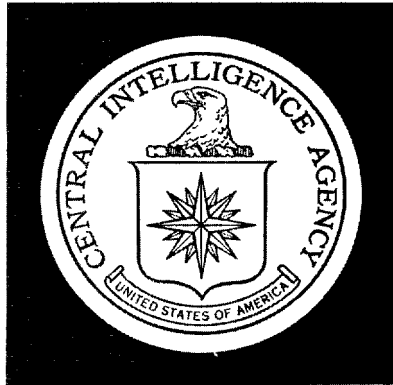


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DIRECTORATE OF
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WEEKLY SUMMARY

State Dept. review completed

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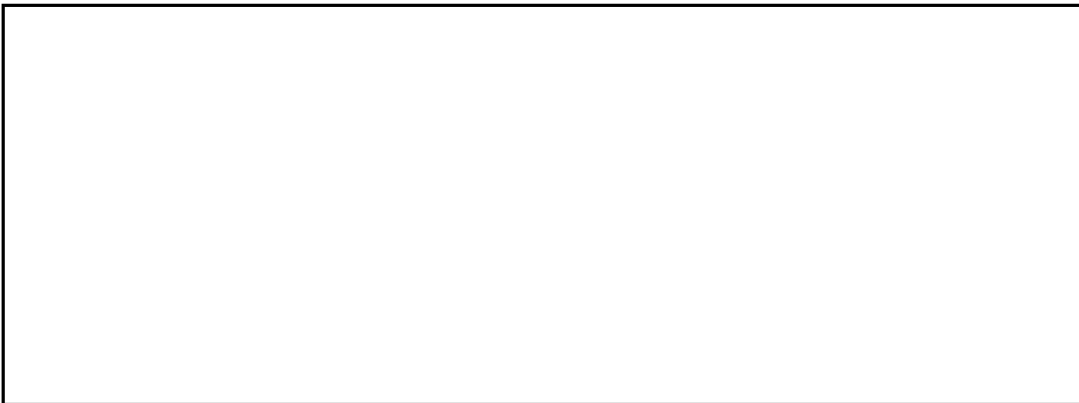
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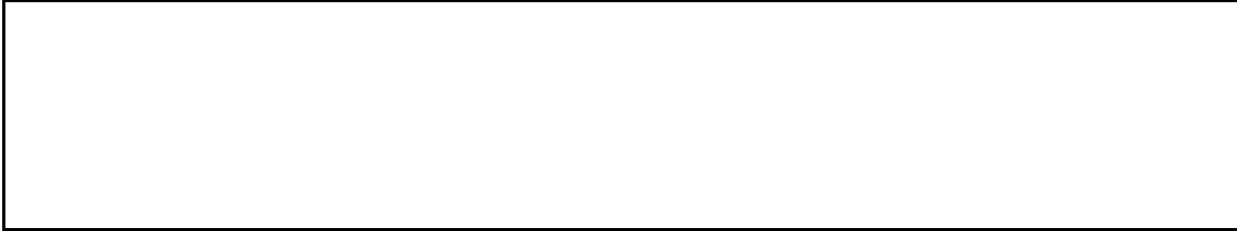
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The government has curbed student violence by imposing a limited state of siege, but has been unable to resolve the underlying problems that precipitated the recent crisis.

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FAR EAST

Events last week disclosed no change in Hanoi's strategy of maintaining an inflexible stance in the Paris talks while pressing its primary objective of eroding the morale and authority of the Saigon government. Communist psychological warfare was highlighted by threats to hold the capital under daily bombardment for 100 days. Defense Minister Giap publicly characterized the current military situation as "one long battle of Dien Bien Phu" and Viet Cong propaganda is urging the South Vietnamese Army as well as police and civil servants to desert their posts "at this decisive moment."

The pace of Communist military action in the past two weeks declined to the level that prevailed prior to the offensive in early May. The Communists, however, continued sporadic shelling of Saigon and directed heavy fire against Quang Tri city and allied bases along the Demilitarized Zone. They appear to be preparing for another coordinated offensive against Saigon to begin soon.

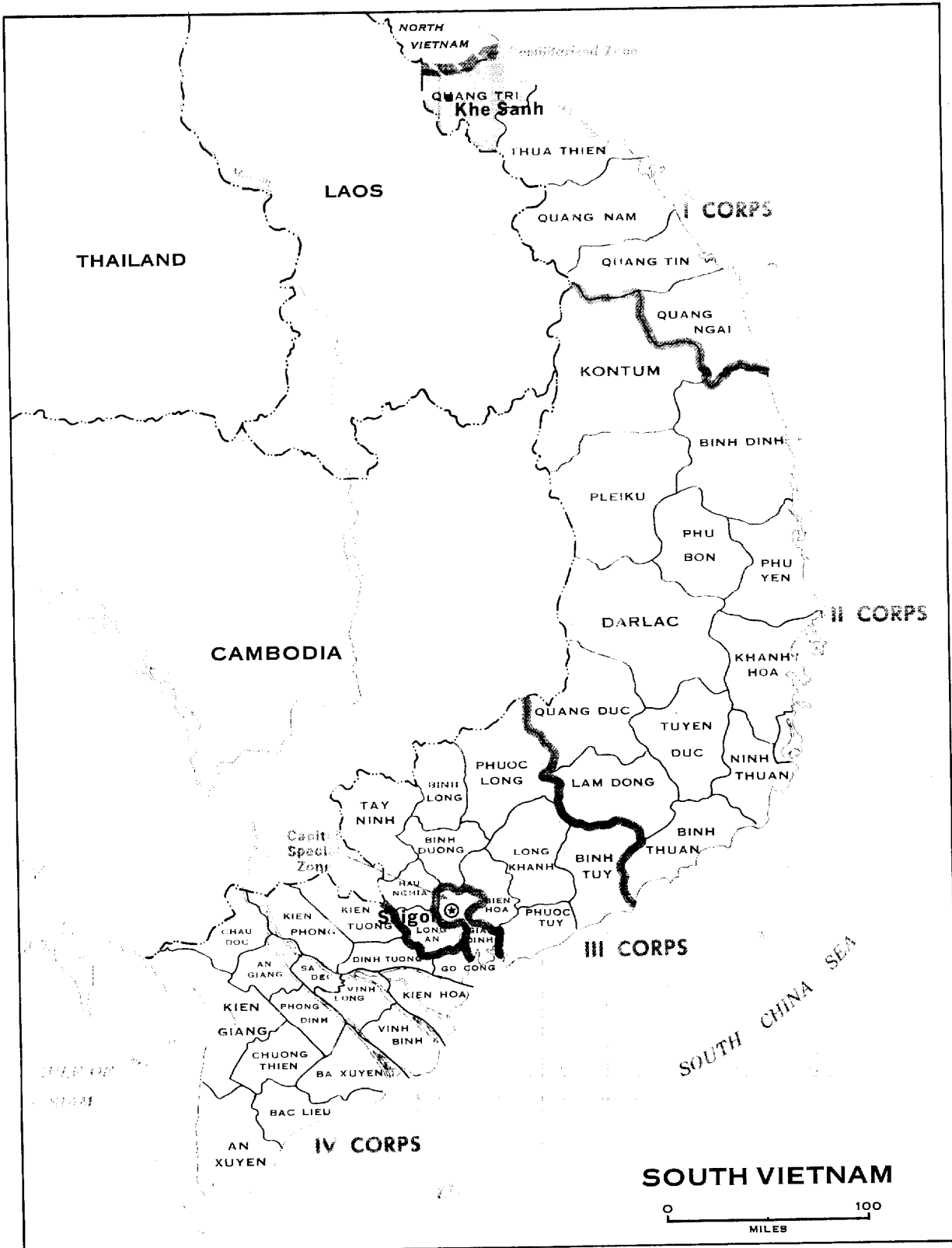
This steady military and psychological pressure is being exerted against a background of seeming political disarray in Saigon. Vice President Ky, whose position has been eroded by recent replacements and resignations, was obliged to issue a public denial of coup plotting and disunity in the leadership. Prime Minister Huong also denied disaffection in his cabinet but this did not still rumors that he has threatened to resign unless President Thieu coordinates more closely with him on appointments such as that of the controversial new mayor of Saigon.

In China, continuing tension within the leadership was reflected in divergent lines in foreign policy and domestic affairs. Peking is making a deliberate effort to present a more moderate posture toward the outside world by reviving the pre - Cultural Revolution theme of the "five principles of peaceful coexistence" as the basis of its foreign policy. This line contrasts sharply with greater militancy in domestic propaganda aimed at arousing the "masses" against alleged enemies of the state and restoring the momentum of the Cultural Revolution.

The five-nation Commonwealth defense conference in Kuala Lumpur last week scored a modest success in formulating guidelines for joint defense of Malaysia and Singapore through 1971, but the participants avoided specific military commitments after the British withdrawal. 25X1

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VIETNAM

Evidence that Vice President Ky's power base has eroded as a result of dismissals, military resignations, and Ky's own seclusion multiplied last week and contributed to an atmosphere of growing crisis in Saigon. Although some of the resignations have not yet been acted on, President Thieu may well be tempted to press his advantage and consolidate his hold while Ky's supporters remain disinclined to react forcibly.

Ky, prompted by rumors of an irreparable breach between himself and Thieu and of coup plotting, declared on 17 June that a coup at this critical juncture would be unacceptable. He explained in a nationwide television address that, although he was turning over his assignment as director of the People's Self-Defense Force to Prime Minister Huong, he was not abandoning his constitutional role as vice president, and he appealed for unity behind the government.

Ky's public gesture has apparently done little to ease the underlying tension between himself and Thieu. Ky and his military associates probably remain deeply distrustful of Interior Minister Khiem's influence on Thieu and skeptical of the

new Huong cabinet. Huong himself has had to deny rumors of disaffection within his cabinet, but he has so far successfully weathered his first challenge by dismissing Minister of State Phan Quang Dan for advocating direct talks with the National Liberation Front.

Enemy shelling of Saigon, although diminished in recent days, has evoked some demands both for peace and for a step-up in the government's war effort. Pressure for a settlement has come primarily from leftist students but the moderate Buddhists have begun to talk of a peace campaign. At the same time, however, many influential newspapers and assembly members are expressing dissatisfaction with the course of the Paris talks and with the partial bombing halt, which leaves Hanoi immune to retaliation.

There has been some criticism of the government's inability to prevent attacks on Saigon. The continuing enemy pressure and the government's moves to strengthen its local command, however, may have contributed to the relatively swift assembly passage last week of the general mobilization bill with all of the amendments proposed by Thieu to broaden its application.

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The War in the South

Enemy military activity has declined during the past two weeks to the pace maintained in April just prior to the last Communist offensive. It appears that the current lull may again foreshadow a major increase in the tempo of the fighting, especially in the Saigon area and in northern I Corps.

Enemy propaganda during the past week has been promising an intensification of armed action in the capital--a line the Communists would probably not take if they did not intend to follow through with some spectacular new moves. According to high-level prisoners an attack is planned for later this month using the North Vietnamese Army (NVA) 7th Division as a spearhead force.

It is clear from prisoner statements and captured documents that the Communists had planned to mount stronger ground pressure against Saigon during the past few weeks, but that allied spoiling operations inflicted heavy casualties before the enemy could get into position. The surrender on 18 June of more than 100 troops from a Communist unit outside Saigon points up the enemy's difficulty in keeping up the pressure.

Several battalion-size formations from Viet Cong units that normally operate in the upper delta provinces have been engaged in the recent Saigon fighting. The shift of these forces northward is probably responsible to some extent for the slowdown in Communist action in the delta.

Significant Communist military moves have also taken place in Quang Tri Province and in the area of the Demilitarized Zone (DMZ), apparently as part of preparations for a general intensification of pressure. Prisoner interrogations have now fairly well confirmed that at least two regiments of the NVA 308th Division have moved into the Khe Sanh area.

In addition, there are indications of preparations for sustained offensive action across the zone. Recent photography has revealed new road construction in the central DMZ area, suggesting plans to enlarge supply and troop infiltration terminals. Parallel to this has been the employment of enemy helicopters in the area, apparently in a logistic support role.

Paris Talks

The Paris talks remained on dead center this week with Hanoi refusing to discuss any

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reciprocity for a bombing halt. Hanoi Radio emphasized this hard line by denying Western press speculation that private deals on this issue were under consideration.

In the ninth negotiating session in Paris, the North Vietnamese deviated little from the harsh and propagandistic tone they have taken at previous meetings. Xuan Thuy accused the US of creating "obstacles" that prevented progress, and claimed that the US had actually increased the number of air strikes against the North last month. He insisted that this pointed up Washington's "lack of good faith," and asserted that Hanoi would not be pressured by calls

for a resumption of the bombing of the entire North.

North Vietnamese propaganda on the talks has continued to treat the fighting as a national war of independence and to justify Hanoi's right to support the South while not acknowledging any North Vietnamese Army presence in the South. Part of this effort was the resurrection of the Liberation Front's two-year-old threat to call in foreign Communist volunteers--a threat that was originally issued in 1965 and has always been put forward as a conditional right. The new treatment preserves this condition and does not maintain that the call has been either issued or answered.

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POLICIES IN COMMUNIST CHINA MARKED BY DIVERGENT TRENDS

The Chinese Communists are continuing their efforts to refurbish Peking's image abroad by adopting a more reasonable public posture toward the outside world. This shift in tactics indicates that foreign policy is at least temporarily insulated from the political struggle and domestic confusion inside China.

Chinese Posture Abroad

Recent propaganda statements, which probably reflect a basic policy decision, have begun to stress moderate lines that have not been given emphasis since the Cultural Revolution erupted in 1966. This development has followed a number of moves appar-

ently calculated to repair damage done earlier to Chinese foreign relations by "Red Guard" diplomacy.

Foreign Minister Chen Yi illustrated Peking's new tactical approach in a speech on 11 June during the visit of the Nepalese foreign minister in which he typified Sino-Nepalese relations as "an example to friendship and good neighborliness between countries with different social systems." Chen affirmed China's intentions to "promote the common cause of the Afro-Asian peoples united against imperialism" by adhering to the "five principles of peaceful coexistence." He emphasized that it was China

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that "first initiated and carried out" these principles as the basis for its foreign relations.

In his remarks, Chen betrayed increased concern over Moscow's efforts to isolate China even more. He charged that "certain people," a clear reference to the Russians, are attempting to create a new anti-Chinese alliance by fabricating evidence of subversive activities abroad by Peking.

This new line probably reflects adherence to an "instruction," attributed to Mao Tse-tung and issued on 29 May, ordering propaganda media to avoid all mention of China's influence on "international revolutionary movements." In recent weeks, propaganda on Asian "armed struggles" has been sharply curtailed. Earlier, the emphasis was on the importance of relying on the thought of Mao as the fundamental guideline for "national liberation."

The Chinese will probably seek to exploit the state visit by Tanzanian President Nyerere this week by highlighting Peking's friendly assistance to the "Afro-Asian world." In recent months, a number of visiting African dignitaries have been given an effusive welcome by the Chinese and Peking has been devoting heavy propaganda coverage to its aid projects in Africa.

Contentious Meetings in Peking

[redacted]
[redacted] Chinese leaders

are reported to have held an important series of meetings during May. They were supposedly attended by the few dozen members of the central committee who have survived the Cultural Revolution and by representatives from provincial Revolutionary Committees and the large military regions. The main topic is said to have been whether to bring the Cultural Revolution to an early end. The provincial representatives favored an early termination, while members of the Cultural Revolution Group maintained that the movement should go on at least another year. [redacted] delegates were unable to reach agreement on this issue.

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The increasing militancy of Peking propaganda since May indicates that the regime is still dominated by proponents of continuing "revolution" and purges. At the same time, the renewal of violence in the provinces suggests that the militants are facing strong opposition. [redacted]

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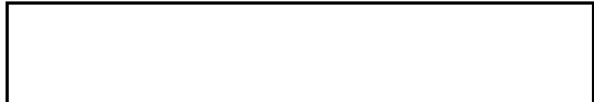
MALAYSIA-SINGAPORE DEFENSE GUIDELINES FORMULATED

The five-nation Commonwealth defense conference on 10-11 June in Kuala Lumpur achieved modest success in formulating guidelines for the joint defense of Malaysia-Singapore through 1971. Specific military commitments after 1971, however, were studiously avoided.

Britain emphasized its concern for the area by pointing to its promise to keep about 10,000 military personnel there until the end of 1971. It will, moreover, donate its facilities, except for such operational equipment as radars and missiles, which could be purchased. The British also offered to provide advisory and training groups after 1971, and said they would bring in elements of their own forces for training in the area after 1971.

The conferees adopted a British suggestion to hold a major five-power military exercise in the area in 1970, and agreed in principle to hold additional exercises after 1971. Such exercises presumably would demonstrate Britain's capacity to deploy its mobile forces.

Australia and New Zealand agreed to keep forces in the area through 1971; Australia will maintain two jet aircraft squadrons.

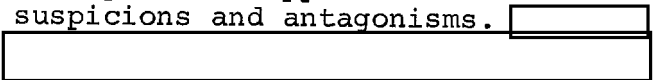


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For their part, Malaysia and Singapore affirmed their intention to cooperate closely in defense matters. Singapore will build up a small air force and navy, and will cooperate with Malaysia in patrolling coastal waters. Malaysia will continue to base its navy in Singapore.

A major point of contention at the meetings was the Malaysians' initial insistence that the five powers assume joint responsibility for control of all bases and facilities, a stand they abandoned after it was firmly rejected by Britain. The conferees, however, did agree to the concept of joint participation in an integrated air defense system. Malaysia hopes Australia will accept the military command position in this system.

Specific defense arrangements are now to be worked out by three joint groups representing each of the military services. Another ministerial-level conference is scheduled to meet in about a year. The success of these efforts will rest largely on the willingness of the leaders of Malaysia and Singapore to suppress their mutual suspicions and antagonisms.



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LAOTIAN POLITICAL ISSUES REVIVE

Long-standing internal problems are beginning to come to the surface again now that the rainy season has brought a decline in the fighting.

The country may be faced with an unusually high budget in the coming fiscal year unless tax receipts from gold transactions, one of Vientiane's primary sources of revenue, increase substantially or the government moves to increase other taxes. Gold imports have decreased significantly because of unsettled conditions in the world gold market.

A large deficit would lead to inflation and might undermine US and other foreign support for the international currency stabilization fund in Laos. Finance Minister Sisouk na Champassak is willing to make deep cuts in the military budget to maintain civil expenditures, but army leaders have made it clear that such a course is unacceptable. Sisouk, who has been considered at times as Prime Minister Souvanna's heir apparent, has talked of quitting but a recent budgeting plan worked out with US assistance should ease the pressure on him.

Meanwhile, the Paris talks have generated speculation over the possible return of the Communists to the government. Prime Minister Souvanna has indicated that he will make a fresh effort to organize a broad-based political organization when he returns in early August from a six-week vacation in France.

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EUROPE

The East Germans are continuing to probe Western reaction to their new measures against the transit of West German citizens and freight. The bulk of traffic to Berlin is proceeding normally, however. Although the Russians continue to insist that East Germany's moves are justified, they seem anxious to keep tensions down.

Pravda on 19 June published an authoritative and explicit commentary on recent appeals by President Johnson for better US-Soviet relations. The article implied that the USSR would respond favorably when the US showed real interest by acting to end "aggression" in Vietnam, support for Israeli policies, "ideological subversions" and trade discrimination against the USSR and its allies, and further "militarization" of the US and its allies. The Soviets have been at pains to put down any notion of a warming trend in US-Soviet relations. Anxieties about intellectual dissidence at home and in Eastern Europe account in large measure for this posture, which is reinforced by Moscow's need to show support for Hanoi and to parry Peking's propaganda.

In Prague, the Dubcek regime has taken a number of important steps to implement its action program, including the signing of an agreement to share power among all political parties. The Soviets will probably object; last week, Pravda printed an unusually strong personal attack on a liberal Czechoslovak party leader.

Meetings have resumed in Budapest of the committee preparing for the forthcoming world Communist conference in Moscow. Rumanian observers are present, which suggests that nothing controversial is contemplated.

A mood of public apathy was apparent in France as the first stage of the parliamentary elections approached. The voting on 23 and 30 June is likely to reflect the polarization of political forces between the Gaullists and the Communists.

The UN Security Council this week passed--with Algeria, Brazil, France, India, and Pakistan abstaining--the resolution extending to non-nuclear countries security assurances against nuclear attack. The measure is intended to encourage the signing of the nonproliferation treaty, soon to be opened for signatures.

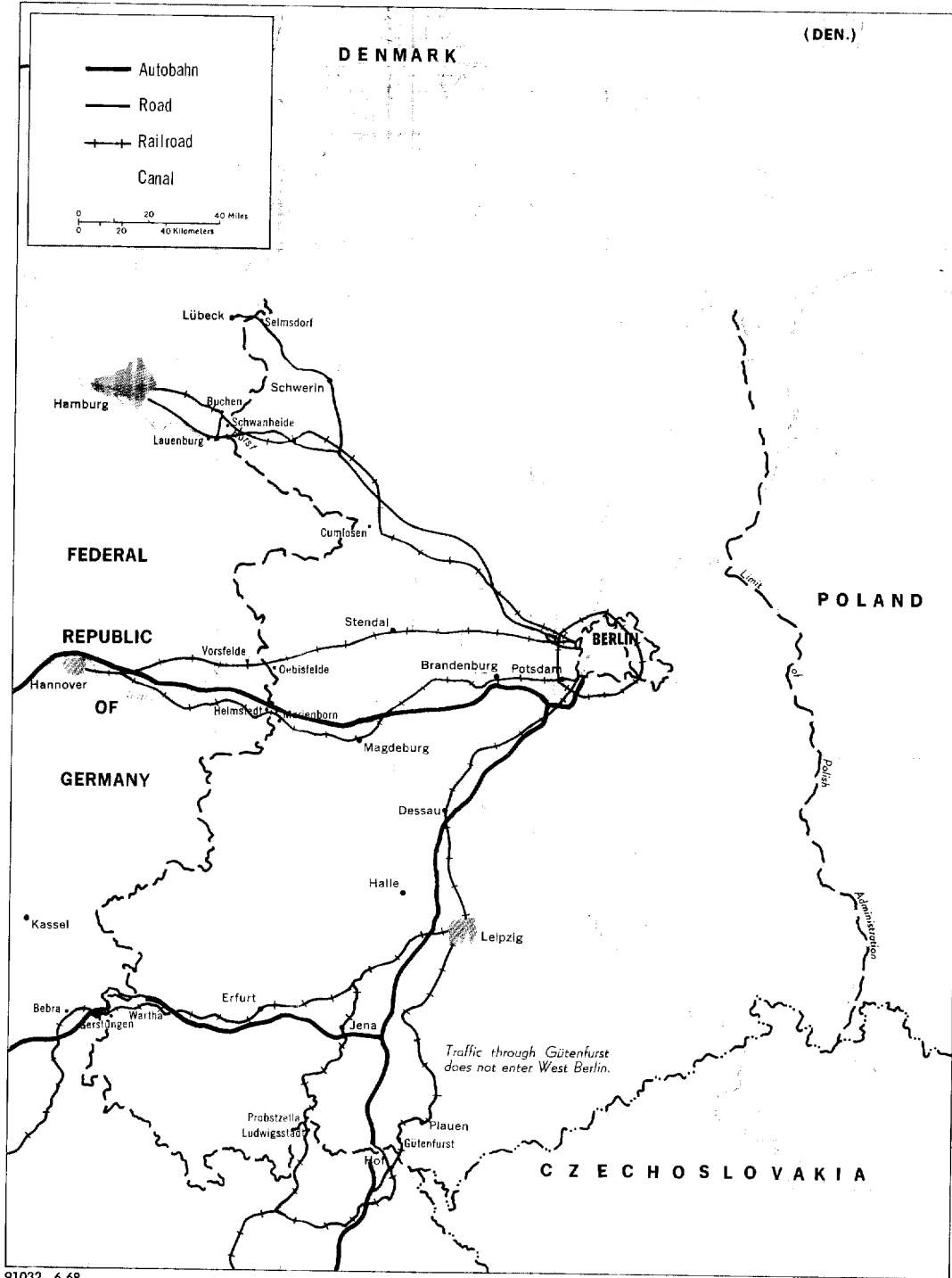
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WEST GERMAN SURFACE ACCESS ROUTES TO BERLIN



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EAST GERMANS USING ACCESS ISSUE TO GAIN RECOGNITION

The Soviet Union has sanctioned East Germany's assertion of greater authority over traffic on the autobahns to Berlin, except for Allied traffic which is still governed by Four Power agreements.

Unlike earlier pressures on Berlin, the present situation is not accompanied by hints of an impending crisis. Although the Russians continue to insist that the East German moves are justified, Moscow seems anxious to dampen any suggestions of tension.

Two resolutions--on the documentation for personal travel and on increased taxes and restrictions on freight--announced at the East Germany parliament session on 11 June are broad enough to be used to choke the flow of traffic to Berlin. Under the new regulations, travelers are now required to purchase East German visas and to exchange an increased amount of West Marks for East Marks in order to enter East Germany. After 15 July, West Germans will have to have passports. The new freight taxes go into effect on 1 July.

The East German regime probably believes that it had to act now to secure as many attributes of sovereignty as possible. Ulbricht sees Bonn's Ostpolitik threatening to undercut East Germany's role in Europe and the stability of his regime endangered by an ever-lessening cohesion within the Warsaw Pact. Any settlement coming from the Paris negotiations on Vietnam also would tend to hasten European detente and Eastern European disunity.

Foreign Minister Brandt on 18 June had a nine-hour talk with

the Soviet ambassador to East Germany, the details of which Brandt has declined to discuss in public. The East German broadcasts during Brandt's visit suggest that they were not informed in advance by the Soviets, and the effect may be to embarrass Pankow in its attempts to assert its sovereignty.

In Bonn, policy making is complicated by divisions that have appeared between the two coalition partners during the search for effective countermeasures. Christian Democratic militants are calling for "active steps," while the Social Democrats want to avoid jeopardizing the country's detente policy toward Eastern Europe. Chancellor Kiesinger is seeking to mollify both groups.

The chances for immediate, effective countermeasures seem to have been dealt a setback with Bonn's decision on 17 June not to apply interzonal trade sanctions lest they also affect West Berlin. Allied officials have stressed that broadly supported Western countermeasures, such as restricting East German travel abroad, are contingent upon Bonn's lead.

Bonn has moved to offset the impact of the East German decrees. It will reimburse travelers and shippers for the new visa fees and freight charges, and has approved a program to increase economic aid to West Berlin. Governing Mayor Schuetz, while welcoming the pledge of new aid, has questioned whether it will be enough to sustain the city's viability.

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CZECHOSLOVAKIA MOVES AHEAD ON REFORMS

Czechoslovakia this week took some important steps toward reform despite continuing Soviet pressure designed to forestall or prevent implementation of Prague's action program. Czechoslovakia also solidified its relations with Hungary by renewing a 20-year friendship and mutual assistance treaty and again hinted that it is prepared to improve relations with the West.

On 15 June, party leader Dubcek signed an agreement that will enable the other political parties within the National Front to join with the Communists in formulating and implementing state policies. Although the Communist Party will retain its "leading role," the agreement "confirms" that power "must not be a monopoly of any single party," and provides that each member of the front will have the right to develop its own program according to its own requirements.

By concluding this agreement, the Czechoslovak party has cast off the traditional Communist view that the front must act only as a "transmission belt." The Soviets, who earlier had objected to such a conception of the front, probably regard this agreement as an unacceptable "revision" of Marxism, but have yet to comment.

Discussions in the National Assembly suggest that the Czechoslovaks will accept the forma-

tion of even more political parties so long as they operate within the framework of an enlarged National Front. The constitutional-legal committee of the assembly also recommended that local and national elections be further postponed until after a proposed Czech-Slovak federative arrangement is effected. Elections probably will take place sometime in 1969.

The Czechoslovaks earlier took legislative action, based on other aspects of the party's action program, which will not sit well with Moscow. National Assembly committees discussed a bill designed to remove nearly all travel restrictions and approved another that provides for the "rehabilitation" of persons unjustly imprisoned or killed. In addition, the government ended one aspect of its control over the publishing industry by abolishing the Center for Book Culture and also granted permission for the Greek Catholic Church, which had been "abolished" in 1950, to resume its activity. Moreover, the cabinet directed the appropriate ministry to present a new and presumably more liberal bill to end press censorship.

On 14 June, Moscow made its first public attack on a high-ranking Czechoslovak party official. A candidate member of the Soviet central committee, writing in Pravda, accused Cestmir Cisar, a Czechoslovak party secretary, of being a

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"revisionist" and "opportunist." The article, apparently misrepresenting a speech Cisar made on 6 May, suggests that the Soviets withheld their criticism until they believed it necessary to remind Prague of its promises to preserve the essentials of Communist control.

In Budapest, both Dubcek and Premier Cernik were again equivocal concerning Prague's intentions toward West Germany, but both held out the possibility that diplomatic ties eventually will be established. Dubcek urged acceptance of a "realistic arrangement" between the two Germanies, but added that it is in Prague's interest to "normalize" relations with Bonn. He also said that Prague demands "nothing else" from Bonn than that it "break with the heritage of nationalism" and that it ensure that neo-Nazi forces not gain preponderance.

Cernik had earlier stated that Czechoslovakia wants to improve its economic ties with European Common Market members, but he stopped short of suggesting that Prague is seeking relations with the EEC. Prague is

also reported to have taken the initiative toward making significant improvements in its relations with Austria.

Early in the week, Soviet Marshal Yakubovsky, the Warsaw Pact's commander, arrived in Czechoslovakia to assume control of the command-staff exercise now under way. Just before leaving for Prague, Yakubovsky said that only communications troops would be in the exercise and as of 20 June, no Pact combat troops had been detected moving into Czechoslovakia. He also said that the exercise would take place in Czechoslovakia, Poland, the USSR, and East Germany, and would involve units from these four countries and from Hungary.

This was the first indication of East German involvement and contradicted a Czechoslovak Defense Ministry spokesman's statement earlier in the month that East Germany would not participate in the exercise. The confusing pronouncements point up the ad hoc nature of the exercise, the motive for which appears more political than military. [REDACTED]

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FRENCH PARLIAMENTARY ELECTIONS APPROACH

The two-stage national legislative elections on 23 and 30 June are expected to take place in an atmosphere of relative calm. Only about 200,000 of the original 10 million strikers remain off the job and these are concentrated in a few concerns--the metallurgical, electric, and electronics industries and the state-controlled radio and television service. The students, too, have been quelled, at least temporarily, since the police invaded and occupied their sanctuaries in the Odeon Theater and the Sorbonne.

Although the election campaign has been marked by scattered incidents of violence unusual in France, the political atmosphere as a whole has been subdued. The strange mood of public apathy probably stems from the belief that the elections will not solve any of the basic problems that generated the crisis.

The trend of the elections has been toward a polarization of the country's political forces between the Gaullists and the Communists. The orthodox Gaullists, running for electoral purposes under the label of the Union for the Defense of the Republic (UDR), have exploited this trend by presenting themselves as the only viable alternative to a Communist dictatorship. The UDR will run candidates in every constituency,

as will the Communist Party. The Communists welcome the government's policy of presenting the elections as a clear choice between left and right, and hope to emerge as the unchallenged leader of the left, which they claim is insignificant without them.

Public opinion polls on the first-ballot preferences of the voters show a small but perceptible trend toward the Gaullists--both the UDR and the Gaullist-allied Independent Republicans--and toward the small, far-left Unified Socialist Party. Conversely, the center, the Federation of the Left, and the Communists all appear to be losing slightly in comparison with first-round results in 1967. In one poll, a large majority of those preferring either the Gaullists or the Communists indicated that there was little or no chance that they would change their mind. Approximately one fifth of those queried expressed no preference at all!

The editor-in-chief of the influential daily, Le Monde, who is an authority on the Communists, commented that a substantial number of Communist voters preferred to keep their political preferences to themselves, which could account for the apparent lack of Communist progress in winning public support.

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MIDDLE EAST - AFRICA

The potential for serious clashes between Arab and Israeli forces has increased during the week. Egyptian troops are reported to have moved into a disputed area at the northern end of the Suez Canal, and the Israelis have threatened retaliation. Israel is also stiffening its attitude regarding recent incidents along the Jordanian cease-fire line and has indicated it will employ artillery more freely in future exchanges.

In Athens, Premier Papadopoulos carried out an extensive cabinet reshuffle. Key ministries are unaffected, however, as most appointments involved second-echelon ministries. The most significant feature of the shift is that no junta members are among the new appointees, reflecting Papadopoulos' confidence in his own position.

In Africa, the new government in Sierra Leone may severely limit the activities of the Peace Corps or even ask it to leave the country. The cabinet is debating the future of the corps and is focusing particular criticism on the rural development work of the volunteers. Freetown's press has tried to link the activities of the Peace Corps with US intelligence.

Peking has been going all out to make Tanzania's President Nyerere feel welcome during his four-day visit. Nyerere's high-level delegation includes his three ministers of state, the inspector-general of police, and the armed forces commander. Talks on additional Chinese aid are likely to cover diesel locomotives for the Tan-Zam railroad, jet fighters for Tanzania's fledgling air force, and Chinese personnel for the Tanzanian civil service in anticipation of a withdrawal of British administrators.

London is continuing its efforts to get peace talks started again to end the Nigerian civil war. Lord Shepherd, minister of state for Commonwealth affairs, who has been talking to the Biafrans in London, arrived in Lagos on 20 June to present his proposals to the federal government. Neither protagonist seems likely to react positively, however, and prospects for any sort of talks still appear dim. Meanwhile, the USSR is reported to be willing to step up its arms shipments to Lagos if the British halt such supplies in response to continuing domestic pressure.

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USSR EMPHASIZES TRAINING IN MILITARY AID TO EGYPT

The major emphasis now in Moscow's military aid to Egypt, a year after the June war made the need obvious, is on teaching the Egyptians how to use their Soviet-supplied equipment.

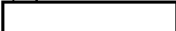
The USSR has doubled the number of its military advisers and technicians in Egypt to an estimated 1,500, most of whom appear to be engaged in training.



Soviet instructors are said to be with line units of the army down to brigade level and to be teaching at basic training schools as well. Soviet advisers also are attached to signal, mainte-

nance, reconnaissance, and transport units.

The Soviets' goal appears to be to teach the Egyptians the effective use of equipment and personnel. The quantity of equipment provided apparently will be governed by this consideration. When President Nasir goes to Moscow next month, military aid will probably be a major topic of discussion. The Soviet assessment of the effectiveness of its training program in Egypt during the past year is likely to be an important determinant of future military assistance.

Soviet military aid deliveries to Egypt over the past three months have dropped from six to about two shiploads per month. About 75 percent of the estimated \$300 million worth of military equipment lost by the Egyptians now has been replaced, including most of the aircraft and at least half of the tanks. 



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ISRAELI POWER STRUGGLE HEATS UP

The unity of the Israel Labor Party and of the governing coalition it dominates was strained this week by a political maneuver of Prime Minister Eshkol. Eshkol designated a new deputy prime minister in a surprise move aimed at blocking any attempt by Defense Minister Moshe Dayan to win control of the party and the government. The prime minister also announced that Minister of Labor Yigal Allon would be head of a new ministry for immigrant absorption as well as deputy prime minister.

Allon, a hero of the 1948-49 War of Independence, is the leader of one of the three parties that merged in January 1968 to create the Israel Labor Party. Eshkol heads the largest constituent group, the former MAPAI party, and Dayan is the leader of the third.

The maneuver has aligned Eshkol's "old guard" MAPAI leadership with Allon's faction, and the two probably can command a majority within the new Israel Labor Party. The step may mean that Allon is Eshkol's preferred successor to party and government leadership, although the 73-year-old prime minister shows no sign of planning to step down prior to the parliamentary election in 1969.

Dayan's followers were caught flat-footed by the move and are

crying foul, claiming they were not consulted. They boycotted the special meeting of the party leadership bureau on 14 June at which Eshkol's proposal was approved. The larger secretariat, in which Dayan's faction has greater strength, was scheduled to meet on 20 June. It was not clear beforehand whether Dayan's faction would acquiesce grudgingly and bide its time or would attempt to force an immediate showdown with Eshkol.

Dayan himself has shown no sign of wishing to take up the gauntlet now. He may make some gesture of protest, but previously he has shown every indication of appreciating that his ambition to lead the country probably can be achieved only through securing control of the Israel Labor Party, the locus of political power.

At least four of the five other parties in the governing coalition have also criticized Eshkol's failure to consult them before making his move. Formed as a "national unity government" on the eve of the 1967 war, the coalition has since become a shaky alliance that is virtually certain to break up prior to the election in 1969. Eshkol's present maneuver could provide the occasion for one or more of the parties to withdraw. The cabinet is scheduled to have a full discussion of the proposal within a week or so.

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SENEGAL DEALS WITH LABOR DEMANDS

President Senghor has concentrated on handling the deep-seated grievances of the labor movement in the aftermath of last month's student and labor strikes. His neglect of student demands prompted a three-day student boycott of Dakar lycees last week which led to the closing of all Senegalese schools until October. The boycott probably was also influenced by renewed student belligerency in France.

After several preparatory meetings, representatives of government, labor, and employers met on 12 June to consider the comprehensive list of labor demands submitted to Senghor shortly before the May crisis. In a speech to the nation the next day, Senghor announced agreement on an immediate 15-percent increase in the basic minimum wage scale and promised various other improvements.

He emphasized that increased production and stronger austerity measures would be required to finance the programs without a tax increase, and announced a symbolic cutback in the generous and much-criticized salaries and benefits of deputies. Although many of the labor demands remain to be negotiated, the increased minimum wage as well as the full participation of militant leftist labor leaders in the negotiations should temporarily forestall further labor agitation.

While Senghor ignored the students to deal with labor problems, rumors began to circulate that the University of Dakar,

where the May demonstrations began, would remain closed next year. When lycees opened on 12 June for the first time since May, Dakar students, apparently led by final-year students who saw no point in taking exams if there were to be no university to attend next year, launched a half-hearted strike. Although Senghor avoided using force to disperse the students, one non-student demonstrator reportedly was killed by a policeman on 14 June. Probably fearing that the incident would again cause labor leaders to rally to the student cause, Senghor promptly closed all schools, earning angry criticism from parents.

Late on 13 June, Senghor made his first meaningful gesture to the students. In response to their basic dissatisfaction with the French-structured education system, he announced that the University of Dakar, which is administered and heavily funded by France, would be reformed to meet African requirements. He did not announce when the university would be reopened.

If the proposed reforms are undertaken, it seems unlikely that France would continue to underwrite the university. Senegal's already strained budget will be heavily taxed by the concessions to labor and by the cost of repairing damages incurred during the May demonstrations, and would probably not stretch to cover the loss of the large French subsidy to the university.

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CONGO'S IMPROVED ECONOMY STILL FACES LONG-RANGE PROBLEMS

The reforms that Kinshasa initiated last June to correct the Congo's distorted financial system have been fairly successful, but falling copper prices and years of economic deterioration will cause stagnation for some time.

Wage and price increases have been held within the reform guidelines suggested by the International Monetary Fund, foreign exchange holdings have risen substantially, and the free-market value of the Congolese currency has stabilized after many years of decline. Although improvements in the government budget situation did not match expectations and a deficit continued during the reform's first year, it was not in itself large enough to affect adversely the other financial gains. Agricultural and mineral output, however, has not yet increased much.

Congolese authorities recently announced a second phase of the reform program designed to stimulate economic growth. Kinshasa recognizes that private capital will play an important role in achieving this goal and has moved to improve the investment climate for foreign businessmen, especially Belgians. The governor of the Congo National Bank stated that, beginning in 1969, profits earned in the Congo can be repatriated.

For his part, President Mobutu has resolved many long-standing disputes that his government has had with Brussels. For example, the differences between the state-owned airlines, Air Congo and Sabena, which for many

years have hampered the operations of Air Congo, were settled in early June. In addition, Mobutu has named expatriates to replace some of the inept Congolese officials who had been running government-owned public services.

Despite rejuvenation efforts, however, the Congo's economy is still subject to long-range problems. Even with the additional expatriates, there will be a paucity of skills for many years. The transport system has so deteriorated after years of neglect that even if agricultural and mineral production could be increased, only a small portion could be carried to ocean ports.

Moreover, the financial gains of last year are likely to dissipate. Much of the recent success is attributable to the high copper prices that resulted from the prolonged US copper strike. Now that copper prices have fallen, Kinshasa will be faced with growing budget deficits and a worsening balance-of-payments situation.

Lack of economic improvement will not necessarily cause serious political problems. A few prestigious development projects may be enough for Mobutu or any successor as long as he has a modicum of control over the entire country. The populace will probably, as in the past, absorb large doses of economic punishment without significant political reaction. Violence and a new round of chaos is always possible, however. A new uprising, another period of xenophobia, or the passing of Mobutu could lead to further disruptions in economic activities.

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MOROCCAN COMMUNISTS SEEK LEGAL STATUS

The banned but tolerated Moroccan Communist Party, which has expanded its activities in recent years and continues to enjoy contacts in ruling circles, is now making a bid for legality.

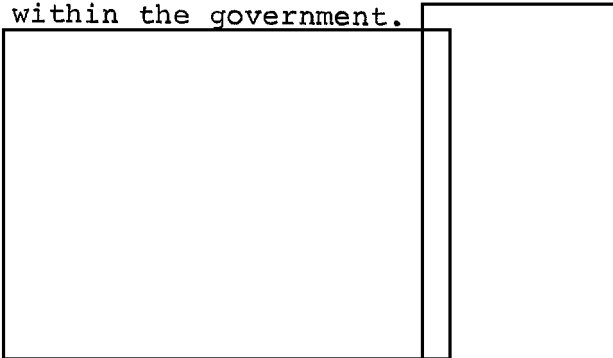
On 5 June the Communists submitted to the government the statutes of a new party--the "Party of Liberation and Socialism"--for recognition as a legal political entity. They allegedly had decided on this move last fall, but considered then that the time was not propitious. Under Moroccan law, the organization automatically would achieve legality unless the government disapproves the petition within 90 days.

The move follows on the heels of a significant Communist victory in student polls. Early last month the Communists won 48 of the 60 seats on the council of the major, left-wing student union at the University of Rabat. Non-Communist forces rallied and stopped further Communist inroads in student elections elsewhere, but the party may be girding for a major contest when the student congress meets this summer.

Although the Moroccan Communist Party acted circumspectly after being banned in 1959, it has

been operating openly for some months now. Early this year it installed an \$80,000 printing press acquired from East Germany complete with several technicians to supervise its installation and operation. Its newspaper, an Arabic-language weekly published as the private organ of its secretary general, has appeared more regularly. In April it played host to a delegation of the French Communist Party which openly met with prominent non-Communist Moroccans such as former premier Abdallah Ibrahim, as well as labor leaders and intellectuals. Many Moroccan Communists also appeared at the reception on 15 May celebrating the opening of the Soviet Consulate General in Casablanca.

The Moroccan Communists' principal assets are their ready access to the King and the high positions several of them hold within the government.



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WESTERN HEMISPHERE

Postelectoral shenanigans and student disorders dominated the news from Latin America last week.

Although the elections in Panama were held more than five weeks ago, the make-up of the 42-man National Assembly has still not been determined. The vote-counting in the important provinces of Panama and Colon has been delayed by President-elect Arias, [REDACTED]

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In Mexico, the government party continues to deny a small opposition party its victory in the local elections in Baja California on 2 June. The mayoralty races in Tijuana and Mexicali, which apparently were won by the opposition, have been nullified, and the opposition has been "awarded" only one seat in the state legislature.

On 18 June in Ecuador, the electoral tribunal suspended the official counting of presidential votes when it discovered many irregularities in returns from Guayas Province. Followers of Jose Maria Velasco, whose unofficial victory depended heavily on majorities in Guayas, have begun protest demonstrations [REDACTED]

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Student groups and labor unions in Uruguay, united in protest against the imposition of a state of siege by President Pacheco's beleaguered government, embarked on a series of demonstrations and a 24-hour general strike. Fear of serious bloodshed induced both demonstrators and police to soft-pedal provocations and resulting suppressions, however, and the confrontation is still a standoff.

In Brazil on 18 June, student demonstrators again tangled with Rio de Janeiro police. The students showed considerably better organization than in earlier clashes. Irate police officials have declared that no further disorders will be tolerated, but the students seem determined to continue their protest and may provoke even more serious incidents. [REDACTED]

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LIBERAL PARTY MAJORITY LIKELY IN CANADIAN VOTING

Prime Minister Trudeau's Liberal Party appears likely to win a small parliamentary majority in the election on 25 June. The prime minister has established a rapport with his audiences throughout most of the country. He has kept the campaign focused on issues of his choosing--foreign policy questions and the issue of national unity.

In contrast, the campaign of Progressive Conservative leader Robert Stanfield has been poorly organized. The Conservatives have not succeeded in making economic problems, on which the Liberals are most vulnerable, the dominant theme in the campaign. The Conservatives have been hurt, too, by a revamping of the electoral districts, which eliminated seats in their rural strongholds.

The leftist New Democratic Party appears likely at least to hold its present representation--22 of the 264 seats--although its popular vote may fall below the 1965 peak. The strong showing that party leader Tommy Douglas made in a two-hour television debate with Trudeau and Stanfield has helped head off serious inroads into the party's strength.

The New Democrats have made criticism of US investment in Canada the central theme of their

vote-getting effort. Both Trudeau and Stanfield have almost ignored the issue, however, and it has not figured as prominently in this campaign as in some previous ones.

Trudeau's strong pro-federalist stand, combined with Stanfield's equivocal position on the granting of greater autonomy to Quebec, will probably gain the Liberals some seats in English Canada although it may cost them ground in Quebec. In the more rural areas of the province, Trudeau's reputation as a social reformer also hurts the party. It now appears, however, that only an unexpectedly heavy turnout against the Liberals in rural Quebec can deny Trudeau a parliamentary majority.

The three party leaders have supported a comprehensive review of Canada's foreign and military commitments, and have favored recognition of Communist China. The Vietnam issue has not played a significant part in the campaign. Several weeks ago at a press conference, Trudeau said that the US should stop all bombing of North Vietnam. He appeared a bit taken back by widespread international reporting of his remarks and has not pursued the subject.

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POLITICAL TENSION EASES IN COLOMBIA

President Carlos Lleras Restrepo and maverick senators of his own party appear to have avoided another disruptive confrontation over reform legislation by some quiet political horse trading. Resentment over Lleras' highhanded pressure and certain details of dismantling the governing coalition still remain unresolved, however. In addition, changes in both the cabinet and the directorate of the Liberal Party may result from Lleras' threatened resignation.

The Colombian Senate, which rejected President Lleras' resignation by a 74 to 31 vote on 12 June, reconvened on 18 June to reconsider the reform bills, the defeat of which had precipitated Lleras' threat to resign and the resulting political tensions. Both sides appear to have decided that the public airing of their differences had not helped either, and that some quiet po-

litical bargaining would be more productive.

Early on 19 June the congress approved a bill providing for the gradual dismantling of the Liberal-Conservative coalition and for wider political representation in the cabinet. Apparently, President Lleras had agreed to certain amendments that made the package more palatable than it had been in its original form. The reforms still face further legislative action after the new congress convenes on 20 July.

In the aftermath of these events, rumored cabinet changes seem likely to occur soon. Because much of the acrimonious debate was between factions of the Liberal Party, the national directorate of Lleras' party may also be changed to include some of the dissidents whose resentment of his pressure tactics has not abated. 25X1

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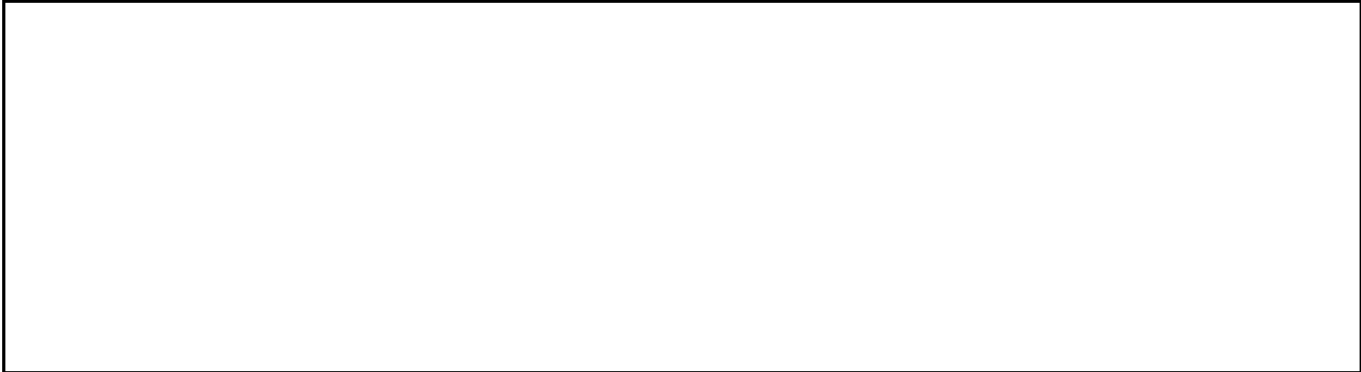
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URUGUAY'S CHRONIC ILLS PERSIST

Student violence has subsided, at least temporarily, but President Pacheco has been unable to resolve the underlying problems that precipitated the recent crisis.

The government has been floundering since late April when cabinet resignations and an unpopular devaluation triggered a renewal of political factionalism within the governing Colorado Party. A subsequent spate of strikes added to growing political and economic instability, but violence did not become a major factor until this month.

On 6 June, Montevideo police wounded four students and arrested several others who were demonstrating for effective government measures to deal with the deteriorating economy. This police action provoked a wave of

demonstrations and riots in which students were joined by Communist trade union elements. These events, coupled with a crippling strike in the government banking system, probably were the determining factors in the government's decision to impose a limited state of siege.

In spite of the government's action, Uruguayan labor leaders succeeded in instigating a strike on 18 June in which thousands of workers participated. The government has responded with restraint and apparently has not decided what, if any, sanctions are to be applied against the strikers.

Unless the President can pull his government together and end divisive factionalism, the situation will grow more chaotic.



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