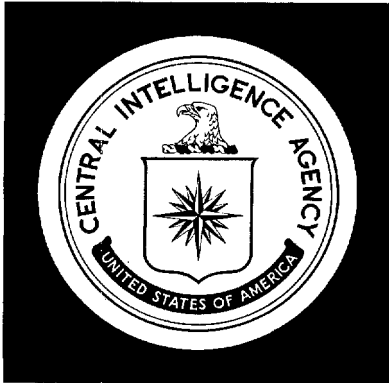


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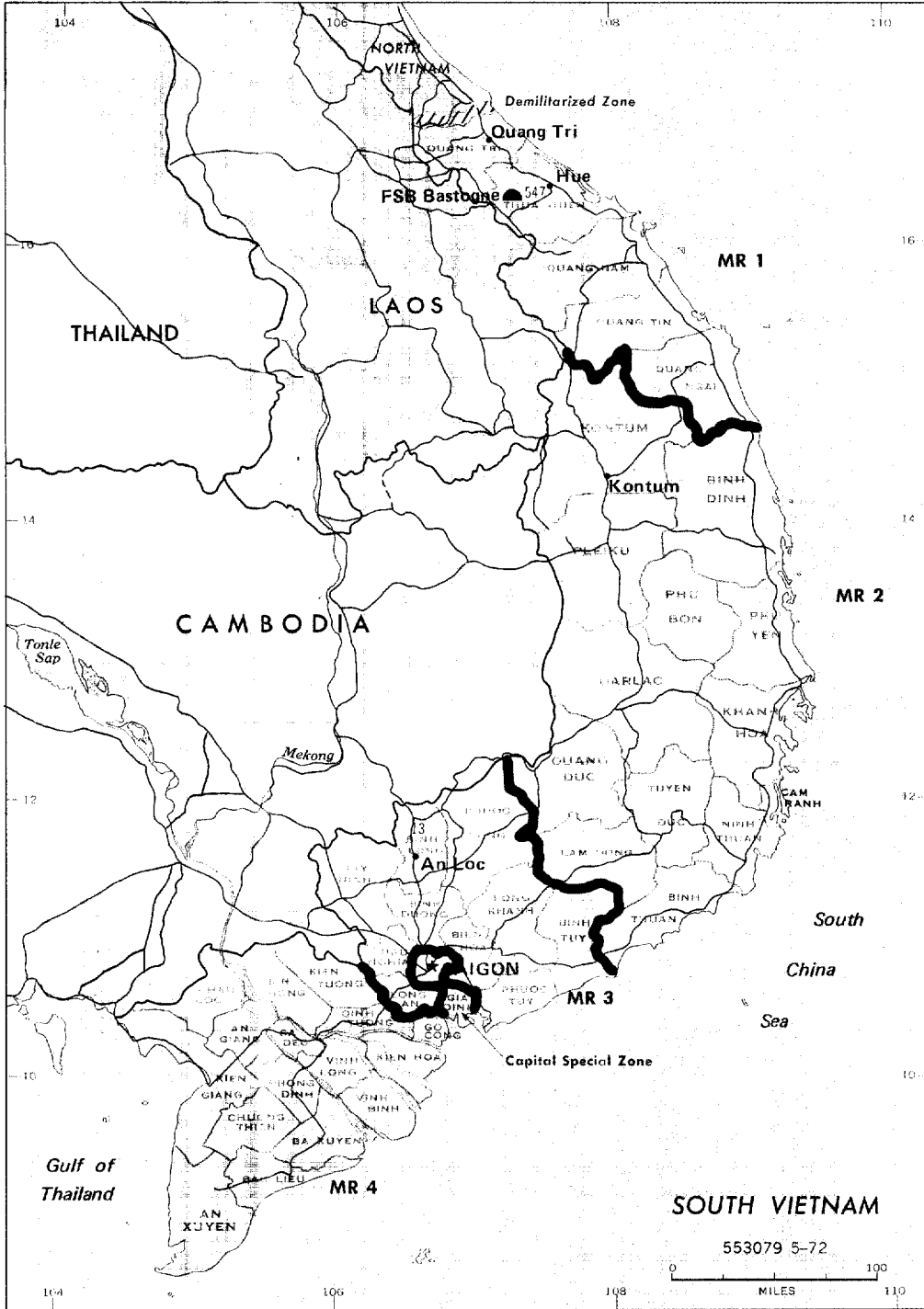
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VIETNAM: South Vietnamese forces are becoming more aggressive in certain sections of the country, but the enemy continues to prepare for new major assaults.

North of Saigon, the South Vietnamese have organized a task force to help relieve the garrison at An Loc. Composed of the South Vietnamese 9th Armored Cavalry Regiment, an infantry battalion, and supporting artillery, this force has encountered only light resistance while moving to within eight miles of the town. Another battalion has been air-lifted to a point five miles from the town, and two regiments of the long-stalled 21st Division have begun to move north on both sides of Route 13 to link up with these advance units. Enemy forces around An Loc have taken heavy casualties in the ground fighting for the city and from allied air attacks, and they may have difficulty blocking the reinforced government relief column.

South Vietnamese units near Hue mounted three separate operations along Route 547 after reoccupying Fire Support Base Bastogne on 15 May. They claim to have killed 210 Communist troops and to have captured seven tons of ammunition in these operations.

The Communist units that have been trying to get into position for a major assault on Hue have not put much pressure on the government's defensive network in recent days. They have been taking a heavy pounding from the air, and recent government forays probably have disrupted their activities somewhat. Nevertheless, they still appear to be bringing in supplies and reconnoitering the battlefield. They probably are withholding their heavy fire in order to keep their heavy weapons concealed until they have assembled stocks of ammunition in forward positions adequate to support a substantial operation.

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In the highlands, government forces defending Kontum City have repelled the second tank-led enemy probe in three days. Most Communist forces in the area are concentrating on reconnaissance and other preparations.

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CHILE: A rash of violent incidents is creating headaches for President Allende and his coalition and opportunities for the opposition.

The push by the Popular Unity government to finish expropriating all large farms by 1 June has triggered a wide range of dissatisfied reactions. Peasants are disgruntled over the meager immediate effects of agrarian reform, while landowners are trying to salvage what they can. Both sides often resort to violence, sometimes urged on by groups of the extreme left and right. The carabineros (national police) and the local judiciary are increasingly caught in the middle, their actions attacked by one side or the other. The results frequently lend substance to the opposition's claims that the touted independence of the Chilean judiciary is threatened under Allende's government.

Violence last weekend in the strongly leftist industrial city of Concepcion has also raised hackles, both within the UP and among opposition forces. The ranking provincial official, a bungler who is stronger on Communist Party discipline than good sense, set the stage by authorizing three competing political marches on the same day. At the last minute, when crowds were already gathering, he canceled the marches on orders from Allende. The more radical UP factions and the Movement of the Revolutionary Left defied the Communists, ignored the cancellation, and joined in a demonstration. Two days of brawling ensued, with the carabineros' riot squad out against the marchers in full force.

The opposition Christian Democrats charged that the cancellation of their march was a suppression of democratic freedoms. They have rescheduled it for 19 May, and the UP has done the same. Further violence in the area could also set off rural confrontations that rightists have been hoping to provoke in surrounding provinces.

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MALAGASY REPUBLIC: President Tsiranana's position has been seriously undermined by his inept and ruthless handling of violent student protest.

Tsiranana has been thoroughly discredited in Tananarive because of the deaths of 30 people during four days of disorder. The president's radio broadcast, in which he said the killings would continue until the antigovernment protests ended, has drawn particular revulsion. Most of the population believe Tsiranana, [REDACTED]

[REDACTED] should be ousted.

Tsiranana can no longer rely on the island's gendarmerie or army to carry out his orders. Both forces have refused to take strong action against the students, and many gendarmerie are openly sympathetic toward the protesters. The Republican Security Force (FRS) that willingly carried out Tsiranana's order to kill the demonstrators is no longer feared as students have sought out and killed FRS troopers. In recent days the army and gendarmerie have acted more as buffers between the irate populace and the FRS and any attempt to re-deploy the FRS would only intensify antigovernment feeling.

Despite Tsiranana's dwindling support, no leader has emerged to directly challenge the president. The army and the gendarmerie have the power to oust Tsiranana, and the students have indicated their willingness to support a military take-over. However, top military officers have so far maintained an outward show of loyalty to Tsiranana. The lack of a strong leadership or a clear sense of purpose by the regime's opponents has clearly worked to Tsiranana's benefit. The release of a few imprisoned student leaders and their reception by an official delegation have helped restore calm, but the Embassy believes that the balance of power will lie with the remaining student leaders who will soon be released.

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(Tsiranana's position would seriously deteriorate if violence again erupts. Should the gendarmerie then refuse to act, the army might make its move. General Andriamahazo, second in command of the Malagasy armed forces, would be in position to assume power. His appointment as military governor of Tananarive has placed him at the center of the crisis, and he has enhanced his public image by sympathetic actions toward the students. [redacted]

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LIBYA: The government is moving on two fronts to solve problems related to its nationalization of British Petroleum (BP) assets.

Discussions took place last week between Deputy Premier Jallud and a high-level BP representative in Cairo on compensation for the assets sequestered last December. BP almost certainly rejected Libya's initial offer, and bargaining is likely to continue for some time.

Meanwhile, Oil Minister Mabruk reportedly has reached an agreement with the USSR for the sale of an unspecified quantity of the nationalized oil that Libya has been unable to market elsewhere because of BP's threats to mount legal actions against any purchaser. The deal may be a barter arrangement for Soviet oil equipment and services or perhaps military hardware. Mabruk also is visiting several East European countries, probably in an attempt to sell more oil in markets that are shielded from BP's legal pressures.

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GOLD: The free market price of gold in London shot up \$1.50 an ounce yesterday to reach a record \$54.60.

The sharp price increase followed a statement by South African Reserve Bank Governor de Jongh that Pretoria no longer needs to sell all its current gold production, which represents over three quarters of non-Communist output. Pretoria is projecting a balance-of-payments surplus for the first time in several years, largely because of the currency devaluation last December and sizable capital inflows.

South African gold sales had fallen off markedly even before de Jongh's announcement. South Africa's production this year is about ten percent less than in the same period last year, and the Republic is not selling all of its newly mined gold. Although its official gold holdings increased by only \$7.5 million through 5 May, Pretoria may be concealing even larger increases.

Even before the South African announcement, gold prices were under considerable upward pressure because supply was falling behind the demand of commercial users and hoarders. This suggests that prices may remain in the range of \$50 an ounce for some time.

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EGYPT-US: Cairo has apparently chosen to express its dissatisfaction with US policies in the Middle East by calling on the US Interests Section in Egypt to reduce its size from 20 to ten individuals. The chief US representative in Cairo was given no deadline for the reduction but was informed that the size of the diplomatic mission should be returned to the level that existed following the break in relations in 1967. An agreement to expand the size of the US Interests Section to the present level was reached a year ago during a period of relative cordiality in US-Egyptian ties. Cairo may hope that this action will serve as a way of pressing Washington to adopt a position more favorable to the Arab cause. [REDACTED]

* * * *

USSR: Soviet trade officials have indicated a willingness to accept US Commodity Credit Corporation terms in purchasing US grain, but only for a one- or two-year commitment. Such credit terms would involve higher interest rates and a shorter repayment period than the USSR had originally sought. In talks with the Department of Agriculture, the Soviets reiterated their earlier position that longer term commitments would be made only when more favorable credit terms were offered. Under the short-term commitment, however, annual purchases could reach \$500 million, about twice that suggested in earlier talks. [REDACTED]

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JAPAN-USSR: Moscow has postponed until next month the visit of a Japanese technical team to inspect the Tyumen oil fields. The visit, requested by the Japanese in connection with their possible participation in the development of the fields and in the construction of a pipeline to the Sea of Japan, was originally scheduled for mid-May. The Japanese insist that on-site inspection is essential if they are to consider seriously Moscow's request for credits up to \$1 billion, to be repaid in Tyumen oil. According to the Japanese, the postponement followed heated inter-ministerial wrangling in Moscow. This indicates that the Soviet desire to upgrade relations with Japan is difficult to translate into concrete policy action. The delay also has heightened Japanese uncertainty about Soviet intentions. [REDACTED]

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JAPAN-EC: Trade negotiations between Tokyo and the European Economic Community remain at an impasse following three days of talks between Ralf Dahrendorf, the Community's commissioner for external trade, and Japanese government leaders. The EC has been eager to conclude an agreement with Japan because it would be the first with a major trading partner under the common commercial policy due to take effect on 1 January 1973. The negotiations for a trade agreement, however, have been stalled for more than a year because of Tokyo's refusal to accept a "safeguard" clause insisted on by the EC members to prevent Japanese goods from flooding their markets. Rapidly growing Japanese exports to Western Europe are increasing protectionist feelings within certain sectors of the EC, even though purchases from Japan still constitute only three percent of the EC's imports. [REDACTED]

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JAPAN: There has been a slight slowdown in the growth rate in Japan's trade surplus. Exports last month were 19 percent higher than those in April 1971, but this growth rate is slower than those recorded in the first three months of this year. Moreover, a recent slackening in the number of export contracts suggests this trend may continue. The growth rate of imports, on the other hand, continues to rise slowly as the economy begins to gather momentum. A trade surplus of \$710 million was recorded last month, and the balance-of-payments surplus was \$160 million as a result of continuing deficits in the capital and service accounts. Japanese holdings of foreign exchange approached \$17 billion at the end of April. [REDACTED]

[REDACTED]

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LAOS: Several right-wing politicians, led by members of the powerful Sananikone family, are trying to get support in the National Assembly for a resolution that would require the resignation of Souvanna Phouma. The resolution states that the constitution requires the resignation of the prime minister and his cabinet following a general election, such as was held last January. The purpose is evidently to force changes in the cabinet, rather than to oust Souvanna. One rightist leader now claims his group has enough votes to pass the measure, but some of the claimed supporters say privately that they would not support a showdown on the issue. Souvanna is working behind the scenes and appears confident that he can overcome this most recent challenge from an Assembly which has given him trouble periodically over the years. [REDACTED]

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