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Weekly Review

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February 21, 1975

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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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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Review.

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Cyprus

Back to the UN

The Cyprus problem moved back to the UN this week in response to a Greek Cypriot request that the Security Council meet to discuss the latest crisis brought about by the proclamation last week of a separate Turkish Cypriot state in the north of the island. The Security Council held the first meeting on February 20 and will probably consider the report of Secretary General Kurt Waldheim, who had earlier consulted with Greek and Turkish officials in Athens and Ankara.

Greek and Greek Cypriot representatives at the UN are expected to press for a strong condemnation of the Turkish Cypriot action and for the implementation of previous UN resolutions. They may also seek a more direct UN involvement in efforts to find a solution to the Cyprus problem, such as the dispatch of a UN fact-finding mission to the island or a call for the creation of some type of broad conference including some or all members of the Security Council. Greek Defense Minister Averoff recently stated that despite the opposition of most Western countries to such an "internationalization" of the Cyprus issue, Athens now feels that in light of the latest Turkish move, an international conference would be the least humiliating alternative for Greece.

Neither Greece nor the Greek Cypriots are particularly optimistic about the outcome of the council's meetings, but they see no other recourse in view of the Turkish Cypriot declaration and the lack of progress in the intercommunal talks. They apparently hope at least to gain a propaganda victory and to keep the issue in the international limelight.

The council will likely reaffirm its earlier resolutions and may rebuke the Turkish Cypriots; it may also call for the continuation of the intercommunal talks. There have been suggestions that the talks themselves be moved to New York,

where they could more directly be carried out under UN aegis. President Makarios has indicated, however, that the talks will not be resumed unless the Turkish Cypriot declaration is revoked, but he may eventually recant in view of the unlikelihood of this prospect.

On Cyprus, meanwhile, efforts have already begun in the Turkish Cypriot sector to set up the constituent assembly that will serve as the legislative body of the separate state.

Moscow Reacts

The international community has reacted coolly to the declaration of autonomy, and Moscow clearly does not like the move by the Turkish Cypriots. Since the Cyprus crisis began last summer, however, the USSR has not been inclined to allow support for a unified Cyprus to jeopardize its relations with Turkey, and now the cut-off of US military aid to Turkey has brightened the prospect of getting Ankara to loosen its Western ties.

The most authoritative Soviet comment appeared in the form of a Tass statement four days after the Turkish Cypriot announcement. The statement blamed "certain NATO circles" and the Turkish Cypriot leadership for trying to frustrate efforts to reach a settlement. Unlike statements issued last summer, the latest statement was not officially ascribed to the government and did not get front-page billing in *Pravda*. It predictably omitted any direct criticism of the Turks.

Soviet diplomatic maneuvering, meanwhile, appears to be aimed at playing upon hopes in Athens and Nicosia that the USSR can somehow pull their chestnuts out of the fire. Moscow would like a direct role in the settlement process, but the gestures of support it might make are not likely to satisfy Makarios—and he almost certainly appreciates that fact.

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Middle East: More Posturing

In the wake of Secretary Kissinger's exploratory visit, both Arabs and Israelis have been acting out roles that have become familiar in the public scenario of interim peace negotiations. The Egyptians have projected optimism and self-confidence, with President Sadat reiterating his commitment to the step-by-step approach and Foreign Minister Fahmi declaring that there might be disengagement by June on both the Sinai and Golan fronts. The Israelis have been more reserved, talking in terms of seeking only a limited second-stage agreement with Cairo if the Egyptians fail to provide Tel Aviv with an assurance of non-belligerency. The Syrians are saying they were "disappointed," while the Palestinians are weighing in with denunciations of "divisive" US strategy. Behind the posturing, there have been few public indications that the gap between the Israeli and Egyptian positions is narrowing, and the Egyptian press has sounded some apocalyptic notes to point up how crucial the Secretary's next visit to the area will be for "defusing the explosive situation."

Egyptian-Israeli Strategy

Several Cairo papers this week called on the US to apply more pressure on Israel, and in a lengthy address to a committee of Egypt's People's Assembly, Foreign Minister Fahmi acknowledged that Cairo would inevitably have to resort to war if current negotiating efforts deadlock. Fahmi reiterated that any agreement reached with Israel at this stage must be purely military—a geographic extension of the troop disengagement that has already taken place. Fahmi's address, however, was largely a paean to Sadat's foreign policy and was probably aimed primarily at justifying Sadat's negotiating tactics to both domestic and other Arab critics.

Sadat himself took a moderate line in an interview early this week with the *Washington Post*. His response to questions on Israeli demands for a guarantee of non-belligerency was to promise that Egypt would not attack Israel so long as negotiations continue. He suggested, in effect,

that the US could serve as guarantor of Egypt's peaceful intentions. Sadat again appeared to be signaling the Israelis that they will have to content themselves with some indirect form of political reassurance if a breakthrough is to be achieved.

The Israelis continue to emphasize the political content of the next disengagement package as the crucial issue. Shortly after the Secretary's departure from Israel, Prime Minister Rabin gave a television interview in which he summed up the government's approach to negotiations with Egypt, and again defended the step-by-step approach to negotiations. A resumption of the Geneva conference without prior preparation, he repeated, would lead to a deadlock.

Rabin outlined two basic proposals for an agreement. The broader one involves an Israeli pullback of 30 to 50 kilometers in the Sinai and includes the demilitarization of the Gidi and Mitla passes and the return of the Abu Rudays oil fields to Egypt. Under the other, narrower option, Israel would not give up either the passes or the oil fields. In either case, Israel would demand Egyptian political concessions, including—as part of the broader option—Cairo's public and binding commitment to end the state of belligerency with Israel.

Israel would not insist on a formal declaration of non-belligerency, but would be satisfied if Cairo stated its intentions to "refrain from warfare."

Meanwhile, in a speech on February 18, Israeli Chief of Staff Gur implied that a political settlement with Egypt is more important to Israel than the retention of the Gidi and Mitla passes. He said that abandonment of the passes would be risky, but that Israel has the strength to fight either offensive or defensive battles and need not base everything on one concept. Gur's statement seems designed to refute charges by a growing number of Israeli conservatives that any withdrawal from the two passes without a peace agreement with Egypt would imperil Israel's security.

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Gur, who is Israel's senior military officer, probably also intended to reassure the Israeli public, which has been made somewhat uneasy by the conservative critics. He is no doubt well aware of the political ramifications of his statements, and presumably received prior clearance from the government for his remarks.

Syrian Pessimism and Palestinian Complaints

Overt Syrian reactions to the Secretary's trip have been critical. An article in one Beirut daily reported considerable Syrian unhappiness over the prospect that a Sinai disengagement would not be accompanied by a simultaneous disengagement on the Golan Heights. The article, written by a journalist with access to well-placed sources in the Syrian hierarchy, claimed that Syria may be on the verge of a major policy reversal if Egyptian President Sadat continues to negotiate alone and ignores earlier pledges to keep in step with Syria. This means, according to the journalist, that both the Syrian government and the PLO moderates would increase their overtures to Iraq and the "Rejection Front" in a common effort to head off a "partial solution" of the Middle East conflict. The author also predicted that if any further disengagement occurs in Sinai, Syria would refuse to attend the next stage of the Geneva Conference.

some withdrawal in Syria and on the West Bank, even if this is only a vague and cosmetic agreement in principle to be implemented at a later time.

Palestine Liberation Organization officials and information media are also urging the other Arabs to resist what they see as the US strategy of dividing Egypt from Syria and enticing both to accept a partial Israeli withdrawal that would leave nothing for the Palestinians. As an alternative, high PLO officials are calling for a resumption of the Geneva talks with a Palestinian delegation in attendance and a clear statement that the Palestinian problem will be discussed.

Soviet Reaction

The Secretary's trip evoked tart comment directly from Soviet party chief Brezhnev, who criticized "partial measures" by "certain persons" hoping to lull and divide the Arabs. Soviet propaganda broadcasts played up the line that the US step-by-step approach is being implemented in the interests of Israel.

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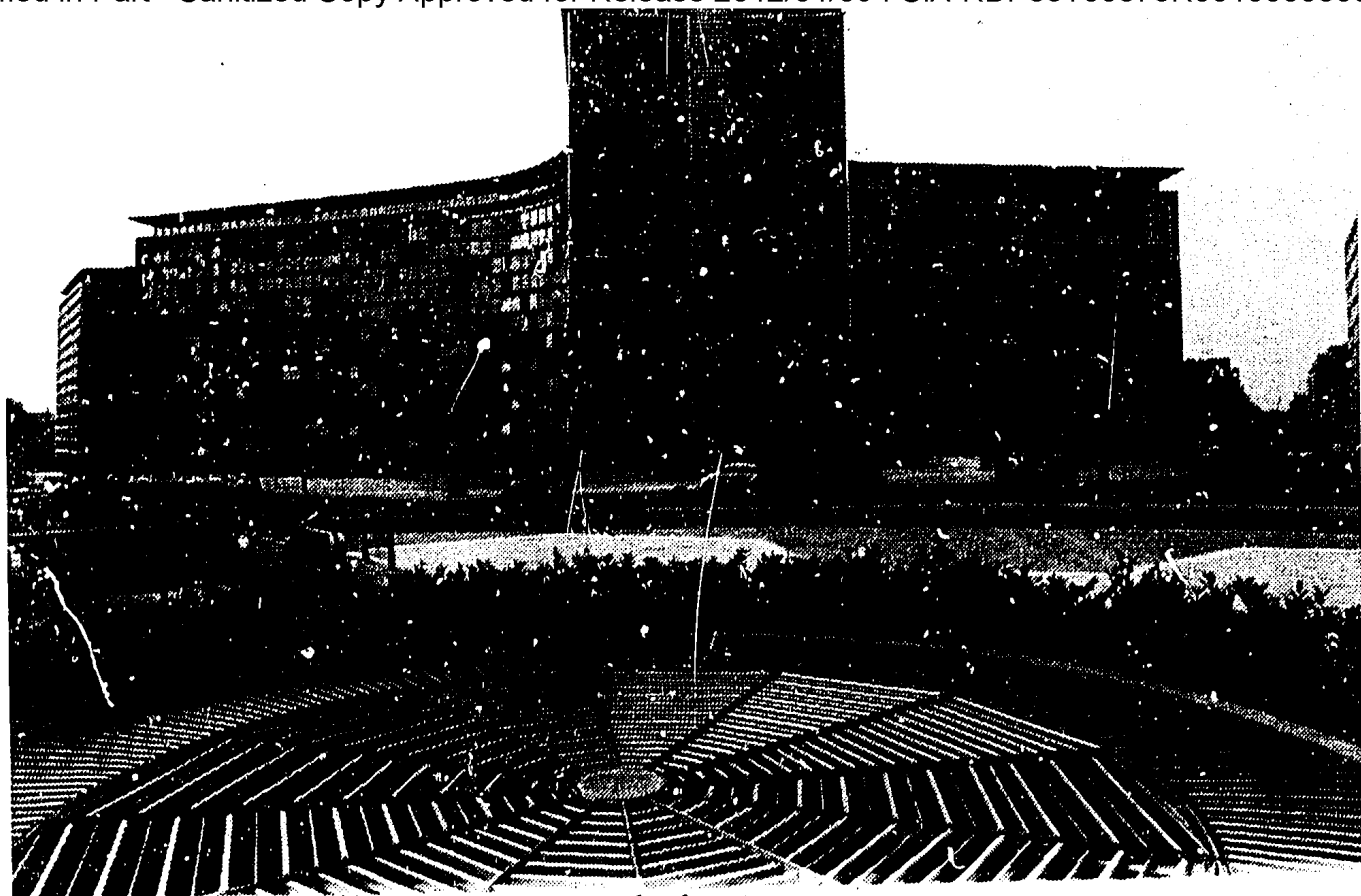
Behind the Soviet criticism is Moscow's ritual complaint that it is being cut out of the Middle East negotiating game and that, as a consequence, its "natural interests" in the region are not being given sufficient weight. This was the approach taken last week by Foreign Minister Gromyko with the British ambassador in Moscow and by a Soviet Middle East specialist with Ambassador Stoessel. The Soviets recognize that they are not in a position to head off another Sinai disengagement agreement, but that has not kept them from trying to get the next round of negotiations into a Geneva forum where they can play a more direct role.

The Qatari leader stressed to a US official that the next move toward a settlement must include

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EC headquarters

THE EC PONDERES ENERGY PRICES

The EC Energy Council meeting last week was as unproductive as its predecessors in setting specific common policies. The community may be forced to take a common stand on the US proposal for a minimum price for energy, however, if it wishes to participate in the preparations for a consumer-producer conference.

The energy ministers were meeting to put some flesh on the bones of a community plan—adopted last December—for reducing EC dependence on imported oil by 1985. They approved a directive that prohibits the construction of oil-fired electric generating plants and the conversion of existing power stations to oil without prior approval of the member states. Action on other major issues—energy conservation, minimum stock requirements, and a common trade policy for hydrocarbons—was put off until the next regular meeting of the Energy Council, possibly in April.

Discussion of the US proposal to set a floor price for energy in order to encourage investments in alternate energy sources highlighted the problem of the community's relations with the International Energy Agency—where France is not represented. Several EC officials have said recently that this issue must be resolved if the EC is to have any influence on the agency's work. Should the Nine fail to agree on an approach to promoting alternative energy sources, it will confirm the fears of EC officials that community energy policy can only follow the US lead in the international agency.

France is prepared to discuss the concept of a floor price, but it will probably insist on a common EC position as a prerequisite to discussions in a broader forum. Paris wants internal community agreement in order to encourage EC decisions on related matters, such as policies governing energy investments and pricing. The French, along with the EC Commission, have

advocated this for some time. Although France's EC partners are not prepared for these tough decisions, they are equally reluctant to leave any floor-price agreement to the broader international agency because France would then remain uncommitted and thus able to take advantage of possible lower oil prices.

The EC commissioner for energy, Henri Simonet—who will be in Washington next week to discuss the energy price floor idea—is spearheading an effort to reach agreement among the Nine before the next meeting of the governing board of the international agency in early March. Simonet maintains that there are few differences between his own ideas and the US proposal. If he succeeds in uniting the Nine, however, those EC members that favor a relatively low floor price—because of their heavy dependence on imported oil—are likely to insist that they have their way in the international agency as well as in the EC.

more critical of US policies toward Southeast Asia and Chile than the Hartling government. Denmark's commitment to the EC will remain unaltered, unless the UK referendum in June leads to a British pullout. In that event, many Danes in all parties are in favor of holding their own referendum. The naming of Orla Moller as minister of defense augurs well for a continued strong NATO commitment. Moller is a strong supporter of close ties with the US and NATO, and he also favors purchase of the F-16 as a replacement for the F-104 fighter aircraft.

The future of the new government is not bright. Jorgensen faces an impossible task in trying to push an effective economic plan through a parliament that is stacked against him. Nevertheless, the growing impatience of most Danes with the recurring government crises as well as public pressure to get on with the country's business may enable the government to last out the year.

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DENMARK : JORGENSEN TRIES AGAIN

Danish foreign policy will take a back seat as the new minority Social Democrat government, sworn in on February 13, prepares to tackle the country's economic problems. Denmark is experiencing an annual inflation rate of 16 percent and unemployment is at the highest point in 20 years.

Anker Jorgensen, the new prime minister, presented his government's program to parliament on February 20. Jorgensen said reducing unemployment was his chief goal and called on Denmark's ten political parties to cooperate in solving the country's economic problems. Controlling only 53 of the 179 seats in parliament, Jorgensen will have to compromise on many of his proposals in order to win support from the moderate opposition parties.

In foreign policy, there will be changes in tone rather than substance. Nordic affairs and increased sympathy for Israel will receive more prominent attention. The new government will be



Jorgensen opens recent party meeting.

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Wilson (with pipe) meets Soviet leaders.

USSR-UK: REMOVING THE CHILL

Prime Minister Wilson's visit to Moscow on February 13-17 was notable primarily for the return of General Secretary Brezhnev to the lime-light, but it also did much to remove the chill that had characterized British-Soviet relations since the British expelled 105 Soviet officials on espionage charges in 1971. The final statement signed by the two sides spoke of "opening a new phase" in relations, and Wilson said the discussions had brought about a "new era." Brezhnev accepted a British invitation for a return visit, but no time was specified.

At the end of the meetings, Wilson and the Soviet leaders signed several agreements, some of which had been prepared before the visit:

- A joint statement calling for the systematic expansion of relations; it also includes declarations on various international issues, such as Cyprus, the Middle East, and the European security conference.
- A protocol on consultations similar to those the USSR has with France and Italy.
- A declaration on nuclear non-proliferation that expresses support for the concept but does not commit the two nations to any new action.
- Long-term agreements on the development of trade and industrial cooperation, and increased cooperation in science, technology, and medicine.

British exports to the Soviet Union fell sharply after the 1971 incident and the trade agreements, which resemble recent Soviet-French

accords, give the British a chance to get back in the running.

In his first official appearance in seven weeks, Brezhnev went out of his way to demonstrate before Soviet media and his foreign guests that he is fit and in good spirits. He reportedly did almost all the talking for the Soviet side, had a firm grasp of the details of the matters under discussion, and showed no sign of fatigue during several lengthy sessions. 25X1

Despite Brezhnev's vigorous performance, questions about his physical and political health apparently remain. At least one high Soviet government official, correctly anticipating that Brezhnev would see Wilson, reportedly told Westerners in Moscow that Brezhnev, nevertheless, has a serious illness that will prevent him from ever resuming a full work schedule. 25X1

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ETHIOPIA: FIGHTING FLARES AGAIN

The independence-seeking Eritrean rebels showed their muscle again this week with a new wave of attacks on government military installations in Asmara, the provincial capital. The ruling military council in Addis Ababa appears determined, however, to keep Eritrea a part of Ethiopia, whatever the cost in men and other resources. As the fighting continues with little prospect for an early negotiated settlement, the rebels are getting increasing support from the Arab world.

Rebel attacks in Asmara on February 18—the first major assault on the city in eight days—resulted in the heaviest exchange of gunfire since major fighting began in Eritrea late last month. Much of the action took place near the US consulate and the US Kagnew communications complex. The Kagnew power plant was damaged, mostly by fire from defending government paratroopers.

During the week, government forces and rebels clashed again northwest of Asmara and the Ethiopian air force attacked suspected rebel concentrations along the road from Asmara to the Red Sea port of Massawa. On February 16, eight tanker trucks carrying badly needed fuel got through to Asmara; the previous day, insurgents had ambushed three tankers, destroying one and forcing the others to turn back. The government continues to face serious supply difficulties, however, and is currently relying heavily on a costly airlift.

Despite the many problems they face in combating the insurgency, Ethiopia's military rulers reportedly remain confident that government forces can win. Last week, a high Ethiopian official told the US embassy that the government would fight to preserve the country's unity "to the last man and the last drop of blood." In an effort to mobilize domestic support and also to impress delegates attending a meeting of the Organization of African Unity in Addis Ababa,

the council organized mass demonstrations against the insurgency. Criticism of Arab support for the rebels was a major theme of the demonstrators and has also become prominent in the official press.

Sudanese President Numayri's peace initiative remains stalled. Osman Saleh Sabbe, the leader of the Popular Liberation Forces, the smaller but more effective of the rebel movement's two factions, reiterated this week his group's insistence that the government recognize Eritrea's right to independence before any talks begin. He rejected Numayri's call for an immediate cease-fire, apparently because he believes the rebels have the upper hand militarily.

Arab countries are continuing to provide military and other support for the Eritrean rebels. At this time, most Arab governments are not solidly behind the rebels' demand for complete independence, but the continued fighting is pushing them in that direction. Sudan, especially, would like to avoid having to make a choice between all-out support for the rebels and maintaining good relations with the ruling council in Addis Ababa. Saudi Arabia, which gives some aid to the Popular Forces, still favors federation as a solution to the Eritrean problem. Even radical Iraq has not yet taken a strong public stand in favor of Eritrean independence, probably because it is aware of the parallels that could be drawn to its own Kurdish problem. Egypt's response to the latest outbreak of fighting has also been muted.

Expressions of Arab support for the Eritreans are becoming more vehement, however. Syria last week issued a strong statement backing Eritrean independence and condemning Ethiopian atrocities. On February 18, Kuwait announced its total military support for the rebels. The Arab information ministers meeting in Cairo this week called for Eritrean independence and characterized the Ethiopian army's actions as a "war of annihilation."

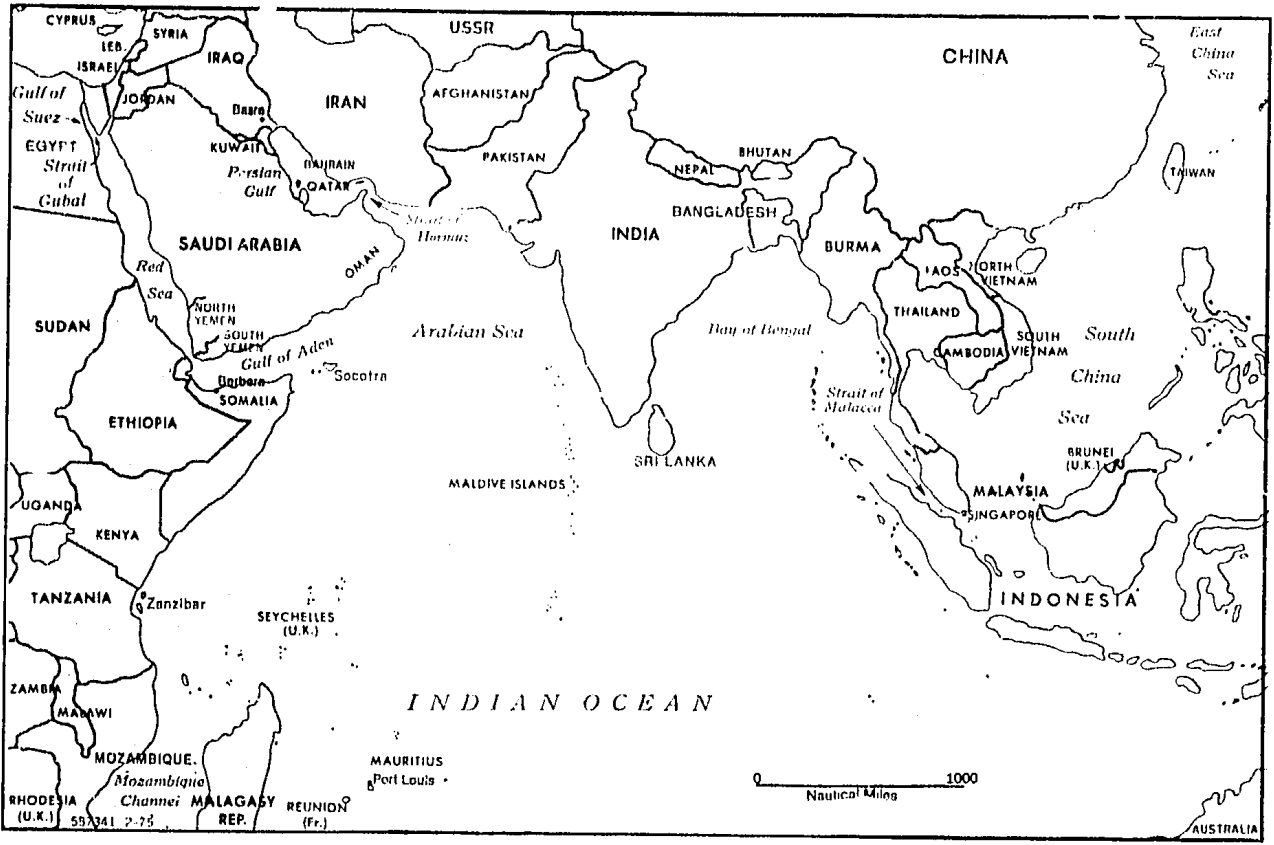
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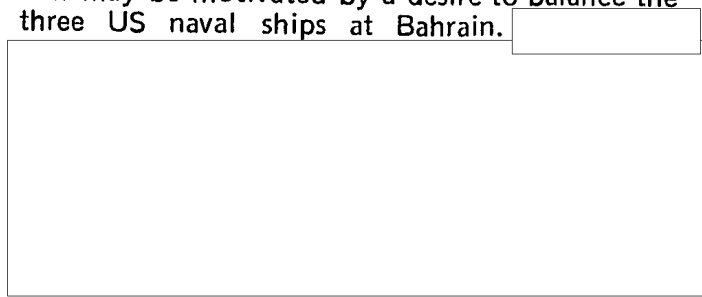
INDIAN OCEAN NAVAL ACTIVITY

Following a devastating storm that hit the island of Mauritius in early February, US, French, and Soviet ships visited the tiny republic and sent crews ashore to assist in disaster relief. The US carrier Enterprise and the French carrier Clemenceau were both in the area and able to render early assistance. As the Enterprise left Mauritius on February 15 on its way out of the Indian Ocean, the Soviet cruiser Dimitri Pozharskiy arrived.

A high French official announced that the Clemenceau was going to the island of Madagascar following reports of serious political strife there. There was apparently no danger to French citizens or economic interests in the Malagasy Republic, however, and the Clemenceau was reported in Port Louis, Mauritius, as of February 15. The French continue to keep the largest number of naval ships in the Indian Ocean. The regular group of about 16 ships has been augmented since last spring, most recently by the Clemen-

ceau's five-ship task force. When this group leaves next month, it will be replaced by another, headed by the guided-missile frigate Suffren.

The present Soviet contingent of six surface warships and one submarine, plus some auxiliaries, does not differ significantly from the force Moscow has maintained in the Indian Ocean for over a year. One of the principal Soviet objectives apparently is to maintain a fairly regular patrol of the entrance to the Persian Gulf. Moscow may be motivated by a desire to balance the three US naval ships at Bahrain.



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CENTRAL AMERICA: SEEKING COOPERATION

For the second time this year, the Central American chiefs of state have met—this time in Nicaragua—and have declared their personal determination to overcome long-standing obstacles to solidarity. In fulfilling their pledge to meet at least once a month, the leaders again focused on three main objectives: normalization of relations between El Salvador and Honduras; revitalization of the Common Market; and regional socio-economic integration.

Interest in regional unity has waxed and waned since the first effort toward political union failed nearly a century and a half ago. The present drive for solidarity comes at a time when each of the republics has been hurt in varying degrees by worldwide inflation and recession. Thus, the benefits that could result from far-reaching economic integration seem much more attractive now than they have during the past six-year period of regional feuds and strident nationalism. Also, the worldwide trend toward alignments based on common economic or regional interests has had an impact on the Central Americans, who have never had a strong voice even in their own hemisphere, much less in world forums.

Whether the leaders can realize their ambitious goals in the next few years depends largely on their ability to retain firm control at home. At present, none of the leaders is seriously threatened, but each is concerned about opposition groups and growing discontent. In fact, the five leaders may be hoping that the fanfare surrounding their summit meetings will soften public criticism at home.

- President Somoza, who inherited control of Nicaragua a decade ago, is faced with increasing disaffection and an opposition encouraged by the success of terrorists who seized government officials last December and bartered their freedom for a flight to Cuba.

- Costa Rican President Oduber's popularity has diminished considerably since he was inaugurated last May with multi-partisan backing. Nearly all factions are criticizing the President's failure to understand, much less alleviate, Costa Rica's worsening economic situation.

- Guatemalan President Laugerud, who took office last July, enjoys the support of the army high command—the final political arbiter in the country—and government forces are strong enough to keep the lid on the security situation. Nevertheless, isolated successes by terrorists—followed by government reprisals—could create a period of political instability.

- Last week, Honduran Chief of State Lopez Arellano finally fulfilled his promise to re-assign senior military and government officials. The changes seem to have decreased the dissidence among the Honduran officers corps, which had been building for months.

- Like Honduras, El Salvador has had a recurring problem with military dissidence. Some peasant unrest, leftist violence, and student demonstrations are likely to continue to challenge Salvadoran President Molina for the remaining half of his five-year term. Like his Honduran counterpart, however, Molina came to power through the military and knows well how to maintain its support. Both leaders have been generously responsive to military demands, including pay raises, training, and re-assignments.

The Central American leaders seem apt to continue meeting and trumpeting their interest in unity. Sharp contrasts in economic achievement and sociological perspective, however, remain obstacles to meaningful cooperation.

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Army General Anaya announces start of guerrilla operation.

ARGENTINA: ANTI-GUERRILLA CAMPAIGN

The army has begun a massive anti-guerrilla operation in the northern part of the country, but the only information on its progress is coming from communiques issued by military spokesmen. As usual, these reports consist only of the number of arms caches destroyed and suspected guerrillas detained.

Some 5,000 army troops and federal police are combing the jungles and mountains of Tucuman Province in search of about 400 members of the Marxist Peoples' Revolutionary Army. At least one skirmish occurred last week when guerrillas ambushed a patrol. One army officer and three insurgents reportedly were killed in this clash.

Army spokesmen are stressing that civilians in the area are cooperating with the troops by providing information, and one officer stated that several "foreigners" had been arrested. There has been no official announcement on how long the

campaign will last, but one general commented that the army would stay in the struggle "as long as it considered necessary." Interior Minister Rocamora stated last week that the counter-insurgency operation might move into other provinces.

The extremists have responded to the campaign by stepping up terrorist actions in Buenos Aires. Last weekend, at least eight persons were killed in a new wave of attacks. Also, in a move to attract international attention and embarrass the government, the guerrillas declared a 1,500-square-mile area of Tucuman Province a "liberated area" and have called for international protection in accordance with the Geneva Convention.

It is doubtful that the army's operation will turn up much. Rumors that it was to occur have been circulating for several weeks, so that the guerrillas have had plenty of time to prepare. Also, the army has not had a great deal of counter-insurgency training or experience. Unless small-unit commando tactics are used, the security forces are likely to have little luck in cornering any real guerrillas.

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PERU: SHIFTING GEARS

The civil disturbances in Lima two weeks ago have not caused President Velasco's military regime to change direction, but they have prompted it to shift gears. In a nationwide address on February 17, the President hinted that the government would embark on a plan to create its own mass political movement. The next day, it was announced that a committee had been formed to coordinate such an effort. This represents a new stage in the military's long-standing, but unsuccessful, effort to rally popular opinion in support of its programs.

To date, the government's efforts along these lines have been disorganized and indecisive. The recent unrest, however, has apparently

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illustrated to even the most nearsighted military leaders the extent of anti-government feeling among the population in general. In view of this, it appears that Velasco is moving ahead with plans to build a formal, civilian-based but military-controlled political organization. This will be no easy task, due to serious disagreements within the armed forces over the ideological bent of the organization and over the degree to which it will supplant traditional political parties. In addition, there is the problem of who will organize and staff the movement.

The government's efforts will be complicated further as a result of ad hoc groups that have sprung up since February 5 to rally support for the regime. The two most publicized groups, led by leftist labor leaders and journalists, are already vying for support from various military leaders. President Velasco apparently recognizes that, if allowed to expand, such groups might develop independent bases of support and try to force the regime into following an even more radical course. The new government committee apparently is the result of Velasco's desire to meld the various groups and personalities into a single unit that would be more manageable.

In what appears to be another facet of the government's plan to build support and avert further massive unrest, regime spokesmen have lambasted the American Popular Revolutionary Alliance. President Velasco and others have charged that alliance leaders were behind the recent disorders. Although the alliance is a perennial target of military criticism, the extent and tenor of recent official comment suggest some action may be taken against the alliance's leadership. After more than six years of military rule, the party remains Peru's only mass-based political organization and a harsh crackdown would certainly cause further dissatisfaction, particularly among the middle class and certain labor groups.

Extremists within the alliance apparently were involved in the rioting, and some party radicals reportedly have also been involved in recent urban bombings. The established leadership of the alliance, under the venerable Victor

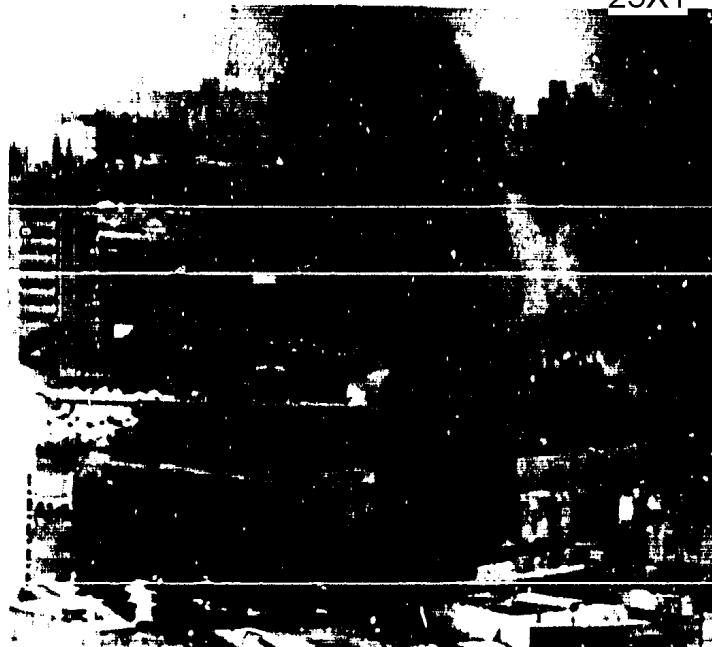
Raul Haya de la Torre, probably has not condoned such activity. Nonetheless, the party is a good scapegoat for Velasco, since most top officers probably favor some action to lessen its popularity. If nothing else, the alliance has been an embarrassment to the military, which has been unable to match its widespread appeal.

For the time being, the military apparently is united behind Velasco, but questions have been raised about his handling of the crisis. Differences within the armed forces almost certainly will increase in the coming weeks as plans for the pro-government movement solidify.

Prime Minister Morales Bermudez is likely to play an important role in developing government policies to meet civilian unrest and to build a base of support for the regime. Despite indications that President Velasco is pleased with Morales Bermudez' counsel, there are ideological differences between the two men. These intra-service cross-currents, coupled with the populace's stubborn hostility to authoritarian military rule—even though benevolent—will continue to disrupt the pace of Peru's revolution.

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El Correo newspaper building burns during recent rioting.

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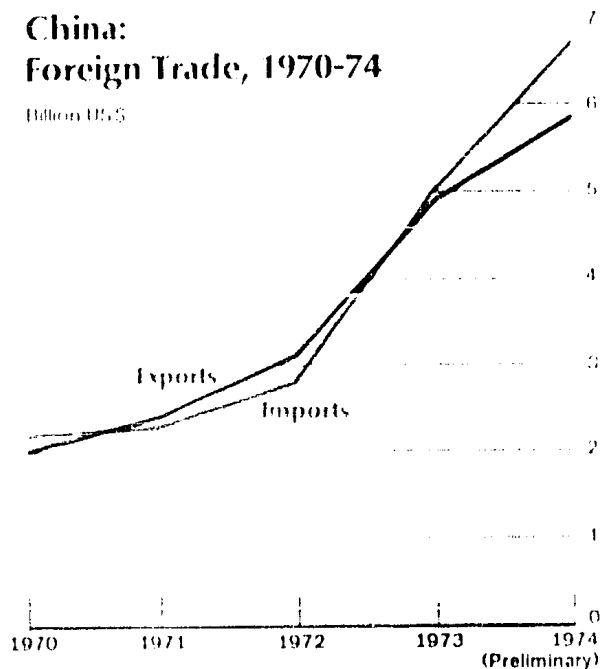
CHINA'S FOREIGN TRADE IN 1974

China's foreign trade boom fell victim to the growing problems of the world economy in 1974. Total trade rose only 27 percent, to roughly \$12.5 billion, well below the 67-percent increase of 1973; most of the increase is the result of higher prices, with little or no growth in volume. Worldwide inflation pushed up China's import bill, while the economic slowdown in the West cut demand for Chinese exports. As a result, China had the largest trade deficit in its history—about \$750 million overall and perhaps \$1 billion with the non-Communist world.

China began taking steps to relieve the financial squeeze last fall. Contracts for agricultural products were deferred or canceled, and fertilizer deliveries were postponed. Peking also increased its use of short- and medium-term credits and sold a portion of its gold holdings. China's balance of payments is good, however. Reserves are well in excess of the trade deficit, the level of foreign debt is manageable, and Peking's credit rating is excellent.

China: Foreign Trade, 1970-74

Billion U.S.



Trade with non-Communist countries posted the largest gains, accounting for almost 85 percent of China's total trade. Imports from the developed West shot up to about \$5 billion from \$3.4 billion in 1973, largely because of increased purchases of agricultural products and machinery. China's deficit with the developed countries was roughly \$2.5 billion.

Sino-Japanese trade jumped 50 percent, to over \$3 billion. China's imports, boosted by sizable deliveries of machinery and equipment, exceeded exports by more than \$500 million. China's exports of 4 million tons of crude oil, worth about \$380 million, more than offset the decline in its traditional exports to Japan.

China's trade with the US totaled \$922 million, a smaller increase than anticipated at mid-year because Peking canceled contracts for US grain worth about \$300 million. Wheat, corn, cotton, soybeans, and other agricultural products composed about 80 percent of total US exports of \$807 million. US machinery and equipment exports rose as delivery began on equipment for the ammonia plants purchased in 1973 and the second half of the \$150-million Boeing contract was completed. Growing purchases of cotton textiles helped boost US imports of Chinese goods to \$115 million, up from \$64 million in 1973.

Purchases of agricultural products, machinery, and transport equipment were largely responsible for the growth of China's total imports. China contracted for almost 10 million tons of grain in 1974, but shipping delays and contract cancellations dropped actual deliveries to just over 7 million tons, down from 7.7 million in 1973. Higher grain prices, however, pushed the cost up to over \$1 billion. Imports of soybeans and cotton were up substantially from 1973. Machinery and equipment imports rose sharply as large-scale deliveries began on the \$2.5 billion worth of whole plants and other equipment ordered in 1973.

China's exports rose by roughly \$1 billion in 1974; petroleum accounted for almost half of the

increase. Sales of crude oil and petroleum products to Japan, the Philippines, Hong Kong, and Thailand amounted to about 4.5 million tons worth \$440 million. Rice exports benefited from high prices, but other traditional Chinese exports, particularly silk and cotton textiles, faced declining demand.

The outlook for China's trade in 1975 is for slower growth as Peking attempts to reduce its trade deficit. Export growth will be small, reflecting poor sales of traditional products at the 1974 Canton fairs and recession-weakened demand in the West. An expected doubling of petroleum exports may do little more than offset the decline in other exports. Imports of machinery and equipment will be substantial as large-scale deliveries continue on 1973 and 1974 contracts. The successful 1974 harvest and declining textile exports will permit cutbacks in grain and cotton imports. Other less essential imports will be curtailed, and the pace of new plant contracts may slow further. [redacted]

JAPAN: ANTI-RECESSION PROGRAM

Tokyo moved to shore up its sagging economy last week, but the anti-recession program, while serving as a bit of a cushion, is not very strong. It includes:

- increasing government funds for unemployment compensation;
- easing investment controls on plant construction and equipment;
- fewer restrictions on commercial bank loans to small industries and housing;
- spending approximately \$5 billion on public works projects during the present quarter.

The measures were taken in response to the sharp deterioration in the economy in the past few months. Industrial production in the final quarter of last year, for example, fell at a 20-percent annual rate. The number of bankruptcies in October, November, and December broke previ-

ous records. Unemployment at the end of December reached one million for the first time in 20 years, up about 300,000 from November. Since December, the economic situation has continued to decline.

Tokyo's new program will at best cushion the downturn. Direct government loans to industry are basically aimed at avoiding another rash of bankruptcies, especially in politically powerful industries such as textiles. The public works spending essentially represents the funds the government had already allocated for the January through March period. Largely because of opposition from Deputy Prime Minister Fukuda, Tokyo continues to keep a lid on public spending. Industry leaders, for example, have been pressing the government to spend at least part of the \$2 billion in funds previously appropriated but not yet spent. 25X1

Easing credit and investment controls is unlikely to stimulate any significant recovery in business spending. Demand for investment funds is already running below credit ceilings, largely because most industries are operating well below capacity. Excess capacity is now estimated at more than 20 percent, a postwar high, with some firms operating at as low as 50 percent of capacity. Even if demand picks up, output will probably respond slowly because of huge excess inventories. Both in absolute terms and as a share of sales, stocks of unsold goods are roughly double the level recorded during previous economic slowdowns in Japan. During the final quarter of last year, firms attempted to reduce excess stocks by cutting production but failed because sales fell even faster.

The short-term economic outlook remains gloomy, with further production cuts likely in coming months despite government efforts. Exports, a major factor in holding up production last year, are now starting to slow down in response to the worldwide economic downturn, and domestic demand is unlikely to pick up until the employment situation improves. Tokyo, moreover, remains concerned about a resurgence of inflation, and a major expansionary program is not likely until the conclusion of wage negotiations this spring. [redacted]

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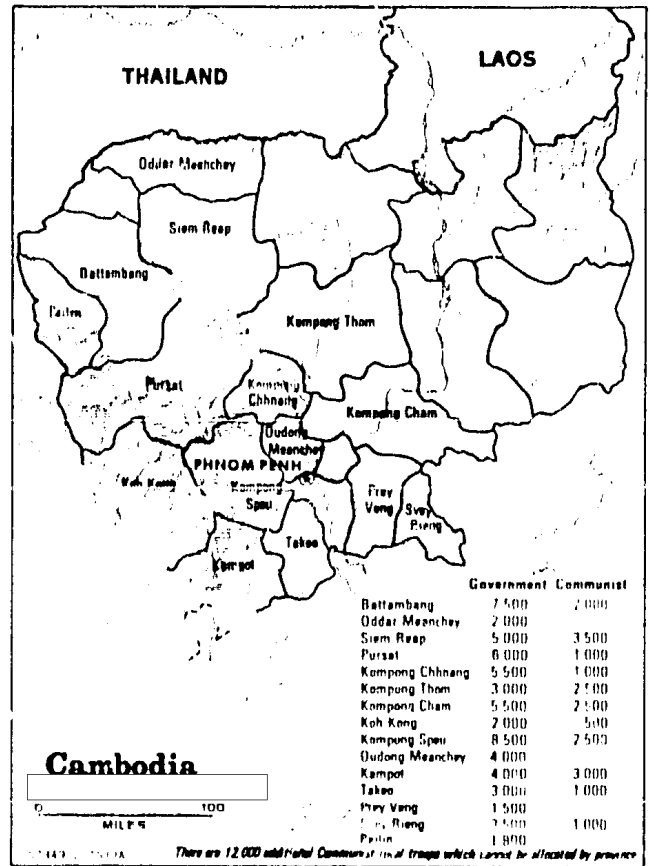
CAMBODIA: HARD DECISIONS

The military situation deteriorated during the past week. Along the Mekong River, the Khmer Communists extended their control near the two key river narrows downstream from Phnom Penh, and insurgent forces are beginning to zero in on the government navy base at Neak Luong. In the Phnom Penh area, the Cambodian army's 7th Division manning the capital's north-western defenses appears vulnerable after six weeks of battering.

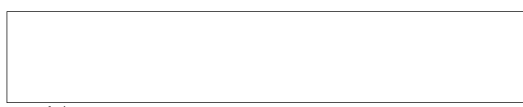
The Cambodian high command has called in some units from the provinces to help defend Phnom Penh and to reopen the Mekong. The reinforcements provided so far have not been enough. The high command will have to strip its provincial defenses further, if it is to counter the threat to Phnom Penh and have any chance of improving the situation along the Mekong.

The Communists have a total combat force of 60,000 to 70,000, about half of them massed in the Phnom Penh area and along the Mekong. The Cambodian army has 110,000 to 130,000 combat troops, of which some 45,000 are in the Phnom Penh area and along the Mekong. Along the Mekong the opposing forces are about even—some 10,000 men each—and a larger infusion of manpower by the government is clearly needed if the situation along the river is to be redressed. The government has some 65,000 soldiers elsewhere in the provinces, a seemingly ready supply of reinforcements. The vast majority of troops in the provinces, however, are in territorial units accustomed to a static defensive role. In the past, only a few of these territorial forces have performed well outside their home provinces.

Local commanders at most provincial centers should be able to hold on if some of their forces are withdrawn, but towns such as Kampot and Takeo may fall if significant numbers of troops leave. Any decisions to abandon holdings in the countryside will be hard ones for military leaders, but such choices will have to be made soon, if the government is to survive even the short term.



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VIETNAM: NEW ATTACKS EXPECTED

The level of military action is still low throughout most of South Vietnam. The Communists relied largely on light shellings this week to sustain pressure on government targets, particularly in and around Tay Ninh City, but the only major combat was in the northern provinces where South Vietnamese units took the initiative by moving to recapture some lost territory. South Vietnamese military leaders are taking advantage of the current respite to make additional preparations for an expected increase in military action in several key areas of the country.

Where Is the Enemy?

One of the major sources of concern for government commanders is their inability to locate precisely many main force units. In the northernmost provinces, commanders have a fair appreciation of the units facing them, as well as enemy strengths and capabilities, but elsewhere the picture is not as clear.

In the western highlands, parts of three North Vietnamese divisions have been shifting around and their locations or intentions are not known to the South Vietnamese. The regional commander in the provinces around Saigon, for example, has temporarily halted operations aimed at regaining lost territory until he can sort out conflicting reports on the location of major North Vietnamese units in his area.

Despite these intelligence shortcomings, government commanders remain confident that they can thwart any new Communist initiatives, unless substantial enemy reinforcements are brought in. Some of this confidence stems from revised government strategy and tactics. For example, static defense positions in Tay Ninh Province—a possible major target of the Communists—have now been assigned to provincial territorial forces. This frees the 25th Division, based in the province, for a more mobile role and an increased capability to react to Communist pressure over a broader front. Furthermore, Saigon has rebuilt a strategic reserve capability that was dismantled during the 1972 Communist offensive. The newly formed reserve



Communist rocket attack on Tay Ninh

consists of two marine brigades and one ranger group, together totaling more than 6,000 men; it was formed from existing units in the northern provinces as well as regular and paramilitary units from the Saigon area. Some of this reserve has been released to the Military Region 3 command to counter the Communist threat around the capital city.

New Recruiting Drive in the North

Hanoi has begun its first widespread military induction campaign of 1975. The new effort has apparently been under way in parts of North

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Vietnam since early January. Induction drives are now being held in a half dozen provinces scattered throughout the country, and one district near Hanoi reportedly has already fulfilled its assigned quota of recruits. Communist propaganda has cited the district for its accomplishment and called for other localities to emulate it.

The media suggest, however, that the regime is encountering difficulties in getting young men to volunteer for military service. Hanoi will probably be able to overcome these problems, however, and achieve its manpower goals. The regime experienced similar resistance last fall and had to conduct a second recruitment drive.

[redacted] Hanoi plans to continue troop infiltration to South Vietnam. The North Vietnamese are estimated to have sufficient manpower in training camps to sustain a moderately heavy troop flow to the South into the spring, when the new recruits will be available. Last year, most recruits received approximately six months' military training before moving south, but the North Vietnamese now have apparently shortened training to only two or three months. [redacted]

BURMESE INSURGENTS STALLED

The Burmese military appears to have stalled a recent Communist offensive in the northeastern part of the country. In a press release late last week, the government admitted that "fierce battles" and "furious fighting" had occurred in insurgent-infested areas along the Chinese border, but it claimed that Burmese military forces were now pushing the enemy back.

Rangoon, which normally keeps a tight lid on reports of fighting in the northeast, apparently issued the press statements to quiet alarmist rumors in the capital sparked by Communist boasts of victories over their clandestine radio. The government admits to 96 army dead, and such casualty figures in the past have been quite accurate. The government also claims 85 Com-

munist dead and says that villagers in the battle areas report an enemy death toll as high as 460.

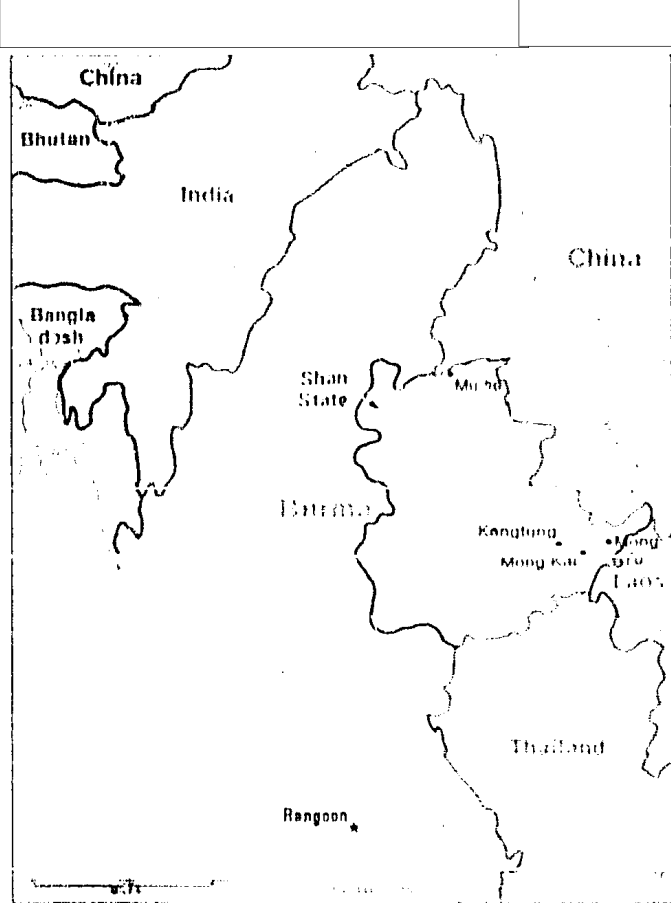
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Earlier rebel boasts of advances had been supported [redacted] that two towns had fallen: Muse and Mong Yu. It is not clear whether the government has regained control of those towns. [redacted]

[redacted] the government had recaptured a third town Mong Kai, after an earlier attempt had failed.

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In recent years, government forces have repeatedly checked Communist advances in the northeast despite the remoteness and roughness of the terrain. Recognizing the continued threat, however, Rangoon will keep a sizable portion of its military committed to the area. [redacted]



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