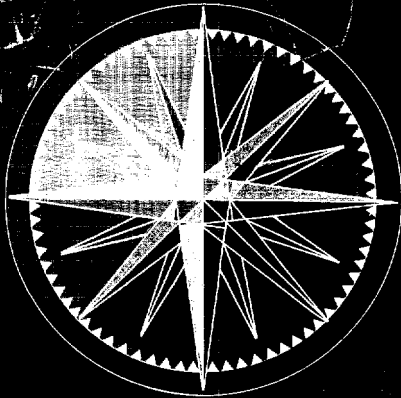


18 October 1963

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WEEKLY SUMMARY

OFFICE OF CURRENT INTELLIGENCE

Navy review
completed.

State Dept. review
completed

CENTRAL INTELLIGENCE AGENCY 25X1

ARMY review(s)
completed.

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(Information as of 1200 EDT, 17 October 1963)

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Cuba

HURRICANE FLORA BATTERS CUBA

Hurricane Flora's week-long rampage in the Caribbean severely damaged most of eastern Cuba and further darkened the island's economic outlook. Although damage assessments are still tentative, agriculture and transportation apparently suffered far more than industry and the military. The regime is likely to blame the storm for its economic troubles for months and even years to come, even though many of these problems were well advanced before the hurricane.

Oriente and Camaguey, the two eastern provinces primarily affected by Flora, are the leading agricultural provinces in Cuba. They supply more than half the farm produce consumed on the island and account for 50 percent of the country's sugar acreage.

Although damage to the sugar industry cannot yet be measured, the hurricane doubtless has harmed not only the 1964 crop but future harvests as well. Large areas of cane probably were destroyed by winds, and thousands of acres of newly planted cane probably were washed out. Damage from flooding has been severe and may become worse. The forecast for the next 30 days is for an additional five to eight inches of rain.

Damage has been equally severe for other crops, many of

which were in or about to enter the harvesting stage. Much, if not most, of the coffee and cocoa crops have probably been destroyed. Most of the important rice crop, at least half the cotton crop, and up to 10 percent of the corn crop have been lost. The main producing areas for other important products such as bananas, peanuts, oranges, and beans were all among the areas hardest hit. Livestock losses are reported to be heavy, but no figures are available.

Housing, electric power, communications, and transportation suffered severe losses. Entire communities were washed away and others were isolated. Aerial photography shows extensive damage to roads, railroads, and bridges. All the rivers in Oriente Province overflowed, and most bridges in the affected areas were washed out or cut off when their approaches washed away. Landslides have rendered many roads and railroads impassable. Considerable time, effort, and materials will be required to restore the transportation system. Delay in moving sugar from fields to mills may further reduce sugar output when the harvest gets under way in about three months.

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High winds, heavy rains, and flooding almost certainly caused some damage to industrial facilities, however,

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Cuba

and production probably has been curtailed by power failures and transportation breakdowns.

Soviet military forces in Cuba apparently were not seriously affected by the hurricane. There was considerable damage to living quarters and probably to some of the more fragile equipment such as communications

and radar gear, but there are no reports of Soviet casualties. Some Cuban military installations suffered extensive damage and there was a heavy loss of supplies, but no aircraft or naval vessels were lost. Many Cuban troops probably will be diverted from training and counterinsurgency operations to hurricane relief work. 25X1

The Communist World

SOVIET CHALLENGE TO WESTERN ACCESS RIGHTS IN BERLIN

Soviet interference with US and British convoys on the Berlin autobahn appears to be aimed at drawing the Western powers into negotiations on both access procedures and the broader question of the status of Western forces in West Berlin.

Soviet authorities now are seeking to impose new procedures for checking Allied convoys. The USSR's initial tactic in this regard appears to be an attempt to establish a link between the Western practice of giving advance notification for convoys over a certain size (over seven vehicles in the US case) and procedures governing the dismounting of convoy personnel for a head count. The Soviet checkpoint commander stated flatly to a British official that all convoys of five

vehicles or more must agree to dismounting. In a conversation with a US officer on 15 October, the Soviet commander claimed that the US had agreed last year to give advance notification for convoys of more than five vehicles and said this same procedure should apply to dismounting. He added that even if a truck contained only one to five passengers, they would have to dismount.

While the USSR almost certainly expects the US to reject these demands, it probably hopes that continued publicity relative to the ambiguity and differences which exist between the US and British convoy procedures will tend to underscore the need for negotiations to remove "misunderstandings."

The USSR may have calculated that a display of pressure on

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The Communist World

the sensitive Berlin access question was necessary to induce the US and Britain to disregard French and West German opposition to negotiations on Berlin at this time.

Moscow probably foresees a protracted period of negotiations and plans to follow a step-by-step approach, using discussion of access procedures as an avenue for leading into the central problem of the status of Western forces in West Berlin. As part of this strategy, the Russians may envisage further harassment of Western communications as a means of underscoring the issues they intend to press as well as generating pressure on the West to agree to negotiations.

The Soviet Union may, in fact, be preparing the way for formally introducing demands for Western payment for the use of communications facilities on East German territory.

In talks with US and British leaders this summer, both Khrushchev and Gromyko referred to the need for a new tariff on Western military and civilian

rail transport, autobahn tolls on Western military personnel and cargo transport, and payment for the use of communication cables crossing East Germany. The USSR almost certainly would attempt to use negotiations on these matters to press its demand for Western respect for East German "sovereign rights."

Moscow presumably intends to maintain close control over these harassments in order to avoid irreparable damage to the detente atmosphere. The Soviet leaders, however, appear to be operating on the assumption that the US and Britain also have an interest in preserving this atmosphere and that this situation affords the USSR greater latitude for maneuvers to draw the West into a new round of Berlin talks.

Soviet press reports of the incidents have sought to minimize the seriousness of the confrontation. Playing down the challenge to the US and British convoys, Izvestia claimed that President Kennedy had observed that the incident resulted from a misunderstanding rather than a deliberate provocation.

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The Communist World

CONTINUED RUMORS OF IMMINENT WORLD COMMUNIST MEETING

Rumors that Moscow has decided to convene some kind of international conference which would deal with the Sino-Soviet conflict continue to circulate in the Soviet capital.

Current rumors may have been generated by the presence in Moscow of two of the top Italian Communist leaders. There are as yet no indications that leaders of other Communist parties are in the USSR. The Portuguese party statement published in Pravda on 24 September calling for a world Communist conference, however, had urged the creation of a commission composed of "some" parties to consider "practical questions linked with the convening of a conference," and it is possible that such a meeting is being held outside Moscow. Khrushchev has not been in the capital since 11 September. He was reported by the US Embassy to have been seen on 7 October in Yalta, where he often meets foreign guests, and he was still in the Crimea on 17 October.

Foreign Communist parties continue to call for an international meeting to discuss the problems that plague the Communist movement. Pravda on 13 October followed its earlier re-publication of appeals by three small Western Communist parties for such a conference with a reprint of a speech by French party leader Thorez which asked for a meeting. The Greek party's resolution at the close of its fifth plenum--publicized on 12 October--similarly contains a request for a meeting, while strongly denouncing the Chinese. This sudden concerted attention to the issue suggests that the rumors may have some foundation.

Moscow itself has not yet stated a position, but is making it clear that any such Communist meeting will be to condemn the Chinese, not to try to find a way to live with them. The latest issues of both Kommunist, the Soviet theoretical journal, and the World Marxist Review, another mouthpiece for Soviet views, carry systematic indictments of Chinese positions on virtually every disputed point.

A more serious attack on Mao Tse-tung's personal apostasy is contained in the 11 October issue of Izvestia, where, in the guise of a critique of a Chinese book on dialectical materialism, Mao's pretensions to be the foremost contemporary Marxist theoretician are torn to shreds. Izvestia ridicules the idea that Mao has made any new contributions to Communist theory and claims that any new formulations he has advanced are at variance with, or a "falsification" of, true, Marxist-Leninist thought.

Peiping has not seen fit to comment on recent demands for a meeting of Communist leaders, although it would almost certainly be aware of plans for one. It may be holding its fire temporarily in preparation for a showdown fight. The Chinese continue to snipe at Moscow but have issued no full-dress polemical statement since the blast at Khrushchev in the Red Flag/People's Daily article of 26 September on Yugoslavia. Instead Chou En-lai took a careful line on Sino-Soviet relations during his interview with the head of Reuters on 13 October, striking a pose of statesmanlike restraint but giving no ground on Peiping's differences with Moscow.

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The Communist World

IMPACT OF HARVEST FAILURE WITHIN USSR

The impact of the grain harvest failure continues to dominate Soviet internal affairs. Moscow is taking steps to lessen its effect on the economy, and reassure the population that measures are being adopted to avoid like failures in the future.

Khrushchev's recent speech at Krasnodar--in which he told of the Soviet grain purchases but also outlined a comprehensive plan for ensuring "guaranteed harvests" through extensive use of chemical fertilizer and irrigation--is being given mass distribution as a pamphlet.

An unusually large press campaign in support of this plan is under way, obviously calculated to impress the public with the remedial action being taken. In the first twelve days of October, Pravda, Izvestia, and Sovetskaya Rossiya (the principal paper of the Russian Republic) published nearly 70 major articles, editorials, and pictorial features--including coverage of Khrushchev's Krasnodar speech and the related Central Committee - Council of Ministers' letter, both of which dominated the papers on the days they appeared.

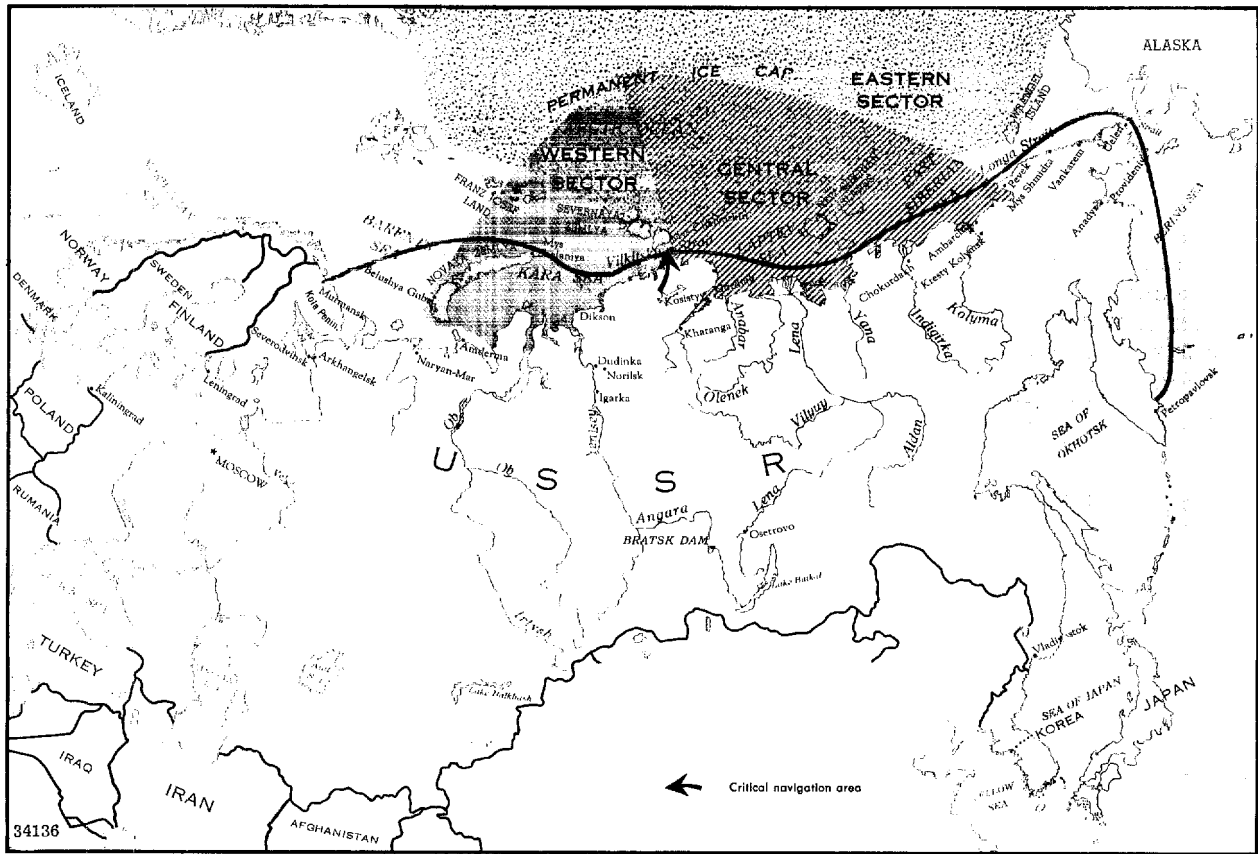
The press has announced a number of measures to conserve the bread and grain supplies. These include restrictions on bread sold at stores, the stationing of Young Communist League members as guards at stores and warehouses, and a vigorous campaign to discredit the use of bread for livestock. Late last month a national trade union conference was called to discuss means of checking on grain distribution and storage.

This year's agricultural failure apparently will have a serious impact on the Soviet livestock industry. Fodder shortages are almost certain to necessitate emergency slaughtering of cattle. It seems likely that the regime will import feed grains before allowing such measures to jeopardize the future of the livestock industry. Even so, there will be serious consequences--slaughterhouses and refrigeration facilities will probably be overloaded and much waste will occur.

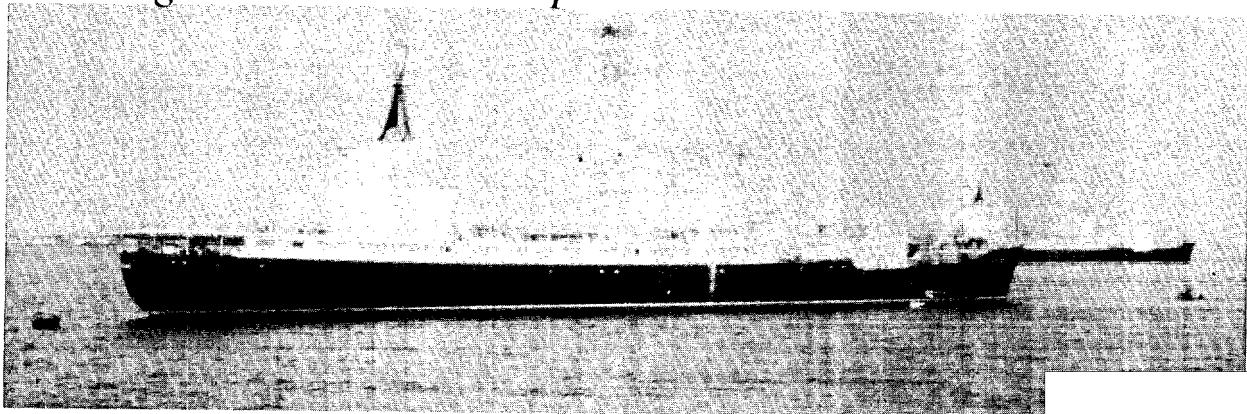
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The USSR's Northern Sea Route

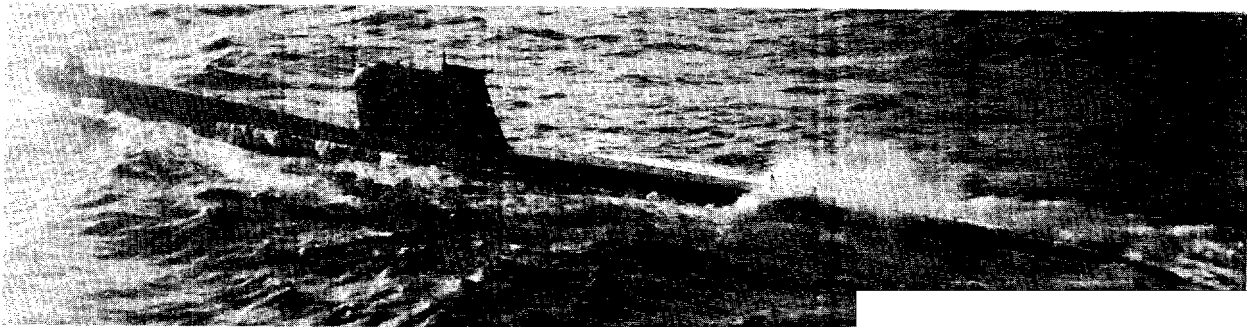


The Range Instrumentation Ships CHAZHMA and CHUMIKAN



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An F-Class Submarine



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The Communist World

top Soviet trade officials have advocated new measures for solving the perennial deficiencies in retail trade--goods and services of poor quality and unsuited to the needs of the consumer. One trade official suggested that light industrial manufacturing firms be required to develop their own retail stores which would, presumably, be more responsive to the customers' wishes; another advocated the creation of a national specialized wholesale organization; another would have bonuses paid to workers in light industry depend upon the salability of their product.

There is no doubt that Moscow is acutely concerned over offsetting the poor harvest with better performance in other consumer-oriented areas. Prospects, however, are meager for significant improvement through administrative devices alone. The last major administrative step the government took to improve retail trade was in 1960 when it decreed that manufacturers would sign binding contracts with trade outlets to provide goods of specified quality and quantity. Soviet officials have recently admitted that this law has been largely ineffective.

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THE NORTHERN SEA ROUTE NAVAL CONVOY

The 1963 naval convoy through the USSR's Northern Sea Route has completed the arduous eastward transit of Arctic waters and now is in the Soviet Far East. The convoy, which included both merchant and naval ships, left the Murmansk area probably in late August and arrived at the Bering Strait in two groups on 27 September and 10 October.

Naval elements of the convoy consisted of two new long-range F-class torpedo-attack

submarines, a naval tanker, two ocean rescue tugs, two floating workshops, and two new missile range instrumentation ships, the Chazhma and the Chumikan. Most of these, including the submarines and the range ships, probably will be stationed at the expanding complex of naval bases in the Petropavlovsk area. The transfers bring the number of F-class submarines in the Pacific Fleet to eight and the number of range instrumentation ships to six.

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The Communist World

VIEWS OF WESTERN DIPLOMATS ON COMMUNIST CHINA

A grim picture of the internal Chinese Communist scene has recently been sketched by two Western diplomats stationed in China. They are considered perceptive and sound observers by the American consul general in Hong Kong. Both describe a country whose economic problems are grave, whose recovery from the years of disaster is very slow, whose people remain in a state of "resigned apathy" despite incessant political indoctrination, and whose leaders will probably become still more rigid.

Chinese leaders are reportedly far from optimistic because of continued population growth and the lack of any prospect for substantial production increases in the next few years. To solve population problems, authorities in Shanghai are advocating late marriage and sterilization, with fairly severe sanctions--involving income and housing--applied to those who marry too early or have too many children. This program is unlikely to have much success, however.

In agreement with most foreigners who have traveled in North China during the last two months, the diplomats report that extensive flooding persisted for an unusually long time, and, as a result, agricultural prospects appear only mediocre for yet another year. Industry gives the impression of "great" technical difficulties, redundant labor, and much idle capacity.

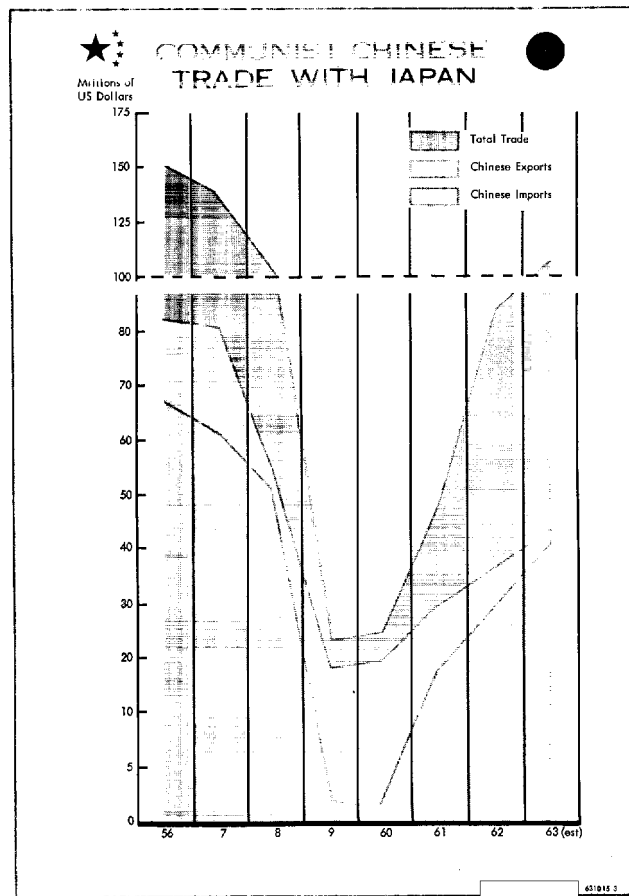
The British consul in Shanghai, a Chinese-speaking officer who apparently has more freedom than diplomats in Peiping to maintain local contacts, believes that most people have learned by now to "coexist" with the regime. They pay little attention to ideological matters, judging the regime instead on the basis of what it is doing for them materially, and are therefore dissatisfied because they believe the regime is not doing enough.

A Western ambassador stationed in Peiping agrees that more material incentives are necessary to bring peasants and ordinary workers out of their lethargy, but feels there is still some residual idealism among middle level officials such as plant managers.

The ambassador expects China's policies--both internal and external--to become tougher and less flexible before they are eventually moderated. He foresees no softening of policies during the political lifetime of Mao Tse-tung. He thinks that in the immediate post-Mao period, "hard-liners" like party General Secretary Teng Hsiao-ping will eclipse moderates like Premier Chou En-lai. Moreover, he believes that the next generation of leaders, now 35 to 45 years old, will prove even less flexible than the present group, because they are even more ignorant of the outer world and were developed within a completely indoctrinated bureaucracy.

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Asia-Africa

CHINESE COMMUNIST OVERTURES TO JAPAN

The Chinese Communists are making a renewed bid for increased trade with Japan

[Redacted]

For over a year Peiping has been actively exploring the possibilities for expanded nonbloc trade, and the latest overtures to Japan appear to be part of this effort. As a secondary objective, the Chinese probably hope to stir up trouble in US-Japanese relations and in Tokyo's dealings with Taipei.

[Redacted]

Sino-Japanese trade, now running at approximately \$100 million per year, accounts for only about one percent of Japan's foreign trade. Despite the Chinese efforts to expand trade, the limited potential of the China market makes it likely that trade with Peiping will remain a negligible share of Japan's total trade.

Peiping's latest moves carry forward the "soft line" on trade with Japan which the Chinese initiated in the fall of 1962 when they negotiated the Liao-Takasaki

trade agreement. Their present tactics are in marked contrast to previous efforts to extract political concessions from the Japanese by using trade as a lever--efforts which resulted in an almost complete rupture of trade and cultural relations in 1958.

Chinese proposals for increased Sino-Japanese trade have been accompanied by extensive publicity for moves to improve relations with Japan across the board. Within the past month, Peiping has organized a China-Japan Friendship Association and launched a China-Japan friendship month.

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Asia-Africa

LIMITED BLOC ECONOMIC SUPPORT FOR INDONESIAN POLICIES

The Soviet bloc and Communist China are unlikely to provide significant or effective economic aid for Indonesia in solving problems apt to arise from Djakarta's action in cutting off economic relations with Malaysia. They may, however, offer some economic assistance as a political gesture. No source of meaningful aid is yet in sight.

By severing relations, Indonesia has lost Malaysia's considerable entrepot services and processing facilities, and a market which received--legally and by smuggling--some 50 percent of its exports last year. Most of these goods were re-exported.

Although the Indonesians--apparently referring to aid in general--claim the USSR has already offered all they need "to carry out economic confrontation against Malaysia," it is unlikely that the USSR will be drawn too deeply into this dispute in view of wider foreign policy considerations.

As part of an earlier program to develop resources on a production-sharing basis, the Soviet Union reportedly has offered some rubber-processing facilities, but such an offer would take considerable time to implement. The Soviet bloc may also take additional token imports of Indonesian rubber, but it is unlikely to shift substantial purchases from the reliable and efficient Malaysian market--from which it bought about 220,000 tons last year.

Imports by the Soviet bloc--mainly 130,000 tons of rubber--amounted to about 5 percent of Indonesia's total exports in 1962. Additional bloc purchases would probably be largely under a barter arrangement and, like the production-sharing schemes, would not add hard currencies to Indonesia's limited foreign exchange earnings.

Prospects that the Soviet bloc will extend other meaningful economic assistance also appear dim. The USSR has avoided outright cash gifts, but as a gesture, it may offer Djakarta additional long-term economic credits. However, to date, Indonesia has drawn only about 23 percent of available Soviet bloc credits.

Unlike Moscow, Peiping may grant a small cash gift as it has elsewhere this year, but substantial economic assistance from Peiping in the near future is not likely. Normal trade gives only limited opportunity to support Indonesia. Presently China takes only 6 percent of Djakarta's exports, mostly rubber. Since the Chinese also receive large amounts of rubber from Ceylon under a long-term agreement, they probably can absorb little more. Trade in other products, such as agricultural goods, tin, or crude oil would have little economic basis.

Furthermore Peiping is apparently unwilling to make any significant change in its Malaysia trade, which earned China about \$70 million last year, Peiping's second largest source of foreign exchange.

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Asia-Africa

SITUATION IN SOUTH VIETNAM

The Diem regime continues to take repressive measures against potential opponents. Police last week picked up the brother of President Diem's personal physician after reportedly finding pro-Buddhist tracts and printing equipment in his home. The government's administrative delegate in the southeastern provinces reported the arrest of his aide, allegedly on grounds that the latter was "too pro-American." A Vietnamese interpreter attached to the US aid mission was also reported to have been arrested on unknown charges.

On 14 October, however, the government released a senior vice president of South Vietnam's strongest trade union, the General Confederation of Vietnamese Labor (CVTC), who had been secretly arrested on 7 October. This was apparently in response to an ultimatum from the CVTC president, Tran Quoc Buu, who was threatening an open break with the government if it did not free the official. The government presumably feared possible repercussions from domestic or international labor circles, par-

ticularly during the visits of UN-sponsored observers, who are scheduled to depart for South Vietnam on 21 October.

There are further signs that Diem and his brother Nhu are preparing to face a long period of strain with the US. Saigon's English-language press, which reflects the views of Nhu and his wife, has continued to charge that US agencies in Saigon are trying to undermine the Diem regime.

Joint US-Vietnamese counter-insurgency activities, however, are continuing without serious interruption. Viet Cong activity in the first week of October declined in most areas of the country, following five weeks of more intensified enemy military action.

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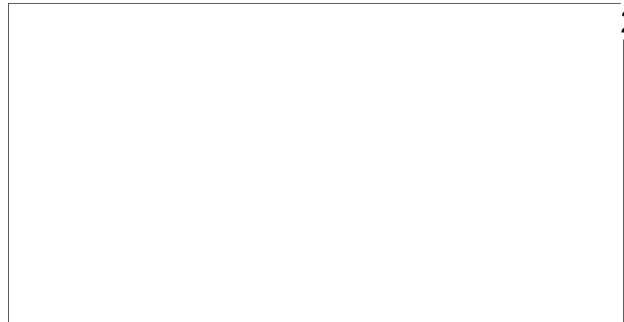
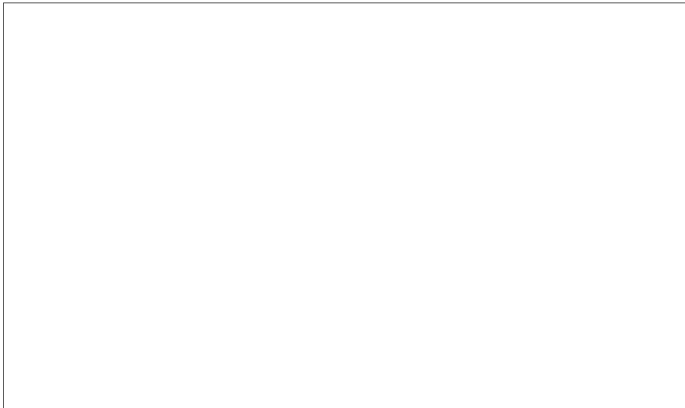


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Asia-Africa

MOROCCAN-ALGERIAN BORDER FIGHTING

Clashes along the Moroccan-Algerian border probably will continue, and incidents may well develop in new areas, pending negotiations for at least an informal delineation of the disputed frontier between Tindouf and Colomb-Bechar. Neither Algeria nor Morocco commands the resources for an all-out war on the other, and officials of both countries have indicated they have no desire to go this far.



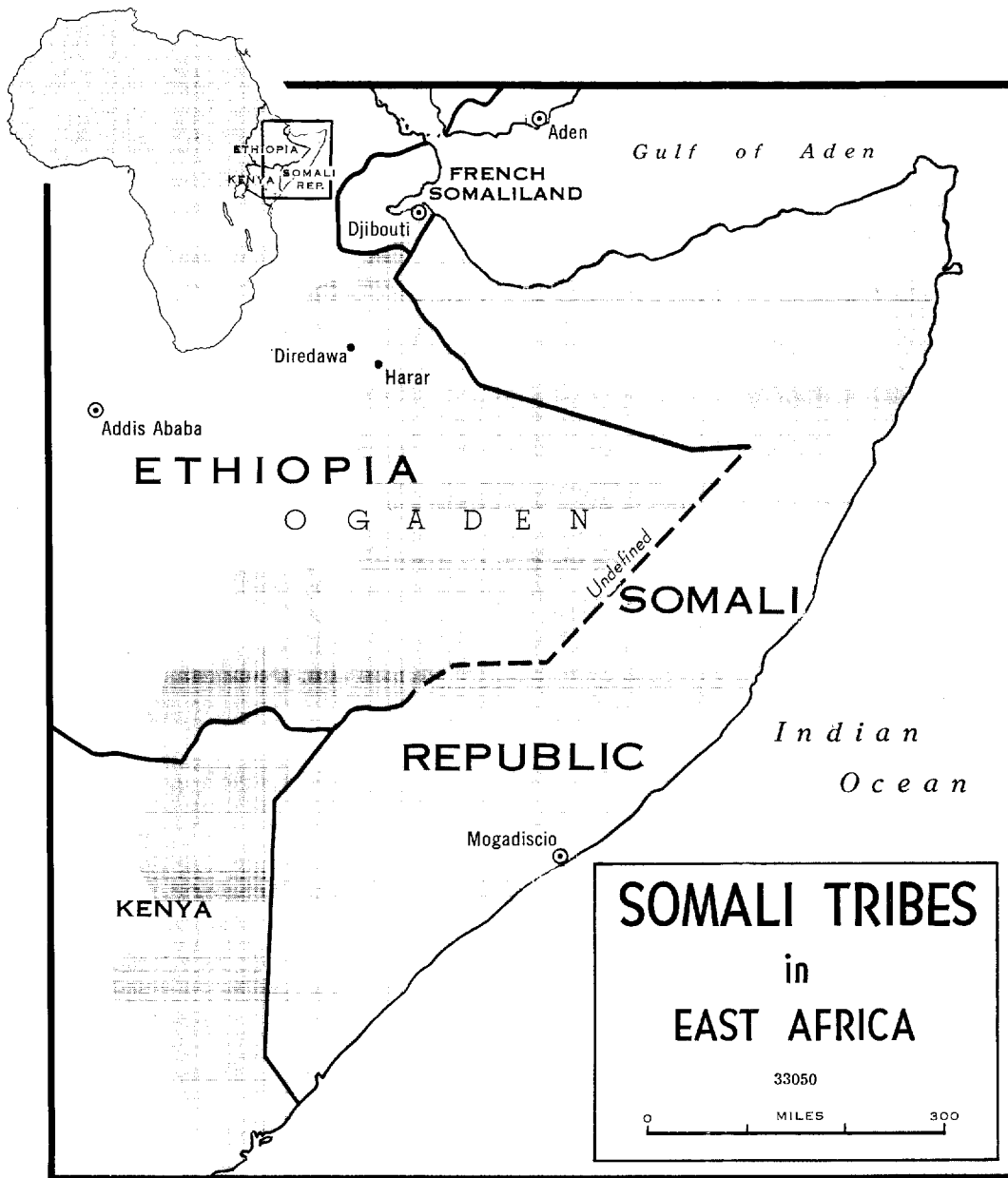
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Even if some accommodation is reached regarding the border, the suspicions with which the Moroccan and Algerian governments regard each other certainly will increase. Each can be expected to encourage and support subversion against the other. No relationship has been proven yet between the Kabylie dissidents in Algeria and the Morrocans, 

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Asia-Africa

SOMALI GOVERNMENT TURNS TO USSR FOR ARMS

The Somali Republic, trying to strengthen its defenses against its archenemy, Ethiopia, has accepted a Soviet offer of \$28 million worth of military assistance. Somali Army commander General Daud led the mission which obtained Moscow's help. According to Prime Minister Abdirascid, Soviet assistance is to be used generally only for short-term training. However, the large amount of the offer suggests that a variety of Soviet military equipment will be supplied as well.

In the nonmilitary field, Moscow and the European satellites have already extended some \$63 million in grants and credits to the republic, and over 300 bloc technicians are at work there on various development projects. In addition, Peiping has offered over \$20 million in economic assistance

The Soviet airline, Aeroflot, has recently been granted full rights at Mogadiscio, the Somali capital.

As a result of the Somali military deal with the USSR, both Germany and Italy are likely to re-examine their own relatively modest plans to assist the Somali Army. If these plans are dropped, the Somalis could expect no significant help from any

other Western European nation. They are still embroiled in a dispute with the UK and Kenya over territorial claims; diplomatic relations with the UK were broken last March. France maintains close relations with Ethiopia. The bloc probably would not rush in to fill the vacuum completely, however, out of concern for its relations with Ethiopia and Kenya.

Meanwhile, Mogadiscio's emotional involvement with the dissident Somali tribesmen in the Ogaden region of Ethiopia is again leading to serious friction with that country. Somali press and radio are venomously attacking the Ethiopian regime. Frontier incidents occurred along the Ethiopian-Somali border on 11, 12, and 15 October, leaving several dead on both sides.

The incidents provoked rioting in Mogadiscio on 13 October, partly because the populace believes that the government has not taken a sufficiently strong stand. The Ethiopian Embassy and other foreign--even Soviet--personnel were attacked, but extensive damage was prevented by the effective action of the Somali police.

The situation both on the border and in the capital remains tense.

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Asia-Africa

NEW PRESSURES ON LEOPOLDVILLE CABINET

Congolese Premier Adoula's government has escaped serious criticism for proroguing parliament last month, but the action has left the cabinet itself as the sole target for public resentment over corrupt and ineffective administration. During the past two weeks, the government has come under increasingly heavy fire from labor unions

[Redacted]

The premier is en route home via Europe from the UN sessions in New York.

The labor organizations applauded the dismissal of parliament, but their leaders, frustrated by chaotic economic conditions, now call for a government of "public safety" composed of "honest and responsible men." The labor spokesmen say they do not contemplate a general strike to enforce these demands, but threaten a kind of political strike by refusing to participate in drafting a new Congo constitution unless the government is changed. The impact of their threat lies in the fact that there are no other mass political organizations. Leopoldville government circles, moreover, are acutely conscious of the fact that labor unions were the force behind the overthrow last August of the other Congo government across the river in Brazzaville.

Thus the threat by Leopoldville unions, [Redacted]

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[Redacted] has led to frantic maneuvering by the politicians. Moreover, there is no guarantee that the unions will not eventually try a general strike. Should they do so, serious disorders would seem likely. Such disorders not only would provide further ammunition for the anti-Adoula groups, but might reveal that the government's control over the army is less than firm.

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Europe

ITALIAN POLITICAL SITUATION ON EVE OF SOCIALIST CONGRESS

The Socialist party congress of 25-29 October will probably authorize party chief Pietro Nenni to negotiate with the Christian Democrats for direct Socialist participation in a new center-left government. The obstacles to the formation of such a government, however, are formidable.

Although Nenni's faction seems likely to maintain its majority during the congress, dissension within the faction may develop afterward during Nenni's negotiations over the terms for collaboration with the other parties. National economic policy is likely to be the most critical issue. Riccardo Lombardi, Nenni's heir opponent, may disrupt these discussions, as he did those last June, if he is dissatisfied with the understanding Nenni reaches with the Christian Democrats on economic and social measures

Despite the Socialists' private assurances that they will not ask for unreasonable public expenditures in the near future, Christian Democratic leader Aldo Moro has expressed doubt about the Socialists' readiness to assume governmental responsibilities in the present difficult economic situation, which may cause his own party to propose a "wage pause" or other austerity measures. He has told the US Embassy that his party can make no concessions other than "for appearances" beyond those embodied in the Nenni-Moro accord of last June, which Lombardi rejected.

Even if his negotiations with the Socialists are successful, Moro is seriously concerned that Social Democratic leader Giuseppe Saragat might at some point "precipitate an insoluble crisis by one of his sudden changes of heart."

Conservative Christian Democrats will try to take advantage of the economic situation to exact conditions which would be unacceptable to the Socialists. Although the outcome of the negotiations will not hinge on foreign policy issues, Conservative Christian Democrats and the right-wing parties are also using Lombardi's recent attack on the multilateral nuclear force proposal to claim that the Socialists would dangerously alter Italy's foreign policy. It might be necessary to convene a Christian Democratic congress to get the party as a whole to accept an alliance with the Socialists.

There is a strong probability that the Communists and neo-Fascists will initiate violence as they try to block the formation of a center-left government. Using some legitimate economic issue, they are likely to create disturbances in which Socialists would feel impelled to demonstrate with the Communists. Such joint action would be exploited by opponents of Socialist - Christian Democratic rapprochement to buttress their claim that the Communists and Socialists remain politically united, and that formation of the center-left would permit Communist penetration of the government.

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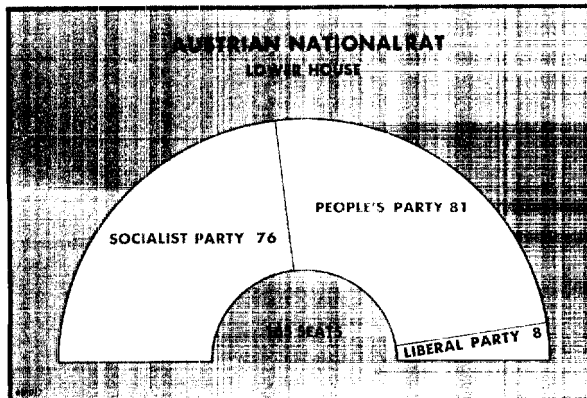
Europe

AUSTRIA'S DETERIORATING POLITICAL SITUATION

Increasing acrimony between Austria's major parties--the Socialists and the Peoples Party--threatens to break up the coalition of the two which has governed the country since 1945. A new Socialist coalition with the small rightist pan-German Liberal Party would probably be even less stable than the present government and might bring a revival of the sharp political animosities which in the prewar era resulted in violence between the Socialists and their present coalition partners.

In the immediate postwar period, the Socialists and the Catholic, centrist People's Party felt compelled to bury their enmities in the face of Soviet occupation of the eastern section of the country. After the Russians left in 1955, however, maintenance of the coalition became progressively more difficult and was notably so after the bitterly contested 1962 elections.

Friction has been increasing in the coalition for some months. Last spring the Socialists used Liberal support to score a parliamentary victory over their coalition partners in preventing Otto Habsburg's return to Austria.



Last month, the People's Party elected as chairman Josef Klaus, who has for some time been noted as less conciliatory to the Socialists than his predecessor, Chancellor Gorbach. Gorbach will probably be replaced fairly soon as chancellor--possibly by Klaus--if the coalition lasts.

The Liberal Party has in the past sought alliance with the more conservative People's Party but was rebuffed because of the unsavory reputation of some of its membership. Now Socialist leaders are dickering with the Liberals and seem to be carrying their party with them despite traditional antipathy toward the Liberals.

A Socialist-Liberal coalition would be divided on many issues. In the economic sphere, for example, Socialist party chairman Pitterman has been pressing for greater trade with the Soviet bloc--which in the first half of 1963 accounted for some 15 percent of Austria's total exports. Socialists have also been unenthusiastic about the EEC ties desired by more conservative Austrians. The Liberals oppose greater trade with the bloc and are among the strongest proponents of ties with EEC.

Furthermore, any coalition excluding the People's Party would be somewhat disturbing to various business groups which have come to look on that party as their voice in the government. The likelihood of trouble from this quarter would be increased if the slowdown in economic activity noted thus far in 1963 becomes pronounced.

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Western Hemisphere

BRITISH GUIANA POLITICS ON EVE OF INDEPENDENCE TALKS

The new round of talks on constitutional arrangements for British Guiana's independence is to begin in London on 22 October and will be marked by continued political infighting.

Premier Jagan's Peoples's Progressive Party (PPP) has proposed that a commission of Commonwealth representatives be sent to Georgetown, the colony's capital, to mediate PPP differences with the opposition as the prelude to early independence. The opposition People's National Congress (PNC) and the United Force (UF), on the other hand, want introduction of a proportional representation electoral system--a move designed to give them a better chance of unseating Jagan.

Within the PPP, Jagan is contending with an increasing divergence between the committed Communists and extremists, such as Deputy Premier Benn, and more moderate elements, typified by Attorney General Ramsahoye. Although the balance is unstable, the two factions appear at present to be at a standoff with Jagan acting as a restraining influence on those who favor militant courses to retain power. There are inconclusive reports that the moderates have on occasion prevailed in party

councils, and they were apparently responsible for getting the party's usually militant youth group last summer to proclaim a program intended to calm racial animosities. The extremists have Jagan's support, however, on the question of ties with Cuba and the bloc, which continues to grow.

PNC leader Burnham is trying to gain stature by playing down his party's Negro racial character. Also, he arranged a final round of talks on 15 October to narrow disagreements before the London discussions, but all sides remain as far apart as before. He continues to be wary of open cooperation with the United Force, however, and one left-wing PNC member has expressed the opinion that Burnham will never form a coalition with it. The UF has been discredited by testimony that it had published forged documents purporting to prove that the USSR had given financial aid to the PPP. Several recent incidents of violence suggest that the PPP may have embarked on a campaign to isolate and intimidate the UF. The leader of the UF, Peter D'Aguiar, apparently would like to retire from politics.

There is a movement to start another party which would contest the PPP's grip on the East Indian population, and its leaders say they have found substantial anti-Jagan sentiment. This group, however, is unwilling to commit itself until it is sure that a change in the electoral system will be forthcoming.

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Western Hemisphere

POLITICAL POSITION OF BOLIVIAN PRESIDENT

The political fortunes of Bolivian President Victor Paz Estenssoro, who will arrive on 22 October for a two-day Washington visit, have improved steadily in recent months, and his position now is probably stronger than at any time since his election in 1960. Since the first of the year, he has scored gains at the expense of his principal opponents, the most powerful of whom stand well to the left of his administration, and has so far managed to maintain consistency in his policies. In the next few months, however, his agility and determination will be subjected to fresh challenges, especially in connection with his program for reorganizing the country's major industry, tin mining.

Paz' political opposition comes from the far-leftist supporters of the opportunist Vice President, Juan Lechin. These elements are aiming at displacing Paz and making Lechin the standard bearer of the Nationalist Revolutionary Movement (MNR) in next year's election. It was his fear of inroads by the Lechin forces during his absence which led Paz last April to put off his Washington visit--originally scheduled for May. Evidently Paz now feels more secure.

Such confidence probably derives in part from the success Paz has had in recent months in getting rid of Lechin supporters

in key peasant organizations, unions, and government posts, and replacing them with individuals loyal to himself. He has been notably successful in supplanting extreme leftist and pro-Lechin peasant strongmen in the rural areas, and in capturing control of the national peasant organization. Some antigovernment union leaders such as in the railway workers union have been dumped, and replaced with persons who can be depended upon to oppose extremist demands of the Lechin-controlled Bolivian Labor Confederation. There are also indications that the government's strong stand in the recent mine crisis has brought increasing rank-and-file disillusionment with the leaders of the tin miners' union, who continue to advocate extreme opposition to the government's mine reform proposals.

In fact the principal accomplishment to date of the Paz administration has been its firm stand on a reform program in the tin mines despite the threat of violence and the pressure from the left. The President's stand in the face of the union's opposition to the mine modernization program is the first concrete step to rationalize the country's chronically faltering economy since the 1952 revolution. It appears increasingly likely that the government will make its program stick.

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STATUS OF NEW DOMINICAN REGIME

Continuing political isolation

are making the new Dominican government's future increasingly uncertain. So far the new military junta in Honduras is the only Latin American government to have recognized the Dominican provisional regime.

Civilian leaders and military backers of the government are nevertheless refusing to relinquish their power to Juan Casanovas, president of the dissolved Senate and third in presidential succession under the abrogated constitution, who claims that a recent quorum of the deposed Congress secretly elected him president. He has been seeking hemispheric recognition as the constitutional president.

Despite the government's guarantees of political freedom, Casanovas and other leaders of the Dominican Revolutionary Party (PRD) have been forced into hiding to avoid arrest, and are thus seriously hampered in their efforts to regain power. From Puerto Rico, ousted President Bosch is actively supporting Casanovas' claim to the presidency, although neither he nor Vice President Gonzalez Tamayo has as yet resigned.

There appears to be an increasing popular reaction

against the coup, particularly in Santo Domingo. Students have tangled with police and are still threatening to march on the presidential palace. Several labor leaders are seeking funds to support a general strike within the next few days. Others most actively opposing the regime include the moderate leftist Revolutionary Social Christian Party (PRSC), dissident leaders of the conservative National Civic Union, and the Castro-Communist parties. Although contacted by leaders of the pro-Castro 14th of June Political Group (APCJ), PRD and PRSC leaders appear to have rejected, at least temporarily, overtures for an alliance.

Armed forces leaders who carried out the coup are publicly united behind the regime and retain effective power in the country.

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Western Hemisphere

POSITION OF HONDURAN MILITARY GOVERNMENT

The regime of Colonel Lopez in Honduras continues to seek foreign recognition. Other Central American governments are urging Lopez to restore at least a semblance of democratic government until elections can be held. It seems questionable, however, that the regime will follow strictly constitutional procedures because to do so might mean installing a new president unacceptable to the military.

The essence of a plan put forth by ousted President Villeda, which has Costa Rican backing, and of a proposal sponsored by President Rivera of El Salvador is to replace Lopez with a civilian as the head of the Honduran Government. The constitutional successor to Villeda would be one of the three vice presidential designates--Jose Mejia Arellano, Juan Miguel Mejia, and Francisco Milla Bermudez. Both Mejia Arellano and Milla, however, are strong supporters of Modesto Rodas Alvarado (who undoubtedly would have been Villeda's elected successor) and for this reason alone would be opposed by the Honduran military. Although Juan Miguel Mejia is able and intelligent, his past associations with Communists may disqualify him too.

The Lopez government has released most political prisoners and has shortened the curfew, but a state of siege is still in effect. It appears that the military's fanatical hatred for the Civil Guard--which was in effect the private army of Villeda's Liberal Party--led to heavy loss of life on 3-4 October. Military leaders either sanctioned the excesses or were unable to restrain their subordinates. Zone commanders in collaboration with members of the Nationalist Party are harassing Liberals in rural areas, according to unverified reports reaching the US Embassy in Tegucigalpa. The military probably would not hesitate to crack down on any attempt to protest the coup or to subvert the de facto regime.

The Salvadoran President thinks the other Central American governments should not delay indefinitely in recognizing the Lopez regime and has indicated that his government and the Nicaraguan Government might do so soon.

Thus far Guatemala is the only Latin American country to recognize Honduras.

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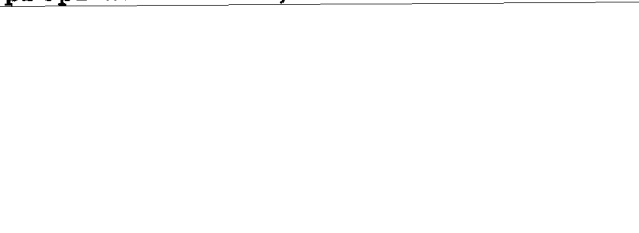
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Western Hemisphere

AREA NOTES:

Argentina: In his inaugural address of 12 October, President Illia stated that Argentina's petroleum contracts with foreign oil companies--"signed without regard for the law and the country's economic interests"--will be annulled. However, his own party, the People's Radical Civic Union UCRP, appears to be divided over the issue. One faction, composed mostly of younger and more nationalistic elements, insists that the contracts be canceled and not replaced by any new arrangements with international oil companies. More moderate elements have repeatedly stated that a satisfactory and equitable solution will be achieved.

Until recently, Illia has consistently taken the position in conversations with Ambassador McClintock that he wishes to discuss the contracts with a view to modifications, renegotiation, and, in appropriate cases, indemnification.



The US Embassy expects the intraparty squabble on the issue to be resolved shortly.

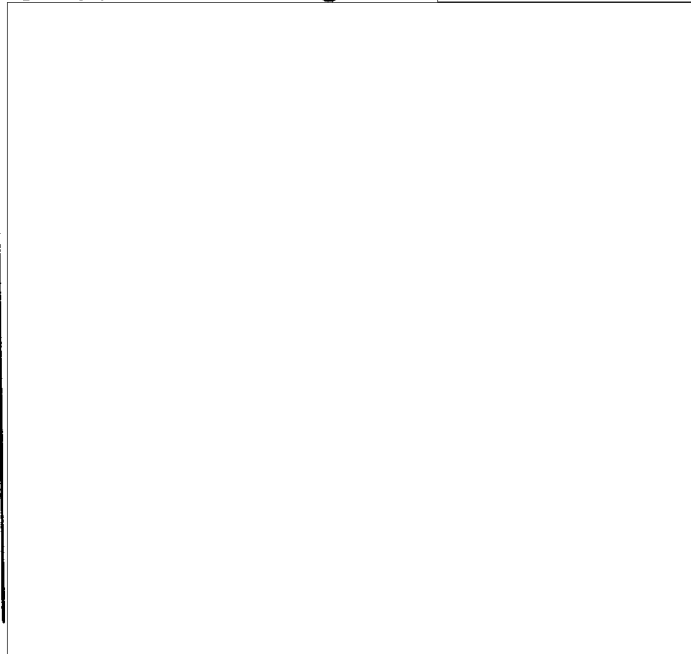


Guatemala: Guatemala's six-month-old military government has begun to solicit greater popular acceptance at home, but so far its efforts have done little to dispel the general discontent. The

main cause of the hostility, which has recently been growing, has been the regime's failure to date to spell out its plans for the resumption of normal political activity and a return to constitutionality.

The government has instead regarded the restoration of fiscal order and the development of a basic economic policy as its primary tasks. It now considers that financial affairs have been put in order, and Chief of State Peralta announced a moderate economic policy based largely on private enterprise in a public speech on 27 September. Guatemalan officials now are implying that political restrictions now will be lifted gradually.

Public disenchantment does not yet appear to have reached a level sufficient to pose a serious threat to the Peralta regime.



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