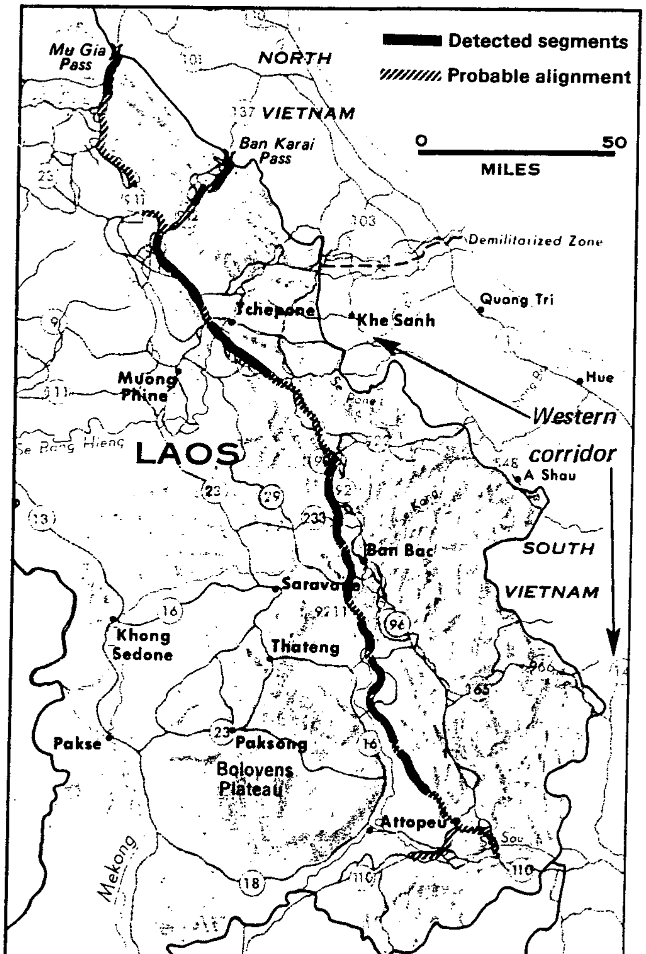
(b)(1)
(b)(3)
(S)

Following the first meeting, Souvanna's most outspoken military critic, the Deputy Commander in Chief of the Lao Army, General Kouprasith, and several other influential officers pledged their support to the prime minister. Their shift isolated Souvanna's chief civilian opponents in the cabinet. As a result, Finance Minister Sisouk and Transportation Minister Ngon Sananikone informed Souvanna that they would raise no further objections to the agreement.

Once the protocol is signed, Souvanna's task will be to ease it through the National Assembly. That body, which is dominated by the rightist Sananikone family, has in the past opposed Souvanna on many issues. In anticipation of some assembly opposition to the protocol, Souvanna may decide merely to discuss the agreement with the deputies rather than submit it to them for formal approval.

New Road Construction in Laos



[redacted]

ANOTHER COMMUNIST HIGHWAY

[redacted] a new, high-[redacted] Laos panhandle is under construction. The road begins on the North Vietnamese border and probably will run all the way to Cambodia; about one half of the road has been built since March. The rapid pace of construction suggests that the North Vietnamese are getting ready for another substantial dry-season logistical campaign. The road probably will not be open for through traffic until early 1974.

Like the new north-south corridor in western South Vietnam, the Laos route has two lanes, is well-drained, and may be able to support year round traffic. When completed, the two systems will give the Communists great flexibility in supplying their widely scattered military forces in Indochina. During the summer rainy season in Laos, the Communists can use the route through western South Vietnam; during the winter rainy period in Vietnam, the Laotian corridor will be open. [redacted]

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JAPAN: A BIG SPENDER

Almost $6 billion in long-term capital was invested or loaned overseas by Japan during the first seven months of 1973; the figure approaches the highest one-year level of capital exports registered by the US and compares with the $2 billion sent abroad during the same period last year.

In the summer of 1972 Japan moved to reduce its enormous foreign exchange reserves by stimulating the export of capital. Tokyo eliminated the remaining direct controls and deposited large amounts of dollars in commercial banks, thereby increasing their lending capacity. The government also used tax inducements to encourage direct investment abroad as well as the purchase of foreign securities. These government efforts had an effect; Japanese industrial firms and large trading companies have expanded their foreign operations, and Japanese banks have channeled large sums to countries where interest rates are higher than those in Japan.

A major feature of Japan's investment and lending activities overseas this year has been the rapid expansion of syndicated loans, often issued in conjunction with foreign banks. Two such loans have been made to European public utility corporations this year, with the Japanese share totaling $450 million. Large loans also have been made to US multinational firms, including IBM.

Japanese direct investment activity is increasing, but it remains small compared with that of the US. During the first half of 1973, direct investment abroad by Japan amounted to about $620 million—almost equaling the level for all of 1972. This is well short of US direct investment abroad, which has averaged more than $3 billion annually since 1965. Much of the Japanese money is going into purchases of oil concessions in the Persian Gulf. Japanese purchases of foreign securities and the floating of foreign bonds in the Tokyo money market have boosted capital exports.

Although Japan has emerged as a major supplier of capital, this activity is likely to slow in the coming months, perhaps to less than half the recent levels. Foreign exchange reserves have been reduced to $15 billion, and according to some sources, Tokyo has no wish to cut them much more. To hold reserves near $15 billion during the next year, long-term investments and lending overseas will have to be reduced to about $4 billion unless Japan eases its tight controls on capital imports. Moves in this direction are now under consideration in Tokyo. [redacted]

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