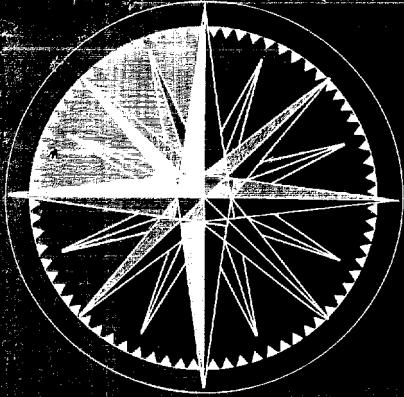


SECRET

Approved For Release 2008/04/21 : CIA-RDP79-00927A004500050001-9



26 June 1964

OCI No. 0337/64

Copy No. 74

WEEKLY SUMMARY

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

State Dept. review completed



SECRET

GROUP 1 Excluded from automatic
downgrading and declassification

Approved For Release 2008/04/21 : CIA-RDP79-00927A004500050001-9

25X1

Page Denied

SECRET

C O N T E N T S

(Information as of 1200 EDT, 25 June 1964)

<u>THE COMMUNIST WORLD</u>	<u>Page</u>
COMMUNIST CHINA TAKES CAUTIOUS LINE ON LAOS Peiping has launched a major propaganda campaign centered on alleged US intervention, but has carefully avoided any stated commitment to military countermoves.	1
MOSCOW MODIFIES TACTICS IN DRIVE FOR COMMUNIST CONFERENCE To break the impasse on this issue in the Communist movement, Moscow has apparently adopted a compromise formula stressing its earlier proposal for a preparatory commission rather than a full-fledged conference.	2
RECENT TRENDS IN SOVIET AIRCRAFT PRODUCTION Combat-type aircraft will probably make up 55 percent of total production and account for 45 percent of expenditures in 1964, with emphasis on supersonic fighters. Noncombat aircraft spending is shifting to costlier, higher performance models.	3
<div style="border: 1px solid black; height: 50px; width: 100%;"></div>	
AREA NOTE On Chinese Communist Trade	4
PEIPING STEPS UP ACTIVITIES IN THE MIDDLE EAST The \$28-million long-term credit to Yemen is China's latest move to compete with the USSR for influence. Peiping has warned that Soviet aid will make recipient nations dependent on Moscow.	5
THE FOURTH POLISH PARTY CONGRESS The proceedings demonstrated that Gomulka has reasserted his control and that his conservative policy will remain essentially unchanged. The purge of his opponents in the central committee strengthens it but at the cost of imagination and flexibility.	6
RUMANIAN-YUGOSLAV-SOVIET RELATIONS Although Yugoslavia views Rumania's independence within the Soviet bloc favorably, it has probably urged Rumanian leaders to be more cautious in proclaiming their position. The Yugoslavs fear disruption of both European stability and the improving East-West relations.	7

25X1

SECRET

SECRET

THE COMMUNIST WORLD (continued)

Page

YUGOSLAV - WEST GERMAN RELATIONS

8

Prospects for improved relations seem brighter now than at any time in the past year. Both countries are trying to minimize their political and economic differences in preparation for new discussions on 26 June.

ASIA-AFRICA

THE SITUATION IN LAOS

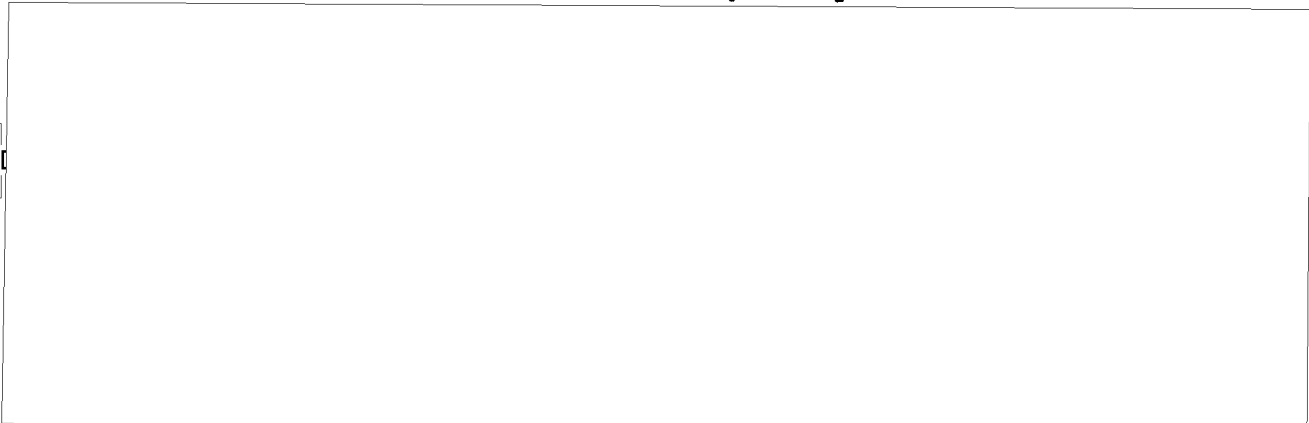
9

Premier Souvanna has called for stronger military action against the Pathet Lao. There has been no progress toward new talks among the factions.

SUMMIT MEETING ON MALAYSIA-INDONESIA DISPUTE BREAKS DOWN

10

The heads of government met long enough to agree on further talks at "some future date," but Malaysia first wants all Indonesian guerrillas withdrawn from Borneo, and Sukarno still calls for a new survey of opinion in the area.



UNCOI

INDIA CONTENTS WITH SOARING FOOD PRICES

11

25X1

The Shastri government apparently plans tighter controls over food distribution to check the rise in food prices caused by hoarding, poor harvests, and middleman speculation.

DEVELOPMENTS IN THE CYPRUS DISPUTE

12

Turkish Prime Minister Inonu may face serious opposition if he tries to moderate his government's policies toward Cyprus. Athens is increasing its military support for the Greek Cypriots.

MOROCCAN-ALGERIAN BORDER INFILTRATIONS

13

Despite recent mutual gestures of amity, King Hassan believes Moroccan dissident border infiltrations are part of Ben Bella's plan eventually to unseat him..

SECRET

SECRET

ASIA-AFRICA (continued)

Page

CONGO REBELLIONS STILL SPREADING

14

25X1

TANGANYIKA MOVES SLOWLY TO CURB ZANZIBAR PRO-COMMUNISTS

15

President Nyerere, still determined to avoid using force, is confident that the situation is improving but feels it will take six months to establish full control over the island.

EUROPE

FRENCH INTEREST IN EASTERN EUROPE

16

President de Gaulle is re-establishing cultural and economic ties with Communist bloc nations to make France's presence felt in Eastern Europe and to encourage nationalism he feels will spoil bloc unity.

25X1

THE ITALIAN GOVERNMENT'S ECONOMIC PROBLEMS

17

The Moro government's stabilization program has shown some success thus far, additional measures are expected to be announced soon, and a large EEC "credit package" may be extended. A new rash of strikes, however, could lead to wage increases that would accelerate inflationary trends.

SECRET

SECRET

	<u>EUROPE (continued)</u>	<u>Page</u>
AREA NOTE On Sweden		18

25X6

WESTERN HEMISPHERE

NEW TERROR IN BRITISH GUIANA		20
Almost all the victims in the new outbreaks are Negro, and there is a serious possibility of large-scale Negro retaliation against East Indians.		
DETERIORATING SUPPORT FOR ECUADOR'S GOVERNING JUNTA		21
After nearly a year of power, the junta's prestige is at a new low because of popular disenchantment and military dissatisfaction over conditions in the armed forces and with individual junta members.		
ARGENTINE POLITICAL TENSION		22
President Illia's indecision and ineffective approach to the nation's severe economic problems have created strong public opposition to his government. While pressures are mounting to change his cabinet, there seems to be no immediate danger of a coup, although rumors are prevalent.		

SECRET

SECRET

The Communist World

COMMUNIST CHINA TAKES CAUTIOUS LINE ON LAOS

Peiping's fundamentally cautious policy in Southeast Asia is reflected in its response to current developments in Laos. About ten days ago the Chinese launched a major propaganda campaign centered on charges of US intervention, but all their official statements have carefully avoided any commitment to military countermoves in Laos. Even Foreign Minister Chen Yi's ominous remarks concerning Laos on 24 June, the toughest statement to date by a Chinese Communist leader, are deliberately vague concerning specific Chinese actions, although they hint at the possibility of escalation.

On 13 June, two days after the first air attack on Khang Khay, propaganda broadcasts concerning Laos jumped to 25 percent of Peiping's total radio output and remained at about this level for eight days. As the volume of the outcry increased, it took on a harsher tone, and the language seemed calculated to convey an impression of mounting wrath.

There was angry talk about a new US "blood debt" and vague warnings that continued intervention in Laos could set off a "new civil war" which might spread further. Such statements appeared designed to project a threatening image which would generate political pressure in the free world for negotiations on Chinese terms--the full Geneva-type conference with an expandable agenda for which Peiping has

repeatedly called. These blasts produced little reaction anywhere, however, and on 20 June the Chinese sharply reduced the volume of their propaganda--probably to permit a reassessment and possible shift of line.

This blend of militancy and caution was demonstrated by the Chinese announcement on 18 June of a major military review in Peiping attended by Mao Tse-tung and other top leaders. Such demonstrations of military strength have been rare in recent years, and the timing of this one suggests it was designed to remind neighbors in Southeast Asia--and potential enemies--of Peiping's military strength. However, the New China News Agency commentary, which claimed that the review "fully demonstrated" Chinese military preparedness, carefully avoided any suggestion that this strength might be used outside China's borders.

Peiping's reluctance to stiffen its propaganda line with anything approaching a firm public commitment has been matched by its failure to use its formidable military striking force in South China to support its propaganda. If the Chinese wished to raise tension in the area they could do so easily by making obvious changes in deployment or initiating new activities, since units now in place near the border could launch a devastating ground attack into Laos.

25X1

SECRET

SECRET

The Communist World

MOSCOW MODIFIES TACTICS IN DRIVE FOR COMMUNIST CONFERENCE

Although the Soviet leaders continue to insist that a world conference is imperative, they appear to have modified their tactics in an effort to break the impasse on this issue within the Communist movement. There are indications that extensive consultations with foreign Communist leaders in the first part of June resulted in a compromise formula which stresses Moscow's earlier proposal for a preparatory commission rather than a full-fledged conference of all parties.

This formula was advanced publicly in Gomulka's report on 15 June to the Polish Party Congress in which he vigorously denounced Chinese "delaying tactics." He cautioned that a world conference "requires patient and good preparations" and rejected Peiping's right to veto such preparations. Gomulka urged that a committee composed of parties representing the "most important areas of the world" begin preparations in the "very near future." This committee would conduct preliminary discussions on a conference agenda, prepare draft documents, and fix the date for the international conference. Gomulka declared that the opposition of "one party or a few parties" should not be an "impassable barrier" to a conference, but he deleted a highly charged sentence from his advance text which asserted that parties refusing to participate in such a meeting "will prove that they have placed themselves outside the international movement."

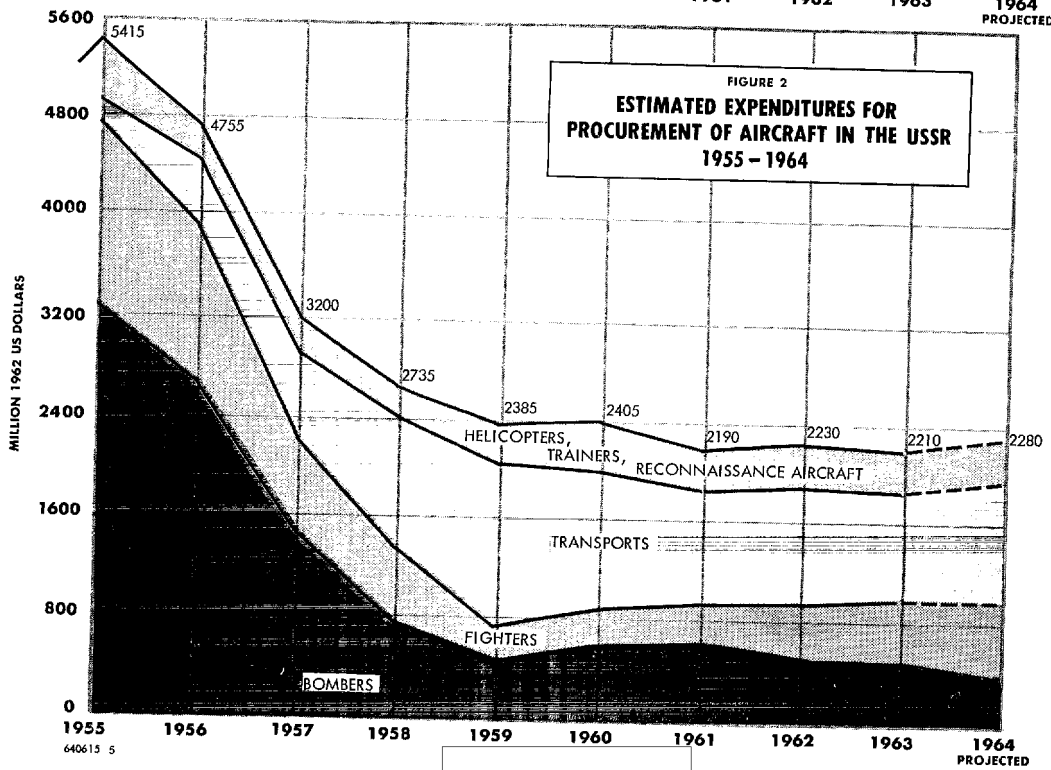
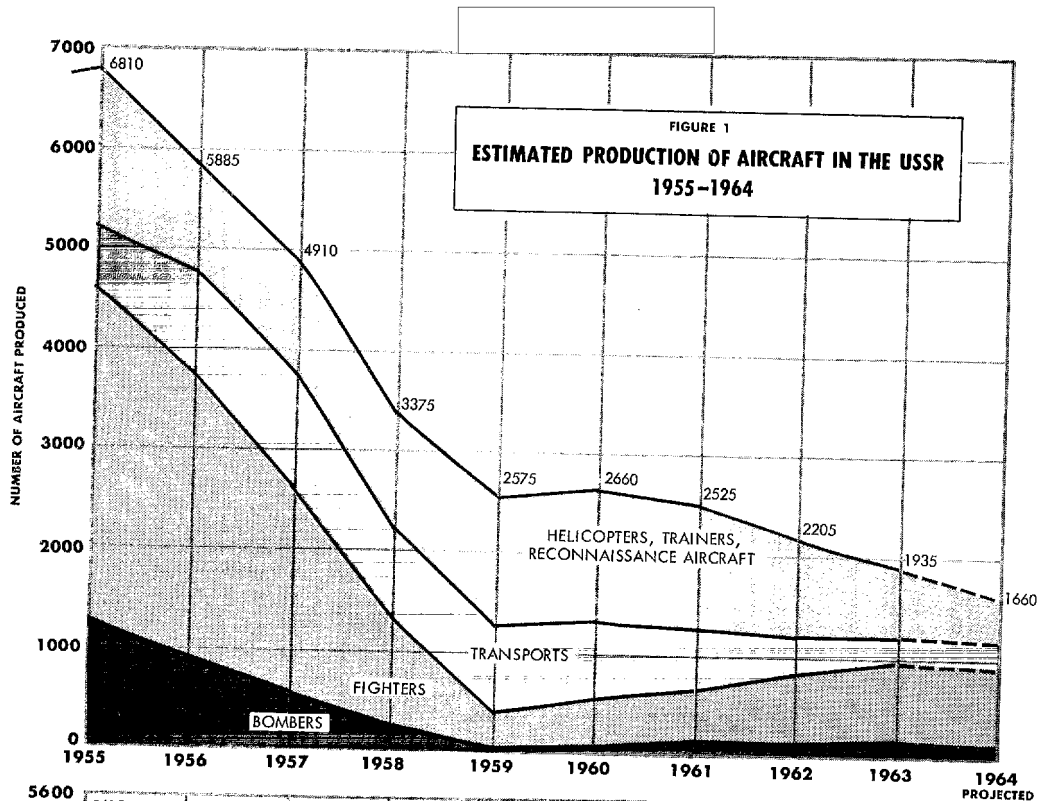
Soviet party secretary Podgorny, who headed the Soviet delegation, welcomed Gomulka's speech, which was more forthright than Poland's earlier equivocal statements supporting the USSR's position. Podgorny underlined the "identity" of the Soviet and Polish parties on the question of Chinese "splitting activities" and agreed that conference preparations should begin "as soon as possible."

The Soviet leaders clearly believe it will be easier to rally an impressive majority in favor of preparatory talks than to get support for a formal conference. This tactic would place the Chinese, who want to postpone such talks until next year, in a vulnerable position. Several key foreign parties, which have been unwilling to endorse an early conference, have indicated approval of preparatory discussion.

Although the Soviet leaders are determined to maintain pressure for a conference as a means of checking the disarray in the Communist world, they are trying to overcome foreign reluctance by constant assurances that the purpose of such a meeting will be to "strengthen the unity and cohesion" of the movement, not to excommunicate the Chinese and their allies. Khrushchev, however, could not conceal his impatience with foreign Communist "neutralists" in his 12 June speech when he declared "it would be unpardonable for Communists to sit with folded arms and wait for the disagreement to resolve itself." 25X1

SECRET

25X1



25X1

SECRET

The Communist World

RECENT TRENDS IN SOVIET AIRCRAFT PRODUCTION

The number of aircraft produced in the USSR has declined steadily since 1955. Expenditures decreased from 1955 to 1960 but have since remained relatively stable. Current trends are expected to continue through 1964.

The percentage of combat aircraft dropped from 70 percent of the total production in 1955 to 15 percent in 1959, then began to rise, and will probably level off by the end of this year at 55 percent. This increase is occurring as supersonic aircraft, primarily fighters, are built to replace subsonic aircraft produced in the early and mid-1950s when Soviet production of military planes was at its height. Combat types, which accounted for nearly 90 percent of all expenditures for aircraft in 1955, have accounted for a stable 30-45 percent since 1959 and are expected to absorb 45 percent of the total in 1964.

The disparity between this relatively steady rate of expendi-

tures for military aircraft and the rising portion of total numbers of aircraft that are combat models can be attributed to two principal factors: more money for combat aircraft is being directed to fighters and less to bombers; spending for noncombat aircraft is shifting to more costly, higher performance models.

In 1964, up to four new models of transport aircraft will be introduced, while production of the current four turboprop models will be continued at a reduced level.

The number of fighters and bombers to be produced this year will not differ enough from 1963 to cause major changes in costs or resources used. No heavy bombers are either in production or anticipated. No major changes are anticipated for medium or light bombers; the single model of each now in production will be continued. There may be a slight increase in the continued output of four models of fighters.

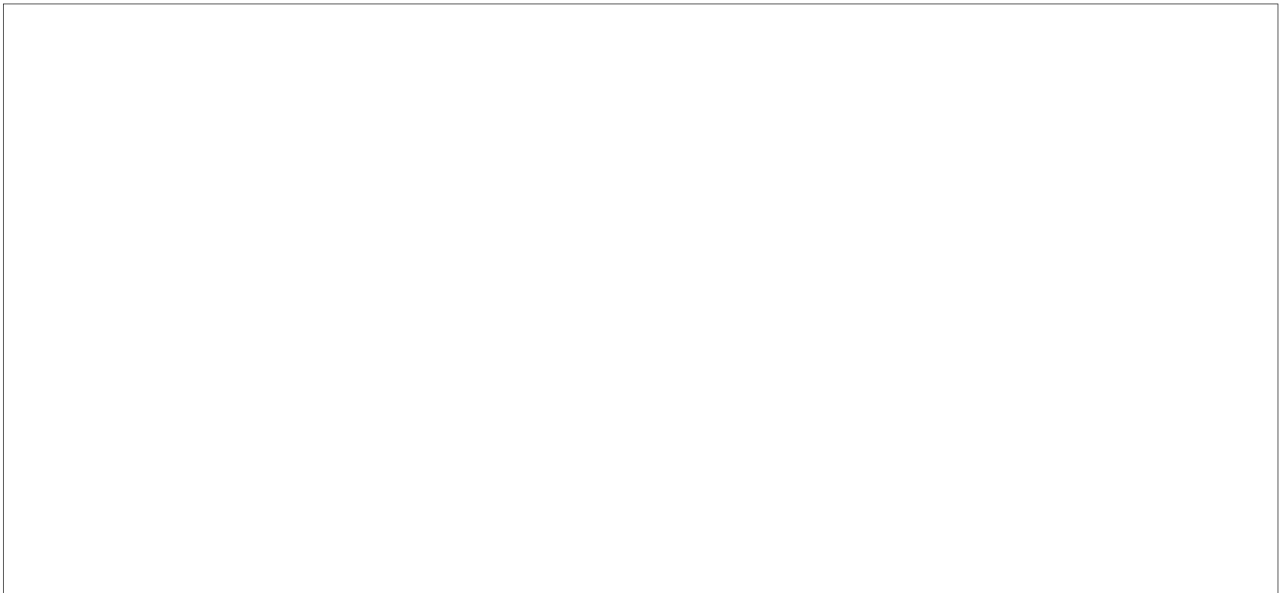
25X1

25X1

SECRET

SECRET

The Communist World



25X1

AREA NOTE

Chinese Communist Trade:
Peiping's trade with the non-Communist world continues at a record pace, with China buying large amounts of agricultural goods as well as increased quantities of industrial products that it formerly bought in large part from the Soviet bloc. This trade last year rose about 20 percent to an estimated \$1.5 billion--accounting for nearly 55 percent of China's foreign commerce. Trade in 1964 may be even larger.

Trade with the Far East accounts for the largest part of this upsurge. Sino-Japanese trade is expected to increase over 40 percent this year to about \$200 million. Peiping's exports to Hong Kong, its main source of foreign exchange, are

running well above last year when they earned China a record \$250-million trade surplus.

In Western Europe, the Chinese have purchased at least \$50 million worth of complete plants since mid-1963. A spokesman for a Dutch trade group recently reported additional sales of fertilizer plants, ships and other heavy industrial equipment to China.

Peiping has already ordered about 5 million tons of grain in the West this year compared with a total of 5.7 million tons in 1963, and is buying cotton at a rate that will roughly double last year's purchases of about 300,000 bales.

25X1

SECRET

SECRET

The Communist World

PEIPING STEPS UP ACTIVITIES IN MIDDLE EAST

Peiping's \$28-million long-term credit to Yemen is the latest Chinese move to compete with the Soviet Union for influence in the Middle East. Peiping has never had any significant influence with the Communist parties in this area and is therefore concentrating its main effort on fostering contacts with nationalist government leaders.

Under the terms of the 20-year, interest-free arrangement concluded during President Sallal's visit to Peiping early this month, the Chinese will build a new road through rebel-held territory from Sana to Sada, repair the Sana-Hudaydah road, and construct a hospital and textile factory. Original construction of the Sana-Hudaydah road, completed in 1961, was financed by a Chinese credit of \$16 million extended six years ago. About 1,000 Chinese came to Yemen to build that road, and the latest agreement will probably bring a new wave of Chinese technicians and laborers.

After announcing the assistance to Yemen, Peiping opened a bitter attack on Soviet aid to underdeveloped areas. At the Second Afro-Asian Economic Seminar in Pyongyang on 20 June, the chief Chinese delegate warned that acceptance of Soviet aid will wreck a country's economy and make it dependent on Moscow. Citing Peiping's own experience, he charged that Soviet foreign aid serves only Moscow's "great-power chauvinism and national egotism."

In its competition with the Soviet Union, Peiping is forced to rely on polemical attacks to make up for the modest quantity and relatively primitive character of its own aid programs, which achieve greatest success in backward areas like Yemen.

Syria has recently become a center for China's stepped-up propaganda efforts. Baath Party secretary general Aflaq has termed the Chinese Communist envoy the most active in Damascus. New China News Agency publishes a daily bulletin which is distributed to various political and commercial groups.

Central to Peiping's propaganda campaign has been renewed emphasis on the emotion-charged Palestinian problem. The Chinese hope to curry Arab favor by contrasting Peiping's wholehearted support for militancy against Israel to Soviet endorsements of a peaceful settlement. Liu Shao-chi at a mid-June banquet for visiting Sudanese President Abboud, for example, pledged Chinese support for the Arabs' efforts to regain their "proper rights" in Palestine. Politburo member Peng Chen at a rally for Yemeni President Sallal, pointedly hailed the Arabs' efforts to achieve unity "in their own methods"--in an obvious effort to capitalize on Khrushchev's gratuitous advice to the Egyptians during his recent Cairo visit that Arab unity should be based on proletarian solidarity, transcending ethnic boundaries.

SECRET

CHANGES IN THE POLISH PARTY LEADERSHIP

AFTER THIRD CONGRESS (March 1959)	AFTER FOURTH CONGRESS (June 1964)
POLITBURO	
Cyrankiewicz Gomulka Gierek Jedrychowski Kliszko Loga-Sowinski Morawski ("Resigned" November 1959) Ochab Rapacki Spychalski Zambrowski (Removed July 1963) Zawadzki	Cyrankiewicz Gomulka Gierek Jedrychowski Kliszko Loga-Sowinski Ochab Rapacki Spychalski Szyr * (Deputy Premier - Investments) Waniolka (Deputy Premier - Industry) Zawadzki *
CANDIDATE POLITBURO (Created at 4th Congress)	
	Jagielski (Minister of Agriculture) Jaroszewicz (CEMA Representative) Strzelecki
SECRETARIAT	
Albrecht (Removed January 1961) Gomulka Gierek (Dropped at 4th Congress) Jarosinski Jaszczuk (Co-opted July 1963) Kliszko Matwin ("Resignation Accepted" November 1963) Morawski (Replaced Ochab from May 1957 to January 1960) Ochab (Co-opted January 1960) Starewicz (Co-opted July 1963) Strzelecki (Co-opted January 1960) Zambrowski (Removed July 1963)	Gomulka Jarosinski Jaszczuk Kliszko Ochab Starewicz Strzelecki Tejchma **
* Ex - Stalinists ** May assume Ochab's agricultural responsibilities	
640623 5	26 JUNE 1964



SECRET

The Communist World

THE FOURTH POLISH PARTY CONGRESS

The Polish party congress from 15 to 20 June demonstrated that Gomulka has reasserted his dominance over dissident party factions. His keynote address suggested that his present conservative policies will continue essentially unchanged, although he moved slightly closer to Moscow's side in the Sino-Soviet dispute.

While the personnel changes made at the conclave do not affect the continuity of top party leadership, Gomulka nevertheless did allow several appointments which give the hard-liners an increased role in party affairs. He apparently was trying to focus the party's attention on certain of the country's basic problems: agriculture, trade, and security.

Those elevated to more responsible party positions are men experienced in the economic-administrative apparatus. The politburo was increased from 10 to 12 by the addition of deputy premiers responsible for

investment planning and industrial technology. Two of the three candidate members of the politburo--a new organizational category--hold high government economic posts. The third is hard-line security boss Ryszard Strzelecki.

Gomulka's purge from the central committee of "ideologically alien" elements of both right and left indicates a strengthening of the party's center group, but at the cost of flexibility and imagination in party policies. Men who have opposed Gomulka's rigidity in the past were dropped from the new 85-member central committee, while its 27 new members are predominantly colorless but competent functionaries.

The renewed emphasis on ideological commitment and vigilance against "alien ideological influences" suggests that there will be little liberalizing of domestic policies in the immediate future.

25X1

SECRET

SECRET

The Communist World

RUMANIAN - YUGOSLAV - SOVIET RELATIONS

Rumania's increasingly outspoken defense of its independent position in the Soviet bloc appears to have given rise to the hastily arranged border meeting between the Rumanian and Yugoslav leaders on 22 June. The Yugoslavs probably urged Rumanian Party first secretary Dej to proceed with caution in his campaign for independence, and Dej, for his part, probably tried to capture Tito's support.

After his meeting with Khrushchev in Leningrad on 8 June, Tito told the US ambassador to Belgrade he thought Dej was moving too far in criticizing and attacking the USSR

The Yugoslavs favor Rumania's drive for independence, and do not appear worried about

its economic contacts with the West. They seem, however, to be concerned that Rumanian behavior may have repercussions which would endanger European stability and the trend toward improved East-West relations. They also fear that Bucharest's continued open attacks on the Soviet Union will undermine Khrushchev in his dispute with the Chinese Communists.

Rumania's long-standing, uncommitted position in the Sino-Soviet dispute--at odds with that of other countries in Eastern Europe--emerged again during the recent Polish party congress. The Rumanian delegate, politburo member Emil Bodnaras, did not even mention the Chinese in his speech and did not back the Polish proposal for a Communist preparatory conference as soon as possible.

SECRET

SECRET

The Communist World

YUGOSLAV - WEST GERMAN RELATIONS

The prospects for improved Yugoslav-West German relations seem considerably brighter than at any time in the past year.

In "friendly" talks on 12 June, contrasting sharply with the coolness of previous informal meetings, Bonn proposed renewing formal negotiations on economic issues and offered to grant some of the economic concessions Yugoslavia had earlier demanded. On 26 June the two countries will begin negotiations on this offer and on a new trade protocol to replace the one expiring at the end of this month.

Yugoslavia has considerably toned down its criticism of the Bonn government, which in turn quashed charges that had been brought in West Germany against Yugoslav Vice President Rankovic for alleged war crimes.

Yugoslavia also appears to be adopting a conciliatory attitude on some of the political issues which divide the two countries, such as West German indemnification for Yugoslav World War II losses. At the 12 June meeting, Yugoslav negotiator Drndic indicated that his government might settle temporarily for a Bonn statement recognizing a moral obligation to take up the indemnification question when circumstances permit.

If the economic talks are successful, Drndic hopes for political discussions which might lead to restoring the "missions" withdrawn in 1957 when West Germany broke relations because Yugoslavia recognized East Germany.

Drndic further stated that even if high-level talks stalemated, Yugoslavia would welcome discussions along the lines of a "Trieste-type solution"--an idea which has appeared frequently in Belgrade commentaries in recent weeks but has not been spelled out. Presumably, this would involve some form of third-party mediation.

In spite of these conciliatory gestures, however, the divisive issues which remain could disrupt the coming talks. Yugoslavia still is sensitive about Bonn's failure to control the activities of the Ustashi terrorist elements in West Germany. Bonn suspects that Yugoslavia might be campaigning for recognition of East Germany among the unaligned nations, and on 8 June officially accused the Yugoslav Government of preparing such a campaign for the coming unaligned conference. Yugoslavia continues to deny these accusations but has not yet responded to the protest.

25X1

SECRET



SECRET

Asia-Africa

THE SITUATION IN LAOS

Laotian Premier Souvanna has called for a sharp step-up in military action against the Pathet Lao. In a meeting with US officials on 23 June, he outlined plans for an attack against Pathet Lao positions in the Phou Khoun area. The plans call for about ten battalions of rightist and neutralist troops--supported by Laotian Air Force T-28s--to move against an estimated three Pathet Lao battalions. Souvanna emphasized that the success of the attack would depend heavily on large-scale US logistical support.

The proposed attack is designed to forestall an expected enemy move against the neutralist stronghold at Muong Soui.

Souvanna also pressed for increased interdiction operations against Route 7 east of the Plaine des Jarres as well as for continued strikes against Pathet Lao depots on the Plaine. He urged maximum US support of these operations.

On 20 June, a spokesman for the pro - Pathet Lao dissident neutralists under Col. Deuane issued a statement strongly condemning Souvanna as responsible for the continuing Laotian Air Force attacks against Communist positions. Branding

him "the new lackey of US imperialism" the statement warned that if Souvanna continues his present course the "Laotian population will surely overthrow him."

On the diplomatic front, Souvanna and Pathet Lao chief Souphannouvong have remained at odds over arrangements for renewed tripartite talks. Souvanna, although agreeable to a meeting at Luang Prabang, has refused to yield to the Pathet Lao demand that the town be demilitarized. Souphannouvong has not responded to Souvanna's suggestion that talks be held in a neutral city outside Laos.

Probably anticipating an eventual acceptance, the Polish Foreign Ministry, working with the British ambassador in Warsaw, now has proposed tripartite talks outside Laos to determine whether conditions exist for reconvening the Geneva conference. Representatives of both the Geneva co-chairmen and the governments participating in the International Control Commission would attend. The co-chairmen would then report to ICC members with a recommendation to reconvene the Geneva conference "should the results so warrant." Communist China has also called for tripartite meetings.

25X1

SECRET

SECRET

Asia-Africa

SUMMIT MEETING ON MALAYSIA-INDONESIA DISPUTE BREAKS DOWN

The dispute between Indonesia and Malaysia now may intensify following the failure of the Tokyo summit meeting last week. Although the two agreed in principle to a Philippine proposal that a four-nation Afro-Asian conciliation commission consider the dispute, Malaysian Premier Rahman said he would not act on this proposal until all Indonesian guerrillas are withdrawn from Malaysian Borneo. Indonesia's Sukarno in turn continued to insist on a "return to the Manila agreements" which Djakarta alleges called for a "new" survey to determine opinion on Malaysia in the Malaysian Borneo states and for the elimination of all British bases in Malaysia.

The heads of government agreed at Tokyo that their for-

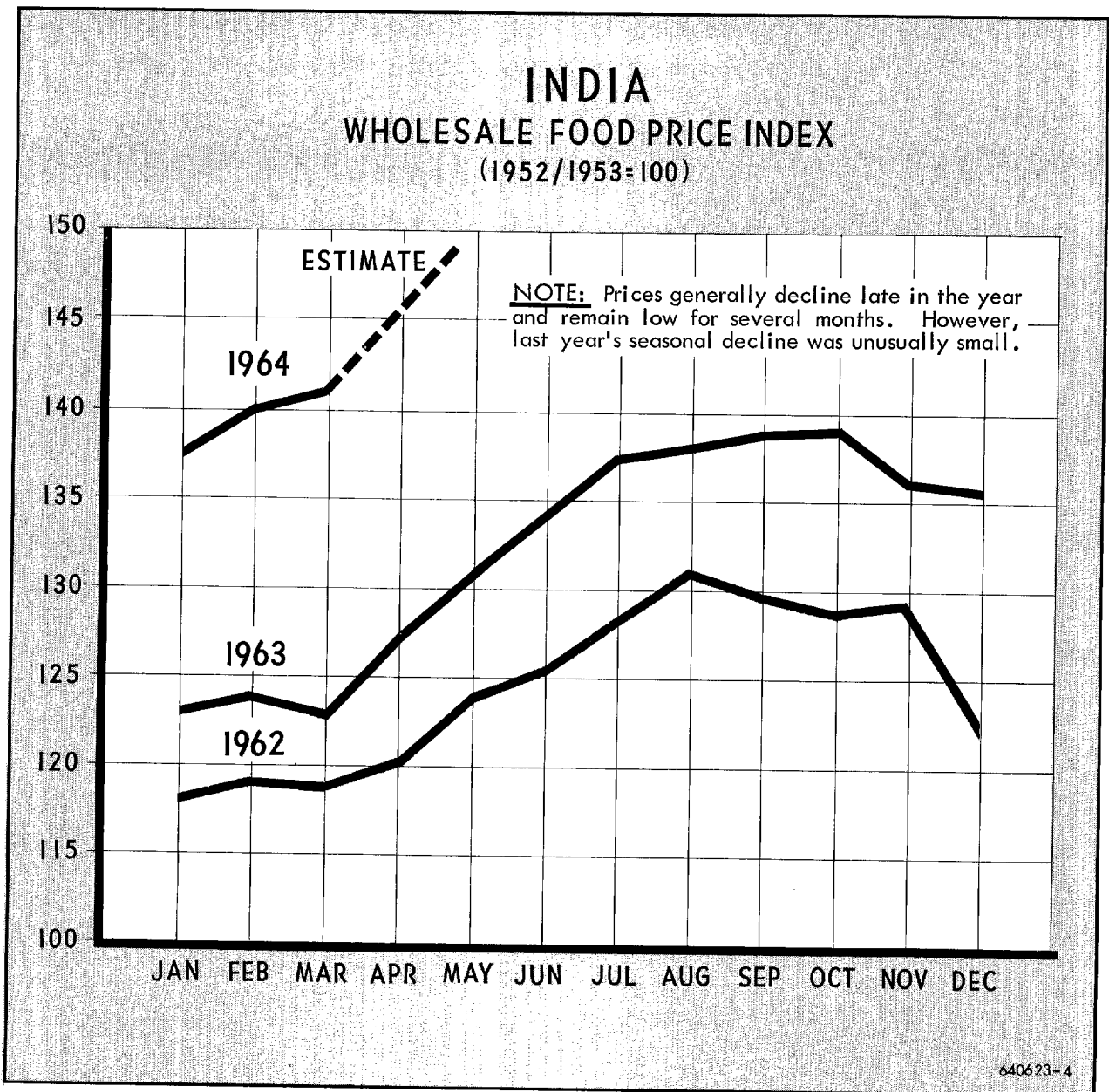
eign ministers would meet for further talks, "at some future date," and the Philippines continues to try to mediate the conflict. Both adversaries have heightened their propaganda attacks, however. Djakarta has charged Malaysia with being "isolated before Afro-Asian opinion," while Kuala Lumpur, citing Indonesia's clear and obvious aggression, says it is considering taking the dispute to the United Nations.

The Indonesians have never ceased planning further guerrilla and subversive operations against Malaysia. On 21 June--the day after the talks broke down--approximately 100 Indonesian guerrillas attacked Malaysian security forces about two miles inside Sarawak, killing five Gurkhas and wounding five more.

25X1

* * *

SECRET



SECRET

Asia-Africa

INDIA CONTENDS WITH SOARING FOOD PRICES

The new Indian Government is considering tighter controls on food distribution as part of its effort to solve what Prime Minister Shastri has termed India's "most formidable" problem --rising prices.

Food prices have been the main factor in a 7-percent increase in over-all living costs for the working-class consumer during the past year. The Indian Government estimates that prices of principal food grains have risen 17 percent since June 1963--as high as 100 percent in some localities. Comparable increases have occurred in other food prices. Although the pinch felt by the already undernourished consumer has not yet led to major unrest, tension is mounting, and labor union protests may soon shatter the new Shastri government's "honeymoon."

Wheat prices reached unseasonably high levels late last year as a result of the decline in wheat production during 1962-63--a shortfall typical of India's general lag behind planned agricultural output. The problem was compounded in January, when unusually cold and dry weather in the north presaged a poor spring wheat harvest this year. Hoarding and grain speculation added to the normal upward pressure on prices caused by local shortages. Hoarding

has also recently pushed up the price of rice, India's major food crop. Despite a record high in rice production last year, deliveries to the market are more than 15 percent below normal.

Having staked much of its prestige on curbing inflation, the Shastri government has devoted a major portion of its early policy deliberations to the food price problem. An urgent three-day conference between the central government ministers involved and the chief ministers of the states--begun on 24 June--may lead to additional state trading and control over retail distribution. Such a program would be costly to administer, however, and could aggravate the malady by causing an inflationary increase in government deficits.

A political obstacle to any solution is likely to arise from local Congress Party leaders in many of the afflicted areas. Grain middlemen are often allowed to reap windfall profits from price imbalances in nonelection years while the political bosses look the other way. In return for this the middlemen are tapped, in election years, to contribute heavily to party coffers.

25X1

SECRET

SECRET

Asia-Africa

DEVELOPMENTS IN THE CYPRUS DISPUTE

The present Turkish Government may be willing to make some concessions to solve the Cyprus problem, but recent developments indicate that Prime Minister Inonu might have difficulty in carrying through a less rigid policy.

Inonu won a vote of confidence on 19 June by only a very slim margin and could face even more serious opposition from the Justice Party and possibly the military if his Washington talks this week fail to show some advance for Turkey's position on Cyprus. Inonu has been a moderating influence, and a government dominated by either the Justice Party or the army would be less inclined to heed warnings against military intervention.

Greece has now reacted to the Turkish invasion threats by

stepping up its military support for the Greek Cypriots. Large numbers of Greek Cypriot students, who have received military training in Greece, landed in Cyprus during the past week

25X1

Turkish Cypriot reaction to the return of former EKO leader George Grivas has been relatively mild. The Turks evidently feel that Grivas' presence does not significantly alter the situation. His activities will strengthen anti-Communist Greek Cypriot elements.

25X1

SECRET

Asia-Africa

MOROCCAN-ALGERIAN BORDER INFILTRATIONS

Although Morocco's King Hassan is taking positive steps to avoid open conflict with Algeria, recent events have strengthened his conviction that President Ben Bella seeks eventually to unseat him.

On 9 June, Moroccan security forces "eliminated" a band of Moroccan dissidents attempting to infiltrate from Algeria. Hassan sent emissaries to talk with Ben Bella on 13 June, but was careful not to imply that the Algerian President was personally responsible for the dissidents' activity.

Ben Bella in turn has denied flatly that Algiers knew about or was in any way involved in the incident, or that it supplied Moroccan dissidents with arms, money, or training. Ben Bella promised to investigate.

King Hassan has also ordered his army command to clean up the Moroccan frontier area with a minimum of fanfare and bloodshed.

A Moroccan Foreign Ministry official speculated to the American Embassy last week that Ben Bella, if given enough Soviet materiel and despite his denials, might create an anti-Moroccan diversion to distract attention

from his internal security problems. Algiers itself seems to be taking a serious view of these problems; it has "suggested" that several foreign dignitaries cancel visits they were scheduled to make in the next few weeks. The Moroccans draw the conclusion that the West should support them "as the remaining stable element in northwest Africa." They imply that this support should include the arms that Morocco has been trying to get from Western sources.

Nonetheless, a facade of improving relations between Algeria and Morocco is being erected. By mid-May, Rabat and Algiers apparently decided to resume full diplomatic relations and to seize the initiative from the arbitration commission which the Organization of African Unity had appointed last November to recommend means of settling their border dispute.

On 25 May, they revived the mixed Moroccan-Algerian commission set up just prior to the clashes last October. Although the two negotiating sessions held have been described as a "dialogue of the deaf," the commission will meet again in Algiers on 8 July to maintain appearances of amity.

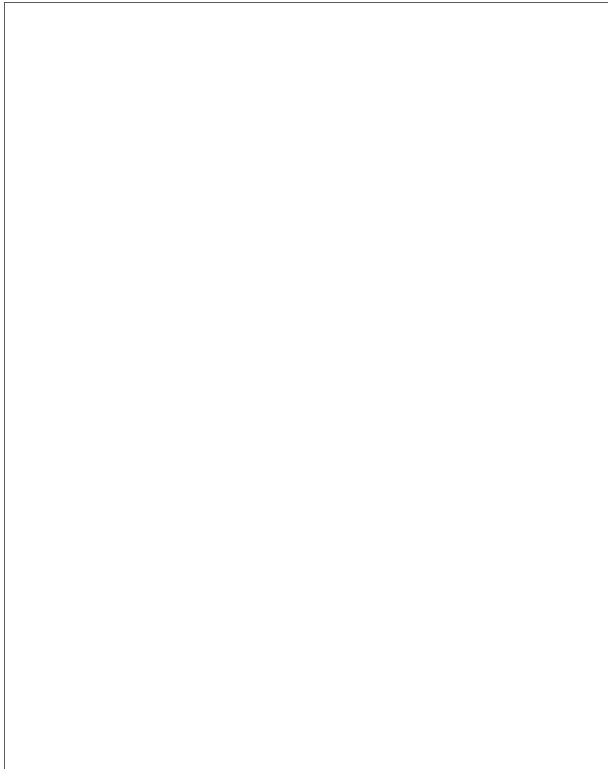
SECRET

SECRET

Asia-Africa

CONGO REBELLIONS STILL SPREADING

The Congo National Army (ANC), unable to cope with new outbreaks of dissidence, appears to be near collapse in several areas, and Leopoldville seems unsure what to do.



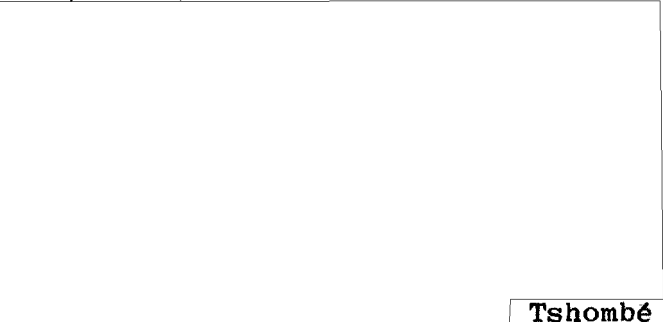
In Stanleyville, once the seat of Antoine Gizenga's left-wing regime, the ANC detachment still controls the city even though there was an arms-gathering raid on 20 June by dissidents --possibly from the newly formed

antigovernment "Popular Liberation Army." [redacted]

25X1

In Kivu Central Province, the ANC appears to be making little new progress against the insurgents. 25X1

Political maneuvering in Leopoldville continues and the composition of the new government which President Kasavubu must appoint by 30 June, when the mandate for the present government runs out, has not been determined. 25X1



Tshombé announced on 24 June he would return at once "at the invitation" of the Leopoldville government.

If the former Katangan president is unable to gain a dominant position in Leopoldville or one which would facilitate his ultimate ascendancy, he may well use his force of 3,000 gendarmes in Angola to re-establish himself in Katanga.



25X1

SECRET

SECRET

Asia-Africa

TANGANYIKA MOVES SLOWLY TO CURB ZANZIBAR PRO-COMMUNISTS

Tanganyikans and pro-Communist Zanzibaris continue to maneuver in what promises to be a long struggle for control of Zanzibar. President Nyerere is confident that the situation is improving but believes that establishing full control may take up to six months. He is determined to avoid force until all political means have been exhausted.

Nyerere's most significant move was the removal two weeks ago of Salim Rashid from Zanzibar to Dar es Salaam, where he will be junior minister of finance. Rashid, a Communist who was secretary of Zanzibar's Revolutionary Council, wielded considerable power through his influence on Vice President Karume. His successor as council secretary is a mild-mannered admirer of the Soviets who spent six years studying in Moscow.

The unpredictable Karume remains the key to Zanzibar.

He seems attracted to the ideal of African unity but is unwilling to give up the assistance that the Communists have promised him.

Last week, while four of the island's most ardent pro-Communists were absent, a team of Tanganyikan civil servants started work in Zanzibar and

two tough, able Tanganyikans took up ministerial posts chosen to keep them close to Karume. Karume has removed two of the three pro-Communist commissioners on Pemba Island following complaints about their brutal tactics. 25X1



The Communist aid program on Zanzibar continues to expand. Equipment for an East German medical clinic has arrived. The latest count of advisers and technicians lists some 37 Soviets, 29 East Germans, and 67 Chinese plus an East German trade mission which arrived last week. Eight Zanzibari civil servants are due to go to East Germany next week for training in finance. A new \$14-million Chinese development loan, which Karume and the Chinese ambassador signed on 16 June, is in addition to the \$28-million interest-free credit and \$3-million grant for the United Republic signed in Peiping the same day by Vice President Kawawa. 25X1

SECRET

SECRET

Europe

FRENCH INTEREST IN EASTERN EUROPE

It has always been a tenet of French President de Gaulle that Communist bloc unity eventually would suffer from resurgent nationalism and that Western initiatives should promote this as it developed. The current Soviet-Rumanian rift has probably deepened De Gaulle's conviction, and he may have decided that France now should step up its efforts to make its presence felt in Eastern Europe.

Minister of State Louis Joxe's visit to Yugoslavia from 18 to 23 June, the first by a high-level French official since World War II, appears to be another step by Paris to develop its contacts in that area. Paris' principal efforts in Eastern Europe are likely to center on promoting cultural exchanges comparable to the agreement Joxe signed in Belgrade. A notable feature of this agreement is a provision to increase the teaching of French in Yugoslav schools and universities.

The French already have re-established good cultural ties with Poland and Hungary, and to a lesser extent, with Bulgaria. Last December Paris raised its diplomatic missions in Budapest, Sofia, and Bucharest to embassy rank. The French Foreign Ministry has also succeeded in getting broader circulation for the French press in Eastern Europe.



On 1 June, France signed a bilateral technical agreement with Rumania providing for ex-

changes of scientific documents and of research scientists. Two similar agreements have already been concluded with Yugoslavia and the USSR. The director of the French Atomic Energy Commission has visited Bucharest and toured scientific installations. He may have tried to interest the Rumanians in a French nuclear power plant.

Paris feels satellite ties with Moscow can be further weakened by easing certain trade credit terms to bloc countries demonstrating independent tendencies. Recently, a leading Paris financial paper reported that current Franco-German talks to ease commercial credits to the satellites could be concluded on the occasion of De Gaulle's July visit to Bonn.

De Gaulle probably would like also to dispel the notion that the US is doing more than other Western countries in evolving new relations with the Eastern European states. In this regard, Paris would particularly like to increase its contacts with Eastern bloc intellectuals in the hope that they could be converted to what the French term a more "European" approach.

While De Gaulle probably has no blueprint for bringing the satellites into the confederal Europe he envisions, he seems to look on the Eastern European nations as an added weight to maintain the balance against resurgent German power.



25X1

25X1

SECRET

SECRET

Europe

THE ITALIAN GOVERNMENT'S ECONOMIC PROBLEMS

Italy's current economic difficulties continue to be the chief worry of the Moro government. The anti-inflationary measures it has taken show signs of proving effective, but additional stabilization measures are in prospect, partly to satisfy EEC requirements for credit assistance. However, a new rash of strikes threatens to accelerate inflationary trends.

The economy has shown a number of encouraging signs this year. Small balance-of-payments surpluses appeared in April and May--the first in about a year and a half--and price rises have moderated somewhat. Unemployment, although still under control, could present the most critical problem. The situation in Turin Province--the area hardest hit by the stabilization measures--is potentially serious; reportedly there are about 150,000 employees working reduced hours and layoffs are increasing.

The Italians reportedly are seeking to postpone for a week the EEC Finance Ministers' planned 29-30 June meeting--to review the Italian program. They hope this added time would allow them to overcome differences within the cabinet over the proposed new anti-inflationary measures. These are expected to be mainly fiscal, upping some luxury taxes and

public service rates. A progressively increased income tax rate on incomes of over \$20,000 is also being considered. Three additional tax measures contemplated are designed to reduce the trade deficit and will depend on EEC approval of increasing taxes on imports while permitting larger tax rebates on exports.

EEC Vice President Marjolin was in Rome last week to discuss the stabilization effort and was said to be satisfied with the effectiveness of Italian credit restrictions. According to an EEC official, the proposed EEC "credit package" may involve the equivalent of \$1 billion in long-term credits--mainly from Germany--plus "several hundred million" for use by the Bank of Italy to counteract speculation against the lira.

Labor unrest has been increasingly severe in recent weeks, with 24-hour walkouts called in several important industries. In the building industry, hard hit by the anti-inflation measures, unemployment reportedly is high and there is apprehension that the nationwide strike held this week, if repeated, might lead to a repetition of the violent demonstrations which occurred between construction workers and police last fall.

SECRET

SECRET

Europe

The two major non-Communist trade confederations did not participate in the recent railroad and building industry strikes and have often denounced the Communist confederations' strike motives as an attempt to embarrass the center-left government. They have, however, joined with the Communist con-

federation in some recent disputes over contract renewals. Wage rates have risen about 11 percent so far this year. The government is on record as saying that 13 percent is the maximum increase which could be permitted if inflation is to be brought under control.

25X1

AREA NOTE

Sweden: At its quadrennial congress earlier this month, Sweden's governing Social Democratic party deferred until 1968 a decision on the controversial issue of whether to authorize the defense forces to acquire nuclear weapons.

Defense Minister Andersson, in a speech urging support for a resolution by the party executive postponing a decision, declared that Sweden "would not

have access to sufficient quantities of plutonium until the late 1960s or early 1970s."

This decision of the congress is a victory for the moderate faction led by Prime Minister Erlander. He skillfully outmaneuvered the Social Democratic left wing which, ever since the partial test ban agreement last year, has urged the party formally to renounce acquisition of these weapons.

25X1

SECRET

Page Denied

SECRET

Western Hemisphere

NEW TERROR IN BRITISH GUIANA

A new wave of terrorist attacks in British Guiana this week seems to be the work of activists belonging to Cheddi Jagan's Progressive Youth Organization. In the most recent incident, the attackers used automatic weapons for the first time. In the last two days at least six persons have been killed, mostly from ambush or by masked terrorists. Almost all the victims are Negro, and there is a serious possibility of large-scale Negro retaliation against East Indians, particularly in the capital.

The Jagan organization is apparently seeking to demonstrate that those of its top leaders who were recently jailed are not responsible for directing the growing violence. It may also be trying to show that the governor cannot control the colony despite his sweeping security powers. Another motive may be to promote such widespread racial conflict

as to force postponement of the elections planned for later this year or to promote UN intervention. The UN Decolonization Committee voted on 23 June to send a mission to British Guiana, despite Britain's express refusal to allow such a group to enter the colony.

Meanwhile, Jagan's government has decided against resigning for the time being despite loss of its legislative majority. To a certain extent, the Negro attacks on East Indians at Wismar at the end of May reportedly have solidified East Indian support behind Jagan. Harassment by the Jaganites of the Guyana All-Indian League, a semipolitical anti-Jagan group, has probably reduced chances that this group will develop into an organization capable of attracting East Indian voters away from Jagan. 25X1

* * *

SECRET

SECRET

Western Hemisphere

DETERIORATING SUPPORT FOR ECUADOR'S GOVERNING JUNTA

After nearly a year in power, the prestige of the ruling junta of Ecuador has declined to a new low. This is due both to popular disenchantment and to military dissatisfaction over conditions in the armed forces and disillusionment with individual junta members.

The political parties now are openly critical of the government. However, they are weak and poorly organized and are presently incapable of providing strong civilian leadership. The general public remains apathetic to the politicians' attacks on the government.

There is some indication that municipal elections will soon be announced for November. This could be the first tentative step toward restoration of constitutional government. A new election law is being delayed, however, and several junta members have rejected the idea of handing power over to the civilians until political processes are reformed and the political parties manifest a greater sense of responsibility.

Efforts have been made to reactivate an antigovernment "popular front" called the Ecuadorean Democratic Alliance (ADE) which overthrew the Arroyo del Rio regime in 1944. So far, however, neither ADE nor any of several other "movements" have been able to pick up much support for antigovernment activity.

More serious for the junta in any case is its dwindling support within the armed forces, which are increasingly dissatisfied with their pay and living conditions. While there is no evidence of organized military opposition, a spirit of disloyalty is widespread, and many officers seem to think that a major personnel change in the government is needed. Even the popular air force junta member Colonel Freile has lost much of his support, as has junta president Admiral Castro Jijon.

There are rumors that Defense Minister General Naranjo, Government Minister General Mora ^{25X1} Bowen, Freile, and other officers might be included in a new executive.

There also are persistent rumors of a cabinet shake-up, possibly around the anniversary of the junta's assumption of power on 11 July. Freile has ^{25X1} implied that certain inefficient cabinet officers will soon be replaced.

SECRET

SECRET

Western Hemisphere

ARGENTINE POLITICAL TENSION

Argentina is entering a new phase of political turmoil, as public patience with President Illia's vacillation has given way to strong opposition to the government's economic policies. Nearly all vocal segments of society have been alienated and are trying to bring pressure on Illia to change his cabinet and modify his policies.

According to the American Embassy, most political parties are pessimistic regarding the future of the government. They believe the internal difficulties of Illia's People's Radical Party (UCRP) severely inhibit his regime's capacity to deal with Argentina's severe economic problems.

The catalyst releasing this antigovernment sentiment has been the "Battle Plan" of the General Confederation of Labor (CGT), which is designed to wring wide-ranging economic and political concessions from the government.

The government's steps to meet labor's economic demands have been self-defeating. These include a minimum wage tied to living costs, price controls on certain essential commodities, new exchange regulations, and

stringent regulation of the beef trade. All have failed to halt the rise in living costs, and in the case of beef, have caused shortages and a black market. The government's actions also have heightened fears in business circles that the UCRP may impose further economic controls.

Business interests also fear that extreme nationalists within the UCRP may undercut Illia's efforts to conclude satisfactory settlements with US and other foreign companies regarding their annulled petroleum contracts. Illia's continuing efforts are a matter of great concern of the military who, along with him, realize that the foreign companies are necessary to attain self-sufficiency in oil.

The military leaders do not wish to become involved directly in matters of primary civilian responsibility and will intervene only if conditions should deteriorate to the point where government policies lead to complete discrediting of the regime and popular demand for its removal.

25X1

SECRET

Page Denied

Next 4 Page(s) In Document Denied