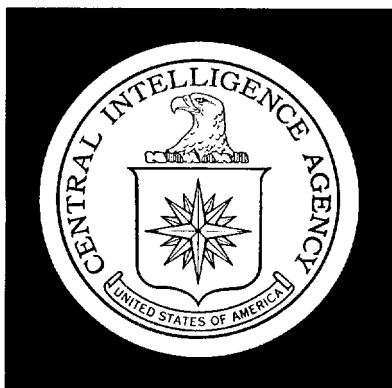


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LAOS: Prime Minister Souvanna has underlined the conciliatory aspects of his government's position on possible Lao peace talks and made explicit some of his thinking on neutralizing the Plaine des Jarres.

In an interview with the Lao Press Agency, Souvanna said that if the Communists accepted his proposal to "neutralize" the Plaine, government attacks in that area could "easily come to an end," and for the first time he made explicit that all units of both sides would withdraw, under proper controls. The Prime Minister, who is about to depart for a six-week foreign vacation and visits to Thailand, France, and the US, did not go into full details on his proposed neutralization and withdrawal plan.

Souvanna took pains to mention that his absence from the country would in no way hinder any forward progress on talks, noting that his plenipotentiary representative would be able to contact him at all times. In order to facilitate a meeting with the Communists, Souvanna said his representative was ready to begin contacts in Khang Khay--his former neutralist headquarters on the Plaine--which he noted would be a propitious location if the proposed neutralization took place.

Souvanna gave no evidence of any intention to elaborate on his proposal to neutralize and withdraw from the Plaine in a formal message to the Communist side--which presently owes him a letter in the continuing exchange of messages on possible Lao peace talks. It is uncertain whether the Pathet Lao and the North Vietnamese will choose to react to this press interview. In previous messages the Communists had made clear that they envisioned no progress on possible talks until they again controlled the Plaine. This presentation by Souvanna does, however, offer the Communists an opportunity

to show whether they have any new interest in detaching the war in north Laos from their infiltration corridor concerns in south Laos and in reaching an accommodation on the part of the Lao war that is less directly related to their principal objectives in South Vietnam and Cambodia. [redacted]

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[redacted]

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COMMUNIST CHINA: The recent formation of four provincial party committees brings the arduous, nine-month process of reconstructing the provincial-level party apparatus to a close.

Analysis of the over-all committee leadership indicates that it is heavily weighted in favor of moderate elements, although political compromise between divergent interests is still the order of the day. The first party committees to be formed appeared merely to represent perfunctory endorsements of leadership arrangements which had been hammered out during the Cultural Revolution. By late spring, however, the regime began to encounter serious leadership controversies in some of the remaining provinces--disputes that reportedly extended into the ranks of the central leadership itself.

Hard bargaining between conflicting interest groups resulted in the appointment of new provincial chiefs in a majority of these troublesome units. Although the provincial heads who were ousted during this process represented a wide spectrum of political affiliations, the majority of those dropped were aligned with forces associated with the more radical policies of the Cultural Revolution.

The top leadership of the new party committees frequently parallels that of the provincial administrative bodies set up during the Cultural Revolution, but there are significant differences. The military, which was already the dominant element, has clearly strengthened its influence; the armed forces have expanded their numerical representation in the ranking positions on the new committees to over 60 percent. Rehabilitated party veterans--including several who were bitterly attacked during the Cultural Revolution--have likewise proliferated, occupying about 30 percent of the major party posts. In the meantime, the representation of "leftist" activists, often the largest single group on the

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original governing bodies, has been reduced to a single post on most party committees. In those provinces that have had chronic factional violence, activists have in fact been excluded altogether.

Although the party restructuring process is now formally completed, there are still many questions to be answered. For instance, although the new party committees have been declared the leading bodies in the province, the revolutionary committees established earlier still exist and the actual division of labor between the two components is by no means certain. Another complicating factor is the expanded role of the military and the resulting thorny problem of civilian versus military control of the party structure. Until the regime begins to address these problems in an authoritative manner, there will be little chance for the new party apparatus to regain its pre-1966 image as an infallible monolith and as an essentially civilian structure which "commands the gun."

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INTERNATIONAL ECONOMIC DEVELOPMENTS: Dollar selling is heavy on the Tokyo foreign exchange market after the Bank of Japan relaxed restrictions on the amount of dollars Japanese commercial banks are required to hold. The Bank of Japan purchased about \$600 million yesterday and \$400 million during the first hour of trading today to clear the market of unwanted dollars.

Meanwhile, the Council of the General Agreement on Tariffs and Trade (GATT) yesterday established a working party to consider the US import surcharge. The study group, which is to report to the Council by 20 September, will confer with the International Monetary Fund to determine the nature of the US balance-of-payments difficulties.

The developing countries reluctantly agreed to a restriction of the scope of the study, thereby excluding examination of why their products should not be exempt from the surcharge. If a determination is made that the surcharge is not justified, member countries will be less restrained from retaliating against the US.

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ARGENTINA: There are few indications that the Lanusse government is moving toward a viable economic policy, despite a recent small devaluation of the peso.

The government has seized on this time of confusion in international monetary circles to devalue its currency from 4.70 to 5 to the dollar. A major devaluation is still badly needed, but the President and most of his military colleagues continue to view such action as a blow to the prestige of the military-led government.

The stagnating economy, with inflation running at an annual rate of more than 40 percent, is by far President Lanusse's most serious problem. [redacted]

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[redacted] the President has no clear economic philosophy or policy and there is little chance that this will change. Lanusse has subordinated economic policy to his political plan to return the nation to an elected government. One example of this is his willingness to accede to demands for wage increases in order to avoid the development of labor opposition to his government. Lanusse is also convinced that any real retreat from the economic nationalism espoused by his predecessor would provoke unfavorable political repercussions.

The recent appointment of the capable Carlos Brignone as president of the central bank provides some hope that President Lanusse will receive sound advice on economic matters in the future. Brignone's predecessor, however, was asked to resign when he told reporters that acceding to new wage demands would necessitate a devaluation of the peso. [redacted]

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COLOMBIA-CHILE: President Allende's intention to maintain political neutrality during his visit to Bogota tomorrow through Monday will be difficult to carry off amid the cross currents of Colombian politics.

Gustavo Rojas Pinilla, leader of the opposition National Popular Alliance (ANAPO), can be expected to spare no effort to capitalize on the Allende visit, especially in view of divisions within the ruling Liberal-Conservative coalition. The ANAPO welcome may be blunted by flamboyant Senator Jose Ignacio Vives, who was expelled by ANAPO in 1970 and who is attempting to organize a pro-Allende demonstration of his own.

The leaders of Pastrana's own Conservative Party sought to persuade the President to cancel the invitation to Allende, claiming that the Conservatives would derive no benefit from it. Pastrana countered that the visit would be a convenient balance to his recent meeting with Brazilian President Medici, and that it would strengthen Colombia's position in the Andean Group and in the border dispute with Venezuela. The Conservative leaders are apparently going to use the Allende visit as a wedge to drive between the indecisive Pastrana and the bulk of his party support.

The Colombian Communist Party (PCC) has been planning for months to show its strength by organizing a large and impressive welcome for Allende, possibly capitalizing on the turnout staged by ANAPO or Vives followers. The PCC would like to use this event to further the formation of a coalition of opposition groups. Pastrana is likely to forestall any advantage falling to the PCC or the ANAPO--and keep his Conservative house as much in order as possible--by limiting Allende's public exposure and restricting his private activities as much as practicable.

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EL SALVADOR: Disorders erupted on 25 August as striking teachers rejected the government's settlement offer. Further demonstrations are planned for today.

Earlier this week the government offered teachers a package deal, including a pay increase, in exchange for an immediate end to the seven-week-old strike. The teachers rejected the government's proffered concessions as insufficient, and some three thousand demonstrators turned out in support of their position.

Most of the property damage, including broken windows at the US Embassy and the Legislative Assembly, was done by participating university students, among whom were a number of Communist agitators. Security forces did not intervene, but warned union leaders and known Communist trouble-makers that further violence would not be tolerated. As a result, today's demonstration may receive little support.

There is increasing evidence that public support for the strikers is waning because of their intransigence. On the other hand, the government is gaining a favorable image because of its willingness to negotiate and the restrained manner in which demonstrations thus far have been handled. The government apparently is carefully laying the groundwork for a strong crackdown on future disorders.

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UN-GAZA: The head of the UN Relief and Works Agency (UNRWA) is deeply concerned over the implications of recent Israeli "thinning out" actions taken in the face of continued security problems in the Arab refugee areas of the Gaza Strip.

UNRWA Commissioner General Rennie told the US earlier this week that he feels the resettlement-- at least 2,300 refugee families had been affected as of 18 August--has been conducted in a precipitous manner. Red Cross officials on the scene reportedly describe the measures taken as going far beyond the security precautions that the Israelis claim are their sole motivation. Jerusalem radio claims that the operation has drastically reduced the number of terrorist incidents.

Apparently, the Israelis plan to rehouse most of the refugees in four new areas to be constructed soon near the major towns of the Strip. Rennie has also received reports that the Israeli military governor in Gaza is talking about using vacant West Bank camp housing. Arab protests would certainly become more heated if any significant number of refugees were forced there.

Those evicted refugees who have moved deeper into the Sinai are now outside UNRWA jurisdiction and are no longer being fed by the agency. Rennie fears that the Israelis will use this development as an excuse to take over more of UNRWA's functions in the occupied territories.

Egypt has already protested the Israeli actions to Secretary General Thant, and the issue is certain to provoke heated debate during the upcoming UN General Assembly session. The Arabs will try to link the operations and the recent "annexationist" remarks of Israeli Defense Minister Dayan. Rennie has told the US that his letter to the Assembly on the subject will condemn the Israeli operations. The upshot may be a further erosion of support for UNRWA, now facing a continuing fiscal crisis and the need to have its mandate extended by the Assembly. [redacted]

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PAKISTAN: Islamabad is placing top priority on straightening out its foreign debt situation.

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the government is considering making payments on the overdue debt resulting from its unilateral six-month moratorium imposed in May. In return, creditors would be asked to extend a one-year moratorium. Several representatives of the major Western creditors have indicated that their countries would be willing to consider a Pakistani request for debt relief even though they have shown no enthusiasm for extending any new aid.

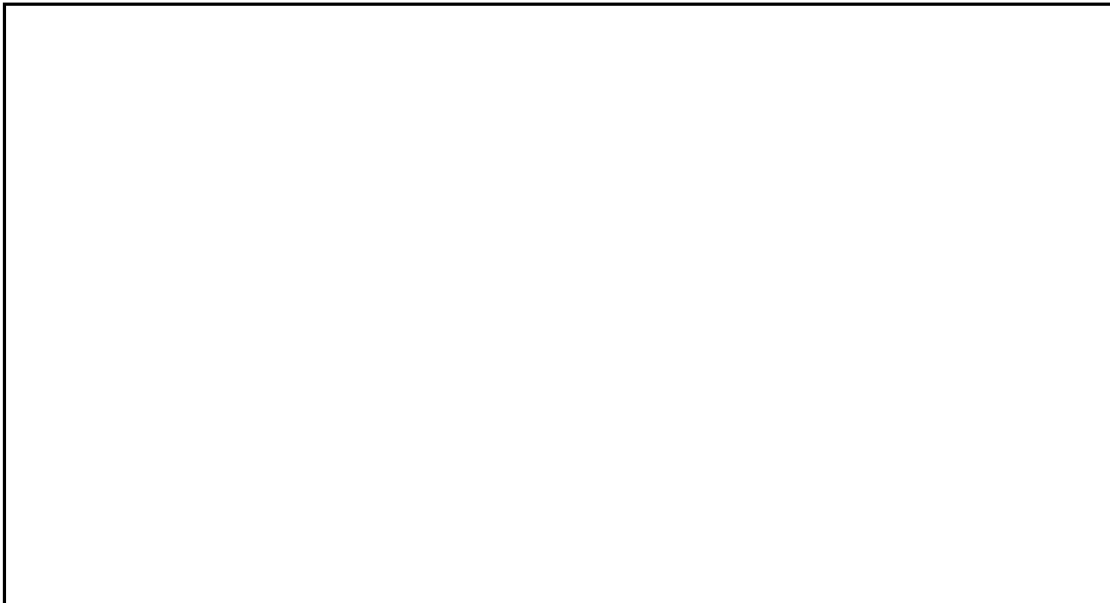
The halt in debt repayments, together with reduced imports, increased West Pakistani exports, and possibly some assistance from friendly Arab nations, has kept Pakistan's foreign exchange holdings at fairly constant levels despite the sharp drop in export earnings from the East wing. These holdings amounted to \$208 million in early August, about \$50 million less than a year earlier. [REDACTED]

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SAUDI ARABIA: The \$2.4-billion budget for the new fiscal year, which began on 22 August, shows a 69-percent rise over last year's budget. The increase reflects anticipated revenues of \$2.2 billion as a result of recent settlements with the oil companies as well as rapidly increasing petroleum output. The bulk of the increased expenditures is allocated to development. Defense expenditures also are to increase, but their share of the budget declined from 40 to 32 percent. The oil receipts will easily finance the sharp rise in expenditures despite proposed elimination of some business taxes and the "jihad tax" on personal incomes and the reduction of an exercise tax on gasoline. The higher expenditures, coupled with the tax reductions, will give a major boost to the economy, which has been sluggish during the past two years.

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