

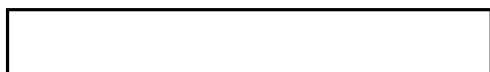
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Approved For Release 2004/01/15 : CIA-RDP79T00975A024900020001-3

Approved For Release 2004/01/15 : CIA-RDP79T00975A024900020001-3



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AFGHANISTAN: A nearly bloodless coup in Kabul has apparently brought Prince Daud, brother-in-law of King Zahir, back to power.

Acting quickly, army units took over Kabul early this morning. Some members of the royal family, including the King's son-in-law, Sardar Abdul Wali, are in custody. Zahir was last reported to be in Italy on his way back from medical treatment in England. There is no information about the fate of Prime Minister Shafiq. No reports have been received from other parts of the country.

The 64-year-old Daud went on Radio Afghanistan to proclaim a republic, functioning under a military government. He spoke harshly of Zahir's ten-year-old "experiment in democracy" and criticized the royal family for misusing its powers which, Daud claimed, had paralyzed the nation's economy.

Daud was prime minister and virtual dictator of Afghanistan from 1953 to 1963, when he was removed by Zahir in preparation for a more democratic government. He is described as a man of considerable ability and imagination, but also stubborn and harsh toward his enemies. During his earlier period in power, he made strenuous efforts to modernize Afghanistan.

In the past, Daud has claimed that he followed a non-aligned foreign policy. He was prime minister when Afghanistan turned to the USSR for large scale economic and military assistance, but most reports indicate that he is a strong nationalist who sought aid wherever it was available. While he was in power, Afghan relations with Pakistan were severely strained due to his strong support for creation of an autonomous state for the tribal Pathans living on the Pakistani side of the common border. [redacted]

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USSR - NORTH VIETNAM: The communiqué issued at the end of North Vietnamese leaders' official visit to the USSR suggests the Vietnamese had scant success in their efforts to extract more Soviet political and military support.

North Vietnamese Premier Pham Van Dong left the USSR on 16 July for an official visit to Hungary, but Le Duan remained behind, ostensibly on vacation. Plans for a visit by Le Duan to Poland apparently have been scrapped, and Dong will head the Vietnamese delegation that is to visit Poland later this month.

The communiqué reflected the Soviet interest in pressing its case for better relations with the West. There was no direct criticism of the US, and the Soviets did not join with the Vietnamese, as they have in the past, in demanding that Washington and Saigon abide by the cease-fire agreements. Moscow even succeeded in getting a general Vietnamese endorsement of the USSR's detente policies.

The only pacts signed were an "agreement in principle" on Soviet aid for the rehabilitation and development of the North Vietnamese economy, and an agreement absolving the North Vietnamese of current economic aid debts to the USSR. Much of the Soviet military aid was given gratis. By contrast, during the recent North Vietnamese leadership visit to China, the two countries signed the formal aid accords for 1974.

Moscow did make some limited concessions to Vietnamese political sensibilities. The Soviets agreed that the Provisional Revolutionary Government of South Vietnam "alone" represents the genuine aspirations of the South Vietnamese people, and they joined with the Vietnamese in expressing "solidarity" with the "patriotic forces" of Cambodia. [redacted]

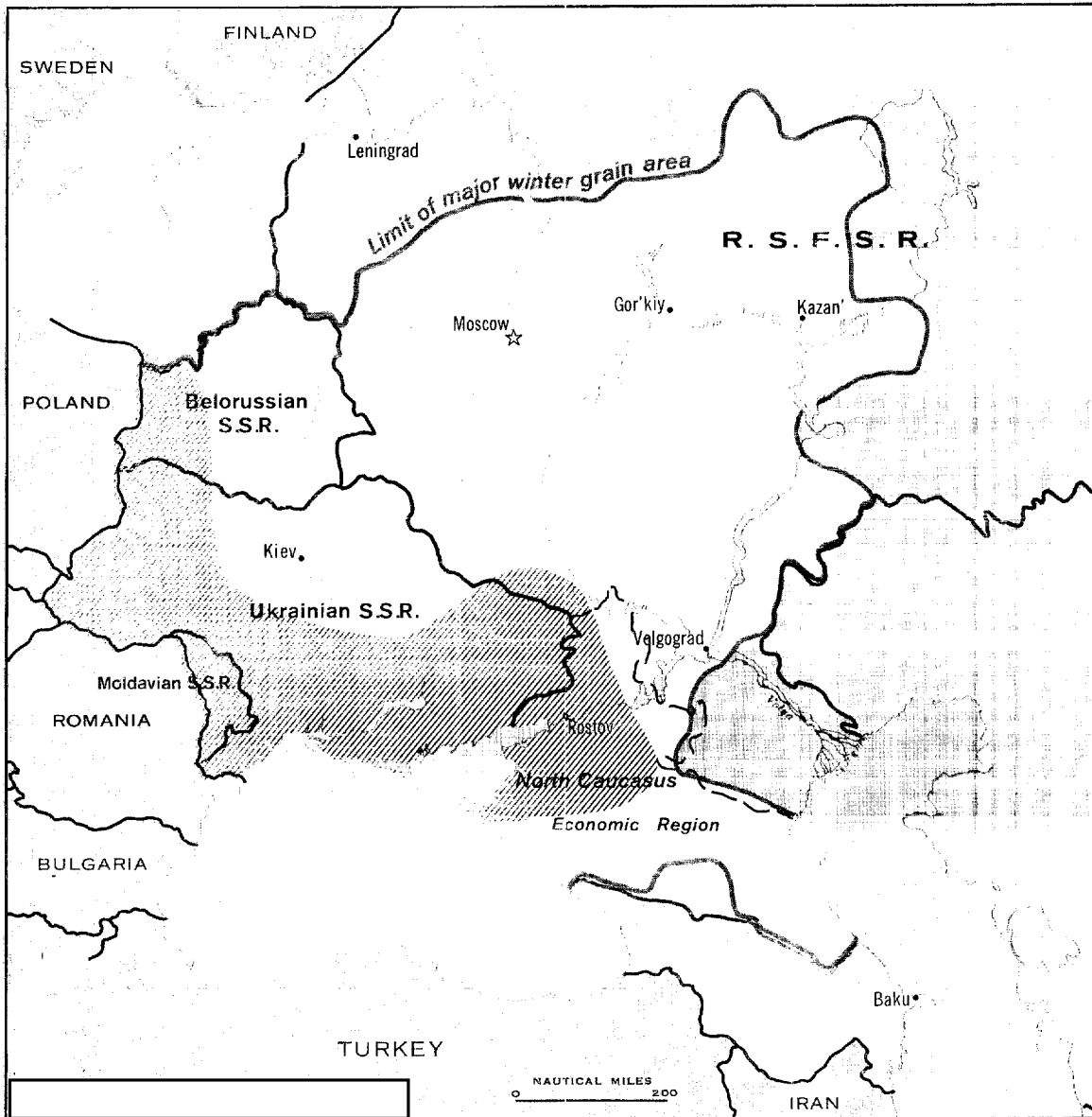
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Heavy Rains Slow Grain Harvest



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Heavy rains in early July

USSR: Poor weather recently may have caused substantial harvest losses in some important winter grain areas, clouding prospects somewhat for a record crop.

Heavy rains and winds apparently flattened (lodged) winter grain in large areas of the Ukraine, Belorussia, Moldavia, and the North Caucasus. According to a 13 July radio report from the Ukraine, 2 1/2 million hectares were flattened--one third of the republic's winter grain area. These conditions are causing "considerable" delay in the harvest compared with last year.

Lodged grain is difficult to harvest without losses and retains much moisture which could ultimately reduce the breadgrain quality. Moreover, a late harvest would be particularly serious this year, since the crop matured sooner than usual. Harvesting overripe grain could cause shattering--that is, the kernels would fall from the heads and be lost on the ground. A succession of dry, sunny days could save the situation. [REDACTED]

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USSR-JAPAN: The Soviet Union is now seeking up to \$150 million in foreign financing for exploration of the Yakutsk gas fields. This time the Soviet tactic is to have the US and Japan share equally in the financing. Tokyo has indicated that it will agree, but has conditioned its participation on US agreement. The Soviet delegation now in Japan will visit the US soon to discuss the project.

The Soviets claim that proven reserves of natural gas in the area total 300 billion cubic meters, and they estimate potential reserves at 1 trillion cubic meters. Moscow estimates that the total project will involve the investment of some \$3 billion by the US and Japan. If the project is to be economically feasible, it will first be necessary to establish that a significant portion of the reserves is recoverable. Japan has cautioned that its provision of credits for exploration does not imply a commitment for the development project itself. [REDACTED]

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IRAQ: President Bakr and strongman Saddam Husayn Tikriti have taken steps to consolidate their power and appear to be signaling a desire for improved relations with the West.

Although the 15-member Revolutionary Command Council remains constitutionally the "highest authority in the state," Bakr's executive powers have been substantially increased. Press claims, however, that Bakr has been given dictatorial powers, and that he has assumed full civilian and military control, are probably overstated.

Meanwhile, the purge of the ruling socialist Baath Party and the internal security forces triggered by the recent abortive coup attempt reportedly is still going on. [REDACTED]

[REDACTED] hundreds of party members have been arrested and many in the security police, whose former chief led the coup move, have been arrested, dismissed, or transferred.

Minister of Communications Rashid al-Rifai has been appointed acting minister of defense, replacing General Shihab, who was killed during the abortive coup. Rifai, a political neutral in the Baath Party, may have been chosen to fill the office temporarily as a result of a compromise between rival factions.

During a lengthy interview with Western correspondents last week, Tikriti said that Iraq desires an early rapprochement with the UK and, to a lesser extent, with the US. He also stressed that Baghdad would soon begin to ensure greater popular participation in government.

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The regime has indicated that it wants more Western participation in Iraq's economic development. As evidence of this desire, Baghdad has approached Intercontinental about building a hotel at Basra on the Persian Gulf, recently purchased several American-built aircraft for its commercial air fleet, and reportedly has shown increased interest in tapping Western oil technology. [redacted]

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Implications of the Recent Monetary Crisis

The recent turmoil in international money markets is the fourth in a series of crises that have come with increasing rapidity since December 1971, when the Smithsonian Agreement was concluded.

The monetary crises last year and this reflect in part not only continuing US balance-of-payments problems, but also a change in the psychology of international currency traders. Money managers, representing the large multinational firms and commercial banks and some less developed countries including the oil producers, came to believe that further currency realignments were likely. Wind-fall profits could be made with limited risk or the value of assets could be protected by shifting from dollars into the stronger currencies. To the extent that traders acted on their belief, it became a self-fulfilling prophecy.

The repeated money market crises have not produced the worldwide recession that many feared. Despite continuing international monetary instability and the growing weakness of the dollar, world trade is expanding rapidly. Indeed, it has accelerated in line with the current worldwide economic boom. Exporters and importers have taken steps to reduce their exchange risks through contract adjustments or dealings in the exchange market, but this has generally resulted in only a small increase in trading costs.

Continuing international monetary instability has, however, exacerbated the inflation problem in countries that are the object of speculative capital inflows. West Germany in particular has had to absorb massive currency inflows--first dollars and then guilders, French francs, and Danish crowns--and this has complicated Bonn's policy of slowing the growth in the money supply. Because of the anti-inflationary consequences of revaluation and subsequent monetary stability, Germany has generally been more willing to revalue than other countries.

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The impact of the dollar's continuing devaluation on the trade balances of our major trading partners has so far been small. In part this is because most of their trade is not with the US and because of lags in the adjustment process. The dollar's devaluation lowers the price of US exports in foreign markets, but this leads to an increase in US sales only after customers adjust their purchases to the new prices.

The current worldwide economic prosperity has also reduced and masked the impact of the continuing currency realignments. The US economy and the economies of most of our major trading partners are expanding rapidly--too rapidly in some cases. This has lessened concern about the potential impact of cheaper US goods.

These factors explain the lack of strong countermeasures so far against the devaluation. Only a handful of new foreign export subsidies and tax incentives have been introduced. Nevertheless, some Europeans, the French in particular, feel that the dollar has been driven down too far and that the US has been given an unfair competitive advantage.

The US, after an adjustment period, will benefit from the increased foreign demand for its now cheaper exports by devaluation. Investment in this country also has become more attractive to foreigners. Both of these factors will help create jobs and reduce unemployment in the US. To a lesser extent the UK and Italy, whose currencies also have depreciated, will similarly benefit.

On the other hand, US imports are more expensive because of devaluation, and this contributes to domestic inflation. The price of oil imports in particular has increased because of successful contract renegotiation by the oil-producing countries as well as through the direct effects of the devaluation.

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The price advantage gained by US agricultural and other raw material exports through devaluation, and what apparently has been a desire--at least in Japan--to convert unwanted dollars into commodities, has probably also played a role in the disruption of world commodity markets. Although the large grain purchases by the USSR were more significant, the resultant introduction of controls on US commodity exports has dampened US balance-of-payments prospects, intensified pressures for a further dollar devaluation, and undercut the long-held US advocacy of freer access to foreign agricultural markets.

Some of the advantages of the dollar depreciation to Washington are disadvantages for our trading partners. Although their trade position has been little damaged so far, in the longer term cheaper US goods and increased investment in the US rather than in their domestic economies will mean more job opportunities in the US while at the same time bringing significant adjustment problems for certain countries.

As a result, it is likely that US trading partners will become increasingly agitated if international monetary instability and the weakness of the dollar continue. Since a downturn is inevitable, if only because of action by foreign governments to bridle the accompanying domestic inflation, a slowdown in their exports to the US and an increase in their imports and foreign investment (because of the currency realignment) will exacerbate the slowdown in their domestic economies.

The growing concern of our trading partners will adversely affect progress toward trade and monetary reform. The monetary situation has clearly helped Paris in its insistence that the multilateral trade talks take account of the advantages Washington may gain from a devalued dollar, and this could emerge as a very difficult problem in the final trade bargaining. Progress toward international

monetary reform in the ongoing discussions under the auspices of the International Monetary Fund already has been made more difficult by foreign concerns resulting from the dollar's decline. Difficulties in the economic negotiations will also complicate political and military negotiations between the US and its allies. In both Europe and Japan, the continuing monetary crises are likely to make achievement of US political objectives more difficult. [REDACTED]

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FOR THE RECORD*

Egypt: President Sadat spoke yesterday to the central committee of the Arab Socialist Union (ASU) in an apparent prelude to his scheduled Revolution Day address to the nation on 23 July. The speech was unremarkable except for Sadat's references to a vague and undefined "ideological document," still in the preparatory stages, which will outline Egypt's policy for "the next 25 years" in the light of US-Soviet detente and its effect on Egypt's future actions. Sadat envisages a summer of debate on the document at all levels of the ASU before it is given official sanction. [REDACTED]

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Italy-USSR: The Italian firm Montedison has agreed to construct seven chemical plants in the USSR. At least part of the Soviet payment will consist of products from these plants. A possible source of financing is the three-year credit line for \$600 million that Italy extended to the USSR in February. [REDACTED]

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Iraq-USSR: Iraq plans to reorganize the recently formed joint Iraqi-Soviet oil transport company. Only two of the nine tankers which the Soviets were to supply the company have actually been delivered. One of these caught fire and exploded soon after delivery. As a result, the company plans to charter tankers from other sources to meet delivery schedules for Iraq's expanding oil production. [REDACTED]

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Nepal: Nagendra P. Rijal heads the new 16-member cabinet that was announced in Kathmandu yesterday. The 46-year-old Prime Minister is an experienced politician and has filled many government posts. Rijal's predecessor, a carry-over from the late King Mahendra's reign, had been at odds with King Birendra since the latter's succession in January 1972. The cabinet is subservient to the King and no policy changes are expected. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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