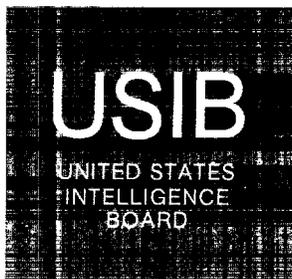


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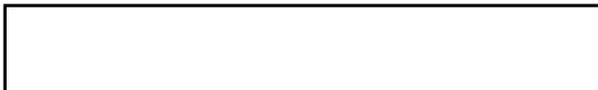
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Top Secret



June 25, 1974

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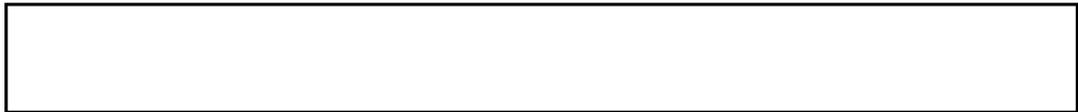
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National Intelligence Bulletin

June 25, 1974

CONTENTS

CHINA: Wall posters in Peking now reporting armed clashes in the provinces. (Page 1)



25X1

ISRAEL-FEDAYEEN: Terrorist attack in Israeli town of Nahariya. (Page 4)



25X1

EUROPEAN COMMUNITIES: Commission preparing proposal for recycling oil producer surpluses to member states. (Page 7)

NATIONALIST CHINA - THAILAND - JAPAN: Two governments act to correct large trade deficits with Japan. (Page 8)

POLAND: Central Committee meeting today, may announce changes in top personnel. (Page 9)

FOR THE RECORD: (Page 11)



National Intelligence Bulletin

June 25, 1974

CHINA

Wall posters in Peking are reporting armed clashes in the provinces--the first time such incidents have been mentioned since the posters began appearing in the capital two weeks ago. The posters claim that three armed clashes have occurred in Kiangsi Province in the past two weeks, and that more than 200 persons have died in similar disturbances "in recent years."

Kiangsi is not the only province having difficulties. Wall posters in Peking accuse the leaders of four other provinces of suppressing the "true revolutionaries" and sabotaging the anti-Lin/anti-Confucius campaign. Moreover, tensions are evident in at least 20 of China's 29 provincial-level administrative units.

The authors of the posters appear to be members of "leftist" organizations that battled the current leaders of their provinces for power during the Cultural Revolution. Since 1969, many leftists throughout China have been squeezed out of leadership positions by military officials as well as by rehabilitated party cadre, whom the leftists originally helped purge. In a number of provinces the leftists apparently are seizing the opportunity presented by the campaign to try to settle old scores. In some instances, factional groups in Peking may have encouraged these local tensions for their own ends.

The need for unity has received greater attention in the national media as factionalism in the provinces has become more pronounced. For example, the June issue of Red Flag, the party's theoretical journal, warns cadre not to heed those who would magnify differences to create splits in the "revolutionary ranks." This theme has also appeared regularly in People's Daily.

Sporadic and isolated violence has been part of the provincial scene since the Cultural Revolution. It apparently has intensified somewhat since the anti-Lin/anti-Confucius campaign began, but it is still very far from the level of the 1966-69 period. At this point the dominant authorities in Peking seem determined to keep provincial ferment within bounds.

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Approved For Release 2005/06/01 : CIA-RDP79T00975A026700010014-0

National Intelligence Bulletin

June 25, 1974

ISRAEL-FEDAYEEN

Israeli army troops successfully stormed an apartment building that had been taken over by Arab terrorists last night in the Israeli resort town of Nahariya near the Lebanese border, according to press reports from Tel Aviv. The terrorists held the building for three hours, sporadically firing small arms and throwing grenades into the street below. According to initial reports, three guerrillas and four Israelis were killed.

The terrorist attack took place shortly after Israeli Premier Rabin had toured settlements in the northern part of the country where he vowed to continue war against Arab terrorists. Tel Aviv will undoubtedly view this latest attack as further justification for its campaign against guerrilla camps in Lebanon.

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National Intelligence Bulletin

June 25, 1974

EUROPEAN COMMUNITIES

In an effort to assert Community responsibility in financing members' higher oil-import bills, the EC Commission is preparing a proposal for directly attracting and recycling oil producer surpluses to member states. The commission hopes to have the plan ready for consideration by the finance ministers at their next meeting on July 15.

Under the plan, the EC would meet the immediate oil-related borrowing needs of members by floating a large Eurocurrency loan and making the proceeds available to countries, such as Denmark and Italy, which are having difficulty borrowing on private markets. Bankers have told the commission that they would be willing to lend to the EC if the loan were guaranteed by all Community members. As a more permanent solution, the commission will propose that a Community institution be established, bypassing the Eurocurrency market, to attract oil producer funds directly through bond sales.

Because of West Germany's strong payments position and large stock of monetary reserves, Bonn's willingness to go along with the plan is crucial to Community acceptance. Bonn has already made it clear that it will not provide financial assistance to other EC members unless they are willing to pursue domestic policies that will improve their longer term payments prospects. If Community members needing assistance are willing to provide such guarantees, Bonn will probably prefer an EC plan to the alternative of providing bilateral aid. Furthermore, recipients of Community assistance would be able to use the EC loan conditions to justify domestic deflationary measures.

If implemented, the commission's proposal will not eliminate one of the fundamental problems of oil deficits. Countries such as Italy, even if given access to credit, will be hesitant to increase external indebtedness at free-market rates sufficiently to allow time for a gradual reduction of their deficits. Countries in strong payments

National Intelligence Bulletin

June 25, 1974

positions will be faced with the alternative of granting loans on concessionary terms or the prospect that other countries with large payments deficits will institute measures such as trade restrictions.

25X1

NATIONALIST CHINA - THAILAND - JAPAN

Nationalist China and Thailand, facing mounting oil import bills, are trying to reduce their chronic, large trade deficits with Japan.

Nationalist China has temporarily suspended imports of Japanese color television sets to stem the surging trade deficit. Taipei has also banned imports of small automobiles, most of which come from Japan. During the first five months of 1974, the deficit with Japan topped \$420 million--some 70 percent of the figure for all of last year. Meanwhile, the island had a surplus with the rest of the world of less than \$100 million. Rising import prices and slack demand for its goods in foreign markets accounted for the reduction in the surplus figure.

Thailand hopes to limit its trade deficit with Japan to about \$270 million this year, compared with \$325 million in 1973. To help accomplish this, Bangkok has pressured Tokyo into assuring that purchases from Thailand in 1974 would amount to at least \$530 million.

The Japanese, for their part, are anxious to improve their ties with Thailand, where they have a substantial economic stake. Japan was considerably shaken by the anti-Japanese demonstrations on the occasion of Prime Minister Tanaka's visit to Bangkok early this year.

25X1

National Intelligence Bulletin

June 25, 1974

POLAND

The Polish party Central Committee meets today to discuss serious economic problems and perhaps to announce changes in top personnel necessitated by the downfall of Gierek's former number-two man, Franciszek Szlachcic.

The economic problems to be discussed could include difficulties with the broad salary increases announced last January, rising prices, and shortages of consumer items, particularly meat. The US embassy also reports signs of growing concern over Warsaw's continuing heavy trade imbalance, particularly with the West. The Polish parliament is scheduled to meet tomorrow to ratify any decisions on economic problems made at the party session.

The plenum should shed light on the demotion of party secretary and Politburo member Szlachcic, who was unceremoniously demoted to a vice premier and ousted from the State Council on May 29. Szlachcic will almost certainly be removed from the Secretariat.

the embassy has heard that for all practical purposes he has "resigned" from political activity.

Although the details of Szlachcic's downfall are murky, two major forces apparently worked against him. The Soviets, seconded by conservative Polish party bureaucrats, reportedly were unhappy that Szlachcic was surrounding himself with a nationalist-oriented group of party intellectuals, journalists, and government officials who believe that Polish national interests are not always best served by unquestioned subordination to Soviet desires. Moscow's displeasure evidently coincided with increasing criticism from other members of the Polish leadership, who accused him of interfering in their areas of responsibility and "acting as if" he were already party first secretary."

National Intelligence Bulletin

June 25, 1974

Gierek's role in Szlachcic's fall remains unclear. Although he had a long and close relationship with Szlachcic, Gierek may have felt forced to bow to the combination of Soviet and domestic pressures.

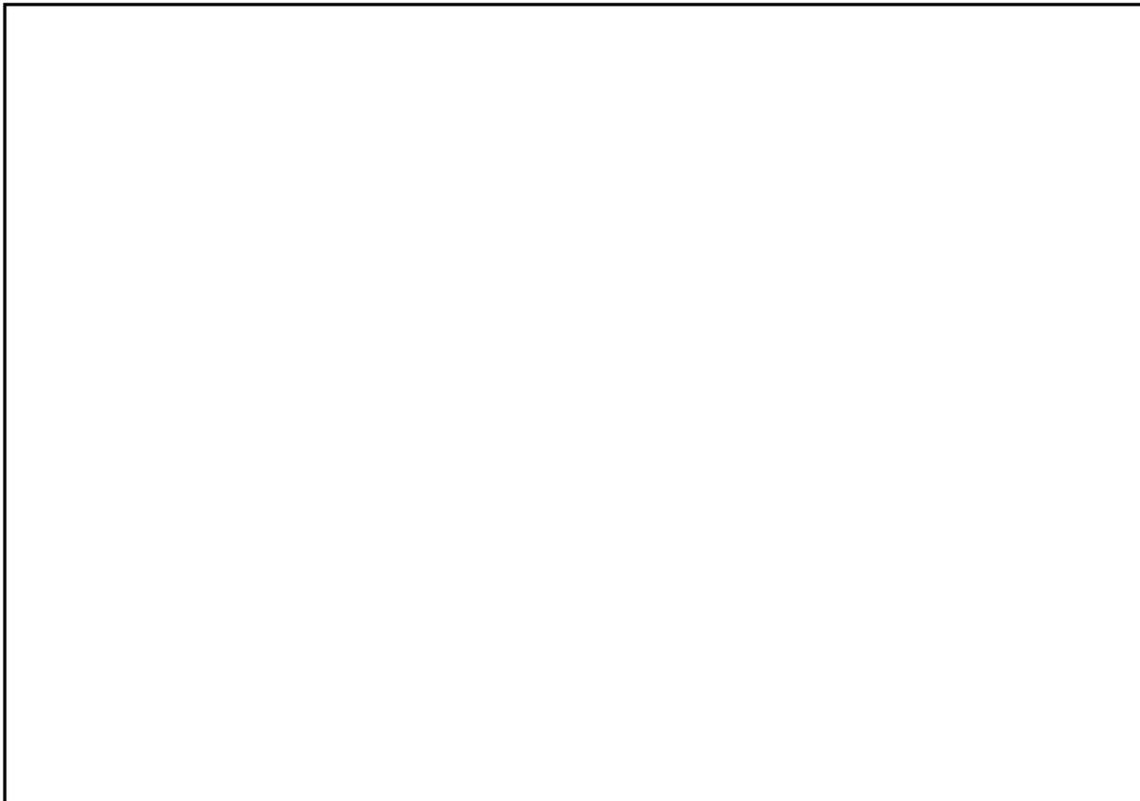
Party Secretary Jan Szydlak appears to be filling the void left by Szlachcic's fall. He may have been one of Szlachcic's principal opponents. In late March he rejected Szlachcic's more nationalist approach by delivering a tough speech calling for closer bloc cooperation to ward off Western ideological penetration. Szydlak's remarks may foreshadow tightened discipline in Poland.

25X1

National Intelligence Bulletin

June 25, 1974

FOR THE RECORD



25X1

Sudan: President Numayri has decided to commute to a seven-year term the life-imprisonment sentence returned against eight Black September Organization terrorists involved in the slaying of one Belgian and two US diplomats in March 1973. The terrorists are to be released to the Palestine Liberation Organization for disposition. Such a move will reduce the virulent reaction that would likely have come from Arab capitals and terrorist groups had the life sentences been carried out. Arab pressures against severe punishment for the accused had surfaced in the past several weeks.

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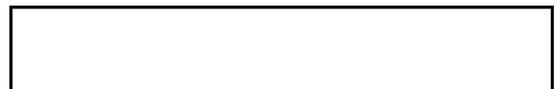
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