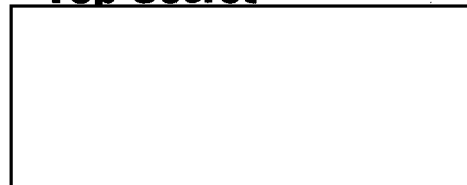


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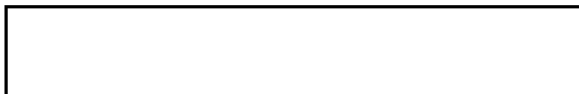
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IRAN: According to Finance Minister Amouzegar, Tehran will soon adopt measures to recycle Iran's surplus oil revenues back to the oil-importing countries. This is the first indication that oil producers will actively seek to alleviate these countries' balance-of-payments difficulties. The Shah no doubt hopes to quiet criticism of the sharp price increases for oil, and to show that Iran will use its surplus funds productively.

According to Minister Amouzegar, Iran is prepared to:

--lend a sizable portion of its 1974 foreign exchange surplus to the International Monetary Fund (IMF);

--allocate funds to developing countries through the World Bank to enable them to purchase additional industrial products;

--purchase bonds issued by the World Bank and other international institutions;

--increase foreign aid and invest in the development of natural resources in both industrialized and developing countries.

The Shah will present these proposals to IMF Managing Director Witteveen and World Bank President McNamara on February 20 and 21 respectively. If agreement is reached, Tehran will have relatively secure and profitable outlets for much of this year's projected \$13 billion foreign exchange surplus. These new commitments presumably will not interfere with Tehran's obligation to contribute to a proposed OPEC bank.

Other direct aid that Tehran has promised to developing countries is not likely to be large. Rather, Iran will probably continue to lend funds at favorable rates to countries in which it seeks greater influence.

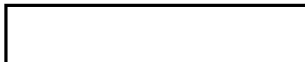
ISRAEL: Tel Aviv is not considering heavy retaliation for recently increased Syrian shelling of Israeli positions in the Golan Heights.



Eban indicated that there was no discussion at a cabinet meeting on February 11 of altering Israel's restrained position. The Knesset, however, has discussed the apparently deliberate Syrian bombardment of Israeli civilian settlements.



The Israelis are almost certainly also restrained by the concern that a retaliatory strike at Syria would upset attempts to begin disengagement talks between Israel and Syria. Eban indicated that Israeli officials remain hopeful that these efforts will succeed, and he expressed cautious optimism about the outcome of Soviet and French initiatives to prompt movement on the issue of Israeli POWs held by Syria.



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EGYPT-USSR: Soviet pressure may have played a part in President Sadat's recent decision to postpone planned cabinet changes. [redacted]

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[redacted] Moscow objected to the appointment of Economy Minister Hijazi, a leading proponent of economic liberalization, as prime minister.

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Foreign Minister Gromyko reportedly used the occasion of Foreign Minister Fahmi's visit to Moscow last month to criticize Egypt's "turn toward the right" and to indicate that Hijazi's appointment would unnecessarily complicate Soviet assistance to Egypt. [redacted] Soviet officials asked how they could be expected to continue to underwrite assistance to a country whose views increasingly diverge from the USSR's, and strongly suggested that Hijazi's appointment be postponed.

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This Soviet pressure, in itself, probably would not have been sufficient to deter Sadat. He almost certainly was influenced also by the need to avoid providing the other Arabs with any evidence that Egypt was emphasizing domestic concerns to the neglect of wider Arab interests. [redacted]

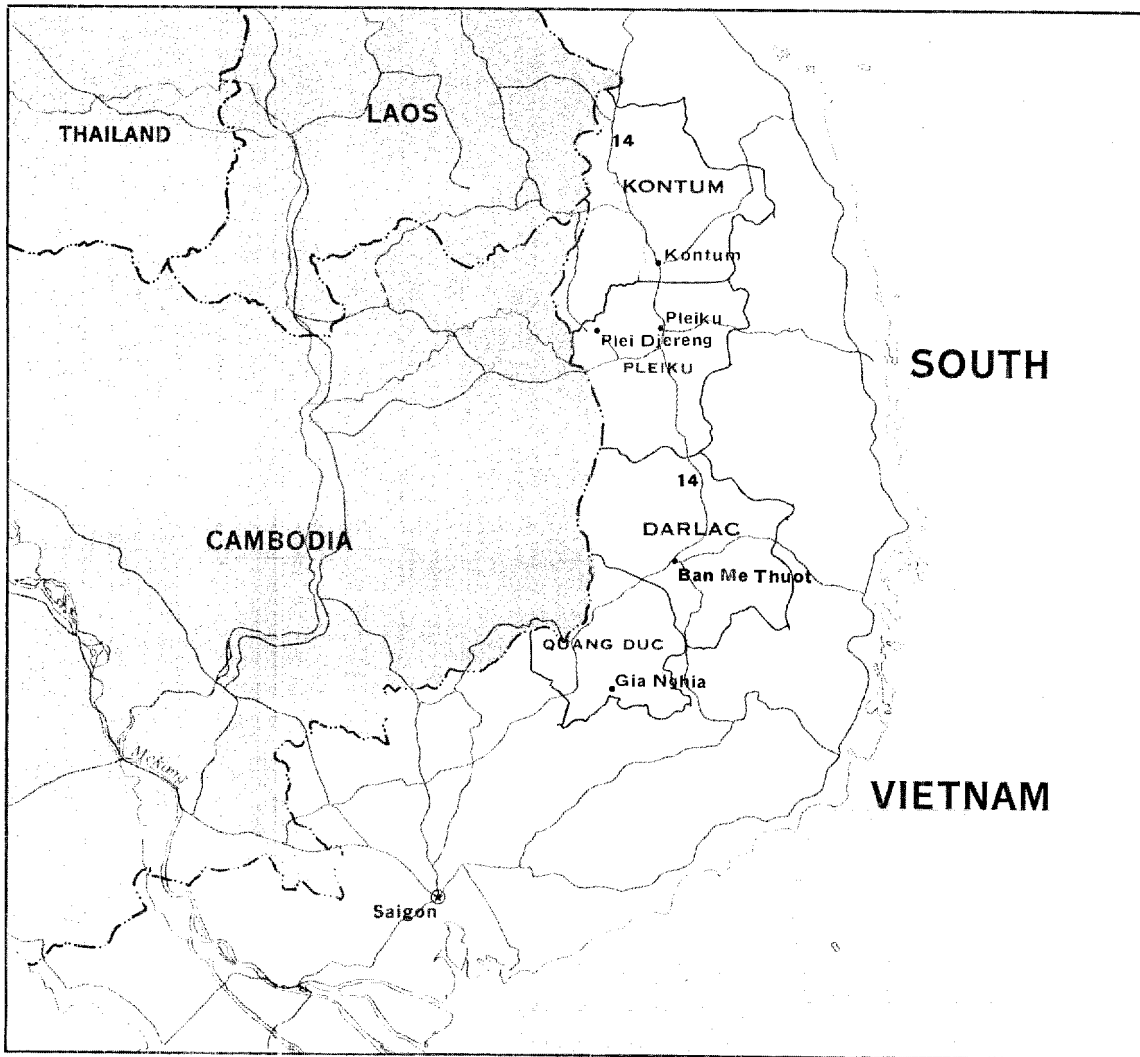
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SOUTH VIETNAM: The Communists may be increasing their military activity in the central highlands, where South Vietnamese forces are stretched thin.

A government outpost north of Kontum city was attacked on February 13, and 200 reinforcements reportedly are being sent to the area. West of Pleiku city, the South Vietnamese operation to retake a border outpost lost last fall has met stiff resistance during the past week. As a result, the military region's only reserve regiment--a poorly disciplined outfit recently rated unfit for combat--has been sent to reinforce the operation. In Darlac Province, to the south, a government effort aimed at harassing the Communist border supply route has stalled in the face of North Vietnamese shellings.



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The government's commander in the central region, General Toan, apparently would like to concentrate his forces almost entirely on disrupting the Communist supply corridor that parallels the Cambodian border in the highlands. Attempts during the fall to interdict this corridor were unsuccessful. With their current limited drives apparently stalled, government forces may run into serious trouble if they try to push even farther west. Moreover, recent air operations against the corridor have been hampered by increased Communist anti-aircraft fire.



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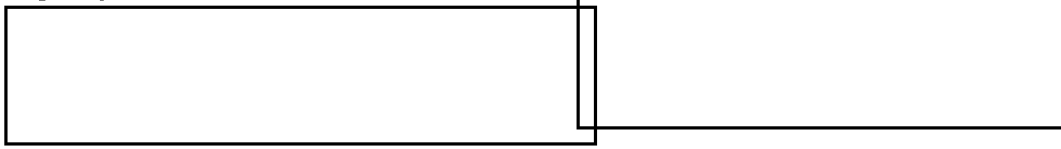
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KOREAS: North Korean naval ships from the squadron based at Cho-do fired on South Korean fishing vessels yesterday in international waters in the Yellow Sea northwest of the Northern Limit Line. Apparently at least one South Korean boat was sunk, and another was reported lying dead in the water. Other South Korean fishing craft in the same general area may have been taken under tow by the North Koreans.

Pyongyang's action is most probably not a deliberate attempt to provoke Seoul but rather an effort to inhibit fishing vessels from operating in or near the contested coastal waters in the vicinity of the Northern Limit Line.

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The ROK vessels were probably the initial group of fishing craft which traditionally move into these waters at this time of year following schools of fish northward. Pyongyang has seized a number of ROK and Japanese fishing craft off both coasts over the years but has generally released both ships and crew later.

The South Korean Defense Ministry in reporting the incident indicated that naval ships were en route to search for survivors. Two ROK ships, including one destroyer, have moved to the area, but they have instructions to take no hostile action unless fired upon, and not to interfere if North Korean vessels have fishing boats under tow.

Although the situation is not likely to escalate, the incident will heighten the tense atmosphere that has existed in these coastal waters for the past several months. It also is certain to intensify the ongoing propaganda exchanges between the two Koreas and fuel Seoul's current anti-Communist campaign.

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NATO: Paris appears ready to drop its opposition to a US proposal designed to improve NATO political consultations.

At an informal meeting of the North Atlantic Council's permanent representatives earlier this week, the French representative said that Paris might be induced to agree to "occasional" NAC meetings attended by the political directors of the members' foreign ministries, provided:

- no institutionalization of the procedures resulted from the proposed meeting on February 28 and any subsequent ones;
- the political directors did not meet alone-- Paris wants the permanent NAC representatives in attendance;
- each member was free to determine whom it would designate as its political director.

This French statement appears to be a retreat from Paris' previously expressed attitude toward the US proposal. At the NAC meeting on January 22, the French representative stated that Paris was opposed to the plan and would not allow either its Foreign Office political director or its permanent NAC representative to attend the meeting on February 28.

The French had indicated that they opposed NAC meetings "reinforced" by the presence of the political directors because they would duplicate and depreciate the work of the NATO permanent representatives. An even more basic French concern is that such meetings might detract from the regular meetings of the EC political directors and furnish the US with an indirect voice in EC political discussions.

(continued)

At the NAC meeting this week NATO Secretary General Luns announced that he was now inclined to issue an "open-ended" invitation to a NAC/political directors' meeting on February 28. His announcement followed statements of support by most of the representatives.

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WESTERN EUROPE: The foreign ministers of the seven-nation Western European Union (WEU), at their next meeting, may review prospects for linking some of the activities of WEU and NATO. The other European allies hope to use French interest in the European arms market to edge Paris toward acceptance of such a linkage.

Since the Western powers used WEU in 1954 to pave the way for the admission of West Germany and Italy to NATO, it has served as a forum for the discussion of defense matters, including the enforcement of certain controls on West German arms production and the initiation of a limited number of joint arms programs.

At a recent meeting of the WEU deputy armaments directors in Paris, the participants discussed closer European cooperation in arms development and procurement. The Belgians used the occasion to urge development of a link between WEU, of which France is a member, and the NATO Eurogroup, from which Paris has excluded itself.

The French, who have consistently opposed arrangements that would tie them more closely to the alliance's integrated military command, reacted negatively to the Belgian idea, but did not reject it outright. Paris suggested that some informal mechanism might be designed to channel armaments information from the Eurogroup to WEU.

No firm decision was reached at the meeting, and the subject is now expected to be considered at a forthcoming meeting of WEU permanent representatives in London and possibly by the WEU foreign ministers at their next meeting. The US Embassy in Paris, although anticipating no early French move to associate with the Eurogroup, believes that the French want to hold on to a share of the arms market in Europe and this may eventually pull Paris toward closer association with the Eurogroup.

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INDONESIA: President Suharto has moved in the past month to impose his personal authority over broad areas of national policy and to clamp down on potentially divisive elements. He evidently has concluded that his former style of relaxed leadership encouraged competition among his subordinates and caused a loss of confidence in the government's ability to act decisively.

Suharto has reshuffled military and intelligence personnel ostensibly to increase effectiveness. The net result has been to erode the power base of the armed forces deputy commander in chief, General Sumitro.

Jakarta is rife with rumors that Sumitro and some of his allies may be appointed ambassadors--a favorite device for removing potentially troublesome generals.

[Redacted]

Al- though Suharto's position within the military government has long been widely characterized as primus inter pares, he is now acting more like a man with absolute authority. He has recently created a new political and security stabilization council to "ratify" his decisions, but this council includes only one ex officio representative from the defense establishment. Since taking over in 1966, Suharto has fostered greater centralization of authority in the Jakarta bureaucracies.

[Redacted]

JAPAN: A record \$1.9-billion balance-of-payments deficit was registered last month, as oil price increases helped boost the import bill by 85 percent over a year ago and capital outflows remain high.

Although exports grew by 42 percent in January, imports rose even more rapidly and produced a \$740-million trade deficit. Two key Japanese exports--steel and automobiles--showed big increases in January and, with the exception of oil, the growth rates of many imports are expected to drop in the coming months. Real gross national product will probably grow about 5 percent this year and import volume should increase only slightly over 1973. Import price rises for most goods should also be lower this year.

Long-term capital outflows dropped from \$1.2 billion in December to \$760 million in January. Tokyo is seeking to cut these outflows to about \$400 million a month to ease pressure on foreign exchange reserves. The calm on the Tokyo money market thus far in February hints that capital outflows may decline again this month.

The January balance-of-payments deficit put a strain on Tokyo's foreign exchange holdings. Official reserves dropped by about \$700 million and other assets were reduced by nearly \$1 billion during the month. If Tokyo's efforts to discourage capital outflows and encourage inflows are successful, pressure on foreign exchange reserves is likely to ease in the coming months.

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ARGENTINA-USSR: Buenos Aires signed a \$200-million trade agreement with Moscow Wednesday that may eventually involve the Soviets in Argentine hydroelectric development.

The pact calls for an exchange of Argentine agricultural and manufactured products for unspecified Soviet goods valued at \$100 million and for cooperation in steel production, oil drilling, petrochemicals, transportation, and fishing. The pact also calls for the USSR to extend a credit of \$100 million for the purchase of Soviet heavy equipment. The heavy equipment to be financed by this credit probably includes equipment and materials for the Salto Grande hydroelectric project that Argentina plans to build with Uruguay. The joint Argentine-Uruguayan technical commission, in soliciting bids for the project from a number of sources including two US firms, received a low bid of \$65 million at concessionary credit terms from the Soviets.

Soviet participation in the Salto Grande project may lead to involvement in two other hydroelectric projects planned by Argentina. Western firms will be hard pressed to compete with Moscow if the Soviets offer the same favorable concessionary financing, repayment terms of ten years at about 5-percent interest.

ARGENTINA: Strong opposition from leftists within the labor movement to the wage and price controls accepted by worker and management federations last June threatens to undermine Peron's basic economic policy.

Two influential leftist trade unions have flatly rejected the government's "Social Pact," which established price and wage controls, and are demanding the right to strike for salary increases that could set a dangerous precedent for other unions.

The unions in question are dominated by radical leftists who oppose Peron on other counts as well. For instance, they have denounced a recent law passed by the Peronist-dominated Congress giving the government wide new powers to intervene in regional labor matters. The major union involved is the powerful automotive workers union in Cordoba, where labor tensions have long created intermittent headaches for the central government. The other, in the capital, is a printers federation headed by a radical left-wing Peronist.

If the government uses its powers of intervention against these and other restive labor organizations, it risks a confrontation with leftist-led workers, many of whom are well armed. If, on the other hand, Peron avoids a head-on clash by permitting a major departure from wage controls, business profits will slump to even lower levels and new investment will be deterred.

CHILE: The junta continues to lose ground in its battle against inflation. After a relatively modest rise of 4.7 percent in December, the consumer price index rose some 16.4 percent in January.

The continuing escalation of prices makes government austerity programs a growing source of discontent among people of all classes.

Consumers, already reeling from the over 500 percent increase in the cost of living last year, found that food prices had increased last month by nearly 20 percent despite lower prices for fruits and vegetables. Price increases in February could easily match January's jump because of sharp price increases of petroleum products, electric power, and cigarettes.

Although inflation has added to the burden on Chilean consumers generally, the poorest families were given bonuses on February 1 on a per child basis to counteract the January increases. For example, a family with three children earning about \$100 per month received a bonus of 16.5 percent of its salary. Families earning over \$150 per month received no bonuses.

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GRENADA: The opposition is continuing efforts to unseat Premier Gairy by a general strike, [redacted]

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[redacted]

Communications workers voted Monday to continue their shutdown, and dockworkers show no signs of ending their strike or of withdrawing their request for a boycott of Grenada-bound cargo by neighboring islands. Businessmen feel that Gairy's reprisals will be severe enough to bankrupt them and that they have no choice but to keep their businesses closed. The leaders of the opposition fear that Gairy's inability to end the general strike will cause him to increase his strongarm tactics. [redacted]

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[redacted]

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The opposition realizes that it is not yet prepared for an armed showdown. The leaders, however, believe that Gairy's continuing financial difficulties will soon add significant numbers of unpaid civil servants and school teachers to their ranks. [redacted]

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FOR THE RECORD

Arab Summit - US: Egyptian Foreign Minister Fahmi and Saudi Arabian Minister of State for Foreign Affairs Saqqaf will be in Washington this week-end to discuss the outcome of the two-day Arab summit in Algiers that ended yesterday. The two envoys left Algiers for Paris immediately after the conference to brief the French. [redacted]

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UN: A majority of UN members yesterday endorsed an Algerian proposal for a special session of the General Assembly to debate the problems of raw materials and relations between industrialized and developing states. According to UN rules, the General Assembly should convene within 15 days, but the session might be delayed in order to permit better preparation. [redacted]

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USSR-Guinea: The USSR has agreed to install three petroleum storage tanks at a small Guinean naval base to be constructed on Tamara Island off Conakry, according to reports reaching the US Embassy in Guinea. The Soviets will pay all costs and supervise the building of the tanks in return for access rights for their naval vessels. Clearing work on the Guinean base has already begun, but construction of the petroleum facilities probably will not begin before the end of the year. [redacted]

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Bolivia: President Banzer has carried out a cabinet reorganization intended to bolster his political position. The most important change is the creation of the post of minister coordinator of the presidency--in effect a prime minister who can handle administrative affairs and also absorb some of the heavy criticism currently directed at Banzer. [redacted]

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