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DIRECTORATE OF  
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# *Central Intelligence Bulletin*

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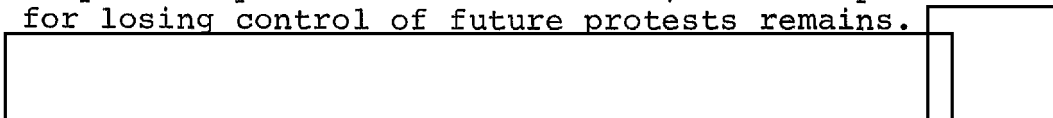
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NATIONALIST CHINA - US - JAPAN: Taipei appears to be exploiting student sentiment to buttress its diplomatic protests regarding the Senkaku Islands dispute.

Yesterday 500-600 youths carrying placards and flags staged the most highly organized and thoroughly controlled of the recent student demonstrations on Taiwan connected with the issue. They were protesting failure to consult Taipei regarding the US-Japanese Ryukyuan reversion agreement, which included the Senkaku Islands. Student representatives, accompanied by a police official, also presented a petition at the US and Japanese embassies, but they left immediately afterward. Others, however, threw rocks at the buildings, breaking a window at the Japanese Embassy.

On the previous day, the Foreign Ministry had informed US officials of the details of the demonstration and had given assurances that the group would be kept under control. Taipei had already protested US and Japanese actions on the Ryukyus and Senkakus through standard diplomatic channels, but it probably approved the demonstration--and the text of the petition, which was stronger than earlier statements--both to outflank student demands for stronger assertion of Chinese interests and to apply additional pressure on its allies.

Taipei has claimed to Washington that reaction on Taiwan to current US Asian policies could create instability and actually imperil the Nationalist regime. For this reason, Taipei appeared to have decided earlier to ban such demonstrations. The Nationalists are reluctant to ban expressions of strong student feeling and have apparently concluded that they can exploit these sentiments, but the potential for losing control of future protests remains.

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SUDAN: The government is again looking toward the West for aid.

The minister of treasury and planning and the minister of information have confirmed in detail that the policy shift is not a passing phase but a basic decision by the whole government with President Numayri leading the way. Steadily deteriorating economic conditions apparently are prompting Sudan to make this move.

Representatives from the International Bank for Reconstruction and Development (IBRD) have recently arrived to resume negotiations for financing Sudan's major development project, the Rahad irrigation scheme, and aid is being sought from several West European countries. To attract private investment, the Sudanese Government recently passed legislation to limit nationalizations and confiscations, to assure the safety of investments, and to provide for the repatriation of profits and capital.

After the 1969 coup, the radical new government had opted for closer ties with Communist countries. Aid from these countries has been limited largely to the supply of military equipment, while economic aid, including the financing of the Rahad project, proved to be little more than promises. Most of the small economic assistance received since the coup had been committed by Western countries and the IBRD prior to 1969.

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EUROPEAN COMMUNITIES: Pressures are increasing in the EC to deal with both the causes and the effects of last month's monetary crisis.

In continued efforts to get at the sources of monetary instability, the EC finance ministers at a meeting earlier this week considered a number of proposals to cope with erratic capital flows. The measures discussed, which could also facilitate fixing the mark rate, included widening the margins of EC currencies vis-a-vis the dollar, establishing minimum reserve requirements for Eurodollar deposits, otherwise placing controls on Eurodollar movements, and creating a two-tier exchange market. The West Germans have not withdrawn their proposal to float the EC currencies as a bloc, but the French remain opposed to this step. They reached no agreement, but directed the Commission to draw up proposals for consideration by the Council on 1 July.

The other EC members realize that Bonn's decision to float was triggered by the influx of capital into Germany, but they believe that the floating mark is rapidly posing an intolerable situation for their common agricultural policy (CAP). The Commission and the other five members told the Germans at the meeting of the finance ministers and at a subsequent session of the agricultural ministers that unless Bonn soon fixed its exchange rate the CAP could be wrecked.

Although the continued float of the mark prevented narrowing the EC exchange rates as scheduled on 15 June, the members did carry out other work planned for the first phase of economic and monetary union. The ministers consulted on short-term economic policy and the Commission submitted a paper on member-state national budgets for the next year. The ministers reportedly agreed that restrictive economic policies are currently appropriate in all EC countries and that the present weakness of the Italian economy is "dangerous" for the community.

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ICELAND: The resignation of the government following its setback in Sunday's election presents an opportunity for the parties long opposed to existing US military arrangements in Iceland to come to power.

Of the two parties in the governing coalition, the conservative Independence Party managed to hold its own as Iceland's largest political party, but the Social Democrats lost heavily to the new Liberal Left Party and slipped to an all-time low in terms of popular support. Realizing that the party needs a period in opposition to refurbish its socialist credentials, the Social Democrats have apparently decided not to consider entering any new government coalition.

The Independence Party, bereft of its partner of 12 years, has quietly approached its long-time adversary, the agrarian Progressive Party. The Progressives, however, intoxicated with the vision of leading a government after years in opposition, have apparently decided to pursue their efforts to form a coalition with the Liberal Left and the Communist-dominated People's Alliance before attempting an all-bourgeois government.

A coalition of these three former opposition parties is mathematically possible, but there are even greater differences among them than between the two bourgeois parties. The Progressives favor Iceland's continuing in NATO, for example, while the Liberal Left has vacillated and the People's Alliance has long been on record advocating withdrawal from the alliance. On the issue of the US military presence in Iceland, the People's Alliance has persistently called for withdrawal, but the Liberal Left has again vacillated. The Progressives, for their part, are divided over maintaining the status quo, renegotiation, and withdrawal.

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Even as these three parties begin their negotiations, the People's Alliance newspaper has resumed its criticism of the leaders of the other two parties. The leader of the Liberal Left Party has fired return salvos against his former Communist colleagues in the People's Alliance. The question yet to be resolved is whether the eagerness of these three parties to assume power will overcome their fundamental differences.



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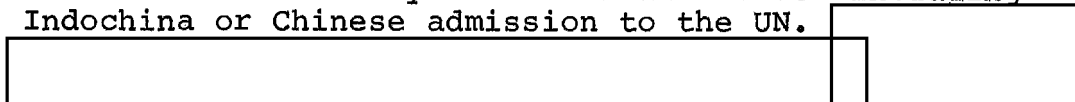
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YUGOSLAVIA - COMMUNIST CHINA: The Yugoslav foreign minister's visit to China from 8 to 15 June opened the way for further improvement in relations.

The atmosphere of the meetings was marked by friendly pragmatism and an extensive exchange of views. The Sino-Yugoslav communiqué, however, reveals a surprisingly narrow political consensus compared with the agreements from Romanian President Ceausescu's recent talks in Peking. The two sides agreed that the principle of peaceful coexistence should be the basis of relations between all states regardless of their social systems, and they call for expanded cooperation and increased state contacts. Resumption of party relations, however, is still blocked by ideological differences.

During Tepavac's talks in Peking, the Tito regime at home seemed to take calculated measures--including a diplomatic protest to Moscow over hostile emigre activities there--to emphasize the Soviet threat to Yugoslavia and, by implication, to China. Available details of the talks in Peking, however, convey the impression that neither party indulged in open anti-Soviet manifestations. Nevertheless, the two sides did tacitly criticize the Brezhnev doctrine.

The US, however, fared well in some aspects of the talks. Tepavac at his first state dinner in Peking intimated that Yugoslavia intended to pursue relations with the US consistent with Washington's good intentions toward Yugoslavia, without visible Chinese objections. In addition, the communiqué failed to mention any international issues including Indochina or Chinese admission to the UN.



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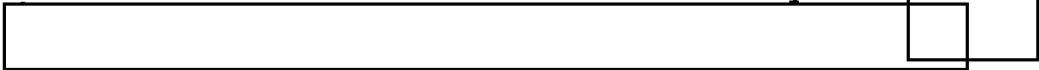
JAPAN: Preliminary balance-of-payments data through May compared with those of a year ago indicate exports rose in value by some 24 percent despite Tokyo's attempts to limit their expansion. Exports to the US, Japan's leading customer, increased 29 percent with automobile sales gaining more than 100 percent and iron and steel some 25 percent. Total imports grew only seven percent compared with an increase of 32 percent last year, reflecting the country's present economic slowdown. The rapid export growth combined with the comparatively marginal increase in imports produced a trade surplus of \$2.2 billion, the highest ever recorded for any January-through-May period. This, together with continued heavy capital inflows, is likely to result in even more pressure for revaluation of the yen.



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SINGAPORE: The government's defense outlays for this fiscal year, which began 1 April, will increase more than 50 percent and account for almost a third of total government spending. They could reach ten percent of gross national product compared with last year's level of seven percent. Outlays of this magnitude, however, are easily handled by the country's fast-growing economy. Singapore's increased defense expenditures result from the country's desire to raise its own defense capability to the maximum extent possible in light of the withdrawal of all but a token contingent of British forces from the area by the end of this year.



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TANZANIA: Accelerated emigration of the skilled and wealthy Asian population may cause Tanzania substantial economic damage. Recent government nationalization and foreign exchange control measures have put increasing pressure on the 70,000 Asians who hold a predominant commercial and professional influence in Tanzania. Many are moving assets out of the country illegally; applications for emigration allowances as of mid-May amounted to about 30 percent of Tanzania's foreign exchange reserves of \$66 million. President Nyerere may soon face the dilemma of restricting free movement out of the country or of watching a significant part of the nation's wealth and talent leave.

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VENEZUELA: Despite recent increases in petroleum and mining taxes, foreign investors continue to show interest in investment in Venezuela. US Steel, which suspended plans to expand iron mining and processing facilities following the increase, has now decided to move ahead with the project at a cost of \$40 million. After several months' consideration, three oil companies apparently have signed service contracts and will start developing new production in southern Lake Maracaibo. On the other hand, several companies that bid for concessions to develop nickel deposits, entailing an investment of more than \$50 million, have backed out. The government may undertake this project on its own if it cannot attract foreign capital.

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