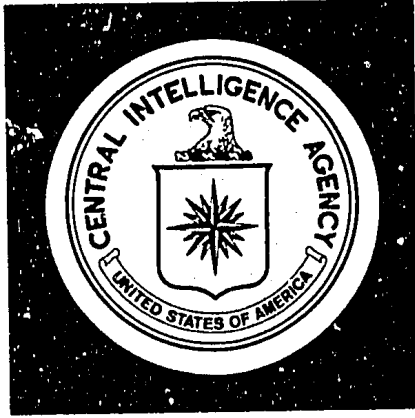


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# Weekly Review



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2 August 1974 25X1

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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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# CYPRUS

The first phase of the Geneva peace talks was successfully concluded on July 30 when the foreign ministers of Britain, Greece, and Turkey signed an agreement formalizing the cease-fire on Cyprus. The accord was reached after five days of hectic negotiations during which both the Greek and Turkish representatives threatened to walk out of the conference. More difficulties lie ahead in the negotiations when the ministers meet again on August 8 to begin discussions of the island's political future. Representatives of the Greek and Turkish Cypriot communities will participate in the next round of talks.

The wording of the accord reached at Geneva indicates that Athens accepted Turkey's principal demands. The question of Turkish troop withdrawal—opposed by Ankara—was resolved by a statement calling for measures that will lead to the "timely and phased reduction" of the number of armed forces on Cyprus. Ankara had adamantly refused to accept the word "withdrawal," suggesting that the Turkish military forces will remain on the island for some time to come.

The agreement also recognizes the existence in practice of two autonomous administrations in Cyprus, but it notes that such recognition would not "prejudice the conclusions to be drawn from this situation." The ministers agreed to discuss this matter during the next phase of the talks along with the "constitutional legitimacy" of the Turkish Cypriot vice president. The agreement also notes that all Turkish Cypriot enclaves occupied by Greek Cypriot forces must be evacuated immediately. The Turks will reportedly call for the establishment of a federal state in the next round, with almost total autonomy for the Turkish Cypriot community. The Greeks are likely to oppose initially the concept of a federal state but will probably concede eventually and focus instead on limiting the Turkish role in Cyprus and the powers of the Turkish Cypriot administration.

The countries directly involved in the Cyprus crisis have welcomed the cease-fire accord

with varying degrees of enthusiasm. Greece's relief at averting war with Turkey has been tempered by the realization that Ankara has won far-reaching concessions. The Greek Cypriots have also been dismayed by what has been asked of them in the accords.

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## GREEK REACTION

Although Greek Prime Minister Karamanlis has publicly described the agreement as a "starting point" for a just solution,

[REDACTED]

[REDACTED] Karamanlis also expressed concern over the economic burden resulting from the confrontation, noting that it was costing Greece over \$16 million per day. He has since announced the gradual demobilization of some 130,000 reservists called up for duty.

Karamanlis can expect some backlash for "selling out" the Greek Cypriots in the agreement, but he probably can deflect criticism by laying responsibility for the turn of events at the door of the old junta since they engineered the coup that ousted Makarios and precipitated the Turkish invasion. The Greek military is in no position to criticize the accord.

## TURKISH REACTION

Ankara views the agreement as a clear-cut victory for Turkish arms and diplomacy. Prime Minister Ecevit has highly praised the performance of the Turkish army—hardly praiseworthy, at least in the initial stages of the invasion—calling it a new chapter in Turkey's military history.

The US embassy in Ankara believes that Turks of all political views are united in their

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intention to squeeze all possible gains from the situation. Prime Minister Ecevit has emerged with his domestic position greatly strengthened, at least in the short run. The embassy notes that, while there are undoubtedly shades of differences between the civilian government and the military, there are no conflicts of serious proportions. Moreover, the embassy does not believe the military are dragging along a reluctant Ecevit. This

increase Turkey's bargaining chips in the future negotiations, but also will put it in a stronger position to ensure a double enosis if efforts are made in the future to link Cyprus with Greece.

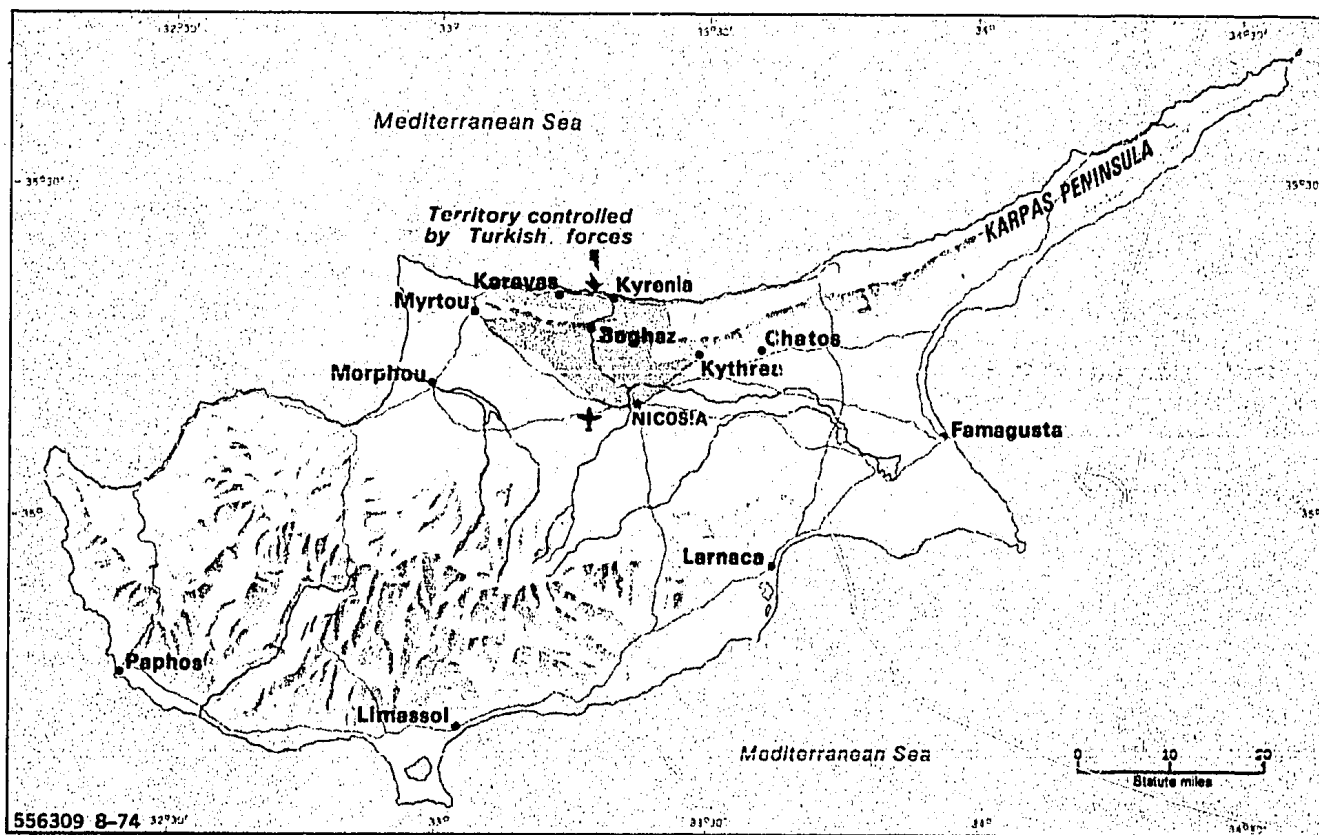
Moreover, that portion of Cyprus commands approaches to three major southern ports, which Ankara is determined to shield from future threats by Greeks on Cyprus. Beyond this general strategic thinking, the embassy does not believe that the Turkish leadership is certain what it wants for a long-term settlement, except to bar a return to the 1960 London-Zurich arrangement; give Turkish Cypriots greater autonomy; and prevent, if possible, the return to power of Archbishop Makarios.

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#### CYPRIOI REACTION

Ankara, undoubtedly, wants to keep indefinitely a secure territorial base on Cyprus that includes a portion of the northern seacoast and the port of Kyrenia. This base not only will

In Cyprus, President Clerides welcomed the Geneva accord as a step toward peace, but expressed dismay at the concessions asked of Greek



Cypriots. He accused the Turks of intransigence, but noted that the longer the fighting went on, the more difficult it would have been to arrive at a peaceful solution.

The accord was well received by Turkish Cypriots. They have already moved their administration from Nicosia to Kyrenia, which reportedly will serve as the "capital" of the Turkish Cypriot sector. Turkish Cypriot leader Rauf Denktash told a US embassy official that a cantonal arrangement might emerge from the present situation, with a federal government based on an amended version of the 1960 constitution. He foresaw a continuation of the arrangement for a Greek Cypriot president and a Turkish Cypriot vice president, but the Turkish canton would enjoy almost complete autonomy. Not all Turkish Cypriots would be required to live in the canton, according to Denktash, but those outside—including Greek Cypriots—would have freedom of movement throughout the island.

In London, Archbishop Makarios gave guarded approval to the agreement, but criticized the vagueness of the clause dealing with the Turkish troop withdrawal. Makarios reportedly told Greek Foreign Minister Mavros he had no intention of going to Geneva and would not cause any "problems."

#### THE POLITICAL SITUATION IN CYPRUS

[redacted] Glafkos Clerides now claims to be the "rightful" president of Cyprus and not "acting" president. Clerides believes that Makarios' return at this time would spark civil war within the Greek Cypriot Community. Clerides has reportedly contacted Athens' new political leaders to generate support for his candidacy and was scheduled to meet yesterday with a Karamanlis emissary.

After conducting a survey of sentiment within the Greek Cypriot community, the US embassy concludes that most individuals with whom it has contact agree that Makarios must not return to Cyprus anytime soon because of the danger of civil war. According to the embassy assessment, this sentiment becomes more

#### THE MILITARY SITUATION

Turkish forces broadened their Nicosia-Kyrenia corridor on July 27, pushing westward from Kyrenia and Nicosia along the mountain range near the coast. They also moved eastward toward the besieged Turkish Cypriot enclave at Chatos, but were stopped by a UN contingent. Greek Cypriot forces subsequently built up defenses in the area and apparently deterred any additional Turkish movements.

Major military operations have been halted since July 27, although numerous minor clashes continued through mid-week, as the Turks consolidated their positions and Greek Cypriot forces reorganized their defenses. The Turkish force is in control of an area north of Nicosia that stretches to a point near the town of Myrtou in the west and near Kythrea in the east. The US embassy in Nicosia reported that most of the troops, tanks, and vehicles that had been concentrated around the Turkish military headquarters at Bogaz were gone by July 31. Embassy officials assume that the Turks had pushed their forces outward to have the widest possible perimeter before the UN inspection of the cease-fire lines.

Turkey has sent an estimated 20-25,000 troops and about 130 tanks into this expanded enclave so far. Ships and helicopters continue to ferry supplies, and there are reports that the Turks may still be sending limited reinforcements. 25X1

On the mainland, the Turks apparently continue to maintain a high level of military alert readiness. The Greeks, on the other hand, ordered a limited demobilization early in the week by placing some 80,000 reservists on indefinite leave. Plans call for an additional 50,000 reservists to be demobilized by August 10. Forces in northern Greece and on the islands adjacent to Turkey remain in an advanced state of readiness. The US defense attache in Athens reports that the majority of ships stationed at the main Greek naval base at Salamis had returned by mid-week. [redacted]

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qualified as one moves away from the political right, but even the Communist Party hedges on its support for Makarios. Only the leftist Lyssarides faction persists in demanding Makarios' reinstatement.

In an effort to consolidate his position, Clerides reportedly plans to make some changes in his cabinet soon to placate centrist and leftist elements who support his candidacy on condition that he rid the cabinet of persons directly associated with the coup on July 15.

**THE SITUATION IN GREECE**

Prime Minister Karamanlis has added some representatives of the moderate left to his government, thus broadening its support. This step probably will be viewed as tokenism by the extreme left, one of whose principal spokesmen—Andreas Papandreou—plans to return to Greece soon. Papandreou has already denounced the new government as a tool of NATO and the US and announced that he will form a new political party that will be to the left of the Scandinavian socialist parties. The rest of the Greek left is apparently divided over the posture to adopt toward the Karamanlis government.

The US embassy in Athens, in evaluating the new Karamanlis cabinet, believes that the Prime Minister has vindicated the old Greek political establishment by honoring those who resisted the military regimes. His cabinet includes a large number of those who stood in consistent and rational opposition to the juntas, but he has denied positions of influence to those most inclined to seek revenge against the military. While some ministries were assigned to men perhaps better suited to other offices, key posts—interior, defense, foreign affairs, public order—are in the hands of loyal and proven leaders. Nevertheless, the composition of the cabinet suggests that family ties and respectable connections were helpful in obtaining appointments.

**SOVIETS BACK AN INDEPENDENT CYPRUS**

Moscow last week demonstrated its interest in preserving an independent Cyprus and in staking out a role for itself in the negotiations over the island's future.

In a strongly worded statement on July 28, the USSR expressed its suspicion that "certain circles" in NATO (an apparent allusion to the US) are seeking to exploit the situation in order to consolidate their military and strategic position in the eastern Mediterranean. The government statement noted that Moscow was firmly behind the participation of the "iegitimate" Cypriot government in the Geneva talks. To underline its concern that London, Athens, and Ankara may agree to change the island's political status, Moscow sent Victor Minin, an expert in eastern Mediterranean affairs who has the rank of ambassador, as an observer to Geneva.

Early in the week, the Soviets unsuccessfully sought to have the Security Council send a special mission to Cyprus immediately to verify implementation of the UN resolution. Although the Soviets seemed to welcome the signing of a cease-fire accord in Geneva, they later vetoed a proposal to expand the role of UN peace-keeping forces on Cyprus—allegedly for "procedural" reasons.

The USSR did not directly condemn Ankara for its cease-fire violations, nor did it respond directly to Clerides' call for Moscow to exert pressure to get Turkey to stop its violations. This was consistent with Moscow's other efforts during the crisis to remain in fairly close touch with the Turks and to cast itself as sympathetic to them.

Despite its opposition to enosis or partition, Moscow apparently has a flexible attitude toward an eventual settlement on the island and is seeking to sort out its attitudes toward Makarios and Clerides.

□ Moscow will support Clerides, but only as long as he is committed to the archbishop's return. □ the Soviets are highly suspicious of Clerides' links with Athens and Washington. □ the Soviets believe Clerides will run for the presidency and that he will win the election.

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Despite suspicions about Clerides, Moscow has avoided criticizing him publicly. The Soviets would prefer to see Makarios return, but they clearly do not want to burn their bridges to Clerides should he survive as head of an independent and nonaligned Cyprus.

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## ISRAEL: CHALLENGING RABIN

Zealous Israeli nationalists have again challenged Prime Minister Rabin's new government on the sensitive issue of government policy toward Jewish settlement in occupied Arab areas. Last week, 150 would-be settlers illegally occupied the site of the capital of the ancient kingdom of Israel near Nablus, the largest Arab town on the West Bank. They were accompanied by some 1,000 sympathizers, including leaders of the opposition parties and prominent rabbis.

Backed by a unanimous cabinet decision to break up the attempt, Defense Minister Shimon Peres took a tough line with leaders of the opposition Likud Party in negotiating the removal of the squatters. Initially, he ruled out using the army to evict them on the grounds that Arab preparations for a new attack on Israel required the defense forces' full attention. After the squatters' intransigence forced several extensions of the deadline for their departure, however, unarmed soldiers moved in on July 29 and forcibly loaded the protesters on buses for transportation to Jerusalem.

This is the second time in less than two months that the Rabin government has been challenged by demonstrators seeking to focus attention on the future of Israeli settlements in the occupied areas. In early June, troops were also used to remove a smaller group from an illegal settlement near Nablus.

In condemning the squatters' action as illegal—only the government has the authority to establish settlements in occupied territory—the cabinet side-stepped the larger issue of its overall settlement policy, just as Mrs. Meir's cabinet did when faced with a settlement attempt in the Golan Heights during the Syrian disengagement negotiations.

The settlement issue is an explosive one, both internationally and domestically. Settlements in former Arab lands, by those determined to re-establish the ancient borders of Israel, have fueled Arab charges of Israeli expansionism and have especially disturbed Arab residents of the



Squatters arguing with Israeli soldiers

West Bank. Although the settlers do not have a large grass-roots following, the principal opposition party—Likud—and the Labor Party's former coalition partner—the National Religious Party—are dedicated to the settlers' policy of maintaining and consolidating Israel's present frontiers.

The government, on the other hand, has tried to keep its official settlement policy deliberately vague, making annual budget allocations for new settlements, but withholding official authorizations for their creation. Rabin is trying to build a consensus for negotiations with the Arabs that would include recognition by the Israeli people of the necessity to give up some of the occupied territory, including areas in which Jewish settlements have already been established.

This latest challenge to his efforts comes immediately after the cabinet's carefully hedged offer to Jordan of terms for talks on the ultimate disposition of the West Bank. The debate generated by the latest occupation will increase pressure on the government to state specifically its settlement policy at a time when Rabin would prefer to maintain negotiating latitude.

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## The Middle East SOVIET DIPLOMATIC OFFENSIVE

Moscow is conducting what appears to be a major effort to counter any further erosion of its position in the Middle East. Much of the Soviet activity seems aimed at isolating Egyptian President Sadat in the Arab world and at creating pressure within Egypt to force Sadat to reconsider his shift away from Moscow. There are indications that the Soviets view the Egyptian military as the best source of such pressure.

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### The Watch on the Nile

The Soviets have harshly criticized Sadat and have sought to embarrass him by such tactics as the recent postponement of Fahmi's visit to the USSR. They have nevertheless continued to hold out the promise of assistance—particularly military aid—should Egypt adopt a more acceptable policy toward the USSR. Indeed, the USSR may have opened its arms spigot a bit. Since July 16, three Soviet AN-12 transport aircraft have flown to Cairo. These were the first such flights since April and may have carried needed spare parts to the Egyptian military. There is no evidence, however, of any Soviet seaborne military deliveries since April.

In employing these tactics, Moscow apparently calculates that there is still support within Egypt for a more pro-Soviet policy. Yet the Soviets seem to see no alternative to Sadat at this time and want to maintain some communication with him. Soviet officials, for example, have suggested that a summit is still possible, although they have rejected Sadat's demand that General Secretary Brezhnev go to Cairo.

### Arms Deal with Libya

Evidence is accumulating that Moscow has concluded a major arms deal with Libya. Apparently, the package includes modern equipment not heretofore seen in Libya's arsenal.

Both the USSR and Libya appear to have an eye on the impact a substantial arms deal will have on Egypt. Tripoli and Moscow remain suspicious of each other and are basing their cooperation on a common antipathy to Sadat.

The Soviets may think that, in view of their suspended arms shipments to Egypt, a large flow of weapons into Libya will create unrest in the Egyptian military. At the very least, Moscow probably welcomes the opportunity to receive hard cash for its arms; Qadhafi will most likely pay outright to avoid building up any sort of debt to the USSR.

Qadhafi's desire to acquire a sophisticated arsenal is well established. Despite his deep distrust of Moscow, Qadhafi apparently wants Soviet weapons not only to improve the Libyan inventory, but to make it more compatible with other Soviet-equipped Arab states. More specifically, Qadhafi may believe he now has a chance to make Libya an attractive patron for the Egyptian military. Believing that another war with Israel is inevitable, Qadhafi may hope that this time he will be better able to serve as an arsenal for Egypt's army.

### Arafat in Moscow

The chairman of the Palestinian Liberation Organization, Yasir Arafat, arrived in Moscow this

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week seeking assurances of support for the Palestinians in the next round of the Geneva Middle East talks.

Arafat is particularly eager to win an explicit statement of Soviet backing at this time since he is under heavy fire in fedayeen councils for his relatively conciliatory policies toward a negotiated settlement. Arafat became more vulnerable to such criticism when Sadat, with whom he had been closely cooperating, recently agreed with King Husayn that Amman should represent Palestinians resident in Jordan.

Although Moscow will pledge support to Arafat in hopes of widening the rift between the Palestinians and the Egyptians, it seems unlikely that the Soviets will grant him and the PLO official recognition as the sole representative of all Palestinians. The Soviets continue to be frustrated in dealing with the splintered fedayeen movement. In a major press article on July 29, Moscow criticized the Palestinian factions for their divisive tactics and said the fedayeen will be successful only when they achieve unity of direction and purpose.

#### Courting Aden and Algiers

Moscow's concern with forestalling any expansion of Egyptian, Iranian, or Western influence in the Arabian Peninsula may have led it to promise additional military assistance to South Yemen. The communique on the recent visit of South Yemeni Secretary General Ismail to Moscow said that "measures were outlined" to strengthen Aden's defensive capability.

Aden has been concerned over Iran's military involvement in crushing the rebellion in Oman, which has been backed by South Yemen, as well as over the intentions of the new military regime in North Yemen. The Soviets, however, probably again cautioned Aden against rash actions.

#### MINE-SWEEPING AT MIDPOINT

The Soviet mine-sweeping operation that began in mid-July in the Strait of Gubal between the Gulf of Suez and the Red Sea is evidently about half completed. The target date for winding up the operation is August 15. The possibility that the Soviets might extend their stay by taking on salvage operations was lessened when a heavy lifting ship left soon after placing mooring buoys near the areas of operations.

The helicopter ship Leningrad joined the mine-sweeping group at the Egyptian port of Hurghada a week ago. On July 26, one of the Leningrad's normal complement of light-weight helicopters—the Hormone class—was sighted flying over the mined area in what appeared to be survey operations. Bad weather and heavy haze may have hampered other helicopter activity or observation of it. When the Leningrad entered the Red Sea, large-diameter cable and a pontooned sled-like device were seen on its deck as well as two MI-8 heavy-duty helicopters. This equipment has not yet been observed in operation, but it is expected to be used in the mine-sweeping activity.

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Last week, Soviet leaders received a high-ranking Algerian defense official in Moscow. It is not yet clear what occurred during the visit, but the Algerian apparently came to discuss Moscow's military aid as well as to deliver a message to the Soviet leaders from Algerian President Boumediene. The visit appears to be a follow-up to Soviet Defense Minister Grechko's visit to Algiers last May. At that time, Grechko apparently tried to revitalize Moscow's military aid program as well as to underline Moscow's continuing prominent role in Arab affairs despite its setback in Egypt.

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## PORTUGUESE AFRICA: THE NOD FROM LISBON

President Spinoia's announcement on July 27 that the process of granting independence to the African territories can begin immediately has given a much-needed impetus to Lisbon's efforts to move toward a settlement of the African problem. Spinoia added later that Portuguese Guinea would be the first to be granted independence. Shortly thereafter, Luis Cabral, head of the rebel-proclaimed state of Guinea-Bissau, said that all obstacles to a settlement have been removed.

Spinoia's announcement marked a retreat from his earlier insistence on a referendum to decide the future of the African provinces and the end of his hope for a confederation. His failure to spell out exactly how or when the territories would make the transition to independence appears to indicate that negotiations with the rebel groups in Angola and Mozambique are far from bringing about a settlement in these two territories.

Spinoia maintained that Portugal is open to any initiatives for the planning and execution of decolonization. Lisbon's new policy should encourage several African leaders who are attempting to mediate between the rebels and the Portuguese—particularly presidents Senghor of Senegal, Kaunda of Zambia, and Nyerere of Tanzania.

Spinoia's popularity in the metropole has reached a new high following his speech, and the principal political parties have expressed unqualified approval of his new policy. Only the right-wing Portuguese Federalist Movement dissented.

The popularity of the move has obscured the fact that the new policy is a defeat for Spinoia, who had pressed hard for referendums in the territories and for a federal solution. The situation in Portugal and the territories, however, made these goals unattainable. Heavy pressure from the Armed Forces Movement and the political parties in the provisional government, as well as opposition from African nationalist groups, forced Spinoia to back down.

### Independence for Guinea-Bissau

The favorable comments by Luis Cabral indicate that the way now appears clear for the independence of Portuguese Guinea, and a public announcement may come soon. There has been substantial evidence for some time that both sides were close to a settlement, particularly on the nettlesome issue of the Cape Verde Islands, which the rebels claim and the Portuguese want to retain. A solution to this problem may not be spelled out in the final agreement, but probably will be covered by vague language that will in effect allow Lisbon to keep the islands without requiring the rebels to withdraw their claims.

The actual transfer of power to the rebels should not be difficult. The rebel government of Guinea-Bissau, which Lisbon would simply recognize, already has an embryonic administration in the rural areas it now controls. This administration could be extended to other areas as the Portuguese leave.

### A Cease-fire in Mozambique

Spinoia's offer of independence and his willingness to abandon his demand for a referendum remove two major obstacles to further talks with the Mozambique insurgents. When Portuguese Foreign Minister Soares met briefly in Zambia in June with leaders of the Front for the Liberation of Mozambique, the insurgents insisted on these two points as conditions for further negotiations. The Zambians, who have been acting as a go-between on Mozambique negotiations, claim the two sides will meet again sometime this month. The rebels, however, have not indicated they will retreat from the position they took at the meeting in June that they will only negotiate for a direct turnover of power.

Meanwhile, the establishment of a military junta in Mozambique last week, following by a few days a similar move in Angola, clearly indicates Lisbon intends to take firmer control of the territory's administration. Lisbon especially wants to calm the white inhabitants, dampen urban violence, and end labor unrest.

It is unlikely, however, that the new government can overcome the recent reluctance of local military forces to carry out offensive operations. In fact, an informal cease-fire seems to be in effect in some areas of the territory, and troops from both sides have been fraternizing and co-operating. Diplomatic sources of the US consul general in Lourenco Marques assert that an official cease-fire is near at hand. Taken together, these bits and pieces suggest an informal cease-fire could be shaping up similar to the one that developed in Portuguese Guinea when fighting between Portuguese and insurgent forces tapered off following the Lisbon coup.

The military officers who arrived in Mozambique from Lisbon last week to set up the junta publicly asserted that the Portuguese are still officially seeking an immediate cease-fire. It is not clear, however, if the rebels would agree to one before further negotiations on a political settlement are held, or if they intend to keep up the military pressure to force concessions from Lisbon.

#### Competing Rebels in Angola

In Angola, the Portuguese seem anxious to bring the territory's competing insurgent groups to the bargaining table. After arriving in Angola last week, Vice Admiral Rosa Coutinho, the new head of the territory's military government, said a coalition government probably including members of the insurgent groups would be formed soon. Although such an arrangement shows promise, until now there has been no single nationalist group with enough authority to negotiate with the Portuguese. The three Angolan insurgent organizations have been in competition for more than a decade, and the resulting hostility has kept them from forming a united front. None of them has been able to wage effective military operations.

Last weekend, however, a meeting took place in Zaire between leaders of the Popular Movement for the Liberation of Angola and the Revolutionary Government of Angola in Exile, the most important of the insurgent groups. Also

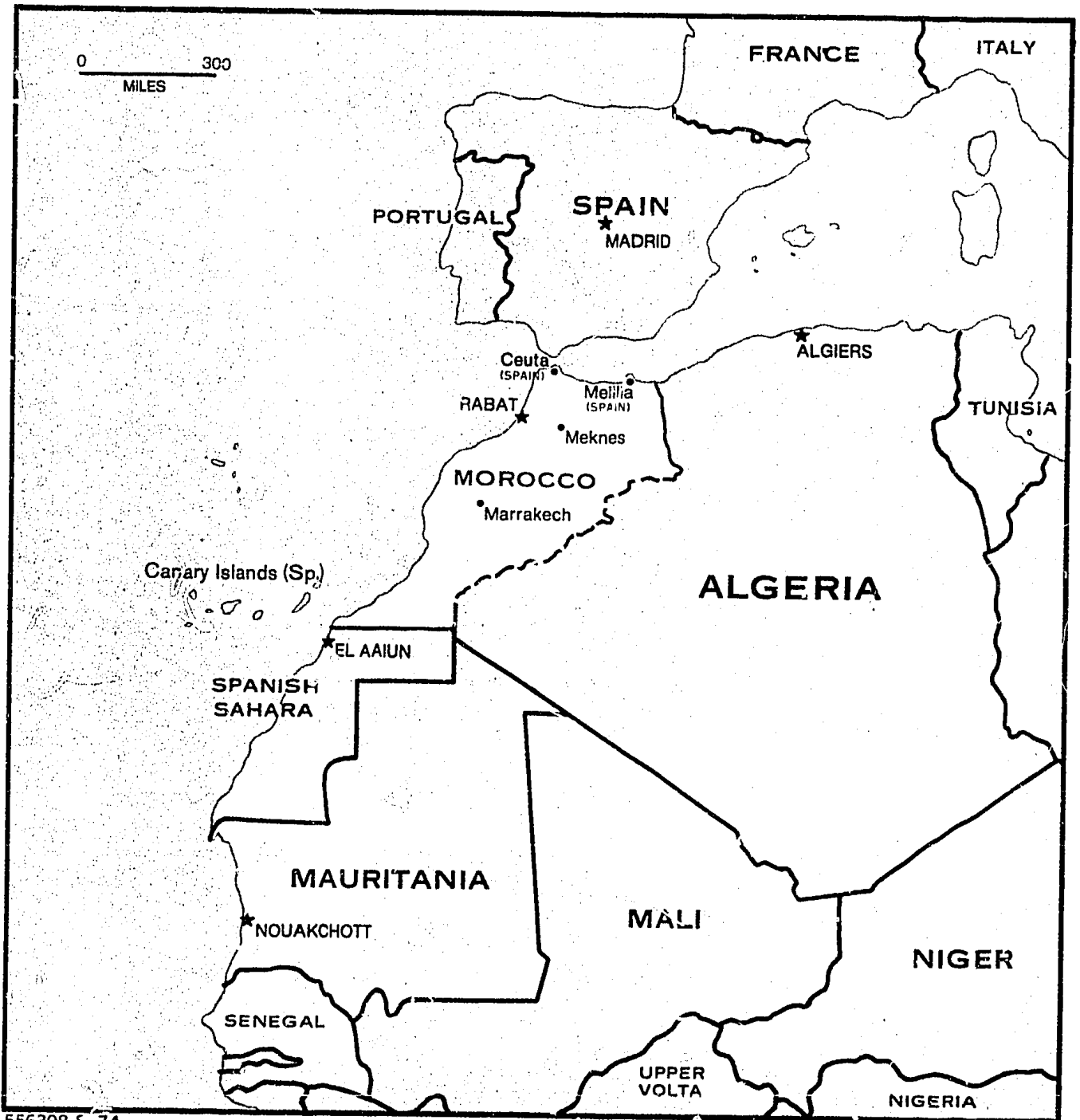


Spinola

attending were the OAU Secretary General and four African presidents who have long backed the insurgents and have tried to bring them together. A communique was issued stating that the two groups would set up a joint front to negotiate with Lisbon, but no details on the reported agreement are yet available. The effectiveness of any agreement between the two rivals will depend on a forthcoming congress of the Popular Movement in Lusaka, where the group's long-standing leadership struggle may be resolved. If the Popular Movement has indeed pulled itself together, the prospects for talks between the insurgents and Lisbon would be brighter.

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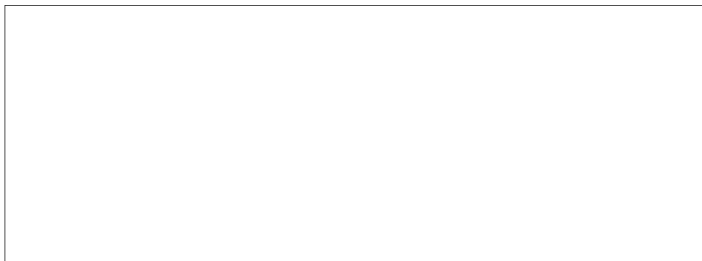


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### SPANISH SAHARA: DISPUTE GROWING

Morocco is using both diplomatic and military means to press its claims to Madrid's overseas province of Spanish Sahara. The Moroccan government hopes to win Third World support for its position on Spanish Sahara and to pressure Spain to abandon its plans for increased autonomy for the province. Rabat suspects that Spain's objective is to create a puppet state in the phosphate-rich territory.

On the diplomatic front, Moroccan emissaries left this week for various Arab and African capitals as well as Asian and East European countries to seek support for Rabat's position. The Arab and African states will back Morocco's demand that Spain leave, but they are not inclined to support Morocco's territorial ambitions, especially in view of Mauritania's claims to Spanish Sahara and Algeria's insistence on a role as an interested party. Arab countries are reluctant to take sides in this quarrel for fear of weakening Arab unity on the far more important issue of a Middle East peace settlement.



In just such an effort to exert continuing pressure on Spain, the Moroccans placed their armed forces on alert on July 25, canceled all leaves, and mobilized some reservists.

The US defense attache in Rabat also has reported that some of Morocco's F-5 fighter aircraft were recently transferred south from Meknes to Marrakech.

additional troops are being sent to southern Morocco and near the Spanish enclaves of Ceuta and Melilla in the north. Although these



Hassan

enclaves have not been an issue in the current controversy, King Hassan apparently wants to remind Madrid that the two cities are vulnerable.

The US embassy in Rabat believes King Hassan's campaign to "recover" Spanish Sahara is the first phase of a strategy to use Moroccan nationalist and irredentist aspirations to achieve internal unity. While the King considers Spain the adversary until colonial rule is ended, the embassy thinks that if Madrid decides to withdraw, he would make concessions to obtain Spanish cooperation in opposing the rival territorial claims of Mauritania, which are backed by

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### ARABIAN PENINSULA: DISPUTE RESOLVED

Saudi Arabia and Abu Dhabi settled their long-standing border dispute on July 29. The preliminary agreement was signed by Prince Fahd, who has been in charge of the Saudi effort to work out a settlement since March, and Sheikh Zayid, Abu Dhabi's ruler and head of the seven-member United Arab Emirates. Sheikh Zayid will sign the final accord in Saudi Arabia soon—perhaps shortly after King Faysal returns from his current trip to Cairo. The way is now paved for King Faysal to extend diplomatic recognition to the emirate federation.

- The Saud's to acquire part of the Zarrara oil fields, presently in Abu Dhabi hands.
- The Saudis to renounce their historic claim to the Buraimi Oasis, now divided between Abu Dhabi and Oman.

Ostensibly, ownership of the Buraimi Oasis had been at the heart of the dispute, but privately, Faysal had made it clear he was willing to abandon his claim to Buraimi in return for other border concessions, especially a corridor to the gulf. Presumably at some point in the future, the Saudis will build a pipeline through the area to the gulf in order to exploit oil reserves in southeastern Arabia more efficiently. Ownership of the coastal strip will also enable the Saudis to make off-shore oil claims.

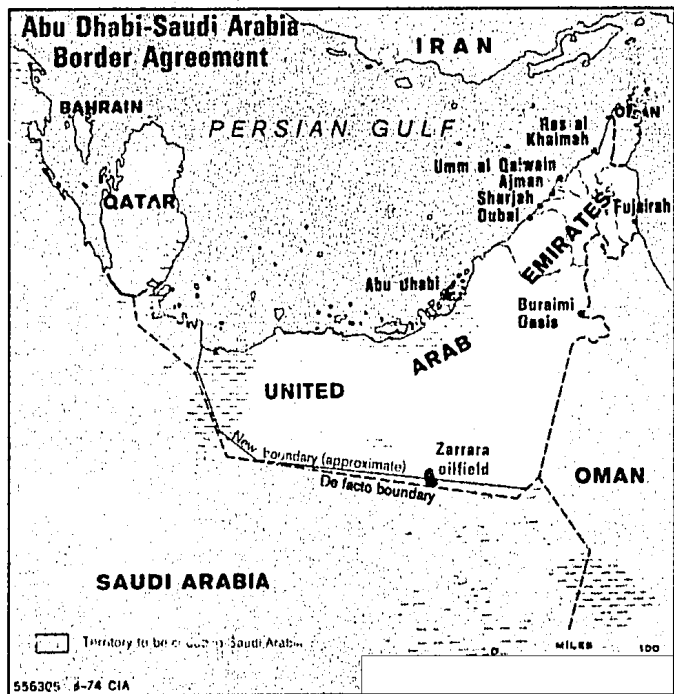
The two sides have not released the details of the settlement, [redacted]

[redacted] it provides for: 25X1

- Abu Dhabi to meet a long-time Saudi demand for a corridor to the Persian Gulf between Qatar and Abu Dhabi.

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*THE AGREEMENT SHOULD STRENGTHEN BOTH THE FEDERATION AND ZAYID'S ROLE AS ITS DOMINANT FIGURE, ESPECIALLY AFTER THE EXPECTED SAUDI RECOGNITION.*



As part of the settlement, Prince Fahd reportedly entered into an unwritten understanding that Zayid will get Saudi Arabia's "full support as a special friend and ally in the gulf." This could mean the Saudis have guaranteed to aid the leader of the United Arab Emirates should he be challenged by other sheikhs in the federation or by dissident elements. It is unlikely that Zayid's concessions to the Saudis will be challenged by his fellow sheikhs. In fact, the agreement should strengthen both the federation and Zayid's role as its dominant figure, especially after the Saudis recognize the grouping. The agreement puts to rest one of the area's oldest border disputes and removes a barrier to cooperation between the two sides.

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**USSR****MEETINGS IN MOSCOW**

The proceedings at the CPSU Central Committee plenum on July 24 and at the ensuing USSR Supreme Soviet session on July 25-26 illustrate how entrenched "standpattism" is inside the Soviet Union. The lack of even ministerial changes demonstrates that the current regime is unwilling or unable to march in new directions, despite all the recent background discussions of the need for changes in the administration of the economy.

The Central Committee plenum heard a report by General Secretary Brezhnev and discussed the questions to be taken up at the Supreme Soviet on the following day. The text of the Central Committee's closing resolution has not been published, but it presumably includes approval of Brezhnev's report on foreign and domestic developments since the last Central Committee meeting in December.

The newly elected Supreme Soviet, on the recommendation of the Central Committee, re-elected Nikolay Podgorny as chairman of its Presidium and Aleksey Kosygin as chairman of the Council of Ministers. All ministers, including embattled Minister of Culture Yekaterina Furtseva, retained their posts.

In the only noteworthy personnel changes, A. M. Shkolnikov was named chairman of the USSR Committee of People's Control, a post that has been vacant since Politburo member G. I. Voronov retired in May 1973. Shkolnikov, who is 60, has been one of two first deputy premiers in the RSFSR. The reassignment is probably a demotion. His new post has been a dumping ground for political figures whose stars were being dimmed.

In submitting the new government for the Supreme Soviet's approval, Premier Kosygin commented that the other vacancies—the chairmanship of the state committees for prices and for labor and wages—would be filled later. The former incumbents, V. K. Sitnin and A. P. Volkov, were not re-elected deputies in the Supreme Soviet elections on June 16. The failure



**The Supreme Soviet**

to come up with replacements for them is but one of several signs that a number of decisions on economic matters are still hanging fire.

The only organizational change announced at the Supreme Soviet session was the creation of standing commissions in both of its houses to supervise consumer goods production. The move emphasizes the continued interest of the leadership in improving the consumer sector of the economy.

**COMMUNICATIONS SATELLITE**

For the first time, the Soviets have put a communications satellite in stationary orbit. Launched on July 29, the satellite, identified by Tass as "Molniya 1-S," is now in position over the Indian Ocean and is relaying communications between ground stations in the USSR. An earlier geostationary satellite, launched successfully in March, probably involved only an engineering test.

Since 1969, Soviet space scientists have spoken of the desirability of having a communications satellite in stationary orbit over the Indian

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Ocean. From this position, most ground stations in the Soviet Union could relay messages via a single satellite 24 hours a day. In the past, more than one communications satellite was required for the Soviets to achieve 24-hour coverage. The US uses communications satellites in similar geostationary orbits over the Atlantic and the Pacific.

In achieving the stationary orbit, the satellite performed a series of orbital transfers and corrections. The satellite is about 20,000 miles above the equator, with its orbital speed matched to the earth's rate of rotation. The satellite was initially launched into a much lower orbit.

The Soviets nearly achieved the required orbit in their first test in March, but the satellite's drift was not corrected and it moved out of position within a few days. This satellite probably was intended to test the techniques necessary to achieve the desired orbital position.

Communications relay is not the only potential use of geostationary satellites. The Soviets have mentioned meteorological and scientific payloads, but other missions, such as strategic early warning and intelligence gathering, could also be performed by satellites in such orbits.

**ECONOMY KEEPS ROLLING**

Moscow's mid-year economic report contained mainly good news for the population and the delegates gathering for the meetings of the Supreme Soviet. Based on the results so far, the gross national product should increase by about 5.5 percent this year—the second straight year of above-average growth. The continued economic momentum reflects strong gains in the industrial sector, based largely on a greater flow of raw materials—such as cotton and grain—from the record crops last year.

This promises to be a good year in agriculture. At mid-year, the number of cattle was up 3 percent; hogs, 5 percent; and poultry, 7 percent. Abundant rainfall has brightened prospects for meeting this year's goal of 205.6 million tons of grain.

	Estimated Rates of Growth (Percentage)			
	1971	1972	1973	1974 Projected
Gross National Product	4.5	2.1	7.3	5.6
Agriculture	-0.6	-9.1	16.5	7.3
Industry	5.9	5.0	6.2	6.5
Other	6.1	5.4	4.2	4.3

Civilian industrial production grew by 6.5 percent in the first half of 1974, compared with the same period last year. Production of energy and machinery grew substantially faster than in the first half of 1973. In the consumer goods sector, textiles and leather footwear barely met the planned goals, but production of some highly prized durables—automobiles, furniture, and vacuum cleaners—continued to grow rapidly. Industrially processed meat rose 12 percent over last year's first half, and supplies of vegetable oil, poultry, and dairy products also increased substantially.

In the area of capital construction, gross fixed investment increased by 9 percent. Moscow, however, still must battle the old problem of spreading investment over too many projects. The value of new plants brought into production was only 4 percent more than that commissioned in the first half of 1973 compared with the 1974 goal of 10.5 percent.

Foreign trade increased by 20 percent during the first half, primarily because of the higher prices for Soviet oil and raw materials. For the year as a whole, exports to hard-currency countries are likely to rise more than 50 percent to \$7.5 billion; imports are likely to fall from \$6.5 billion to \$6.0 billion because of a reduction in imports of agricultural products. Trade with the US should reflect this trend. During the first half of the year, the Soviet trade deficit with the US dropped to only \$129 million compared with \$607 million during the same period last year.

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### ROMANIA: PARTY CONGRESS AHEAD

The most significant action taken by the party Central Committee plenum on July 27 and 29 was the approval of a draft party program that will be adopted at the 11th party congress beginning on November 25. The document, the first of its kind in Romania, has not yet been published. It may prove to be the most important party statement issued by the Romanian party since its so-called "declaration of independence" in April 1964.

Party leader Nicolae Ceausescu said in his closing address that the program was of "exceptional theoretical and practical significance." Earlier, party secretary Gheorghe Pana had privately indicated to a US official in Bucharest that the program would contain "some surprises." Pana added that the document may not be well received in some quarters—an indication that it may reiterate, sharpen, and update the focus of major points contained in the party's "declaration of independence." The program will now be submitted to local party organizations for debate prior to the party congress.

The only personnel changes made at the plenum were the promotion of Iosif Uglar to party secretary and the appointment of Emil Bobu to candidate membership on the Executive Committee. Uglar has now become the highest ranking ethnic Hungarian in the Romanian party. Bobu, the minister of interior, is entering the top echelons of the party for the first time.

The plenum adopted draft directives for the 1976-80 Five-Year Plan and guidelines for economic development in the 1980s. Ceausescu held out little hope for any immediate or dramatic improvement in the standard of living for the average citizen. He said only that "once the economy is based on advanced science and technology, the people's living standard can rise accordingly." To take some of the edge off recent worker dissatisfaction, the regime did grant

modest wage increases to industrial and agricultural workers on August 1.

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### HARASSMENT ON THE AUTOBAHN

Late last week, the East Germans began minor harassment of travelers on the autobahns leading to West Berlin in retaliation for Bonn's opening of its Federal Environmental Office there. East German spot-checks for employees of the office caused temporary delays over the weekend. Pankow had earlier threatened to bar their transit.

The office's personnel had been instructed to avoid provocative behavior and to show only their personal passports, which do not disclose the nature of their employment. At least five employees used the autobahns without incident. On July 29, however, one employee who refused to answer questions posed by East German border guards was turned back.

The West German government responded to this action by calling for a special session of the Transit Commission, which will be held on August 6. The commission was established under the Inter-German Transit Agreement of 1971 to deal with all problems of this kind. The West Germans hope that the commission will resolve the issue so that relations with Pankow will not deteriorate further. Should the talks prove unfruitful, Bonn will probably call for consultations at the foreign ministry level.

Bonn has also urged the three Western allies to issue a formal demarche to the Soviet Union, pointing out that under the Quadripartite Agreement, Moscow is responsible for guaranteeing unimpeded access to West Berlin. Meanwhile, Pankow's retaliatory measures have led Washington to delay the establishment of diplomatic relations with East Germany.

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## EASTERN EUROPE: A SOGGY HARVEST

Grain production in Eastern Europe is likely to reach 72 million tons this year, slightly less than the 1973 crop. To meet food and feed requirements, Eastern Europe may have to import 9-10 million tons of grain in the fiscal year ending on June 30, 1975, compared with about 8 million tons imported in fiscal 1974.

During the past two months, heavy rains and cool temperatures have delayed the ripening of small grains in Czechoslovakia, East Germany, Hungary, Poland, and Romania. The wheat harvest is from one to three weeks late in most countries. Minor flood damage has been reported in Czechoslovakia, and at least 30,000 acres have been lost in Hungary. If the weather does not improve in the coming weeks, yields of later harvested grains will fall even more. The delays in harvesting have already jeopardized plans for planting second crops—mostly corn for silage. In Bulgaria, some grain-producing areas are still affected by drought, and premature ripening of wheat may have reduced yields.

The northern countries—Czechoslovakia, East Germany, and Poland—will probably account for more than 90 percent of the grain imports required by Eastern Europe in fiscal year 1975. They would trim purchases, however, if prices of concentrated feeds such as oil cake and meals are more attractive or if the increase in livestock herds is curbed. In the south—normally a grain-exporting region—Romania faces its second consecutive shortfall in production and will have to restrict exports in fiscal 1975. Bucharest has already received \$31 million in credits for US grain to be imported in the coming fiscal year. Bulgaria is likely to export only a small amount of wheat, if any. Hungary probably can satisfy both its domestic and export demands, unless recent flooding is more extensive than admitted so far.

The Soviet Union will probably export 4.5 million tons of grain to Eastern Europe in fiscal 1975, slightly more than the previous year. The

remaining 4.5-5.5 million tons would have to be purchased from major Western exporters—the US, Canada, and the EC. The US share in fiscal 1974 was about 1.5 million tons of the 3.8 million tons that Eastern Europe imported from the West.

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## THE EC NINE AND FOREIGN POLICY

The nine members of the European Community are moving toward closer coordination of their foreign policies. This trend is highlighted by the formal EC-Arab talks this week in Paris, which look toward wide-ranging cooperation, and by the heightened EC interest in Portugal.

In discussions last week, the EC foreign ministers drew a parallel between Portugal and Cyprus. They felt that they had been remiss in their dealings with Cyprus by failing to respond to its problems until after the elected government had been overthrown. The foreign ministers believe that the democratic regime in Lisbon may also be threatened because of economic difficulties, the inclusion of Communists in the government, and the uncertainty over the future of the African territories. The Nine are now considering what concerted actions they can take to promote stability in Lisbon.

The foreign ministers are meeting regularly outside the EC framework to coordinate policies, a procedure that began formally with semi-annual meetings in 1970. Last year, the foreign ministers began meeting quarterly and in the future will also be conferring politically on the margins of EC meetings.

Paris had previously insisted on emphasizing the separation between political cooperation and activities within the EC by holding meetings of

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the EC at community headquarters, while discussing political cooperation in the capital of the country holding the EC presidency. The French having now dropped this demand, the Nine foreign ministers last week smoothly switched from a discussion of EC Council activity to a review of political cooperation among the Nine without even changing the meeting room.

The widening of the scope of political coordination is also evident in the creation of new working groups of area specialists from the various foreign ministries. These groups work out coordinated policy positions on various issues prior to the ministers' meetings. The first such groups addressed matters of immediate European concern, but the more recently organized ones deal with developments in the Far East, sub-Saharan Africa, and Latin America. In an increasing number of capitals and international forums, moreover, the ambassadors of the Nine have been meeting together to exchange views and review pending issues.

The coordination appears to be good domestic politics in all the member states. The smaller countries believe that their views will carry more weight in international councils if supported jointly by the Nine. The French, who assumed the EC presidency on July 1, are using political coordination to enhance their European and international image. Bonn favors political coordination because the close working relationships that have developed among the Nine quiet the fears of West Germany's neighbors. The British, although divided in their attitudes toward continuing membership in the EC, are giving full support to political cooperation because they see it as an inter-governmental rather than as an EC activity and because Labor Party leaders enjoy the political coordination meetings.

#### UK: LABOR PARTY SPLIT OVER EC

The ruling Labor Party appears to be facing a protracted period of infighting over the contro-

versial issue of Britain's membership in the European Community. The anti-EC forces succeeded last week in moving the party toward a national referendum on continuing membership, but this prompted Home Secretary Roy Jenkins to launch a sweeping public attack on the party's left wing. Prime Minister Wilson, as a result, plans to intervene this week to end the squabbling.

The Labor Party's National Executive Committee voted last week to convene a special conference to assess EC membership after the current negotiations are completed. There is a strong likelihood that the conference may lead to a referendum that the pro-EC elements want to avoid. The committee took the action in the absence of the Prime Minister and several moderates in the cabinet.

The committee and the cabinet met jointly later in the week to discuss an election manifesto. Anti-EC forces wanted the manifesto to include a firm commitment to hold a referendum on the question of Britain's continued membership in the community, but Wilson was able to defer the issue by passing it on to a drafting committee. The committee is scheduled to come up with a tentative manifesto on August 20.

Following these meetings, the pro-EC forces in the Labor Party led by Jenkins called on party moderates to make their influence felt and move Labor toward the middle ground in British politics. Jenkins' call raised the prospect of new factionalism at a time when the party is faced with the possibility of elections this fall.

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Wilson is trying to keep both views of the party in check and still hopes to defer a showdown over the EC issue until after the election. He was expected to talk to Labor members this week—prior to Parliament's summer recess—about ending the feud.

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President Pak

## SOUTH KOREA

### POLITICAL INSTABILITY

The political situation in Seoul, especially President Pak's demonstrated intolerance of any opposition to his rule, has become a matter of serious concern to the US, Japan, and other supporters of South Korea in its competition with the Communist North.

Pak's repressive measures are receiving wide coverage in the Western press. He has gradually discarded representative institutions and civil liberties since his re-election to the presidency in 1971, a process that culminated earlier this year in the promulgation of "emergency decrees" outlawing virtually all criticism of Pak or the current political system. In a continuing series of stage-managed courts-martial in Seoul, almost a hundred persons, ranging from alleged leftists to student leaders, intellectuals, and Christian social activists involved in planning or encouraging anti-Pak street demonstrations, have been convicted and sentenced—in several cases to death.

There is no reliable evidence that any of those arrested under the "emergency decrees" are connected with the persistent North Korean effort to subvert the South Korean government. The trials in Seoul, moreover, are contributing to a growing uneasiness among important segments

of the South Korean population. Although it is probable that the rural areas, the main source of Pak's popular strength, are relatively unconcerned, activist student and Christian groups probably remain alert to any sign that an overthrow of the Pak system is feasible. Disenchantment with Pak's political overkill is also reportedly growing among important government, military, and even security officials. Military and security officials are concerned that Pak will overplay his hand, force his opponents into the streets, and face the security forces with a choice between shooting South Korean citizens or disobeying presidential authority.

In governmental and political circles in South Korea, there is fear that the US Congress will react to Pak's actions by substantial cuts in military and economic aid. Another concern is that US, Japanese, and other foreign investment in the South may be cut back in the face of an apparent increase in political instability. South Korean diplomats, for their part, are worried over the possible effect on Seoul's international standing, particularly in light of the UN General Assembly session this fall when "Korea" may again be a controversial issue.

President Pak is calling the signals in Seoul, and his personal appraisal of the situation is what counts. Pak toughened his line against dissenters in April of this year in response to what he saw as a well-knit student conspiracy to topple his regime. He professes to see the communist hand behind the alleged conspiracy, but his drag-net has included non-leftist oppositionists whom he also looks upon as threatening.

In moving against such elements, including some of the nation's most respected figures, President Pak hopes to nail down the point that opposition of any stripe will simply not be tolerated. It has been assumed that, as in the past, Pak would relax the political pressure once he had driven this point home. But Pak's willingness to shift gears at any early date cannot be assumed. While he is not ignoring the external pressures, he may well see a greater peril in easing up on his opponents too soon. He seems to believe, for example, that he made a mistake last winter in

handling student activists in a relatively gentle way, giving them the time and freedom to generate fresh conspiracies.

In any case, Pak is not greatly interested in the democratic precepts that his opponents in Seoul constantly clamor about. Western liberalism, in his view, is alien to the Korean nature. At best, as Pak sees it, Koreans will be ready for "democracy" when they fully reach Western economic levels.

In the past, despite personal distaste, Pak has made some effort to live with at least the forms of representative government, largely in deference to the US. It may be that, with US military aid declining year by year, and with South Korea almost on its feet economically, Pak no longer feels compelled to give as much weight to American appraisals of his regime. [redacted]

[redacted] he has for several years stated a willingness to forgo US aid if it should ever hamper his freedom of political action at home.

Pak is not insensitive to the dangers in the present situation, and he is a politician with a demonstrated capacity for tactical adjustment at critical moments. His actions of recent weeks, however, particularly the scope of the current arrests and trials, appear to have taken him closer to the point of no return politically than he has ever been. He may have so antagonized his opponents that they are now inalterably committed to his overthrow. In such circumstances, the political situation in South Korea is likely to become more unsettled, the outcome increasingly unpredictable.

#### THE ECONOMY AT MID-YEAR

South Korea's economy continued its rapid growth during the first half of this year, although the pace slowed during the second quarter. Real gross national product was 14 percent above the same period of 1973 as the momentum of last

year's boom continued. Industrial output was about 20 percent above the 1973 average.

Exports in the first half were up more than 60 percent in value over the corresponding period of 1973, with much of the gain reflecting higher prices. Volume gains were recorded predominantly in the first quarter on the strength of orders placed last year, when foreign demand still was strong. The recent easing of overseas demand has caused a leveling off in output of plywood and has reduced production of textiles, both major export items.

South Korea's balance-of-payments position deteriorated during the first half despite the sharp rise in export earnings. Imports rose even faster, largely because of higher oil prices and commodity stockpiling. As a result, the goods-and-services deficit reached about \$800 million, more than twice that in the first half of 1973. Seoul has stepped up foreign borrowing to finance the increased deficit. 25X1

Wholesale prices soared early this year, rising by 31 percent from December to mid-April. Prices were up less than 2 percent further at the end of June as restrictive monetary policies helped slow the price spiral. Seoul plans to relax credit policies somewhat to help avoid a rash of business failures and a politically unacceptable unemployment level, even at the risk of aggravating inflationary pressures.

During the second half, the economy is likely to grow at about one third the rate of the first six months because of continued weak demand in South Korea's major overseas markets. Real growth for the year will likely be around 8 percent. Wholesale prices will rise moderately as the result of recent hefty wage hikes. The goods-and-services deficit in 1974 is likely to total about \$1.2 billion. Seoul should be able to borrow enough abroad, however, to finance most of the deficit because of its good international credit rating. [redacted]

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## LAOS: DEVALUATION DENIED

The coalition government has rejected recommendations by the International Monetary Fund for devaluation as a means of easing the country's monetary crisis. It would have meant another round of significant price increases, and the cabinet, meeting in special session late last week to discuss measures to deal with the deteriorating financial situation, decided that the rise in the cost of living would be politically unpopular. Communist and non-Communist ministers alike shared the general distaste for devaluation. Instead, the cabinet accepted Finance Minister Ngon Sananikone's proposal to impose tight controls over scarce foreign exchange reserves for the remainder of the year. An economic mission will also be sent to both socialist and Western countries in search of new aid commitments.

The cabinet's decision will not help much in reducing inflationary pressures. With only \$10 million in foreign aid funds available for the remainder of this year—compared with \$17 million used during the first half of 1974—the coalition will be hard pressed to maintain adequate supplies of essential imports. The resulting price increases may well be higher than those that would be associated with devaluation.

### Political Patchwork

The cabinet meeting was the first to be held since Souvanna's heart attack on July 12. Indeed, the absence of convalescing Prime Minister Souvanna's firm hand at the helm contributed significantly to the cabinet's refusal to accept the International Monetary Fund's recommendations. The meeting was chaired jointly by Communist Deputy Prime Minister Phoumi Vongvichit and his non-Communist counterpart, Leuam Insisiengmay, and the atmosphere reportedly was cordial and businesslike. Phoumi and Leuam would apparently like to formalize this arrangement for the duration of Souvanna's convalescence. If the Prime Minister decides to go abroad to complete his convalescence, they intend to ask him to give them full authority to share equally in the government's administration.

In the meantime, the cabinet will continue to hold only "extraordinary" meetings to discuss important and urgent matters. All such gatherings will be co-chaired by the two deputy prime ministers.

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## SOUTH VIETNAM: MORE MILITARY ACTION

Following the arrival of good weather in the coastal areas of South Vietnam's northern provinces last May, several major battles have developed. In the north—as in much of South Vietnam—the government controls the population and food-producing areas, while the Communists hold large uninhabited areas of real estate in the heavily jungled mountains. The current fighting is largely over control of the populated farming areas bordering the Communist zone. Since the cease-fire, the government has quietly and steadily extended its control in these marginal areas and has resettled refugees in the newly claimed territory.

In rice-rich Quang Nam Province, which includes the nation's second largest city of Da Nang, the fighting has centered around several district towns on the periphery of Communist-controlled territory. The most remote of these, Thuong Duc, was overrun by the Communists in mid-week, the first district seat to be lost in Military Region 1 since the January 1973 cease-fire. Three other district towns are under intense pressure.

The Communists have committed parts of two regiments of their 2nd Division and at least eight provincial battalions to the fighting in Quang Nam. These units are supported effectively with artillery and, to a lesser extent, armor, but the Communists have yet to use the large 130-mm. guns recently moved into the area.

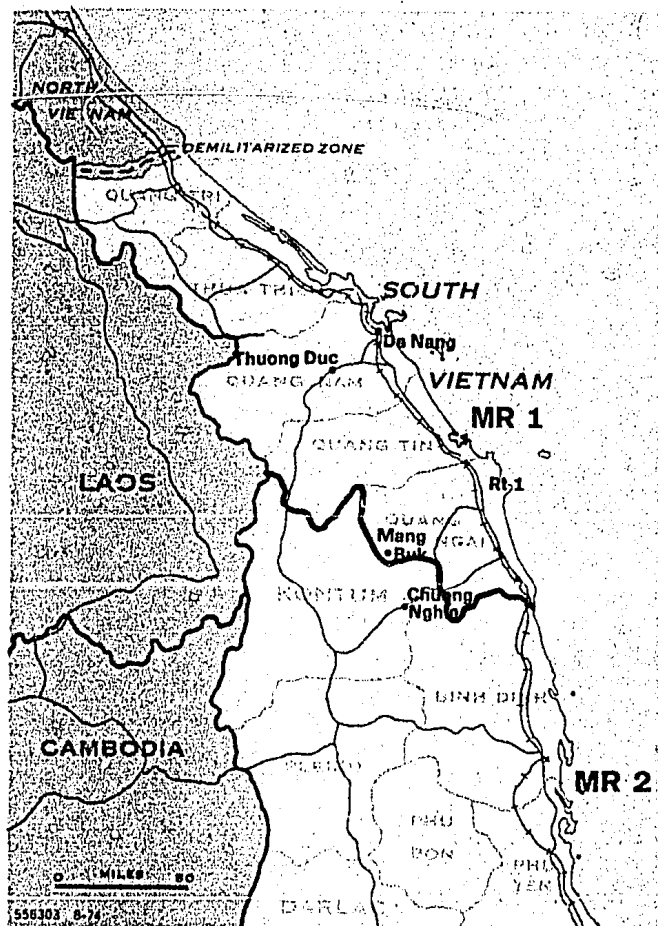
The South Vietnamese have elements of their 3rd Division in Quang Nam, reinforced with

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and Division and Ranger units, one regiment of the crack 1st Division from Thua Thien, and local territorial forces that are rated among the best in Military Region 1.

In Binh Dinh Province, the country's second largest province in terms of territory and population, elements of the Communist 3rd Division launched surprise attacks on outlying government outposts and successfully blocked a six-mile segment of National Route 1—the major north-south highway. The Communists also grabbed several villages that they have long sought to control in the coastal region.

Both sides have already suffered substantial losses. More sharp fighting in the northern



provinces could be in store until early fall, when weather conditions deteriorate, and the government may be forced to give up some of the territory it seized after the cease-fire. In Quang Nam, the Communists could succeed in overrunning more of the threatened district towns. They also can be expected to continue to fire rockets at Da Nang periodically and to try to cut key highways to hinder government resupply and troop movement.

The Communists appear to be in fairly good shape to sustain more of this type of military action in the northern and central coastal areas. In the past few months, approximately 17,000 troops have been infiltrated to the area, enabling the North Vietnamese to bring their combat units up to strength and to build a sizable pool of replacements. Moreover, the Communists are currently moving large quantities of war materiel into these areas and apparently can afford to expend ammunition more freely than government forces, which are experiencing some shortages.

***THE CURRENT FIGHTING IS LARGELY OVER CONTROL OF THE FARMING AREAS BORDERING COMMUNIST ZONES.***

Across the mountains to the west, where the monsoon rains are beginning to limit military action, the North Vietnamese are stepping up the pressure on several remote government outposts in Kontum Province. One of these—Mang Buk—is hard to defend and the government plans to abandon it, if pressed. The regional commander, however, is determined to hold the outpost at Chuong Nghia.

Communist military action in the provinces close to Saigon has fallen to the lowest level since early May. Activity in the delta provinces was also relatively light this week with the most serious action in the western and southern sectors.



## CHILE: PAYMENTS PROSPECTS

This year, Chile will probably register its best balance-of-payments performance since 1970, but prospects are less bright for 1975 because of problems with domestic agriculture and the likelihood of lower world copper prices.

The recovery of copper production and exports, combined with higher copper prices, is likely to generate an estimated \$1.6 billion in foreign exchange earnings this year. This will reduce Chile's trade deficit to about \$220 million, despite unusually heavy outlays for food and fuel imports. Interest on external debt will help push the current account deficit to around \$430 million, but large capital inflows and debt rescheduling should cut the drain on reserves to \$50 million.

Santiago's external payments position is likely to deteriorate in 1975 despite a larger volume of copper exports and lower agricultural imports. Copper production and exports are expected to increase by some 50,000 tons next year, but a lower average price could cut earnings by over \$250 million. The recent boom in commodity prices appears to be over for copper. Prices have declined from the record levels earlier this year because of slower world industrial activity and the bearish impact of high interest rates on inventories of industrial consumers and speculators' holdings.

Heavy storms in June disrupted planting of about two thirds of Chile's winter wheat crop and destroyed an estimated 10 percent of the crop already planted. Chile had expected to boost its agricultural output by some 35 percent and to save some \$250 million on imports through greater use of quality seed and fertilizer and by raising domestic agricultural prices. Instead, storm damage has increased the projected demand for wheat imports in 1975 by 40 percent to over 1 million tons, the same as in 1973.

Assuming other crops such as corn show a healthy recovery, Chile will still be able to cut the food import bill by \$100-150 million. This will

still not be enough to offset the anticipated decline in copper earnings and increases in other imports. As a result, the trade deficit in 1975 probably will be in the \$350-450 million range, and the current account deficit could register near \$600 million. Santiago can expect capital inflows of about \$50 million to the private sector and drawings of about \$250 million on existing credits, but the remaining financial gap will require new credits of around \$300 million and another round of debt relief. [REDACTED]

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## ARGENTINA: OMINOUS PORTENT

The Montoneros, the largest terrorist youth group within the Peronist movement, have disavowed President Peron's leadership and have threatened violence against her government. The warnings come amid speculation that the Montoneros are about to be declared illegal.

During ceremonies on July 27th commemorating the anniversary of Eva Peron's death, leaders of the Montonero organization stated that they would not accept Mrs. Peron's succession since her late husband had said that only the people were his heirs. They also called for the ouster of Lopez Rega and Labor Minister Otero, and vowed that there would be no peace until several of the radicals' demands are met: freedom for political prisoners, revision of the national economic social pact, and an end to repression by security forces.

Although Montonero leaders swore allegiance to Mrs. Peron only last month, they were reportedly outraged by her reconfirmation of Lopez Rega as presidential secretary and minister of social welfare. Lopez Rega is so uniformly hated by the leftist youth, who regard him as a right-wing fanatic and counterrevolutionary leader, that others within the Peronist movement may be inspired by the Montoneros to declare their opposition to Mrs. Peron.

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If the government declares the Montoneros illegal, violence will increase rapidly as other guerrilla groups such as the Peoples Revolutionary Army exploit the situation. The Montoneros are not believed to be well organized militarily but, unlike the Peoples Revolutionary Army, they do have an extensive political base, with their supporters numbering in the thousands. While an outbreak of violence that would require the imposition of martial law is not likely at this time, the situation could lead to greater participation by the military in the maintenance of internal security. [REDACTED]

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### PERU LOSES FREE PRESS

Events of the past week indicate that President Velasco has decided to advance the timetable for further "radicalization" of Peruvian society. At the same time, domestic reaction against the military regime's expropriation of the country's major newspapers suggests that such authoritarian measures will engender increasing opposition.

Subsequent to the decree of July 27—giving the government control of the press in fact if not in name—Velasco outlined further plans for overhauling Peruvian society. In general, the President stated that all important economic sectors would be freed eventually from private ownership, both foreign and domestic, and that labor groups—many of which already support the government—will be given increasingly powerful voices in the management of the economy. The President also implied strongly that the military will remain in power for the foreseeable future.

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[REDACTED] Velasco has said he would like army General Graham Hurtado to succeed him if he dies or is forced to step down in the next year for health reasons. Graham is head of the Presidential Advisory Committee and one of the most radical military leaders. The

President's reported preference, although unofficial, will weigh heavily in the three-man Revolutionary Junta's deliberations on a new president when the time comes. Army Chief of Staff Morales Bermudez, however, may oppose Velasco's desire to elevate Graham. Morales Bermudez, who is scheduled to become prime minister and minister of war next year, is a leader of government moderates and is senior to Graham.

The day after the President's Independence Day speech on July 28, a military parade was held in Lima, attended by representatives from other Latin American countries including Cuban First Vice Prime Minister Raul Castro. According to press reports, the parade included a large number of Soviet T-55 tanks and eight surface-to-air missiles. This was the first time the tanks have been displayed in public and the first evidence that Peru has acquired surface-to-air missiles.

Anti-government demonstrations that began on July 29 in Lima appeared to have been sparked by the government's action against the press. The demonstrations reportedly have been confined to the capital thus far, and appear to be organized by middle-class and student groups. Although the disturbances do not yet appear serious, they may spread and cause the military to take more extreme and unpopular measures. This will be particularly likely if the demonstrators are joined by members of the American Popular Revolutionary Alliance, Peru's still important mass-based political organization.

Reaction against the government's authoritarian measures already seems to have put Velasco on the defensive. Sensitivity to criticism of his policies was a major reason the President decided to take control of the newspapers away from private investors. It is unlikely, however, that Velasco will reverse any of the more extreme programs he has decided on recently, despite the fact that they are likely to give rise to further anti-military sentiment. [REDACTED]

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## CUBA: CASTRO LOOKS TO THE SOUTH

Exuding confidence and magnanimity, Fidel Castro extended the hand of reconciliation to his Latin American neighbors during his annual address on July 26. Less than 24 hours later, favorable reactions came from Venezuela and Colombia, and Raul Castro arrived in Lima to cement Cuba's already warm ties with Peru.

It is clear, however, that Fidel's expansive attitude does not extend to the OAS. By describing the regional organization as "the international instrument for aggression against Cuba" and characterizing it as a "rotting cadaver," he firmly laid to rest the latest speculation that he might accept a reactivation of Cuba's suspended OAS membership. His speech indicated that he is satisfied with his domestic situation and optimistic that the current trend in international affairs will continue in his favor.

Although the largest portion of his address was devoted to the election of local government officials in Matanzas Province, Castro's choicest remarks dealt with Cuba's prospects in Latin America. He reiterated his standard denunciation of the so-called blockade of Cuba and had warm words for the efforts of Mexico's President Echeverria to influence other chiefs of state to renounce the OAS sanctions. He also commended Venezuela for its "dignified and just" policy regarding the nationalization of foreign-owned petroleum companies. In response to remarks by Venezuelan government spokesmen favoring normalization of ties with Cuba, he said: "For its part, the Cuban Revolutionary Government is prepared to work toward that end also, and with sincere satisfaction that it [i.e., Caracas] is considering that policy." He indicated that he expects several other Latin American governments to re-establish diplomatic and economic relations with Cuba in coming months and promised that this would be done "on the basis of absolute reciprocal respect and fraternal cooperation." This pledge is as close as he is likely to come to outright rejection of the promotion of subversion in Latin America, but it is probably enough to

satisfy several governments awaiting such a commitment before considering a renewal of relations.

Castro's remarks were welcomed publicly less than a day later by Venezuelan President Carlos Andres Perez, who described them as "the first cordial words he has ever spoken about Venezuela." Perez declared he would begin diplomatic moves aimed at ending Cuba's diplomatic and economic isolation, thus permitting Latin nations to re-establish relations without breaking inter-American commitments. Later, Perez indicated that a restoration of ties between Venezuela and Cuba would probably be followed by an exchange of Venezuelan oil and Cuban sugar.

On the heels of Perez' statement, Colombian President-elect Alfonso Lopez Michelsen stated publicly that he will examine the situation after taking office on August 7. Lopez emphasized his satisfaction with the anti-hijacking agreement signed recently with Cuba and with the way Castro spoke of the possibility of re-establishing relations with Venezuela. Lopez said, "I believe he feels the same way toward Colombia."

While Castro perceives a favorable trend for Cuba in Latin America, he apparently sees little chance for any immediate improvement in the relationship between Havana and Washington. His labeling of President Nixon as the promoter of the Bay of Pigs invasion in 1961 and his indirect reference to the impeachment proceedings suggest he has ruled out the possibility of any quick change in the status quo.

The day after Fidel's address, Armed Forces Minister Raul Castro arrived in Lima for an official visit that will last until August 5. With him went five of the nine armed forces vice ministers including the chiefs of the Cuban navy, air, and air defense force. On July 29, Raul met privately with the commander in chief of the Argentine

army and may take advantage of the opportunity to establish friendly contacts with military delegations from Venezuela, Colombia, Ecuador, and Bolivia, who are also in Lima for the Peruvian Independence Day celebrations. In the wake of Fidel's conciliatory speech, Raul may be delivering personal assurances to his opposite numbers in these countries that Cuba is no longer firmly wedded to a policy of indiscriminate subversion. [redacted]

an increase could ease the immediate pressure on him, but would seriously strain the country's financial resources. It would also cause future problems, both political and financial, when other groups—especially government workers in La Paz—begin to press for equivalent increases.

### BOLIVIA: BANZER'S POSITION IMPROVED

In the wake of the attempt last month to oust him, President Banzer has taken additional steps to improve his position with the military. He has also promised his opponents a share in the government by reaffirming his intention to hold elections next year.

The re-arrest of Major Gary Prado, a popular officer who was one of the leaders of the recent coup attempt, significantly reduces the subversive threat posed by young army dissidents, who have been the most active plotters against the government. Although they are unlikely to be appeased by Banzer's sop to the military, they have probably written Prado off as a serious challenger, and there is no one else now in sight who has the leadership qualities or support to take over the presidency. The underlying dissatisfaction with Banzer's administration continues, however, and it will probably be only a matter of time before another move will be made against him. [redacted]

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The President reportedly has proposed a 70-percent raise in military pay for all ranks. Such [redacted]

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### WORLD COMMUNIST CONFERENCE

The major West European Communist parties have apparently accepted a Soviet proposal for a European communist conference. As a result, Moscow is accelerating its behind-the-scene efforts to organize a world conference of Communist parties.

Soviet party chief Brezhnev during his meeting with his French counterpart, Georges Marchais, on July 27. To aid their campaign for the world conference—and to avoid the appearance of direct pressure from Moscow—the Soviets have asked the Polish party to send representatives to meet with Western Communists, in particular with the Italians and French.

Soviet party secretary Ponomarev vigorously promoted the world conference during his visits with French and Italian party leaders in June and July. The Soviets insisted that this conference should be convened by May 1975 in order to meet the challenges posed by China in Asia and by growing ties between the US and Europe.

The Soviets may believe that their apparent success in overcoming the opposition of Western parties to a European regional meeting will smooth the way for these parties to endorse a world conference. Moscow nevertheless still faces resistance from major parties which fear that, under the guise of dealing with the Chinese issue, the world meeting will be used to undermine their autonomy. [redacted]

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The importance of unity and cohesion in the world Communist movement was also stressed by [redacted]

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