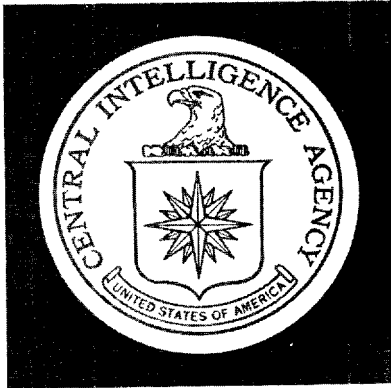


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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48

9 February 1968

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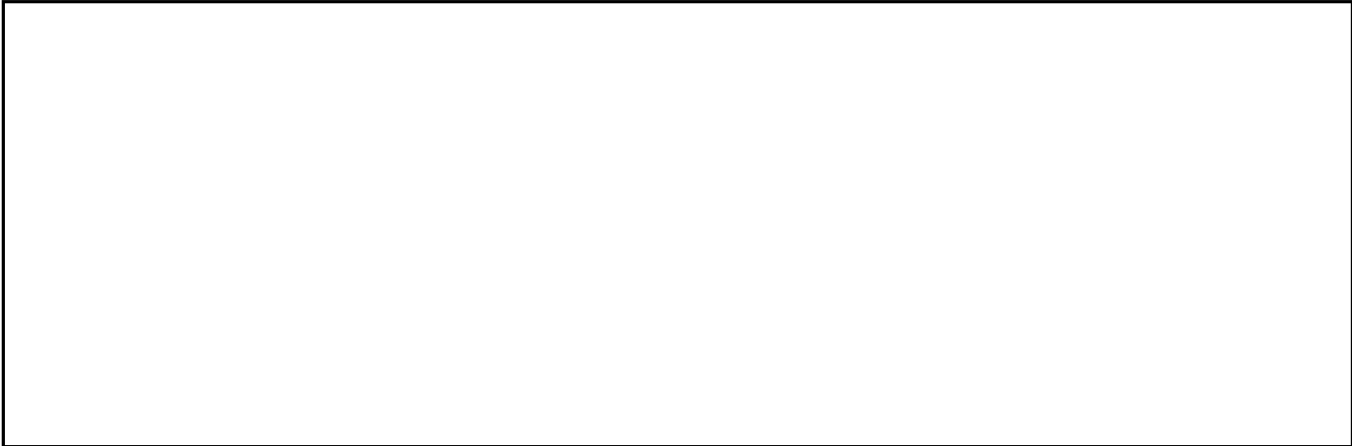
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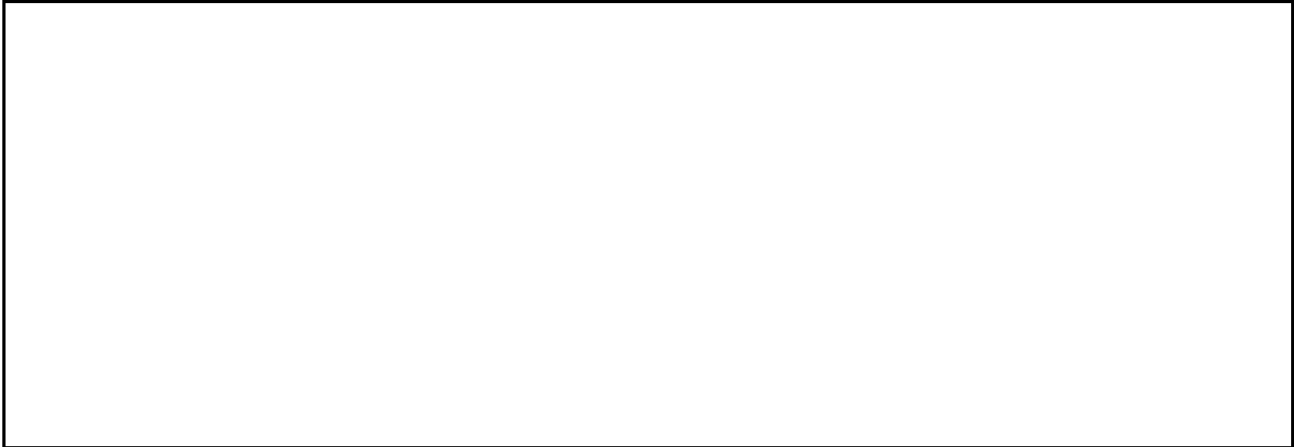
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FAR EAST

The momentum of the Communist Tet offensive in South Vietnam has diminished but there is strong evidence that a new round is imminent. The Communists apparently intend to maintain pressure on urban centers, which in the past were relatively immune from attack. Many North Vietnamese Army units were not committed in last week's assaults and the Communists thus retain the capability to mount further country-wide attacks, perhaps in coordination with a major thrust against allied positions in the Demilitarized Zone area. This long-expected thrust appears to have started with the overrunning of the Lang Vei Special Forces camp on 7 February and the simultaneous bombardment of the Khe Sanh base.

Hanoi and the Liberation Front are portraying last week's attacks as only the first round of a prolonged and fierce struggle. There is no evidence that the current offensive is a desperate attempt to achieve an appearance of strength before negotiating a settlement on the most favorable terms.

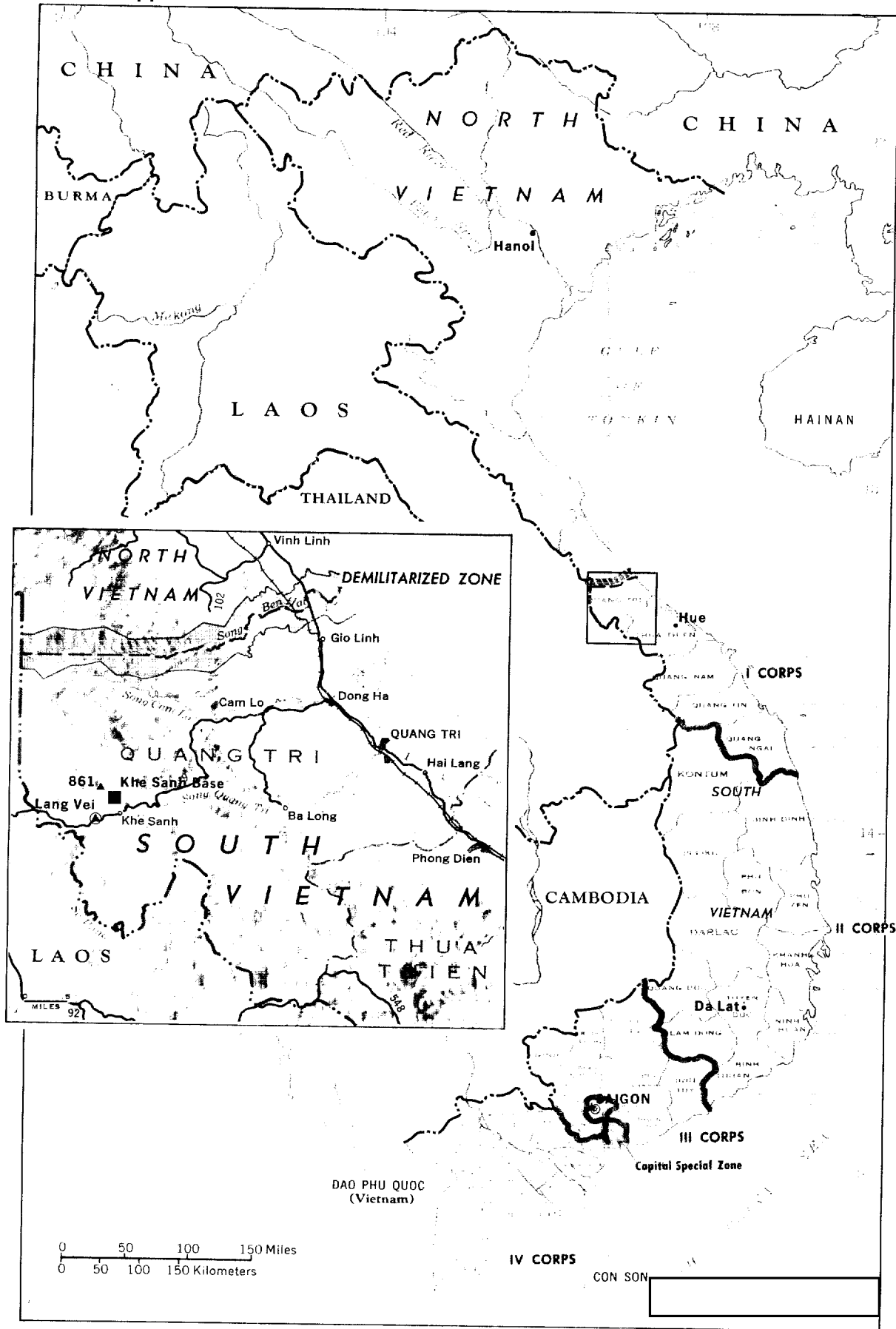
Communist forces in Laos are preparing new attacks on government bases. Recent military setbacks have generated increased tensions in the Laotian Army leadership and the loss of additional bases would have a serious psychological impact on an already nervous government in Vientiane.

The North Koreans appear intent on prolonging tensions over the Pueblo affair by dragging out negotiations at Panmunjom. South Korean dissatisfaction with the US handling of the Pueblo crisis has placed severe strains on US relations with the Seoul government, which is particularly concerned over the implications of private US - North Korean talks without South Korean participation. The government has underscored its concern by encouraging demonstrations urging military retaliation against the North and protesting the Panmunjom talks.

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VIETNAM

The week-long Communist offensive against key population centers throughout South Vietnam has tapered off although enemy troops are still putting up stiff resistance in parts of Hue, Saigon, and Da Lat. There is strong evidence, however, that a new round of fighting is in the offing.

Hanoi may hope that an intensive military and political effort now will bring windfalls in the next few months. The Communists may well view their current efforts as part of an all-out attempt to bring the war to a conclusion on their terms in 1968. There remains no indication, however, that they have abandoned their ideas of a prolonged struggle if present efforts should fail.

In the Khe Sanh - Demilitarized Zone (DMZ) area, the Communists may now be initiating their long-expected major thrust. On 5 February, the base came under intense fire and an unsuccessful ground assault was launched against Marines manning Hill 861 on the camp's defensive perimeter. This sequence was repeated on 7 February in conjunction with the major assault that overran the nearby Lang Vei Special Forces camp. Against Lang Vei, the Communists for the first time in South Vietnam used PT-76 amphibious tanks. They were brought in through Laos.

A prisoner captured earlier in the Khe Sanh area claimed that the Communists intended to "liberate" all of northern Quang Tri Province and would be supported by artillery, tanks, and aircraft. It is still too early to predict how determined an effort the Communists will make to force the allies from this area. They may be equally prepared to sustain a costly campaign to pin down allied forces here while prolonging their "winter-spring" offensive throughout the South.

Despite the severe losses--said to number almost 26,000-- that the Communists have taken in their offensive thus far, they continue to have sufficient strength to mount further intensive activity throughout the country. Most of their casualties were suffered by Viet Cong local forces, and perhaps half of the enemy main force--including a substantial part of the North Vietnamese units--has not been significantly committed in the current round of fighting. Several towns, including Saigon, have been subjected to repeated attacks or are still threatened by enemy concentrations nearby.

Specific Communist objectives in the current campaign remain unclear. Many lower ranking prisoners taken in recent days appear to

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have been told that they were to seize and hold urban strongpoints for a few days and that there would be follow-up attacks by larger forces; few appear to have been briefed on routes of withdrawal. Officers, on the other hand, are reported to have been told merely to hold out as long as possible; not all appear to have believed that their missions would be successful.

There is some evidence that the Communist leadership may have miscalculated the amount of popular enthusiasm they would receive, but it is still questionable that they seriously expected to hold any major towns permanently or to generate a "popular uprising." Rather, their primary purpose seems to have been to intimidate urban areas and to lay the foundation for the eventual collapse of the Saigon regime. They have clearly aroused new fears and shaken confidence in the government, but they have also drawn new resentment upon themselves. Their ultimate impact--on the public and on the morale of their own troops--is likely to depend on their ability to maintain pressures that will adversely affect the government's response to and effectiveness in the situation.

Political Situation
in Saigon

After some initial procrastination and despite some continued

internal bickering, the Saigon government has turned its attention forcefully to alleviating the massive problems created among the civilian population by the Communist offensive.

A joint Vietnamese-US task force has been established, with branches in all the provinces, to oversee the work of providing food, clothing, and shelter for the thousands of refugees left homeless by the Viet Cong attacks. The task force, under the direction of Vice President Ky, will also look to such tasks as clearing major transportation links to ensure passage of vital supplies. Several of the ministries have been delegated specific responsibilities by the task force and, despite some signs of slowness and lack of coordination, appear to be performing with reasonable efficiency.

Appeals have been sent to other countries requesting food, medicine, clothing, and building materials to assist in the job of reconstruction. Various Buddhist organizations have set up reception centers for refugees, and labor organizations are contributing their facilities. Large groups of students are reported to be volunteering their services.

The government has also received the united backing of several religious and political

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groups as well as of the Lower House. The Upper House, however, is proving to be particularly obstreperous. Many senators have criticized the government, particularly the military leadership, for not taking sufficient measures to prevent the Communist attacks, and their attitudes have resulted in passage of a somewhat unenthusiastic declaration of senate support for the government. During a recent session, several senators vilified the military as incompetent and irresponsible. Many senators are reported to be intending to call for an Upper House investigation of a number of senior officers.

Prime Minister Loc was apparently the chief offender in the government's initial failure to take any steps toward easing the crisis.

25X1 [redacted]
25X1 [redacted] he refused to take any

necessary measures, claiming that civilians could do nothing until the military had returned the situation to something approaching normal. He is becoming the target of widespread criticism, and his inability to act in a crisis may well prove to be his undoing.

President Thieu and Vice President Ky, however, have acted forcefully and are showing a willingness to cooperate with each other that has been noticeably lacking in the past. Thieu, especially, is exhibiting an uncharacteristic confidence in himself and an ability to act decisively. Some observers seem to see in some of Ky's actions--such as his initial take-over during the few hours that Thieu was out of town and his assumption of the task force chairmanship--a move to gain power at Thieu's expense. There is no evidence, however, that this is happening, and Thieu himself has brushed aside the possibility.

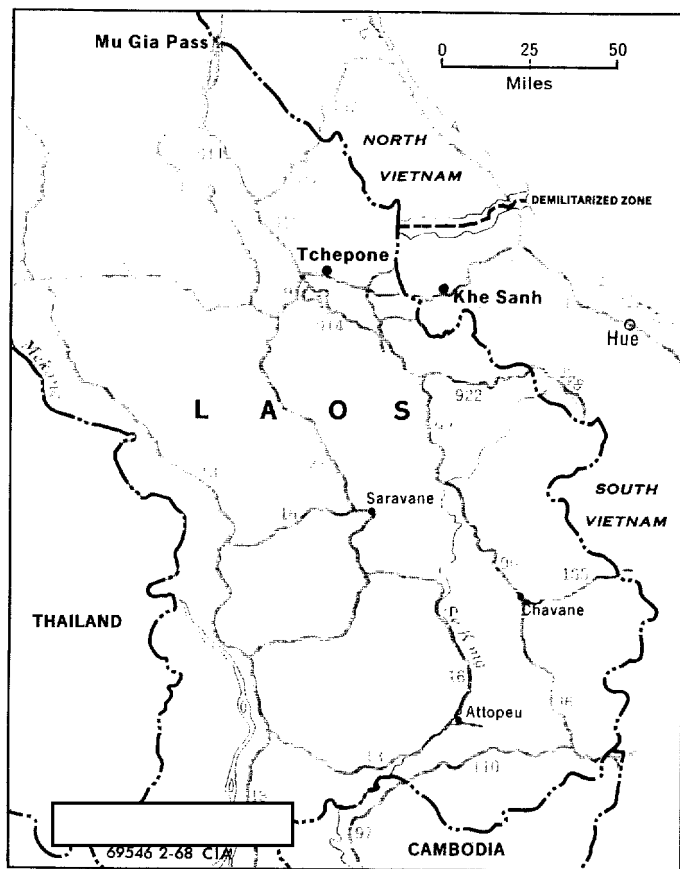
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COMMUNISTS IMPROVE ROADS IN LAOS PANHANDLE



The Communists are responding to heavy US air attacks on truck traffic in the Laos panhandle with a construction program that is adding flexibility to the system and maintaining a margin of surplus capacity as insurance against future needs.

In recent months, at least five major bypasses and shortcuts have been added to the already elaborate road network in the northern panhandle--between Mu Gia Pass and Tchepone--through which all trucks from North Vietnam must pass. South of Tchepone, a new road branching off Route 92 has been more than half completed to the Khe Sanh area near the western end of the Demilitarized Zone, and construction has been resumed on another road north from Route 9 toward the zone. Farther south, roads crossing the border are being extended to link up with South Vietnamese roads.

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KOREAN CONFRONTATION CONTINUES UNRESOLVED

The talks between North Korean and US representatives at Panmunjom appear to have made no progress toward resolving the confrontation over the Pueblo incident.

Pyongyang is clearly intent on prolonging tensions by dragging out negotiations. North Korean propaganda has concentrated on publicizing "confessions" by the Pueblo's crew. A lengthening parade of officers and crewmen al-

legedly have expressed guilt and "apologized" for the ship's intrusion into North Korean waters.

The South Korean Government's initial dissatisfaction over US handling of the Pueblo incident soon broadened, with official encouragement, into widespread public resentment. The South Koreans feared the Panmunjom talks were ignoring the raid on Seoul and were pushing South Korean national

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interests into the background. The press complained that the Panmunjom talks undermined South Korean sovereignty and elevated the status of the North Korean regime. Some politicians urged diplomatic pressure to stop the "secret" talks and demanded unilateral retaliatory action against the Communist North. The National Assembly unanimously passed a resolution protesting US - North Korean talks without South Korean participation.

Students have demonstrated at the US Embassy in Seoul, in Pusan, and near the Demilitarized Zone (DMZ). Prior official hints that public agitation might lead to demonstrations suggest the government probably approved.

The South Korean leaders, however, realize the dangers to their own position if popular emotions get out of hand. They may also now believe that the lack of progress at Panmunjom reduces the possibility the US might make compromises that would undercut Seoul. Thus, after officially protesting on 5 February, the government moved to damp down public indignation.

A high-level spokesman assured press representatives on 6 February that President Pak has in fact been

fully informed on the talks and that the assassination attempt against him had been discussed at one meeting. The next day while speaking to the National Assembly, the foreign minister conceded that discussion of the Pueblo crewmen's release might be given priority "from a humanitarian point of view." This change in official position has been reflected in the shift of the Seoul press to a more moderate stance.

Soviet propoganda is playing the Pueblo incident in low key and Soviet officials have for the most part been maintaining that the Pueblo intruded into territorial waters. Moscow continues to emphasize that direct US - North Korean meetings offer the best chance for resolving the issue. The most authoritative public statement on the crisis, a Pravda "Observer" article on 4 February, concluded by advising the US that if it really desired a solution it should respect North Korea's sovereignty and stop "threatening" the Koreans.

Since China's official statement of support on 28 January, Peking propoganda has given only sparse and low-level coverage to the Pueblo incident.

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PEKING MAKES LITTLE PROGRESS TOWARD STABILIZING PROVINCES

The Chinese central authorities, taking slow and uncertain steps, are making little progress toward stabilizing and institutionalizing leadership in the provinces.

Peking announced on 6 February that a Revolutionary Committee--the new form of provincial government that has emerged from the Cultural Revolution--was set up in Hupeh Province on 5 February. Earlier in the week, a Revolutionary Committee was established in Hopeh Province. Revolutionary Committees have now been established in 11 provinces and in three autonomous cities out of the 29 such entities in China.

The establishment of these revolutionary governments in the provinces, however, is clearly behind schedule. Last autumn, Mao and other top officials demanded that "revolutionization" of provinces be completed by the end of the year or by 31 January at the latest. Since October, however, only seven provincial-level Revolutionary Committees have been set up, mostly in relatively stable areas heavily dominated by military officials.

The slow progress in this field may have delayed plans to hold the long-postponed ninth party congress this year.

tional party congress would not be held for at least another 18 months because it would take that long to make "realistic" preparations.

The provincial leaders named to govern Hopeh and Hupeh represent a change in the pattern of appointments thus far established. For the first time, men previously deposed by the Cultural Revolution have been restored to important offices. The Revolutionary Committee in Hopeh is headed by two former party secretaries who were harshly criticized by Red Guards more than a year ago and were dismissed from their posts. In Hupeh, the new officials are military leaders who were assigned to govern the area last July together with a "rehabilitated" former provincial party first secretary. The restoration of party officials to positions of some authority in both provinces represents a setback for the militant elements who engineered their dismissal and may well lead to new agitation in the two provinces.

In fact, confusion and violence have been growing rapidly in provinces where Revolutionary Committees or "preparatory groups" charged with setting up these committees have been formed. In January, provincial authorities in

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nine such provinces broadcast strong attacks on "factional" leaders who were instigating clashes and allegedly trying to bring down the new authorities. The broadcasts indicate that militant Red Guards, squeezed out in the process of administrative rebuilding, have been harshly criticizing the new authorities. They have frequently clashed with more moderate elements supporting the new leaders, and the scale of violence appears to be growing.

Nevertheless, the militant Red Guards in the provinces continue to operate with impunity under a general protective umbrella that gives them license to arm and recruit followers and to circulate propaganda against the provincial authorities. Peking's unwillingness to authorize an across-the-board crackdown encourages the militants and further exacerbates the factional splits in

the provinces. At the same time, the continuing troubles in the outlying areas almost certainly tend to deepen divisions among the Peking leadership on the question of how to deal with the problem.

This mutually reinforcing factionalism now appears to be reflected at all levels and in virtually all areas of China, including the army, which remains the ultimate authority in nearly all provinces. The tacit protection of the Red Guards in the provinces strongly suggests that they still have powerful protectors in Peking, despite the attempts to re-establish and legitimize administrative authority in the hinterland. Furthermore, it seems unlikely that the authority of the Revolutionary Committees can be firmly established while the militant Red Guards remain free to criticize and attempt to undermine the new bodies.

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MILITARY SETBACKS CREATE TENSION IN LAO ARMY LEADERSHIP

There are new signs of tension within the army leadership, following recent military setbacks.

General Phasouk Somly, commander of a key southern military region and one of the few capable Lao military leaders, submitted his resignation to the King on 27 January. Although there was no prior warning that Phasouk contemplated quitting, he has long chafed over what he regards as lack of adequate material support from Vientiane and excessive interference by the higher echelon there.

Phasouk has said that his relations with the general staff have become more strained as his political power in the south has grown, and that Vientiane's hostility reflects its continuing fear of southern regionalism.

Phasouk probably intends his resignation as a device to draw attention to his grievances and does not actually wish to relinquish his command. He may calculate that Prime Minister Souvanna Phouma will attempt to persuade him to withdraw his resignation.

Nonetheless, Phasouk's restiveness is only the latest and most explicit expression of the backbiting that has gripped the Lao armed forces in the wake of recent military setbacks.

there appear to be new grumblings among the younger officers, who have long been disenchanted with the general staff, and who had sent a petition to Prime Minister Souvanna calling for a larger voice in military affairs.

Souvanna himself has apparently been the target of criticism, although so far this appears to be muted. He has scheduled a number of briefings for the national assembly in an apparent attempt to allay the fears of civilian politicians and to counter long-standing complaints that he is insufficiently responsive to them. The current uneasiness in Vientiane, however, raises the possibility that another military setback, such as the loss of the southern provincial capital of Saravane, would have political repercussions far beyond the town's strategic importance.

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EUROPE

Political developments in several Eastern European countries were the focus of attention this week.



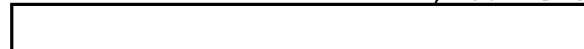
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25X1  Dubcek, the new party boss, is said to be especially concerned about placing the right people in the posts responsible for the economy, trade, internal security, and foreign affairs.

In contrast to the changes in Czechoslovakia, the East Germans seem to be working hard to stand still. A draft of a new constitution, published on 2 February, appears mainly intended to codify changes that have already taken place; there are no significant changes in the draft which affect the status of Berlin. The question remains as to why the East Germans went through this exercise.

Rumanian spokesmen in Geneva on 6 February raised strong objections to the joint US-USSR draft of the nuclear nonproliferation treaty, charging that it "profoundly discriminates" against the nonnuclear powers. The Rumanian position contrasts sharply with the approval Czechoslovakia, Bulgaria, and Poland have given the treaty draft.

In Western Europe, the coalition of Belgian Prime Minister Paul Vanden Boeynants fell on 7 February because of a deep cleavage within the government over the handling of the latest outbreak in the ancient rivalry between the Flemish and French communities. King Baudouin began consulting with political leaders on the formation of a new government. With communal tensions high, the consultations are likely to be difficult and lengthy.



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USSR EXPANDS PREMILITARY TRAINING PROGRAM

DOSAAF--The Voluntary Society for Cooperation with the Army, Air Force, and Navy--is expanding its role in the premilitary training and political indoctrination of Soviet youth.

For many years, this paramilitary organization has given Soviet youths an opportunity to participate on a quasi-voluntary basis in military-oriented sports activities and technical training programs designed to prepare them for military service. The activities traditionally sponsored by DOSAAF have included instruction in small-arms marksmanship, communications and electronics, motor-vehicle driving and maintenance, scuba-diving, boating, and skiing. Where equipment is available, it has also offered courses in parachute jumping and in helicopter, airplane, and glider piloting.

The new military service law that went into effect on 1 January made premilitary training compulsory for all Soviet males under the age of 18. This training is intended to help offset the effects of the current reduction in the length of service of conscripts from three years to two.

Under provisions of the new law, basic military training is to be included in the curriculum of secondary general education schools, and DOSAAF is required

to assist the schools in implementing the new program. In addition, DOSAAF and selected technical trade schools in the USSR are to give some young men pre-induction training in military specialties such as electronics and communications. Furthermore, DOSAAF together with the Komsomol youth organization and Soviet trade unions are to set up and operate camps where paramilitary training will be given in the summertime.

In addition to its premilitary training activities, DOSAAF has been assigned responsibility for an intensive "military-patriotic education" program to help combat juvenile delinquency and political indifference. To carry out this mission, the society last year announced steps to expand the network of facilities that provide its traditional program of military-oriented sports and vocational training.

Public civil defense training ceased to be a DOSAAF responsibility a year ago, presumably to allow the society to concentrate on its other activities. The current compulsory civil defense training program, initiated in January 1967, transferred responsibility for the civil defense effort to local civil defense staffs and to heads of enterprises, farms, and institutions. DOSAAF still provides propaganda support, however.

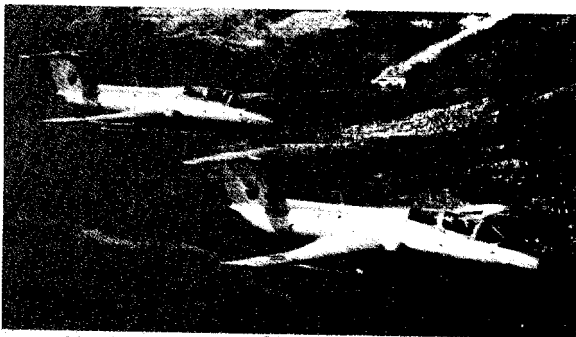
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CZECH AIRCRAFT SALES FLOURISHING

The Czechoslovaks are building a substantial export business in domestically produced aircraft. The L-29 Maya military jet trainer is their most successful item. It has been accepted as the standard basic jet trainer in the Warsaw Pact countries and has also been purchased by at least four free world countries.



L-29 MAYA basic military jet trainer

Since 1962, Czechoslovakia has exported over 2,000 L-29s, including some 150 to countries outside the Warsaw Pact. In addition, the Czechoslovaks also export the Z-37 light utility

aircraft and the Z-526 sports aircraft. The sale of these aircraft has enabled Prague to maintain its large aviation research and development program.

The versatile L-29 can be easily converted to meet the needs of its diverse buyers. Nigeria and Uganda received deliveries of L-29s in 1967. The Nigerians have used the L-29 as a ground support aircraft in combat missions against Biafra. The Ugandans thus far appear to be using theirs as basic trainers.

The ability to tailor the aircraft to a number of military roles and its attractive price--about \$150,000 each--assures Prague of continuing sales. The chief of air force operations for Syria recently visited Prague and may have purchased additional L-29s to go with the 40 that were bought in 1963 and 1965. Indonesia also has received about 16 L-29 jet trainers.

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PRAGUE'S FOREIGN POLICY MAY BECOME MORE LIBERAL

Several developments during the past few weeks suggest that Czechoslovak policy toward the West may be more forthcoming than official statements would imply.

On 1 February, new party First Secretary Dubcek delivered a major speech, the first of his that the regime has published. Dubcek reaffirmed Czechoslovakia's firm alliance with the USSR and made pro forma references to solidarity with other Communist states and nonruling parties. His tone, however, and his carefully phrased references to Czechoslovakia's relations with the rest of the world suggest, as have a number of sources, that Prague will exercise the latitude in foreign policy it has long had but never used.

Dubcek lumped "imperialist encroachments" in Vietnam, the Middle East, and Korea into one sentence, and refrained from directly attacking the US. His handling of this subject suggested he was speaking for the Communist record and buttressed the impression given by Czechoslovak officials in recent weeks that in small ways--a civil air agreement, literary and other formerly taboo exchanges--Prague may want to improve relations with Washington.

Moreover, since Dubcek took office, Czechoslovakia has taken the heat out of its formerly passionate embrace of the Arabs'

cause and seems to have toned down its propaganda about Israel, dropping references to aggression and shifting to support of a "just peace."

Dubcek's speech probably will dash the hopes of West Germany for an early transformation of its newly established trade mission in Prague into an embassy. He attacked the "rebirth of neo-nazism" in the Federal Republic, and rebuked Bonn both for "revanchist demands on its neighbors" and its alleged aim of liquidating East Germany. Although Dubcek reaffirmed that Czechoslovakia "stands unshakably" on the side of the East Germans, he said nothing to foreclose closer economic relations with Bonn. Indeed, Czechoslovakia has recently entered into a consortium with West German and French firms to build large steel mills in Venezuela.

Prague has been renegotiating its civil air agreement with Canada, and wants to extend its routes to Latin America. The Czechoslovaks have also asked Canada for a reciprocal exchange of information on the training of diplomats, suggesting it may upgrade the caliber of its foreign officials.

Even though Prague is maintaining a correct Communist image, Czechoslovakia's neighbors are for the most part treating the new regime with reserve.

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Only Yugoslavia and Hungary among the Eastern European states have reported on the economic and political changes pending or under way. The USSR's cautious attitude toward Czechoslovak developments has not changed appreciably since Dubcek visited Moscow in

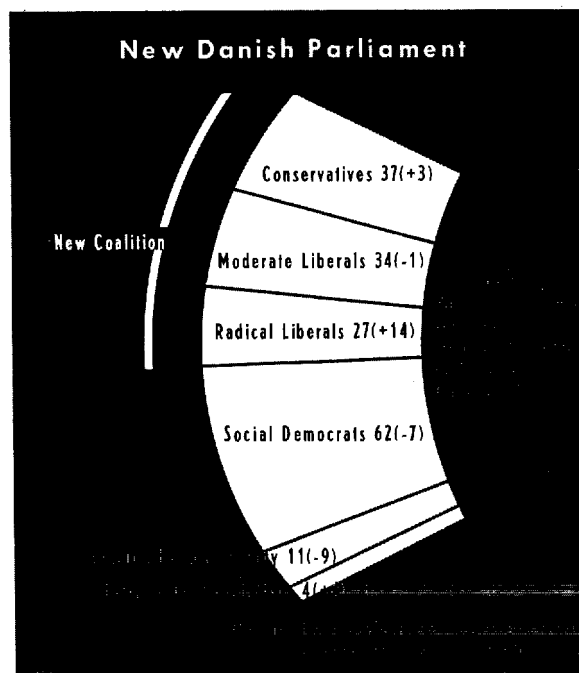
late January. Such treatment a month after the Czech change of command suggests more-than-normal caution and fear that reformist trends in Prague will reinforce pressures for changes elsewhere in Eastern Europe.

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NEW GOVERNMENT TAKES OVER IN DENMARK

Denmark's first non-Socialist government in almost 15 years came into power this week. Its program, as spelled out to parliament by Prime Minister Hilmar Baunsgaard, hews closely to the foreign policy line of the former Social Democratic government, but calls for a reduction in domestic spending.

The new government is a center-right coalition of Baunsgaard's Radical Liberals, the agrarian Moderate Liberals, and the Conservatives. The Radical Liberals are conservative on domestic issues and tend toward pacifism. They hold the balance of power in parliament between the two major non-Socialist parties and the Social Democrats, who remain the largest single party in parliament.



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Baunsgaard has indicated the government will propose a budget cut of about 2.3 percent, or \$81 million. The coalition parties have agreed to reduce defense spending by some 6 percent and are contemplating reducing military conscripts' length of service from 14 to eight months.

An immediate issue facing the government concerns Greenland and US treaty rights there. Since the B-52 crash near Thule, considerable public sentiment has developed in favor of explicitly prohibiting landings or overflights of the island by nuclear-armed aircraft. In response to this pressure, the government has said that it will seek assurances that the US accepts Denmark's policy of not allowing nuclear weapons on its territory and banning overflights of aircraft armed with such weapons.

Baunsgaard has sought to put to rest speculation about his government's attitude toward NATO by declaring that membership in it remains the basis of Denmark's foreign policy. Before the election, the Radical Liberals had advocated giving the electorate an opportunity to express its wishes--either in an election or by a referendum--on the question of Denmark's membership in NATO after 1969.

The success in reaching agreement among the three parties on domestic and foreign policies is due in no small part to Baunsgaard's skill as a politician. He may, however, be hard pressed to keep his own party in line on some of the more contentious issues facing the government. The Radical Liberals in parliament are deeply divided and resistant to party discipline.

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MIDDLE EAST - AFRICA

Exploratory efforts to find more promising paths toward settlement of several of the area's major problems appear to be getting nowhere.

Jordan has become pessimistic about the prospects of the UN-sponsored Jarring mission. The Jordanians are particularly distressed that the slow pace of the mediation attempt is allowing Israel to become more firmly entrenched in the occupied areas. Cairo and Beirut have expressed similar dissatisfaction. If Jarring is unable to make progress, the Arabs ultimately may seek a fresh UN resolution.



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The Nigerian federal military offensive has maintained its momentum, and on 2 February the large powerplant southwest of Enugu was seized intact. Lagos' recently acquired IL-28 jet bombers have already raided Port Harcourt at least once in an effort to knock out the airfield there. Renewed efforts to get peace talks under way are being made by the Commonwealth Secretariat, but these are unlikely to prove fruitful at this time.



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DEVELOPMENTS IN THE TWO YEMENS

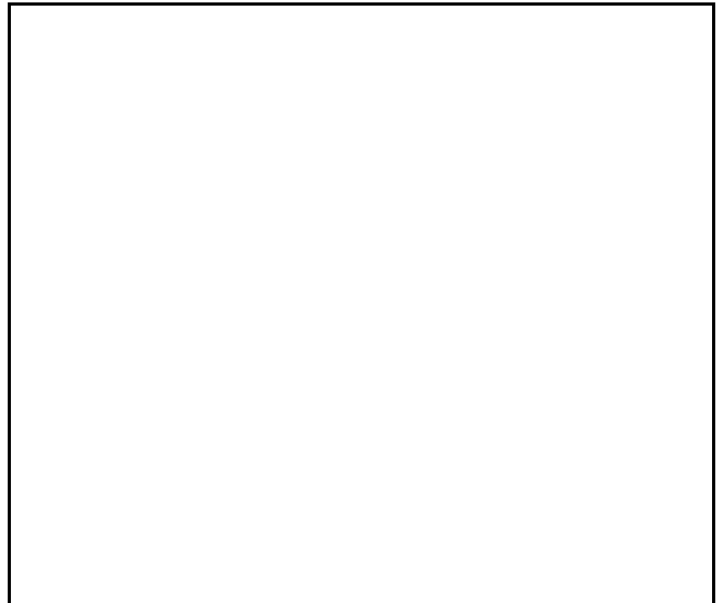
The Peoples' Republic of Southern Yemen is adopting more radical domestic and foreign policies, while in Yemen the military stalemate continues.

Southern Yemen's Defense Minister Baidh arrived in Moscow on 2 February in search of foreign aid. Before his departure, Aden radio quoted him as saying that Southern Yemen's British-trained army had been equipped by imperialism and that it was not possible to have an army whose arms and ammunition were in "enemy" hands. The Ministry of Information later denied the statement, but admitted that Baidh would be particularly interested in military assistance.

Such overtures to Moscow will reduce the likelihood of a continuation of Britain's \$29-million subsidy, due to lapse next May. At the same time, the Southern Yemeni Government has expressed little interest in low-key US offers of nonfinancial assistance. The government continues to insist that it is "neutral" in its international alignment, but

it will almost certainly accept any aid that the USSR might offer.

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The military stalemate continues. Sana is still surrounded and being shelled by the royalists, and all of the roads leading into the city are cut. The royalists admit that their activities are hampered by republican air attacks and that their supplies of heavy ammunition are growing short, while planes still landing in Sana keep the republicans well supplied.

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ARABIAN PENINSULA



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SOVIET PREMIER KOSYGIN'S VISIT TO INDIA

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Soviet-Indian exchanges during Premier Kosygin's visit from 25 to 31 January covered both bilateral economic relations and current international problems.

India's industry, which has been in a recession for the last two years, was a major topic of discussion. The Indian Government's investment programs have not proceeded as planned. Moreover, the Soviet-aided public sector has performed poorly and become the subject of much domestic criticism. Many plants, including those getting Soviet supplies, are operating at as much as 30-percent below capacity because of slack demand.

To help spur production, the Russians offered to purchase all the surplus rails and railroad cars the Indians could produce in the next five years. A guaranteed export market for these products would stimulate demand in other industries but the net effect on the Indian economy would probably be slight.

The Russians also offered to take all the jute and leather products India wanted to export, but the Indians made no commit-

ments. These products are marketable in the West and are major foreign exchange earners.

The Soviets undoubtedly hoped to get Indian endorsement of the US-Soviet draft treaty on nuclear nonproliferation, but the final communiqué contained only a general statement approving the principle of nonproliferation. On Vietnam, the communiqué called only for a halt to the bombing of the North.

The communiqué probably also covered over some differences between the Soviet and Indian positions on the International Control Commission in Cambodia. The Soviets do not want to see its functions enhanced, but the Indians may be willing to go along with a small increase in personnel and equipment.

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CABINET CHANGES IN CEYLON UNLIKELY TO SOLVE PROBLEMS

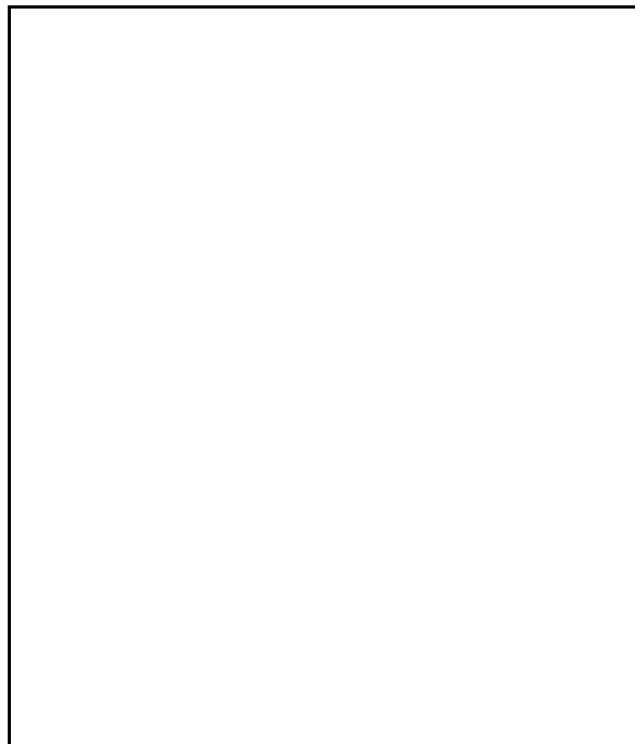
Prime Minister Dudley Senanayake has made several cabinet changes in an apparent attempt to strengthen both the government and his United National Party (UNP). The adjustments, however, are unlikely to ease the government's pressing economic and political problems.

The changes bring two new men into the cabinet, ease out one minister, and involve a minor reshuffling of some responsibilities. One of the new ministers was once a member of former prime minister Bandaranaike's leftist Sri Lanka Freedom Party and served as speaker of the lower house of parliament during her administration. His appointment may, in part, be intended to broaden the UNP's appeal among political centrists.

Another shift moved M.D.H. Jayawardena--the UNP's general secretary--from the Health Ministry to the less taxing new job of minister of housing and scientific research. Although this move was intended to allow him more time for party work, the minister was miffed by what he regarded as a downgrading, and this may aggravate frictions within the party.

The cabinet changes may slightly improve the government's popular image, but the regime is still plagued by serious economic problems that have strong politi-

cal overtones--consumer scarcities, a rising cost of living, and high unemployment. A 20-percent devaluation of the Ceylon rupee in late November has failed to alleviate these pressing problems. Meanwhile, rising prices resulting from the devaluation have provided the leftist opposition with an exploitable issue, which has found expression in increased labor unrest. Although the opposition recently failed in an attempt to organize a general strike, leftist unions succeeded in tying up a substantial part of the economy for about a month.



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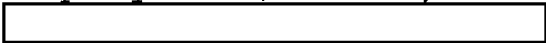
WESTERN HEMISPHERE

Intensive, but thus far unsuccessful, diplomatic maneuvering is under way in an effort to break the two-month-old deadlock over the election of a new secretary general of the Organization of American States (OAS). The OAS Council is scheduled to hold its fifth ballot on 12 February, but at this point it appears that it, too, will be inconclusive.

Except for Venezuela and Ecuador, which continue to back their own candidates, many countries seem willing to seek a compromise. The Central American foreign ministers met on 8 February to consider how they could salvage something out of the confused situation. Panama has suggested that it will withdraw its candidate if the other two also quit in favor of a mutually acceptable nominee.

In Latin American Communist affairs, initial reactions among pro-Soviet parties to the Cuban party's purge of a few old-line Communists have



Anibal Escalante, leader of the purged group, has been sentenced to 15 years in prison and 34 others to lesser terms. All formally confessed their guilt and supported Castro's methods of bringing true "national liberation" to Latin America. The two central committee members involved with Escalante were ousted from the committee and one was stripped of his party label; neither, however, was jailed. 

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ARGENTINE GOVERNMENT SEEKS LABOR SUPPORT

President Ongania is trying to improve his relationship with labor leaders in order to win support for his government's economic policies. Recently, the government restored the legal status of two key Peronist unions, and Ongania himself appealed to important labor leaders for active support and collaboration in social welfare and public works programs.

The two restored unions are the metalworkers, headed by moderate Peronist Augusto Vandor, and the textile workers, led by hard-line Peronist Andres Framini. Both unions lost their legal status last year when they participated in the "Action Plan," an abortive attempt to unify labor opposition to government economic reform through a series of strikes and demonstrations.

Despite the loss of his union's status, Vandor continued his dialogue with the administration in an attempt to achieve a closer relationship between the General Confederation of Labor (CGT) and the government. In his negotiations with the regime, Vandor apparently also spoke for Framini who in the past has been outspokenly antigovernment. If Framini has now decided to throw in with Vandor, it could mean that the moderates will be able to sell their line of cooperation

with the government throughout much of organized labor.



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More recently, the government decreed that labor unions must comply with the law regulating union conduct within 60 days or lose their legal status. Ongania had stated previously that the labor unions did not represent the legitimate interests of the workers, because recent union elections had not been carried out strictly in accordance with the law. In response to the decree, Augusto Vandor stated that the national congress of the CGT, which was to have met next month, will be postponed until July to give the unions time to revise statutes and elective processes.

Despite the government's impressive gains in reforming the

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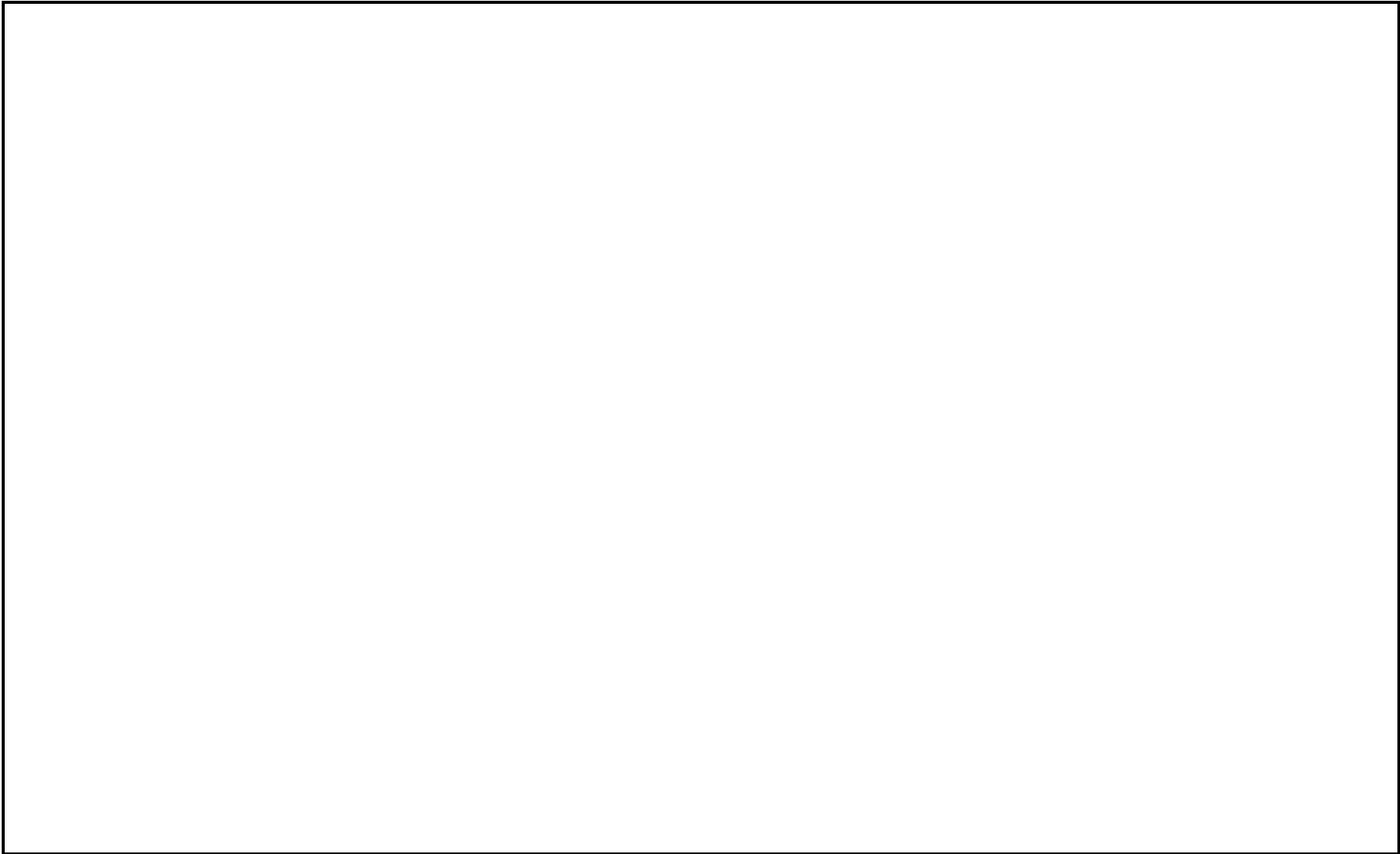
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Argentine economy, Ongania has been plagued with increased opposition from top military officials as well as labor leaders. This dissatisfaction stems from the continuing rise in the cost of living and from the government's restrictions on wage increases.

There is no indication at present, however, that either organized labor or any influential group of active military officers is a threat to the government. Labor and other groups in opposition remain in a state of disorganization and apathy.

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ELECTIONEERING IN PANAMA HEATING UP

Panama's presidential campaign could degenerate into violence as charges and counter-charges exchanged by government candidate Samudio and National Union (NU) candidate Arias become more vicious. Participants in several political rallies have already come close to violence, and both sides are organizing strong-arm bands for use during the campaign and at the polls on 12 May.

The government may be planning further moves to strengthen Samudio's candidacy. A dispute over alleged irregularities in issuing voter identification cards has raised the possibility that President Robles may make changes in the three-member electoral tribunal that would reverse the present pro-Arias two-to-one majority. Two of the tribunal judges have sons running for legislative posts on the Arias ticket and have demonstrated a partiality toward the NU that has opened them to charges of illegal behavior. A change in this key body could lead to

changes in provincial and district election boards, now heavily weighted in favor of Arias.

Recent wholesale firings and cabinet changes have assured the Samudio forces of control over the government machinery. In addition, National Guard Commandant Vallarino is under pressure to work for the Samudio ticket. He has thus far remained neutral, but both sides are courting his support. Vallarino is in a difficult position, but refusal to side with the government candidate could result in his removal by President Robles. In addition, many guard officers see little future for themselves under an Arias administration.

Arias' chances of getting a fair election will depend in large part on Vallarino. If Samudio succeeds in dominating the election machinery and gaining Vallarino's support, Arias' backers probably will initiate disturbances protesting government rigging of the elections.

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MEXICO'S RULING PARTY GEARS FOR HEAVY POLITICKING

A general overhaul of Mexico's ruling party appears to be shaping up in anticipation of gubernatorial elections late this year and the choice of a successor to President Diaz Ordaz in 1970.

Changes in the Institutional Revolutionary Party (PRI) leadership have been expected following the extraordinary electoral setbacks last year in the capitals of the outlying states of Sonora and Yucatan, two focal points of resentment against the PRI machine.

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With governorships opening this year in 12 states, including several that have been the scenes of political violence in recent years, many in the PRI want better party leadership.

Frequently mentioned as Ortega's successor is 46-year-old Alfonso Martinez Dominguez, a dynamic, powerful politician. As leader of the "popular sector" of the PRI, he built that group into the strongest in the party. The choice of Martinez or some other bright young star on the political scene would go far to implement President Diaz Ordaz'

suggestion that the party give real importance to youth. Young Mexicans have been increasingly alienated by the political dogmatism of the old party bosses who have used their power to resist change and liberalization of the PRI.

Not the least effect of new PRI leadership will be on potential candidates for the PRI's 1970 presidential nomination, which leads to virtually automatic election. Jockeying among the hopefuls has already begun, with three of Diaz Ordaz' cabinet-level appointees apparently the front-runners. The ultimate decision rests with the President, and will be made on the basis of maintaining the unity of the party that has brought Mexico its sustained political stability and steady economic progress.

Of the groups shaping up for a future showdown, the one expected to gain from a turnover in key PRI personalities appears to be backing Minister of Government Luis Echeverria. Echeverria's "restraint," in contrast to the premature and open campaign by other presidential hopefuls, has apparently been noted favorably by the President.

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