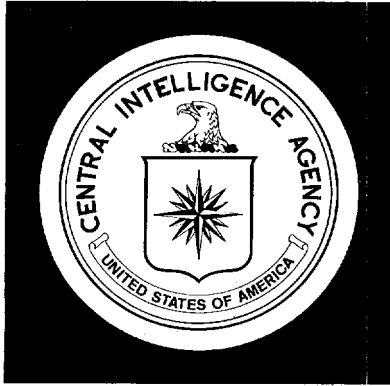


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DIA and DOS review(s) completed.

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ARAB STATES - ISRAEL: Israeli Chief of Staff Elazar announced yesterday that Israel's forces will begin withdrawing from the west bank of the Suez Canal on January 25. The first portion of the Israeli salient to be eliminated will be that south of the Cairo-Suez road. This withdrawal will reopen the road to Egyptian traffic, thereby freeing the encircled Third Army.

The Israeli announcement came after a meeting yesterday between Elazar and Egyptian Chief of Staff Gamasy at Kilometer 101. Their meeting was the first of several scheduled to work out arrangements for implementing the disengagement agreement signed on January 18. No significant cease-fire violations have been reported since the signing.

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Egyptian officials are making determined efforts to marshal wide Arab backing for the agreement. President Sadat over the weekend took his case to the leaders of Saudi Arabia, Syria, Kuwait, Bahrain, Qatar, and the United Arab Emirates. Although most appeared eager to be briefed on the details of the disengagement accord, none proffered enthusiastic public support.

Sadat is particularly eager that Syria's President Asad withhold any criticism of Egypt's initiative in negotiating with Israel. Syria so far has not issued an official reaction to the agreement; Damascus radio has reported only that Asad and Sadat conferred briefly on January 19.

Egyptian Foreign Minister Fahmi is scheduled to travel to Moscow today, according to Cairo's Middle East News Agency. Part of his job presumably will be to convince the Soviets that Egypt has been able to protect its own interests and has not cooperated too closely with the US in negotiating the disengagement.

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At home, Egyptian officials are appealing for popular support for the agreement by stressing the concessions made by Tel Aviv. Egypt's only political party, the Arab Socialist Union, on January 19 issued a statement alleging that the "one-sided withdrawal" had already caused a collapse in Israel's internal political situation. The statement minimized the importance of Egypt's commitments, and emphasized that Cairo had accepted the buffer zone "on the basis that it can move any amount of its forces and equipment in the west to the east at any moment if necessary."

The Egyptian media have made public the general terms of the disengagement agreement and have praised it as having completed implementation of the earlier six-point accord. Al-Ahram has cautioned, however, that the latest agreement is but a preliminary step toward the implementation of more basic UN resolutions, and that disengagement must also be applied to the Syrian front.

* * *

Two Arab states have strongly criticized the disengagement accord. Libya's domestic radio charged that Arab participation in any negotiations is a gain for Israel, and suggested that the planned separation of forces will provide Tel Aviv with "total security." Iraq's government newspaper attacked the Egyptian move as a withdrawal from the "pan-Arab battle against Israel," adding that it opened the way not to an overall solution but to an overall surrender. Cairo has not yet replied to these attacks.

Radical fedayeen groups have also criticized Egypt for signing the agreement. Fedayeen leaders look on it as another sign that Cairo cannot be trusted to defend Palestinian interests. A spokesman for the Palestine Liberation Organization in Beirut has also condemned the agreement, but PLO opposition may be restrained when Chairman Yasir Arafat returns to Beirut from Cairo, where he has been consulting with Egyptian leaders. Arafat already has denounced the PLO stand taken in his absence.

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Israel's leaders are continuing their efforts to explain the advantages of the disengagement agreement in order to counter vigorous criticism of the government by spokesmen for the opposition Likud bloc. The Jerusalem Post has published a front-page story purporting to give details of the secret bilateral accords signed by Egypt and Israel with the US. The story may have been leaked by government officials hoping to play up provisions which they consider will reduce domestic opposition to disengagement or provide information the public can use to judge how well Egypt is implementing the understandings.

Likud is calling for mass demonstrations timed to correspond to this week's opening of the new Knesset. An initial rally in Tel Aviv Sunday night drew a crowd estimated at several thousand. The Knesset is scheduled to debate the agreement following an address by Prime Minister Meir tomorrow.

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USSR-EGYPT: Moscow is clearly upset by its exclusion from the Egyptian-Israeli disengagement negotiations. The Soviets presumably want to return the talks to the Geneva peace conference, where the USSR is represented.

In a conversation in Geneva on January 17 which the Egyptian ambassador described as "very tough," Soviet Ambassador Vinogradov was openly critical of the way the disengagement agreement had been achieved. Vinogradov, the chief of the Soviet delegation at the conference, rebuked the Egyptians for "having forgotten their true friends" and claimed that he was under pressure from certain Arab states to reconvene the conference. When asked to identify these states, Vinogradov reportedly backed off.

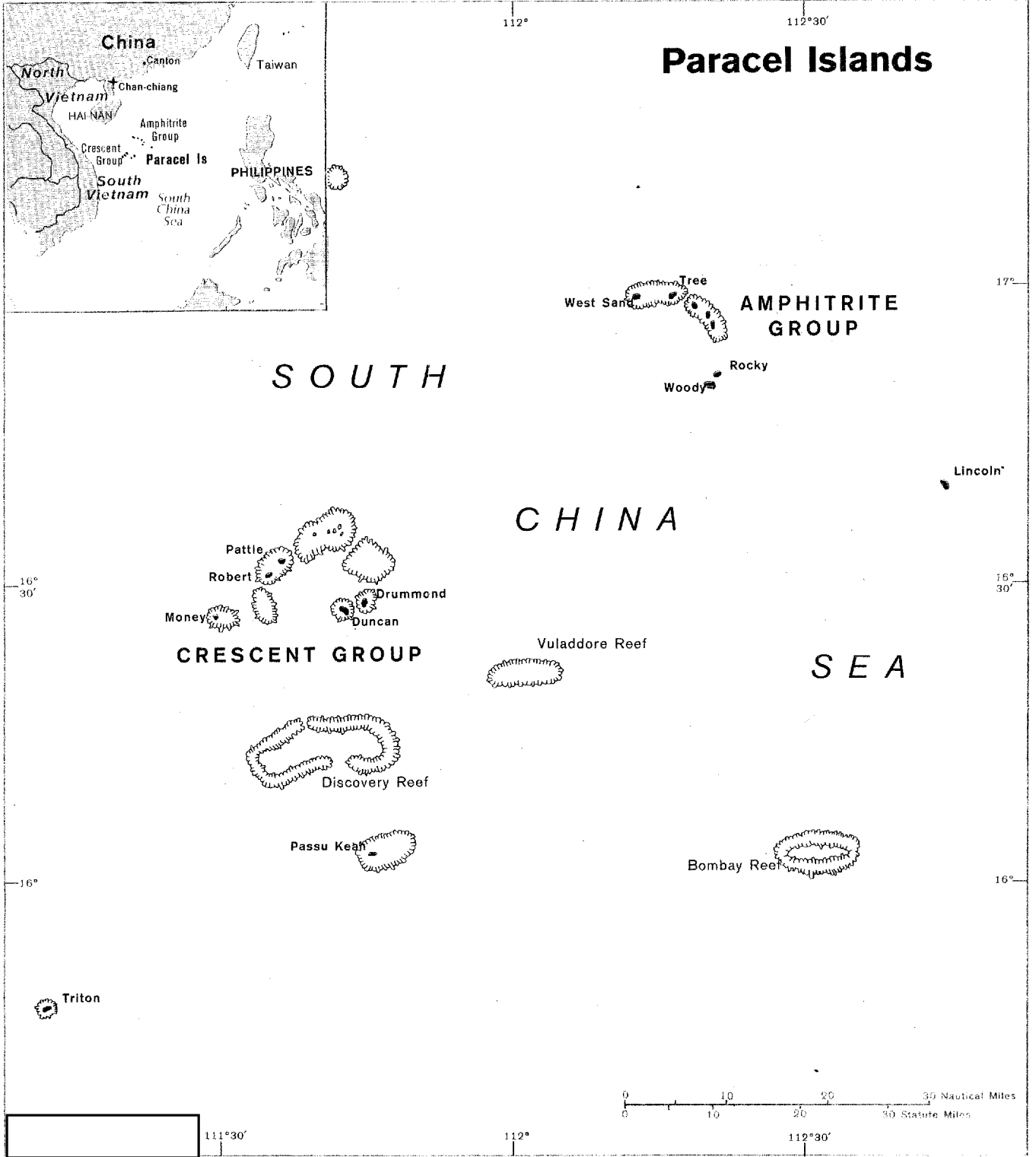
On the following day, Vinogradov's deputy, Y. D. Pyrlin, got in touch with the US delegation in Geneva for the first time in two weeks and suggested that the Geneva talks should be soon reactivated. Pyrlin said he had no details on the disengagement agreement and complained that Moscow was sending the Geneva delegation almost no information.

Soviet press commentary also indicates that Moscow is having a difficult time adjusting to Washington's monopoly over the Arab-Israeli negotiations. Soviet reporting has hardly mentioned Secretary Kissinger's part in the talks, and some East European commentary is straining to impute a role to the Soviets in the disengagement negotiations.

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CHINA - SOUTH VIETNAM: Chinese and South Vietnamese troops clashed yesterday for the second straight day, with the Chinese gaining complete control of the Paracel Islands.

According to a South Vietnamese spokesman, the Chinese followed up yesterday morning's air strikes with an amphibious assault on Pattle, Money, and Robert islands. Saigon's naval and air forces have been ordered to withdraw from the area, and the South Vietnamese have abandoned their troops on the islands. Among those left behind is an American liaison officer from the defense attaché's office.

Saigon has thus far not commented on casualties suffered in yesterday's fighting. It had admitted to some 8 killed, 39 wounded, and at least 67 missing in previous actions.

Peking's initial statement on the fighting, an NCNA press release of January 19, characterized China's activity in the Paracels as a defense of its territorial integrity and sovereignty. The NCNA statement focused on the South Vietnamese actions and characterized Peking's response as one of self-defense.



Until recently the South Vietnamese had maintained a presence only on Pattle Island. The appearance of Saigon's troops on neighboring islands may have provided the stimulus for Peking's military action.

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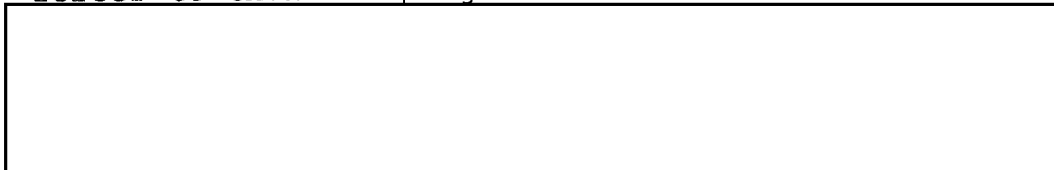
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CAMBODIA: Fighting was light and indecisive along Phnom Penh's southern defenses over the weekend. Khmer Communist elements made several minor breaches along the western end of the defense line, but this was the result more of jittery government defenders than of serious pressure. Inconclusive skirmishing also occurred along the Bassac River southeast of the city.

There is no indication as to when the Khmer Communists intend to commit major elements of their forces to their campaign southwest of the capital.



To the northwest of the capital, the government achieved its first gains in over two weeks of fighting against enemy units dug in several miles from the airport.



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INTERNATIONAL MONETARY DEVELOPMENTS: In reaction to the French decision to let the franc float, West Germany, Japan, Belgium, and the Netherlands today announced the closing of their international money markets. Foreign capitals are fearful that traders will step up their movement into dollars or, to a lesser extent, gold.

Paris' decision will put more pressure on the industrial nations to resolve the financial problems resulting from higher oil prices. Finance ministers and central bank governors from the Benelux countries met yesterday to discuss the problem. They called for a meeting of Common Market countries to discuss means for maintaining what is left of the European joint float.

Although the French action eases the strains on the joint float, its prospects for survival are poor. With the French pullout, the mark is the only major currency still participating. Other participants will now be reluctant to draw down their reserves to support the joint float.

The French decision clearly reflects the heavy reserve losses Paris has experienced in defending the franc; Paris has spent over \$2 billion since last fall to maintain the franc's position in the joint float. Some French observers predict that Paris will take further steps, such as tightening exchange controls, to protect its reserves.

ARGENTINA: President Peron has publicly declared war on terrorist groups in Argentina following yesterday's massive guerrilla attack on an army garrison some 300 miles south of the capital.

Peron appealed to the nation to help him end violence in a television address after he met in emergency session with his top advisers. The meeting came after a seven-hour gunbattle between approximately 70 members of the Trotskyite Peoples Revolutionary Army (ERP) and an armored regiment located in the town of Azul. The ERP, which is the best organized Argentine extremist group, killed at least five people, including the regiment's commander, and briefly held the garrison in what observers described as the biggest guerrilla operation thus far.

While recent government efforts to stem mounting terrorism have not been successful, Peron can be expected to take stronger measures. He will undoubtedly press for quick passage of an antiterrorist bill now before Congress, and may push for more active military participation in countersubversion.

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ARAB FINANCIAL ACTIVITIES: The Arab Planning Institute and the Kuwait Economic Society will sponsor a seminar in Kuwait next month on investment of Arab surplus funds. The first totally Arab-run investment seminar, it represents another attempt by the Arab oil-producing countries to utilize their growing financial resources.

Attention at the seminar will focus on government policy. Participants will include leading Arab economic officials and academicians. Other representatives from Arab governments and world financial institutions are expected to attend.

Since November the Arabs have established a fund for domestic development and, in a joint venture with a British bank, formed an advisory group for channeling surplus reserves to local investment projects. By the end of this year, the current account surpluses of Arab oil producers will exceed \$30 billion.

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JAPAN-IRAQ: Tokyo will provide Iraq with \$1 billion in credits for oil and industrial projects in return for Iraqi shipments of crude oil, petroleum products, liquefied gas, and other commodities, Radio Baghdad reports.

According to the terms of a preliminary agreement, Japan will provide both official and private aid for construction of an oil refinery, a liquefied gas plant, a petrochemical complex, and fertilizer, cement, and aluminum plants. Private financing for some of these projects had been arranged before the Arab-Israeli war. Japan also will supply raw materials for many of the new industrial facilities and possibly oil tankers to carry Iraq's expanding oil exports. Tokyo has also offered to provide technical assistance and training to Iraqi nationals.

Until now, Arab oil-producing countries have received only an insignificant share of private and official Japanese aid commitments. The Arab-Israeli war and the Arabs' use of the oil weapon, however, underscored Japan's vulnerability in relying on Middle East oil, which provides three fourths of its supplies. Tokyo, therefore, apparently has decided that a major shift in aid policy toward the oil-producing states is necessary to ensure long-term deliveries from this area.

In addition to the reported commitment to Iraq, Tokyo is studying requests for aid from Egypt, Syria, and Iran. Kuwait and Saudi Arabia also are interested in technical cooperation and commercial arrangements with Japan. [REDACTED]

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AUSTRALIA: Canberra is again under pressure to cut the tie between the Australian and the US dollars. The opposition Liberal Country Party, backed by powerful agricultural interests, has for several months advocated a downward adjustment of the Australian currency, which has appreciated sharply along with the US dollar. Some major business groups recently have recommended floating the Australian dollar because of concern over the worsening outlook for sales to Japan.

Although Canberra may be willing to break its tie to the US dollar, it is unlikely that the government will permit the currency to be devalued significantly. A substantial depreciation would have an inflationary impact on the economy at a time when prices are rising at an annual rate of about 13 percent.

GRENADA: An even larger demonstration than last week's unprecedented march took place this weekend, as crowds estimated at 15,000 to 20,000 surged through the streets of the capital city of St. Georges demanding the resignation of Premier Eric Gairy. The protest gained momentum late Sunday when the telephone and electricity workers' union called its members out on strike.

The demonstrators this weekend were made up of both moderate and radical elements, whose short-range goals of forcing the disbanding of Gairy's secret police happen to coincide. Gairy's refusal to comply with this demand has resulted in middle-road opposition groups remaining allied with the radical New Jewel Movement, despite the divergence of their long-term aims.

Neither the government nor its opponents have shown any willingness to compromise, and a serious clash--probably before independence on February 7--is almost inevitable. Premier Gairy may resort to busing demonstrators in from the rural areas, where his support is greatest; the resulting confrontation could give him an excuse for mass arrests of opposition leaders. If the diverse anti-Gairy forces should succeed in bringing down the government, they would be unprepared to form an administration with any cohesion or positive course of action.

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FOR THE RECORD*

USSR-Cuba: After several postponements over the past month, General Secretary Brezhnev is scheduled to arrive in Cuba on January 28 for a one-week visit. En route the Soviet party chief will make a short stopover in Newfoundland, where he will be met by Canadian officials. A Soviet Foreign Ministry official told the US chargé in Moscow on January 18 that Soviet-Cuban economic ties will "undoubtedly" be on the agenda. [REDACTED]

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