

The President's Daily Brief



July 9, 1975

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FOR THE PRESIDENT ONLY

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CHINA-VIETNAM-THAILAND

China appears increasingly concerned about differences it foresees with Vietnam.

Mao Tse-tung [redacted] 25X1
[redacted] declared that the Soviet Union was 25X1
"dominating Vietnam" and could be expected to con-
tinue to use Hanoi to increase Moscow's influence
in Southeast Asia. [redacted] 25X1

[redacted] Mao [redacted] sug- 25X1
gest that Thailand [redacted] rely on China to help 25X1
protect Thai sovereignty from Soviet and Vietnam- 25X1
ese machinations.

Mao's comments [redacted] are the 25X1
most authoritative expressed by the Chinese [redacted] 25X1
[redacted] 25X1
[redacted] 25X1

[redacted] Chi- 25X1
nese journalists in Hong Kong who are responsive
to directives from Peking have been informed that
Peking sided with Cambodia in its territorial dis-
putes with Vietnam, but wished to avoid a public
dispute with Hanoi on the issue.

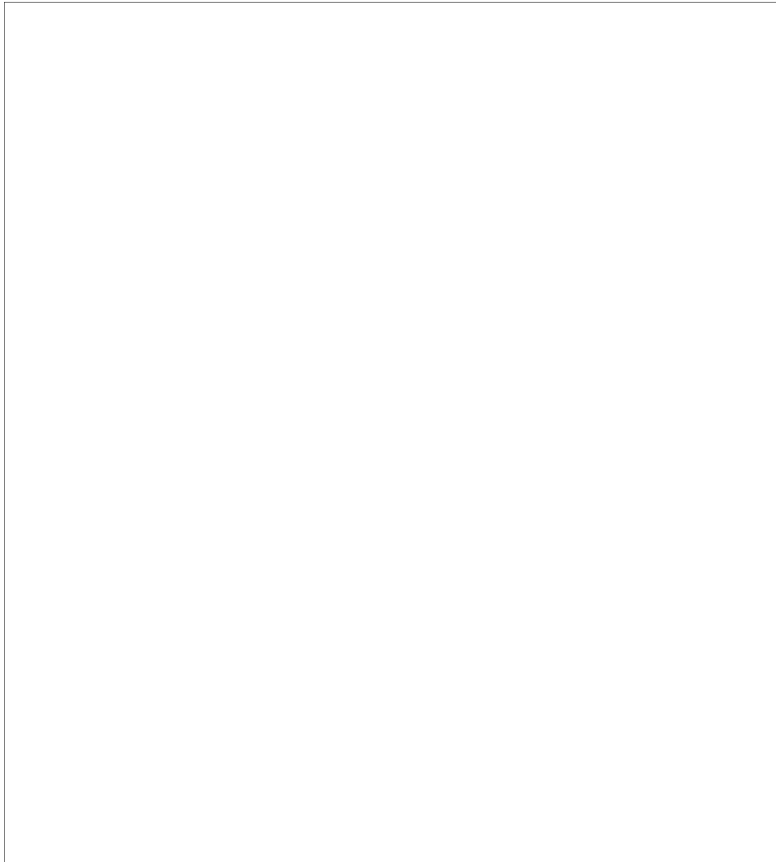
The Chinese apparently believe they still have
assets in Vietnam worth preserving, but that, even
apart from the Soviet angle, they will be forced
to compete with Vietnam for influence in Southeast
Asia now that the war in Indochina is at an end.
[redacted] 25X1

In fact, the long-delayed Thai decision to
recognize China was predicated on the assumption
that improved relations with China would check
Hanoi's influence in the region. [redacted] 25X1
[redacted] 25X1

Mao [redacted] 25X1
[redacted] dwelled on the theme that the Soviet 25X1
Union was taking advantage of new developments in
Thailand and Asia. His implication appeared to be
that Peking [redacted] 25X1
[redacted] would prefer to see [redacted] 25X1
[redacted] a counterbalance to Moscow. 25X1

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EGYPT-ISRAEL



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INDIA

New Delhi may dismiss the government of autonomy-minded Tamil Nadu State if it continues to hesitate in supporting Prime Minister Gandhi's authoritarian moves.

The imposition of a state of emergency on June 26 did not go down well with the Dravidian Progressive Federation that has governed Tamil Nadu, India's southernmost state, since 1967. The party advocates states' rights and has long opposed the concentration of power in New Delhi. Ethnic, cultural, and linguistic considerations are behind the Tamils' deep resentment of the northerners, who dominate the central government.

Since the emergency proclamation, the government in Tamil Nadu has made little effort to enforce the new regulations. It has arrested only a handful of dissenters, and press censorship is light. At a mass meeting of over 150,000 in the capital city of Madras on Sunday, the state's chief minister rejected Mrs. Gandhi's claim that internal and external forces were imperiling India's political system and had necessitated her repressive acts. He added, however, that his government would obey New Delhi's orders as long as "they do not go against our conscience."

If the Prime Minister opts to dismiss the government in Madras, she would provoke a confrontation with potentially dangerous repercussions for the nation. While she could impose her will on the state, with the help of police and paramilitary units and even the armed forces if necessary, such action would inevitably stimulate the latent separatism that has long existed in this key south Indian state.

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WAGE AND PRICE TRENDS

Progress in breaking the three-year-old price spiral has stalled in most major foreign countries. Wholesale prices have resumed their upward course for the first time in six months. The average rise in consumer prices in the Big Six, after easing early this year, has accelerated to an annual rate of 10 percent.

Stiff rises in labor costs will remain the predominant cause of inflation in the months immediately ahead. Higher oil prices next October will add to the inflationary trend. For every \$1 per barrel increase in oil prices, wholesale prices in the major countries will rise about one half of one percent.

Wholesale prices, after declining substantially in early 1975, began moving up in April. Small increases occurred in West Germany and Italy, while large gains were recorded in the UK and Italy. Japanese wholesale prices stabilized in April and May, following nearly a six-month decline. Only in France have prices continued to fall.

The decline in wholesale prices occurred chiefly because sluggish demand and falling raw material prices helped offset large increases in labor costs. As a result, the growth in consumer prices for manufactured goods tapered off to a 4-percent annual rate. In the last few months, however, raw material prices have stabilized, while the upward trend in labor costs has continued. Faced with sharply reduced profit margins, industrial firms are no longer able to absorb the added costs.

The continued rise in consumer prices largely reflects growing costs for food and services. On the average, increases in food prices since the start of 1975 have accounted for roughly one half of the rise in consumer prices in the Big Six.

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Wage rates in the UK, Italy, and Canada are rising rapidly--a reflection of militant union demands for catch-up pay hikes. Despite London's recent 10-percent ceiling on wage increases, labor settlements previously negotiated call for pay increases of close to 30 percent this year. In Italy, wages rose 28 percent (annual rate) in the first quarter, a rate that exceeds the record 1974 pace. The size of pay settlements in Canada has averaged 16 percent in the first quarter of 1975, compared with 12 percent last year.

West Germany, France, and Japan have had more success in keeping their wage-price spiral under control. In West Germany, most major unions have already settled for wage increases averaging slightly below 8 percent, while in France settlements since early 1975 have been running about 11 percent, down from 18 percent last year. Japan has managed to hold 1975 wage increases to 13 percent, well below initial demands for a 30-percent hike. In all three countries, high unemployment, numerous bankruptcies, and a severe profit squeeze have undercut labor's bargaining position.

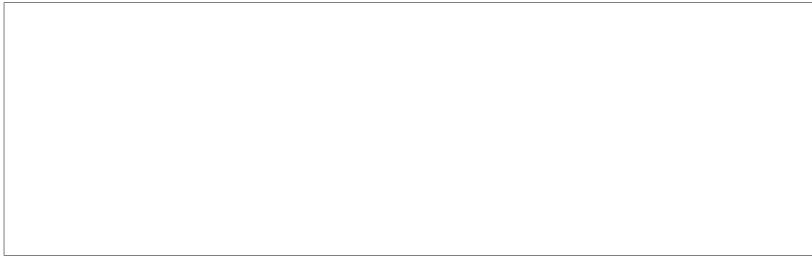
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NOTES

The USSR and Turkey will sign a major economic agreement today in Ankara.

Fully implemented, the agreement would more than double the already substantial Soviet aid to Turkish industry. At least six industrial projects worth an estimated \$600 to \$700 million reportedly are included. Total Soviet economic aid to Turkey prior to the new accord was \$520 million. Given past Soviet experience, implementation of the agreement will be slow. Nevertheless, the Soviets will welcome this opportunity to demonstrate their support at a time when Turkey is having problems with the US. Ankara, for its part, probably will use the occasion to focus international attention on the contrast between increasing aid from the USSR and the cutoff in US military assistance.

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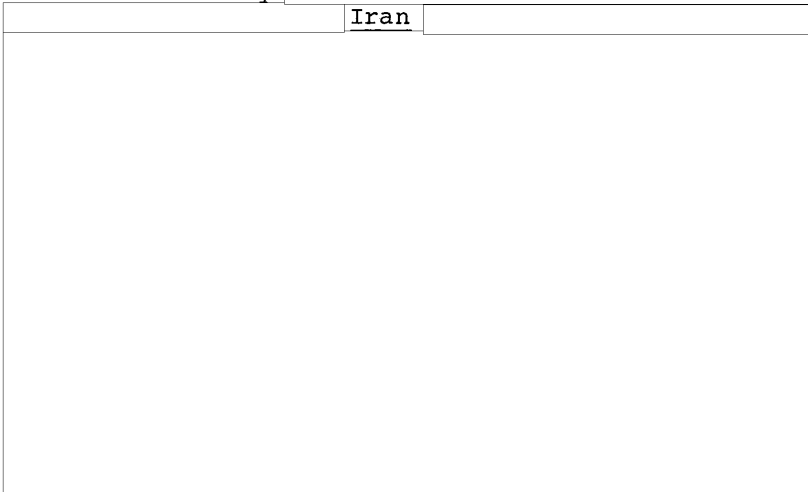
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West Germany

Iran

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There continues to be widespread speculation in Portugal that a move may be under way to oust Prime Minister Vasco Goncalves.

According to press speculation, General Otelo de Carvalho, the influential security chief and a leader of the left-nationalist faction in the Revolutionary Council, has joined with Council moderates in opposition to the Prime Minister. A move to dismiss Goncalves may come at the current session of the Armed Forces General Assembly, perhaps by trying to pin the blame for Portugal's economic difficulties on the Prime Minister and his communist-leaning advisers in the cabinet.

* * *

China has requested accreditation of its first ambassador to the European Community.

The two sides agreed in principle on this step when EC External Affairs Commissioner Soames visited Peking in May. Preliminary discussions on a trade agreement between the EC and China--which began during Soames' visit--are continuing in Brussels.

* * *

Argentina's organized labor, whose massive wage demands were finally met yesterday, has ended its general strike.

Although the settlement includes the removal of Lopez Rega as welfare minister, he remains President Peron's private secretary and will continue to influence government policy. The government has indicated that it will revalidate the wage contracts negotiated last month calling for increases of up to 130 percent. The government's decision to annul the wage contracts had precipitated sporadic worker demonstrations and finally the general strike.

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