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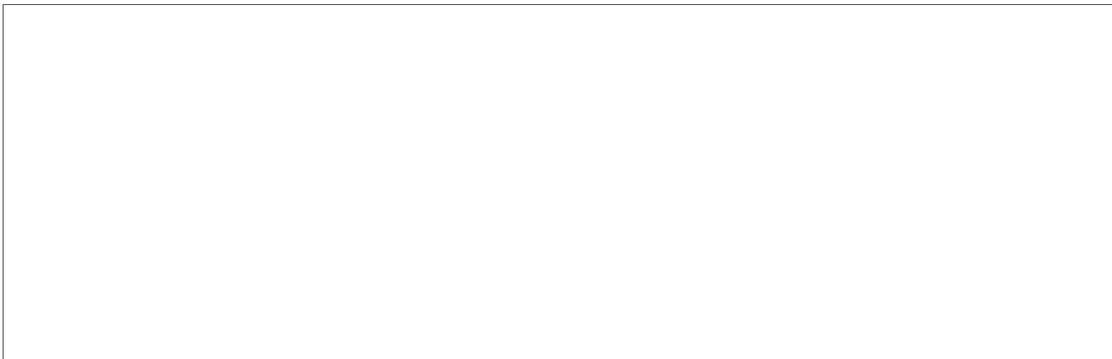
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CAMBODIA

The deteriorating economic and military situation is contributing to growing civil unrest. Anti-Chinese demonstrations that began last week in the northwestern city of Battambang spread to Phnom Penh yesterday. Police in the capital dispersed a relatively small number of students who had harassed Chinese merchants and damaged a few stores. No arrests or casualties occurred.

The unrest was sparked by the publication in Phnom Penh newspapers of letters allegedly written by Chinese slandering Cambodians. The letters and the tightened supply situation have fueled traditional Cambodian resentment of Chinese dominance of commerce.

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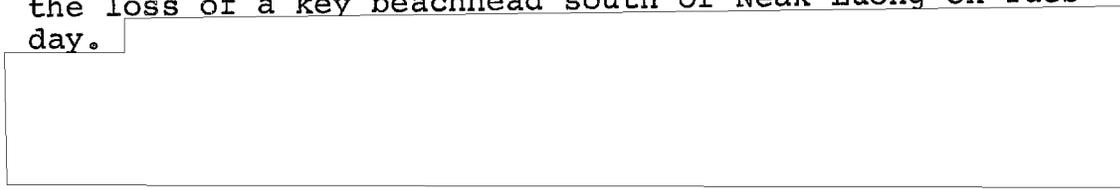
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vincial authorities have handled the unrest well so far. Education Minister Pan Sothi claimed yesterday that the government would not try to preempt planned demonstrations in Phnom Penh. The government has increased security patrols in the capital and is apparently confident that it can keep demonstrators under control.

Given the already considerable tensions that exist in Phnom Penh, however, further demonstrations against the Chinese could easily get out of hand and assume anti-government overtones. The morale and discipline of the armed forces are becoming more of a problem, and the government may find it difficult to cope with widespread disorders.

There was no significant change in the military situation last night. Government forces southwest of the capital remain under heavy pressure; one position near Route 4 was abandoned. Most other government units in the area, however, are still holding their ground. Communist rockets hit Phnom Penh and Pochentong airport, but there was no serious damage.

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To the south, the government's hold on the Neak Luong area astride the Mekong remains precarious. So far only 20 survivors have been accounted for, following the loss of a key beachhead south of Neak Luong on Tuesday.



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ETHIOPIA

Eritrean insurgents and Ethiopian government forces engaged in a two-hour firefight on the outskirts of Asmara late last night. The main rebel target apparently was Asmara airport. Heavy firing occurred near the US consulate and the Kagnev facilities, but there were no American casualties.

The insurgents continue to harass traffic going to Asmara. On Tuesday they attacked and burned a fuel tanker on the road between Asmara and the Red Sea port of Massawa. They are apparently not trying to stop all traffic between Asmara and the port, because that would prevent vital supplies from reaching the civilian population.

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The US defense attaché has received information [redacted] that the rebels will soon try to seize the town of Keren, about 55 miles northwest of Asmara. If they are successful, they will declare Eritrea independent. So far, the insurgents hold no sizable population center.

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In Addis Ababa, the US embassy reports that a major cabinet reorganization may be imminent. The change may include appointment of a civilian chairman of the cabinet; this position has remained vacant since General Aman's execution in November. The military council is probably looking for ways to improve the effectiveness of the nearly paralyzed bureaucracy.

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The chances of a coup against the military council appear to have lessened for the time being as a result of the Eritrean war. The council's mobilization of the armed forces and its success in rallying popular opinion behind the war effort have temporarily dampened opposition. Potential military coup leaders will probably hold off, pending more favorable circumstances.

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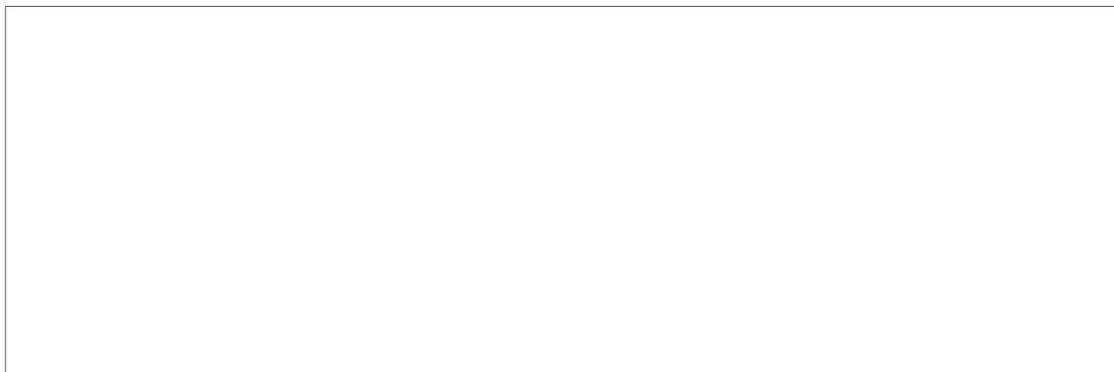
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PORTUGAL

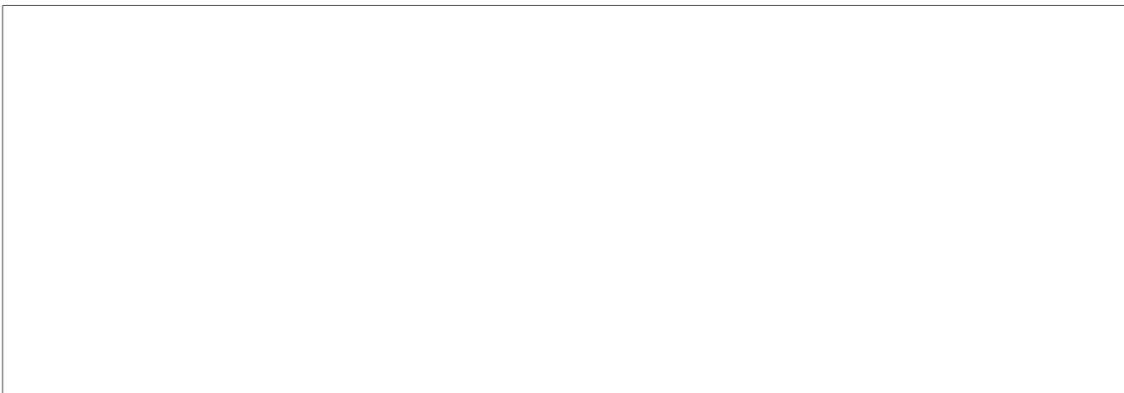
Representatives of the center-left Popular Democratic Party are scheduled to meet with Armed Forces Movement members today to present counterproposals to the Movement's program formalizing its role in the government.

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Twelve parties have presented the necessary 5,000 signatures to register for the election. Ten of the qualified parties fall to the left of center, but only three of these are legitimate center-left parties in the European mold. The rest are either communist, communist-dominated, or representative of the extreme left wing.

The two lone center-right parties--the Social Democratic Center and the Christian Democrats--have been subjected to systematic harassment and violent attacks from the far left. Similar attacks have recently been directed at moderate center-left parties, and unless the government begins to provide adequate security, the election campaign next month will be a shambles.



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WEST GERMANY

Bonn has instituted a "voluntary" reporting system under which German banks and firms will give prior notification of major new investments or acquisitions by foreigners. This move is intended to prevent OPEC takeovers of domestic enterprises until legislation can be readied granting the government broadly based blocking authority. The West German public has been demanding protection of German firms from OPEC buyers ever since the Kuwaitis purchased 14.5 percent of Daimler-Benz last November.

The Economics Ministry has developed criteria for the voluntary system. Among items that must be reported are transfers to a foreign investor of more than 10 percent of the stock of any enterprise whose annual sales exceed \$40 million. In addition, the ministry has identified some 700 firms considered sensitive and is attempting to set maximum limits for foreign ownership.

Bonn will find it difficult to convince OPEC that this policy is not discriminatory. Its intent has been made even more transparent by assurances to the major industrialized countries that their equity purchases will be unimpeded. Economics Minister Friderichs will try to placate OPEC members during visits in the next few months by advising them of the new investment guidelines and highlighting investment opportunities open to them.

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INDIA

Officials in New Delhi have so far reacted with relative restraint to Washington's policy change, announced on Monday, permitting a resumption of arms sales to Pakistan.

Foreign Minister Chavan yesterday canceled a planned official visit to Washington for the first session of the recently formed bilateral commission aimed at strengthening relations. His statement in Parliament on Tuesday criticizing US arms policy, however, was moderate.

Chavan expressed New Delhi's "deep regret" at the US decision and reiterated India's long-standing position that the move would impede reconciliation between India and Pakistan. Although he implied that the pace of improvement in Indo-US relations will be slowed, Chavan was less critical of the US than of Pakistan, accusing Islamabad of continuing a policy of suspicion, hostility, and confrontation toward India. India's suspicion and resentment of Pakistan probably will deepen, postponing even longer the restoration of diplomatic relations, severed since the 1971 war.

In a statement to the Indian upper house yesterday, Prime Minister Gandhi was critical of the US action, charging that it would "reopen old wounds and hinder the process of healing and normalization." The Prime Minister stated that it was "specious" to argue that arms should be supplied to Pakistan because India is developing a self-sufficient defense industry and "dishonest" to argue that Indian nuclear research poses a threat to Pakistan. Mrs. Gandhi's comments were made in the course of a reply to opposition remarks and apparently were not part of a prepared statement.

Washington's announcement came as no surprise to New Delhi; the Indians had been anticipating the policy reversal for many weeks. The immediate domestic impact was also dulled by New Delhi's almost simultaneous announcement of a new political setup in Indian-controlled Kashmir and the arrival of Soviet Defense Minister Grechko.

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FOR THE RECORD

Pakistan: Pakistan is seeking to purchase new radar equipment to improve and integrate its air surveillance system. The existing system--which depends on ground observers and landline communication--proved ineffective during the 1971 war with India, allowing Indian aircraft to penetrate Pakistan's northern and eastern sectors at will. Pakistan is discussing with US, British, French, and Canadian manufacturers the purchase of a fully automated radar system that will provide vital low-level intercept capability. The Pakistanis also plan to establish a comprehensive support system that features computer-controlled data handling to back up their air defense network. Iran reportedly has offered to help finance these projects.

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