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CIA-RDP86T00608R00030002

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# Weekly Summary

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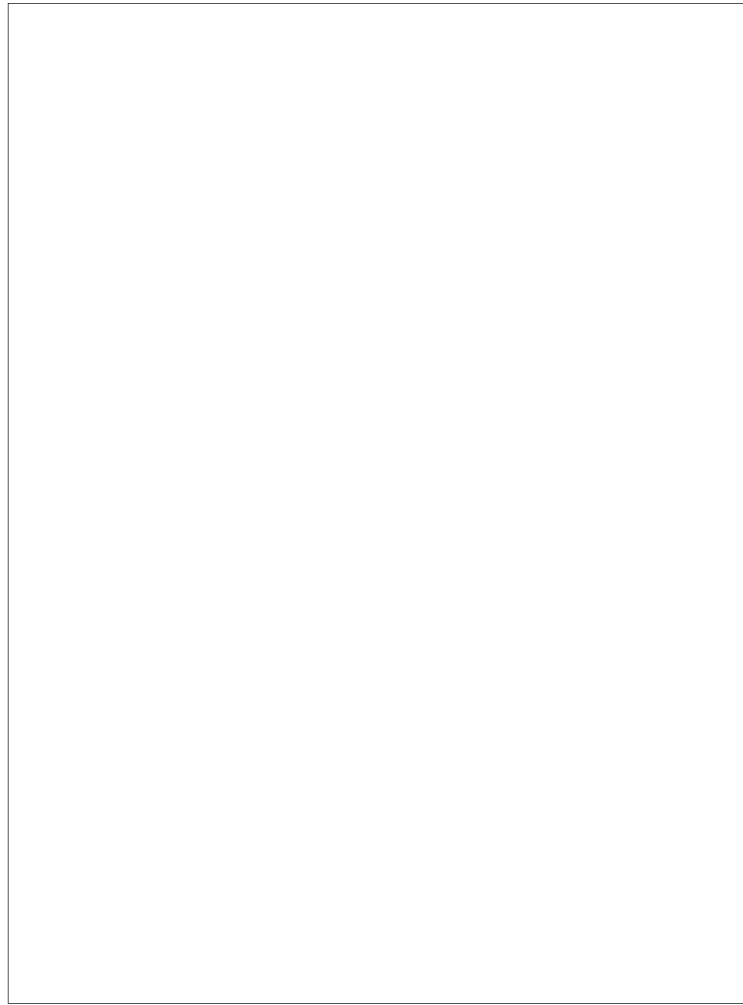
No. 0029/75  
July 18, 1975

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The WEEKLY SUMMARY, 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.

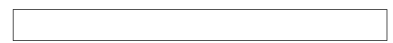


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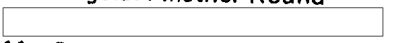
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## ITALY: FANFANI UNDER FIRE

Italy's Christian Democratic Party is about to begin an internal debate that could determine whether the party can maintain its position as Italy's dominant political force.

The Christian Democratic national council meeting tomorrow will discuss how to halt the erosion of the party's strength that was revealed by the outcome of the regional, provincial, and municipal elections last month. The Communists came close to outpolling the Christian Democrats for the first time. Sentiment in the 120-member council has been building against party leader Fanfani, and a move to revise his conservative political line is likely. Fanfani says he will not give up his job unless he is voted out by the council. There are signs that more than a majority of the council members are inclined to do just that.

Prime Minister Moro is one key Christian Democrat who has yet to break publicly with Fanfani. Moro is still the party's most prestigious left-of-center leader, and his alliance with Fanfani helped protect the latter from the attacks of the left wing as the Christian Democrats suffered successive defeats during the last two years. Moro will probably soon withdraw his support and that would ensure Fanfani's departure.

The Socialist Party, meanwhile, is following a line at the regional and local levels that differs only in phrasing from Communist chief Berlinguer's "historic compromise" concept. Berlinguer has argued since late 1973 that the solution to the country's problems lies in cooperation among the "popular and democratic" forces, mainly Communists, Socialists, and Christian Democrats. The Socialists are now calling for "open governments" at the regional and local levels, in which all parties except the neo-fascists are invited to participate.

The invitation, however, seems mainly to be a way of justifying the Socialists' apparent preference for alliances with the Communists at the local level. The moderate gains made by the Socialists in the elections gave them the option of linking up with the Communists or the



Amintore Fanfani

Christian Democrats in many areas. In one such area, the northeastern region of Liguria, the Socialists chose last week to join a Communist-led government rather than a center-left coalition with the Christian Democrats.

The Socialists' preference for a government with the Communists in the larger and more industrialized region of Piedmont, however, is more likely to provoke trouble than the

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Ligurian arrangement. Unlike Liguria, the two parties do not quite have a majority in Piedmont. The Socialists are inclined to set up a minority government with the Communists in Piedmont, despite the fact that a center-left coalition with the Christian Democrats would have a comfortable majority. Two members of the Moro cabinet, whose home base is Piedmont, are threatening to bring down the government by resigning if the Socialists abandon the center-left formula in that region.

In their post-election policies, the Communists are sticking to the moderate line they emphasized in the campaign. Communist labor leaders, for example, were mainly responsible for the decision last week by Italy's top labor federation to seek maximum employment rather than excessive wage demands in major contract negotiations this fall. The federation's strategy should encourage calmer and less protracted bargaining in the fall, unless some of the militant constituent unions refuse to go along. Deputy Prime Minister La Malfa, a frequent critic of labor's policies, praised the Communist-sponsored proposals as eminently sensible.

Mintoff of Malta, after dropping an earlier demand for a phased withdrawal of the US and Soviet fleets from the Mediterranean, forced acceptance of a Mediterranean declaration by refusing—for four days—to agree on a summit date.

Agreement was also reached during the week on several major issues, including follow-up procedures for the conference, principles governing relations among states, and a clause protecting Allied rights in Germany and Berlin. Little progress was made, however, in meeting Turkey's demands for a clause exempting it from certain aspects of military-related confidence-building measures.

Agreement had not been reached by mid-week on more than a dozen other less weighty issues, including the order of speakers at Helsinki, trade reciprocity, and a clause extending the benefits of CSCE throughout Europe—especially to Berlin. The EC is also insisting that Italian Premier Moro be allowed to sign the final act twice—acting on behalf of the EC as well as Italy.

The Turkish demands are the only major stumbling block to a final agreement. Influenced by strong demarches from several NATO states, Ankara is now showing more flexibility and has muted its call for Turkish Cypriot representation at Helsinki. On confidence-building measures, Ankara appears willing to give advance notification of maneuvers within a 250-kilometer zone along its borders if the conferees will make concessions on separate notification of amphibious and airborne troop movements. This compromise would include language stating that notification need not be given in areas adjacent to borders with non-participating states—thus exempting maneuvers in eastern and southern Turkey.

In Helsinki, meanwhile, preparations for the summit are proceeding at a hectic pace. The Finns are expecting 900 delegates, accompanied by thousands of support personnel, to attend the 35-nation summit and have begun elaborate security preparations.

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### CSCE: NEARING AGREEMENT

Participants at the European security conference agreed on Monday to accept July 30 as the opening date for a three-day summit in Helsinki, provided that differences on all outstanding issues are resolved by July 18. Negotiators have been working furiously in Geneva throughout the week to reach agreement on more than a dozen issues, including military-related confidence-building measures. Final acceptance of the July 30 date is expected this weekend.

On July 14, NATO members and the Warsaw Pact states bowed to Malta's demand that the final conference document include a call for the eventual reduction of armed forces in the Mediterranean region. Prime Minister

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## PORTUGAL: POLITICAL CRISIS MOUNTS

A crisis atmosphere continued in Lisbon this week as the Revolutionary Council was confronted with the need to form a new cabinet and with a rising storm of protest over its efforts to bypass the political parties. The resolution of these questions may be largely determined by the outcome of a power struggle now reportedly taking place among its leading members.

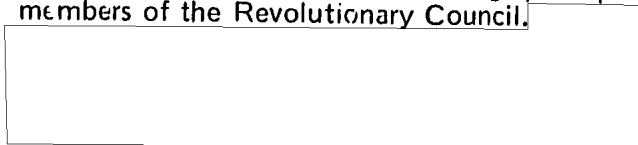
The cabinet crisis was precipitated when the Socialist Party pulled out of the coalition government last week because of the seizure of the newspaper *Republica*. The Socialists were followed by the center-left Popular Democratic Party on July 16 when the Armed Forces Movement failed to meet the party's demands for a free press, a pledge not to dissolve the popularly elected constituent assembly, and a promise of prompt municipal and trade union elections. The Popular Democrats also demanded an end to the present divisions within the Movement leadership and the urgent adoption of measures to deal with the rapidly deteriorating economic situation.

The withdrawal of the Popular Democrats has effectively dissolved the coalition and paves the way for the formation of a new government. Prime Minister Goncalves has been charged with naming a new cabinet, and a Movement spokesman has said it will not be composed exclusively of military officers. There is speculation that non-party civilian technical experts will join the military in the new body.

Meanwhile, the Revolutionary Council is being subjected to increasing pressure from all sides. At a large demonstration in Aviero last weekend, Catholics demanded the return of the church radio, which is occupied by pro-communist workers. In Rio Maior, just north of Lisbon, local offices of the Communist, and a fellow-traveling party, were sacked and burned by local farmers. On July 16, a pro-communist demonstration—one of several held this week—was joined by soldiers from a leftist military unit.

The firm stand taken by the non-communist parties against the proposed formation of popular councils has been reinforced by sizable demonstrations by the Socialist Party, which is openly moving toward direct opposition to the Armed Forces Movement. The Socialists have publicly denounced security chief Otelo de Carvalho over his role in the *Republica* affair and are demanding Goncalves' resignation. Party leader Mario Soares has also denounced the popular councils concept as a tactic by the military to establish a communist dictatorship and has threatened a "symbolic paralysis" of the country if the voice of the parties is not heeded.

There are increasing signs that these and other vital issues—notably the threatening economic collapse, the resumption of fighting in Angola, and the growing impatience of the Portuguese people and even members of the Movement itself—may at last bring to a head the disagreements and divisions among principal members of the Revolutionary Council.



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In its public statements the Movement has already begun to temporize on its plans to bypass the parties. It has suggested that the proposals on the popular councils do not constitute an immutable law and, in any case, are to be established over a long period. If the moderates' move to oust Goncalves should fail, however, another lurch to the left appears likely. Already apprehensive, militant Socialists have requested arms and other assistance from the US to offset the strength of the Communist militia and other armed radical groups. Should the Revolutionary Council not succeed in re-establishing its authority soon, it is possible the situation could deteriorate into armed conflict.

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**USSR-US: CRITICISM OF SCHLESINGER**

The Soviet media have reacted sharply to Defense Secretary Schlesinger's recent remarks on US nuclear employment policy, concentrating on the political rather than the military significance of his statements.

The most definitive response appeared in *Pravda* on July 12 under the authoritative "Observer" by-line. The article condemned the Secretary's comments as "bellicose statements...in sharp contradiction" to US-Soviet security negotiations and to detente in general. It said he was reverting to the "bankrupt" strategies of the Cold War and flouting the intent of the bilateral agreement on prevention of nuclear war by raising the possibility that nuclear weapons would be used in any crisis situation. These points recall similar Soviet criticism of the Secretary since early 1974 for his comments on US targeting doctrine.

Soviet commentators have attempted to explain the recent statements in terms of an internal debate in the US over foreign policy following the withdrawal from Southeast Asia. The *Pravda* article accused the Secretary of being a spokesman for those hewing to the "militarist dogmas of the past." It and other Soviet commentaries have said that his remarks were part of a Pentagon effort to win approval for the US military budget.

The media have drawn liberally from US critics of Schlesinger's comments in an effort to show that they are counter to the mainstream of US opinion. Nevertheless, the Soviets betrayed some concern over the implications of his statements for administration policy. Noting that the Secretary is a prominent member of the US government, one commentator asked why this moment was chosen for a discussion which "certainly doesn't facilitate the course Washington professes to follow."

While clearly peeved, the Soviets have not used the Secretary's statements to call publicly for greater defense efforts of their own. One

correspondent mildly observed that the best reply to opponents of detente is "concrete deeds" to improve international understanding. Moscow's support for a successful CSCE summit and its campaign to play up the prospect of moving from political to military detente suggest a continuing desire to pursue better relations with the US. [redacted]

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**USSR-FRANCE: CHILL IN RELATIONS**

The most recent manifestation of a "chill" in French-Soviet relations is the vitriolic attack by the Soviet news agency, Tass, on French Minister of the Interior Poniatoski earlier this month. Poniatoski was condemned for asserting that the "Ponomarev document" recently published in a French newspaper was not a fraud, as claimed by the French Communist Party, but a Soviet guideline for seizure of power by communist parties.

Moscow could hardly have ignored Poniatoski's remarks, in view of strong Soviet protestations that the document was a forgery trumped up by the Portuguese Socialists to discredit the Soviets and the Portuguese Communists. The French nevertheless assume that the Soviet attack on Giscard's closest political associate was also a thinly veiled signal to the French president on other issues. [redacted]

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[redacted] The Soviets fear that an agreement on Pluton could enhance the prospects for an independent European defense, which Moscow strongly opposes. Moscow may have viewed its blast at Poniatoski as an opportunity to weigh in with Giscard prior to the French - West German summit meeting at the end of this month.

Paris and Bonn continue to deny that there are plans for stationing Plutons in West Germany, although the French and West German military planners are probably making contingency plans to use the Pluton in the event of hostilities.

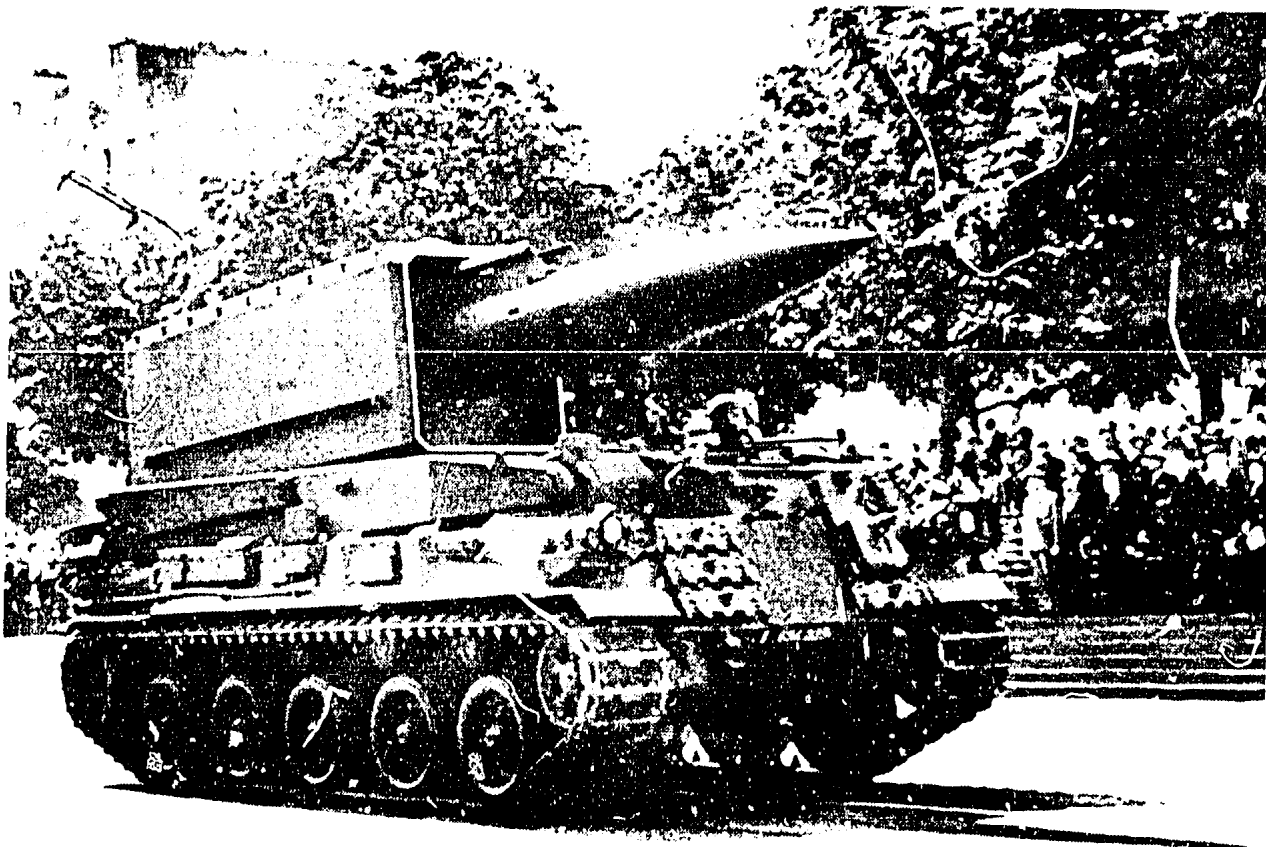
Giscard has already shown he is aware of Soviet concerns in this area. Last May, he

sympathized with Soviet fears of an independent European defense arrangement and suggested the problem not be addressed until more political unification has been achieved. His statement was widely criticized in France as a concession to the Soviets.

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French-Soviet relations have suffered other, more minor irritants in the past two months. [redacted] the irritants include Giscard's termination of V-E Day celebrations in France and his visit to Poland in mid-June. The Soviets were also annoyed by the several strong attacks on the USSR made by Chinese Vice Premier Teng Hsiao-Ping during his visit to Paris in mid-May. *Pravda* took French Prime Minister Chirac to task for expressing satisfaction with the visit.

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Pluton missile passes review stand during Bastille Day parade

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## EASTERN EUROPE: FLOODS AND HARVEST

Early this month, heavy rains and flooding hit Eastern Europe and Yugoslavia at the start of the harvest season, causing major losses of grains and other crops. By contrast, the grain crop in East Germany is in trouble because of severe drought.

Eastern Europe had been headed for an excellent harvest. In mid-June, grain output, including that of Yugoslavia, was forecast at about 95 million tons, almost 6 percent greater than in 1974. Based on early weather damage reports, grain losses of roughly 9 million tons are now likely. Losses may run higher if the rising Danube causes more flooding in Romania.

Flood waters have receded in Czechoslovakia, Hungary, and Yugoslavia. So far, the number of fatalities is unknown; Romania reported that 60 persons died. Although thousands of persons were evacuated in rural areas, major urban centers reportedly sustained little damage, and the floods caused only minor disruption to industry.

## Romania Hardest Hit

According to the minister of agriculture total grain loss is expected to reach about 1.5 million tons—equal to more than 10 percent of last year's harvest. In addition, significant losses of sugar beets, potatoes, vegetables, fruit, and livestock have occurred.

Romania has appealed for emergency US disaster relief. At least 200,000 tons of feed grain is needed, much of which Bucharest hopes to receive as an outright grant. Requests for construction and industrial raw materials also were made, although the need for them is less acute. In the longer term, Bucharest wants low-interest credits to finance necessary imports and to expand exports. As in 1970, Bucharest may be exaggerating its claims of destruction in hopes of getting as much assistance as possible.

Requests also have been made to world food agencies. Bucharest, in fact, appears to be looking mainly to the West—and not to its East European allies—to supply the bulk of materials needed for recovery.

In addition to the US, Romania has approached West Germany, France, the UK, Italy and Belgium for debt rescheduling, credits, and assistance in easing EC import quotas, as well as outright grants. Romania's CEMA partners are unlikely to provide aid. Five years ago, Peking was the most generous benefactor and Moscow provided only belated token assistance.

## Other Countries Less Damaged

Other than in Romania, damage from storms and localized flooding was probably the most severe in Yugoslavia. In Vojvodina and Slavonia—Yugoslavia's bread basket, flanking the Danube and Drava rivers—emergency harvesting has been delayed by rain and strong winds. Early estimates project wheat losses at 1 million tons, about one fifth of the expected crop. Losses of other crops may also be high.

The level of the Danube has fallen in Czechoslovakia and Hungary. Although flooding caused some crop losses in Czechoslovakia, most damage to grains will come from lodging. In Hungary, the harvest had just begun when the rains came. About one quarter of a million acres were reported flooded by July 8, mainly along the Danube and Tisza rivers. Over one half of the flooded land was sown to corn.

In stark contrast to flooding elsewhere, a two-month-old drought endangers the grain crop in East Germany. The northern and central countries have suffered the most with only trace amounts of rain falling in some areas. Weather data for the first 10 days of July indicate that the major grain producing area in the south is also drying up. Emergency harvesting has started in 6 of 15 counties.

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## ANGOLA: ANOTHER ROUND

After almost a week of intense fighting in Luanda, the Popular Movement for the Liberation of Angola forced the rival National Front for the Liberation of Angola to withdraw from the city. The latest round of clashes may also have destroyed the territory's fragile six-month-old transitional government—a development that could seriously disrupt Lisbon's decolonization program for Angola.

With the fighting in the capital going against the Front, its senior representative in the transitional government, Johnny Eduardo Pinnock, and a number of other Front officials fled to the organization's headquarters in Zaire. In a subsequent press conference in Kinshasa, Pinnock announced that he was resigning from his position. He also claimed that the Popular Movement is now controlled by "extremists" who have pushed aside the group's long-time leader, Agostinho Neto.

Pinnock's resignation, which carried an assertion that the National Front is mobilizing for full-scale war, was probably designed in large part to prod the Portuguese into imposing a truce through force of arms. Such a truce may be the Front's only chance to pull itself together. With the exception of a few small garrisons scattered around the environs of Luanda, the Front is now isolated in its tribal base in northwestern Angola, separated from the capital by territory controlled by the Popular Movement. It is probably low on arms and supplies and in no position to wage sustained war at the present time.

The military rulers in Lisbon, who have considerable prestige invested in their effort to lead Angola to independence next November, will probably try to convince the National Front to return to the government. The Front is unlikely to return unless the Portuguese can guarantee peace in the territory, at least until national elections can be held. It is probably too late for that, however. Although some 24,000 Portuguese troops remain in the territory, there is a real danger they would refuse to intervene between the two hostile liberation groups.



Agostinho Neto

Moreover, troops in Portugal might well refuse to go to Angola at this juncture.

Portuguese Foreign Minister Antunes, who made a quick visit to Luanda during the height of the fighting, was unable to arrange a ceasefire. He subsequently informed UN Secretary General Waldheim that Lisbon may have to take "emergency measures" in the territory. Antunes hinted last Sunday night prior to his departure for Luanda that Lisbon might have to appeal to the UN in order to protect the decolonization process.

Whatever the Portuguese and the National Front may have in mind, the Popular Movement appears determined to score a military victory against its competitors, including the National Union for the Total Independence of Angola, the smallest of the three liberation groups. The National Union has refused to take sides in the fighting between its larger rivals but on several occasions has been attacked by the Popular Movement.

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## COMORO ISLANDS

### Independence Declared

One of the final rounds in the breakup of France's once extensive overseas empire is being played out on the Comoro archipelago in the Mozambique channel. The legislature of the Comoro Islands declared the islands independent on July 6. The status of one island—Mayotte—is still in doubt, however; its inhabitants want to remain part of France.

The islands are a major source of the base essence used by the French perfume industry and have had a large measure of internal self-government since 1961. Independence was abruptly declared by the Comorian government to counter the effect of a bill passed in late June by the French National Assembly. The bill provided for the independence of the archipelago later this year, but allowed each of the islands to vote separately on a proposed independence constitution. This would have permitted the Mahorais—the inhabitants of Mayotte—to end their association with the other islands and make Mayotte a French department.

In a referendum last December, over 60 percent of the Mahorais opted to retain links with France, while the people on the other three islands voted overwhelmingly in favor of independence. There is heavy French and Christian influence in the Mahorais' culture, in contrast to the Muslim culture that is predominant on the other islands. Mayotte political leaders denounced the independence declaration as illegal, and are demanding that France maintain its authority on the island. Ahmed Abdallah, the new chief of state, has vowed to keep Mayotte a part of the Comoros.

### Paris Seeks Middle Ground

Paris is willing to accept the Comoros' independence, but it is keeping its options open regarding Mayotte. The government issued a communique this week saying it would "take into account" the wishes of the Mahorais, but it did not explicitly support Mayotte separatism. France has agreed to withdraw its troops and civil servants from all the islands except May-

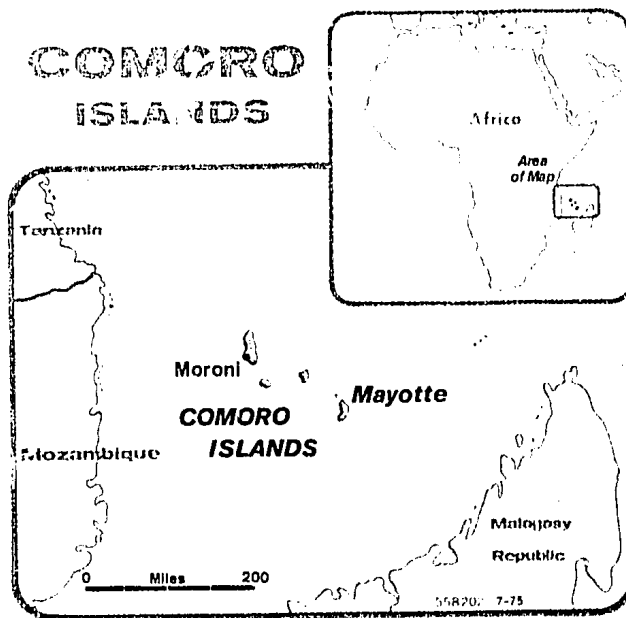
otte. Paris is trying to locate a middle ground between Moroni—the Comorian capital—and Mayotte, but it will not be easy.

France is concerned that retaining Mayotte will subject Paris to charges of attempting to perpetuate a colonial arrangement, in order to ensure France a military presence in the Indian Ocean. France is already under increasing criticism from African and Arab countries because of its continuing hold on the French Territory of Afars and Issas.

Relations between the Comorian government and France will be strained if Paris finally agrees to retain Mayotte. The Comorians might refrain from an open break because of their reliance on French aid. A cooling of relations, however, would probably encourage the Comorians to seek assistance from Muslim countries.

Libya has shown an interest in the islands; several delegations have visited the Comoros, and Abdallah visited Tripoli in March. Saudi Arabia may provide some aid to prevent the islands from falling under radical Arab influence. Iran may also be willing to help.

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ARGENTINA: CRISIS CONTINUING

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President Peron has been seriously weakened by political and economic setbacks during the past two weeks, and there are no indications that anyone within the government is capable of halting her deteriorating position.

even in an unofficial capacity.

Lopez Rega has been ousted from his official posts and has moved out of the presidential residence, but it is widely believed that he is still advising Mrs. Peron. Military, labor, and Peronist political leaders will continue to urge the President to end his influence.

The prospects for an orderly transfer of power, in the event that Mrs. Peron does step aside, improved considerably this week with the election of a moderate Peronist, Italo Luder, to fill the Senate's provisional presidency. Luder, who is first in the line of succession, is a respected constitutional lawyer and academician and is well regarded in most political circles.

The crisis is likely to be protracted. Lopez Rega's opponents still would prefer that Mrs. Peron remain in the presidency, and they seem content for the time being to wait for her to make the next move. They now appear prepared to accept her resignation, or even force her ouster, however, if she insists on retaining him—

The government has not been able to formulate proposals for dealing with the worsening economic situation that are politically acceptable to labor. Minister of Economy Rodrigo, a protege of Lopez Rega, is continuing to push



President Peron swears in Carlos Villone as Social Welfare Minister, replacing Lopez Rega.

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most of the economic austerity program he outlined on June 30. He is totally discredited, however, and may soon be forced to resign. Strikes and work stoppages are occurring daily in various cities as concern grows that even the recent, massive wage hikes soon will be eaten up by soaring inflation. Moreover, leftists within the labor movement are seeking to exploit the current tension and widen the gulf between workers and their top leaders. Some unions are jealous because their wage increases did not match those of other unions.

Though there is no evidence of active plotting against the government, the likelihood of Mrs. Peron remaining in office until the election in 1977 has diminished considerably. By clinging to the hated Lopez Rega, the President has alienated labor and Peronist political leaders at a time when economic problems have reached crisis proportions. The economy alone would have severely taxed the skills of a strong, charismatic leader. Since Mrs. Peron is neither, the added problems caused by her association with Lopez Rega may be more than she can handle.

#### PERU: NONALIGNED CONFERENCE

Latin America will provide the dais for the next rhetorical attack on imperialism by the nonaligned conference. As the region has shifted away from the US toward the Third World, it has produced a rotating leadership among the more aggressive proponents of an international reformation. Venezuela, Mexico, and Peru engage in an active but friendly competition for the global spotlight as spokesmen for the area. The first two will share stardom as launchers of a new regional organization, a Latin American Economic System, probably at the beginning of August. Then Peru will take its turn, as host for the foreign ministers conference of the non-aligned on August 25-29.

The Lima site for the meeting underlines the growing case with which the Latins play the Third World role. Only a few years ago, the Latins saw little common ground with the generally less developed Asian and African regions and shied away from communist regimes. In 1970, Cuba was the sole full-fledged member of the nonaligned conference. By 1973, seven Latin and Caribbean nations attended the summit at Algiers as full members; eight went as observers; one was "present." Now the Latins are often instigators of Third World issues in the UN and other world forums, especially on economic matters.

Venezuela and Mexico have been particularly agile at maintaining an ambidextrous foreign policy that allows for a productive and cordial relationship with the US and at the same time strengthens their place with the lesser developed. Peru had begun to bend somewhat away from its more clearly adversary role vis-a-vis the US, but the interest of moderates in the Peruvian leadership in easing tensions with Washington will not put a brake on Lima's indulgence in Third Worldism.

The minority of Latin states that hew unabashedly to a pro-US position continues to shrink. Even the Somoza government in Nicaragua has begun to examine ways to exhibit differences with Washington in order to avoid isolation from the mainstream of Latin America.

The Lima conference, coming immediately prior to the opening of the 7th Special Session of the United Nations, will be the major point of coordination for the Third World positions at New York. Many contentious issues will be topical, and sources of friction and division among the nonaligned continue to be many. Cuba, for example, has already attacked the oil producers as a budding new privileged minority. The pressure for unity nevertheless remains powerful, and will probably be further strengthened as the group begins to react to recent warnings from Washington about its role in the UN.

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Torrijos

### PANAMA: IMPATIENCE OVER DELAY

Panamanian leader General Omar Torrijos is laying the groundwork for a campaign to demonstrate his frustration about the delay in negotiations on a new canal treaty. Torrijos told student leaders on July 9 that he no longer felt bound to preserve the confidentiality of the talks because the US government had breached the secrecy agreement. He thus left the door open to release those facts that would increase public support of his canal stand.

The briefing for the students, the first in a series of meetings Torrijos intends to hold with various groups, is probably intended to signal his annoyance at the lack of recent progress in the talks, the indications of opposition to the negotiations by members of the US Congress, and the pessimistic articles in the US press about the future of the talks. In statements to the press in early July, Torrijos declared: "When all

peaceful solutions are closed to a country, then it must resort to solutions that are not peaceful."

The Panamanian leader is also concerned about rising criticism at home of his handling of the negotiations. He has raised expectations for an advantageous treaty within a fairly short time frame and feels compelled to produce concrete results. A prolonged delay, he fears, will provide ammunition to critics and weaken popular support for his regime.

According to the pro-government Panamanian Student Federation, the administration is already taking several steps to bolster its canal negotiating position. The opening of a dialogue with various sectors of the society is the first move. In the international arena, there will be even more emphasis on establishing diplomatic relations with all countries (the USSR and China could come soon) and strengthening ties with Third World countries. At the UN, efforts will be increased to assure Panama a seat on the Security Council, and the canal issue will be submitted to the General Assembly.

Although for the present Torrijos may be leaning toward this fairly moderate course, he may decide relatively soon that he should give Washington a preview of what to expect if a new treaty is not signed. He could choose to use carefully controlled student demonstrations, perhaps involving minor harassment of US citizens, to demonstrate Panama's unhappiness with the present situation.

At least initially, Torrijos would consider such actions a necessary tactical move and not a reversal of his view that negotiation is the best way to achieve Panama's canal goals. If these actions failed to produce forward movement, he could rapidly marshal students and other groups for more serious demonstrations that could eventually lead to a confrontation.

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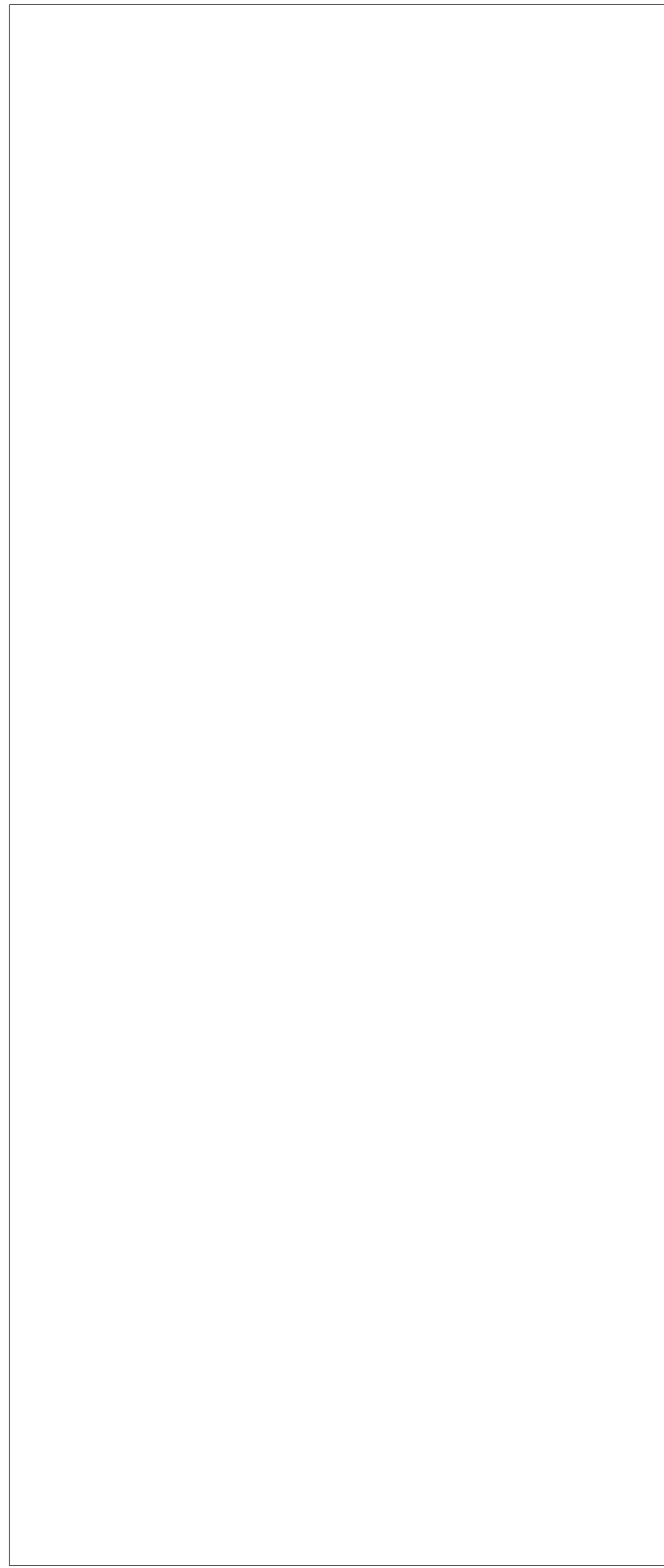
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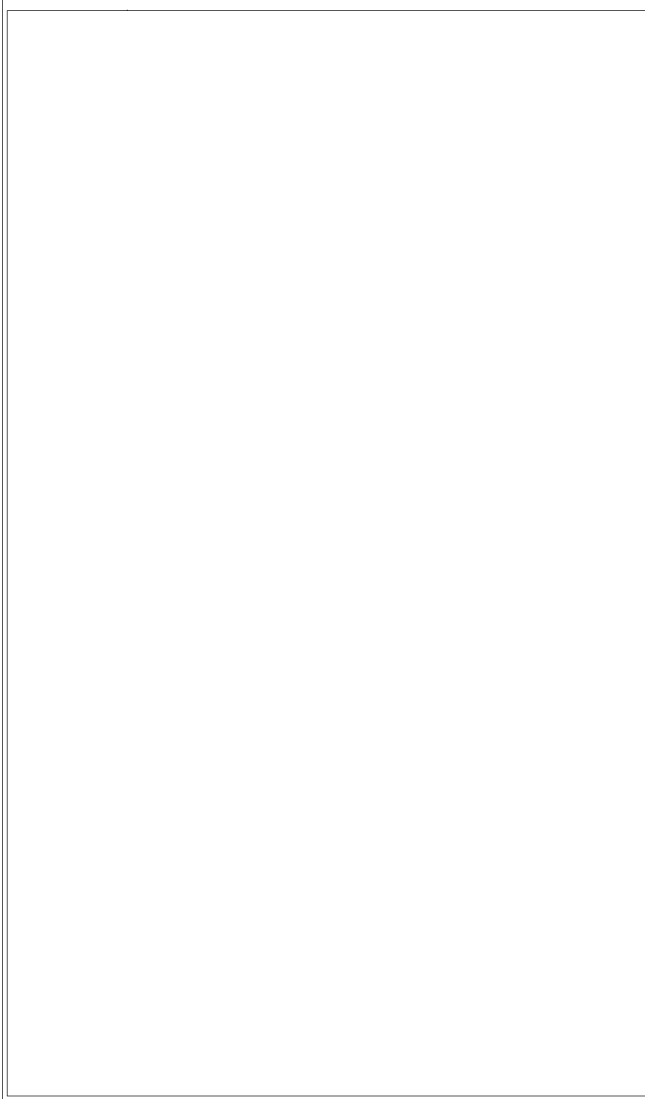
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**LAOS: LITTLE PROGRESS**

The Lao have committed no new mischief against US facilities in Vientiane since demonstrators and troops moved into several USIS facilities nearly three weeks ago. Little progress, however, is being made toward resolving several difficult problems.

Students and police still occupy two US compounds in the capital, and government

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officials refused to return non-USAID property seized by the demonstrators. Efforts to resolve demands for termination salary by national airline employees affected by the end of AID contracts remain deadlocked, despite talks between the US charge and Prime Minister Souvanna Phouma as well as other ranking officials. In a relatively minor concession, Lao troops on July 15 turned over the USIS warehouse to US control. All USIS installations have now been returned to the US.

Three hard-line communist ministers, recently arrived from Sam Neua, have taken up their duties in Vientiane to replace relatively moderate communist ministers placed on sick leave. Phoune Siprasouth, who is by far the highest ranking of the trio as acting deputy prime minister and foreign minister, will presumably have direct charge of all future negotiations with the US. Phoune proved tough and inflexible during the lengthy talks that led to the Lao peace agreements.

The Lao are just beginning to realize - apparently with some shock - that they will not receive further aid. The communists so far have offered no signs on whether they will accept continued diplomatic relations in the absence of new US aid. On July 11 the Lao government formally asked for a beginning of negotiations on a new aid agreement.

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## VIETNAM: RECOVERY UNSPECTACULAR

Hanoi has had better than two years since the signing of the cease-fire arrangements in South Vietnam to rebuild the economy of North Vietnam. Overall growth during 1973 and 1974 was unspectacular, and clearly less than Hanoi had hoped. Moreover, the take-over of South Vietnam is complicating plans for development of the North over the next few years.

After the cease-fire, Hanoi rapidly restored the bomb-damaged transportation, electric power, and small modern industrial sectors, its priority objectives. Transport activity increased as roads and bridges were repaired. Reconstruction of the Thac Ba hydroelectric power plant, the Uong Bi and Thai Nguyen thermal power plants and construction of a new thermal plant at Ninh Binh restored nearly all of the electric power capacity that existed before the bombings; 75 percent had been knocked out in 1972. The reconstruction effort as a whole, however, was makeshift and shoddy.

There were some gains in production in 1974, but attempts to restore output to pre-war levels in iron and steel, cement, chemical fertilizers, and coal were only partially successful. Extensive damage surveys and shortages of electric power, fuel, and raw materials and technical skills combined to delay the start of reconstruction.

Output from light industry and handicrafts—which except for textiles emerged from the bombing relatively free of direct damage—grew moderately with the improvement in transportation facilities, raw material supplies, and electric power availability. Repairs to damaged textile plants, including those at Nam Dinh and Haiphong, and construction of new ones probably restored most of the country's textile production capacity.

Agriculture still dominates the economy, accounting for 35-40 percent of national output and employing 70 percent of the civilian labor force, but this sector has lagged because of lack

of investment and muddled policies. Rice yields are still among the lowest in Asia, attributable to insufficient irrigation, water-control facilities, farm machinery, and high quality fertilizers. Rice output stagnated in 1973 as adverse weather damaged the autumn harvest, but last year output was up 10 percent under favorable growing conditions.

Hanoi has leaned heavily on its communist allies for commodity and capital assistance. Aid jumped from \$425 million in 1972 to about \$600 million in 1973 and then to \$1.2 billion in 1974.

Last December, Hanoi adopted an ambitious 20-percent target for economic growth in 1975, but this now appears unattainable even though substantial industrial growth can be expected as restoration and expansion of large plants are completed. Hanoi simply did not anticipate the military take-over of the South in April, which has forced the North to focus attention on improving security, administering the government, and reviving the economy in the South.

Growth prospects beyond the next year or so are likely to get worse before they get better, despite a large labor force and relatively abundant natural resources. North Vietnam lacks the management skills, technical competence, and incentives to grow quickly. The transition to economic integration of the North with the South will require major adjustments in Hanoi's investment, production, and distribution plans. For this reason, Hanoi scrapped its earlier 1976-80 five-year plan and will probably replace it with a new one that will scale down economic targets in the North in order to devote some resources to socialization of the South's economy. Finally, Hanoi probably cannot count on receiving as much foreign aid as in the past, since the USSR and East European countries are insisting on closer supervision of aid flows in the future than they did during the war.

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