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25X1

25 September 1973

Central Intelligence Bulletin

CONTENTS

CHILE: Government inaugurates "national reconstruction." (Page 1)

EUROPEAN COMMUNITIES: Community officials foresee dissension this fall over pace of economic and monetary union. (Page 3)

GATT: Some views of pending trade talks. (Page 4)

JORDAN: Grant of amnesty to imprisoned and exiled fedayeen not yet having desired effects. (Page 5)

AUSTRALIA: Loss of by-election will increase government's doubts about calling national elections. (Page 6)

FOR THE RECORD: (Page 7)

25X1

CHILE: The "phase of national reconstruction" has officially been inaugurated, and the junta's economic policy is taking shape. Despite continued preoccupation with security, the new government is concentrating on reviving production, controlling government finances, and securing foreign credit and investment.

Nationalized industries will remain in government hands, but illegally seized enterprises are to be returned to their owners. It is not yet clear where the line between these categories will be drawn, but the nationalized US-owned copper companies will not be returned. The junta is anxious to resolve the compensation dispute with US firms, however, and US technical advice will be requested on a contract basis.

Industrial workers repeatedly have been told that their economic gains are secure and a profit-sharing program has been promised. There will be little tolerance of politicized labor activity, however, and the government is in the process of ridding the state sector of leftist militants. There have been no reports of widespread worker absenteeism, and the regime claims that production in the factories and mines already is surpassing pre-coup levels.

The junta has announced a program to bring government finances under control in an initial step to control inflation. This means that Chile's consumption spree is over and that belt-tightening must begin. The regime has frozen the money supply and declared that public enterprises must become self-financing. This can be accomplished only through price increases. Price controls on agricultural products probably will be lifted as an inducement to increase output, and peasants on legally expropriated lands will be given individual titles.

These moves will bring higher prices initially, but if the regime succeeds in sharply reducing the public sector deficit and stemming the growth in the money supply, inflation should eventually slow. There are also likely to be strict controls over

25 Sep 73

Central Intelligence Bulletin

1

25X1

wages and expenditures, which would produce a reduction in workers' real purchasing power. This result would be partly offset initially by an increased availability of goods, but in the longer run, rehabilitation of the economy and the "preservation of workers' gains" will to some extent be incompatible.

The junta wants to postpone the next meeting of the "Paris Club," Chile's creditors, until a high-level international commission can be put together to prepare an impartial report on the nation's economic condition. The government also hopes that a scheduled Interamerican Committee for the Alliance for Progress (CIAP) country report on Chile can be completed in time for use at the meeting. In the meantime, Brazil, less concerned with Chile's economy than with strengthening Brazilian influence, is preparing to extend significant economic assistance.

Chile has "opened the door" to private foreign investment, but the response may be slow to materialize. Investors with a stake in Chile may be willing to return, but the junta will probably find it considerably harder to attract new venture capital.

25X1

25 Sep 73

Central Intelligence Bulletin

2

25X1

EUROPEAN COMMUNITIES: Some EC officials are concerned that the community may face a crisis this fall over how fast to proceed with economic and monetary union.

Germany, France, and the Netherlands--for varying reasons--want to delay implementing the union's second stage significantly beyond the beginning of 1974. Paris in fact maintains that, contrary to the general understanding, the EC summit last October made no commitment to inaugurate the second stage "automatically" next January. Moreover, the improbability that Britain and Italy will join the floating band of EC currencies provides further argument for delaying steps toward meaningful development of economic and monetary union, including provisions for closer policy coordination and a start toward pooling monetary reserves.

Failure to overcome an impasse on this issue could hold up progress on other important issues such as a new policy for regional development. This would include a community fund having important financial and political implications for several members--Britain, Italy, and Ireland in particular. Failure to set up a regional fund, for example, could be a severe blow to the already faltering public support in the UK for participation in the EC.

Despite the shaky outlook for further progress in the monetary area--illustrated by the failure of the Dutch to consult with their partners prior to the Netherlands' recent revaluation--not all EC officials foresee a necessarily gloomy scenario. Enough matters of importance to the member states are on the agenda this year to enable the EC to reach agreement on a package that would preserve a semblance of forward momentum. Moreover, the need to show a common EC front in relations with the US, as well as with the East, will be a strong incentive to avoid an internal crisis.

25X1

25X1
25 Sep 73*Central Intelligence Bulletin*

3

25X1

GATT: The West German Economics Ministry feels that the GATT multilateral trade negotiations will get off to a slow start because of the vagueness of the Declaration of Tokyo. The officials, nevertheless, expect that the imprecise wording on the link between trade and monetary negotiations will make it virtually impossible for any nation--presumably a reference to France--to block the discussions on monetary grounds alone. The ministry stressed that actual bargaining would be stopped only if the US Congress did not give the President negotiating authority. Achievement of a final agreement, however, could be threatened unless there is progress on monetary reform.

French Finance Minister Giscard d'Estaing, meanwhile, has approached his German counterpart with an idea which, he implied, would increase the efficiency of EC deliberations on trade negotiations. Giscard raised the possibility of taking away from the EC Council the responsibility for GATT questions and giving it to a new EC committee of ministers. This step, however, could reduce the role of the EC Commission, which tends to modify extreme positions of individual member states and proposes compromises, thus increasing French leverage in EC decision-making. In a committee of ministers, even the theoretical possibility of outvoting a member state could be eliminated.

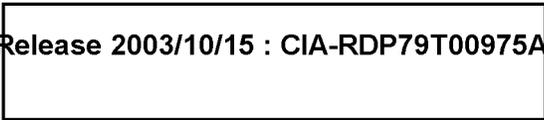
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25 Sep 73

Central Intelligence Bulletin

4

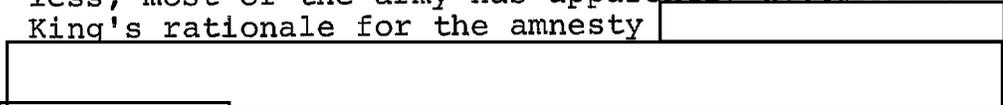
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JORDAN: King Husayn has been able to manage the unhappiness in his army created by the amnestying of imprisoned and exiled fedayeen. The amnesty may still not be enough to enable Syrian President Asad to resume diplomatic relations with Amman or to pry loose the suspended subsidy payments from Kuwait.

The amnesty order has infuriated many East Bank Jordanians, inside and out of the army, who still carry scars from the fighting with the fedayeen in 1970 and 1971. Some Bedouin shaykhs have been talking about collecting on old blood debts. Nevertheless, most of the army has apparently accepted the King's rationale for the amnesty

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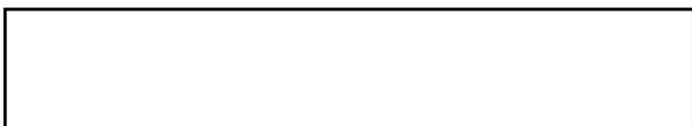


So far, only a few fedayeen have trickled back into Jordan in response to the King's offer, after spending a day or more undergoing border security checks.

Damascus radio and press commentators and President Asad himself have welcomed the amnesty, but Asad remains cautiously noncommittal about resuming diplomatic relations at present. He may believe that he needs more time or a more substantial gesture from Husayn before he can overcome opposition from the fedayeen and radical elements in Syria who oppose rapprochement with Jordan.

Meanwhile, there is no indication that amnesty has softened the position of the Kuwaitis. Their first reaction to the amnesty was one of anger because it put them under pressure to release the five terrorists who temporarily took over the Saudi Arabian Embassy in Paris earlier this month.

25X1



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AUSTRALIA: The government's loss of an important by-election will reinforce its doubts about calling national elections in the next several months.

The contest on 22 September in the Sydney suburb of Parramatta for a vacated seat in the federal House of Representatives had been looked on as a major test of the ten-month-old Labor government. Although by-elections normally favor the opposition party, the Liberals' margin of victory in Parramatta was unexpectedly large. The Liberal candidate won a clear majority, ruling out any need to count second preference votes.

Local factors probably contributed to the Liberals' margin. They spent heavily, by five to one over Labor. Just before the election, Prime Minister Whitlam announced plans for a second Sydney airport that would put Parramatta squarely in its flight path, a maladroit move that no doubt pushed some waverers into the Liberal camp. The Liberals apparently won the bulk of their vote, however, by hammering hard on the inflation issue--of concern to the national electorate--and one on which the government had no good defense. Foreign policy did not figure in the campaign.

The election results, which buttressed public opinion polls showing a slippage in the government's support, will give Whitlam pause before calling new elections. He has considered going to the electorate if, as expected, the opposition-controlled Senate again rejects legislation first defeated last spring. The government probably realizes that the bills on which it is challenging the Senate for the second time--mainly concerned with electoral reform, parliamentary representation, and states rights--will spark little interest in an electorate more directly concerned about inflation.

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25 Sep 73

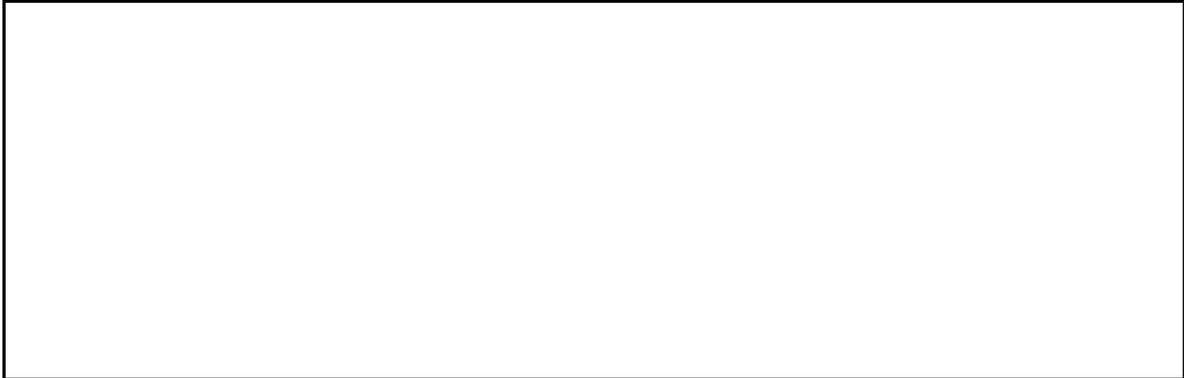
Central Intelligence Bulletin

6

25X1



FOR THE RECORD*



25X1

International Monetary Developments: The strengthening of the French franc in European money markets yesterday continues to reflect Paris' moves against speculation last week. No large-scale intervention was noted. The dollar was stable against all major currencies except the franc. 

25X1

South Vietnam: In Military Region 2, the Communists have overrun and destroyed a battalion-sized Ranger outpost at Plei Djering in western Pleiku Province. This is the first battalion-sized base lost to the Communists since the cease-fire began last January. The Communists may have used tanks in the battle. The fate of the defenders--who have been out of radio contact for two days--is not known. 

25X1

Chile-USSR: The military junta informed Moscow on 20 September that the visit of an Ugra-class submarine tender to Valparaiso was to be canceled. The junta's action preceded the USSR's suspension of diplomatic relations with Chile by one day. The visit, arranged before the coup of 11 September, had been scheduled for 4 to 9 October. The next scheduled port of call for the tender is Callao, Peru, from 17 to 22 October. 

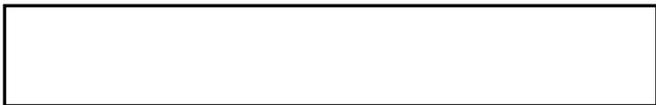
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25 Sep 73

Central Intelligence Bulletin

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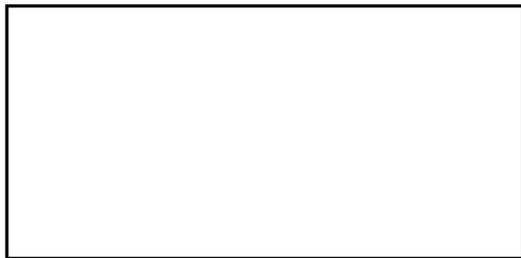
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