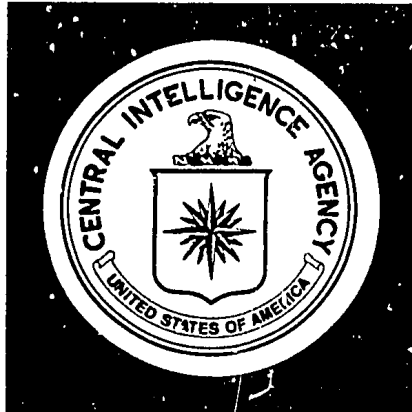
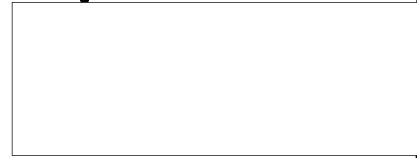


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Top Secret



Weekly Review

Top Secret



August 22, 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, 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.



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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PORTUGAL: GONCALVES' SUPPORT WANES

Prime Minister Goncalves' position is steadily weakening in the face of the combined opposition of former foreign minister Melo Antunes and internal security chief Carvalho. Even the Communists, Goncalves' staunchest supporters, appear resigned to his impending ouster and are concentrating their efforts on salvaging what they can of the party's influence.

Varela Gomes, a known Communist supporter, from the propaganda division of the general staff.

Lisbon radio reports that a group of officers headed by Antunes and Carvalho, accompanied by the army and air force chiefs of staff and five other officers, met with President Costa Gomes on August 19 to present a new political action program. The program included a demand for the ouster of Goncalves.

President Costa Gomes' remark earlier this week that the duration of Goncalves' left-wing cabinet—now nearly two weeks old—can “be expressed in days” has touched off speculation that the Prime Minister is on his way out. Such speculation is further fueled by the continuing erosion of Goncalves' support within the armed forces. Northern military region commander Corvacho, the only regional commander who has not taken a stand against Goncalves, has been relieved of his duties and temporarily replaced by an apolitical officer. Goncalves suffered another blow with the firing of Colonel

The document presented to Costa Gomes is reported to be a synthesis of rival documents presented in an attempt to resolve the current power struggle. The first, drafted by Melo Antunes, criticizes the “crisis of authority” in the military government—mostly the fault of the Communists—and calls for the construction of a

Prime Minister Goncalves at a recent press conference



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Antunes



Carvalho

classless, socialist society "under conditions of democracy and liberty." The second, drafted by a group of radical populist officers under the command of General Carvalho, blames both the Communists and the non-Communist parties for the present unrest. The Carvalho group foresees a revolutionary government deriving its authority from popular assemblies that would cement the alliance between the military and the people.

Although both documents denounce the Communists, party leaders appear to regard adherence to the radical populists' program as the best way to maintain some of their influence. The Communists and the fellow-traveling Portuguese Democratic Movement joined in a demonstration sponsored by extreme left-wing groups on August 20 in support of the populist program, which is generally associated with General Carvalho. Despite these gestures toward Carvalho, the Communists will find it difficult to overcome Carvalho's anti-Communist bias.

In the face of the continuing attacks on the Communist Party and its offices throughout

much of the north, party leaders have tried to regain the initiative but have failed. They began a campaign to reassert themselves in areas where they had been forced out by anti-Communist violence. A rally in the northern town of Alcobaca on August 16 was broken up by anti-Communists. The rising level of violence forced the Communists to cancel a rally in Oporto three days later. A 30-minute general strike, organized by the Communist-controlled labor federation and vigorously promoted by Goncalves, was almost a total failure.

Apparently taking heed of the changing situation, Communist party leader Cunhal softened his line at a press conference on August 20. He reiterated support for the Goncalves government but added that the Communists were prepared to participate in finding new solutions for Portugal's political struggles. This is being taken as acceptance of Goncalves' inevitable downfall. Although he blamed the Socialists for creating the split in the Armed Forces Movement, Cunhal retained a conciliatory tone, asserting that "no one can place his interests about the overall interests of the revolution"

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USSR-PORTUGAL

Preparing for the Worst

The deepening distress of the Portuguese Communist Party has produced a marked change in the Soviet perception of the situation, at least as reflected in media reporting. Moscow's relative confidence that events in Portugal were going well has given way to shrill criticism of outside meddling.

On two recent occasions, Moscow has drawn an explicit analogy between current conditions in Portugal and those in Chile just before the overthrow of Allende. The theme first appeared in a broadcast on August 15 and was repeated in an authoritative article in *Pravda* on August 19. The tenor of the Soviet statements suggests that the Soviets see the odds increasing for an outcome like that in Chile.

views directly, rather than putting them in the mouths of the Portuguese Communists or other intermediaries. Much of the article is devoted to harsh criticism of NATO, the Western press, Western economic organizations, and "international social democracy." The Chinese are also dragged into the cast of evildoers; they are accused of cooperating with international reaction by fomenting discord in Angola and the Azores.

Changing Emphasis

Much of the changing emphasis in Soviet coverage of Portuguese events may be intended to prepare foreign and domestic audiences for a Communist setback in Portugal and to identify villains for the period of recrimination that would inevitably follow. The Soviets may also be trying to rebut recent statements of high US officials by building a case that it is really the West, not the Soviets, that is interfering in Portugal.

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Unlike most Soviet commentary on Portugal, the *Pravda* article expressed Moscow's

The *Pravda* article charges that the Portuguese Socialists are providing a rallying point for reactionaries by attacking the Communists, but the tone is less strident than when Moscow was denouncing the Socialists immediately after they left the government. Indeed, *Pravda* calls for "concerted action" by the Armed Forces

Portuguese Communist Party leader Cunhal



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Movement, the Communists, Socialists, and other left progressive forces. The Soviets have repeated this theme, which is nominally in accord with Portuguese Communist Party leader Cunhal's professed policies, more frequently in recent days.

The voluminous Soviet commentary on Portugal does not offer any practical advice nor does it provide any clues about what, if any, action the Soviets might take in support of the Portuguese party. The *Pravda* article concluded with a call for "massive solidarity" with the forces fighting reaction in Portugal. Under the circumstances, this is the minimum that Moscow might be expected to say to preserve its revolutionary credentials.

On August 19, the Hungarian party issued a short statement, clearly coordinated with Moscow, that expressed solidarity with the Portuguese Communists. Moscow's other friends in East Europe will probably soon follow suit.

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Arias

SPAIN: CRACKDOWN ON TERRORISM

A tough new anti-terrorist law, expected to be announced after the cabinet meeting on August 22, will be the government's answer to the new wave of violence that has hit the country. If the law leads to repressive measures against a wide segment of the population, it would play into the hands of the terrorists and damage Prime Minister Arias' efforts to project a favorable image abroad.

[redacted] Arias had intended to soften some of the provisions in the draft law, which has been in preparation for three months, but the cold-blooded killing of a Civil Guard officer in Madrid by a Marxist ter-

rorist group last week ended that hope. This was the third policeman killed since July 14. The Anti-Fascist and Patriotic Revolutionary Front, a dissident Communist terrorist group known by its acronym FRAP, has claimed credit for the killings, which it undertook to dramatize its anti-Franco stand.

Rightist groups used the funeral of the slain guardsman to protest his slaying and to criticize the Arias government. An estimated 2,000 persons, including members of the Civil Guard in mufti, participated in a demonstration that nearly got out of hand. In addition to blocking the cars of departing officials, the demonstrators shouted "down with terrorism," "power to the army," and slogans critical of Arias' liberalization program.

The new counter-terrorist measures will raise new tensions in the Basque provinces, where the emergency decree granting the police extra powers was allowed to expire on July 26. The recent terrorist incidents seem certain to lead to a new crackdown, and Arias' plans to devise regional development plans for the Basque area are likely to be slowed.

The Spanish police have already scored some success with their roundup in Madrid, Barcelona, and Galicia of terrorists who are members of FRAP and of the Basque Fatherland and Liberty. The most important arrests of Basques were made in Madrid and Barcelona where four terrorists were seized and one was killed. One of those arrested was allegedly involved in the assassination of then prime minister Luis Carrero Blanco and also had contacts with Uruguayan Tupamaros and the Irish Republican Army. The arrests allegedly broke up plans to kidnap prominent officials as well as to free some Basque terrorists from jail. There is also press speculation that the Spanish police have evidence that the Basque terrorists have developed links with FRAP and a separatist Galician organization, as well as with foreign terrorist groups. Publication of such allegations is likely to lead to further demands for harsh measures against terrorists. [redacted]

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FEDAYEEN: AGREEMENT OPPOSED

Leaders of the three least radical fedayeen groups—including Fatah and Saiqa, the two largest—have joined with fedayeen and other Arab radicals in publicly condemning Egypt's moves toward a new disengagement agreement with Israel. The possibility of an early agreement has already strained Egyptian-Palestinian relations and prompted the Palestinians to move closer to Syria. Implementation of an accord might lead these Palestinians to adopt more extreme policies, including the increased use of terrorism.

Palestine Liberation Organization Chairman Yasir Arafat, according to a pro-fedayeen newspaper in Beirut, has said that his Fatah organization "rejects the American settlement and will resist it through the barrels of our guns." Such rhetoric is usually intended for internal fedayeen consumption, but might in this case presage an increase in terrorist activity designed to improve Arafat's political position. Since Arafat's widely publicized appearance at the UN last year, his prestige has diminished steadily as a result of his failure to produce anything concrete for the Palestinians.

Last March, Fatah commandos raided Tel Aviv in an effort to undermine Secretary Kissinger's attempt to arrange a second Egyptian-Israeli disengagement. That attack had no direct effect on peace negotiations, but helped protect Arafat against charges by fedayeen "rejectionists" that he was cooperating with Egypt and the US in the false hope that the Palestinians would gain something from negotiations.

Syria's stand will be the most important single force in determining the extent to which the more conciliatory fedayeen groups oppose Egyptian President Sadat. If the Egyptians are able to reassure Syrian President Asad and limit Syrian criticism of Egypt, those Palestinians will have little choice but to follow Damascus' lead. This would further weaken Arafat by providing his opponents another opportunity to charge that the Arab states are pursuing their own ends in disregard of Palestinian interests.



Yasir Arafat

Damascus so far has not joined the Palestinians in criticizing the Egyptians. This suggests that Syria views the prospect of another Sinai accord with less alarm than it did last March and will take no steps to upset it. The Syrians apparently have some confidence that Sadat will include in any new agreement provisions for negotiations on the Golan Heights.

More may be known of Syria's position when Damascus responds to the latest Palestinian initiative to implement the "Palestinian-Syrian joint political and military command." The command was originally proposed by President Asad during the March round of peace negotiations. The proposal lay dormant until late last week, however, when the PLO central committee called for the "highest speed possible" toward setting up a joint body that could take a unified stand on "current developments."

If Syria becomes disillusioned with Egypt and abets Palestinian obstructionism, Arafat and his associates will more directly and forcefully criticize Egypt, the US, and the principle of a negotiated settlement. If unchecked by Egyptian assurances of early negotiating progress on Palestinian issues, such criticism could lead ultimately to a new round of terrorist activity in Israel and abroad.

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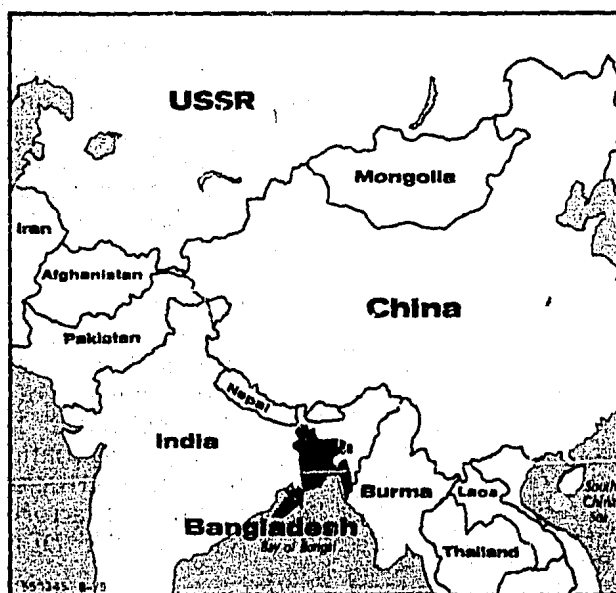
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BANGLADESH: MILITARY COUP

There have been no signs of resistance to the new government since it came to power in a military-led coup last Friday. Within the regime, however, a power struggle may be developing between the middle-grade army officers who led the coup and senior officers who supported the plotters but now want to assert their own authority.

Several army majors have been identified as the main instigators of the coup. They had been planning for some time to move against President Mujib's corruption-plagued, inefficient, and increasingly authoritarian regime. Senior officers presumably were aware of the plotting but did not participate in the coup until after it was under way. This week there were indications that tension was starting to grow between the two groups.

Khondakar Mushtaque Ahmed, Mujib's commerce minister, was selected by the plotters to serve as president. They appear to have given him broad authority to administer the country. Mushtaque, however, is unlikely to act against the wishes of whoever emerges in control of the army, which is the dominant force in the new regime.



Mushtaque was long regarded as one of Mujib's more pro-West and conservative political lieutenants. He has named a cabinet comprised largely of middle-of-the-road civilians from Mujib's government and Awami League. The regime apparently wants to restore democratic government and civil liberties, abrogated by Mujib early this year, but Bangladesh's massive economic and social problems may make it difficult to abandon martial law soon.

The government's initial statements on foreign relations indicate a strong interest in establishing closer ties with other Islamic nations. Islamabad, with which relations had been very limited under Mujib's leadership since Bangladesh became independent from Pakistan in 1971, was the first to extend recognition. The Pakistanis also promised emergency economic assistance in the form of rice and cloth. Several Arab nations, including Saudi Arabia, have extended recognition, as have the UK and Japan.

The emphasis on Islamic ties, and Pakistan's enthusiasm for the new regime, are causing some concern in New Delhi, which enjoyed good relations with Mujib's secular and generally pro-Indian government. The Indians probably are also uneasy about the possibility that the new regime will be friendlier toward China than toward the USSR. So far, India has adopted a cautious stance. It reportedly has sealed the border and reinforced police and army units in the area, but US officials in India believe these are only contingency moves aimed at preventing a possible influx of Hindu refugees who may fear future communal strife in Bangladesh.

The Indians seem unlikely to intervene militarily in Bangladesh, unless major instability develops there or the new regime pursues strongly anti-Indian policies. Mushtaque is regarded as somewhat cool toward India, and anti-Indian sentiment has been re-emerging in Bangladesh during the past couple of years, but the new government is making efforts to avoid



Mushtaque



Mujib

antagonizing its much larger and stronger neighbor to the west. For example, it appears to be backing away from its initial moves toward designating Bangladesh an "Islamic republic."

Mushtaque has declared that his government wants friendly ties with all three major powers. Mujib's regime had generally good relations with the US and the Soviet Union and was on poor terms with China, which had sided with Islamabad during Bangladesh's independence struggle.

The Soviets have been publicly non-committal about the coup, but—like most observers—presumably see it as a setback for both the USSR and its ally, India. Moscow is unhappy about what it sees as pro-US sympathies of the new rulers. Its greatest concern, however, is that Dacca may now seek to improve relations with Peking.

Until the Soviets have a better idea of Dacca's intentions, they are unlikely to do or say anything to antagonize the new leaders. Moscow will probably let India take the lead in testing the sincerity of the new government's expressions of desire for friendship with all. The Soviets may caution India against over-reacting, although India apparently needs no such advice.

China is guardedly optimistic about developments in Dacca. This was reflected in its prompt reporting of the coup. Peking no doubt is encouraged by indications that the new regime is moving toward better relations with Pakistan. If this trend continues and the new government displays staying power, the Chinese, who see Bangladesh as a potential source of leverage in dealing with India, will probably move quickly to establish diplomatic ties with Dacca and extend economic aid.

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Muhammed (I) with Brigadier Obasanjo

NIGERIA: A GOOD START

The new military regime that took power late last month has made a good initial impression on the Nigerian public by avoiding any suggestion of ethnic favoritism so far and by moving to tackle several long-standing domestic problems. Foreign policy remains on the back burner for now, although continuity in Nigeria's relations is being stressed.

Head of state Brigadier Muhammed, who comes from the large Hausa-Fulani tribal grouping of northern Nigeria, has taken a hard line against the corruption endemic in the government and has indicated that closer super-

vision by the Supreme Military Council is in store. In outlining the regime's mode of operation last week, he declared that cabinet decisions would be made collectively and within guidelines set by the Supreme Military Council. An advisory role is envisioned for senior civil servants who exercised considerable independence under Gowon.

State military governors have been admonished not to tolerate graft or abuse of power in their administrations. They are dismissing large numbers of allegedly corrupt state officials. At the federal level, steps are being taken to revitalize the watchdog role of the auditor general. Despite clamor by the press and student groups, it does not appear that assets of high-level officials who had been in the government of deposed head of state Yakubu Gowon will be investigated. Such a move could result in embarrassing counter charges against some members of the new regime, including Muhammed himself.

Panels have been set up to examine the feasibility of relocating the federal capital from overcrowded Lagos and to determine whether additional states should be created within Nigeria's federal system. Both issues involve tribal interests and are politically sensitive. The question of more states is particularly thorny. The regime risks opening a Pandora's box of agitation for the creation of numerous tribally oriented mini-states that would be economically weak.

On the economic front, the regime has thrown its support behind the \$48-billion, five-year development plan Gowon introduced last April. A task force is being formed to recommend ways to control Nigeria's soaring rate of inflation, now approaching 40 percent. The government has also issued new scheduling directives intended to help ease the country's severe port congestion that has resulted in shortages of many essential imports. Various proposals are being considered to expand and modernize port facilities.

Nigeria's new rulers may not fully appreciate the complexity of some of the problems

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they intend to tackle. They will soon have to translate their good intentions into some more visible progress or face early public disenchantment with their performance and increased pressure for a commitment to return Nigeria to civilian rule. [redacted]

ANGOLA: NEW INITIATIVES

The Soviet-backed Popular Movement for the Liberation of Angola, having succeeded in driving the two rival nationalist groups from Luanda, is jockeying with the Portuguese for political control there. At the same time, the organization is trying to strengthen its hand by taking military control of the territory's major economic centers.

On August 19, the Popular Movement announced that it will establish paramilitary "people's defense committees" in Luanda. The committees will be under the administrative control of the Movement's armed forces. They will be composed primarily of the thousands of civilians in the Angolan capital who were armed by the Movement earlier this year. Similar committees will probably be established in other areas where the Movement is militarily dominant, such as Cabinda.

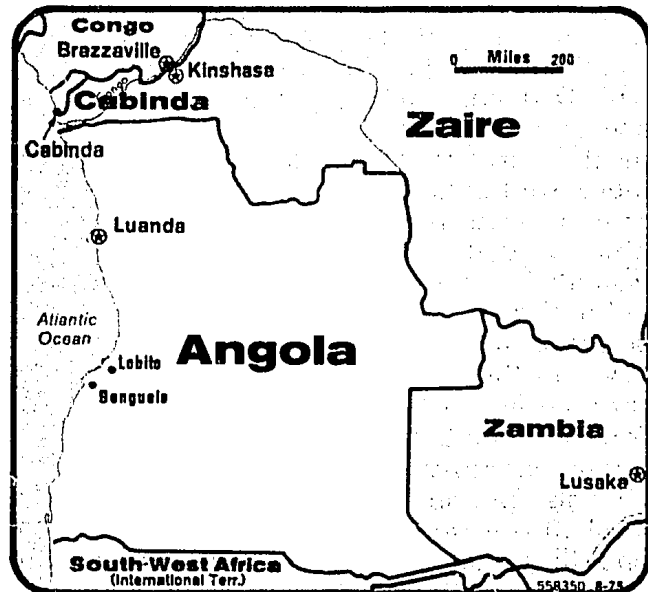
The Popular Movement has long had the support of the bulk of Luanda's population, but in the past that support has been unorganized or diffused among disparate social or quasi-political organizations. The defense committees will give the Movement an umbrella organization under which to mobilize popular support. As part of the Movement's military force, the committees will also be an effective means of intimidating what little popular support the other liberation groups may still have in the capital.

The Movement's announcement is also a strong challenge to Lisbon to either recognize the Movement as the only effective political organization in the territory or back up its own claim to sovereignty by suppressing the committees. Last weekend, the Movement rejected

an announcement by the acting high commissioner on August 12 that he was assuming administrative control of the territory because the transitional government that had included all three nationalist groups was no longer functioning.

The Movement is trying to capture Angola's major port of Lobito and the nearby rail head at Benguela. The fighting there is now into its second week. The Movement appears to be encountering stiff opposition from the National Union for the Total Independence of Angola, which has strong popular support in that area, as well as from the National Front for the Liberation of Angola, the Movement's main rival.

Portuguese military officials have been unable to arrange a cease-fire through negotiations and are unwilling to use their own troops to impose a truce. In any event, it is probably too late for the Portuguese to impose a truce or reassert their authority over Angola. The territory's future is in the hands of the liberation groups, who appear determined to settle the question on the battlefield. [redacted]



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LIBYA: COUP FOILED

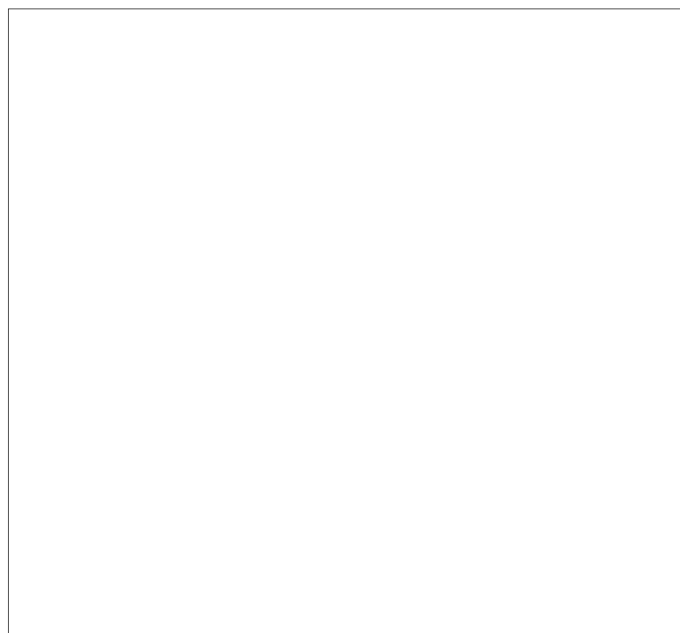
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Libyan President Qadhafi foiled a coup attempt last week led by two members of the ruling Revolutionary Command Council. Although Qadhafi easily countered the conspiracy, he has now lost the mystique of the "unchallengeable" leader that provided part of the underpinning for his special brand of personal rule.

Major Umar Muhayshi and Major Bashir Hawadi—two of the lesser lights on the 11-man council—are the only members directly implicated in the plot, although Egyptian media claim others were involved. Muhayshi escaped to Tunisia where he apparently will be allowed to remain, despite Libyan efforts to have him extradited. Hawadi is under arrest in Tripoli.

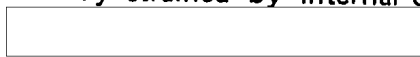
The ease with which the coup was squelched and the relatively relaxed atmosphere in Tripoli suggest that Qadhafi still commands the loyalty of key officials in the security and military services. The search for other plotters is apparently still going on, but Egyptian press reports of massive arrests and widespread defections are almost certainly exaggerated.

Muhayshi has had a stormy relationship with Qadhafi, who has never trusted him fully and has occasionally manipulated his assignments and responsibilities within the council. Muhayshi has had no direct command over military or security forces since 1969 and often chafed under Qadhafi's high-handed ways. Hawadi is the secretary general of Libya's sole political party; he, too, has never had direct access to the levers of power in Libya. Both men have in the past been harshly disciplined by their leader for "immoral" behavior and, therefore, were motivated at least in part by personal grievance. However, their defections were probably also prompted by broader differences with Qadhafi over foreign policy and economic issues and thus may well be a measure of growing frustration with Qadhafi throughout the regime.



References to the coup attempt in several Libyan newspapers suggest that Qadhafi is not especially worried about public reaction, although one editorial—probably written by Qadhafi himself—warns of a possible purge. This warning was underscored by a series of council decrees issued last weekend making subversion, contact with foreign powers, and other political crimes punishable by life imprisonment and in some cases death.

That Qadhafi has ruled Libya for six years without such laws and without being challenged attests to his reliance on personal charisma, the loyalty of his colleagues, and "revolutionary" esprit de corps as sources of power and authority. The defection of two of the original 12 leaders of the 1969 coup will erode these intangibles and presumably the confidence and security with which Qadhafi has ruled. The Libyan leader is adept at using other instruments of control, however, and will be forced to do so in the months ahead. Over the long term, his stern hand will create new stress in a regime already strained by internal differences.



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Economy Minister Cafiero (second from left) attends cabinet meeting with President Peron

ARGENTINA: NEW ECONOMY MINISTER

Antonio Cafiero, a 52-year-old Peronist economist, was appointed minister of economy late last week. The last member of the new cabinet to be named and by far its most prestigious minister, he faces an ever deepening recession that could lead to further troubles with labor.

During the 1950s, Cafiero held several important positions under Juan Peron. Most recently, he was his country's ambassador to the European Common Market. He has served as an adviser to the powerful Peronist labor confederation and has long been thought to be labor's choice for the post he now holds.

Cafiero will find it difficult to retain the support of organized labor, however, because of the effect of the recession on workers already angered by the precipitous rise of prices. As demand reacts to rising prices, thousands of jobs are being wiped out. The US embassy reports a

sharp upsurge in the number of dismissal notices this month, and many firms have been forced to curtail or cease operations because they cannot pay the huge wage increases won by labor. Accelerating unemployment could lead labor—which had a major hand in the ouster of Lopez Rega—to take to the streets again for a new round of protests over government failure to reverse economic deterioration.

Cafiero's only specific policy statement thus far has been a declaration that he is contemplating no new devaluations of the peso. Large, successive devaluations earlier in the year provoked angry reactions from businessmen and consumers alike, since the moves contributed to rising prices. For the moment, Cafiero is limiting himself to statements of the need for the cooperation of all sectors in problems that he admits are serious but claims can be solved.

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MEXICO: WORLD TOUR

President Echeverria returned home today from a grueling 45-day, 14-nation trip whose purpose, although unstated, was to launch his campaign to become the next secretary general of the United Nations.

At each stop on the tour of Africa, Asia, the Middle East, and the Caribbean, the usual economic, cultural, and technical agreements were signed, but most were of dubious significance. Of more importance to Echeverria was the chance to be seen and heard in countries whose support he will need for the UN post.

Should Echeverria actually run, his most obvious opponent would be the current secretary general, Kurt Waldheim, whose term ends on December 31, 1976. Waldheim has given no indication of his intentions about seeking reelection.

Since entering office in December 1970, Echeverria has visited 36 foreign countries and established diplomatic relations with over 25, most of them within the past six months. Clearly, he has been attempting to portray Mexico and himself as dynamic and "revolutionary" leaders of the developing world. The fact that this image does not quite square with



Echeverria with Castro

Mexico's national reality nor with Echeverria's own international stature apparently does not trouble him.

The President appears to have convinced himself that he has the answers to troublesome world problems. His dogged pursuit of support for his Charter of Economic Rights and Duties of States, a UN document that attempts to reorder international economic activity, is an example of his messianic character. While in Egypt, Echeverria announced another brainstorm—an organization to defend Third World economic interests. This organization, according to Echeverria, would go beyond the scope of the nonaligned group to counter the "imperialism" of transnational enterprises.

Echeverria is not inclined to rely much on his institutional advisers and frequently bewilders them with unexpected decisions, leaving them to pick up the pieces. His sudden decision to break relations with Chile last year left the Foreign Secretariat groping for a rational explanation. His announcement during his latest trip that Mexico claimed a 200-mile maritime zone had the appearance of another hasty presidential decision. Official spokesmen later offered assurances that Mexico was not claiming a territorial sea, but the unilateral move ran counter to the apparent policy in the Foreign Secretariat of working in harmony with the US on matters concerning law of the sea.

Despite his frequent travels abroad, Echeverria remains unsophisticated in his world views, and his dazzling solutions to international issues derive from oversimplification, if not ignorance. In the Middle East, for instance, his hopes of playing the role of peacemaker in the Arab-Israeli dispute prompted a naive effort to arrange a meeting between Sadat and Rabin, a typical instance of his disregard for expert advice. While in the area, Echeverria added another fillip to his radical foreign policy by meeting with Palestine Liberation leader Arafat and announcing Mexico's recognition of his organization.

Although he sees the major world problems as economic in nature, he does not have a good grasp of the subject. As in foreign relations, Echeverria appears to rely little on his advisers. Under Echeverria, inflation in Mexico has become a serious problem, the balance of payments has deteriorated, and private investment has stagnated. Many of his economic decisions seem intended for short-run political gain. The recent agreements with the EC and CEMA may eventually benefit the country economically, but during their early years their impact will be primarily political.

Echeverria's five-day visit to Cuba this week completed his tour. Squired around the island by Prime Minister Castro, Echeverria was rich in his praise of the Cuban revolution and critical of US actions against the Castro regime. The two leaders shared their enthusiasm for the Latin American Economic System, another Echeverria brainchild.

The President's next trip abroad will probably be to the UN in October, where he no doubt will all but offer himself as a candidate for secretary general.

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URUGUAY: ECONOMIC TENSION

The confrontation last week between civilian and military officials over economic policy-making was settled by an imposed compromise, but the underlying causes remain and could resurface at any time.

The focal point for the continuing dispute is the personality and policies of Minister of Economy and Finance Alejandro Vegh, who advocates a strict austerity program to cope with the country's inflation-ridden economy. His program is designed to reform the nation's cumbersome economic system, restore its credit-worthiness in the eyes of international financial institutions, and attract badly needed foreign investment.

Some nationalistic officers such as General Gregorio Alvarez, the ambitious commander of the Fourth Army, and General Abdon Raimundez, vice president of the Bank of the Republic, disagree with many of Vegh's policies and criticize his alleged subservience to the requirements of international financial institutions and his favorable treatment of multinational corporations. Most members of the military high command tend to agree with Vegh's views but not his independent approach to economic policy. President Bordaberry, however, sees this independence on the part of a civilian cabinet member as giving him some maneuverability in the military-dominated government.

The most recent clash between Vegh and the military was triggered by the armed forces' attempt to cancel a \$110-million loan, secured by Uruguay's gold reserves, that he had negotiated with a consortium of foreign banks. The irate cabinet officer submitted his resignation, which Bordaberry refused to accept. In a subsequent acrimonious meeting with the armed service chiefs, Vegh demanded that his program be implemented without interference and that Raimundez and other directors of the bank be removed and replaced by persons who had his confidence.

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As in previous conflicts between civilian and military officials, both sides eventually compromised to avoid a national crisis. Vegh's gold-backed loan was approved, and Raimundez remained in his post, although he apparently was told to stop meddling in the economy minister's activities.

While this agreement provides some temporary stability, the continuing struggle over the nation's economic policy-making machinery undermines foreign and domestic confidence in Uruguay's long-term economic prospects. Vegh may be able to centralize economic decision-making within his office for a while, but his moves will be closely scrutinized by the military high command, and the conflict between civilian and military officials over who makes economic policy will continue to be a major political irritant.

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General Leigh

CHILE: NEW PROBLEMS FOR PINOCHET

Internal Dissent

Chile's economic plight and the government's poor image abroad have increased friction within the ruling junta. So far, dissatisfaction with President Pinochet has been low and has not threatened his authority, but criticism is likely to grow stronger in the months ahead.

General Leigh, a key junta member, directly criticized policies closely linked to Pinochet during recent talks with Ambassador Popper and visiting USIA Director Keogh. Leigh's remarks were in line with earlier reports that he had serious reservations about the effects of the government's austerity measures, especially their impact on the poor.

Economic conditions have deteriorated rapidly during the past year; there is an industrial slowdown and unemployment has jumped significantly. Predictions that some Chileans will starve are being heard more frequently as winter in the Southern Hemisphere adds to existing hardships for the middle and lower classes.

Growing numbers of beggars are on the streets of the capital and soup kitchens have sprung up. The government's resources are limited, and it is unlikely to be able to ease the situation much.

General Leigh's concern about the government's ability to survive the high unemployment rate and the almost certain spread of discontent is shared by others in the military. Unless some improvement can be shown by the end of the year, pressure is likely to increase for a shift in economic policies and replacement of the present economic advisers.

In his conversations with the US ambassador and Keogh, General Leigh also took issue with Pinochet's view on the future of the military government. Pinochet has announced publicly that the military intends to stay in power for an indefinite period. Leigh suggested that this is impossible and that Chile must find a way to return to a democratic system with a strong executive.

Pinochet's handling of human rights issues has also become a source of friction. General Leigh expressed dismay at the government's public image and strongly criticized the way Pinochet handled decisions concerning the UN Human Rights Commission's efforts to visit Santiago. Leigh said something must be done to refurbish Chile's international reputation, and he intends to request a special junta meeting soon to take up the matter.

Other top officials are disturbed over the image problem, but the government continues to crack down on dissidents. Last week, for example, as many as 44 persons—professors, students, and employees at the University of Chile—were arrested for "Marxist" activity. The education minister, Rear Admiral Troncoso, said that those in custody had been meeting clandestinely to plan protests against university policies. The minister also said that an investigation was under way and that the government would prevent a return to "unrestricted permissiveness." The minister told the press that some persons will be released, but that they will



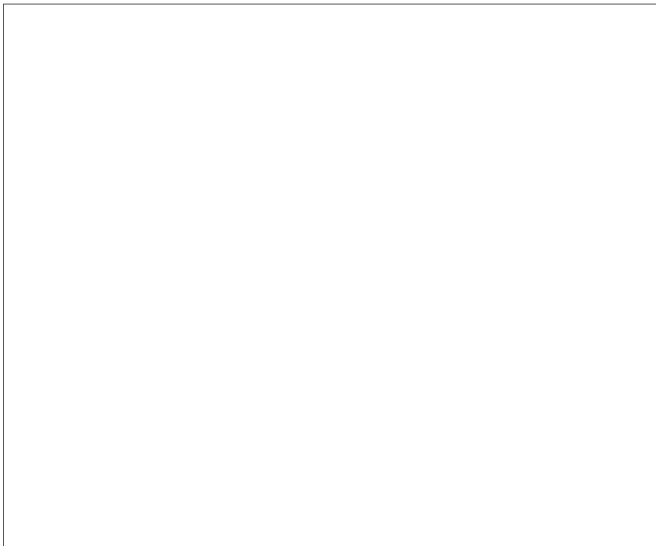
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still be fired from their jobs or expelled from the university. He added that arrests may also be made at other universities.

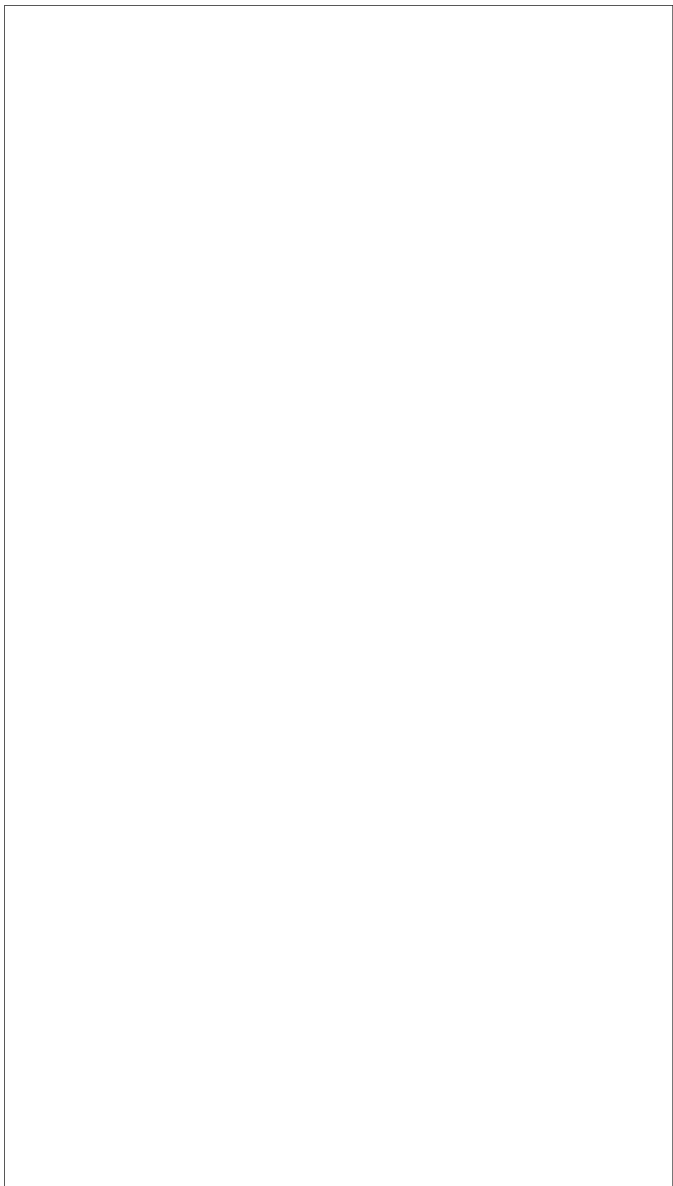
The military government probably intends the crackdown as a warning to opponents who may have been planning to exploit the junta's poor economic performance and international reputation. The latest round of arrests, however, following last month's detention and exile of labor leaders in the north, will only aggravate the regime's difficulties in trying to convince international opinion that it has moderated its internal security practices.

External Frustrations

Chile's attempt to improve its international standing through a broad diplomatic offensive has run into trouble. Goodwill missions planned for Europe, Africa, and the Middle East have become bogged down in scheduling difficulties and postponements that clearly reflect a lack of interest on the part of most prospective host countries.



behest of Chilean exile groups headquartered in Helsinki. The prospect of a boycott of cargoes shipped to and from Chile is causing concern in Santiago, and the Pinochet government has probably instructed its ambassadors in Europe to take whatever steps they can to avert this possibility. There is a good chance that some economic sanctions will be imposed, which in turn would aggravate the country's already 25X1
dismal economic situation.



A number of European longshoremen's unions are studying the idea of supporting a trade embargo against Chile, apparently at the

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VENEZUELA: REVERSION PASSES

On September 2, President Perez will sign legislation nationalizing the billion-dollar foreign-owned petroleum industry. The formal transfer of the facilities to state control is to take place on December 31.

The bill's passage through both legislative chambers was marked by stormy debate and charges that steamroller tactics were used by the governing Democratic Action Party, which commands a majority in the Congress. All political parties agreed that the time had come for Venezuela to take over and operate for its own benefit the country's major extractive industry. Nevertheless, sharp differences emerged over what role, if any, the foreign petroleum companies would be permitted after nationalization. President Perez insisted on being given maximum flexibility to enter into "association agreements" with the companies if he considered them to be in the national interest.

Although Democratic Action leaders have privately criticized the government's handling of the oil bill, they gave Perez full backing in the several months of intense congressional debate. In dealing with his own party as well as the opposition, Perez' hand was strengthened by his personal popularity, rising nationalistic sentiment, and the apparent inability of the opposition parties to generate public interest in either the vulnerable features of the nationalization program or the government's failure to specify how it intends to run the industry.

A major reason for the lack of effective opposition is the internal dissension that is debilitating the major opposition groups. The Social Christian party is in the midst of a power struggle between former president Rafael Caldera and left-wing leader Herrera Campins for the secretary-generalship of the party, a traditional stepping stone to the presidential nomination. Further left, the Marxist Movement to Socialism, which for some time was considered a leftist party with real political poten-

tial in 1978, is having similar problems. The dissension, which began in 1974 as largely philosophical, has now been accelerated by the personal ambitions of the party's various leaders.

With the passage of the nationalization bill, the government and the companies can be expected to get down to serious negotiations. A Venezuelan team headed by Mines and Hydrocarbons Minister Valentin Hernandez has been holding separate talks with representatives of the major oil firms since June to consider possible post-reversion contract arrangements as well as compensation.

Following President Perez' promulgation of the nationalization act, the government, under terms of the bill, must submit a formal offer of compensation within 45 days. The former concessionaires must then reply to the offer within 15 days. If the petroleum companies do not agree to the offer, then article 13—which requires the Venezuelan Supreme Court to determine the amount of compensation—would take effect.

The talks so far have been conducted privately, but Venezuelan officials report they are going well. This optimistic appraisal appears to be supported by some companies' interest in supplying technology, transportation, marketing outlets, and management, in order to maintain access to the oil.

With approximately 19 foreign oil firms operating in Venezuela, the negotiations will probably take some time to complete. The current Venezuelan negotiating strategy is to concentrate on reaching a settlement first with the largest producing companies—Creole (EXXON), Mene Grande (GULF), and Shell of Venezuela—with the thought that the others will fall quickly in line. Such thinking may be unrealistic—with less at stake and not as dependent on Venezuelan petroleum, the smaller concessionaires may be tough bargainers. This phase of the talks could become acrimonious and lengthy.

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CAMBODIA: INTERNATIONAL DEBUT

In preparation for an international debut in Lima and the UN, Phnom Penh's communists are bestowing government titles on several of their prominent party leaders and are trying to resolve the problem of Sihanouk. The new government has sent its first official delegation abroad since the communist take-over—a short visit to Peking and Pyongyang led by Deputy Prime Minister Khieu Samphan.

The four-day visit to China generated a spate of mutually laudatory public statements, effusive praise of the close relations between the two countries, and a joint expression of opposition to "hegemonism," Peking's label for Soviet expansionism. The Cambodians were treated to talks with Premier Chou En-lai and Vice Premier Teng Hsiao-ping.

The signing of an economic and technical cooperation agreement highlighted the visit, and Samphan referred to it as "unconditional and gratis aid." The Cambodian leader also hinted that an agreement covering telecommunications and civil air service was reached.

The Cambodians said they agreed with Peking on "the current international situation," a probable indication that the Cambodians accept Peking's dark view of Soviet and North Vietnamese designs in Southeast Asia—and the joint communique refers specifically to the close unity between the two sides in the "struggle ahead against colonialism, imperialism, and hegemonism."

The only apparent problem in the visit was what to do with "head of state" Prince Sihanouk. The Chinese made a pro forma reference to Sihanouk in their section of the communique; the Cambodians did not. More important, Sihanouk did not return to China to meet with the Cambodian leaders. The fact that the meetings with Sihanouk took place in Pyongyang, where Sihanouk has been since May, is a clear signal that the Chinese are not anxious

to get directly involved in determining Sihanouk's future role in the new regime.

The brief announcement from Pyongyang revealed at least an interim agreement on the Sihanouk issue and indicated that the prince would accompany Khieu Samphan back to Phnom Penh, would retain his position as chief of state, and will probably continue to perform ceremonial duties. There was no indication, however, that this is a long-term solution. Earlier reports have indicated that the prince's return to Cambodia could well be temporary and that he may soon make another trip abroad. In Pyongyang, the prince himself said that he will return to North Korea to celebrate the anniversary of the Korean Workers' Party in October.

Even before Khieu Samphan's trip to sort out the Sihanouk issue, Phnom Penh named two more leading in-country communists as deputy prime ministers, further eroding the position of the Prince and his supporters in the government. Widely traveled Ieng Sary, who probably holds a top position in the Khmer Communist Party, was named deputy prime minister for foreign affairs. Up to now, Foreign Minister Sarin Chhak, who has been a Sihanouk loyalist and is based in Peking, has handled most foreign contacts for the new communist regime. Son Sen, a member of the central committee of the Khmer Communist Party and former chief of staff of the Cambodian People's National Liberation Armed Forces, is the new deputy prime minister for national defense affairs.

Deputy Prime Minister Khieu Samphan's reception in Peking—equal to a visiting head of state—reinforces the belief that he is in fact Cambodia's prime minister, although Penn Nouth, a Sihanouk loyalist, still holds the formal title. Phnom Penh's announcement of Samphan's visit to China listed him as Deputy Prime Minister for "general affairs" and as Commander in Chief of the People's National Liberation Armed Forces, omitting his former position

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as defense minister. Son Sen probably has primary responsibility for military affairs.

The communists appear to be retaining Penn Nouth for the sake of appearance. He played a secondary role in the Cambodian delegation's visit to China but, in a possible show of deference to Sihanouk, Penn Nouth was listed as the leader of the Cambodian delegation in its visit to North Korea, and Khieu Samphan was listed as deputy chief.

leng Sary's prominence in foreign affairs is highlighted by his role as deputy in the delegation to China and as head of the delegation to the nonaligned conference to be held in Peru in late August. There has been no indication of any intention to include Sihanouk in the delegation, but Sarin Chhak is the deputy. Attendance at the nonaligned conference will mark Cambodia's first participation in an international event since the communists came to power in mid-April

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LAOS: LIBERATING THE CAPITAL

After nearly three months of painstaking preparations, the communists on August 15 began the "liberation" of Vientiane. Their objective is to end the joint communist and non-communist control of the administrative capital in Vientiane and the royal capital in Luang Prabang that was set up in accordance with the 1973 Lao peace accords.

Communist organizers mustered several thousand people for rallies in various sections of Vientiane and for one rally in Luang Prabang on August 18. The participants, accompanied by Pathet Lao troops and cadre, followed instructions by shouting slogans calling for changes in the local government, but in general the crowds seemed unenthusiastic. Nevertheless, Radio Pathet Lao quickly announced that the government had bowed to the will of the people and had replaced corrupt non-communist officials with those of proper revolutionary spirit.

The demonstrations are supposed to be followed by a massive rally in downtown Vientiane where the crowds will ask the government to change the 1973 accords to end the city's neutral status. Restrained anti-

US demonstrations are expected to coincide with the final mass rally. Anti-US propaganda has increased measurably in the past several days, with the US being blamed as the source of most problems in Laos and elsewhere in Indochina. As the process of "liberation" progresses, the Communists are moving quickly to tighten population controls. Pathet Lao troops have set up roadblocks throughout the city and are examining documentation and searching vehicles.

Communist organizers are reportedly claiming they will not use this round of demonstrations to alter the arrangements set up for the national coalition in the 1973 agreements. Many Lao suspect, however, that the communists will use the rally to pressure non-communist ministers to resign by instigating charges of corruption. Minister of Defense Pheng Phongsavan, once one of the leading "neutralist" politicians, believes he will be a target and reportedly is making final preparations for his flight. The vacant cabinet post almost certainly would be filled by lesser known figures dependent on the communists.

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THAILAND: A NEW LOOK

Thailand's increasingly tough stance toward Laos and North Vietnam in recent weeks points to a new and more balanced conduct of Thai foreign affairs.

During the past week, Bangkok expelled two Lao diplomats in retaliation for the arrest of two Thai military attaches in Vientiane and was prepared to order an economic boycott if the attaches had not been released. The Thai are convinced that the release of the attaches was prompted as much by their toughness as by Vientiane's desire to preserve good relations.

Bangkok is also convinced that improving relations with Peking has helped in dealing with Hanoi. In sharp contrast to a desire to accommodate to Hanoi's demands several months ago, Bangkok is stiffening its bargaining position and appears in no hurry to establish diplomatic relations. Foreign Minister Chatchai, who had been the most prominent advocate of accommodation with the North, recently told Hanoi to "mind its own business" in response to a Vietnamese broadcast attacking a joint US-Thai naval exercise.

The shift from a precipitate embrace of communist neighbors and cooling of relations with the US can be attributed in part to Prime Minister Khukrit's efforts to put his personal stamp on Thai diplomacy. Within the past month Khukrit not only has conferred with Chinese leaders but has visited Kuala Lumpur, Jakarta, Manila, and Singapore, his partners in the Association of Southeast Asian Nations.

The Prime Minister returned from his travels convinced that Thailand should work to strengthen ASEAN politically and economically as a means of countering communist influence. Toward this end, he has encouraged an early convening of an ASEAN summit conference and the early implementation of proposals for a free trade area and joint economic projects.

While the process of adjusting Thai foreign policy to post-Vietnam realities is far from complete, the broad outlines of Khukrit's new directions are already clear. Foreign policy will

be neutralist in orientation and anchored to efforts to develop balanced relations with the great powers as the principal means of assuring Thailand's security. In an effort to restrict Vietnamese influence in Southeast Asia, the Thai will seek to maintain good relations with the US, the Soviets, and the Chinese. To prevent Thailand from being dragged into great-power competition, Bangkok will use ASEAN to try to make the region a "zone of peace and neutrality."

The Thai will also work to strengthen their neutralist credentials by becoming more active in Third World political and economic causes. Bangkok will probably vote more frequently with this bloc in forums such as the UN.

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PHILIPPINES - NORTH VIETNAM

Diplomatic Debacle

President Marcos is in a diplomatic bind. Earlier this month an overeager career diplomat exceeded his authority by signing a joint communique establishing relations with North Vietnam on terms that are unacceptable to Manila.

According to Philippine officials, Ambassador Mangila was sent to Hanoi to discuss the repatriation of several hundred Philippine citizens stranded in Saigon when the communists took over, but he was told to sound out prospects for diplomatic relations if the opportunity arose. The main discussions on establishing relations have been going on in Paris between the Philippine and North Vietnamese ambassadors.

The joint communique, which Mangila signed in Hanoi on August 7, contained provisions with an anti-US tone that Manila had already rejected in Paris as "totally unacceptable." In the communique, Manila promised not to let the US use Philippine territory "to oppose the Vietnamese people," and agreed that all

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property belonging to the former Saigon government should be returned to the communist regime.

Backtracking

Marcos has already formally apologized to the US government for the communique and told Ambassador Sullivan that Manila regards it as invalid. He said the Philippine ambassador in Paris will be instructed to inform his Vietnamese counterpart that diplomatic relations have not been established and that negotiations should continue on the basis of the status quo ante. He has also promised to inform his partners in the Association of Southeast Asian Nations about the fiasco and is ready to give the US assurance that none of the Vietnamese equipment will be turned over to the communists. The North Vietnamese have already used the Philippine communique to criticize Thai refusal to return such equipment.

Hanoi has apparently not yet been officially informed that Manila repudiates the communique, but the Vietnamese undoubtedly are suspicious. Mangila did not confirm diplomatic relations publicly on his arrival in Manila this week, as stipulated in the communique. He said only that he had submitted his report to the president.

Marcos is doubtless aware that once the affair becomes public, he will be subjected to a propaganda barrage from Hanoi and be vilified as a US puppet who buckled under pressure from Washington. The debacle is not only an acute diplomatic embarrassment for Marcos but a setback in his careful campaign to improve his nonaligned image and end Manila's close public identification with US foreign policy interests in Asia.

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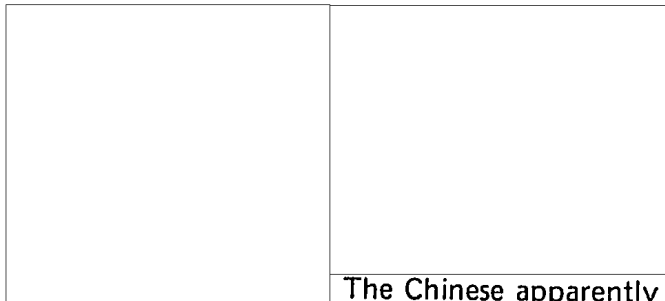
CHINA: MODERNIZING THE MILITARY

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The Chinese reportedly have decided to improve the combat effectiveness of their armed forces by selectively reducing nonessential and over-age personnel. This is not expected to lead to any radical changes in military organization or doctrine, but over the longer term the Chinese clearly are working toward a more streamlined and modern combat force. The decision may also have important implications for Mao's influence over the military.

only passing reference to Mao. Mao is both the chairman of the military commission—the body which hosted the meetings—and, as party chairman, titular commander in chief of the armed forces. His authority would normally be invoked in a matter of this importance. Although there is no hard evidence that Mao opposed the plan, it does go against his oft-stated preference for men over weapons. Shortly after last month's meeting, former army chief of staff Lo Jui-ching reappeared in public. The reappearance of Lo, who was purged by Mao and Lin during the Cultural Revolution—in part for espousing greater professionalism in the PLA—may have been intended to underscore the commitment to modernization.

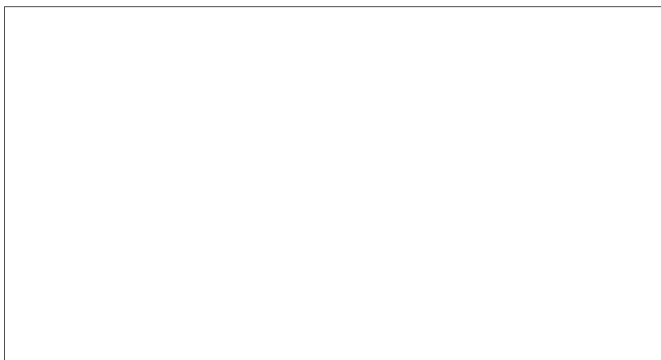
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The Chinese apparently believe that the army is too large and too inefficient to meet effectively the increasingly sophisticated requirements of modern warfare. In high-level group discussions, cadre members concluded that the military is to be modernized and new emphasis given to advanced technical areas such as mechanized, anti-tank, chemical, and missile forces as well as the air force.

The military can be expected initially to reallocate its resources rather than benefit from a budget increase. Over time, however, recognition of the need for more sophisticated equipment and more technically skilled troops can only increase pressures to give a larger share of the budget to the military.

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Peking realizes that the disposition of personnel affected by the reduction is a sensitive and difficult problem. Senior cadre with long military experience will be retained as "consultants," but will have little power. The younger and physically able cadre will be sent to rural areas to train local militia and act as militia officers in wartime. Still others will be assigned to factories and communes and will not be allowed to settle in the cities.

Mao's position on the reorganization is unclear.

speeches by Teng Hsiao-ping and Yeh Chien-ying at the meeting last month made

During the past few years, Peking has been vigorously moving toward reducing the military's role in politics and focusing the military only on military matters. Recent events in Chekiang Province, however, point up the leadership's willingness to continue to use the PLA in non-military roles.

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UN: SPECIAL SESSION INDICATORS

The outcome of the meeting of nonaligned foreign ministers in Lima next week will be the single most important factor determining whether the 7th Special Session of the UN General Assembly on development and economic cooperation—which opens September 1—can avoid another open fight between rich and poor states. Representatives of some developing states and many industrialized nations have been lobbying against possible efforts by other developing states such as Algeria to launch an offensive against the developed states in Lima that will carry through the special session. The radical wing of the developing state group is seeking a fundamental realignment of the international economic system to one more favorable to all developing states.

Although the radicals remain in firm control of the nonaligned movement, their victory at Lima—which appeared likely earlier this year—no longer is a foregone conclusion. They have dominated the nonaligned movement since before the Algiers nonaligned summit in September 1973 and have increasingly pushed the group to set the policy for developing states on economic issues. Control over the nonaligned by extremists has lessened of late, in part because their very success in promoting the movement has led to more competition for leadership.

Those developing countries that oppose the Algerian stand meanwhile have had some success in moderating the stand of the poor-country caucus at several international meetings this summer. At last month's session in Geneva of the UN Economic and Social Council—which was almost exclusively devoted to setting an agenda for the 7th Special Session—less extreme developing states were instrumental in forging an agreement with the industrial states on a "neutral" agenda. The ECOSOC session thus became the only productive forum so far in preparation for the special session. Its conciliatory tone was sustained at the meeting of the Trade Development Board of the United Nations Conference on Trade and Development last week and in this week's meeting of the third preparatory conference for the special session.

Although the Algerians and their allies did not impose their will at the summer meetings, they made sure their presence was felt. Algeria went out of its way during informal talks with several EC states to lecture them about their "unsatisfactory" policy with respect to the demands of the developing states. Algeria also lashed out at a group of African states that challenged Algeria's opposition to singling out the need for aid to the poorest developing states.

Negotiations in several other forums will also have an impact on the deliberations of the special session.

The International Monetary Fund meets at the end of August in Washington. If the industrialized states settle some of the outstanding issues on monetary reform, they may get around to establishing a special fund to help developing states. Such a decision, immediately preceding the special session, would strengthen the influence of the less extreme developing states; failure would strengthen radical arguments for confrontation.

The Commonwealth finance ministers will meet in Guyana on August 26 to consider a document which reportedly endorses many of the fundamental demands of the developing states. Although the genesis of the document was a speech by British Prime Minister Wilson in Jamaica last spring, the paper, as it is currently formulated, goes well beyond Wilson's original suggestions. If the UK officially endorses the paper, those developing states that seek dialogue over confrontation would presumably be heartened—even though Britain could by such endorsement cause strains among the developed countries.

Should details on calling another conference of oil producers and consumers be settled before the special session begins, the less extreme developing states might also be strengthened in their arguments that prospects for a meaningful dialogue with the developed states should not be stymied by creating an outright clash at the New York session.

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