of oil has grown 8 percent annually, and oil imports have risen 7 percent annually. India now ranks second in oil imports among developing countries. Brazil imports the most.

Since 1965, total commercial energy consumption has grown at the relatively low rate of 5 percent per year. Coal is the most important commercial energy source, providing about 60 percent of commercial consumption. Coal reserves are extensive, exceeding 100 billion tons, 1,300 times current annual production. Petroleum

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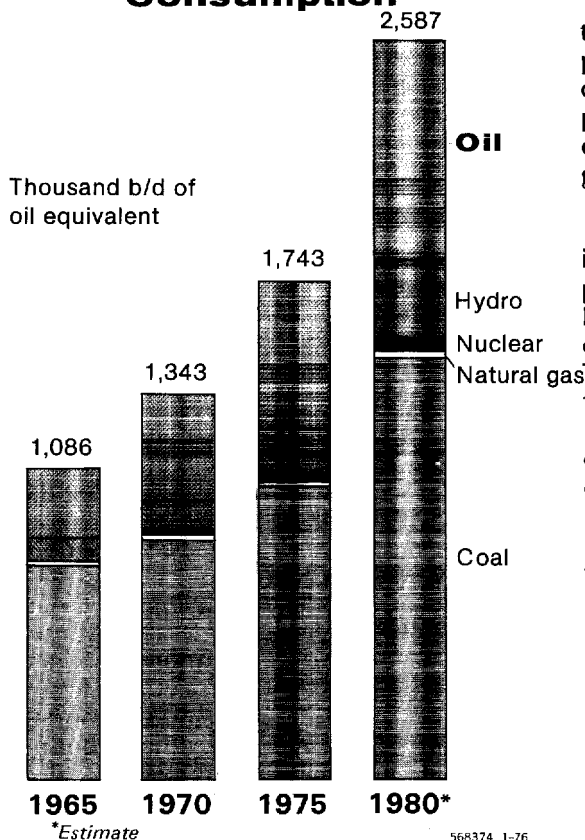
provides about 30 percent of commercial energy consumption.

The financial strain resulting from the quadrupling of world petroleum prices in 1973-74 prompted New Delhi to impose a ceiling on imports and to hold down domestic consumption. These efforts were successful largely because of the industrial slump under way since 1973. In 1974 the volume of oil imports was held at the 1973 level, but the cost doubled, reaching \$1.5 billion. To offset the higher outlays for petroleum, as well as for fertilizer and food imports, imports of capital equipment and spare parts were severely restricted, reinforcing the industrial slump. Economic recovery in 1975 caused oil imports to increase 7 percent, to 300,000 barrels per day of crude and 65,000 barrels per day of products.

To ease the financial burden, New Delhi has increased direct government purchases of oil and has negotiated concessional financing with several OPEC suppliers. During the past two years, an estimated \$500 million in payments for imports was deferred under agreements with Iran, Iraq, and Abu Dhabi.

Turbulence in international oil prices and marketing arrangements has accelerated New Delhi's long-planned take-over of the oil industry. In 1974 the government bought 74 percent of Exxon's marketing and refining operations; the remainder will be acquired in 1981. Burmah Shell's assets were purchased in December, and negotiations for take-over have started with Caltex, the last foreign oil company in India.

INDIA: Commercial Energy Consumption



Over the long run, New Delhi hopes to ease the oil burden by stepping up domestic energy production and by converting from oil to coal. India has considerable energy resources, but, in the past, exploitation has lagged because of the curbs on foreign investment and the inertia of the government bureaucracy.

While onshore efforts have been disappointing, offshore exploration shows considerable promise. Our current evaluation of the Bombay High offshore field indicates that the deposits may come on stream much sooner than expected. Through accelerated development of the estimated one billion barrels of recoverable reserves in this field, New Delhi hopes to achieve crude oil production rates of 200,000 barrels per day in this offshore area by 1980.

India faces a formidable challenge in forestalling an increase in oil imports. Five years from now, oil consumption is likely to be on the order of 760,000 barrels per day. India will probably maintain or improve the current ratio of domestic production to oil consumed, which will require additional production on the order of 85,000 barrels per day. New Delhi, however, is unlikely to develop sufficient productive capacity in this period to forestall an increase in the volume of petroleum imports.

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ICELAND: BACK FROM THE BRINK

34-35

The British decision on January 19 to withdraw its frigates and reconnaissance aircraft from Iceland's unilaterally declared 200-mile fishing zone came just hours after Reykjavik had decided to break diplomatic relations with London.

The Icelandic cabinet held two emergency sessions on January 19. The first meeting ended with a decision to break relations next week unless Britain withdrew its frigates from Iceland's disputed waters. A ramming incident at sea, however, sent the cabinet back into session, with the result that the deadline for breaking relations was moved up to January 24.

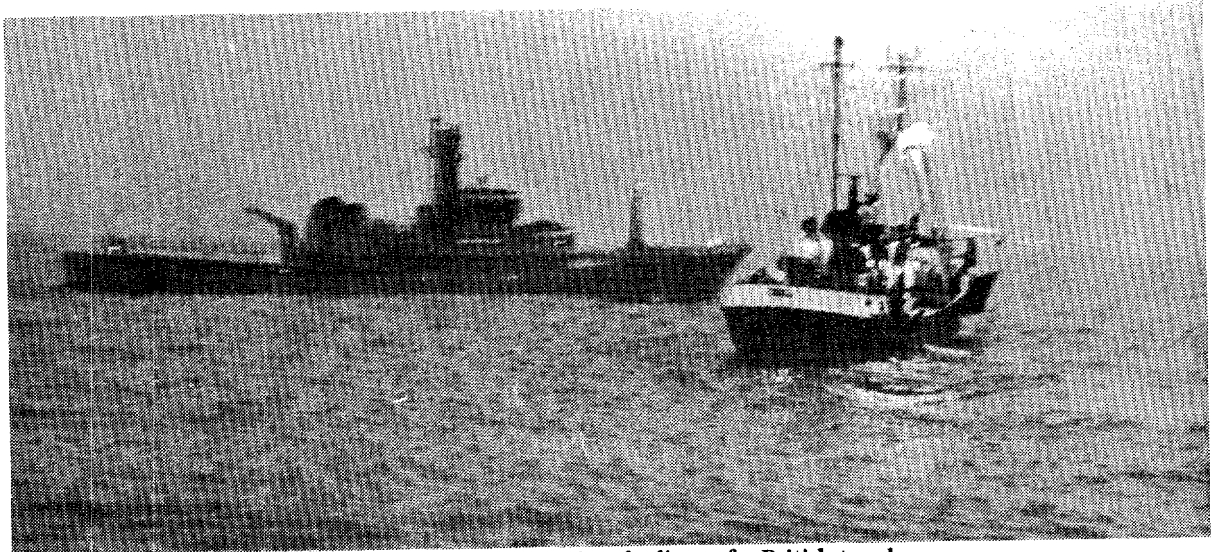
British press reports indicated that an Icelandic patrol boat rammed a British fishing vessel after failing to cut the British trawler's lines. Iceland blamed the UK, labeling the incident a "deliberate ramming" by the British trawler.

The Icelandic ultimatum came while NATO Secretary General Luns was meeting with British Foreign Secretary Callaghan in Brussels to try to work out a solution to the dispute. Both Luns and Callaghan were angered by the timing of the Icelandic announcement, especially since

Callaghan had already agreed last week to withdraw Britain's frigates and fishing vessels from Icelandic waters in return for an Icelandic compromise on the size of the British annual catch.

After Luns failed to get Iceland to retract its ultimatum, Callaghan agreed to proceed with the withdrawal. Callaghan warned, however, that the warships would return if Icelandic patrol boats continued to harass British trawlers. Callaghan also invited Icelandic Prime Minister Hallgrimsson to London for talks with British Prime Minister Wilson. Hallgrimsson and Wilson will presumably try to formalize a "cease-fire" and work out a date for the resumption of negotiations.

Luns was apparently able to convince Callaghan that the Icelandic government was in no mood to compromise. Luns came away from a meeting last week with government leaders in Reykjavik "appalled" by Icelandic intransigence. Emotions have run higher during the current dispute than during previous periods of tension generated by the fisheries dispute, and public opinion on the left and right clamored for a tough Icelandic stance. Reykjavik's decision to issue its ultimatum, even though Britain had already



Icelandic patrol boat cutting the lines of a British trawler

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agreed to withdraw from Icelandic waters, was probably meant to appease such demands.

By giving in to Reykjavik's demands, London probably hopes to avoid involving NATO in the dispute. Iceland had vowed earlier to withdraw its NATO delegation if the break in relations with London did not result in any progress. In addition, the majority of participants in a North Atlantic Council meeting in Brussels on January 19 called on Britain to withdraw its frigates as a first step toward resuming negotiations.

London's immediate concern now is that with the frigates gone, British trawlers may again be subject to Icelandic harassment. The UK has decided, therefore, to keep its unarmed protection vessels on station. Reykjavik has so far refused to give London any assurance that the harassment of British trawlers will cease.

Iceland will drive a hard bargain on a new fishing agreement if Hallgrimsson and Wilson decide to resume negotiations. When talks broke off last November, Reykjavik was insisting that Britain limit its annual catch to 65,000 tons. London was pressing for 110,000 tons but later indicated a willingness to compromise. Hallgrimsson, already in political trouble for the "restraint" he has shown on the fishing issue, knows that many Icelanders feel the government has made too many substantive concessions already.

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Spanish police pursue demonstrators along Madrid's main street

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SPAIN: UNREST CONTROLLED

40-74

The government's policy of using enough force to prevent political demonstrations and strikes from getting out of hand—but stopping short of the extreme measures of the Franco era—appears to have controlled the current wave of protests in Madrid.

The success of the police in preventing the large-scale leftist demonstration this week has set back leftist efforts to politicize current labor unrest. The rally was called by the two major leftist opposition coalitions, the Communist-dominated Democratic Junta and the Socialist-led Platform of Democratic Convergence. The two groups planned to march on the prime minister's office to press demands for political reforms, higher wages, and amnesty for political prisoners. Some leftists reportedly hoped to provoke strong government countermeasures, including bloodshed, in order to discredit the new government and its proclaimed tolerance of orderly dissent.

The government banned the demonstration as disruptive to public order and announced the police would take whatever measures necessary to prevent it. Reportedly this caused some important members of the coalitions to decide not to participate. A heavy concentration of police prevented groups from congregating, and while some tear gas and clubs were used in crowd con-

trol, police action was generally restrained. Only seven persons were detained.

The two coalitions may now find it difficult to carry out other large-scale joint actions since it is now clear they would provoke another massive police turnout. Earlier, the Communist Party and several illegal labor organizations were calling for a general strike this month.

The government has also been successful with its decision to draft workers to keep essential services going. Rail and postal services returned quickly to normal this week after government-issued edicts drafting postal workers and railway personnel made them liable to military discipline if they refused to return to work. Subway workers will also be drafted if they follow through on threats to strike again. The government has said it will negotiate with public utilities workers, but will not tolerate disruption of services.

Senior military and civilian officials have told US officials they are confident that this first serious challenge to the government will start to ease soon, as some of the remaining large strikes are settled.

There are some indications that labor unrest may already have passed its peak. Striking construction and port workers have begun to return

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to work after winning pay raises that may be close to 20 percent—3 or 4 percent higher than the current wage ceiling allows.

Madrid's industrial area, however, remains the focal point of unrest with about 15 large factories still closed, an estimated 40,000 metal and auto workers idle, and another 6,000 bank employees staging intermittent stoppages to support demands for higher pay. About 125,000 workers are still idle across the country, but almost double that number have returned to work. The fact that the government permitted its wage ceiling to be broken in the port and construction industry settlements has led to speculation that exceptions will be permitted in other industries as well.

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PORTUGAL: MILITARY-PARTY TALKS

The Portuguese military is now engaged in consultations with the political parties this week to determine the future shape of the government. Although some politically minded officers are reportedly trying to retain a dominant role for the military, the parties will make a determined effort to curb its power and to start the country toward a democratic parliamentary system.

The talks will center on an exchange of proposals for revising the pact guaranteeing military supremacy in the government, which was imposed upon the parties last spring by the pro-Communist Goncalves regime. Although both sides want to reach agreement soon in order to pave the way for national elections by April 25, fundamental differences could cause the talks to drag out.

A draft agreement given to the parties last week by the Revolutionary Council will form the basis for discussions. The draft appears to be the work of a group of officers led by Foreign Minister Melo Antunes which seeks to continue

the military's leading role for a period of several years in the belief that inter-party squabbling makes military oversight necessary if there is to be effective government. The military's proposals would give the Revolutionary Council veto power over nominations for prime minister and over legislation dealing with foreign affairs, national defense, freedom of association, elections, and division of property among the private, state, and collective sectors.

While the armed forces' proposal would give the president—who although directly elected would almost certainly be a military man—the power to dissolve the popularly elected legislative assembly, it also allows for the Revolutionary Council to request such action. The president would also be empowered to dismiss the prime minister after consultation with military leaders, the parties, and the cabinet.

The military's draft, which in effect makes the president, the legislative assembly, and the cabinet subordinate to the all-military Revolutionary Council, has drawn sharp criticism from the democratic parties. Only the Communists and the fellow-traveling Portuguese Democratic Movement are expected to endorse the plan without substantial revisions.

Although the lines appear tightly drawn, there is probably some posturing on both sides. Revolutionary Council insider Vasco Lourenco admitted last week that the council knows its proposals will be altered and that they represent only "a valid starting point." The parties also appear to be overstating their case in the hope of gaining further concessions from the military in the bargaining process.

In the end, the talks should result in some moderating of the military's current position. Officers of the so-called "operational" group within the Revolutionary Council, who share many of the democratic parties' views, claim they were not consulted on the council's proposals. During the talks, this group may be able to lend some support to party efforts to move Portugal further along the road to representative government.

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TURKEY: STUDENTS HURT DEMIREL

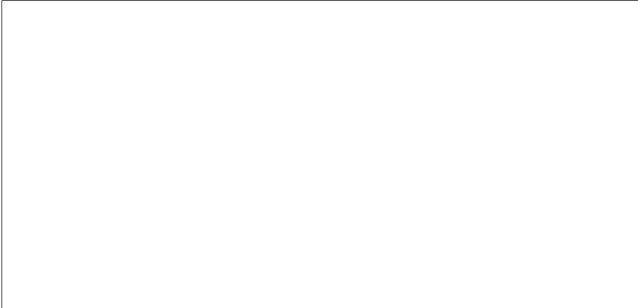
Student disorders in Turkey continue to aggravate political tensions and have given opposition leader Ecevit additional ammunition in his campaign to undermine Prime Minister Demirel's shaky coalition government.

Violent campus clashes between extreme left- and right-wing student groups have assumed nationwide proportions in recent weeks, virtually paralyzing much of the system of higher education. Incidents resulting in serious injury have become commonplace, and more than 10 youths have been killed since the violence began last fall. University authorities have admitted their inability to cope with the problem, shifting the burden to the government.

Demirel has hinted at the possibility of declaring martial law to combat the problem, but military leaders fear that such a move might only further polarize Turkish youth. In the likely event that the violence continues at its present levels, the government will probably rely on methods short of martial law. If the situation worsens, however, martial law may prove unavoidable.

In recent days Ecevit and Demirel have exchanged harsh accusations regarding responsibility for the student problem. Ecevit has called several times for an end to Demirel's faction-ridden government, charging that Demirel is planning to use martial law both to counter the current problem and to intimidate his political opponents. Demirel has responded by accusing Ecevit and his Republican People's Party of encouraging the campus violence as a means of destroying not only the government but also the political system.

Ecevit has also been working against Demirel behind the scenes. Ecevit appears to be courting independent deputies as well as supporters of the government in hopes of unseating Demirel when the government's budget bill comes to a vote later this month or next.



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BALKAN COOPERATION: A CAUTIOUS STEP

Middle-level officials from all Balkan countries except Albania will meet in Athens Monday for initial talks on expanded regional cooperation in non-political fields.

The proceedings will be marked by caution on all sides. Greece and Turkey, although members of NATO, have serious bilateral problems. Yugoslavia and Romania, the two would-be neutrals, have differing views on regional cooperation, and Bulgaria will be viewed by all others as Moscow's surrogate. The discussions will be strictly limited to cooperation in such non-controversial areas as trade, communication, culture, sports, and energy.

Greek Prime Minister Caramanlis claims that he is sponsoring the conference because he wants inter-Balkan relations to reflect the spirit of Helsinki, and his Foreign Ministry has taken pains to stress that the initiative does not portend a shift in Greece's traditional pro-Western orientation. Caramanlis' prime motive, however, may be to secure the support, or at least neutrality, of his Communist neighbors in case Greek-Turkish relations further deteriorate. He may also have sought to pre-empt any similar initiative by the Turks.

Caramanlis broached the idea of the conference during his visits to Yugoslavia, Bulgaria,



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and Romania last year, and sent formal invitations to all the Balkan states immediately after the Helsinki summit. Ankara, however, delayed its acceptance until late last month. The Turks had earlier suspected Greek motives and feared repercussions at home.

The Albanians predictably refused to attend because of their deep suspicions of any regional schemes that include Warsaw Pact countries, particularly Bulgaria.

By contrast, Romania, which is constantly searching for ways to loosen Moscow's grip on the Balkan members of the Warsaw Pact, is enthusiastic about the meeting. President Ceausescu would like to create an institutional framework within which the Balkan states could

react jointly to any Soviet venture in the region. In a rare show of discord in Yugoslav-Romanian relations, President Tito derailed a similar Ceausescu initiative in the summer of 1973. The Yugoslav leader believes that going that far would only give the great powers an additional incentive for intervention in regional affairs.

Belgrade is of two minds about the meeting. While the Yugoslavs welcome the experiment as a means of promoting detente and of eroding Europe's opposing military alliance systems, they strongly suspect that the Bulgarians will promote Soviet interests in the area. Yugoslavia will therefore seek to highlight Sofia's subservience to the Kremlin at every opportunity.

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USSR-CHINA: SOVIETS SKEPTICAL

61-62

Moscow's skepticism of China's motives in releasing the Soviet helicopter crew became more apparent on January 16 when *Pravda* carried an article under the authoritative pseudonym I. Alexandrov. The article did not mention the release; instead, it focused on an anti-Soviet campaign in the Chinese press over the past two weeks and berated Mao and his "minions" for launching it. The article omitted even the most perfunctory reference to Moscow's desire for normal relations and suggested that the Soviets are prepared to wait until "true" Chinese patriots succeed in overcoming the "Maoist renegades who have usurped power" in China.

There is also a suggestion in the Alexandrov article that the Soviets are trying to dabble in Chinese politics. The article refers, without elaboration, to Chinese "patriots" who want to bring China back into the socialist community and who are of concern to Mao and his cohorts. The article also takes an unusual swipe at the leftist Politburo member Yao Wen-yuan, the only Chinese leader, aside from Mao, specifically mentioned.

The article seemed intended to tell the Soviet people not to jump to any conclusions regarding a change in Chinese policy toward the USSR as a result of Prime Minister Chou En-lai's death and the release of the helicopter crew. It may also have been published to put the Chinese on notice that they will have to tone down their propaganda before they can expect a meaningful response from the Soviets.

It may be that the Soviets are trying to tell their Chinese audience, with more specificity than before, exactly whom in addition to Mao they find objectionable. On the same day the Alexandrov article appeared, the Foreign Ministry's leading China expert, Mikhail Kapitsa, derided yet another left-wing Politburo member, Wang Hung-wen, in an unusual interview with an Italian weekly magazine. The primary audience in this case was European, not Chinese, but Kapitsa's remarks served the purpose of getting on the public record Moscow's negative attitude toward another possible successor to the present Chinese leadership. [REDACTED]

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64-71

USSR: FOOD SHORTAGES

The first reports of local bread shortages have appeared in the Soviet press. The Ministry of Agriculture's newspaper, *Rural Life*, acknowledged receiving complaints of shortages from a number of widespread rural areas, one in the Ukraine and five in the Russian Republic. The article made no mention of last year's harvest failure, blaming instead the mismanagement of local supply organizations.

Although local shortages of various foods are endemic, the regularity of bread supply has been affected by the 1975 grain shortfall. We expect the overall bread supply will be adequate, but spot shortages will continue. The average quality of bread, however, is already declining as flour mills extract more flour from each bushel of wheat. In Moscow, white bread is available, but the appearance of loaves is deteriorating; apparently bakeries have not yet adjusted to using coarser flour. In Riga and Tallinn, US embassy officers could find only tan and dark breads for sale on recent visits, indicating that bakery supplies of highest quality white flour in those areas have been drastically reduced.

Conditions vary from city to city, however. Embassy officers found adequate supplies of white and dark bread in Odessa but little or no beef, mutton, or eggs. In Khabarovsk, on the other hand, good quality beef was available as well as plenty of bread, but no mutton, pork, eggs, or butter were seen. These shortages combined with an expected decline in availability of other food items make the outlook for the consumer bleak, at least for the next few months.

The appearance of the *Rural Life* article suggests growing concern that the deteriorating food situation will affect morale. It was clearly intended to reassure consumers. The article emphasized the disciplinary measures meted out to the local officials held responsible for the shortages. Local supply organizations are thus put on notice that they must work hard to ease distribution problems.

Industry is also expected to help ease short-

ages. Bakeries have been instructed to reduce waste by producing smaller rolls, a measure suggested but not implemented after the poor 1972 harvest. The rolls are primarily for factory and school cafeterias where waste is high. In addition consumers are again being reminded that "bread is our greatest treasure and we must respect it."

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75-80

Pichoral PARADE

AUSTRALIA: NEW FOREIGN POLICY

Since coming into office six weeks ago, the Fraser government has underscored the importance to Australia of ties with traditional allies, correcting what it saw as the tendency of the Labor government to ignore such ties in the pursuit of Australian nationalism. The Liberal-Country government will not return to the patron-client relationship with the US of earlier Liberal-Country administrations. The more independent stance adopted by the Whitlam government is popular in Australia, and the Fraser government will maintain much of it. Fraser has plainly stated, however, that there will be renewed emphasis on ties with the US and that there is no need to feel defensive about this.

Fraser's first move to strengthen the US connection was to back the US-UK naval base on Diego Garcia Island in the Indian Ocean. The Whitlam government had been outspoken in opposition to the project and had supported an Indian Ocean "zone of peace," appealing to world navies to stay out of the area. Fraser belittled the Whitlam proposal for ignoring the reality of the new Soviet naval buildup there.

Canberra will also push ahead with the construction of a new naval base on the Indian Ocean coast of western Australia. Fraser's defense minister has announced that Australia's allies will be given access to this facility. Fraser is also reversing the Whitlam government's refusal to permit port calls by US nuclear-powered warships. Canberra intends to lift the ban as soon as environmental safeguards are improved.

The new government is already working on ways to improve Australia's ties in the Far East. It is supporting the members of the Association of Southeast Asian Nations (ASEAN) in their efforts to build up that organization, but is trying to do so in ways that will not be interpreted as intruding into ASEAN affairs—a criticism frequently leveled at the Whitlam government.

The government endorses Labor's opening of relations with Peking, and Fraser plans to visit



Prime Minister Fraser

Peking and Tokyo this spring, before coming to Washington. The government hopes to repair the damage to relations with Japan caused by the restrictive investment and trade policies of the Whitlam government. To this end, Deputy Prime Minister Anthony will visit Japan next month. Although the Japanese may discern a more hospitable investment climate, Canberra is reluctant to relax its protective tariffs, believing that Australian industry still requires such protection.

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Maintaining congenial relations with Australia's closet Far Eastern neighbor, Indonesia, is proving to be the Fraser administration's first difficult foreign policy problem. Australian governments consistently place considerable importance on friendly ties with their populous northern neighbor, but Indonesia's military intervention in East Timor has injected a major complication. Although both Whitlam and Fraser had clearly signaled their approval of a quick Indonesian take-over, the take-over has not been quick, and both the Labor and the Liberal-Country governments have felt compelled to cater to the Australian public's sympathy for the leftist Fretilin forces' fight for independence.

The Fraser government is particularly embarrassed by a leak to the press of a confidential recommendation from the Australian ambassador in Jakarta that Canberra accept Timor's integration into Indonesia—a recommendation that has now been publicly rejected by Fraser. Foreign Minister Peacock tried to minimize the problem this week following a brief visit to Jakarta, but Australian sympathy for Fretilin has significantly complicated Canberra's dialogue with Jakarta.

The Fraser government is backtracking on other Whitlam innovations. In addition to publicly supporting Chinese criticism of Soviet naval activities in the Indian Ocean, the Prime Minister has disavowed Labor's recognition of Soviet claims to the three Baltic states, a gesture for domestic political gain that must strike Moscow as a peculiarly gratuitous slap. Moscow in fact has accused Fraser of resurrecting cold war rhetoric.

The new government is apparently also departing from Labor's ambivalent Middle East policy. Whitlam had supported Israel's right to UN membership, but then met with a PLO representative invited to Australia by Labor leftists, antagonizing both Arabs and Israelis. Fraser publicly promises to support Israel.

On the economic front, the new administration will provide a somewhat more favorable investment climate and greater incentives for

development of the country's energy resources. Although the Liberal-Country government's foreign investment objective is the same as Labor's—50 percent Australian equity in new development projects—the new government is likely to be more flexible in applying existing guidelines.

Direct government involvement in the mineral and energy field will be greatly reduced by the Fraser government, a development which will tend to reassure potential foreign investors. Canberra has already announced plans to divest itself of investments acquired by the Whitlam government through the now defunct Petroleum and Minerals Authority, including coal, copper, and natural gas projects.

Development of Australia's massive uranium deposits will be encouraged by the Fraser government. The new administration has said it will permit exports of uranium oxide, but will watch carefully to ensure that domestic needs are met and a reasonable return is obtained. The Labor government had banned uranium exports, awaiting higher prices.

Development of Australia's other energy resources should also get a boost from the new government. The Fraser government has promised incentives for oil exploration and production including a full write-off of exploration costs against current income, and a special investment allowance for development costs. The Whitlam government's energy policies had caused oil exploration to come to a virtual standstill—only 14 oil wells were drilled during the first nine months of 1975, compared to 135 in 1972.

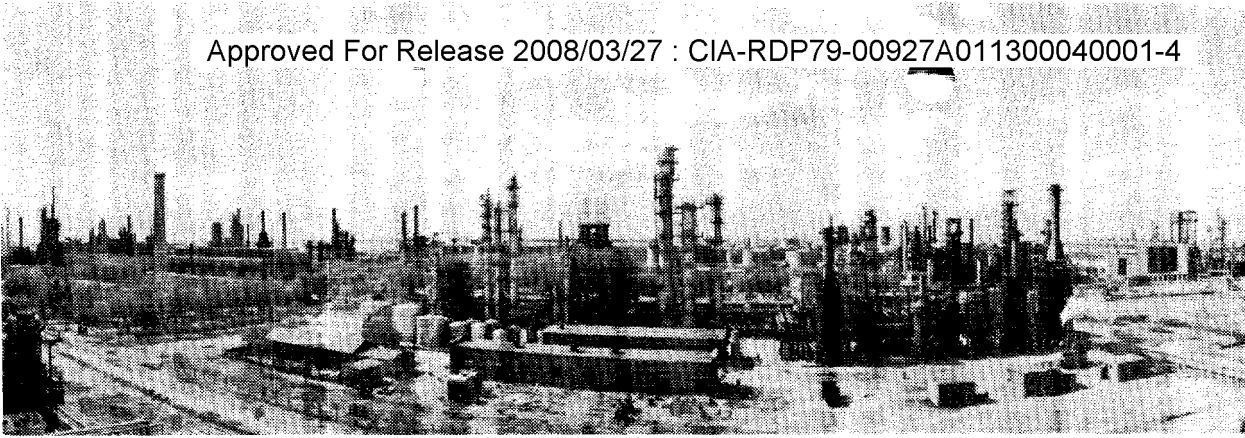
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81-83

CHINA: THE ECONOMY IN 1975

While operating more smoothly in 1975 than in 1974, the Chinese economy did not produce the banner year with which Peking had hoped to end the fourth five-year plan.

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Taching oil fields

U'sinhua News Agency

The Chinese press has reported only sparsely on economic performance in 1975 and on the outcome of the five-year plan. For example, the New Year's day editorial in *People's Daily*—normally the vehicle for an economic stocktaking—claimed only that industry and agriculture had fulfilled the five-year plan goals; Peking has never made these goals public. Based on sketchy information, our preliminary estimates for 1975 are that:

- industrial production rose by about 10 percent, compared with only 5 percent in 1974;
- grain output was roughly the same as the record 255 to 260 million tons harvested the previous year;
- imports remained at the 1974 level of \$7.5 billion; exports rose from \$6.5 billion to \$7 billion.

The strong industrial advance was largely attributable to the easing of factional wrangling and labor unrest that had disrupted factories and mines in 1974. The fastest growth continued to be in the petroleum sector, with output of crude oil rising to 1.6 million barrels per day—a jump of more than 20 percent. Industrial performance was again marred, however, by persisting bottlenecks in the key steel and coal industries. The People's Republic continued to add industrial capacity by commissioning major new plants of both foreign and domestic origin.

The performance of agriculture was generally disappointing. Only soybeans and such secondary crops as oilseeds, sugar, and tobacco showed gains. Grain production was about the same as 1974 while cotton output was lower. The record harvest of 1974 permitted Peking to cut grain imports to less than 4 million tons last year, down from 7 million tons in 1974.

A curb on imports reduced China's unprecedented \$1-billion trade deficit in 1974 to about \$500 million last year. Japan remained the top trading partner. Chinese imports from the US plummeted from \$949 million in 1974 to \$320 million in 1975, the result of reduced Chinese purchases of US agricultural products. Chinese exports to the US moved up to \$155 million, compared with \$115 million in 1974.

At the meeting of the National People's Congress a year ago, Premier Chou En-lai laid out a long-range economic program concentrating resources on agricultural development. His successor, Teng Hsiao-ping, is a tough and experienced administrator and is likely to continue programs formulated by Chou. For the short run at least, we do not expect any radical revisions in economic plans or policies.

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CHINA: PRODUCTION INDICATORS				
	1965	1970	1974	1975*
Grain (million tons)	210	240	255-260	255-260
Cotton (million tons)	1.9	2.0	2.5	2.2
Crude steel (million tons)	12.5	17.8	23.8	24.0
Coal (million tons)	220	310	389	416
Crude oil (million b/d)	0.2	0.6	1.3	1.6
Electric power (billion KWII)	42	72	108	121
*Preliminary				

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87-89

MALAYSIA: AN ORDERLY SUCCESSION

Newly installed Prime Minister Hussein Onn has stressed that he will continue the moderate racial policies of the late Prime Minister Razak in an attempt to keep the lid on the ever-present racial tensions in Malaysia. Razak's sudden death last week had immediately brought into question the durability of his communal policies, which had kept racial animosities in check. Although committed to giving the Malays a greater share in the Chinese-dominated economy, Razak had pursued this goal with a sufficiently measured pace to avoid alienating the Chinese. Most Malaysians accept Hussein as a moderate on race, in the mold of Razak.

Hussein has a history of heart trouble, however, prompting doubts about how long he can remain in office. The announcement by Hussein's physician that the new Prime Minister has made a good recovery and is fit will be regarded with skepticism by politicians and by a public

that was kept in the dark about his predecessor's illness.

Doubts about Hussein's health will probably increase the maneuvering among contenders for eventual leadership. Although many Malay politicians generally accept the national necessity of avoiding communal strife, some, in their quest for support, will be tempted to appeal to Malay racism. The large Malaysian Chinese community will have doubts, moreover, whether any of the potential successors to Hussein possess the political adroitness and strength to keep Malay pressures against the Chinese within bounds.

The immediate political question requiring a decision is the selection of a new deputy prime minister to replace Hussein. Underscoring the orderliness of the succession, Hussein says he is in no hurry to appoint his deputy; he probably has not yet made a choice between the two top contenders, Agriculture Minister Ghafar Baba and



Hussein takes the oath of office

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Education Minister Mahathir. Hussein could also reach deeper into the party hierarchy to find a more acceptable candidate.

Hussein has a reputation for quiet competence and, if his health holds up, could provide a period of good management that would redress some of the slackness and drift that marked the final two years of the Razak administration. The new Prime Minister is more pro-Western than his predecessor and will be less inclined to pursue nonalignment as the centerpiece of Malaysian foreign policy. His focus will be in working with Malaysia's neighbors in making the Association of Southeast Asian Nations a significant regional organization. [redacted]

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NORTH KOREA: DEBT DEFAULT

North Korea's large-scale default on its debts to Japan and the West—the first by a Communist country—has derailed Pyongyang's modernization plans based on the acquisition of advanced Western equipment.

In the early 1970s Pyongyang decided to reduce its economic dependence on the Communist countries as part of a broader reorientation of its foreign policy. Since then, North Korea has purchased \$600 million worth of industrial plants and related equipment from Japan and Western Europe. Imports from the West jumped sharply in 1973-74 because of expanded plant deliveries and unexpected large grain requirements following poor harvests. Plant imports were financed by medium-term credits and grain imports by short-term credits.

Repayments on these debts were already taxing Pyongyang's ability to earn foreign exchange when the recession in the West cut demand and prices for nonferrous metals, North Korea's major exports. The result was an unmanageable \$500-million hard currency trade deficit in 1974. In late 1974 North Korea began to default on its payments. By early 1975 the total amount of the

debts in arrears to Japan and Western Europe reached \$200-\$300 million. Rescheduling of some debts and offsetting new defaults have kept total arrears at roughly this level.

Japan and a number of West European countries have suspended further credit guarantees for North Korea. Some suppliers have halted equipment deliveries until back payments are made, while others are demanding substantial down payments for new purchases. Efforts to resolve the payments crisis have had meager results.

- About \$150-\$200 million in debts has been rescheduled by West European banks for one to two years.

- Pyongyang has been attempting to pay its debts to Japan before they fall more than six months in arrears, to forestall a cutoff of exports by Tokyo.

- A September 1975 meeting of Western creditors failed to agree on multilateral rescheduling of North Korea's \$800 million in officially backed debts.

- No hard currency relief has been obtained from the Communist countries, and negotiations for a \$200-million loan from Iran remain stalled.

- Imports fell sharply in 1975 and the trade deficit was cut, but only to about \$300 million, as contractual deliveries of machinery and equipment on credit continued.

Delays in construction at several plants are hampering Pyongyang's industrial development and—because some products from these plants are planned for sale abroad—will retard export growth. No new plant contracts have been signed since mid-1974, and two plants already under contract have been scuttled. Unless North Korea finds some unexpected source of sizable hard currency credits, the debt service burden will mean further curtailment of imports from the West and further cutbacks in its ambitious plans for industrial growth. [redacted]

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91-92

BRAZIL: GEISEL ACTS

President Geisel this week directly challenged military conservatives by firing one of their leading figures, Second Army commander General D'Avila Mello, army chief in the Sao Paulo area.

D'Avila Mello was relieved shortly after the death of a civilian prisoner in a Second Army jail. Geisel quickly named a close associate, General Dilermando Gomes Monteiro, to assume the important Sao Paulo command.

The President probably removed D'Avila Mello to drive home to the conservatives that there are limits to their influence and to give substance to his promise last fall not to tolerate further incidents like the death in October of a Brazilian newsman. His death occurred also in a Second Army jail cell, an alleged suicide. Civilians and military officers alike have been edgy since that incident, which received international attention.

Since gaining the presidency nearly two years ago, Geisel has been trying to curb the power of conservative military and security officials at the local level. Many of them operate almost independently of Brasilia. The President has had only limited success, and the effort has brought him into conflict with influential officers who think harsh measures are still needed.

Only two weeks ago Geisel acceded to conservative pressure, removing from office two opposition legislators who had lashed out against the military. The lawmakers were among three who had been accused by security officials of being "Communist subversives." All three protested their innocence in public, but two went on to charge that investigators had obtained evidence only through torture of prisoners. Conservative military officers generally view criticism directed at them as a threat to national security and are especially sensitive to charges of torture. There is little question they pressed Geisel to respond.

The two, a state deputy and a federal congressman, were promptly removed by Geisel,

who used a broad, all-purpose decree power to suspend their political rights for 10 years. The President did not move against the third, most likely because he did not raise the torture issue. Moreover, another congressman, who recently denounced the military, avoided punishment by issuing a retraction.

Brazilian politicians, looking forward to municipal elections scheduled for later in the year, have mixed feelings about Geisel's struggle with the conservatives. They are cheered by his refusal to cave in, as evidenced by his strong move against the Second Army commander. They are fearful, however, that the conservatives, who wield important, if indeterminate influence, could redouble their efforts to undermine the President's position and perhaps cancel or rig the elections.

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ECUADOR: THE NEW CABINET

The new cabinet appointed last week by the three-man junta reflects a variety of political and economic philosophies and perpetuates the divisions over policy that contributed to the demise of the Rodriguez Lara government early this month.

Of the ministry-level members of the cabinet, eight are military officers; three are civilians. This is an increase of one civilian since the last major cabinet change that followed the abortive September 1, 1975 coup attempt.

The appointment of Colonel Rene Vargas to the critical position of minister of natural resources is likely to be the most controversial. A former director of CEPE, the state-owned petroleum corporation, Vargas has been a consistent critic of US petroleum companies operating in Ecuador. During his tenure as CEPE chief, he formulated policies that did much to drive away new foreign investment.

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The junta's principal spokesman, Admiral Alfredo Poveda, has attempted to reassure the foreign oil companies that the junta would keep Vargas on a tight rein and that his appointment does not presage a radical shift from the more moderate oil policies adopted last week. Despite this reassurance, the appointment is ill-timed and will undoubtedly affect current relations between the ministry and Texaco-Gulf Company and discourage new exploration and exploitation of petroleum resources in the country.

The appointment of conservative businessman Cesar Robalino Gonzaga as finance minister does not augur well for a consistent government economic policy. Robalino clashed strongly with Vargas over oil policy when Vargas was head of CEPE and Robalino was subsecretary in the natural resources ministry. Subsequently, Vargas was instrumental in blocking Robalino's appointment to a cabinet position last August, and the two men are known to despise each other. Since the two ministers have major roles in formulating the government's oil-based economic policies, there is unlikely to be much innovative action as long as both men are in the cabinet.

his battle for sovereignty over the canal, focus attention on Castro's strong support of that cause, and boost his own revolutionary credentials. With Castro's considerable help, he was able to do this without giving significant new ammunition to critics of a new canal treaty.

Throughout the January 10-15 visit, Torrijos' performance reflected concern for US sensitivities. He avoided railing at the US. Only when pressed at a news conference did he repeat his familiar stand that if peaceful routes to a new treaty were closed and he had to choose "between leading or crushing the people," he would lead them.

In their speeches, both leaders stressed the need for Panama to continue to negotiate calmly and noted the differences between the Panamanian and Cuban experiences. The controlled Panamanian press in many instances highlighted these differences.

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PANAMA: TORRIJOS' CUBAN VENTURE

The first face-to-face meeting between Panamanian leader General Torrijos and Cuban Prime Minister Fidel Castro was a polished political show by both men. Torrijos accomplished his primary objectives—to publicize

The final communique mirrored the publicly restrained approach and skirted all delicate topics. General statements supported self-determination, territorial integrity, and anti-colonialism, but no specific mention was made of such favorite Cuban causes as Puerto Rico or Angola.

Only one point in the communique could cause concern among Torrijos' critics. The statement says the two countries will consider signing economic-technical, cultural, and educational

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Castro talks to Torrijos during the Panamanian leader's five-day visit

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cooperation agreements. No details were announced; the two sides agreed only to establish a mixed commission to meet in April to spell out the forms of cooperation. If the governments eventually exchange delegations, Panamanian conservatives would probably be quick to level charges of expanded Cuban influence. They have been especially sensitive to allegations of communist influence in the educational institutions.

Castro's public performance must have greatly pleased Torrijos. Using Guantanamo naval base as an example, Castro pointed out that although the Panamanian people are courageous, Torrijos has wisely avoided provocative policies that could play into the hand of Panama's "enemies." Torrijos has frequently used this line to rein in Panamanian leftists, and Castro's pronouncements should ease his problems with radicals who believe he should take a harder line. Further reflecting the considerable effort to avoid controversy, Castro held his news conference—during which Angola and US relations were raised—only after Torrijos had departed.

Castro's treatment of the canal problem firmly allies him with a popular Latin American cause. In advocating a statesmanlike approach and a Panamanian solution to the problem, Castro probably had his eyes on a wider audience in Latin America, where concern about Cuban intentions has increased since Cuban troops were dispatched to Angola. In addition, the positive outcome of the trip places Torrijos in Castro's debt, one that Havana undoubtedly will seek to cash in on in the future, possibly at the UN.

The trip was part of Torrijos' expanding, aggressive effort to seek international support.

Given its apparent success, it can only spur Panama's effort to seek pledges of support at every opportunity on the international scene.

Torrijos' image as a prudent statesman may have been seriously damaged, however, by a domestic crackdown in the wake of the trip. On January 20, the government arrested and exiled at least ten prominent individuals from both the left and right after charging them with anti-government plotting. As many as 140 arrests may have followed the initial expulsions.

The severity of the government's actions is not readily explainable. They could have stemmed from recent public criticism of Torrijos—unusual in Panama—at a provincial meeting of agriculturalists. Coming just as Torrijos returned from the successful Cuban trip, such criticism would have been especially stinging.

Allegations of serious plotting appear unfounded; Torrijos is firmly backed by the national guard, and opposition to him has for the most part been reduced to impotent sniping from the sidelines. Although businessmen have called for a national strike to protest the arrests, it is doubtful that they will be able to put effective pressure on Torrijos.

Torrijos probably calculates that his left flank is reasonably secure following Castro's endorsement of his policies. Several moves to mollify conservatives in recent months—and the threat of further intimidation—may keep some of the business community in check. Thus, if Torrijos' aim is to rid himself of domestic political harassment so that he can negotiate a new canal treaty

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free from criticism, he may have decided this was a good time to move.

The domestic repression will, however, fuel partisan allegations that Torrijos is an irresponsible dictator not to be entrusted with a larger role in running the canal.

102-106
PERU: ECONOMIC PROBLEMS

Economic problems, compounded by reported disagreements within the government over the future of revolutionary programs, are likely to cause political difficulties for President Morales Bermudez during the next few months. During a major speech on the state of the economy last week, Economy Minister Luis Barua painted a somber picture of the impact of the required adjustments to serious balance-of-payments problems. Import restrictions and burgeoning government expenditures have fueled domestic inflation, while agrarian reform policies have resulted in food shortages.

At the same time, Barua announced a number of programs aimed at stabilizing the country's financial situation and at easing foreign payments difficulties. These measures include increased taxes, wage guidelines, reduced government subsidies on a number of basic consumer

goods, temporary rent controls, and additional controls on imports.

Efforts to increase exports will be severely hindered, however, by the slow revival of the world market expected this year. Balance-of-payments problems consequently will persist and thus narrow the government's ability to improve the economic situation. Since foreign reserves were largely depleted in 1975 to finance the record \$1.6-billion current account deficit, Peru is depending on large increases in long- and short-term capital borrowing to cover this year's projected deficits. The new austerity measures introduced by Barua are intended to encourage the international financial community to be forthcoming with financing.

The degree of success enjoyed by the government in coping with the impact of world recession will also depend in part on the response by labor to the wage guidelines and increased prices resulting from the lowered subsidies. Labor strikes in the second half of 1975 further reduced exports, and the present calm in labor-government relations is likely to prevail only until the last official wage increase is eaten up by inflation. The Communist-directed General Confederation of Peruvian Workers, which has supported the political goals of the military regime, instituted its first general strike in December and will probably be even less prone to accommodation in light of last week's austerity measures.

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