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LAOS: The government is taking steps to stabilize the situation around Luang Prabang.

Prime Minister Souvanna Phouma and Defense Minister Sisouk visited the royal capital yesterday. Sisouk later said he thinks the situation there has stabilized, but he was dismayed that government units north and northeast of the town had fled in the face of what he believed were only some 300-400 enemy attackers.

Sisouk was clearly displeased with the performance of military leaders in Military Region 1, and he has ordered two generals and several other officers from the general staff to move to Luang Prabang to assume control of all tactical operations in the region. The regional commander, who is the King's brother, and his staff will remain in place, however. General Vang Pao, commander of Military Region 2, also visited Luang Prabang and subsequently ordered some 400 irregulars from his region to reinforce the town.

King Savang is taking an active role in planning new government military moves; he has ordered government units to recapture the positions nearest the airfield at once. The King canceled his traditional appearance at Army Day in Vientiane yesterday in order to remain in Luang Prabang. His continued presence there should have a beneficial effect on the town's citizenry, who believe his presence affords the town itself military immunity.



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COMMUNIST CHINA - JAPAN: Peking appears to be softening its rigid attitude of the last few years on Sino-Japanese problems.

25X1 [redacted] Premier Chou En-lai remarked that Japanese Government leaders are welcome to visit China at any time, singling out the "present prime minister and foreign minister." Chou's statement stands in marked contrast to Peking's public posture of irreconcilable hostility toward the Sato government. Chou can hardly expect this gesture to be acted on, but his remarks suggest that Peking might be prepared for the first time to deal with Sato if it thought there was an opportunity for a significant exchange on key bilateral issues.

The most important of these issues appears to be Tokyo's relations with Taiwan. Peking's new flexibility is probably designed to forestall the possibility that, as a result of its large economic stake in the island, Japan will supplement or replace the US as the "protector" of the Nationalist regime. Peking recently underlined its concern on this issue when in a restatement of its "conditions" for the establishment of Sino-Japanese diplomatic relations it included for the first time a demand that Tokyo abrogate the Japan-Taiwan peace treaty of 1950.

In practice, however, even this demand may be softer than it appears on the surface. [redacted]

25X1 [redacted] Chou En-lai recently encouraged the visit of many more "leftist" businessmen to China and immediately defined as leftist anyone who "visualized" severing relations with Taipei. This formulation, a major change from Peking's previous definition, is clearly meant to suggest to Japanese business circles that Chinese markets will prove more fruitful than those in Taiwan.

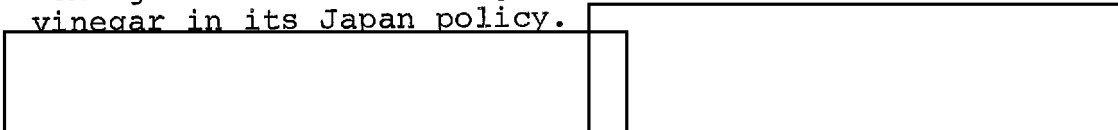
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In putting forward these new ideas, Peking may also have in mind short-term considerations involving some way of influencing Japan's position on this year's UN vote and exploiting possible tensions on the issue among Tokyo, Taipei, and Washington.

In contrast to its generally conciliatory attitude, Peking has in the past year maintained a rigid attitude toward Japan. This approach has neither undercut the Sato government nor appreciably arrested a drift toward a "one China, one Taiwan" policy in Tokyo. Chou's recent remarks suggest that Peking is now considering substituting honey for vinegar in its Japan policy.



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ARAB FEDERATION: The formal four-state union, which press reports say is to be announced next Sunday, is probably regarded by Egyptian President Sadat as primarily a device to maintain Arab support for Cairo's policy of negotiation.

According to a fairly reliable Beirut newspaper, a union bringing together Egypt, Syria, Libya, and the Sudan will be established if Libyan-Sudanese differences can be resolved. Failing this, a three-state union, excluding the Sudan, will be formed.

The decision to proceed with the formal union may have been confirmed during President Sadat's unannounced one-day trip to Libya last week. Sadat is fully aware of the popular opposition to the federation in both Libya and the Sudan, and of Egypt's unhappy union experience with Syria from 1958 to 1963. He has heretofore resisted Libyan Premier Qadhafi's insistent calls for rapid movement toward unification. He may now believe, however, that the time has come to present at least the facade of an Arab united front during the current delicate phase of the Middle East peace negotiations.

Sadat may also hope that Syria's accession to the grouping will generate domestic support for Asad as well as backing within the Syrian leadership for Cairo's stand in the Arab-Israeli negotiations. The Sudanese position on joining the union is still unclear. Since last November, President Numayri, moving cautiously on an issue unpopular in the Sudan, has insisted on a protracted timetable for formal union. His position has been the subject of some bitter exchanges with Qadhafi.

Despite the broad scope of the planned merger--reportedly to encompass defense, foreign, and economic affairs--it seems highly unlikely that effective supranational political integration will be achieved soon, if ever. While discussions on unification in a number of fields have been under way for more than a year, little tangible progress has yet been made toward implementing any proposals.

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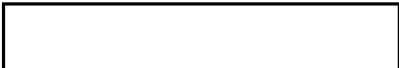
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SWEDEN: The government has formally announced that it will not seek full membership in the European Communities (EC).

The reason given for this decision is that foreign policy cooperation among the Six and the projected economic and monetary union would threaten national decision-making powers in key areas and would therefore be incompatible with Swedish neutrality. The announcement is generally recognized as having little practical significance, because the neutrality reservations Sweden attached to its renewed approach to the EC last November virtually precluded membership. Subsequent critical comments by Swedish officials on EC moves in the foreign policy and monetary areas underlined the basic incompatibility.

The official objective in regard to the EC has thus been redefined as participation in a customs union comprising both industrial and agricultural goods, with special institutional forms of cooperation corresponding to the scope and nature of Swedish obligations. Fully aware that the EC is not at all sympathetic to a mere customs union arrangement, which has been derided as conferring all the benefits and requiring none of the responsibilities of membership, the Swedes would accept the creation of a free trade area for industrial products, with special arrangements in agriculture and some coordination in other sectors.

Though not a surprise, the government's announcement has been played to shore up Prime Minister Palme's sagging popularity, as well as remove the EC membership issue as a target for left-wing sniping. It has also provided the government with an opportunity to point up the disunity among the three bourgeois opposition parties on this issue. The Center Party reacted by fully endorsing the government decision; the Liberals equivocated, but finally subscribed reluctantly; and the conservative Moderate Coalition criticized the decision as premature.



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TANZANIA: The government, faced with financial problems, has imposed restrictions on capital transfers to its East African Community (EAC) partners, Kenya and Uganda.

It also has banned all exports of Tanzanian currency except for payments for legitimate trade. Last year Tanzania's leakage of capital to Kenya was reportedly \$14 million more than in 1969, causing Tanzania to make a substantial cutback in planned development expenditures for 1971. Reserves currently available to Tanzania stand at about \$66 million, or just about equivalent to four months of imports at 1969 levels.

The EAC is a limited common market and operates services such as air and rail transportation for the three members. The treaty, signed in 1967, does not prevent exchange controls from being exercised by each country, but it does require those countries to permit all bona fide current account payments without undue delay. Tanzania appears to be abiding by the letter of the treaty, but the spirit of the treaty, which has suffered of late, especially since the recent coup in Uganda, may be further tarnished by this move.



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USSR-JAPAN: The Soviet and Japanese Communist parties have decided to mute their long-standing quarrel as a result of consultations in Moscow. In return for a decision by the Japanese party to send a delegation to the upcoming Soviet party congress, Moscow apparently has pledged to cease its support for a pro-Soviet Japanese Communist splinter group. The parties apparently did not reconcile their conflicting ideological views on such issues as the Soviet invasion of Czechoslovakia and the USSR's retention of the Japanese-claimed "Northern Territories," but the wording of their joint communiqué suggests they have agreed to keep their differences private. The presence of the important Japanese Communist Party at the Soviet party congress would be a significant gain for Moscow and may redound to the political credit of Soviet politburo member Suslov, who apparently was instrumental in easing the strained relations.

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PAKISTAN: President Yahya, after a meeting with Z. A. Bhutto of West Pakistan and East Pakistani leader Mujibur Rahman, has postponed the National Assembly. It had been scheduled to convene on 25 March to begin writing a new constitution, but all parties have apparently decided that more time is needed for negotiations. With Mujib's prior approval of the postponement, it seems unlikely there will be a repetition of the violence that followed Yahya's earlier postponement of the assembly on 1 March.

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TURKEY: The political situation remains in a state of flux pending the formation of a new cabinet and the adoption of an approved program. Prime minister - designate Erim should be able to put together an acceptable coalition government, however, now that he has received pledges of support from both major parties. Erim reportedly intends to select up to half of his cabinet ministers from among independents and from outside Parliament. If Erim is unsuccessful, the threat of an ultimate military take-over persists, and many Turkish political observers view Erim as "a last chance." Although the nationwide military alert has been relaxed, security precautions in some areas have actually been tightened, ...



AUSTRALIA: Prime Minister William McMahon's Liberal-Country cabinet, which was installed yesterday, has a more conservative appearance than the former government, but policy should remain unchanged. Billy Snedden, the new treasurer, and John Gorton, now defense minister, are likely to be the strongest individuals and politically the most effective in the cabinet. Foreign Minister Bury, although able, lacks flair and forcefulness, and it seems likely that McMahon himself will keep a close hand on foreign policy. Although McMahon insists his cabinet will serve out the term which ends in November 1972, the government's present heightened popularity could induce him to call elections within the next six months.



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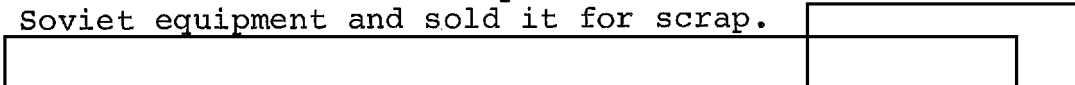
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USSR-INDONESIA: The Indonesian foreign minister has announced that Moscow has finally agreed to provide spare parts for the air force and navy on credit, according to a press report. Since 1967 Indonesia has purchased almost \$5 million worth of spares from Moscow under a \$10-million cash agreement, but Djakarta had been trying to get the remainder converted to a credit basis. The agreement is unlikely to lead to a more comprehensive military aid program and the equipment will do little more than delay the deterioration of Soviet materiel in Djakarta's inventories. In an economy move, Indonesia's air force and navy had cannibalized some Soviet equipment and sold it for scrap.



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CHILE: A number of junior and middle grade officers of all branches of the armed forces are reported to have formed a clandestine Revolutionary Committee (CR) and may be plotting a coup at the time of the municipal elections of 4 April. Several reports indicate that civilian as well as military members of the CR are supporters of dissident retired general Roberto Viaux; there is no real national leadership. The realization of CR members that most top military commanders have reached an accommodation with the President may influence the malcontents to aim at changes in the government rather than its overthrow. Their chances of successfully pressuring the government seem poor at this time.



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