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13 MAY 1972

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VIETNAM: Communist forces are increasing pressure on government positions in several areas of South Vietnam, with the heaviest action at An Loc. Fresh artillery and ground assaults have been launched against the town, and enemy tanks have breached government defenses in the western and northern sectors. Heavy rains are preventing the full use of aircraft in defense of An Loc, and forecasts suggest that the bad weather will continue for the next day or so. Air resupply drops are reportedly falling wide of their mark, and the heavy Communist antiaircraft fire is keeping helicopter gunships at bay.

In the central highlands, South Vietnamese Rangers continue to hold Ben Het following a Communist tank-supported attack. Ranger forces have cleared much of the area around the camp and have begun establishing outposts around the base on all sides.

In the Mekong Delta, field reports indicate that the Communists have moved an estimated 1,000 troops across the border into Kien Giang Province. These forces may be from the enemy's Phuoc Long Front, which is believed to have at least three infantry regiments in this area.

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Yesterday, the USSR formally protested the damage to two Soviet ships--the Pevek and the Grisha Akopyan--and the injuries to Soviet crewmen resulting from recent US bombing raids. The language of the note, however, was relatively restrained and did not refer to the Soviet crewman who died. The Soviets did indicate that the Grisha Akopyan had been put out of action and reserved the right to demand compensation for that and for the other damage. The note has not yet been publicized.]

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The North Vietnamese claimed on 10 May that they had begun minesweeping operations in Haiphong harbor. In earlier years, they were able to remove mines from inland waterways, but they are believed to have only a marginal capability at best to sweep mines from the more open waters of Haiphong harbor. No Soviet or Chinese Communist minesweepers are in the immediate area, but the Chinese have about ten within one day's sailing time. The Chinese have another 76 minesweepers assigned to the Pacific area.

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President Thieu's bid for emergency decree powers from the National Assembly apparently faces a difficult future. An Quang Buddhist-dominated opposition blocs in both houses of the assembly have publicly denounced the measure, charging that it was a move toward "dictatorship" and that Thieu was trying to equate political opposition with opposition to the nation. The legislators claimed the President already had adequate powers to deal with the current situation, including his recent martial law decree.

The Lower House has scheduled a special session for 14 May to consider the emergency powers bill. Passage is virtually assured, but some deputies are predicting a stormy session because emotions are running high. The measure seems to be in danger in the Senate, however, since there are signs that some independents may join the opposition.

Although Thieu seems likely to get eventual legislative approval for his request, the latest developments represent a serious blow to his effort to create at least the appearance of national unity. A progovernment senator remarked to US Embassy officers that what Thieu really needs now is a gesture of support from the assembly, and not a bitter legislative struggle. Moreover, prospects for the An Quang Buddhists being brought into the government-- a move Thieu reportedly was considering--now seem remote.

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Soviet diplomats in various capitals have privately been very critical of the President's actions in Vietnam, but they have expressed a personal view that the summit talks will nevertheless take place. Although Politburo member Shelepin has postponed a scheduled trip to Norway, there is no sign that other members of the Politburo who are normally based outside Moscow are converging on the capital. Defense Minister Grechko and the heads of the Soviet navy and air force are continuing their trip in the Middle East, and Politburo member Voronov is still in Poland.

* * * *

According to press reports, North Vietnamese Politburo member Le Duc Tho told a news conference on 12 May that "we cannot accept" President Nixon's proposals of 8 May because they fail to deal with the question of a political settlement in South Vietnam. "President Nixon has spoken of a cease-fire and ignores the political aspects of the problem," Tho said. Although Tho's remarks were less polemical than Hanoi's other recent output, he made it clear that in the wake of the President's speech, Hanoi persists in its demands for both political and military concessions from the US. (SECRET NO FOREIGN DISSEM)

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ARGENTINA: A World Bank official who has just finished a study on Argentina concluded that the economy is entering a "crazy period" in which severe economic deterioration is almost inevitable.

Faced with the necessity of maintaining social order and mollifying powerful special interest groups until elections are held in March 1973, the Lanusse government has allowed its already mild austerity program to be seriously eroded. As a result, the International Monetary Fund has postponed consideration of much-needed credits. The World Bank representative feels that the nation may be headed for "hyperinflation" in which prices are changed daily and the capital market is eliminated. He also believes that foreign reserves, now estimated at \$250 million compared with \$770 million at the end of 1970, will continue to decline at the rate of about \$50 million a month.

US Embassy officials are less pessimistic and believe that it still is possible to reverse present trends. They agree, however, that inflation--now estimated to be approaching 60 percent annually--is increasing rapidly and that a payments default may become necessary. (CONFIDENTIAL)

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COLOMBIA: The unexpectedly strong showing of the two traditional parties in last month's local elections has improved economic prospects. Both foreign and domestic businessmen currently are expressing new confidence in the economy and investment activity is likely to increase significantly. Some foreign investment may still be postponed, however, until Bogota completes action in July on the Andean Foreign Investment Code. Arrangements are nearing completion for a \$60 million loan from the World Bank and two \$40 million loans from private consortiums headed by New York banks. The funds will be used primarily to finance imports of capital goods and public investment projects, but some of the funds will help refinance private short-term borrowing. (CONFIDENTIAL)

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ECUADOR: President Rodriguez' removal of two leftist cabinet ministers on 11 May may increase the disenchantment among younger military officers and in the navy in general, the most leftist of the armed services. If the president surmounts the immediate problem, however, he could emerge in firmer control of his government. Both ex-government minister Valdivieso and ex-production minister Proanco hold radical views and had tended to act without consulting either the rest of the cabinet or the president. Their popularity among the young officers and Valdivieso's naval support, however, had caused Rodriguez to hesitate to move against them. (SECRET NO FOREIGN DISSEM)

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URUGUAY: A high-level economic team leaves Montevideo today to discuss the country's serious economic problems with government officials and international financial institutions in the US and Western Europe. Largely because of last year's sharp drop in foreign exchange reserves, the government is seeking new loans and refinancing of large foreign debt payments due this year. The government has devalued the peso by more than 40 percent in the past three months, but the still seriously overvalued currency is exacerbating the country's trade problems. Meanwhile, the cost of living could double in a year at the current rate of inflation, and labor unrest is growing because of the government's refusal to allow new wage increases for the rest of 1972. (CONFIDENTIAL)

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SOMALIA-CHINA: President Siad left yesterday for a two-week trip to Peking and Pyongyang. He probably will discuss economic assistance with the Chinese, who have significantly increased their presence in Somalia during the past year. Chinese technicians are surveying a 650-mile road construction project, part of a \$109 million aid pact concluded last year. Peking also has recently agreed to construct a hospital and a sports complex. Siad may also hope that the visit serves as a demonstration of Somali independence to the Soviet Union, Mogadiscio's principal benefactor. There have been indications that the Somalis are becoming somewhat restive with their close association with Moscow. (SECRET)

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