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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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(Information as of 1200 EDT, 2 September 1971)

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International Economic Developments

The Japanese allowed the yen to float when the exchange market opened on 28 August, and by 1 September it had appreciated by almost six percent, relative to the old yen-dollar parity. Japanese financial authorities then imposed stringent new controls on the foreign exchange operations of Japanese commercial banks to limit day-to-day fluctuations in the value of the yen. Tokyo has made clear that it regards the yen float as a sufficient quid pro quo for removal of the US import surcharge and has indicated it will not establish a new fixed rate until the surcharge is removed. Tokyo probably intends to float its currency until a multilateral agreement on new parities is worked out.

Elsewhere, France is maintaining its dual-rate system, and by midweek the dollar had depreciated by 3.8 percent vis-a-vis the free "financial" franc, which is used for nontrade transactions. The "commercial" franc is the only major European currency still firmly pegged to the parity existing before the announcement of the new US economic policy. The Bank of France, however, has had to make substantial dollar purchases in the commercial market to maintain this rate. With the yen floating the French franc is now most vulnerable to speculative pressures that in time could undermine the dual-rate system and force the French to float for all transactions.

London imposed new restrictions on foreign accounts in the hope of inhibiting an inflow of speculative funds that would further appreciate

the pound, now at a premium of three percent. British banks are restricted from paying interest on additional deposits of nonresidents, and other financial institutions are prohibited from accepting further nonresident deposits. These moves were reinforced on 2 September by a cut in the prime interest rate from six to five percent which also stimulates the domestic economy.

Large gold sales by speculators drove the free market price down to \$41.10 per ounce in London by 1 September. This compares with the closing price of \$43.00 on 13 August, the last trading day before the President's announcements. The sellers apparently are beginning to accept that there is little likelihood of an early increase in the official price of gold.

The EC countries have made little progress toward establishing a common position for the annual meeting of the International Monetary Fund at the end of the month in Washington. Whether France and Germany are more willing to compromise on their differences may become evident at the 3 September meeting in Paris of the deputies of the Group of Ten. French Finance Minister Giscard d'Estaing, meanwhile, seems to have indicated that Paris' view of the future international financial system is steadfast. Interviewed by *Der Spiegel*, Giscard supported the establishment of a new international reserve unit. This stance is consistent with France's traditional opposition to national currencies being used as reserve currencies.

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Political Repercussions of US Economic Program

Reactions to the new US economic program continue to range from "understanding" for US motives on the part of some free world countries to Communist denunciations of the measures as

another manifestation of US "imperialism" and the "decline of capitalism." Even among close friends of the US, however, there is some resentment at US attempts to shift adjustment burdens

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to foreigners. Moreover, there is evident unease over what the sudden, unilateral measures may portend for US leadership and for the future of international cooperation. This uncertainty is compounded by doubts that the US intends soon to abandon the much-criticized import surcharge and fears about the permanency of the proposed limitation of the tax investment credit to purchases of US-made goods.

Although it has been widely acknowledged that the US actions are by no means unprecedented in international economic affairs, the feeling nevertheless persists that a superpower cannot follow the rule-breaking examples set even by West Germany or the UK. Reflecting this view, the Norwegian delegate at last week's GATT Council session categorized the US among the "GATT congregation of sinners" as "not guilty of the biggest sins, but the biggest of sinners."

However "chauvinistic" they may deem the US program to be, most officials—in both the developed and lesser developed countries—do recognize that it may have provided the occasion for far-reaching reforms of the international monetary system and the establishment of revised guidelines for world trading. The problem troubling them, and many private observers as well, is how to establish a propitious negotiating climate out of the disarray the moves have engendered. In their view, the stated US objectives—a substantial and lasting improvement in the US balance of payments, an adjustment in the burdens of defense, and an end to unfair trade practices—raise issues which, to say the least, cannot be resolved all at once.

In Western Europe, a prime consequence of the US moves has been to refuel the existing tensions between France and West Germany over monetary policies. Paris may eventually have to relax its rigid position on exchange rate questions, but for the present at least, it is clearly unwilling to seem to be "giving in" either to Bonn or to Washington. This attitude will probably prevent the early adoption of a Common Market position that would enable an international sorting-out to get under way.

On the Alliance front, the US measures have renewed fears—which coincide with improved prospects for beginning talks on mutual and balanced force reductions—of unilateral reductions in US troop levels. Furthermore, as is apparent in published remarks by German Economics Minister Schiller, Bonn considers that the balance of payments adjustments resulting from European revaluations lessens the need for improved offset arrangements with the US.

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Indochina

North Vietnam: Changing Line?

Two authoritative North Vietnamese articles have been published recently that are markedly different in tone from other Hanoi pronouncements of the past several months. They could mean that the party line on the war is in flux. Both articles are replete with standard propaganda fare, some of which reflects Hanoi's continuing concern over its international position in the wake of the contacts between Washington and Peking. In their treatment of the war, however, the two articles omit any reference to the 19th party central committee plenum, which took place sometime around the turn of the year and which called for an increase in the Communist war effort. Nor does either article tout the battles in southern Laos and Cambodia last spring as "strategically significant" Communist victories—a hitherto standard bit of jargon that implied that Hanoi viewed those battles as a springboard for further Communist military gains in the not-too-distant future.

Moreover, the notion that the Vietnamese Communists are pointing toward large-scale military action in the war—a theme that has pervaded their propaganda since at least last March—has been conspicuously weakened in these two articles. The army magazine even picks up an odd line that has appeared once or twice in other recent publications, to the effect that the worst of the fighting is over. Both articles, in addition, have long passages of convoluted language emphasizing the unvarying "correctness" and "creativity" of the Vietnamese Communist party line. The North Vietnamese have in the past reverted to such topics either when there seemed to be differences within the leadership to be papered over or when a policy shift was in preparation.

Hanoi's other, less authoritative media have continued to replay the themes omitted in the party and army journals. If the shifts in the theme begin to appear in the other media, the impression that a policy change is in the wind will be strengthened.

Podgorny to Hanoi

The Soviets, meanwhile, have finally set a tentative date in early October for their long-planned visit to Hanoi. Both Moscow and Hanoi doubtless view President Podgorny's forthcoming trip as a useful counter to the recent Sino-US rapprochement and will use it to accentuate the positive aspects of Soviet - North Vietnamese relations. Chinese efforts to allay Hanoi's concern in the wake of Peking's gestures toward the US have not been overly successful, and Hanoi probably welcomes the opportunity to remind the Chinese that it has other great power backers. Moscow, for its part, is likely to use the occasion to stress Soviet support for the Vietnamese, including a possible commitment for additional aid. The Soviets also will try to reassure them that the USSR, at least, will not sell out North Vietnam's interests in the South. The fact that this display of support for Hanoi will be taking place in Peking's backyard will be further cause for satisfaction in Moscow, which has taken a dim view of Peking's "meddling" in the USSR's East European sphere of influence.

South Vietnam: Lower House Elections

Voters in the Lower House elections on 29 August returned a progovernment majority to the new 159-member House. Only a minority of the incumbents won re-election and the political

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affiliation of some of the new deputies is unclear, consequently the exact line-up will not be certain until after the House reconvenes in the fall. President Thieu should still be able to muster majority support in the House on most issues, as he has in the past. The President has privately expressed satisfaction with the election results, indicating that he believes about 60 percent of the deputies will support him. Moreover, the impressive 78.5 percent turnout—substantially higher than for previous legislative elections—is helping the government rebut opposition charges that Thieu's election policy has caused widespread voter apathy in South Vietnam.

With a nucleus of about 25 deputies associated with the An Quang Buddhists, the opposition in the Lower House may be somewhat larger and more cohesive than it has been. As expected, An Quang candidates were most successful in the northern provinces, and opposition figures also did well in Saigon and other urban centers. Nevertheless, some members of the opposition are charging that they would have done much better if local officials had not rigged some of the contests.

Communist Election Attacks

Communist guerrilla attacks rose sharply last weekend, but damage was generally light and the actions did very little to disrupt the voting. Military activity dropped off again during the week. Although the Communists clearly had not made a serious effort to interfere with the voting, it is more difficult to judge how successful Viet Cong cadre were in their parallel effort to join in and influence the outcome of the elections. There is sufficient antigovernment sentiment among non-Communists in the larger cities and in the northern provinces to account for the sizable opposition victories in those locations without any help from the Communists.

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Cambodia: A Host of Headaches

Sirik Matak returned to Phnom Penh this week and was faced with a number of significant political problems that have combined to undermine governmental unity and stability. One of his first tasks will be to help the regime skirt a possible showdown with the National Assembly. The legislature postponed its interpellation of Finance Minister Sok Chhong on government economic policies until Matak's return. The cabinet reportedly is ready to stand behind Chhong if he is forced to resign. If Matak still holds to his view that a single minister's troubles are not worth the downfall of the government, however, he may seek to solve the problem by reshuffling the cabinet or by accepting Chhong's resignation—which has already been submitted. In addition to possibly delaying the government's submission of its vitally important economic reform package to the Assembly, Chhong's resignation would cost the government the services of one of its few talented technicians.

It is also likely that Matak will be called on to make an effort to reduce the bad blood that now exists between Prime Minister Lon Nol and Chief of State Cheng Heng. The serious rift between the two leaders stems in part from Cheng Heng's continuing conviction that Lon Nol is unfit to govern and should step aside. The fact that a number of other key officials, including First Deputy Prime Minister In Tam, reportedly also share this belief can only complicate whatever steps Matak may take to stop such squabbling within the leadership. Simultaneously, Matak will have to pay some attention to his own vulnerable political flanks,

There is some evidence that Lon Nol may be sympathetic to his critics' view of his present capacity for leadership. The prime minister has

shown signs that he is both physically and emotionally tired from the strains of his office.

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The problem of Phnom Penh's increasingly strained relations with Saigon will also demand Matak's attention. Adverse public reaction to reports of mistreatment of Cambodian civilians by South Vietnamese Army (ARVN) troops is again putting pressure on the government to reduce its military dependency on Saigon's forces. Lon Nol's recent request for the elimination of a ten-mile corridor along the border in which ARVN can operate without high-level coordination with Phnom Penh should help tone down popular concern, if only temporarily. As long as the present lull in the fighting continues, however, Cambodian anti-Vietnamese sentiments are likely to become more pronounced.

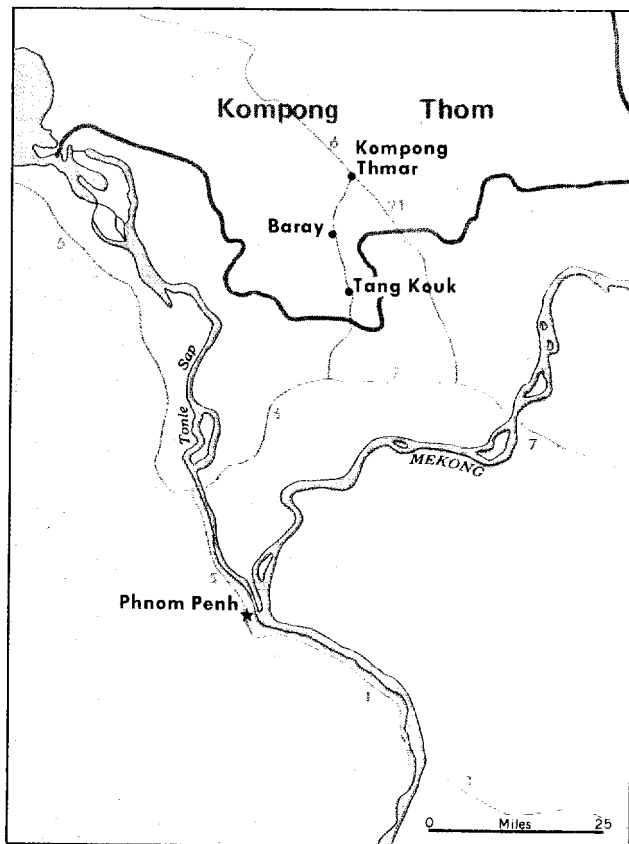
Some Military Mileage

Cambodian Army (FANK) units engaged in the Chenla II clearing operation along Route 6 in Kompong Thom Province have continued to make slow but steady forward progress. After moving unopposed into the town of Baray, FANK troops pressed on northward and occupied Kompong Thmar, at the junction of Routes 6 and 21. Enemy resistance to the operation, which has advanced some 20 miles since it was launched from Tang Kouk on 20 August, has consisted primarily of harassing attacks on its flanks. Early in the week, FANK casualties in the drive totaled 43 killed and 274 wounded.

Laos: Little But Talk About Peace

Prime Minister Souvanna Phouma and Communist leader Souphanouvong have kept up the

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appearance of a dialogue on Lao peace talks, but have moved no closer to negotiations. On 18 August, Souvanna again called on the Communists to name their plenipotentiaries, and agree to discuss a cease-fire and a bombing halt in north-east Laos as the first order of business.

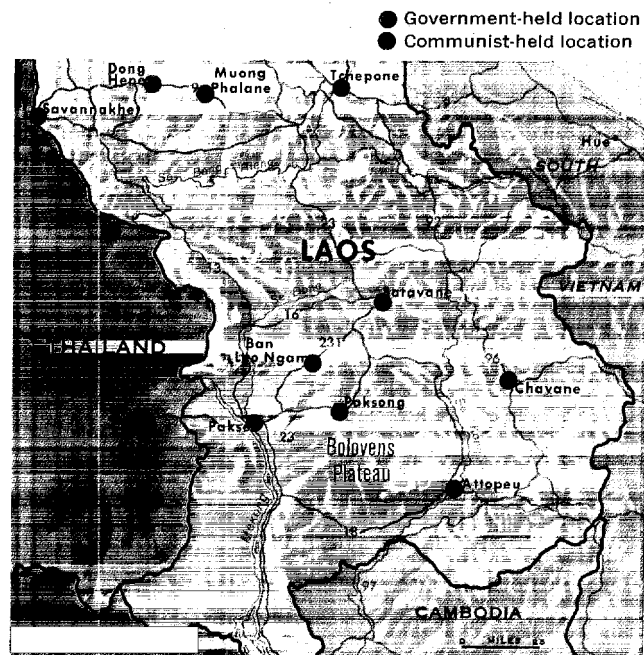
Just before his departure for a six-week vacation and visits to Thailand, France, and the US, Souvanna spelled out some of his thinking in an interview with the Lao Press Agency. He stated that if the Communists accepted his proposal to "neutralize" the Plaine des Jarres, government attacks in the area "could easily come to an end," and for the first time made explicit that all units

of both sides would withdraw, under proper controls. Souvanna also stressed that his absence should not hinder any progress toward talks, noting that his representative would be able to contact him at all times, and was authorized to begin contacts at the former neutralist headquarters at Khang Khay on the Plaine.

Lao Communist leader Souphanouvong responded to Souvanna's message by denouncing it as "unrealistic" and a "crafty maneuver," and repeated Communist insistence that talks are impossible as long as allied bombing of their forces and the infiltration corridor continues. The Pathet Lao representative in Vientiane reportedly gave similar short shrift to Souvanna's press interview.

Some Movement on the Military Front

The Communists are offering determined resistance to the government's month-old



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offensive to take Paksong on the Bolovens Plateau. The North Vietnamese have been fighting from strongly fortified positions west of Paksong and have also constructed strong fortifications north of the town. North of the Bolovens government forces have moved into Ban Lao Ngam, the center of an area believed to contain Communist supply caches. So far this force has encountered only light resistance.

In north Laos, the Communists again demonstrated their determination to defend the hills north of the Plaine des Jarres against Vang Pao's irregulars. Three irregular battalions were forced to withdraw from their positions in the foothills north of the Plaine following a series of heavy shellings and ground attacks on 27 and 28 August.

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Early Chinese Grain Crops Disappointing

The early harvests of the year have probably dampened Peking's optimism over food prospects. An announcement by the State News Agency described the early rice crop just harvested as "good," which in the Chinese lexicon usually means mediocre. Peking, having benefited from several successive years of expanding farm output, apparently was hoping for a larger early harvest this year as a result of the marked increase in early-rice acreage in many provinces, but unfavorable weather conditions largely nullified the acreage increase and resulted in a harvest only slightly, if any, higher than in 1970. The winter wheat crop, harvested in May-June, was also characterized as "good," presumably contributing to Peking's disappointments.

Total grain production for this year is not necessarily compromised. Improved weather conditions, together with better irrigation, mechanization, and availability of chemical fertilizer, could result in a satisfactory fall harvest, which accounts for approximately two thirds of the grain produced each year. China needs four to

five million tons more grain annually to keep pace with population growth.

The relatively poor early harvests, however, could slightly increase Chinese grain import requirements; a Chinese purchasing mission, now in Canada, may conclude another deal for this year. So far, China has contracted for 2.7 million tons of wheat for 1971, all from Canada. Shipments from Vancouver are being made at an accelerated rate and the entire amount should be shipped by early September.

Grain imports are a convenient way of feeding certain northern and eastern cities rather than representing a vital component of the food supply. For example, the 4.6 million tons imported in 1970 compares with an estimated domestic output of 215-220 million tons. Premier Chou En-lai recently repeated an earlier statement to Edgar Snow that central grain reserves amounted to 40 million tons. Although there is no way to check the accuracy of his claim, there is little doubt that there is enough grain to tide over a bad year.

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Communist China: *Last Four Provincial Party Committees Formed*

The final act of a Chinese restoration drama, begun with the Cultural Revolution, concluded last week with the formation of the last four of China's 29 provincial party committees. The over-all committee leadership is heavily weighted in favor of moderate elements, although political compromise between divergent interests is still the order of the day. Peking's restrained assessment of the new committees, published in the People's Daily on 27 August, openly admitted that the "organization as it exists has shortcomings."

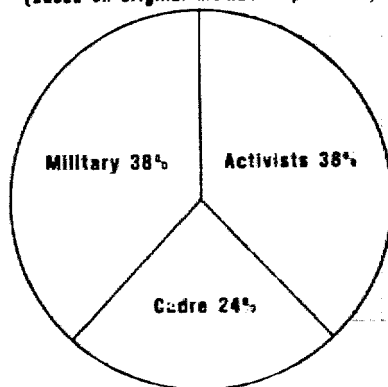
Among the major problems confronting the regime are the existence of potentially unworkable leadership arrangements and the dominant role of the military in the party committees, a source of embarrassment to the regime which has prided itself in having a party which "commands the gun."

By early 1967, the old party apparatus had been jettisoned, and local leadership came to be

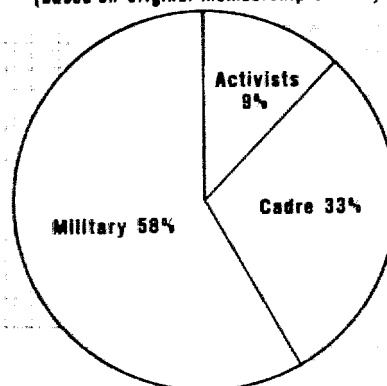
COMMUNIST CHINA: The Politics of Provincial Party Building

"Revolutionary" Activists Squeezed Out

1967-68 Revolutionary Committees*
(based on original membership of 222)



1970-71 Party Committees*
(based on original membership of 158)



*Represents 29 provincial-level administrative units

Military Men March In

First Secretaries...Military occupy 20 out of 29 positions

Second-ranking party Secretaries...Military occupy 26 out of 29 positions

Remaining Secretaries

and
Deputy Secretaries ...Military occupy 48 out of 98 positions

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exercised through "revolutionary committees"—ad hoc administrative units that evolved during the height of the Cultural Revolution disorders and were often the products of compromise between competing factions. When, in late 1970, the first provincial party committees were established, it appeared that Peking was willing simply to endorse leadership alignments already existing on the revolutionary committees rather than run the risk of provoking renewed factional violence. By late spring of this year, however, the central leadership was obliged to come to grips with troubled provinces in which leadership arrangements arrived at during the Cultural Revolution had obviously fallen into disarray.

Hard bargaining between conflicting groups in these provinces resulted in the appointment of new provincial chiefs for a majority of the problem committees. In several instances—such as Inner Mongolia and Shantung—wholesale personnel changes were required in order to reduce personal antagonisms and establish more workable leadership arrangements. Although the provincial heads ousted during this process represented a wide spectrum of political affiliations, the majority of those dropped were aligned with forces associated with the more radical policies of the Cultural Revolution. The drastic nature of the leadership changes wrought this year by Peking is a partial measure of the regime's frustration over its inability to curb deep-seated divisions responsible for continued instability in the provinces and for the delays that have slowed the party-building timetable. The difficulties in ironing out local disputes have been further complicated by the oblique maneuvers of rival politburo members seeking to enhance their bargaining power in Peking by promoting the interests of their followers in the provinces.

Although the top provincial party leadership frequently parallels that of the revolutionary committees, there are significant differences. Military men continue to hold the top posts of province head in 20 of the 29 committees and have expanded their numerical representation in the ranking positions on the new party committees to nearly 60 percent. Rehabilitated party veterans—including several who were bitterly attacked during the Cultural Revolution—have likewise increased, and now occupy over 30 percent of the major party posts. A number of "technocrats" have been recruited from Peking's central ministries; most of these have been installed in economically less-developed provinces, suggesting that the regime has accorded a high priority to economic development in these areas. In the meantime, the representation of "leftist" activists, often the largest single group on the original governing bodies, has been reduced to a single post on most party committees. In those provinces beset by chronic factional disturbances, activists have been completely excluded.

Although the party restructuring process is formally completed, there are still many questions to be answered. The new party committees have been declared the leading bodies in the province, but revolutionary committees still exist and the actual division of labor between the two components is by no means clear. Another complicating factor is the expanded role of the military and the resulting problems of civilian versus military control of the party structure. Until the regime begins to address these problems in an authoritative manner, there will be little chance for the new party apparatus to regain its pre-1966 image as an infallible and essentially civilian monolith.

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EUROPE

The Inter-German Talks: *Phase Two of the Berlin Settlement*

With the signing of the four-power agreement, the first phase of a Berlin settlement will be complete and inter-German negotiations can commence in earnest.

Both the East German - West German talks on personal transit and shipping, and the East German - West Berlin Senat talks on visits to the East for West Berliners were suspended during the final stages of drafting the four-power agreement. In bilateral meetings since the draft agreement was announced, however, both sides appeared eager to proceed.

In the East German - Senat talks, resumed on 30 August, Pankow's negotiator, Guenter Kohrt, attempted to expand the discussions to include traffic between West Berlin and West Germany, and telecommunications. Senat representative Guenter Mueller rejected the proposal and insisted the talks cover only visits by West Berliners to East Berlin and the GDR, and the issue of exchanges of property aimed at resolving

the problem of exclaves—the small parcels of land belonging to and adjacent to West Berlin but cut off by intervening stretches of GDR territory. This agenda question was not resolved, but both sides agreed to meet again on 6 September.

The East Germans are working very closely with the Soviets on these negotiations. On 26 August, Foreign Minister Otto Winzer flew to Moscow to confer with his Soviet counterpart Andrei Gromyko. When Winzer returned, he was met by East German negotiators as well as by Soviet Ambassador Abrasimov.

East Germany's policy of *abgrenzung*—separation of the two Germanies—is obviously thwarted somewhat by a Berlin agreement and a subsequent relaxation of tensions. Nevertheless, with Soviet and East European sentiment favoring detente in Central Europe, it seems unlikely that Pankow will hamper progress during the second phase of negotiations. [REDACTED]

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AUSTRIA: A challenge by the opposition People's Party (OeVP) to the legality of the national elections scheduled for 10 October has added an element of uncertainty to the quiet campaign. During the past few weeks, People's Party representatives in the politically conservative areas of western Austria have filed appeals to the Constitutional Court for a more favorable apportionment of parliamentary representation based upon the currently unofficial 1971 census

figures. The OeVP, desperately searching for leadership and issues, has much to gain from a reapportionment or possibly a postponement of the elections. Socialist Chancellor Kreisky, however, has dismissed the demands of his opponents as unjustified and unworkable, and many legal experts concur in this opinion. The Constitutional Court, which reconvenes on 4 October, must make its decision quickly if it is to affect the elections. [REDACTED]

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Soviet Leaders Plan Road Tour

The Soviet leadership is planning extensive diplomatic activity for the remainder of 1971. Although each of the individual trips has its own rationale and most have been planned for some time, some common themes emerge. One is an effort to put some life into Soviet diplomacy in order to counter China's recent diplomatic gains. The scheduling of trips to France and Algeria may be partly in response to reports that Vice Premier Li Hsien-nien or other high-ranking Chinese officials plan to visit these countries in the near future. Brezhnev may also hope that his trip to Yugoslavia will somehow contribute to blocking further Chinese penetration of Eastern Europe.

The Soviet leaders will probably also solicit support for proposals relating to European

security matters. It is noteworthy that, as far as Canada and France are concerned, the Soviets have apparently decided to take advantage of long-standing invitations now that the first-stage of an agreement on Berlin has been reached. The Berlin problem until now has been the main obstacle to forward movement in Soviet policies toward Western Europe. The unexpectedly favorable outcome of the four-power Berlin talks has left relatively little for the two German states to discuss, therefore, it is possible that the Soviets and East Germans will push this phase of the negotiations to a rapid conclusion. A definitive proposal on a Conference on European Security could then be made at the time of Brezhnev's visit to France, if not before.

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SOVIET LEADERSHIP TRAVEL PLANS		
DATE	NAME	PLACE
September	Foreign Minister Gromyko	UN
22-24 September	Brezhnev	Yugoslavia
*early October	Podgorny	Hanoi
14-15 October	Podgorny	Iran
*October	Kosygin	Algeria
18-26 October	Kosygin	Canada
end of October	Brezhnev & Podgorny	France
<i>*Trips officially announced by Moscow</i>		

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Malta-UK: *Deadlock Continues*

Valletta and London continue to haggle over the terms of a new defense and financial agreement. Prime Minister Mintoff apparently still hopes to reach an accord with the British that would obviate the need for Malta to rely entirely on either Libya or the USSR for economic assistance. Whether the present UK-NATO offer of financial aid can be raised to a level acceptable to Mintoff depends on the current maneuvering between the UK and its NATO partners.

Mintoff recently told British Defense Secretary Lord Carrington that his government needs \$72 million annually to make the economy viable. He hopes to receive \$43.2 million from the UK and its NATO allies, \$16.8 million from Maltese investors, and \$12 million from Libya. The Maltese leader said that in return for Western aid the UK could continue to exercise base rights on the island and that some NATO members would be permitted to use Maltese facilities, provided Malta's "friends"—he cited only Libya—also had access.

In a meeting early this week, the North Atlantic Council failed to come up with additional contributions to the UK-NATO offer of \$20.4 million annually in cash and aid. Italy and West Germany have since indicated a willingness to raise their pledges. Although Bonn is prepared to match an increased Italian contribution, Rome believes that the British should bear a larger share of the burden. An Italian Foreign Ministry official has implied that a new UK contribution need not be very large to precipitate an appropriate response from Rome.

Mintoff complained recently to the US ambassador that the discussions with the British had been vague and left him uncertain as to what had been offered by whom. Progovernment newspapers have reported that Malta may get a \$36-million settlement—\$20.4 million directly from the UK and the remainder in bilateral aid from other NATO members—and these figures have apparently been accepted as an accurate prediction by the general public. Under such circumstances, it would be very difficult for Mintoff to accept an agreement offering much less than \$36 million.

Meanwhile, Mintoff is continuing to keep his options open on alternative sources of aid. Late last week a Soviet merchant ship arrived in Valletta for repairs in the drydocks and several others are expected to follow this year. Mintoff told the US ambassador that he had received a "no string" proposal from the Soviets, but he did not spell out what they were offering. He also said that an unspecified source had given Malta \$3 million in cash, an apparent reference to the short-term aid agreement Mintoff signed with Libya in mid-August.

Scant Progress Made at UN Maritime Meeting

US initiatives did not fare well at the recently concluded six-week preparatory meeting for the 1973 Law of the Sea conference. Developments at this session—held in Geneva as a meeting of the UN General Assembly's 86-member sea-

beds committee—raise the possibility that the 1973 conference, like its predecessors of 1958 and 1960, may fail to achieve meaningful and widely accepted agreements.

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During the meeting the US formally acknowledged its willingness to accept in 1973 a 12-mile territorial waters limit, provided that rights of free passage through international straits are guaranteed. The 12-mile limitation received general support at Geneva, but this backing was often conditioned on acceptance of a broader economic zone under coastal state controls. The US and a number of other countries are presently unwilling to concede such a zone. Led by 200-mile claimant Brazil, a few states even persist in opposing the 12-mile territorial limit and advocate more extensive coastal state controls over navigation.

A 12-mile limit would effectively close about 100 straits, many vital to the superpowers' security interests, unless rights of passage are defined by international agreement. Spain opposes the free passage proposal and is seeking to confine entry rights to "innocent" activity, a concept that would permit coastal state controls over oil tankers and warships, such as British vessels bound for Gibraltar. Madrid has obtained support from some Latin American countries by accepting their call for a 200-mile resource zone. The Spanish have also recently revived the proposal for demilitarization of the Mediterranean. Although the

Spanish lack substantial support, they may hope to use these moves as bargaining chips in negotiating with the US over bases and better links with Western defenses.

No progress was made on fishing issues. Most of the major powers with distant-water fishing fleets remain at an impasse with the less developed countries (LDCs) who are intent on controlling living resources far off their coasts. Similarly, the US proposal for international regulations to govern mineral exploitation of the ocean floor made little headway. Many LDCs fear that they could lose a potentially significant amount of revenue by accepting such arrangements.

Unless some reconciliation of views occurs soon, positions for the 1973 conference could become so inflexible as to prevent drafting substantive agreements there. The one bright spot at Geneva was the willingness of the Afro-Asians, who will control a sizable bloc of votes, to recognize the need for serious bargaining in the intervening period. Some Latin Americans, however, in an effort to gain concessions, have been engaged in effective delaying tactics that, if prolonged, could lead to postponement of the conference.

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Yugoslavia: *New Government; Old Economic Problems*

The first order of business and the first critical challenge for Yugoslavia's revamped government will be to implement the stabilization package enacted last month. The new measures should provide temporary relief, but without fundamental changes in the economy they will have no lasting impact.

The stabilization program focuses on substituting the consumption of domestic products

for imports and reducing bank credits to unprofitable enterprises. Credits for imported automobiles have been eliminated, and credit has been tightened for firms producing goods largely with imported materials. In addition, import quotas for some unspecified goods have been slashed. The availability of loans for enterprise investments and of short-term credits for working capital also have been curtailed.

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The Yugoslavs, while waiting for the domestic measures to take effect, have obtained temporary relief in the form of a standby credit of \$120 million from the International Monetary Fund, and credits and debt relief amounting to \$75 million from Italy and \$58.5 million from the US. French and West German assistance is still pending. Belgrade for political reasons has so far rejected attempts by Bonn to tie its aid to a final settlement of Yugoslavia's World War II indemnification claims.

Efforts since last fall to stabilize the economy have been unsuccessful. Price controls have been evaded, and inflation has all but wiped out the anticipated effects of the devaluation of the dinar last January. For the first seven months of this year the cost of living rose by 14 percent and the trade deficit reached \$971 million, a

staggering 62 percent above the comparable period of 1970.

Like past deflationary campaigns, the new measures attack the symptoms not the basic causes of inflation. Even temporary relief may be hard to achieve. At this early date the regime already has run into one snag: credit controls had to be eased temporarily when illiquid firms were unable to meet payrolls in early August.

Moreover, the new constitutional structure creates a new uncertainty by giving the republics an integral role in forming and executing economic policy. The next few months will provide clues to two key questions: will the republics fully implement the unpopular deflationary measures and, even if some degree of stability is achieved, how long will Belgrade be able to resist the inevitable pressures to overinflate the economy again?

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MIDDLE EAST - AFRICA

Jerusalem-Israel: *The Remaking of a City*

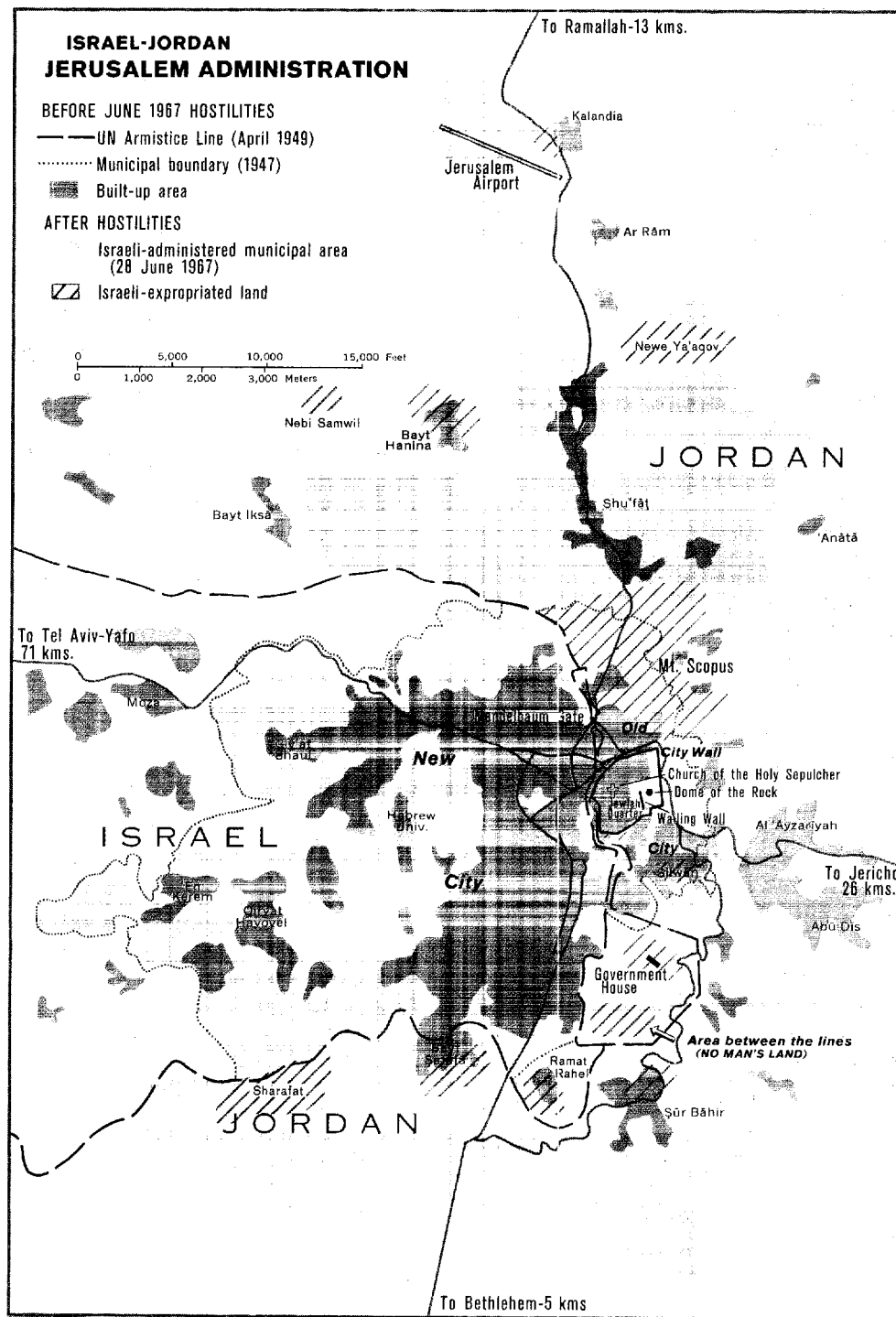
The Jerusalem issue is the least negotiable of all Arab-Israeli territorial questions. Since the war in 1967, the Israelis have incorporated former Arab East Jerusalem with former Israeli West Jerusalem, and have proclaimed the united city as the capital of Israel. They have also frequently said that the city would remain under Israeli sovereignty and would never again be divided. The only concession the Israelis have ever offered is that they will permit access to the various religious sites.

Soon after annexing East Jerusalem, the Israelis nearly tripled the size of the municipal

limits. Within this area, they now are well advanced on housing construction designed to weld the two former sections into a single city with a resident Jewish majority. An arc of new buildings, mostly large apartments, is steadily enclosing the Old City, making it virtually impossible to again divide the city along ethnic lines. By April 1972, the Israelis expect to have built about 7,500 housing units which would house an estimated 26,000 Jews.

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The Israelis, to build the new housing, have expropriated some 4,000 acres of land, 3,000 of which are believed to have been owned by Arabs. This has created some hardship among the Arabs, who have generally refused compensation out of fear that this would acknowledge a lawful Israeli take-over. Near the sacred Western (Wailing) Wall, Arabs have been summarily removed, ostensibly for security reasons, and many of their houses have been demolished. The Jewish Quarter in the Old City—from which Jews were expelled in 1948—is now largely Arab, but it is being rebuilt and most of the Arabs will be replaced by Jews.

Israeli archeological excavations along the Western Wall near the compound of the Dome of the Rock and the Al-Aqsa mosques have also raised highly volatile religious issues. The Arabs charge that the digging is designed to undermine these highly revered shrines. The tinder-box quality of Arab sensitivity regarding these holy places was demonstrated by the uproar that occurred in

1969 when a fire was set in Al-Aqsa by an Australian religious fanatic.

The Israeli press, meanwhile, has launched an attack on the possibility of a Security Council debate on Jerusalem. Israeli newspapers have accused the US of "passivity" in the face of the Jordanian proposal to bring the issue to the council; one New York correspondent quotes Israeli UN delegate Tekoah as saying Israel will not play its prearranged part in the "script" prepared by Jordan and the US for the council meeting. Foreign Minister Eban is supposed to have said at a cabinet meeting that if Jordan insists on taking the question to the UN, it can expect a sharp Israeli counterattack, including a review of Jordanian administration of Jerusalem. Eban also hinted that a debate would cloud prospects on other issues—particularly an interim settlement on the Suez Canal. The papers add that Israel will not cooperate with any UN committee that may be sent to Jerusalem to investigate.

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NEPAL: On 29 August, King Mahendra announced the formation of a new cabinet that retained K. N. Bista as prime minister. Bista's reinstatement caught Kathmandu by surprise for he had resigned only three days earlier following an unusual royal directive to Parliament criticizing his government for the arrest of a controversial legislator. Both the King and Bista, however, appear to have gained from the reshuffle. By expelling two ministers implicated in corruption, Mahendra has demonstrated his concern for main-

taining the image of honest government. Bista's personal position in the government has been strengthened by the King's evident confidence in his ability and loyalty, and by the added responsibility of the foreign affairs portfolio in addition to the three he previously held. Despite Bista's anti-Indian reputation, Indian diplomats in Kathmandu consider that he played a positive role in negotiating the new Indo-Nepalese trade and transit treaty and that he may help further to improve bilateral relations.

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Pakistan: *Leftists in the Bangla Desh Movement*

Guerrilla activity in East Pakistan is largely under the control of the moderate Awami League (AL), but the dozen leftist groups fighting independently pose a potential threat to AL leadership. Although the role of the leftists now is small, it has grown steadily since fighting broke out last March.

The most important of these leftist organizations is the Communist Party of East Pakistan/Marxist-Leninist, led by Mohammed Toaha who now commands a fairly successful guerrilla force in the southern part of East Bengal. The party refuses to have anything to do with the AL and does not appear to have ties with any of the Indian Communist parties. At least three other East Bengal groups are aligned with Indian Communists, however, and have expressed an interest in uniting with the AL. Their proposals so far have been rejected by the AL leadership.

Nine leftist organizations met last June to form a united front. Their ultimate objective is to establish a free Bangla Desh by means of protracted guerrilla warfare. Hindered by personal rivalries among their leaders, they are nevertheless seeking ways to exploit the current instability and to challenge the moderate insurgent forces.

The AL leaders—predominantly from a small-town, middle-class background—are poorly equipped to organize guerrilla warfare. Although they offer some political leadership, actual fighting is commanded by politically unsophisticated former members of the army and paramilitary forces, who may well be susceptible to leftist propaganda. Moreover, the AL's leaders are almost all Muslims, but the refugees—from whom a guerrilla force could be drawn—may be as much as 90-percent Hindu. The extremists, on the other hand, have shown no religious prejudice and many of their top- and middle-level leaders are Hindu.

In the meantime, President Yahya has appointed a Bengali civilian governor in East Pakistan to replace Tikka Khan, a West Pakistani general who has been the focus for charges of army brutality. The change probably is designed both to encourage Bengalis to cooperate with the government and to lessen foreign criticism. There was some expectation that Yahya would simultaneously appoint civilian governors in West Pakistan, including two from the west's largest party, led by former foreign minister Bhutto. The military, however, still distrusts leftist Bhutto, and continues its unsuccessful efforts to unite the contending factions of the moderate Muslim League into a progovernment party.

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CHAD: A coup attempt that President Tombalbaye claims to have foiled on 27 August apparently was feigned with appropriate theatrics by the government itself. The purported plot leader, a Muslim former parliamentary deputy, was arrested well before the "abortive coup" for distributing a subversive tract and died under interrogation. The government's exaggerated treatment of the affair seems to have been intended mainly to justify a subsequent diplomatic break

with Libya, which was accused of unspecified meddling in Chad's internal affairs. There is no evidence of—and the government did not publicly charge—Libyan involvement with the former deputy. What Chad hopes to gain at this time by needlessly antagonizing Tripoli remains unclear. Perhaps after four futile months of negotiations to improve relations, Tombalbaye simply lost patience with Libya, which has given modest military aid to dissident Muslim tribesmen in northern Chad.

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Uganda-Tanzania: *Border Clash Brings Relations to New Low*

The war of words between Kampala and Dar es Salaam erupted into armed clashes on 24 and 25 August. Official accounts differ; each side accuses the other of the border violations that touched off the fracas. The fighting, heavy at times, apparently lasted for several hours, and probably involved a few hundred troops from regular border units. Tanzania has announced the loss of one soldier and three civilians, while Uganda maintains that only one of its soldiers was killed. Both sides apparently have sent additional troops to the area, and there have been reports of further skirmishes. In addition, Ugandan President Amin has proclaimed that he has taken personal command of the army.

Amin has asserted that Chinese Communists are involved with the Tanzanians. At a press conference, he dramatically exhibited the body of a "Communist Chinese" military officer who he claimed had been assisting the Tanzanian troops. According to the Tanzanians, the body is that of a senior Tanzanian police commissioner who was of African and European parentage. Although Chinese instructors are known to be advising Tanzanian troops in the western part of the

country, there is no evidence to support Amin's charge that they are assisting troops in the border area. The Chinese, for their part, have labeled Amin's charge "an out-and-out lie."

Relations between Uganda and Tanzania have been deteriorating since General Amin overthrew the Obote government last January. Tanzanian President Nyerere, a close supporter of Obote, has refused to recognize the Amin regime and has provided refuge for Obote and some of his close followers. Amin, meanwhile, has continually accused Nyerere of harboring and training pro-Obote guerrillas who, according to Amin, have entered Uganda on several occasions.

Although last week's clash appears to have been an isolated encounter, it brings relations between Uganda and Tanzania to a new low and virtually eliminates any possibility that the rift will soon be healed despite mediation efforts initiated by the Commonwealth. In addition, the clash has focused the attention of both countries on the border and increases the chance for more serious confrontations in the future.

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Zambia: *Tribalism Again Breaks to the Surface*

President Kaunda faces a resurgence of tribal politicking, but the recent formation of a new tribally based political party is unlikely to cause him unmanageable problems.

Former vice president and Bemba tribal leader Simon Kapwepwe—once second only to Kaunda in political power—resigned from the cabinet and the ruling UNIP Party on 21 August. In announcing the formation of his own United Progressive Party (UPP), Kapwepwe attacked corruption, economic mismanagement, and the loss of democracy in Zambia. Despite his emphasis on

national issues, Kapwepwe was acting primarily to bolster the sagging fortunes of his Bemba following. His previous heavy-handed promotion of Bemba interests gradually alienated most Zambian political factions, causing President Kaunda to demote him and his tribal associates in the government and party hierarchy.

Kapwepwe has run into serious problems in trying to get the UPP under way, however. Unable to persuade any important politicians to defect from UNIP with him, he has put together an uninspiring party executive of political

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lightweights. Most Bemba politicians still in the UNIP—including the most important tribal leader left in the cabinet—have publicly declared their loyalty to Kaunda's party.

Kapwepwe's basic dilemma is how to broaden his appeal beyond his tribal base, a political necessity if he is to mount a credible challenge to the popular President. His personal philosophy, as well as the views of the few non-Bembas currently attracted to him, place him to the left in Zambia's political spectrum. He has already announced that the UPP will be guided by socialist and anticolonialist principles. At the same time, however, Kapwepwe is trying to form an alliance of convenience with Zambia's other opposition party, the conservative ANC, a party that dis-

trusts government regulation of economic and social activities and espouses dialogue and trade with white southern Africa. Ironically, Kapwepwe's resultant failure thus far to stake out any clear positions on political issues—underscored recently in an unimpressive television performance—serves only to reinforce his image as a Bemba tribalist.

The most serious problem that Kapwepwe's defection could create for Kaunda is that it might result in a permanent disaffection of the Bemba rank and file. Such a situation involving this important tribe would set back Kaunda's efforts to build national unity. Nevertheless, if the President retains most of the important Bembas in the government and UNIP, as seems likely, he should be able to hold the lid on.

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PERU: President Velasco is showing increasing concern about the obstacles confronting his government's social and economic reform program. Last week the government denounced "anti-revolutionary agitators" on the extreme left and the extreme right. Then on 27 August Velasco himself appeared to blame the government's problems primarily on the "right." At the same time, however, he criticized the Communists and other

leftists as tools of the right that are being used to stymie reform. The President probably was reacting to Communist-led labor agitation that has caused a number of costly strikes at government-owned installations as well as private enterprises. There is evidence that some workers are dissatisfied with the government's promises of eventual participation in ownership and management; they are more interested in the size of their next paycheck. [REDACTED]

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Bolivia: *Banzer Settles In*

President Banzer has completed the cabinet of his National Popular Front government and promised that its "nationalist and revolutionary" program will soon be made public. The President has professed a desire to deal with Bolivia's basic problems, but he could soon find himself preoccupied with keeping his regime intact.

The alliance of the military, the Nationalist Revolutionary Movement (MNR), and the Bolivian Socialist Falange (FSB) was forged out of unity of purpose in the face of a common enemy. Nevertheless, the stresses of coalition rule and infighting within and among the governing groups over conflicting partisan interests will provide the potential for its disruption.

Banzer has moved to consolidate his position by reorganizing the armed forces' command structure. Further personnel changes are likely to come during the traditional year-end rotation of military assignments.

The MNR has rebuffed demands from its own left wing that it leave the coalition in protest over alleged military abuses committed against students. Left-wing leader Hernan Siles remains in exile, and some party militants are said to be considering taking action to prevent his return.

Banzer will also have to deal with the remnants of the defeated "popular forces," but harsh repressive measures could serve to unify the previously fragmented extreme left. A self-proclaimed Revolutionary Resistance Front, claiming to represent the country's major extreme leftist groups, has called for an armed struggle. The resistance front has also denounced deposed President Torres for betraying the people and sending them to a useless slaughter. Torres, in exile in Peru, has attempted to justify his conduct during the rebellion that overthrew him and has declared that "the revolution" will eventually crush its enemies. The Banzer government reportedly has begun to prepare itself to counter an urban terrorist campaign.

ALLENDE'S TRAVELS: Chilean President Salvador Allende's ten-day, good-will trip to Ecuador, Colombia, and Peru served to demonstrate that he is accepted as a member in good standing of the Latin American family. It has also provided him a wider forum for attacks on US public and private economic policies and caused some internal political problems for his hosts. In some cases important citizens of varying political viewpoints showed disapproval of the visit, and crowds of enthusiastic greeters used the occasion to demonstrate opposition to their own governments. Allende's own remarks, interspersed with expositions of his socialist programs and calls for Latin American economic independence, generally

stressed such points as mutual interest in the Andean Pact and the desirability of "ideological pluralism," which he says his government exemplifies. The Chilean president's private meetings with leftist students in Ecuador and opposition leader Rojas in Colombia, his insistence on informal dress, and the zeal of his own sizable security guard were minor irritants, but no disagreements surfaced publicly. On the contrary, Allende used logical excuses of indisposition to alter his schedule when he considered it politically feasible, entertained local interviewers with his quick wit, and charmed those who accepted his official hospitality with excellent Chilean wines.

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25X1 Argentina: *Politics* [REDACTED]

President Lanusse is making progress in his effort to restore representative government to Argentina, and an official election date may be set within the next few weeks. Any optimism on this account, however, is clouded by the sagging national economy. [REDACTED]

The president met last week with representatives of the Hora del Pueblo, a loose political grouping of leaders of the Peronists and Radicals and other smaller parties, which many observers believe may eventually serve as the basis for an electoral coalition. Following the meeting, a government communiqué announced that an "electoral calendar" would be made public before 15 October. [REDACTED]

Lanusse is also making headway in his effort to neutralize the troublemaking potential of the predominantly Peronist organized labor movement. He is even being mentioned by some labor leaders as a potential presidential candidate on a Peronist-progressive-military coalition ticket. Despite Lanusse's growing popularity with union leaders, however, only Peron himself—from exile in Madrid—can deliver the support of the masses for Lanusse's political plan. [REDACTED]

Representatives of the General Confederation of Labor (CGT) are currently negotiating with the government for another round of wage increases and a freeze on prices. If they receive a substantial portion of what they want, Lanusse will have gone a long way toward solidifying his labor support. CGT leaders are beginning to talk of strikes, primarily to emphasize their wage and

price demands, but also in the hope of strengthening Lanusse's position with the military. They believe that Lanusse is willing to go along with the price freeze and wage increases and probably even Peron's bargaining points, but that this accommodation with Peronism will bring him under considerable pressure from the military. It is hoped that the disruption and potential for violence that the threat of renewed labor agitation and strikes implies will prevent military dissatisfaction with Lanusse's policies from becoming hard opposition.

[REDACTED] Lanusse thus appears to have time to continue working toward his "Grand National Accord," but each step he takes closer to the Peronists will give new strength to his opponents in the military. [REDACTED]

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EL SALVADOR: With their support waning in the face of a firm government commitment to law and order, the striking teachers have accepted a settlement that differs little from the one rejected two weeks ago. After the government dispersed the 27 August demonstration with tear gas, the teachers, seeking some face-saving means of end-

ing the two-month-old walkout, requested the archbishop's assistance in resolving their differences with the government. The government, equally anxious to settle matters before the election campaign gets into high gear, added to its previous offer a promise of no reprisals against the strikers. [REDACTED]

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Uruguay's Quickening Campaign Unsettles its Neighbors

As the pace of campaigning for the general elections in November quickens in Uruguay, neighboring Argentina and Brazil are becoming increasingly uneasy over the prospects of a Chilean type of election victory by the leftist Frente Amplio (Broad Front).

Last week President Pacheco publicly announced he would seek re-election via a constitutional amendment that would permit a second term. Although Uruguay's fragmented politics make approval of the amendment by a majority of the voters only an outside possibility, the President's declaration does signal the beginning of a major campaign effort by the incumbent Colorados. Similarly, the front-running candidate of the Blancos, the other major party, also recently began to challenge what has been the Frente's one-man show. In previous months early campaigning by the Frente (a coalition principally composed of Communists, Christian Democrats, and major party dissidents) easily dominated political news.

The Frente bandwagon now is running into official government countermeasures as well. The minister of interior has forbidden the powerful major labor federation—controlled by the Communists—to call further strikes; the federation had been using its labor muscle to support Frente objectives. The coalition's rally and canvass for support on 25 August were also hampered by the government's public warning that arrests would follow any complaints resulting from planned house to house visits, which subsequently were canceled.

Nonetheless, the Frente's early and well-financed start, combined with the latent dissatisfaction of most Uruguayans with the performance of the "establishment" parties, has kept the Frente atop public opinion polls thus far. The polls, however, have generally been limited to the capital, where the Frente is strongest and where many voters are still undecided.

The Broad Front's initial showing has, however, been sufficient to galvanize Brazilian and Argentine fears that Uruguay would succumb to a leftist take-over. Both countries have extended sizable amounts of aid to Uruguay's floundering economy.

Both neighbors appear willing to support extralegal action by Pacheco to retain power if his ticket falls short at the polls, although such an effort is unlikely.

The Brazilians are the most unsettled by Uruguay's internal turbulence.

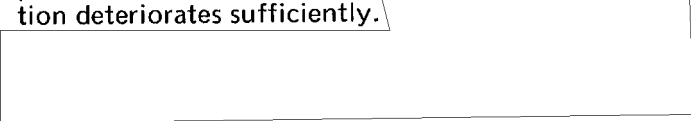
Relations between Brazil and Uruguay, built upon a tradition of suspicion, cooled markedly last year after the Pacheco administration refused to negotiate for the release of the Brazilian consul kidnapped by



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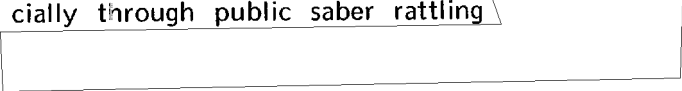
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25X1 the Tupamaros. Although the extension of economic aid has contributed to an official thaw, Uruguayans maintain a traditional distrust of their giant neighbor. A leftist Montevideo weekly recently headlined details of a purported Brazilian plan called "Operation 30 Hours" which called for the military occupation of Uruguay. Some of the extremists in the military in both Argentina and Brazil would prefer to intervene militarily in Uruguay if the situation deteriorates sufficiently.



At present the Argentine and especially the Brazilian concern, although sometimes based on half-truth and faulty analysis, is real and acute. The

Lanuse government in Buenos Aires, however, is more responsive to public opinion than the earlier Ongania government which reportedly made the agreement with Brazil. Argentina, already making some tentative moves toward coexistence with the Marxist government in Chile, thus seems unlikely to embark upon a precipitous course in Uruguay. Brazil, despite its greater concern, also seems likely to be restrained from a unilateral intervention because of the possible reaction from rival Argentina and the negative effect it would have on its campaign to achieve international influence. Barring direct intervention, however, the Brazilians especially are likely to increase efforts to exert influence via government to government relations and unofficially through public saber rattling.



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