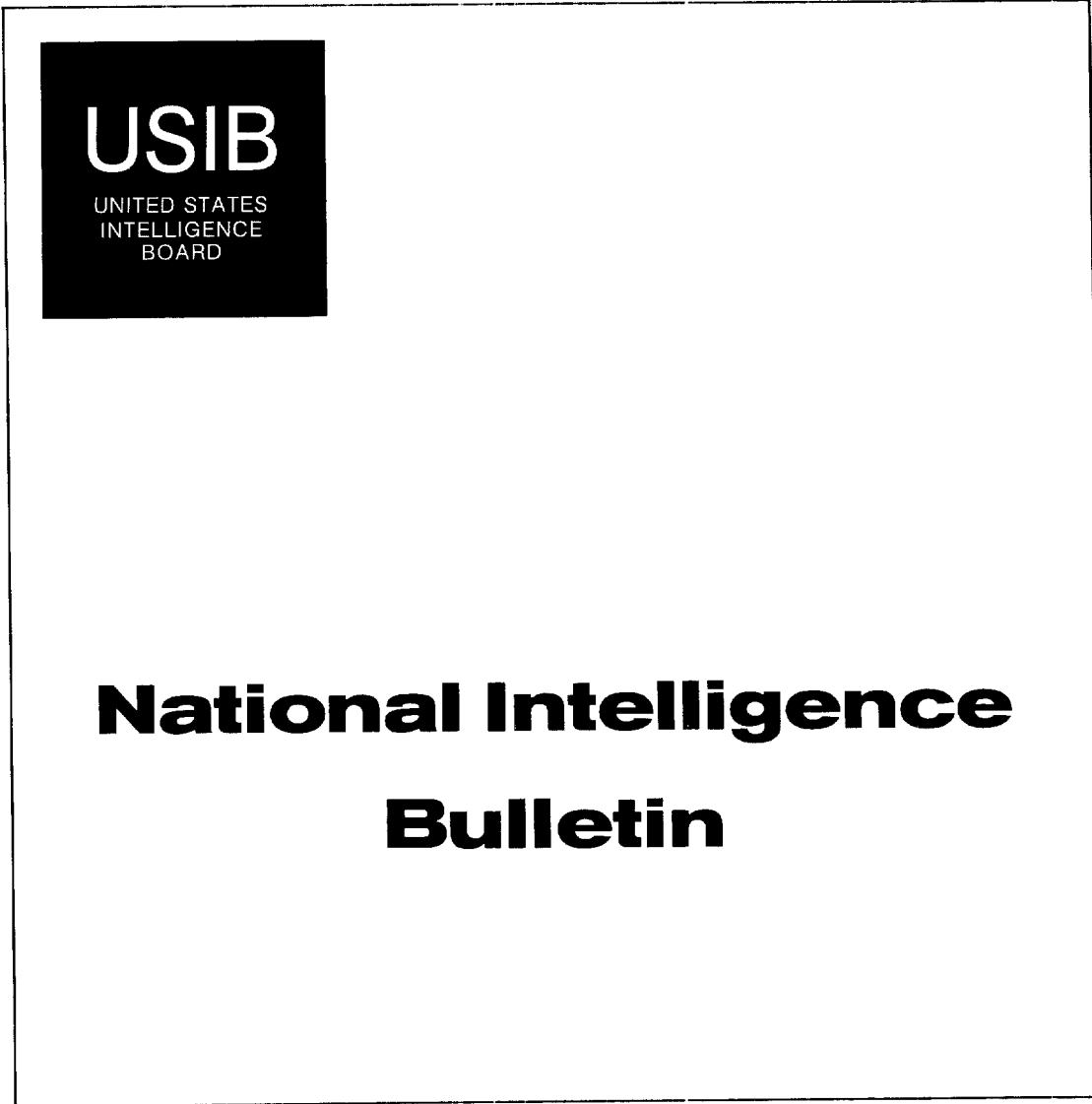


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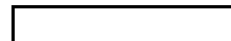
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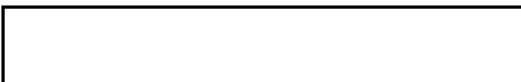
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THAILAND

The unexpected return of former prime minister Thanom Kittikachorn to Bangkok has presented the caretaker government of Sanya Thammasak with a potentially explosive political problem only a month before it is scheduled to step down following general elections.

To many Thai, particularly students, Thanom is a symbol of corrupt military rule. The government, in an attempt to head off expected public outbursts against Thanom's return, has placed the former prime minister under house arrest pending an investigation of his role in the events leading to the riots that toppled his regime in October 1973. Law students reportedly have already filed a complaint with police charging Thanom with murder and misuse of public funds.

Thanom has returned apparently to visit his dying father. He had requested permission last month to do so, but despite earlier approval by the King on humanitarian grounds, the cabinet turned down the request in the face of public opposition. It is possible that several of Thanom's closest friends, such as former air force chief Bunchu, may have encouraged Thanom to return anyway, and may have assured him that no serious reprisals would be taken. Thanom reportedly requested that he be allowed to stay in Thailand indefinitely.

It is possible, however, that his arrival was deliberately timed to coincide with army commander Krit Siwara's absence from the country. Krit would clearly see Thanom's presence as a potential threat to his influence over the military, from which he has been attempting to purge Thanom's proteges over the past year. Krit, on a five-nation swing through the region, has been asked by the cabinet to cut his trip short and return to Bangkok.

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Regardless of how firmly the government handles the situation, Thanom's return is sure to breathe new life into the dormant, out-of-favor student movement. Student posters denouncing the visit have already appeared at local universities and on buses. Police do not expect any major protest to materialize for at least another 24 hours, and the announcement of Thanom's house arrest may buy time for the government to gauge public opinion before deciding what steps to take next.

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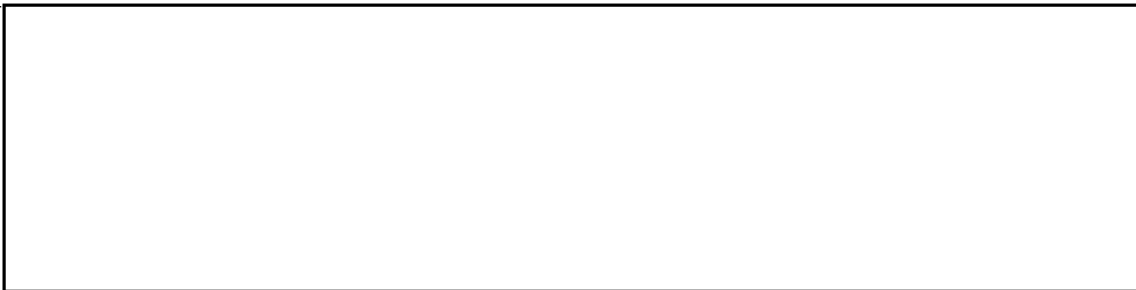
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PHILIPPINES

President Marcos apparently is moving to open talks with a few selected Muslim insurgent leaders. The groundwork has been laid for a meeting in Jidda in January between a high-level Philippine government delegation and leaders of the Moro National Liberation Front, the most widely known insurgent group.

Marcos has been under pressure for some time from the Islamic world to negotiate with the Muslims and to prove that he sincerely desires a peaceful solution to the revolt. At a meeting in Kuala Lumpur last June, the Conference of Islamic Nations publicly called on Marcos to negotiate with Muslim leaders, specifically including the Moro National Liberation Front, but the President initially balked at negotiating with the Front because he does not want it regarded as the principal Muslim spokesman. The secretary general of the Islamic Conference has visited Manila several times in the past few months to press for a meeting with Front leaders.

Marcos' agreement to a meeting in Jidda was probably influenced by the visit to Manila this month of Saudi Arabian Deputy Foreign Secretary Ibrahim al-Sultan. Marcos believes he has established rapport with the Saudis and can count on them to exert a restraining influence on radical Islamic states, particularly Libya.



A major problem in any negotiations with the rebels will be to work out some arrangement which satisfies the Muslims' desire to control their local affairs. Most Muslim leaders, whether young radicals or old-line

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politicians, are demanding some form of autonomy. [redacted]

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Marcos probably hopes that if he can persuade even a few prominent rebel leaders to lay down their arms and join the government, this will have a favorable psychological effect on many others. In any event, he probably calculates that by dealing with the rebel groups separately, he can keep them divided and mutually suspicious.

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ETHIOPIA

The Ethiopian army is facing an increasingly serious security situation in the Asmara area, where the separatist Eritrean Liberation Front already controls much of the countryside.

On December 26, guerrillas reportedly attacked an army unit camped six miles west of Asmara; heavy casualties were inflicted on the unit, which had only recently been sent to Eritrea as a reinforcement. Five soldiers were reportedly killed in downtown Asmara on the same evening.

These incidents, which came only a few days after two grenade attacks on army-frequented cafes in Asmara, lend credence to an Eritrean exile's claim that the Front has the arms and the ability to take on the Ethiopian army in open war. It is more likely, however, that guerrilla forces simply have found more favorable opportunities to strike at the army and that they will continue to rely on their successful hit-and-run tactics. The policies of the faction-ridden Front are determined primarily by leaders in Eritrea, not by exiles.

The ruling military council in Addis Ababa appears to be having second thoughts about its decision to take a tough line on Eritrea--a decision which contributed to its differences with the late General Aman and may have sparked the intensification of violence around Asmara. Council leaders, apparently recognizing the high vulnerability and limited capability of the army in the province, claim they still hope to settle the Eritrean question peacefully.

Spokesmen are now playing down reports of violence and stressing the regime's efforts to end the conflict through talks. Late last month, in fact, a high-level Ethiopian delegation visited Sudan and, despite denials, probably met with Front emissaries.

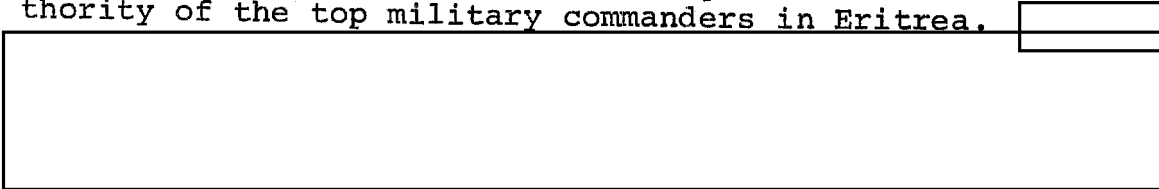
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Even the top military authorities in Asmara appear to be trying to exercise restraint, following the army's violent overreaction to the cafe bombings on Sunday and its stern warning to the public that its patience was at an end. Nevertheless, chances of successful negotiations between the military government and the Front are dim, because most of the leaders of the Front are insisting on full independence.

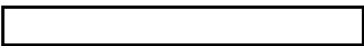
Prospects for compromise are also endangered by the bitter nature of the evolving conflict in Eritrea. The civilian population, whose support for the Front has recently grown, is said to blame the army for the deaths of a large number of civilians found strangled on Asmara streets several mornings this week. Some of the dead were students and known supporters of the Front.

Responsibility for the deaths is still not clear. The Front itself cannot be ruled out, but it seems more likely that they are the work of army personnel trained in counterinsurgency--perhaps acting without the authority of the top military commanders in Eritrea.



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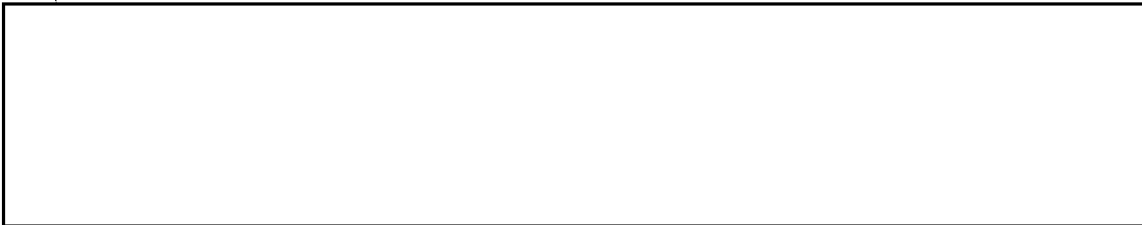


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JAPAN



Japan's industrial production fell sharply in November--down 3 percent from the previous month and 13 percent from the previous year, the steepest decline of any industrial country. Unemployment rose in November, and the number of bankruptcies reached a new record.

Most other economic indicators point to further production cuts in the months ahead:

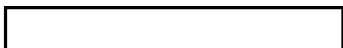
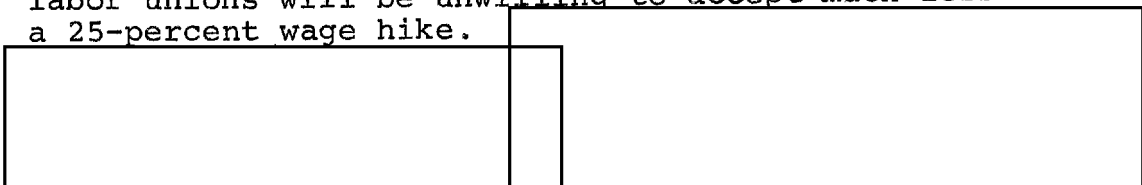
--Inventories of finished goods continued to rise, increasing nearly 2 percent last month.

--Personal consumption remains weak; department store sales in November were lower than a year earlier in real terms.

--Investment, after recovering somewhat during the summer, declined noticeably in October and November.

Despite pressure for a policy change, Deputy Prime Minister Fukuda evidently still sees inflation as a more serious problem than recession. Consumer prices in recent months have been increasing at an annual rate of about 25 percent.

Fukuda wants to slow the pace to 15 percent before wage negotiations begin next spring. Even if tight monetary policies are maintained, however, Japanese labor unions will be unwilling to accept much less than a 25-percent wage hike.



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ARGENTINA

The armed forces are leaning toward a more active role as a power broker in Argentine politics. Increasing political activity by some military leaders and the continuing success of the army-supported counterterrorist campaign are the major factors behind this new trend.

The military is still smarting from the unpopularity that led the Lanusse regime to return the government to civilians in 1973. While a military coup is unlikely, the army reportedly is re-evaluating its role in the government.

President Peron has gradually won the endorsement of some military leaders, but they are growing increasingly critical of the role of Lopez Rega, minister of social welfare, who is also Mrs. Peron's private secretary and mentor. Recent actions of Lopez Rega have convinced some officers that he has lost his sanity. The military now believes that Mrs. Peron can survive without him, provided she has the active support of the military and labor.



The terrorists, meanwhile, are clearly on the defensive. In general, the insurgents realize that their campaign--particularly the assassination of ten army officers--has significantly reduced their popular support while encouraging maximum efforts by security forces.

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The terrorists reportedly believe that over the next few months, major activity will have little chance of success, and thus they will concentrate on revitalizing their organization and infiltrating the labor movement. Nevertheless, isolated acts, such as the attempted assassination on December 23 of the federal police chief, are expected to continue.

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CANADA

Ottawa has objected strongly to a US firm's decision to cancel a contract between its Canadian subsidiary and Havana because of US regulations prohibiting trade with Cuba.

Canada apparently sees the cancellation of a \$500,000 sale of office equipment as yet another example of foreign interference in domestic policy. The cancellation will provide impetus to proposed legislation that would give Ottawa greater control over multinational corporations operating in Canada.

Since Washington authorized large sales to Cuba by US auto subsidiaries in Argentina, several governments have been exerting pressure on US-owned companies to do business with Havana. Mexico is presently urging US firms to participate in its growing trade with Cuba. Colombia has recently joined the list of OAS members doing business with Havana and is encouraging subsidiaries of multinational corporations to participate in this trade.

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FOR THE RECORD

Laos: There has been no significant change in the situation at Ban Houei Sai, in remote northwestern Laos. Dissident forces--a combination of Royal Lao Army and Pathet Lao troops--remain in control of the provincial capital as well as most of the Lao bank of the Mekong River north and south of the town. Some minor looting and property damage reportedly have occurred in Ban Houei Sai, but the small number of Americans and other foreign personnel in the town are safe. Discussions were held in Ban Houei Sai yesterday between rebel forces and a low-level Pathet Lao - non-communist negotiating team dispatched by the coalition government. A cabinet-level delegation reportedly has left from Luang Prabang to continue the negotiations.

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Australia: Defense Minister Barnard has announced that the government has decided to purchase Leopard medium tanks from West Germany. The Leopard was selected over the US M-60 medium tank "on the basis of technical performance, project investment, and operating and maintenance costs," according to Barnard. Although contract terms are not yet final, Australia plans to purchase 53 Leopards as initial replacements for the 133 Centurions held by the army. The decision to buy West German armor marks a break in Australia's long-standing reliance on the UK as the primary source of such equipment.

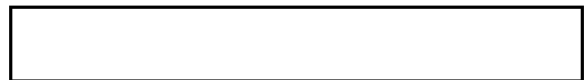
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Peru: The Peruvians have proposed that preliminary discussions on the limitation of South American military expenditures begin next month in Lima. All Andean Pact countries (Venezuela, Colombia, Peru, Ecuador, Chile, and Bolivia) have been invited to attend. Peru will call for a moratorium on purchases of offensive weapons. Chile has agreed to attend, but is seeking to include Brazil in the talks. Brazil's omission from the meeting and Peru's hardware superiority over Chile make it unlikely that much will result from the meeting.

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