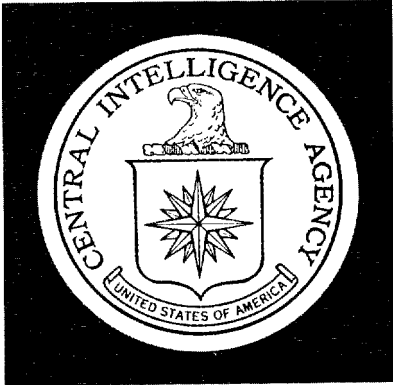


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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43

18 July 1969

No. 0379/69

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(Information as of noon EDT, 17 July 1969)

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The machinery of the Organization of American States has been brought into motion, but little progress has been made in arranging a cease-fire.

GUATEMALA--THE PRE-ELECTION SITUATION

The frail political stability laboriously developed under the present Guatemalan administration will suffer serious strains during the political campaign now under way for the general elections next March. Violence has shown a steady increase since May, and intelligence reports suggest that Communist terrorists will try to disrupt the electoral process in hopes of goading the military to overthrow President Mendez. Supporters of the rightist presidential candidate have threatened similar action if their candidate seems in danger of losing the election or being deprived of the presidency illegally. With the ruling Revolutionary Party in control of the electoral machinery, either development is possible. The armed forces, the most important ingredient in the political spectrum, have the power to install the legally elected candidate or anyone else they wish. So far in this century, only one duly elected Guatemalan President has turned over control to a duly chosen successor, and the present prospects for a peaceful transfer are not encouraging. (Published separately as Special Report No. 0379/69A)

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Despite government efforts to prepare the Costa Rican public for increased contact with Communist countries, the local Communist party has been dealt a serious setback in its bid to participate in next year's presidential election.

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President Frei's party has decided against formal cooperation at this time with other parties. It will choose its presidential candidate next month.

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The Castro regime has thus far demonstrated remarkably little interest in the Soviet naval visit to Cuba scheduled for 20 to 27 July.
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FAR EAST

The North Vietnamese have begun preparations to celebrate 1970 as a year of historical significance, and a politburo resolution focusing on internal issues may indicate that there will be significant policy changes. Le Duc Tho, North Vietnam's chief negotiator in Paris who is also responsible for internal party and domestic matters, has again returned to Hanoi. His trip may signal another round of deliberations on the Paris talks and the war, but he may also be involved in discussions concerning what appears to be continuing disarray on the home front. A decision by the North Vietnamese leadership to concentrate more on internal development could involve some compromise in the war effort.

The North Vietnamese quickly rejected President Thieu's offer last week to let them share in running new elections. There was some strong, critical reaction also from some South Vietnamese politicians. The Communists charged that the offer was a public relations gambit that fell far short of facilitating any movement in the Paris talks. Hanoi is probably not as reluctant to negotiate the election issue as the Communist propaganda suggests, however.

Communist military activity in the South has returned to a low level. The relative lull in ground action has persisted since the latter part of June. Reports persist, however, that the enemy will soon launch another round of localized attacks.

Communist military operations in Laos are causing fresh concern. The government effort to recapture Muong Soui has been given up. Meo leader Van Pao believes that the Communists intend to move into northern Vientiane Province. Government leaders are also apprehensive about what they regard as a growing threat to the royal capital of Luang Prabang.

The probability of further communal violence in Malaysia has been increased by frictions within the ruling Malay party. Many university students and some junior- and middle-grade army officers are believed to support Malay extremists who are pressing for more openly pro-Malay policies. Should the political situation deteriorate further, some army elements favorable to the extremists probably would press for a larger military role in decision making and for increased military controls.

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VIETNAM

The Vietnamese Communists quickly denounced and rejected President Thieu's offer last week to let them share in running new elections, charging that it was a public relations gambit which fell far short of facilitating movement in the Paris talks. Their rejection was foreshadowed three weeks ago when Le Duc Tho ruled out Communist participation in a joint electoral commission with Saigon.

Hanoi is probably not as reluctant to negotiate the election issue as Communist propaganda suggests, however. In their own official proposals, the Communists endorse general elections in deliberately vague language and leave the impression that their position on this point has considerable flexibility. Their rejection of Thieu's new offer is probably a part of their current hardening toward Saigon in general that is designed to force either additional concessions or some structural change in the Saigon government.

President Thieu's election plan has also generated strong reaction in South Vietnam, much of it critical. In contrast to the equanimity with which most of the country greeted the initial US troop withdrawals from the delta, Thieu's election proposal has been interpreted by many strongly anti-Communist Vietnamese

as bowing to US pressure for more concessions and as weakening the government's over-all position against the Communists.

The sharpest opposition to the peace plan was registered by the Greater Solidarity Force, a predominantly northern Catholic group and a charter member of Thieu's progovernment political front. The group's strident public statement, consistent with its traditional hawkish attitude toward the Communists, branded Thieu's offer as unconstitutional and called for a joint session of the National Assembly to debate the issue. As did other critics, the solidarity force based its stand on Article 4 of the constitution, which prohibits Communism or any activity designed to further Communism, and suggested that Thieu's election offer was designed only for foreign audiences.

Several politicians charged that the timing of Thieu's speech made him appear to be taking orders from Washington. One of these, Senator Tran Van Don, who is a leading figure in the opposition to Thieu's political front, publicly accused Thieu of subverting the constitution. Vice President Ky, while supporting Thieu's election proposal, weighed in with a harangue against American conduct of the war, probably in the hope of re-establishing

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his credentials as a leading hawk and of portraying himself as independent of the US in contrast to the purported subservience of Thieu.

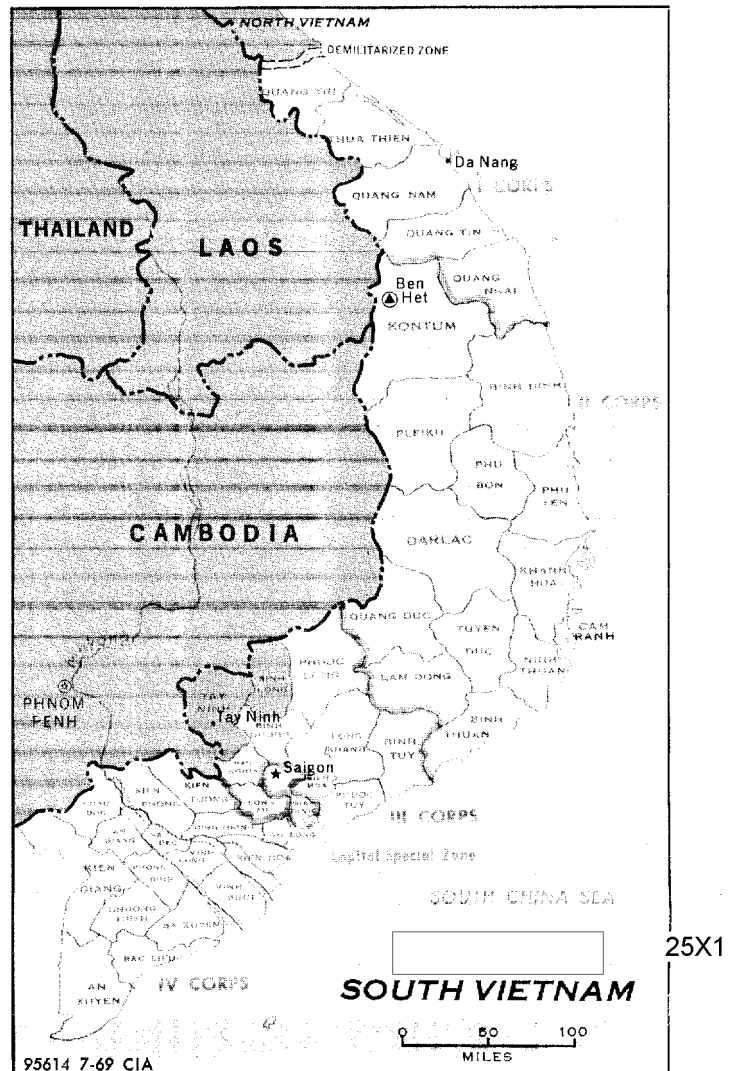
North Vietnamese Political Developments

Le Duc Tho, meanwhile, arrived in Hanoi on 13 July. His sudden and unexpected return could be connected with the Paris talks and, perhaps, signal another round of policy deliberations in Hanoi. On the other hand, indications continue that disarray exists on the home front and Tho's counsel may be needed on party or domestic matters--areas in which he has special responsibilities. His return coincided with the announcement of a politburo decree that marks the year 1970 as a benchmark in Vietnamese Communist history. Ostensibly, four important anniversaries occur then, but the decree may also signal a campaign to publicize certain new and basic postwar policies for North Vietnam. The resolution calls for major policy papers from Hanoi's leaders, mass study sessions, and unprecedented adulation of President Ho. It directs almost all attention inward to domestic North Vietnamese issues. This and the directive's references to important policy considerations suggest that the leadership may be preparing its people for a major change in policy emphasis--perhaps involving a compromise in the war effort to clear the way for greater empha-

sis on internal development and consolidation.

Military Activity

Communist military activity in South Vietnam returned to a low level this week after brief flurries of light shelling attacks on 6 and 11 July. The



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relative lull in ground action has persisted since the latter part of June when the Communists pulled back from Ben Het and Tay Ninh city.

[redacted] the Communists are preparing for another surge of activity to climax their so-called "July Action Phase." The surge probably will feature shellings and limited ground probes similar to the highpoints in May and June.

The heaviest action will probably come in Tay Ninh and Binh Long provinces northwest of Saigon, where the enemy may try to penetrate allied defenses around the provincial capitals. There have also been persistent reports of enemy plans to launch rocket attacks and infiltrate sappers into Da Nang and Saigon.

Most enemy main force units, except for those in the provinces northwest of Saigon, are holding their positions in base areas away from prime targets and do not appear ready for heavy combat in the near future.

Infiltration

Current evidence continues to indicate that the flow of new replacement troops into the infiltration pipeline is at a low ebb.

There are signs that some five replacement packets entered the infiltration pipeline this past March. Captured documents and prisoners imply that about 2,500 men were in these groups and that they were slated for I Corps. [redacted]

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MALAYSIAN DEVELOPMENTS THREATEN FURTHER INSTABILITY

The threat of a split within the ruling Malay party has increased the probability of further communal violence.

The executive committee of the United Malays Nationalist Organization on 12 July expelled an extremist leader from the committee for circulating a letter calling for Prime Minister Rahman's resignation. The letter charged that Rahman's pro-Chinese policies had been responsible for the party's electoral losses last May and the subsequent communal rioting.

Although the committee's action demonstrates that the top echelon of the party and the government continues to be dominated by moderates, the extremists are believed to have widespread popular support, including many university students and some junior and middle-grade army officers. The expelled extremist leader told a US Embassy official that he will continue his anti-Rahman campaign.

Conversely, Rahman's determination not to be forced out by extremist pressure appears to have been strengthened. The 66-year-old prime minister, although

beset by health problems, views himself as the only national figure with Chinese as well as Malay support and believes his resignation would result in further polarization of the races.

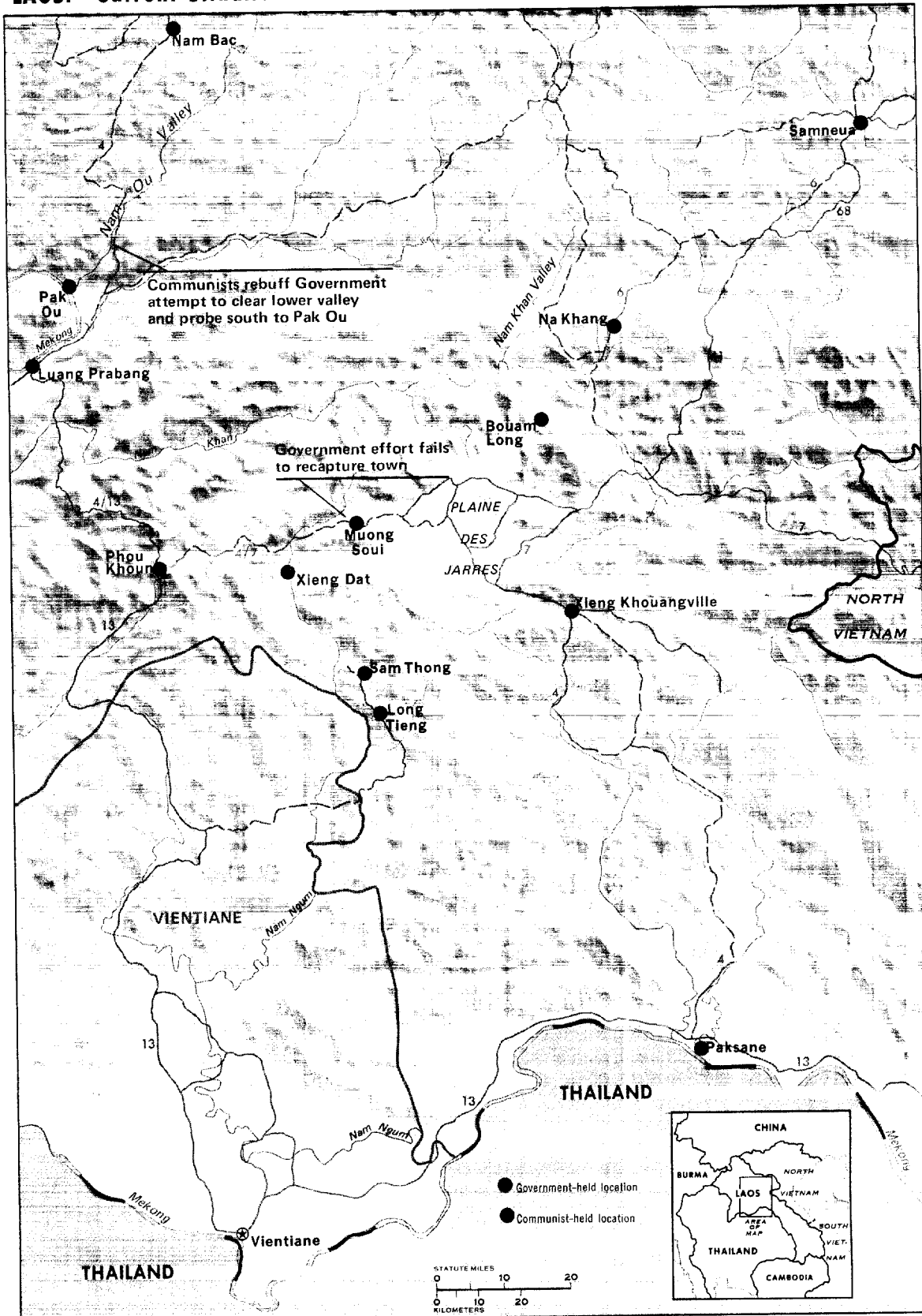
If a major split does develop in the party, with the extremists either forming a new opposition group or joining the racist Pan Malayan Islamic Party, the popular base of the emergency regime will be seriously eroded. In any event Malay extremists can be expected to step up their efforts to pressure the emergency government to adopt more openly pro-Malay policies. These efforts in turn will almost certainly lead to further harassment of the Chinese.

The political disarray in Malaysia has permitted increased military influence in the government through the presence of two high-ranking army officers in the top level of the emergency government. Should the political situation deteriorate further, some army elements who share the extremism of the Malay "ultras" probably would press for a larger military role in decision-making and for increased military controls.

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LAOS: Current Situation



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LAO GOVERNMENT FORCES GO ON THE DEFENSIVE

The failure of the Lao Government's effort to recapture Muong Soui has raised fresh concern over Communist military intentions.

The two-week operation had made some headway but sharp enemy counterattacks, unusually poor flying weather, and the reluctance of the progovernment neutralist forces to carry out their share of the offensive led Meo General Vang Pao to call off the operation. Vang Pao has now turned his attention toward establishing a defensive line to the north and south of Muong Soui.

Van Pao believes that the Communists intend to drive westward on Route 7 and then move south into northern Vientiane Province. He calculates that the enemy will move in this direction in order to isolate his bases at Long Tieng and Sam Thong. These dire expectations appear to reflect Vang Pao's low morale rather than any hard intelligence on Communist plans.

Government leaders, meanwhile, are apprehensive about what they

regard as a growing threat to the royal capital of Luang Prabang. The Communists have countered the government's attempts to clear the lower portions of the Nam Ou Valley, and probes have been made as far south as Pak Ou on the Mekong River. It is too early to tell how significant these probes are. Three North Vietnamese battalions appear to have moved south from the Nam Bac area for this campaign, raising the possibility that the Communists may intend to isolate Luang Prabang.

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EUROPE

Foreign Minister Gromyko's foreign policy review before the Supreme Soviet last week made clear that China continues to be the major preoccupation of Soviet thinking on international affairs. Gromyko reserved his harshest words for Peking's leaders, asserting that Moscow's "most rabid enemies" had never used such "unworthy methods" to discredit the USSR. In contrast, Gromyko handled the US with kid gloves. He acknowledged that the USSR is preparing for an exchange of views with the US on strategic arms, noted President Nixon's call for an "era of negotiations," and said that the president's support for a summit meeting had "not gone unnoticed."

References in the speech to subjects of special interest in Eastern Europe met varying reactions there. The Poles and East Germans apparently were shown the speech a day or two before it was given. The Poles approved. Comments by East German leaders, however, indicate they have reservations about those portions of the speech dealing with West Germany, Berlin, and European security. An East German delegation in Moscow signed a communiqué on 14 July which negated Gromyko's approach to these subjects and got the East Germans' hard-line points of view across.

The Yugoslavs were pleased with Gromyko's favorable reference to them, but remain wary of Soviet intentions. Brezhnev followed up the speech in a few days by seeing the Yugoslav ambassador, whom the Soviets had been holding at arms length for two weeks.

There were no attacks, but there was also no succor for the Romanians in the speech, and the Czechoslovaks invited the Western press to mind its own business regarding Gromyko's passage about "flaws in relations among socialist countries."

The Belgrade consultative meeting of nonaligned countries last week produced a compromise communiqué which barely suppressed the diversity of opinion within the nonaligned movement. The communiqué said that "views were exchanged on the possibility of holding a summit conference after suitable preparations." Undaunted, the Yugoslavs probably will try to begin another stage in the consultations, but the prospects for a nonaligned summit remain bleak.

The government crisis continues in Italy. Tension eased somewhat with President Saragat's request on 13 July that Mariano Rumor, premier of the outgoing cabinet, try to reform a government. He is trying to put the center-left coalition back together.

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MONNET COMMITTEE ARGUES CASE FOR EUROPEAN UNITY

Jean Monnet's Action Committee for a United States of Europe is meeting this week to consider four reports which suggest that the problems of British membership in the European Communities, although real, are not insurmountable.

Last March, the Monnet Committee--a pro-European pressure group which consists of leading members of the trade unions and all the major political parties of the Common Market countries and Britain minus the Gaullists and Communists--asked several eminent Europeans to study the institutional, agricultural, monetary, and technological issues involved in British entry. The committee's recommendations, based on the views expressed in the reports, may play an important role in the coming debate on the Communities' enlargement.

In his report on the institutional aspects of enlargement, Walter Hallstein (former president of the EEC Commission) reiterates his long-held view that the Communities' institutional structure is the basis for the gradual development of a European federal state, and that enlargement must be adapted to this evolutionary process, not vice versa. Specifically, he holds that the commission must be strengthened as the "planning, driving and mediating element" and that the parliament must become the "reconciler" of national interests, with directly elected members and expanded powers. He also thinks that the council should apply the principle of majority vote with more de-

termination and that all council decisions should eventually be taken in this manner as the council develops into the upper chamber of a bicameral legislature.

Robert Triffin (Yale professor and Communities consultant), reporting on the monetary aspects of UK entry, contends that membership would open up new solutions to Britain's financial problems. Triffin also claims that British membership would not mean an increased financial burden for the Common Market countries, inasmuch as they already supply a good share of the financial aid Britain receives. He proposes the creation of a European Reserve Fund which could help shore up sterling in the short run and eventually make possible a common European currency.

Another report on the monetary aspects of UK entry, submitted to the Monnet Committee by Guido Carli, Governor of the Bank of Italy, comes to the same general conclusion as Triffin, except that Carli advocates more flexibility in exchange rate mechanisms.

Edgar Pisani, former French agricultural minister, wrote on the agricultural problems of enlargement. He believes that Britain, in entering the Communities, must agree to accept the basic elements of the Common Agricultural Policy (CAP). He recognizes, however, that the CAP is in need of reform and that Britain's entry will necessitate a change in agricultural financing

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arrangements. He recommends a transition period of three to four years for Britain and the CAP to make adjustments.

The report by Lord Plowden (former head of the UK Atomic Energy Authority) on the technological aspects of enlargement concludes that political and economic integration are prerequisites to real technological advancement in Europe.

While it is clear that the Communities are still a long way from agreement on opening talks

with the British, the Monnet Committee reports will provide a useful focus for discussion by putting the technical problems of British entry clearly in the context of the Communities' further development. Because all the reports stress that these problems can be solved by reinforcing and improving the present structure of the Communities, they are, in particular, a counterweight to the current French argument that enlargement of the Communities could mean their weakening.

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HUNGARY PUSHES AHEAD WITH ECONOMIC REFORM

Recent speeches by Hungarian leaders indicate that the government intends to continue its relatively cautious program of economic reform (the NEM); the new targets set for the future are modest and can be changed as the situation demands.

Hungarian leaders appear generally satisfied with the results of economic reform to date. The ultimate aim of the NEM is to free industry and agriculture from detailed, compulsory plan directives and to permit the operation of incentives within the enterprises. The government eventually hopes to reduce its administrative role to one of over-all direction of the economy and to that of an investor and a controller of inflation. The party hopes to withdraw from day-to-day supervision of such government operations.

Deputy Premier Feher recently indicated that future measures will aim at increasing the production of modern, competitive products in order to bring about greater effectiveness in foreign trade. Ways must also be sought to increase labor productivity and to utilize enterprise funds better. Price changes announced in May and July are being implemented and additional revisions can be expected in the future.

Finance Minister Valyi has stated that subsidies to enterprises are to be cut five percent this year (ten percent in industry) and will be further reduced next year in an effort to discourage inefficient plants. Ministries also are to make further

efforts to decentralize their responsibilities.

The Hungarian consumer appears to have fared well in many respects under the NEM. Savings grew markedly last year as did retail trade turn-over, prices have been kept in check, and inflation does not appear to be a serious problem. Real wages rose 2-2.5 percent last year, and the government plans to adjust favorably the incomes of pensioners and low-income, large families. New programs are expected to extend profit-sharing to more industrial workers and to extend the reduced work week of 44 hours to additional workers.

Hungarian officials have been interested in improving trade relations with the West, recognizing in particular the need to improve the range and quality of exports in order to earn more foreign currency. On 7 July Budapest filed a formal application to accede to the General Agreement on Tariffs and Trade, a move designed to ensure more equitable treatment for Hungarian exports in Western markets.

As some features of the NEM have been of concern to the USSR, Hungary probably must continue to move slowly so as not to antagonize the Soviet Union. A recent Soviet-Hungarian committee session, for example, discussed the rather unusual subject of the "more correct" application of material incentives. Hungarian policy probably will continue to emphasize the cautious implementation of reforms that can be modified as necessitated in response to either domestic requirements or to pressure from the USSR. 25X1

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EAST GERMAN DELEGATION RETURNS FROM USSR

An eight-day visit to the USSR by a party-government East German delegation led by Premier Stoph and Politburo member Hon-ecker ended on 14 July. A joint statement, issued after the delegation left, stressed the unity of the two allies and was a strong expression of Soviet verbal support for East Germany.

The composition of the East German delegation, which included both top-ranking political and economic officials, as well as the chairmen of East Germany's four satellite political parties, suggests that the two sides covered the whole range of issues of mutual concern. The joint statement proclaimed "complete unity of views" on a broad spectrum of outstanding international interests. The only innovation from this compendium of standard formulations was a call for a "Congress of the Peoples of Europe." This proposal was not further spelled out, but it may be part of Moscow's effort to refurbish its reputation as a practitioner of coexistence.

Foreign Minister Gromyko's recent foreign policy address to the Supreme Soviet--delivered at the mid-point of the East German visit--was probably discussed at length. The East Germans undoubtedly were skeptical about Gromyko's cautious offer to begin four-power talks on Berlin and to resume bilateral negotiations with Bonn. The reticence of the East German visitors on this subject and the slanted coverage of Gromyko's speech in the East Ger-

man party daily and other news media seem to confirm this.

The joint statement seems intended to meet any reservations which the East Germans may have harbored on these proposals, using Pankow's pet phrases for describing the European situation. Although the statement serves as a paper guarantee that Moscow will--as Gromyko stressed--keep in mind the interests of the East Germans in any dealings with the West, the Soviets are unlikely to be deterred from making any overtures of detente to the West by any objections from Pankow.

The visit also produced agreement to strengthen economic and cultural ties. The statement did not describe the economic agreements in any detail, but they appear to portend an even tighter meshing of the two national economies and will probably further increase the East Germans' dependence on Moscow. In keeping with the East Germans' apparent preference, the statement placed greater stress on improving bilateral economic ties than multilateral.

Left unexplained by the communiqué or any activities in the USSR is the question of why the chairmen of the four satellite political parties were included in the delegation. Their presence, however, suggests that the talks may have touched on East Germany's internal affairs as well as those topics mentioned in the communiqué.

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CZECHOSLOVAKS ANNOUNCE ADDITIONAL PERSONNEL SHIFTS

The campaign in Czechoslovakia to install more "realistic" supporters of party chief Husak on all official levels is in full swing. With the top and middle levels of the party under firm control, the regime now is focusing on the local party organizations and the trade unions. It will soon fully turn to the federal and the Czech and Slovak governments.

Husak and party secretary Alois Indra, a hard liner, underscored their demand last week with trade union officials that "hostile elements"--meaning the remaining outspoken liberals--be removed from their posts. An eight-man party watchdog committee was attached to the central trade union council, perhaps to intimidate union officials, but ostensibly to protect the party's interests.

Husak and Indra also met with the leaders of the recalcitrant metalworkers' union, warning them to remove or to silence the dissidents in their ranks. Husak is clearly incensed by the independence of some unions. He apparently believes that their continued underground activities, such as pamphlets urging public manifestations of antiregime or anti-Soviet sentiment, is jeopardizing his position.

A sweeping reorganization in the Foreign Ministry has led to speculation that Foreign Minister

Marko is in trouble. Foreign policy is completely in the hands of pro-Soviet party conservatives, who probably are pressing Husak to replace Marko with someone more closely oriented to Moscow. A competent moderate and a Slovak, Marko is cut from the same cloth as Husak, who may be reluctant to remove him from office.

Jiri Hajek, foreign minister under Dubcek and one of the Soviets' prime targets after the invasion, has apparently made his peace with Husak and returned to Prague. Hajek will head the about-to-be created Institute of Politology, and could eventually have a strong influence on political theory and ideology.

The first personnel change in the Czech state government since its formation in January was announced earlier this month when a conservative ideologist replaced a recalcitrant liberal, Miroslav Galuska, as minister of culture. Other shifts to eliminate the preponderance of liberals in the Czech cabinet are widely expected in Prague.

The regime last week forced editorial board changes on several prominent newspapers, and announced the appointment of a new chief of radio administration in the Czech lands and a new head of the Czechoslovak national radio's still subtly outspoken foreign broadcasting unit.

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The rapidity with which the regime is proceeding with the personnel shuffles suggests that it wants to batten down the hatch in the shortest possible time. The first anniversary of the Soviet invasion is approaching, and unless the party can unite and impose its will, it may have to face an adverse popular reaction. Pessimistic progressives, who favor a dignified and orderly observance of the anniversary, have expressed the fear that pro-Soviet provocateurs may use the occasion to generate anti-Soviet demonstrations which would undoubtedly lead to a harsher rule than now exists.

In an effort to bolster the country's sagging economy, the federal government has introduced a temporary freeze on wholesale prices, and prohibited bonus payments to workers until precise limits on allowable increases are decided. Prague also has

announced a new ban on capital construction. A number of government-enterprise agreements were scheduled to be concluded by 15 July, regulating production, wages and prices. These measures will further centralize control of the economy, and mark a further retreat from the liberal economic reforms anticipated under Dubcek. The austerity measures will probably be followed by others and will antagonize the people even more.

The invading Warsaw Pact countries have done relatively little to support Husak's regime or to offer recognition of his efforts to solve the country's political and social problems. This glaring abstinence has added to instability in Czechoslovakia, contributing to popular fears that the Soviets are playing one leader against another in a behind-the-scenes effort to create a more repressive regime.

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GROWTH RATE DECLINES IN OUTPUT OF SOVIET FUELS

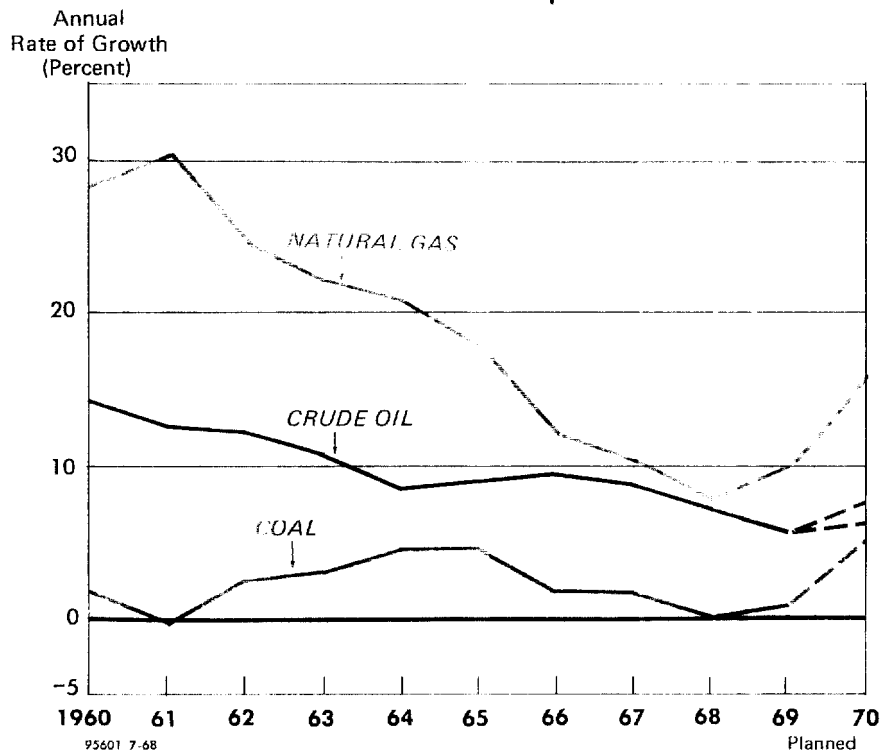
The growth rate in the production of fuels in the USSR has been declining for several years and is unlikely to improve in the near future without substantial increases in investment. This poor performance has led to a reduction in goals for 1970, the last year of the current five-year plan, but even the lower targets will be difficult to achieve.

The rates of increase in output of the Soviet fuels industries in 1968 were the smallest in recent years. The annual plans for

the production of natural gas, coal, and petroleum equipment as well as for the construction of oil and gas pipelines were not fulfilled. Although the 1968 production goal for crude oil was achieved, the increase was the smallest in the postwar period. During the first quarter of 1969, moreover, production rates of all fuels lagged behind that of the first quarter of 1968, in part because of severe winter weather.

The failure to meet annual targets and to maintain past rates

Growth Rate Declines in Output of Soviet Fuels



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of growth is largely the result of insufficient investment. Recently the rate of investment growth in the fuels industries has declined, accompanied by ever smaller rates of growth in output per unit of investment.

A substantial rise in investment is required in order to modernize and re-equip the present fuel industries as well as to exploit reserves found in new areas. Current techniques and equipment are becoming obsolete because of increasing operating depths, the great distances between centers of consumption and the new producing regions, adverse climate and terrain in these areas and changing patterns of demand.

Oil and gas will continue to become an increasing share of the Soviet fuel balance at the expense of coal. Demand for oil and gas probably will rise at a more rapid rate than production during the next five to six years. The present program for paralleling the Friendship crude oil pipe-

line system to Eastern Europe indicates that the USSR intends to continue supplying the lion's share of the oil consumed in this area, excluding Romania.

The USSR also plans to supply increasing amounts of natural gas to Eastern Europe by 1975 after expansion of the pipeline network. Some of the gas exported to Eastern Europe, however, will be replaced by low-cost gas imported from Afghanistan and Iran for domestic consumption.

In this situation, a significant increase in Soviet exports of oil to the free world does not appear probable in the foreseeable future. In 1968--for the first time since 1955, when the USSR became a net exporter of oil--there was little increase in such exports. Continued stagnation in Soviet exports of oil to the free world would have far-reaching economic implications inasmuch as these exports have been the largest single source of foreign exchange during the past several years.

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MIDDLE EAST - AFRICA

India's Prime Minister Indira Gandhi appears to have lost a major test of strength with her long-time antagonists in the Congress Party hierarchy. The struggle erupted when old guard party bosses rammed through the nomination of one of Mrs. Gandhi's foes as official candidate for the presidential election set for 16 August. Although Mrs. Gandhi reacted sharply, she soon realized that further contention could seriously threaten her hold on the prime ministership and backed down. She did manage to chalk up a score, however, by forcing the resignation of the deputy prime minister and finance minister, Morarji Desai, an arch-rival and one of her strongest opponents in the cabinet.

In the Middle East incidents along the Suez Canal and the Jordanian-Israeli cease-fire line lessened during the past week, but the Egyptians are still braced for an Israeli strike in retaliation for recent cross-canal raids. In Israel, the Labor Party begins its convention on 20 July in a state of turmoil that might end in a split-off of the Dayan faction.

Yemen, contrary to the latest trend in the Arab states, re-established diplomatic relations with West Germany this week. The republican regime has been attempting to strengthen ties with the West as relations with Communist countries cooled, and Bonn's offer of economic assistance no doubt made the move even more attractive.

In Africa, the Nigerian civil war drags on into its third year. Heavy fighting continues along the southern front, but neither side has scored any major territorial gains. The Biafrans are still receiving nightly arms flights and some relief supplies.

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ALGERIA'S REFORM PROGRAM CONTINUES SLOW PROGRESS

Colonel Houari Boumediene, in the four years since he ousted President Ben Bella in June 1965, has grown in both stature and self-confidence as he has moved cautiously and methodically toward his twin goals of restructuring the country's administration and of industrializing the economy.

The once enigmatic and diffident Boumediene still eschews most of the trappings of power, but he appears more outgoing, self-assured, and decisive. At the same time, he continues to pay lip service to the principle of collegial rule established during the 1954-62 rebellion and to be surrounded by the same clique of long-time associates that immobilized the policy-making Revolutionary Council and set off the 1967 revolt by Colonel Zbiri, then his chief of staff.

In the face of widespread apathy and skepticism, Boumediene is pressing to rebuild the National Liberation Front (FLN), the country's only political party, and to develop a new system that will decentralize the Algiers-dominated administration inherited from France. Reorganization of the FLN by Boumediene's tough-minded and energetic aide, Ahmed Kaid, is nearing completion. The party played a dominant role in the May elections of wilaya (departmental) councils. These councils, together with local

councils elected in 1967, form the first two stages of a three-part program designed to culminate in the election of a national assembly and a revision of the constitution.

Although Kaid has succeeded in building up new cadres for the party and in bringing the party's youth, women, and labor affiliates under his thumb, he has failed to attract the support of the country's educated and professional elite. Kaid may be about to force a showdown with the student organization, which has consistently resisted FLN control. The students, knowing that the government could crack down on them by withholding scholarships, have so far posed few problems for the regime.

Algeria's economic goal of self-sufficiency is being pursued with equal deliberation. Except for petroleum production, most businesses and industry have been progressively nationalized and these--together with all new ventures--are operated as state enterprises. Concentration is on heavy industry, the key to which is the country's iron and steel complex and petrochemical industry. Boumediene anticipates as a second phase the creation of many allied factories, which he expects eventually to resolve the country's critical unemployment problem. The regime still promises agrarian reform, but for the present insists

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on increased production and profitable operations from the socialized farms.

While dissatisfaction and grumbling continue inside and outside the administration, the regime seems more stable than at any time since Ben Bella was ousted. Potential supporters of the numerous exiled opposition

leaders are periodically rounded up by the gendarmerie and police, which are the backbone of the regime's support. Exiled leaders are unwilling to collaborate or are unable to build up followings strong enough to challenge Boumediene. Barring assassination or a coup, Boumediene seems likely to stay in power for some time.

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PAKISTAN GOVERNMENT PROPOSES FAR-REACHING REFORMS

The Government of Pakistan is attempting to attack primary causes of social discontent through recently announced budgetary measures, a liberalized labor policy, and radical educational proposals.

On 5 July, Deputy Martial Law Administrator Nur Khan presented a labor policy that so far has met with general approval, although there are indications that some firms may not abide by all its provisions. The new plan grants collective bargaining rights and allows workers to strike--except in "essential services"--provided a 21-day notice has first been given. The policy raises moderately the minimum monthly wage for unskilled labor in firms of 50 or more workers, and delegates the determination of rates for smaller businesses to provincial wage boards. Other provisions include free medical care for workers and dependents at the employer's expense, and the creation of a welfare fund for workers, which will be initiated by a government allocation

of approximately \$21 million for housing.

A new education policy, outlined on 2 July by Nur Khan, will probably arouse considerable public debate prior to final formulation and adoption in September. As presented, the plan would completely revamp Pakistan's education system and would result in widespread social changes. It calls for the reorganization of present lower level schools into a single eight-grade system with universal free primary education, heavy emphasis on technical and vocational education at the secondary level, decentralization of educational administration, and autonomy for universities. English would be replaced by Urdu in West Pakistan and Bengali in the East as a medium of instruction. A compulsory national service would be established to bring functional literacy to adults. Under the new policy, financial allocations for education would double by 1975, although as a share of national

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resources they would still be small.

The education and labor policies were announced after the 1970 budget was presented in late June. This new budget includes some measures for greater social justice and a few provisions to relieve the economic disparity long suffered by East Pakistan. New revenue is to be derived largely from the West wing and the wealthier classes in both provinces. There is no substantial shift in development expenditures, however, and--if allocations for the Indus Waters projects are included--West Pakistan will continue to receive the greater share. Although several new measures are aimed at stimulating private investment in East Pakistan and in depressed areas of the West, special incentives for private investors in East Pakistan have existed for years and the new proposals will prob-

ably not have much impact. Bengali reaction to the budget seems to be that although a step has been taken to aid East Pakistan, much more needs to be done.

Meanwhile, Admiral Ahsan, another deputy martial law administrator, recently said privately that the government was thinking of establishing a civilian council to oversee day-to-day operations and prepare for a return to normal political life. Under this scheme, the martial law administrators would meet only periodically to consider major policy matters. Although the admiral may have been overly positive about his colleagues' acceptance of the idea, President Yahya Khan might support it in the belief that the time has come to take some new political initiatives to maintain the confidence of the public.

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CRISIS ERUPTS WITHIN INDIA'S CONGRESS PARTY

Prime Minister Indira Gandhi appears to have lost a major test of strength with her long-time antagonists in the Congress Party hierarchy. She did manage to even the score partially, however, by forcing one of her strongest opponents in the cabinet to resign.

The stage for the current struggle was set when the old guard Congress bosses nominated one of Mrs. Gandhi's foes as the party's candidate in the presidential election set for 16 August. Mrs. Gandhi's initial reaction was sharp and bitter, almost reaching the point of public denunciation. Then, as a counter-move, she supported the independent candidacy of acting President V. V. Giri--a man whose ideology and personality are much more to her liking.

Realizing that she had locked herself into a conflict that could seriously threaten her hold on the prime ministership, Mrs. Gandhi had second thoughts and began to back down. Before her final capitulation on the presidential issue, however, she forced the resignation from the cabinet of her arch-rival, Deputy Prime Minister Morarji Desai, by assuming his additional responsibilities for the important Finance Ministry.

Ostensibly, her action was intended to make it easier to

implement her controversial proposals to nationalize the country's major banks--a move strongly opposed by the more conservative Desai. It appears more likely, however, that the move against Desai was primarily intended as a means of saving face in her struggle over the presidency. Later the same day, Mrs. Gandhi virtually admitted defeat on the presidential issue when she declared unconditional support for Sanjiva Reddy's candidacy--the man earlier sanctioned by her opponents.

The Indian presidency under normal conditions is a ceremonial position for the most part. It has been very important, however, for Mrs. Gandhi to have someone in the job who could be counted on to follow her cue in such important matters as asking her to form a new government or even dissolving Parliament and calling new elections. In the past, these have been crucial potential weapons for her to have available in order to cope with any concerted attempt to oust her from the prime ministership. The presidency could become even more important if, as expected, no single party gains a clear majority in the next general election, which must be held by 1972.

Although Mrs. Gandhi's stalking horse, V. V. Giri, is still theoretically in the presidential race, he appears unlikely

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to win without the prime minister's support. Nevertheless, prior to her capitulation, he indicated that under no circumstances would he withdraw, and has announced his intention to resign as vice president and acting president. Should he carry through with these plans, the apolitical chief justice of the Supreme Court will act as president until the election is over.

Sanjiva Reddy, the apparent favorite as the official Congress

candidate, could still be upset. The president is chosen by secret ballot through a complicated system of weighted voting by the elected members of both houses of the national Parliament and the state assemblies. Congress' strength within this electorate has declined to the point where a split in the party vote could leave the final decision in the hands of the opposition, despite their expected inability to unite behind a single candidate.

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WESTERN HEMISPHERE

The spotlight in Latin America this week focused on the undeclared but destructive war between El Salvador and Honduras. Although both countries had agreed in principle to a cease-fire after four days of occasionally bloody fighting, implementation of the accord could still founder.

In Cuba, Fidel Castro kicked off the 1970 sugar harvest with a two-hour speech on 14 July. Although most of the speech dealt with domestic agricultural matters, Castro did touch briefly on foreign affairs. He said Cuba would not refuse a request for the resumption of relations with those Latin American countries—specifically Peru—that adopted and maintained an “anti-imperialist attitude” and explicitly and formally denounced the OAS sanctions against Cuba. In an interview after the speech, Castro made it clear that he was not interested in resuming relations with the US unless basic changes in US policy occurred.

Havana has thus far shown only moderate interest in the Soviet warships that will be in Cuba for a one-week stay beginning 20 July. No special welcoming ceremonies have yet been announced. Castro probably fears that any massive celebrations honoring the visit will make him appear to be a Soviet puppet and might also interfere with the early stages of the sugar harvest.

Tensions between Peru and the US continued to ease this week. The Peruvians are preparing to invite Ambassador Irwin to Lima to renew talks on problems arising from Peru's expropriation last October of the US-owned International Petroleum Company.

In Brazil, the terrorists who have been active in Sao Paulo have apparently turned to arson in their campaign to discredit the government and security officials. During the past week three radio and television stations have been burned; one of them was completely destroyed.

The Argentine Government has appointed an official to supervise the reorganization of the powerful General Labor Confederation. Leaders of the Peronist-dominated bloc of unions formerly headed by the assassinated Augusto Vandor are also attempting to unite organized labor, and they are likely to oppose the government's efforts in this field.

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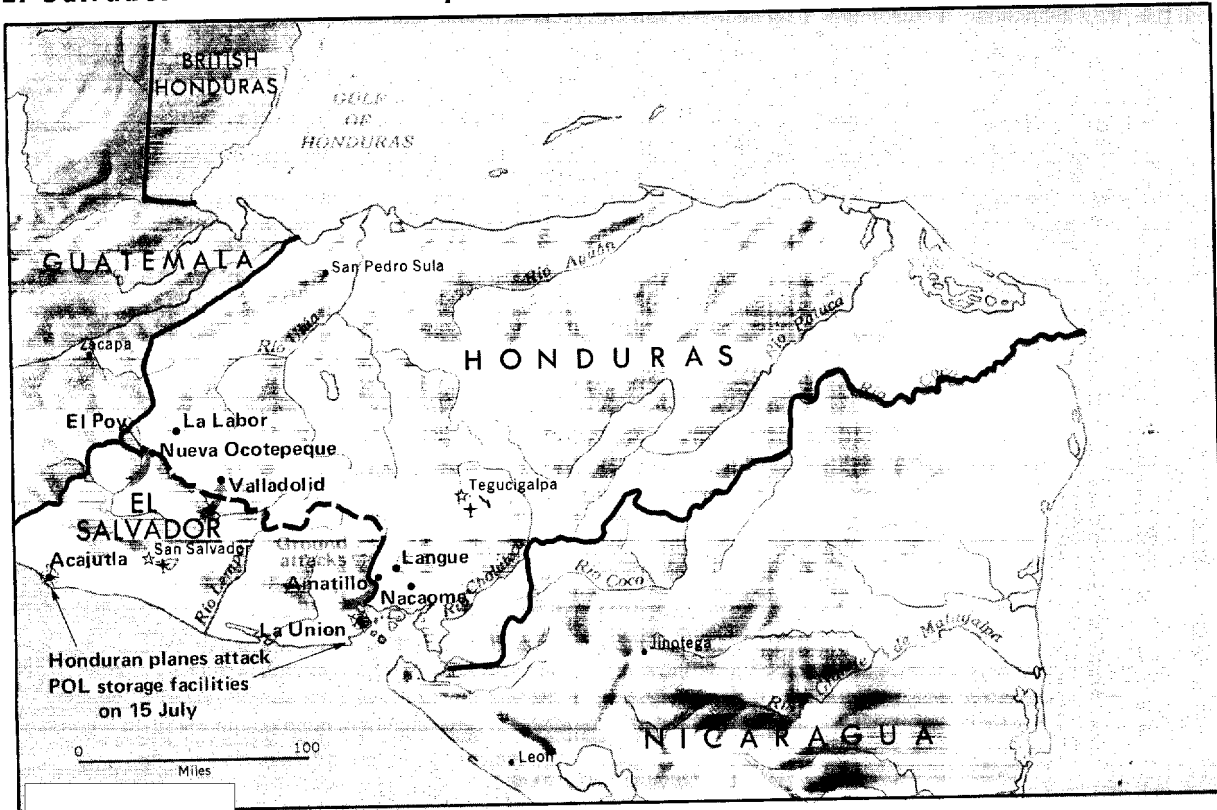
SALVADORAN-HONDURAN CONFLICT EVADES SOLUTION

The outbreak of hostilities between El Salvador and Honduras on 14 July has brought the machinery of the Organization of American States into motion to arrange a cease-fire formula. The OAS sent an investigative committee to the two capitals, where its members have attempted to work out an agreement between the disputants.

The OAS team has encountered difficulties because of the Salvadoran Government's reluctance to

accept a provision of the Rio Treaty requiring conflicting parties to suspend hostilities and restore "the status quo ante bellum." Honduras, on the other hand, seems unwilling to agree to any settlement that would leave the Salvadoran military in control of part of its territory. Salvadoran stalling on the withdrawal is probably intended as a bargaining counter to gain a guarantee of safety for the more than 250,000 Salvadorans who live in Honduras.

El Salvador-Honduras Military Actions



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El Salvador's rapid military advances following the beginning of air and ground offensives on the evening of 14 July diminished by 17 July, when the tide seemed to have turned slightly in Honduras' favor. If reports of Salvadoran aircraft losses and ground reversals are confirmed, the Sanchez government may come under greater pressure to accept the OAS cease-fire requirements. In addition, Honduran bombing of oil depots in El Salvador could result in serious shortages of petroleum products.

Thus far, the performance of the Salvadoran armed forces appears to have restored government prestige--one of the original objectives of the Salvadoran invasion. Meanwhile, the Honduran Government may find itself under intense political pressure to salvage at the conference table what it lost on the battlefield. Inability to satisfy the demands of national pride could undermine the Lopez government.

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COMMUNISTS HAVING MIXED LUCK IN COSTA RICA

Despite government efforts to prepare the Costa Rican public for increased contact with Communist countries, the local Communist party has been dealt a serious setback in its bid to participate in next year's presidential election.

The government is considering a diplomatic exchange with the USSR in order to ensure further coffee purchases. In November 1968, when Costa Rica made its first major coffee sale to the USSR, all arrangements were smooth and local sentiment was favorable. Since then, however, the USSR has reportedly made it clear that there will be no further deals unless it is allowed to set up a commercial mission and perhaps an embassy in San Jose. Poland and Czechoslovakia already have commercial missions there, and Bulgaria has been prodding for representation in San Jose.

The press has been playing up predictions of a coffee export crisis next year and the enthusiastic reception accorded Costa Rican coffee in the USSR. The campaign is clearly aimed at molding public opinion and offsetting the inevitable criticism from some sectors if the Soviets gain an official foothold in the country. An influential anti-Communist businessmen's organization, the Free Costa Rica Movement (MCRL), has already indicated its opposition and would probably propagandize against trade that it believes would fill the coffers of the local Communist party,

whose secretary general has been involved in the negotiations with the USSR.

The MCRL has vigorously countered the local Communists' well-financed and professionally executed campaign to register a front for the general elections scheduled for February 1970. The electoral tribunal recently rejected the front group on technical grounds but requested a ruling from the legislature on whether the party should be outlawed on political grounds. The tribunal and the legislature have tossed the issue back and forth for several months, creating a web of legal and jurisdictional questions. If the Communists can meet registration requirements by the deadline on 1 August, the legislature, despite its reluctance, may yet be forced to take a stand on the Communist issue.

The Communists have recently made significant headway in the labor field by leading a successful though illegal dockworkers' strike.

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The increased visibility of the party, which--although illegal--acts more and more openly, will be sure to invite strong protest from the anti-Communist groups. This development may put a damper on negotiations with the Communist countries, at least until the elections are over.

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CHILEAN CHRISTIAN DEMOCRATS RESUME IN-FIGHTING

The national council of President Frei's Christian Democratic Party (PDC) has opted for a middle ground between members who want to cooperate closely with the Communists and Socialists in the presidential election next year and others who prefer to act alone. In announcing its decision that the PDC will choose its candidate at a national congress beginning on 15 August, the council refused to call explicitly for joint action with other parties but stated that the candidate would be free to approach other parties following his nomination.



Radomiro Tomic

Former Ambassador to the US Radomiro Tomic, who recently returned from a trip to Western Europe and the Soviet Union, remains the most likely candidate. Although the national committee has supported neither his longstanding desire for a "popular unity" campaign nor his recent advocacy of complete and immediate nationalization of the copper industry, he would probably accept the PDC nomination in view of the Communists' continuing refusal to support him as a joint candidate.

Since returning to Chile, Tomic has caused some controversy by his criticism of the agreement negotiated between the government and the Anaconda Company for the progressive nationalization of Anaconda's properties in Chile. This position, plus his continued emphasis on the desirability of cooperation with the Marxist left, has alienated many rank-and-file members of the PDC. His national stature is such, however, that he seems likely to be the first choice of the national congress.

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CUBA UNIMPRESSED BY SOVIET NAVAL VISIT

The Castro regime has thus far demonstrated remarkably little interest in the visit to Cuba next week by units of the Soviet Navy. The ships--a KYNDA-class guided missile cruiser, a KILDIN-class destroyer, a KASHIN-class destroyer, two F-class submarines, a UGRA-class submarine tender, and a tanker--are scheduled to arrive on 20 July for a one-week stay.

Since the TASS announcement on 6 July, the visit has rated only two brief items in the Cuban press. A two-sentence PRENSA LATINA dispatch the same day repeated the TASS report, and a short article in the Cuban Communist Party newspaper on 9 July described the event as a "cause for great rejoicing by the Cuban people." Castro himself failed even to mention the visit in a

two-hour speech on 14 July. Although both TASS and PRENSA LATINA claimed that the visit was "at the invitation of the Cuban Revolutionary Government," Havana's listless reaction suggests that the idea originated in Moscow.

Because the visit coincides with an important Cuban military holiday--the anniversary of Castro's abortive attack on the Moncada barracks on 26 July, 1953--Havana would have been expected to accord the naval delegation a hearty welcome. Indeed, Castro could even treat the visit as the pledge of military support he has vainly sought since 1962. There seems, however, to be no preparation for special ceremonies. Like holidays earlier this year, 26 July will be a normal working day with a minimum of celebration. Castro may even choose to omit his traditional speech.



KASHIN-Class Destroyer

There are two likely reasons for the reserved Cuban attitude. Although relations with Moscow have improved considerably since Castro gave a qualified endorsement of the Soviet invasion of Czechoslovakia, Castro has no intention of giving the appearance of being a Soviet puppet. Neither does he wish to have any mass celebration that might interfere with the initial weeks of this year's 25X1 sugar harvest and its all-important goal of ten thousand tons.

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BOLIVIAN POLITICAL MANEUVERING CONTINUES

The political situation remains unsettled, with President Siles and Armed Forces Commander General Ovando continuing their political maneuvering.

Siles, prohibited by the constitution from succeeding himself in office, has been quietly supporting the candidacy of the popular mayor of La Paz, retired General Armando Escobar. The mayor is probably the only political personality who could defeat Ovando in the presidential elections scheduled for early next year. As a result, relations between Siles and Ovando are tense.

In a vulnerable position and often at the political mercy of the military, Siles has shown remarkable aplomb and skill in outmaneuvering Ovando despite recent actions that have upset the military. While Ovando still intends to be the next president--

legally if possible--he is apparently still pondering various possible courses of action. A decision by Escobar to enter the presidential race would probably force Ovando's hand. In the meantime, he is putting his own men into commanding positions in the armed forces and filling vacancies in the national police with loyal followers.

On 14 July, after a brief clash with terrorists in Cochabamba, authorities uncovered a collection of documents including detailed plans for sabotage and direct action against US official installations and businesses. At the same time, authorities rounded up several leaders of former president Paz' National Revolutionary Movement, alleging some political parties were linked with the terrorists.

The information uncovered in the raid provides the most detailed indication yet of terrorist plans to resume guerrilla activity with Cuban assistance. The speed of the authorities in following up this information by raids and arrests will probably force a delay in implementing the plans but not necessarily their abandonment.

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