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Weekly Review

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18 January 1974



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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.



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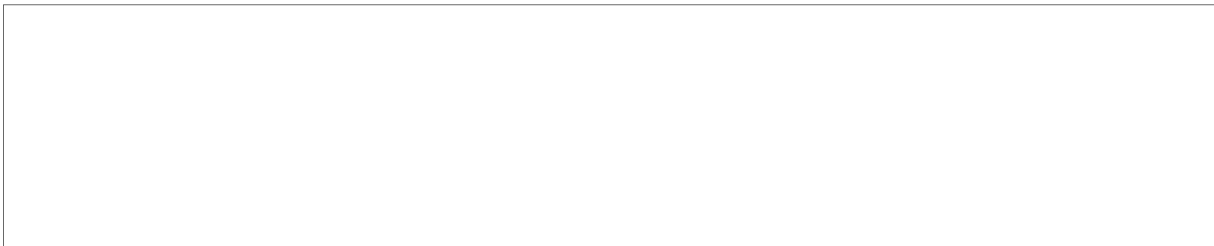
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THE MIDDLE EAST

THE EFFECTS OF DISENGAGEMENT

In Egypt

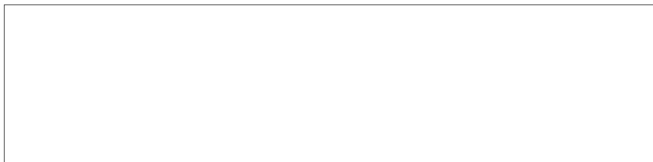
Throughout Secretary Kissinger's week of negotiations, the Cairo press has sounded an optimistic note about prospects for a satisfactory disengagement agreement. The agreement announced on January 17 will now allow the resumption of domestic and diplomatic activity that had been held in abeyance while the extended negotiations proceeded. President Sadat, for instance, has apparently been awaiting the conclusion of this round of negotiations before moving ahead with an impending cabinet reorganization, and Foreign Minister Fahmi has had to postpone a trip to Moscow originally scheduled to begin last weekend.

Sadat may now also visit several neighboring states in an effort to bring other Arab leaders up to date on the status of negotiations and, more importantly, to coordinate the next round with Syria. Press sources have indicated that Syria, Saudi Arabia, and Kuwait will be on Sadat's itinerary, and President Bourguiba has told the US Embassy that Tunisia will be included as well.

In Syria

Syria threatened to sever diplomatic relations with Cairo on Thursday after the announcement of the Israeli-Egyptian disengagement agreement, according to a press report from Damascus. If the report is true, it indicates President Asad was pulled up short by hard-liners in the military and Baath party who strongly oppose negotiations with Israel.

Asad's own position may have been seriously weakened by this turn of events. Only a few days ago, the Syrian President seemed ready to enter negotiations. Asad was said to have told a special conclave of Syrian political party leaders that Syria would attend the Geneva conference. To underscore the decision, he reportedly named the delegation and said he intended to reshuffle the cabinet. Most prominent among those who had been rumored for replacement was Foreign Minister Khaddam, a hard-liner who reportedly had threatened to resign rather than represent Syria at the peace talks.



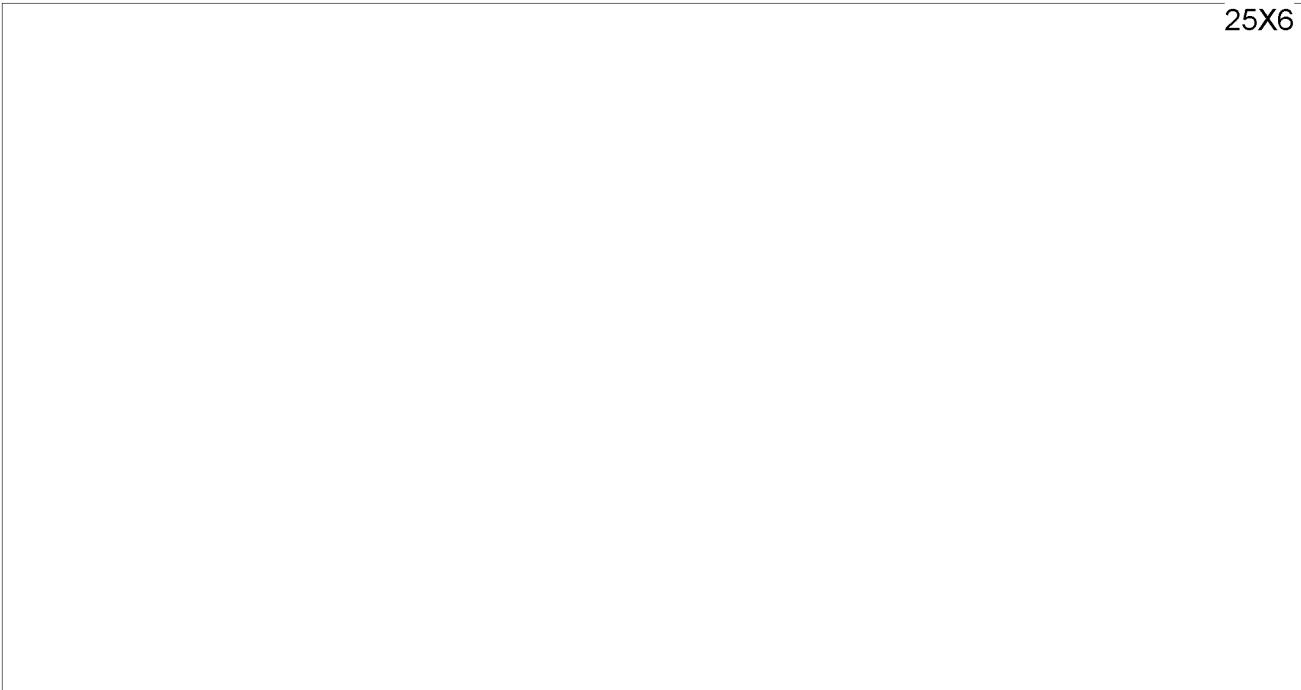
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AT THE FRONT

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As Egypt and Israel this week pursued a breakthrough on the disengagement problem, and



Israelis halt supply convoys to the Third Army, because of cease-fire violations

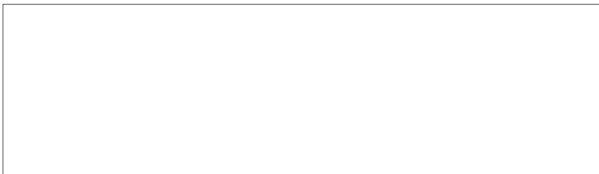


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cease-fire violations continued on both fronts. On one occasion, sporadic firing on the Golan Heights escalated into an artillery duel in which one Israeli soldier was killed. The Israelis also at least once shelled fedayeen positions inside Lebanon.



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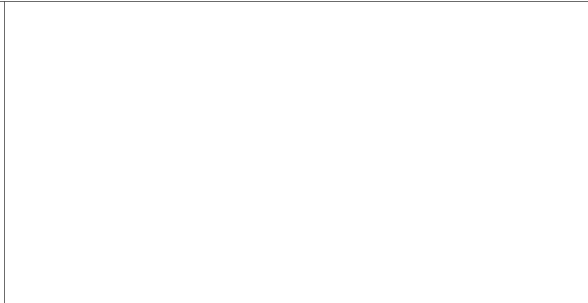
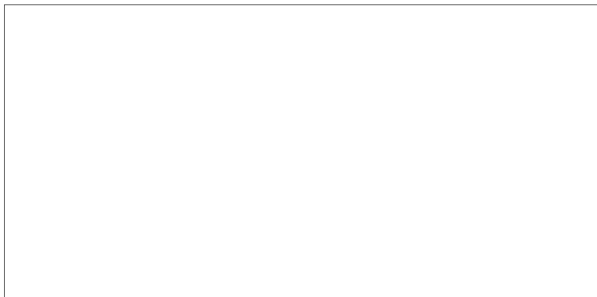
On the Suez front, UN observers reported violations along the entire length of the canal. Limited tank and artillery exchanges were reported in both the northern and central sectors.

Algeria may have contributed as many as four squadrons of interceptors and ground-attack aircraft to Egypt and one fighter squadron to Syria. Some of these aircraft were sent prior to the October war, and others arrived during the conflict. At least one Algerian fighter squadron also was moved to Libya to supplement Libyan air defenses.

In response to Egyptian cease-fire violations, Israeli troops halted several of the daily supply convoys to Suez and the encircled Egyptian Third Army. Defense Minister Dayan had publicly warned on January 14 that Israel might stop the convoys if the cease-fire violations continued. Israel has suffered over 150 casualties in the fighting on the Egyptian and Syrian fronts since the October cease-fire went into effect.

The decision to withdraw them apparently stems from President Boumediene's desire not to have Algerian military units at the front during a prolonged period of negotiation. Boumediene recognizes that Algeria will have little influence on the Arab-Israeli talks. He also is annoyed that he was not consulted by Egypt or Syria on plans to start the war or to agree to a cease-fire. Moreover, he probably believes that Algerian efforts to gain the support of nonaligned nations for Arab demands is now more important than keeping forces at the front.

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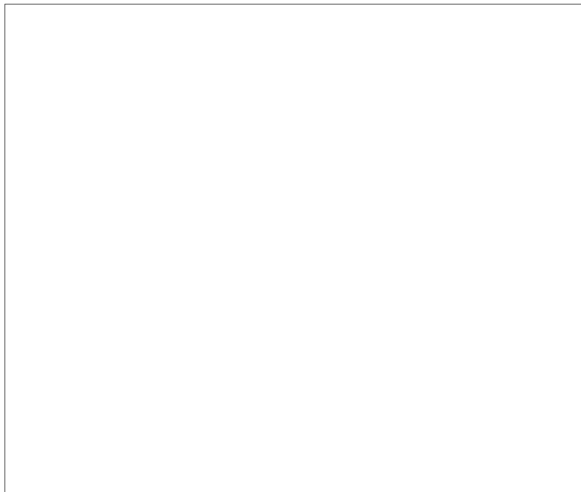


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Algerian Troops to Leave



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Aleksandr Solzhenitsyn and family

THE USSR

MORE ATTACKS ON SOLZHENITSYN

The official campaign against dissident author Aleksandr Solzhenitsyn gained impetus last week. The central press finally took up the cudgels against him, more than two weeks after the publication in Paris of *Gulag Archipelago*.

On January 13, *Pravda* became the first major newspaper to weigh in, printing a lengthy signed article attacking Solzhenitsyn as a "slanderer." Later in the week, *Literaturnaya Gazeta*, the journal of the Writer's Union, which expelled Solzhenitsyn in 1969, featured a similar major attack. These charges were echoed by other newspapers and the broadcast media.

Perhaps in an effort to counter the widely heard Western radio broadcasts, which have given heavy coverage to Solzhenitsyn and his latest book, the Soviet campaign focused on charges likely to arouse domestic sentiment against him. He was accused of harboring pro-Nazi and pro-collaborationist views, of denigrating the wartime sacrifices of the Soviet people, of "consciously" aiding the enemies of detente, and of harboring a "pathological hatred" of all things Soviet.

Despite the increasing venom of the attacks, the Soviets have yet to take, or even threaten, direct action against Solzhenitsyn. There have been no specific indications that he will be held criminally liable under the provisions of the new Soviet copyright legislation, even though he has been accused of sending his books out of the country illegally.

The Soviets probably are restrained from taking any such action by fear that a trial or imprisonment of the prestigious author could have an adverse impact on detente. The media have indirectly hinted as much, and a *Pravda* deputy editor made the point openly in a conversation with US Embassy officers last week.

Moscow probably sees the best solution to its dilemma in Solzhenitsyn's departure into foreign exile. This was the view of the *Pravda* deputy editor, who claimed that Solzhenitsyn would soon lose his political significance once out of the Soviet Union. Another Soviet official publicly asserted that Solzhenitsyn need not fear being held back if he were to try to settle abroad.

Solzhenitsyn, however, may not cooperate. He has adamantly refused to leave the USSR for any reason. The Soviet authorities might nevertheless attempt to induce him to do so by covert threats and intimidation, perhaps directed against his wife and children. According to Western press reports, Solzhenitsyn's wife has already received innumerable calls from an indignant "public." Solzhenitsyn is not permitted the right of permanent residence with his family in Moscow, a fact that might amplify his fears for their safety.

BREZHNEV VISIT TO CUBA

General Secretary Brezhnev will soon arrive in Havana on his first visit. Plans for the visit were announced not long after Brezhnev returned from the US last summer, a sign that he saw the trip as a way to demonstrate that he is not neglecting his Communist allies.

The occasion will call for some revolutionary rhetoric, but Brezhnev's private comments to the Cubans will probably focus on the benefits of peaceful coexistence. This will not sit well with Castro, who sees dangers for his regime in Soviet-US detente.

Despite the generally good state of its relations with the USSR, Havana is not enthusiastic about Moscow's pursuit of detente with the US. The Cuban leader continues to believe he cannot afford to ease his own anti-US stance. Castro still

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points to the "threat" of US aggression in order to mobilize Cubans in support of regime policies, and he has used the economic "blockade" to explain away many of his failures.

Despite this, Brezhnev may take the line that Cuba would profit from a less intransigent attitude toward the US. The JSSR, which still underwrites the Cuban economy to the tune of more than \$1 million a day, would benefit from any shift in Cuban political attitudes that brought an improvement in the island's economic position. Brezhnev, however, is not likely to press this point so strongly as to alienate the Cuban leader.

The Soviets will be eager to obtain Castro's support for another world communist conference. Preparations are already under way for a series of regional meetings of Communist parties, and there are reports that representatives of several Latin American parties will meet in Havana during Brezhnev's visit.

Economic and military aid will certainly be discussed during Brezhnev's visit. Moscow's extensive use of Cuban military facilities could give Castro leverage in seeking more Soviet arms, but there has been no sign yet that major new agreements will be made.

EQUIPMENT ORDERS UP IN 1973

The USSR ordered a record \$2.5 billion worth of machinery and equipment from the West in 1973—60 percent more than in 1972. This level of orders in the face of an all-time high currency deficit reflected the strength of Soviet demand for advanced Western equipment as well as Moscow's better access to new sources of credit—notably in the US.

US firms received orders for \$435 million worth of machinery and equipment, excluding several large orders awarded to US subsidiaries in Europe. Italian sales increased the most, thanks to a \$500-million contract for chemical plants. West Germany and France remained close competitors with the US for Soviet business, while Japan, Sweden, and the UK lagged well behind.

Equipment for the chemical industry accounted for two thirds of the increase from 1972 to 1973. Orders for metallurgical and consumer goods equipment also rose steeply. Much of the automotive equipment (second in total value) will be installed in the giant Kama truck plant. Since most equipment imports are connected with major plans for capital expansion, deliveries will stretch out over several years.

To finance the machinery and equipment, the USSR has insisted on long-term credits at low interest rates, guaranteed by Western governments. Italy extended a \$600-million line of credit early in 1973 and France \$350 million in July. By the end of 1973, the US Export-Import Bank had given preliminary or final approval for loans totaling more than \$300 million. An equal amount is to be loaned by private US banks.

Several major projects remain in the discussion stage, including another truck plant, several chemical plants, appliance factories, tire plants, and a commercial aircraft plant. Moscow's purchases of foreign equipment thus will continue at a high level in 1974.

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Type	Million US \$	
	1972	1973
Chemical	250	875
Motor vehicle manufacturing	285	485
Metallurgy and metalworking	55	330
Consumer goods manufacturing	10	190
Petroleum refining and pipeline	220	160
Timber and wood processing	110	135
Ships and marine	110	95
Electronics	50	50
Textiles	45	35
Food processing	15	0
Mining and construction	110	5
Other	320	160
Total	1,580	2,530

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COMMUNIST PROPAGANDISTS MEET

Moscow used the meeting of party propagandists in Prague last week to take another step toward convening a world conference of Communist parties. The Kremlin's interest in seizing the propaganda initiative is shown by the effort it put forth to persuade representatives of 67 Communist and workers' parties—minus Yugoslavia and the ruling Asian parties—to come to Prague as well as by the fact that the meeting closely follows last month's session of top ideologists in Moscow.

Soviet speakers, as is often the case, left it to their loyal allies to call for another world conference and to criticize the Chinese party. Soviet party secretary Ponomarev, the highest ranking delegate at the meeting, limited himself to asserting that the "struggle" for detente and the "crisis of capitalism"—which he claimed has been made much more acute by the economic and social dislocations arising from the energy crisis—create new opportunities to propagandize "real" socialism.

These remarks echo Brezhnev's recent emphasis on countering the influence of Western ideas on the Soviet and East European peoples. Ponomarev, who is responsible for relations with non-ruling Communist and workers' parties, exhorted the delegates to join in the effort. He lauded the Moscow conference of Communist parties in 1969, but he only hinted that another world meeting would be appropriate by alleging an increasing interest in multilateral meetings of Communist parties and by citing a need for closer coordination of policies.

By contrast, Czechoslovak party secretary Vasil Bilak, a hide-bound conservative, pointedly called on the delegates to prepare for a future meeting. His call, the first by any member of the Czechoslovak hierarchy, is the third such summons to come out of an East European party in recent weeks. The Hungarian and Bulgarian party chiefs urged a similar course last month.



Wenceslas Square in Prague

Bilak's speech further differed from Ponomarev's in its harsh condemnation of Peking, the strongest such declaration recently heard from Eastern Europe. Bilak claimed that "the ultra-leftist Maoist leadership has departed for good from Marxist-Leninist positions and stands on an anti-Soviet and anti-socialist platform."

The communique summarizing the Prague talks failed, however, to mention either a future world meeting or the problem posed by Peking. Omission of these contentious points probably reflects Moscow's desire to avoid antagonizing some parties. Romanian participants, either alone or together with other conferees, almost certainly opposed any reference to China in the communique.



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YUGOSLAVIA: UNIVERSITY DEFIANCE

The Yugoslav leadership is moving to rein in Belgrade University professors, who are among the few remaining outspoken critics of regime policies. If mishandled, however, the party's determined effort to tighten control over the academic community could heighten unrest at the universities.

assigning all students to military training camps for three weeks each year; previously students in higher education were issued blanket deferment.

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The issue at hand is Tito's two-year-old demand for the firing of ultra-liberal professors at Belgrade University. Previous party efforts to oust the professors resulted in a stalemate, as the university has a tradition of autonomy and the Serb party has been reluctant to use its muscle on campus. At the end of 1973, however, the federal party prodded local officials to begin an all-out drive to purge eight liberal philosophy professors.

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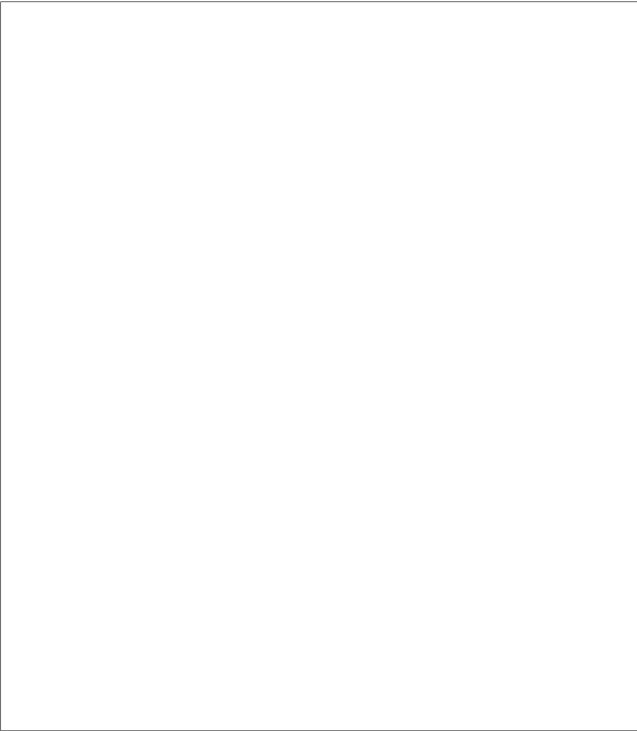
The local party is now on the verge of ousting the professors, but preparations for the purge have generated unrest among some students, whose displeasure cannot be taken lightly. In 1968, for example, student riots seriously embarrassed the regime, and any recurrence this year would be particularly damaging in view of scheduled national elections and a party congress. As in 1968, economic difficulties coupled with the party's heavy-handed tactics could anger and unify the students.

According to the US Consulate in Zagreb, the Belgrade affair is threatening to spread to students in the Croat capital. On January 9, students at Zagreb University expressed their support for the eight Belgrade professors. Zagreb authorities called for a show of police strength that apparently succeeded in cowing the students. Later in the week, party officials at the city's university charged the dissident students with links to nationalists whose extremism in 1971 brought on wholesale purges of popular Croat leaders.

Students all over the country began a month-long semester break this week, thereby reducing the likelihood of disturbances in the near future. When they return to school, however, the students may have a new cause for dissatisfaction. The regime this week announced a plan for

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would be unfavorable to the bilateral deals now being worked out between France—as well as other consumer states—and the Arab producers. In constantly warning that the energy action group could set the consumer countries against the producers, Paris hopes to gain as much credit as possible with the latter. The French want to move international energy consultations into the OECD—or even the UN—as quickly as possible and to limit such talks to long-term goals.

In Bonn, the EC political directors had already agreed that President Nixon's invitation was an important and major initiative. The Nine also discussed the community's own future relationship with the Arab countries. In the wake of a political settlement in the area, the Nine foresee possible aid and cooperative arrangements, as well as a role in guaranteeing the peace.

In Brussels, the council spent long hours discussing the amount and allocation of a fund for the development of poor regions in the community, but agreement remained elusive. At the earlier Bonn meeting, Paris had made clear that it objected to the West German proposal, which would reduce the over-all amount involved, cut the French share of the payout sharply, and increase the percentage of the fund going to the three poorest EC countries—Italy, Ireland, and the UK.

At a parallel meeting of the EC Council of Agricultural Ministers on January 14-15, the French demanded—and staged a minor “walkout” when they were voted down—an immediate EC price hike for beef and an embargo on beef imports in order to help French producers. The West Germans had suggested before the meeting that France's refusal to go along with their proposal for regional aid would cause the council to delay action that the French wanted in the agricultural area.

Consultations among the Nine are becoming wider in scope, both at council meetings and within the political framework. The meetings also promise to be increasingly frequent, although the lack of a secretariat will hamper the effectiveness of political consultations.

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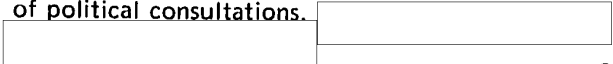
THE NINE CONSULT

EC Council meetings in Brussels this week focused on discussion of attitudes toward the oil users' conference in Washington next month. The topic played a role in the political consultations of the Nine in Bonn on January 10-11 as well.

The council agreed that Commission President Ortolini and West German Foreign Minister Scheel, in his role as council president, would represent the community at the conference. The member countries, with the possible exception of France, will also send representatives. Foreign Minister Jobert said Paris still had reservations; he may be seeking to enhance French bargaining strength in the negotiations prior to the next council consideration of a common EC energy position on February 4-5.

Paris is concerned that the Washington conference will confer too important a role on the US and also lead to a climate of opinion that

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ITALY: THE POLITICS OF DIVORCE

It is almost certain that the long-postponed national referendum to cancel the divorce law will be held this spring. If no way is found to avoid the referendum, the accompanying political campaign could destroy the fragile unity of Prime Minister Rumor's center-left coalition, polarize political parties, and reverse the "soft" opposition policy followed for the last six months by the powerful Communist Party.

Socialists will seize on this aspect of the campaign to transform it into an anti-fascist crusade.

The Neo-Fascists are the only ones eager for the contest, primarily because it will return them to the spotlight and allow them to pose as defenders of the church at a time when their movement appears to be losing momentum.

The issue has been a contentious one since 1970, when a Socialist-sponsored bill legalizing divorce was pushed through parliament over the strong opposition of Italy's largest party, the Christian Democrats, and the bitter protests of the Catholic Church. The next year, however, anti-divorce groups collected enough signatures to schedule a national referendum on the bill. Politicians on both sides of the question are unenthusiastic about the referendum, and most have welcomed various postponements that have put off the vote. The last chance of avoiding the issue was ended late last year when the Constitutional Court upheld the law, thus keeping the referendum on the docket.

The Communist Party fears that it will lose more than it will gain from a divisive battle over the divorce question. Since the revival of the center-left coalition formula last July, the Communists have followed a policy carefully tailored to demonstrate that the country's problems cannot be solved without their help. Most Italians realize, for example, that the Communists have used their influence with organized labor to aid the government's economic recovery program.

Many political leaders fear that the referendum will force the governing parties into public battle over an issue that has little bearing on the country's pressing economic and social problems. Debate over how to handle the referendum has already shattered the show of unity that has characterized relations among the parties since Rumor took office last summer. In recent days, the Socialists sharply attacked the Christian Democrats for their rejection of a Socialist proposal that would have canceled the referendum by negotiating a substantial change in the law.

A key element of recent Communist strategy has been to emphasize the goals they share with Italy's governing parties. They have gone so far as to propose a "historic compromise" between their party and the political establishment—as clear a pitch as the party has ever made to participate in the national government. At the same time, the party has stepped up its efforts to improve relations with the Catholic Church. The divorce referendum would reverse these initiatives by dividing the parties along left-right lines and accentuating the distance that remains between the Communists and their major opponents.

By refusing to compromise on the divorce issue, the Christian Democrats are pitting themselves against all three of their coalition partners. They will also find themselves in the uncomfortable position of being on the same side of the issue as the Neo-Fascists. The Communists and

Although a portion of the Christian Democratic rank-and-file is opposed to the referendum, the party leadership claimed this week that "only a miracle" could avert the confrontation. A sharp and sudden deterioration of the economic situation is one circumstance that could compel the parties to iron out their differences or at least wage a more subdued campaign.

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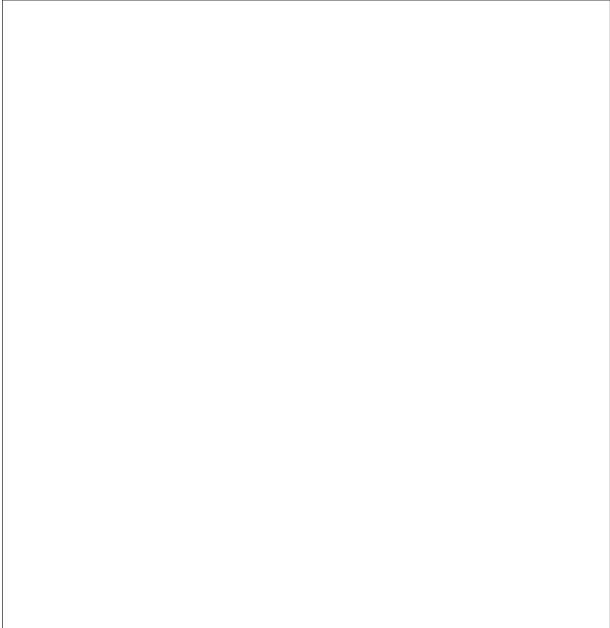
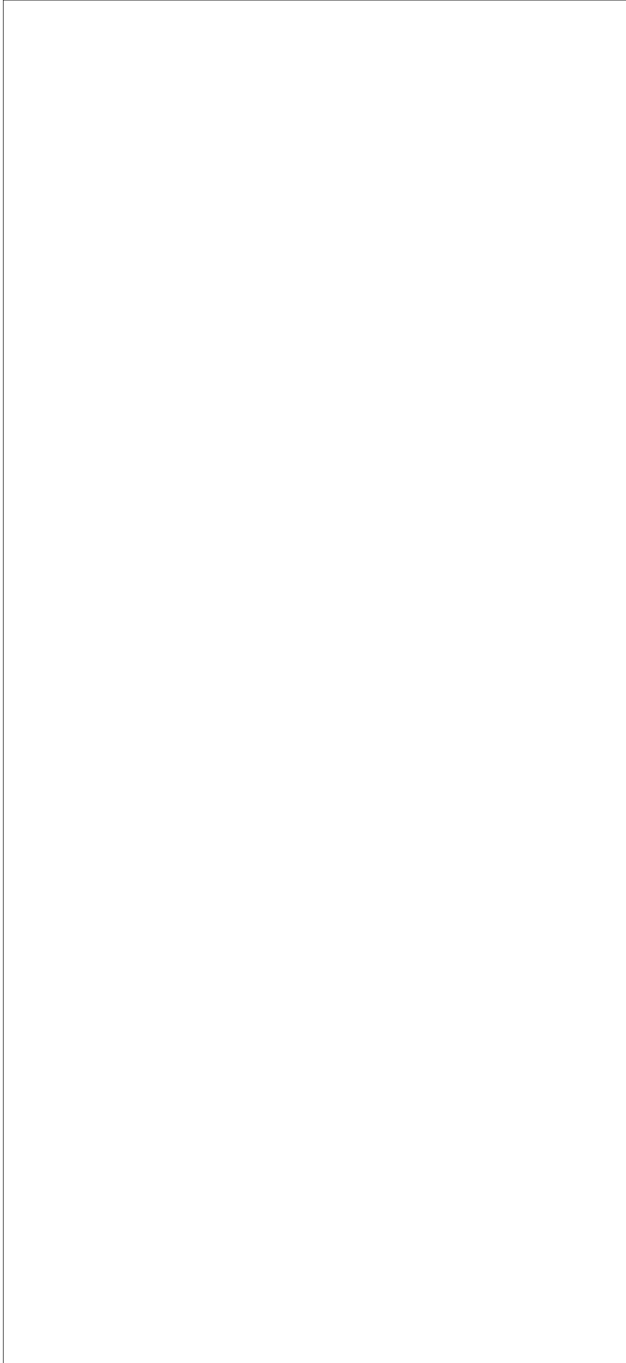
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VIETNAM



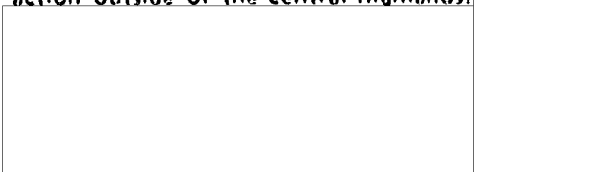
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An Uneventful Tet

The Year of the Tiger begins next week and it may come in like a lamb. Both Communist and government forces have been placed on alert for the three-day Tet holiday that begins on January 23, but there are few signs of significant military action outside of the central highlands.

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There are some low-level reports of Communist plans for major action at Tet, but this probably reflects only an effort to ensure combat readiness. Most of the evidence points to a holiday marred only by the usual rash of minor incidents—local commanders taking advantage of a tactical situation or actions by enemy units that never got the official word to stand down.

After Tet, the pace of military action will probably pick up. COSVN guidelines for 1974



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call for a "strategic raid campaign" to expand territory. Immediately after Tet, however, the action may amount to nothing more than countering South Vietnamese operations and keeping up Communist pressure in areas where the fighting has been heavy for months.

This week's action in Pleiku Province is typical of the sort that may well continue. Early in the week, elements of the South Vietnamese 22nd Division recaptured Plei Djereng, the border outpost overrun by the North Vietnamese late last September. Communist resistance was light at first, but heavy fighting is now going on over control of both the outpost and the highway leading to it.

The Communists also attacked in Kontum Province during the week, probably in an effort to draw off government troops from western Pleiku. Local units in Pleiku have also begun cutting key highways in the province intermittently.

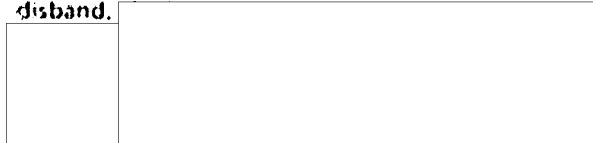
Amending the Constitution

President Thieu is moving ahead with a series of constitutional amendments designed to strengthen the presidency. The National Assembly is now considering three: one puts off any popular election of province chiefs until after the current presidential term; another changes the method of selecting Supreme Court justices; and

the third permits him to run for a third term in 1975. His supporters believe they have the necessary votes and expect all three amendments to be approved on January 19.

Thieu reportedly had not planned to move until late this year, but he apparently feels he is in a strong enough position to go ahead now. He may believe this is a good time to act because any opposition maneuvering is likely to be overshadowed by the Tet holiday. He may also fear that if military and economic conditions deteriorate later in the year, it would lessen his ability to push the changes through.

Thieu remains concerned about a possible adverse reaction in the US. Partly to head off criticism from this quarter, he is moving to help an opposition party meet stiff registration requirements. The party, the Social Democratic Alliance, was given provisional status for one year last March. It has been hampered by serious internal rivalry, and there were signs that it might disband.



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CAMBODIA: MILITARY BALANCE SHEET

Fighting centered in the Phnom Penh area again this week. The Cambodian Army's



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counterattack northwest of the capital's airport faltered in the face of stiff resistance, despite concentrated government artillery and air strikes. Khmer Communist troops still hold several villages within five miles of the airport. Army and insurgent troops fought to a standoff on Route 5 just above the government oil storage facility five miles north of Phnom Penh.

year's heavy losses of experienced personnel. Nevertheless, the Communists still appear determined to intensify military pressure on Phnom Penh's forces in the next few weeks. [Redacted]

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THAILAND: STUDENT PROTESTS CONTINUE

[Redacted]

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Events of the past week indicate anew that the student protest movement will remain a feature of Thai politics for the foreseeable future. The arrival of Japanese Prime Minister Tanaka in Bangkok on January 9 prompted over 10,000 students to demonstrate against Japanese economic "imperialism." The student activists also used the occasion to criticize the US, claiming the recent CIA incident to be an example of US interference in Thai domestic affairs. Some 3,000 students broke away from the main body of demonstrators to stage an orderly protest in front of the US Embassy.

Cambodian Army commanders are preparing for renewed Communist action and have sent in additional units. Over 5,000 government troops, backed by artillery and armor, are now in place. With mostly all of the army's general reserve force tied down either northwest or southwest of Phnom Penh, however, army commanders will be hard pressed to come up with additional reinforcements if they are needed.

The students disbanded after being assured that their views would be heard by Prime Minister Sanya, but they are continuing to demand that the government issue a formal protest to the US. Anti-US feelings are not confined to Bangkok. In the provincial capital of Udon, the site of a major US air base, some 500 students marched on the US Consulate to demand the shutdown of all US bases in Thailand.

The Communist dry season campaign, which is only in its sixth week, has produced mixed results elsewhere. The insurgents have maintained control over sections of Routes 4 and 5. They have not made a serious effort to interdict vital Mekong resupply convoys, however, and have allowed Phnom Penh to build up its reserves of rice and military POL supplies. Aside from putting pressure on the southern provincial capital of Takeo, the Communists have yet to launch any strong attacks on major government strongholds in the countryside. As long as they concentrate on the Phnom Penh region, the Communists probably will be unable to mount any offensives against such important cities as Battambang and Kompong Cham.

Student activists have long harbored anti-US sentiments, but until last week, their preoccupation with domestic affairs had kept these feelings from surfacing. Unless the government now makes some gesture to mollify the students, the honeymoon may be over.

The Communists' performance thus far in the dry season indicates that, among other things, they have not yet been able to offset fully last

Army chief Krit Sivara and Prime Minister Sanya have privately expressed concern over the instability caused by the student demonstrators, and Krit has said he is ready to use his troops if the King and the Prime Minister ask him to do so. Unless the demonstrations escalate well beyond current levels, however, the government will probably confine itself to public hints of possible military intervention and hope that this will keep the students off the streets. [Redacted]

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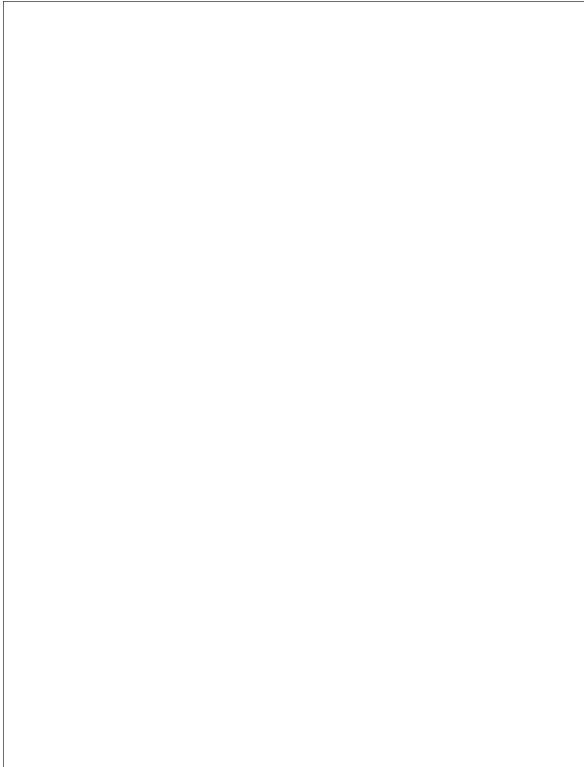
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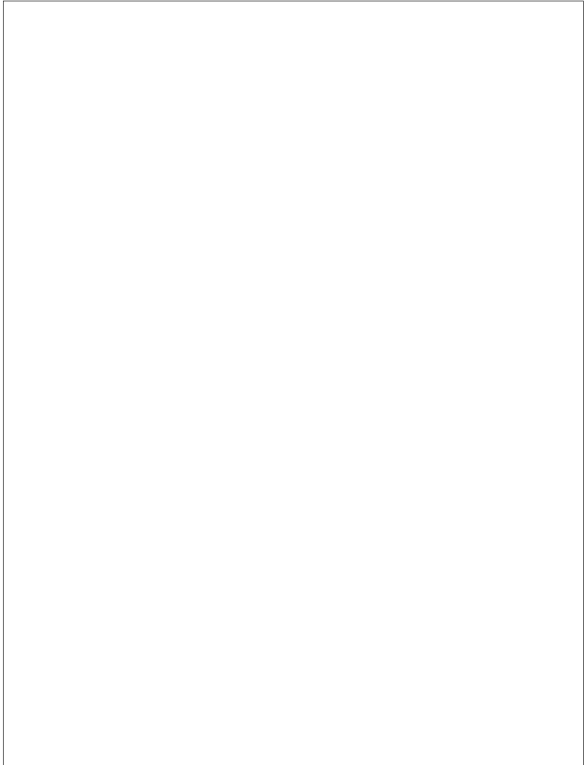
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CHINA: A NEW OLD FACE AT THE TOP

Until he was toppled in 1966, former party secretary general Teng Hsiao-ping was one of the most powerful men in China. His return last April made him the highest ranking official to be rehabilitated since the Cultural Revolution, but he was given only the limited duties of a vice premier. At the party congress last August, Teng was named to the party's Central Committee, but he was not restored to his Politburo position. Such a step had the potential for dissension, and leaders such as Mao and Chou probably gave higher priority to moves aimed at reducing the power of entrenched regional military commanders.

Teng, who is in his seventies, is roughly the same age as the rest of China's aging leaders. He and Chou En-lai were rivals for power in the past, but it is likely that they are now essentially in agreement on policy matters. Chou is anxious to get China on the road to modernization before Mao's, and his own, demise. He needs the help of a man like Teng, who is known for his ability to get things done. Teng, for his part, owes his political life to Mao and Chou, and he is likely to be an important asset to the premier once Mao is gone. Although Teng's elevation does not alter the succession picture over the long term, he is likely to play an important role in the immediate post-Mao leadership.

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TUNISIA-LIBYA: MERGER COLLAPSES

Tunisian President Bourguiba and Libyan President Qadhafi announced a surprise merger agreement last weekend, but by January 15, Tunis was back-pedaling rapidly. Urged by his advisers, including Prime Minister Nouira, Bourguiba has set pre-conditions that preclude implementation of the agreement in the foreseeable future.

Bourguiba, long a supporter of Arab unity, obviously had not thought through the merger when he signed the agreement with Qadhafi at a meeting in Tunisia. Bourguiba was evidently swayed by Qadhafi and by his own foreign minister, Mohamed Masmoudi, who has long pushed for closer ties with Libya. Bourguiba was extremely tired when he met Qadhafi, a condition that in the past has shortened Bourguiba's span of attention and made him more susceptible to suggestion from those around him. Moreover, three key advisers—his wife, son, and the Prime Minister, all of whom would have advised against the merger—were absent when the agreement was signed.

Once he had time for second thoughts and consultations with Nouira and others, Bourguiba moved quickly to shelve the union. He replaced Masmoudi with his cabinet director and moved his first cousin and most loyal minister to the sensitive post of defense minister. In rapid succession, the merger referendum was postponed pending revision of Tunisia's constitution, the merger was publicly characterized as only a declaration of principle, and the government announced that Tunisia will never unite with Libya as long as Morocco or Algeria opposes such a union.

Anticipating adverse reaction to the reversal both at home and from Libya, the Tunisian Government has instituted special security measures throughout the country and has closed the border with Libya despite protests from Tripoli. On January 15, local police broke up a rally at Tunis University that had anti-Bourguiba overtones. The students and young professionals believe a merger would offer new job opportunities and a greater role for Tunisia in Arab affairs. By contrast,

middle-class Tunisians and probably the military distrust Qadhafi and therefore oppose the union.

Bourguiba's handling of the union affair will weaken his prestige in Tunisia and accelerate political maneuvering by presidential hopefuls around him. This behind-the-scenes activity will be increasingly important as preparations continue for the ninth congress of the ruling Destourian Socialist Party next October, which is to be followed by national elections in November.

Tunisia's efforts to back out of the union have not drawn an official reaction from Tripoli. For the moment, President Qadhafi apparently is trying to minimize his political embarrassment by permitting only low-key press coverage of the union. According to one media account, Libya will proceed with a nationwide referendum on January 18—as originally scheduled—despite Tunisia's announcement that its referendum has been postponed indefinitely.

THE TUNISIAN GOVERNMENT'S CONCERN ABOUT POSSIBLE MASS MARCHES ON TUNIS BY LIBYAN DEMONSTRATORS PROMPTED IT ON JANUARY 15 TO CLOSE THE BORDER WITH LIBYA.

The silence from Libya reflects the dilemma now facing Qadhafi. The Libyan leader had originally hoped that an alliance with Tunisia would restore his prestige, which was badly damaged by the collapse of the Libyan-Egyptian union last September. The fiasco surrounding his overture to Tunisia has instead only increased his isolation from the Arab mainstream and underscored his reputation as a disruptive maverick.

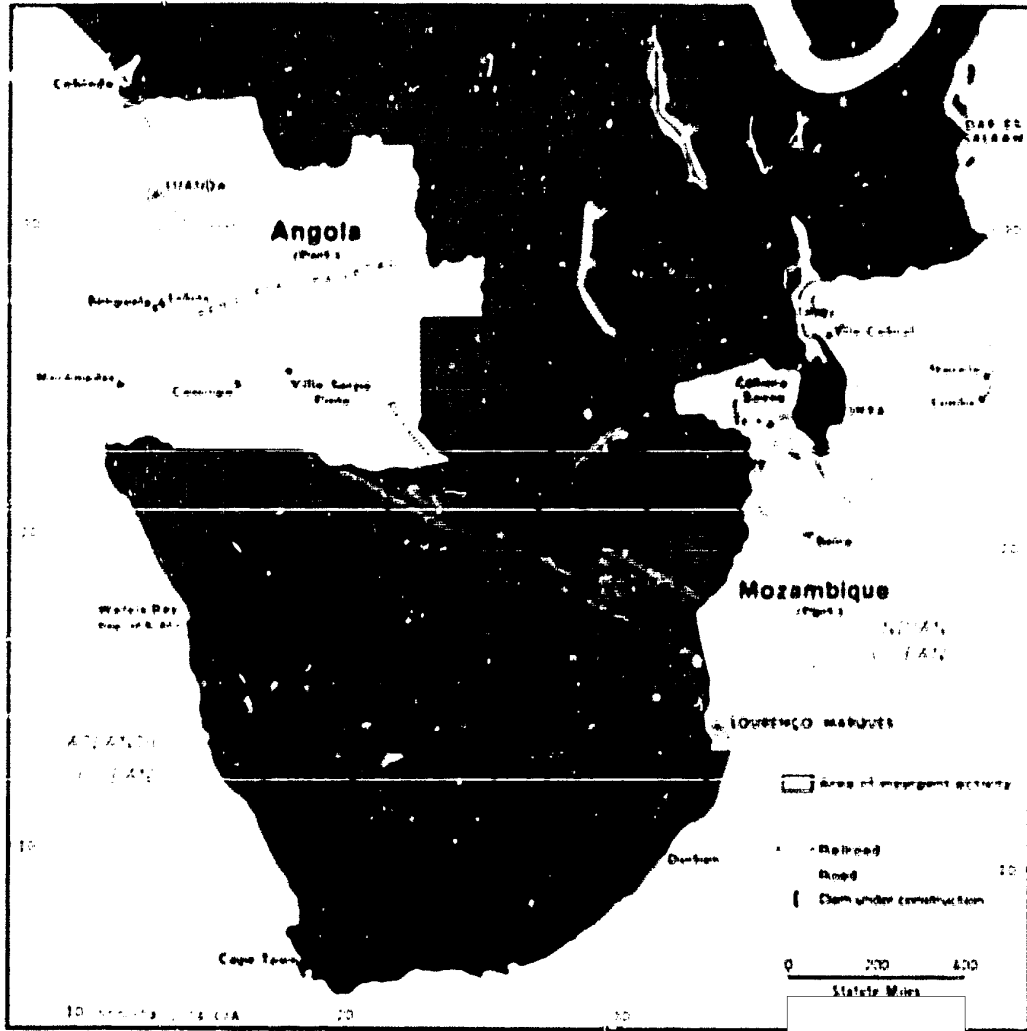
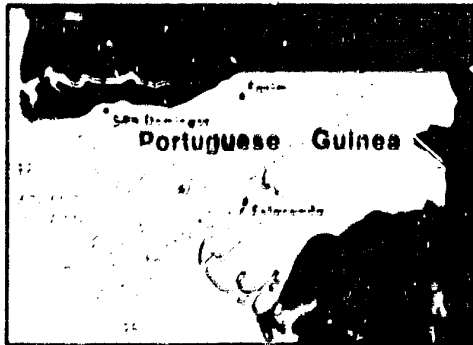
This failure, coupled with the exceedingly bad press Qadhafi has received as a result of his opposition to the Geneva talks and his support for Arab terrorists, will have a strong personal impact on the Libyan leader, possibly leading to another round of resignation threats. At this point, however, Qadhafi apparently intends to accept Tunisia's rebuff passively while he struggles to regain his footing.

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**Portuguese Africa
BETTER PROSPECTS FOR INSURGENTS**

The Portuguese are growing uneasy over what 1974 will bring in the long-stalemated insurgencies in their three African territories. In fact, rebel forces may well manage to increase pressure on the Portuguese, although probably not enough to threaten seriously Lisbon's continued presence in Africa.

The main pressure probably will come in Portuguese Guinea, long the most serious insurgency problem for Lisbon. Last year, the rebels there added a new political dimension to their decade-old guerrilla campaign when they proclaimed the province as the state of "Guinea-Bissau." Although their proclamation did not weaken Portuguese military and political control, it won diplomatic recognition from some 60 Communist, African, and other Third World states and gained admission for Guinea-Bissau to the Organization of African Unity and the United Nations Food and Agricultural Organization. A campaign by supporters of the rebel state for its admittance to the UN General Assembly was suspended in favor of seeking western support and representation in other international organizations. The campaign is likely to be resumed in the next assembly session.

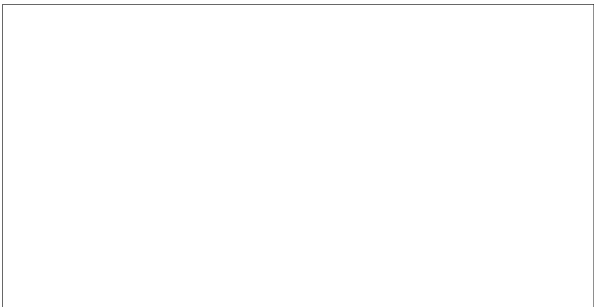
In the interim, the insurgents probably will continue their military operations, which had been steadily increasing prior to the rebels' political offensive last fall. They may be planning a major campaign to coincide with the first anniversary on January 21 of the assassination of their long-time leader, Amilcar Cabral.

In Mozambique there has been a sudden increase in rebel activity in recent weeks, including a series of unusually heavy attacks on fortified villages in Tete District, where a giant hydroelectric project is under construction. The insurgents long have wanted to disrupt the government's resettlement plan, which forms the base for its development of the district. The insurgents also have increased mining operations against Por-

tuguese rail links, including recent attacks on rail lines into Malawi and Rhodesia that heretofore had been left untouched.

In contrast, the level of insurgency in Angola has been minuscule for more than a year. Rebel forces based in Zambia have been ineffectual because of serious internal frictions that have virtually paralyzed their military operations. A rival insurgent group based in Zaire also has had internal disputes, but has been held together largely by Zaire President Mobutu's support and occasional intervention. At the same time, however, Mobutu has been restraining the group's military operations into Angola because of his dependence on Portuguese facilities to transport Zairian copper.

REBEL FORCES MAY WELL MANAGE TO INCREASE PRESSURE ON THE PORTUGUESE, BUT PROBABLY NOT ENOUGH TO THREATEN SERIOUSLY LISBON'S CONTINUED PRESENCE IN AFRICA.



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The Arab oil embargo is further complicating Lisbon's problems in Africa, where much non-essential military travel has had to be curtailed. A broad upsurge in guerrilla activity could seriously strain Portuguese stocks. This has led Lisbon to fear an insurgent strike against the Angolan exclave of Cabinda, which accounts for a large share of Portugal's petroleum production.

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TURKEY: FINALLY A GOVERNMENT

The left-of-center Republican Peoples Party, which won a plurality in the inconclusive parliamentary election last October, and the Islam-oriented National Salvation Party finally got together this week on terms for a governing coalition. The political stalemate that has persisted since the election has thus been broken, but the prospects for the government's longevity are not bright.

The coalition will be headed by Prime Minister designate Bulent Ecevit, leader of the Republican Peoples Party, who had failed in an earlier attempt to form a government with the National Salvation Party. The two parties then were unable to agree on which would get the key Interior Ministry, and many of the conservative Salvation Party deputies had refused to accept the

alliance. In the hard bargaining that preceded the announcement this week of a coalition agreement, Ecevit apparently yielded his claim on the interior post, which reportedly will be offered to a retired, non-party general. The increasing prospect of new elections if a government could not be formed helped modify attitudes within the Salvation Party.

The army, which sees itself as the guardian of Ataturk's secularist and modernizing reforms, does not look with favor upon the traditionalist Salvation Party, and senior officers are also concerned about Ecevit's leftist tendencies. At present, the military appears willing to give the new government a chance, but the officers will be monitoring its activities very closely.

The new coalition has a fragile majority of only eight seats in the National Assembly and is in a minority in the Senate, which can delay legislation. Coalition decisions will be complicated by the ideological gulf between the two parties. Ecevit himself is untested as a national leader—particularly in foreign affairs. He will probably concentrate first on resolving domestic problems and on strengthening his popular and parliamentary support. A key issue will be the fulfillment of Ecevit's campaign pledge of amnesty for political prisoners. The armed forces would be displeased by large-scale reversals of the decisions taken by martial law courts over the past three years.



Bulent Ecevit

No major departure from Turkey's basic pro-Western foreign policy is expected. Ecevit's election platform, however, called for a more independent approach to NATO and to defense issues, reconsideration of the ban on opium poppy cultivation, and nationalization of petroleum resources. For its part, the National Salvation Party, [redacted]

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[redacted] will press for a more pro-Arab policy, [redacted]

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[redacted]

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CHILE: MAKING HASTE SLOWLY

Opponents of the junta government succeeded in a few relatively minor acts of sabotage over the recent holiday period, but several attempted attacks on government installations were thwarted by security forces.

The opposition's failure to pull off a spectacular operation in Chilo was partially offset by the sudden appearance in Havana of Carlos Altamirano, the Socialist Party leader who heads the junta's list of most-wanted fugitives. In a press conference soon after his arrival, however, Altamirano seemed to underscore the left's lack of readiness for a concerted guerrilla or terrorist campaign when he declared that, for now at least, "adventurous operations" would be counterproductive.

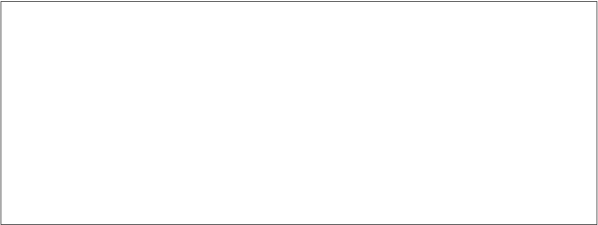


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Disagreements over policy matters, inter-service frictions, and personal rivalries have been sparking controversy within the regime. At the junta level, there reportedly has been disagreement over when the presidency should be rotated. Army commander and current junta president Pinochet recently declared that the presidency will not be rotated, but it was unclear whether he meant now, or ever. In any case, his statement probably was not the final word on the issue.

Still, pressures on Arana are mounting. Government campaign managers are disturbed by reports that Rios' National Opposition Front will soon pick up the substantial centrist and rightist support of two presently unaffiliated opposition groupings. Support by these groups—one led by a popular former chief of state, Enrique Peralta, and the other a faction of the moderate Revolutionary Party—would help Rios shed his leftist image in the important professional and business voting bloc.

Some progress is being made despite these preoccupations. Marking his fourth month in office on January 11, Pinochet announced the creation of a "social fund" to be used to upgrade slum living conditions. Present payroll taxes will be consolidated, raised slightly, and applied to the fund. Pinochet also announced that the government plans to get tough with merchants who persist in hoarding and price-gouging. Jail sentences will replace fines for these offenses.



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GUATEMALA: ELECTION PROSPECTS

A growing number of key government and military officials, including General Laugerud, the government's nominee, believe that he will lose the presidential election on March 3 to the leftist opposition candidate, General Rios.

The government camp is also worried about the opinion polls. While they show Laugerud leading Rios by ten percentage points, they also indicate that nearly half of the electorate is undecided. Officials fear that Rios will win over many of the undecided by blaming the government for the rising cost of living and by dwelling on government failures to stem a growing rate of crime.

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VENEZUELA: OIL AND NATIONALIZATION

Outgoing President Caldera and President-elect Perez share the view that Venezuela must capitalize on its petroleum resources during the energy crisis.

is certain to examine the prospects for a carefully negotiated move toward total petroleum nationalization during his 1974-1979 tenure.

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The latest move in this direction is the order last week that, beginning on April 8, private oil companies must deliver to the government an estimated 100,000 barrels of crude oil daily as part of their royalty payments. This oil may be used to improve Venezuela's already favorable world trade position, but much of it is likely to be sold to other Latin American countries at preferential prices. Venezuela is finding it increasingly difficult to resist using oil in its pursuit of a leadership role in Latin America, and several Central American and Caribbean island nations have been especially hard hit by the energy crisis.



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ARGENTINA: LABOR PROBLEMS BREWING

A serious labor conflict in the provincial capital of Cordoba is pitting left- and right-wing trade union groups against each other in what could become a major test for President Peron's three-month-old government. Violence has become endemic in this troublesome interior city, the country's second largest industrial center and a focal point of the long-simmering dispute between warring factions of Peron's disparate movement.

There is also rising left-wing pressure for an immediate nationalization of the country's petroleum, but this is a remote possibility although Caldera has announced, and Perez has agreed, that nationalization is likely to occur before the scheduled date in 1983. Caldera may covertly encourage leftists to initiate the lengthy nationalization process during his remaining two months in office in order to leave his successor with the resulting political and economic problems. Nationalization would require congressional action, however, and Congress is not scheduled to reconvene until a few days before the inauguration in March.

The latest confrontation grew out of a bus drivers' strike for wage increases. A settlement was negotiated to end the five-day strike, which paralyzed the city and led to violence, but this agreement shows little sign of sticking. In spite of settlement of this issue, opposition has intensified between "orthodox" followers of Peron's hand-picked national labor leadership in Buenos Aires and a coterie of radical left-wing Peronists and Trotskyists who dominate the regional labor apparatus and are supported by some high-level provincial authorities. Adding to the strains, left-wing Peronist guerrillas have issued militant appeals to workers to defy the national labor organization and take to the streets if necessary to defend their rights.

One of Caldera's principal ambitions is to leave office on a nationalistic note. This week, Venezuela made clear its intention to remain independent in setting its oil prices. Thus, at present and probably for the remainder of the Caldera administration, political factors will dominate Venezuela's relations with its petroleum customers.

The stage now is set for more trouble, and both sides seem to be headed for a showdown. Although Peron has exercised caution so far in dealing with the potentially explosive political problem in Cordoba, he apparently believes that he cannot make concessions without undermining his economic policies and jeopardizing his own authority.

Although Perez is considered even more nationalistic than Caldera, the new President may not be able to sustain the present politically motivated pricing policy. On oil matters, he will probably appoint competent technicians to policy positions and rely heavily on their advice. He also



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[Redacted] Significantly, Cordoba is a stronghold of the Marxist People's Revolutionary Army, which has taken credit for many of the kidnappings that have plagued the Peronist government. Peron's patience with the terrorists is probably exhausted, increasing the chance that he will use the Cordoba situation as an opportunity to try for a badly needed victory against the extremists.

The prospects for confrontation are likely to increase as Cordoba's trade union organization undertakes new leadership elections on January 20.



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[Redacted] Peron's "orthodox" followers in the Cordoba unions actually appear to be in a strong position to gain the upper hand, but there is a distinct possibility that the left will not be unseated without a fight. In that case, there is a good chance that the Cordoba unions will lose their legal right to exist under provisions of a tough new labor law.

Peron's scheme carries a serious risk that it might backfire and cause widespread reaction among left-wing Peronists elsewhere in the country. Disapproval would be strongest among youth, and this could trigger extensive defections from the Peronist movement. Additionally, a worsening of the Cordoba situation would be a further setback for Peron's national unity program and damage the already shaky confidence of foreign investors alarmed by the continuation of terrorist-inspired violence.

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BRAZIL: GEISEL ELECTED

The election on January 15 of retired General Ernesto Geisel as the next president means that Brazil's policies will remain basically the same. Geisel, named last June by President Medici as his successor, was officially ratified by a special electoral college convened in Brasilia. There was never any doubt as to the outcome of the balloting, since the government party had an overwhelming majority.



President Medici and Ernesto Geisel

Geisel, who will take office on March 15, is the fourth in a line of army generals to reach the presidency since the military took power in 1964. Like Medici, Geisel is expected to give top priority to economic development, while stressing national security and a growing Brazilian role in world affairs—including an independent, though not radically nationalistic, foreign policy.

At the same time, Geisel's style and the composition of his administration will differ from Medici's. Some Brazilian politicians feel he is basically more liberal than Medici and will be disposed to permit a gradual "democratic opening" that would restore some political activity. In addition, some local observers view Geisel as somewhat more nationalistic than Medici and therefore likely to be more cautious in his attitude toward foreign investments.

The current presidential succession process, which is unfolding according to plan, lacks the atmosphere of tension that accompanied other successions since 1964, primarily because Medici deals from a position of strength that his predecessors did not enjoy. Under his administration, economic growth has been strong and steady, while urban terrorism has declined to virtually nothing. Thus, Medici has the confidence of a broad range of top officers, the sine qua non for governing effectively in Brazil. Geisel apparently will take office with a similar advantage.

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INTERNATIONAL**SHIFTING FROM OIL TO MONEY**

Preliminary reports from the Geneva meeting of the Organization of Petroleum Exporting Countries, which ended on January 9, indicate that there will be no respite before April from the high oil prices that went into effect on January 1. The Iranians, who are largely responsible for doubling the price, defended the increase as making oil prices compatible with the cost of energy from other sources. The Saudis, on the other hand, believe that the price is too high and will have disastrous effects on the world economy. Most other producers are ambivalent—happily looking forward to the inflow of wealth but also fearing that the process they have put into motion may eventually rebound against them.

The OPEC leaders called for an early meeting between major consumers and producers to discuss prices and other problems. They also resolved to establish an institution to channel aid from their oil revenues to the developing countries. They are less receptive to the developing countries' demands for a two-tier price system that would substantially lower the price of oil to developing nations.

Greater Supplies

There is increasing evidence, despite the Arab position that termination of embargoes is

dependent on an Israeli commitment to total withdrawal from occupied territories, that the embargoes against the US and the Netherlands will be dropped when a disengagement of Egyptian and Israeli forces begins and that oil production will increase in the near future. Rumors persist, for example, that Saudi Arabia will unilaterally renounce the embargoes. Even if the Saudis do not make a unilateral decision, however, the embargoes and cutbacks may be abandoned—or modified out of existence—at the next meeting of Arab producers in Libya on February 14. Embargoes against Portugal, Rhodesia, and South Africa may be retained, however, to please the Black Africans.

The Arabs recognize that oil company diversions have partially offset the embargoes, sometimes at the expense of countries that supposedly were being favored. Moreover, the expansion of the favored list to include such major consumers as Japan and Belgium will make production increases necessary. The Arabs' decision on December 25 to raise January production about 11 percent will bring the Arabs up to 17.4 million barrels a day, some 15 percent below the pre-crisis level.

Impact on Importers

For consumers, cost problems have now largely replaced supply problems. Increased oil



Ministers of OPEC meet in Geneva

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prices will mean a \$70-billion increase in 1974 oil bills if, as seems likely, world oil exports approximate last year's and prices change little. Western Europe will experience about a \$33-billion increase; Japan, \$11 billion; and the US, almost \$16 billion. Only a small part of this can be offset by exports to the oil producers, by earnings from transport services, or by remittances of oil company profits.

Soaring payments for oil threaten a massive loss of purchasing power in the importing countries, equivalent to about 3 percent of gross national product in Western Europe and Japan. All face severely reduced rates of economic growth—perhaps even declining output—and increased unemployment unless expansionary measures are taken. The governments will be cautious in stimulating demand, however, because of already high rates of inflation and the uncertain impact of energy shortages on productive capacity.

International Impact

Any attempts to redress deteriorating trade balances—through import restraints or competitive devaluation—could aggravate international economic tensions. The energy problem has already eclipsed international trade and monetary negotiations. Major governments will be hesitant to move forward on reform issues until economic prospects become clearer.

World financial markets should be able to absorb the oil producers' new wealth if they continue to follow conservative investment policies. Even so, the massive buildup of funds will be a potentially destabilizing force in world exchange and financial markets. The strengthened dollar and the devalued Japanese yen stand witness to the effect of the oil crisis on exchange markets.

MONETARY DEVELOPMENTS

The Committee of Twenty, the group charged by the International Monetary Fund with negotiating monetary reform, meets in Rome this week. It will focus on the effects of sharply increased oil prices on the world monetary situation. The views of some nations were revealed at a

closed meeting of central bankers held in Basel last week.

European bankers reportedly expressed deep concern over the viability of existing exchange rates. Most felt that the rates, once believed worthy of defense, are now outdated because of the impact of higher oil bills on each country's balance of payments. The French representative said that it is more important for the Europeans to maintain the joint float than to support their exchange rates against the dollar. A strengthening dollar would, of course, improve Europe's competitive position. The Europeans apparently are in unanimous agreement that continued floating of their currencies as a group is essential. Even Japan has reluctantly accepted the necessity for floating as an interim measure while stressing the need to return ultimately to fixed rates.

West Germany, the only European nation that has intervened heavily to hold down the dollar's recent appreciation, expressed disappointment that other European nations and the US have not done more to maintain market stability. Bundesbank spokesmen claim that German intervention would have been even greater if efforts to stem the mark's decline had not begun to strain the joint float by increasing the spread between the mark and the French franc.

The bankers did not discuss basic monetary reform in Basel, agreeing that a solution of current problems is more urgent. Some attention will be given to reform at the Rome meeting, however, which originally had been scheduled expressly for this purpose. A consensus may be developing so that a few issues, such as an international unit to replace gold as a standard of value and the future role of the International Monetary Fund, can be resolved in the near future. The French—the primary opponent of many US proposals—and perhaps the Germans have accepted this view. Nevertheless, the July 31 deadline for a draft agreement on over-all monetary reform cannot be met.

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As for the money market, the dollar has again begun to strengthen after its brief downturn last week. Both sterling and the lira fell to new lows. A decline in some German interest rates, following the Bundesbank measure to increase domestic liquidity, helped to weaken the mark. The Bank of Japan sold \$160 million on January 14 to hold the yen at 300 to the dollar.

rating that its requirements for foreign exchange have been temporarily satisfied. During the first nine months of 1973, the Soviets sold about 300 tons of gold, compared with 160 tons in all of 1972. South Africa, the world's largest producer, continued to sell gold from its reserves during the last quarter of 1973 to meet its exchange needs.

GOLD MARKET DEVELOPMENTS

The price of gold reached a record high of \$128 an ounce at mid-day on January 17 in London. Unstable conditions on world money markets have recently increased demand for gold, and reduced Soviet sales have limited the supply.

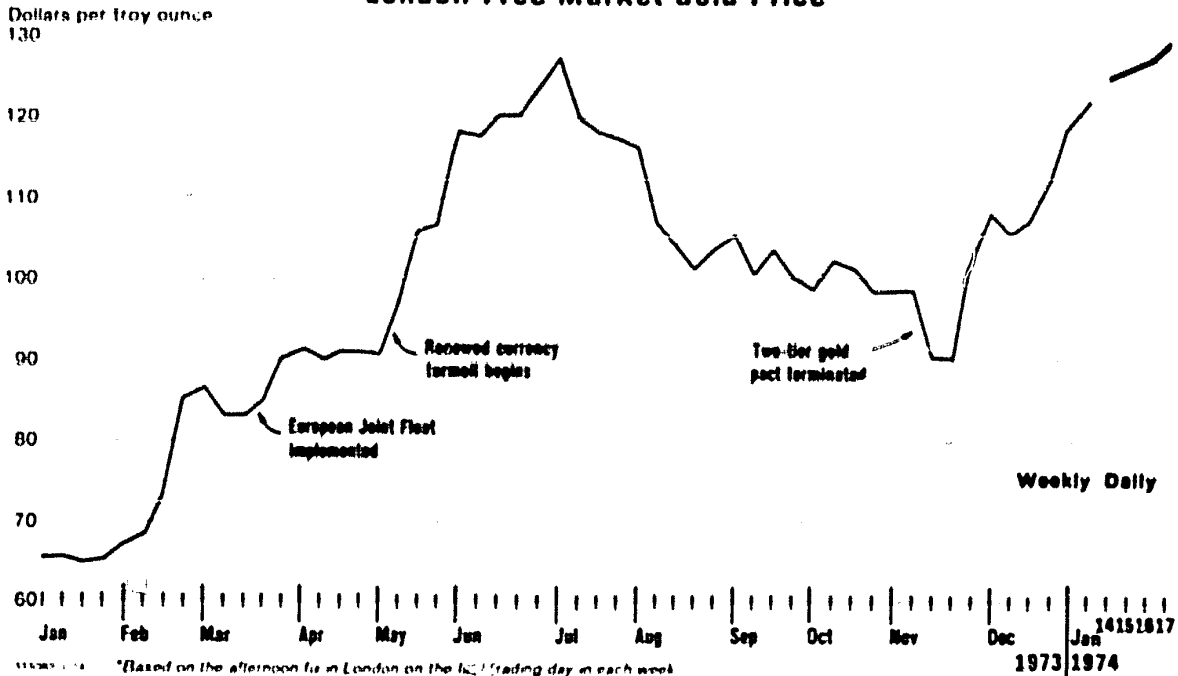
Speculative demand for gold probably will remain high in 1974 because the energy crisis assures turbulent money markets. Demand for commercial and dental use is not sensitive to price changes and thus is likely to continue its slow growth. Soviet gold sales probably will drop in 1974, given the expected improvement in the USSR's hard-currency trade balance, but increased South African offerings could more than offset the cut in Soviet sales.

Moscow made only small sales in October and has sold practically no gold since then, indi-

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London Free Market Gold Price*

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