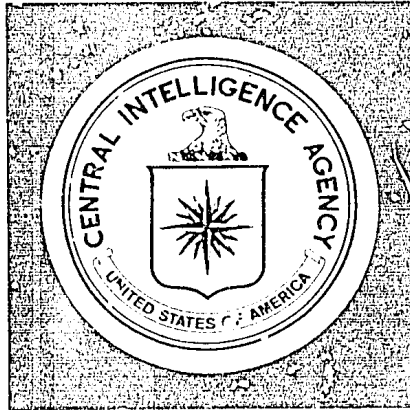


Declassified in Part - 25X1
Sanitized Copy Approved for
Release 2012/02/23 :
CIA-RDP85T00875R001000080

Declassified in Part -
Sanitized Copy Approved for
Release 2012/02/23 :
CIA-RDP85T00875R001000080

Top Secret



Weekly Review



Top Secret



June 13, 1975

25X1

25X1

Copy **N^o 661**

CONTENTS (June 13, 1975)



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, the Office of Geographic and Cartographic 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.

- 1 Portugal: Facing Tough Problems
- 2 Angola: On the Brink
- 4 Consortium Defends Decision

EUROPE

- 6 Cyprus: Inconclusive Talks
- 6 UK: Closer Ties to Europe
- 8 Italy: Election Campaign Windup
- 9 Finland: Government Resigns
- 9 France: Nuclear Testing Resumes

25X1

- 12 USSR: Seeking Aviation Technology

**MIDDLE EAST
AFRICA**

- 14 Iran: Air Power and Air Defense
- 15 Ethiopia: Another Insurgency
- 16 Libya-Egypt: Undermining Sadat

**WESTERN
HEMISPHERE**

25X1

- 17 Argentina: Safeguards; Labor
- 18 Guatemala: Grounds for Divorce
- 19 Colombia: Declining Public Order
- 20 Dominican Republic: Crackdown
- 20 Peru: New Economic Measures

**EAST ASIA
PACIFIC**

- 22 Cambodia-Vietnam: Territorial Disputes; Cholera
- 23 Burma: Renewed Protests
- 24 Australia: Cabinet Changes
- 24 Laos: Consolidating Control

25X1

- 27 China-Philippines: Diplomatic Ties
- 28 China: Trade Retrenchment

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

25X1



DeMenezes brothers, executives of Movement for Independence of the Azores

Portugal: Facing Tough Problems

An incipient rebellion in the Azores added to Portugal's troubles this past week when separatists turned a farmers' protest demonstration into a rally for independence from the mainland. The demonstrators forced the resignation of the civil governor of Sao Miguel Island, thus dramatically focusing Lisbon's attention on the growing independence sentiment in the Azores.

Lisbon's response was twofold: it promised a sympathetic hearing to the Azoreans' legitimate economic grievances, while at the same time clamping tight restrictions on separatist activities. On June 10, Portuguese authorities arrested 29 suspected leaders of the movement in Sao Miguel. The leftist-controlled media in Portugal are criticizing military and police officials in the Azores for their handling of the demonstration, and a purge of Portuguese representatives in the Azores known to be in sympathy with the separatists seems likely to follow.

Unlike Portugal's African colonies, the Azores are regarded as an integral part of the mainland. Lisbon will probably yield to many of the economic demands of the Azoreans, but has made known its strong opposition to the nascent independence movement.

Although the separatists have demonstrated that they have the necessary following to

create public disturbances, they have also shown themselves to be badly organized and extremely vulnerable. Further demonstrations by the separatists have been proscribed by the Portuguese authorities, and the movement is expected to go underground for a while.

Meanwhile, Lisbon is faced with serious problems in Angola where the military situation continues to worsen. Hostilities between the Popular Movement for the Liberation of Angola and the National Front are pushing the territory to the brink of civil war. Additional Portuguese troops were airlifted to Angola last weekend, but leading Portuguese military authorities are in general agreement that there is little they can do to control the fighting there. Continuing strife in Angola will lead to a further exodus of refugees to Portugal and a further rise in unemployment there. Even more important, the Angolan developments will cast a pall over the Armed Forces Movement's most significant achievement to date—decolonization.

On the home front, the festering dispute between the Movement and the Socialist Party over press freedom abated somewhat after the Socialists agreed to remain in the coalition government in exchange for the reopening of the party newspaper, *Republica*. The critical issue in the *Republica* dispute—whether the Communist printers or the Socialists' editorial board would exercise control of the paper—was resolved by

the government in favor of the Socialists. The printers are still demanding a voice in editorial policy, however, and the agreement could come unglued at any time.

A potentially explosive conflict with Portugal's Catholic Church is also gathering momentum. Lisbon's Cardinal Ribeiro told US embassy officials that Communist seizure of the radio station operated by the Church and government interference in parochial schools are rapidly leading to a church-state confrontation. Denunciation of Movement policies from the country's pulpits could deal a crippling blow to the ruling military's already waning popularity.

Portugal's leaders are not faring any better in their efforts to solve the nation's economic headaches. When EC Council President Garrett FitzGerald visited Lisbon last week, government officials pleaded for EC assistance to shore up the sagging economy. FitzGerald noted that EC loans could be made only for specific projects and not solely to reduce balance-of-payments pressures. As has happened repeatedly in the past, the Portuguese were unable to come up

with specific proposals. FitzGerald emphasized the need for Portugal's political development along democratic lines and a reduction of communist influence

FitzGerald himself is prepared to argue within the EC for early aid. EC foreign ministers may agree in principle to be forthcoming with assistance to Portugal when they meet later this month, but implementation of more generous terms for renewing the trade agreement will be tied to the further course of events in Portugal.

The US embassy in Lisbon has reported growing popular disenchantment over the direction of Movement policies and its seeming inability to cope with the country's urgent problems. While the embassy believes Portugal's experiment with consensus government could still continue for a time, it also believes that there is a possibility of one-man rule if the government does not soon begin to deal more effectively with the nation's problems.

25X1
25X1

Angola: On the Brink

The rival armies of the two main nationalist groups in Angola's transitional government again engaged in heavy fighting in Luanda during the past week. Coming on top of recent clashes between the same groups throughout a wide area north and east of the capital and in the exclave of Cabinda, the latest round of fighting appears to have edged the troubled territory closer to all-out civil war.

Most of the fighting over the past three weeks was touched off by the Soviet-backed Popular Movement for the Liberation of Angola, which has become militarily stronger than it was last winter when the National Front for the Liberation of Angola appeared to have a decided edge in troops and guns. At present, neither the Popular Movement nor the National Front has

the supplies or mobility to force a military showdown. Both groups appear to be preparing for such an eventuality, however.

Outside Luanda, each group has now largely secured the areas in which its ethnic support is strongest, clearing them of the troops of the rival organization. This development has undermined a key provision of the independence accord that all three nationalist groups signed with the Portuguese last January. It had assured each group the right to engage freely in political activity throughout the territory.

In the capital, where three rounds of fighting have occurred since March, neither group is clearly dominant at this time. The initiative seems to rest with the Popular Movement, which

25X1

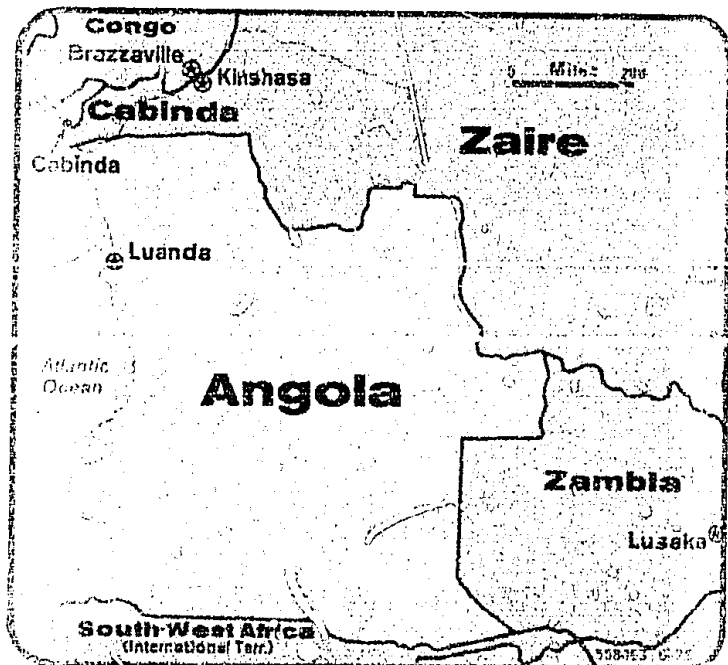


Jonas Savimbi

also appears to be in a good position to disrupt the National Front's supply routes to the city from northern Angola. Portuguese forces intervened in the latest Luanda fighting more forcefully than in the past, losing at least three dead. After the fighting ended, the Portuguese raided arms depots in the city, a move that could throw the Popular Movement and the National Front off balance for the time being.

In Cabinda, representatives of the three nationalist groups reportedly signed a cease-fire that calls for each group to maintain only a token military force in the largest city. During the fighting, the Popular Movement, which has been active in Cabinda much longer than its rivals, apparently succeeded in driving forces of the National Front from the city and the adjoining countryside.

Further serious fighting seems unlikely, pending the outcome of a meeting of the leaders of the three groups that is scheduled to begin in Nakuru, Kenya, on Sunday. The meeting was promoted by Jonas Savimbi, head of the National Union for the Total Independence of Angola, smallest of the three nationalist groups. Savimbi has emerged as a conciliator in recent months. His group has tried to stay neutral, but was drawn into the recent fighting in Luanda.



At the Nakuru meeting, Savimbi, Popular Movement leader Agostinho Neto and National Front president Holden Roberto, as a means of easing competition among them, may discuss postponing constituent assembly elections until after Angola receives independence in November. They may also try to reach agreement on a candidate to head a post-independence government. It seems clear that any bargains struck at the meeting will only serve to postpone a final reckoning between Roberto and Neto, who display less inclination than ever to cooperate.

Consortium Defends Decision

After more than a year of intensive negotiations, the four-nation consortium composed of Belgium, Denmark, the Netherlands, and Norway has agreed to buy the US-made F-16 fighter as a replacement for the obsolete F-104 aircraft. Some of the governments, however, face sharp domestic criticism as a result of their decision, which is regarded as a blow to hopes of developing a European aircraft industry. The opposition parties as well as the left wings of the governing parties in these countries may revive the issue if defense spending and unemployment become contentious questions in the future.

France spearheaded the campaign to "buy European," and vigorously promoted its Mirage F-1E. Francophones in the bilingual Belgian government favored the Mirage, and Prime Minister Tindemans may be in political difficulty as a result of the decision. There were veiled hints that Paris might consider cooperating in European defense matters if the consortium chose the Mirage. Sweden, with its entry, the Viggen, tried to exert pressure on Denmark by stressing "Scandinavian solidarity" and, like France, offered a substantial eleventh-hour price reduction. All three planes fulfill NATO requirements, but the greater production run for the F-16—which was also selected by the US Air Force—made the American entry the best economic choice. Additionally, some countries may get sub-contracts for F-16 components that will exceed their expenditures for the planes.

Last month, Denmark, the Netherlands, and Norway agreed to purchase the F-16 provided Belgium followed suit. The decision was most difficult for Brussels because of its strong cultural ties to France and the extensive French business interests in Belgium. Two of the three parties in Prime Minister Tindemans' coalition government have French-speaking wings, and the other is entirely French-speaking. Nevertheless, the government won a narrow vote of confidence in parliament yesterday following a challenge by a French-speaking opposition party that favored the Mirage.



Leo Tindemans

[Redacted]

25X1

The minority Social Democratic government in Denmark also has been criticized for its choice of the F-16, but easily won pro forma parliamentary approval on Wednesday despite a Communist-inspired demonstration in Copenhagen earlier this week. Nevertheless, Stockholm's last-minute offer to Copenhagen of a 25-percent reduction in the price of the Viggen may yet cause Prime Minister Jorgensen problems in Denmark, where there are few supporters of large outlays for defense.

The Dutch government also encountered opposition, especially from leftists in parliament who oppose the purchase of any plane to replace the F-104. Prime Minister den Uyl, however, has the backing of the coalition parties for his decision, which was predicated on a unanimous choice by the consortium, and does not require parliamentary approval. Nevertheless, one of the small parties in the five-party coal-

tion has called for an investigation to determine whether the aircraft companies may have tried to influence The Hague's selection. Although the debate over the government's decision will probably subside gradually, developments at the recent Dutch Labor Party congress are indicative of growing anti-Americanism in Dutch political life that Dutch leaders will have to deal with before the elections in 1977.

Only the Norwegian government can expect little challenge over its choice. A strong supporter of NATO and the Atlantic community, Norway attaches great importance to Western defense cooperation. In addition, Oslo's oil wealth will enable it to maintain a relatively effective defense contribution to NATO, while at the same time underwriting the extensive and expensive domestic social welfare programs that Norwegian voters demand.

[Redacted]

25X1 25X1

[Large Redacted Area]

25X1

[Redacted]

25X1

CYPRUS: INCONCLUSIVE TALKS

Another inconclusive round of inter-communal talks was held in Vienna last week under the auspices of UN Secretary General Waldheim. Greek Cypriot negotiator Clerides and Turkish Cypriot negotiator Denktash could not come to grips with major issues because the constitutional committee commissioned at the first Vienna round last month failed to make any headway on the powers of the central government in the proposed federation. The negotiators, apparently under pressure from Athens and Ankara, went through the motions in order to maintain the cordial atmosphere created at the meeting of the Greek and Turkish prime ministers in Brussels last month.

The negotiators did have some heated exchanges. Denktash refused to set forth concrete positions on the territorial and refugee questions as promised in the earlier round, citing as justification the lack of progress in delimiting the structure of the proposed federation. He presented some tentative views on the powers and functions of the central government and also proposed that a joint transitional central government be established, pending a final settlement.

Clerides did not respond to the proposals on the central government because Denktash had refused to discuss the territorial and refugee issues. Clerides did give conditional acceptance to the proposal for an interim government, and both men agreed to examine the idea in detail after the talks. It is doubtful they can agree to an interim authority with jurisdiction over significant political matters.

The talks adjourned on June 7—two days ahead of time—because of the constitutional referendum for the Turkish Cypriot zone on June 8. Denktash reiterated that the constitution—which was approved by an overwhelming margin—is subject to revision when an overall settlement is reached. The negotiators agreed to meet in Vienna between July 24-27, but this will depend on further developments in their informal consultations in Cyprus, the progress made by the constitutional committee, and the state of relations between Athens and Ankara.

On June 13, the UN Security Council will hear Waldheim's noncontroversial report on the status of a negotiated Cyprus settlement. It notes the lack of progress, but calls for the continuation of negotiations between the two parties. Waldheim, reported to be displeased with the slow pace of the negotiations, is aware of the need to preserve the present negotiating forum and his role in it.

25X1 25X1

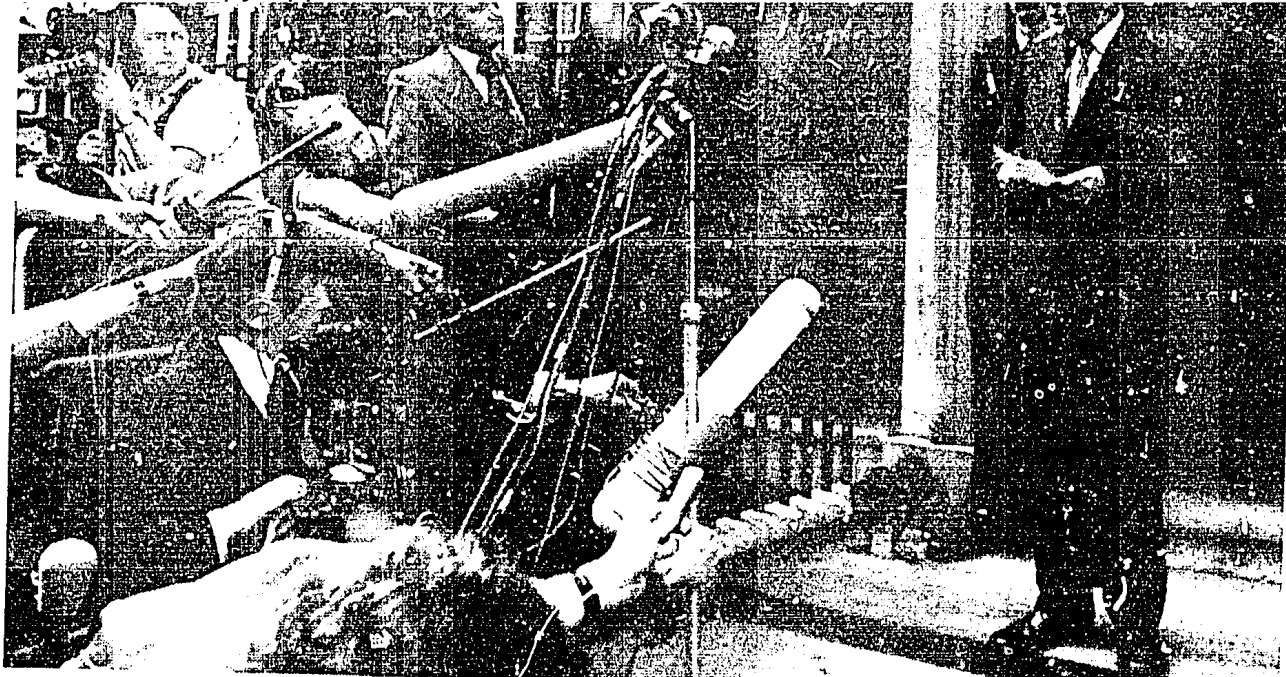
UK: CLOSER TIES TO EUROPE

The substantial margin by which British voters approved continued participation in the Common Market signals changes in both domestic political alignments and in Britain's relationships with the EC.

Prime Minister Wilson's cabinet reshuffle may have eased post-referendum tensions in Britain, but the EC states may respond coolly to at least one of the changes. By shifting anti-EC leader Anthony Benn from industry minister to secretary of state for energy, Wilson has minimized the adverse domestic reaction that would have resulted from demoting him to a less prestigious post. Nevertheless, some questions will be raised about the wisdom of placing Benn in the sensitive energy post. Britain has not been enthusiastic about supporting a common EC energy policy, and Benn's appointment may be taken by the EC as a signal that the UK intends to continue its independent line on energy matters. Benn's debut on June 26 in the EC Council debate on new energy proposals should provide some indication of whether his appointment portends continued British reservations in this area of EC cooperation.

The pledges of support to the government by all seven anti-EC ministers immediately after the referendum and Wilson's careful changes in the cabinet appear to have restored Labor Party unity for the time being. The cabinet reshuffle has been accepted with a minimum of grumbling

25X1



Prime Minister Wilson announces that the British people voted overwhelmingly to stay in the EC

by the British public, and Wilson has avoided the necessity of forming a coalition government, as Conservative Party leader Margaret Thatcher had suggested.

The Conservative Party leadership may eventually be affected by the outcome of the referendum. Thatcher lost considerable prestige by the low profile she maintained in the campaign, in contrast to the extremely favorable public response to the vigorous pro-EC campaign waged by her principal rival, former prime minister Edward Heath.

Britain's partners, although they had assumed the referendum would be positive, nevertheless were relieved that the uncertainty over UK membership had been removed. Typical of the public reaction in Western Europe was German Chancellor Schmidt's comment that he greeted the outcome with "satisfaction and joy," and Commission President Ortoli's remark that the vote marked a "new point of departure" for the EC. Danish politicians, meanwhile, were particularly glad that the results in Britain obviated the need for a referendum in Denmark.

Community diplomats are aware, however, that the referendum only establishes the mini-

imum condition for development of the EC and does not assure it. They will be disappointed if London does not soon begin to show a more positive attitude toward the community, at least by the next EC summit in mid-July.

Now that the British voters have reaffirmed support for continued membership in the EC, the Labor Party will soon end its long boycott of the European Parliament by choosing its representatives to that organization. The British trade unions have also announced their intention to join various EC committees.

Although these actions would have a definite invigorating effect on the community, a more important indication of British attitudes will be London's recommendations for the report on the next steps toward European Union being prepared by Belgian Prime Minister Tindemans. Britain, along with Denmark, has not yet committed itself to direct elections to the European Parliament by 1978. However positive London's attitude toward getting the Community moving again, concern persists that Britain's economic problems may lead to various calls for special treatment that would again test EC solidarity. The EC Commission has quietly prepared a plan to aid Britain in the EC context should London seek such help.

25X1

25X1

25X1

ITALY: ELECTION CAMPAIGN WINDUP

The campaign for regional and local elections on June 15-16 ends today, with the dominant Christian Democrats still hoping to keep their losses to the left within the 2-3 percent range by attracting increased support from moderate and conservative voters.

The harsh debate between the Christian Democrats and the Socialists continued to dominate the campaign in its final week. Attention was distracted from regional and local issues throughout the campaign by discussion of what the vote would mean for national politics.

The entire Socialist campaign has been an elaboration on two of their most widely broadcast electoral slogans: one advising voters that "Italy is changing, but the Christian Democrats are not," and the other asserting that a vote for the Socialists is the only vote for the left that will "really bother the Christian Democrats." They charge that the Christian Democrats, after nearly 30 years as Italy's dominant party, are too corrupt and conservative to respond to the problems that have accompanied rapid social and economic change in Italy. Concerned that voters inclined to switch to the left might turn to the Communists, the Socialists have insisted that theirs is the only party—by virtue of its access to the government—that can actually use leftist votes as leverage against the Christian Democrats.

The Christian Democrats, while claiming credit for Italy's postwar transformation to an industrialized society, have hit hard at the Socialists' failure to advance specific proposals. Christian Democrat leader Fanfani, meanwhile, has continued to dramatize the need for tough law enforcement and to attack the Socialists for their equivocal attitude toward anti-crime measures recently passed by parliament.

Fanfani also stepped up his attack this week on the distinction: the Socialists make between themselves and the Communists. He produced elaborate statistics, for example, to support his argument that the Socialists are

running on joint slates with the Communists in more localities this year than ever before. The Socialists, caught off guard, merely reiterated their demand for a "free hand" at the local level.

Among the reasons the Socialists insist on this point is the fact that they may have an opportunity after the elections to join the Communists in administering two more regions; they already share power with the Communists in the latter's north-central strongholds of Emilia-Romagna, Tuscany, and Umbria. The two parties now stand a chance of gaining slim majorities in the neighboring regions of Marche and Liguria.

Foreign policy issues continued to hinder the Communists in their efforts to campaign on the claim of running efficient administrations at the regional and local levels. Communist chief Berlinguer has complained, for example, about the preoccupation of the press with such issues as Portugal and relations with Moscow. The Communists, nevertheless, have mounted a vigorous and well-organized campaign and are likely to continue their postwar trend of steady gains at the polls.

As the campaign drew to a close, party leaders began to think out loud about the future of Prime Minister Moro's Christian Democratic - Republican coalition, still widely regarded as a stop-gap measure to get the country through the elections. Most comments were cautious, however, and no party leader is yet demanding Moro's resignation right after the elections. The Socialists would probably trigger a crisis if they scored dramatic gains—upwards of 3 percent for example—but even they seem more inclined to leave Moro in place through the summer. That would give both the Socialists and the Christian Democrats time to firm up bargaining positions on the terms for a new government and to have them approved by their respective party congresses, tentatively set for the fall. [redacted]

25X1
25X1

25X1

25X1
25X1

FINLAND: GOVERNMENT RESIGNS

President Kekkonen has scheduled parliamentary elections for September 21-22 following the resignation of Prime Minister Sorsa's center-left coalition government last week. Kekkonen will probably wait until next week to dissolve parliament; work should have been completed by then on several important bills.

The President is expected to appoint either a non-political government of civil servants or a "presidential" caretaker government that would remain in office until a new cabinet is formed. A "presidential" government would consist of nationally known political figures serving at the request of the president and with the permission of their respective parties. Kekkonen may opt for the latter solution because the conclusion of the European security conference will probably take place in Helsinki this summer or fall, and the President wishes to have a group of distinguished national figures representing Finland as the host government.

The deeply divided four-party coalition broke up after failure of repeated attempts to resolve persistent disagreements. The dispute between the two major coalition partners—the Social Democrats and Kekkonen's Center Party—started in April when the Center Party announced it would not support the government's regional development package. Despite Kekkonen's intervention and intermittent efforts at cooperation, neither major coalition partner was willing to compromise.

Opinion polls indicate that both the Social Democrats and the Center Party would strengthen their parliamentary representation in a new election. A Gallup poll published last month indicated that in an election the Social Democrats would garner 27 percent of the votes and the Center Party could count on 18.7 percent. The same poll indicated that the four parties represented in the present coalition—the Social Democrats, Center Party, Liberals, and the Swedish Peoples Party—are supported by 54.6 percent of the electorate, compared with their 1972 election total of 52.7.

[Redacted]

FRANCE: NUCLEAR TESTING RESUMES

The French conducted their first nuclear test of 1975 on June 5 at the Fagatafa Atoll in the South Pacific. The underground explosion was France's first since underground testing was terminated in 1965 in Algeria's Sahara desert. The French conducted a series of underground tests there through the mid-1960s.

[Redacted]

Defense Minister Bourges said in a communique that the test was a complete success both from the technical and safety points of view.

Paris' decision to resume underground nuclear testing follows several years of protest against French atmospheric tests in the Pacific by Australia, New Zealand, Japan, and several west coast Latin American countries. Bourges' mention of the safety factor probably was intended to head off another round of protests. International reaction to the detonation has been muted. Australian Prime Minister Whitlam noted that France was refraining from conducting atmospheric tests in the Pacific; however, both he and New Zealand Prime Minister Rowling reaffirmed their countries' opposition to any type of nuclear explosions—whether atmospheric or underground.

25X1

[Redacted]

25X1

25X1

[Redacted]

25X1

Page Denied

Next 1 Page(s) In Document Denied

USSR: SEEKING AVIATION TECHNOLOGY

The Soviets want a modern civil air fleet with safety, quality, and maintenance up to Western standards, and an aircraft of Soviet design that would be competitive in the international air transport market.

Recent agreements between the USSR and the UK are the latest in a series of attempts to acquire the much-needed technology.

- A science and technology agreement signed in March set the stage for more specific ones between Soviet enterprises and UK industries.

- A protocol signed with Rolls Royce in April took the USSR a long step toward acquiring the technology to modernize its civil air fleet, and in particular toward producing a wide-bodied transport.

The science and technology agreement is similar to those signed earlier with the US. Six of the 19 specific fields covered by the agreement with the UK pertain directly to the aircraft industry. Of the six, one calls for contacts and cooperation between British industries and Soviet enterprises on gas turbine engines, automatic engine controls, and engine component fabrication.

The Soviets may thus be able to secure technical details of a high-performance engine comparable to those manufactured by General Electric and Pratt and Whitney. The acquisition of such technology is, in fact, the chief Soviet purpose in negotiating the protocol with Rolls Royce. Since March, Soviet delegations have met at least twice with teams from Rolls Royce to discuss the purchase of an improved engine.

The protocol with Rolls Royce opens the door for contracts to purchase Rolls Royce engines already in production, as well as for the cooperative manufacture of these high-thrust, turbofan engines. Acquisition of such an engine would make possible the production of significantly improved versions of wide-bodied air-

craft, such as the IL-86. The joint development of improved versions is also envisaged. Such engines are essential to efficient, long-range operation of large transport aircraft.

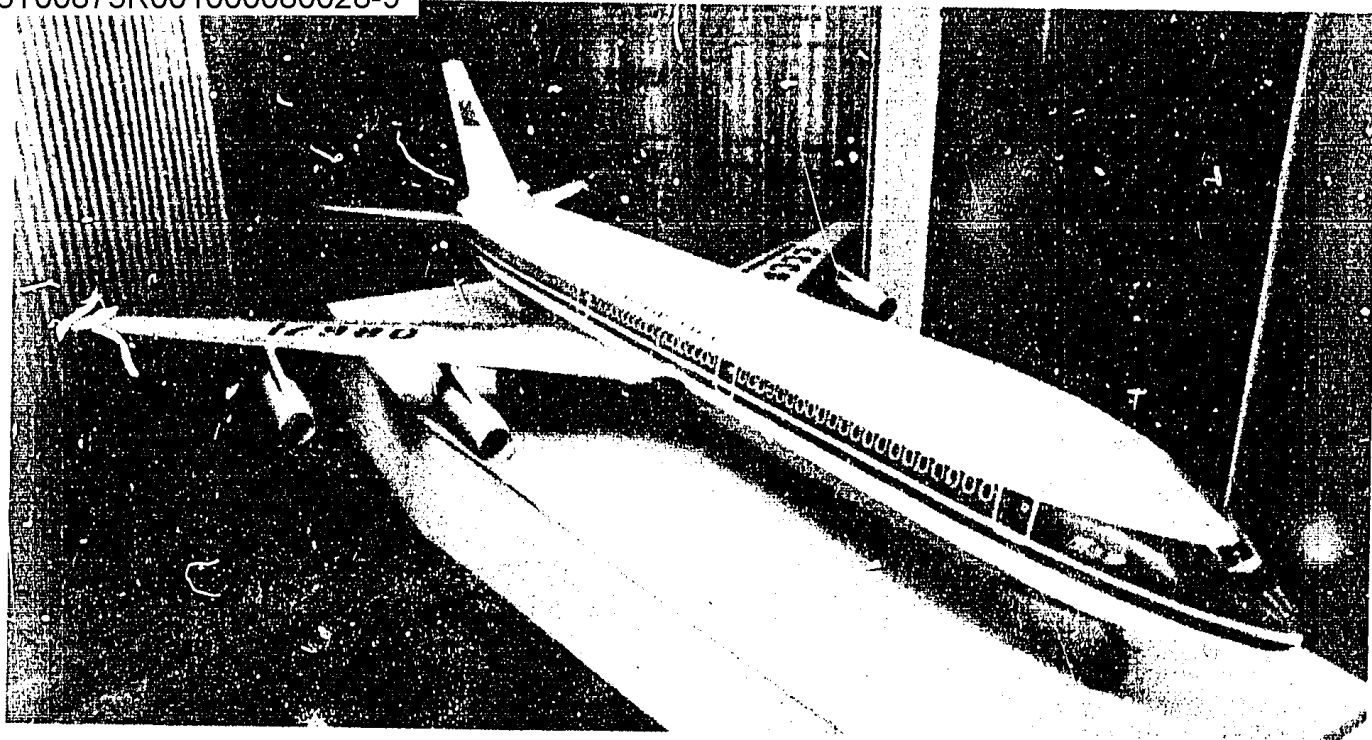
Co-production of engines will result in the actual transfer of manufacturing technology, as well as operational and maintenance methods and processes. With this highly reliable and efficient turbofan engine technology the USSR would overcome the principal barrier to its development of transport aircraft that would be competitive internationally.

Soviet Deficiencies

At present, the Soviets have two serious deficiencies in commercial aviation technology—jet engines and internationally acceptable avionics equipment. Technical maintenance services will also have to be brought up to world standards. The TU-154s sold to Egypt were a case in point; most became inoperative because spare parts and maintenance were unavailable. Cairo eventually returned them.

The Soviets are from two to eight years behind the US in design and production technology for transport aircraft engines. They started to develop turbofan engines later than the West did, and then generally concentrated on less sophisticated, less efficient models. Furthermore, the Soviets have been unwilling to introduce the required complex production technology and have been unable to match some of the more advanced Western technology used in producing engines with greater thrust for less fuel.

By Western standards, the Soviets also have serious deficiencies in avionic subsystems, especially in inertial navigation and flight-control. They have had difficulty in achieving high accuracy and reliability in components. Their computers are bulky and slow, although they have acquired some suitable US computer equipment through third countries.



Model of IL-86

During the past decade, the USSR has maintained a high priority effort to acquire Western aircraft technology through both overt and covert programs aimed primarily at France, West Germany, the UK, and the US. Soviet officials have used the atmosphere of detente to intensify overt collection efforts.

Intensive technical discussions have been held with officials of each of the three US manufacturers of wide-bodied aircraft: Lockheed, McDonnell-Douglas, and Boeing. In addition to Rolls Royce, Soviet delegations have visited various engine manufacturers, such as General Electric and Pratt and Whitney. The Soviets have studied Western business and management methods, including marketing analysis.

Some 30 US companies, including Boeing and Lockheed, have signed Article 4 of the US-USSR science and technology agreement. This article, intended to promote contacts between Soviet officials and private US firms, has

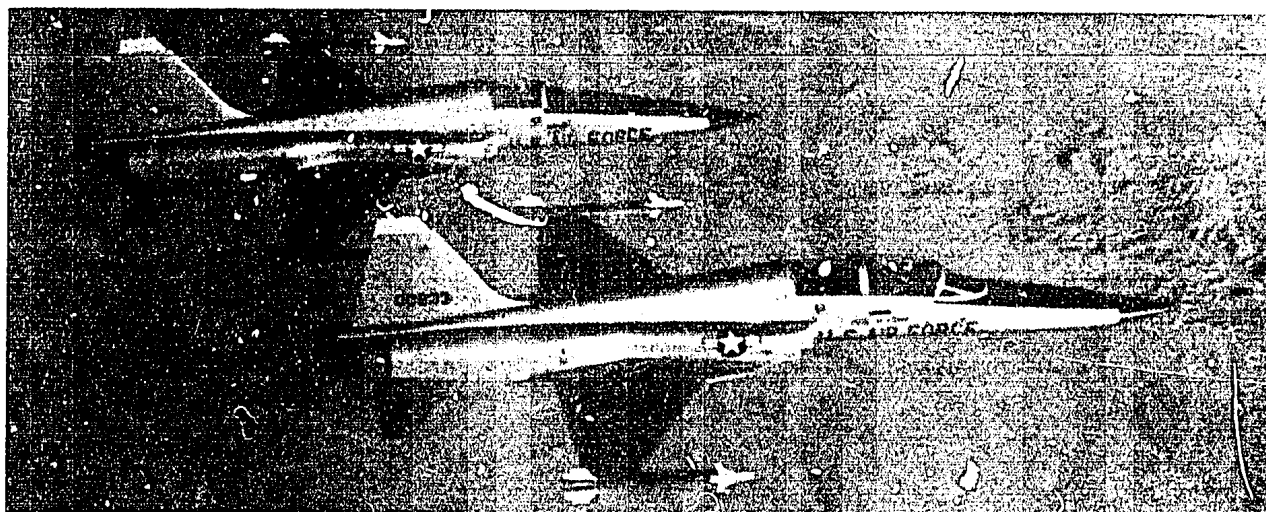
greatly increased opportunities for Soviet engineering and management personnel to hold direct technical discussions and to observe aerospace manufacturing equipment in operation.

No specific aircraft project is in the final stages of negotiation, but whatever evolves will be subject to US government approval. Nevertheless, a considerable amount of US technology has already been revealed through preliminary negotiations, proposals, and exchange visits. How well the Soviets have been able to use this technology is not yet clear.

One of the Soviet tactics in negotiations with the US was to offer to buy wide-bodied aircraft as an inducement for the construction of a complete aircraft manufacturing complex in the Soviet Union by US firms under contract. The US has refused permission for the sale of such a complex, and this has been a major factor in Moscow's decision to move ahead with the production of its own advanced transport aircraft, as well as to look elsewhere for advanced engines.

25X1

25X1

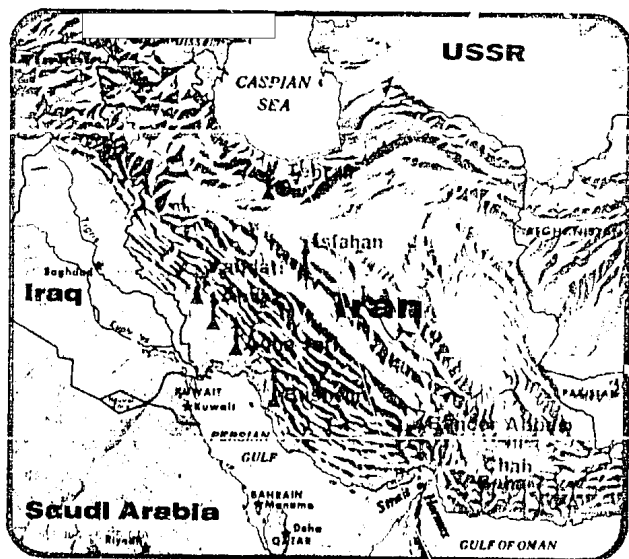


Northrop F-5E Tiger and F-5F trainer

IRAN: AIR POWER AND AIR DEFENSE

The Shah is taking steps to make more effective use of the advanced aircraft and sophisticated air defense missiles he is acquiring from the US. His air force, already the dominant local air power in the Persian Gulf, by the 1980s will be able to extend its influence to the Arabian Sea. The Shah's plans also call for most of Iran's military installations and key industrial facilities to be protected by Hawk missile sites within the next five years.

The air force is rapidly phasing out its older model US-built F-5 Freedom Fighters. Some 20 of the F-5s were sent to Jordan earlier this year and another 12 may be sent this fall. An additional 20 are to be returned to the US. These aircraft are being replaced with improved F-5E "Tiger II" interceptors. The Shah has ordered 141 of these new F-5s, plus 28 trainer models—some 75 have been delivered.



The Shah is intent on obtaining the newest and best aircraft. In addition to the F-5 Tiger IIs, he has some 135 F-4 Phantoms, with an additional 70 to be delivered. Iran also has contracted for at least 80 US F-14s equipped with advanced Phoenix air-to-air missiles. The first of the F-14s are scheduled for delivery before the end of the year. The Shah has expressed an interest in acquiring the F-16 lightweight jet fighter as well.

25X1

To project his air power into the Arabian Sea, the Shah is planning to base F-4s at two forward airfields. Bandar Abbas will be the home base for two squadrons of F-4s, and another airfield is being built on the coast at Chah Bahar, where two fighter squadrons will be stationed in the late 1970s. From these bases, Iranian aircraft could dominate the nearby shipping lanes and reach as far as Bombay, India.

25X1

The Shah has re-evaluated the priorities for locating the Hawk surface-to-air missiles. Hawks will continue to be placed first at key military installations, but more emphasis is to be directed at protecting important industrial and petroleum sites. The capital area, for example, still is to receive the largest number of missiles, but it will not get them until the Isfahan steel works and the Kharg Island petroleum facility near Bushehr are protected.

The overall air defense plan for the country is steadily falling behind schedule, however. Some 25 Hawk launchers have been delivered under the purchase agreement with the US, but none is yet operational. The first site at the Vahdati air base will probably not be ready until late this summer—several months behind schedule. The new plans call for missiles to be emplaced in eight locations by 1980, two more than originally planned. The two additional units will be assigned to the industrial center at Ahvaz and the port area at Bandar Abbas.

ETHIOPIA: ANOTHER INSURGENCY

Ethiopia's military rulers, already beset by rebellion in Eritrea and rural unrest in other provinces, found themselves embroiled in still another conflict on June 1 when heavy fighting broke out between Afar tribesmen and government security forces in eastern Ethiopia. The clashes subsided this week, but the Afars will probably continue guerrilla operations in an attempt to fend off control by the military council in Addis Ababa.

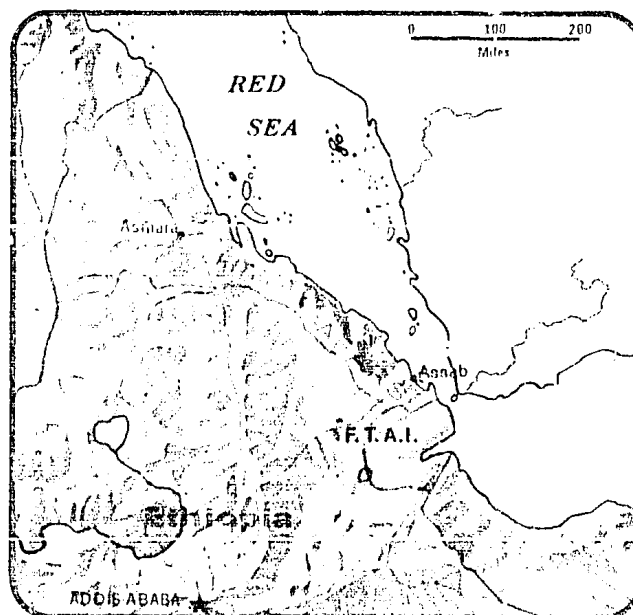
Suitan Ali Mirah, the Afar leader, opposes the council's socialist policies, especially its land reform program. He was one of the few major tribal figures to remain free during the council's roundup of traditional leaders last year, but he felt the council would eventually move against him as part of its campaign to destroy Ethiopia's old ruling class. He refused repeated council requests to come to Addis Ababa, and a council delegation that traveled to Afar territory in late

May was unable to reach an accommodation with him.

Soon after the fighting began, Ali Mirah fled to the nearby French Territory of Afars and Issas and plans to go to Saudi Arabia and direct his Muslim tribesmen from there. He will probably seek additional aid from Arab countries and also try to promote cooperation between his forces and the Eritrean rebels.

The Afars are a threat to both the main highway linking Addis Ababa with the Red Sea port of Assab—site of Ethiopia's only oil refinery—and the railway to the port of Djibouti in the French Territory. During the fighting last week, the Afars blew up a bridge on the highway, setting off panic buying of gasoline in the capital.

Government forces will probably be able to control the main towns in the area, but will not be able to completely subdue the Afars. The army is already stretched thin. The Afars number about 200,000 and almost all the men are armed. Although most of their weapons are old, some are recently acquired Soviet automatic rifles and modern Western arms, bought, reportedly, with the aid of some Arab countries.



25X1

25X1

25X1



Qadhafi

According to the Libyan press, Qadhafi has received messages from Syria, Tunisia, Algeria, North Yemen, and Bahrain disapproving of Sadat's remarks. President Asad is quoted as stating, "Syria has not and will not consider recognition of the Zionist enemy, which is not the right of any chief of state."

Qadhafi hopes that a general Arab condemnation of Egypt's recent moves will isolate Sadat and undercut Egypt's credibility as spokesman for the Arabs during the next round of negotiations with Israel. Libya probably also wants to harden Arab negotiating positions before the Arab summit later this summer.

Qadhafi has met with several fedayeen leaders in Tripoli to consider other ways to block Sadat. He has talked with George Habbash and Ahmad Jabril—two of the most radical terrorist leaders—and with Nayif Hawatmah and Faruq Qaddumi, members of the more moderate Palestine Liberation Organization. All four Palestinians denounced Sadat's gestures toward Israel, declaring that the Palestinians would not accept Israeli use of the Suez Canal.

The Libyan media have stepped up their denunciation of Sadat; some attacks contain scarcely veiled calls for the Egyptian leader's assassination. Last weekend, the Libyans staged the largest anti-Sadat demonstrations since the 1973 "people's march" on Cairo. Nearly 10,000—including many Egyptian workers—participated in a rally in Tripoli.

These actions are bound to draw a sharp reaction from Cairo. They may once again bring Libyan-Egyptian relations, which have been sour for many months, to the breaking point. [redacted]

LIBYA-EGYPT: UNDERMINING SADAT

President Qadhafi is putting pressure on Arab and Islamic leaders to denounce Egyptian President Sadat's recent statements concerning recognition of Israel and the possibility that Israeli cargoes will be permitted to move through the Suez Canal. Qadhafi's latest anti-Sadat offensive may complicate Egypt's efforts to put together a joint Arab negotiating policy.

[redacted]
25X1

25X1

[redacted]
25X1

ARGENTINA

SAFEGUARDS FAILURE

Argentina reportedly has transferred spent fuel elements containing about 50 kilograms of plutonium from the Atucha power reactor to a storage facility without notifying the International Atomic Energy Agency. Buenos Aires is obligated to make such notification under the terms of the IAEA safeguard provisions covering the Atucha reactor. Although an IAEA safeguard inspector's report of the transfer was forwarded to the energy agency in March 1975, its existence has apparently been concealed by an Argentine citizen working at IAEA headquarters and has not been recorded in the IAEA's Department of Safeguards and Inspection.

The failure to provide notification could be an inadvertent omission, but it could be an attempt by Buenos Aires to circumvent the safeguards system as a test of its effectiveness. Intentional or not, this failure of the reporting and recording procedures demonstrates the vulnerability of the system to a planned diversion of plutonium by a country wishing to circumvent the system.

Argentina is undoubtedly concerned about the impending West German sale to Brazil of a complete nuclear fuel industry. The Argentines will not have facilities for the separation of plutonium from irradiated reactor fuel in large quantities for at least two years, but should they then complete the necessary weapons research and development work, they could construct a nuclear explosive device which would keep them ahead of Brazil.

LABOR PROBLEMS

Even after a change of economy ministers the government is still encountering considerable difficulty in its efforts to deal with the country's severe economic problems without alienating organized labor.

Not mollified by a 65-percent increase in the minimum wage, Argentine workers have reacted strongly against price hikes announced by Economy Minister Celestino Rodrigo who only last week was named to replace an outspoken foe of continuing concessions to them. Sharp increases in utility rates and the prices of gasoline, basic foods, transport, and services have provoked strikes by taxi drivers and maritime and port workers. Nine persons were wounded when police broke up an angry crowd of steelworkers protesting rising prices.

Less than a week after taking office, Rodrigo also announced the devaluation of the peso to one third its February value and endorsed previously approved measures to curtail imports. Argentina has been experiencing mounting inflation—it now exceeds a 100-percent annual rate—and a deteriorating balance of payments. In addition, the administration has reiterated the urgent need to increase productivity, probably in reference to the serious problem of worker absenteeism.

The government undoubtedly is in for even greater problems with labor. More than a week after the announced deadline for completion of wage negotiations with industrial unions, the Peronist labor confederation announced suspension of the talks until such time as the full effects of the devaluation and price increases are known.

The halt may really be due to dissension in labor's ranks and to diminishing support for the workers' own negotiators. Indeed, the heads of two top labor groupings are rumored ready to resign their posts. In the meantime, both sides are clearly seeking to play down their differences, in public at least. Labor leaders, perhaps in an effort to buy time, have assured workers that the eventual agreement will be retroactive to June 1, when the old accord expired. In the final analysis, however, union leaders may be obliged to press the government hard if they are to retain the support of the rank and file.

25X1 25X1

25X1



Sandoval

GUATEMALA: GROUNDS FOR DIVORCE

Guatemalan President Laugerud appears to be embarked on a plan to cast off the extreme right-wing member of the two-party governing coalition and eventually form a new political alliance to govern the country. The alliance he apparently has in mind would not significantly change the conservative cast of the government.

Current maneuvering by Laugerud centers on the election of a president of Congress on June 15. This post, a much-sought-after political plum, had been held for several years by the senior partner in the coalition, the rightist National Liberation Movement, led by Vice President Sandoval. The Movement lost it last year to a small party outside, but closely aligned with, the coalition and wants it back. Laugerud, who has been trying for some time to ease the party and the power-hungry vice president out of the political limelight, is supporting a candidate of the Democratic Institutional Party, the other member of the coalition. This party, less strident in its conservatism, is regarded by Laugerud as better suited to his style and political philosophy.

The two opposition parties, the centrist Revolutionary Party and the leftist Christian Democratic Party, have thrown their support to the Laugerud candidate, making him the favorite to win. These parties are only too willing to support Laugerud on this issue, having resented the iron-handed and arrogant way the Sandoval party has run Congress in the past. Moreover, they have been going along with the President on other issues in hopes of being included in any new coalition excluding the National Liberation Movement. Laugerud reportedly has been thinking of an alliance among the Democratic Institutional Party, the Revolutionary Party, and a smaller party of followers of former president Arana.

Faced with the possibility of being bumped from the coalition, National Liberation

Movement members are becoming worried. One has charged that Sandoval's inability to swing the election to their candidate is leading the party to ruin. Others claim that a weakening of the coalition would weaken the government itself.

Sandoval is remaining publicly silent for now. Although it is his nature to threaten and intimidate in order to show opponents the power of his party, he is also shrewd enough to know that he would not succeed in any confrontation with Laugerud. Laugerud has the backing of the army, which, in the end, is the chief political arbiter in the country. After a final try at persuading Laugerud to pick another candidate, Sandoval is likely to go along with the President's choice.

For the National Liberation Movement and Sandoval, losing the congressional leadership will not necessarily lead to an immediate split in the partnership, but it does indicate, along with previous disputes, that bitterness has grown to a point where a rupture seems inevitable. [redacted]

COLOMBIA: DECLINING PUBLIC ORDER

Pressure on President Alfonso Lopez Michelsen to declare a state of siege continues to mount. Public order is deteriorating, with student protests in several cities now added to existing country-wide demonstrations against economic hardships. Army units have helped the national police maintain order, but the army high command has made clear its distaste for such use of troops except when legalized by a state of siege. Last week, following the letter of constitutional law, the council of state authorized the President to declare a state of siege. Although Lopez remains extremely reluctant to abridge civil liberties with such a declaration, it

seems only a matter of time until he is obliged to do so.

Student unrest has been focused on the rectorship of the National University and a controversy over medical students' management of their own clinical training. In an attempt to forestall existing and anticipated student problems, President Lopez appointed a Marxist to the rectorship following his inauguration ten months ago. In the midst of this month's outbreak of student demonstrations, Lopez fired the Marxist rector for failing to provide a useful channel of communication between the student body and the government. This has only further aggravated the students, who have intensified their support of residents and interns seeking to control one of Bogota's largest hospitals and have carried the violence-charged issue to other universities and other major cities.

The key argument in favor of a state of siege may well be the politically explosive issue of urban transportation fares. Colombia began to import oil last year, erasing a tradition of abundant domestic oil with subsidized low prices at the gasoline pump. Lopez' efforts to maintain the price level have led to an increasing drain of treasury funds into fuel subsidies. In late May, Lopez moved to suspend or minimize gasoline imports and ration local consumption. This will postpone but not eliminate an eventual price rise and a resultant increase in transportation fares. In the past, even minor fare hikes have provoked violent protests by lower income riders. Lopez would probably be forced to use the army to control such demonstrations, and he would almost surely declare a state of siege first.

Lopez may be tempted to act now in response to the student unrest and then permit gasoline prices and transport fares to rise with the army already in control of public order. With a mid-term election coming next April, the President may prefer to confront sooner rather than later what could be the most serious political challenge of his tenure. [redacted]

25X1
25X1

25X1

25X1

DOMINICAN REPUBLIC: CRACKDOWN

The government has undertaken a sweeping crackdown on opponents in the wake of its claim that three Dominican terrorists secretly entered the country from Cuba on June 1. During the past week, security forces have carried out searches, set up roadblocks, and arrested several hundred people in what they claim is an effort to apprehend three Dominican extremists who have been living in Cuba. The authorities maintain that the trio was brought to the Dominican Republic by three Puerto Ricans who were arrested on suspicion of narcotics smuggling on June 2. Military and police forces were dispatched to the area where the landing is alleged to have taken place, but apparently did not find their quarry.

General Nivar, the chief of the National Police, has linked the widespread arrests to the guerrilla landing and to "subversive plots." Opposition party leaders, students, labor union officials, and journalists seem to have been the main target of the roundup. Many of the detainees have been released after interrogation, but others remain in custody. Fifteen, including three important Communist labor leaders, have been formally charged with conspiring to overthrow the government.

Considerable skepticism has been reflected in the press and in public and private statements by many opposition politicians and some military officers concerning the alleged arrival of the three terrorists. There is a suspicion that the incident was fabricated by General Nivar to bolster his reputation with President Balaguer and to steal a march on Nivar's arch-rival General Perez y Perez, the secretary of the interior and police.

Now that the authorities have publicly claimed that the three terrorists have returned, they will be under increasing pressure to apprehend them, otherwise protests against the detentions are almost certain to increase. It will be very difficult for the government to continue to maintain that the arrested people actually pre-

sent any security threat. General Nivar has been making nearly all the public pronouncements on the episode, and will probably have to bear the main responsibility if the government cannot produce results.

25X1 25X1

PERU: NEW ECONOMIC MEASURES

President Velasco made one of his infrequent public appearances this past week presiding over the traditional pledge-to-the-flag ceremonies in Lima on June 7. The economic and political spotlight, however, is increasingly on his probable successor, Prime Minister Morales Bermudez.

Last week, Morales Bermudez announced plans for new economic measures to combat spiraling inflation and a growing budgetary deficit. The plans call for reduction—and in some cases abandonment—of massive government subsidies on essential agricultural and petroleum products. The measures amount to a significant departure from President Velasco's almost sacrosanct policy of keeping the potentially volatile urban dwellers quiescent through massive subsidies. To offset the anticipated reaction, Morales Bermudez is urging the government to adopt a general price freeze and an increase in minimum daily wage and salary levels.

For some time, international lending agencies and technical-level officials within the Peruvian government have been recommending tough new measures to ward off what they see as a serious economic problem. The present system of direct and indirect subsidies accounted for approximately half of the 1973-1974 biennial budget deficit. Further aggravating the economic situation is the apparent inability to deal with excessive wage demands. Inflation, earlier estimated at 25 percent or more this year, now appears to be heading even higher.

25X1

The economic plight of the government has also sparked rumors of devaluation. Although these rumors are being given some credence in local business circles, there is no evidence that the government is planning any such politically unpalatable move in the immediate future. Further, President Velasco has in the past been very firm in stating that his government will not preside over devaluation. Morales Bermudez' views are not known, although he is generally regarded as more flexible on financial policy than Velasco. While it is true that he is gradually assuming a greater role in the decision-making process, particularly in economic affairs, he is probably not ready to take such a major step.

In fact, Morales Bermudez will have his hands full in trying to avoid being the political victim of his controversial subsidy policy without becoming the focus of opposition on an even more controversial issue. As the subsidies are gradually reduced in the months ahead, prices will inevitably rise and labor dissatisfaction, already high, will increase. There are indications that the strong communist trade union confederation is feeling increasing internal pres-

sure to refuse or withdraw its support of the government. Implementation of the new economic measures will do little to assuage such pressures. Perhaps symbolic of this new strained relationship was the relatively minor role that the confederation played in the Flag Day ceremonies, and the absence of its representatives in a "march" of enthusiastic civilians who followed Velasco back to the presidential palace.

Public reaction to the economic measures so far has been slight, but it may pick up in late July when the government is expected to raise the price of petroleum products, a move that will almost immediately be felt in the vital transportation sector.

For Morales Bermudez, much is at stake. Successful implementation of the new policy and an improvement in the economic situation would further strengthen his position within the government and solidify his hold on the succession. On the other hand, a major slip now would probably leave the field to other ambitious and less moderate generals.



Prime Minister Morales Bermudez(l) welcoming Australian Prime Minister Whitlam

25X1 25X1

25X1

25X1
25X1
25X1

CAMBODIA-VIETNAM

A PARTNERSHIP SOURS

Smoldering territorial disputes between the new Cambodian and Vietnamese regimes have erupted into armed clashes.

[Redacted]

[Redacted]

Unconfirmed press reports indicate that a Cambodian delegation had arrived in Hanoi the same day for "important talks" with Vietnamese leaders.

On the mainland, long-standing disputes over territorial rights along Cambodia's ill-defined southern border have also heated up,

[Redacted]

CHOLERA EPIDEMIC IN CAMBODIA

The new leaders in Phnom Penh face another and perhaps more serious problem within Cambodia—a widespread outbreak of cholera of epidemic proportions.

Cholera is endemic to the country, and conditions in refugee-packed Phnom Penh were ideal for an outbreak this year. The deteriorating military situation in March and April prevented any meaningful monitoring of the health situation, but it now appears that Phnom Penh had a serious cholera problem by the time the communists took over on April 17. A Western journalist who was among those deported from the country last month reported that at least 80 cases of cholera were under treatment when the insurgents occupied the capital's hospitals.

Until recently, the leadership on both sides had encouraged the resolution of territorial disputes through low-level mediation. Inasmuch as these talks have been unsuccessful, efforts to defuse the situation may now have moved to a higher plane.

[Redacted]

In their exodus into the countryside, Phnom Penh's two million inhabitants were provided with neither food nor water, and contamination was inevitable as successive waves of marchers passed through the same areas. Although the exact toll that cholera took during the march itself will probably never be known, there is little doubt but that it was considerable. Individuals who were evacuated and who subsequently escaped the country report that doctors confirmed a number of cholera deaths during the initial days of the evacuation. Less knowledgeable sources reported that many of the young, old, and weak were felled by "dehydration and exhaustion." Some of these may also have been cholera victims.

Whatever the toll en route, the disease has now spread in the countryside.

[Redacted]

25X1

[Redacted]

BURMA: RENEWED PROTESTS

25X1

Small-scale protests against the Burmese government by students and workers, largely over poor economic conditions, began last month in Rangoon. The unrest escalated last week, as the protesting groups commemorated the anniversary of the violent labor disorders last year, during which troops killed more than 20 demonstrators.

25X1
25X1

[Redacted]

Medical personnel and facilities have always been wanting in Cambodia and the vast upheaval resulting from the communist takeover can only have made matters worse.

Last weekend the protests took on a more virulent antigovernment tone as several thousand students marched through the streets of Rangoon. A considerable number of workers in the Rangoon area joined in, and what had originally been work slowdowns became strikes, resulting in the closure of several factories. Students in Mandalay also staged a demonstration.

Communist personnel at a checkpoint some 20 miles north of Phnom Penh did inoculate some marchers with vaccine taken from hospitals in the capital, but medical supplies are in short supply. It seems unlikely that more than a fraction of the urban population was immunized.

The Chinese—who had their last massive outbreak of cholera in 1962—would be the most likely source of foreign assistance. Peking, in fact, probably already knows the scope of the problem in Cambodia. Chinese representatives have been in Phnom Penh since late April, and Chinese technical advisers have been traveling throughout the country.

[Redacted]

This week, the government used troops to arrest more than 200 students in Rangoon, after ordering the universities closed. The universities had reopened only last month, after being shut down in December as a result of student-initiated disorders over the funeral of former UN secretary general U Thant. Troops were used only after authorities first tried a conciliatory policy, announcing that some of the economic demands of the workers would be met and sending high-ranking officials to meet with both worker and student groups. The meetings with students were called off, however, because the sessions aroused considerable hostility among the students.

25X1
25X1

Under normal conditions, international efforts could quickly control and isolate outbreaks of cholera such as have occurred in Cambodia. The new leaders in Phnom Penh, however, have shown themselves to be fiercely independent and xenophobic, and they may be reluctant to accept the type of international assistance required to bring the cholera under control.

[Redacted]

The government's tough measures will probably bring an end to the protests, although they may lead to further bitterness against the regime. Senior officials reportedly believe that with the arrests, they have broken the back of the militant student leadership, and that the workers are likely to go back to their jobs. The government is publicly blaming the Burmese communists for inciting the disturbances, but there is no evidence to support this charge.

25X1
25X1

[Redacted]

25X1
25X1

AUSTRALIA: CABINET CHANGES

The most prominent casualty of the cabinet shuffle announced last week by Prime Minister Whitlam was Deputy Prime Minister Cairns. Cairns was removed as federal treasurer and assigned to the considerably less prestigious post of minister of environment. William Hayden, a young comer who has been social security minister, replaces Cairns as treasurer.

Cairns' transfer, after less than six months as treasurer, reflects adversely on his ability to ease Australia's economic difficulties. His reputation has also been tainted by the influence exerted by his private secretary—and mistress. Cairns has charged that he was the victim of misrepresentations made about his dealings with a Melbourne financier, but in fact his demotion is symptomatic of a more basic fall from political grace. Once considered Whitlam's heir apparent, Cairns is now almost certainly out of the running.



Cairns with secretary

William Morrison, a left-winger and sometime critic of the US, has moved from the science ministry to the defense ministry post vacated by the moderate Lance Barnard, who resigned to take an ambassadorship. With the downgrading of Cairns, Whitlam probably used the appointment of Morrison to maintain the relative strength between leftists and moderates in the cabinet.

Whitlam probably hopes the changes will give the Labor government an image of vigor that will help offset its weak position in parliament. The Liberal-Country opposition no doubt sees the cabinet shakeup as a further sign of Labor weakness and feels that its own electoral chances have been enhanced. It will probably not push for an early contest, however. It realizes that it must first sharpen its own programs before challenging the government at the polls.

25X1

LAOS

CONSOLIDATING CONTROLS

25X1

The Pathet Lao are moving quickly to consolidate political and military control. They still pay lip service to the coalition concept, but it is clear the coalition is now nothing more than a convenient facade for a complete communist take-over of Laos.

[redacted] for the first time in the 14-month history of the coalition government, communist Deputy Prime Minister Phoumi Vongvichit controlled the proceedings at last week's cabinet meeting. In the past, Phoumi presided only in the absence of Prime Minister Souvanna Phouma, but Souvanna was present at the June 4 meeting and offered no opposition to the actions of his deputy.

The communist deputy finance minister, Boutsabong Souvannavong, appears to be emerging as the number-two communist in the cabinet. Boutsabong has been serving as the

25X1

25X1 25X1
25X1

coalition's chief finance officer in the absence of a replacement for ousted rightist Ngon Sananikone.

will also be retained in "food production units" to assist the economy.

[Redacted]

[Redacted] Khamouane Boupoua was said to be actively studying a plan for an integrated army of some 28,000 men, including 12,000 troops from the Royal Lao Army, 10,000 Pathet Lao, 4,000 pro-communist neutralists, and 2,000 non-communist neutralists.

25X1

The Pathet Lao are also continuing efforts to neutralize the non-communist Royal Lao Army as an effective fighting force. Having already succeeded in driving most of the army's competent commanders into exile, the communists are now busy conducting "thought reform" indoctrination seminars for non-communist officers who have not yet been purged. One such seminar—an 11-day exercise involving 67 senior Royal Lao Army officers—was recently completed at the army's headquarters command center in Vientiane.

[Redacted]

[Redacted] the principal Pathet Lao "lecturers" at the seminar were "acting" Defense Minister Khamouane Boupoua, Deputy Prime Minister Phoumi Vongvichit, and chief agitprop specialist Sanan Soutichak. The tone of their presentations was strongly anti-US and strongly pro - North Vietnamese.

CENTRAL COMMITTEE MEETINGS 25X1

Polemics aside, the speakers discussed at length Pathet Lao plans to reorganize and streamline the Royal Lao Army. Khamouane Boupoua will be in overall charge of the army, and Pathet Lao officers will share authority throughout the chain of command. Moreover,

There are tenuous indications that a Lao Communist Party Central Committee meeting may be under way in Sam Neua. Phoumi Vongvichit and Sanan Soutichak traveled from Vientiane to Sam Neua for unexplained reasons last weekend. Moreover, Prince Souphanouvong—the nominal leader of the Lao communists—has inexplicably delayed his scheduled return from Sam Neua to Luang Prabang for the opening session of the coalition's Joint National Political Council, which the Prince chairs. Souphanouvong has been at communist headquarters for the past two months.

25X1

[Redacted] the Royal Lao Army will be significantly reduced from its present strength of approximately 46,000 to eventually form an integrated army with the Pathet Lao of some 30,000 men. To do this, entire non-communist units—including all former irregular forces—will be demobilized.

25X1

The remaining 30,000-man combined army will be led by Pathet Lao officers and will reportedly be employed as a labor force in food production campaigns. All demobilized troops

If such a conclave has been called, the Pathet Lao leadership will almost certainly want to assess—among other things—the major successes achieved over the past six weeks and to determine the pace at which a complete takeover of Laos should proceed.

25X1 25X1

[Redacted]

25X1

Page Denied

CHINA-PHILIPPINES: DIPLOMATIC TIES

Peking's campaign for improved official relations with non-communist Southeast Asian countries took an important step forward this week with the announcement that China and the Philippines had established diplomatic relations on June 9. A trade agreement was signed on the same day, but no details were provided. President Marcos sees relations with Peking as a vital part of his more general effort to create an independent foreign policy and end his nation's international image as a US client state.

Peking now has official ties with two member countries of the Association of Southeast Asian Nations. Relations with Malaysia were opened last year and, according to recent reports, Thailand is prepared to follow suit with an announcement that could come as early as next month. That would leave Singapore and Indonesia as the only remaining ASEAN countries having no active diplomatic relations with Peking.

The Chinese used the occasion of Marcos' visit to Peking to warn against attempts by the USSR to expand its influence in Asia and to express Peking's sensitivity about charges of Chinese interference in the internal affairs of other countries.

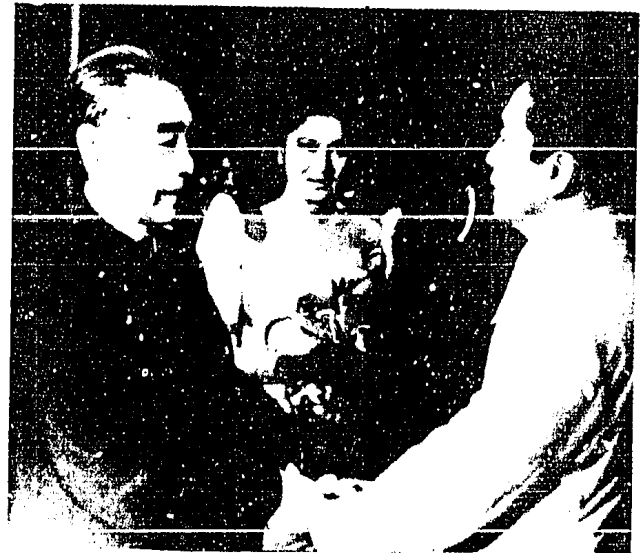
Chinese fears that the Soviets are attempting to take advantage of recent communist victories in Indochina to improve their position in the area were evident in the joint communique announcing the establishment of relations, as well as in Vice Premier Teng Hsiao-ping's speech at the banquet welcoming Marcos. The communique included a provision condemning any country that attempts to "establish hegemony or spheres of influence in any part of the world," a now standard ingredient in Peking's anti-Soviet fare.

In addition, Teng complimented Manila for its opposition to "hegemonism" in recent years and pointed out that Southeast Asian countries had broad international support for the plan to create a zone of peace and neutrality in Southeast Asia, a scheme that Peking apparently believes will help forestall any increase in Soviet

influence in the region. Teng confidently declared that Asian countries would quickly see through any Soviet "wiles and schemes" in the region.

On the subject of interference in internal affairs, the communique stated that both countries condemn foreign aggression and subversion, as well as all attempts by any country to control another country or to interfere in its internal affairs. In addition, Teng said in his speech that China would never "bully" another country and acknowledged that a country's social system can be decided "only by its own people." This formulation goes slightly further than that used at the time of Malaysian recognition and appears to be another indication that China expects to play down support for Asian insurgencies in the aftermath of Indochina.

On the Taiwan issue, the Philippines stated in the communique that it "fully understands and respects" Peking's claim to the island—a standard formulation. The communique also included notice of Manila's decision to withdraw all official representatives from Taiwan within one month. There is a good chance, however, that the Philippines will maintain a significant



Chou En-lai welcomes President Marcos

number of commercial and other non-official contacts with the Nationalists on Taiwan.

In the communique, both sides agreed that citizens of one country who acquire citizenship in the other automatically forfeit their original citizenship, a formula for dealing with the sensitive question of overseas Chinese residents in the Philippines. The provision does not take into account Peking's responsibilities toward those ethnic Chinese who retain Chinese citizenship, although Peking has for several years consistently urged overseas Chinese to adopt the citizenship of the country in which they reside.

[Redacted]

CHINA: TRADE RETRENCHMENT

Worldwide inflation and recession defused China's foreign trade boom in 1974 and is leading to a retrenchment in 1975.

Soaring prices boosted China's import bill in 1974 to \$7.4 billion, while the economic slowdown in the West dampened the demand for Chinese goods. Total exports rose to only \$6.3 billion, resulting in a record \$1.1-billion trade deficit. China's current account balance with non-communist countries plunged \$1.3 billion into the red, and, despite a greater use of supplier credits and short-term borrowing, Peking had to draw down its reserves by \$300 million to finance the gap.

Sales at the Canton Trade Fairs, a major indicator of Chinese exports, point to lagging exports this year. Although the Chinese tried to boost sales by cutting prices at the fall 1974 and spring 1975 fairs, commercially both were dismal events. Attendance at the spring fair may have fallen to 15,000, compared with the 25,000 figure Peking reported last fall, and the volume of business was probably less than the \$700-million fall fair level—the lowest in years.

In an attempt to redress its trade deficit, Peking will trim its imports during the year. Based on existing contracts, imports of agricul-

tural products will fall from the record \$1.9 billion in 1974 to about \$1.3 billion this year. China will purchase only 4.4 million tons of grain—down from 7 million tons last year—at a cost of \$675 million. Cotton purchases also are down sharply; soybean imports have been phased out.

Machinery and equipment imports, which more than doubled in 1974 to \$1.7 billion, will grow more slowly this year. Much equipment is in the pipeline under contracts signed in the past few years, but Peking has restricted new purchases to badly needed replacements and high-priority machinery such as oil drilling and mining equipment. New orders for whole plants—\$1.2 billion in 1973 and \$900 million in 1974—will probably decline sharply this year. In the first four months, Peking only concluded contracts for bearings plants worth \$20 million—a radical scale-down of the \$100-million facility originally sought.

Barring a rapid turnaround in the world economy, Chinese exports this year will probably grow little over last year's level. Partial trade returns for 1975 indicate that exports are up about 10 percent over the same period last year. If the trend continues, they would total about \$6.9 billion this year. With imports likely to be about the same as in 1974, the trade deficit would be reduced to about \$500 million, resulting in an improvement in China's hard-currency balance of payments.

Despite the deficit in 1974, China's balance of payments is not in crisis. Although repayments of short-term credits and progress payments for whole plants will total more than \$1 billion this year, reserves are adequate and Peking's credit rating is excellent. Credits for grain, whole plant equipment, and Japanese steel and fertilizer will finance much of the reduced trade deficit in 1975. With continued large remittances from overseas Chinese and some bank borrowing, however, China will probably be able to avoid drawing down its reserves of gold and foreign exchange.

[Redacted]

25X1

25X1

[Redacted]

25X1

Page Denied