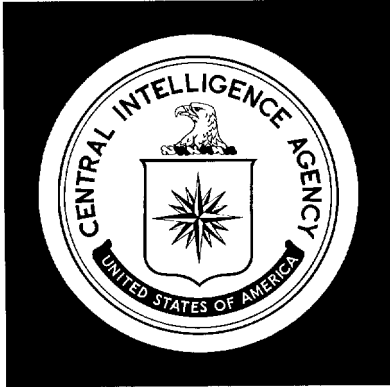
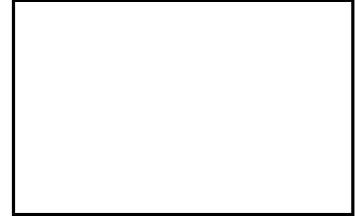


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**№ 041**

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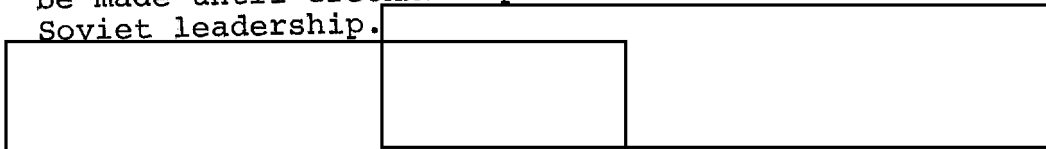
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USSR-EGYPT: The presence of senior Soviet military leaders in the delegation which accompanied Defense Minister Grechko to Egypt last weekend suggests that Grechko's mission was to conduct an on-the-spot, detailed study of Egypt's military needs, as well as those of Soviet forces in the area.

The delegation included Army General Yepishev, the top political commissar, Air Marshal Kutakhov, the commander of the air force, and Admiral Kasatonov and Army General Shcheglov, the first deputy commanders of the navy and of the air defense forces. Their presence, along with Colonel Generals Ogarkov, a first deputy chief of the General Staff and Dagayev, head of the General Staff's Military Assistance Directorate, would indicate that Moscow is conducting a broad review of its military programs in Egypt.

The visit took place only two weeks after Egyptian President Sadat was in the USSR for talks with the Soviet leaders. During his talks in Moscow in early February, President Sadat probably renewed his pleas for additional weaponry, even though he probably realizes additional weapons, alone, will not provide an answer to his problems vis-a-vis Israel.

Whatever the scope of the study conducted by the Grechko mission, the communiqué issued at its departure from Cairo suggests that no decisions will be made until Grechko reports his findings to the Soviet leadership.



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PAKISTAN: President Bhutto, faced with difficult negotiations abroad and a deteriorating economy at home, appears to be heading into a growing political crisis over his refusal to end martial law.

Bhutto's opposition, which has tended to coalesce around the National Awami Party/Requisitionist (NAP/R), continues to focus on the President's refusal to set a date for the end of martial law. The opposition is strongest in the Northwest Frontier Province and Baluchistan, the two provinces out of the four remaining in Pakistan where Bhutto's Pakistan People's Party (PPP) is weakest. Of late, the dissatisfaction in these provinces, which has centered on demands for provincial autonomy, has begun to take on ominous ethnic overtones. The Pathans of the Northwest Frontier and the Baluchis of Baluchistan have long resented domination of Pakistan by the Punjabis and, to a lesser degree, by the Sindhis. Bhutto is a Sindhi but much of the government administration remains in Punjabi hands.

The NAP/R has been encouraged by several recent events. On 19 February, the government bowed to opposition demands and postponed local elections that had been scheduled for 15 March. In elections on 20 February to fill some seats in the four provincial assemblies the NAP/R and its allies won every contested seat in both the Northwest Frontier and Baluchistan. The NAP/R probably will have firm control of the future assembly in the Northwest Frontier and is slightly stronger than the PPP in Baluchistan. The PPP suffered a further blow in the Northwest Frontier on Wednesday when party officials were forced to accept most of the demands of striking policemen in Peshawar, capital of the province. The police returned to duty after four days on strike but only after they received assurances of raises and an apology on behalf of the PPP for the party's previous handling of police matters.

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The next test of strength between Bhutto and his political opposition is likely to come over his plans to convene the four provincial assemblies on 23 March. The opposition adamantly insists that a date must be set for ending martial law. Bhutto, thus far, has refused to give in on this issue and serious disorders are possible as the date for convening the assemblies approaches.

As his domestic problems mount, Bhutto may be forced to rely increasingly on the army. Many army members are from the Northwest Frontier and Baluchistan, however, and therefore probably would be reluctant to use force in security operations in these provinces.



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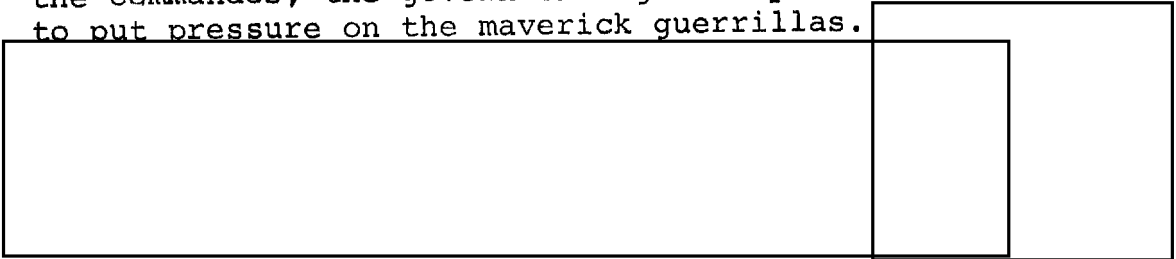
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ISRAEL-LEBANON: The killing of two Israeli civilians by fedayeen along the Lebanese border on Wednesday is almost certain to draw an Israeli response.

Following this incident, Israeli Chief of Staff Elazar said, "We warned the Lebanese authorities we don't intend to tolerate terrorist activities along the Lebanese border. I believe we shall be obliged to react." Most recent Israeli reprisals against fedayeen in Lebanon have involved ground units.

The border had been relatively quiet since mid-January when the Israelis threatened "permanent occupation" of Lebanese territory if fedayeen attacks continued. An Israeli strike will come at a bad time for the Lebanese, whose election campaign has just begun. If fedayeen leaders fail to control the commandos, the government again may be forced to put pressure on the maverick guerrillas.



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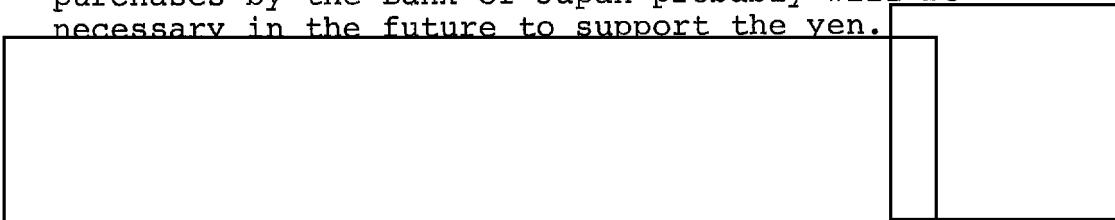
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JAPAN: Tokyo has reimposed some foreign exchange controls in an effort to limit dollar flows into Japan.

According to press reports, the Bank of Japan in the last few days has purchased \$190 million as the yen approached the upper limit of its new wider band. The closing rate on 24 February was 302.25 yen to the dollar. This represents an appreciation of 19 percent over the rate that prevailed prior to 28 August 1971.

Local banks henceforth will not be allowed to convert into yen any dollars received as advance payments for exports. This move effectively will prohibit the prepayment of exports because banks currently have no desire to hold dollars. Moreover, effective next month foreign banks will be unable to increase their dollar conversions above their present outstanding balances in an effort to put these banks on an equal footing with domestic banks.

These moves, however, will not completely stem the flow of dollars into Japan and further dollar purchases by the Bank of Japan probably will be necessary in the future to support the yen.



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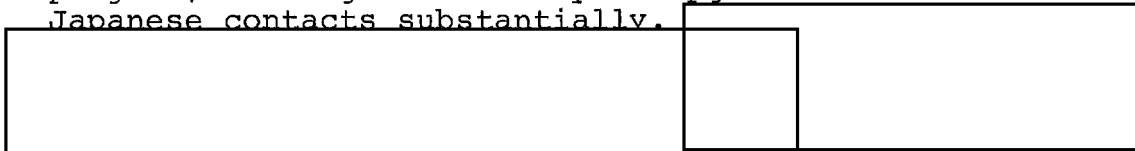
JAPAN-USSR: The semi-official Japan-Soviet Economic Committee concluded its meetings yesterday, agreeing only to subsequent study of the joint development of West Siberian oil resources.

Japanese delegates, representing private industry, and government observers, reviewed a Soviet study of the feasibility of expanding production at the Tyumen oil field and of constructing a 2,670-mile pipeline from Irkutsk to Nakhodka. Other proposals to develop Siberian natural gas and coal resources were also reviewed but little progress was made toward reaching agreements.

The Japanese will send a joint government-industry team, probably in May, for on-site inspection of the Tyumen oil field, until now forbidden by Moscow. Tokyo probably will delay plans to send a government mission to Moscow to discuss financing, pending the outcome of this survey.

Although Japanese businessmen who stand to profit from the venture have been enthusiastic, the Sato government remains cautious. Tokyo has not fully assessed the strategic implications of helping the Soviets in this project and may ultimately hope to condition approval to obtaining political concessions from Moscow, particularly on the southern Kuriles issue.

The USSR hopes that Tokyo will be more forthcoming but is nevertheless gratified by the prospect of additional study. Moscow attaches considerable political as well as economic importance to the project, viewing it as a way to upgrade Soviet-Japanese contacts substantially.



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FINLAND: The Social Democratic minority government announced yesterday is not likely to be long-lived, but its installation will restore order to the domestic political situation on the eve of President Kekkonen's visit to the USSR.

Kekkonen had hoped to put together a five-party, center-left government. However, the Communists, after five weeks of hard bargaining and a trip to Moscow dropped out on 16 February. The remaining four parties had a parliamentary majority, but were unable on 21 February to form a cabinet when the Center and Social Democratic parties continued to disagree on agricultural policy.

With only 55 of the 200 parliamentary seats, the Social Democrats are unlikely to adopt bold policies. Moreover, Kekkonen will probably have to intervene personally in order to produce the parliamentary majorities needed for critical legislation such as extension of the economic stabilization program that expires in March. Foreign policy will remain under the President's personal control.

Municipal elections next fall may serve as the catalyst for another governmental change. At present, however, Finland's parties are in considerable disarray, highly protective of the special interests they represent, and anxious to avoid responsibility for difficult decisions that need to be made.

In part because of the Communists' behavior, Kekkonen will wish to re-assure himself during his visit to Moscow on 25-26 February that his relations with the Soviets are healthy. Some Finns are worried that Moscow's rejection of their candidate for the UN Secretary-General post, plus

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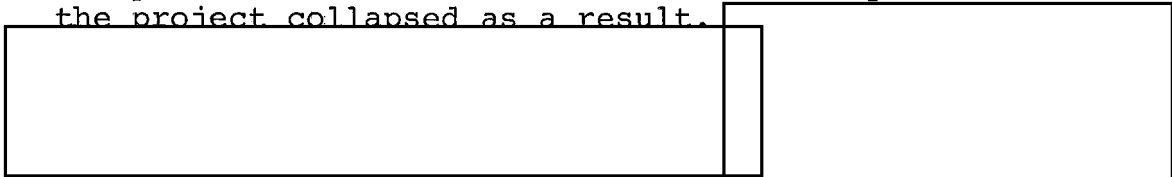
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hints that the Soviets might prefer a site other than Helsinki for a Conference on Security and Cooperation in Europe, signaled a broader dissatisfaction. These anxieties are probably unwarranted.

On the question of Finland's future relations with the European Community--probably the main topic of his visit--Kekkonen has ground for concern. He believes that an arrangement is essential even given the problems raised by Brussels' terms and the Finnish Communists' adamant opposition. Although Moscow blessed Finland's membership in the European Free Trade Association, its opposition was the major factor in killing Finnish participation in the Nordic Economic Community, and the project collapsed as a result.



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MEXICO: The choice of a young, respected intellectual with "progressive tendencies" as the new president of the ruling Institutional Revolutionary Party (PRI) points up President Echeverria's desire to open up the country's rigid political system.

The new PRI boss, Jesus Reyes Heroles, is a former director of Mexico's petroleum agency where he proved to be an able administrator. He has been characterized as "a man to watch" by political commentators. In his "election" speech Reyes proclaimed his support for Echeverria's liberal policy, saying that the party is in need of "purification" and "profound revolutionary reforms." A new PRI secretary-general--a senator also with established progressive and intellectual credentials--was also named.

The old PRI president may have become an embarrassment to Echeverria. He had been veering from Echeverria's reformist policy and had harshly criticized the major opposition party, while Echeverria was talking about democratic openings and inviting pressure groups to form new parties.



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EL SALVADOR: Military pressure is likely to decide the outcome of the disputed presidential elections.

The leftist opposition coalition is still claiming that its candidate, Napoleon Duarte, actually won a plurality and has convinced many that the electoral council is falsifying the results. In addition to publicizing discrepancies in the vote counting between local totals and those announced by the central electoral council, it has resorted to threats against members of the legislature, who will have to choose between the two front-runners.

[Redacted]

A coup is possible, but some arrangement within the constitutional framework appears more likely.

If the military becomes convinced that Duarte actually edged out Molina, the government's candidate, it might support Duarte's succession if he would agree to dissociate himself from his Communist supporters and to go slow on controversial policies such as agrarian reform. This option appears remote, however, in view of the military's long-standing distrust of the left-of-center parties, including Duarte's Christian Democrats, and the ill feeling caused by the coalition's campaign attacks on the military.

The outcome hinges largely on how military leaders read public opinion and how valid they believe the election results to be. They met twice on 23 February with President Sanchez, but their decisions, if any, are not yet known. Should Molina be declared the winner, his administration would be discredited in the eyes of many from the start. Duarte, on the other hand, is distrusted by the military, and a coup would be a serious setback to the constitutional process that has prevailed over the past ten years.

[Redacted]

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ECUADOR: Leftist politicians and military officers plan to support the Rodriguez government, at least for the time being.

The secretary-general of the Communist Party, Pedro Saad, and other leaders have [redacted] ex-pressed enthusiasm for President Rodriguez [redacted]

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[redacted] They are pleased because Rodriguez has reinstated the 1945 constitution, of which Saad was a principal author, and because the new government has not ordered the arrest of any Communists. Only the extreme leftist pro-Chinese Communist Party has called for active opposition to the government, but its factionalism and weakness limit the extent to which it can act.

A group of left-wing army officers reportedly plans to work with Rodriguez while urging lower-ranking officers and enlisted men to press for more radical policies. This group believes that Rodriguez has the right qualities to establish a "revolutionary" administration and that if the new military government does not undertake the needed reforms, the armed forces will fall into utter disrepute.

Support from leftists inside and outside the military will help Rodriguez while he consolidates his position. Pressures on him for radical actions, however, may be stronger than he now anticipates.

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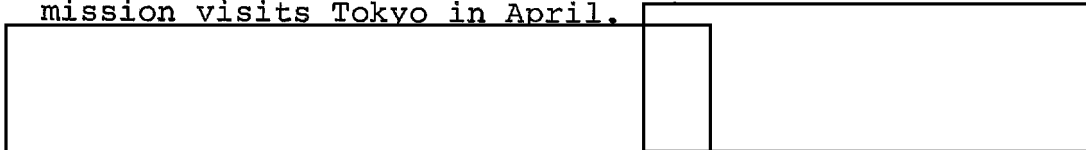
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EUROPEAN COMMUNITIES - JAPAN: Discussions in Tokyo last week between EC Commission President Malfatti and Japanese leaders failed to resolve differences over "safeguards" against excessive Japanese exports to the EC, an issue which has long stymied progress on an EC-Japan trade agreement.

Increasing concern among EC members about Japanese competition in their domestic markets has stiffened the community's insistence that liberalization of Japanese imports be accompanied by a specific safeguard clause. The Commission probably fears that--in the absence of an over-all EC-Japan agreement--the individual EC countries might take their own steps effectively to restrict imports. Tokyo objects to safeguard clauses in principle and fears the precedent they might set for its trade with others, including the US. A speech by Malfatti in Tokyo suggests that the Commission may hope to use the Japanese desire for periodic consultations--which could be established in the context of a trade agreement--to induce Tokyo to modify its position on the safeguard issue.

The question of resuming the EC-Japan negotiations will probably be taken up again when an EC mission visits Tokyo in April.



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CHINA: The designation yesterday of party elder Tung Pi-wu as "acting" chief of state suggests that the regime wishes to project an image of stability and orderliness in the wake of the recent purges that ravaged the politburo. In October 1969, Tung was briefly identified by this title, but the formal decision to award him the post was evidently postponed because of disagreement over the precise shape and structure of China's rebuilt governing apparatus. A draft state constitution circulated throughout the mainland in the fall of 1970, for example, pointedly ignored the question of the role and functions of the chief of state. The 85-year-old Tung is, in any case, a figurehead and his appointment is not likely to have any major impact on the power alignment in Peking, which is currently weighted in favor of Premier Chou En-lai and the moderate civilian-military coalition that he leads.

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WEST GERMANY: In a major move designed to slow the inflow of US dollars, the central bank yesterday cut its discount rate from four to three percent, the lowest rate in Europe. The associated rate charged banks for loans secured by collateral was reduced from five to four percent. This action should substantially narrow the interest rate differential between German and foreign money markets that had generated sizable dollar flows into Germany in recent weeks. In order to discourage foreign borrowing by German firms, the bank also increased the minimum reserve requirements for the commercial banks' foreign liabilities above the level of last November. In a related move, the Economics Ministry announced that it would recommend implementation of the cash deposit law designed to curb foreign borrowing by private German corporations.

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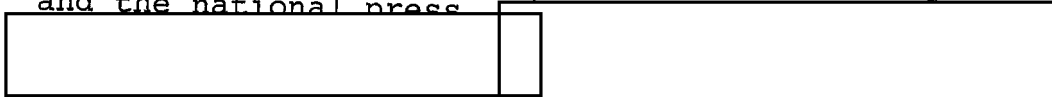
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BELGIUM: The new government's budget proposals reflect a shift to an expansionary economic policy to spur the slackening economy. Ordinary budget expenditures are slated to increase 13 percent over 1971, and \$233 million is being provided exclusively for economic stimulation. In an unprecedented departure from Brussels' traditionally balanced budget, the proposed budget shows an estimated deficit of over \$100 million. The actual deficit, however, probably will be considerably larger. According to Belgian financial observers, the government's increased expenditures will be the only expansive component of demand this year. Economic growth therefore will be well under the government's optimistic prediction of 3.8 percent and revenues will fall short of the budget projections. Such a development would justify the considerable criticism of the government's policy that has come from the opposition Liberal Party and the national press.



MOROCCO: The opposition National Front has declared it will not participate in the constitutional referendum on 1 March. The Front's declaration attacked the regime for misrule and responsibility for the present political crisis and called for the dissolution of parliament and the banning of repression, corruption, and nepotism. The declaration neither criticized the King's proposed constitutional amendments nor specifically enjoined its member organizations to boycott the referendum. This suggests that Front leaders still have not closed the door to future collaboration with the King.



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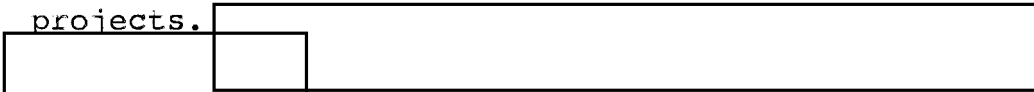
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GHANA: Accra apparently wishes to reactivate several economic projects originally started with Communist aid but suspended following the 1966 coup that ousted Nkrumah. According to a Ghanaian press report, the National Investment Bank has been commissioned to seek local and foreign partners to help finance completion of five projects started with Soviet, Czechoslovak, and Chinese assistance. No mention was made of possible Communist participation, but both Accra and Moscow recently have shown some interest in a resumption of the Soviet aid program. The conflict over Ghana's unilateral alteration of debt servicing terms that included repudiation of some debts will hinder efforts to interest Western firms in these projects.



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TURKEY: A recent Constitutional Court ruling increases the probability of strong military pressure for another extension of martial law when it comes up for renewal in a few weeks. In a decision bordering on defiance of the military leaders, the court has declared unconstitutional those provisions of the recently revised law which provide that cases being heard before martial law courts may be continued even if martial law is terminated. Many cases are currently in process, including the trial of over 200 members of the leftist Revolutionary Youth Federation. The federation was responsible for most of the violence that preceded the declaration of martial law in 11 key provinces last April. If the government does decide to end martial law in March, it may establish special civilian tribunals to carry on for the martial law courts. Such courts could be modeled after the highly controversial French tribunals set up during the Algerian War.



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