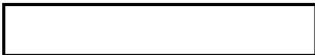
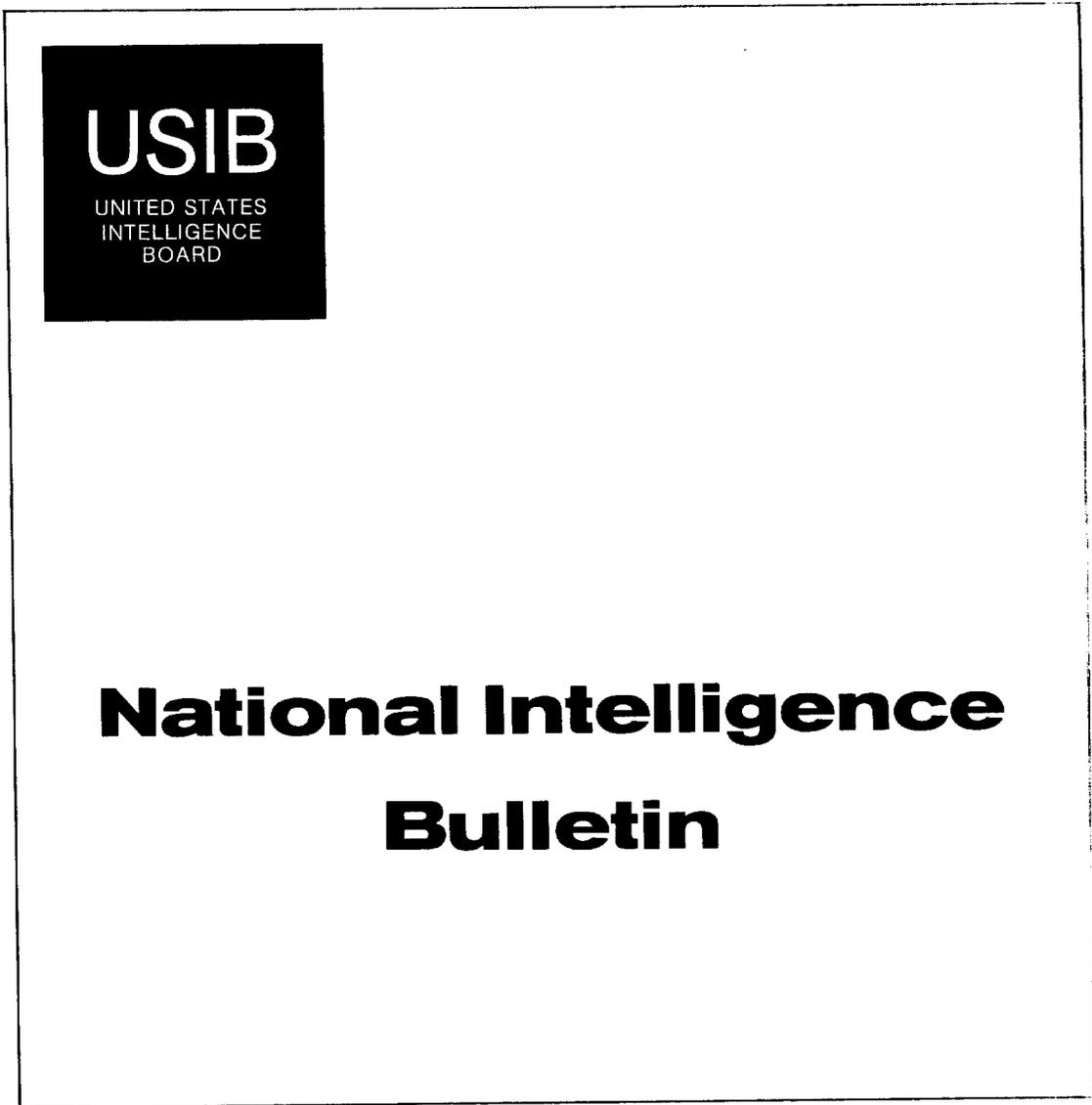


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EGYPT - SAUDI ARABIA

Press reports from Cairo this weekend say that Saudi Arabia has promised Egypt \$1.5 billion in new aid.

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The Saudi aid will fill a vital financial need, even though Egypt has already been offered about \$5 billion in aid and venture capital from other sources. Previous offers have been heavily committed to reconstruction of the Suez Canal area and to new industrial projects, leaving Egypt uncertain as to whether it would have sufficient foreign exchange to upgrade existing state industries or to support private investment elsewhere in Egypt.

The Saudi commitment will also help alleviate Egypt's fears of foreign domination of its economy. With this much money deposited to its account, Cairo should have no difficulty securing credit to finance a sizable state equity in the new ventures being proposed by foreign investors.

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It is not yet clear whether, in addition to the new aid, the Saudis will continue the \$100-million annual subsidy they have been providing since 1967. The \$1.5 billion, added to the \$91 million annual subsidy from Kuwait, is, however, sufficient to finance present levels of investment and consumption for three years, even if Egypt loses its other sources of capital.

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USSR-FEDAYEEN

The Soviets increased their public support of the Palestine Liberation Organization (PLO) last week, but stopped short of officially endorsing it as the only representative of the Palestinians.

A communiqué released shortly after Arafat's departure from Moscow on Saturday stated that "at the request of the PLO" the USSR consented to the opening of a PLO office in Moscow. In addition, the communiqué expressed Soviet support for the participation of the PLO at the Geneva Peace Conference "exercising equal rights with other participants."

Although the communiqué noted the satisfaction of both sides with Arab recognition of the PLO as the sole legitimate representative of the Palestinians, specific Soviet recognition was not mentioned. The communiqué also skirted the issue of whether Arafat's visit was official and failed to say under whose auspices Arafat was received. It referred only to Arafat's meetings with Soviet Party Secretary Boris Ponomarev and First Deputy Foreign Minister Kuznetsov.

Over the weekend, Arafat arrived in Warsaw, and he is expected to visit other East European capitals in his search for support.

Meanwhile, timing his statement to coincide with Arafat's Moscow trip, radical fedayeen leader, George Habbash, emphasized the divisions that continued to plague the PLO. In an interview published in several Beirut newspapers on August 3, Habbash reiterated his long-standing opposition to Arafat's willingness to participate in the Middle East peace talks. He openly criticized Moscow's Middle East policy, saying it was an "error" to assume that there could be a political settlement of the Palestinian question under existing conditions.

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GREECE

Foreign Minister Mavros has told the US ambassador that a serious setback at the next round of Geneva peace talks could upset the delicate balance between the government and the military. He expressed concern that the future of the government might even be threatened.

Mavros said that a whispering campaign in the army is accusing Athens of stopping what could have been a successful Greek military intervention on Cyprus. The rumor mongers are also claiming that the Geneva talks will lead to a new humiliation of Greece at the hands of Turkey.

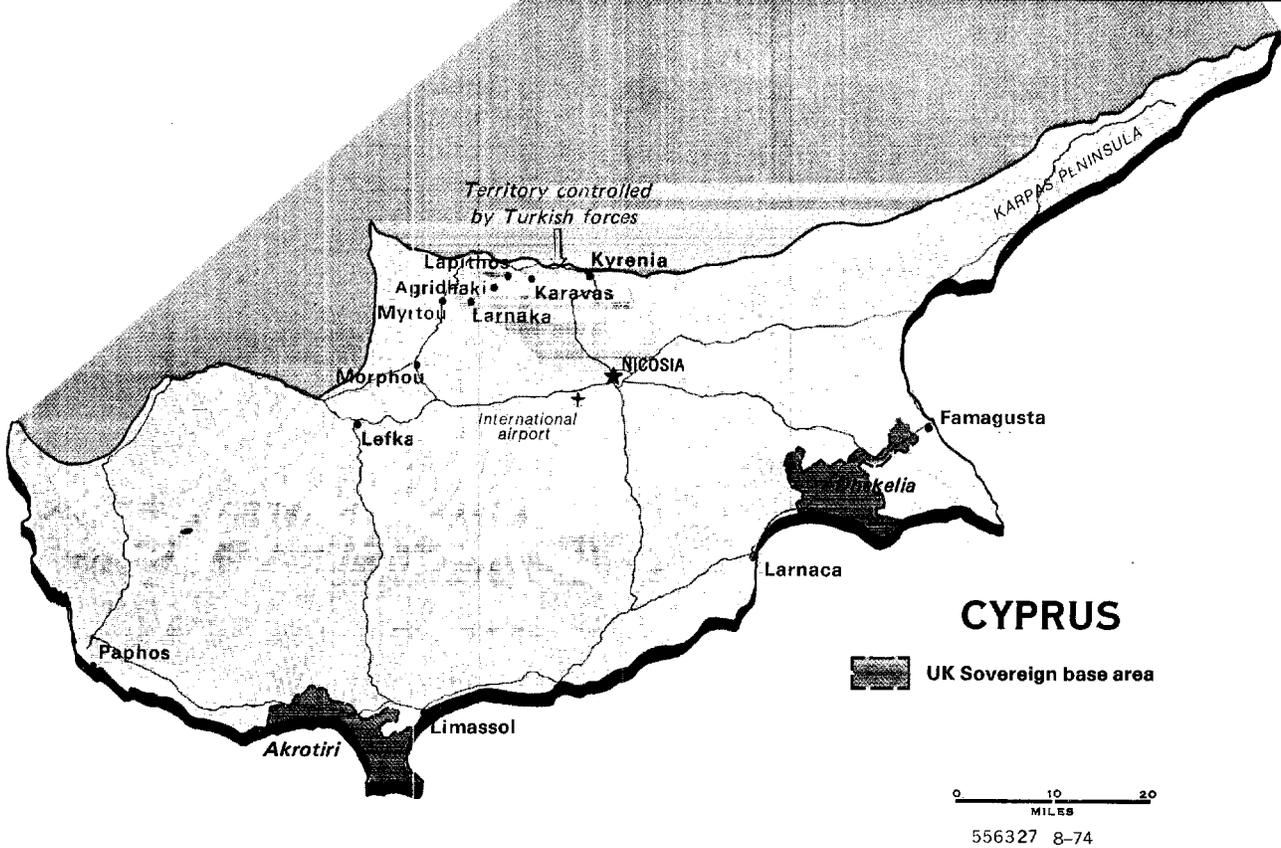
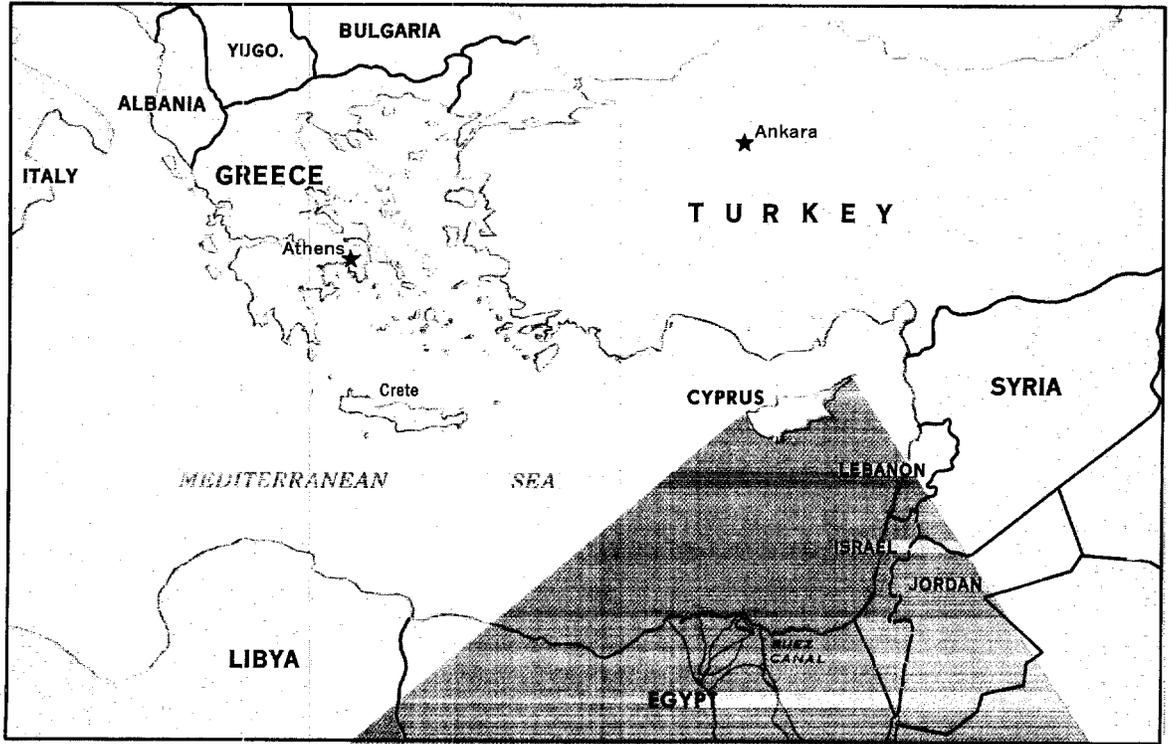
Mavros was clearly angling for the US to put pressure on the Turks to be more conciliatory, but the embassy believes he was not exaggerating his fears.

Mavros also said that Brigadier General Ioannidis was personally no longer a problem and that he believes the top level of the military supports the government.

25X1 [redacted]

25X1 Mavros did note signs of restiveness among junior officers and said that many Ioannidis supporters were still in place. [redacted]

25X1 The Karamanlis government, meanwhile, is enjoying a honeymoon with the extreme left, with the exception of the faction led by Andreas Papandreu. Prominent leftist composer Mikos Theodorakis has issued a public statement in support of the new government, and Ilias Iliou, the principal spokesman of the United Democratic Left--a communist front group before the 1967 coup--has assured the Prime Minister that his faction will oppose any attempt by Papandreu to cause problems for the government. [redacted]



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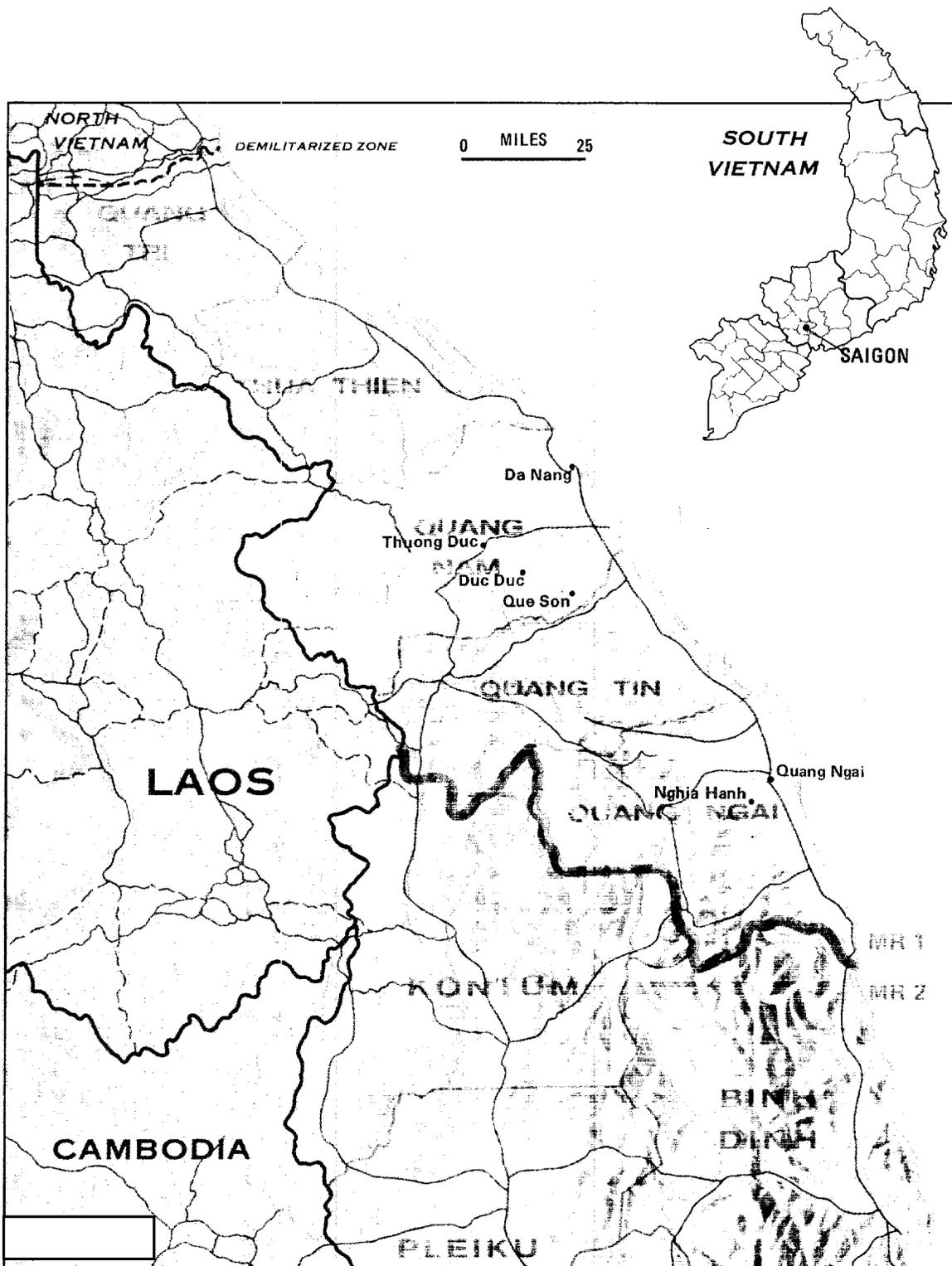
CYPRUS

An alert of Greek air force units early yesterday has apparently been lifted. Defense Minister Averoff told the US embassy in Athens that he had ordered the alert in response to Greek intelligence reports that Turkish ships were on the move from Cyprus to the Aegean Sea. The reports had also referred to a Turkish "Plan Lightning" that was allegedly to be put into operation. Averoff now believes these reports were false and views them as part of a Turkish war of nerves.

Greek officials have indicated that despite public statements to the contrary, they are not prepared to make an issue of reported continued violations of the cease-fire by the Turks. Foreign Minister Mavros told the US ambassador on August 1 that he was trying to play down reports of the violations.

On Cyprus, the military situation was calm over the weekend, with only minor skirmishing reported in the Lapithos area and an exchange of fire in Nicosia.

According to the press, Archbishop Makarios has issued a statement indicating that he will not attend the Geneva peace talks. Makarios also said that he would support acting President Clerides if the latter is elected president of Cyprus.



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VIETNAM

Sharp fighting continues in northern South Vietnam.

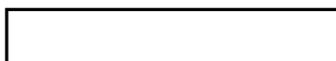
Communist forces in Quang Nam Province are maintaining heavy pressure against the encircled Ranger base near the district capital of Thuong Duc, southwest of Da Nang. An operation by the South Vietnamese 3rd Division to relieve the besieged garrison is making slow progress.

Elsewhere in Quang Nam, communist attacks were reported over the weekend against government positions in the southern districts of Duc Duc and Que Son. In the most significant action, several Ranger outposts south of Duc Duc district town were overrun on August 3, but were reoccupied by government forces yesterday.

The communists have also begun to step up their attacks in Quang Ngai, apparently to capitalize on a number of government units normally based in that province being sent to threatened positions in Quang Nam. At least five outposts manned by territorial forces south of Nghia Hanh district town were captured by the communists over the past few days.



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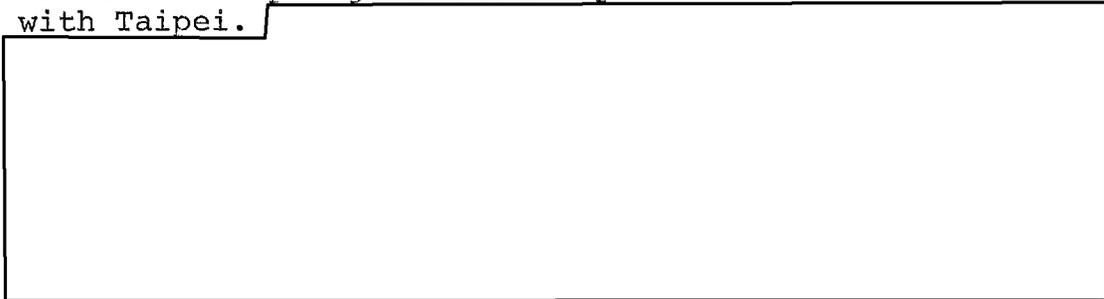
PHILIPPINES-CHINA

A planned "cultural" visit to China by Philippine First Lady Imelda Marcos is the latest indication of Manila's increased interest in improving relations with Peking.

Foreign Secretary Romulo told Ambassador Sullivan that the trip is tentatively scheduled to begin August 17. The composition of Mrs. Marcos' party has not been decided, but Romulo said that no senior foreign office officials would accompany her.

Mrs. Marcos, who considers herself the Philippines' most important diplomat, has long wanted to visit China; stories of a pending trip have appeared frequently over the past two years. Recently, President Marcos has indicated he is seriously interested in developing state-to-state relations with Peking. He believes that China is potentially an important trading partner for the Philippines, particularly as a supplier of oil and rice.

Marcos, however, wants to move closer to Peking without disrupting Manila's important commercial ties with Taipei.



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FOR THE RECORD

Portuguese Guinea: Portuguese officials may soon meet with insurgent leaders to make final arrangements for the independence of Portuguese Guinea. [redacted]

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[redacted] the two sides were tentatively scheduled to meet in Algiers soon after the Lisbon visit of UN Secretary General Waldheim, which ended this weekend. While in Lisbon, Waldheim announced that Portugal was ready to recognize the independence of the territory and to reach immediate agreement to transfer power to the rebels' self-proclaimed government of Guinea-Bissau.

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