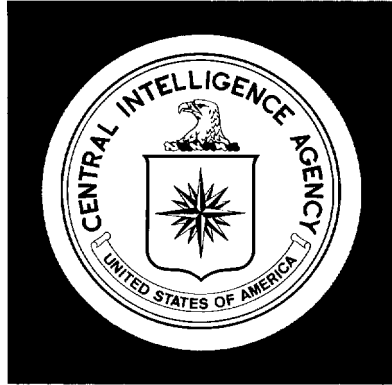


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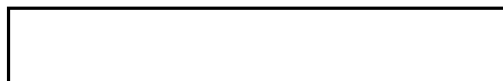
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21 July 1973



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21 July 1973

25X1

Central Intelligence Bulletin

CONTENTS

LIBYA-EGYPT: [redacted]
"march on Cairo." (Page 1)

25X1

EGYPT - ARAB STATES: Cairo moving to improve ties with broader range of Arab states. (Page 3)

CHILE: Allende finds his supporters nearly as troublesome as his opposition. (Page 5)

SPAIN: New Foreign Minister wants early discussion of terms for renewal of US treaty. (Page 6)



25X1

ALGERIA: Surge of foreign borrowing to help finance development. (Page 8)

JAPAN: Prices continue to rise despite curbs. (Page 9)

FOR THE RECORD: (Page 10)

LIBYA-EGYPT:

25X1

cision to make public his resignation--which he said Sadat already knew about--is further indication that he fully intends to place his prestige and leadership behind his own concept of the union. Qadhafi may reason that by relinquishing his leadership of Libya as a separate state, he has in the most dramatic way demonstrated his dedication to creating a larger Arab republic. Far from weakening the drive toward full union, his latest action is intended to make it more irresistible.

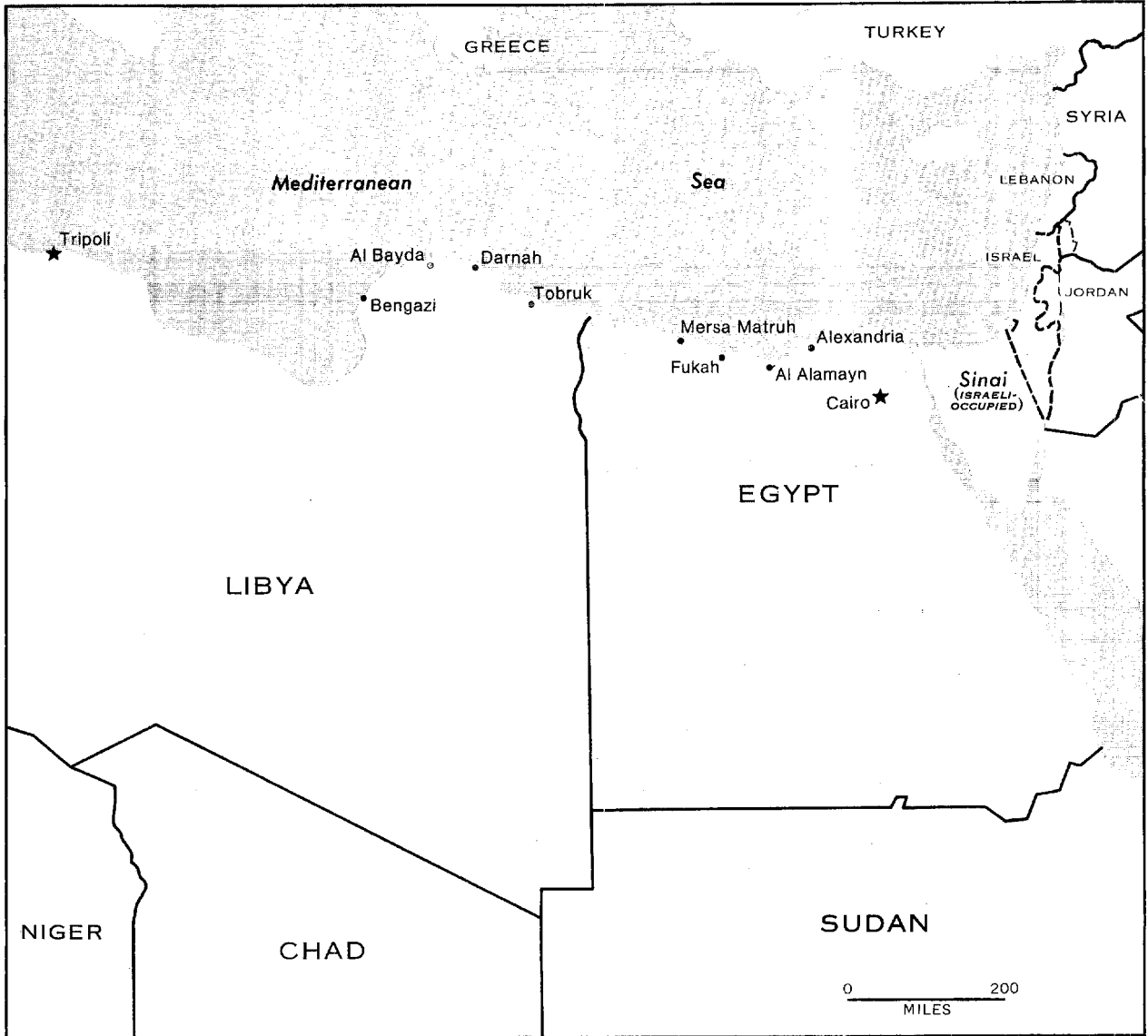
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Qadhafi's announcement is a complication for Sadat, but it should not significantly magnify the problems he already has in working out a formula for

21 Jul 73

Central Intelligence Bulletin

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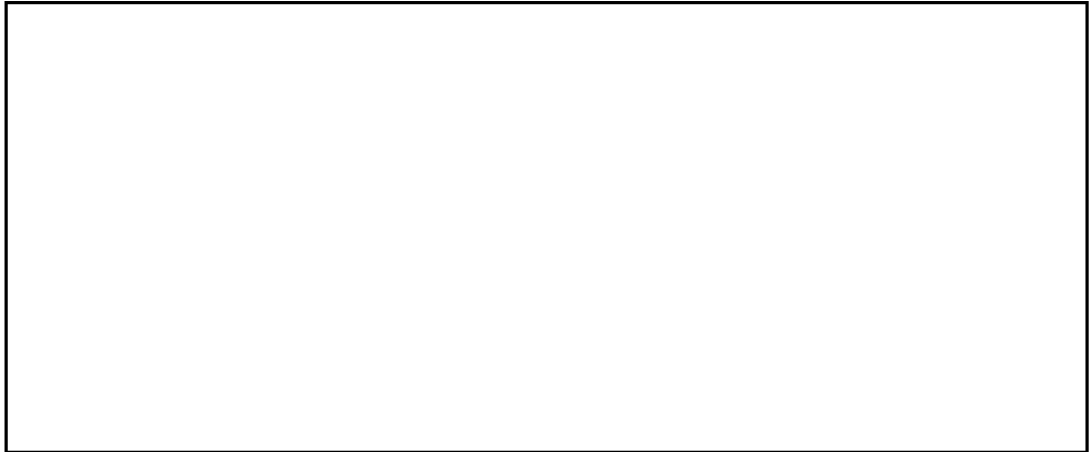
Union that meets Egyptian needs for a very gradual and cautious approach. No matter how determined Qadhafi may be, Sadat is unlikely to give in to the Libyan's demands for full and immediate union, and the general Libyan performance--from the march to Qadhafi's dramatics--could if anything intensify Sadat's negativism on the entire union project. The Egyptians published what is probably their minimum position on merger two days ago when the march began. It involves a formula that has all the outward trappings of full unity but allows a year's grace period for preparations and consultations before the project is completed and referred to a plebiscite in September 1974. It is doubtful that Sadat would go much further to satisfy Qadhafi.

Egypt is currently confronted with the more immediate problem of holding back the procession of determined Libyan seekers after union.

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EGYPT - ARAB STATES: Egypt is improving its relations with Sudan in the latest of several Egyptian moves to better its ties with a broad range of Arab states.



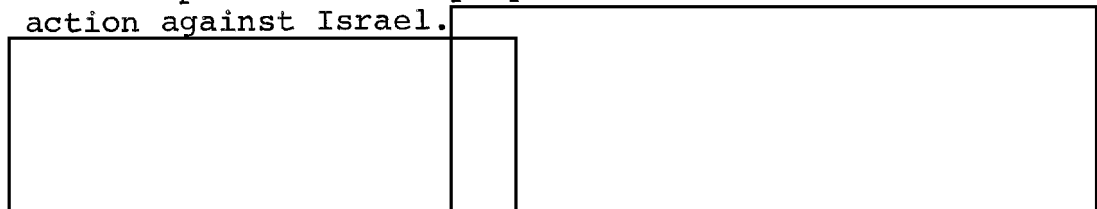
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The new warmth in the Egyptian-Sudanese relationship accompanies a corresponding improvement in Egyptian relations with other Arab states, particularly conservative states on the Arabian Peninsula.



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Arab solidarity--however elusive--is always a goal of Arab leaders, and this objective took on added urgency earlier this year when Sadat put renewed emphasis on his preparations for military action against Israel.

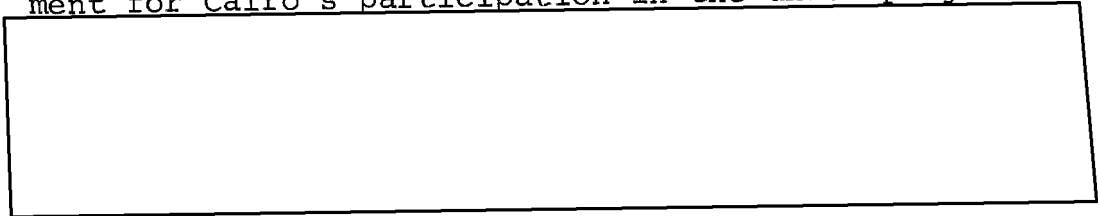


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Sadat has more immediate concerns as well. Egypt desperately and perennially needs economic assistance, and the oil-rich states have it in abundance to give. In this connection, Egypt's efforts to better its ties with its wealthy neighbors have probably been accelerated in recent weeks by the diminishing prospects for an effective merger with Libya, whose own wealth was the primary inducement for Cairo's participation in the union project.



CHILE: President Allende is finding his supporters nearly as troublesome and intractable as his opposition.

Workers in some of Santiago's industrial districts clashed with the carabineros on Thursday after barricading the streets near the factories they have held since 29 June. The workers, apparently led by the extreme leftist Movement of the Revolutionary Left (MIR), demanded that the government announce the immediate nationalization of all the industries they have seized. The regime's position is that each case will be studied individually and that only "monopolistic" or "strategic" firms will be taken over by the state.

The Communists and Socialists, who reportedly have agreed to try to increase their influence over government policy vis-a-vis Allende, appear to be opposing the President's hope of returning some industries to their owners. The Communist-dominated Chilean Trade Union Confederation, however, is concerned that MIR-organized "people's power" groups are undercutting its influence in the factories and it appears to be looking for a middle ground.

The Communists, Socialists, and the MIR may hold Allende personally responsible for the carabineros' use of force against the workers. The incident will not help the President in his effort to convince the Popular Unity parties to support an easing of tensions by talks with the opposition Christian Democrats.

[REDACTED]

[REDACTED]

SPAIN: The new Foreign Minister, Lopez Rodo, has already begun to define Madrid's terms for renewal of the agreement of friendship and cooperation with the US. The agreement permits the US to use several military bases constructed on Spanish soil under the terms of the original 1953 pact.

Although the agreement does not come up for renewal until 1975, the Spaniards want to start negotiations early to avoid the last-minute rush to settle terms that characterized previous renewals. Lopez Rodo told Secretary Rogers in Helsinki and the US ambassador in Madrid that he wants to discuss the negotiations when he comes to the UN in October. He stressed that, instead of another agreement, Spain wants a formal treaty which would broaden the areas of cooperation.

In more categorical terms than he used with the Secretary, Lopez Rodo told the ambassador that the US could stay in the naval base at Rota only if the Gibraltar question were settled. There is no justification, he argued, for two bases in the area. The Foreign Minister urged the US to use its good offices to change the intransigent stand of the British against returning Gibraltar to Spain.

Since 1963, Spain has conducted an often vigorous campaign to wrest Gibraltar from the British. Madrid succeeded in getting a UN resolution directing Spain and the UK to negotiate the matter, and another resolution calling on the UK to terminate its occupation of Gibraltar by 1969. Spain has tried to negotiate, resorted to harassment of UK communications with Gibraltar, and cut off direct access from the Spanish mainland. London has ignored the UN resolution to get out, and the numerous meetings between the foreign ministers have failed because of UK insistence that it cannot give up the island without the consent of the inhabitants. The latest series of talks broke off in May when, according to Lopez Rodo, the British bluntly told the Spaniards that they might as well get used to a separate Gibraltar. [REDACTED]

21 Jul 73

Central Intelligence Bulletin

6

25X1

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ALGERIA: A recent \$50-million loan from Japanese banks is the latest installment in a surge of foreign borrowing by President Boumedienne. So far this year, Algeria has borrowed \$1.6 billion, five times last year's total. The increased borrowing is intended primarily to finance the 1974-77 plan, which calls for investment of \$11.5 billion. The new loans, having a grace period, also will help Algeria service its large foreign debt; annual repayments during the next several years amount to roughly one fifth of the country's foreign exchange earnings.

All of Algeria's loans this year have come from non-Communist countries. A \$557-million US loan in March, the largest single credit, is for development of Algerian natural gas, most of which will be supplied to the US. Many of the loans are for the acquisition of advanced technology and equipment--in line with Boumedienne's desire to stimulate industrial development. Other large lenders are Japan, Canada, West Germany, the UK, and some Arab countries. The increased credits in turn will stimulate Algerian trade with non-Communist countries, including the US. [REDACTED]

21 Jul 73

Central Intelligence Bulletin

8

JAPAN: Prices continue to rise despite progressive tightening of monetary controls and the postponement of spending on some public works. The wholesale price index for the first ten days of July was nearly 15 percent higher than a year ago. Limiting the availability and raising the cost of bank credit have not yielded the desired spending slowdown because businesses have been able to finance an exceptionally large amount of investment from their internal funds. The government is pressing firms to scale down their investment plans.

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21 Jul 73

Central Intelligence Bulletin

9

FOR THE RECORD*



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Cambodia: Sihanouk left Peking by train yesterday for a three-week visit to North Korea. He was accompanied by members of his family and by his pro-Communist "minister of economy and finance." [redacted]

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Thailand: The government has revalued the baht upward by 3.8 percent, the first adjustment in the dollar-baht exchange rate since 1963. Bangkok hopes that the new rate will help ease pressure on the domestic price level. The new rate, however, will not satisfy many critics who, placing a large part of the blame for rising domestic prices on the dollar crisis, have urged a revaluation of at least 10 percent. [redacted]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

21 Jul 73

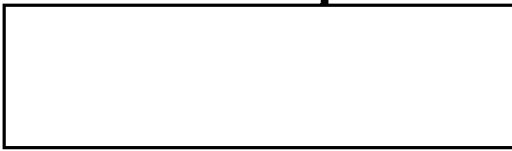
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10

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