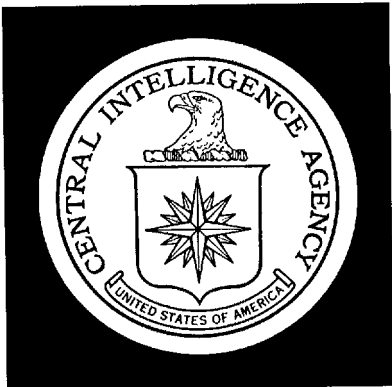


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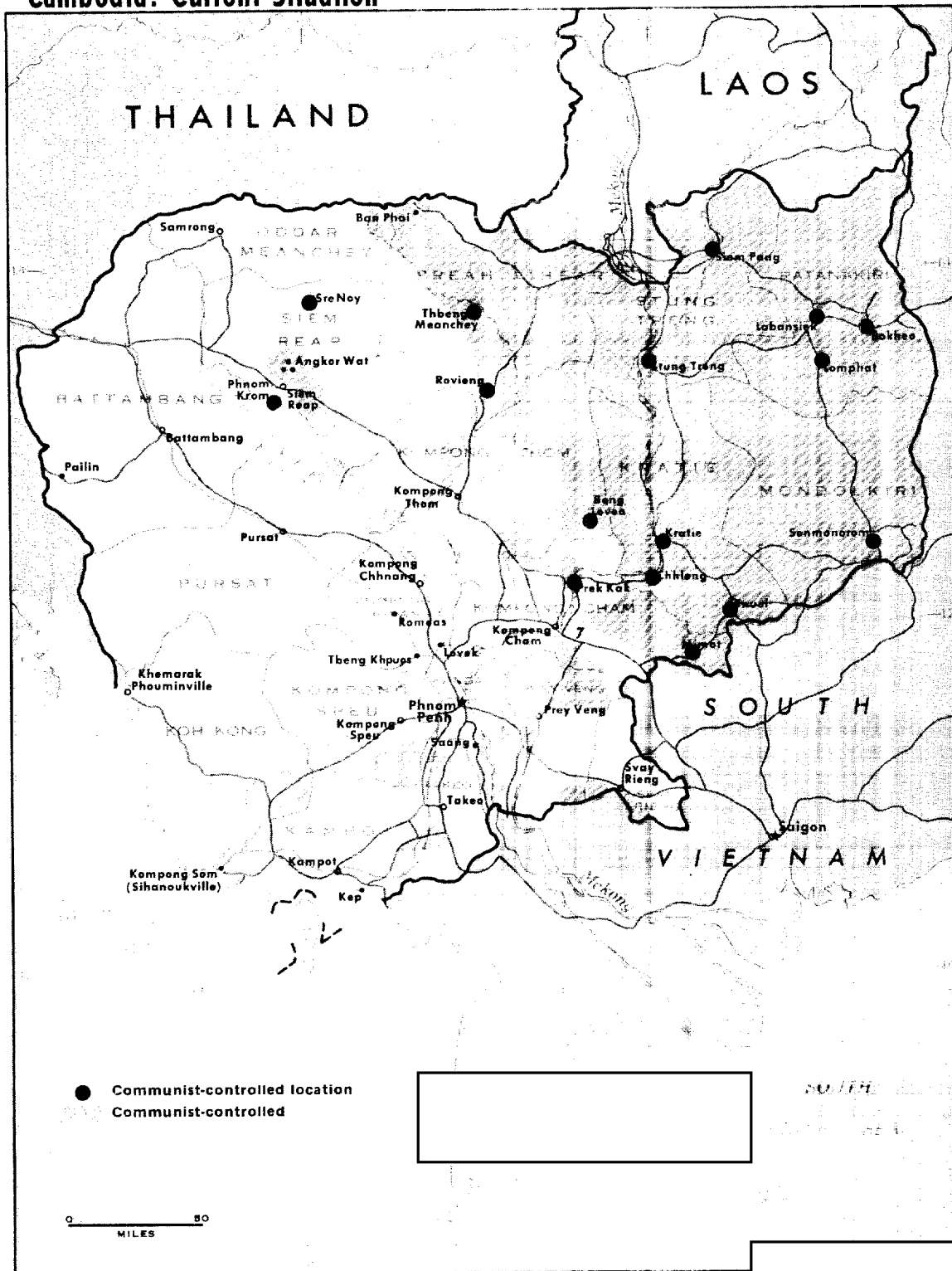
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Cambodia: Current Situation



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Cambodia: The lull in major Communist military actions continues, but there are indications the enemy intends to increase attacks in several areas.

The provincial capitals of Kompong Thom, Kompong Speu, Svay Rieng, and Siem Reap, as well as the Cambodian Army's major munitions depot at Lovek were shelled yesterday, but damage appears to have been light. The shelling of Lovek may be the harbinger of stronger ground attacks.

The Communists may be looking for a favorable opportunity to shake the growing confidence of South Vietnamese forces by inflicting heavy losses on them in a major battle. The onset of the monsoon rains, which is beginning to hinder motor transport and to reduce the air support available to South Vietnamese forces, may encourage the enemy to fight more aggressively.

Third Country Assistance

Vice President Ky may visit Bangkok next week to discuss coordination of Thai and South Vietnamese air operations in Cambodia. Ky has already visited Phnom Penh to help coordinate military planning with the Cambodians. At that time he made promises that caused some embarrassment in Saigon. It is not clear whether Thieu has authorized Ky's impending visit to Bangkok.

Ky has been chief of the South Vietnamese Air Force and could probably make a substantial contribution to the discussions, if he kept his free-wheeling tendencies in check. In order to get the Thais to do more in Cambodia, however, he probably will make promises that could be difficult for Saigon to keep.

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North Vietnam - Laos: The Communists may be engaged in new diplomatic maneuvering on Laos.

Consultations involving Soviet officials, Polish International Control Commission (ICC) representatives, and the Lao Patriotic Front apparently have been under way in Hanoi since 4 July. The Soviets are represented by Deputy Foreign Minister Firyubin, who flew unannounced to Hanoi on 4 July. This is Firyubin's second unpublicized trip to Hanoi this year. The first, in late February, may have been concerned in part with a new Communist peace proposal for Laos, which was issued on 6 March.

Several developments in the past few days suggest that Hanoi may want to move ahead along the lines of that proposal. On 7 July the Poles suddenly agreed to an ICC offer to help "facilitate" talks between the two Lao factions.

Whatever is brewing in Hanoi may be at least partially in response to Souvanna Phouma's offer to the Pathet Lao in late June to open talks in Communist territory with the other Laotian factions. The Communists might, for example, suggest an ICC guarantee of Souvanna's security in Khang Khay, the site he proposed for such talks. Hanoi has insisted that a full bombing halt must precede any negotiations, and will probably continue to insist on this as the price for serious political bargaining.

The North Vietnamese may see this as an opportune time to press the bombing issue further with Souvanna. They might reason that their recent territorial gains in southern Laos and the threat of further strong Communist military pressures have put them in a better position than before to extract concessions.

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Romania: Party and state leader Ceausescu has emerged from his self-imposed absence from public view during Soviet Premier Kosygin's visit early this week to give the authoritative Romanian interpretation of the new 20-year friendship treaty with the USSR.

Speaking to a Central Committee plenum on 9 July, Ceausescu emphatically confirmed that Romania will continue on its independent course. Ceausescu did not mention the controversial mutual defense clause, but instead defended each party's right to form its own policy, as if to reassure his audience that Romania would not be dragged into any Soviet confrontation with Communist China. To underline his point, he spoke in appreciative tones of the reception given a recent Romanian delegation by Mao Tse-tung and other Chinese leaders.

Describing the Romanian party's "permanent preoccupation" with improving relations among all socialist countries, Ceausescu implicitly called on the two Communist giants to resolve their quarrel and demanded a "large and free" debate within the socialist movement.

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Chile: Conservative presidential candidate Jorge Alessandri was probably the only beneficiary of the inconclusive strike called against the Frei government on 8 July by the Communists.

The usually astute Communist Party leadership stumbled when it made a political issue of the strike call. The spotty response from the union movement that the Marxists claim to lead was damaging to them and to their coalition candidate, Salvador Allende. It could stem the recent upturn in Allende's fortunes in the presidential campaign.

The government, however, did not profit from this miscalculation. In disturbances the same day, it was embarrassed by the third student death in recent weeks and by the arrest of other students on university premises many Chileans consider "autonomous." Both incidents are blamed on the police and will help the leftists depict the administration as repressive.

The climate of continuing violence, although not yet of major proportions, is unusual and unsettling in Chile. Ex-president Alessandri stands to gain the most from it; he is carefully building an image of authority and has adroitly handled the issue in recent weeks.

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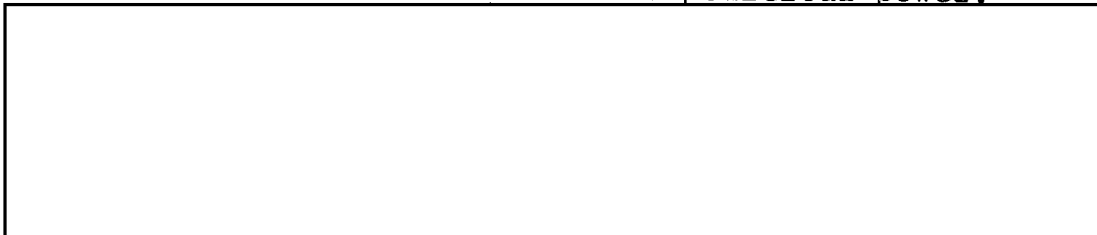
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Ecuador: President Velasco may soon make the first cabinet changes since he took "supreme power" last month.

When he resigned last week, the head of the National Planning Board leaked to the press that he had charged the ministers of defense and industry with misconduct in approving contracts. Although the cabinet rejected the charges, Velasco may decide that it is politically expedient to replace the minister of industry. Defense Minister Acosta, however, has weathered other charges of graft, and his key role in keeping the military behind Velasco affords him strong protection.

The minister of agriculture may also resign, according to the press, in pique over being bypassed when new taxes on banana shipments were decreed.

Most of Velasco's many critics still have not moved into open opposition to his assumption of extraconstitutional economic and political power.



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Communist China: Peking's release of Bishop Walsh is probably designed in large part to cover China's embarrassment over the suicide last April of another US prisoner, Hugh Redmond, which was also announced yesterday. Walsh still had ten years to serve of a 20-year sentence for "espionage," and his release is one of the rare cases in which the Chinese have commuted a previously specified sentence for a foreign prisoner. Although the implications for current Sino-US relations are not clear, the abrupt freeing of the bishop brings to an end a long-standing source of contention between Washington and Peking. Nevertheless, the move probably will not affect the status of the four remaining Americans held in China. [REDACTED]

* * * *

Iceland: The death of Prime Minister Benediktsson increases the possibility of early national elections, perhaps by fall. Continuation of the 11-year coalition government was already under review by the junior partner Social Democrats following their poor showing in local elections last May. For the present, the deputy chief of Benediktsson's Independence (conservative) Party and minister of justice and industry, Johann Hafstein, has been charged with forming a new government. [REDACTED]

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Arms Control: The Argentine delegate at Geneva has indicated that his country is "extremely anxious to go to bat for the seabeds treaty with the other Latin Americans" at the UN General Assembly. The Argentines, however, are still pressing for a few changes in the text of the US-Soviet draft treaty, which puts limits on the use of the seabeds for military purposes. Argentine acceptance of the treaty would go far toward countering the attitude of Brazil, which again this week voiced strong objections. If Argentina should, however, join Brazil in opposition to the treaty, the Latin Americans--already aroused by US and Soviet views on other maritime issues--may as a bloc withhold approval of the treaty.

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