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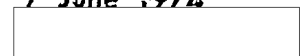
Weekly Review

~~Top Secret~~

7 June 1974



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The *DIRT* (D-717 #), 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 and their more comprehensive treatment and updates published separately as Special Reports are listed on the contents.

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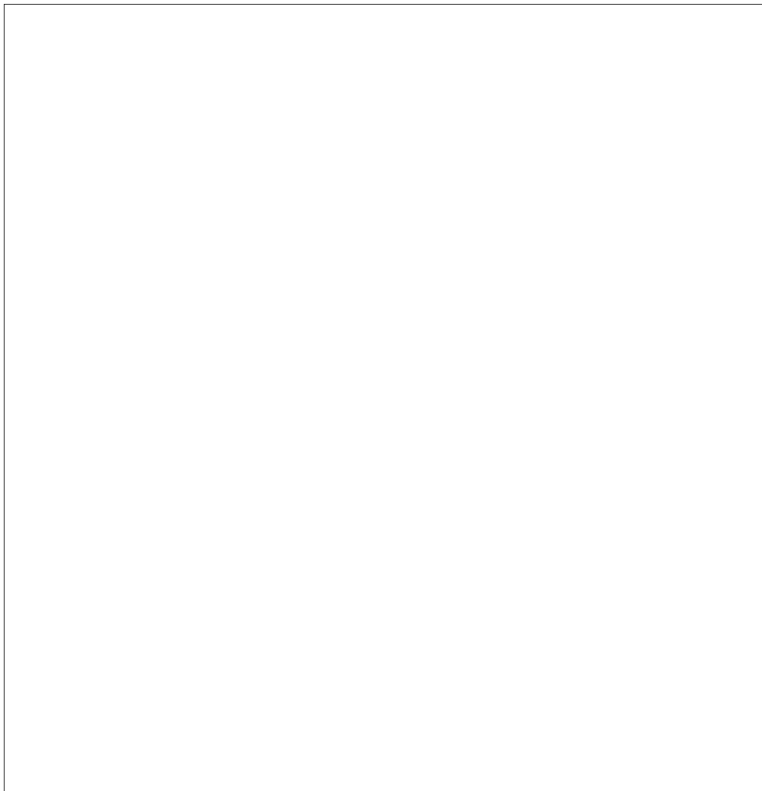
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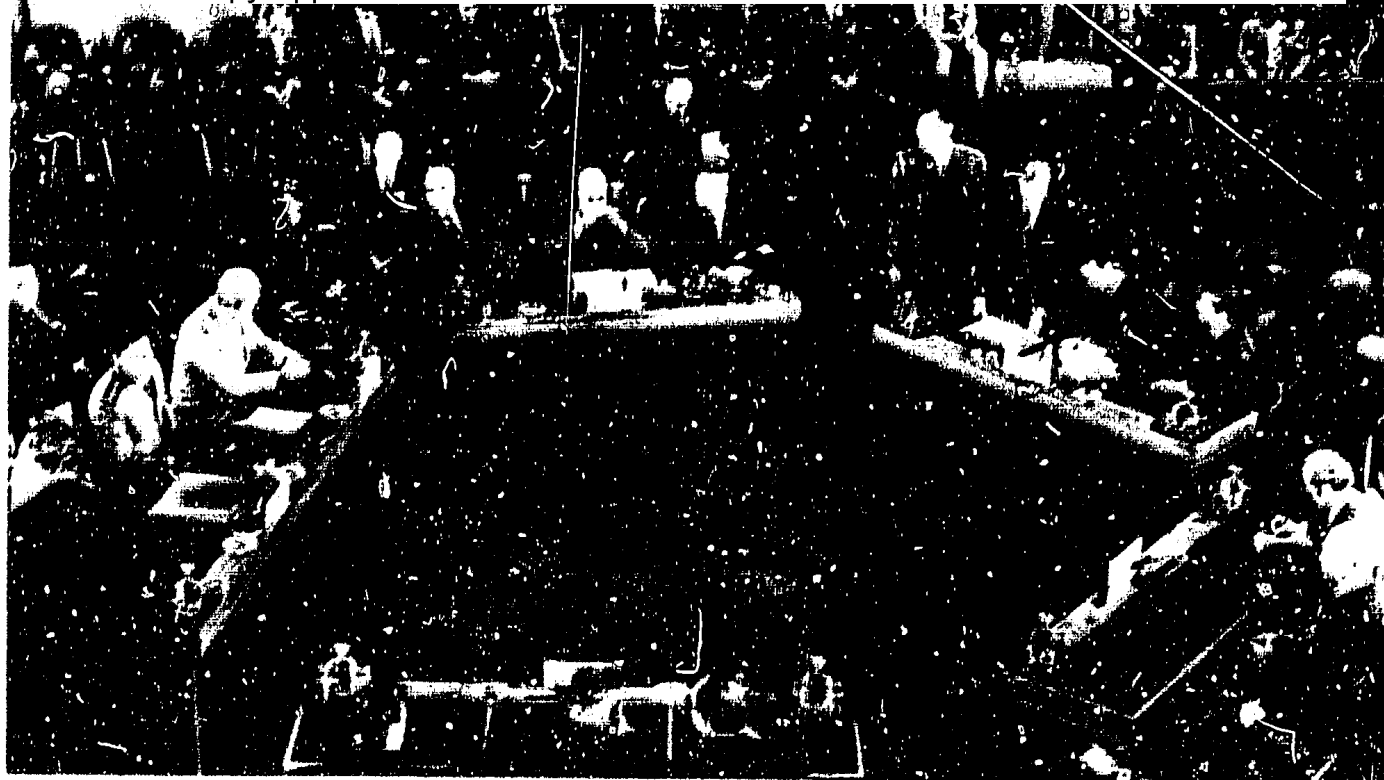
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The Middle East

Disengagement Moves Forward

Syrian and Israeli military representatives, communicating in Geneva through UN military officials, quickly wrapped up the final details of the disengagement accord they signed on May 31. Among the arrangements worked out this week was the timetable for implementing the accord, which includes provisions for the withdrawal of Israeli forces from all the Syrian territory occupied last October and a small part of the area taken in 1967, the stationing of UN forces in a buffer zone, and the gradual thinning out of forces on both sides. Under the terms of the accord, disengagement must be completed by no later than June 26.

Both the Israelis and Syrians began withdrawing some of their artillery battalions from the Golan front even before the final agreements were signed on June 5.

The first group of UN troops, drawn from the force that is policing the Egyptian-Israeli disengagement, arrived in the area the same day. Additional UN units are due to arrive in the

Golan Heights over the next few days. The force, which became operational on June 6 is expected to attain its full authorized strength of 1,250 men quickly.

The Syrian Reaction...

To try to play down the significance of the accord, the Syrians barred newsmen from the formal signing ceremony on May 31. The initial official reaction from Damascus was equally restrained. Syrian Foreign Minister Khaddam stressed that the accord was not a peace agreement, but only an armistice and a first step toward a hoped-for lasting peace settlement in the Middle East. After the ruling Baath Party formally approved the agreement, official reticence gave way to claims of victory for Syria and praise for President Asad.

Asad's popularity and political strength have probably been given a boost by the accord. With characteristic caution the Syrian President carefully obtained endorsements for the agreement from all of Syria's major political parties. Although there is sure to be some residual



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opposition within the military, the disengagement agreement has probably been well received by most of the Syrian armed forces.

...and the Israeli

Public reaction in Israel, where the Knesset approved the agreement on May 30 by a vote of 76-36, has been generally favorable. Most editorial comment has been positive. The press has stressed the view that Israel gained more than it was forced to give up and has underlined the importance of the precedent established by Syria's entry into an agreement with Israel.

Domestic Israeli criticism has focused on the failure of the agreement to spell out any Syrian obligation to control fedayeen terrorists. The government has managed to offset much of this by intimating that it has US assurances of support

for Israeli anti-terrorist actions in the event the fedayeen strike at Israel from Syria.

Reflecting Israel's generally skeptical attitude toward the Arabs in general, and Syrians in particular, Prime Minister Rabin told the Knesset on June 3 that his new government's first task will be to monitor the agreement closely to ensure that it is scrupulously observed.

The Egyptian Perspective

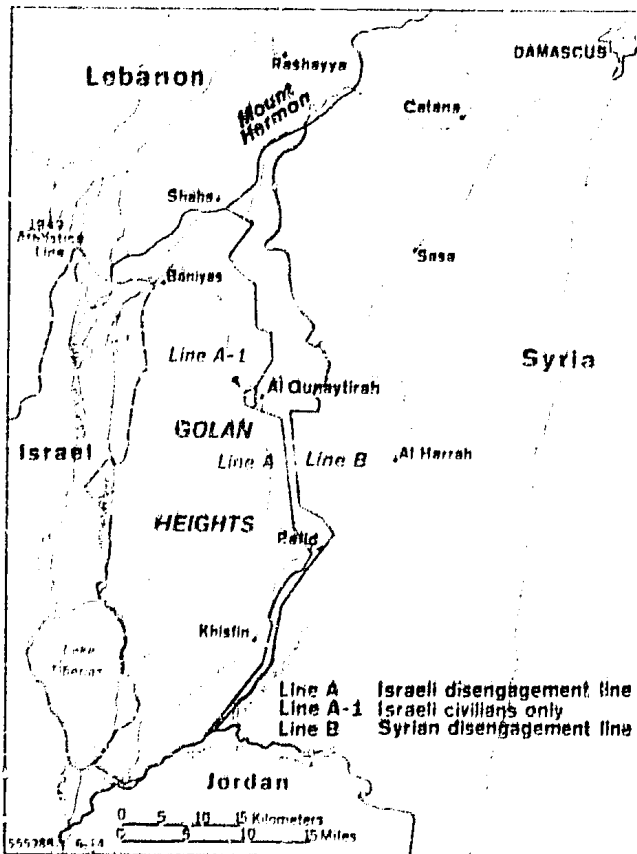
Syria's decision to negotiate and sign an agreement with Israel ratifies President Sadat's moderate policies. Sadat no longer stands alone as the only Arab leader who has compromised with the enemy, and radical Arab attacks on him for having abandoned the Arab cause will lose their bite. With Asad's support, he will be freer to press moderation on Arab recalcitrants.

Sadat can also more easily pursue the domestic reconstruction program he has set in train. Radicals had pointed to this program as a further sign that he was placing Egypt's concerns above general Arab interests. By the same token, Sadat may feel he can ease some of his own verbal counterattacks on Arab extremists, particularly the Libyans, for trying to prevent a disengagement accord.

Whatever satisfaction Sadat derives from the Syrian agreement, however, may be short-lived. He has said that the next stage at Geneva must involve not only Egypt, but also Syria, Jordan, and the Palestinians. It will be an arduous task merely to get all these to agree on attending the conference, and, even if this is achieved, the substantive negotiating problems involved will be more difficult still. Sadat will again be tempted to move out ahead of his colleagues in resolving Egypt's differences with Israel, and in the process he could again face the isolation that threatened him in the period between the two disengagement accords.

Jordan Next?

Jordan's Prime Minister Zaid Rifai congratulated the Syrian government on concluding



the disengagement agreement and praised Damascus for defending the "basic concepts of the Arab position." Stressing the need for continued Arab unity, Rifai then called attention to the "necessity" of completing a similar disengagement on the Jordanian front. The Jordanian media took much the same line this week. Both Rifai and King Husayn can be expected to raise this question with President Nixon when he visits Amman later this month.

Odd Men Out

Syria's acceptance of the disengagement agreement will further isolate Libya and Iraq from the Arab mainstream. Sensing its deepening problems, Tripoli has remained virtually silent about the accord. The Libyan media ignored the agreement for several days and have subsequently limited coverage to bland reporting of world reaction.

Baghdad has not reacted officially, but a top leader of the governing Baath Party has denounced the accord as a plot against the Palestinians. Both the Arabic- and English-language press have played down the agreement, although full details have been published. Editorial comment, though muted, has been generally negative, reflecting the government's underlying opposition to any peaceful settlement. The non-strident, more-sorrow-than-anger approach taken by Baghdad may reflect uncertainty among the Iraqi leaders about their relations with the Arab world following the disengagement.

Moscow Voices Support



Soviet media have also stressed the positive nature of the agreement. They praised Syria's steadfastness and its reliance on the USSR as the real reasons for the success of the negotiations. The accord, nevertheless, was characterized as

only a first step, and Brezhnev emphasized the necessity of swiftly returning the peace negotiations to Geneva.

Very little attention has been given to the personal role of Secretary Kissinger, and US participation has been highlighted only in the context of US-Soviet cooperation in Geneva and the UN Security Council. Foreign Minister Gromyko's two-day trip to Damascus immediately prior to the conclusion of the agreement was clearly aimed at showing that Soviet contacts with the Syrians played a decisive role in the success of the negotiations. Asad's willingness to play up the Soviet role both prior to the agreement and in the future at Geneva almost certainly accounts for the Soviet's positive reaction to this accord in contrast to their slighting of the earlier Egyptian-Israeli accord.

In keeping with its effort to play down US involvement, Tass has thus far only made brief references to President Nixon's visit to the Middle East next week and to the restoration of US-Syrian diplomatic relations.

THE PALESTINIAN DEBATE

The signing of the Syrian-Israeli disengagement agreement has strengthened the hand of fedayeen leaders who favor Palestinian participation in Middle East peace negotiations. This includes PLO Chairman Yasir Arafat. Arafat this week has been attempting to draw on this strength to elicit approval of his relatively conciliatory policies from the Palestine National Council, the legislative arm of the PLO, which is meeting in Cairo.

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Predictably, representatives of the radical fedayeen organizations are opposing Arafat's initiatives. Their vigorous criticisms have caused the session in Cairo to be extended and may forestall any action on the critical question of whether the Palestinians should accept an invitation to attend the Geneva talks.

Reduced to essentials, the program advocated by the moderates who dominate the PLO leadership includes:



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- A call for international recognition of the rights of Palestinians "as a people" rather than as refugees.
- A refusal to recognize Israel or establish peace with it.
- A commitment to establish a "national authority" on any territory regained from Israel.
- An insistence that the PLO must control such an authority free of Israeli or Jordanian administrative interference.
- A willingness to accept some agreement with any of several Arab states to ensure the security of a Palestinian state.
- An understanding that the PLO, under certain conditions, would represent the Palestinians in the Geneva talks.

The call for the establishment of a "national authority" is the closest Arafat has been able to get toward gaining Palestinian acceptance of an autonomous state made up only of the West Bank and the Gaza Strip. Even moderate Palestinians are reluctant to imply by their acceptance of a state--rather than an ambiguous "authority"--that they are giving up the "fight against Zionism."

The radical groups that are cooperating under the guise of the Rejection Front oppose this strategy, including the compromise notion of a national authority. With the help of Iraq and Libya, they are waging a propaganda battle against an Arab-Israeli settlement on any terms. If the moderates finally win formal PLO approval of their plan to negotiate, the radicals almost certainly will step up their terrorist activities in the hope of undermining further progress at Geneva. [REDACTED]

US-USSR

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LOOKING TO THE SUMMIT

With the summit now set to begin on June 27, Soviet concern about the implications of Watergate for the Moscow meeting and detente has apparently subsided. Soviet media have begun a campaign that emphasizes the current benefits of improved US-Soviet ties and notes opportunities for further cooperation.

The Soviets, buoyed in part by the reception accorded the Supreme Soviet delegation in Washington last month, are now stressing the bipartisan character of US support for detente. The US embassy reports that Moscow has also begun to focus on the summit as an institution rather than a personal meeting between two leaders.

Soviet observers maintain that the trend toward rapprochement with the Soviet Union is gathering momentum in the US despite still-

formidable opposition. In response to US critics of detente, and perhaps those in the USSR as well, *Isrestia* argued last week that the problems of the cold war span decades whereas detente has just begun. Moscow radio credited improved US-Soviet cooperation with helping end the war in Vietnam, increasing the prospects for peace in the Middle East, and opening the way to the creation of a system of collective security in Europe.

The Soviets have been characteristically reticent in predicting specific results from the summit, but public optimism is being encouraged. *Isrestia* expressed confidence that further headway can be made in the field of strategic arms limitation. Other recent commentary has described the American public as assigning great importance to the expansion of bilateral scientific, commercial, and cultural relations. [REDACTED]

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France

A FLYING START

The promise of change, which was the theme of both presidential candidates in their election campaigns, has been the keynote of President Valéry Giscard d'Estaing's performance since his inaugural reference to the dawning of "a new era in French politics." The first indication of the "change" that Giscard has promised will be more evident in domestic than foreign policy.

Giscard has moved rapidly to consolidate his carefully nurtured image of vigor, simplicity, and ruthless efficiency. The studied informality of his inauguration, the speed with which he formed a government, and his unprecedented, nationally televised explanation of his choice of ministers have all lent credibility to his campaign promises for change. He has also established modest liberal credentials by calling for:

- Suppression of all telephone tapping "if it exists" (unless strictly necessary for national security reasons).
- Greater immunity for the press from government interference.
- More leniency in granting political asylum.

So far, however, the changes have been more of style than substance. He will have to follow up



with significant legislative reforms if he hopes to make the image stick and avoid a costly rupture with the left and with labor.

Giscard's most formidable task will be to control the country's galloping inflation and improve its balance of payments. He is likely to launch a major austerity program, and the government has already announced it intends to raise taxes. The Gaullists, who still hold the largest single bloc of seats in the assembly, would probably support such a program. As vehement critics of Giscard's failure to tackle inflation vigorously during the closing months of Pompidou's presidency, the orthodox Gaullists could hardly refuse to support stern anti-inflationary policies now.

The leftist opposition will fight belt-tightening legislation, but may be partly mollified if Giscard balances his austerity program with domestic reforms. According to the US embassy in Paris, a reliable source who is close to Giscard has affirmed that the President is planning "spectacular moves" in this area, including lowering the voting age from 21 to 19, or even to 18, and reducing military conscription from one year to six months—measures patently designed to appeal to youth. Whether he will go so far as to fulfill promises made in the heat of the campaign—immediate wage increases for the lowest paid, equal pay for women, lowered retirement age, increased old-age pensions, larger family benefits, and aid to the handicapped—is more in doubt. Many Gaullists will balk at the social reforms Giscard will need to pass in order to assuage the left and maintain labor peace. Thus, Giscard will be walking a narrow path between the Gaullists and the leftists that will become narrower as time passes and demands for economic and social reforms increase.

Giscard's foreign policy statements since he has been elected have not deviated from Gaullist tenets. When he presented his government's program to the National Assembly this week, Premier Chirac pledged that France would remain faithful to the Atlantic alliance and would seek close economic ties with the US, but he also vowed that US-French relations would be kept on a "strictly equal footing."

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Yitzhak Rabin presenting his cabinet to the Knesset

ISRAEL: RABIN CABINET APPROVED

The Israeli Knesset on June 3 approved Premier Yitzhak Rabin's 18-member cabinet by a vote of 61 to 51. The tally was a good measure of the balance of forces in the Knesset, where some rough sailing lies ahead for the new government. The core of Rabin's opposition came from the 39 vote conservative Likud bloc. Other opposition votes came from the ultra-orthodox religious Agudah Front and the National Religious Party, Labor's erstwhile coalition partner.

Rabin's chances of survival, however, are reasonably good. Over the short term the viability of his narrow coalition—which commands only a one-vote majority in the Knesset—will depend on whether he can patch up factional and personal conflicts in his own Labor Party. Rabin took a step in this direction when, in a last-minute cabinet reshuffle, he named Yehoshua Rabinowitz, the party's leader in Tel Aviv, to head the powerful Finance Ministry. The move should help placate Labor's dominant Mapai faction, upset over Rabin's removal of its colleague, Abba Eban, as foreign minister.

Although Eban harshly criticized Rabin's government, the other key leaders of Labor's old guard who are missing from the new government—Mrs. Meir, Moshe Dayan, and ex-finance minister Sapir—either have expressed cautious approval of the government or have withheld comment. Their attitudes will be crucial in Rabin's efforts to achieve party unity.

Rabin's government will probably get Knesset support from the five leftist and communist deputies on foreign policy issues and on votes of confidence. This will be enough to give him a majority in the event of some defections from his own ranks.

To improve his long-term prospects, and lessen the possibility of early elections, which Labor wants to avoid, Rabin must broaden his coalition by persuading the National Religious Party to rejoin the government. Several Knesset members recently told US embassy officers that Labor will make an all-out effort to do this. Religious party leader Burg told Ambassador Keating last week that there was a good chance his party would be back in the government within the next few months.

Divisions in the ranks of the opposition may also work to Rabin's advantage. Four members of the conservative Likud bloc, for instance, are known to have been against their leaders' opposition to the Syrian-Israeli disengagement agreement, even though only one of them broke party discipline.

Rabin's maiden speech to the Knesset as prime minister contained no new policy pronouncements. He repeated Israel's long-standing opposition to a return to the pre-1957 borders, a re-division of Jerusalem, or the creation of a separate Palestinian state on the Jordan River's west bank. He reiterated his belief that Israel must advance toward a settlement with its Arab neighbors in stages, largely through partial agreements such as the disengagement accords with Syria and Egypt. He indicated that he will try to repair Israel's weakened or severed links abroad, particularly with European and African states. Already one of Israel's staunchest proponents of close relations with the US, Rabin called for even stronger ties with Washington.

The new prime minister focused at length on domestic issues. In particular, Rabin promised that his government would heed the ferment among Israeli young people and seek to involve them in the nation's decision-making process.

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GREECE-TURKEY: TENSION EASES

The chances for a serious confrontation between Athens and Ankara over their Aegean seabeds dispute have diminished for the present. The Greeks chose to turn aside a deliberate provocation by the Turks last week, and the historic rivals now appear willing to work for a peaceful resolution of the problem, although they are watching each other closely.

A clash between the two countries seemed a real possibility for a time when Turkey sent a naval research ship, accompanied by warships, into the disputed area to survey for oil. During the five-day period the ship was in the Aegean, it apparently operated in a triangular area bounded by the Greek islands of Samothrace, Limnos, and Lesbos. Ankara's highly publicized move was clearly intended to underscore its determination to stake out what it regards as Turkey's rights on the contested continental shelf. A Greek note of May 24 had stopped short of a commitment to negotiate Aegean rights as the Turks have been urging for months. Athens did, however, hold out the possibility of some sort of talks.

Although the Greeks had threatened for weeks that, as a last resort, they would defend their claims to sovereignty in the area by military action, they made no move to challenge the Turkish ships. Greek strong man General Ioannidis let it be known privately that "seismological" work in waters over the contested seabeds would not of

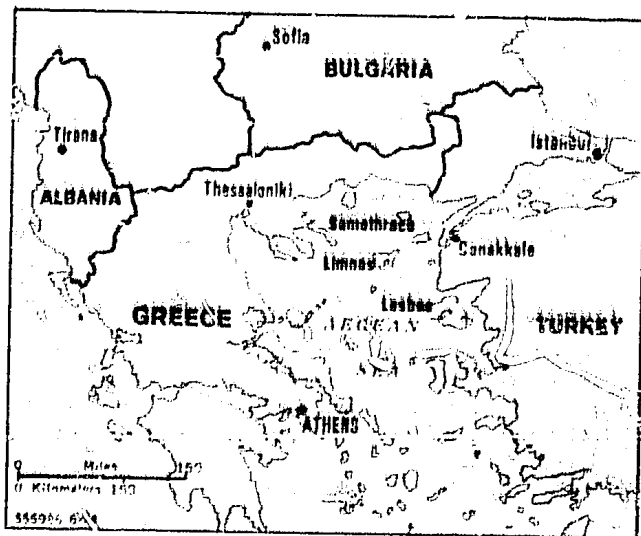
itself constitute grounds for a military response. He cited as a precedent some survey work previously conducted by the USSR. Ankara, having made its point, withdrew its ships. A Turkish Foreign Ministry official announced publicly on June 4 that the research ship had "completed its mission" and was heading for the Dardanelles port of Canakkale with its escort—probably two destroyers. The other ships that accompanied it to the disputed waters apparently left the Aegean on June 2 to participate in an exercise with the US Sixth Fleet in the eastern Mediterranean.

The Turkish official also said that his government would soon respond to the Greek note. He said Turkey would seek to resolve the problem in a spirit of "mutual understanding," but would defend its rights to the "bitter end."

Athens is resting its case on international law—specifically the Geneva Convention of 1958 defining a continental shelf—which the Greeks contend endorses their position. A Greek minister noted on June 1 that his government understood the need to cooperate with Turkey, but could not permit threats to its territorial integrity.

Reports from Thessaloniki early this week indicated that the alert that had been declared last week for Greek forces in that area was being eased, although military movements were continuing. Most of the aircraft that had been sent to forward areas near Thessaloniki had returned to their home bases by June 3. Some officials report, however, that Greek naval units remained in the waters around the islands of Limnos and Lesbos to monitor the movements of the Turkish exploration ship while it was in the Aegean. Turkish forces are also presumed to be somewhat relaxed from the alert of last week.

Foreign ministers of the two countries are to discuss the issue at the NATO conference in Ottawa on June 18-19, and other experts probably will take it up at the Law of the Sea Conference that starts in Caracas later the same week. A long period of diplomatic wrangling seems certain, since present views of what determines rights to the continental shelf are far apart. With feelings on the basic issue continuing to run strong in



both governments, new threats and demonstrations that could lead to an incident remain a possibility.

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manent members of the Security Council to extend a nuclear umbrella over "threatened" states such as Pakistan. Islamabad warns that unless firm steps are taken the peace of the world will be in jeopardy.

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PAKISTAN: REACTION TO INDIA'S TEST

Islamabad is deeply concerned over India's detonation of a nuclear device on May 18, believing that one of New Delhi's aims is to force Pakistan to accept Indian hegemony in the sub-continent. Aware that most of the world has reacted unfavorably to the Indian blast, Prime Minister Bhutto has launched an extensive diplomatic campaign designed to gain international guarantees for Pakistan's security.

A major aspect of the diplomatic campaign has been the dispatch of similarly worded letters to major world leaders soliciting their political support. In the letters, Bhutto asserts that Pakistan is exposed to "a kind of nuclear threat or blackmail unparalleled elsewhere." He argues that if the world community fails to provide Pakistan and other non-nuclear countries with political insurance against nuclear blackmail, these countries will feel constrained to embark on nuclear programs of their own.

In Bhutto's view, existing assurances provided by the UN Security Council to non-nuclear states do not provide the insurance he is seeking. Noting that the Security Council has a "special responsibility" to act in this matter, he has sent messages to Secretary General Waldheim and to the leaders of the permanent members of the council.

In addition, Pakistan has presented an aide memoire to many of the non-nuclear nations of the world, calling upon them to press the per-

Pakistan has sought to underscore its concern by postponing bilateral talks with India on the restoration of communications and travel, which were scheduled to begin on June 19. Claiming that the "atmosphere has become unfavorable for a successful outcome," Islamabad has left unanswered the question of when the talks would begin.

Despite its broad diplomatic campaign, Pakistan continues to concentrate on securing support from the US and China. The second-ranking member of the Pakistani Foreign Office was scheduled to visit Peking this week to discuss bilateral cooperation in the nuclear field. China's response to the Pakistani request is likely to be far less firm than Islamabad wishes.

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In contacts with the US during recent months, Prime Minister Bhutto has sought to convince Washington that its embargo on the supply of conventional weapons to Pakistan should be lifted. He has publicly taken the position that under the terms of bilateral treaties signed in 1954 and 1959 the US is obligated to supply arms. Pakistan's immediate concern is the modernization of some 265 aging US built tanks.

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PORTUGUESE AFRICA: TALKING WITH REBELS

With the holding of preliminary talks in Lusaka with the Front for the Liberation of Mozambique, Lisbon moved a step closer this week to its immediate goal of drawing the insurgent movements in all of its African territories into a dialogue. Talks with Portuguese Guinea insurgents will resume in London on June 8, after a one-week adjournment; the rebels in Angola still refuse to meet with the Portuguese. From developments in the territories and the talks that have taken place so far, it is becoming increasingly clear to Lisbon that General Spínola's original blueprint for a Lusitanian federation with the African territories is unrealistic.

The Mozambique rebels, led by front president Samora Machel, took a tough initial stance at the Lusaka talks, which began on June 5. After setting forth basic positions, the two sides agreed to meet next month for detailed discussions. The rebels have made military gains in recent months and appear determined that Lisbon accept independence for Mozambique as a basic right of the people, not subject to negotiation. They insist that any talks concentrate on the means of transferring political power "to the Mozambican people, under the leadership" of the front. General Spínola's provisional government is committed at present to hold self-determination referendums in all the African territories within a year. Ballots would offer independence as one of a number of possible alternatives.

It is important to Lisbon to maintain this commitment—at least regarding Mozambique and Angola—to allay fears within the sizable white settler populations there that the new government plans an early military withdrawal in favor of the insurgents. Moreover, Portuguese officials have privately expressed the fear that independence for Mozambique would be quickly followed by civil war. They base their gloomy outlook on the rapidly deteriorating relations between blacks and whites in recent years and on the bitter tribal hostilities among the Africans.

Their pessimism about Mozambique has been underlined recently by spreading unrest, which stems in part from labor agitation and from growing support for the insurgents among Africans and white leftists, particularly in the capital of Lourenço Marques. There is increasing fear in that city that urban terrorism may develop and lead to racial violence.

British officials, who have spoken with rebel delegates from Portuguese Guinea, expect an early agreement on a cease-fire for that territory, with a regrouping of military forces in agreed areas. The officials also believe that arrangements will be made for a referendum to be held at some future date. The future of the Cape Verde Islands, which the rebels claim and Lisbon wishes to retain, will apparently be put off for later discussion. Algerian officials, who talked with the rebel delegation while the talks were adjourned, also expect an early agreement.

The Portuguese are under no immediate pressure to meet with the Angolan insurgents, who are divided into three competing groups, none of which has significant military or political clout. Nevertheless, Lisbon is faced in Angola with many of the same pressures it is encountering in Mozambique—growing urban unrest, increasing African support for the insurgents, greater racial tension, and a widespread unease about the future among both blacks and whites.

General Spínola is expected to visit Angola and Mozambique in the near future, perhaps as early as next week. His visit will be in conjunction with the swearing in of new governors-general for the two territories, which may ease local feelings that Lisbon is not concerned. The new governors are to head provisional regimes that have been promised greater economic autonomy.

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MINE-CLEARING IN THE SUEZ

The Soviet Union is apparently taking steps to implement its recent agreement to carry out mine-sweeping operations in the Gulf of Suez.

Three Soviet minesweepers that left the Baltic on June 2 have passed through the English Channel and probably are on their way to Egypt for operations in the Strait of Gubal at the southern end of the Gulf of Suez. A Cairo newspaper reported on June 1 that the USSR will clear mines and war debris from the Gulf of Suez before August 15. Earlier, [redacted]

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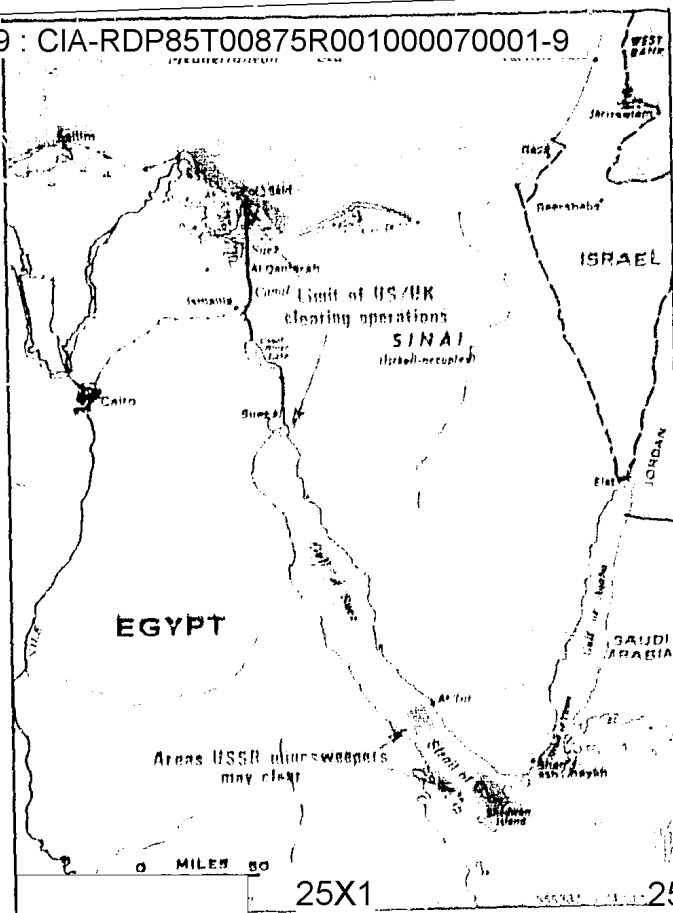
The Soviets are eager to become involved in what up to now has been an essentially Western effort, heavily involving the US. The Cairo press reports that the Soviets will not charge for their services.

The ships from the Baltic are Natya-class minesweepers, the Soviet navy's most modern ocean-going minesweepers. Work is in progress to clear the Suez Canal for traffic, and the Natya minesweepers will probably aim to reach the Gulf of Suez via the canal rather than travel around Africa, even if this means some waiting in the eastern Mediterranean. Early on June 6, five more Soviet minesweepers and additional support ships departed the sea of Japan and headed south. They probably are also en route to the Gulf of Suez via the Indian Ocean. [redacted]

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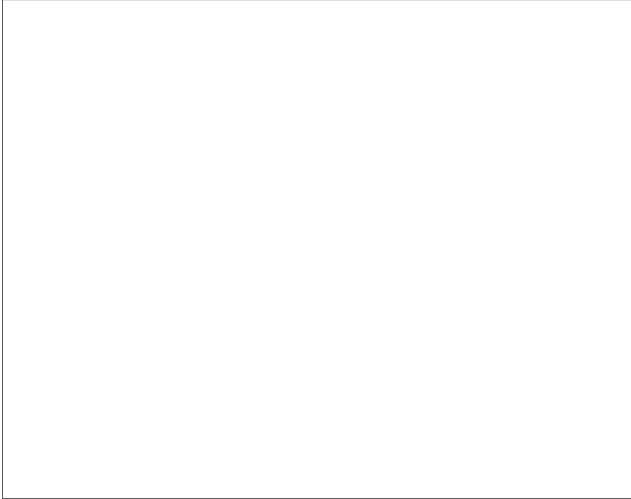
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larly important for Germany because widespread import restrictions would cut German employment. On economic grounds alone, there is ample reason for an active German search for a solution.

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On June 4, Foreign Secretary Callaghan outlined for the EC foreign ministers the UK's position on "renegotiating" the terms of its membership. Callaghan sought community approval for a formula under which Britain's net contribution would be related to Britain's share of the community's gross national product. The British suggestion would do some violence to the concept of the community as a unit deriving income from its own resources, composed of common tariffs, agricultural levies, and ultimately a percentage of the value-added tax receipts.

EC: HOPES FOR REVIVAL.

Now that new governments have been installed in the major EC capitals, community activity is picking up, with Bonn taking the lead. A pragmatic mood prevails and a search is on to find some way to prevent the increasingly serious economic problems of most members from eroding community solidarity beyond repair. West Germany's relative prosperity is giving Bonn increasing weight in EC affairs, as the members with balance-of-payments problems ponder what help they will need from the community.

Community members may nevertheless be willing to look for some practical way to reduce Britain's net contribution to community funding, a matter of considerable political importance to the Wilson government. Bonn, the community's rich uncle, is less willing to go out of its way for the British than for the French. This is particularly true as long as the UK's commitment to the community is in doubt.

The meeting on May 31 - June 1 between Chancellor Schmidt and President Giscard d'Estaing—less than two weeks after the French election—highlighted the importance of the Franco-German relationship in resolving community problems. In preparatory discussions, Bonn recognized that France is politically sensitive about a too obvious monetary dependence on West Germany. Bonn, therefore, reportedly favors a substantial contribution to a community assistance plan peculiarly adapted to French needs.

The EC also made an effort on June 4 to find an acceptable way to cope with Italy's insistence that it must restrict imports to combat its disastrous balance-of-payments problem. Rome had imposed a deposit requirement applying to certain imports. At the meeting, Rome agreed that its farm imports, which come largely from France and Germany and are subject to the common agricultural policy, should be exempted for the most part. A 12.5-percent decrease in the agricultural exchange rate was accepted as a partial substitute—a measure that should discourage foreign competition. This will be less apt to provoke retaliatory protectionist measures and hence less destructive for the community.

Bonn believes that if France and the other partners were to adopt Italy's recent stratagem of import restrictions, the two pillars of European integration—the customs union and the common agricultural market—would collapse. Free trade movement within the common market is particu-

Efforts to find a community solution to the members' problems are only beginning. EC members face a full schedule of consultations this month and are showing some optimism. The problem of curbing inflation while avoiding recession may, however, prove intractable for the EC working alone.



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NATO: SEEKING UNITY

The question of allied confidence in the US commitment to Europe will loom over the series of NATO ministerial meetings this month, culminating in a foreign ministers' session in Ottawa. At the same time, many Europeans will be seeking reassurance that Europe's role will be that of an equal partner and that the US will support the slow steps toward eventual European unity. Non-EC members, meanwhile, are wary of the attention that the phenomenon of "the Nine" commands within NATO deliberations. The effort to balance these conflicting requirements presents the ministers with a difficult task.

The eight defense ministers, including those from the US and UK, constituting the NATO Nuclear Planning Group, will gather in Bergen, Norway on June 10-11. They will concentrate on a review of tactical nuclear weapons strategy and the impact on military planning of the latest US nuclear research and development, e.g., "mini-nukes." The ministers will be after a fuller exposition of US plans for retargeting strategic nuclear weapons and the effect this might have on the US commitment to Europe. Despite US assurances, there still are lingering doubts about the US strategy of a graduated nuclear response, particularly the willingness of the US to risk massive nuclear attack against US cities in responding to a Soviet nuclear strike against Europe.

All the alliance defense ministers, except the French, will meet in Brussels on June 14 in a session of the Defense Planning Committee. The ministers will review the rather dismal prospects for attainment of conventional force goals for 1975-1980. Recent announcements by the British and Dutch of their intentions to make substantial defense cuts threaten to upset further the NATO - Warsaw Pact balance in Europe. The defense ministers will try to forestall a bandwagon effect of unilateral force reductions that could result in increased congressional pressure for major reductions of US troop strength in Europe. The ministers will also review the status of East-West negotiations on troop reductions. Confidence in the US commitment to Europe will be crucial in helping to allay growing fears in Bonn and

London that a force reduction agreement involving the West Europeans would threaten European security.

The defense ministers will also consider the Eurogroup's efforts to standardize European armaments, an issue that raises the problem of how the Europeans and the US can cooperate to maintain a viable European armament industry without jeopardizing the needed flow of sophisticated US weapons and technology. Questions of US-European balance within the alliance will also be involved in discussions on the specialization of roles for national forces, improvement of allied cooperation in the areas of communications and intelligence, and a reduction in the US share of NATO infrastructure expenditures as part of the effort to ease the foreign exchange costs of maintaining US forces in Europe.

The NATO foreign ministers at their meeting on June 18-19 are likely to approve an Atlantic declaration marking the 25th anniversary of NATO. NATO representatives have been struggling to agree on such a document following Secretary Kissinger's call early last year for a "new Atlantic charter" to redefine US-European relationships. Most of NATO's EC members are not happy that work on a parallel US-EC declaration has virtually come to a halt. France may now be easing its objections to wording in the current NATO draft that calls for allied consultations on non-military issues covering areas outside of Europe.

A review of progress at the CSCE and MBFR talks is also high on the agenda of the foreign ministers. The EC Nine are increasingly pessimistic over the possibility of concluding the CSCE talks this summer. They are seeking a common position with the other NATO allies that would enable the West to extract further concessions from the Soviets. Like the defense ministers, the foreign ministers will also review progress in achieving allied goals at the MBFR talks. The US again will be pressed to ease European concerns at both sets of negotiations.

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ENERGY: EUROPEAN VIEWS

Preparations for the ministerial meeting on June 16-17 of the 12-nation Energy Coordinating Group continue, but there is a growing uneasiness among some of the West European members who fear that the US commitment to the group is waning.

The coordinating body was established by the Washington Energy Conference last February to study the problems common to oil-consuming nations and to set the stage for an early conference between oil-producing and consuming nations. France split with its community partners and argued against focusing the follow-on activities of the conference in the coordinating group.

The European members remain strongly committed to the group and regard it as a desirable mechanism for contact with the oil producers. In recent days, they have been urging the group's members to lobby directly with members of the oil-producing cartel against possible increases in oil prices which OPEC will consider at its meeting in Quito on June 15. There is substantial agreement among the European members that the technical work done by the energy group's various subcommittees has been successful and practical. Nevertheless, they are blaming the slow progress toward a consumer-producer conference on the lack of political focus in the discussions, for which they feel the US is in large part responsible.

INFLATIONARY PRESSURES INTENSIFY

All of the major OECD countries, except West Germany, experienced double-digit inflation in the first quarter of 1974. Higher crude oil costs directly account for about one quarter of the increase in consumer prices. Much of the one-time effect of higher raw material prices is now past, but the rate of increase of prices of manufactured goods is accelerating. Consumer prices, consequently, will continue to grow rapidly, although the rate should slow.

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**Increases in Consumer Prices,
Major OECD Countries***

(percent change at annual rates)

	Fourth Quarter 1973	First Quarter 1974
Canada	6.8	11.2
US	8.8	13.2
Japan	20.0	34.0
France	10.4	16.8
Germany	11.6	6.8
Italy	13.6	25.2
UK	14.0	18.0

*OECD data

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Provisions for sharing both oil, in the event of another oil emergency, and uranium enrichment technology are also in contention between the US and other group members. The European states are asking the US to express a willingness to share, if necessary, domestic oil production, although they also concede that implementation of such a measure would not be possible until the

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US is closer to oil self-sufficiency. The Europeans also feel that the US has backtracked on the offer to provide uranium enrichment technology made by Secretary Kissinger at the Washington conference.

The Europeans' concern about US intentions in the energy group has not, however, reduced their interest in its work. At the ministerial meeting, the members will try to aim for a meaningful conclusion to the group's work by September in order to allow the smooth transfer of both technical and political questions to committees of the Organization for Economic Cooperation and Development and other international organizations.

OECD: AGREEING TO ABSTAIN

Members of the Organization for Economic Cooperation and Development last week agreed to abstain for a year from using beggar-thy-neighbor policies to deal with economic problems induced in part by their severe payments deficits problems. The agreement means different things to each country involved, however, and its implementation will entail difficult negotiations in the months ahead. While not legally binding, the declaration will help the governments resist growing protectionist pressures.

At the meeting in Paris, representatives of the 24-member group pledged to:

- Avoid unilateral measures to restrict imports and other current account outflows.
- Avoid artificial stimulation of exports, including competitive use of export credits.
- Avoid export restrictions contrary to the objectives of the charter.
- Consult with one another on emergency measures.

- Give due regard to the special needs of developing countries.

The declaration provides no mechanism for enforcement and generally leaves interpretation of the provisions to individual countries. Italy and Denmark will be allowed to maintain unilateral trade restrictions adopted in recent weeks; both countries have promised to moderate the measures when their situations improve. Other countries in serious straits—including the UK, Greece, and New Zealand—interpret the declaration to permit actions to correct persistent deficits not related to high oil prices.

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The wording of the ban on export restrictions had to be particularly loose to satisfy all parties. Natural resource exporters—such as Canada, the Nordic countries, and Australia—were reluctant to accept such a ban. They feared that a sudden rise in export orders could further disrupt their economies. Japan and the EC, which are natural resource importers, were determined that a ban should be included, fearing stringencies in key raw materials.

To back up the present accord, the more prosperous member countries will have to adopt cooperative lending policies, and the nations in trouble will have to introduce austerity measures. The burden of cooperative financing will fall mainly on West Germany and the US.

Bonn is willing to grant credits to EC member states in balance-of-payments difficulties, but only if they undertake effective stabilization programs. The new governments in Rome and London, however, may not be politically able to put their economic houses in order. These two countries alone are expected to accumulate current account deficits totaling \$18 billion this year. Bonn is sufficiently alarmed about Italy's plight to consider participating in a large loan, provided that Rome puts up part of its gold reserves as collateral.

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YUGOSLAVIA: TENTH PARTY CONGRESS

The Yugoslav party's tenth congress last week turned out to be a fairly routine—if unusually enthusiastic—reaffirmation of Titoism and a demonstration of the unity and discipline forged during the past three years of political house-cleaning. Tito accepted the position of party president for an unlimited term, but he refused to bow to pressures to designate a party successor.

With the exception of Tito, Edvard Kardelj and Stane Dolanc remain the two most influential men in the leadership. As party theoretician and long-time associate of Tito, Kardelj is closely associated with the creation and elaboration of the self-management and nonalignment policies, which form the core of Titoism. For the past three years, however, he has been busy writing the new constitution and has reportedly lost some of his political clout. A younger, high-level party official recently asserted that Kardelj, at 64, is becoming "senile" and can no longer contribute. Nevertheless, he was re-elected to the presidium, and he is also a member of the State Collective Presidency. These positions assure Kardelj a continuing influence in the decision-making process.

Dolanc retains his strategic post as secretary of the Executive Committee, which oversees both the implementation of party policy and the preparation of policy options for the presidium. The size of the committee has been increased from 8 to 12 members, thereby increasing its potential for guidance and control. The prominence of the 48-year-old Dolanc has, however, put him in a delicate position regarding more senior members of the regime. Indeed, rumors in Belgrade prior to the congress claim that he was mildly chastised for being too much in the limelight.



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Personnel changes at the congress appear to have created a working collective of civilian and military leaders under the party's watchful eye. For example, all members of the State Collective Presidency plus some key cabinet officials—the premier and the foreign and defense ministers—are now presidium members. In addition, a military man was elected to the Executive Committee.

1973. They have finished work at 100 of these silos, where the SS-11 Mod 3 is now installed. At their present pace, they could have all 200 silos at the three complexes completed by the end of the year.

Silo modernization continues at three other SS-11 complexes, where 40 of the 220 silos involved are now being worked on. [redacted] 25X1

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With the new constitution adopted in February, the governmental apparatus installed in April, and the party changes at the tenth "landmark" congress, the Yugoslavs have now largely created the institutional framework that will carry them through the succession period. [redacted]

Based on the progress in the eastern USSR, the modernization program at all six complexes could be completed sometime in early 1976.

The silos at the other six SS-11 complexes are either undergoing conversion or soon will be. The missile for these silos is either the SS-X-17 or the SS-X-19—liquid-propellant ICBMs now being flight-tested. [redacted] 25X1

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USSR: SS-11-SILOS MODERNIZED

[redacted] At Kozelsk, 25X1-
viets were clearing an area near a railhead, probably to store construction materials that would be shipped in prior to silo conversion.

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[redacted] paving the way for installation of new ICBMs. All 12 of their SS-11 missile complexes are now involved to some degree in these programs.

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At six SS-11 complexes—comprising 420 silos—the Soviets are modernizing in preparation for installation of an improved version of the SS-11—the Mod 3, which carries three re-entry vehicles that are not independently targetable. Modernization does not involve substantial structural changes to the silo and requires four to six months for completion.

The Soviets first began to modernize silos at three SS-11 complexes in the eastern USSR in

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PERU: CABINET RIFT WIDENS

The forced resignation last week of Navy Minister Vargas was followed on June 4 by the resignation of two more cabinet-level admirals. In addition, some 147 navy officers of various ranks reportedly have quit in protest over the Vargas affair.

Although the threat of an immediate violent split between factions in the upper levels of the Velasco government appears to have subsided, the rift is likely to have important long-range effects on the style and pace of the six-year-old, military-led "revolution." In the short run, the authoritarian tendencies of President Velasco probably will be strengthened, and radical officers are likely to try to increase their influence in the government.

Vargas' resignation was precipitated by his public statements supporting limited press freedom and the right of political opponents of the regime to criticize it openly. Velasco, who favors tight control of the news media and strictly circumscribed political parties, demanded that Vargas retract his "political statements" or resign. Despite reported resolve within the navy to back him with force if necessary, Vargas resigned in the interests of preserving armed forces unity. This unity has been weakened considerably, however, as a result of the most recent resignations.



Neither Vargas' statements nor a recent publicized meeting of two opposition political parties presented any threat to Velasco's grip on power. The President's long-standing sensitivity to criticism of any sort, however, apparently has been magnified recently by counsel he is receiving from his more radical advisers. Velasco has now outlawed the Popular Action Party, and the country's bridled press is likely to be in for even rougher times. Moderate officers fear that such moves will only further alienate the military from the majority of the civilian population.

An unknown element is Prime Minister Mercado. President Velasco has deep personal and



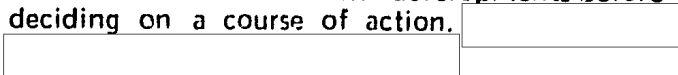
President Velasco

political differences with the Prime Minister, who has presidential ambitions of his own. Velasco's successful move against Vargas sets a precedent for ousting Mercado, the army member of the three-man junta, before next January when he is scheduled to retire. This added pressure on Mercado may push him to make a pre-emptive move against Velasco.

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A further problem for Velasco lies in the fact that the new navy minister, Vice Admiral Arce, apparently shares many of his predecessor's moderate views. In the past, relations between Velasco and Arce have been strained.

The navy is incapable of seriously confronting the army with military force even if it had the cooperation of the moderate army officers who might consider opposing Velasco. These army officers do not control the important troop commands, which apparently remain in the hands of loyal Velasquistas. Under these circumstances, the most the moderates are likely to do is leave the government. Should top-level moderate army officers decide to do this, the government probably would shift further leftward and become more authoritarian. It appears, therefore, that the moderates will await further developments before deciding on a course of action.



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CHILE

BREAKTHROUGH ON ASYLEES

A dramatic exercise in personal diplomacy by Mexican Foreign Minister Rabasa has cleared the Mexican embassy in Santiago of asylees and revived sagging bilateral relations. Similar irritants in Santiago's relations with Colombia and Venezuela are in the process of being removed.

Rabasa's sudden initiative apparently surprised the Chilean leadership, but junta President Pinochet was pleased that the foreign minister came bearing proposals rather than demands. In return for the immediate granting of safe conducts for the asylees, Mexico agreed to a restoration of full diplomatic and trade relations. Pinochet also promised Rabasa that former Chilean foreign minister Almeyda would be free to go to Mexico if he is acquitted at his coming trial.

Rabasa already is receiving kudos at home for having achieved a personal triumph, although there is some dissent from those who oppose any compromise with the Chilean junta. The junta has long promised that all those seeking asylum will be given safe conducts eventually, and a recently established informal deadline for clearing the embassies has only a few more weeks to run. By loosening slightly its rigid procedures for granting safe conducts, the junta received assurances that deliveries of badly needed Mexican fertilizers will go forward. Another benefit, a badly needed boost for Chilean prestige, could come in the form of a "technical" stop in Santiago by Mexican President Echeverria when he tours South America next month.

Fewer than 100 asylees now remain in "deferred" status—i.e., with safe conducts still being processed—and the number is shrinking daily. Some prominent leftists are among those finally being allowed to leave, including former Socialist senator Adonis Sepulveda from the Colombian embassy, former minister of agriculture Jacques Chonchol from the Venezuelan embassy, and Miriam Contreras—the late President Allende's secretary and mistress—from the Swiss embassy.

Elimination of the asylee problem will help restore more normal relations between Chile and several Latin American nations. Chile has a long way to go before it is restored to international good graces, however, and Santiago still faces serious foreign policy problems unrelated to asylum.

THE ECONOMY

Vigorous expansion of copper production is leading Chile's economic recovery. Copper production is expected to rise 15 percent to 850,000 metric tons, reflecting the more effective use of existing capacity and greatly improved management and labor practices. Gross domestic product will probably increase by 6-7 percent this year.

Other sectors are recovering more slowly. Periodic wage increases, restoring purchasing power to about the January level, have only prevented consumer demand from falling further, and have not encouraged industrial output. Agriculture spurred by greater livestock production, will increase slightly. This year's cereal harvest was low because most planting occurred while the rural sector was in disarray. Sharply higher commodity prices and \$150 million in new credits to farmers are expected to encourage increased plantings for the 1974-75 crop. Long-term agricultural recovery, however, will require several years of rural stability and continuing price incentives.

Runaway inflation remains one of the most pressing economic problems. The cost-of-living index jumped about 87 percent from January to April. Nevertheless, the junta has elected to continue with the free market economic program supported by Economic Minister Leniz. Government employment is to be cut, subsidies to most government agencies ended, and public works projects eliminated. Additionally, tariffs have been reduced to increase imports, thus easing the pressure on limited domestic supplies and providing price competition to domestic producers.

Most foreign investors are waiting until Chile establishes a viable economic track record before

committing substantial amounts of new funds. The junta is drafting a new investment code that it hopes will attract more foreign capital. Meanwhile, an interim decree has assured free repatriation of capital and profits. Japan already has committed more than \$100 million over the next few years to develop an iron ore deposit and build a pelletizing plant.

Balance of payments and reserves prospects appear bright. Santiago expects its best payments position since 1970. The trade deficit this year will be the lowest in several years, primarily because of a fortuitous surge in world copper prices and increased copper export volume. The rescheduling of debt payments and about \$475 million in new credits will bring Santiago's balance-of-payments schedule into equilibrium.

Chile's economic progress could falter after this year. While increased copper production could offset the likely drop in world copper prices, debt service needs and persistent demand for capital and for food and fuel imports require large foreign exchange earnings. Continuing rampant inflation and falling purchasing power could depress industrial expansion, shake investor confidence, and sharply curtail economic growth.

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BOLIVIA: BANZER SURVIVES AGAIN

Forces loyal to President Banzer quelled a coup attempt on June 5 by dissident military officers, but the uprising has revealed serious opposition to his administration. Banzer will probably crack down immediately on his most visible enemies, but a general purge of the armed forces is unlikely as it would further erode his support.

The two army officers who led the revolt, Raul Lopez and the popular Gary Prado, apparently acted on impulse after the government exiled one of their co-conspirators earlier this week and indicated it was investigating rumors of an impending coup. With Banzer in Sucre—250 miles away from the capital—rebellious troops managed to surround the presidential palace early

on June 5, but they were persuaded by more powerful regiments to withdraw peacefully after a few hours. Both Lopez and Prado subsequently attempted to obtain diplomatic asylum, but press reports indicate that they have been arrested for questioning. They have been promised eventual safe conduct out of the country.

This latest attempt to overthrow the Banzer government follows a series of protests by workers and students. The students have been demonstrating for several weeks against what they call government interference in university administration. Both university and secondary students are on strike, and their demands are being supported by the major Bolivian labor unions. They also assert that the economic agreement recently negotiated with Brasilia is tantamount to giving Brazil economic hegemony over Bolivia.

In these circumstances, rumors of an impending coup by a group of young military officers revived, and Banzer ordered the military to increase its state of readiness. The young officers had been conspiring for several months, but apparently were not yet prepared to move. Similar pre-emptive moves in the past have enabled Banzer to quash a number of coup attempts, and these tactics may continue to sustain him in office for some time. This latest incident provides fresh evidence of his ability to thwart plots by striking against his enemies before they are ready to move.

With each successive coup attempt, however, Banzer appears to be in a weaker position. During the past year, he has lost some major political allies. Among them are former president Victor Paz, head of the National Revolutionary Movement, who was exiled early this year, and the party's current chief who took asylum this week. The open opposition to the government by Gary Prado, a spokesman for younger officers, will undoubtedly increase unrest in the armed forces, on which Banzer is now increasingly dependent to remain in power.

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ECUADOR: EMBARRASSING RICHES

Ecuador's financial position has improved markedly since it became a petroleum exporter in mid-1972. Oil revenues totaled about \$180 million in 1973 and are expected to reach \$600 million this year. High world prices for most of Ecuador's other important exports—sugar, coffee, and cocoa—have also generated large earnings. During 1972-73, foreign exchange reserves jumped tenfold to about \$250 million.

Quito plans to use its newly acquired wealth to meet increasing consumer and industrial demands. Officials plan a 30-percent increase in imports this year to about \$750 million, mostly in the form of consumer goods, raw materials, and industrial and agricultural machinery and equipment. Last year, Quito devised a national development plan for 1973-77 calling for \$3 billion of private and public investment to generate a 10-percent annual growth in gross domestic product. A national development fund has been set up to finance priority projects, the first of which will be an oil refinery.

The rapid influx of sizable funds, however, has boosted Ecuador's inflation rate. The cost of living jumped 18 percent last year. It climbed another 11.4 percent in the first quarter of this year, led by a 16.8-percent rise in food prices. Shortages of basic foodstuffs further aggravated the situation as Ecuador's agriculture continued to stagnate, in part because the government is maintaining artificially low food prices, thus making production unprofitable. Consumers find little benefit in the low prices, however, because the state-owned supermarkets are plagued by shortages. The alternative for the consumer is to pay the exorbitant prices charged by small shopkeepers.

Quito plans to stimulate agricultural production and imports, but there is disagreement within the government over how best to proceed. Revaluation of Ecuador's currency is being considered as a device to soften the inflationary effect of the influx of petroleum dollars and to encourage imports by lowering their domestic currency costs. Petroleum exports, however, affect only a small segment of the population. The exporters of



other products, mostly agricultural commodities, would suffer serious losses.

Although the military government is not accountable to any representative body, it has shown responsiveness to major social needs. Concern for raising living standards plays a part in the decision to use the new national wealth for development, but the Rodriguez administration also hopes to appease growing opposition forces.

As the government's anti-inflationary program has developed over the past five months, civilian politicians and labor leaders have begun to complain that wage increases have not kept up with inflation. Rodriguez has moved to stop the wage issue from becoming a rallying point for the opposition by providing for periodic reviews of wages. Nevertheless, the continuing severity of inflation, coupled with a political opposition in search of a cause, may oblige an across-the-board wage increase before August.

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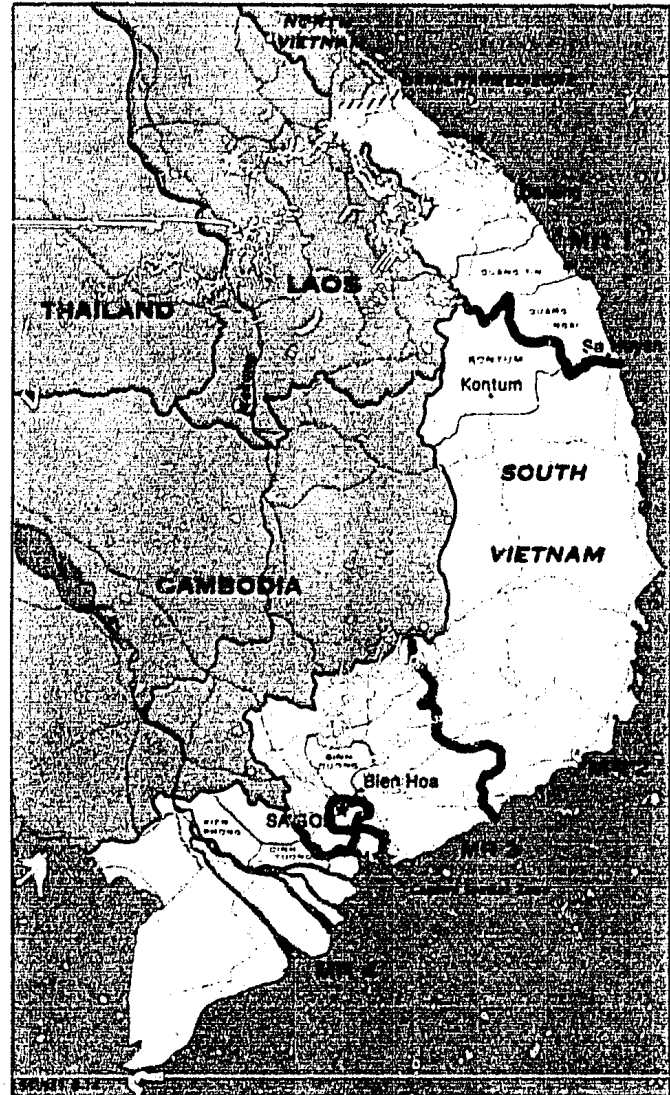
SOUTH VIETNAM: ACTIVE BATTLEFRONTS

Fairly heavy fighting continued this week in each of the country's four military regions as the communists increased their shellings and rocket firings at government targets and offered generally effective resistance to South Vietnamese counterattacks.

In the northern coastal provinces government troops gained some ground during a clearing operation in the hills near Hue. Farther south, a new drive into communist territory south of Da-nang relieved some enemy pressure on resettlement camps in that area. In Quang Tin Province, the communists launched their first major attempt since the cease-fire to gain a position along Route 1. In neighboring Quang Ngai, they increased the threat to the provincial capital and the southern parts of the province, including the seaport town of Sa Huyen.

In the central highlands, South Vietnamese retaliatory operations against a major North Vietnamese supply base in Kontum Province were stalled by strong opposition just north of Kontum City. Government counterattacks north of Saigon aimed at retaking territory lost several weeks ago made limited progress in the face of sharp resistance. There were signs, meanwhile, that fresh communist troops may carry off new attacks northwest of the capital to draw off government forces. More rocket attacks, such as the heavy bombardment of Bien Hoa this week, are also likely.

Armored unit north of Saigon



Elsewhere, South Vietnamese units in the delta kept trying to retake positions near the Cambodian border, while the communists retained much of the initiative in the region's southern provinces. Most of the week's action was centered in Dinh Tuong and Kien Phong provinces, however, where the South Vietnamese have been attempting to disrupt the flow of men and supplies into communist base areas in the delta.

The increase in the fighting and the resultant setbacks on certain battlefields apparently has not changed the outlook of most South Vietnamese

military officers, who are still cautiously optimistic that they can prevent the communists from making any significant gains in either territory or population. This attitude was particularly evident during a meeting late last week between President Thieu and his four regional commanders.

The commander of Military Region 1 said that while the situation in Quang Tin was serious, the assignment of a Ranger group to that province would contain the attacking North Vietnamese. He also assured the President that the situation south of Hue and the increased communist activity in Quang Ngai were under control. For his part, the commander of MR 2 ignored the situation in the western highlands and described the rest of his region as quiet. The relatively new commander of MR 3 expressed confidence that his forces would soon recapture recently lost outposts in Binh Duong Province. Finally, the commander of the delta provinces only presented his plan to reduce the number of outposts in his region to increase the mobility of his units. The South Vietnamese high command reportedly has concluded that each of the commanders has enough assets to contain the current level of communist military activity, which it expects will continue through June.

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CAMBODIA

A BLOODY CONFRONTATION

Long-standing student and teacher unrest in Phnom Penh took a tragic turn early this week with the assassination of the minister of education and a presidential aide following their abduction by student agitators. The officials reportedly were shot by a leading student activist when police stormed the high school that the students were using as a headquarters. At least six students were killed or wounded in the melee. The students initially had planned to ransom the two victims for the release of nine students and teachers recently charged with conducting subversive activities.

The government thus far has not over-reacted to the unprecedented display of student violence. An extended curfew was imposed in Phnom Penh and classrooms were closed for several days. Many students have been arrested, but at midweek the police had made no further moves against some 20 students still holed up in the high school. The relatively mild countermeasures reflect President Lon Nol's desire to avoid further confrontations that could lead to massive disorders.

Adverse public reaction and the roundup of student agitators should help to defuse the situation for the time being. The government, however, will probably still not be able to do much about redressing the causes—primarily spiraling inflation—that are behind much of the student-teacher discontent.

PARTISAN SQUABBLING

The government also came under political attack this week from another quarter. Several months of political sniping by members of Lon Nol's dominant Socio-Republican Party culminated on May 30 in the interpellation of Prime Minister Long Boret and his cabinet by the National Assembly. Egged on by party leader Pan Sothi, a handful of Socio-Republican assemblymen issued a "decision" criticizing the government for being inept and for failing to abide by certain constitutional procedures.

The document was primarily aimed at the four cabinet ministers who are members of the minority Republican Party. They subsequently tried to resign, but at last report Lon Nol was demanding that they stay on to preserve unity and maintain the cabinet's coalition character.

The assembly action underscores the difficulties Lon Nol has been having with the obstreperous Socio-Republican leadership, particularly Pan Sothi. Early last month, Lon Nol clashed with Sothi over the latter's persistent attempts to discredit the Republicans and their chief, Sirik Matak. There is some evidence that Sothi ultimately is trying to force Long Boret out and install himself as prime minister.

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LAOS: COMMUNIST TROOPS STAY ON

The 60-day period for the withdrawal of all foreign military personnel from Laos ran out this week, but only the US and Thailand complied fully with the deadline of June 4. On the communist side, sizable numbers of North Vietnamese troops are still in Laos, and they show no signs of leaving. Chinese engineering and support troops also remain in northwestern Laos.

There are now an estimated 47,000 North Vietnamese troops in Laos. Of this total, 37,000—including four combat infantry regiments—are in central and southern Laos, while the remaining 10,000—including two combat infantry regiments—are based in northern Laos.

Approximately three fourths of the North Vietnamese personnel are concerned primarily with supporting Hanoi's war effort in South Vietnam by keeping supplies and personnel moving along the eastern Lao infiltration corridor, and they will probably stay there in force for some time.

Besides their priority interest in using the bulk of their forces in Laos for infiltration and logistic purposes, the North Vietnamese are evidently determined to keep a limited main force combat presence in parts of the Lao interior—at least for the time being. This presence is aimed in part at preventing potential rightist military moves against the so-called "liberated areas" or against the new coalition government itself. In addition, Hanoi evidently plans to continue to train, advise, and to some extent logistically support the Pathet Lao until the North Vietnamese are convinced that the Lao Communists can hold their own against the Lao army, and can do reasonably well in future general elections.

As for the Chinese, Peking similarly intends to continue to exert an influence in Laos, in part through diplomatic activity in Vientiane but also through its road-building activities in the northwest. While it is true that nearly all of Peking's combat forces have left Laos, the 23,000 or so engineer and support troops who remain are regular members of the People's Liberation Army. The Chinese may consider these road-construction and maintenance forces a useful counterweight to the more substantial number of North Vietnamese troops in Laos. They may also see them as a contribution to the Pathet Lao cause equal to that made by Hanoi.

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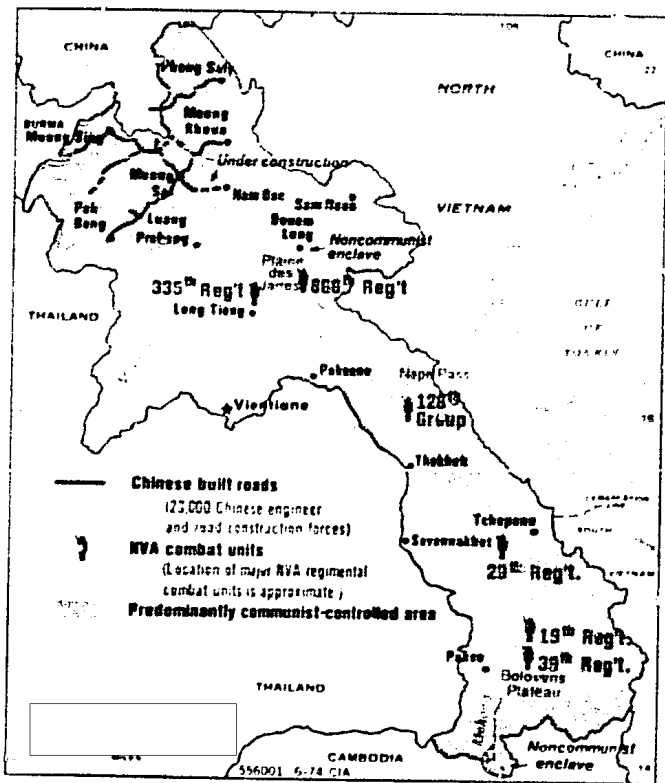
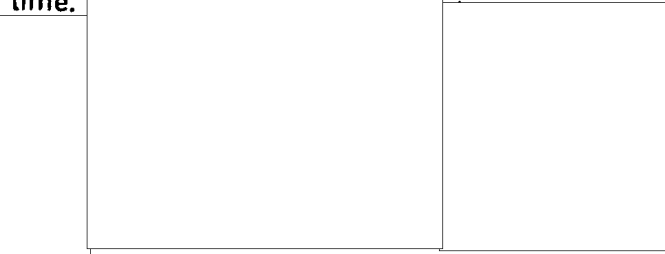
In addition to failing to abide by the troop withdrawal deadline, the communists have blocked progress on a prisoner exchange. Although June 4 was also the deadline for the return of prisoners of war of all nationalities, none have been exchanged and there is little prospect for their early release.

The Pathet Lao admit to holding only one American prisoner—civilian contract pilot Emmet Kay—who was captured on May 7, 1973. This week, a Pathet Lao spokesman in Vientiane told the press that Kay would not be released because "the US had refused" to abide by the peace agreement in Laos. Besides Kay, four other Americans are believed to have been captured in Laos prior to the cease-fire agreement of February 1973, and 314 are listed as missing in action.

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THAILAND: MOVING TOWARD ELECTIONS

Prime Minister Sanya's reluctance to head up a caretaker government indefinitely—underscored by his resignation last month—has spurred high-level moves to speed up the process of holding elections. According to Thai law, elections cannot take place until the National Assembly promulgates a new constitution. Consequently, pressures are building for the assembly either to expedite its review of the new draft constitution or to shelve it for the time being.

King Phumiphon, anxious to see an elected government assume office as soon as practicable, favors putting aside the current draft constitution and adopting some earlier one—eight constitutions have been written and promulgated since 1932. The King prefers the 1949 version, which gives him limited constitutional responsibilities. Phumiphon's thinking has been given public support by army chief Krit Siwara, the chief power broker behind the scene, and by the Bangkok press, which has been clamoring for a constitution to be approved as soon as possible.

In response to this pressure, Prime Minister Sanya has set a rough timetable under which the draft now before the assembly would be completed as early as August, and elections held in September or October. By Sanya's timetable, an elected government would take office no later than December.

Besides promulgating a constitution, several important measures must be adopted before the election process can begin in earnest. The assembly has yet to pass a bill authorizing political parties—a military decree banning such activity is still on the books. The assembly must also decide how the prime minister will be selected, although most Thai politicians currently are leaning toward a British parliamentary system.

The country's preoccupation with institutionalizing a more democratic form of govern-

ment does not mean it will be all smooth sailing for the Sanya government in the months ahead. Various pressure groups are already urging Sanya to begin laying the groundwork for meeting some of Thailand's long-range social needs, principally in the fields of education and land reform. The students also are threatening to launch protests against the US military presence. [redacted]

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BURMA: LABOR UNREST

The Burmese government is faced with its most serious crisis in years because of the spreading labor unrest. Since he assumed power in 1962, President Ne Win has had to cope with only a few major domestic problems. The principal ones have been the depressed economic conditions, which have persisted for years, and the continued insurgent activity in outlying areas, which remains a source of some concern. But neither of these has directly threatened Ne Win's position or caused particular dissension within government ranks.

During the past two months, strikes have taken place at factories in Rangoon and other cities, where workers are demanding larger rice rations and higher wages. This week the situation in the capital approached a general strike. Thus far, the government has been able to end most of the disturbances by promising to meet the demands of the strikers, but the question of how to handle the strikes is apparently causing friction within the regime. Although the authorities have so far acted with restraint and there has been no violence, some ministers favor a harder line.

The situation could become more serious, since some workers reportedly are becoming restless over the government's delay in giving them more rice as promised. Until recently, strikes had been rare in Burma, but if the workers achieve their goals, they may be encouraged to make other demands. [redacted]

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INDONESIA-PHILIPPINES: SUMMIT DIPLOMACY

Despite mediation efforts by President Suharto, the Philippines and Malaysia remain at loggerheads over the question of Muslim insurgency in the southern Philippines. Suharto met with Malaysian Prime Minister Razak in early May and followed with talks with Philippine President Marcos last week.

Accounts of the meetings indicate that neither party has changed its position significantly from June 1973, the last time that Jakarta tried to mediate their dispute. No tripartite summit is likely in the near future, although there may be talks at a lower level. Suharto is skeptical of the intentions of both sides and probably will not take the initiative in organizing further meetings.

The latest round of talks was prompted by Marcos. The timing suggests that Marcos wanted to gain Suharto's sympathy for his position in the hope that Indonesia would then oppose any anti-Philippine moves that might arise during the Islamic Foreign Ministers Conference later this month in Kuala Lumpur.

Two separate but related points of contention have clouded Philippine-Malaysian relations for several years. Manila charges that Kuala Lumpur is providing Philippine Muslim rebels with weapons, training, and safehaven. Recently, Marcos provided various potentially friendly governments, including Indonesia, with interrogation

reports of captured rebels as evidence. During the meeting with Suharto, Marcos tried to document his case against Malaysia. He also provided details of his domestic programs to help the Muslims in order to ward off Malaysian charges that Manila oppresses its Muslims.

For its part, Kuala Lumpur has always denied official involvement in the insurgency, although Razak has said that private individuals in Malaysia's North Borneo state of Sabah undoubtedly favor the rebels' cause. Razak asserts that Manila is primarily to blame for the tension between the two states because Marcos refuses to renounce his claim to Sabah, which is based on the historic claims of the former sultanate of Sulu.

President Marcos has hinted that he would be willing to drop the Sabah claim in return for concessions from Malaysia. Among others, he wants compensation for the heirs to the Sultan of Sulu and a statement by Kuala Lumpur disassociating itself from the rebel Muslim cause. Marcos is also increasingly interested in the possibility of oil deposits on the seabed between the Philippines and Sabah, and he may well hope to get a favorable arrangement on oil exploration there. Although Razak has always said that Kuala Lumpur would provide at least token compensation to the Sultan's heirs, it is highly unlikely that Marcos will get any satisfaction on his other demands.

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