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JAPAN: The Japanese central bank, in an effort to overcome the current economic slump, yesterday lowered the official discount rate to 5.25 percent, the lowest in 15 years.

Tokyo had earlier hoped that economic growth would rebound this spring but now believes that recovery will not take place until late this year. Preliminary estimates indicate that the rate of growth in the first half of 1971 was about 6.5 percent--just about half the rate of recent years. The industrial sector has been hardest hit with production increasing at only about 40 percent of the "normal" 16.5-percent annual rate of the last five years. The existence of excess capacity has resulted in reduced investment on the part of Japanese business--orders for machinery in May were down 35 percent from the level of May 1970.

The discount rate cut is the fourth since last October and Japanese monetary authorities hope that by stimulating economic activity Japan's huge balance-of-payments surplus will be reduced, thus lessening pressure for revaluation of the yen. Tokyo's foreign exchange reserves increased by over \$3 billion in the first half of 1971. This was partly because of the domestic slump, which stimulated Japanese manufacturers to push exports while the growth of Japanese imports slowed to less than half the rate established in the period 1965-70.

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EAST PAKISTAN: Industrial and commercial activity remains depressed.

Industrial recovery continues to be hampered by labor shortages. According to Pakistani statistics, only 50 percent of the labor force in Dacca is present and in Khulna, another important industrial center, only 40 percent is available. Exports of jute manufactures are being held back by production problems--output is less than a third of normal--and by inability to move the output to the ports.

The sad state of commercial activity in Dacca may be representative of that elsewhere in East Pakistan. Although the city's population may now be back up to 70 percent of normal, and almost all shops have reopened under threat of military confiscation, nonfood retail sales are only one quarter of the pre-March levels. No imports are arriving from either West Pakistan or abroad. The low sales, reflecting a lack of both buyers and purchasing power, have kept most prices at fairly reasonable levels, however. The low industrial and commercial activity has also reduced demands on fuel and power, but guerrilla operations against transport and power systems are causing concern about future supplies. [REDACTED]

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ARAB STATES: Preparations are going forward for an Arab summit conference in Tripoli today, although the Libyan Government has issued no official statement.

Cairo is apparently trying to ensure the presence of all those who signed earlier agreements with the fedayeen. This would include King Husayn, who was pointedly not invited by Qadhafi, although he has announced his willingness to attend. On 19 July, Libyan Prime Minister Qadhafi had called for a meeting of Arab heads of state to discuss possible action against Jordan in retaliation for King Husayn's "liquidation" of the fedayeen. President Sadat will almost certainly attempt to rein in Qadhafi, who sees himself as the hero of the Sudanese countercoup and is hoping to assume a leading role in Arab councils.

The outcome of the conference--which may well range beyond the problem of Jordan--will depend very much on who shows up.

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EGYPT: The newly completed restructuring of the Arab Socialist Union (ASU) underscores President Sadat's determination to maintain control of the levers of power.

Sadat pledged in mid-May to reform Egypt's only legal political organization, the ASU, through free elections. The result has been an affirmation of regime control over that body. Although there was little evidence of overt government interference in the elections, the process was nevertheless subtly directed.

At the lower level of the ASU, most voters were not informed of the names of the candidates until a day or two before the elections began, and most were not known by the individual voters. Additionally, there were no issues to stimulate either voters or candidates, and consequently, the elections constituted little more than a perfunctory re-establishment of party machinery.

At the national level, the restructured 230-member ASU Central Committee is composed almost entirely of new members, 30 of whom were appointed by the regime. The appointment of these 30--prominent government officials and other citizens who owe fealty to no one but Sadat--underscores his lack of faith in even a largely predetermined election. It thus appears that the new ASU is Sadat's own creation.

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ARMS CONTROL: Communist China's negative attitude toward Moscow's proposal for a five-power nuclear disarmament conference has virtually killed prospects for such a meeting.

The leader of a French parliamentary delegation now visiting China reports that Chou En-lai spoke out strongly against the Soviet proposal in a private conversation. Chou said the USSR was trying to "lasso" the PRC and that Peking would not attend such a conference.

Although Peking is not likely to take such an abrupt position in its public response, Chou's remarks are the strongest indication to date that the Chinese answer will be negative. Mindful of the propaganda element in the Soviet proposal, the Chinese may present some sort of counterproposal in line with their long-standing advocacy of a meeting of all countries on the abolition of nuclear weapons.

The French position meanwhile is that, although they approve the Soviet idea in principle, they will not attend unless Peking does. The French Foreign Ministry official who relayed Chou's remarks to a US Embassy officer reaffirmed this position, indicating that so far as Paris was concerned, the Chinese response was negative and this meant that there would be no conference.

The UK has been skeptical of the idea from the beginning, feeling that there is little to be discussed profitably in such a forum. With France now believing that Chinese opposition is clear, there may be little enthusiasm for the Soviet proposal at the current North Atlantic Council meeting. This subject is scheduled for discussion today. [REDACTED]

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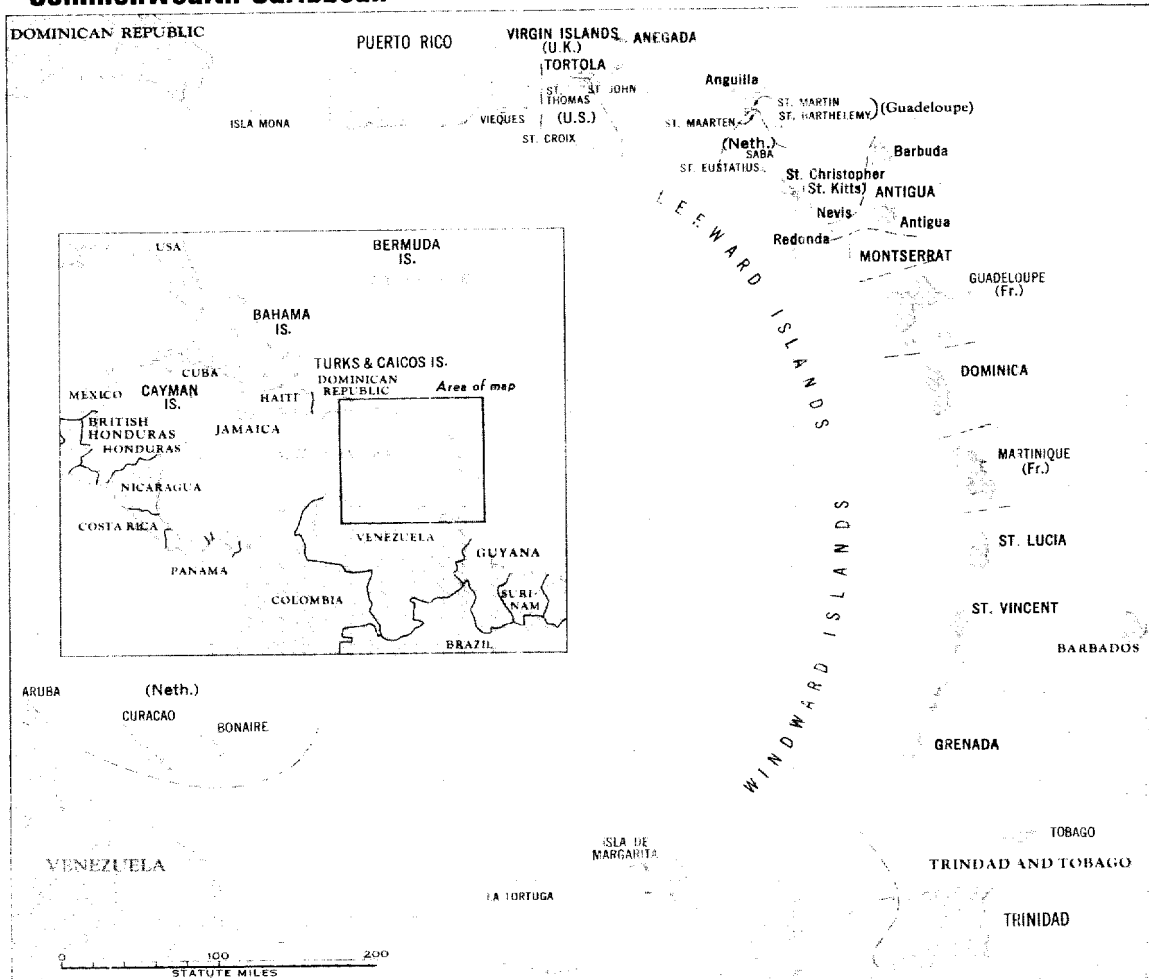
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CARIBBEAN: Although agreement reportedly has been reached on procedures for the establishment of a new political union of Commonwealth Caribbean states, there is little likelihood that the plans will reach fruition.

The agreement, described as the "Declaration of Grenada," resulted from a meeting of representatives of several Commonwealth Caribbean countries in Grenada on 25-26 July. The declaration will not be made public until 1 November; in the meantime, it will be passed to those regional governments not represented at the conference. Another meeting then will be held to "tie up the ends."

The conference in Grenada was an outgrowth of a meeting held in Saint Lucia on 26 June, ostensibly to debate Colombian and Venezuelan applications to join the Caribbean Development Bank and to discuss Britain's decision to resume the administration of the island of Anguilla. Prime Minister Burnham of Guyana, however, used the occasion to promote the concept of a federation of states of the West Indies. Burnham also took the lead in pressing the federation issue at Grenada.

Both conferences, like earlier ones convoked to consider federation, lacked regional cohesiveness and area-wide participation. The prime ministers of Jamaica, Barbados, and Trinidad and Tobago, three of the four independent states of the Commonwealth Caribbean, did not attend either meeting and apparently do not intend to participate actively in the latest effort. Although a genuine desire exists on the part of the minuscule states to establish a union within which they can achieve some degree of political and economic equality, the reluctance of the larger states to become involved negates any initiatives the smaller ones undertake, Guyana's sponsorship notwithstanding. In addition, insular attitudes and petty jealousies, combined with a failure to prepare the people of the area for federation, constitute, as they have in the past, major stumbling blocks.

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Talks on federation may be held from time to time, but it is doubtful that any concrete developments will take place so long as the political leaders involved continue to ignore the errors of the past.

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URUGUAY: Opposition forces were able to make political capital from the death last weekend of a student during a clash with police.

The funeral on 26 July was directed primarily by Communist-dominated organizations and the leftist Frente Amplio political coalition. It attracted some 15,000-30,000 participants, but the organizers, in line with their contention that it is the government that begets violence, successfully kept the demonstration peaceful. The Frente also is supporting the effort under way in the Senate to impeach President Pacheco for overstepping his constitutional authority in combating terrorism.

Last year, Pacheco closed down the schools after violent outbreaks. Extremists may hope to encourage further outbursts in the hope of exacerbating relations between the President and the legislature, which lifted the President's control of the schools in June.

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NOTES

JAPAN - COMMUNIST CHINA: Tokyo announced on 26 July that prior official approval is no longer required on imports of 40 items from Communist China and other Communist countries. Although these items account for about one third of Japanese imports from China, the effect on bilateral trade is expected to be limited inasmuch as the original intent of the regulations was to monitor import channels rather than to restrict the actual trade. The principal objective of the move is to ease popular criticism of Prime Minister Sato's cautious policy on improving relations with China. [REDACTED]

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USSR: Mikhail Solomentsev, a party secretary with no clear ties to any top Soviet leaders, was appointed premier of the Russian Federation yesterday. He replaces politburo member Gennady Voronov, who was demoted to chairman of the People's Control Committee last week. An industrial specialist with some background in agriculture, Solomentsev became chief of the Central Committee's heavy industry department and a party secretary in 1966. The change in RSFSR leadership should eventually be reflected in the politburo. Voronov stands to lose his position and Solomentsev will probably gain politburo status in exchange for the loss of his secretariat post. [REDACTED]

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MALAWI - SOUTH AFRICA: The agreement between the two countries to raise their diplomatic missions to embassy level became effective on Tuesday. Malawi named its high commissioner to Kenya, Joe Kachingwe, as the first black African ambassador to South Africa and Pretoria promoted its resident chargé to ambassador. Both countries regard raising the level of diplomatic relations as an important contribution to dialogue between black and white Africa. Malawi's President Banda believes that such a policy must eventually replace open hostility if the white-minority governments of southern Africa are to be persuaded to modify their racial policies. Kachingwe's first task will be to prepare for President Banda's visit to South Africa scheduled for next month. [REDACTED]

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PHILIPPINES: A major investment in the Philippines is planned by the Ford Motor Company if appropriate assurances are obtained from Manila. Ford wants to invest some \$42-\$50 million--rather than the \$100 million figure reported in recent press releases--in auto assembly and related plants. These expenditures would be spread over at least a five-year period. The firm is especially interested in setting up operations at the planned Mariveles Free Trade Zone, which would allow Ford to maintain 100-percent equity ownership. If the project does go through it will be the largest new US investment in the Philippines in years. [REDACTED]

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