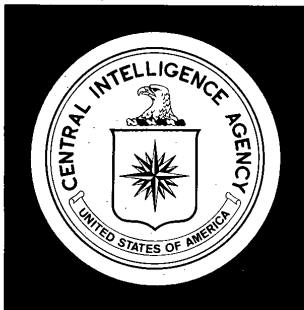


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The President's Daily Brief

July 13, 1974

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THE PRESIDENT'S DAILY BRIEF

July 13, 1974

PRINCIPAL DEVELOPMENTS

Prime Minister Souvanna Phouma of Laos suffered an apparently serious heart attack yesterday. His condition poses a threat to the fragile political structure in Vientiane. (Page 1)

Egypt's President Sadat has invited King Husayn of Jordan to Cairo for three days beginning July 16. Jordanian-Israeli disengagement and relations between Husayn and the PLO probably will be high on the agenda. (Page 2)

[REDACTED]

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The Thai government has requested the US to stop naval reconnaissance flights over the Indian Ocean from bases in Thailand. (Page 4)

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Soviet [REDACTED]
[REDACTED]

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The major Arab oil producers continue to rely on the Eurodollar market to invest their sharply increased foreign assets. (Page 6)

[REDACTED]

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Notes on the USSR - Warsaw Pact, Fedayeen, and China appear on Page 8.

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LAOS

Prime Minister Souvanna Phouma has suffered what appears to have been a serious heart attack. His condition poses a threat that the fragile political structure in Vientiane will disintegrate. The most immediate danger is overreaction by either the Vientiane or the Pathet Lao side; each fears that its opponent might get the jump on it.

Information and misinformation regarding Souvanna's health and the intentions of the Communists and the right wing are bound to spread quickly through Vientiane's rumor mills. A prognosis of full or partial recovery would calm the fears within both camps, but until Souvanna's condition stabilizes, the situation is likely to be tense.

According to the US ambassador, Souvanna is under intensive care at his home, with his French doctor and four Lao doctors in attendance.

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The coalition could probably hold together at least temporarily if Souvanna were incapacitated but still able to make some decisions. In fact, the non-Communists would gain a badly needed breathing space. On July 10, Souvanna and the Communist members of the cabinet pushed through a decision to dissolve the rightist-controlled National Assembly. The following day, in a special session of the cabinet, the Communists' 18-point program containing general guidelines for domestic and foreign policies was approved with only minor modifications.

If Souvanna is not able to continue in office, the succession will be complex, and personalities will be more important than procedures. Souvanna himself may try to dictate the choice of a successor if he finds it necessary to step down. The four most likely contenders would be non-Communist Deputy Premier Leuam Insisiengmay, Communist Deputy Premier Phoumi Vongvichit, neutralist Interior Minister Pheng Phongsavan, and Lao Communist leader Prince Souphanouvong, chairman of the advisory political council.

Pheng would appear to be the least contentious candidate, if only because he is a neutral, is relatively close to Souvanna and, like the Prime Minister, has had long experience in dealing with both sides.

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EGYPT-JORDAN-ISRAEL

Egypt's news agency has announced that King Husayn will visit Cairo on July 16 for three days at President Sadat's invitation. Jordan-Israeli disengagement and relations between Husayn and Palestine Liberation Organization leaders, whom Sadat would like to see reconciled, are likely to be key subjects of discussion. Syrian President Asad, who has been planning to visit Cairo soon, may show up at the same time as Husayn.

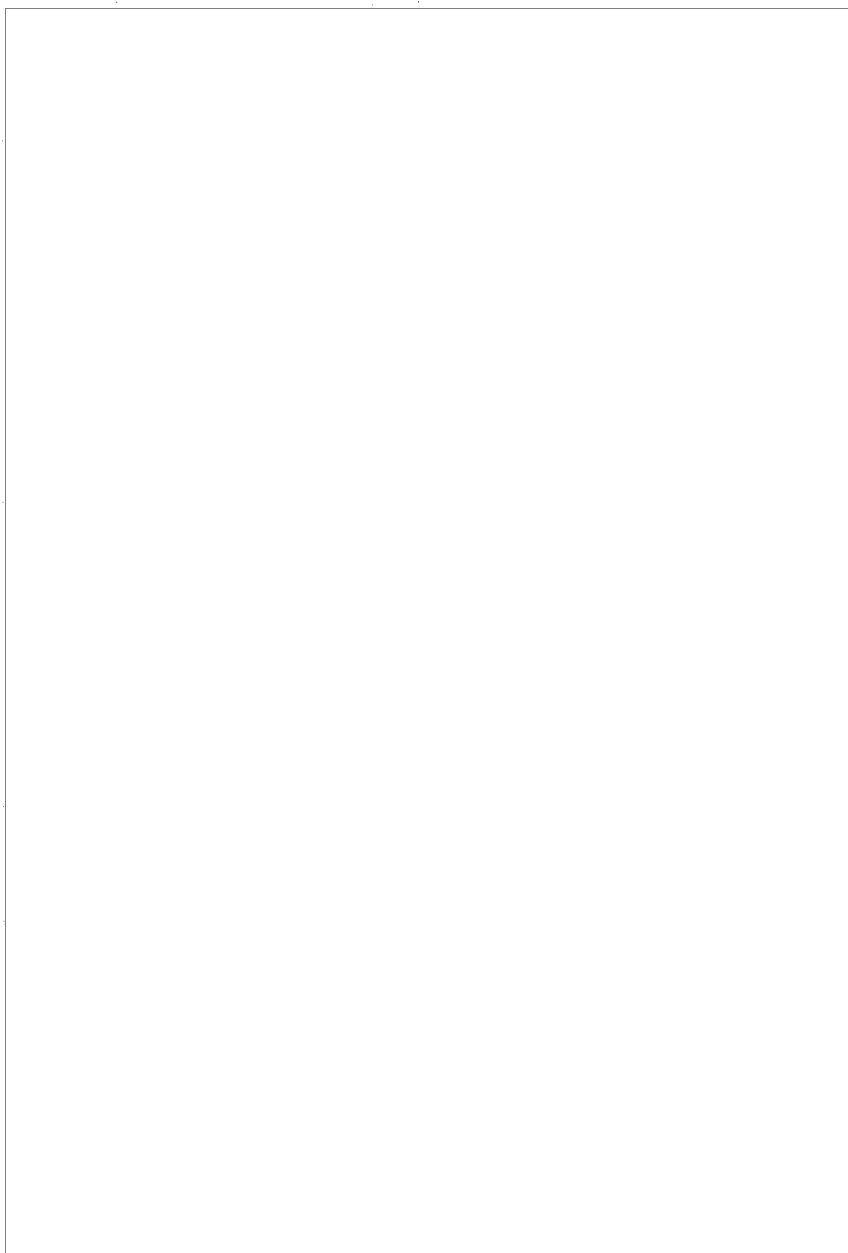
From Israel, [REDACTED] Prime Minister Rabin's cabinet will meet next week to re-examine its position on negotiations with Jordan and with Palestinian representatives. The government expects to come up with some new proposals for Foreign Minister Allon to take with him on his visit to Washington toward the end of the month.

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Over the past week, the Israeli press has carried several articles on the Palestinian issue, and a number of commentators have urged the government to rethink its position. Information Minister Yariv told the press yesterday that the government is prepared even to negotiate with the PLO if the PLO will publicly acknowledge the Jewish state of Israel and cease terrorist activities. This is not a new position, but it is stated more positively than in the past.

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GREECE-CYPRUS



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THAILAND

The Thai government has asked the US to stop naval reconnaissance flights over the Indian Ocean from bases in Thailand. Foreign Minister Charunphan told Ambassador Kintner yesterday that his government did not want to be in the position of having to justify such flights to the National Assembly or to domestic critics at a time when student groups, intellectuals, and the press are all voicing criticism of US military forces based in Thailand.

The foreign minister made it clear that his government is determined to support a continued US military presence in Thailand as a deterrent to North Vietnamese aggression in Indochina, but he said the reconnaissance flights were contrary to Thailand's position that the Indian Ocean should remain neutral.

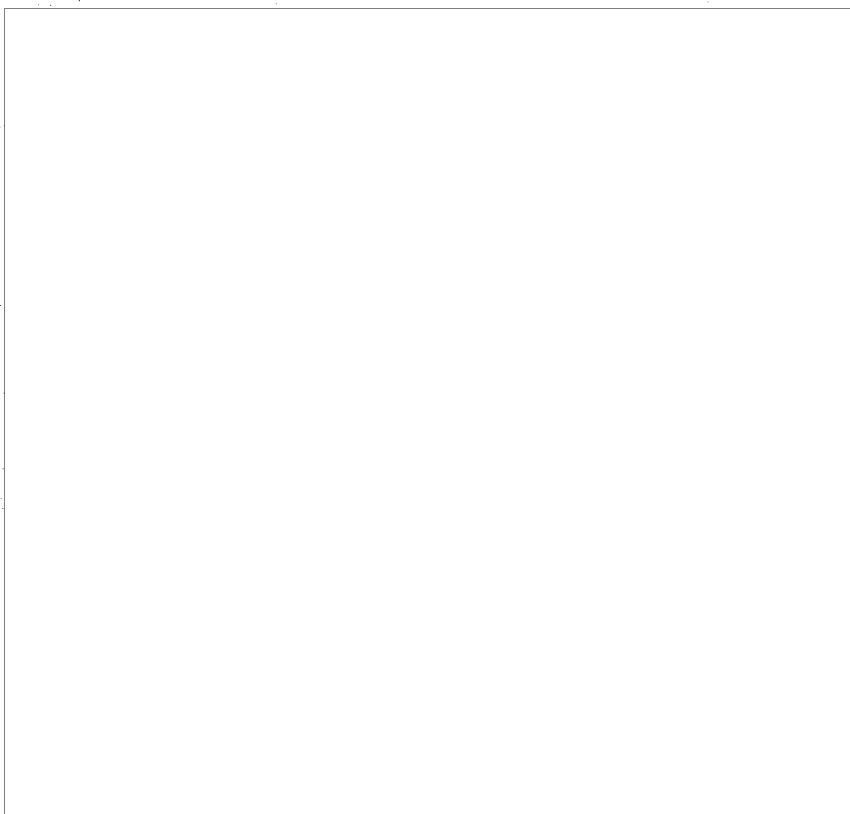
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The government's position is designed to appeal to those who argue for a foreign policy more independent of US interests.

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USSR



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ARAB OIL STATES

An investment pattern has emerged for the foreign assets of the major Arab oil producers. These assets have increased sharply since December, but their composition and the currencies in which the assets are held have remained relatively stable.

--Saudi Arabia, unable to keep pace with the accumulation of its foreign assets, continues to rely heavily on bank deposits, particularly in London.

--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 also increase markedly, as will its assets that are denominated in sterling.

--Libya is purchasing US Treasury stocks and bonds and is gradually increasing its dollar holdings.

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

This heavy reliance on the Eurodollar market nevertheless creates problems that will become more acute. 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 producers' revenue is already evident, even though the increased flow of Arab funds began only 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 markets, particularly the US market.

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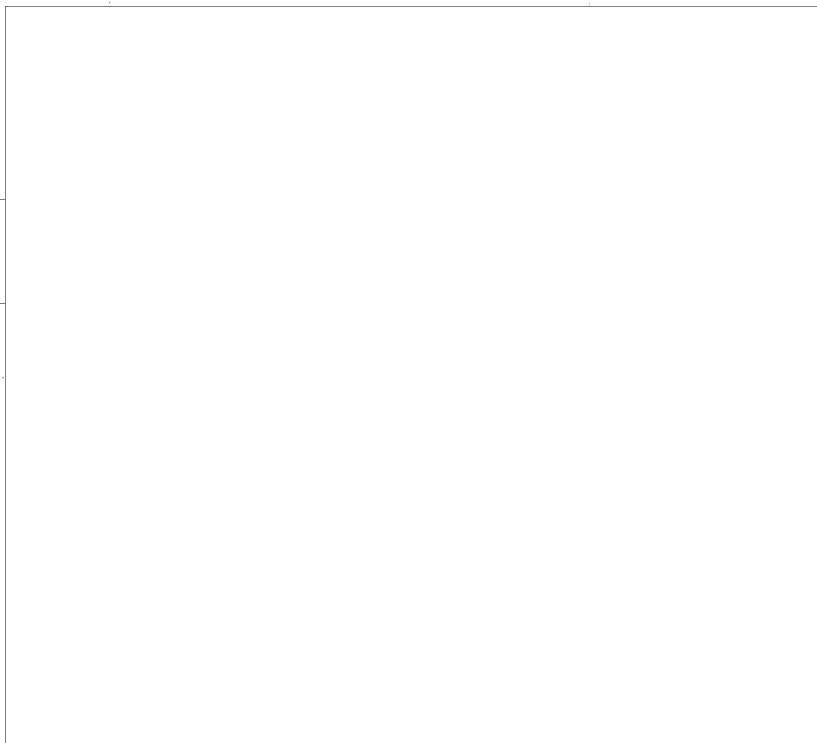
These markets, however, are no better suited at present to recycling funds to consuming countries than is the Eurodollar market.

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FRANCE



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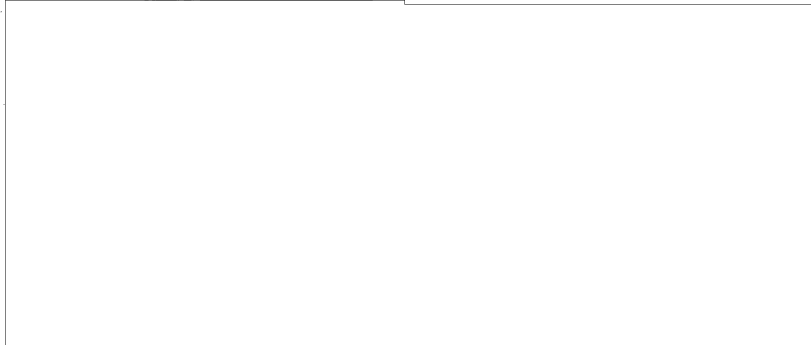


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NOTES

USSR - Warsaw Pact:

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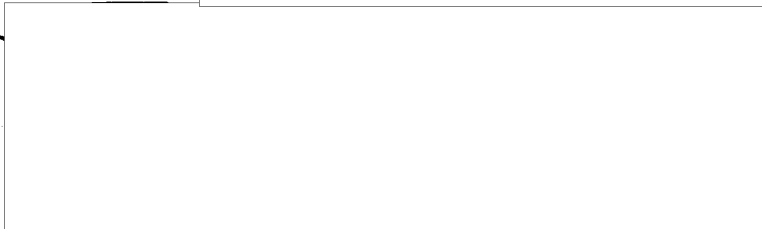


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Fedayeen: The Palestine Liberation Organization reshuffled its Executive Committee this week. Key members retained their posts, thereby confirming that Arafat--who gained additional supporters with the expansion of the committee last month--remains the top fedayeen personality. Members representing the Popular Front for the Liberation of Palestine and the Arab Liberation Front were also given responsible positions; this suggests that Arafat hopes to bring them into a more active role in PLO affairs and thereby indirectly temper their radicalism.

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China:



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