



The President's Daily Brief

25 September 1973

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FOR THE PRESIDENT ONLY

THE PRESIDENT'S DAILY BRIEF

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PRINCIPAL DEVELOPMENTS

Brezhnev's public castigation yesterday of Peking shows that Moscow has virtually no hope for improvement in relations in the wake of China's Tenth Party Congress. He took particular pains to deny China's contention that the USSR has aggressive designs on it. (Page 1)

In Chile, the new government has begun to confront economic problems. A discussion of its initial decisions and their probable effects appears on Pages 2-3.

King Husayn's amnestying of fedayeen has infuriated many East Bank Jordanians, but most of the army apparently will go along with the move as long as the King makes no more concessions. The amnesty probably will not pry loose the suspended subsidy from Kuwait. (Page 4)

There is increasing concern among EC officials that the community may face a crisis this fall because of conflicting views on how fast economic and monetary union should be achieved. (Page 5)

The USSR is getting ready to launch a Soyuz spacecraft--possibly within the next week. There are some tenuous signs that it will be manned. (Page 6)

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USSR-CHINA

Brezhnev's sharp attack on Peking during a speech in Tashkent yesterday suggests that Moscow sees virtually no hope for improvement in Sino-Soviet relations in the wake of China's Tenth Party Congress.

Referring directly to the congress, Brezhnev condemned the "frenzied anti-Sovietism and absurd concoctions" that have followed it. He singled out China's charges that Moscow has aggressive designs on it, protesting that "the whole world knows how utterly false" these are. Brezhnev speculated that "internal motives" may explain why Peking continues to take this line. Perhaps, he said, the Chinese leaders are using the "specter of a nonexistent threat" in order to scare their own population.

In defending Soviet intentions Brezhnev also revealed that last June the USSR again offered to conclude a nonaggression treaty with China, and contended that the Chinese "did not even take the trouble to answer."

Brezhnev's unusually blunt remarks add to the mounting Soviet political offensive to ostracize China. His tone also shows how much sting there is in Chinese charges of Soviet military intimidation.

Available evidence does not substantiate allegations that the Soviets are planning a military move against China.

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Although the USSR continues to flesh out forces already there, if the trend this year continues there will be less change in the Soviet border force in 1973 than in any year since the build-up began eight years ago.

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CHILE

Despite continued preoccupation with security, the junta's economic policy is taking shape. The new government is concentrating on reviving production, controlling government finances, and securing foreign credit and investment. Nationalized industries will remain in government hands. The junta is anxious to resolve the dispute with US firms over compensation, however, and US technical advice will be requested on a contract basis.

The new regime has told industrial workers that their economic gains are secure, and a profit-sharing program has been promised. There will be little tolerance of politicized labor activity, however, and the government is in the process of ridding the state sector of leftist militants.

The junta has announced a program to bring government finances under control in an initial step to arrest inflation. It has frozen the money supply and declared that public enterprises must become self-financing. Price controls on agricultural products probably will be lifted as an inducement to increase output, and peasants on legally expropriated lands will be given individual title.

These moves will bring higher prices initially, but if the regime can reduce the public sector deficit sharply and stem the growth in money supply, inflation should eventually decrease. There are also likely to be strict controls over wages and expenditures, which would produce a reduction in workers' real purchasing power. This result would be partly offset initially by an increased availability of goods, but in the longer run, rehabilitation of the economy and the promised "preservation of workers' gains" will to some extent be incompatible.

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The junta wants to postpone the next meeting of the "Paris Club" of Chile's creditors until a high-level international commission can be put together to prepare an impartial report on the nation's economic condition. The government also hopes that a scheduled Interamerican Committee for the Alliance for Progress country report on Chile can be completed in time for use at the meeting. In the meantime Brazil is preparing to extend significant economic assistance.

The response to Chile's open door to private foreign investment may be sluggish. Investors with a stake in Chile may be willing to return, but the junta will probably find it considerably harder to attract new venture capital.

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JORDAN-FEDAYEEN

King Husayn's amnestying of imprisoned and exiled fedayeen has infuriated many East Bank Jordanians, but most of the army has apparently accepted the King's rationale and will support the move as long as the King makes no more concessions. So far, only a few fedayeen have trickled back into the country, after spending a day or more undergoing border security checks.

Damascus has welcomed the amnesty, but President Asad remains noncommittal about resuming diplomatic ties. He may believe he needs more time or a more substantial gesture from Husayn before he can overcome opposition to the rapprochement from radical elements in Syria.

There is no indication that the amnesty will pry loose the suspended subsidy from the Kuwaitis. Their first reaction, in fact, was one of anger; they regarded themselves as under pressure to release the five terrorists who temporarily took over the Saudi Embassy in Paris earlier this month.

FOR THE PRESIDENT ONLY

EUROPEAN COMMUNITIES

EC officials believe that an internal community crisis could develop this fall, largely because of conflicting views on how fast economic and monetary union should be achieved.

Germany, France, and the Netherlands want to delay implementing the union's second stage well beyond the beginning of 1974. The second stage includes measures for closer policy coordination and a start toward pooling of monetary reserves. Paris maintains that, contrary to the general understanding, the EC summit last October made no commitment to inaugurate the second stage "automatically" next January. Bonn wants the first stage measures to be consolidated before moving ahead. Also, the unlikelihood of Britain and Italy joining the floating band of EC currencies provides further argument for delaying such major steps toward union.

An impasse on this issue could hold up progress on such other matters as a new policy for development of economically depressed regions. This includes a community fund that would especially help Britain, Italy, and Ireland. In turn, failure to set up a regional fund would be a severe blow to already faltering public support in the UK for participation in the EC.

Despite these major difficulties, the Nine will seek to avoid an internal crisis in the hope of presenting a common front in their relations with the US, as well as with the East. They may well seek a compromise lumping together some agricultural, labor, and industrial questions in order to preserve some forward momentum.

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NOTES

USSR: Preparations are now under way for launch of a Soyuz spacecraft--possibly within the next week.

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There are some tenuous indications that the spacecraft will be manned. The Soviets have not had a manned space mission since the ill-fated Soyuz 11 in 1971, when three cosmonauts died during re-entry.

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Australia: The Labor government's loss of an important by-election--which it had regarded as a major test--will reinforce Prime Minister Whitlam's doubts about calling national elections. By-elections usually favor the opposition party, but the Liberal margin of victory was unexpectedly large. Although the Liberals spent five times as much as Labor on the contest, they probably won the bulk of the vote by hammering on the inflation issue--an issue of equal concern to the national electorate, and one on which the government has no convincing defense.

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