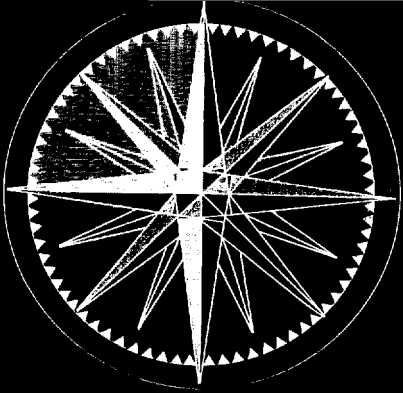


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21 January 1966

OCI No. 0273/66

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WEEKLY SUMMARY

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE



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VIETNAM

An upsurge of Viet Cong attacks was reported during the four days prior to the Tet holiday cease-fire period which began on 20 January. Mortar bombardments were directed at the provincial capitals of Quang Ngai and Quang Tin provinces, and government positions near both capitals were overrun. In Binh Dinh Province, government forces were attacked by an estimated battalion which, according to a prisoner report, was an element of the North Vietnamese 18th Regiment. Meanwhile, intensified enemy activity near Saigon resulted in moderate government losses and high civilian casualties.

An enemy document dated 4 January, which was captured by allied forces in Hau Nghia Province last week, indicates that the Viet Cong are planning to initiate intense military activity immediately upon the expiration of the Tet cease-fire period on 23 January. During the holidays, the Viet Cong apparently will generally observe a cease-fire with both South Vietnamese and allied forces, although the document revealed that a strong anti-American propaganda campaign will be undertaken during the period.

Political Developments
in South Vietnam

A joint communiqué, issued after Secretary of State Rusk

had met with Vietnamese Government leaders in Saigon on 16 January, stated that the positions of the two governments regarding peace in Vietnam were consistent in all fundamental respects. The communiqué noted that there were as yet no positive responses from Hanoi regarding recent peace initiatives and concluded that the South Vietnamese Government and its allies must continue all necessary military measures while remaining alert for all peace proposals.

Earlier, a second convention of the Vietnamese armed forces--convened by the military regime in Saigon and attended by 1,400 officers--had pledged renewed efforts against Communist aggression and approved the government's domestic program for 1966. This program included rural construction, control of inflation, and preparations for eventual civilian participation in the government. At the final and only public session of the convention, Premier Ky reviewed his first seven months in office and announced that a civilian "democracy building council" would soon be established as an initial step toward national elections scheduled for 1967.

There were allegations of dissatisfaction among lower ranking officers at the convention.

the rank-and-file delegates

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were not as enthusiastic as at the first such gathering last September. Some members were reportedly disappointed by the Military Directorate's lack of response to the delegates' recommendations at the earlier convention, and others were distracted by the forthcoming holiday and the US "peace offensive."

Strong security precautions apparently surrounded Ky at the convention as a result of reports of an assassination plot led by retired General Tran Van Don. Subsequently, four noncommissioned military police officers were arrested for involvement in the plot, although the government has not yet moved against the alleged leaders.

Hanoi on US Initiatives

North Vietnamese propaganda continued to deride US efforts to bring an end to hostilities. The Hanoi army daily published a detailed critique of the US "14-point program" and the party daily dismissed the President's State of the Union message as "no different from previous US statements." The attacks again called the "unconditional pull-out of US forces" the key to a settlement and said that the US would have to do more than allow the South Vietnamese National Liberation Front to present its views on a negotiated settlement--

it would have to "recognize the front and its program." On US willingness to use the Geneva agreements as a basis for negotiations, Hanoi said that if this were true the US should accept the DRV "four points" which are the "sum and substance of these agreements."

There is little doubt, however, that despite their intransigence, the North Vietnamese wish to encourage the longest possible cessation of bombing. The DRV probably is taking maximum advantage of the lull to repair bomb damage and move supplies.

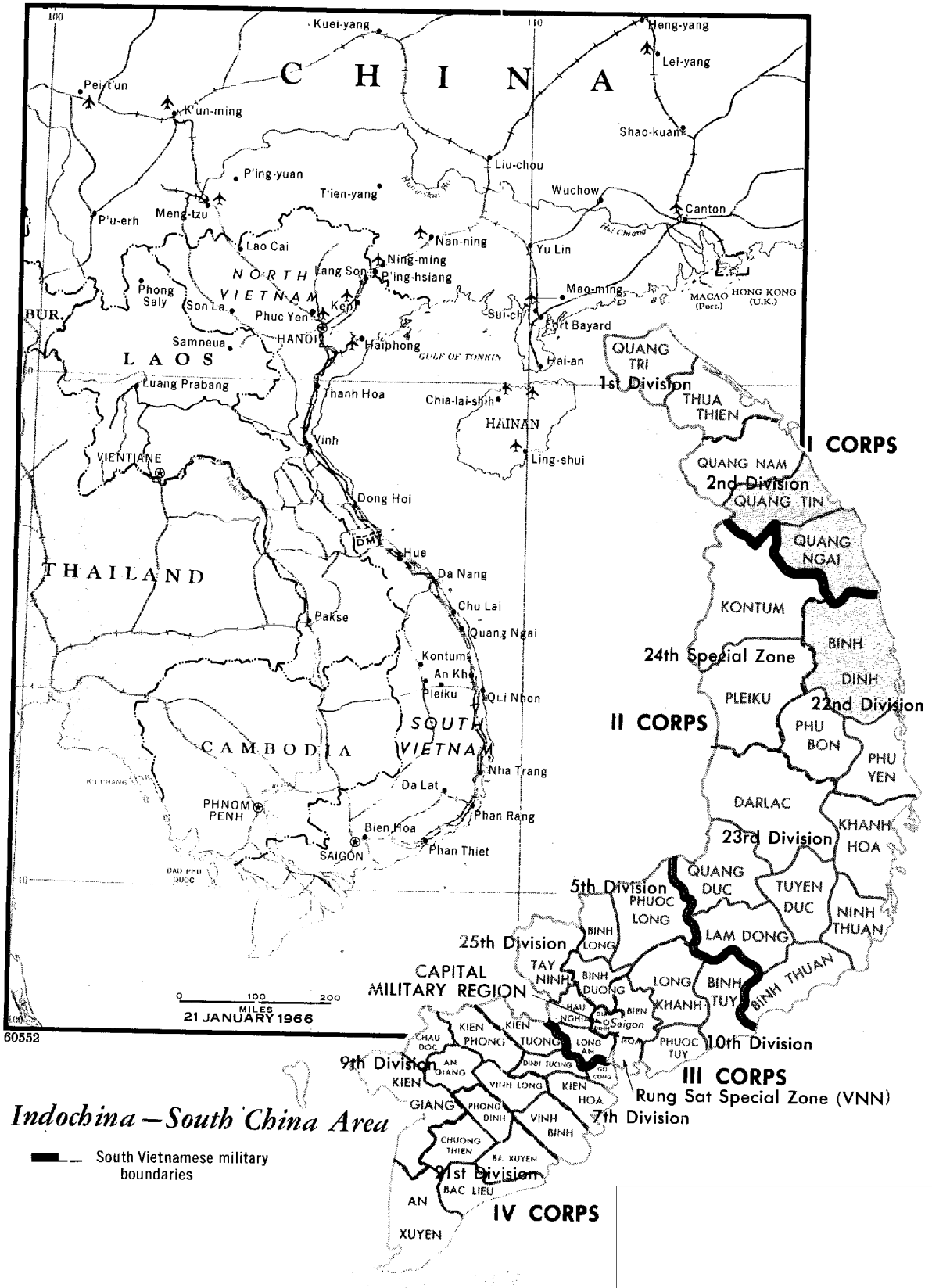
Peking Propaganda

Peking also maintained its propaganda attack against the US peace effort, underscoring allegations of US "atrocities" in an apparent effort to divert the attention of Afro-Asian nations from the adamant Chinese stand against any negotiations except on Communist terms. In an editorial on 19 January denouncing President Johnson's State of the Union message, the party daily asserted that the US was employing a "scorched earth" policy in Vietnam, "burning all, and destroying all." It also characterized the US peace effort as a "trick" designed to mask escalation of the war.

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The Indochina - South China Area

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SECRETThe Communist World

THE SHELEPIN MISSION TO HANOI

The results of Soviet party secretary Shelepin's mission to North Vietnam are not yet fully clear. The statements occasioned by the visit, however, suggest that it has led to little significant change in Soviet-DRV relations or in either party's concept of how the Vietnamese conflict should be waged.

If, as seems likely, Shelepin encouraged the North Vietnamese to give more serious consideration to political alternatives, he was apparently unsuccessful. The terse communiqué released after the visit was unusually bland, containing only the minimum to be expected in the circumstances: renewed expressions of Soviet support for North Vietnam and of North Vietnamese gratitude for the Russian aid already given, and the promise of further assistance.

What the statement failed to say is the best gauge of the results of the private talks. There was no reference to recent US diplomatic probes--which was certainly a key topic in the DRV-Soviet talks. This omission is probably a sign that the two parties were unable to achieve a consensus or even a compromise position on a proper response to the US peace probes.

There had been earlier indications in public speeches of differences between Hanoi and Moscow in their attitudes toward the US "peace offensive." The Soviets have assumed a generally noncommittal attitude, in contrast to the virulent denunciations emanating from Hanoi and Peking.

Shelepin apparently also ran into trouble in his attempts to secure North Vietnamese support for Moscow's anti-Chinese line. Missing from the communiqué was the normal plea for Communist unity in support of North Vietnam, an obviously anti-Chinese theme which ran through Shelepin's public statements in Hanoi.

There is no evidence that the Shelepin visit will bring any drastic changes in the extent or type of Soviet military and economic aid. Military assistance has thus far been primarily defensive in nature, but of a gradually increasing level of sophistication. According to the final communiqué, a new agreement on additional, unspecified assistance was signed and "specific questions" concerning further Soviet help for North Vietnam's economy and defense were discussed.

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BREZHNEV'S VISIT TO MONGOLIA

Soviet party chief Leonid Brezhnev's visit to Mongolia from 12 to 17 January appears to have been intended in part to emphasize Peking's isolation in the Communist world. The stature of the Brezhnev delegation--which included Defense Minister Malinovsky and Foreign Minister Gromyko--and its timing--coincidental with the close of the Tashkent meeting and the Shelepin mission to Hanoi--underscored Moscow's campaign to check the expansion of Chinese influence in Asia.

The communique ending the visit highlighted the "full identity and community of views" of both countries on all of the many foreign policy positions cited. It also called for "joint actions in the common struggle against imperialism," a line aimed at China, which has openly refused to cooperate. In a speech on 16 January Brezhnev defended the principle of "peaceful coexistence," stating that Soviet foreign policy sought to "liquidate the hotbeds of war and to settle international controversies by negotiations." At the same time, however, he supported the North Vietnamese and the South Vietnamese Liberation Front positions on the question of a Vietnam settlement but emphasized the need for unity.

The visit culminated with the revision and renewal of the 20-year-old Treaty of Friendship,

Cooperation, and Mutual Assistance between the two governments, thus accomplishing its announced purpose. The treaty, which is general in scope, calls for increased cooperation in the military, political, economic, and cultural fields. It includes provisions for mutual consultation and joint measures to ensure the security of both countries. In contrast with the 1946 treaty, the language of the new agreement reflects an attempt to portray Mongolia's status as an "equal" partner.

The high rank of the Soviet delegation as well as the praise heaped upon Mongolian party boss Tsedenbal's government also reflects Moscow's desire to enhance the prestige of the present Mongolian leadership, which has been subject to criticism from nationalist elements during the past several years. One of the major criticisms of Tsedenbal had been his subservience to Moscow.

Brezhnev's visit also drew considerable Mongolian praise for Soviet economic assistance. Only recently the USSR wrote off a big portion of Ulan Bator's debt which had resulted from sizable Soviet support of the third five-year plan (1960-65). The Soviets have also announced a one-third increase in their contribution to the current plan.

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COMMUNIST CHINA'S LEADERS OUT OF PUBLIC VIEW

Mao Tse-tung has not made a public appearance since 26 November, and his deputy, Liu Shao-chi, was out of public view between 21 November and 20 January. Other top leaders, including Premier Chou En-lai, party secretary Teng Hsiao-ping, and Peking Mayor Peng Chen, have continued their usual round of public activities.

Mao Tse-tung customarily retreats to a villa in east or central China during the winter and spring. Last spring he was out of sight for two months. Liu's absence was more unusual, however. As chief of state, he is expected to make frequent ceremonial appearances and to receive foreign diplomats and many visitors. Liu is rarely out of the public eye for more than two weeks at a time, and then usually in the summer. His recent absence was the longest since 1957.

The regime has continued to give heavy propaganda attention to both men, as if to give the impression that they were active and well. People's Daily on 1 January broke precedent by publishing an informally posed photograph of Mao Tse-tung smoking a cigarette, plump, smiling and obviously in good health and spirits. New Year's Day portraits in the past have been formal poses.

The lengths to which Peking will go to make it appear that Mao and Liu are active are demonstrated by the publication on the front page of the 9 December People's Daily of inscriptions in their own calligraphy commemorating an obscure and normally un-

publicized anniversary--in this case the 20th anniversary of the broadcasting industry.

On 11 December Liu Shao-chi reportedly presided over a "recent" conference on education, and his name has appeared frequently in the press in connection with the sending and receiving of diplomatic messages and the appointment of ambassadors.

The protracted absence of Mao and Liu does not necessarily mean they have been seriously ill. Both are reported to have had serious illnesses in the past, but they seemed to be in relatively good health during their numerous appearances last fall. Their recent apparent inactivity

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does suggest that Mao, now 72, and Liu, 67, are slowing down, and that younger, more vigorous men like the militant Teng Hsiao-ping must be playing a more active role in determining national policies. The simultaneous absence of the two top leaders also

underscores the possibility that Liu, the heir apparent, might not be on the scene much longer than Mao. If so, this would complicate the process--always difficult in a totalitarian state--of attaining an orderly succession to leadership. [redacted]

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POLISH CHURCH-STATE STRUGGLE DEEPENS

Worsening church-state relations in Poland have led to a direct exchange of emotional speeches by party chief Gomulka and Cardinal Wyszyński, but both protagonists have retained room for maneuver. The confrontation reflects the regime's failure to deter the Roman Catholic primate from defending the Polish episcopate's incipient semipolitical dialogue with the German Catholic episcopate.

Coming in the wake of the regime's ban on foreign travel by Wyszyński, Gomulka's speech of 14 January capped a month-long attack against the episcopate. Gomulka demanded political loyalty from the church, but hinted that limited church-state political cooperation was still possible if the church did not challenge the state's foreign policy. Previously, the regime had formally discouraged all church political activity in the foreign policy sphere. Gomulka absolved the episcopate of making concessions on the Oder-Neisse frontier, but termed the bishops' letter of 18 November to the German hier-

archy which touched on the subject "badly formulated."

Although Wyszyński in a sermon on 15 January acknowledged Gomulka's concessions, his sharp rebuttal of the party chief's charges may reflect hopes that domestic and international pressures can yet induce the regime to temper its antichurch stand. Vatican support for the cardinal was contained in a papal message read in Polish churches on 15 January, the same day that England's Roman Catholic primate Heenan called for world condemnation of the Polish regime's antichurch drive.

There seems little popular alarm over the church-state struggle as yet. However, Gomulka's awareness of the explosiveness of this issue is another factor which could lead to an elaboration of some of the conciliatory aspects of his speech and a backoff from extremes--a policy which the regime has followed in past church-state confrontations. [redacted]

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EAST GERMANY HARDENS POLICY ON CULTURAL AFFAIRS

The East German (GDR) regime, which reluctantly relaxed its rigid cultural policies in 1963 and 1964, has begun to revert to greater restrictiveness. The new keynote was sounded at the December plenum of the party (SED) central committee simultaneously with a propaganda campaign against deviating intellectuals. This was quickly followed by the firing of Minister of Culture Hans Bentzien, the regime's scapegoat, and of many officials in cultural organizations.

The period of cultural relaxation, in the eyes of SED conservatives, led to growing antiregime, decadent, or pornographic themes in many works of art. Writers such as Stefan Heym and Werner Braeunig, playwright Peter Hacks, and beatnik cabaret performer Wolf Biermann criticized the party and life in East Germany rather openly. Perhaps more important than this development, however, was a growth in restiveness among youth which party conservatives linked to "Western influences" allegedly allowed to infiltrate East Germany during this period.

Encouraged by recent harsh criticism of cultural dissidents in the USSR and a crackdown in Czechoslovakia--earlier pressure from Prague had been instrumental in the GDR's decision to relax restraints two years ago--regime leaders spelled out their grievances in detail at the December plenum. Leading the way, Erich Honecker, the number two man in the SED, criticized by name several writers, literary publications, and radio-TV and cinema productions.

Continuing attacks on Biermann and other writers suggest the regime will pursue its harsh line against prominent artists as well as cultural organizations. While the artists presumably will remain restive, they have shown no ability to organize themselves into an effective countermovement. The fawning self-criticism now prevalent indicates that intellectual discontent will remain splintered and, perhaps for the immediate future, muted.

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THE PARTY'S FEET

BALLAD BY WOLF BIERMANN

There once was a man
Who put his foot,
His naked foot,
Into a dung heap.

He was much repelled
By that one foot.
He didn't want to take another step
With that foot.

And no water was there
With which to wash his foot;
For his one foot
There also was no water there.

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Then the man took his hatchet
And hacked off that foot;
That foot he hacked off
In haste with his hatchet.

His haste was so great,
He hacked off in haste
The clean foot,
The wrong foot.

Then he got mad
And made a resolve
To hack off with his hatchet
The other foot.

His feet lay there,
His feet grew cold.
Before them, chalk white,
Sat the man on his backside.

The party has hacked off
So many, many feet;
So many good feet
The party has hacked off.

However, in contrast to
The man cited above,
The party's feet often
Grow back on again.

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SECRET**NEW SOVIET AID EXPLOITS BORDER REGIONS**

The USSR has started its 1966 foreign aid program by extending a \$290-million economic credit to Iran. Repayable over a 12-year period at 2.5 percent interest, the credit is to be used to finance the construction of a steel plant and a machine tool factory and for assistance in laying a 620-mile natural gas pipeline from Iranian fields to the USSR. Acceptance of the long-standing Soviet offer for the steel mill has enabled the Shah to demonstrate that he retains freedom of action despite his ties with the West.

Soviet participation in the pipeline project is limited to engineering and technical assistance for construction of the northern section of the pipeline and to supplying the compressors for the entire pipeline. The National Iranian Oil Company will do the survey, engineering, and construction of the major section of the pipeline from the southern oil fields to the Tehran area. Iran is responsible for obtaining the wide-diameter pipe--an item in short supply in the USSR--as well as the auxiliary equipment for the project.

The credit is to be repaid by Iranian exports of natural gas through the pipeline, which is scheduled to be completed in 1970. Agreement was reached for the initial sale of 6 billion cubic meters, sufficient to meet loan

repayments, and rising to 10 billion cubic meters, thus presaging an expansion in trade between the two countries.

During the past year the USSR has expended considerable effort to enhance its influence in other pro-Western countries near its southern borders. By intimating that it might offer new economic assistance, Moscow has sought to encourage Pakistan to pursue a course more independent of both the West and Communist China. In late November the Soviet Union boosted its \$30-million economic aid commitment to \$50 million. Additional aid may be forthcoming for Pakistan's third five-year plan (1965-70) after the completion next month of some feasibility studies by Soviet experts.

The gradual improvement in Soviet relations with Turkey has set the stage for an expanded aid program there. Moscow has expressed its willingness to supply factories and other installations worth up to \$200 million with repayment over a 15-year period at 2.5-percent interest. Soviet experts arrived in Turkey in late September to undertake preliminary surveys of steel, petroleum, aluminum, glass, tractor, and vodka factories, but final decisions will be made only after the submission of more detailed project reports.

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SECRETAsia-Africa**SUKARNO AND INDONESIA ARMY REMAIN STALEMATED**

Despite increased student agitation and political maneuvering by both President Sukarno and the Indonesian Army, the impasse between the two sides continues.

A series of student demonstrations protesting soaring prices and the inefficiency of Sukarno's ministers rocked Djakarta this week. Initially sponsored by the army, the demonstrators demanded a cabinet reshuffle and a ban on the Indonesian Communist Party (PKI). Handbills with slogans aimed at Sukarno appeared.

Sukarno's response was a call for his supporters to "gather your forces, form your ranks, defend Sukarno." The appeal was renewed by First Deputy Premier Subandrio, who stated that the President's long-anticipated "political solution" to Indonesia's crisis would be unveiled shortly.

The palace is trying to organize a "Sukarno Front" of workers, peasants, youth, and women, but the move has so far had little success. Members of the leftist-dominated National Front--virtually inactive since the abortive coup--have been asked to mobilize in expectation of orders from the President. However, a "roll call" staged to voice support for the President was attended only by a small, lethargic group.

The army apparently first launched the protests in an effort

to blame Sukarno for Indonesia's economic malaise, which has been largely unrelieved by recent stop-gap measures. When student demonstrators battered down the gates of Sukarno's palace on 15 January, however, the army apparently feared that that activity might get out of hand. Djakarta's military commander subsequently banned further demonstrations in the capital on the grounds that they had been "exploited by imperialists and Communists." However, students defied the ban and continued to rally in Djakarta and Bandung. Although army forces and police are on the scene, the army apparently plans no action against the unauthorized demonstrations. 25X1

The army is plagued by difficulties on a variety of other fronts. Military discipline is apparently slackening in Djakarta and other areas. Moreover, cracks are appearing in the makeshift coalition opposing Sukarno. Army leaders historically distrust civilian politicians, and there are signs of rivalry between Muslim and Christian anti-Communist groups. 25X1

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SECRET**COMMUNISTS CONTINUE PRESSING GOVERNMENT FORCES IN LAOS**

Communist military activity in Laos continues to be focused in the panhandle area. On 13 January, government forces were pushed from Ban Thateng, on the Bolovens plateau some 20 miles south of Saravane. No significant new action has been reported in the area since then, but the attack raises the possibility that the Pathet Lao, with the support of North Vietnamese elements, intend to try to bring the plateau under their control. At a minimum the Communists can be expected to react sharply to any government operation which threatens the infiltration corridor there.

The Communists evidently are moving considerably more trucks in the southern section of the panhandle during the current dry season than they did last year. According to a Pathet Lao defector, some 10-15 trucks were moving south nightly along the recently completed Route 96 as late as mid-December. He claimed that the trucks were carrying rice, ammunition, and men destined for South Vietnam.

The defector has also indicated that it took the trucks 3-5 days to negotiate the 45 miles between Ban Bac and Chavane because of precautions taken to evade air attack. He said that small labor crews were placed

strategically along the road to repair damage caused by air strikes.

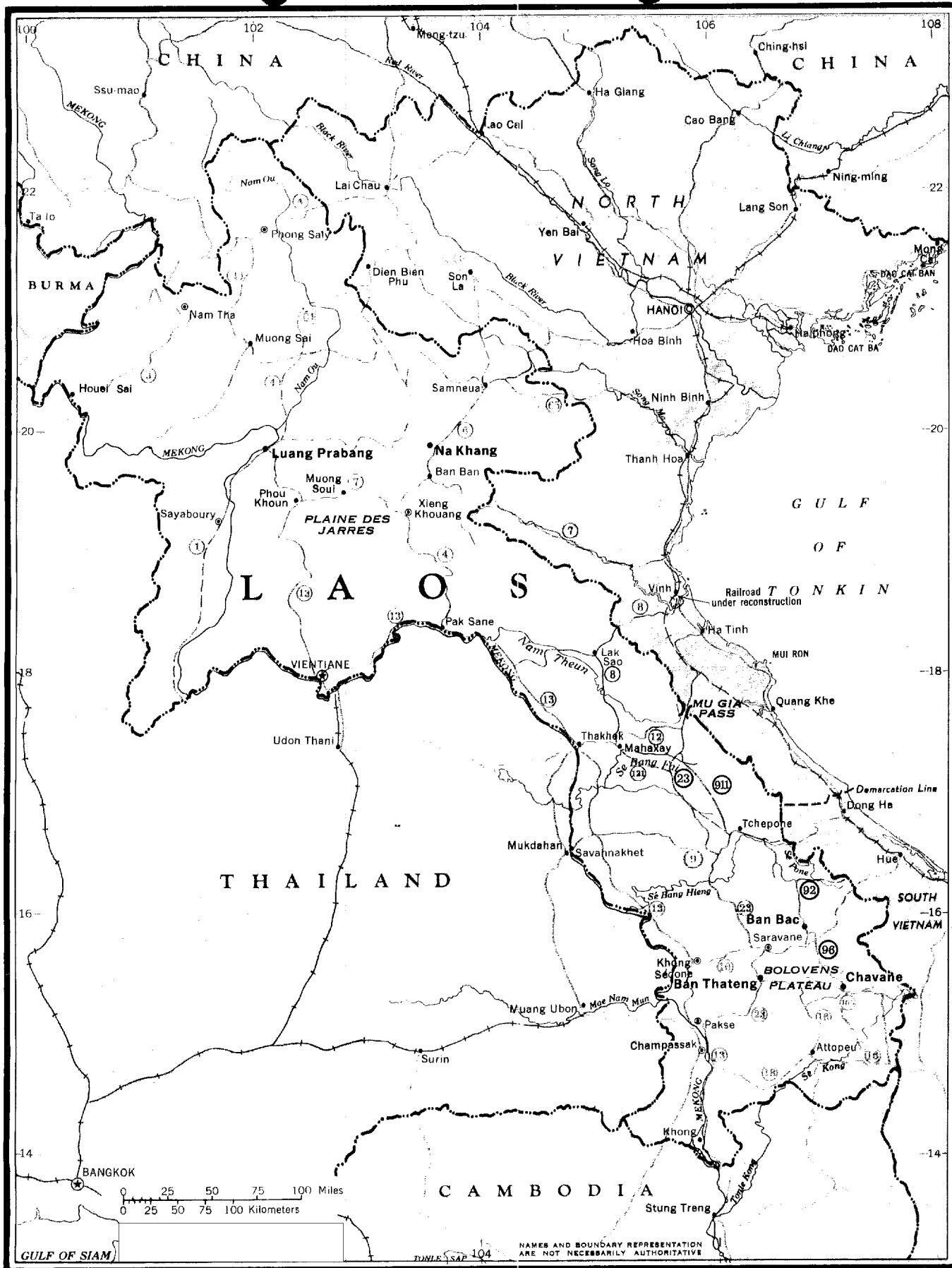
If true, this movement represents a substantial increase over the one or two southbound trucks per day reported to have moved on Route 92 during the dry season last year. The report also appears to jibe with an increasing number of truck sightings reported by US pilots flying interdiction missions in the panhandle.

In the Mu Gia Pass area, substantial numbers of trucks continue to be reported moving south on the newly completed Route 911. Some 500 southbound trucks have been counted by the roadwatch team on the northern section of the road in 14 days of coverage since late December. To the west, southbound truck traffic on Route 23 has averaged eight trucks per day since the road was opened in early November 1965, compared with 17 per day during the last dry season.

In northern Laos, the Communists are continuing to harass government guerrilla positions around Na Khang, south of Samneua town. Government troops have lost some positions to enemy clearing operations north of Luang Prabang.

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SECRET**TASHKENT DECLARATION AROUSES OPPOSITION IN PAKISTAN**

Public reaction to the Tashkent Declaration has been split along geographic lines in Pakistan. Most of East Pakistan apparently received the settlement with relief, feeling that a second round with India had been prevented. In West Pakistan, however, violent student demonstrations against the declaration and against President Ayub erupted on 13 and 14 January. These were probably stimulated by a joint statement of several opposition leaders criticizing Ayub for "buying peace at the cost of national honor."

The government now has muffled open opposition by arresting students--over 200 in Lahore alone--closing schools, banning the assembly of more than five persons, and launching an "enlightenment campaign" on Tashkent in the controlled press. There remains considerable disenchantment with the government, however, particularly among students and lawyers, and this appears to be developing into open criticism of Ayub's heavy-handed efforts to control public opinion.

Ayub has taken special precautions to retain the support of the army. While there has

been grumbling among senior officers over the outcome at Tashkent, reports indicate the top commanders are resigned to accepting Ayub's continued leadership. The Country Team in Rawalpindi tends to discount an earlier unconfirmed report that on Ayub's return from the meeting with Shastri several senior generals presented him with an ultimatum demanding "action" on Kashmir. Army Chief of Staff Musa sent a letter to commanders of all principal units strongly defending the Tashkent agreement. Another order to the army--presumably reflecting reports of widespread bitterness among junior officers--prohibits any discussion of the declaration within the army or between army personnel and civilians.

The adverse reaction to the agreement may aid the career of Foreign Minister Bhutto. He delivered only a perfunctory defense of the declaration in a speech of 15 January, and is widely believed to be opposed to recent trends in Ayub's foreign policy. Reports that he will resign persist. Should he choose to leave the cabinet at this time, he could emerge as a political martyr and even a potential leader of forces opposing Ayub.

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INDIA CHOOSES NEW PRIME MINISTER

Indira Gandhi, India's new prime minister, is not expected to make any immediate policy changes in trying to solve her country's numerous domestic and international problems.

The selection of Mrs. Gandhi was largely a matter of political expediency. Although officially chosen by secret ballot of the Congress Party's parliamentarians on 19 January, her

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election was virtually assured some days before when key state and national political leaders rallied behind her as a "consensus" candidate. Few of these leaders regarded Indira as their favorite candidate, but they agreed with powerful party president Kamaraj that she was the contender most likely to stop a strong bid by right-wing former finance minister Morarji Desai, a long-standing foe of the "syndicate" of leaders who brought about Shastri's succession to Nehru. As Nehru's daughter she also enjoys a national image which will be advantageous in the 1967 general elections.

Following Kamaraj's endorsement, all other contenders stepped down except Desai, who at age 70 saw this party election as his last chance to capture the top government position. His relatively strong showing--about 33 percent--probably reflects to a considerable extent the tendency of some party backbenchers to vent secretly their pent-up disgruntlement at the sometimes heavy-handed machinations of the party leadership. Desai himself--above all a good party man--will probably be a graceful loser and not a troublemaker within the party.

Some cabinet changes may be made, but many incumbents, such as Agriculture



INDIRA GANDHI

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Minister Subramaniam and Defense Minister Chavan, will probably be retained. The return of leftist V. K. Krishna Menon--onetime defense minister and close adviser to Nehru--to a government position does not appear likely. He has been publicly discredited, has made many powerful enemies within the party, and reportedly has recently lost the favor he once enjoyed with Mrs. Gandhi.

On foreign affairs, Mrs. Gandhi is reported to have stated she would do nothing to antagonize India's "Western friends." She probably recognizes that maintenance of good relations with both West and the USSR is essential to assure continuation of outside aid, both economic and military.

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Although she has expressed hope for good relations with India's neighbors, Mrs. Gandhi

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recently referred to Communist China as a "threat" and any improvement in relations with Peking appears unlikely.

Mrs. Gandhi has pledged publicly to carry out the recent Tashkent Declaration. The death of Prime Minister Shastri has given this agreement a certain sanctity in India and produced a nationwide determination to proceed with the peace efforts of the late revered leaders. Meaningful concessions on Kashmir, however, remain unlikely.

The new administration will be facing the gravest economic problems to trouble India in many years. India's fourth five-year plan, originally scheduled to begin in April, has been shelved temporarily in favor of an emergency one-year plan. Mrs. Gandhi's doctrinaire socialism is looked upon with suspicion by the conservative business community and may make it difficult for her to obtain the vital support of that sector.

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IRAN AND IRAQ AGREE TO BEGIN TALKS

Iraq's proposals to discuss settlement of problems with Iran--and Tehran's acceptance thereof--indicate a willingness on both sides to relax the tensions which led to border clashes earlier this month. The situation remains delicate, however, and the tendency toward improved relations could be reversed.

Iranian Foreign Minister Aram, who was in India when Prime Minister Hoveida accepted the Iraqi proposals, is furious that the Shatt-al-Arab question was not specifically mentioned. Despite the Shah's reluctance to press the Iraqi Government too far, Aram's anger may increase Iranian pressure to renegotiate the status of the

Shatt-al-Arab River, which forms the southernmost portion of the Iraqi-Iranian border. The present boundary generally follows the low-water line on the Iranian side. Iraq has in the past rejected Iran's attempts to reopen the boundary problem.

Baghdad will probably press for a halt to Tehran's support for the Kurdish rebels in northern Iraq. Iran has already agreed to an Iraqi suggestion that it pull back its troops from the border area.

Hoveida reportedly hopes to begin talks with the Iraqis in Baghdad in late January, but the timing will depend on ability to agree on an agenda.

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SECRET**ARMY TAKES OVER IN NIGERIA**

Nigeria's 10,000-man army has taken control of Africa's most populous country following a bloody coup d'etat initiated on 15 January by lower echelon officers. The upheaval, apparently triggered by army unhappiness over the continuing tribal turmoil in Western Nigeria, has swept away the old federal power structure over which conservative Muslim northerners had been steadily tightening their grip. It could culminate in an early large-scale breakdown of order.

The situation remained fluid and uncertain for days after the coup was initiated with the virtually simultaneous assassinations of the premiers of the Northern and Western regions. The federal prime minister was abducted from Lagos, the national capital, and has been reported killed. Within hours a "revolutionary military council," headed by a Major Nzeogwu and evidently backed by most of the army units in the north, emerged as the effective governing authority in Kaduna, the regional capital. Nzeogwu told the US consul the same day that the coup was engineered by younger officers who wanted to eliminate established politicians and parties because of "corruption and tribalism."

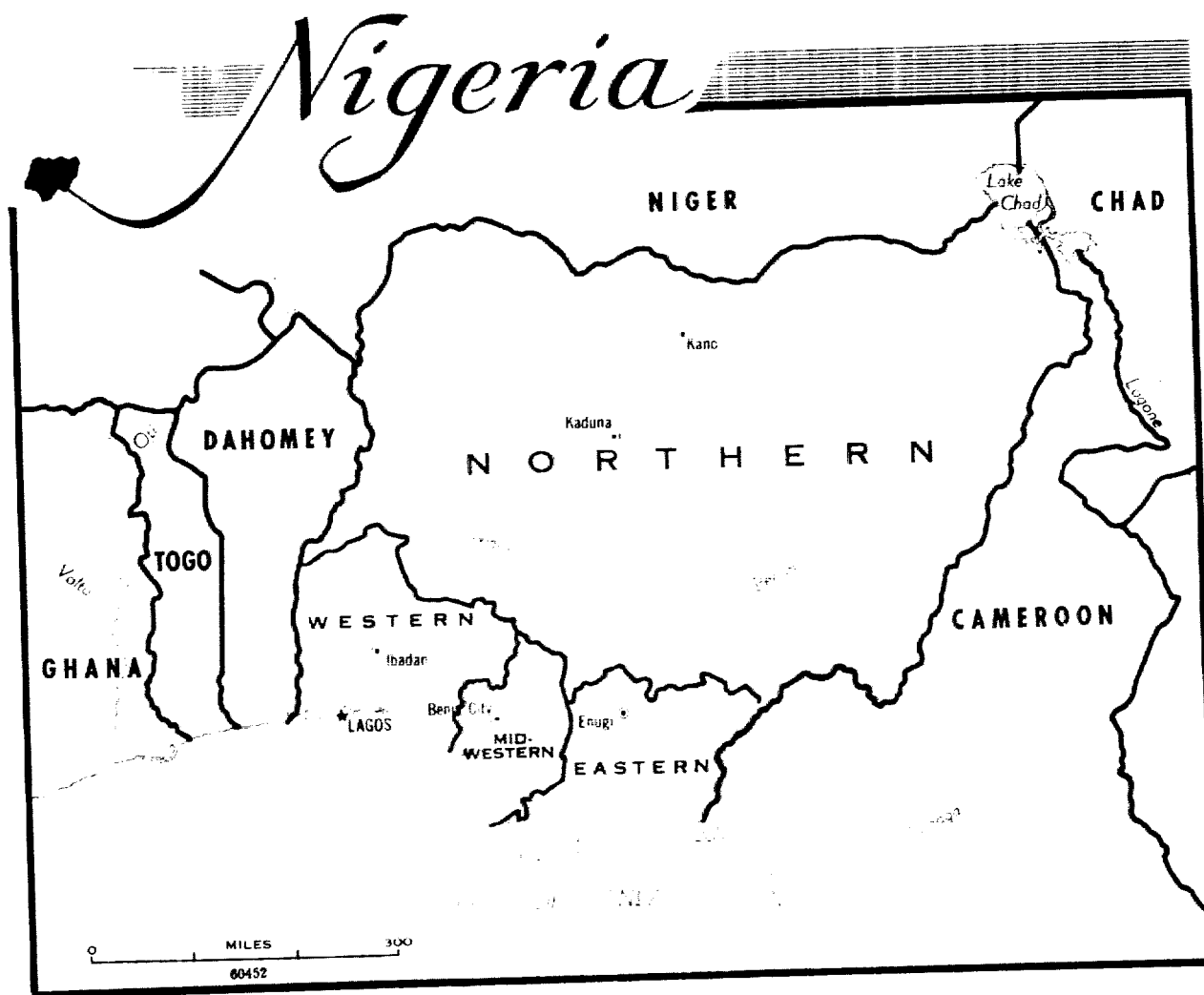
Later on 15 January it was announced in Lagos that Major General Ironsi, the army commander who was first reported under restraint and then as leader of a successful countermove by "loyalist" troops, had assumed temporary supreme authority at the invitation of federal cabinet members. Shortly thereafter Ironsi announced a sweeping "suspension"

of offices and institutions at both the federal and regional levels and promised a new constitution "prepared in accordance with the wishes of the people." Ironsi, a southerner (as apparently are most of the lower ranking officers who spearheaded the coup), thus in effect moved to take over the revolt.

Ironsi now has apparently secured acknowledgment of his authority by the commanders of all army units deployed in the regions, including those controlled by the coup leaders in Kaduna. In a 19 January press conference, Nzeogwu, who had confirmed earlier that he was negotiating with Ironsi, formally announced his "allegiance" to the new central regime and his transfer of "all power" to the officer--Major Katsina--whom Ironsi had named military governor of the north the day before. Katsina and his three counterparts in the south are all members of the predominant tribe in their assigned regions. This reflection of regional and tribal realities is presumably designed to help hold the country together in this emergency and forestall the tribal unrest widely feared in the wake of the coup.

In Lagos Ironsi's interim government is beginning to function through continuing civil service channels and he is reported trying to set up a small executive council with substantial civilian membership. His personal position still seems rather precarious, however. A subordinate officer reportedly made an attempt on his life on 17 January and subsequently there have been many unconfirmed reports of arrests and even summary executions of dissident army personnel in the Lagos area. Ironsi has a poor

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reputation both as an officer and an administrator--much of it earned when he headed the UN force in the Congo--but a successor who could command as much authority would probably be difficult to find.

No unfavorable public reaction to the new regime has yet been reported. It has, in fact, been quickly acclaimed by various elements of Nigerian society, including two major southern political parties, labor, youth, and student groups, and some prominent northerners. Such elements are surely all hoping to play an influential role in a basic political restructuring of Nigeria.

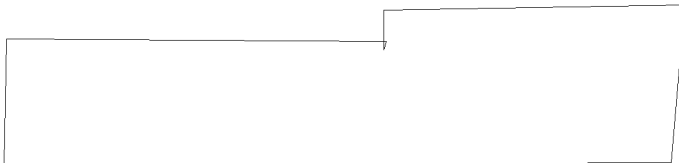
Serious intertribal violence, especially in the Northern Region, or a breakdown of discipline within the army, which reflects the country's tribal and regional divisions, remain real possibilities as knowledge and understanding of what has happened spreads. So far, however, the regional capitals and the countryside have remained generally quiet on the surface, except for the parts of the Western Region which have been experiencing unrest since last October. New disturbances occurred in Ibadan, the Western capital, shortly after the coup but, following the virtual imposition of martial law by the army, the security situation there has reportedly improved.

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INDECISIVE OUTCOME OF EEC COUNCIL MEETING

The 17-18 January meeting of the EEC Council of Ministers found the members apparently still far apart on the issues underlying the six-month-old community crisis.

French Foreign Minister Couve de Murville offered a set of "ten commandments" to govern the role and activities of the EEC Commission. The total impact of these proposals--which also implicitly criticized the council for giving the commission too much authority--would be to deprive the commission of the independent role the EEC treaty envisaged. Combined with the clear French intention to replace present commission personnel and to prevent any future decision on important issues by majority vote, the French package would in effect end the further supranational development of the community and probably even its effective functioning.

While some of the ten points concerning the commission were evidently acceptable to France's partners, several of the key ones were not. On majority voting, Belgian Foreign Minister Spaak--reportedly supported by the Italians and the Dutch--offered a compromise formula which would restrict or delay application of the majority rule in certain vital issues, but not preclude its

possible use for the future. The discussion was inconclusive, however, with the French indicating that Paris would submit counter-proposals. Moreover, when Couve subsequently introduced a timetable for community action--conditional on settlement of the political issues and focusing on matters primarily of concern to France--German Foreign Minister Schroeder angrily left the conference room and was followed shortly thereafter by the delegates of Italy and the Benelux countries.

The council meeting, which was later suspended, is scheduled to resume on 28 January after preparatory talks at a lower level in the middle of the week. Some community sources believe the French have already pulled back considerably from their initial demands concerning the commission's powers, and they do not exclude the possibility that some vague formula can be worked out. Some quarters believe that Paris will also concede on majority voting, provided it can obtain agreement to reconstitute the commission's personnel with "nonpolitical types." Another school of thought maintains, however, that the majority vote is a question of principle for De Gaulle, whose simple criterion for a settlement remains whether France will have a permanent veto.

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DOMINICAN SITUATION REMAINS DEADLOCKED

The Dominican situation is still in an impasse, with rebel leader Caamano demanding unrealistic concessions before he agrees to leave, and the regular military leaders refusing even to discuss their departure until he goes.

Caamano has demanded assurances before he leaves that most of his military followers, including about 100 not on active duty when the rebellion began in April, will be quickly integrated into the armed forces. Pending this, Caamano wants them moved to a location in downtown Santo Domingo. Garcia Godoy has rejected this latter demand. He appears, however, to underestimate regular military opposition to rebel integration.

The military is reportedly developing elaborate plans in case of a possible Inter-American Peace Force (IAPF) move to force its leaders to leave, although it does not really expect such a move to develop. Minister of Defense Rivera will probably accept an assignment as attache in Washington if Caamano goes on acceptable terms, but air force chief De los Santos and army chief Martinez are under considerable pressure from hot-headed subordinates to stay.

A new note of uncertainty was introduced when Leon Bosch, son of the Dominican Revolutionary Party leader, was wounded on 19 January under circumstances that are unclear. Earlier in the week Juan Bosch had complained to Latin American legislatures of the "chaotic situation" in the country and made press statements attacking "persecution" by police and military forces. If the wounding of his son can be attributed to rightist elements, Bosch is sure to reiterate his charges of an organized attempt to eliminate or intimidate "constitutionalists." The incident may also increase the likelihood of Bosch's boycotting elections on the grounds that the provisional regime cannot guarantee his safety.

Many Brazilians, particularly military personnel, have continued to feel that the Garcia Godoy regime does not take a strong enough position against the leftist elements and have not been happy with the restraints put on the IAPF by the OAS--and implicitly by the US.

Because of its close ties with the US, however, Brazil can be expected to continue to back the US policy despite any misgivings.

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TRI-CONTINENT CONFERENCE IN HAVANA

The Cuban-sponsored Tri-Continent Conference in Havana from 3 to 15 January trumpeted the cause of national liberation movements--including armed rebellion--in Asia, Africa, and Latin America, but failed to muffle bitter Sino-Soviet wrangling. Havana was chosen as the interim headquarters of the secretariat of a new People's Solidarity Organization for Asia, Africa, and Latin America, and a Cuban was named secretary general. A 12-member committee, including the USSR, China, and Cuba, was created to "promote, increase, and coordinate national liberation and fighting movements" and lend them "moral, political, and material aid."

Vietnam was clearly the first order of business. A special subcommittee drafted resolutions expressing full support for Hanoi and the National Liberation Front. Latin America got second priority. Revolutionaries in Colombia, Venezuela, Peru, Ecuador, and Panama were called upon to coordinate their efforts. Solidarity was expressed for the people of Guatemala and their "armed struggle," and the US was condemned for its Dominican policy. In Africa, the Portuguese colonies, South Africa, and Rhodesia were the principal targets.

Cuba vainly attempted to prevent Sino-Soviet polemics, and to refurbish its image as a major leader of revolutionary movements. Most sessions were secret, but press reports indicate that a Sino-Soviet deadlock caused at least one all-night session.

Three days after the conference ended, Radio Havana was still announcing special resolutions that had been adopted but had not mentioned a "special resolution on peaceful coexistence" which Moscow news services earlier claimed had been passed. Soviet reporting, which covered earlier proceedings extensively but gave only brief treatment to the conclusion, suggests some dissatisfaction with the outcome.

China has editorially hailed the final resolutions and the statements supporting the "Vietnamese people's struggle." The Chinese, however, were generally forced to accept compromise solutions. China will still apparently host the 1967 meeting of the Afro-Asian People's Solidarity Organization (AAPSO). The Chinese are deeply concerned, however, that a permanent tri-continental body to be created the following year in Cairo will eventually absorb AAPSO, in which they have long exerted a considerable influence. Peking is undoubtedly playing for time, and at the AAPSO meeting will probably seek some formula which would preserve AAPSO separate from the Cuban-dominated tri-continental organization.

Fidel Castro, in his speech at the closing session in Havana, urged an audience of nearly 500 representatives of revolutionary groups from the three continents "to implement revolution" both in word and in deed. In Latin America, he said, "the battle will take on the most violent forms" for almost all the people. It

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was his most explicit call for armed revolution since he reportedly agreed in late 1964 to support the Soviet-backed Communist parties in Latin America.

Following the conference, the Latin American delegates met separately, and on 18 January Cuba announced formation of a Latin American Solidarity Organi-

zation with headquarters in Havana. A nine-member committee was created to cooperate with the "most active anti-imperialist groups with extensive popular roots," and to plan the organization's first conference for 1967. This development presages renewed Cuban interest in insurgent activities throughout the hemisphere. 25X1

BOLIVIAN POLITICS QUIET PENDING BARRIENTOS' RETURN

General Rene Barrientos Ortuno is expected to return from Europe about 3 February to begin his campaign for the presidency in the 3 July national elections. Barrientos resigned as junta co-president on 4 January under heavy military pressure to respect a constitutional requirement that presidential candidates resign from office six months before the election date. He then left for Europe for medical attention and a rest.

The government has been functioning smoothly. The tin mine workers, weary of being used by extremists for political ends, are indisposed to violence at this time. The military is probably more united now than it has been for several months. The junta president, General Alfredo Ovando Candia, has made no known move to prevent Barrientos from returning, nor is he known to have tried to undercut Barrientos' popular or military support. Apparently Ovando is anxious that Barrientos return and get on with the electoral process.

Political activity, dormant since Barrientos' resignation, should pick up after his return. His small, four-party political vehicle, the Bolivian Revolutionary Front (FRB), has publicly acclaimed him its presidential candidate, but in a telegram from Zurich, Barrientos declined to commit himself, stating that his health "temporarily prevents me from making a decision." Barrientos apparently wants to hold off accepting the nomination until his triumphant return, when the political impact will be greater. The longer he procrastinates, however, the greater the danger that the FRB will disintegrate and Barrientos lose popular appeal.

Bolivia's major political parties--the rightist Bolivian Socialist Falange, the Nationalist Revolutionary Movement, Juan Lechin's National Leftist Revolutionary Party, and the Christian Democratic Party--are still stumbling about in quest of electoral alliances and pacts

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of convenience. All are handicapped by differences over whether to seek an accommodation with Barrientos and the FRB, or try to gain power through insurrection.

An agreement among the four, or significant factions thereof, could pose a serious threat to Barrientos' candidacy as well as to political stability.

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URUGUAYAN ECONOMIC DIFFICULTIES MOUNT

Major factors in Uruguay's soaring cost of living, which rose 33.5 percent in 1963, 38.5 percent in 1964, and somewhere between 70 and 98 percent in 1965, have been inflationary deficit financing and unrestricted private credit expansion.

Chronic budget deficits in recent years have resulted from expanded subsidies to inefficient state enterprises and social security and public welfare funds and from increased salary payments to the huge bureaucracy without compensating tax revenues. The relatively small budget deficit expected in 1966 is predicated on holding the inflation rate down to 30 percent, which, if achieved, would be almost miraculous.

Government action to provide a comprehensive credit control program has been hampered by inefficient administration, and no effective policy has been instituted. A comprehensive price control program as a companion to credit control has not been introduced, although prices of some basic foodstuffs are controlled.

Leapfrogging wages and prices have pushed the cost-of-living spiral higher. The government has held the wage line in the public sector this year by keeping wage hikes to about 30 percent despite prolonged strikes and

agitation by disgruntled public employees. The attempt to extend this policy to the private sector has so far been unsuccessful. Some unions have received increases as high as 89 percent, and the government does not seem determined to enforce any real private wage policy.

Poor management of the recently adopted single fluctuating exchange rate has caused another decline in wool export commitments. By means of the new rate and severe import restrictions the government was able to produce an estimated \$25-million trade surplus for 1965. It was achieved, however, at the cost of limiting imports to a bare subsistence level which cannot be indefinitely maintained.

All of these economic problems have come during an election year when the government seems more interested in waging an election campaign than an unpopular stabilization program. Unless strong measures are taken soon, hopes for stabilizing the economy and receiving additional foreign financial aid and credit seem dim. Communists and leftists would appear to be the only beneficiaries of the government's inability to halt the economic deterioration.

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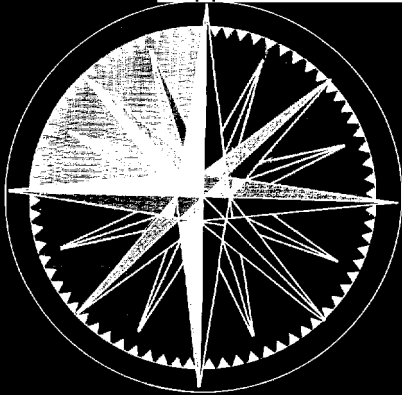
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21 January 1966

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SPECIAL REPORT

GOVERNMENT-LABOR RELATIONS IN BRAZIL

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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SECRET**GOVERNMENT-LABOR RELATIONS IN BRAZIL**

President Castello Branco is seeking participation by labor, students, and intellectuals in the progovernment National Renewal Alliance, one of two political groups being formed to replace the old parties which were all abolished late last year. In terms of numbers alone--Brazil has some 25 million workers--labor is obviously the main target. However, Castello Branco's efforts to broaden his political base and lessen the regime's dependence on the military are likely to encounter skepticism among labor. There is widespread dissatisfaction with the government's policies among workers and union leaders. Furthermore, although the extreme left has little chance at this time of regaining the influence it once enjoyed in the labor movement, Communist activity is on the rise again. The regime's relations with labor will become increasingly important during the coming months as Brazil prepares to transfer power to a new administration. Congress will elect a new president sometime before 3 October 1966 and the new administration will take office the following March.

Causes of Disagreement

The difficulties between the regime and the workers are partly a result of historical factors, including continuous political exploitation--and sometimes coddling--of the unions by a succession of governments before Castello Branco came to power. At the same time, much of the responsibility for the current difficulties must be attributed to the present government's ineffective labor policies and neglect of worker problems.

Two main causes of popular discontent are the rising cost of living and poor social conditions. The absence of adequate unemployment compensation and

effective welfare programs are other contributing factors. The most recent wage adjustments have been below increases in the cost of living and only one adjustment per year is authorized.

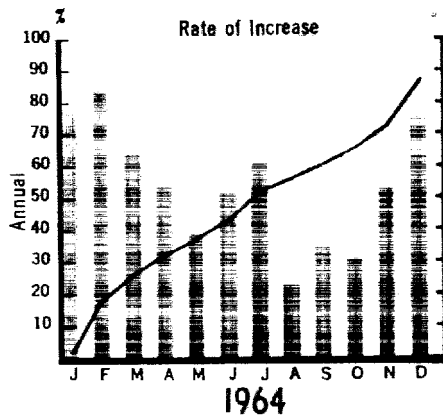
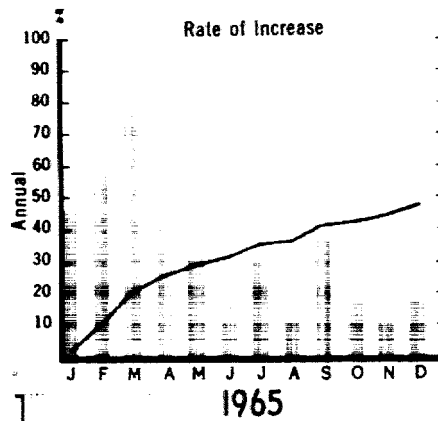
Soon after it took power the government enacted wage legislation placing stringent norms on adjudication of wage disputes involving public employees, and has extended this wage guideline to the private sector. The harshness of this policy in the workers' eyes is contrasted with former president Goulart's practice of decreeing frequent wage increases of up to 100 percent.

Aside from a small number of enlightened union officials,

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INFLATION IN BRAZIL



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few workers seem to show any sympathy for the administration's efforts to curb inflation by using austerity measures. Workers complain that they are bearing the brunt of the belt-tightening programs. They especially cite the policy of holding down wages despite the continuing rise in the cost of living as the main cause of the workers' plight. The administration agreed to a 60-percent boost in the minimum wage in 1965, but union leaders argue that salaries lag so far behind the cost of living that workers' purchasing power has been declining steadily. The unions have been circumscribed as channels of protest by new laws that prohibit political strikes by the unions and strictly limit the use of the strike as a tool of protest. There thus have been few strikes of any consequence under the present regime.

Government Policy

Castello Branco has done little during his 20 months of rule to help labor. Administration policies in this area have been generally weak and in many respects nonexistent. Castello Branco seems to regard labor problems, along with student problems, as of secondary importance at most. Arnaldo Sussekind, the labor minister until November 1965, was a weak figure in the administration, and more influential cabinet members such as Planning Minister Roberto Campos gave little priority to improvement of workers' conditions. The present

labor minister, Peracchi Barcellos, has not had time to demonstrate an understanding of his responsibilities, although he has expressed an intention to alleviate working conditions.

On the other hand, the administration has shown strength and determination in the austerity policies it has advanced. Castello Branco is willing to endure a period of unpopularity in expectation that the anti-inflation program will eventually demonstrate that it benefits everyone. Administration officials have been convinced that to abandon the policy of holding the line on wages would lead to further increases in the cost of living, which was held to a rise of 45.4 percent in 1965, compared with 87 percent in 1964. The rate in 1964 would have been about 140 percent had Goulart remained in office. Planning Minister Campos, the main architect of the austerity program, has privately admitted the reduction in real wages attending stringent application of the wage policy, but he fears that any loosening of the wage formula would lead to a hopeless erosion of the current wage policy.

The labor code gives the federal government ultimate control over the unions and almost total responsibility for worker welfare. Only the federal government can legislate in labor matters. The imposto sindical (labor tax) system under which every worker

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contributes one day's pay per year to a government-supervised fund is a strong instrument of control since it is the main source of income for the unions. However, Labor Minister Barcellos stated recently that the government plans to eliminate this tax gradually over the next two or three years and to give unions complete control over their funds.

The Labor Ministry is legally all-powerful in the labor management field. It determines how the unions will function, how elections will be administered, what working conditions will prevail, how grievances are settled, and who can be dismissed from employment. Paternalism has substituted for collective bargaining, and grievances are handled by labor courts.

Communists in Labor

The unrest in labor is facilitating the work of the Communists, who have made the nearly 3,000 unions in Brazil the focus of their subversive efforts. At the time of Goulart's overthrow in April 1964 the labor movement was under strong Communist influence, with the Communists dominating the leadership of four of the country's six national labor confederations. The extreme left

coordinated strikes and demonstrations through the Communist-influenced General Command of Workers, an illegal but active national labor organ. Ultimate control of organized labor then as now rested with the government, but Goulart was willing to cooperate with Communist union leaders in exchange for their support. The National Confederation of Credit Institution Workers, for example, was given Goulart's approval to affiliate with the Latin America Bank Workers Confederation (CADEB), a Communist front group.

Almost immediately after entering office the Castello Branco regime carried out a purge of Communist labor officials and their allies, and federal administrators were appointed to run some 400 unions. Among the labor organizations brought under direct federal direction were most of the important industrial unions in Sao Paulo and Rio de Janeiro.

A few such administrators, notably in Santos and Salvador, used an iron fist in dealing with union officials. In most of the locals the interventors replaced elected officers, a number of whom were placed under detention. The long delay in lifting the intervention--many unions were not freed until late 1965--became an additional irritant in labor-government relations.

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Communist activity is on the rise again in the labor movement, but the extreme left has little chance of regaining the degree of influence it once enjoyed because of government restrictions. Renewed Communist strength is evidenced by results of several important elections during the past several months. Communist-backed slates won over progovernment rivals in the large Guanabara metal workers' union and in key Sao Paulo locals representing metal workers and bank employees. Although the government has sought to keep known Communists off the ballots, the Communists formed tickets with lesser known party members and sympathizers. Another tactic has been to organize unity slates with ostensibly "independent" candidates. In at least one instance the government annulled a union election after subversive candidates had won. The present policy is to require police clearances of all candidates.

In the Sao Paulo area the pro-Chinese Communist Party of Brazil, a small dissident group, apparently has begun organizing some support among labor groups.

The regional labor delegate for Guanabara--the federal government's representative--resigned in protest against the return of extreme leftist influence in the labor movement there. The Labor Ministry became concerned over the outcome of union elections in Guanabara, the majority of which won either by unity slates containing subversive elements or by opposition slates.

Many of the government-sponsored programs that would most benefit labor have yet to advance much beyond the planning stage. Progovernment candidates in union elections thus have had few administration achievements to which they can point in their campaigns. One prominent labor lawyer has criticized the administration's failure to explain its policies to the public as the reason for the election results.

Leadership Gap

The lack of a positive government policy toward labor during the past two years has compounded what has long been one of the most pressing problems for the unions--the lack of a system that develops capable and responsible democratic leadership. Even those democratic labor leaders who privately express support for the government's economic stabilization program usually denounce many of the measures because they feel that it would jeopardize their support to do otherwise. In some areas it has become extremely difficult to find responsible trade unionists who are willing to be candidates for union offices.

Rural Labor

The government faces overwhelming problems in the rural labor field, where unemployment is high, benefits are few, and social conditions are extremely bleak. The church and other organizations are engaged in improvement projects but little

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has been accomplished by way of land reform, and real wages have declined. Employers often do not comply with the minimum wage law. Since Castello Branco has been in power abuses by employers in rural areas, particularly in the northeast sugar zone, have frequently gone unchecked. Shortly after the overthrow of Goulart, conditions became especially bad as landowners committed flagrant abuses "in the name of the revolution."

Agricultural unions have been ineffective in developing mass support and only recently have they shown any sign of performing a constructive role. There no longer is widespread agitation among the peasants in the northeast such as existed when extreme leftist Peasant Leagues leader Francisco Juliao, now in exile, successfully mustered his followers for political demonstrations. The army has maintained a close watch over peasant activities in that region.

Outlook

The government will continue to be under great pressure to come up with a long-promised comprehensive reform of the labor code and with increased benefits for workers. There are some signs that the administration is beginning to

recognize the danger of continued labor dissatisfaction. The low-cost housing program that had been stalled for more than a year is being revived and 50,000 scholarships are to be provided workers' children.

In the government's favor is the likelihood that the cost of living will be held to gradually smaller increases in the coming months. The anti-inflation program may eventually produce visible results that will persuade the general public, including labor, of the value of Castello Branco's austerity measures. The government will be racing against time to achieve results before summer, when the disrupting effects of congressional and presidential election campaigning can be expected to dominate the political scene.

As long as the regime retains the support of the armed forces it should have little difficulty in preventing any serious provocation by the unions despite renewed Communist activity among them. Castello Branco's main problem in trying to win labor participation in the progovernment political bloc will be to overcome dissatisfaction among the workers so that labor leaders will feel that they can support the government without losing the confidence of the rank and file.

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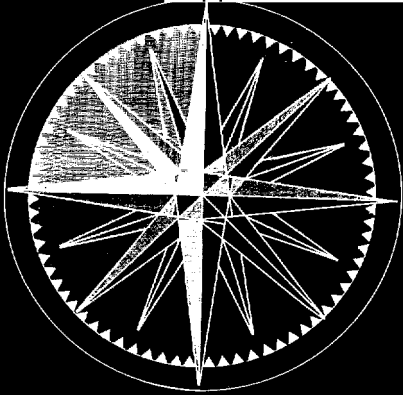
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21 January 1966

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SPECIAL REPORT

A REVIEW OF THE DOMINICAN ECONOMY

CENTRAL INTELLIGENCE AGENCY
OFFICE OF RESEARCH AND REPORTS

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A REVIEW OF THE DOMINICAN ECONOMY

The economy of the Dominican Republic, which has never supported most of the population above the subsistence level, has been floundering since about 1958. In 1964, per capita gross national product (GNP) was only at about the 1957 level--far below the average for Latin America. The economy has failed to keep pace with the increase in population --in part because of a drop in levels of investment. The probable depletion of domestic savings makes the re-establishment of any significant economic growth dependent on foreign economic assistance for the development and diversification of agriculture, which dominates economic activity, and on the correction of budgetary imbalance, disequilibrium in the balance of payments, and inefficiencies in the operation of state-owned enterprises.

The Welfare Problem

In large measure, the political instability and recurrent breakdowns in public order that have plagued the Dominican Republic since the assassination of Trujillo in May 1961 reflect the prolonged influence of depressed economic conditions and gross inequities in distribution of income. In a Latin American population which is generally inadequately fed, clothed, housed, educated, and doctored, the Dominican people rank among the lowest. In terms of per capita food intake and per capita GNP, Dominicans rank 20 to 25 percent below the Latin American average.

The normally low level of personal welfare was worsened severely following the outbreak of revolution last April. The almost total disruption of economic activity in the capital, and in varying degrees throughout

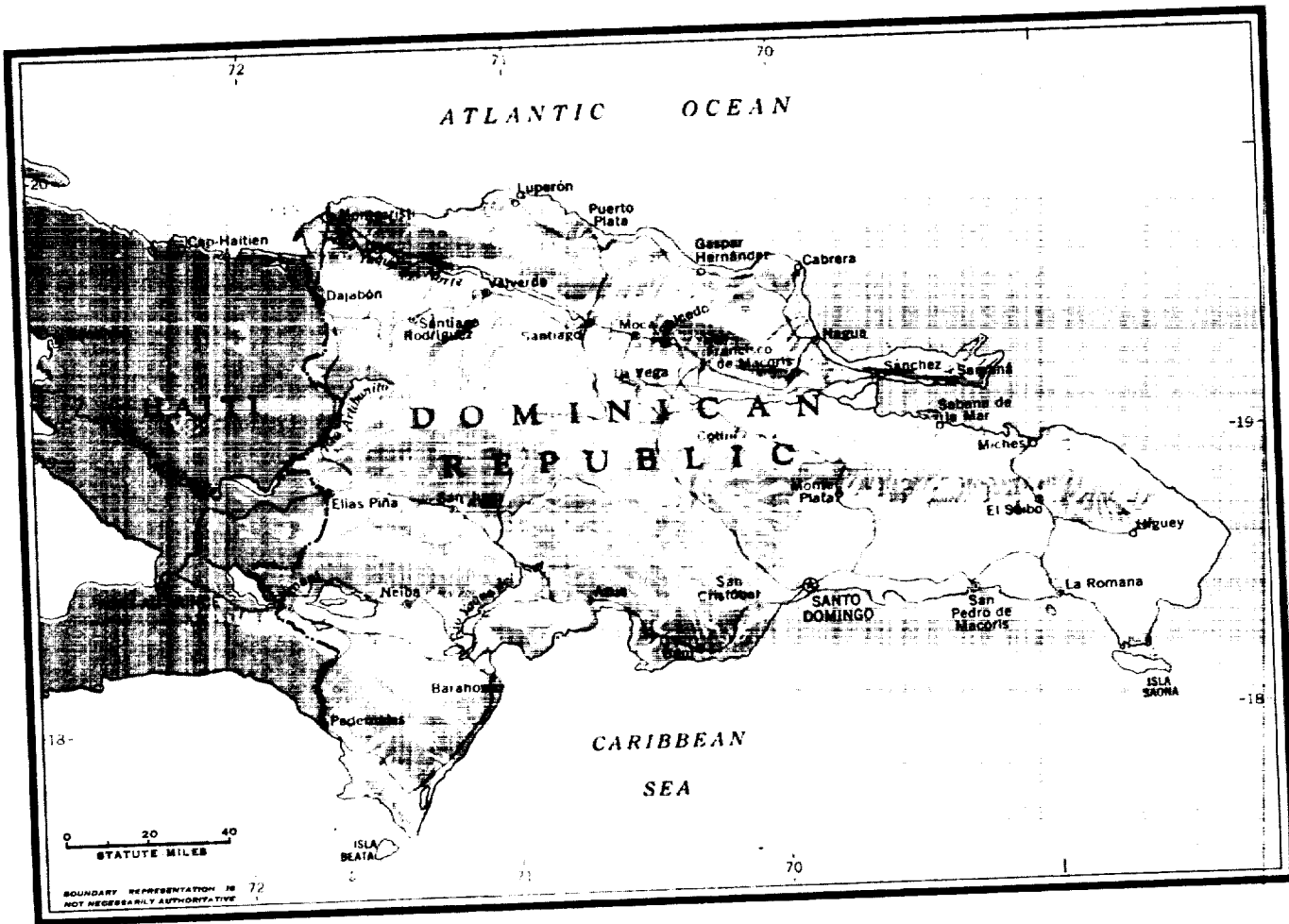
the country, led to breakdowns in normal marketing activities. To fill this vacuum the US Food for Peace program was converted into a massive emergency relief activity, reaching some 17 percent of the population at its peak during the middle of the year.

Agricultural Dominance

The country's inability to provide more than a bare level of subsistence for most of the population is caused in part by the weakness of the agricultural sector which dominates the economy. Agriculture directly contributes about 40 percent to the country's GNP, and normally employs nearly two thirds of the labor force. Agricultural products--primarily sugar, coffee, cocoa, tobacco, and bananas--are the source of about 90 percent of the country's foreign exchange earnings from exports. The sugar

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SELECTED ECONOMIC DATA

19,332 square miles (11.7 million acres)
 46% agricultural land
 47% forested mountains
 7% waste and urban

3.6 million population (1965) increasing 3.5% annually
 1.8 million in labor force (estimated 1965)
 64% in agriculture
 6% in government
 3% in manufacturing industries
 27% in all other activities
 Unemployment: more than 25% of labor force in 1965

Gross National Product (GNP) in 1964 at current prices:
 U.S. \$870 million
 U.S. \$250 per capita

Cost of living increases:
 1962 1963 1964/65
 10% 8% Generally stable

Balance-of-payments data (in millions of U.S. dollars)			
	1962	1963	1964
Trade balance	37.3	16.4	-12.0
Balance on current account*	-13.5	-22.8	-55.7
Net foreign assets**	-17.7	5.9	-36.2

*Balance of trade and of service payments--including grant aid, profits remittances, tourism, and freight and insurance charges
 **Claims by Dominicans against foreigners minus foreigners' claims against Dominicans

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industry alone accounts for more than half.

Despite important gains in the output of sugar, tobacco, bananas, rice, and peanuts, almost all of agriculture producing for the domestic market and that producing coffee and cocoa for export has stagnated since the early 1950s. Terrain and rainfall limit the amount of new land that can be brought into production, and government policies have done little to increase productivity on that already under cultivation.

Mountainous terrain excludes agriculture from about half of the total land area. Moreover, climatic conditions, ranging from semiarid to arid in the agricultural regions of the western half of the country, contribute to low levels of productivity.

Levels of output are further limited by the low levels of technology, particularly among farmers who produce for domestic consumption. In part, the low level of technology reflects the large number of very small landholdings as well as the high rate of illiteracy among the rural population.

About 86 percent of the farmers operate on plots less than 12 acres in size which constitute only 19 percent of the farmland. The small size of these plots means a subsistence standard of living and prolonged periods of economic inactivity for the majority of the nation's farmers.

At the other end of the distribution schedule, one percent of the farms account for 54 percent of the total farmland. About half of this area was confiscated from the Trujillo family and associates following the dictator's assassination and is still owned by the state. Much of this land, however, is inefficiently managed and inadequately used. Recent stagnation in agriculture is directly attributable to the inept management of state-owned farms.

The value of total agricultural output is also limited by the heavy commitment of land and capital resources to permanent crops. In 1960, about 46 percent of the country's land in crops was being used to produce sugar cane, coffee, and cocoa. Because of the heavy fixed investment involved, the lower world prices for these three crops since the mid-1950s have not led to any substantial reallocation of land to more valuable crops.

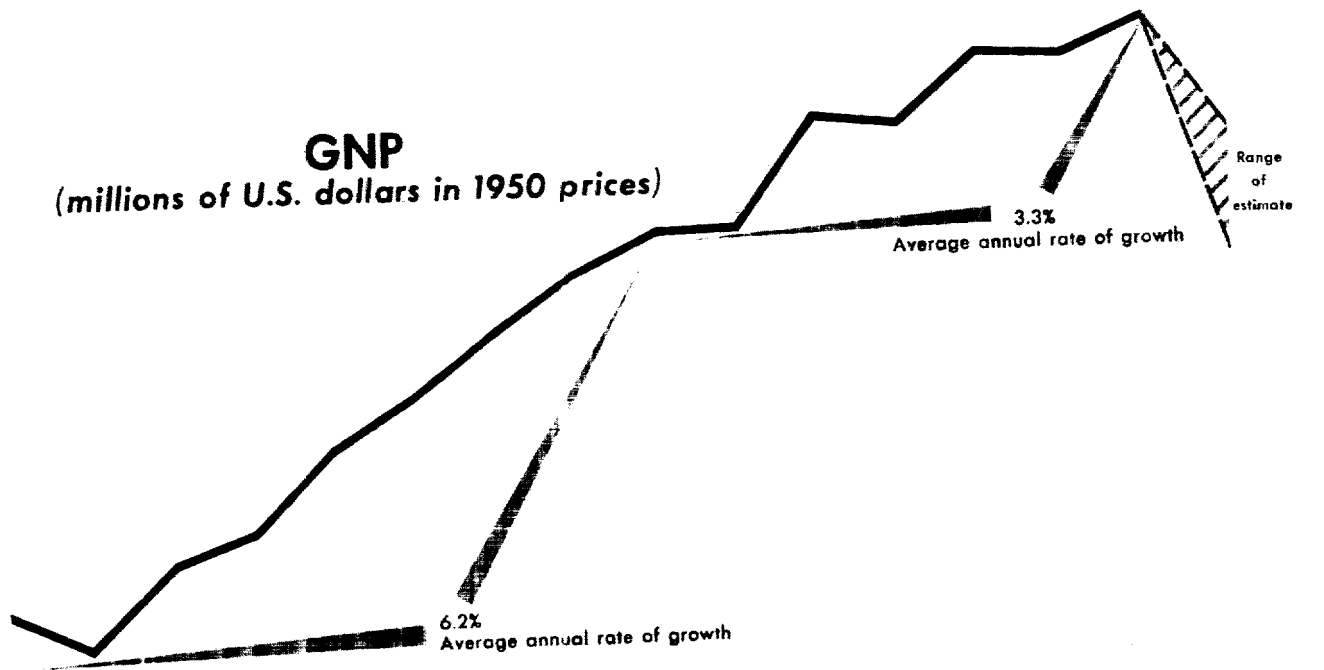
Industry and Services

Industrial activities in the Dominican Republic are severely limited. Minerals and metals resources are few, consisting principally of bauxite, nickel, salt, gypsum, and limestone. The most significant mining activity is a bauxite mine near Pedernales on the southwest coast. The Aluminum Company of America, which has a 55-year concession, has an investment of about \$15 million in this mine,

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DOMINICAN REPUBLIC: Gross National Product



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and contributes about \$10 million annually to export earnings. The country also has substantial iron ore reserves of premium grade, but these have apparently not been exploited since the end of 1960. No commercially exploitable petroleum deposits have been discovered, and the country imports virtually all its mineral fuels.

Manufacturing activities are limited to a few large-scale agricultural processing and chemical industries and a wide range of small food-processing, textile, and building materials establishments. The milling and further processing of sugar cane dominate manufacturing activity, constituting an estimated half of the value added of all industrial activity.

A good primary road system links all major economic regions, but the feeder system linking farms to their principal markets is inadequate. The sugar mills maintain an extensive railroad network in the southeastern coastal plain, but there is only one single-track, narrow-gauge public railroad of about 70 miles linking the interior city of La Vega to Sanchez on the east coast. The telecommunications system is small but modern.

Economic Performance

Recent economic performance is divided roughly into two periods. From the end of 1950 through 1958, the economy generally grew steadily at an average annual rate of about 6.2 percent, a very respectable rate

for a Latin American country. On a per capita basis, GNP expanded about 2.5 percent annually during the period. The most important factors in this sustained rapid economic growth were the high rates of public and private investment and the steady expansion in exports. Trujillo's ability to assure political stability, to hold down private consumption by restricting increases in wage rates, and to squeeze the profits of the nation's farmers was a major factor permitting the high rates of investment.

From the end of 1958 through 1964, annual changes in GNP fluctuated widely. GNP has expanded at an average annual rate of only 3.3 percent, or less than the annual population increase of 3.5 percent. Per capita GNP in 1964 was slightly less than in 1957.

Even the steady increase in exports after 1953 failed to keep pace with imports, especially of nonconsumer goods, which were stimulated by steady economic expansion. A sharp drop in the normally positive trade balance in 1958 led the government to introduce austerity measures in its budget and to impose import restrictions in 1959. These measures slowed business activity in general and hit investment activity particularly hard. The maintenance of these measures through 1961, along with a deterioration in the political climate, largely explains the general stagnation experienced through 1961. There was a spurt in activity in 1960, resulting from the US reallocation of part of the Cuban sugar quota to the

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Dominican Republic, but Trujillo banked much of the revenues abroad.

The economic policies of almost all Dominican governments since the beginning of 1962 have done little to end this stagnation and, on balance, have probably led to a deterioration in the bases for sustained long-term growth. The permissive wage policies of most of Trujillo's successors led to an estimated 50 percent increase in real wages in the two years following 1961. This lowered business profits and savings and limited investment. Although expanded consumer demand growing out of the wage increases led to a jump in economic activity in 1962, domestic producers were unable to meet the increased requirements and prices rose appreciably in 1962 and 1963 following a prolonged period of general price stability under Trujillo. Despite the upheaval in 1965, there are no indications of significant price increases. Increasing demand combined with higher domestic prices also led to a sharp jump in imports following 1961. Only high levels of foreign assistance, beginning in 1962 and amounting to probably more than \$125 million in disbursements through 1964, avoided considerably greater inflationary pressures.

The drop in output in 1965 was probably on the order of 10 to 20 percent. This decline was largely a result of the disruption to business activity in

Santo Domingo caused by the revolution. It also reflects a continuing fall in world sugar prices from the low level reached in 1964 and a sharp drop in world cocoa prices.

Problems and Prospects

The immediate prospects for the Dominican economy depend heavily on levels of foreign assistance. The best that can be expected in 1966 is recovery to levels of about 1964. Bases for long-term growth cannot be laid until long-standing political, social, and economic problems are solved.

Viewed broadly, the basic problems of the economy are the current low levels of savings stemming from a prolonged period of high consumption and the limited stock of physical capital resulting from six years of low investment.

A re-establishment of high levels of investment will be needed to lay the bases for any future growth. Heavy foreign economic assistance will probably be necessary because of the lack of domestic savings and domestic business confidence. Moreover, export earnings, which could generate future savings, are not expected to increase significantly.

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If needed foreign assistance is received, it would appear necessary to direct the bulk of the investment funds into agriculture. The extension and rehabilitation of irrigation systems, improvements in rural marketing facilities, including storage and transportation, and an over-all rise in the level of technology will be necessary to increase output through advances in productivity. A vigorous agrarian reform program designed to promote fuller employment of human and land resources also will be an essential component of any development plan.

Finally, as world prices for several of the country's major export crops are expected to remain low for several years, diversification of agriculture for both export and domestic purposes is necessary. All forms of livestock activity, as well as output of winter vegetables, cotton, and rice, among others, could probably be increased efficiently. Because of limited natural resources, industrial development will tend to be directed to wider use of available agricultural raw materials and continued expansion of such basic services as electric energy.

The ability of the Dominicans to allocate development funds to the most efficient uses is severely restricted by the lack of trained personnel or a meaningful development plan as well as by political considerations. The shortage of skills in government is matched by

an equal, if not more severe, absence of managerial and other skills in most of the private sector.

Even with proper allocation of investments, benefits which accrue to the economy would probably be wasted in the support of inefficiently operated state enterprises. An illustration of such inefficiency is the government-owned Dominican Sugar Corporation, which lost more than \$18 million in 1964. As a result of the confiscation of properties owned by Trujillo and his associates, the government owns about one-fourth of the country's farm land and an estimated half of the country's industrial capital. Apart from Cuba, this percentage of state ownership is the highest in the non-Communist world.

The government's ability to provide necessary and efficient government services and to promote development also is restrained by the existence of a large budget deficit and the country's foreign exchange position. Planned budgetary expenditures of almost \$254 million in 1966 probably will result in a deficit on the order of \$100 million, or about \$70 million higher than any deficit recorded prior to 1965. The Dominicans will hope to finance about \$75 million of the deficit through foreign grants and loans. 25X1

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