

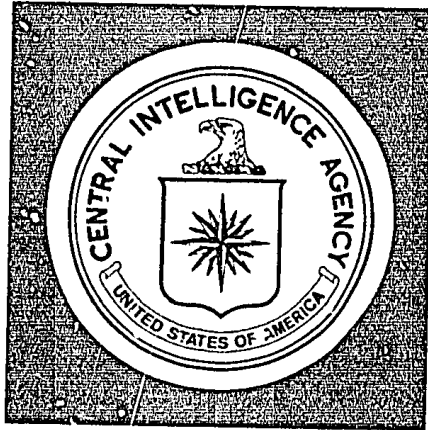
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# Weekly Review



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19 July 1974

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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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# CYPRUS

## AFTER THE COUP

The ouster of Archbishop Makarios by the Greek-led Cypriot National Guard on June 15 has touched off intensive diplomatic consultations and raised the real possibility of Turkish military intervention in the island state. The Turkish government publicly professes to believe that the Greek junta instigated the coup to bring about enosis, the union of Cyprus with Greece, and finds the new government of Nicos Sampson totally unacceptable. The Soviet Union also strongly opposes the take-over, and it is likely to press for the return of Makarios to power.

Makarios' escape from the presidential palace complicated the task of consolidating the new government, despite the fact that the National Guard has succeeded in establishing control of the island. Makarios, who got out of Cyprus with British assistance, wants to bring his case before the UN in an effort to gain broad international support for his position as the legitimate leader of Cyprus. Before traveling to New York, Makarios held talks in London with British leaders, who reportedly agreed to the Archbishop's request that London refuse to recognize the Sampson government.

London was also the scene this week of talks between Prime Minister Wilson and Turkish Prime Minister Ecevit. Ecevit is apparently exploring all possibilities for either a peaceful resolution or for joint action with the British to restore the status quo on Cyprus. Under a 1960 treaty, Britain, Turkey, and Greece are guarantors of the independence of Cyprus. Prior to the prime ministers' meeting, some Turkish diplomats had indicated their belief that London was inclined to accept the situation as it was evolving. If so, under the terms of the treaty Turkey would be free to act unilaterally; there are indications that they are resolved to do so, and that they are preparing militarily. Parliament was called into session on July 18 and was asked to give blanket approval for Ecevit's policies.

While the Prime Minister has been consulting and waiting for the situation on Cyprus to clarify,

Turkish armed forces have been preparing for a possible air and sea assault across the 50 miles of ocean between the southern coast of Turkey and Cyprus. Ground forces have been moved to the southern port of Mersin, and ships that could be used to transport them to Cyprus are in the area. On July 18, there were reports that a regiment-sized unit was boarding amphibious ships at a staging area west of Mersin. In addition, air force units at four Turkish airfields are on alert. The US defense attache in Ankara reports that fighter aircraft at two airfields west of Ankara—Eskisehir and Balikesir—have been armed with general-purpose bombs, air-to-air missiles, and air-to-ground missiles. A fighter bomber squadron, which was moved to Incirlik the day after the coup, is also armed with bombs and missiles.

Although the armed forces of both Greece and Turkey have been in a general state of readiness as a result of the recent dispute over the Aegean seabed, there is no evidence of unusual activity or war preparations by the Greeks. The Greek army is, however, going ahead with a scheduled "rotation" of part of its 950-man force on Cyprus. Although Athens has denied the charge, the Turks have accused the Greeks of using the rotation as a cover to strengthen their forces on the island. In spite of the overwhelming majority of Greek Cypriots over Turkish Cypriots, and the presence of the 10,000-man Greek-led National Guard, the close proximity of the Turkish mainland would give the Turks the advantage in the event of hostilities.

On Cyprus itself, the new Sampson government is trying to convey the feeling that it is in complete control. It has lifted the daylight curfew imposed when it first took over, although the nighttime restrictions remain in force. The new government is also seeking to reassure the Turkish Cypriot leadership. In a conversation on July 17 with newly installed Foreign Minister Dimitriou, a US official was told that the Sampson government will not attempt to achieve enosis and will welcome the continued existence of British bases on the island. Despite this seemingly moderate approach, Sampson is widely remembered as a

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guerrilla assassin of both British subjects and Turkish Cypriots in the period prior to independence, and has since then been a right-wing champion of enosis. As such, he remains totally unacceptable to both Turkish Cypriots and Ankara.

If Sampson is unable to consolidate his position—and there is growing talk of a possible compromise replacement because of the strong international reaction to the coup—it could seriously weaken the position of the Greek strongman, General Ioannidis.

[redacted] sponsoring the action on Cyprus was a gamble with the fate of his own government. Because of this, he reportedly kept his intentions from all but a handful of supporters, and carefully watched his own military units during the action. For the moment, Ioannidis seems to have won his gamble, but complications—particularly a Turkish invasion—could reverse this.

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**SOVIET REACTION**

On July 17, Moscow issued an official statement which reiterated support for Cyprus' independence, called for international support for Archbishop Makarios, and condemned Greek interference. The statement, however, was moderate in tone, avoiding threats or any assertions that the USSR sees its security affected by developments on the island.

The statement does not commit the Soviet Union to active assistance for any movement to return Makarios to power, although Moscow's initial comment on the coup had suggested that the USSR was holding such a course open.

It seems unlikely, however, that the Soviets have made a firm commitment of military backing to the Turks.

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Soviet tactics and Chinese intentions remain largely unclear. The Soviets supported the Cypriot demands at the Security Council meeting on July 16 and urged the council to take decisive steps to end the armed interference in Cyprus. The Chinese did not speak at the meeting and appear to have remained in the background in the discussions regarding the proposed resolutions.

#### DEVELOPMENTS AT THE UN

The Security Council took up the Cyprus issue on July 16. Secretary General Waldheim presented a brief report on the situation and explained his actions in granting Makarios "UN protection." He added that the mandate of the UN force on Cyprus did not allow it to intervene until continued violence ran the risk of involving the Turkish community. Despite the demands of the Cypriot representative for a resolution calling for a cease-fire and for withdrawal of all Greek National Guard officers from the island, the Council meeting ended inconclusively and no resolutions were tabled.

While awaiting the arrival of Makarios to address the Security Council—perhaps on July 19—UN activity has centered on informal discussions of draft resolutions. Makarios has already declared that the final resolution must provide for recognition of himself as the legitimate head of government, withdrawal of all Greek National Guard officers, and a pledge by Athens not to recognize the Sampson government. The British are circulating a compromise resolution that provides for the withdrawal of the Greek officers but only obliquely recognizes Makarios' legitimacy.

The legal and political consequences of recognizing Makarios as the legitimate head of state, meanwhile, continue to cause concern. The non-aligned members of the Council originally took the lead in drawing up a proposal that pointedly avoided the question of Makarios' legitimacy and called only for largely noncontroversial actions by the concerned states, but there were later indications that they intend to take a more active role in supporting Cyprus, one of the original members of the nonaligned movement.

#### THE ATTITUDE OF THE WESTERN ALLIES

In Western Europe, virtually all reaction to the coup stressed the strategic importance of the island. Condemnation of Greece was almost universal and popular feeling generally favored a restoration of Makarios. At the same time, there is little taste for military intervention and a preference for solutions being worked out through NATO and the UN.

Britain, with its special responsibilities for Cyprus, is playing a major role in efforts to find a solution. After providing Makarios with refuge at one of the British bases in Cyprus, the British transported him to Malta and London and have repeatedly referred to him as the legitimate leader of Cyprus. Both Prime Minister Wilson and Foreign Secretary Callaghan have met with the Archbishop and have assured him of their support.

Faced with a crisis between two of its NATO allies, who—like Britain—are also guarantors of Cyprus' independence, London has decided to take a hard line toward Athens. The Wilson government, with strong parliamentary support, has sent a demarche to Athens calling on it to replace the Greek officers serving in Cyprus.

The NATO allies have held three special sessions to consider possible steps to ease the crisis. Most members were highly critical of Greece and endorsed London's suggestion to replace the Greek officers now with the Cypriot National Guard and expressed support for the regime of Archbishop Makarios. The allies also called on Greece to consult fully both in the council and under the 1960 Cyprus agreements.

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## PORTUGAL

### A NEW CABINET

The installation on July 19 of a new cabinet headed by Colonel Vasco Goncalves as Prime Minister has ended the political crisis that erupted ten days ago following the resignation of prime minister Palma Carlos and four other centrists and the subsequent dismissal of the rest of his cabinet. The most striking characteristic of the new cabinet is the increased prominence of the organizers of the April coup. Although clearly in control since then, they have preferred to avoid the limelight. The political coloration of several ministers is not yet known. The changes, however, appear to have been made to ensure that the major aims of the Armed Forces Movement—to restore democracy and end the wars in Africa—are carried out.

Although the new cabinet contains a majority of civilians drawn from the parties represented in its predecessor, the military make up the largest unified group. The seven officers in the cabinet, including the Prime Minister, are drawn mostly from the Armed Forces Movement, which engineered the coup. In addition to getting two ministers without portfolio, the military took over the key ministries of interior, information, and labor. They retained the Defense Ministry, which will continue to be occupied by Colonel Mario Miguel, who was President Spinola's original choice for prime minister.

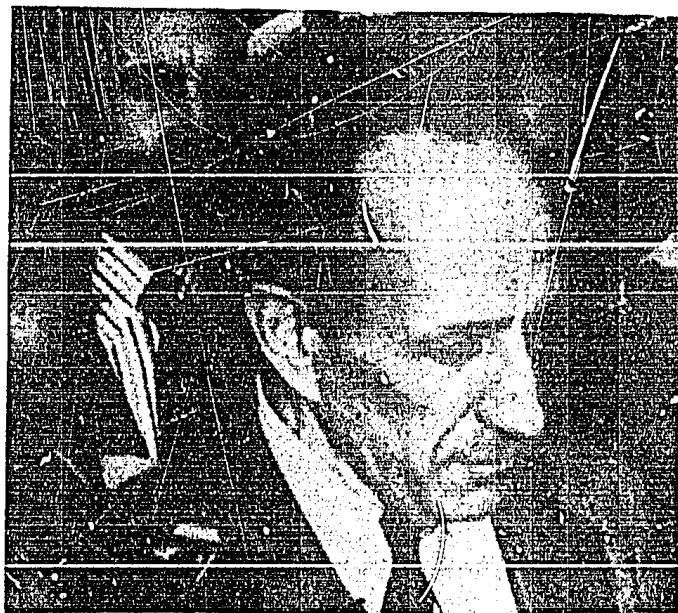
The Communists do not seem to have been especially favored in the cabinet reshuffle. Unless they gained some of the three ministries filled by appointees whose political coloration is not yet known, the Communists may have suffered a real loss. They did not retain the Labor Ministry, nor did they gain the interior and information ministries, as they would have liked. Their leader, Alvaro Cunhal, did retain his position as a minister without portfolio.

The Socialists have the greatest number of holdovers. Mario Soares, the Socialist Party secretary general, stayed on as foreign minister, and party loyalists held on to the justice and inter-

territorial-relations portfolios. The centrists have only one carry-over, Joaquin Magalhaes Mota, who moved from interior to minister without portfolio. Two centrist economists will head the separate ministries of finance and economy.

Perhaps as a result of the outgoing cabinet's difficulties in controlling labor unrest, President Spinola and his military advisers have taken additional steps to maintain control. A decree issued last week established a Continental Operations Command empowered to intervene directly in the maintenance and re-establishment of order when normal police forces are inadequate. Although the command will be directed by General Francisco da Costa Gomes, chief of the armed forces General Staff and a close supporter of General Spinola, the Armed Forces Movement will be able to keep close tabs on the new command through Otelo de Carvalho, one of the leaders of the Movement who was appointed deputy chief of the new group and also made commander of the Lisbon Military District.

Now that members of the Armed Forces Movement are assuming more prominent roles in the government, their political orientation will be-



Premier Vasco Goncalves

come clearer. From the time the group was organized several years ago as the "captains' movement," a minority of these officers has been reported to have leftist leanings. The main orientation of the Movement, however, is considered to have been reformist and nationalist, and these ideas likely still predominate, although it is possible that leftists may be making some inroads.

#### THE AFRICAN TERRITORIES

Spinola's political problems had little impact on the African territories, as the new government will reiterate Lisbon's commitment to self-determination for the territories. In Portuguese Guinea, a final agreement between Portugal and the rebels is apparently at hand. An upsurge in rebel activity in Mozambique and racial disturbances in Angola, however, have provided Lisbon with new reminders that its authority in those territories is eroding.

Despite the month-long suspension of talks between Lisbon and the rebels in Portuguese Guinea, as well as other outward signs of an impasse in negotiations, evidence is accumulating that Lisbon secretly offered major concessions to the insurgents before Spinola dismissed his cabinet last week. Portuguese officials, including Foreign Minister Soares and the governor of the territory, apparently were confident that the rebels would accept the concessions and that an agreement could be announced in the near future. Changes in the Portuguese government are not likely to affect adversely any pending agreement, although formal announcement could be delayed. An agreement probably would be based on Lisbon's recognition of the rebels' "Republic of Guinea-Bissau" in exchange for the rebels' agreement that the Cape Verde Islands be treated as a separate issue. The rebels have long claimed to represent the islands, while Lisbon wants to retain them because of their strategic value.

In Mozambique, the cease-fire negotiations were stalled before the cabinet crisis. Soares

claimed that secret talks were taking place, but this seems unlikely in view of a sudden increase in guerrilla activity during the past week, clearly designed to press Lisbon at a time of political uncertainty. Last week, the rebels opened a new front in Zambezia District in central Mozambique near the Malawi border, an area where they have not been active since the late 1960s. The rebels also increased their attacks on transportation lines to the Cabora Bassa hydroelectric project, a major rebel target for several years.

In Angola, Lisbon faces more problems from the local population than it does from the insurgents, who remain as divided as ever. The murder of a white taxi driver in Luanda last week sparked a number of racial clashes and demonstrations. Authorities eventually restored order but not before some 30 persons had been killed. Scattered incidents of looting and vandalism continued to be reported at week's end. A special mission has arrived from Lisbon to investigate the disturbances.

The clashes were instigated by vengeful white taxi drivers, who are well-armed, quick on the trigger, and notoriously anti-black. Some local officials suspect that black counter-demonstrations were spurred by agitators supporting the insurgent Popular Movement for the Liberation of Angola.

Angolans, both black and white, seem more uncertain about their future relationship with Lisbon than do people in Portuguese Guinea and Mozambique, where it is widely assumed that accommodation with insurgents and subsequent independence is only a matter of time. The absence of talks with the Angolan insurgents, together with Lisbon's failure to show support for increased local autonomy is enough to make many Angolans fear—unrealistically—that Lisbon has no intention of loosening its grip on the territory.

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## FRANCE: GISCARD'S FOREIGN POLICY

Foreign policy, overshadowed until recently by pressing domestic problems, may receive more attention now that France has assumed the EC presidency for the next six months. President Giscard emphasizes that his foreign policy will not differ markedly from that of his Gaullist predecessors. There has already been a lessening of tensions in Atlantic relations, however, and this has led Atlanticists and Europeanists alike to look to Paris for increased flexibility.

Giscard has made it clear that relations with the EC will take precedence in French foreign policy. France has reaffirmed the objective of European union by 1980, and Prime Minister Chirac has already promised an early French initiative to achieve this goal. Some of the measures possibly under consideration by the Quai are:

- Strengthening the EC parliament, with the possibility of direct elections.
- Establishment of an EC political secretariat, presumably in Paris.
- Creation of an embryonic "European executive" through periodic, institutionalized EC summits.

Giscard hopes to convene an EC summit later this year, by which time France and Italy are expected to have stabilized their economies and the UK will have held its anticipated election.

Relations with Germany will be a key factor in Giscard's European equation. Giscard and Chancellor Schmidt have already met twice since taking over their respective governments. Their meetings have concentrated largely on economic issues, and they have reportedly pledged to develop "parallel" policies to promote economic stability within the EC.

Energy policy remains of paramount importance to Giscard. There are signs that France

wants to participate in the follow-up activities to the Washington Energy Conference, and that it would like this to take place in the framework of the Organization of Economic Cooperation and Development.

Giscard and other French officials have indicated that they will try to improve relations with the US. Although the atmosphere has warmed perceptibly, Foreign Minister Sauvagnargues has privately urged the US to avoid public statements concerning improvements in French-US relations, which could alienate the Gaullists upon whom Giscard depends for his parliamentary majority. The US embassy in Paris, though optimistic about the possibility of better relations, warns that major differences will remain. As reasons, the embassy cites French opposition to links between the US and the EC, as well as French suspicion of US-Soviet detente and their insistence on independence of action in dealing with the Arabs.

Relations with NATO seem likely to improve. The French ambassador to NATO reportedly believes that Giscard favors Atlantic cooperation and will follow a policy of slow improvement in relations with NATO. The ambassador pointed out, however, that Chirac will do everything in his power to ensure that the rapprochement is a very gradual one that will not damage his aspirations to become leader of the Gaullists.

French relations with the USSR will continue on a reasonably steady course, but the "special" nature of French-Soviet political contacts has lost its luster. The emphasis will increasingly be on economic exchanges and industrial cooperation. Numerous sources of friction remain, however, and in mid-July the French minister of economics and finance warned Moscow that its recent price hike on raw materials may block development of trade between the two countries. Another sour note has been sounded by reports that Michel Poniatowski, Giscard's outspokenly anti-Communist minister of the interior, wants to reduce the Soviet diplomatic presence in France.

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### DUTCH EQUIVOCATE ON DEFENSE POLICY

The Dutch government is attempting to appease domestic critics who are demanding a reduction in the defense budget by hinting that it is prepared to re-examine The Hague's commitment to its Western allies to retain current troop levels if the MBFR negotiations break down. In recent interviews, both Prime Minister den Uyl and Defense Minister Vredeling have made it clear that the Dutch will feel free to cut their troop levels if the force reduction talks collapse.

In response to queries from their NATO allies, however, the Dutch have been more equivocal and have tried to avoid being pinned down on the course of action they intend to pursue if the MBFR talks fail. The original Dutch defense white paper, submitted to NATO for consultation on May 21, simply outlined projected force reductions. The draft ten-year plan would significantly decrease the number of active battalions in the Dutch army and reduce air force and naval strength. The plan also calls for the replacement of 102 F-104s.

The reaction of the Netherlands' NATO partners to the original white paper was quick and sharp. Their major objection centered on the proposed reductions in the armed forces. The Belgian representative, describing the plan as "disastrous," said that it would increase the defense burdens of the other allies, violate Dutch defense commitments to NATO, and could lead to similar actions by other members.

In response to this strong criticism, Dutch NATO Representative Hartogh gave assurances that the Netherlands intended to link the reductions to a successful conclusion of the MBFR talks. He further clarified the Dutch position in a statement on June 24, in which he told the alliance's Defense Planning Committee that the ready strength of the Dutch army would not be reduced as long as the negotiations were still going on and had not achieved "desirable results."

Den Uyl and Vredeling, both political pragmatists, have been forced to walk a narrow path

between the three leftist parties in the coalition, who are pledged to reduce defense spending, and the two pro-NATO coalition parties, who have threatened to leave the government if a defense plan satisfactory to NATO cannot be worked out.

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### SPAIN: FRANCO'S HEALTH

General Franco apparently has responded favorably to treatment for phlebitis and will probably leave the hospital within a few days. There is no evidence that he was hospitalized for other reasons, although phlebitis frequently indicates the existence of a more serious health problem. Even if there is one, however, it would not necessarily mean that Franco's ability to govern would be immediately affected.

The security alert that went into effect when Franco entered the hospital on July 9 was lifted after only three days, providing further confirmation that the government has not considered Franco's recovery to be in question. Throughout his confinement, Franco has received a steady stream of high-ranking visitors, leaving no question that he remains firmly in control.

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Juan Carlos assumed some formal duties of the head of state, however, by standing in for Franco at ceremonies on July 18 marking the 33th anniversary of the start of the civil war.

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### WESTERN EUROPE: LABOR UNITY

The European Trade Union Confederation decided last week to admit the Communist-dominated Italian federation to membership. The move breaks a 25-year-old ban on Communist participation in West European regional trade union affairs. It also means that virtually all major factions of organized labor in Western Europe are now represented in a single confederation.

A favorable decision on the Italian application had been building for some months. It received a decisive boost when the Italians moved away from total adherence to the pro-Soviet World Federation of Trade Unions, claiming to hold only "associate" membership.

Separate consideration of the Communist-dominated federation of France also helped the Italians. In early 1973, members of the European Confederation felt that admitting Italy would commit them to accepting the French also, a move they were reluctant to take. The French federation is less acceptable because it has historically been more responsive to Soviet direction and takes a less favorable stand on the EC. In addition, the relative unity of the Italian labor movement contrasts sharply with the divisions on the French labor scene.

The 17-month-old confederation has devoted much of its time to organizational questions and has been relatively ineffective as a pressure group. Now that the key membership issues have been decided, however, active programs may be in prospect. Proponents of a regional labor organization of Western Europe have had their eye on a number of possibilities, including coordinated efforts to win concessions from multinational corporations, and lobbying for labor interests in the EC, especially on social policy.

Concern for the protection of migrant workers, who are being threatened as a number of governments take steps to safeguard the employ-

ment of their nationals, has also been evident among those fostering the regional labor grouping. Organized labor in countries where migrants are numerous, however, may be reluctant to press for effective action

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### ICELAND: COALITION PROSPECTS

The conservative Independence Party seems to be having difficulty putting together a coalition, despite the relatively strong mandate the party received in the election last month. Party chairman Gier Hallgrimsson, named formateur on July 5, was expected to take several weeks to form a new government, presumably with the Progressives, the main partner of the outgoing three-party, center-left coalition. Developments have been slow, however, and recent reports suggest that the conservatives are less optimistic now than they were immediately following the election.

The Progressives, the second largest party in parliament, probably would be asked to form a government if Hallgrimsson fails. Such a move would have an adverse effect on negotiations to retain the US-manned NATO base at Keflavik.

Nevertheless, Hallgrimsson's position remains basically strong, and he apparently intends to continue to try to form a government despite the handicaps he faces. His party won more seats in the last election than at any time since World War II. Furthermore, the stand taken by the Independence Party in favor of retaining the US-manned NATO base in pretty much its present form was approved by more than 50,000 citizens who signed a pro-base petition earlier this year. Hallgrimsson has recently tried to shift public attention away from the defense issue, however, and he is now concentrating on Iceland's pressing economic problems. He blames the former government for the soaring inflation which is running at an annual rate of about 45 percent

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Ceausescu and Tito meet in 1972

### BALKAN MAVERICKS MEET

President Tito's visit to Romania from July 8 to 11 refurbished the image of good relations between Belgrade and Bucharest and allowed the two leaders to narrow some areas of disagreement.

At the time of the Arab-Israeli war last October, for example, Yugoslavia backed the Arab cause without reservation, while Romania maintained full diplomatic and economic ties with both Israel and the principal Arab antagonists. In the communique, Tito and Ceausescu called for Israel's withdrawal from all occupied Arab territory, but also urged that the sovereignty and integrity of all states in the region be protected.

The communique toned down Yugoslav irritation over Romania's efforts to play a greater role in the Third World. In addition, the two leaders praised nonalignment as "an important factor in the struggle against imperialism and hegemonism." They also smoothed over their differences about Balkan cooperation by returning to their earlier position that the countries in the region should conduct their relations without outside interference, particularly by the great powers. The two leaders devoted particular attention to the sensitive problem of minorities. Ceausescu, in effect, lined up on the side of Tito in Yugoslavia's feud with Bulgaria over the Macedonian problem.

The communique expressed satisfaction with the development of bilateral party relations based

on the principles of "independence, equality, noninterference, and responsibility of each party to its working class." The two sides pledged to work for greater unity among all parties—presumably including the Chinese—on the basis of these principles. The only state-to-state agreement signed, however, was a long-range economic, technical, and scientific accord. All the same, the 12th meeting between Tito and Ceausescu in nine years appears to have gone better than expected. [redacted]

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### BULGARIA: LEADERSHIP CHANGES

Recent personnel shifts in the party and state hierarchy are designed to strengthen the hand of hard liners who fear detente and to improve the performance of the economy.

The party changes, announced at a Central Committee plenum on July 3, include the promotion of two members of the Secretariat to concurrent full membership on the Politburo and the naming of four new candidate Politburo members. Three candidate members were removed. The chief gainers are Aleksandur Lilov, the party's ideological watchdog, and Georgi Filinov, an expert economist and planner.

Lilov's promotion confirms his status as a very promising comer. He also was the spokesman for Bulgaria's stringent ideological guidelines for detente.

The most important of the new candidate-members are Minister of Defense Dzhurov, and 38-year-old Foreign Minister Mladenov, who is the youngest member of the leadership. The other new candidate-members are the party first secretaries in Varna and Plovdiv.

The major loser in the party is 44-year-old Ivan Abadzhiev, who had risen rapidly in recent years to become the third-ranking man in the party hierarchy. Abadzhiev may have been the target of Lilov's accusation in February that there was ideological weakness in the party itself and that some people "even in high positions" did not understand what detente was all about. [redacted]

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### USSR: DEFENSE SPENDING RISES

Soviet defense spending grew by more than 5 percent in 1973, following a period of little change between 1970 and 1972.

Based on projections of future Soviet forces, an increase of roughly the same size should occur in both 1974 and 1975. Such growth is substantially above the long-run annual rate of increase, which has averaged less than 3 percent since 1960.

Soviet defense expenditures (not including "civilian" space programs) are estimated at about 25.5 billion rubles for 1974. The estimated equivalent dollar cost of the 1974 Soviet defense effort—what it would cost to purchase and operate Soviet military forces in the US—is approximately \$93 billion.

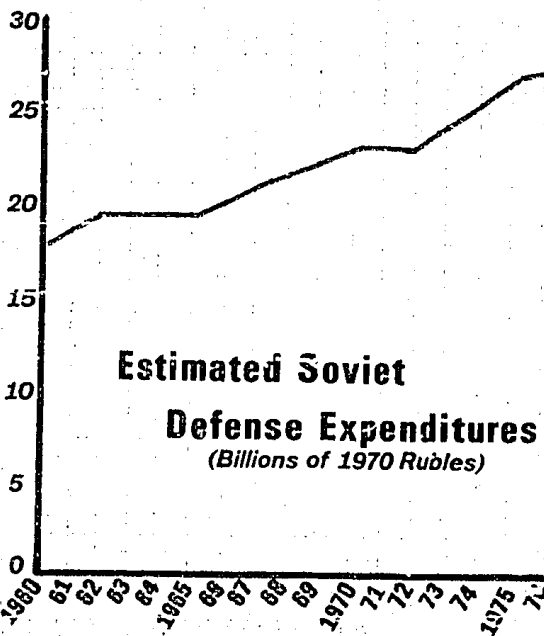
The increase in spending from 23.1 billion rubles in 1972 to 26.8 billion rubles in 1975 is due primarily to the extensive modernization of the Strategic Rocket Forces. The Soviets are replacing a large portion of the SS-11 force. In

addition, over the next several years the Soviets are expected to begin replacing the SS 9s, the rest of the SS-11s, and the SS-13s with new ICBMs.

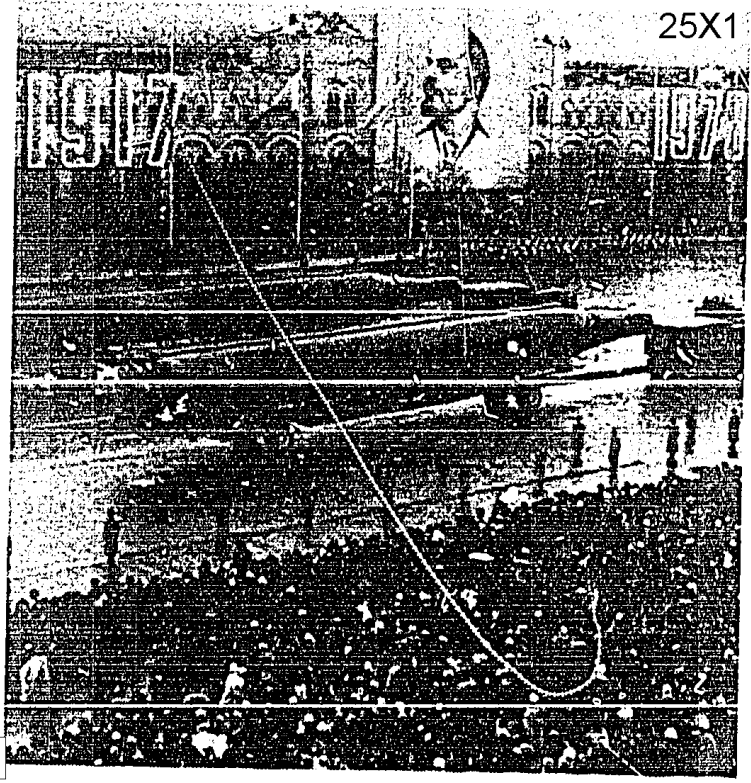
These programs will triple expenditures for new weapons for the Strategic Rocket Forces in 1974 over those of 1972, and spending on these forces probably will remain high throughout the decade.

Although the present growth in spending is striking, the general pattern since 1970 is consistent with past cycles of Soviet defense outlays. For example, Soviet defense expenditures grew rapidly in the second half of the 1960s when the SS-9 and SS-11 systems were being fielded. Total defense spending then stabilized in 1970-72 with the completion of these programs, despite a rapid expansion in research and development for the follow-on missile systems.

Total expenditures are expected to level off again in 1976 at about 7 percent higher than at present. For the 1970s as a whole, estimated defense expenditures are expected to grow at about the long-run historical average.



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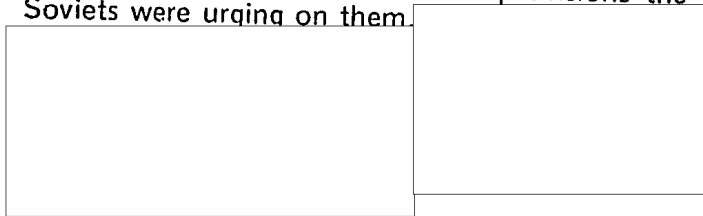
**USSR-SOMALIA: FRIENDSHIP TREATY?**

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Soviet President Podgorny's visit to Somalia last week was capped by the signing of a treaty of friendship and cooperation on July 11, but some last-minute snags suggest that the two countries still have important differences.

A Soviet official in Mogadiscio said that the accord will not be published until "after ratification." This is not the usual Soviet practice; similar treaties with Egypt, Iraq, and India were published immediately after they were signed.

It is possible that the Somalis, who have been resisting Soviet pressure for a treaty for several years, objected to certain provisions the Soviets were urging on them.



Since the communique issued at the end of the visit failed to mention military aid or defense cooperation, the problem in the treaty negotiations may have involved Somali demands for a stronger Soviet commitment in these fields. The Somalis may have been upset by Moscow's refusal to provide even indirect support for Somali irredentist claims to Ethiopian territory.

The Soviets must be chagrined that Somali President Siad praised China at the treaty-signing ceremony. Siad's gesture of independence may have been aimed at placating not only tribal leaders but those members of the Supreme Revolutionary Council who have been disturbed by the extent of Somalia's dependence on the USSR.

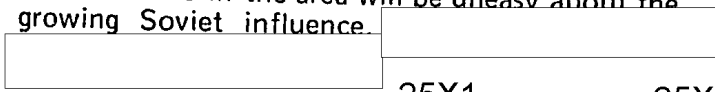
The Somalis apparently decided that their heavy dependence on Soviet military and economic aid makes closer ties with Moscow necessary. Strong ties to Moscow also complement Siad's internal policy of "scientific socialism," emphasizing increased state control of the economy.

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The treaty does represent a substantial net gain for the Soviets, even if Moscow does not obtain any significant new military concessions. It places bilateral relations on a more formal footing and brings Somalia into the circle of countries bound in some fashion to the USSR.

The Soviets tried to reassure Mogadiscio's neighbors—particularly Ethiopia—about its role in the Middle East - Indian Ocean region, by saying that the treaty was not aimed at third parties. The Ethiopians are nevertheless sure to see the accord as portending a more aggressive Somalia, and other nations in the area will be uneasy about the growing Soviet influence.



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## EGYPT-USSR

## FAHMI VISIT OFF

Moscow's last-minute postponement of the visit of Egyptian Foreign Minister Fahmi appears to be a deliberate Soviet rebuff to President Sadat and an attempt to increase the pressure on him to adopt policies more favorable to Moscow.

Only days before Fahmi's scheduled arrival in Moscow on July 15, Brezhnev abruptly asked that the visit be put off to October. In an urgent letter to Sadat, the party boss claimed that "circumstances" prevented adequate preparations.

The Soviets cancelled several other foreign visits originally set for mid-July, with the excuse that Brezhnev and the other leaders had a crowded schedule. Brezhnev, however, did find time to receive the French foreign minister during his July 11-13 visit. Moreover, the Brezhnev letter that called off the Fahmi trip suggested that he come to Moscow in October; clearly the Soviets are not completely booked up for over two months.

seems more likely, however, that Moscow recently decided to play tougher with Cairo in the expectation that Sadat will be weakened domestically when it becomes clear that Egyptian military forces have no alternative to the USSR for equipment. If this is the case, then the question arises whether the Soviets are now committed to an unyielding anti-Sadat policy.

The Soviet rebuff has caused some consternation in Cairo, both for its implications for the status of Egyptian-Soviet relations and for its effects on Sadat's standing among other Arabs.

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*THE POSTPONEMENT HAS CAUSED SOME CONSTERNATION IN CAIRO, BOTH FOR ITS IMPLICATIONS FOR THE STATUS OF EGYPTIAN-SOVIET RELATIONS AND FOR ITS EFFECTS ON SADAT'S STANDING AMONG OTHER ARABS.*

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The Egyptians have made no secret of their surprise over the Soviet move [redacted]

[redacted] They interpret the postponement as a deliberate effort to discipline Cairo publicly and to create problems for it in the Arab world.

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During the month or so before the postponement, Soviet-Egyptian relations had warmed somewhat. Both sides had apparently been viewing the Fahmi visit as an opportunity to discuss military aid and a Soviet-Egyptian summit.

The last-minute postponement may have been triggered by Soviet unwillingness to make hard decisions on resuming military aid—which has been suspended for more than three months—and on the venue of a Brezhnev-Sadat meeting. It

Sadat is undoubtedly puzzled by the Soviet move. He still considers himself the aggrieved party in the Cairo-Moscow argument that began early this year with public Soviet criticism of Egypt's closer ties with the US and ended in April—after Sadat's own counterattacks—with Moscow's suspension of arms deliveries. Since April, Sadat has made a conscious effort to restore a degree of amicability to the relationship. Although lacking the warmth that has characterized Egyptian comments on the US, Cairo's statements on the Soviets have been polite and friendly, set in a tone designed to reassure Moscow that close relations with the US do not signify a severance of relations with the USSR.

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The Egyptians genuinely desire at least a semblance of balance in their relations with the two super powers. Sadat and his advisers, who are often more pragmatic and less impulsive than Sadat himself, undoubtedly see some danger in continued estrangement from the Soviets. Not only does this reduce Egypt's maneuverability among the other Arabs, but an Egypt solely in the US camp could appear to Israel as too tame to warrant further serious moves toward peace negotiations. More fundamentally, Sadat is undoubtedly beginning to feel the pressure from Egypt's military establishment; although by no means happy with past Soviet tutelage, the military is nevertheless dependent for its continued effective operation on a flow of spare parts.

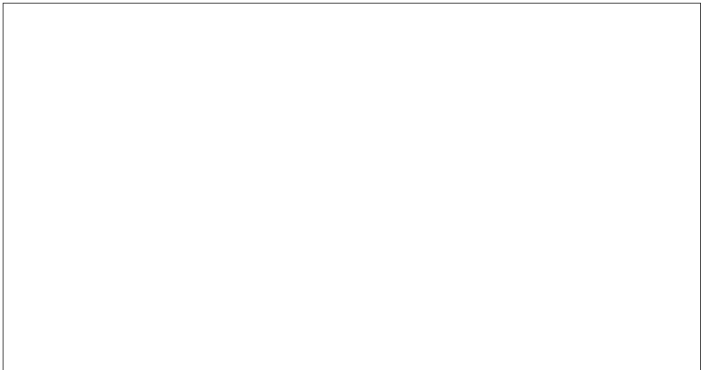
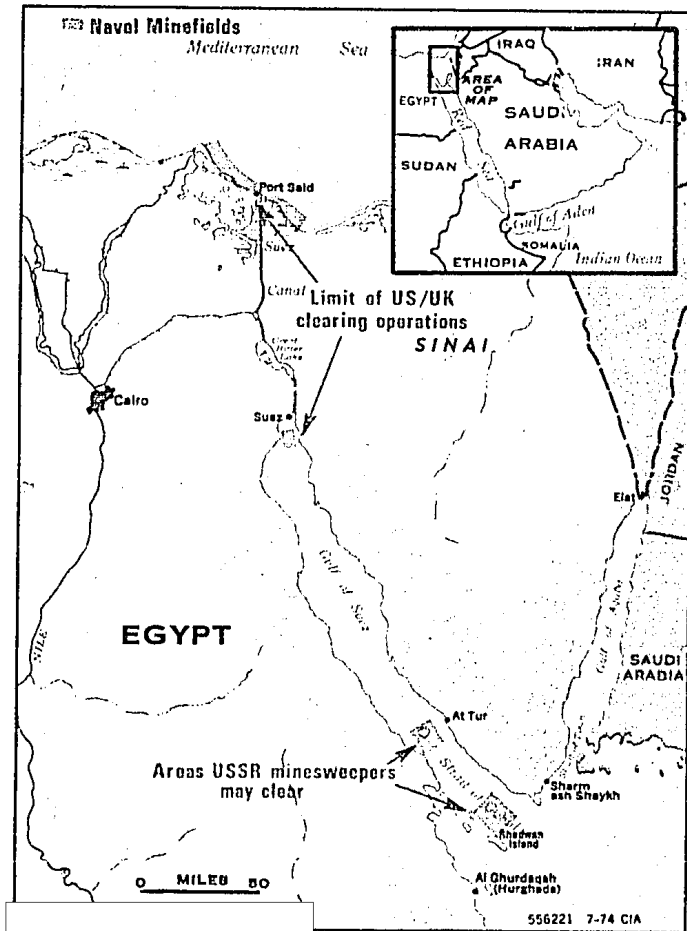
The Egyptians have not yet decided how to handle the Soviet rebuff. In private, Egyptian officials speak angrily of a strong response, hinting that Sadat may use his Revolution Day speech on July 23 to lash out again at Moscow and may even terminate Soviet use of Egyptian naval facilities. For the present, however, Cairo's public reaction is unruffled. Sadat and Foreign Minister Fahmi recently told Danish newsmen that the postponement does not indicate a conflict between the two countries, and that the Egyptians would do "everything we can" to prevent a crisis in relations.

**MINE-CLEARING TO BEGIN**

The group of eleven Soviet mine-clearing ships entered Hurghada on July 14. The group will remain a few days at the Egyptian port preparing for operations in the Strait of Gubal and the southern Gulf of Suez. The Soviets have stated that the work will be completed by August 15; there should be no trouble meeting the schedule.

Two fields of moored acoustic mines, manufactured by the Soviets and laid by the Egyptians, are to be cleared. Egyptian minesweepers have already opened a channel and are escorting ships through. A heavy lifting ship with the group and two floating cranes—apparently waiting out bad weather in Colombo, Sri Lanka—will give the group a salvage capability, although the Soviets are not now expected to do such work.

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**EGYPT: MANEUVERING AMONG THE ARABS**

Egypt has again begun to fear that it is becoming isolated from other Arab states. President Sadat is engaged in a concerted attempt to mend fences and to forestall efforts by radicals to undermine peace negotiations. At the same time, he is continuing to try to promote a rapprochement between Jordan and the Palestinians, whose conflicting positions pose the greatest hindrance to further negotiating progress.

Induced partially by Cairo's new difficulties with the USSR, which Sadat views as a deliberate effort by Moscow to embarrass him before the other Arabs, the Egyptian fears are also the result simply of the lull in negotiations. With no momentum at present, Sadat is concerned that his Arab opponents will use the lull, as they did some months ago when progress toward a Syrian-Israeli disengagement was stalled, to accuse him of being willing to move too far ahead of the other Arabs. The charge ignores Sadat's efforts to coordinate the Arab position before proceeding with further peace talks, but the past example of Egypt's readiness to move unilaterally in talks with Israel remains in the minds of other Arabs. Moreover, the very effort to reconcile inharmonious Arab positions is an inevitable cause for additional sniping at Sadat from one source or another.

In an attempt to explain his position, Sadat has sent his adviser, Ashraf Marwan, to several Arab states. Marwan is also seeking selected Arab support for a postponement of the Arab summit, now scheduled for early September, until after the Geneva conference reconvenes. Previously, Sadat had favored holding the summit before Geneva but after a preliminary four-way meeting with Jordan, Syria, and the Palestinians to work out a single stand for those Arabs most directly concerned with the Israeli struggle. Sadat still sees the four-way meeting as the necessary first step, but he now apparently believes the original

summit schedule would give radical Arabs a better opportunity to push their position and to undermine whatever progress might be made by the confrontation states toward harmonizing their views.

This first step will be difficult enough, and it is not clear that Sadat himself has yet reached a firm conclusion on how to handle the Jordanian-Palestinian conflict. King Husayn visited Sadat in Alexandria this week to discuss the problem, and the Cairo press has reported that Yasir Arafat will follow the King for talks with Sadat on the same matter.

Reports conflict as to what line Sadat will pursue with the two leaders. He is still publicly pressing the view that they must coordinate before Geneva. The Jordanians are under the impression that Sadat favors their position that the Palestine Liberation Organization not interfere with Jordan's right to negotiate for a return of the West Bank. At the same time, however, the Egyptians have revived their public references—which they had muted for some time—to the PLO as the "sole legitimate" representative of the Palestinians.

[Redacted]

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Sadat reportedly will also press Husayn to accept the concept of a separate Palestinian state, but it is not clear whether this is envisioned as a step to be conceded after Israeli withdrawal from the West Bank—which Husayn might stomach—or before the talks reconvene—which neither Husayn nor Israel would tolerate. Sadat sees the dilemma in his position, and much of his concern about his status with other Arab leaders centers on the fear that he could lose no matter which way he leans.

[Redacted]

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### ISRAEL: THE PALESTINIAN QUESTION

The Israelis this week continued to debate the desirability of modifying the government's rigid stand in refusing to negotiate with the Palestinians. Prime Minister Rabin, in an apparent effort to reassure conservative elements in his own party and in the opposition National Religious Party, publicly reaffirmed Tel Aviv's traditional position. He failed, however, to stem speculation that his government may in fact be considering a more conciliatory approach that Foreign Minister Allon could present to US officials during his visit to Washington later this month.

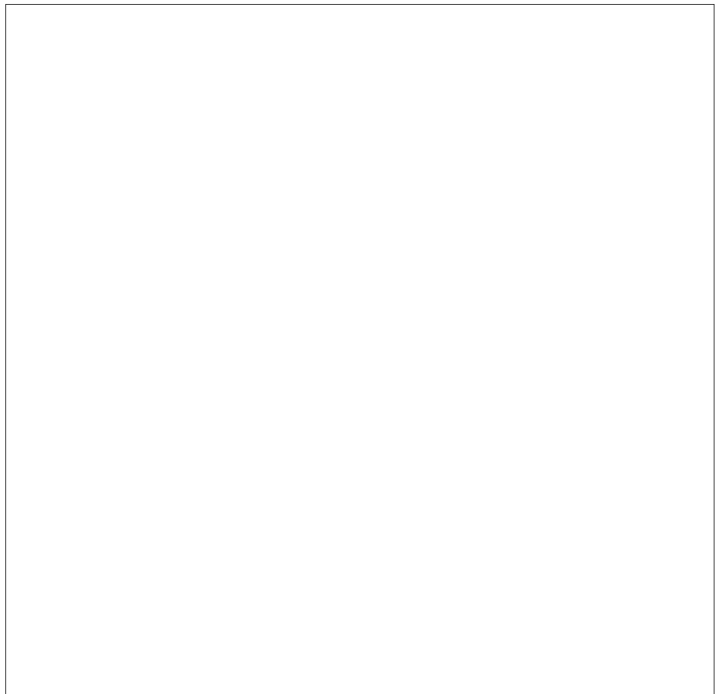
The government is hearing calls from a variety of quarters to take a more positive tack in dealing with the Palestinians, a step that would involve backing away from former prime minister Meir's refusal even to acknowledge that they exist "as a people." For example, one of the governing Labor Party's coalition partners, the small Independent Liberal Party, last week adopted a resolution urging the government to begin negotiations with Jordan and "other Palestinian entities." In addition, several Labor deputies and the mayor of Tel Aviv, a member of the opposition Likud bloc, signed a manifesto calling on the government to work "realistically and speedily" toward solving problems between Israelis and Palestinians. A number of political commentators for Israeli newspapers have also urged the government to rethink its position, some suggesting that Israel might have to negotiate directly with the Palestine Liberation Organization.

Official spokesmen have reacted in different ways to these urgings, further fueling speculation that a policy change may be in the offing. Late last week, Information Minister Yariv told reporters that the government is prepared to enter into some form of negotiations if the PLO publicly acknowledges the existence of the Jewish state of Israel and stops terrorist attacks by the fedayeen. Noting that the PLO is extremely unlikely—and, he might have said, unable—to take these steps, Rabin told journalists that he could not envision representatives of the organization participating in the Geneva peace talks. He claimed also that Israel is not prepared to attend

the Geneva talks if other than the original four parties—Jordan, Egypt, Syria, and Israel—attend. He did not make clear whether Israel would reject PLO representation in a Jordanian delegation.

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On July 13, in his first major speech to members of his Labor Party since becoming Prime Minister, Rabin said the key to solving the Palestinian problem lies in talks with the Jordanians. According to Tel Aviv newspapers, the Israeli cabinet will meet this weekend to discuss a proposal that Tel Aviv initiate negotiations with Amman.



### Spanish Sahara: CONTROVERSY REKINDLED

A plan by Madrid to grant increased autonomy to its overseas province of Spanish Sahara has rekindled a controversy over the future of the territory that has embroiled Spain with rival North African claimants since the late 1950s. Morocco, which has been the most active claimant, reacted sharply to the Spanish plan and may



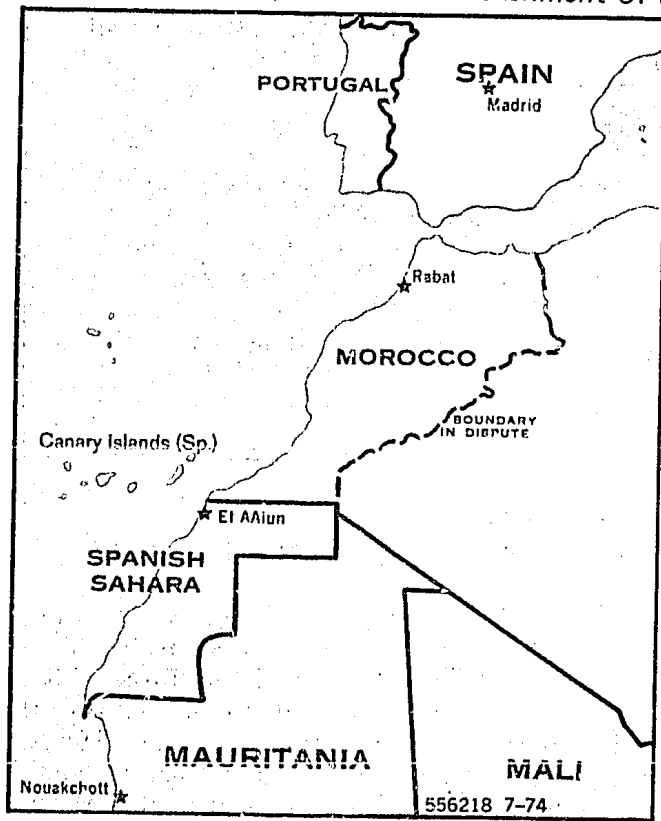
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be moving toward employing limited force to back up its case.

The new policy that Spain is preparing to implement provides for the replacement of the present territorial legislature, whose members were appointed by Madrid in 1967, with a new assembly. Two thirds of the new body is to be elected, and it will have substantially greater power than its predecessor. A new executive council, drawn from the assembly, will be authorized to decide if and when the territory should opt for self-determination. Ultimately, the policy envisages a referendum in the territory to decide its international status.

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such a move would lead to a deterioration in relations. The King followed up with a speech on July 8 recalling the history of Morocco's efforts to regain its "seized territory." He emphasized that he could not permit the establishment of a



puppet state in the Sahara; which Rabat suspects is Madrid's objective, and implied that if discussions failed then other means would be pursued. Attempting to demonstrate Moroccan flexibility, Hassan said he had offered Spain both base rights to protect the Canary Islands and an agreement for joint exploitation of the Saharan territory's rich phosphate deposits in return for recognition of Moroccan sovereignty there.

Hassan probably hopes that new efforts to reclaim Spanish Sahara will help rally support at home and distract attention from his country's political and economic problems. A number of diplomatic observers in Rabat believe Morocco's next move will be to send Saharan guerrillas across the border to provoke clashes and attract international attention in order to increase pressure on Spain for a settlement favorable to Morocco.

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Moroccan concern about Spanish Sahara has increased considerably in the past few months. Rabat believes the recent developments in Portugal and its overseas possessions will inevitably accelerate the pace of decolonization in the Sahara, and the government is working hard to secure foreign support for its position. Thus far, however, it has elicited only a few statements that praise its efforts to liberate the area from Spanish control, and these have avoided explicit support for Morocco's irredentist aspirations.

Meanwhile, Mauritania has called for consultations in Nouakchott on July 20 with the Algerian and Moroccan foreign ministers to discuss the status of Spanish Sahara, Morocco may reject the offer. Tripartite talks between these countries have been held infrequently since 1970, but Morocco's and Mauritania's claim to the territory and Algeria's insistence on a role as an interested party have prevented any agreement on practical steps to hasten decolonization of the Sahara. Neither Algeria nor Mauritania wishes to see Moroccan sovereignty expanded, and Algeria would oppose any strong unilateral action by Morocco to force the issue.

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## NEW LOOK IN ARAB INVESTMENTS

Foreign assets of the major Arab oil producers have increased sharply this year, rising from \$13 billion last December to \$22.5 billion in June. The composition of the holdings has remained relatively stable, but some new trends in investment patterns are emerging.

Saudi Arabia, unable to keep pace with its foreign asset accumulation, continues to rely heavily on bank deposits, particularly in London. Jidda apparently has decided to shift some of its future investment from London to New York. This will satisfy the Saudi desire for security, retention of control of the funds, and a reasonable—if somewhat lower—rate of return.

Kuwait, the most sophisticated investor, is purchasing large amounts of real estate. When oil payments retroactive to January 1 are received, Kuwait's bank balances will increase markedly, especially in sterling. Libya is purchasing more US treasury securities and is gradually increasing its dollar holdings.

The Arabs generally continue to rely on the Eurodollar market because it has satisfied their investment objectives. Up to now, deposits have been relatively free from economic and political risks, and the rate of return has been sufficient to maintain the real value of their holdings.

This heavy reliance on the Eurodollar market creates problems that will become more acute over time. The massive flow of Arab funds increases the potential for market instability and is depressing interest rates on Arab deposits. Growing concern over the Eurodollar market's ability to assimilate the oil producers' revenue is already becoming evident, even though the increased flow of Arab funds only began in April, when the first quarterly oil payments reflecting higher prices were received.

The Arabs will increasingly direct their deposits toward the major national capital mar-

kets, particularly in the US. These markets are, however, no better suited at present to recycle funds to consuming countries than is the Euro-dollar market.

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## PAKISTAN: NEIGHBOR TROUBLES

Pakistan's relations with India and Afghanistan, rarely better than cool, have deteriorated during recent weeks. Pakistani charges of menacing troop movements by both its neighbors appear to have been prompted by political considerations, including concern that the Indians may be making new arrangements for the disputed territory of Kashmir. Kabul and New Delhi have responded with complaints that Pakistan is engaged in its own threatening moves.

Reports from India reveal no military activity above that which is normal for this time of year. Both India and Pakistan normally maintain a heavy concentration of forces either along or close to their common border and occasional exchanges of fire have occurred, as usually happens during periods of tension. No menacing military movements have been noted in Afghanistan, either, although there has been some unusual activity, probably associated with preparations for Afghanistan's national day on July 17.

The current political deterioration began about the time of India's successful test of a nuclear device on May 18. Prime Minister Bhutto, normally apprehensive about New Delhi's intentions, apparently concluded that the main objective of the test was to intimidate Pakistan into accepting Indian hegemony over the subcontinent. Bhutto has long feared that India and Afghanistan would coordinate their efforts against his country. He is also apprehensive that the two are backed by the Soviet Union and are allied to his domestic political opposition.

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Bhutto is probably also anxious at this time to focus public attention in Pakistan away from some of the domestic problems that have recently beset the country: rioting over religious issues, continuing instability in the provinces of Baluchistan and the North West Frontier, and frequent bitter exchanges between the government and leaders of the principal opposition parties.

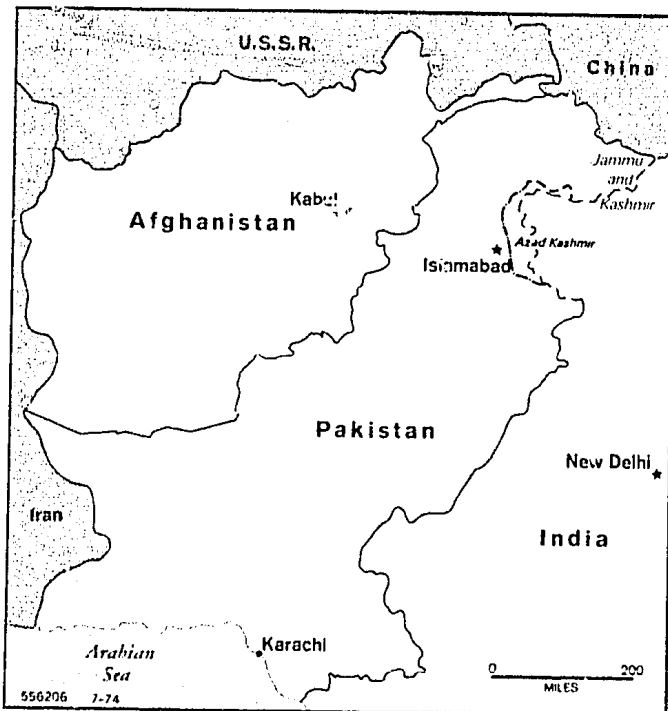
The situation in Kashmir, however, presumably does cause real concern in Islamabad. There are indications that New Delhi and Kashmiri Muslim leader Sheikh Abdullah are moving toward an agreement that would return the sheikh to power after a 20-year hiatus and would also give Kashmir more autonomy within the Indian union. New Delhi apparently hopes to conclude the arrangement with Abdullah so that it can claim with some authority that the 27-year-old Kashmir issue has finally been resolved.

Islamabad would strongly oppose any agreement by Abdullah that precluded an eventual plebiscite to determine the future of all of Kashmir, which has a Muslim majority. This has

been the Pakistani demand for a quarter century. Some Pakistani leaders have privately admitted that a poll in Indian-held Kashmir is no longer a realistic possibility, but in public they continue to insist on an eventual vote by the Kashmiris. Any Pakistani politician accepting less would endanger his political standing—and possibly even his life.

Additionally, the Pakistanis may fear the effect on Azad Kashmir, a portion of the former princely state maintained by Islamabad as an "independent" entity, of any change of status across the cease-fire line. Islamabad's denunciations of both the Kashmiri leader and New Delhi are likely to grow increasingly virulent if agreement appears imminent.

Tension is likely to continue between India and Pakistan at least as long as reports of possible changes in Kashmir continue to circulate. On the other hand, Bhutto may wish to swing relations back from the open hostility of recent days. On July 15, he spoke publicly of the need to resume bilateral talks with New Delhi—no date specified—in order to restore communications, transportation, and other bilateral ties severed in the 1971 war.



Relations between Pakistan and Afghanistan, meanwhile, continue very strained. Bhutto has shifted to a more aggressive stance after having been largely on the defensive in his dispute with the Daoud regime during the past year, parrying charges that his government is suppressing its Pushtun and Baluchi minorities. In a recent speech, he suggested that the Afghans concern themselves instead with the condition of the Uzbeks, Tadjiks, and Turkmens living in Afghanistan.

The squabble between Islamabad and Kabul will probably continue and may worsen. Conceivably, the Afghans might close the border, as they did for several months in the early 1960s. Occasional clashes on the border have occurred in the past and may again, but the Pakistanis have an overwhelming military superiority over the Afghans, and Kabul will have to keep this in mind in deciding on its future strategy.

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## ARGENTINA

### The Struggle on the Right...

Recent elections in the Peronist-controlled General Confederation of Labor have resulted in a rightward shift that will strengthen the hand of presidential adviser Lopez Rega.

The powerful labor organization has provided the bulk of Peron's political strength, and its future course will have a strong influence on Mrs. Peron's government. The confederation was already conservatively oriented, and when it voted out several moderates in favor of right-wing challengers, it tilted the balance even further in favor of leaders considered allies of Lopez Rega.

Moderate labor forces received another setback with the sudden death of Adelino Romero, the secretary general of the confederation, who suffered a heart attack shortly after being re-elected. His deputy has assumed the post, but real power rests with Lorenzo Miguel, the strong man of the key metalworkers union. Miguel, who reportedly is easily influenced, has received the solid backing of Lopez Rega.

The changes in the trade union field seem sure to spell difficulties for Economy Minister Gelbard, a rival of Lopez Rega and the architect of the price-wage freeze that has formed the cornerstone of the Peronist economic program. Although the recent labor congress pledged to support this policy, the congress also warned that the unions would not abide by restrictions that serve "anti-national interests" or provide a "smokescreen for speculators to get rich."

One wage increase has already been granted, and worker demands are expected to mount, making it more difficult for Gelbard to contain inflation and halt economic deterioration. If the current accord on wage and price controls crumbles, Gelbard's position will be jeopardized and Mrs. Peron's ability to devise new solutions will receive its first test.



Lopez Rega

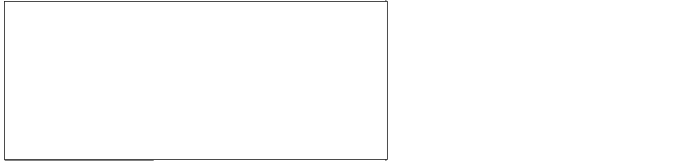
### ...and on the Left

Meanwhile, the assassination of a former Argentine interior minister has signaled a resumption of terrorist activity following the halt after Peron's death. Arturo Mor Roig, who served in the military administration of General Lanusse, was gunned down in Buenos Aires by an unidentified group of terrorists—probably members of the People's Revolutionary Army.

Although Mor Roig had not been active politically for some time, his close identification with the former military government and his key role in laying the groundwork for the elections that brought the Peronists to power probably explain why he was marked as a target. In addition, Mor Roig was minister at the time of the so-called "Trelew massacre," an abortive prison escape attempt during which the terrorists claim a number of their colleagues were murdered by the

security forces. The People's Revolutionary Army has vowed to eliminate those officials considered responsible for Trelew.

Following the Mor Roig killing, terrorists fired on a column of army trucks on the outskirts of Buenos Aires—a pattern that again suggests the work of Marxist extremists



The terrorists obviously hope to take advantage of what they view as a political power vacuum caused by the struggle between the badly divided followers of Juan Peron for control of his movement.



for their personal ties to the junta members as for their experience. No significant policy shifts are likely to result.

Civilian Economy Minister Leniz retained his post, while chief economic adviser, civilian Raul Saez, was given cabinet rank as Chile's first minister for economic coordination. A civilian was dropped as minister of justice, but Jorge Cauas replaced a military man as minister of finance. The economy-related appointments underscore the government's continued commitment to the civilian technocrats austere, free enterprise-oriented recovery program.

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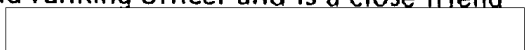
Some civilians probably will be named to key sub-ministerial positions, but the limited civilian influence on the government outside the economic sphere is unlikely to increase substantially as a result. During the ceremony installing the new cabinet, Pinochet again emphasized the armed forces' determination not to serve as a mere conduit for the transfer of power to political groups that the military holds partly responsible for the disastrous conditions that brought on the military intervention. He then underscored the armed forces' desire to make permanent reforms by announcing a government decentralization statute and a new foreign investment code.

### CHILE: A REVAMPED TEAM

Cabinet changes made last week reflect the trend toward army primacy in the military government and indicate that the armed forces' determination to reconstruct Chile in their own way is as strong as ever after ten months of rule. Army representation in the cabinet jumped from three to five, while that of the navy dropped from four to three. The air force and carabineros retained three ministries apiece, and civilian representation increased from two to three.

The cabinet changes followed on the heels of a governmental reorganization that vested broad executive powers in the junta presidency and named junta President Pinochet "Supreme chief of the nation." But Pinochet's reported failure to secure a free hand in naming the new cabinet confirms that his prerogatives remain hedged by requirements that the junta agree unanimously on many important matters. The military men who lost their cabinet jobs were mainly those, such as Admiral Huerta at the Foreign Ministry, whose performance had been disappointing, but the replacements seem to have been chosen as much

Pinochet's caustic references to politicians probably were aimed primarily at the Christian Democratic Party. The new finance minister is a nominal member of that party, but the already strained relations between the Christian Democrats and the government are deteriorating further because of a dispute over censorship of the party's radio station. Army General Bonilla's shift from the Interior Ministry to defense indicates that there will be no early softening of the political "recess" that has hamstrung the Christian Democrats. Bonilla is thought by some of his colleagues to be overly sympathetic toward the party, and they would probably have preferred to see him leave the cabinet altogether. Bonilla is the army's second-ranking officer and is a close friend of Pinochet.



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## URUGUAY: INSTITUTIONAL SOLUTIONS?

President Bordaberry has begun to reorganize the executive branch by naming military leaders to economic planning posts and by centralizing responsibility for commercial policy within the Ministry of Economy and Finance. In a recent nationwide address, Bordaberry also announced that an Economic and Advisory Council would be set up to facilitate decision making.

This scheme greatly increases the military's formal role in the government. The council will include the military commanders in chief along with the ministers of national defense, economy and finance, and the director of planning and budget. Military officers will also be appointed to the Ministry of Economy and Finance, which will oversee the Office of Planning and Budget.

President Bordaberry, who will chair the new council, continues to disagree with his commanders on some economic issues, and friction between them will probably increase. In late May, the generals pushed through price reductions on kerosene and beef, two major consumer items, despite Bordaberry's efforts to protect the producers' interests. More recently, the army chiefs reportedly voiced disappointment over a 16-percent wage increase that Bordaberry had granted the private sector, telling him that they would have preferred a boost of 25 to 30 percent. If, under the new arrangement, the military leaders force the adoption of such populist measures, inflation will increase and economic deterioration will rapidly become more serious.

In recent years, Uruguay's efforts to alleviate its socio-economic problems have been hampered, in part, by the absence of a clear line of authority within its sprawling bureaucracy. Both civilian and military officials have shied away from aggressive sponsorship of economic reform measures, thereby avoiding the burden of failure.

Since the power struggle last May, when several officers forced Bordaberry to dismiss the army's top commander, the generals appear to have shelved their personal rivalries and have increased their participation in government. The inclusion of the high command in the new council

is in line with this willingness to assume responsibility for present policy. There still is no sign of agreement on any new economic program, however, either within the armed forces or between them and civilian officials.

The transformation of economic and political institutions will not in itself turn around a nation that has stagnated for more than 20 years. The country is still sadly lacking in adequate financial resources, funding, technology, and managerial and entrepreneurial talent. [REDACTED]

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## MEXICO: THE FIGUEROA CASE

The all-out hunt for guerrilla leader Lucio Cabanas has turned up nothing after three weeks. The search, involving about 2,000 army troops as well as units from the other two military services, was launched in an effort to kill Cabanas and rescue Senator Ruben Figueroa, the gubernatorial candidate kidnaped by Cabanas on May 30.

The government mounted the operation, concentrated in the high sierra northwest of Acapulco in Guerrero State, after receiving ransom demands from Cabanas that it termed "impossible" to meet. Government officials have expressed little hope the army will find Figueroa alive. Some army officials believe that Cabanas may have left the area during the nearly four-week period before troops were sent in. Also, an operation on this scale has never been tried before and the lack of adequate long-range communications is apparent. Bad weather and rugged terrain have further complicated the search. President Echeverria reportedly is considering posting the military units involved to Guerrero on a permanent basis, but financial constraints may not allow it.

Pressed by the Figueroa case to comment publicly on the country's guerrilla problem, Echeverria and other government spokesmen have fallen back on answers clouded by long-established Mexican "revolutionary" traditions and myths. Guerrillas are not working for revolutionary interests, Echeverria says, but are trying

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to provoke regressive tendencies. He claims that guerrilla terrorism "appears to be more the work of the right than of the left." Government attempts to denigrate or conceal the aims of the guerrillas reflect a nearly blind adherence to the tenet that there can be no one more "revolutionary" than the government and the party.

The government's inclination to dismiss a problem with slogans will not ease the situation, and sporadic violence is likely to continue for some time. For the immediate period, guerrillas may try to embarrass Echeverria while he is on his South American trip this month. This may have been the motive behind the bombings this week at both party and military headquarters in Guadalajara. [redacted]

### OAS: LOOSE LID ON THE CUBA ISSUE

Despite the agreement to disagree until Secretary Kissinger's meeting with Latin American and Caribbean foreign ministers next March, the OAS may be forced to face up to the Cuba issue before the year is out.

The question of what to do about the OAS sanctions against the Castro regime was in effect evaded at the inter-American conferences three months ago. Participants at those meetings arrived at a gentlemen's agreement to delay raising the issue formally so that the new cooperative spirit between the US and Latin America would have a chance to grow. In addition to this idealistic goal, the practical matter of the vote line-up was a factor. Those favoring an end to the sanctions are gaining in number, but still fall short of the two-thirds majority required to undo the resolutions of the 1960s.

Latin American diplomatic circles recently floated the possibility that a five-nation bloc would soon recognize Cuba without waiting for the OAS to free members from their commitments to Castro's exclusion from the inter-American system. Six OAS member governments already have diplomatic ties with Havana, as do Canada and Guyana.

Conflicting reports on where several key countries stand on the issue suggest some indecision. The reports also hint at a campaign to prove to the US that the sanctions policy is fast crumbling. The Costa Rican foreign minister is contacting several governments to drum up support for a foreign ministers' meeting under the auspices of the Rio Treaty, possibly in October. He claims to be trying to head off further unilateral reconciliation with Cuba, which he says will destroy the Rio Treaty and damage the OAS. The Costa Rican believes he has Mexican support for such a meeting, and he hopes that President Echeverria will push it on his current swing through South America.

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Only seven countries, including the US, seem firmly opposed to lifting the sanctions. Eight votes are needed for the blocking one third necessary to maintain the status quo. Among the four swing votes, Uruguay seems the most amenable to persuasion on holding to the sanctions. The Dominican Republic would join a strong majority either way. Guatemala is of a mind to abstain, but might be responsive to Costa Rica's urgings that it is time for a change. El Salvador is hesitant to accommodate Cuba for fear of losing its sugar market.

Castro seems willing to grease the slide toward reconciliation. He has announced Cuba's willingness to attend the foreign ministers' meeting set for Buenos Aires in March. At his anniversary celebration on July 26, Castro may throw some bone to those Latin Americans who want to hear him renounce the exportation of revolution before they make up their minds.

The winning of even one more convert to the OAS majority pushing for a review of the sanctions could pull the fence-sitters onto the bandwagon, if only "to get it over with." While most of the governments attach political significance to the Cuba issue, they view other—and harder—problems relating to economic interdependence as more consequential and would prefer to have the inter-American dialogue concentrate on these. [redacted]

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Toshio Kimura



Takeo Fukuda

## JAPAN: CHALLENGING TANAKA

Finance Minister Fukuda's resignation on July 16 sets the stage for a prolonged contest between pro- and anti-Tanaka factions for leadership of the ruling Liberal Democratic Party and of the government.

In resigning, Fukuda is gambling that Tanaka—weakened by the party's lackluster performance in upper house elections last week—is vulnerable to a concerted effort to force his resignation or, at least, to engineer his downfall at the party's convention next summer.

Fukuda's resignation follows that of Deputy Prime Minister Miki, who quit to protest both Tanaka's high-handed campaign tactics and what he sees as an excessive linkage of Liberal Democratic Party fortunes with Japan's big business interests. One Fukuda supporter in the cabinet, Director Hori of the Administrative Management Agency, also resigned; two more of Fukuda's

supporters in the cabinet have indicated, however, that they will not resign in the near future.

Tanaka is trying to limit the damage to avoid having to dissolve the cabinet, a move that was widely predicted in Japan. Foreign Minister Ohira, perhaps Tanaka's firmest ally in the crisis, has been named to replace Fukuda as finance minister. Toshio Kimura, an experienced party stalwart, has been named foreign minister. Kimura recently worked closely with Ohira to improve Japanese relations with Peking, and there is little reason to expect any major change in Japanese foreign policy. Kimura held the important post of chief cabinet secretary under former prime minister Sato and was later head of the Economic Planning Agency. No one has yet been picked to replace deputy prime minister Miki, but the office is essentially honorary and could remain vacant indefinitely.

Fukuda and Miki held a well-publicized meeting on July 18, at which they pledged to cooperate in efforts to reform the party and, presumably, oust Tanaka. Leaders of four small neutral factions of the ruling party agreed to meet next week to coordinate views, apparently hoping to strengthen their leverage in the leadership struggle. Tanaka, for his part, will muster his backers in an effort to isolate Fukuda's partisans. He will try to hang on until the party convention, at which he probably hopes to benefit politically from an improved economic situation.

ident and limiting his control of party affairs and finances. [REDACTED]

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### SOUTH VIETNAM: BALLOTS AND BULLETS

The Communists launched a new round of military activity on July 14 when they attempted to disrupt the elections of provincial and city councils, which serve primarily as advisory bodies to local officials. Election day was marked by a fairly well-coordinated surge of harassing attacks, but these did not prevent a heavy voter turnout. Although final tallies are not yet available, it is clear that candidates from the government-backed Democracy Party obtained a wide majority. 25X1

The most significant new action took place in the northernmost provinces of Quang Tri and Thua Thien. A series of sharp attacks against several Marine positions north of Hue probably signals the start of a Communist campaign to seize territory and test government resolve while favorable weather conditions prevail. [REDACTED]

Trade Minister Nakasone may play a pivotal role in the coming struggle. Ambitious and opportunistic, Nakasone is for the moment sticking with Tanaka, perhaps in the hope that he might secure Tanaka's blessing for the top job when Tanaka finally does step down. His continued support cannot be guaranteed, however, if he sees the Prime Minister's strength ebbing further.

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In his maneuvering against Tanaka, Fukuda will focus on the Prime Minister's "mismanagement" of the upper house election campaign. But economic policy may also be a major issue. Tanaka has been urging a cautious relaxation of Fukuda's policy of tight limits on Japanese economic expansion. A decision expected later this month on the level of rice support prices could also turn into a political football, especially if Tanaka tries to build rural support by granting farmers a higher price than current anti-inflation guidelines would dictate.

Despite speculation that Miki and Fukuda are ready to go so far as to split the Liberal Democrats in the effort to bring Tanaka down, it is doubtful that Fukuda wants to move toward any such drastic measure, even if it were feasible. The "zaikai"—the big business interests that have a strong voice in the ruling party—would strongly oppose splintering the party for fear of strengthening the leftist challenge to conservative rule in Japan. Along with Miki, Fukuda is much more likely to push for reform within the party, particularly in the method of selecting the party pres-

Communist shellings and ground actions also increased in the western highlands, where the key road to the coast was blocked for brief periods. Elsewhere, Communist shellings picked up in the provinces ringing Saigon, particularly on the Binh Duong battle front north of the capital where a standoff between opposing ground forces continues. [REDACTED]

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### LAOS: A NEW CRISIS

The stability and viability of the new coalition government was suddenly called into question late last week when Prime Minister Souvanna Phouma was felled by a serious heart attack. At midweek, the 72-year-old Lao leader's condition was stabilizing, but he was still gravely ill. Even if Souvanna does pull through, it will be several months before he can assume full political activity.

Souvanna's illness came as a severe shock to all involved in the coalition, most of whom have long been accustomed to his pivotal role in Lao politics. His abrupt removal from the political arena is certain to increase tension and uncertainty in the country.

For the present, however, Vientiane remains calm. There have been no signs of panic or of any pre-emptive move by either the Pathet Lao or the non-Communists. In a bid to help keep things under control, Souvanna issued orders from his sickbed to deputy prime ministers Leuam Insisengmay—a non-Communist—and Phoumi Vongvicit—a Communist—telling them to make certain that no incidents occur in Vientiane between Lao army and Pathet Lao troops.

The most immediate problem raised by Souvanna's illness is who will govern in his stead. As a temporary measure, Souvanna has indicated that he wants Leuam and Phoumi to make only routine day-to-day decisions in directing cabinet activities.



Leuam apparently has agreed to inform Phoumi that the Vientiane side will agree either to have both deputies act as a duumvirate or to have the King appoint a third person outside the government as acting prime minister.

Without Souvanna working as a full-time referee between the Pathet Lao and the non-Communists, the coalition structure could well become paralyzed. The non-Communists would probably welcome a period of inactivity, however, because it would give them more time to find a leader and to try to get better organized politically.

If Souvanna should die or is unable to continue in office, the succession is likely to be confused and complicated. The Lao protocol does not provide for a replacement for Souvanna. According to the constitution, however, the King can choose a provisional prime minister from among the cabinet ministers in the event of the incumbent's death. The King can also take charge of the government himself.

Another option is for the King to designate a new government, after convoking a joint session of the National Assembly and the King's Council. This approach would be complicated by Souvanna's recent ruling that the dormant, rightist-controlled assembly must be dissolved. Despite his illness, he has indicated that his decision still stands.

The four most likely contenders for Souvanna's mantle are Leuam, Phoumi, neutralist Interior Minister Pheng Phongsavan, and Lao Communist leader Prince Souphanouvong, the chairman of the advisory political council. Because neither the Communists nor the non-Communists would be likely to approve a candidate from the other side, Pheng—who has had long experience in dealing with both sides—could have the inside track. It is always possible, however, that a dark horse might win the race. In any event, the final choice may be dictated by Souvanna himself—should it prove necessary for him to name a successor.



Souvanna Phouma

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**DEVELOPED COUNTRIES: HIGH HOPES**

Representatives of four developed countries, at a recent meeting of the Organization for Economic Cooperation and Development, indicated they expect to reduce their current account deficits substantially during the next 12 months. Some also felt they would have little difficulty financing deficits.

The Italians hope that their new austerity program, combined with an import-deposit scheme introduced earlier, will reduce their current account deficit to \$5 billion over the next 12 months compared with the present \$8 billion level. Rome also expects these measures to limit capital movements abroad and to improve the country's ability to borrow in private capital markets. The French hope to reduce their current account deficit by \$4.5 billion in 1975 from a projected \$6.5 billion this year. They anticipate no problems financing the remaining deficit

through a combination of private and public borrowing. The British expect a \$5 billion current account deficit in 1975, compared with \$10 billion this year. They feel they can easily finance this deficit and, in fact, may have to take action to prevent excessive movements of capital from abroad. The Japanese are privately optimistic that they can reduce their deficit by \$3-4 billion over the next year.

These projections, representing an aggregate improvement of over \$15 billion in one year, are clearly overly optimistic. Other nations with oil-induced payments problems will also be seeking to reduce their deficits and will be unwilling to accept the added burden implied by these estimates. Efforts of the four to realize these projections could lead their trading partners to retaliate with trade restrictions.

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