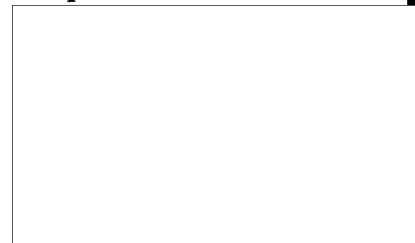




**Director of
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National Intelligence Daily

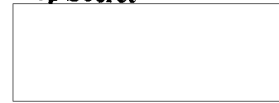
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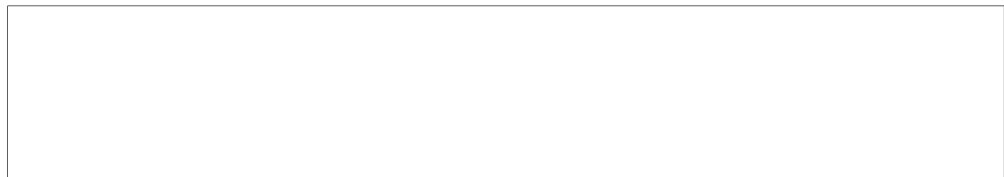
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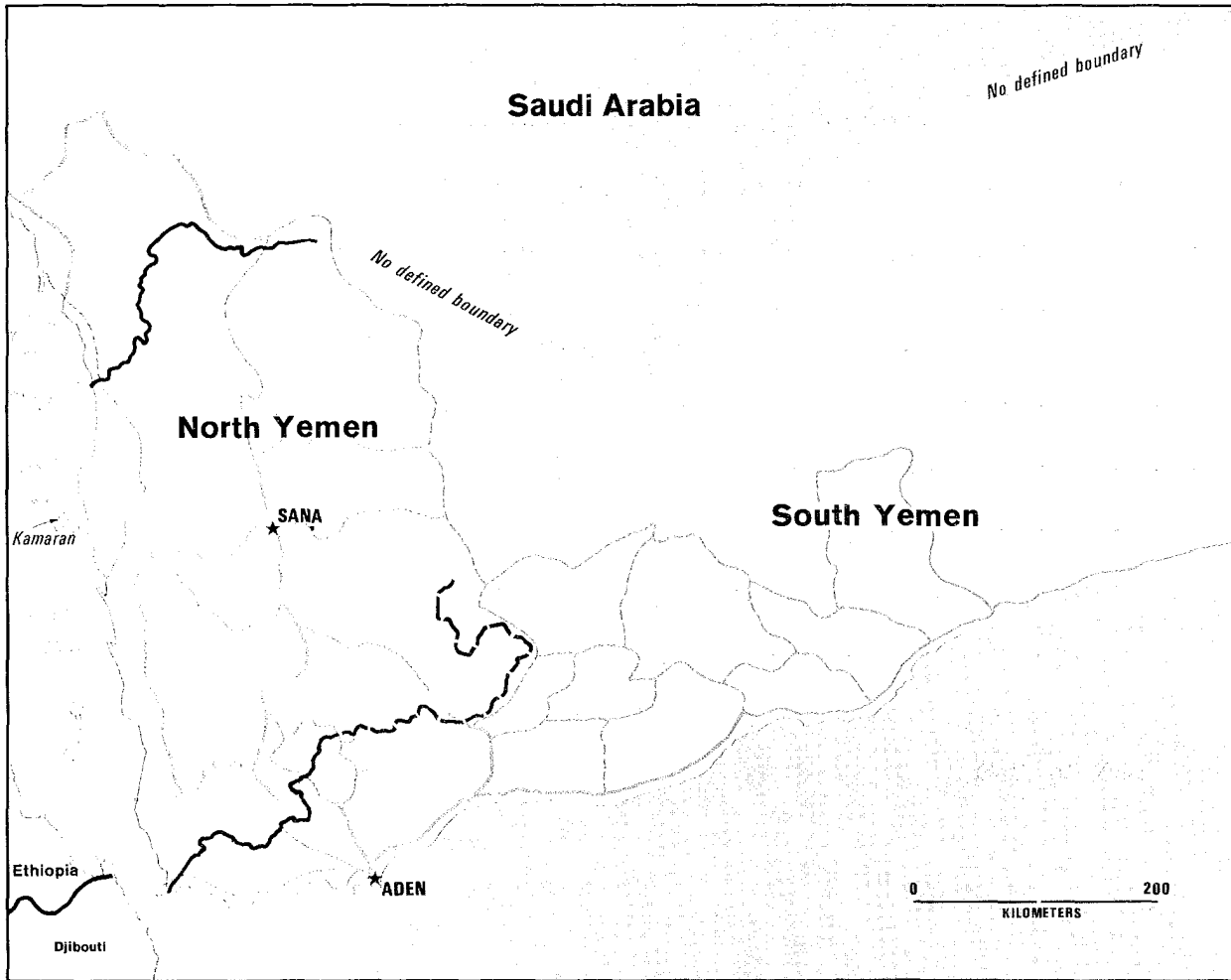
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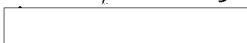
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SITUATION REPORT


NORTH YEMEN - SOUTH YEMEN

No new developments in the conflict between North and South Yemen have been reported, and attempts to mediate the dispute continue. 


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No further fighting was reported along the border between North and South Yemen yesterday following the announcement of Aden's agreement to the cease-fire and troop withdrawal. We have no evidence, however, that South Yemen has begun to pull back its forces from North Yemen. 

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Arab League representatives are continuing mediation efforts, and Baghdad radio reports that the chiefs of staff of the two countries will meet in Sana tomorrow. Some normalization measures, such as reopening telephone contact between the two countries, already have been implemented. 

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The Yemeni summit meeting set for Kuwait on 28 March, however, will have to grapple with more difficult issues. The Kuwaiti Ambassador in Sana has informed the US Embassy there that South Yemen is insisting that as part of the overall cease-fire agreement, Kamaran Island, which was occupied by North Yemen in 1972, be returned to southern control. 

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[Redacted]

BRIEFS AND COMMENTS

LEBANON: More Threats to the Cease-Fire

Saudi Arabia apparently intends to begin withdrawing from the Arab Deterrent Force in Beirut starting today. Christian militia leaders reportedly plan to attack Syrian troops in northern Lebanon soon, and the security situation in southern Lebanon has deteriorated recently.

[Redacted]

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Lebanese Foreign Minister Butrus on Monday told Ambassador Dean that the Saudi contingent had received orders to begin withdrawing. The Saudis last week had seemed responsive to Lebanese and US requests to delay their departure but, concerned over the Yemeni situation, apparently decided to proceed immediately.

[Redacted]

There are no indications that Lebanon has made progress in getting Syria to allow the Lebanese Army to replace the Saudis at key flashpoints between Syrian troops and Christian militia units. An attempt by either the Syrians or the militias to occupy the positions could cause major fighting,

[Redacted]

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[Redacted]

[Redacted]

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Militia leader Major Haddad has fired on Palestinian-held villages daily for over a week, and last Thursday he closed to UN peacekeeping forces all but one road in the Christian-controlled enclaves. Haddad is likely to continue his harassment now that Lebanon has shown its determination to stick to its decision to stop paying the former regular army troops under his command.

[Redacted]

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EUROPEAN COMMUNITY: Summit Concluded

The EC summit concluded yesterday in Paris, but information on the discussions is still sketchy. The new European Monetary System, agriculture, energy, the future of Euratom, and employment policies all received high-level attention during the past week. [redacted] 25X1

On Monday, the heads of government confirmed that the EMS would begin yesterday. This had been made possible by France's earlier removal of its reservation and the informal agreement among all EC members except the UK on some agricultural issues. In Paris, the UK again called for a freeze in farm prices, evoking no agreement. There may have been some agreement in principle on the problem of agricultural surpluses. [redacted] 25X1

EC leaders decided in principle to hold EC oil consumption this year to 500 million tons, about 5 percent less than projected, matching the previously announced target by the International Energy Agency. They also called on the US and Japan to reduce oil use. EC officials reportedly linked survival of the EMS to US energy conservation, which they argued was necessary to preserve the value of the dollar against the German mark, the strongest EMS currency. EC energy commissioner Brunner will meet Energy Secretary Schlesinger and other US officials in Washington on Monday, prior to an EC Council of energy ministers on 27 March. [redacted] 25X1

French President Giscard proposed modification of Euratom's authority over uranium supplies but failed to gain initial support. A French proposal for a possible common policy on nonproliferation will be discussed later by EC Foreign Ministers. [redacted] 25X1

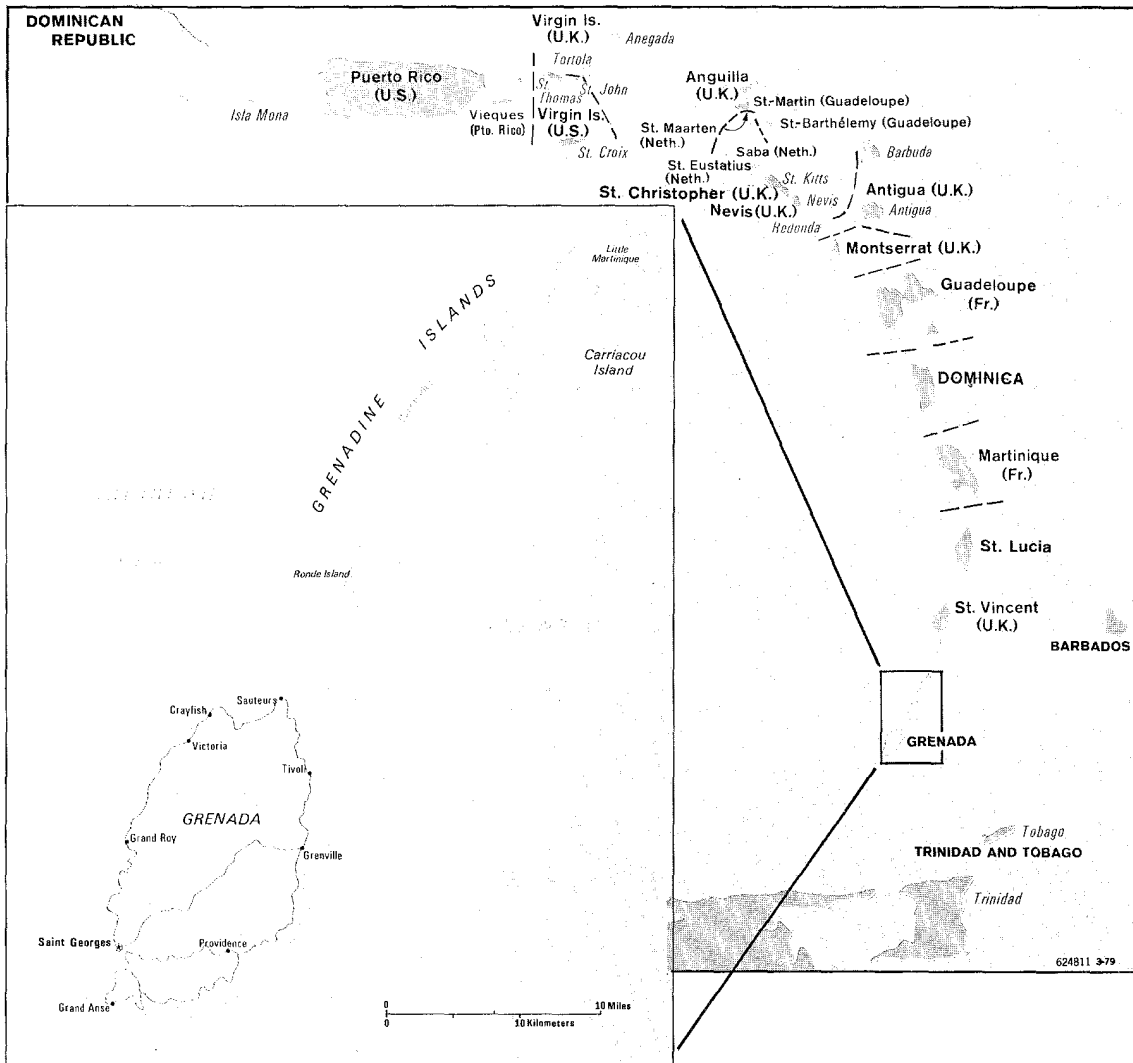
The heads of government for the first time addressed the concept of "work sharing," reducing working hours to increase the number of persons employed. [redacted]

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GRENADA: Marxist Coup

The leaders of the Marxist-oriented New Jewel Movement who seized power in Grenada yesterday are still attempting to consolidate their control. Although much of the 600-man defense force apparently surrendered, there may be holdouts among the police and possibly in the countryside, where deposed Prime Minister Gairy--currently visiting New York--had his strongest support. The NJM probably will adopt a nonaligned policy in its relations with neighboring Caribbean countries and the US.

[Redacted]

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Self-proclaimed Prime Minister Maurice Bishop, a 34-year-old London-educated lawyer, heads the NJM, which grew from a fringe group in the early 1970s into the leading opposition in the 1976 elections that Gairy only narrowly won. NJM appeal was heightened by Gairy's often arbitrary and sometimes brutal rule since 1967. The NJM's early stress on radicalism and underground activity gave way, perhaps with Cuban encouragement, to more conventional political action by 1974. We have only a fragmentary outline, however, of the recent NJM relationship with Cuba.

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[Redacted]

With the exception of Jamaica and Guyana, most Caribbean governments will react very cautiously to developments in Grenada. Although there are no other Marxist parties in the Eastern Caribbean with as much appeal as the NJM, recently independent Dominica faces a growing pro-Cuban group, and leaders of each of the smaller islands are uncomfortably aware of how their small defense forces might easily be overwhelmed.

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SOUTHERN AFRICA: Drought Damage

Drought damage to southern Africa's crops and grazing lands has boosted import needs and raised fears of serious food shortages. Beginning this summer, regional requirements for foodgrain imports could rise by 600,000 tons. South Africa--traditionally the region's largest supplier--will probably increase its grain sales to the nearby countries even though its own crop shortfall will restrict its exports to other regions.

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Rains brought some relief in late January, but the area planted to corn and other crops in the food deficit nations of the region has been reduced by about 20 percent. South Africa's corn production this spring is expected to fall 25 percent below last year's level. South Africa, however, is building up stocks, and beginning this summer South African exports to the deficit nations will most likely increase by about 500,000 tons. To do this, South Africa will have to cut shipments to Taiwan and Japan.

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Grain and food prices throughout the region undoubtedly will increase, leading to higher inflation and intensifying balance-of-payments problems. Although most regional grain import needs will be covered by South Africa, aid requests to Western nations are increasing. The possibility of severe food shortages will promote intra-area trade and possibly greater official recognition of this trade. Rhodesia, with political motives in mind, has offered surplus wheat and corn to Zambia. Although existing border and transit restrictions may be eased, transportation and distribution in the area will remain a problem, especially for Zambia--where grain imports could exceed 450,000 tons.

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MOROCCO - WESTERN SAHARA: Military Developments

King Hassan replaced the commander of Moroccan forces in Western Sahara on Monday, according to press reports from Rabat. In making the announcement, Hassan hinted at a more aggressive policy toward the Polisario guerrillas, which could mean he is giving greater consideration to strikes against Polisario camps in Algeria. On the other hand, the change of field commanders and a royal message to Parliament last week reiterating Morocco's right of hot pursuit may be designed to mollify domestic critics.

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It is unlikely that the new commander, Colonel Abrouk, will have any greater success fighting the insurgents than his predecessor, Colonel Bennani. The Moroccan forces are in a worse military position now than when Bennani assumed command. They are relying on static defense of fixed positions and have virtually conceded the countryside to the insurgents. As a result, the option of a strike at Polisario camps in Algeria, destroying the source of the problem rather than dealing with the symptoms, may become attractive.

Hassan, however, needs a political settlement. The war is contributing to the general domestic malaise, and he is unlikely to close the door to negotiations. He presumably realizes that cross-border retaliation would sour already uncertain prospects for negotiations on a political settlement with Algeria and the Polisario Front.

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NAMIBIA: South African Raids Continue

Yesterday, South African forces continued the attacks that since 6 March have struck at least 13 South-West Africa People's Organization camps in Angola and Zambia. South African and Angolan authorities say few guerrillas were killed in the attacks. Action consisted primarily of airstrikes, although some heliborne ground troops and a ground column also participated. The South Africans probably destroyed a number of forward staging bases used for infiltration into Namibia and captured weapons and documents.

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[Redacted]

[Redacted] According to the South African military commander in Namibia, the strikes were primarily intended to prevent SWAPO from stepping up guerrilla infiltration during the initial phase of a truce under UN auspices.

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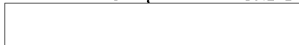
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CHILE-FRANCE: Mirage V Purchases

The Chilean Air Force appears ready to purchase a squadron of French-built Mirage V fighter aircraft rather than add to the US-built F-5s already in its inventory. US restrictions on arms exports to Latin America and a French promise to deliver this year have been key factors in Chilean thinking. Chilean Air Force officers, fearful that papal mediation may not solve Chilean-Argentine problems over the Beagle Channel, have been attracted to the Mirage V's impressive ground-attack capability. The larger Argentine Air Force was augmented by the recent purchase of 24 to 26 Mirage Vs from Israel.



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SPECIAL ANALYSIS

MOROCCO: Hassan's Growing Problems

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Growing domestic and foreign policy problems are undermining King Hassan's authority and encouraging open political opposition. No one issue constitutes a serious challenge, but the convergence of these problems has produced a malaise not seen since the early 1970s. If Hassan does not manage these building pressures more expeditiously and adroitly in the next several months, he could lose control of events and ultimately his throne.

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Political drift has been evident in Morocco for at least six months, with the King and his ministers seemingly unprepared to respond effectively to current problems. There are no easy solutions to Morocco's problems; some are partially dependent on factors beyond the King's control. Nonetheless, criticism of Hassan's stewardship is growing, as is a general perception of royal indecision and passivity.

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The unending conflict over mineral-rich Western Sahara is Hassan's principal preoccupation, a contributory cause of many of his domestic problems, and a growing political liability. Last fall, there were numerous complaints from Moroccan citizens about the costs of the war and from students about the sacrifices involved in holding on to the disputed territory. The King's moderate response to a Polisario guerrilla raid in late January on a southern Moroccan town--albeit in the interest of keeping the door open for negotiations--evoked widespread criticism.

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The war against the Algerian-backed guerrillas is going badly, and Hassan's ability to obtain a political settlement depends on a willingness by all parties to the dispute to make previously unpalatable compromises and a shared perception that a military solution is

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[redacted]

impossible. Algeria and the guerrillas may be less disposed to compromise and more inclined to pursue a military outcome in light of declining Moroccan performance in combat against the Polisario. [redacted]

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The Shah's Presence

The presence of the former Iranian leader in Morocco is highly unpopular and is inviting dangerous comparisons of the two monarchies. The King is surrounded by sycophants, disinclined to take advice, tolerates corruption and glaring social inequities, and this year has devoted an estimated 35 to 40 percent of the state budget to military expenditures. Disaffected students in anti-Shah street demonstrations have called not only for expulsion of the Shah but also for the removal of Hassan. Unlike the Shah, however, Hassan is his country's religious leader, has not pushed rapid modernization, has unquestioned legitimacy as a monarch, and is being challenged by political leftists, not religious conservatives. [redacted]

Economic Problems

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Morocco faces serious economic problems that are likely to persist into the early 1980s. Unemployment is high, wage increases have fallen far behind inflation, and rapid population growth has resulted in a net decline in per capita food production. The stringent austerity program adopted last year to reduce a large commercial trade deficit is producing substantial distortions in the domestic economy and adding to labor unrest. [redacted]

Morocco's financial situation appears increasingly precarious. Morocco's debt service ratio is expected to rise to about 28 percent this year--more than 20 percent generally is considered a high risk by international lenders--and to continue to climb over the next few years. Morocco is also experiencing serious foreign exchange shortages, the loss of budgetary support from Saudi Arabia more than a year ago, and the mounting financial burden of the Sahara conflict. [redacted]

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The government's inability to satisfy popular expectations for improved living standards and a more

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equitable distribution of national wealth has never been more apparent. Labor strikes have been at above normal levels since December. [redacted]

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At least some of the current strikes seem politically motivated to embarrass the government. The Socialist Union of Popular Forces--the only militant political party on the Moroccan scene--working through its newly formed labor affiliate, the Democratic Confederation of Labor, appears to be encouraging some of the strikes to attract wider political support from militants throughout organized labor. The Socialist Union has become increasingly open in pursuing long espoused demands for political and economic reforms. At the close of its party congress in December, the Union boldly called for partial restriction of Hassan's autocratic powers. The government response was to seize the party's newspaper to prevent publication of the declaration, which also characterized the monarchy as feudal. [redacted]

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Outlook

Hassan will continue to rely on the military as his ultimate base of support. If civil disturbances occur, 25X1 the King will not hesitate to use the Army to suppress them. There is no evidence of organized opposition in the military [redacted]

[redacted] Military morale, however, is low because of the guerrilla war in Western Sahara. [redacted]

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Hassan may yet be able to reverse his sagging for- 25X1 tunes by recourse to his consummate skill in manipulating competing political interests and his flair for undertaking dramatic gestures in a new policy direction. Hassan's message last week to a special session of Parliament calling for continued sacrifices and the formation of a national unity council in support of Western Sahara policy is unlikely to divert popular attention from domestic problems. A bold initiative toward a political settlement of the Western Sahara dispute or against economic ills at home, however, would help reverse domestic malaise and Hassan's image of ineffectiveness. [redacted]

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OVERNIGHT REPORTS

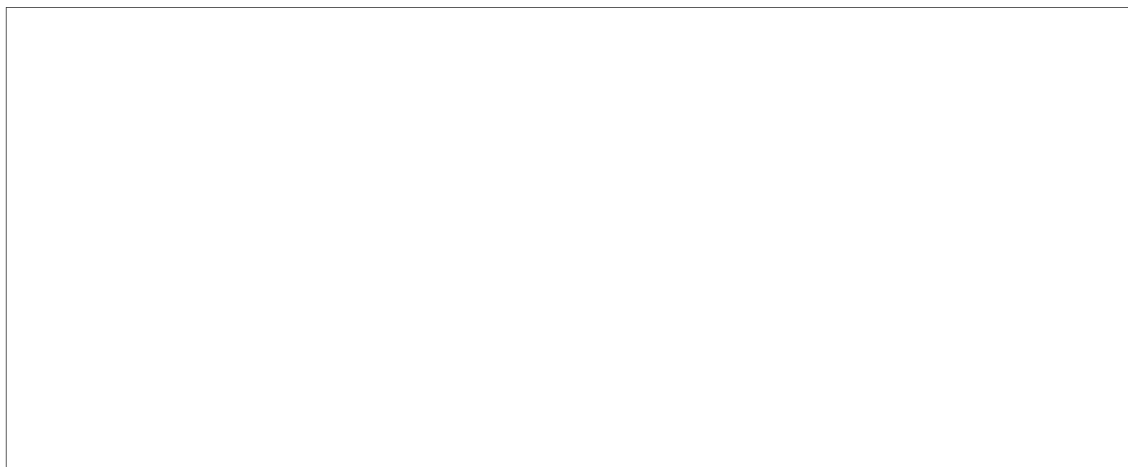
(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

Grenada

Guyana's Prime Minister Burnham told the US Embassy in Georgetown last night that Foreign Ministers of the Caribbean Common Market states will meet today in Bridgetown, Barbados, to discuss the situation on Grenada (see Brief and Comment). Jamaica apparently will attend. Burnham did not appear downcast in asserting that the New Jewel Movement now controls Grenada; he stressed to the Embassy his hope that there be no outside interference on the island pending the review of the situation by the neighboring states.

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Middle East

According to late press reports, Red Cross officials have announced the exchange at Geneva airport today of an Israeli soldier for approximately 80 Palestinians. The exchange is described as the first between Israel and the Palestinians. The Israeli soldier--seized in south Lebanon last April--was flown in from Damascus, and the Palestinians reportedly arrived on an Israeli civil aircraft. [redacted]

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Kampuchea

The US Embassy in Beijing reports that Prince Sihanouk early this month told French Ambassador to China Arnaud that he would not work with a new Pol Pot regime and disagrees with China's view that the Pol Pot forces are essential to a solution of the Kampuchean problem. Sihanouk said he prefers a neutral Kampuchea--one friendly to Beijing while maintaining good relations with Vietnam and the USSR--and no early withdrawal of Vietnamese forces, since that allegedly would lead to a comeback by Pol Pot. The Embassy comments that Sihanouk remains very much his own man; he evidently is searching for a united front strategy that will not give a leading role to Pol Pot's supporters and will not be a Chinese creation. [redacted]

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Thailand-USSR

The US Embassy in Bangkok reported yesterday that a considerable body of influential Thai opinion thinks Prime Minister Kriangsak should postpone his visit to the USSR, which is scheduled to commence a week from today. Several ranking members of the government have told US Ambassador Abramowitz that Thailand will gain nothing from a visit to the state which has underwritten Hanoi's adventurism. The Embassy notes, however, that Kriangsak continues to say, publicly and privately, that he is going; he apparently feels he has committed himself and must go in order to preserve a posture of balance in Thailand's relations with the great powers. [redacted]

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Brazil

On the eve of tomorrow's inauguration of President-elect Figueiredo, striking auto workers have closed down several plants in Sao Paulo, and students in Rio de Janeiro and Sao Paulo are said to be planning protest demonstrations. The workers are demanding pay hikes 34 percent above what the government is willing to grant; the students presumably seek to draw attention to the military's continued political dominance. None of the actual or planned activity has anti-US overtones, and no protests are planned for Brasilia. [redacted]

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COMMENT: *Neither situation is likely to become violent. The government has taken a conciliatory approach to similar strikes in recent months and is likely to do so again. In the case of the students, the regime will probably also take a "hands-off" approach, intervening only in the event of serious disorder.* [redacted]

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France

A special session of Parliament on France's burgeoning unemployment problems opens today. President Giscard formally called the session Monday in response to the requisite number of deputies seeking debate on the government's economic program. According to the US Embassy in Paris, he is playing "hardball" with Gaullist leader Chirac--a likely rival in the presidential election in 1981. In his statement, Giscard claimed that Gaullist leaders had provoked the special session without consulting the party's elected representatives and were being inconsistent with President de Gaulle's action in similar circumstances in 1960. Giscard, the Embassy notes, thus has obliquely accused Chirac of running his party like a dictator and of betraying the Gaullist concept of presidentialism. [redacted]

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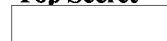
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Saudi Arabia - Turkey

The West German Foreign Office has informed the US Embassy in Bonn that Saudi Arabia intends to provide Turkey with \$250 million in credits to be divided between project assistance and funds for the purchase of spare parts and raw materials. The Embassy was unable to ascertain a further breakdown of these credits or the time frame for disbursement; the assistance is to be provided on a strictly bilateral basis and will not be coordinated with any Western aid initiative under OECD auspices. The West German Embassy in Jidda reports that contrary to press reports in Ankara, the Saudis and Libyans are not contemplating the formation of a joint consortium to aid Turkey. 

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