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DIRECTORATE OF  
INTELLIGENCE

# *WEEKLY SUMMARY*

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The finance minister has resigned following the action of the opposition-controlled Congress rejecting some of the administration's 1968 budget proposals.

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The leftists are likely to remain in hiding until security forces relax their vigilance, but the calm could be shattered at any time.

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## FAR EAST

The contest in east Asia has taken on new dimensions with North Korea's audacious attempt to assassinate South Korean President Pak and its seizure of the USS Pueblo. These provocative ventures appear to be aimed primarily at generating diversionary pressure on the US at a time when Communist forces in South Vietnam are poised to launch a major country-wide offensive.

The North Korean leaders' deliberate moves to provoke a new crisis area reflect their readiness to face a sharp confrontation along the 38th Parallel. It seems likely, however, that they are counting heavily on the US to restrain Seoul from mounting unilateral reprisals and to prevent a military escalation in Korea that would require a major diversion of US military resources from Vietnam.

In South Vietnam, artillery and probing attacks against the US Marine base at Khe Sanh apparently mark the opening round of an ambitious Communist winter offensive. The main weight of the campaign probably will be directed at South Vietnam's northern provinces, but there are indications of plans for coordinated assaults in other parts of the country. With a major offensive in the offing, Hanoi has reduced its propaganda attention to its late December statement on talks with the US and has bitterly denounced President Johnson's remarks on Vietnam in his State of the Union message.

In Saigon, President Thieu made his second major bid in ten days for a greater voice in allied decisions. In a speech to the National Assembly, Thieu insisted there could be no cessation of bombing until the Communists end their guerrilla attacks, subversion, and terrorism in the South as well as their infiltration from the North.

Armed struggles continue throughout China and the army seems to be making no effort to intervene. The apparent stalemate within the top leadership is reflected in Peking's failure to repudiate or curb militant "revolutionary" groups that are creating most of the disorder.

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VIETNAM

Communist strategists apparently plan to kick off a major country-wide military campaign sometime around Tet, the lunar new year at the end of January. The main pressure will probably be mounted in the northern provinces.

The opening round apparently occurred in Quang Tri Province on 19 January with a series of probes against allied positions in the Khe Sanh area, followed up later in the week with large-scale mortar, rocket, and artillery bombardments. Heavy fighting also occurred near Gio Linh in the northeastern corner of the province, reflecting enemy efforts to maintain pressure and tie down US forces all along the Demilitarized Zone (DMZ). On the western end of the DMZ, at least 16,000 North Vietnamese regulars are in the hills surrounding the Marine garrison at Khe Sanh, while up to two enemy divisions threaten allied strongpoints in the eastern half of the province.

[redacted] claims that the mission of his unit--the North Vietnamese 325C Division--is to overrun every US base be-

tween the Laotian border and Con Thien before the Tet holidays. [redacted] remarks suggest that enemy troops are being given an especially heavy dose of propaganda exhortation, which is indicative of the major significance the Communists appear to be placing on the present offensive.

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[redacted] claimed that the Quang Tri campaign was of such importance that it was being controlled directly by the North Vietnamese Defense Ministry in Hanoi.

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There are indications that enemy operations in the northern provinces may be coordinated with attacks in the western highlands and perhaps in northern III Corps. There has been continued maneuvering by subordinates of the B-3 Front, both along the Kontum-Pleiku provincial border area and in the mountains of Kontum adjacent to the Laos-Cambodian border, where at least five North Vietnamese regiments have been identified. Several recently captured documents discuss plans to attack specific targets in Pleiku--including the province capital, possibly in conjunction with actions in the triborder area.

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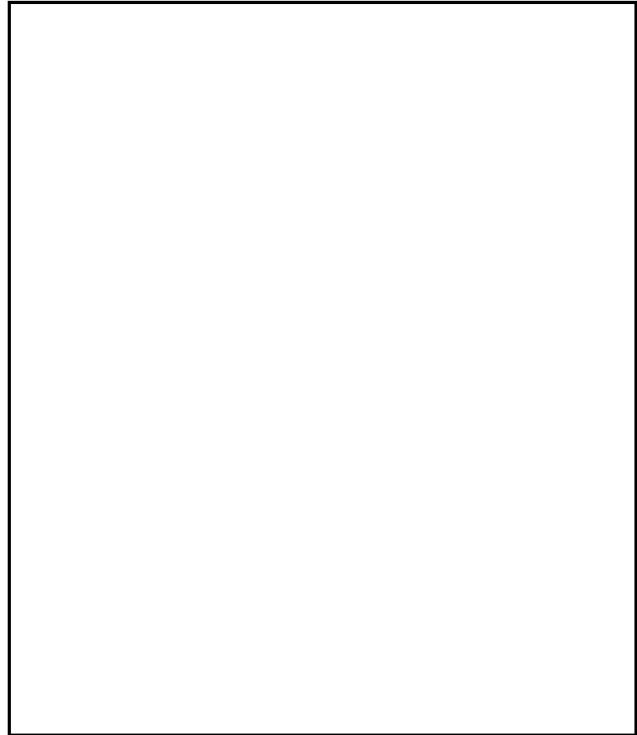
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Although fighting in northern III Corps has slackened recently, elements of three Communist divisions--the Viet Cong 5th and 9th, and the North Vietnamese 7th--are in a position to threaten several key points, including the Loc Ninh - Song Be area.

Reinforcing the likelihood of wide-ranging enemy offensive operations before or soon after Tet are the tapering off of the northeastern monsoon in the DMZ area and the new moon cycle itself, both natural factors that are known to create conditions favorable to enemy initiatives.

Politics in Saigon

There are tenuous indications that the strains between President Thieu and Vice President Ky may be easing.



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The government is continuing to strengthen its position in the Lower House. The committee chairmen elected on 18 January put probable government supporters in charge of a majority of the committees. This enhances prospects of house cooperation with the executive branch, and results from a continued alliance between deputies in the progovernment Democratic Bloc and those of the northern Catholic-dominated Independence Bloc.

Hanoi Rejects Reciprocity

North Vietnam seems unwilling at present to go any further

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in publicly elaborating on its position concerning talks with the US. In contrast to its efforts prior to President Johnson's State of the Union address to underscore the reasonableness of the Communist position, Hanoi now seems bent on preventing any exaggerated interpretations of its intentions. After strongly denouncing the President's restatement of the San Antonio formula, North Vietnam-

ese media generally have concentrated on presenting Hanoi's usual hard-line treatment of the war and have ignored the issue of negotiations. On 22 January, the DRV representative in Paris canceled a scheduled interview with a New York Times official on the grounds that he had said everything he had to say at this time.

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## NORTH KOREA PROVOKES NEW CONFRONTATION

North Korea's audacious actions in attempting to assassinate South Korean President Pak Chong-hui and in seizing the USS Pueblo and its crew were apparently individual, uncoordinated actions. Both, however, probably were aimed primarily at generating diversionary pressures on the US at a time when Communist forces in South Vietnam are poised to launch a major country-wide offensive.

In undertaking these risky adventures, the North Koreans were carrying out Premier Kim Il-song's prescription for combating American power on a worldwide scale. Over the past year, he has repeatedly described Vietnam as the focal point of the world struggle and has urged all Communist regimes to take "more positive actions" to aid Hanoi by forcing the US to "disperse" its strength.

On 19 January, the day the North Korean raiding party crossed the Demilitarized Zone on its way to Seoul, Pyongyang radio broadcast Kim's call for "blows" against the US "in all parts of the world" in order to "split its forces to the maximum degree." Kim insisted, "We must tie the US up wherever it puts its feet, so that it cannot move around freely."

Although the heavily armed North Korean raiding party failed to execute its assigned mission of blowing up the presidential

mansion, it managed to penetrate to within 800 meters of Blue House before being driven off by South Korean police. The fact that the Korean leaders ordered such a highly provocative venture indicates they were prepared for a sharp confrontation on the 38th Parallel, including at least limited and localized military action. It seems likely, however, that Pyongyang was counting heavily on the US to restrain the South Koreans and to prevent a military escalation in Korea that would require a major diversion of US military resources from Vietnam.

The Pueblo incident, in North Korea's view, appears to have been a windfall opportunity to sharpen the diversionary confrontation in Korea, to stimulate US - South Korean differences, and to put greater pressures on US policy in Asia. The seizure of the Pueblo probably was not part of an elaborate scenario prepared in advance.

North Korea has adopted a defiant stand in the initial talks at Panmunjom and appears determined to prolong the confrontation for some time. The senior North Korean representative at the Military Armistice Commission meeting on 24 January flatly rejected the US demand for the immediate return of the ship and its crew. He remained silent on Pyongyang's intentions regarding the disposition of the Pueblo.

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Despite this provocative stand, the North Koreans probably are not prepared to press events to the point of an uncontrollable conflict. Pyongyang, moreover, is seeking to avoid responsibility for the Seoul raid by portraying it as part of the South Korean people's "heroic struggle" against the Pak regime.

These two incidents will sharply increase pressure on the South Korean Government to mount strong retaliatory action. The seizure of the Pueblo, following on the heels of the Seoul raid, has deepened public concern over North Korean intentions and over the security situation in

the South. The success of the North Korean team in penetrating Seoul has generated loud criticism of the government. President Pak has urged the cabinet and party leaders to "prepare measures to counter and root out once and for all such atrocious activities" as the Seoul raid. Despite firm UN Command prohibitions against unilateral South Korean reprisals, Pak has permitted some punitive raids against the North in the past. Any further aggravation of the confrontation might impel Pak to authorize more extensive retaliatory action and make it more difficult to control the course of events.

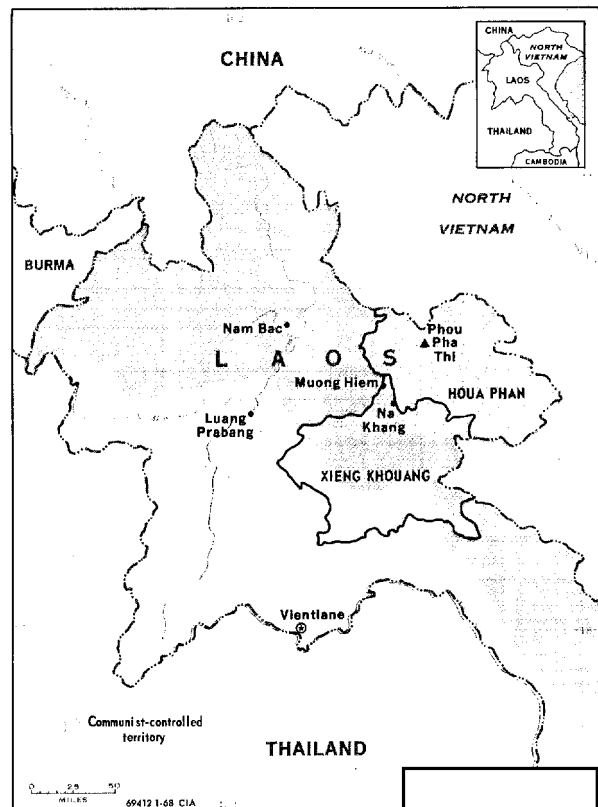
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### LAOTIAN GOVERNMENT FORCES SUFFER SEVERE SETBACK

The loss of Nam Bac on 13 January represents one of the most severe military setbacks the Laotian Government has suffered in five years, but there are still no indications that the Communists intend to press their advantage by a drive into government-held areas.

It will be some time before total government casualties can be determined, but losses will probably be high. A full week after the defensive perimeter collapsed, less than half the original complement of 3,500 is accounted for. The enemy is still harassing units as they attempt to withdraw, and friendly guerrilla units and helicopters are being moved in to help with the evacuation. The government also lost large stocks of heavy weapons, ammunition, food, and equipment.



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Communist propaganda emphasized that the attack against Nam Bac was a response to the government's "nibbling tactics," and called on its forces to remain resolute in "defense of liberated areas." This line is also being pushed by the Pathet Lao representative in Vientiane.

Meanwhile, the Communists are closing in on the strategic government guerrilla base at Phou Pha Thi, which was the target of the unsuccessful North Vietnamese air strike on 12 January. The enemy has taken a number of outlying posts in recent days, possibly in preparation for artillery attacks on the airstrip. The loss of Phou Pha Thi, which is only 15 miles from the North Vietnam border, would seriously disrupt government operations in northern Houa Phan Province, and would impair US air attacks against North Vietnam.

In addition, the Communists captured the government position at Muong Hiem on 23 January, suggesting that an early thrust may be made against Na Khang, the principal base for friendly guerrilla operations in northern Xieng Khouang Province.

In southern Laos, the enemy continues to threaten some major government bases, although no large-scale attacks have been reported in several weeks. The Communists, however, have disrupted US AID development programs in this part of the country. By tying substantial numbers of government troops to static defensive positions, the Communists also have already achieved one of their primary objectives in their current dry-season campaign.

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## PEKING EQUIVOCATES ON SUPPRESSION OF DISORDER

Peking has joined provincial propaganda media in denouncing the "crimes" of people in "revolutionary organizations" who instigate conflicts and widen factional splits. On 15 January, the major central committee journals in Peking reprinted, without comment, a tough editorial from the Shanghai Wen Hui Pao demanding that firm action be taken against factionalists in "revolutionary" organizations. At least one provincial radio has told

"revolutionary" organizations to study the Wen Hui Pao editorial and many others have denounced the factionalists in similar language.

The failure of the Peking papers to publish the customary editorial endorsement of a major statement like this suggests that militant forces around Mao are unwilling to accord official backing for such a forthright attack aimed at militants in the provinces.

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"Armed struggles" and violent fighting, presumably instigated by these groups, continue to be reported from many areas. Most fighting appears to be sporadic, [redacted]

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[redacted] a state of anarchy has existed for weeks in several cities in southeast China. The army seems to be making no effort to intervene in these areas, even though the fighting reportedly has caused heavy casualties and damage, and has virtually put a stop to government and economic activities. [redacted]

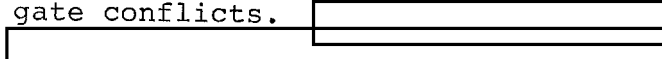
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Peking radio has announced that Premier Chou En-lai appealed to railway workers in early January to restore smooth operations, but this appeal seems to have been as ineffectual as the denunciations of those who instigate conflicts. [redacted]

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### THAILAND PRESSING COUNTERINSURGENCY CAMPAIGN IN NORTH

Government troops have encountered strong Communist resistance in their major sweep operation begun in early December against insurgent elements in the rugged, mountainous terrain of northern Nan Province. The 3,000-man police and army force involved has suffered more than 60 casualties and has been severely handicapped by poor intelligence and inadequate logistic support. The operation is targeted against an estimated 200 Communist-led Meo tribesmen, who have displayed considerable tactical skill and discipline in

evading and harassing government forces.

The Thai Communist Party has been working with the northern tribal people for several years and has managed to extend its influence over a number of villages. [redacted]

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[redacted] the party has trained several hundred tribesmen in Laos and that smaller numbers have also received guerrilla instructions at the Hoa Binh training center in North Vietnam. There are also indications that Communist cadre

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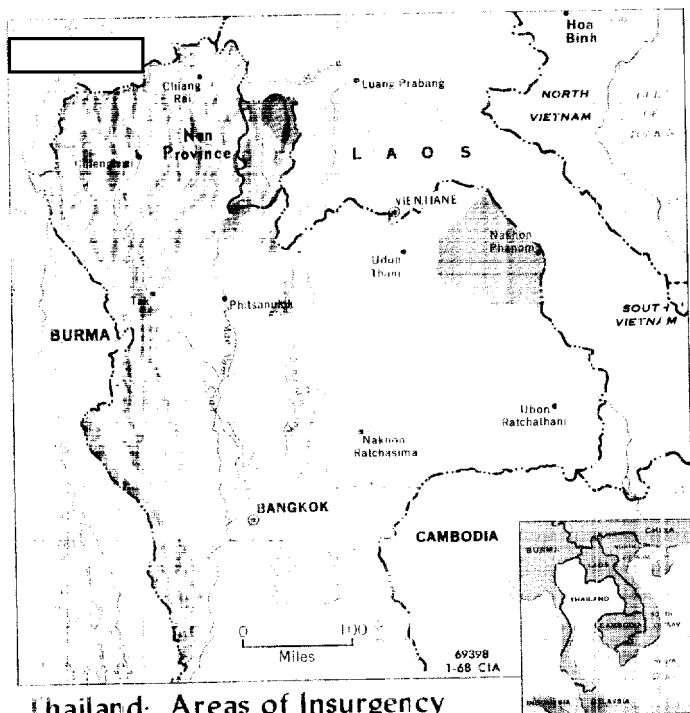
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from the northeast may have been moved into the north.

The commitment of substantial resources to the operation in Nan Province, as well as the high-level interest shown in Bangkok, is evidence of the government's belated recognition that it is now also facing a substantial subversive threat in northern Thailand. The heavy-handed treatment of the tribal people during the operation, however, and the continuing claims that the dissidence is foreign-inspired indicate that Bangkok is not yet ready to acknowledge that its own tribal policies have been largely responsible for creating a situation ripe for Communist exploitation.

Meanwhile, Communist activity in the more critical northeast has remained at a low level since last spring. The guerrillas there have generally limited their activity to the confiscation of food and to minor acts of intimidation against villagers. Armed clashes with security forces continue, but forced village meetings have almost ceased. The Communists have not attracted much peasant support through terrorism and, in the face of increasing pressure from the government, may have decided for the present to concentrate on low-key political efforts. [REDACTED]

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Thailand: Areas of Insurgency

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## EUROPE

The Soviet leadership seemed to be having some troubles with scheduling. Premier Kosygin changed plans a second time and began a visit to India this week. There is one report that he will go on to Hanoi to be there during the Tet cease-fire. The central committee meeting, reportedly scheduled for January, now may not be held until next month, which suggests that the leadership has still to make up its mind on a number of issues.

President Tito, returning from Cambodia, extended a stopover in New Delhi for three days--ostensibly to get some rest. He was thus able to see Kosygin as well as Mrs. Gandhi. Tito will visit Addis Ababa and Cairo before going home.

There were some indications that the new leadership in Czechoslovakia might be more cooperative with the West than its predecessor. It granted Pan American Airways' long-standing request to sell tickets in Prague for hard currency. The Czechs were also helpful to a West German trade mission that is preparing to open a permanent office in Prague. Czechoslovakia was one of the first states publicly to approve the US-Soviet draft of the nonproliferation treaty.

In Denmark's elections, Prime Minister Krag's Social Democrats suffered a clear defeat. Although the non-Socialist parties now have a majority in the 179-seat parliament, the balance of power is held by the small Radical Liberal Party, elements of which favor a referendum on the question of membership in NATO after 1969.

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## USSR'S DEFENSE BUDGET INCREASE MAY REFLECT PAY RAISE

Pay raises for military personnel may be included in the 15-percent increase announced for the Soviet defense budget for 1968.

Although the published version of the newly instituted universal military service law contains no explicit provision for greater pay for career military personnel, a recent commentary on the law implies there is one. Military pay data normally are considered classified information by the Soviets.

Describing the law in Red Star, Marshal M. V. Zakharov, chief of the general staff, reported that changes aimed at "improving the material and legal positions" of officers and long-term enlisted servicemen are being introduced. Even without an increase, these personnel

would be receiving more than 90 percent of the total Soviet military pay, since conscripts get only nominal compensation.

It is not clear how big a raise is intended, but any significant one would increase military spending materially. An increase of ten percent, for example, would add about 350 million rubles to the budget. This would be about 16 percent of the 2.2-billion ruble increase the Soviets announced will be made in defense spending in 1968.

An increase could be considerably more than ten percent. No major revision of the Soviet military pay structure has been detected in over 20 years. The wages of the civilian labor force have nearly doubled during this period.

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## SOVIETS CONTINUE TO EXPAND AND IMPROVE ICBM FORCE

The Soviets are continuing to improve and strengthen their Strategic Rocket Forces. The new generation SS-9 and SS-11 ICBMs are augmenting rather than replac-

ing the older SS-7s and SS-8s. The Soviets apparently intend to raise the number of their deployed ICBMs to close to the more than 1,000 Minutemen and Titans deployed by the US.

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Newer, more sophisticated weapons are under development. The fractional orbit bombardment system showed a good test record in 1967. This system could become operational late this year, although the booster probably is not powerful enough to permit a nuclear warhead to hit targets in the US on the first orbit.

In another area of development, a new solid-propellant ICBM achieved ICBM range in October for the first time. This missile will probably not be operational for at least another year.



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The most extensive Soviet strategic exercise ever held took place in July, with the rocket forces playing a leading role. This exercise featured the nearly simultaneous launch of five ICBMs from five different complexes on 20 July.

An increasing amount of information on the Soviet Rocket Forces has been published in the USSR in recent months. The Soviet public has been told for the first time that military personnel are responsible for the launch of even nonmilitary spacecraft, and a full-page article on a new mobile missile system was published in Red Star. In the November parade, the Soviets first displayed the SS-9 ICBM and a new two-stage solid-propellant MRBM for the Scamp mobile system.



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## EASTERN EUROPEAN COUNTRIES RAISE MILITARY EXPENDITURES

The Eastern European countries have all announced increased military budgets for 1968, most of them for the third consecutive year. The increases range from between 4 and 11 percent for Czechoslovakia, Rumania, Yugoslavia, Bulgaria, Poland, and Albania, to 15 percent for Hungary, and about 60 percent for East Germany. Except for Rumania and Hungary, each country has earmarked an equal or larger percentage of its total 1968 budget for military expenditures than in 1967.

Military spending has generally been understated in published budget data. The practice of including some military outlays elsewhere in the budget and providing indirect subsidies

on some items purchased by the military may be coming to an end, however, at least in some of these countries. The economic reforms most are undertaking include complete overhauls of their budgets. It has been assumed that stated military budgets gave valid indications of the general trend of defense expenditures. The conclusions to be drawn from the 1968 budgets are not yet clear and comparison with previous years is, therefore, less meaningful than in the past.

Although there is no evidence of a large-scale military build-up of East German forces, as Pankow's announced 60-percent increase in defense expenditures would suggest, the figures may

### EASTERN EUROPE: BUDGETED MILITARY EXPENDITURES

COUNTRY (and currency)	1967 PLANNED (in millions)	1968 PLANNED (in millions)	1968 PERCENTAGE CHANGE FROM 1967	MILITARY EXPENDITURES AS PERCENTAGE OF TOTAL BUDGET	
				1967	1968
Albania (Leks)	272	304	+11.2	7.6	7.6
Bulgaria (Leva)	247	264	+6.9	6.0	6.0
Czechoslovakia (Crowns)	12,400	12,900	+4.0	8.7	8.9
East Germany (DM)	about 3,600	5,800	+61.0	about 5.0	8.7
Hungary (Forints)	5,437	6,400	+15.5	5.2	4.6
Poland (Zlotys)	26,450	29,096	+10.0	8.4	9.5
Rumania (Lei)	4,960	5,200	+4.8	4.0	3.7
Yugoslavia (New Dinars)	5,382	6,030	+6.1	55.0	56.6

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foreshadow an important increase in defense spending. It is also possible that the Eastern European countries are having to pay some of the military costs previously borne by the USSR.

Hungary cited rising prices as an important factor in its enlarged military budget. Rumania last year announced a program to produce military equipment, but its military budget is up less than 5 percent.

To make higher military spending more palatable to the public, the Eastern European regimes usually blame increased international tension. Other reasons may also include any combination of such factors as more realistic budget planning, surfacing of heretofore hidden military expenditures, inflation, higher costs for more sophisticated equipment, price reforms, or the assumption of defense functions previously borne by the Soviet Union.

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## FRANCO-SOVIET SPACE PROGRAM CONTINUES

During recent negotiations in Moscow, France and the USSR agreed to place a French instrument package on a Soviet space vehicle to be launched around the moon late this year.

The project involves the use of French-built spectroscopic equipment to search for a thin atmosphere around the moon. A successful mission would represent a significant step forward in lunar research.

It is unclear whether the Soviets intend to revive their lunar orbiter program--inactive for more than a year--for this

project. There are indications they are embarking on a new series of shots, including one or more circumlunar flights that will loop around the moon and return to earth. The French experiment might be included in such a mission.

The bilateral talks in Moscow also covered an earlier agreement calling for the Soviets to place a French scientific satellite in a highly elliptical orbit around the earth. This well-publicized program, Project Roseau, was originally scheduled for 1971 or 1972, but the French science attaché in Moscow has indicated that the

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satellite will probably be launched in 1973.

Contrary to press reports, there was no discussion of Soviet use of launching or tracking facilities in French Guiana. France has announced that the space launch site under construction there will be available to other countries, but it is too early to determine if that invitation includes the USSR.

The Soviets might seek to establish space tracking facilities in French Guiana to supplement land-based tracking stations in the USSR. French Guiana is well situated for supporting a variety of Soviet space missions, including manned flights. The USSR almost certainly will not move any of its major space programs to French Guiana, but some Franco-Soviet sounding rockets might be launched there.

Thus far, the only joint space projects to reach the launch pad have involved small sounding rockets fired from Franz Josef Land in the Soviet Arctic. In late 1967, two Soviet sounding rockets carried French instrument payloads in what appears to be the beginning of a series of shots to investigate the upper atmosphere.

Franco-Soviet cooperation in space research, one of several joint scientific projects involving the two countries, began two years ago with formal negotiations in Paris. Thus far, the program has been characterized more by talk than by action. The main stumbling block has been the unwillingness of the French Government to allocate the necessary funds. There are no indications that Paris intends to loosen the purse strings for the program, which probably will continue to move at a leisurely pace over the next few years. 25X1

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## USSR'S AID AND TRADE WITH INDIA DECLINES

Premier Kosygin's visit to India this week will provide New Delhi with an opportunity to review its lagging economic relations with the USSR. Soviet trade with India apparently declined in 1967 for the second year in a row and the Soviet aid program is far behind schedule.

The trade goal for 1968 calls for total trade of \$400 million, a modest increase of seven percent, but probably will not be met. India hopes to increase its exports of manufactured goods to the Soviet Union while maintaining exports of such traditional goods as jute, tea, and hides at about the same level as in 1967. Much of the decline in trade stems from the implementation of new economic policies by New Delhi, including a 30-percent devaluation of India's currency in June 1966. At that time, India also liberalized foreign exchange regulations for priority industries, permitting importers to turn to Western sources for goods they formerly bought from the USSR for rupees. In addition, two poor crop years have reduced the availability of agricultural products for export to the USSR.

An economic recession in India since 1966 has reduced the funds available for investment in the public sector and this has resulted in a slowdown in aid deliveries from the USSR. Nevertheless, in 1966 the Soviets ex-

tended to India \$333 million in new project aid and an additional \$222 million in trade credits for India's fourth five-year plan (1966 to 1971). India also carried over more than \$200 million in unused credits and another \$225 million in unused credits for the Bokaro steel plant, which has not progressed far. India thus has about \$900 million in unused Soviet credits, of which only about \$40 million was drawn during the past year.

Most Soviet project aid was used for the expansion of projects begun under the third five-year plan, such as the oil refineries at Koyali and Barauni, the Bhilai steel plant, and two electric power plants. Progress at the Bokaro steel plant, the Soviets' largest aid project in India, was held up because of Soviet-Indian differences over cost and scheduling, and because Indian suppliers have been unable to meet contract commitments. Some equipment has been delivered to the site but probably no more than \$22 million for equipment and technical services has been expended on the project so far.

Kosygin presumably will urge New Delhi to improve operations at plants built with Soviet aid and to allocate more resources to the public sector construction program. This would increase India's capacity to absorb scheduled Soviet aid deliveries. 25X1

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## YUGOSLAVIA'S FOREIGN TRADE SHOWS SERIOUS IMBALANCE

As part of its economic reform program, Yugoslavia last year removed restrictions on about half the products it imports, resulting in a sharp and unexpected upsurge in imports from the West. This, plus Belgrade's large trade surplus with Eastern Europe, has necessitated a search for a new basis of trade with these CEMA members.

Yugoslav enterprises have shown a strong preference for Western goods, which are of higher quality and are often lower priced than those from the Communist or less-developed countries. Yugoslav imports last year from Western hard-currency countries are estimated to have increased 2.5 times more than exports to them. Although Yugoslavia's Western imports accounted for more than half its total trade, the rush to buy Western goods is expected to ease this year. Belgrade is in the process of raising its tariffs on some imports from the West and has taken measures to increase imports from Eastern Europe.

In addition, Yugoslavia probably will try to get more financial assistance from the West in the form of debt deferments and long-term credits. It will have substantial repayment obligations in 1968 and 1969, which could cut deeply into its hard-currency reserves. Yugoslavia has received no major financial assistance from

the West since 1966, but West Germany--one of Belgrade's largest creditors--has taken the lead in the European Economic Community (EEC) in pressing the case for special treatment. Italy, however, has blocked negotiations for a Yugoslav-EEC commercial agreement. The Italians fear that, without an enlarged EEC market resulting from inclusion of the "northern" candidates for membership, Yugoslavia--along with other Mediterranean countries seeking special community ties--would become overly strong competitors in supplying agricultural products to the EEC.

The shift in Yugoslavia's trade toward the West has increased the strain on Belgrade's economic relations with Eastern Europe. Yugoslav imports from CEMA have been declining while exports have increased, resulting in the build-up of a trade surplus of \$135 million which the Yugoslav press has characterized as "an interest-free credit." Yugoslavia has reportedly proposed various measures, including settlement in hard currency, if this surplus is not eliminated by 1970. The subject was probably discussed at the recent CEMA meetings in Budapest, but the reaction of CEMA members to this proposal is unknown. Unless a new basis for trade with these countries is found, Belgrade may have to further regulate its trade with the CEMA countries.

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## DRAFT NPT MOVES TO NEXT STAGE OF NEGOTIATIONS

The draft nonproliferation treaty (NPT) submitted by the US and USSR last week is now being reviewed by the other members of the Eighteen Nation Disarmament Committee (ENDC).

World-wide response to the draft has been generally favorable. Even the West Germans, who had been among the most critical, were positive, although they noted that some problems remained. Italy and Japan reacted similarly. At a session of the ENDC on 23 January, however, only Britain, Canada, and Czechoslovakia publicly endorsed the draft treaty. The nonaligned members of the committee have remained silent.

Among the problems remaining is the 25-year duration of the treaty, which West Germany and Italy may try to get shortened. In addition, Italy and Spain want the ten countries most advanced in nuclear energy development to have the veto on amendments, a power that the present draft gives to the International Atomic Energy Agency (IAEA) board of governors. Both countries would also like to increase from 40 to 80 the number of ratifications necessary to put the NPT into effect. The Japanese want a provision for an automatic review conference to be held every five years.

The Western European countries question whether a verification

agreement between IAEA and Euratom can be worked out in the two years provided. Other nonnuclear states want safeguards over the peaceful nuclear activities of the nuclear powers. The US and UK, but not the USSR, have indicated a willingness to accept IAEA safeguards.

The Italians would like the decision on providing nonnuclear states with nuclear explosive devices for peaceful purposes put in the hands of an international agency rather than left to the nuclear states. Underlying this and other concerns of the nonnuclear states is a belief that they are being asked to give up a great deal while the nuclear powers are sacrificing very little.

The question of providing security assurances to the nonnuclear states remains to be worked out. Such assurances, necessary before India signs, will not be an integral part of the treaty but will probably take the form of declarations by the nuclear states and a UN resolution.

Despite the problems that remain, the completed and revised text has met many of the nonnuclear states' objections, and it is likely that the NPT will receive at least a majority endorsement from the ENDC before it is forwarded to the UN.

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## MIDDLE EAST - AFRICA

There was little progress during the week toward an early resolution of the area's many crises.

Arab terrorists continue to hit at targets in Israel and Israeli-occupied territories. An Israeli counterstrike does not appear imminent, but continued terrorism will probably draw Israeli retaliation sooner or later.

The tripartite committee attempting to reconcile differences between the Yemeni republicans and royalists has so far failed. The military situation remains stalemated with republican air power canceling out the advantage the royalists have on the ground.

Nigerian federal troops have advanced in several sectors against Biafran forces, but are encountering stiff resistance from the Ibos. Lagos is adding a few IL-28 bombers, acquired from Egypt, to the small federal air force.

In Dahomey, the insecure new military government may get another temporary reprieve from its pressing financial problems. France appears to be relenting on its decision to suspend budgetary support, and may remit emergency funds at the end of the month when Dahomey faces its next fiscal crisis.

The French-speaking nations of the moderate Afro-Malagasy Common Organization, which appears to be increasing in prestige and importance, held their annual summit this week in Niger. The session was attended by 13 of the 14 member chiefs of state. The final communiqué indicated the organization will continue its quiet efforts to expand economic cooperation among its members.

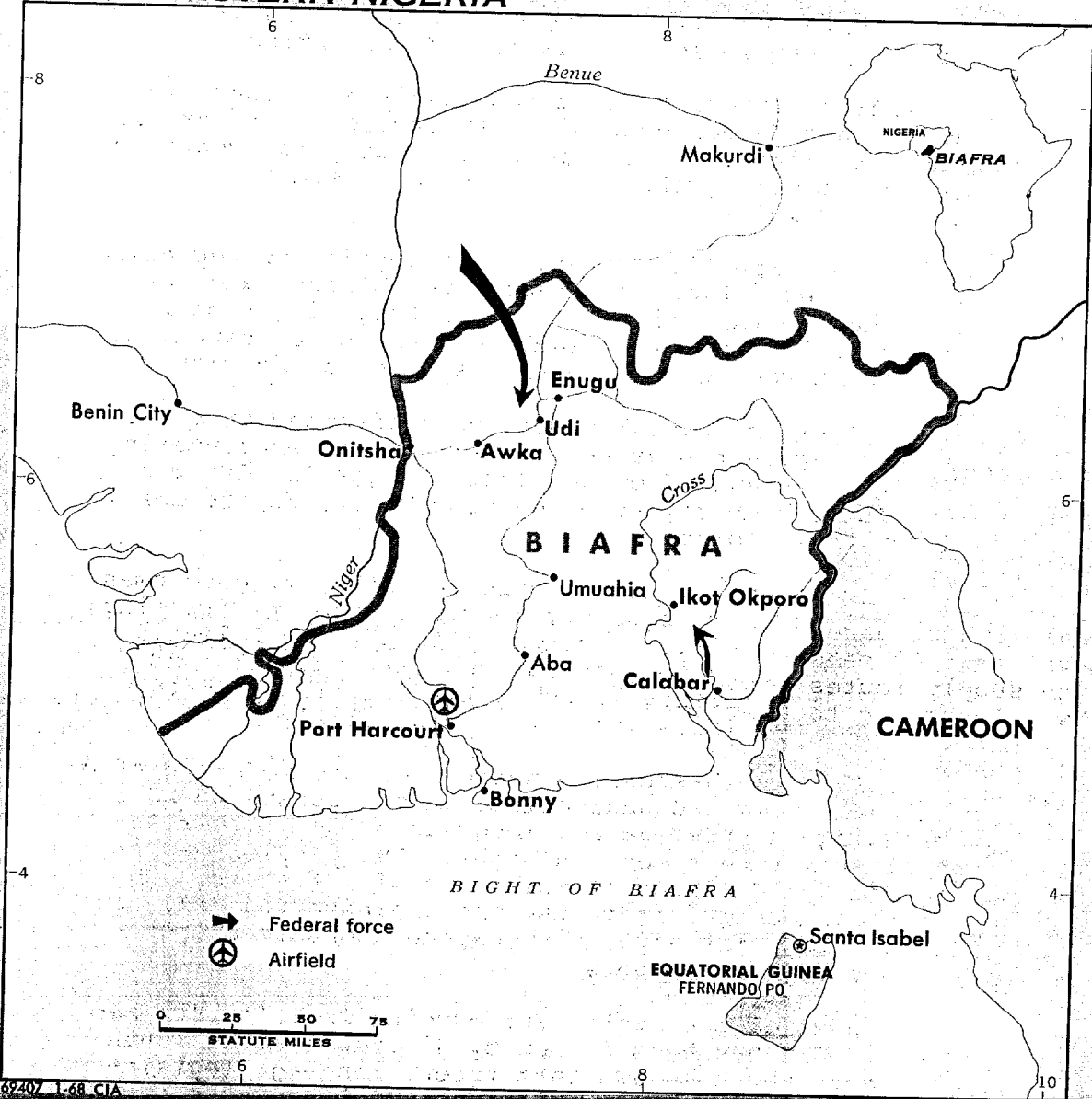
Some of the luster surrounding India's 18th Republic Day has been dimmed by disorders among south Indians, who complain that recent language legislation fails to protect the rights of linguistic minorities.

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### SOUTHEASTERN NIGERIA



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### FEDERAL TROOPS ON THE MOVE IN NIGERIA'S CIVIL WAR

Federal military forces are beginning to gain new momentum in several areas of Biafra against severe opposition, as Ibo resistance continues unabated.

The three brigades of the federal 2nd Division, moving down from the north, have linked up west of Enugu with the 1st Division, and the two forces are pushing south in a line from Enugu to the Niger River. Principal objectives are Udi, Awka, and Onitsha, the capture of which would significantly shorten federal supply lines. The defending Biafran brigades are putting up fierce resistance, however, and the federal advance is likely to be slow.

On the coast at Bonny, the attacking Biafran units were reportedly finally stopped by the federal 15th Brigade with the help of naval patrol boats that cut Biafran supply routes through the creeks.

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[redacted] federal patrols have recently penetrated as far north as Port Harcourt. To the east at Calabar, federal troops have moved about 25 miles to the north and northwest, heading for Ikot Okporo on the Cross River. Effective Biafran counterattacks and harassing action, however, as well as the long supply line by

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sea and air from Lagos have minimized the federal advance.

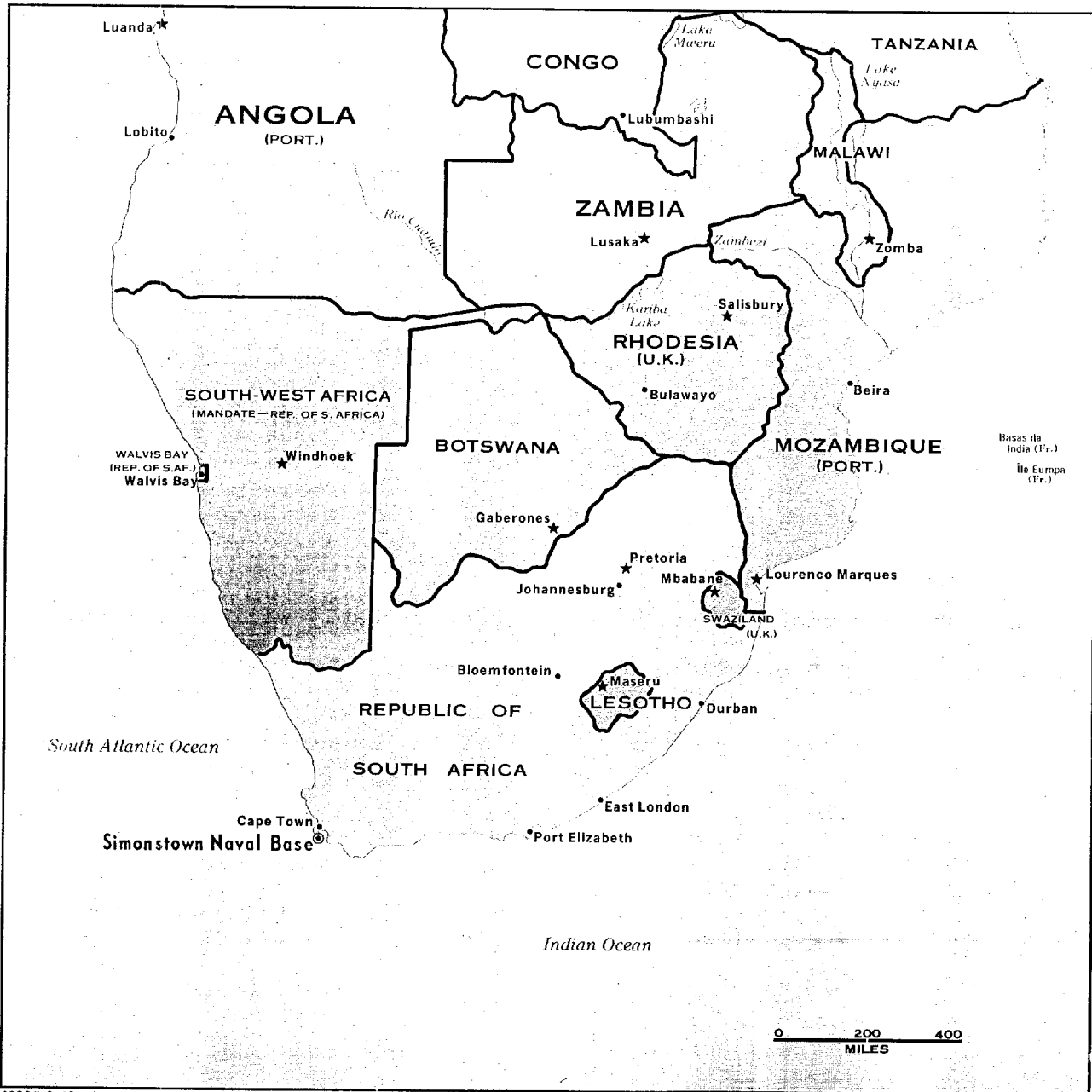
Lagos is adding IL-28 jet light bombers to its air force-- 25X1 the first of this type to be acquired anywhere in black Africa.

[redacted]  
A prime target is likely to be Port Harcourt and its airfield, Biafra's only entry point for military supplies and international travelers.

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## SOUTH AFRICA THREATENS TO BREAK SEA DEFENSE LINK WITH UK

British Prime Minister Wilson's recent announcement that the UK will continue its embargo of military arms sales of all types to South Africa has led Pretoria to indicate that it might abrogate the Simonstown Naval Agreement. Under the terms of that agreement, signed in 1755, the British and South African navies are jointly responsible for protecting the cape sea route around the tip of Africa.

The South African request that sparked the trouble was an order for maritime reconnaissance jets, bombers, helicopters, frigates, submarines, and surface-to-air missiles. The South Africans claim that these weapons are required for the defense of the route and that the British failure to supply them is reason enough for Pretoria to withdraw from the agreement.

Wilson announced the arms embargo shortly after he took office in 1964. It is designed to prevent British arms from being used against South Africa's nonwhites. South Africa's present shopping list touched off bitter debate within the British Government, where some officials argued strenuously that the arms requested are not of the kind likely to be used against the

indigenous population. It was also argued that it would be economically unfavorable to turn down the request, as South Africa plans to spend at least \$200 million for arms in the near future.

Abrogation of the agreement carries with it the possibility that British warships will lose docking privileges at South African ports. South African Prime Minister Vorster has implied that he will give France access to the British naval base at Simonstown, but it is doubtful that the French are interested. The British hope to use this base to fuel and supply ships returning British troops and equipment from east of Suez. After that withdrawal is completed in 1971, London probably will have little interest in defending the cape sea route.

The South Africans will probably turn to the French for arms, as they did soon after the Wilson embargo was promulgated. The French, having convinced themselves that the arms requested are not for internal use, have not hesitated to fill South Africa's orders. Past sales have included such items as Mirage aircraft, Daphne-class submarines, and Panther armored cars.

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### IRAN PLANS TO MODERNIZE FORCES IN PERSIAN GULF

The projected British military withdrawal from the Persian Gulf has focused new attention in Iran on the Shah's plans to modernize the country's armed forces. The Shah has maintained for several years that Egyptian President Nasir presents a threat to Iranian security in the Persian Gulf, and he has geared his defense policy toward improving Iran's naval and air capabilities in that area. Iranian officials expected the British withdrawal, and have often served notice that they intend to be prepared for any security problems that arose as a result.

The Shah's military program for the next five years (1968-1972) anticipates expenditures of \$600-800 million, aimed primarily at bolstering Iranian defenses in the Persian Gulf. The British withdrawal from the area is not likely to cause any significant expansion, but will provide additional justification for the large program that Iran had intended to pursue in any case.

In early January, the Iranian Parliament authorized the government to borrow an additional \$266 million for the purchase of military equipment. Prime Minister Hoveyda maintains that the new five-year program is an abso-

lute necessity in view of the "serious threat" in the gulf. Although Iran would prefer a cooperative defense arrangement with other gulf riparians, Hoveyda thinks it likely that Iran will bear most of the burden.

The Shah would prefer to make most of his military purchases in the US, and Iranian officials have been pressing for an estimate of what they can expect to buy during the next five years. They are primarily interested in jet fighter aircraft, modern tanks, and artillery, and they are concerned by evidence that US credits for arms purchases will be further reduced.

In addition, the Shah is continuing his efforts to diversify Iran's sources of military equipment. Iran has already purchased an estimated \$68.5 million in naval equipment and short-range missiles from the UK, and has expressed an interest in British tanks.

[Redacted]

The Shah also can be expected to keep open the possibility of further arms purchases from the Soviet Union. Iran first purchased Soviet equipment--estimated at \$110 million--in 1967.

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## WESTERN HEMISPHERE

The specter of limited guerrilla activities continued to haunt some Latin American governments during the past week.

A Bolivian Special Forces unit is still searching for the remnants of the band formerly led by Che Guevara. The Bolivians believe at least five of Guevara's men are still in the country.

The Colombian Army lost three soldiers in an ambush in Santander and the government was organizing a new counterinsurgency operation in Cordoba. There is no reason to believe the insurgents in Santander are connected with those in Cordoba.

Venezuelan troops had better luck than their neighbors. On the plains of the southwest, they captured six guerrillas and killed a seventh. Venezuelan guerrillas usually operate in mountainous regions, and this incident is the first of its size--and the first in a long time of any size--to take place on the plains.

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Guatemala had no major incidents during the past week, but security forces are still patrolling Guatemala City in search of the murderers of the two US military officers killed on 16 January. [REDACTED]

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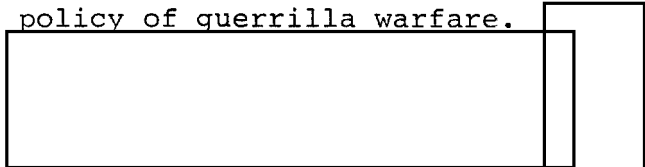
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### CHILEAN PRESIDENT PLANS DOMESTIC STRATEGY

President Frei is continuing to assess the political situation in light of developments at the convention early this month of his Christian Democratic Party (PDC). At that meeting, Frei was instrumental in obtaining the resignation of a left-wing directorate and in installing one of his strong supporters as president of the party. Although these changes have strengthened his hand considerably, he realizes that he still may not be able to get his controversial wage-price legislation through the opposition-controlled Senate.

Frei has taken a harder anti-Communist line since the PDC convention. In his year-end press conference, shortly before the convention, he intimated that there was little to fear from the Chilean Communists. At the convention, however, he spoke strongly against the Communists. He recently said to visiting US senators that he believes the Communists to be "implacably dedicated" to defeating his program because Moscow needs to prove that electoral action

is more effective than Castro's policy of guerrilla warfare.



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The government reportedly plans to shift its emphasis from agrarian reform to construction of housing, thus creating more jobs and business activity. Frei hopes that a general economic upturn can be translated into PDC votes in the 1969 congressional and 1970 presidential elections.

Frei has intimated that if his wage-price program fails to produce the necessary funds, he may call on the US for financial help rather than yield to pressure from the left wing of the PDC and from the leftist opposition parties to try to get more money from the US-based copper companies. Frei realizes that any breach of the present investment agreements would reduce Chile's ability to attract necessary foreign capital, thus impairing his economic program.



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## PERU FACES CRISIS OVER 1968 BUDGET

President Belaunde and the opposition-controlled Peruvian Congress may be approaching another serious confrontation.

Opposition party leaders backed by important segments of the business and financial community, have rejected the administration's budget proposals for 1968.

Stung by this rebuff, Finance Minister De Andrea resigned on 23 January. In token support of De Andrea, the entire cabinet then presented its collective resignation, which Belaunde declined to accept. Nevertheless, five high-ranking bank officials including Fernando Schwalb, head of the Central Reserve Bank, have irrevocably resigned. Schwalb protested the refusal of the opposition parties to grant the administration the resources necessary to stave off the present threats to economic stability and the value of the sol.

De Andrea has been a controversial figure as finance minister, incurring the enmity of the business community and the opposition parties. His departure should improve Belaunde's chances of working out an agreeable compromise with Congress.

There is no indication that either the administration or the Congress wants to upset Peru's fragile political and economic stability at this time--some face-saving device will probably be found to give each party the semblance of a victory.



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## GUATEMALA CITY QUIET THIS WEEK

Last week's high level of Communist terrorism has not been repeated this week in Guatemala City. The state of alert remains in force and the capital has been generally calm.

Security forces are patrolling the city and are conducting some house-to-house searches but they appear to be acting with restraint. Suspects are being summarily arrested and several prominent Communists who were not involved in the recent terrorism have been arrested. Defense Minister Arriaga is personally handling the investigation of the assassination of two US military officers on 16 January. He asserts that the intensive search for Communist leaders will continue and that when they are captured they will be executed.

The leftists are likely to remain in hiding until the security forces have relaxed their vigilance in the capital. The calm, however, could be shattered by leftist or rightist terrorists at any time.

British Honduran reaction to the events in Guatemala has been predictable in view of the current talks between the UK and Guatemala over its independence. The opposition, which objects to any ties with Guatemala, has had a field day in its newspaper, reporting the killings and stressing the Castro involvement. They have also attacked Premier Price for "yearning to integrate our country with the Guatemalan system."

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