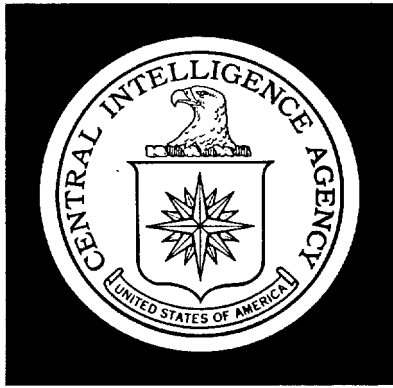


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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(Information as of noon EST, 13 November 1969)

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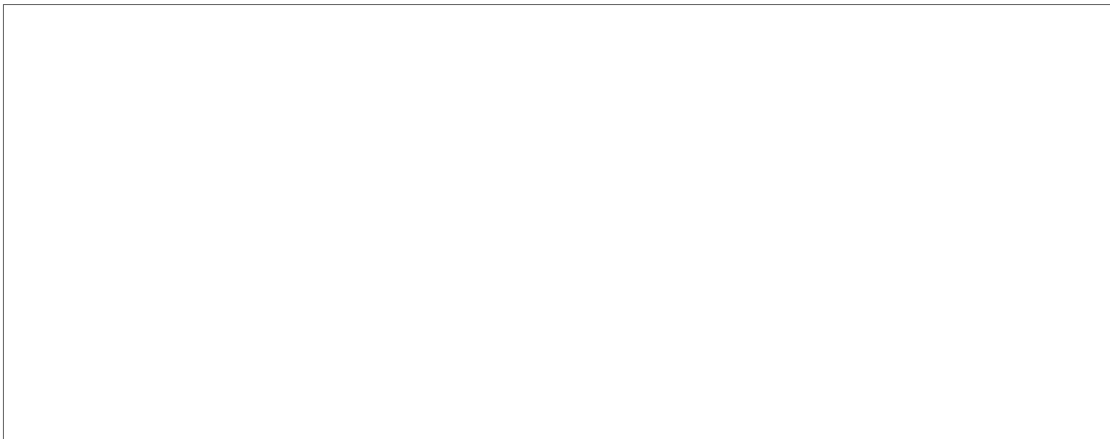
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FAR EAST

The Communists launched their winter-spring campaign in South Vietnam somewhat earlier than anticipated. Their seeming intent was to try to demonstrate that they maintained the military initiative at the time of President Nixon's speech and to take advantage of antiwar demonstrations in the US. Most enemy main-force units remain in remote base areas, however, and Communist actions continue to be characterized by standoff shellings and limited ground probes.

President Nixon's Vietnam policy speech was warmly greeted by many South Vietnamese, but many retain lingering doubts about US intentions and the long-range effects of US troop withdrawals. The undercurrent of anti-Thieu sentiment has remained fairly constant, and his political foes have most recently attacked him because of the high-handed manner in which he instituted the new austerity taxes.

It would appear to be only a matter of time before the Communists in north Laos launch their annual dry-season offensive. It is not likely to get under way, however, until they overcome the problems caused by intensive bombing and government guerrilla harassment of their supply lines. In south Laos, the Communists have had some success in blunting government operations near the infiltration corridor. In recent days, government commanders have been forced to pull back troops operating near Muong Phine, thus foreclosing new attempts by the government to threaten the western flank of the Communists' supply lines into South Vietnam.

Two chiefs of government in Southeast Asia won personal victories this week. Still incomplete but decisive returns show that President Marcos has won his bid to become the first Philippine president to be elected to a second term. His vice president also appears to have won in his separate race. Australia's Prime Minister Gorton scored a personal triumph when the Liberal Party caucus voted to continue him as the head of government. Gorton demoted one of his challengers in order to make his new cabinet more responsive to his leadership, but opponents both within and outside his party are expected to continue trying to bring him down. The Liberal-Country coalition government has already been weakened by its loss of 13 legislative seats in the recent national elections.

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VIETNAM

President Nixon's address on 3 November was viewed with widespread approval and relief by many South Vietnamese. Hard liners were particularly pleased by the President's warning of strong countermeasures if the Communists should escalate the fighting. At the same time, doubts still linger regarding US intentions and the long-range effects of US troop withdrawals. Some South Vietnamese are concerned over indications in the speech that the US and South Vietnam have a secret timetable for future troop withdrawals; others believe that the President's formulations on the question of Communist participation in free elections may represent another concession.

For the first time in a year, coup rumors have again been circulating in Saigon, this time against the background of dissatisfaction with the rapidly rising cost of living, speculation about the ambiguous proposals of well-known opposition leaders for an alternative to the present government, and the uncertainties and strains of Vietnamization.

Retail prices in Saigon have dropped from their highs of last week and appear to be stabilizing at a level about 10 percent above that in effect before the imposition of austerity taxes on various imported goods. Imported items such as gasoline and kerosene, which were subjected to heavy new taxes, led the upsurge in prices along with domestically produced staples such as rice, sugar, and condensed milk, which are not covered by the new taxes. Saigon merchants used the new taxes as an excuse to raise the prices on all goods.

The government appears to have quieted some of the sharp criticism by the National Assembly about the method and timing of the taxes. Government representatives took advantage of a nationally televised, three-day interpellation of the prime minister and his economic minister by the Upper House to explain both to the legislators and the

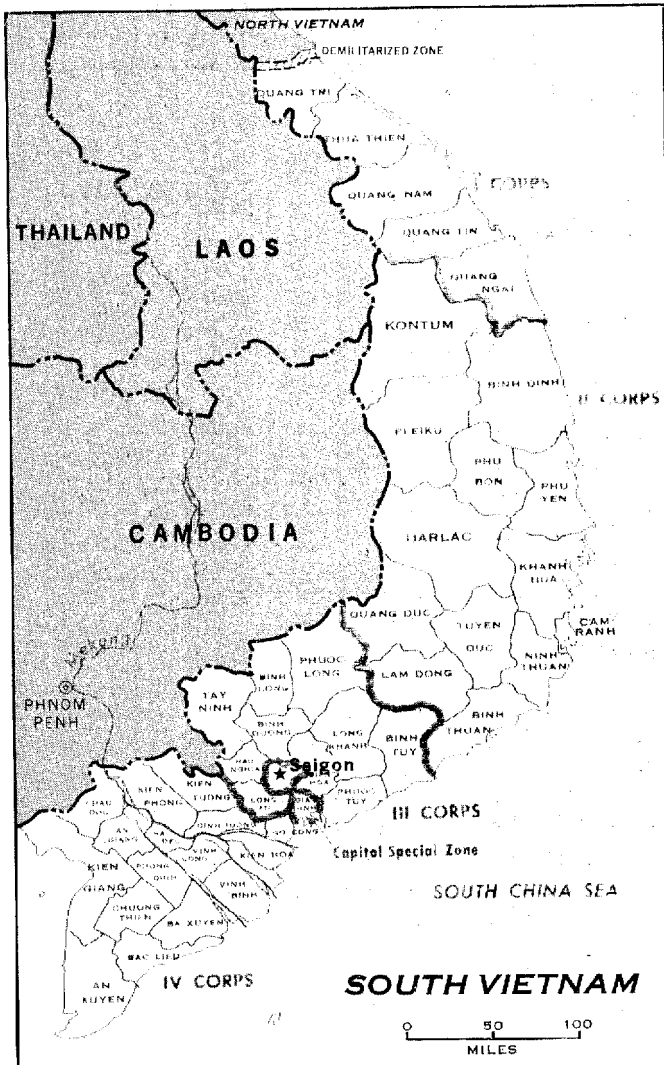
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public the need for increasing revenues as a measure to combat inflation. The ministers also expressed a willingness to reconsider, with the advice of the National Assembly, the new tax rates on certain of the commodities, such as kerosene, which the senators believed placed an undue hardship on the average Vietnamese.



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Military Developments

This year's winter-spring campaign was launched on 3 and 4 November with scattered shelling and limited ground attacks. Enemy action has been spotty, however, displaying characteristics quite different from past full-scale seasonal offensives. There is some evidence to suggest that the Communist campaign was launched early to coincide with President Nixon's policy speech on Vietnam. This has apparently aggravated their problems of inadequate reconnaissance and shortages of supplies and ammunition. The campaign has tapered off this week, but numerous signs point to further enemy actions in the near future.

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A shift in the enemy's timetable was also reported

the Central Office for South Vietnam (COSVN)--the supreme command authority for Communist forces in the South--had directed that the winter-spring campaign begin in early November, ahead of its original schedule. The purpose of the change purportedly was to take advantage of antiwar demonstrations in the US. According to the Communists believe that, with increased pressure on allied military forces and resultant higher American casualties, the US will eventually force the South Vietnamese Government to make concessions in Paris.

Meanwhile, evidence of an imminent step-up in hostilities

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to coincide with peace demonstrations in the US on 15 November continues to accumulate. A captured enemy document dated 27 October called for intensive attacks to support the antiwar protest in Washington. The directive urged the enemy forces to step up the killing of South Vietnamese officials in hamlets and villages in order gradually to break Saigon's administrative grip. Prisoners, defectors, and captured documents continue to reveal plans for stepped-up attacks, including sapper actions against Saigon, during November and December.

Although it is too early to ascertain the over-all direction and objectives of the enemy's current campaign, the Communists appear to be testing the Vietnamization program in several areas, especially in the Mekong Delta and in the central highlands. In recent days, they have directed their attacks in the delta against

South Vietnamese local and security forces involved in pacification efforts as well as against regular government military installations and forces. Thus far, the enemy current offensive thrust in the southern highlands has been in areas defended primarily by South Vietnamese ground troops.

In addition to the challenge to the South Vietnamese armed forces, the Communists may also hope to force a redeployment by US units to bolster threatened South Vietnamese forces in remote sectors of the country. Recently captured, high-level documents--including COSVN's Resolution 9 and a set of notes taken by a North Vietnamese general during interviews with Ho Chi Minh and other top brass in Hanoi last April--indicate that this will be one objective of Communist activity over the next few months. [REDACTED]

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SINO-SOVIET TALKS MAKE NO HEADWAY

The Sino-Soviet negotiations in Peking have entered their fourth week with no indication of even preliminary agreement. The Chinese, concerned over the Soviet military build-up on the border, appear to be pressing hard for a firm preliminary agreement on military disengagement in disputed areas in order to avert further conflicts. Such an accord would satisfy most of Peking's objectives in advance of the talks by demonstrating China's "reasonableness" and reducing the threat of Soviet military action--all without jeopardy to China's long-standing political and territorial claims against the USSR.

The Soviets apparently intend to press for a comprehensive settlement that would help remove the border issue from the list of fundamental Sino-Soviet differences. Moscow is fully aware of its present political and military advantage over China, and may be withholding agreement on a tactical military disengagement until a broader agreement on specific territorial issues is reached. The Soviets apparently also want to link any agreement on border problems with steps leading to some normalization of state relations.

Although the Soviets initially maintained an optimistic

public attitude regarding the talks, several Russian political journalists indicated last week to US officials that the Soviets were finding the going difficult in Peking. They speculated that the Chinese were using the talks to "gain time" and to lull the USSR with false hopes of normalized relations. A Soviet official [] has also suggested that pessimism exists in some Soviet diplomatic circles, primarily over the belief that the Chinese may insist on bringing in the "unequal treaties issue." Meanwhile, the Chinese have taken steps to publicize their version of the impasse. A Hong Kong Communist newspaper on 6 November attributed the lack of progress in Peking to Moscow's desire to negotiate from a position of strength and strongly reiterated the Chinese contention that an agreement to calm the frontier must precede negotiations on substantive issues.

Despite the initial deadlock, neither side has shown any desire to break off the talks and both are making serious efforts to continue negotiations. According to diplomatic sources in Peking, the top two members of each delegation are meeting privately in an effort to break the current deadlock. Moreover, each side continues to mute propaganda attacks against the other, and some limited progress has been

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made toward establishing more cordial diplomatic relations. Soviet President Podgorny, speaking last week at a meeting celebrating the 52nd anniversary of the Russian revolution, expressed the hope that the talks would help to normalize relations between the two countries. The Chinese sent unusually warm anniversary greet-

ings to the Soviets this year, and high-ranking Chinese officials, including the head of the Chinese delegation to the Peking talks, attended the Soviet Embassy anniversary reception in Peking for the first time since the start of the Cultural Revolution.

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EUROPE

President Podgorny's speech on the 52nd anniversary of the Russian revolution last week was a fair summary of the topics now commanding Moscow's attention. The extensive coverage devoted to the subject mirrors the leadership's general chagrin with the slow rate of progress of the Soviet economy. Podgorny saw hope in the opening of the strategic arms limitation talks for the advance of US-Soviet relations, but sought to discount any idea that Moscow would be dealing from weakness. He especially commended relations with France and alleged European interest in the Soviet-proposed European security conference. He made only brief, hopeful comments on the future of Sino-Soviet relations.

The Husak leadership in Czechoslovakia has accelerated its crackdown on the alienated intelligentsia and youth. The mass media are now engaging in self-criticism, and the leadership has further isolated recalcitrant writers and artists by expelling them from the Communist Party and withdrawing financial support. The authorities have issued stern warnings and alerted some security units to discourage disturbances by students, who have demonstrated nationally in November during the last two years.

In Bonn, the Bundestag debated the nuclear nonproliferation treaty, the cabinet will meet on the question on 20 November, and signature of the treaty is likely shortly thereafter.

The European Communities (EC) took an important step toward a common commercial policy when the Council of Ministers authorized the Commission to begin exploratory talks with Japan on a possible EC-Japan trade agreement. Prospects for accession negotiations between Britain and the EC have brightened somewhat as preparations proceed for the EC summit conference on 1 and 2 December. France still insists on prior settlement of the agricultural financing issue, but working-level agreement has been reached on some of the more important conditions Britain would have to satisfy.

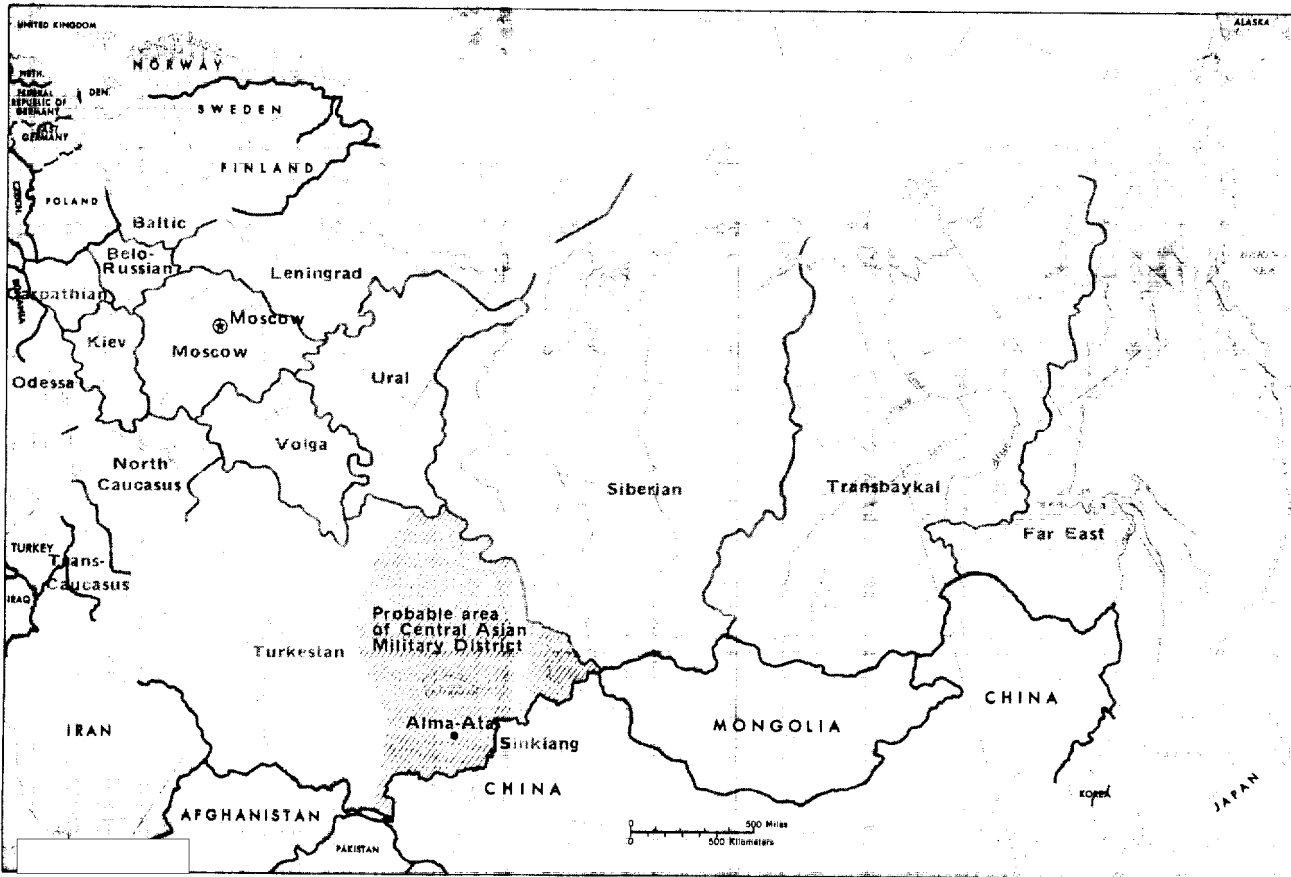
In the UN there is increasing uncertainty that this session of the General Assembly will endorse the US-Soviet draft seabeds treaty. Criticism will probably focus on the treaty's verification procedures, which many nations feel will allow the superpowers to exploit resources on the continental shelves of other nations under the guise of verification activities. The General Assembly this week again voted to reject seating Peking and expelling Taiwan from the UN. The only significant voting switch was the abstention of Chile. Chile and Cuba are the only Latin American countries not supporting Taiwan.

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Soviets Establish New Military District On Chinese Border



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SOVIETS ESTABLISH NEW MILITARY DISTRICT ON CHINA BORDER

The Soviets have taken another step to improve the control of forces facing China with the recent establishment of a new military district in Central Asia.

The district is opposite China's Sinkiang Province. It probably was formed from the eastern half of the Turkestan Military District and most likely has its headquarters at Alma Ata. Civil radio and press reports from Alma Ata last week contained the first reference to the "Central Asian Military District" and identified the commander as General of the Army N. G. Lyashchenko. Lya-

shchenko previously was commander of the Turkestan Military District.

The Soviets had a Central Asian Military District opposite Sinkiang up until 1945, but it is not known if the new district covers the same area. The Sinkiang border area was the scene of several clashes this summer. The Soviets have been strengthening their forces along the entire Sino-Soviet border and in Mongolia over the past four years. The new district almost certainly is related to the continuing military build-up in the Sinkiang area of the border.

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ECONOMIC PROBLEMS BESET SOVIET LEADERS

President Nikolay Podgorny's sober survey of Soviet economic conditions set forth in his speech on the anniversary of the Revolution makes clear that economic problems are a growing concern to Soviet leaders. As the deadlines for the next annual and five-year plans approach, they may feel hard pressed to decide on some politically difficult solutions.

Although Podgorny tried to emphasize the indices of success, his remarks touched several economic sore points. He admitted that living standards are not rising "as fast as all of us would like." Linking the problem to the level of labor productivity, he said, "We cannot but be worried" by the failure of productivity to increase as fast as expected.

Podgorny drew attention to the effect of poor weather on the harvest and said that this year's results "in general are not bad." His remark that society expects better results from the agriculture sector, however, betrayed some impatience with the slow pay-off from agricultural investments. He also noted "serious shortcomings" in the construction industry. Again he suggested that, in the light of recent party and government decrees on the subject, the burden for improvement rests with the construction workers.

During the past six months other leaders have referred to economic problems and the demands on economic resources. Party chief Brezhnev, at the International Communist Conference in

Moscow in June, and politburo member Shelepin, at the WFTU Congress in Prague in October, noted that the housing problem "remains acute" and that consumer demand has not been fully met. The reason, they said, was the need to allocate resources to meet defense demands.

A measure of the economic slowdown is the probability that the growth rate of industrial production this year will be the lowest since World War II. Podgorny made no claims of success for the economic reform now nearing completion and said it needed further improvement. As the time for establishing the next annual and five-year plans draws near, Soviet leaders may feel more urgency about finding new means of maintaining or accelerating the rates of growth achieved during 1965-68. The leadership, however, is likely to be divided over adopting basic solutions.

Some officials, for example, probably see the answer in a more traditional concentration on investment at the expense of consumption. Last month a Gosplan official argued that the workers' share of the gains from increased productivity should be cut and the share going to investment enlarged in order to hasten economic growth. An "austerity" program, however, would mark a break with the regime's more recent policy favoring worker welfare. Decisions genuinely to reform aspects of the economic system, such as planning, pricing, and administration, would be even harder to achieve.

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WARSAW PACT PRESSES INITIATIVE ON EUROPEAN SECURITY

Moscow, which is masterminding the push for a European security conference, is pressing hard in behalf of the Warsaw Pact's recent initiative at Prague. An Embassy Prague source believes that the Warsaw Pact countries will schedule a summit meeting for December to consider NATO's position on the matter. Moscow looks upon the conference as the most feasible approach for attaining tranquility on its western flank at a time when its eastern flank is troubled. Although Moscow regards the conference principally as a contribution to its objectives of a permanently divided Germany and pliant East European allies, the East European governments see benefits for themselves in any progress toward detente.

Commenting on the NATO deputy foreign ministers' meeting of 5-6 November, Pravda claimed success for the Warsaw Pact in moving the Atlantic community to accept a security conference in principle. At the same time, it accused NATO of deliberate procrastination by not accepting the Pact's proposal to hold a conference next year.

To impress on the West that the invasion of Czechoslovakia is a dead issue, Moscow is giving the Czechoslovaks a prominent role in delivering to some European countries additional documents from the Prague meeting elaborating on the two agenda items proposed for the conference.

While the Soviets no doubt are trying to take the limelight

away from NATO at every opportunity, their deeper strategy is to win support for the conference from Western Europe. If the NATO ministerial meeting next month charges that the Warsaw Pact's agenda proposals avoid meaningful issues, the Soviets are likely to say that this is mere subterfuge and contrary to what is meaningful for Europe's, as distinct from NATO's, interests. The Soviets probably judge--too optimistically--that a conference that would concede the status quo has some appeal in Western Europe.

Most of the East European governments are genuinely in favor of the call for a European security conference. They believe their security would be enhanced by formal Western recognition of the status quo in Europe, and that implicit international recognition of East Germany would reduce dangerous tension. Each of them regards the Prague declaration differently, however, and each will exploit the potential opening to the West in terms of its own national interests.

Poland and Romania both interpret Moscow's go-ahead for individual initiatives on European security as a green light to pursue their own contacts with the West. The Poles will use the Prague declaration as an umbrella under which they can pursue their dialogue with Bonn.

Romania intends to use the Pact's endorsement of bilateral East-West contacts to justify its evasion of coordination by the

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Pact of the policies of East European countries toward the West. Even Bulgaria, Moscow's Balkan patron, is using the occasion to promote its Balkan "good neighbor policy" and to make a pitch for better relations with Yugoslavia and Albania.

Czechoslovakia, the reluctant host for the Pact's meeting on European security, is in no position to exploit the declaration or to take unilateral initiatives. Prague, however, looks forward to improved commercial ties with

Western Europe, especially with West Germany. Similarly, Hungary, in an exposed position as the most liberal Pact country, will not go beyond carefully exploiting new contacts with the West should the situation prove favorable.

Apprehension over the conference has been noted in Pankow. East German Foreign Minister Otto Winzer voiced approval for the Prague proposals, but subsequent statements from East Germany clearly reveal fear that its interests could suffer.

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EAST GERMANY MAKING MAXIMUM DEMANDS ON BONN

East German officials have reiterated that normalization of relations between the two German states is dependent upon Bonn's recognition of East Germany's sovereignty, but Pankow apparently is leaving itself room to maneuver.

On 12 November, Premier Willi Stoph stated that Pankow is prepared to negotiate as an equal with Bonn concerning the "establishment of internationally valid relations." He stressed that "normal" relations are possible only if Bonn recognizes East Germany. As have other East German officials, Stoph refrained from insisting that Bonn's recognition of Pankow is a precondition for discussion of other topics. Using the now-standard East German line, he noted approvingly that Brandt's statement concerning the existence of two Germanies was a step in the right direction, but added that Pankow will judge the Bonn government by its deeds. Stoph, moreover, seemed to be inviting an initiative from the West Germans for negotiations, and his

remark that Bonn must show a willingness to "respect," rather than "recognize," existing frontiers suggests that Pankow might be willing to compromise on this particular issue.

Other commentaries, including an editorial in the authoritative Neues Deutschland on 9 November, have also carried the demand for recognition, but have noted that the "political landscape" in West Germany has changed for the better. Neues Deutschland found that Brandt's policy address on 28 October contained some "new accents," and welcomed his remarks concerning the non-proliferation treaty, a European security conference, and the existence of two German states.

The East German statements on recognition represent Pankow's maximum demands. The careful manner in which the East Germans have commented on the new government indicates that Pankow has yet to make its final public statement on East-West German relations.

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The East Germans, however, have conducted private, informal talks with West German officials about a future meeting of top government leaders. It is not yet clear, however, whether the East Germans intend to go through with such talks; their public posture obviously allows them to back out. One major concern of Pankow appears to be the impact such negotiations might have on the East German populace.

Chancellor Brandt and Foreign Minister Scheel stand ready

to open discussions with the East Germans, but, it is clear that Bonn is not ready to extend diplomatic recognition to East Germany. Government aides are careful to point out that Bonn first desires progress in inter-German affairs before it will relax its opposition to third country recognition of Pankow. Government opponents, however, say that by conceding the existence of a second German state, Brandt has virtually invited such recognition. [REDACTED]

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FREE-MARKET GOLD PRICES DECLINE SHARPLY

The continuing decline in free-market gold prices could result in pressure on the US and South Africa to agree on a formula under which some of Pretoria's gold production could be sold overtly to the official tier of the US-backed two-tier gold market system. Under this system, gold is traded among monetary authorities at \$35 per ounce, while private transactions take place at fluctuating prices set by supply and demand.

Western Europe may apply pressure if the decline appears to place the \$35-per-ounce value of monetary gold in jeopardy. At the same time, South Africa will find it less objectionable to come to an agreement now that its potential for profitable free-market sales in high volume is seriously reduced.

The deterioration in the balance of payments position of South Africa, the world's largest

gold producer, has resulted in substantial free-market sales since early March, causing the initial ebb in price from its peak at that time. Much of the impetus for the present decline, however, came after the Swiss Credit Bank decided that gold was overpriced at the \$42-to-\$44 level, and sold all its gold on the London market. This impetus was reinforced by substantial East European and private West German sales.

Potential gold purchasers are holding back because of the new-found stability in international money markets following the recent West German revaluation. Demand for gold also is limited by the present generally conservative purchasing policy of bullion dealers, and the high interest rates obtainable on alternative investments in Euro-dollars and other financial assets. [REDACTED]

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NATO CONSIDERS SECURITY AND ENVIRONMENTAL PROBLEMS

The North Atlantic Council has turned a cold shoulder to the Warsaw Pact's bid for an early European security conference but may respond in December with alternative proposals for East-West negotiations.

Last week's long-planned special council session of the NATO deputy foreign ministers was the result of a suggestion made last April by President Nixon for improved consultations within the Alliance. As a prelude to next month's meeting of the NATO foreign ministers, the chief topics were Allied progress in developing a list of issues for eventual negotiation with the East and plans for NATO's newly chartered Committee on the Challenges of Modern Society.

The emphasis of these discussions fell more on East-West issues, however, as a result of the Warsaw Pact call for a security conference in Helsinki during the first half of 1970. Although the Brussels meeting issued no communiqué, the deputy ministers generally agreed that the appeal was designed to blur the memory of Soviet intervention in Czechoslovakia, to gain recognition of East Germany at the conference table, and to solidify the status quo in Europe. Most saw it as a thinly veiled propaganda ploy that failed to include either substantive issues for negotiation or the participation of the North American Allies.

Nearly all the ministers agreed, however, that NATO could

not afford to ignore the Communist offer. Differing viewpoints were expressed about the kind of response the Allies should make, but a consensus seemed to emerge that NATO should attempt to seize the initiative by including a counterproposal for talks on concrete issues in its ministerial communiqué in December.

The intent would be to demonstrate the earnest desire of the West to settle major security problems, the careful preparation NATO has already made for East-West negotiations, and the unsubstantial nature of the Warsaw Pact proposals. At the conclusion of the meetings last week it appeared that a proposal to discuss a balanced reduction of opposing conventional forces in Europe was the most likely subject to be included in the prospective NATO rejoinder to the East.

The decision to create the Committee on the Challenges of Modern Society (CCMS) was ratified by the deputy ministers, most of whom made unexpectedly enthusiastic statements of support for the new NATO project. Many admitted the initial skepticism within their governments about the propriety of the Alliance's involvement with environmental problems, but said this has now turned to wholehearted endorsement. Secretary General Brosio called on all members to submit their proposals for CCMS projects in preparation for the first committee meeting on 8 December.

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HUNGARY PROCEEDING CAUTIOUSLY WITH ECONOMIC REFORMS

Party chief Kadar's recent trip to the provinces, where attitudes toward the economic reform program are at best lukewarm, probably was an attempt to bolster implementation of the program.

The Hungarian government, in view of Czechoslovakia's recent experience, will continue to carry out its reforms discreetly and with minimal publicity to avoid antagonizing the USSR. Soviet and Hungarian experts meet periodically for "consultations" on the program.

The reform measures adopted during 1969 were not expected to solve all basic economic problems immediately. This year, in fact, the rate of increase in industrial production has slowed, labor productivity has declined, and the demand for investments continues to outrun construction capacity. In addition, the government believes that enterprises have been slow to implement reforms in prices and in labor practices.

In order to overcome these problems, changes in the reform program soon will be introduced. These include a modification of the bonus system, a reduction of state subsidies, and the introduction of a more rational use of manpower.

On the other hand, added incentives such as tax rebates seem to have partially encouraged the 32-percent increase in exports to Western countries achieved in the first nine months of 1969. The government has indicated that it will continue to take international market factors into account in planning investments.

The direction to be taken by the economic reform program may be clearer following the sessions of the party central committee and of the Parliament scheduled for December. At that time regime leaders probably will have to speak out on reforms. In general, Kadar appears to support Reszo Neyers, the major architect of the reform, and his group. Although some politburo members, including Antal Apro, Hungary's representative to CEMA, have misgivings, no major personnel or policy shifts that would enhance the position of reform opponents appear imminent.

Hungary's economic reform program, the most progressive among CEMA countries, is expected to continue, but modifications in response to either Hungarian domestic requirements or Soviet pressures will be introduced as necessary.

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ITALY TO WORK FOR NEW CENTER-LEFT GOVERNMENT

The election of Arnaldo Forlani as party secretary by an almost unanimous vote of the Christian Democratic National Council has demonstrated the party's desire to reconstitute a four-party, center-left government and to continue Premier Rumor's one-party minority cabinet while the expected lengthy negotiations take place.

Rumor told the US ambassador that he and Forlani would shortly start the long and difficult process of negotiations with the Socialists (PSI), the Unitary Socialists (PSU), and the Republicans. He said that he and a majority of his party will put their entire effort into rebuilding a four-party center left. He will not consider what to do in case of failure until that bridge has to be crossed.

Rumor indicated that there is still disagreement as to whether

the center-left government should be reconstituted prior to administrative elections next spring or be delayed until afterwards, but he personally favors prior action.

Meanwhile, the Rumor government has moved to intervene in labor-management negotiations, which are stalled in major industrial sectors. Labor Minister Donat-Cattin has stepped in as mediator in the pace-setting metal-working industry. To be effective, the government's intervention must involve new approaches to the basic problems that have stalled negotiations and brought on strikes and demonstrations.

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MIDDLE EAST - AFRICA

India's Prime Minister Gandhi received an overwhelming vote of confidence from the Congress Party's parliamentary representatives after being "expelled" from the party by her opponents in congress' elite working committee. Although she will need help from independents and opposition parties, she is expected to be reaffirmed as prime minister when Parliament convenes next Monday. The party's old guard shows no sign of backing down, but Mrs. Gandhi has enough support to inherit control of the larger of the two apparently imminent Congress Party factions. Stability in India has been built around one-party rule, however, and Mrs. Gandhi's need to accommodate the special interests of her new supporters would make it more difficult to maintain a political equilibrium in the future.

Action along the Arab-Israeli cease-fire lines increased somewhat during the past week. Egypt lost three fighter aircraft in an air engagement over the Suez Canal on 11 November. A few days earlier, an Egyptian naval force shelled Israeli positions in the Sinai but caused little damage. If Egypt continues to step up its naval activity, however, Israel is likely to retaliate strongly.

In Nigeria, the Biafrans have carried out more air attacks on federal targets. One of these was aimed at a Gulf Oil installation, but caused no damage. The secessionists have received two T-6 aircraft that have a longer range than the Swedish trainers they have been using and could strike as far as Lagos. No significant developments occurred in the ground war.

Congo (Brazzaville) security forces thwarted a coup plot late last week, arresting some 30 plotters and confiscating a large cache of "NATO arms." President Ngouabi publicly accused neighboring Congo (Kinshasa) of having armed and financed the plotters. He has also announced sweeping administrative and military changes, which, if effected, will probably only further weaken his already beleaguered regime.

Turkey's President Sunay arrived in Moscow on 12 November for what has been termed a protocol visit; he is the first Turkish chief of state to visit the USSR. Before leaving Turkey, he signed the controversial amnesty bill that affects some 500 former political prisoners, but the bill may yet be challenged in court. Meanwhile, the new Demirel government received the necessary postelection vote of confidence.

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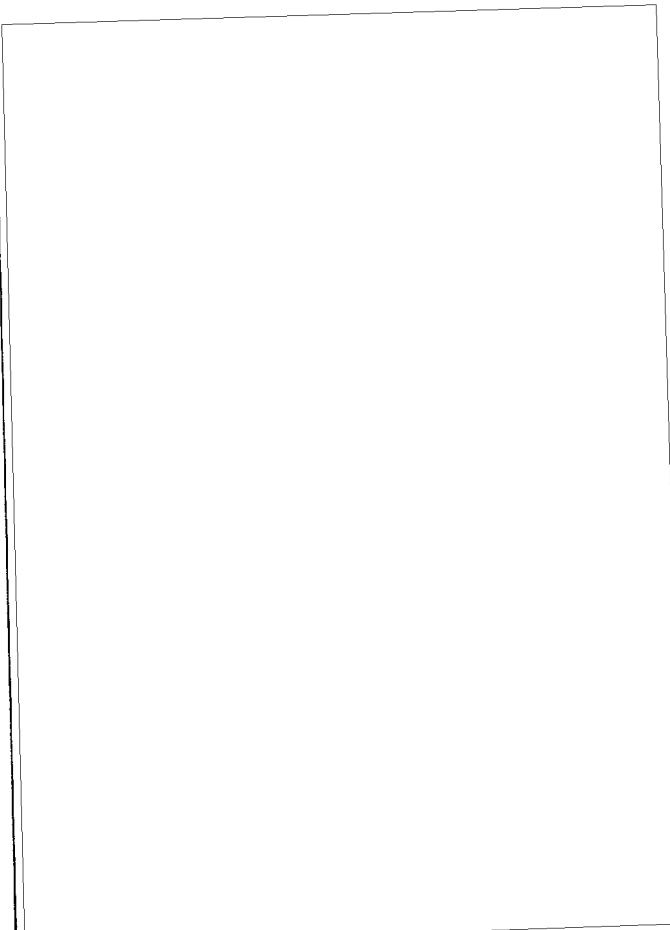
NASIR SPEAKS PESSIMISTICALLY OF MIDDLE EAST SITUATION

President Nasir's speech on 6 November to the opening session of the National Assembly was probably his most hawkish since the June 1967 war. Adhering almost solely to the theme of the battle with Israel, he repeated his declaration that "what has been taken by force can only be regained by force." Nasir then called upon all Arabs to forgo fighting among themselves in order to concentrate on the struggle with Israel, and sounded anew his call for an Arab summit meeting.

The Egyptian leader spoke in the past tense of the chances for a political settlement of the Middle East impasse, and his address clearly indicated that he sees little hope for a peaceful solution to the problem. Egypt's public line, therefore, will continue to be harsh, both as an indication of genuine pessimism and as a means of putting pressure on Tel Aviv. Cairo, however, will probably continue to cooperate with the efforts of the big powers and the UN to find the basis for a political settlement.

Nasir's remarks named the USSR as a friend of the Arabs and the US as their enemy. In a brief attack against the US for its support of Israel, he echoed charges prevalent in the Middle East that US military personnel are fighting with Israeli forces.

Nasir's pronouncements set the stage for the Joint Arab Defense Council meetings that were held in Cairo last weekend. The public announcements by the council repeated many of Nasir's remarks and responded to his call for an Arab summit by scheduling one for mid-December in Morocco.



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OUTLOOK GLOOMY FOR TROUBLED PAKISTAN

Although a major confrontation has thus far been avoided, civil unrest continues, particularly in East Pakistan. President Yahya Khan may soon try to resolve the political impasse and to quiet dissent by announcing a specific timetable for returning the country to civilian rule.

The sporadic disturbances of the past few months have damaged the government's image somewhat. Martial law officials, who want to strike a balance between permissiveness and authoritarianism, have been divided on how to handle challenges to their authority.

The East Pakistani student disorders of late summer and early autumn, which provided the first real test for the regime, have diminished recently. The lull probably results from infighting among rival student groups and a series of holidays that have kept the schools closed for a number of weeks. Turmoil can be expected again when classes resume next year.

Labor difficulties have picked up, however, with jute and textile mills hardest hit by strikes and lockouts. In East Pakistan, a breakdown in one set of labor-management negotiations eventually forced martial law officials to step in and refer the

dispute to the courts. Enterprises in West Pakistan are also being affected by increasing unrest. Businessmen throughout the country report a drop in productivity and predict a further deterioration of the situation unless the regime intervenes forcefully.

Meanwhile, government attempts to prepare voter rolls in East Pakistan have sparked communal violence between Urdu-speaking refugees and native Bengalis. The handling of the clash has exacerbated regional tensions by producing a confrontation between the military--largely from West Pakistan--and East Pakistani civilian officials. Order has been restored, but the potential for further disturbances remains high.

A regime proposal for solving the country's continuing political stalemate may be revealed this month. President Yahya reportedly plans to call for election of a constituent assembly when electoral rolls are completed, hopefully in July 1970. This assembly would have three months to formulate a constitution, after which parliamentary elections would be held. The martial law government would then relinquish control to civilians, but not before September 1970. What would happen if the assembly failed to produce a constitution has not been projected, but Yahya might try to impose one of his own.

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DAHOMY AGAIN THREATENED BY DIVIDED MILITARY

Evidence of growing unrest and division in the military underscores the fragile nature of the government of President Emile Zinsou, which remains heavily dependent upon the army that installed it 16 months ago.

Much of the unrest focuses on Lt. Col. Kouandete, the widely hated army chief of staff, who has survived three bungling assassination attempts in the past four months. Kouandete, with some help from Zinsou, has maintained his key position largely by undoing the career of former president Alley, who was also Kouandete's predecessor as army commander. Alley's indecisive response to Kouandete's maneuvering has cost him much of the support he had in the army, but die-hard backers of the former army commander remain incensed over the ten-year jail sentence he received in October for allegedly plotting to murder Kouandete last July.

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Dissatisfaction is also increasing among the troops over corruption in the government and the lack of professionalism in the armed forces.

Civilian discontent has been subdued during recent months, but little has been done to amelio-

rate the causes of student and labor strikes that nearly toppled the government last spring. Kouandete is widely considered responsible for the harsh repression of those strikes, and both students and workers remain potentially explosive forces that could be exploited by disaffected military elements.

There is also growing evidence of a split between Kouandete and President Zinsou. An advocate of stern measures against government critics, Kouandete periodically becomes angered at the President's failure to take decisive action against dissenters. The army commander also blames Zinsou for the relatively light sentences given to those convicted of plotting with Alley last July,

[Redacted]

Zinsou, whose preference is for political action over military force, is probably aware of the problems that Kouandete is creating, but he cannot move against the ambitious army commander without seriously endangering his own position. Even so, it seems certain that there will be further assassination attempts on Kouandete, who is now probably the most unpopular man in Dahomey. Should one of them succeed, Zinsou himself could be swept from office in a subsequent struggle among competing army factions.

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WESTERN HEMISPHERE

Soviet Defense Minister Andrei Grechko along with a high-level delegation has arrived in Cuba on an official visit. The purpose of the trip has not been announced, but it appears intended to strengthen the already warm relations between the two countries. The visit, which is expected to last about a week, may include discussions of military assistance.

Leftist groups in Peru have embarked on a campaign against the government's proposed contract with the US-owned Southern Peru Copper Company. President Velasco announced two weeks ago that agreement on an investment contract had been reached with the company, but so far opposition from leftists in his cabinet has prevented signing of the contract. Velasco appears to be working hard to obtain cabinet unanimity on the matter. Signing of the contract would go far toward restoring investor confidence in Peru.

In Paraguay, the Catholic Church's determination to involve itself more fully in social welfare and justice programs is causing a growing conflict between the church hierarchy and the Stroessner government. A melee last month between the police and student demonstrators aided by sympathetic priests resulted in the expulsion of a Spanish Jesuit and the excommunication of several government officials. Recriminations from both sides are continuing.

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MILITARY DISSENSION INCREASING IN BOLIVIA

Military opposition to the Ovando government appears to be increasing among those who believe that nationalism and the trend toward the left have gone too far and those who believe that President Ovando is too timid to carry out the "revolution" successfully. Maneuvering for position within the government by the contending factions will probably become more intense as the time approaches for the annual military promotions and reassignments to be made at the end of the year. Meanwhile, reports of possible cabinet changes are beginning to make the rounds.

The government, meanwhile, is continuing its efforts to find something to do with the oil it nationalized. In what Minister of Mines Quiroga termed a "gesture of revolutionary solidarity," the Peruvians offered to transport Bolivian crude oil "anywhere in the world that Bolivia chooses." This offer was given wide coverage in the Bolivian press, but as yet Bolivia has no customers for the oil from Gulf's holdings. Various teams have been sent abroad to search for other markets, but there have been no reports of success.

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Minister of Labor Mario Rolon Anaya, who has taken it upon himself to act as the government's channel of contact with the US Embassy, apparently believes that these efforts are destined for failure. He recently told the US chargé that if Bolivia was unable to reach a reasonable settlement with the Gulf Oil Company, the government would "collapse into chaos" within three months. Indicating that the President agreed with his statements, Rolon said that any agreement with

Gulf would have to include Bolivian crude as the means of payment of compensation, but that Gulf was in a good position to name its price. He also stated that the government was interested in restoring confidence among private investors and that there would be no further nationalizations of US companies. It is probable that Rolon Anaya would like to play a major role in bringing some stability to Bolivia, but it is highly questionable that he can deliver on any of his promises.

ECONOMIC NATIONALISM GROWING IN BAHAMAS

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Growing economic nationalism, which has already unsettled the predominantly US-owned investment community, is likely to become a permanent facet of the Bahamian political scene.

In a recent policy statement Prime Minister Pindling said that "foreign interests" must live up to their agreements with the government and share their wealth. Over the past few months government spokesmen have increasingly voiced the theme of "Bahama for the Bahamians," and have stated that the important Freeport business community, which is largely US- and British-owned, has abused the privileges granted them by failing to employ and train Bahamians. In an effort to force greater compliance with these agreements Deputy Prime Minister Arthur Hanna has rigidly restricted the issuance of work permits and sharply reduced the flow of skilled immigrant labor that is vital to Freeport businesses.

Also acting as a stimulant for increasing nationalism is the growing concern among Bahamians over the large expatriate community. More than 72,000 of the 250,000 estimated population are foreigners. This plays on Bahamian fears that natives may soon become a minority in their own country.

The prime minister is apparently not ready to embark on any radical course of action. He will probably insist on greater government participation in the affairs of Freeport. Although Pindling has stated many times that he will not "kill the goose that lays the golden eggs" (the Freeport community contributes about 25 percent of total government revenue), he does feel entitled to a greater share of the profits.

Pindling visited the US this week in an effort to bolster flagging investor confidence, but an early improvement in the situation appears dim.

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COLOMBIA FAILS TO CHOOSE PRESIDENTIAL CANDIDATE

The failure of last week's party conventions to choose a National Front candidate for next year's presidential elections has touched off a political imbroglio.

Factionalism, bickering, and a proliferation of candidates resulted in a complete stalemate between President Lleras' hand-picked successor Misael Pastrana and dark-horse candidate Evaristo Sourdis. Both polled 278 votes at the Conservative Party convention. Under the 12-year-old National Front agreement, it is the Conservatives' turn to name a successor to Lleras, a Liberal. Belisario Betancur, a maverick Conservative candidate chosen by a "popular" convention, has further split the party's ranks.

The deadlock resulted from a breakdown of the frail union between the leaders of the two main Conservative factions. The leader of the smaller successfully blocked Pastrana by joining several pre-candidates under Sourdis' banner. This move has challenged the predominance of former president Ospina, leader of the larger faction, and his family as Conservative leaders in the future.

The Liberals, who are also suffering from splits within their ranks, refused a request that they

choose the Conservative who would be the National Front candidate. They insisted on first consulting with Conservative leaders, and the choice of candidates now is wide open.

Pastrana, although beaten down and apparently rejected, is not necessarily finished. His failure to prevent a proliferation of candidates or at least to neutralize or win them over before the convention brings his political astuteness into question, however. Other possible nominees include Betancur and former president Valencia, who, despite his mediocre record during his term from 1962 to 1966, has the probable virtue of being acceptable to factions of both parties. Former president Ospina, now 78 years old, claims not to be interested in the presidency, but he cannot be dismissed altogether.

Although the parties probably will ultimately settle on a mutually satisfactory candidate, two weeks or a month of intense political activity can be expected. Most politicians agree that if they do not get together, the national front system of government, which terminates in 1974 unless renewed, may come to a premature end and could result in further political disintegration.

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HONDURAS - EL SALVADOR SITUATION REMAINS TENSE

An improved climate for an eventual constructive bilateral exchange between Honduras and El Salvador evolved from a cordial conference of the five Central American

foreign ministers last weekend. The pace of diplomatic progress, however, is too slow to offset domestic pressures that may lead both governments to adopt potentially harmful expedients.

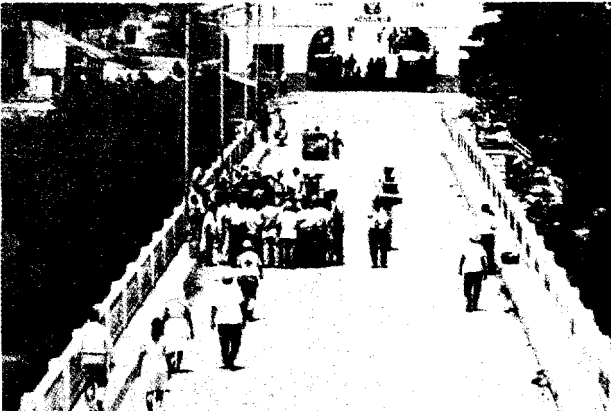
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The productiveness of the ministerial meeting apparently was related exclusively to common market problems. Pacification of the area was only vaguely addressed. Neither belligerent would discuss the topic most pressing to the other and each continues to find the concessions necessary for peace politically infeasible. Honduras needs a commitment from El Salvador that it will move toward defining the disputed boundary, and El Salvador needs the reopening of the Pan-American highway, which Honduras has blocked to Salvadoran goods.

The Sanchez administration in El Salvador continues to suffer a hawk-dove division that restricts its freedom to be forthcoming in the negotiating councils. The arms build-up has not yet satisfied the appetite of the hawks, and further arms purchases are likely. There is also pressure from the armed forces for the ouster of Minister of Defense Torres, whom they consider a dove.

Domestic problems were further complicated last week when a reformist bloc of legislators unexpectedly



Salvadoran Refugees Leaving Honduras

ousted the assembly leadership. The new assembly coalition plans to pass a series of controversial laws that are unpalatable to the Salvadoran oligarchy and therefore bound to set off destabilizing political maneuvers. Although the legislative coup was divorced from the conflict with Honduras, the government is sensitive to the appearance of a divided administration and finds itself even less able than before to make apparent concessions to Honduras.

In Honduras, the public has been unnerved by widespread rumors of an impending Salvadoran invasion, and the government reportedly "has information" that an armed attack might come this weekend. The Honduran Army has moved troops toward the border and has taken other precautions for defense readiness. Public outrage against the OAS and the United States is still growing, and may soon be directed against US investment. An orchestrated anti-US press campaign is already well under way

Meanwhile, the problem of displaced persons and refugees continues to grow. Salvadorans and their families are moving from Honduras to El Salvador at the rate of 300 daily, with the total to date estimated at 65,000. El Salvador is now asking for OAS assistance for a rehabilitation program for the repatriates. Honduran cities also are beginning to feel the effects of an influx of persons fleeing the border areas, and are experiencing a rise in crime and other public safety difficulties.

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