

The President's Daily Brief

June 20, 1974

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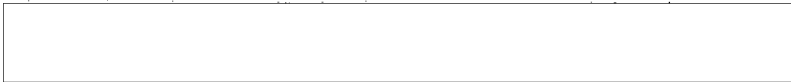


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THE PRESIDENT'S DAILY BRIEF

June 20, 1974

PRINCIPAL DEVELOPMENTS

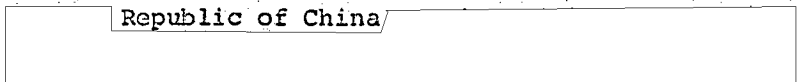


(Page 1)

The Lao Communists are still well out in front politically in the ten-week-old coalition government, but the non-communists are finally showing some signs of life. (Page 2)

Moscow's international economic position is expected to improve considerably over the next few years as a result of large hard-currency surpluses in its balance of payments with the West. (Page 3)

A study by the intelligence community on Prospects for the Caribbean (excluding Cuba) reaches the conclusion that a troubled future for the area is inevitable. (Page 4)



Republic of China

(Page 6)

Prime Minister Rumor won agreement last night on an economic austerity program for Italy. His center-left coalition government remains in place. (Page 7)

A note on Spain appears on Page 8.

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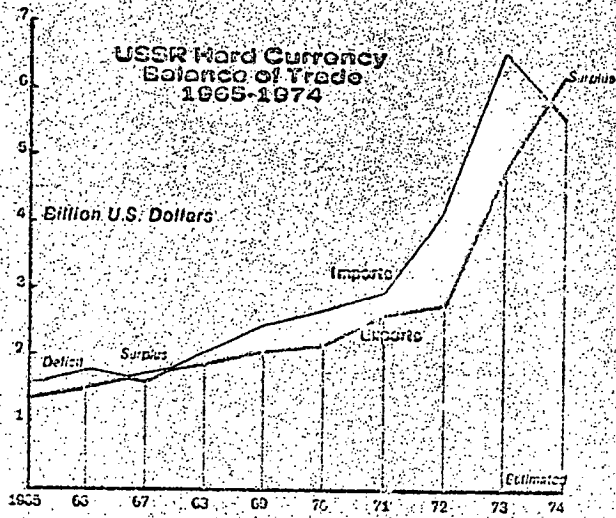
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LAOS

The Lao Communists are still well out in front politically in the ten-week-old coalition government, but the non-communist side is finally beginning to show some signs of life. Aided by Prime Minister Souvanna's parliamentary maneuvering, non-communist ministers in the coalition cabinet have succeeded in at least temporarily deferring cabinet action on two important proposals which Lao Communist leader Souphanouvong recently pushed through the Joint National Political Council.

One of the proposals sets forth Communist domestic and foreign policy priorities for the new coalition. The other lays the groundwork for a system of press censorship. The non-communists have also been able to delay Communist efforts to secure the new coalition's recognition of the Viet Cong's Provisional Revolutionary Government. These belated maneuvers aside, the non-communists still have a long way to go to counter the opposition forces effectively.

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USSR

Moscow's international economic position is expected to improve considerably over the next few years as a result of large hard-currency surpluses in its balance of payments with the West. Barring a major shift in Soviet trade policy or substantial purchases of grain abroad, the USSR's hard-currency surpluses for 1974-75 could amount to more than one billion dollars annually. Rising prices for Soviet exports of oil, minerals, and other raw materials as well as a sharp fall in grain purchases following last year's record harvest should combine to produce Moscow's improved situation. The anticipated hard-currency surpluses will end more than a decade of Soviet deficits.

The Soviets are likely to exploit their strengthened monetary position in several ways:

--They will bargain hard when paying cash and will be reluctant to accept unsubsidized loans at high interest rates.

--They will be more selective in choosing trading partners, playing one off against the other in an effort to obtain the technology, goods, and terms they seek.

--They may postpone or curtail exports of some traditional sources of hard currency--diamonds and gold, for example--in the expectation that both demand and prices will remain high.

It is not likely that Moscow over the next year or so will use its hard-currency reserves to accelerate significantly imports of machinery and equipment. A significant upsurge in imports over a short time would be hard to manage, mainly because of the difficulty in adjusting Soviet economic plans and because of the long lead times involved in implementing large investment projects. In time, however, the Soviets can be expected to adjust both their plans and domestic economic expectations to utilize more fully their strengthened international monetary situation. Meanwhile, they will probably place these hard-currency surpluses in interest-bearing deposits in Western banks.

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THE CARIBBEAN

A study by the intelligence community on Prospects for the Caribbean (excluding Cuba) reaches the conclusion that a troubled future for the area is inevitable.

Long a protected colonial preserve, the Caribbean is being swept by nationalism and by the spirit of assertiveness common throughout the underdeveloped world. The countries of the region are characterized by small land areas, a general lack of natural resources, and populations large enough to burden economies but too small to provide markets of scale.

Socio-political problems are mounting, and the risk of turbulence is growing. The basic problem will be one of too many people and too few opportunities.

Frustrations over social and political inequities, unemployment, and poor public services are creating a climate exploitable by radicals and demagogues. The trend toward personalist authoritarianism will continue, and power will be retained by increasingly repressive means. There are likely to be crises of varying intensity and duration, but they will probably remain localized.

Outside influences are generally constrained by the region's strong insularity.

--China and the USSR will try to increase their official presence and their influence within the limits of opportunities offered, but the region remains a low priority for them.

--Cuba is carefully cultivating its neighbors, but its influence will grow slowly, particularly as long as it is a Soviet client.

The US is the major influence on the area. Various points of conflict with the US will develop, but few are likely to pit a united Caribbean against the US. However, the contradictory needs and insecurities of the countries, and, in many cases, the personalities of their leaders, will make them difficult to deal with.

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--An adversary relationship is predictable on the terms of US investment in the Caribbean (US private investment totals \$3.4 billion), especially for the highly visible extractive industries.

--Chances are good that the US can retain its military facilities in the area, but at greater cost.

--The US will remain an important market for the area's products, and the US will continue to supply a significant portion of the region's imports.

--The political fragmentation of the region, the lack of self-confidence by local governments, and a desire to avoid even symbolic connection with the colonial past will continue to complicate US-Caribbean relations. It will be easier to deal bilaterally with these fragmented states. But because the image of independence will be an overriding requirement for the new countries, they will often be more comfortable dealing through international organizations, especially in such matters as aid and assistance.

REPUBLIC OF CHINA

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ITALY

Prime Minister Rumor's three-party coalition government agreed last night on an economic austerity program. After nine shaky days, the center-left government remains in place, less because of its own efforts than because:

--President Leone refused to accept Rumor's resignation.

--Italy was given permission to use its gold reserves as collateral for foreign loans.

--Italians became more aware that there is no alternative to a center-left government and that the economic situation is serious.

The terms of the agreed program have not yet been announced; it is expected to contain stiff tax hikes and credit restraints to curb imports and inflation. The Socialists had been resisting credit restrictions because of concern that recession and unemployment would result.

The Socialists introduced a problem during the negotiations on June 18 when they pressed for the institutionalization of consultations between the center-left government and the Communist Party on major issues. Italy's largest party, the Christian Democrats, has always resisted--and presumably did again--giving the Communists a formal role in the decision-making process.

The Socialist attempt to secure a larger role for the Communists may have been inspired by the gains the left made in the Sardinian elections early this week. The Socialists have heralded these results as fresh evidence of a nationwide swing to the left. They may also have been motivated by a desire to associate the Communists with what will probably be unpopular belt-tightening measures, since the Socialists and Communists compete for the votes of the same general portion of the electorate.

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NOTE

Spain: The US embassy in Madrid reports that Don Juan, the pretender to the throne, is expected to issue a statement this weekend calling for greater liberalization in Spain. The declaration is reported to have the support of the Spanish Socialist Party, the Communist Party, some military officers, and Opus Dei--the influential Catholic lay organization--all of which regard recent developments in Portugal as a model for Spain to follow. Even rumors of an impending declaration will have an impact on the government, which is already debating the degree of liberalization that it should allow. Those who are opposed to liberalization may use Don Juan's declaration and his association with the opposition as an excuse to postpone reforms, on the grounds that concessions at this time will only whet the opposition's appetite for more far-reaching changes.

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