

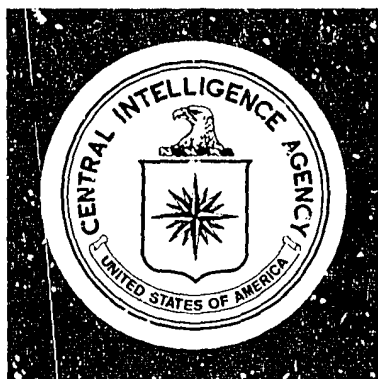
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Weekly Review

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4 October 1974

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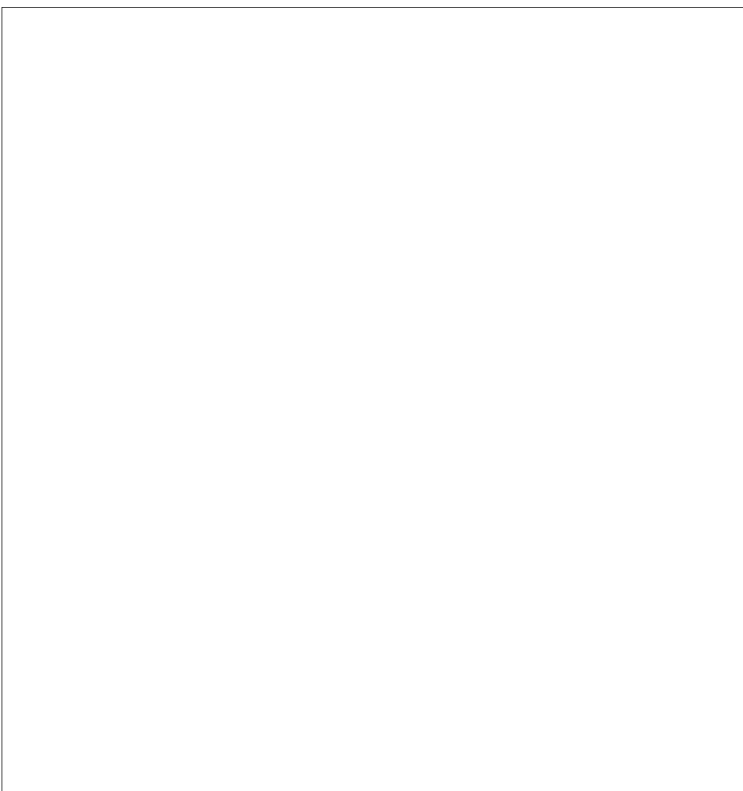


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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of 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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Wilson



Heath



Thorpe

UK: Elections a Week Away

As the election campaign enters its last week, the Labor Party appears to have successfully weathered several potentially damaging developments and now believes that it will make solid gains in the voting on October 10. All of the latest opinion polls give Labor a margin of about 10 percent over the Conservatives. In the election last February, British opinion polls differed markedly and none turned out to be accurate. If the current polls prove more reliable, Prime Minister Wilson could win a clear parliamentary majority.

The wildcat strike by workers at the Ford Motor Company, which broke out last month, evidently is not a decisive issue. On September 30, moreover, workers in one plant near Liverpool voted to return to work. The work stoppage appeared to hit at the very heart of the Labor Party's key domestic plank—the so-called "social contract"—under which the trade unions agreed with the Labor government to exercise voluntary restraint on wage demands. The opposition parties have tried to capitalize—apparently without much success—on Labor's failure to secure the full cooperation of blue collar workers in the fight against inflation.

Early this week, moderate union leaders narrowly averted another strike by coal miners, who threatened to walk off their jobs if a National Coal Board proposal providing wage incentives to increase production was accepted by the union. Union leaders finally agreed to post-

pone voting on the proposal until after the election and to work for an acceptable agreement with the coal board.

Wilson's troubles have not been limited to restive workers. Cabinet members have been disagreeing publicly over the question of Britain's continued membership in the EC. During a press conference on September 25, Consumer Protection Secretary Shirley Williams stated that she would quit her post if Britain opted out of the Community. The following day, Home Secretary Roy Jenkins agreed that he would also resign if the result of the proposed referendum on British membership is negative. Despite the publicity given to dissension over the EC issue, the average citizen remains far more interested in such issues as wages and inflation.

The Conservatives and Liberals have largely reacted to the Labor Party, rather than offering dynamic alternatives, and they look like anything but front-runners. Tory leader Heath, for example, has run a low-key, uninspiring campaign. He has tried to play down the threat of class war that he raised in the election campaign last February by calling for national unity and offering vague palliatives for the country's problems. Like the Liberals, the Conservatives have focused their efforts on picking apart the Labor program. For the past week, the opposition has haggled with the government about the actual rate of inflation.

The small regional parties are expected to make strong showings in their respective constituencies. In Ulster, the loyalist hard liners should win most of the 12 Northern Irish seats as they did last February. The Scottish Nationalists could double their representation and net 14 seats

in the House of Commons. Even local pundits, however, are unwilling to predict which of the two major parties will be harder hit by Nationalist gains.

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China: Agreeing to Disagree

As the People's Republic celebrated its 25th year, China's leaders were looking backward as well as forward. Much of the media debate of the current political campaign has been conducted using historical analogy, particularly the failure of progressive forces to hold sway after the death of the first Chin emperor. The current pre-occupation is, of course, over the succession to the Mao "dynasty," and this concern was clearly evident in National Day events, which attempted to project an image of unity and stability.

All active Politburo members except Mao made public appearances, and Premier Chou left the hospital briefly to make a ringing address to over 4,000 cheering celebrants. The enthusiastic reception accorded Chou highlights the sense of relief obviously felt by most Chinese as a result of the apparent improvement in the Premier's health. But even the rehabilitation of a number of government bureaucrats, military men, and provincial leaders could not dispel the underlying sense of unease, as if the final act of a drama was being played out with the audience still in doubt as to the ending. A joint editorial, broadcast on the eve of National Day, set the tone. While promising that the campaign to criticize Confucius would continue "for a long time," the emphasis was on study rather than criticism, and the message was unity.

The appearance list was unusually long and complete. All government ministers appeared except the public security boss—who may well be dead—and the Central Committee list included several provincial military leaders who had been under heavy attack. Party vice chairman Li Tesheng showed up in his provincial home, although

it was not possible to determine if he retains all his jobs since leaders there were not identified by title. Even the first secretary of Shansi, who seemed politically dead after a play written in his province was branded a "poisonous weed," was on hand. The continued survival of so many leaders makes it difficult to identify any high-ranking officials who have fallen as a result of the anti-Lin, anti-Confucius campaign—now more than a year old—and raises the possibility that any purge now will be limited in the face of leadership uncertainties precipitated by Chou's illness.

It is possible that the spirit of compromise extends to the long-delayed meeting of the National People's Congress, which may be in train again after a number of false starts. The congress would approve a new state constitution and a slate of government ministers, and could provide a forum to announce appointments to several vacant military leadership posts. The joint editorial failed to mention the NPC, however, which is probably a negative sign.

But behind the facade of unity, the maneuvering for position goes on. In the weeks just before National Day, Madame Mao was in the spotlight. A series of poems praising an ancient empress who ruled China for over 20 years after her husband died thrust Chiang Ching's succession ambitions clearly to the fore. Typically, this initiative did not go unanswered, and after the noise from the fireworks dies away and the clean-up crews finish their tasks, China's modern mandarins will resume their efforts to shape the new dynastic leadership.

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Argentina: Anti-subversion Laws

President Peron was able to push a sweeping anti-subversion bill through the congress after a bitter debate last week, but it aroused suspicion among opposition legislators, who charged that its vaguely worded provisions could be used to stifle democratic freedoms.

The bill gives the government broad new powers, including the right to imprison accomplices of guerrillas, recalcitrant strikers, and newsmen who report subversive activities. Foreign correspondents could be vulnerable. In the past, selected newsmen have been invited to secret press conferences held by leaders of extremist groups. The government has condemned this practice, claiming that it supports the terrorists' psychological efforts to undermine government authority. Although the interior minister testified before congress that the new law would not result in any infringement on the news media, the government is unlikely to back away from its apparent plan to impose a news blackout on guerrilla and terrorist activities.

The killing spree went on unabated this week, claiming the lives of former Chilean army commander General Carlos Prats and his wife. Prats had been living quietly in Buenos Aires since he resigned from the Allende government last year, and the identity of his killers has not been established.

Meanwhile, a string of terrorist attacks on Argentine army officers heightened frustration among the military, which is still committed to operate within the constitutional framework. The People's Revolutionary Army recently swore to make "indiscriminate reprisals" against the army for the "execution" of 14 guerrillas captured last month, and this may elicit tougher action from the military. Army commander General Anaya, for example, has vowed that the army would use "all its power" to destroy the terrorists. The military is aware that an underlying objective of the terrorist campaign against the army is to provoke it into violent reaction, possibly a coup—the traditional Argentine military solution to deteriorating political situations since 1930. The Marxist extremists would view such a move

as the first step in the destruction of political institutions, thus hastening the leftist revolution they maintain is their prime goal.

The army has been generally reluctant to become totally involved in counterterrorism, partly out of a desire to shed the unpopular image it acquired during the period of military rule from 1966 to 1973, and partly from an awareness of the likely negative political reaction if harsh security measures are taken. Nevertheless, the military may find itself with little option except to move more forcefully against the widening terrorist offensive.

There is some chance that US military and diplomatic personnel will be targets of the extremists. At a recent clandestine press conference, guerrilla leader Roberto Santucho, head of the People's Revolutionary Army, singled out agents of CIA, DIA, and the US Drug Enforcement Agency as major "foreign enemies." The controversy over the US role in Chile is getting heated play in the Argentine press and congress, and extremists may decide that the climate is ripe for attacks on US officials.

The growing wave of violence is also being fostered by right-wing death squads, which are stepping up action against leftist politicians, entertainers, and academicians. The self-styled Argentine Anticommunist Alliance—which reportedly operates with official sanction—has taken credit for the killing of at least six persons and is adding new victims daily to its "death list." Many of those targeted have gone into hiding or have left the country.

Some senior army officers have privately welcomed the death squads and the new antisubversive legislation as useful weapons in the fight against leftist terrorism. Those who have been killed or threatened by the alliance, however, have been public figures and relatively easy targets. No leaders of the major leftist terrorist organizations responsible for most of the anti-government violence have been attacked.

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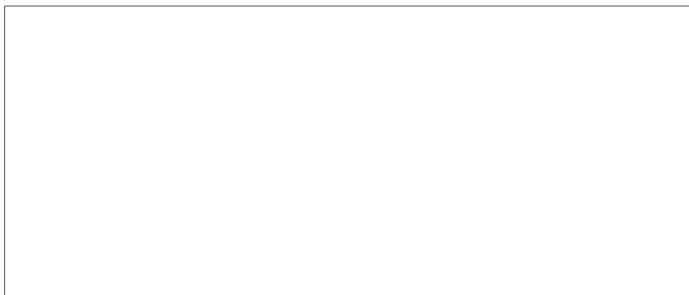
Arab States—Fedayeen: Toward an Accommodation

Egypt and Syria this week redoubled their efforts to reconcile the positions of Jordan and the Palestine Liberation Organization on Middle East peace negotiations. Meanwhile, there are some indications that both King Husayn and PLO leader Yasir Arafat are in a more compromising mood.

Cairo and Damascus have tried to soothe Jordanian anger over the communique of the recent Egypt-Syria-PLO meeting in Cairo in which the PLO was recognized as the "only" legitimate representative of Palestinian interests. Both Egypt and Syria have attempted to reassure the Jordanians that Amman still has a role to play in the negotiations.



Egyptian government officials also have taken pains to explain away some of the critical Egyptian press commentary on the Jordanian reaction. US Ambassador Eilts in Cairo confirms that the Egyptian government appears to have turned off the anti-Jordanian press campaign.

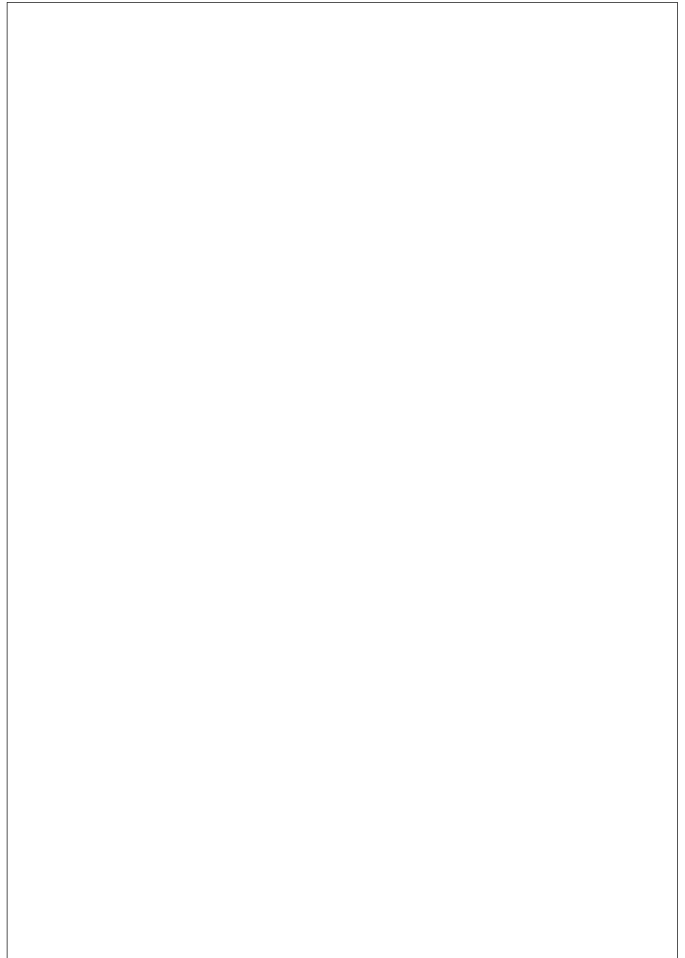


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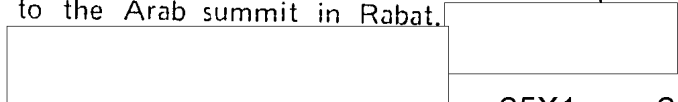
Despite Jordan's claim that it would freeze its participation in strategy talks with other Arabs, Amman now may be prepared to move toward some accommodation with the PLO. Husayn reportedly plans to attend the Arab summit meeting in Rabat scheduled for late October, and the King's chief foreign affairs adviser, Abd al-Munim Rifai, is pressing Husayn

to offer to work out an agreement with the PLO on the disposition of the Israeli-occupied West Bank after its liberation. Although the King, according to Rifai, cannot agree to hand over the West Bank to the PLO immediately, he would be willing to recognize that the PLO has a role to play and to reach an agreement with the PLO on what it should be.

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The withdrawal from the PLO of the radical Popular Front for the Liberation of Palestine may make it easier for PLO moderates to forge a stronger consensus for peaceful settlement prior to the Arab summit in Rabat.



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PORTUGAL: LEFTISTS WIN UPPER HAND

Leftist forces emerged on top this week in a power struggle that culminated in the replacement of President Spínola by the armed forces chief of staff, General Costa Gomes. In an impressive display of strength and cohesiveness, the left won a clear tactical victory over rightist elements. Political tensions remain high, however, and prospects for an orderly campaign leading to elections next March are considerably reduced.

The struggle was initiated on September 28 when the Armed Forces Movement—dominated by young, left-leaning officers—forced President Spínola to cancel a political rally that had been billed as a pro-Spínola demonstration by Portugal's "silent majority."

The movement and virtually all left-of-center forces regarded the rally as the first step by the political right to regain the upper hand. For several months, Spínola had been engaged in a contest for power with the Armed Forces Movement, though their differences were seldom made public. It was clear, however, that the movement was impatient with Spínola's generally moderate approach to domestic problems and with the gradual pace of decolonization that he advocated.

The final break between Spínola and the left came after a truce was announced on September 29. Young officers in the Armed Forces Movement then proceeded to press for the resignations of three conservative supporters of Spínola on the Junta of National Salvation, the seven-man military ruling body over which the President presides. After yielding to the ouster of his supporters, the President was more isolated than ever and was compelled to resign. In his resignation speech, he bitterly denounced "the emergence of a generalized climate of anarchy."

With Spínola gone, the locus of power in Portugal now lies with the Armed Forces Movement, although it probably represents only a

small percentage of the officer corps. The exact composition of the movement is uncertain, but it appears to include some Communists. In any case, the events of the weekend reflected a close coordination between the movement and the Portuguese Communist Party. Between them, their control of the situation was so complete that for all practical purposes the country was, and is, in their hands. The movement's decisions will be implemented by an administration headed by Prime Minister Goncalves.

The new president, General Costa Gomes, is a long-time ally of Spínola and is of the same ideological cast, but he is more patient about opposing points of view and more amenable to compromise. The presidency may be shorn of many of its powers, however, and the occupant of the office is in danger of becoming a figurehead. There is some doubt that Costa Gomes can keep the upper hand.

With power now almost exclusively in the hands of the left, both the armed forces and the government are taking pains to disprove Spínola's assertion that Portugal is heading toward anarchy. The rightists are lying low for the present, handicapped by a lack of organization.

To assuage the concerns of the US, President Costa Gomes has reaffirmed Portugal's NATO ties, its wish for close relations with the US, and its desire for closer association between Portugal and the EC. Prospects for Portugal's continuing close relations with the US may be less promising, however, if Prime Minister Goncalves and the movement achieve unchallenged power.

Portugal's future political orientation depends in large part on the armed forces. Whether the armed forces swing behind one side or develop conflicting loyalties will be a critical factor in deciding if there will be a relatively orderly implementation of decolonization and democracy, a predominantly rightist or leftist regime, or civil war.

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CYPRUS: SETTLEMENT OVERSHADOWED

Diplomatic efforts to move toward a negotiated settlement of the Cyprus problem were overshadowed this week by political developments in Athens, Ankara, and Nicosia. The Karamanlis government in Greece continued to move toward the holding of elections, despite some faint rumblings in the military. In Ankara, the task of forming a new government was given to opposition leader Demirel after Prime Minister Ecevit failed twice to organize a new coalition. In Nicosia, Acting Cypriot President Clerides' threat to resign has at least temporarily stalled the talks he had been conducting with Turkish Cypriot leader Denktash.

GREECE

Greek political parties have stepped up their activities in anticipation of parliamentary elections. These are now scheduled to be held on November 17 and will be followed within 45 days by a referendum on the future of the monarchy. The present government will resign next week and will be replaced by a caretaker government under Prime Minister Karamanlis.



Military officers appear concerned primarily by recent disciplinary actions that Karamanlis has taken against the army and possible further moves he might take. They are also critical of the Prime Minister because he has not prevented frequent press attacks on the army and individual officers.



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A military move against Karamanlis at this time would probably be unsuccessful, largely because the army is not united. Moreover, many rightists, including army officers, realize that they stand to gain if elections are held before the left has been able to organize an effective opposition.

The feuding Communists have managed to pull together a limited program of electoral cooperation. The Moscow-backed Greek Communist Party and the United Democratic Left have agreed to coordinate activity, but for the election only; a dissident Communist Party faction has also worked out a loose arrangement with the United Democratic Left.

The US embassy reports that Andreas Papandreou's Pan-Hellenic Socialist Movement has gotten off to a slow start. He is reportedly not getting the backing of the liberals of the Center Union, but drawing support only from urban youth and students.

Several new political groups have emerged. A group of prominent political personalities, all relatively young and nearly all associated with resistance to the former junta, have announced the formation of a left-of-center movement called "New Political Forces." Minister of Industry Protopapas has formed a group called the Socialist Democratic Union. On the right, former minister of defense Petros Garoufalias, who has been linked to military coup-plotting, has announced that he and nine other former deputies will form their own political party.

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Clerides



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Prime Minister Karamanlis is apparently having problems getting his New Democracy Party off the ground. He is trying to attract new personalities, particularly liberals and uncommitted youth. To do this, he will have to drop from his candidates list at least 50 former key party supporters of his old National Radical Union.

CYPRUS

Acting Cypriot President Clerides' threat to resign reportedly reflects his concern that Athens' ambiguous position toward him—along with Makarios' machinations and announced intention to return to the island—had seriously impaired his ability to negotiate with the Turkish Cypriots. Moreover, he felt that the situation was making it increasingly difficult for him to govern the Greek Cypriot community, which is divided along pro- and anti-Makarios lines. Clerides' move was apparently prompted by the acceleration of the campaign to bring back Makarios, which is led mainly by leftist forces but is also favored by other groups. Makarios supporters staged a mass rally in Limassol on September 29.

Clerides' well-orchestrated threat to resign seemed to be designed to force a clarification of his position and to recoup his waning support. If so, it certainly worked, as his move gained both private and public assurances of backing from Greek Prime Minister Karamanlis and from Makarios. Moreover, it reportedly sparked a rise of pro-Clerides sentiment on the island, at the same time as the campaign to bring back Makarios appeared to be losing some of its earlier momentum. Should Clerides succeed in securing pledges of support from a substantial segment of the Greek Cypriot factions, along with a stronger public statement of support from the Archbishop—he apparently considers Makarios' initial statement inadequate—he would probably consent to remain in his position.

Despite his misgivings, Clerides continued his discussions with Turkish Cypriot leader Denktash on September 30. The two agreed to resume the exchange of prisoners, which was suspended last week because of a delay in the return to Cyprus of Greeks held prisoner in Turkey. Moreover, the

Turks had been reluctant to free the increasing number of Greek Cypriot prisoners who wanted to return to their villages in the Turkish-occupied sector of the island. The two men reaffirmed in their talks that prisoners would be released where they wished. Arrangements were also made for the return of Greek Cypriots held in Turkey. At Clerides' request, however, a date for another meeting was not set, apparently because Clerides was considering resigning.

TURKEY

Prime Minister Ecevit of Turkey was the political leader who benefited most from the fighting on Cyprus, but he seems to have overplayed his hand in resigning and trying to force new elections. Because Ecevit's party is the only one that stands to gain considerably from early elections, the other parties have balked at giving him the necessary support in parliament on this issue.

The Democratic Party refused to join a coalition with Ecevit's Republican People's Party because the offer was conditioned on an agreement to hold elections before the end of the year. Ecevit then offered to defer the elections until next spring, but he was again rebuffed by the Democrats. As a result, President Koruturk turned to Justice Party leader Demirel to try to form a new government.

Demirel will attempt to form a right-of-center coalition that will include the Democrats and Ecevit's former coalition partner, the National Salvation Party. Such a coalition will be extremely difficult to put together, however, in view of the deep personal animosities between Demirel and the Democratic Party leaders. The Democratic Party was formed in 1970 by dissident Justice Party members whom Demirel had broken with and had expelled from the party.

Ecevit believes that Demirel will fail to organize a new government and that the President will then give him another chance. In this case, Ecevit hopes that the Democratic Party will be more amenable to joining him in a coalition since it will be clear that a rightist coalition cannot be formed.

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Arias

SPAIN: RIGHTISTS SPEAKING OUT

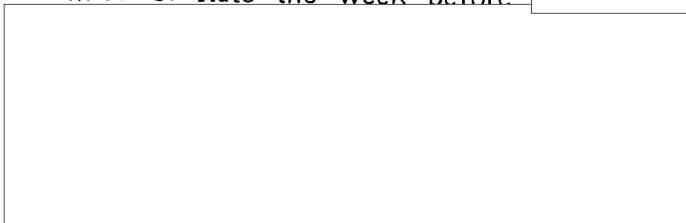
Controversy over Prime Minister Arias' modest liberalization program is likely to require Franco's intervention. At the same time, the moderate governmental image that Arias wants to project is further threatened by the government's decision to let a military court try eight Basques charged with a terrorist bombing in Madrid.

An editorial on September 26 in a prominent ultra-rightist weekly magazine warned Arias that the kind of democracy he has advocated could lead to a "field of corpses." The writer asserted that rightists wanted nothing to do with Arias' policies and could not cooperate with him "even in the opposition."

The warning follows an interview with Arias published on September 11 in which the Prime Minister stated that he intends to work for democratization of the regime as he promised last February. Arias said he hoped that a government bill on a key provision—establishment of political associations—would be ready before the end of the year. Rightists oppose this move because they fear the associations will become political parties. Arias denied that rightist resistance was holding back liberalization moves

Political observers assumed at the time of publication that Arias' interview had advance ap-

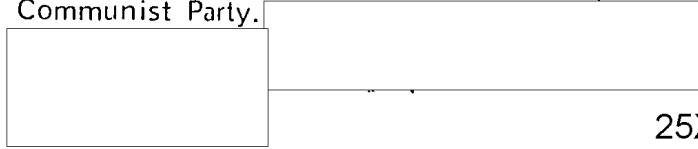
proval from Franco, who had resumed his duties as chief of state the week before



Franco has made no move to disassociate himself from Arias' position. Following the right-wing attack, moreover, two prominent Madrid dailies strongly defended the Prime Minister's policy. Arias is evidently prepared to face rightist disapproval of his program, but Franco's attitude would cause him to reconsider. The noisy demonstrations by rightists in May 1973 protesting the leniency of the authorities toward terrorist groups may have been a factor in the cabinet reshuffle the following month when some ministers favoring liberalization were dropped.

The government is concerned about security following the terror-bombing in Madrid on September 13 in which 11 people were killed and scores wounded. The bombing was apparently aimed at killing security police who frequent the area but hit innocent bystanders instead. The government's decision to have a military court try the eight Basques charged with the bombing may create problems for Madrid, if it turns into a replay of the trial of 16 Basque terrorists in Burgos in 1970. That trial created strains among Spanish moderates and conservatives as to whether the convicted terrorists should be granted leniency, as well as considerable foreign criticism of a military court's trying civilians.

Franco eventually eased the earlier controversy by permitting the death penalty to be invoked but then commuting the sentences. In the latest incident, the Spanish press is giving heavy coverage to the police investigation and to the quick arrest of the eight suspects. They have been linked to the Basque Fatherland and Liberty group better known as ETA, and to the Spanish Communist Party.



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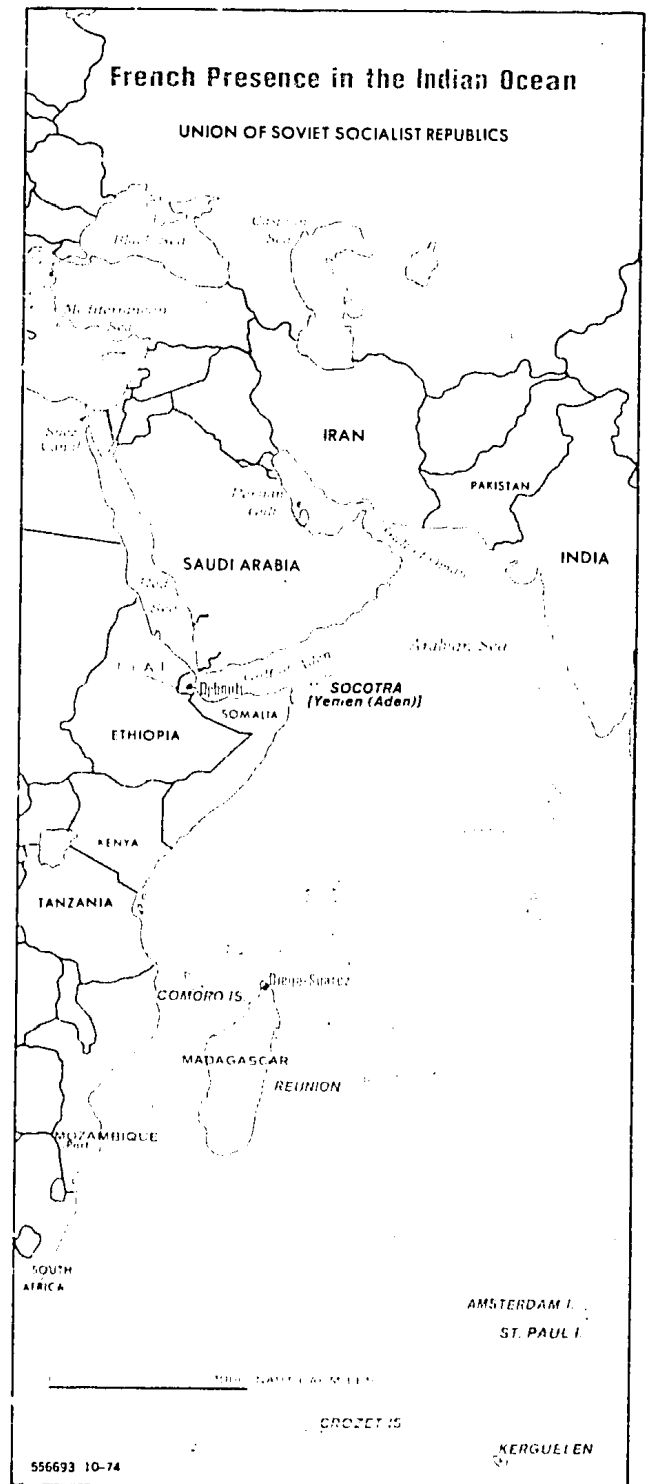
FRANCE: AN INDIAN OCEAN POWER

The French navy is sending another squadron of ships to the Indian Ocean this month. The aircraft carrier Clemenceau, carrying helicopters and Etendard fighter planes, will lead a flotilla that includes an anti-submarine frigate, a destroyer escort, and two oil tankers. A detachment of marines, trained in quick intervention tactics, reportedly will also be included in the force.

In April, a squadron of three ships led by the guided-missile frigate Duquesne, was sent to the Indian Ocean for a cruise of about six months. The recently formed, carrier-led squadron apparently will replace the one now on patrol, suggesting that Paris intends to maintain a larger naval presence in the Indian Ocean. French naval forces normally stationed there include the command ship La Charente, three destroyer escorts, five patrol boats, eleven landing craft, and some maritime reconnaissance aircraft. By contrast, the normal Soviet naval presence in the Indian Ocean consists of a Kotlin-class destroyer, two Petya-II - class escort ships, two fleet mine-sweepers, a landing ship, an F-class submarine, and several support ships. The Soviets have augmented this force from time to time, most recently by three large warships, which now are leaving the area.

The most recent move probably reflects a growing French concern that the Indian Ocean not be left in the sole control of the US and the USSR. In addition to sharing a common concern with its Western allies about the security of the oil-supply route around Africa from the Persian Gulf, Paris also has a primary interest in maintaining its territorial presence and continuing its limited political influence in the Indian Ocean area. France still administers the Territory of the Afars and the Issas in east Africa, and has a number of smaller possessions in the Indian Ocean.

The French navy is the chief means by which Paris can show support for its interests in



the Indian Ocean. France has established a maritime zone under a unified command that covers the Indian and Antarctic Oceans. The headquarters for this command is exercised from aboard the Charente, a converted tanker. A communications relay station has been established on Reunion Island to facilitate the command and control of forces dispersed throughout the maritime zone. Limited support facilities are also under construction at Reunion, and the repair ship Garonne—which sailed for the Indian Ocean in April as part of the three-ship task force—is expected to be permanently based at Reunion.

The French have been forced to use floating command and support facilities following the loss last year of their base and communications facility at Diego Suarez on Madagascar. The French navy can still stop at Diego Suarez for supplies and repairs, but these port privileges are subject to annual renewal, and French reliance on them will probably lessen because of the uncertain relationship with the Malagasy Republic.

Although the French maintain small military contingents on Reunion and the Comoro Islands, the only major French base remaining in the Indian Ocean area is at Djibouti. The military forces stationed there, which include some 4,000 French ground troops and an F-100 fighter-bomber squadron, are intended to defend the territory from land attack. The permanent naval contingent in Djibouti is small—usually two or three patrol boats, a half-dozen landing craft, and some maritime patrol aircraft.

Paris reportedly decided this past summer to strengthen its forces in Djibouti by bringing in some 155-mm. artillery pieces and three armored platoons equipped with AMX-tanks and armored vehicles. The move was made to demonstrate France's determination to remain in the Indian Ocean despite giving up its bases on Madagascar. Although the French have given no indications thus far that they intend to expand their limited

naval facilities at Djibouti, the strategic importance of the base will increase once the Suez Canal is reopened, then Paris may decide to expand the port facilities to facilitate support of French naval forces in the area.

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EUROCURRENCY RECYCLING MAY DECLINE

The Eurocurrency market has so far been the dominant vehicle for recycling surplus oil revenues, but this may soon change. Several factors are working to induce oil producers increasingly to bypass the Eurocurrency market either in favor of New York or of more direct loans to other major oil-consuming countries.

The pressures on the Eurocurrency market are already reflected in the fact that the oil exporters are paid less than market rates for their short-term deposits and that the borrowing countries have had to pay increasingly higher rates for loans. These forces should intensify in the next few months because oil producers will have more funds to place, as their net foreign exchange receipts in the second half of 1974 will be nearly double those of the first half. Moreover, many borrowers are reaching the limits of their credit lines and will be forced to pay even higher rates or not be given credit at all.

The increasing problem of matching the supply of oil producers' funds with oil consumers' demands for loans will force both sides to seek new places to recycle oil money. Iran is reportedly now considering making more extensive use of the New York market and sharply limiting its operations in London. Borrowers, such as Italy, have had to bypass London recently because they do not meet the necessary credit standards.

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EC: AN ASCENDANT BONN

Bonn's farm policy veto on September 25 jolted the EC even though the veto itself was rescinded within the week. The episode underlined Germany's increasing weight in EC councils.

EC leaders had expected Bonn to give automatic approval to the compromise reached at an EC agricultural ministers' council on September 20 for an exceptional midyear increase in farm support prices. Such approval of council decisions has been routine over the past ten years. German cabinet opposition to the agreement, fueled by reports that France was planning new national measures to help its farmers, apparently persuaded Chancellor Schmidt to seize this opportunity to make Bonn's weight felt.

icy. Bonn is still ready to support a common farm policy but wants one that would be less expensive and would discourage the accumulation of large farm surpluses.

For Britain, the farm policy dispute provides an opportunity to develop UK-German ties parallel to the close Bonn-Paris working arrangement of recent months. The new plan helps meet the standing UK demand for a basic review of the EC's high-cost agricultural policy, a principal point in the British effort to renegotiate its EC membership terms. At the same time, the immediate benefits for British farmers of the earlier compromise are retained, an aspect of the past week's events which the Wilson government has already trumpeted in its election campaign.

In France, although the farm bloc will be dissatisfied, President Giscard may privately welcome the EC agreement as a help to him in dealing with demands that the French farmers are making. A common farm policy is essential to France, but Giscard favors greater austerity and is no doubt pleased that Germany has dropped the insistence on high prices which entered into its original conception of the common agricultural policy.

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The abrupt German action shocked the other EC members, all of whom also face farm bloc pressures. Bonn, after considerable behind-the-scenes maneuvering, agreed at a new council meeting of farm and foreign ministers on October 2 to reinstate the agreement on a 5-percent increase in support prices, with the proviso that the increase must be taken into account in the next annual calculation due in February.

Finally and most important, Bonn won agreement for the fundamental review of the common agricultural policy that it has long wanted. Schmidt has been talking for months about the need for "a new Stresa," referring to the EC meeting in Italy in 1958 which set the guidelines for the EC's common agricultural pol-

Even if a compromise has now been accepted without bitter exchanges, the contretemps underlines Bonn's increasing weight in EC councils deriving from Chancellor Schmidt's willingness, if not indeed eagerness, to trade on West Germany's financial strength. As French commentator Raymond Aron noted last week, Schmidt is the first of West Germany's postwar chancellors who is not inhibited in pushing his country's interests by feelings of guilt for the Hitler past.

In the longer run, the German veto of 1974 may be seen as marking the reversal of Paris' preponderance that was dramatized by the French boycott of 1965. Whether this will lead to a true balance in the community remains to be seen.

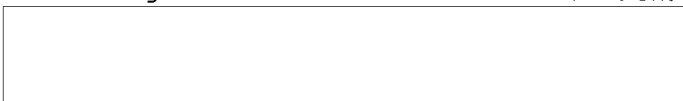
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ITALY: ROUGH WEEK AHEAD

Italian political leaders kept public debate on the back burner while President Leone was in the US last week on a state visit. Less than two days after Leone's return to Rome, Prime Minister Rumor appeared to be on the verge of resignation as the smallest of the three parties in his cabinet—the Social Democrats—threatened to withdraw from the coalition over differences with the Socialist Party.

Social Democratic leader Mario Tanassi charged that Socialist insistence on changes in the government's austerity program, together with their proposals for closer relations with the Communists, had made it impossible for the coalition parties to continue to cooperate effectively. Tanassi said that the only solution was for President Leone to call new elections since parliamentary arithmetic does not now permit a workable non-Communist majority without the Socialists.

The Social Democrats said they would decide at a central committee meeting on October 8 whether to follow through with their threat. There were signs, however, that the Social Democrats would be overtaken by events. The Socialists responded harshly to Tanassi's blast, and Prime Minister Rumor reportedly saw little chance of reconciling the differences within the coalition.



Even if the Social Democrats do bring down the government, they are unlikely to persuade President Leone to call new parliamentary elections. Sentiment is running against this alternative, not only because it failed to solve any problems when last tried in 1972, but also because the Socialists and Communists stand the best chance of scoring gains if elections are held now. Most political leaders would prefer to study the outcome of the regional elections set for this spring before risking a national contest.

The main reason why the Socialists have drawn so much fire from the other coalition

parties is their own threat to drop out of the coalition unless it approves the Socialist-proposed changes in the government's economic program. The Socialists—backed by their allies in organized labor—want additional spending on social programs and public works, more credit for small- and medium-sized businesses, and other measures to avoid the increased unemployment that is expected to develop as the austerity program takes hold.

The Socialists can also be expected to lobby within the coalition for several other demands recently advanced by the labor federation that represents most of Italy's major unions. These include:

- Increases in wage adjustments that are automatically linked to price increases.
- Retroactive application of the increases in price-related wage adjustments that would provide a small lump sum payment to each worker.
- Linkage of some pension payments to wage developments.
- Additional public investment in the south and in the construction industry.
- Rollbacks of recent increases in electricity and urban transportation rates.

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Implementation of many of the steps proposed by the Socialists and labor would scuttle the government's austerity program and doom prospects for a permanent improvement in the balance of payments. The wage proposals alone would add over \$1 billion to the country's annual wage bill, reducing by at least a fifth the income the government had hoped to drain from households through its fiscal measures.

While tension increases within the governing coalition, the Italian Communists are keeping up the pressure for a direct voice in national decision-making. Negotiations on labor's demands

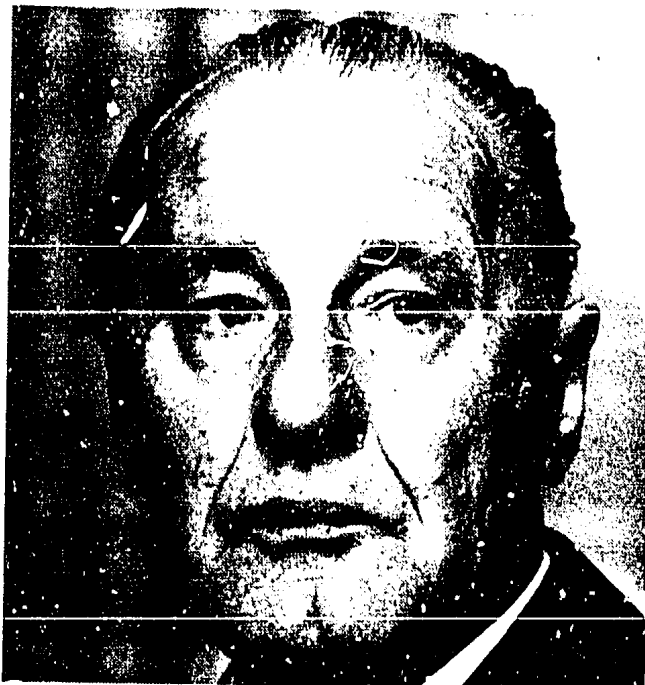
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may provide another opportunity for the Communists to reinforce their claim that the country's problems cannot be solved without Communist assistance. The Communists exert strong influence within the labor movement, and they will take much of the credit if talks among labor, management, and government officials produce a settlement acceptable to all sides.

At the same time, the Communists are trying to draw the Christian Democrats into collaboration at the local government level. In their boldest move so far, the Communist mayor of Bologna—the political capital of the Communists' so-called "Red Belt" in north-central Italy—invited the Christian Democrats to join his administration and suggested that they reciprocate in localities where Christian Democrats hold the balance of power. [redacted]

HUNGARY-USSR: A VOTE OF CONFIDENCE

Hungarian party boss Kadar's six-day visit to the USSR ended with strong indications that he had bought Moscow's endorsement at the cost of greater orthodoxy and closer coordination of Hungarian policies with the Kremlin.



Kadar

Throughout the visit, Soviet and Hungarian media—especially the latter—stressed the close relationship between Kadar and Brezhnev. The effusive Soviet endorsements leave little room for any domestic forces to challenge Kadar on the grounds that Moscow lacks confidence in him.

The price for this reaffirmation of Brezhnev's support appears to have been high. Kadar, in signing the party and state communique, committed Budapest to deeper involvement in economic integration, more joint economic planning, and increased "joint work" on ideological matters. There is also to be more extensive coordination of foreign policies, both bilaterally and within the Warsaw Pact. In addition, Brezhnev made it plain in several speeches that he expects to have more influence than in the past in preparations for the Hungarians' 11th party congress next spring.

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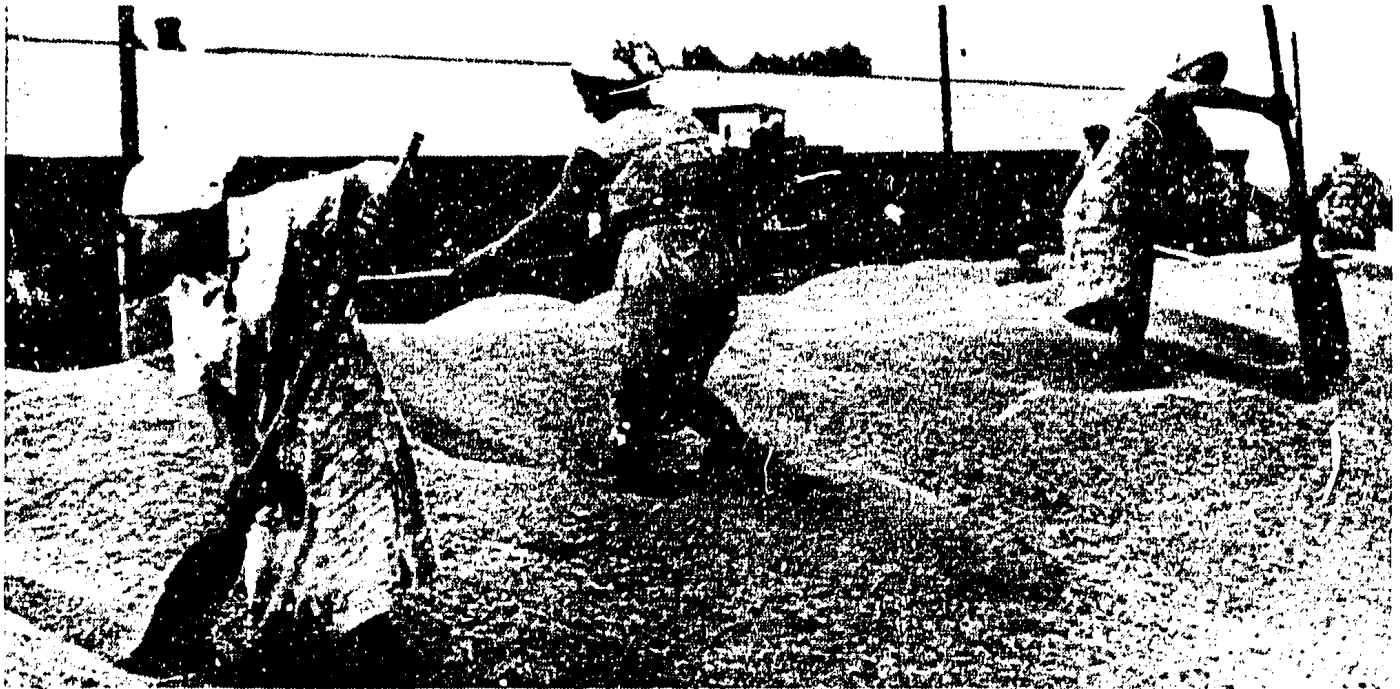
Kadar's public statements were almost completely void of reference to Hungary's special interests. Instead, he drummed constantly on the themes of increasing cooperation with Moscow and the dangers of "deviationists" in the Communist movement. Kadar also took the lead in advancing yet another call for a consultative meeting of European Communist parties, now set for October 16-18 in Warsaw.

Kadar will certainly try to see to it that his regime fulfills whatever commitments he made. Subservience to Moscow's foreign policy is old hat in Budapest. He will, however, face severe difficulties if the Soviets decide to take a direct hand in such delicate matters as Hungarian economic problems or try to meddle in the sophisticated give-and-take that Kadar maintains with Hungarian intellectuals.

The Hungarian delegation—minus Kadar and his wife, who stayed on in Moscow for a vacation—returned home to a full turnout of the leadership. Such public displays of unity may become commonplace, but the behind-the-scene struggles will continue between liberals, who are now at bay, and conservatives, who still look to the party congress as a good opportunity to undermine Kadar's reforms. [redacted]

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Drying wheat near Krasnodar, USSR

USSR - EASTERN EUROPE: GRAIN PROSPECTS

The USSR and Eastern Europe are expected to have good but not record grain crops this year. The harvest in both areas should largely cover domestic needs, so major imports from the West will not be necessary.

USSR—The 1974 Soviet grain crop will probably be about 198 million tons—short of the official goal of 206 million tons but still the second largest grain crop in Soviet history. At the end of June, it appeared likely that the goal would be achieved, but the weather took a turn for the worse in July. In the west, heavy rains flattened the plants and hindered the harvest, while hot and dry weather destroyed some 8 million tons of grain—primarily wheat.

The USSR will need 200 to 210 million tons of grain to cover domestic requirements and normal export commitments in fiscal 1975. Since 20 to 30 million tons, were carried over from the record harvest of last year, a crop of 198 million tons should be sufficient to make large-scale grain imports unnecessary. The sharp drop in grain purchases and a return to the normal level of

grain exports will re-establish the Soviets as net exporters of grain.

So far this year, the Soviets have bought only small quantities of grain. Most of the 1 million tons of corn and wheat scheduled for delivery in fiscal 1975 are leftovers from old contracts with the US. A small amount of corn was recently purchased from Argentina. The Soviets can use the imports to offset shortages in certain kinds of grain. The corn will help feed the growing livestock herds, while the imported wheat may be used for bread if the milling quality

GRAIN OUTPUT IN MILLION METRIC TONS			
	1972	1973	Estimate 1974
USSR	168.0	222.5	198.0
Eastern Europe	73.2	73.4	71.1
Northern countries*	37.6	40.2	39.2
Southern countries**	35.6	33.2	31.9

*Czechoslovakia, East Germany and Poland
**Bulgaria, Hungary and Romania

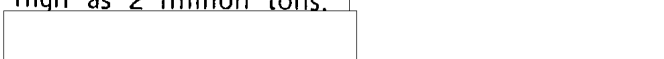
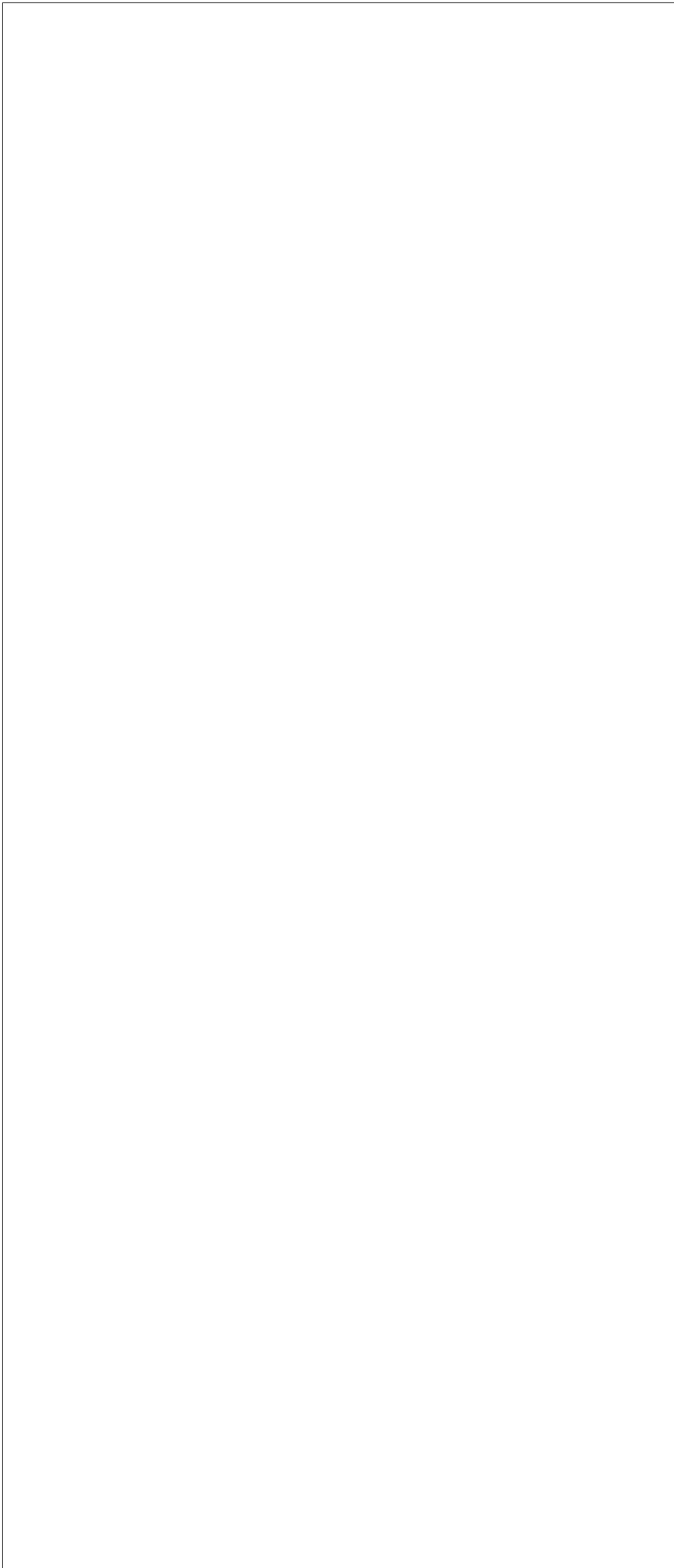
of both the wheat crop this year and the grain in storage is poor.

Eastern Europe--The 1974 East European grain crop will probably amount to 71 million tons--2.5 million tons below the record set last year. Although record crops were harvested in East Germany and Czechoslovakia, Poland's crop--normally about 80 percent of the East European total--flirted with disaster throughout the growing season. Nevertheless, Poland still managed to harvest about 20.5 million tons of grain, only 6 percent below the record set last year. Crop results were also mixed in the southern countries. Hungary had a bumper harvest, but Bulgaria failed to improve over the past two years, and Romania had its second poor harvest in a row.

East European grain imports in fiscal 1975 will probably reach 9 million tons, a million more than the previous year. The USSR will probably supply 4.5 million tons, mostly wheat. Based on past trading patterns, the East Europeans will look to the US for 2 to 2.5 million tons of grain, mostly corn, while seeking the balance from other Western sources.

The northern countries will account for almost all of the imports. East German and Czech requirements are likely to be about 3.5 and 1.5 million tons, respectively. Poland will probably buy slightly more than 3 million tons. Each of these countries could reduce grain imports by purchasing other feeds, such as oilcake and meal, or by cutting livestock goals.

Romania has already received \$31 million from the Commodity Credit Corporation to purchase US grain in fiscal 1975 and asked for an additional \$50 million this week. Nevertheless, Bucharest will be able to export some 600,000 tons of grain, mostly wheat, slightly less than in fiscal 1974. Bulgaria is likely to export 300,000 tons of wheat; Hungarian grain exports may go as high as 2 million tons.



POLISH LEADER VISITS US

Polish party boss Edward Gierek starts a week-long official visit to the US on October 8 that will mark a high point in postwar US-Polish relations. He will be the first Communist party leader to consult with President Ford and the first Polish leader since World War II to pay an official visit to the US.

Gierek will lead a political and economic delegation and will bring along a flock of media representatives. The group will spend two days in Washington before Gierek addresses the UN General Assembly in New York. He then will make a short tour of the US, including visits to coal mines in Pittsburgh and oil refineries in Houston.

Although no major agreements are expected to be signed, Gierek views the visit as a milestone in his efforts to expand relations with the West. He would like to see a sharp expansion of the bilateral economic, commercial, and scientific projects initiated when former president Nixon stopped in Warsaw in 1972 on his return from Moscow. Gierek recognizes that most Poles have friendly feelings toward the US. He hopes that the visit—already the subject of considerable publicity in Poland—will increase his stature at home and will also enhance Poland's international prestige. One prominent Polish editor recently told a US diplomat in Warsaw that there would be so much favorable coverage that the US would look like "one of our socialist brothers."

While in the US, Gierek will serve not only as a spokesman for specific Polish interests, but will also convey his country's stand on international issues, especially European security. In doing so, he can be expected to stay close to the Soviet line. Soviet Foreign Minister Gromyko stopped in Warsaw earlier this week on his way home from the US and undoubtedly brought Gierek up to date on Moscow's views on major East-West issues.



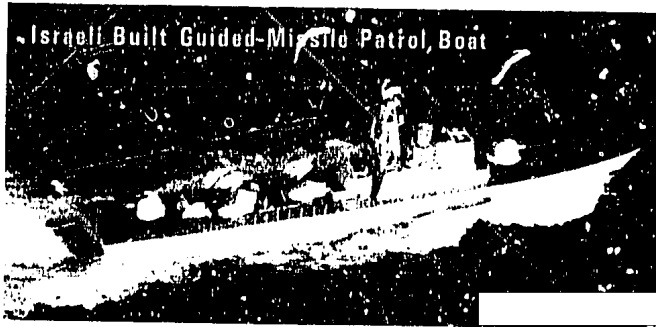
Gierek and wife

Gierek comes to Washington with a solid base of achievements in domestic policies and with his own leadership position unchallenged. Since becoming party chief, he has worked hard to improve the country's economic situation. He has sought to streamline an inefficient economic bureaucracy and to modernize Polish industry. At the same time, he has tried to meet rising consumer demands. Wages, pensions, and social benefits for workers and peasants have risen significantly during the last four years. The Polish economy still faces some potentially serious problems, including inflationary pressures and the need to repay Western credits that will soon begin to fall due. At least in the short run, however, the Gierek regime seems capable of meeting these challenges.

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ISRAELI BOATS SAIL FOR RED SEA



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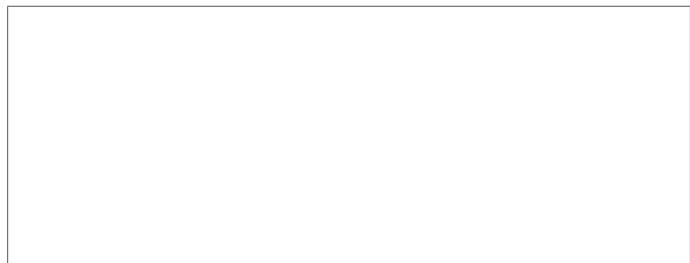
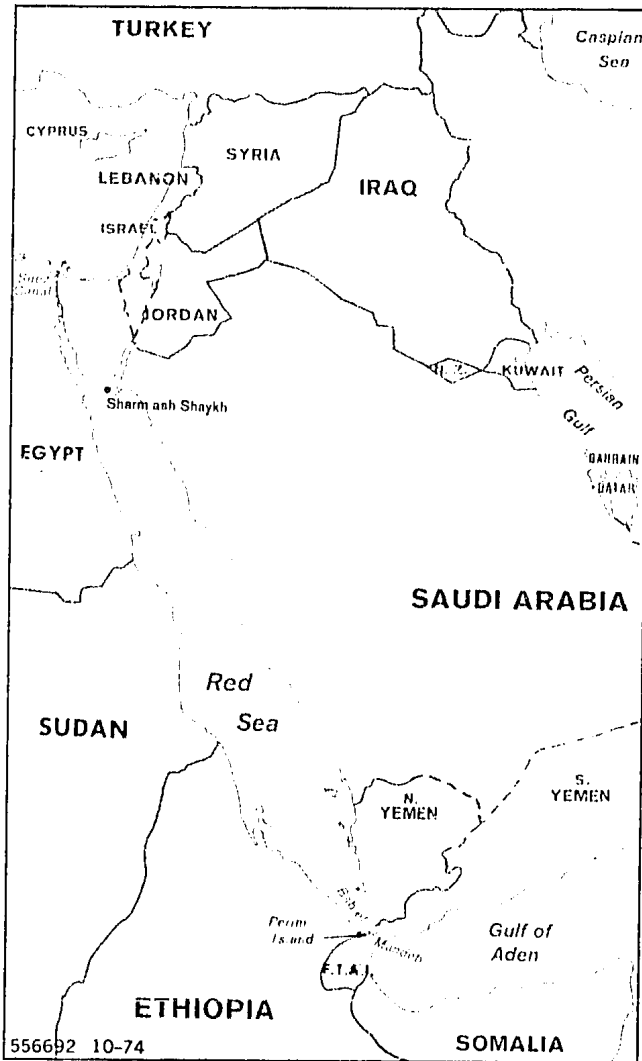
Tel Aviv has sent two more guided-missile patrol boats to the Red Sea to augment its long-range naval capabilities in the area. The boats are expected to make port calls in South Africa this coming week and will probably complete their voyage by mid-October. They will join two similar guided-missile patrol boats that were sent to the Red Sea earlier this year.

The boats are the third and fourth of a total of six Reshef-class patrol boats to be built in Israel. The first of these boats was launched in February 1973, and the last two are scheduled for launching in the last half of this year. Tel Aviv originally planned to station all six boats in the Red Sea, but reportedly is considering assigning two to the Mediterranean.

The Reshefs are designed along the lines of France's Saar-class guided-missile boats, but are larger and are capable of longer operations at sea. Although they can carry up to eight Gabriel anti-ship missiles, the two boats en route to the Red Sea are outfitted with only four. The Israelis are producing at least one version of the Gabriel with a range of 11 nautical miles; a longer range missile, with twice the range, has been under development for several years and could now be in production.

Israel has long been concerned about Egypt's capability to close the Red Sea to ships carrying Israeli cargos. During the war last October, the Israelis were unable to challenge the Egyptian navy's blockade of the Bab el Mandeb at the southern end of the Red Sea. The Reshef boats were specifically designed to operate in the Red Sea, and from their home port at Sharm ash Shaykh, they could operate in the Bab el Mandeb area although they would be beyond the range of continuous Israeli air cover.

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EGYPT: PEACETIME CABINET

President Sadat last week took the long-awaited step of relinquishing his wartime post of prime minister, a move meant as a further affirmation of Egypt's intention to proceed with postwar reconstruction. Sadat formally gave way to First Deputy Prime Minister Abd al-Aziz Hijazi, who has been performing the duties of prime minister for some months.

Hijazi's elevation comes at a time of increasing domestic criticism of economic mismanagement by the government, and the new Prime Minister moved swiftly to reorganize the cabinet to signal a new effort to alleviate problem areas in the economy. Hijazi created two new cabinet posts, both concerned with economic planning, and replaced four ministers whose performance had recently come under fire. The other 31 cabinet members are holdovers.

The new post of minister of state for economic cooperation gives cabinet rank to the former Agency for Arab and International Economic Cooperation, which was created earlier this year to coordinate foreign investment in Egypt. Another new minister of state, handling "coordination and control," will apparently attempt to centralize and streamline the implementation of economic planning now wallowing in a welter of overlapping and uncoordinated government organizations.

Hijazi named new men to head the ministries of health, agriculture, industry, and supply, in an apparent effort to speed economic development or at least to acknowledge consumer complaints in these areas. Industrial revitalization is a key element of the government's plan, as is an improvement in the clogged internal distribution system. The recent rise in consumer discontent over commodity shortages has been attributable in large measure to the inadequacy of the distribution system.

Hijazi and Sadat have been attempting to cut through the red tape that has long slowed the working of the government. The overstuffed bureaucracy is as prominent and immovable a



Hijazi

feature of the Egyptian scene as the pyramids, and neither Sadat nor his ministers have been able to vitalize the system or overcome its vested resistance to streamlining and liberalizing the economy.

Sadat reaffirmed his commitment to economic changes in his Nasir Day address last weekend to a joint session of the Egyptian parliament and the Arab Socialist Union—Egypt's only political party. In a bow to the government's detractors, he acknowledged the right of party members to criticize the actions of government officials, including himself. Sadat made it clear, however, that he was determined to remain in charge and that the scope for criticism was limited.

Sadat's speech also included an effusive reference to the Palestine Liberation Organization as the "living embodiment" of the Palestine people. He stressed that a solution to the

Palestinian question is more important than either the recovery of the Sinai or the Golan Heights.

In addition, replying for the first time in public to the new US criticism of the oil producers, Sadat said that "those who invented the law of supply and demand have no right to complain when the law works against their interest." Sadat probably calculated that anything less than a spirited defense of the Arab oil producers on the price issue would only invite another round of attacks on him by Arab militants and risk jeopardizing support from the Arab conservatives for his efforts to spur further movement on peace negotiations.

NIGERIA: MILITARY TO STAY

General Gowon marked Nigeria's 14th independence anniversary this week with a speech in which he reneged on his earlier promise to restore civilian rule by 1976 and continued the eight-year-old ban on political activities. His announcement confirms the resolve of the country's military leaders to control the pace and direction of domestic political evolution for as long as they deem necessary.

Gowon did not rule out an eventual transfer of power to civilians, but maintained it could come only when there is no threat to stability and after a "self-sustaining system" to ensure stability has been worked out. Gowon's statement in effect acknowledged that the military has made little headway in implementing the nine-point program to prepare Nigeria for civil rule, which he had announced four years ago. The decision also reflects the military leaders' concern over the recent resurfacing of Nigeria's deep-seated tribal and regional animosities because of controversy over the provisional results of the census last year. Intensified infighting among old guard politicians

and their supporters in anticipation of an early lifting of the ban on politics was another factor.

In an effort to neutralize anticipated criticism of the deferral of civilian rule, Gowon said he would establish representative advisory councils at both the federal and state levels. He also claimed progress was being made toward preparing a new constitution as well as a new formula for allocating national revenues, and he promised a stronger effort to combat corruption, implying thereby the military's continuing commitment to the nine-point program.

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More concrete gestures were reserved for two of the more important interest groups. Gowon announced that, early next year, he plans to replace present cabinet heads and state military governors with other army and police officers and some civilians, a move that will open slots for grumbling middle-grade military officers and presumably also weed out a few of the officials tainted with corruption. To restless workers, Gowon held out the prospect of a general pay raise at the end of the year.

On two key points, Gowon was notably vague. He delayed a final decision on what to do about the controversial census figures—essential to implementing other parts of the nine-point program—until the end of the year. He said that the creation of additional states remained a priority, but offered no further details on this ticklish subject.

The reaction to the military's backtracking on civilian rule is likely to be mixed. Some Nigerians will welcome the decision as the best way to avoid a return to the divisive tribal politics that led to two coups in 1966 and civil war a year later. Gowon's announcement will not sit well with others, notably intellectuals, students, and former politicians. Over the short term, however, the army can probably contain any unrest that might develop.

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AUSTRALIA: MORE TAXES ON MINING

Canberra has moved to slow the exploitation of its huge mineral deposits further through tougher tax laws affecting the mining industry. The proposed budget for fiscal 1975 contains several measures that will reduce incentives for development of the extractive industries, including:

- An end to the rapid depreciation of new capital investment by mining and oil companies.
- Cutting off the exemption on 20 percent of income derived from production of specified minerals, notably copper, bauxite, and nickel.
- Preventing mining and oil firms from deducting expenses related to going into business and raising capital.

The policy toward the mining companies was previewed last spring in a report by the Ministry for Minerals and Energy that indicated the industry had received more in tax concessions, subsidies, and other benefits than it had paid in taxes and royalties. Although the tax increase now before parliament probably amounts to no more than \$50 million annually, the state governments are also trying to increase their take from the industry. The Queensland government, for instance, has already raised royalties on minerals to an average 10 percent of the value of output, and other state governments may follow suit.

Since taking office in 1972, the Labor Party has been working to achieve the highest possible return from the country's mineral wealth. In addition to increasing taxes, Canberra is using its power to control exports as a means of securing higher prices. Recently, for example, the government intervened in iron ore negotiations with Japanese steel firms when it felt the Australian companies had agreed to an unacceptably low price. Canberra plans to continue taking a more active role in controlling mineral resources. It has moved already to limit foreign equity in new mineral projects to 50 percent. Legislation for a

petroleum and minerals authority is already on the books and, once in effect, the government will be able to engage directly in the exploration, production, transportation, and processing of all mineral and energy resources.

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CAMBODIA: BREATHING EASIER

Phnom Penh's tensions eased this week as government employees and military personnel received the increased pay provided by the economic reform package introduced last month. But relief for the government may be short lived. Pay envelopes this week were particularly fat because they contained a lump-sum salary adjustment retroactive to September 1. By mid-month, consumers will face the impact of sharply increased prices allowed by the reforms.

Meanwhile, the government has attempted to forestall any backlash from its recent dissolution of the teachers' association by announcing the formation of a new teachers' organization under government sponsorship. Leftist teachers are continuing their anti-government activities, however, and have issued statements scoring the police raid on their headquarters and the subsequent arrest of two teachers. Student activists are keeping uncharacteristically quiet, but they presumably are still planning anti-government demonstrations.

The activities of Lon Non, President Lon Nol's younger brother, have led—as anticipated—to a new bout of political jitters within the government. Lon Non's plans to visit military commanders in the provincial capitals have fed rumors that he will try to obtain a top military position. These rumors have led army commander Sosthene Fernandez to seek assurances of support from other senior officers, and they reportedly played a part in his cancellation of a planned trip abroad. The grandiose political plans Lon Non has

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outlined to journalists, and his agitation for change in the Socio-Republican Party, apparently aimed at securing the party leadership for himself, are also contributing to tensions.

A Preliminary Bout

Although preparations for the credentials battle at the UN General Assembly are still top priority on the diplomatic front, Phom Penh and its international backers are marshaling forces for an anticipated challenge at the 18th UNESCO General Conference scheduled to open in Paris on October 17. A defeat for Phnom Penh at the conference could produce a bandwagon effect for the pro-Sihanouk resolution inscribed on the UN General Assembly agenda.

Government officials will stake the defense of their UNESCO seat on the argument that the question of Khmer representation in such bodies is basically a political question and should be dealt with first in the General Assembly. Phnom Penh used this strategy last year and survived a credentials challenge by a 12-vote margin, but since then Sihanouk's side has picked up additional international support.

THAILAND: A BAD CASE OF NERVES 25X1

On October 5, the Thai National Assembly votes on the third and final reading of the draft constitution. It is an essential first step in Thailand's effort to create a constitutional government, an undertaking triggered by the collapse of the Thanom military regime last October.

The odds overwhelmingly favor passage of the draft despite vocal opposition from leftist groups and student activists. The Thai police are bracing themselves for the possibility of student-instigated violence in an attempt to mar the proceedings. Such opposition, however, is at strong variance with the mood of the country, which if anything looks upon the promulgation of a liberal, democratic constitution as a means of solving Thailand's political, social, and economic problems.

Bangkok's outward appearance of calm on the eve of the assembly's vote belies an undercurrent of tension that could make for an unstable political situation. According to press reports, Prime Minister Sanya, citing his poor health, has temporarily turned over the duties of his office to deputy prime minister Prakop. While the 67-year-old professor's health is indeed shaky, there is evidence that the timing of his decision to take leave from office was prompted more by political considerations. During the past week Sanya has been buffeted by strong criticism from all quarters, including his own cabinet, for his inability to get tough with student radicals who have managed to keep the political situation stirred up.

The prospect of student demonstrations during the assembly deliberations on October 5 could also complicate the political situation. While moderate university students have decided not to stage violent protests against the draft constitution, their more militant leadership is attempting to get enough students into the streets to spark a confrontation with the police. While it seems doubtful that the militants will attract much student support—two key university groups have announced they will refrain from any protests at this time—the fact that the police and army seem to be looking for the slightest excuse to crack down on student demonstrators raises the potential for trouble.

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Whether or not the students go on the rampage, the erosion of Sanya's popularity in recent weeks suggests that he may continue to stay on the sidelines until the draft constitution is promulgated, possibly on October 8. At that time, he may choose to resign citing the completion of the task set before him when he took office one year ago—the drafting of a new constitution—and turn over his responsibilities formally to his deputy Prakop. Since general elections are scheduled for February 1, it is presumably a solution that would be acceptable to most Thai.

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LAOS: TROUBLES AHEAD

Prime Minister Souvanna Phouma is making a good recovery from the serious heart attack he suffered in mid-July, but his convalescence abroad may be extended to the end of this month. When he finally does return to Laos, Souvanna will discover that the honeymoon period that has generally characterized relations between opposing sides of the coalition during his illness is all but over. Stresses and strains between the Communist and non-Communist camps have re-emerged in recent weeks over a variety of political and economic issues.

Communist Deputy Prime Minister Phoumi Vongvichit's speech last week before the UN General Assembly outraged non-Communist members of the coalition cabinet. In his speech, which departed from a more moderate version that had been approved by the cabinet, Phoumi deplored "imperialist aggression, colonialism, and neo-colonialism" everywhere and engaged in polemics on Cambodia and South Vietnam. Phoumi claimed that he cleared his speech with Souvanna during a stopover in France en route to New York, but this has not mollified the non-Communists.

Another confrontation appears to be shaping up between the coalition's Joint National Political Council and the cabinet over Lao Communist leader Prince Souphanouvong's proposed 18-point national political program. There are reports that the Communist-dominated council has decided to reject suggested revisions in the program offered by both the cabinet and Souvanna on the grounds that the council has already unanimously endorsed the document. The renewed controversy surrounding the 18 points, a comprehensive set of guidelines for the conduct of Lao foreign and domestic policy, threatens to rekindle bitter and divisive debate within the coalition over the proper role of the council vis-a-vis the cabinet.

For their part, the non-Communists have been encouraged by the recent decision of the

King's Council disapproving a cabinet recommendation for dissolution of the dormant National Assembly. They are now planning a move that is certain to draw heavy fire from Communist members of the coalition, who have never recognized the assembly's legitimacy and who have spearheaded the drive for its abolition. The assembly's standing committee has decided to send a delegation of deputies to the International Parliamentary Union conference that convenes this week in Tokyo.

Non-Communist politicians have also attempted to throw a monkey wrench into portions of the economic assistance agreement that Communist Economics Minister Soth Phetrasy recently negotiated with Hanoi. They have taken advantage of the absence from Laos of several key Communist cabinet officials to block formal cabinet ratification of the agreement until these officials, as well as convalescing Prime Minister Souvanna, return home. This maneuver by the non-Communists will almost certainly antagonize the Pathet Lao, who have high hopes for the success of the coalition's first aid-seeking mission to Asian Communist countries, and who are particularly anxious not to offend their North Vietnamese patrons.

Non-Communists' reservations about the aid package are well founded. The non-Communists are particularly concerned that Hanoi's willingness to reconstruct the Route 7 roadnet in northern Laos may be intended to legitimize North Vietnam's continuing military presence there for an indefinite period. They are also apprehensive that North Vietnamese construction crews will attempt to plunder Lao natural resources, such as timber and mineral ore. The non-Communists are insisting that the coalition form a special joint commission to monitor and regulate the construction activities of the North Vietnamese "engineers."

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CHINA-PHILIPPINES: IMPROVING RELATIONS

The extraordinary reception accorded to Philippines first lady Imelda Marcos during her September 20-29 visit to China appears to have set the stage for improved relations between the two countries. Mrs. Marcos was favored with separate meetings with Chairman Mao Tse-tung and with hospitalized Premier Chou En-lai. Excluding earlier sessions with US officials, Mao's meeting with Mrs. Marcos marks the only time in recent years that the Chairman has seen an emissary of a government with which Peking has no official ties.

By their extraordinary treatment of Mrs. Marcos, the Chinese have shown that they will keep the pressure on for early diplomatic relations. Manila has apparently already begun exploring some of the issues that could come up during such negotiations. For example, the Philippines sent a representative to Taipei earlier this year to advise the Nationalists that Manila was considering ways of improving its relations with Peking. Manila undoubtedly will seek to determine the status of Malaysia's relations with Taiwan following its recognition of Peking earlier in the year.

There were signs, however, that President Marcos, despite his own statements that eventual diplomatic recognition was inevitable, was not fully pleased with press speculation that Mrs. Marcos' trip implied immediate recognition of Peking. At a meeting with advisers on September 25, Marcos said he wanted to improve trade ties with China, but only if it did not imply immediate diplomatic recognition. The joint trade agreement announced during Mrs. Marcos' visit reportedly provides for the sale of an unspecified amount of Chinese petroleum to the Philippines. Manila agreed to sell sugar, wood products, and other items to the Chinese. Details of the agreement are to be worked out when a Philippine trade delegation visits China later this year.

Although Peking clearly would like to see early recognition, Manila's close relationship with Taiwan is only one of the problems that the Philippines must deal with first. The overseas Chinese community in the Philippines, although much smaller than in Malaysia, has a great deal of

economic influence and is—at least on the surface—largely pro-Taipei. In addition, the Philippines has from time to time publicly accused Peking of supporting the communist insurgency in northern Luzon. Also, President Marcos has often said that he would recognize the Soviet Union and China simultaneously, and there has been little progress in Soviet-Philippines relations in recent months.

None of these issues, however, presents insurmountable problems in Manila. Marcos signaled how he will probably deal with one of them in a speech on September 20 when he said that a "distinction" must be made between communist insurgency at home and the Communist governments that are trying to make a contribution to "cooperation among nations," an apparent attempt to play down Manila's charge that China was supporting the insurgents. President Marcos has probably concluded that, despite his inclination for a measured approach to problems of this magnitude, the time has come to accelerate the pace of developing Sino-Philippines relations.

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THE KOREAN QUESTION AT THE UN

The annual maneuvering at the UN on the Korean question, for many years one of the most contentious issues before that forum, is under way again. With detente increasing over the past several years, all of the major powers have acted with a common interest to preserve stability on the Korean Peninsula. This year, although events are not entirely in the hands of the major powers, the UN's handling of the problem will provide another measure of how well detente is working.

Pyongyang's backers, consisting of the major Communist states and a growing number of Third World nations, have introduced a resolution that is—compared with earlier years—relatively mild. Its call for the withdrawal of all foreign troops in South Korea "under the flag of the United Nations" appears to leave open the possibility that US forces might remain under some bilateral arrangement. Recent statements from North Korean President Kim Il-sung also suggest that

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Pyongyang's major objective this year is to end the UN role in Korea and that the question of US troops might be taken up later. The Pyongyang side probably took much of the harsh invective out of its latest resolution in an effort to win broader support, a tactic that appears to be having only limited success so far.

The main thrust of a counterproposal—sponsored by the US, Japan, and other supporters of Seoul—is a call for a renewal of meaningful dialogue between North and South Korea. The proposal maintains that any changes in security arrangements affecting the peninsula must be decided by the Security Council, which originally committed the UN to a role in Korea, and the two Korean sides. This would have the effect of removing the question from the General Assembly, where pro-Pyongyang forces have considerable strength.

Acrimonious debate and a vote on a more strongly worded resolution attacking the US and UN roles in South Korea was averted last year after intensive behind-the-scenes negotiations involving the major powers. A compromise was achieved under which Pyongyang's backers dropped their demands that US forces withdraw and Seoul's supporters dropped their proposal that both Koreas join the UN; Seoul had pressed for the two-Koreas concept, but Pyongyang strongly opposed it. Additionally, the UN political apparatus in Korea was quietly phased out and the assembly adopted a consensus urging Seoul and Pyongyang to resume the halting dialogue that seemed so promising in 1971-72.

Even if a hostile resolution recommending the withdrawal of foreign troops from South Korea were passed this year, US forces would be under no legal injunction to withdraw. The damage would be political and psychological. But unless Pyongyang's Third World backers gain unexpected momentum, this seems unlikely to happen. While sharp debate in the General Assembly in November and the passage of a hostile Korean resolution cannot be ruled out, it appears now that the pro-Seoul resolution has a better chance of success and, even more likely, that another compromise will be worked out.

Indonesia's Foreign Minister Malik, for example, last week proposed that the UN military command in Korea be dropped quietly—much as the political apparatus was a year ago—but that some kind of armistice machinery be preserved, and he exhorted the two sides to get down to serious bilateral talks. Any new compromise will depend importantly on the attitudes taken by the major Communist powers, particularly Peking.

The Chinese are concerned—as they were last year—that a divisive UN debate on the Korean question would not be to their advantage. Peking appears to be wary of any formula that might lead to a confrontation between the two Koreas or that could create a military vacuum in South Korea that could be filled by the Soviet Union or a rearmed Japan. Although Peking has maintained its firm public support of the North Korean position at the UN, there are indications that China's chief objective is to assure continued stability on the Korean Peninsula.

The Chinese propaganda position is influenced both by the need to show "principled support" for its allies and by a desire to deny the Soviets the opportunity to pose as Pyongyang's only reliable supporter.

Chinese UN Ambassador Huang Hua's speech at the UN on September 19 reflects these concerns. Huang said it was "imperative" that US "interference" be ended and that US troops "under the UN flag" withdraw. As with previous official statements on the question, Huang's remarks display Chinese support and sympathy for Pyongyang's position while clearly emphasizing termination of the UN role, rather than complete and rapid US military withdrawal.

The Soviets would probably also be satisfied with a compromise solution. They have given unenthusiastic backing to Pyongyang's cause in the current General Assembly session and have not appeared anxious to press North Korea's case against US troops in the South lest this introduce another thorny question into the Washington-Moscow dialogue.

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CASTRO SPEAKS ON FOREIGN POLICY

With Senators Javits and Pell and a large US press delegation in Havana at the time Fidel Castro delivered one of his most comprehensive foreign policy addresses in over a year at a rally on September 28. Speaking from what appeared to be a carefully prepared text, Castro was broadly critical of the US, but he refrained from the sweeping denunciations and personal attacks on US leaders that were common in his speeches until a year or so ago. His principal focus was on Latin America, and once again he called for the creation of a new regional organization—without US participation—to replace the OAS.

Castro strongly criticized covert US efforts in support of Chilean groups that opposed former president Allende. He denounced this "blatant interference in Chile's domestic affairs" as the latest on the "long list of acts of aggression" by the US against Latin America. He did not accuse the US of complicity in the Chilean coup, however, merely stating that "the CIA clearly played a decisive role in the creation of the conditions and preparation of the groundwork" that led to it. Though many Latin American leftists have loudly accused the US of engineering the coup, Castro has adhered to his own interpretation of events since September 1973 when he first discussed Allende's fall.

Castro reserved his strongest criticism for the OAS. Indignantly, he denounced that body for ignoring US "intervention" in the hemisphere while upholding for ten years the economic and political sanctions that were imposed on his government because it had engaged in subversion. Mindful that OAS members are scheduled to vote on the continuation of the sanctions next month in Ecuador, he endeavored to portray his regime as the aggrieved victim of aggression and to place the US on the docket instead. Without naming them, Castro condemned that minority of Latin American governments that he considers "accomplices" of "US aggression," seeming to blame them more than the US for perpetuating inter-American problems and divisions. Once again, he implicitly ruled out the possibility that Cuba would rejoin the OAS or restore ties with certain



governments, even though he probably is confident that the sanctions will soon be lifted and that a number of countries will seek to renew relations with Cuba.

Castro spoke at length about international energy issues. He supported Venezuela and Ecuador—the two Latin American members of OPEC—and criticized recent US policy statements on the pricing of petroleum. He blamed the US for aggravating inflation and monetary problems around the world, and proclaimed the right of less-developed countries to form cartels. He balanced these remarks, however, with a plea to oil-producing countries to “adopt the struggle of the underdeveloped world.” His effusive praise of the government of Venezuela and its nationalistic resources policies probably reflects his hopes of gaining access to Venezuelan oil, credits, and investments once relations are restored. He mentioned the USSR only once.

Throughout the 50-minute speech, Castro eschewed the strident language and emotional tone that characterized many of his foreign policy addresses in previous years. His critiques of CIA activities in Chile and of US energy policy were no stronger than those by numerous other Latin American leaders. The Cuban Premier restated his willingness to begin discussions on normalizing relations with the US once the “economic blockade” is lifted. [REDACTED]

DOMINICAN REPUBLIC: THE KIDNAPING

Terrorists who kidnaped a US embassy official on September 27 in Santo Domingo unexpectedly ran into a stone wall in trying to exchange her and several other hostages for a \$1-million ransom, the release of 37 political prisoners, and safe conduct out of the country.

President Balaguer gave in to terrorist demands in 1970 when kidnapers grabbed a US military attache and went into hiding. They won the release of 40 political prisoners in exchange for the attache's life. This time, however, Balaguer is in a stronger position, since the terrorists'

decision to hole up in the Venezuelan consulate allowed Dominican security forces to surround the building. Balaguer offered the six terrorists only their lives in return for the hostages' freedom. Convinced that he was not negotiating with a suicide squad, Balaguer gambled that no harm would come to the hostages and that he would win out in the end.

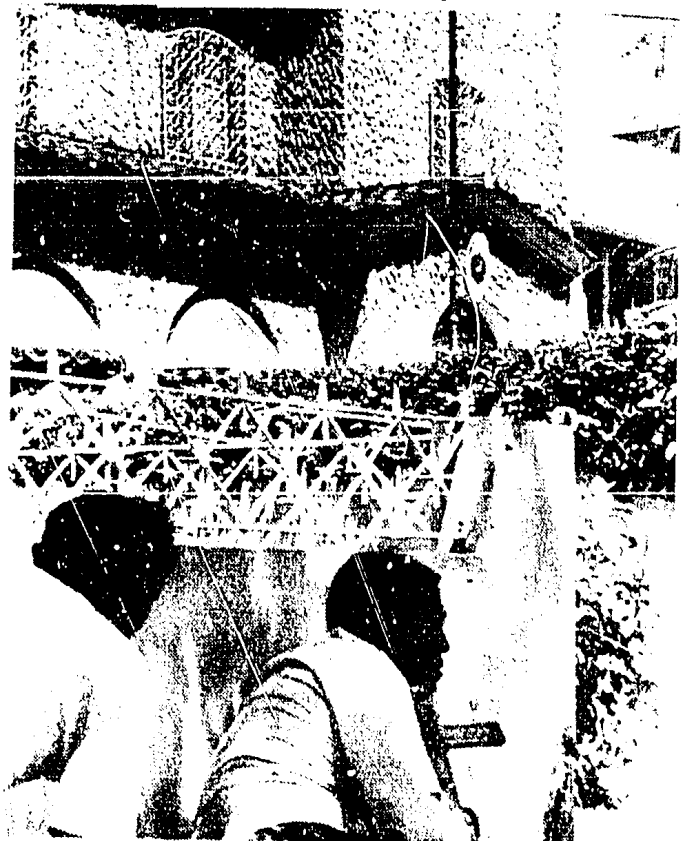
At first, Balaguer allowed food and drink to be delivered regularly to the consulate but after a week of waiting, his patience appeared to be wearing thin and he moved to hasten an end to the kidnaping by restricting deliveries.

Meanwhile, the terrorists suffered an additional setback on the political front when leftists, from moderates to extremists, publicly dissociated themselves from the kidnaping. They privately expressed the fear that the abduction by the leftist-extremist 12th of January Liberation Movement had exposed the entire left to possible government retaliation just when Balaguer appeared ready to lift a ban outlawing the more moderate leftist groups. To repudiate the kidnaping, the moderates urged their members who were in jail not to accept freedom should the government give in to the terrorists. Eleven well-known prisoners later turned their backs on any release offer. [REDACTED]

Police close in on kidnap site

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sufficient public understanding and support to silence conservative business critics who claimed he was moving too fast and too soon. At the same time, as a sop to the left, Perez has pressed his intention to take over the US iron-ore concessions before the end of the year and to nationalize US and other foreign petroleum concessions in 1975. During these months, Venezuela has emerged as a financial power to be reckoned with. By the end of 1974, for example, its oil revenues alone will total almost \$10 billion. Venezuela is now attempting to expand its leadership role in Latin America by such means as establishing a Venezuelan Investment Fund to channel some of its oil wealth into overseas projects.

Perez' popularity with the Venezuelan people has been solidified by his aggressive defense of Venezuela's right to set its own petroleum pricing policy regardless of sharp criticism from the US. Although Perez reportedly hopes that current differences with the US can be settled in an amicable fashion and that relations will continue to be cordial, he is not above orchestrating public opinion to justify or defend his administration's present and future petroleum policy.

VENEZUELA: RIDING THE CREST

After six months as president, Carlos Andres Perez remains the unchallenged master of the local political scene and is emerging as a hemisphere and world figure.

Swept into office with a massive popular vote and with his Democratic Action Party in control of both houses of congress, Perez immediately began to reshape the country's economy. Through tactical skill and manipulation of public opinion, Perez obtained from congress extraordinary powers to rule by decree, for one year beginning last May, with respect to almost all important economic and financial matters.

Since then, Perez has concentrated on implementing his economic policies and generating

At home, Perez' policies have largely succeeded in nullifying domestic opposition from left and right. With the economy growing and money pouring into the national treasury faster than it can be spent, the politically negligible right is more concerned with conserving and even increasing its stake in the economy. The largest opposition political organization in the country, the Social Christian Party of former president Caldera, is still in shock from its disastrous election defeat last December, although attempting slowly and painfully to pull itself together. It is attacking Perez and his party for the government's handling of the economy, especially the rising cost of living and an inflationary rate that this year may exceed 15-20 percent. The buoyant economy and such populist measures as a work stability law, across-the-board wage increases, and price freezes have muted the effectiveness of

much of this criticism by the Social Christian and other political parties.

The Venezuelan military, the traditional locus of political power, seems generally content with Perez, although there is some unhappiness with his reported failure to keep politics out of promotion and assignment policies. In any event, Perez has moved rapidly since his inauguration to edge out holdovers from the previous administration and to ensure that major commands are staffed by men personally loyal to him.

While Perez' power and popularity remain very high, there are several political and economic problems that could cause trouble in the coming months if they are not soon remedied. Among these is the great popular expectation that his economic policies have caused. If his administration is unable to deliver on its promises, Perez will surely face a serious ebbing of popular support. There is also an increasing demand that the government spend more of its oil revenues on domestic projects, a move that would only fuel the inflationary spiral that the government is attempting to curb.

Notwithstanding the fact that Perez is riding high, and his party is sharing in the reflected glory, there is evidence of some dissension and unhappiness within the Democratic Action Party over Perez' style of governing. Many of the party regulars feel ignored, shunted aside, and disdained by the President and his small clique of advisers. Attempts to get Perez to remove some of the more objectionable members of this coterie have been unavailing and perhaps have even further isolated Perez from party leaders. Nevertheless, they are in no position to challenge the President. Several party leaders already are jockeying for position for the party's presidential nomination in 1978, and support from Perez will be a valuable asset. At this time, none of the potential nominees appears willing to sacrifice that advantage by staging an open revolt against his policies.

BOLIVIA: PRE-ELECTION MANEUVERS

President Banzer is equivocating on his decision not to seek another term. He also appears intent on obstructing preparations by the opposition for the national elections he has called for next year.

In July, following an attempt by junior military officers to oust him, Banzer promised to hold elections in 1975 and appointed a commission to study electoral reforms. Although the commission has done nothing noteworthy thus far, pressure from political and military leaders has induced Banzer to move the election date forward from October to June.

Initially, Banzer had said that he would not be a candidate, but last week, when the leader of a peasant group pledged his support, Banzer announced that he had changed his mind. The President's announcement, which came after all major political leaders had expressed their wish to see Banzer leave office, sparked public objections and reportedly antagonized a group of military officers led by the retired army chief of staff General Eladio Sanchez. The President has since thrown Sanchez out of the country, claiming that he was preparing to overthrow the government.

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Banzer is also trying to keep Bolivia's major political party, the National Revolutionary Movement, in a weakened state by ensuring the election of Ruben Julio, an undistinguished party hack, as the movement's chieftain.

Because Banzer has lost most of his former supporters, it is unlikely that he could obtain the backing necessary to win another term. If he fails in his efforts to forestall elections, he may ultimately be forced to step aside in favor of a military figure who has the approval of most army leaders.

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