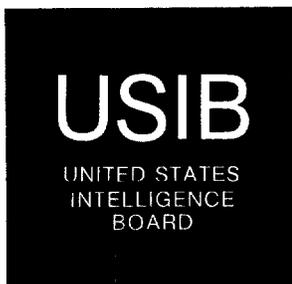


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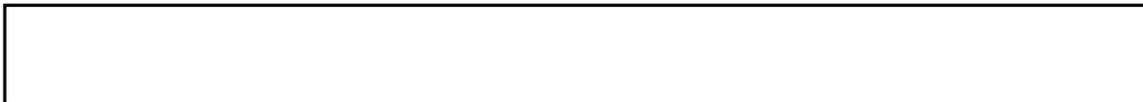
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ITALY

Italian Communist leader Enrico Berlinguer has called for a more systematic role for his party in parliamentary discussions of the national government's program.

In addressing the party's central committee this week, Berlinguer proposed expanded and "formal" consultations in parliament between the Communists and the governing parties on major policy questions. The proposal is an attempt to make more visible the "cloakroom" consultations that have long taken place between the Communists and the members of the governing coalition. Berlinguer is attempting to remind the ruling parties that it is difficult to govern effectively without the cooperation of the Communists--Italy's second largest party.

The Communist leader reaffirmed that full membership in the coalition--Berlinguer's "historic compromise"--remains his long-term goal, but he excluded the possibility of such an accord in the immediate future. The call for "formal" consultations, however, is clearly an attempt to nudge the governing parties another step in this direction.

Berlinguer's move will probably find some support among elements of the Socialist Party and of the left-wing of the dominant Christian Democratic Party. These elements are sympathetic to the widespread desire for change that was evident in the outcome of the recent divorce referendum. They may see an advantage in giving the Communists increased leverage, because Communist support could provide the margin required to pass economic and social reforms that have been blocked by Christian Democratic conservatives and a majority within the Social Democratic and Republican parties. Thus, as so often in the past, Communist support in Parliament could be decisive on issues involving disagreement within the center-left coalition.

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Differences among the governing parties came to the fore again this week when they failed to agree on a common response to labor's demands for social and economic reforms. Meanwhile, one of the major trade union confederations is arguing that workers would be more inclined to accept sacrifices required by the government's austerity program if the Communists were given at least a limited voice in the governing process.

The principal Christian Democratic leaders have so far shown no signs of receptivity to the Communist advances. Recent talks between US embassy officials and well-placed Christian Democrats suggest, however, that their confidence has been shaken by the defeat in the divorce referendum, the deterioration of the economy, and the upsurge in politically motivated violence. They claim that these events are making it increasingly difficult to counter the argument that the party should reach an accommodation with the Communists.

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JAPAN

Real gross national product dropped 5 percent during the first quarter this year, compared with the last quarter of 1973--the sharpest decline in 20 years. First quarter output was 2 percent less than the same period last year.

Higher prices and government reaction to them were the main causes of the slump. A 10-percent jump in the cost of living during the quarter discouraged consumer buying. The price of imported oil more than doubled, and other import prices rose by an average of 8-9 percent. Tokyo tightened the monetary squeeze and cut public works spending in an effort to dampen the price surge; this slowed economic activity further.

Personal consumption, which takes about half of GNP, declined 5.5 percent, and investment in plant and equipment fell by a similar amount. Government investment was slashed 11 percent. Meanwhile, business inventories jumped 15 percent, indicating that final demand was insufficient to absorb even the reduced amount of goods turned out.

Tokyo's initial reaction to the GNP figures seems calm. Citing recent wage hikes and other cost push factors, Finance Minister Fukuda again has said that monetary and fiscal restraints will be continued until prices level off.

Tokyo will be pressed hard to relax restraints if production continues to decline, but in so doing would risk stimulating the price spiral. Predictions of 2 to 4 percent real growth for the year now look optimistic, but recovery is likely to get under way in the second half. [REDACTED]

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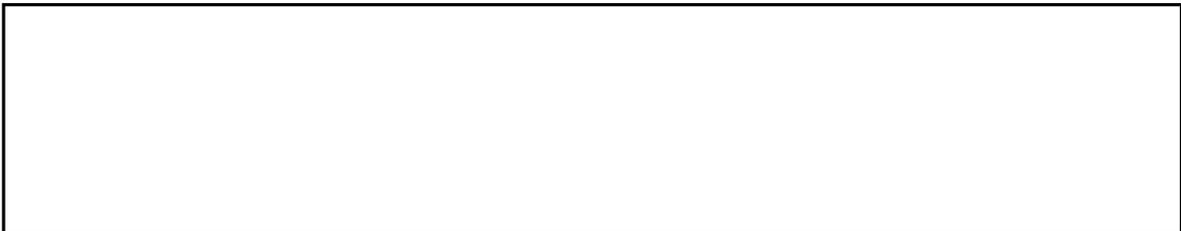
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CAMBODIA

Political squabbling in Phnom Penh appears to be subsiding.

Over the past week, eight ministers in Long Boret's 16-man coalition have tendered their resignations. Two of these ministers are from Lon Nol's Socio-Republican Party, but four are from Sirik Matak's minority Republican Party and two are independents. Lon Nol has refused to accept their resignations in the interest of trying to maintain the government's carefully nurtured coalition image. The President has also obtained a promise from Sirik Matak that the Republicans will continue to participate in the government. The independents may now follow suit.

Several of the ministers reportedly submitted their resignations because they were left out of key decisions on the handling of recent student unrest. The Republicans were particularly upset, however, over being subjected to constant political sniping by obstreperous members of the dominant Socio-Republican Party in the National Assembly. This feud culminated last week in the formal interpellation of Prime Minister Long Boret and his cabinet. Egged on by party leader Pan Sothi, a handful of Socio-Republican assemblymen issued a "decision" scoring the government for being inept and for failing to abide by certain constitutional procedures. This move was the last political straw for the Republican ministers who quickly submitted their resignations.



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UK-SPAIN

The latest round of talks last week between Britain and Spain on the contentious Gibraltar problem left the two sides as far apart as ever.

The British have no intention of accepting Madrid's demands that the territory be transferred to Spain, but agreed to the talks largely to appear to be complying with a UN resolution last December urging negotiations.

In the latest talks, the British refused to back down from the position that they cannot give up Gibraltar without the consent of the residents. The residents, however, are not anxious to join Spain and risk losing the relatively high standard of living and lower tax assessments they enjoy under the British.

The Spanish negotiators tried to sweeten the deal by dangling offers of defense facilities and proposals for joint defense programs. Neither offer interested the Wilson government which is bent on cutting defense expenditures. [REDACTED]

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**ETHIOPIA: Endalkatchew Government in Stronger Position**

Prime Minister Endalkatchew's government has managed to shore up its position and is stronger than at any time since it assumed office last March. Student and labor unrest that for a time threatened the government's survival has abated in the face of the military's crackdown and threats of more severe suppression.

Reform-minded elements in the military are still a powerful political force in Ethiopia. They appear to remain reluctant to assume the burdens of military rule and are allowing the government more latitude in its approach to policy issues. The reformists, however, are sensitive to any sign that the government is faltering in its commitment to change or that it is becoming too solicitous of the interests of the traditional power structure. They are determined to prevent a return to conditions that prevailed before the military revolt earlier this year that circumscribed the hitherto autocratic rule of Emperor Haile Selassie.

Jostling continues behind the scenes over how much influence each of the country's major groups--the nobility, other conservatives, and moderates--will eventually exercise. This competition threatens to break into the open. Conservative elements, for example, may go too far in attempting to regain their influence and may provoke a strong reaction from the military.

Most Ethiopians now expect the government to make a genuine effort to end the corruption and inefficiency of the old regime. The Endalkatchew cabinet has made the right promises, but these have not been translated into concrete programs. The present government can at best make only a beginning. Once the commission now studying constitutional revisions submits its report--due in about three months--the stage will be set for parliamentary elections, followed by the formation of a new government whose task will be to restructure the feudalistic society along more modern, democratic lines.

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Conservatives vs. Moderates

Conservative elements, which still retain considerable wealth, power, and prestige, are continuing their efforts to gain greater influence. They have used friendships, personal loyalties, and tribal connections to counter the influence of military moderates on the government and to generate splits within moderate ranks. Some members of the nobility, together with their allies among senior military officers, oppose the reform goals of the military moderates and progressive civilians. Other conservatives appear to have accepted the need for change, but they do not want the government to be dominated completely by the military.

In the past month, Endalkatchew and the conservative elements with whom he is allied have acted with increasing confidence in dealing with military reform elements. The government appointed to positions in the cabinet and military posts several people who are more closely aligned with the conservatives than with the reform-minded elements. The changes enhanced the positions of Endalkatchew and Defense Minister Abiye, who are the most influential members of the cabinet.

The moderates are not pleased with the extension of conservative influence, but they apparently have accepted Endalkatchew's more independent behavior because they do not believe that so far it threatens long-term prospects for significant reform. The moderates seem willing to compromise on some issues and work with the government in order to avoid violence and to hold in check the traditional rivalries that could threaten the country's survival.

There are several potential areas of disagreement. A special government commission is currently conducting an inquiry into charges of corruption leveled against former high government officials. The military moderates would react strongly if they are not satisfied with the commission's findings or if the government failed to take prompt action against any official criticized by the commission.

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Similarly, the reformers would react negatively to any attempt by conservatives to dominate the constitutional committee that is to transform Ethiopia into a limited monarchy in which the government is responsible to parliament. The reformists are also watching closely the government's progress in carrying out promised social and economic reforms, particularly regarding the restructuring of Ethiopia's traditional land tenure system.

### Problems in Military, Police, and Civil Services

Indiscipline and unrest in the military remain the government's most serious problems. Younger officers and enlisted men are continuing to press for the removal of corrupt and incompetent senior officers. Resentment over the domination of the armed forces by officers who owed their positions to noble birth or ties to the Emperor was one of the main factors behind the initial military revolt in February. Since then, lower ranks have frequently taken matters into their own hands and forced the removal of unpopular officers. These developments have weakened the chain of command and seriously reduced the armed forces' effectiveness.

Leaders of the moderate military reformists now hope to force the retirement of almost all eligible generals by the end of the month. The moderates believe that this action will eliminate the major source of unrest and quickly restore discipline. Enlisted men, however, will probably be reluctant to accept a complete restoration of the chain of command until all their demands are met. Soldiers and airmen continue to press for the redress of other grievances, especially those involving pay and conditions of service. Many of their complaints result from an almost insoluble problem: the lack of financial resources to provide basic amenities to troops stationed in hardship areas.

The police are having similar problems. The process of weeding out senior officers has reduced police effectiveness in internal security matters, especially in rural areas. Employees in some civilian ministries are

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also demanding the ouster of superiors considered corrupt and inefficient. Some civilian officials have simply abandoned their jobs because of the agitation by subordinates.

Civil Unrest

Although the wave of strikes and disorders that imperiled the government earlier in the year has subsided, most of the underlying causes remain, and trouble could break out again. Here again, the country's economic resources are too slender to meet the demands of various groups.

Unrest in the rural areas is also a potential source of violence. The rural population is seeking the ouster of corrupt and inefficient local administrators and frequently have thrown out unpopular local officials. Restlessness among the peasants over the issue of land reform will not be stilled until parliament enacts serious reforms, a process that will take some time and will be strongly resisted by landowners and the local nobility.

Meanwhile, the government is trying to reduce the likelihood of renewed civil strife. To this end, it has set up two committees under the direction of Defense Minister Abiye, with broad mandates to handle matters affecting national security. One committee studies grievances within the military. The other, called the National Commission for Security, Law and Order, deals with any problem in the civilian sector that threatens public order. The commission has helped the government to regain some initiative in dealing with civil disorders by taking an active role in arbitrating problems such as labor strikes and student unrest.

Short-Term Prospects

The military moderates will probably continue to maintain a low posture and support the Endalkatchew cabinet as long as it shows steady progress toward implementing promised reforms and as long as the traditional elite does not mount a strong bid to reassert its once

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dominant position. A confrontation, however, could occur over less serious issues. Leaders of the moderates are disturbed by the conservatives' tactics, especially their attempt to gain the support of enlisted men through bribery. The moderates might attempt to end these tactics by arresting some members of the aristocracy. Differences between the contending factions will probably intensify as each attempts to influence government decisions on specific reform measures. The members of the military reform movement will eventually have to overcome the divisions within their own ranks and act in a more concerted fashion if they want to continue to cope with the conservative challenge without resorting to an outright military take-over.

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Malaysia: Malaysian officials believe that Communist terrorists were responsible for the assassination yesterday of the chief of the Malaysian national police. The Communists may have hoped to demonstrate that the predominantly Chinese insurgency in Malaysia is still a force to be reckoned with, despite Kuala Lumpur's recent opening of diplomatic ties with Peking. Riot police have been alerted that communal disturbances could erupt in the capital if the assassins prove to be Chinese or if rumors that they are become widespread. [redacted]

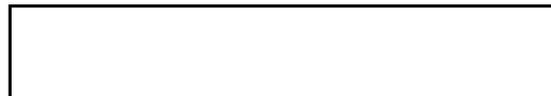
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