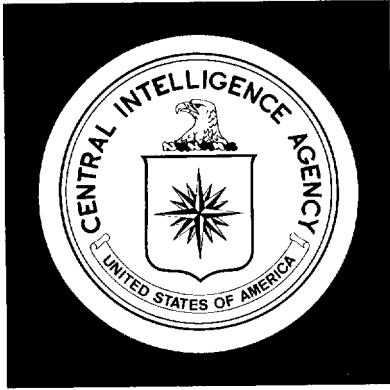


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Secret

23 March 1973

No. 0362/73

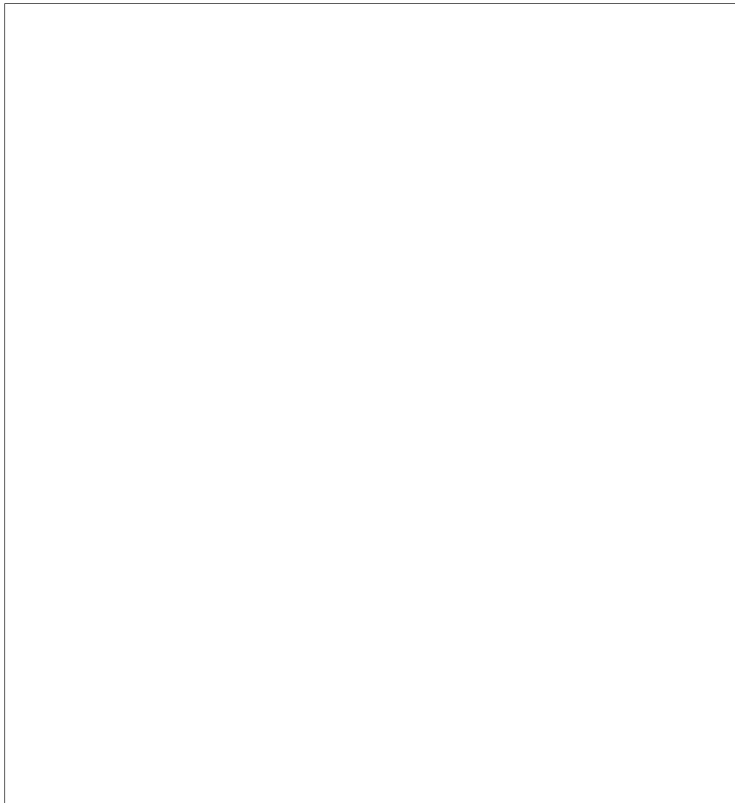
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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary, [redacted]

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INDOCHINA

a shaky truce



1,2 } The cease-fire got a little shaky last week as the word spread that the Communists were continuing to reinforce their troops in the South. Several sharp battles were fought north of Saigon and west of Hue—areas long used by the Communists to move troops from the border areas into South Vietnam.

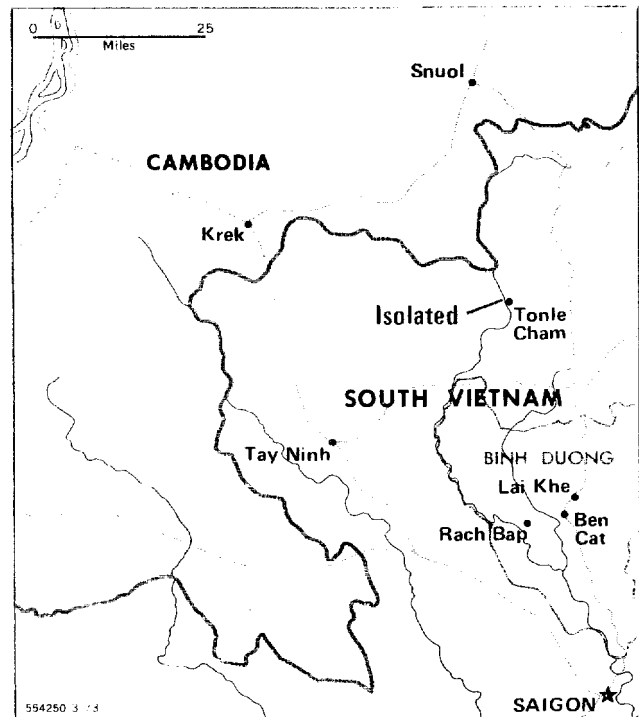
1,2 } Most of the recent military activity has centered around government outposts in Tay Ninh and Binh Duong provinces. Communist main force units have isolated a Ranger camp at Tonle Cham, preventing even aerial resupply, and have hit government positions farther south at Rach Bap, Lai Khe, and Ben Cat. The ICCS has ordered an investigation of the fighting, but the Communist delegates on the Four-Power Joint Military Commission have so far thwarted attempts to arrange an on-site inspection. At week's end, the South Vietnamese Government had begun moving to clear the trouble spots, conscious that this could lead to a major battle.

1,2 } In the northern provinces, the most significant fighting developed in outlying areas as government forces patrolled near Communist infiltration routes. This happened west of Hue, where the Communists are trying to develop an access route to the coastal lowlands, and in the Que Son Valley, where Communist units have reportedly been reinforced with newly arrived armor and artillery. In Quang Ngai Province, South Vietnamese officials believe that the Communists are about to make a renewed attempt to capture the coastal village of Sa Huynh to use as a deepwater seaport.

Who's Supervising

5 } Two months after the signing of the cease-fire agreement, the various supervisory agencies are talking in a variety of forums, but making only spotty progress on specific issues. Polarization has hampered the International Commission for Control and Supervision. The Four-Party Joint Military Commission is due to expire with little to its credit beyond the exchange of prisoners and its Two-Party successor may prove even less effective.

5 } In the international commission, the Canadians and Indonesians have usually lined up on



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one side and the Hungarians and Poles on the other. Only a few reports of cease-fire violations have been investigated. In those few cases, where a final report could be compiled, it died a quiet death in the Joint Military Commission. The international commission has also been hampered by personality clashes: in particular the Communist delegations resent Canadian efforts to give purpose and direction to the body.]

[The Four-Party Commission scheduled to expire on 28 March, thus far has made little use of its authority to investigate truce violations, spending most of its energy handling Communist complaints over living conditions, freedom of movement, and harassment of their delegations.]

[Maneuvering is growing more intense over the South Vietnamese - Viet Cong Two-Party Joint Military Commission that is supposed to take over. A Hungarian member of the international commission recently told US officials that the Viet Cong delegates would insist on moving from their isolated compound at Ton Son Nhut Air Base to downtown Saigon or to a contested area once their North Vietnamese colleagues depart. The Viet Cong clearly are pushing for greater public exposure than Saigon is ready to concede. Viet Cong General Tra is expected to stay on as head of the Communist side of the two-party commission. Saigon has named a rather undistinguished general to head its contingent. Progress on this front is so questionable that there has been some press speculation the four-party body may be extended another 45 days.]

The Paris Talks

[Meanwhile, political talks between the South Vietnamese and the Viet Cong formally opened in Paris on 19 March. The two parties have yet to agree on an agenda, and outside the meeting, the Communists have engaged in relatively low-key polemics. Laying the groundwork for elections in South Vietnam will be a major part of the discussions, but progress, if any, on this and other issues is likely to be slow in view of the deep suspicions and dramatically different objectives of the two sides.]



Control Commission Convoy

Political Parties Stirring

[The approach of the deadline next week by which South Vietnamese political parties must meet the terms of the presidential decree triggered a flurry of last-minute activity. Several parties are trying to form an alliance to preserve their status, but the government's relatively new Democracy Party has been making headway at their expense. Some parties may be put out of business or forced to go underground.]

[Two of the better organized parties—the Farmer-Worker Party and the Progressive Nationalist Movement—are now talking about joining forces with several smaller groups. Another new alliance, the Catholic-based Freedom Party, applied for provisional recognition several weeks ago. Both coalitions will have trouble meeting the requirement that they win 20 percent of the vote if the Senate elections are held as scheduled next August.]

[One of the most prominent leaders of the Farmer-Worker Party, Lower House Chairman Nguyen Ba Can, says he is switching to the Democracy Party and estimates that more than half of

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his party officials have already done so. Can claims that Democracy Party leadership is weak and corrupt, but he considers it impossible for any independent party to operate effectively "in the middle" between the Communists and the administration. Can has cooperated with the government in the past, but he is one of the first prominent political figures with some degree of independence to make a commitment to the Democracy Party. A number of other strongly anti-Communist figures may share his attitude and conclude that it is a practical necessity to identify with the government in its political struggle with the Viet Cong.]

5 [The Democracy Party now has chapters in 38 of the country's 56 provinces and autonomous cities and is planning a national convention in the near future. The first test of its strength may come when village council elections are held later this spring. The government seems certain to make a strong effort to elect Democracy Party members to the councils. The decision to resume the elections, suspended during the Communist offensive last May, reflects the government's desire to show its own constitutional legitimacy at the local level in light of the political negotiations with the Viet Cong.] President Thieu has indicated that the elections will be held in relatively secure government-controlled areas. This would rule out any overt Communist participation unless the two sides have reached agreement in their Paris talks.]

IN LIMBO IN LAOS

10 [The day before the deadline (24 March) for the formation of a new coalition government—as set by the peace accord signed last month—a government spokesman announced that more time will be needed to reach an agreement. The Communists have been deliberately stalling all week, and their ranking delegates left Vientiane on 22 March for consultations at Sam Neua.]

13 [The major impediment to progress is the continued absence of the chief Communist negotiator, Phoumi Vongvichit. Until he returns to Vientiane, high-level discussions on the composition of the future cabinet cannot begin, and the

official negotiating sessions will remain pro forma exercises.]

5 [Despite the failure to form a new government, the major provisions of last month's settlement remain in force. One effect of the delay, however, is to set back the deadline for the withdrawal of North Vietnamese troops. Under the terms of the agreement signed last month the withdrawal of foreign forces must be completed 60 days after the formation of the new government.]

All Quiet on the Fronts

13 [There is a good chance that the cease-fire will continue to hold. There are no signs of any impending increase in military activity.] Throughout the week field commanders reported only minor skirmishing near Khong Sedone and Pak-song in the south and between Thakhek and Dong Hene in the central panhandle. In the north, Communist units reacted to a move by Vang Pao to establish a presence along Route 4 southeast of the Plaine des Jarres.] but elsewhere Communist and government units are honoring informal local cease-fire arrangements.]



Lao students demonstrate support for cease-fire.

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CAMBODIA: UNHAPPY ANNIVERSARY (18)

The 18th of March 1970 is an important date on Lon Nol's calendar. It marked the end of Sihanouk's rule and the beginning of his own. Any plans the President may have had to commemorate the date this year literally went up in smoke on 17 March. A disaffected Cambodian Air Force pilot bombed the presidential residence, and although Lon Nol escaped injury, 43 of his countrymen were killed.

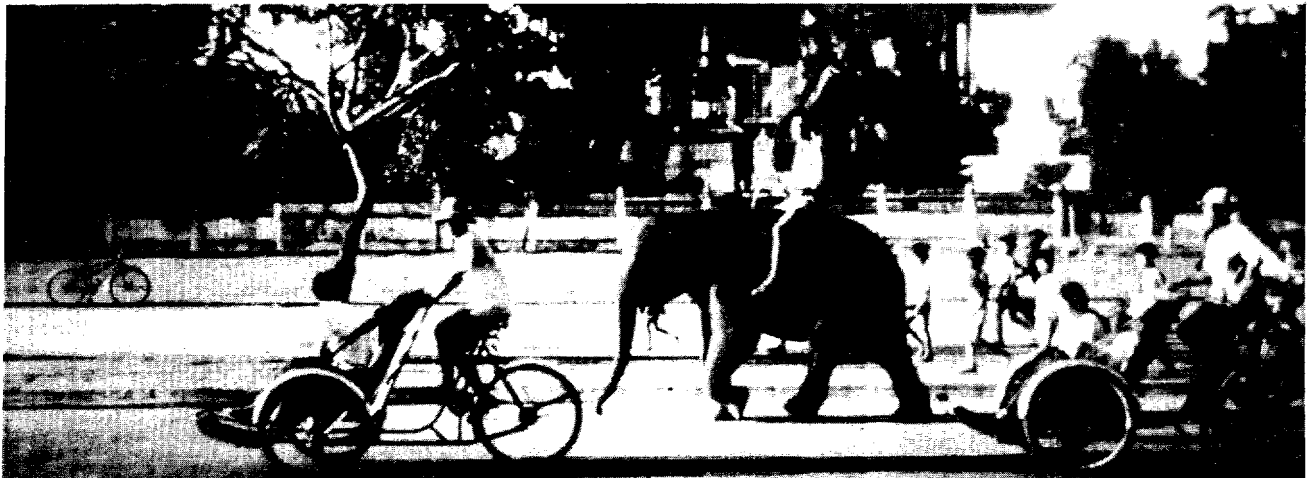
The bombing was not the only violence in the capital on the 17th. A few hours before the bombing incident, two people were killed and several injured when Cambodian Army troops threw grenades into a crowd of striking teachers who had gathered to decide whether to continue their month-old protests against the government's economic policies. The soldiers, in civilian dress reportedly were under orders from Lon Nol's younger brother, Brigadier General Lon Non, to enforce the regime's ban on such assemblies.

Considerable confusion has surrounded the two incidents. The regime was quick to allege that

the events, as well as the continuing anti-government protests by teachers and students, were part of a coordinated plot against the republic. A state of emergency was immediately proclaimed, and the government began to move against various opposition elements and members of the royal family including Republican Party Chief Sirik Matak. A government spokesman on 22 March attempted to dispel reports that Matak is under house arrest, but in effect confirmed that he is being held incommunicado.

The move against Matak probably stems from recent rumors that he has been involved in royalist plotting against the government, allegations probably circulated by Matak's long-time foe, Brigadier General Lon Non, who is determined to block Matak's appointment to the vice-presidency. The government's action against Matak will intensify political tensions in Phnom Penh and make important figures in the government apprehensive about their own positions. Army Chief of Staff General Fernandez, another of Lon Non's political enemies, will be especially nervous.

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Street Scene in Phnom Penh

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Chinese Agriculture *Less reason for smiles*

CHINA: ECONOMIC SLOWDOWN (21)

In contrast to its sparkling performance in foreign affairs, China suffered an economic setback last year. Gross national product barely kept pace with the relentless 2-percent annual increase in population. Agricultural production may have declined by as much as 5 percent, and the growth in industrial output probably fell to around 8 percent. China's news media provided ample documentation that agriculture, still the foundation of China's industrializing economy, had an off year.

Some slippage had been anticipated in the rate of economic growth, because most of the slack in the non-agricultural sectors caused by the Cultural Revolution had been taken up over the previous two years. The slowdown, however, was greater than expected; agricultural production was hit by adverse weather, shortages of raw materials slowed industrial expansion, transportation was hampered by bottlenecks, and key construction projects were not finished. Local authorities commonly misused the decision-making authority they inherited after the Cultural Revolution. Production gains were reported in steel, petroleum, and a few other industrial goods, but in every case the rate of increase was below those registered in 1971.

Peking's reaction thus far has been one of cautious concern rather than panic. Some adjustments have been made in national economic plans. The government cut the 1973 ration of cotton cloth, strengthened measures to conserve food, increased emphasis on the mining of raw materials, and acted to curb unsanctioned economic activities by local authorities. Peking has shown a greater willingness to increase imports to support agriculture and maintain living standards. Grain and cotton imports have been stepped up, and China has purchased these commodities from the US for the first time in more than two decades. Moreover, Peking is again accepting credits and has recently contracted to buy six Western plants, worth almost \$150 million, to expand production of fertilizer and synthetic fibers.

Agriculture is, as always, the crucial element in China's economic future. Peking gives every indication that it will take measures to restore momentum in this key sector, and with reasonably good weather, may succeed. The continuation of pragmatic economic policies is crucial to China's being able to feed and clothe its huge population and still make progress in developing a modern industrial and technical base.

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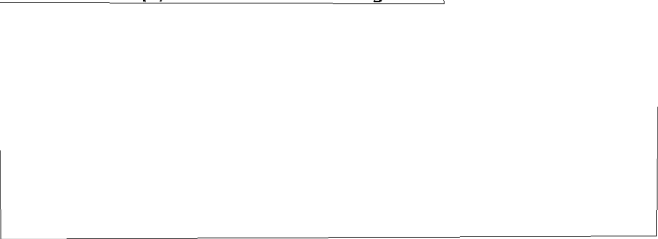
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BURMA: IN FROM THE COLD?

The Burmese, upon gaining independence 25 years ago, adopted an isolationist foreign policy that is still pursued today. Although xenophobia has helped Burma avoid a number of international pitfalls, it has done little to improve thorny problems at home like a stagnant, ill-managed economy and widespread, foreign-assisted insurgency. Recently, Rangoon has been cautiously emerging from its self-imposed shell to explore the changing diplomatic waters in Southeast Asia.

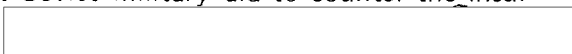
This past January, in a marked departure from its policy of avoiding regional forums, Rangoon announced its willingness to participate in a ten-nation conference on regional development after the Indochina war; the only proviso attached was that the North Vietnamese must be invited. In recent weeks the Burmese have been receptive to Thailand's overtures for improved relations. Last week the Burmese foreign minister visited Bangkok. The Burmese have also softened their attitude toward UN involvement in a limited narcotics suppression program and are co-operating in a field survey. Rangoon probably judges that the end of the Indochina war and shifting power relationships will ease the way for Burmese participation in regional affairs without violating Burma's neutralist credentials.

Rangoon may also have decided that its isolationism provided little immunity from Chinese-inspired subversion and that the problem might be eased if outside opinion could be focused on it. In recent weeks, government officials have actively sought international assistance in curbing Chinese support to the insurgents.



Burma's small size and proximity to China sharply limit what Rangoon can do to counter Chinese subversion. There is no sign that Rangoon intends to take any step that would inflame its relations with Peking, such as asking for sig-

nificant Soviet military aid to counter the insurgency.



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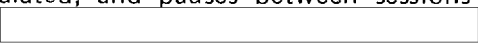
THE KOREAS: AT LOGGERHEADS

During three days of negotiations in Pyongyang last week the North-South Coordinating Committee found little to agree on, and no communique was issued. The lack of progress appears to have resulted from a tougher North Korean negotiating position. Although the details of the actual discussions are not yet available, North Korean Vice Premier Pak Song-chol gave a press conference his version of what went on. He indicated that the North Koreans had demanded a mutual reduction in arms and military manpower, a withdrawal of foreign forces from South Korea, and a peace treaty as prerequisites for progress.

Although these demands have been part of North Korean propaganda for some time, they had not been raised before as conditions in the negotiations. Their introduction in this way now underscores the importance Pyongyang attaches to the withdrawal of US and UN forces from the South. Pyongyang would also like to halt the modernization of the South Korean military, since the North is having difficulty sustaining heavy military investment in the face of the growing demands of an expanding economy.

The North Koreans may believe that these tough tactics now will pay dividends. A similar approach worked late last year when Pyongyang launched a harsh propaganda campaign, and Seoul responded by coming to terms on the organization and functions of the coordinating committee. Pyongyang may have perpetrated the shooting incident in the DMZ earlier in the month to underscore the fragile nature of the detente.

Although the South Koreans were prepared to discuss substantive economic and cultural questions in the meetings last week, they flatly rejected the new North Korean demands. Pyongyang does not anticipate that its tough tactics will effect an immediate change in Seoul's position; but the North will keep the pressure on, tensions may be escalated, and pauses between sessions lengthened.



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THE PHILIPPINES: REFUGEE PROBLEMS

26 ~~26~~ After several weeks in the headlines, the Muslim uprising in the south is back on the inside pages. The atmosphere in the southern islands remains tense, however, and thousands of Christians and Muslims have fled their homes, creating a sizable refugee problem. President Marcos claims that government forces are firmly in control. He is playing down the military threat and is searching for new ways to isolate the rebels from the Muslim population without relaxing government pressure.

26 pable of routing the well-armed dissidents from their fortified strongholds in the interior of Mindanao and on scattered islands in the Sulu Archipelago.)

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22 On 16 March, he flew to Zamboanga to meet with local civilian officials in an effort to find a way to reconciliation. He announced an extension of the amnesty period during which dissidents may surrender without penalty, and he will probably establish some sort of blue ribbon committee to consult with Muslim leaders. Such palliatives seem unlikely to be more successful than similar efforts in the past, since Muslim confidence in the government's sincerity is at a new low.

26 The fighting has already driven thousands of families out of their homes. Most Muslims have fled to Sabah and its offshore islands where they have relatives and friends. Their plight adds fuel to an international Muslim campaign about Manila's treatment of its Muslim minority. Christian refugees have flocked to the government-controlled urban areas where they compete for limited food stocks. The Philippine Government claims that the latest fighting has created between 300,000 and 500,000 refugees. The figures may not be accurate, since it is difficult for the government to count the refugees. Their numbers are, nevertheless, significant, and Manila will be hard pressed to provide adequate relief. The problem can only grow until security improves so that the refugees can be sent back home.

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23 Initially, Muslim surprise attacks caught government forces completely off guard in many areas. Now, the government seems to have regained the initiative at least in some places. The armed forces still seem inca-



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Area predominantly Muslim

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INDONESIA: THEY JUST FADE AWAY

1. The Indonesian armed forces in the mid-1960s potentially were one of the strongest in the Far East. Massive Soviet and Eastern European aid had provided Jakarta with one of the most impressive arsenals in the region. After the failure of the Communist coup attempt in 1965, however, the government formed by Suharto decided that the economy could no longer afford the free-spending defense policies of former president Sukarno.

2. Since then, the Soviet weapons held by the Indonesian armed forces have deteriorated rapidly. The Indonesian Government has been unable to obtain sufficient spare parts and technical assistance, and, today, almost all of this Soviet equipment is inoperable. Although Suharto has been able to get some replacements from the West, Indonesia's air, naval, and ground combat capabilities have gradually weakened.

3. Nearly 80 percent of the aircraft in Indonesia's air force in the mid-1960s came from the Soviet Union and Eastern Europe. These included 26 TU-16 jet medium bombers, 28 IL-28 jet light bombers, and nearly 100 MIG-21, MIG-19, and MIG-17 jet fighters. The air force also received equipment for three SA-2 missile sites, several IL-24 and AN-12 transports, and MI-4 and MI-6 helicopters. Almost all of this equipment has been put in storage.

4. The air force now is essentially a transport service, and it relies on a few vintage US aircraft to fill this role. Indonesia would be virtually defenseless against air intrusions, and the air force could provide little tactical ground support. None

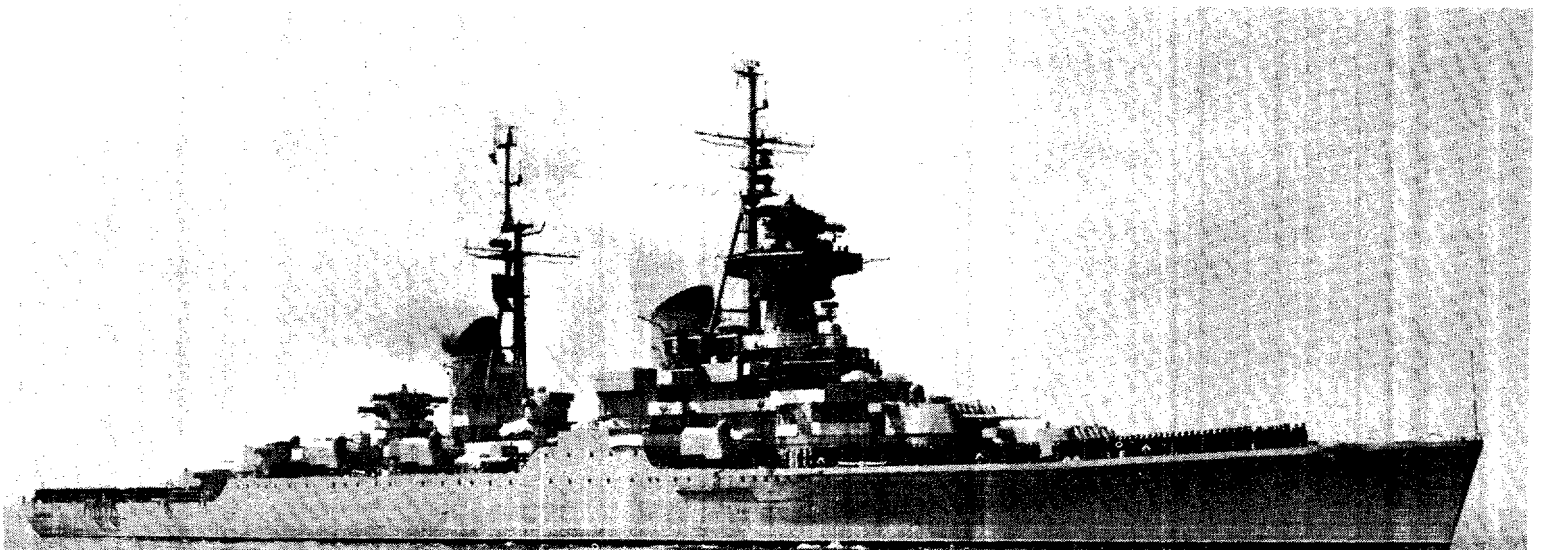
of the jet bombers has flown for several years. In an effort to restore some combat capability to the air force, Australia recently delivered 16 F-86 jet fighters to Indonesia, and Jakarta is looking to the US for additional assistance.

5. The Indonesian Navy received an impressive number of warships from the Soviet Union and Eastern Europe. They included a Sverdlov-class light cruiser, eight Skoryy-class destroyers, eight Riga-class destroyer escorts, 12 W-class attack submarines, and 12 Komar- and 16 Kronstadt-class patrol boats. Almost none of these ships are operational, and most are being scrapped. The navy has been reduced to a coastal patrol force, although it still can move a limited number of troops to outlying islands for counterinsurgency and security duty. Although attempts are being made to obtain patrol craft from Australia and the US is providing a destroyer escort, the navy's role will be limited in the future.

6. The army has suffered less from the deterioration of Soviet equipment because less than 20 percent of the items in its inventory are Soviet-made. Nevertheless, much of the army's mixed arsenal of Communist and Western weapons is not in working order, and the army could not repel a major attack on the country. The number of troops has been gradually reduced over the past few years, and a further reduction of some 50,000 from the present level of 225,000 is planned. The idea is to create a more mobile force capable of coping with insurgency threats and undertaking related civic action programs.

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Indonesian Cruiser Irian in Better Days



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EUROPE: FORCE REDUCTION TALKS (33-39)

After another two weeks of consultations, NATO and the Warsaw Pact delegates have failed to resolve the Hungarian participation issue that has held up the initial talks on force reductions since late January. An end to the deadlock is not in sight.

certain to get a hard look in the North Atlantic Council, where the European allies remain convinced that the whole force reduction exercise raises basic security issues and that concessions to the Soviets at this early stage would set a bad precedent. 25X1

The Soviets have reacted coolly to the most recent allied proposal—that the status of Hungary be left in abeyance for the time being so that the initial talks might move on to other matters. Moscow continues to find unacceptable any proposal that singles out Hungary. Thus, it maintains that if Hungary is to participate in the talks, so should Italy, and that if Hungary's status is left in abeyance, Italy's should be also. Some of the NATO allies oppose such a linkage.

The Soviets have not, however, formally rejected the Western proposal. In informal conversations, they have floated the idea of including Hungary in a constraints area even if it were not a direct participant in the negotiations, provided that similar constraints were applied to Italy. This would have some appeal to the Belgians and Dutch, who originally made their participation conditional on Hungary's being included and who see constraints as an end in themselves.

The Hungarians, strongly supported by the Soviets, have proposed that countries not directly involved initially should later be able to petition the participants to be included. In this regard, the Soviets have emphasized that it is important to leave open a way for France to join the talks. In fact, the Soviets have lately begun to stress the theme of France's eventual participation.

[Redacted]

It will be difficult to find a way out of the Hungarian quagmire. Any compromise solution is

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Festival to be held in East Berlin beginning 28 July. East Germany wants the nine-day affair to be a major international event and is seeking wide foreign participation. The festival's preparatory committee, dominated by the Soviets, chose East Berlin as the site to boost East Germany's prestige, but the possibility that the youth will again prove unmanageable is bothering festival sponsors. |

47 | The festival theme will be, "the common struggle against world imperialism." The preliminary schedule calls for heavy emphasis on the US role in Vietnam, Israeli "aggression," and "neo-colonialism." Angela Davis has been asked to take a leading role in demonstrations against "racial imperialism." As many as 50,000 delegates are expected to attend. The figure includes 20,000 East Germans, and the regime is doing all it can to whip up interest among the young. |

48 | The festivals, beginning in Prague in 1947, have been designed as Communist propaganda spectacles. They have not always produced propaganda coups for their Communist sponsors, generating instead disruptions and subsequent embarrassment. The most recent festival, held in Sofia in 1968, was marred by violence and disputes over the participation of Czechoslovak "liberals" and the anti-Soviet antics of New Left agitators. The squabbles that marked the Sofia gathering raised considerable doubt whether the Communists would stage any more of these spectacles. The Soviets, however, apparently ecided in 1971 to have another go, presumably because Moscow judged that the international climate, at that time heavily influenced by Vietnam, offered overriding propaganda benefits for the bloc. |

49 | More recently, the Soviets have shown some concern that the customary provocative nature of these festivals conflicts with their support for East-West detente. In talks with US diplomats this month, Soviet youth officials appeared uneasy over this inconsistency. The reluctance of some Western youth groups to attend the festival without guarantees of free debate, plus the dwindling US presence in Indochina, could cause the

EAST GERMANY: A SUMMER HAPPENING

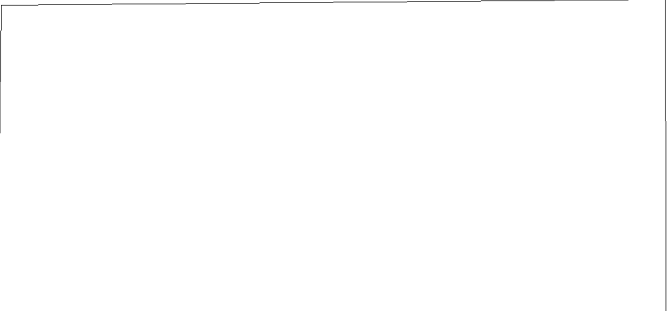
46 | For over a year Pankow has been working hard on preparations for the tenth World Youth

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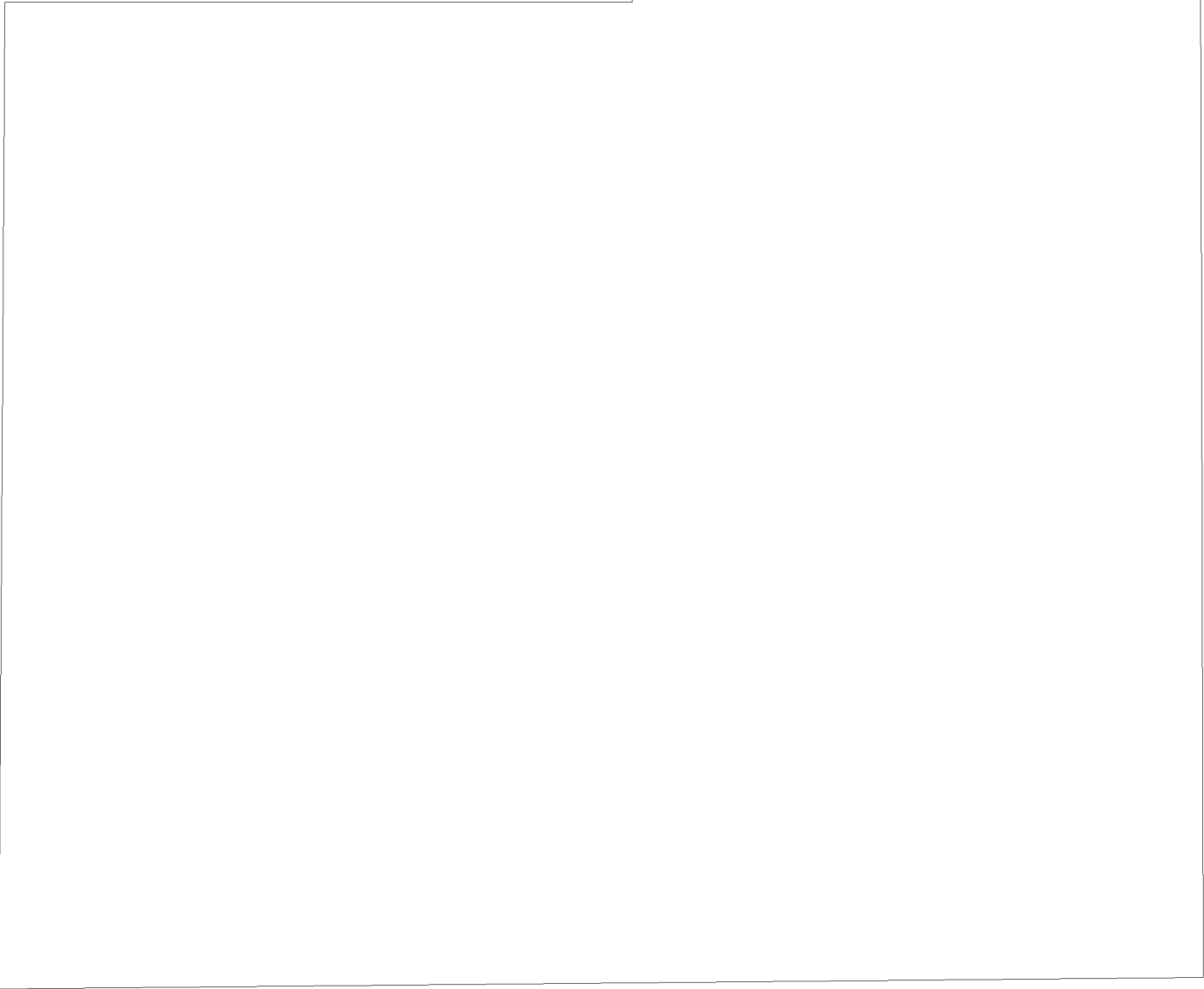
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Communists to tone down the affair this year. Indeed, some Western observers believe that these factors could present non-Communist representatives with a chance to take the initiative on such topics as human rights and international cooperation.



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MONEY

MARKETS OPEN AGAIN (53 + 54)

Only limited intervention by central banks has taken place since foreign exchange markets reopened Monday for the first time since 2 March. The dollar fluctuated slightly as official trading resumed. Japan sold some \$50 million on Monday to keep the dollar's value from rising too fast, as seasonal trade factors produced an increased demand for dollars. The mark was the weakest currency in the European float, and the Bundesbank sold \$10-15 million in Belgian francs and a smaller amount of Swedish and Danish crowns to keep the band intact. During the recent crisis, the mark appreciated more than any European currency, except for the Swiss franc, and the weakness this week reflects fears that mark holders will switch to other currencies.

Several West European nations have instituted new controls to discourage capital inflows. The Benelux countries, following the example of West Germany and Switzerland, imposed interest charges on non-resident commercial bank deposits. France stopped payment of interest on non-resident deposits. It also prohibited commercial banks from increasing their net foreign exchange liabilities to non-residents and from permitting such accounts to be used for the purchase of French securities. Finally, Stockholm imposed new controls on foreign exchange holdings and operations of Swedish commercial banks. The government claims the new controls have already eased upward pressures on the kroner.

The generally light trading activity in the reopened exchange markets indicates that most traders are taking a wait-and-see attitude. Those traders who speculated in marks and other strong currencies may well hold off repurchasing substantial quantities of dollars until they get a clearer picture of trends. Preliminary analysis of balance-of-payments prospects in Japan and Western Europe suggests that pressures will build for further appreciation of the yen and mark and a depreciation of sterling.



The International Monetary Fund and the Committee of Twenty, the fund's offspring that was given the job of developing a reform package, have had their roles in international monetary affairs diminished. Monetary reform is in fact being introduced as a result of exchange market pressures. The introduction of the European float, for example, has overtaken discussions about more flexible exchange rates. Moreover, the parities of the US dollar and the mark are being quoted in terms of Special Drawing Rights, instead of gold. Committee of Twenty meetings this week and next will make a fresh attempt to deal with the new situation.]

IMPACT ON THE EC 55

[The EC emerged from the latest monetary crisis neither significantly strengthened nor weakened, but possibly with a better appreciation of the problems facing economic and monetary union. The narrow exchange-rate margins of EC currencies vis-a-vis each other have been retained in the joint float of six of the community

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currencies. This float, with the problem currencies left out, may give the community breathing space to reach agreement on the nature and purpose of a community-wide intervention fund. The economic policy harmonization necessary for the long-run success of a monetary union still seems distant.

Agreement on the partial float nevertheless showed a desire, especially on the part of Paris and Bonn, to act together. Political considerations were apparently as important as such economic considerations as preserving the common agricultural policy. The Europeans generally accepted London's decision not to take part as logical; with the UK in, a common float would have been jeopardized from the start. Rome's abstention, however, has given rise to charges, even from the Italian Communists, that the government has hurt the prospects for European unity.

However much the monetary trouble took on the overtones of a confrontation between the EC and the US in which the community's unity was put to the test, the Europeans continued, in their search for a solution, to bid for US support for their efforts. The importance of the community's trading ties to other European countries, meanwhile, has been highlighted by the participation of Sweden, Norway, and Austria in the controlled EC float.

Despite any political benefits from the community's togetherness, economic integration suffered some setbacks. The new French and Benelux measures to deter inflows of foreign capital have further divided the EC's capital markets. Moreover, the exclusion of the UK, Italy, and Ireland from the fixed exchange rates inside the community will make it harder for the EC to determine its 1973-74 farm prices. The EC Council is still scheduled to begin this debate next month, but decisions may not come until next fall.

MIDDLE EAST: DOLLARS AND THE CRISES

Although money from the Middle East is widely rumored to have been a major factor in precipitating the recent exchange crises, there is

no hard evidence that a massive intervention from the Middle East actually occurred. Of the estimated \$13 billion exchanged during the recent crises, Middle East sales of dollars for gold and foreign exchange totaled no more than \$1.5 billion through early March, and probably were substantially less.

Saudi Arabian dollar holdings, about \$2.5 billion, may have increased somewhat in recent months. Libya, with almost \$3 billion in gold and foreign exchange,

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like Saudi Arabia, took substantial losses as a result of the dollar's devaluation.

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also probably suffered some devaluation losses.

Kuwait

There is little reason to suppose that any Middle East nation was intentionally seeking to weaken the dollar. Middle East money managers, like other portfolio managers, attempt to protect the value of their assets in a period of currency uncertainty. Indeed, they have been less willing than multinational corporations, including the large oil companies, to desert the dollar. Consequently, their losses have been relatively greater. Reported dollar sales on behalf of Middle East interests were distributed over a relatively long time and among different countries, belying the contention that these sales were motivated by a desire to weaken the dollar or precipitate a monetary crisis.

There are, however, indications that official and private Middle East dollar holders are preparing to pursue a more aggressive portfolio management policy that could cause problems for the dollar in the future. This, is a result, rather than a cause, of the dollar devaluation in February and the dollar's continued weakness. US and European banks are aggressively soliciting Middle East business, arguing that they can more effectively manage and protect Middle East foreign exchange assets. Some Middle East interests already have hired Western specialists to this end.

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SECRET**EGYPT****ECONOMIC DILEMMA**

83 Egypt's economic troubles are likely to continue for the foreseeable future even if Cairo's problems with Israel are resolved. The country's beleaguered economy is riddled with fundamental weaknesses. A largely peasant population, doubling every generation, has only meager land and water resources. Uneven economic development has left Egypt dependent on imports to feed its population and operate its industry. Government control over the economy has been handicapped by bureaucratic inertia and extravagance. Assistance from the West has been steadily reduced.]

84 [The June 1967 war with Israel multiplied long-standing economic difficulties by cutting foreign exchange earnings from two key sources—the Suez Canal and tourism. These and other losses were largely offset by an annual subsidy of \$250 million from Libya, Kuwait, and Saudi Arabia; another \$200 million a year was available for balance of payment purposes from Libya. From 1967 through 1972, over \$2 billion in grants poured in from other Arab states to keep Egypt's economy afloat.]

85 [Sadat has sought to lessen his dependence on his Arab neighbors by seeking private foreign capital investment and by encouraging the repatriation of funds banked by Egyptians abroad. The Arab International Bank was created and a large number of investment guarantees have been offered. Thus far, however, only a small number of investment projects have been approved. Investment from abroad may continue to increase slowly, mainly because revitalizing the private sector runs counter to deep socialist currents and poses difficult political questions.]

86 [In 1973, Sadat has been beset by additional economic difficulties. Libyan President Qadhafi has suspended the \$200 million in aid that helps offset Egypt's chronic balance of payments deficit. Higher wheat prices and lower oil output threaten to increase the payments deficit to over \$250 million, and no alternative financing is in sight. A more aggressive military posture toward Israel or a seemingly large deficit in Egypt's defense budget might cause Qadhafi to relent and

perhaps attract assistance from the Persian Gulf states. On the other hand, increased tension between Egypt and Israel would complicate the task of attracting private capital and increase Egypt's dependence on foreign aid.]

87 [A settlement with Israel would not solve Sadat's economic problems. Over the long run, peace would benefit the economy by making investment more attractive to foreigners and by releasing Egyptian energies to economic development. The immediate results of a settlement would be less promising, partly because the income-earning potential of the Suez Canal and assets in the Sinai have been reduced over the years. In addition, a settlement almost certainly would cause Qadhafi to cut off the \$59 million annual subsidy paid since the Six-Day War.]

88 [A settlement would provide a net gain of about \$100 million annually as against a prospective annual payments deficit of at least \$200 million. Other Arab states are committed to assisting Egypt only until Israel withdraws from the occupied territories. If they were to end their aid after a settlement, Egypt's annual payments deficit could mount to \$400 million even if the present low level of investment and rigid austerity measures were maintained.]

CABINET CHANGE RUMORED

89 [President Sadat has reportedly requested the resignation of Prime Minister Sidqi and charged presidential adviser Hafiz Ismail with the formation of a new cabinet. Rumors of an impending government reshuffle have been circulating in Cairo during the past week. The new cabinet may be unveiled early next week, possibly during a meeting Sadat has scheduled with representatives from Egypt's legislature and party.]

90 [Sidqi is disliked by many Egyptians and in January 1972 was criticized by student demonstrators as a poor choice to lead the nation's war effort. Sadat may hope that Sidqi's removal will help heal some of the divisions troubling the government. Sidqi's failure to deal effectively with Egypt's largely intractable economic problems probably weighed in the President's decision.]

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Sadat

In addition, Sadat may have feared that the ambitious Sidqi represented a potential threat.

Hafiz Ismail is a trusted lieutenant of Sadat and a logical choice to succeed Sidqi. Ismail has been heavily involved in Egypt's recent diplomatic offensive, and his appointment to the premiership would appear to confirm Sadat's continued interest in political efforts to resolve the dispute with Israel. Nevertheless, the new government might be cast in terms of a "war cabinet" in an attempt to underscore Sadat's commitment to regain the occupied territories.

[Redacted]

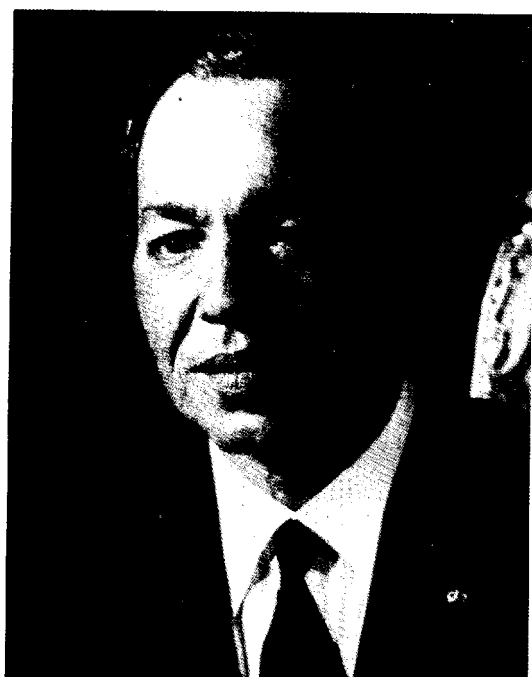
The combined military, gendarmerie, police, and civilian sweep for subversives has expanded beyond the Middle and High Atlas regions of central Morocco.

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[Redacted]

The Algerian press late last week denied a "tendentious" news item, apparently filed by the AP in Rabat, that Algeria had arrested some 400 Moroccans. Meanwhile, Moroccan opposition figures complain of police harassment and several more prominent ones, identified by arrested subversives as contact points, have been arrested.

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King Hassan

MOROCCO: INCIDENT IN THE INTERIOR

King Hassan, the target of two assassination attempts in the past two years, is very nervous about the security situation following attacks by armed bands on two widely separated police posts in the rugged Middle and High Atlas regions. One was hit on 3 March, the other on the 8th.

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SECRET**SOMALIA - ETHIOPIA: BORDER TENSIONS**

1 Somalia's recent calls for diplomatic mediation of its long-standing claims to the Ogaden, a largely Somali-inhabited part of Ethiopia, appear to mark a retreat from its earlier demand for bilateral negotiations with Addis Ababa. Mogadiscio, however, is keeping its guard up. Somalia reportedly has countered an Ethiopian military buildup on the border by moving troops to the area. Moreover, Mogadiscio gives no sign of relaxing its territorial claims in the Ogaden or of ending its close ties to Moscow and its receipt of sizable deliveries of Soviet military equipment, all of which have generated considerable Ethiopian concern.

2 In a recent speech Siad acknowledged that efforts to resolve the dispute have foundered through bilateral channels and he called upon other African countries to mediate. Siad's offer to take the problem to mediation was foreshadowed by Somalia's announcement last month that the conflict will be settled peacefully. According to the Ethiopians, Somalia has already approached several African countries—Sudan, Uganda, Tanzania, Morocco, and Mauritania—to act as mediators, and Siad probably will raise the issue at the OAU summit in May.

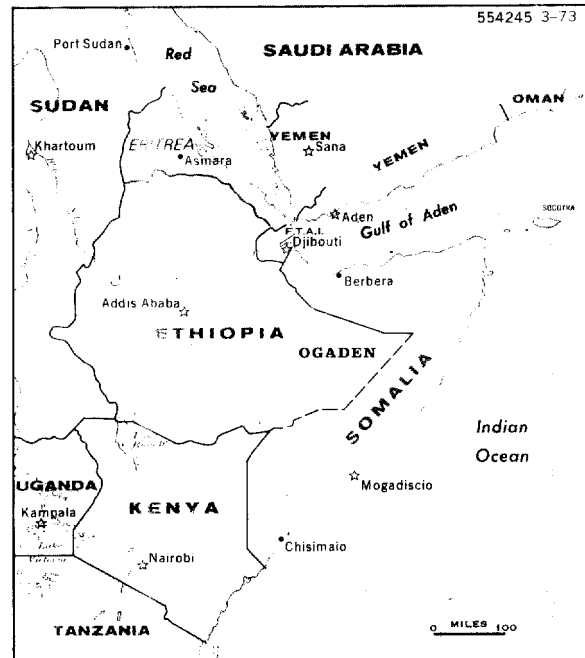
3 Siad clearly hopes the involvement of other African countries will help to limit or halt the Ethiopian military buildup on the border. The Ethiopians now appear to be in a good position to counter a conventional attack, and they are improving their capability to contain a Somali-backed insurgency on Ethiopian soil.

4 This week, Somalia reportedly moved an estimated 2,000 troops to the border. The mutual troop buildup could lead to incidents and perhaps a wider outbreak of hostilities. Somalia, however, could not sustain a conventional offensive without more modern Soviet tanks and better logistics, neither of which appear forthcoming. Nevertheless, the Somalis are capable of supporting a renewal of insurgent activity in the Ogaden and of encouraging Eritrean insurgents.

5 Siad probably hoped his moves would convince his many domestic opponents that he is working actively to unify all ethnic Somalis. Siad's failure to make any progress on this emotional issue and to take a more aggressive stand against Ethiopia has contributed to widespread dissatisfaction with his regime.

6 Chances for a successful diplomatic resolution of the Somalia-Ethiopia conflict are slim; recent bilateral negotiations indicated there is little room for compromise. Ethiopia has not commented officially on Siad's proposal, but in a conversation with a US Embassy official, a Foreign Ministry officer rejected it out of hand. Moreover, OAU members, many of which have their own border problems, are reluctant to discuss territorial issues. Although many African countries are unhappy with borders left over from the colonial era, they apparently prefer them to the chaos they believe would result from wholesale revisions.

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IRAN: CAMPUSES CLOSED

86 [Recent anti-regime demonstrations by students throughout Iran have induced the government to close nearly all of the country's universities. Publicity about arms purchases from the US appears to have been a factor in the unrest; the students are complaining about high tuition costs and calling for government subsidies.]

down almost the entire system of higher education. The Shah may decide to keep the schools closed until next term in an effort to postpone dealing with student discontent. [redacted]

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87 [Authorities dealt swiftly and sometimes harshly with the demonstrators. At least three students were killed and more than 200 injured at Tabriz University. There have been no reports of fatalities elsewhere, but many of the arrested students remain in custody. Although the government has not allowed news of the disturbances to appear in the press, word has spread among the students along with rumors of police brutality.]

SUDAN: MENDING FENCES

90 [The Arabs were spared the embarrassment of more fraternal infighting this week after mediation efforts by the Iraqi Government and representatives of the Arab League. The Sudanese Government and the fedayeen agreed to halt their propaganda assaults on each other. The Sudanese accepted fedayeen denials of complicity in the Khartoum murders and gave the Palestinian Liberation Organization permission to reopen its local office. President Numayri may also have agreed not to execute the eight Black September terrorists he holds; to uphold his end of the charade, Yasir Arafat promised to investigate the affair.]

86 [The current phase of student dissidence was set off in late January when several hundred Tehran University students, skeptical of the Shah's claims of success for his White Revolution reforms, rioted. No one was injured and the authorities quickly regained control and closed the university. Then, three weeks ago, demonstrations—sometimes violent—broke out at virtually every major college, university, and technical training school in the country.]

91 [Numayri's anger was still present in an interview on 16 March. He said that one of the main objectives of the terrorists was to put a stop to the "Arab-US dialogue." Although he did not mention Libya by name, it was clear that Numayri believes that Qadhafi planned the operation to embarrass Sudan. Numayri said he had called for a special meeting of the Arab League's defense committee to air the whole matter. [Now that Sudan and the fedayeen are smoothing things over, his request will probably be conveniently forgotten.]

89 [Anti-regime sentiment is probably greatest among intellectuals, but until recently there had been relatively few instances of student activism in Iran. During the 1950s and early 1960s, disturbances were frequent. In the last decade the Shah's security forces have kept down manifestations of opposition to the government. They were helped by the Shah's reform and economic programs, which pre-empted many of the issues around which vocal opposition might have rallied.]

91 [The widespread nature of the recent demonstrations attests to the depth of anti-regime feeling on the campuses. While most students were previously content to secure a place in the establishment rather than fight it, many now are more willing to take risks in a show of opposition. Authorities have kept control, but have closed

92 [Khartoum announced that a date will be set for the terrorists' trial before Numayri leaves for London early next week. [The eight commandos are expected to be quickly tried, convicted, and condemned to death. Whether Numayri will carry out the executions is still uncertain, although most of the diplomatic corps in Khartoum believes he will not. [redacted]

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PAKISTAN: NO BETTER OFF

President Bhutto's campaign against the opposition so far has neither achieved its objectives nor brought the violent reaction some observers feared. By discrediting, intimidating, and disorganizing his opponents, Bhutto had sought to lessen their criticism of his proposed constitution and to replace the two provincial governments they controlled.

On 15 February Bhutto dismissed the government and the governor of Baluchistan and imposed a month of rule from Islamabad on the province. He also dismissed the governor of the Northwest Frontier Province, and the provincial government then resigned in protest.

Bhutto's actions followed charges by his supporters that the party that dominated the coalitions in both provinces was plotting the breakup of Pakistan and was the intended recipient of the arms discovered at the Iraqi Embassy in Islamabad on 10 February. At the same time, other opposition groups—including dissidents within Bhutto's own party—came under attack and some were jailed.

In Baluchistan, Bhutto has won away some of the supporters of the former ruling coalition, but it still has 11 or 12 of the 21 provincial assemblymen. Central rule has been extended for another month. There is still room for compromise and political deals, but Bhutto may have to settle for less than he expected.

In the frontier province, local objections forced Bhutto to abandon his first choice to head the provincial government. With considerable difficulty, a pro-Bhutto majority has been formed, but the formation of a government is being delayed by disagreement over the division of the spoils.



Bhutto

In the National Assembly, where the con-

stitution is now being debated, neither side seems willing to compromise. The opposition, uncowed by Bhutto's campaign, is doing its best to discredit the constitution and prevent its passage. The government, however, has an overwhelming majority, controlling 90 votes to 25 for the opposition.

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TURKEY: FULL CIRCLE FOR SUNAY

Stymied for more than a week in its effort to elect a president, parliament is considering a proposal to amend the constitution and extend the term of incumbent President Cevdet Sunay. This effort to break the presidential deadlock began to unfold on 19 March when the majority Justice Party decided—probably under pressure from the generals—to introduce the amendment enabling the 72-year-old Sunay to serve two years beyond the expiration on 28 March of his regular seven-year term. The military candidate, Faruk Gurler, and the Justice Party candidate, Tekin Ariburun, subsequently withdrew from the contest. Bulent Ecevit, leader of the Republican Peoples Party, and at least half its members in parliament are on record in favor of extending Sunay's term.

The proposed amendment should have smooth sailing in the lower house, where it was approved by committee on 21 March. It could run into problems in the Senate. Two small parties have announced their opposition. A constitutional amendment requires a two-thirds vote in both houses of parliament.

Ironically, supporters of Sunay in the military tried without success early this year to persuade political leaders that an extension of Sunay's term would be the best solution to the presidential problem.

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PANAMA: BACK TO BUSINESS

103 [Now that the United Nations Security Council meeting is over, Panamanian leaders will be trying to measure its impact on US attitudes toward a canal settlement. At the same time, they will be seeking ways to convert the abstract expressions of support they received into bargaining chips.]

because one of their most distinguished jurists once served on it—and have been advised not to renounce the treaty unilaterally. Appeals to other international bodies such as the OAS or the UN General Assembly would also serve to keep the issue alive.

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105 [Panama got broad support from Communist and Third World delegations at the meeting, and as a result insisted on a stronger resolution on the Panama Canal than could be accepted by Washington. The support received at the meeting will encourage Panamanian moves toward the establishment of relations with a number of these countries. Relations with Algeria, Libya, Bulgaria, Guyana, and Guinea were announced recently, and formal ties with Cuba, the Soviet Union, China, and East Germany are under consideration. Final decisions are likely to wait until after a full evaluation of the impact of the Security Council meeting and a re-examination of the bidding in the canal talks.]

ARGENTINA: THE MORNING AFTER

107 [The Peronists' efforts to heal old political wounds following the election last week have been well received by all but their most implacable political enemies. The armed forces are seeking ways to work with President-elect Campora, although they also seek to intensify inherent differences within the Peronist camp. Most Argentines are taking the Peronist triumph more or less in stride, but the Brazilians are quite concerned over what it means for them.]

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103 [It will quickly be apparent to Panamanians of all persuasions that they cannot shift to a non-aligned international position without jeopardizing US aid, a major source of funds for the public expenditures that have come to characterize the economy since Torrijos took over.] Foreign Minister Tack denounced the motives behind US economic assistance but there apparently has been little thought about the possible consequences of a cutback in that aid. The search for alternate sources of aid may come to dominate Panama's budding relationships.]



106 [Although the Security Council meeting was not all that he hoped, Torrijos is still a believer in pressure tactics against the US. Torrijos has publicly promised to obey last October's National Assembly resolution recommending that he refuse to accept the canal annuity, though the payment in February went through. He could also use the resolution to open a legal assault on the 1903 treaty in the World Court.] Foreign Ministry officials have been checking with the World Court—to which Panamanians are unusually partial

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Colombia: Guerrilla Operational Areas



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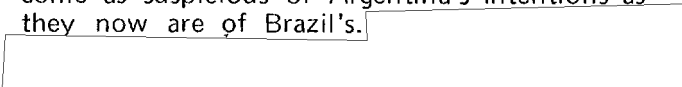


/// [The National Liberation Army's urban support network has been decimated by the security forces, and the group's 250 to 300 guerrillas in the field are suffering as a result. The guerrillas have managed to build up their depleted treasury by kidnaping wealthy ranchers and holding them for ransom. The guerrillas have been less successful in acquiring supplies from isolated police and army posts. The reduced circumstances of the insurgents have caused them to take risks that have led to the death or capture of several prominent leaders. Morale is likely to suffer further as captured guerrillas are brought to trial to foster the government's law-and-order image before the presidential election in April 1974.]

110 [While Argentines appear to be taking the Peronist victory with relative equanimity, their neighbors to the north are openly worried. The Peronists have warned that they will not accept the agreement made with Brazil by the Lanusse government giving up Argentina's demand for prior consultation on proposed hydroelectric projects on rivers that flow out of Brazil to Argentina. The Brazilians intend to go ahead anyway, but foresee nothing but problems from the Campora government on this matter.]

111 [The Peronist victory in Argentina has also added to Brazilian fears that the Spanish-speaking nations of South America will cooperate more closely in an effort to isolate Brazil. Peronist campaign statements give some substance to Brazilian fears, and cooler relations are probable once Campora is inaugurated. If the Campora government tries to play the role of a Latin American leader, however, Argentina's other neighbors, including Chile and Peru, will immediately become as suspicious of Argentina's intentions as they now are of Brazil's.]

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112 [As the fortunes of the National Liberation Army have waned, the Revolutionary Armed Forces of Colombia appears to have abandoned the lengthy "training phase" imposed by the legal Communist Party, nominally its parent organization. The pro-Soviet guerrillas not only show a willingness to fill the vacuum left by their Castroite counterparts, but they also show an interest in overcoming long-standing ideological differences by working closely—and in a few cases joining forces—with militants of other groups. In this and other aspects of its renewed activity, the Revolutionary Armed Forces is in a strong position. It is supported by a legal political party, and many small rural areas used as base camps are nearly devoid of central government influence. These guerrillas, numbering up to 400, are well equipped and organized.]

[The security forces are not likely to take on the Revolutionary Armed Forces as a whole although individual members or small groups may suffer if they venture into the cities or misjudge their ability to raid a security forces installation.]

COLOMBIA: A MIXED BAG

113 [Guerrilla groups are showing remarkable resiliency despite strong government counter-insurgency measures. While the military and police forces have been concentrating since mid-summer on the pro-Havana National Liberation Army, the pro-Moscow Revolutionary Armed Forces of Colombia has emerged from years of inactivity. Even the minuscule, poorly organized pro-Peking People's Liberation Army has been active recently.]

114 [The pro-Peking People's Liberation Army has far less potential than the pro-Moscow group but both have taken advantage of the government's preoccupation with the National Liberation Army. The pro-Peking group has some 50 to 75 active guerrillas, but they are disorganized and poorly armed and would be a relatively easy target if the government decides to seek additional victories over the guerrillas during the election campaign.]

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