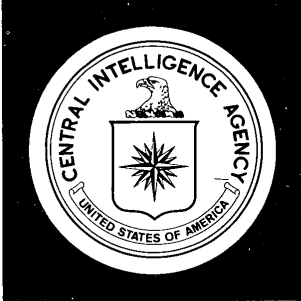


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# The President's Daily Brief

*January 7, 1977*

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FOR THE PRESIDENT ONLY

January 7, 1977

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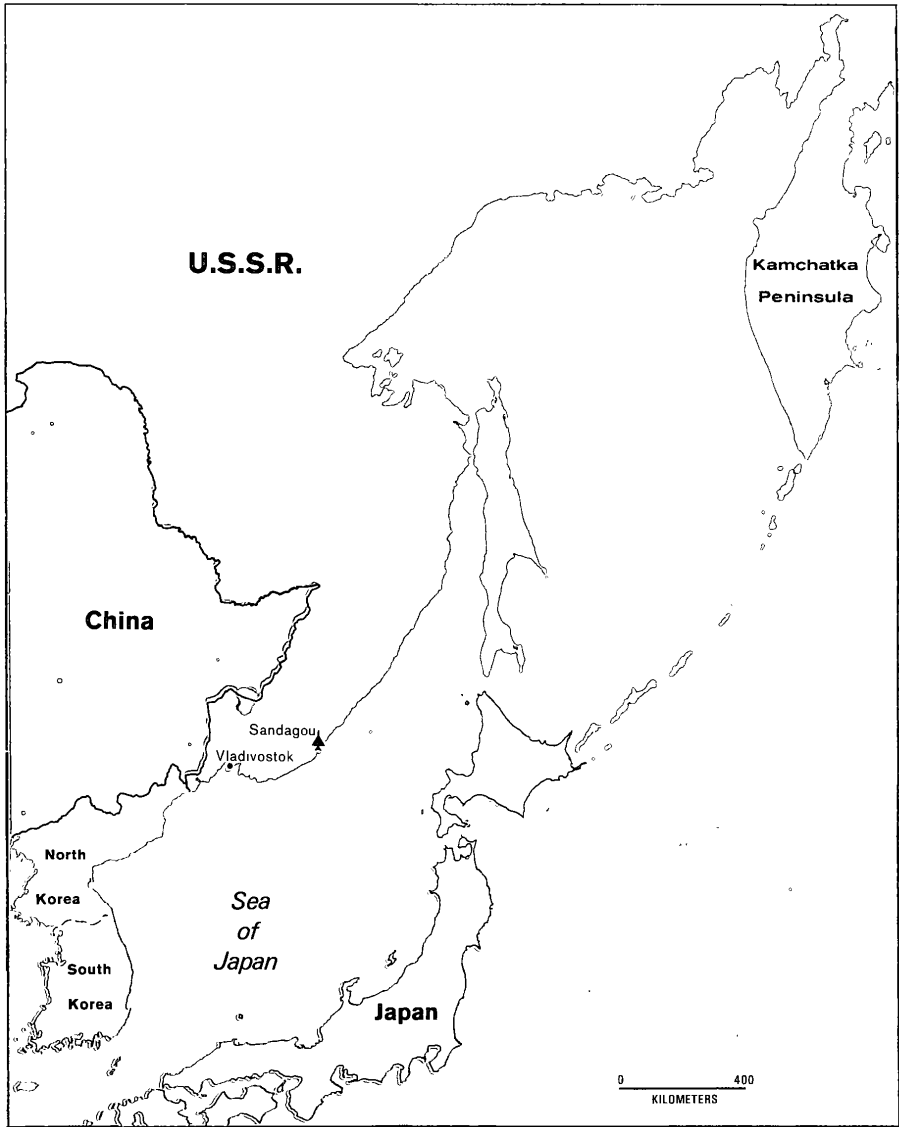
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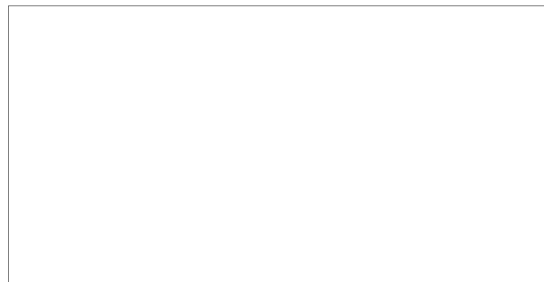
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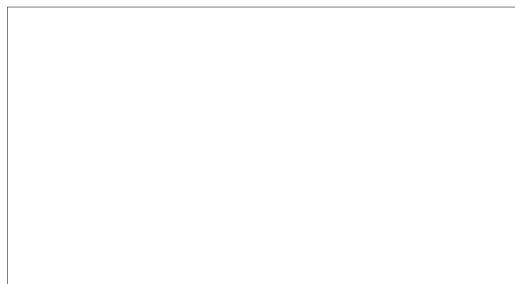
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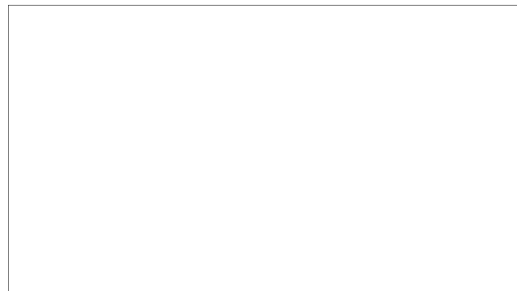

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EGYPT: *Egyptian officials are making a concerted effort to reaffirm Egypt's support for an independent Palestine.*

These officials are obviously worried about President Sadat's Washington Post interview last week suggesting that any future Palestinian state be linked to Jordan.

Cairo newspapers are taking the line that Arab solidarity is necessary in defining some "formula for coordination" between Jordan and a future Palestinian state, but are backing down from Sadat's insistence that some sort of confederal relationship "must be agreed upon."

Foreign Minister Fahmi indicated considerable discomfiture over the Sadat interview during a conversation on Monday with the US ambassador, insisting that Sadat had been expressing a personal viewpoint. Fahmi said Egypt might at some point encourage the Palestine Liberation Organization to form a confederation with Jordan, but he cited the rejection of Palestinian-Jordanian linkage by West Bank mayors as reason enough for not pressing the issue now. The foreign minister said he has assured PLO leaders that Egypt's position has not changed.

USSR - MIDDLE EAST: *The Soviets are signaling the new US administration that they intend to be a part of any Middle East negotiations.*

Moscow announced on Tuesday that it is withholding some \$4 million from its share of UN peacekeeping expenses for the Middle East. The Soviet move is a protest against the increased cost of US equipment and technicians introduced to monitor the Egyptian-Israeli disengagement agreement.

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Immediately after the signing of the Sinai agreement in 1975, the USSR put the US and the UN on notice that it was opposed to the introduction of an American presence into the UN buffer zone and to the increase in the size and cost of the UN force. The USSR's failure to pay all of its peacekeeping assessment punctuates its efforts to revive the Geneva Conference and may presage a tougher Soviet position when the Security Council considers renewal of Middle East peacekeeping forces later this year.

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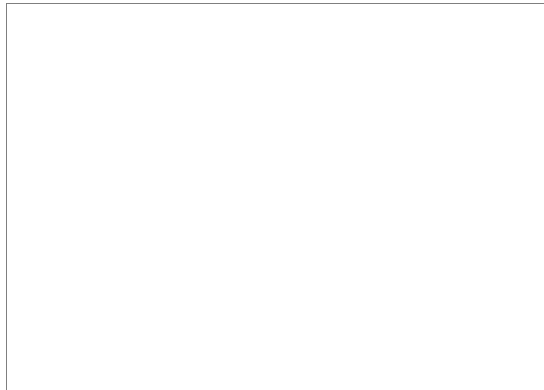
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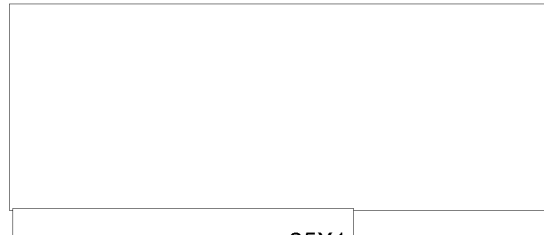
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USSR-MOZAMBIQUE:



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LEBANON:

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*terrorist incidents that occurred this week--all targeted at Christian interests.*

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Limited retaliation for this week's incidents has apparently taken place, but Christian leaders-- even extremist Camille Shamun-- have appealed for calm. President

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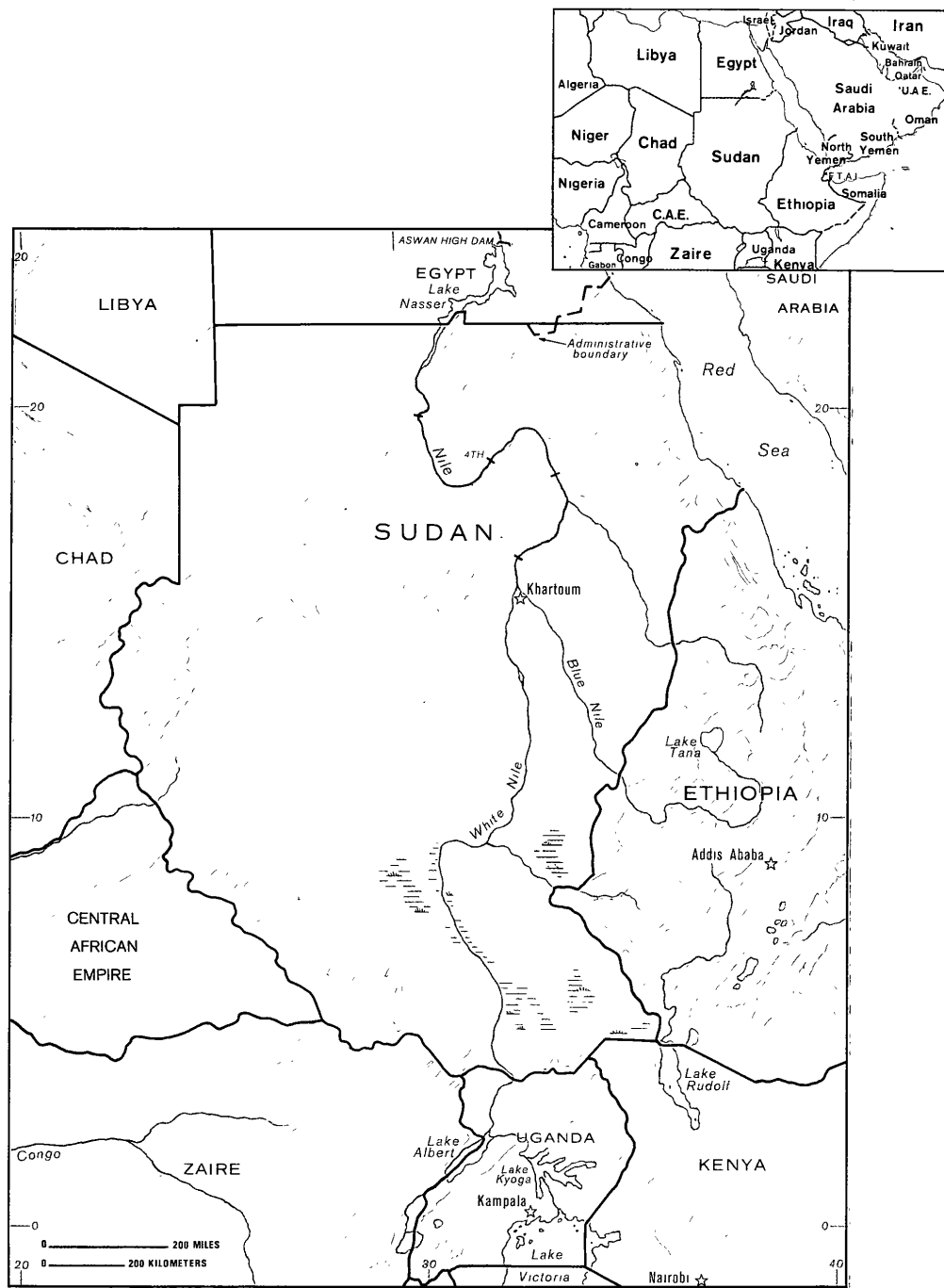
Sarkis has directed military and police officials to discover who is responsible, and leftist and Palestinian leaders have so far refrained from public statements that might inflame the atmosphere.

The fear of reprisals may spur government efforts to round up weapons, although it will also increase the reluctance of the combatants to hand them over. The government has announced that the quadripartite committee overseeing the cease-fire will meet today to make final decisions on how to enforce the collection of arms.

Lebanon's southern border has remained relatively quiet, although Arab security forces have not yet dared to patrol the area.

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NOTE

*The Sudanese government is mounting a major diplomatic and public relations campaign charging Ethiopia with aiding rebels preparing to attack the Sudan.*

In his National Day speech on January 1, President Numayri threatened to close the border with Ethiopia, and to utilize Ethiopians living in the Sudan to export unrest across the border. Khartoum has withdrawn its ambassador from Addis Ababa, and Numayri's foreign policy adviser has met with the US, British, French, and Soviet ambassadors to repeat the President's accusations.

Little military action seems likely. The Sudanese are reportedly reinforcing the border, probably to prevent infiltration by the rebels.

At most, Khartoum may sponsor small-scale raids on the camps of Sudanese Ansar tribesmen in Ethiopia--who reportedly are receiving sophisticated weapons from Libya--as it did last November. Harassing operations by local units against Ethiopian forces near the border might also occur.

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ECONOMIC TRANSITION IN SOUTHERN VIETNAM

*Twenty months after the fall of Saigon, the Vietnamese leadership is still preoccupied with reconstruction efforts, and has only tentatively defined its economic policy objectives. Economic performance has been unimpressive.*

The pace of transformation to socialism in the South was the central economic issue at the recently concluded fourth congress of the Communist Party of Vietnam. Hanoi apparently realizes that its administrative and technical talent is too thin and that the social costs and potential for lost output are too great for it to revolutionize the South overnight.

The government has firm control of the general direction of the southern economy, but still depends to a large extent on the private sector for day-to-day operation. Official markets have been established for many products, and the government controls the banking system, raw material allocation, and most of the rice trade. It allows varying degrees of private ownership and management of production, however, and condones a large measure of private trade.

Agriculture

*The stickiest problem in the socialization of the South is agriculture.*

Rice is still produced mainly on small private plots, which jumped in number as a result of the land redistribution carried out under the Thieu regime. The new government is only slowly tightening control over supplies and sales. Expansion of communal production--akin to that of the North--has taken place mainly in new or rehabilitated acreage under urban and refugee resettlement programs, and in some areas long controlled by the communists.

Hanoi properly fears that rapid institutional change would disrupt the economy and interfere with increases in food output. The South used relatively modern, high-yielding rice production techniques before the takeover and was near self-sufficiency at a relatively high consumption level. Hanoi

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has been hoping that, under a unified economy, a large southern surplus could alleviate the North's chronic food deficits and provide exports as well. Since the takeover, however, output on new, communal acreage in the South has not offset the falloff in private production caused by market uncertainties, input shortages, and bad weather.

Moreover, poor management and bad weather have prevented any substantial gains in the North, and efforts to level diet standards by moving supplies from the South have met with little or no success. As a result, the North's food imports in 1976 approximated the 700,000-ton average of recent years.

Industry

*The new government also has moved more cautiously than it would like in socializing industry in the South.*

In contrast with the North, where large-scale, state-owned heavy industry is the rule, southern industry is characterized by small and medium-sized private firms that depend heavily on imports. The communist takeover dislocated this industry by cutting off imports, dampening demand, and losing many managers, technicians, and skilled laborers.

To help revive industry in the South, Hanoi not only has tried to assure a continuing role for Vietnamese private capital and management but reportedly plans to allow foreign firms possibly as much as 100 percent ownership in selected new export industries and a 50-50 share with the government in selected domestic industries.

Foreign Assistance

*Vietnam remains heavily dependent on foreign assistance.*

We estimate that Vietnam would require annual imports on the order of \$1.3 billion over the next five years to sustain a real growth rate of 6 percent. It depends on imports for all petroleum and chemical fertilizer as well as most industrial materials. Food imports will remain high for several years to come. Exports are likely to finance only one third of an import bill of this magnitude.

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Hanoi has been quite successful in lining up financial support. Aid promised by communist countries in 1976 may have been as high as \$1.3 billion. The USSR offered an estimated \$500 million, with China and Eastern Europe splitting the rest. How much was actually supplied is not known. Although communist aid commitments could exceed \$6 billion over the next five years, actual disbursements will be lower.

Since the end of the war, Vietnam has received commitments of about \$500 million in aid from non-communist nations. Major donors are France, Iraq, Sweden, Japan, and the Netherlands. Last year, Hanoi borrowed \$38 million from a consortium of international banks and received a \$49-million grant under the United Nations Development Program. Vietnam is eligible for assistance from the International Monetary Fund and the Asian Development Bank.

Vietnam also is looking to the West to help develop its offshore oil reserves because the communist countries lack the technology required. Prior to the fall of Saigon, Western companies had drilled a few promising exploratory wells offshore in the South China Sea. Hanoi has broached the possibility of resuming exploration with US, Canadian, Japanese, French, Italian, and Norwegian firms; the French and the Japanese so far appear to be Hanoi's favorites. There are, however, no firm indications of any forthcoming contracts for large-scale oil exploration and development.

Prospects

*Vietnam's economic prospects for the next several years are reasonably good.*

The government's pragmatic approach toward socialization of the South, its acceptance of limited private enterprise, and its recent positive gestures to foreign investors indicate that Hanoi has, for the moment at least, placed economic growth ahead of ideology. Vietnam's attempts to reduce dependence on the USSR and the People's Republic of China and to establish more links with the world economy should encourage some inflow of funds, materials, and technology to improve output and, possibly, consumer welfare. Nonetheless, Hanoi's tolerance of capitalist incentives will probably wane as economic conditions and political control in the South improve.

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