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DIRECTORATE OF  
INTELLIGENCE

# *WEEKLY SUMMARY*

State Dept. review completed

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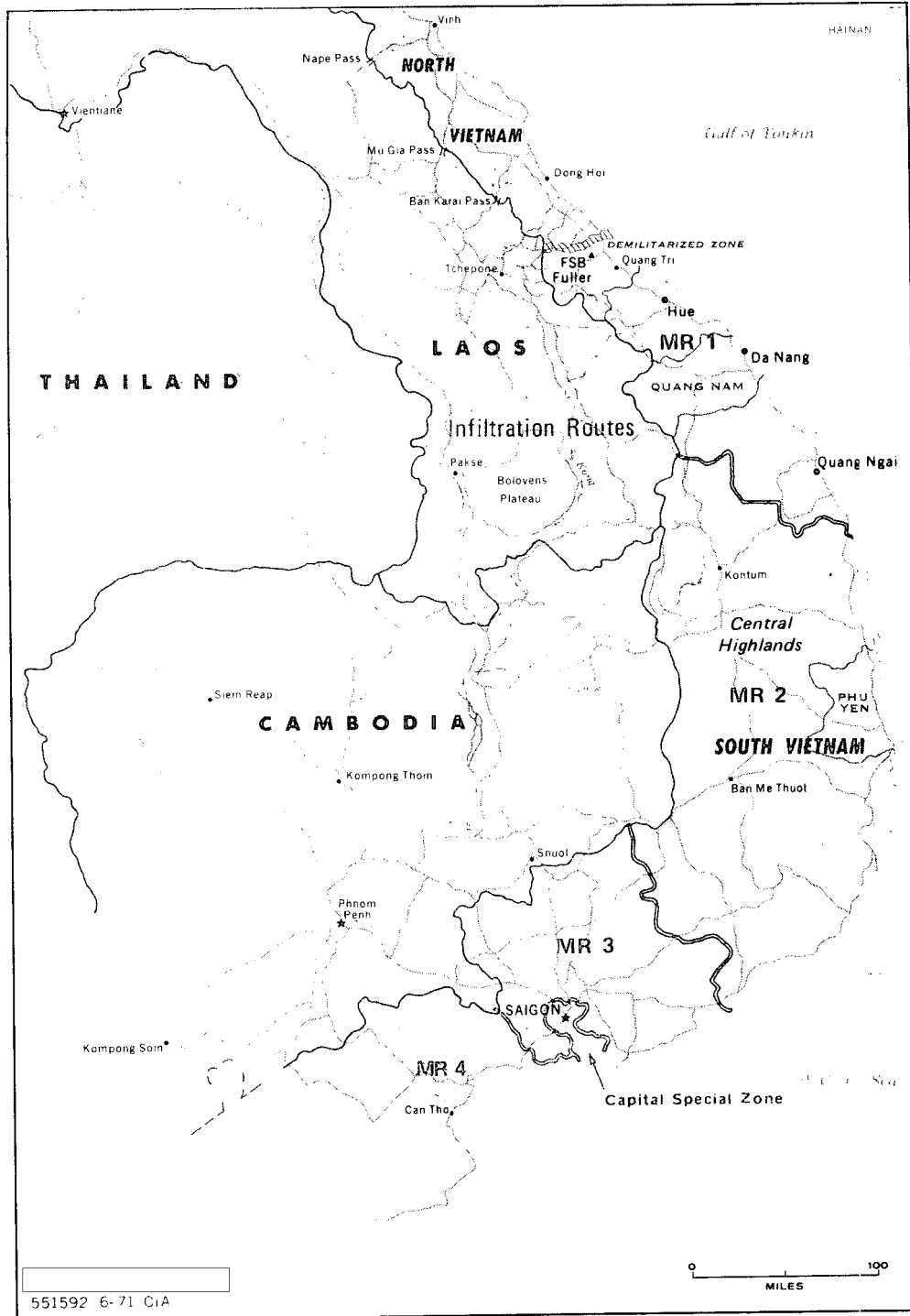
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## FAR EAST

*Indochina: MR 1—The Enemy's Summer Target*

It is becoming increasingly clear that during the summer the Communists will be concentrating their military efforts in South Vietnam in the northern half of the country particularly in Quang Tri Province just below the DMZ. Recent reinforcement of the northernmost provinces has raised enemy strength there to some 30,000 combat troops in 14 infantry and artillery regiments. Elements of ten of these regiments are in Quang Tri Province. During the week, the North Vietnamese overran Fire Support Base Fuller, one of their prime targets along the DMZ, after carrying out shelling attacks and ground probes against the base for several days in a row. Other points hit included an ammunition dump near the Quang Tri provincial capital and encampments of both US and South Vietnamese troops. South Vietnamese Marines operating in the central and western parts of the province encountered stiff resistance as they tried to intercept the men and supplies that have been moving toward the coastal lowlands where most of the allied military targets are located.

The June phase of the Communists' summer campaign, which got under way last weekend, was heavier in the northern provinces than in the rest of the country. Most of the attacks took the form of shellings; the provincial capitals of Hue, Da Nang, and Quang Ngai were struck with large-caliber rocketfire. The most significant ground attack farther south occurred in Phu Yen Province, where a Viet Cong local-force battalion assaulted a Regional Force headquarters. The South Vietnamese repelled the attackers, who left 87 bodies, including that of the battalion commander, and some 40 weapons on the battlefield. The bodies of another 101 killed by air strikes were discovered in a subsequent sweep of the area.

*Ky's Campaign Arouses Controversy*

Vice President Ky's campaign activities and the government's reaction to them are contrib-

uting to a growing atmosphere of divisiveness in Saigon. Last week the government confiscated issues of 15 of Saigon's 30-odd daily newspapers for reporting statements by Ky that it said were "harmful to national security and the fighting spirit of the armed forces." The statements apparently were made during speeches by the vice president to his political supporters.

Ky's attacks on the government are among his strongest yet, and his position as vice president adds credibility to some of his charges about corrupt government practices. On the other hand, Ky's penchant for flamboyance and the general belief that he, too, has been involved in some questionable actions probably have offset the impact of his attacks. The vice president's latest statements do indicate, however, that he will continue to provoke President Thieu into taking actions that will be politically embarrassing.

*Le Duc Tho Returns to Paris*

Hanoi's senior negotiator at the Paris talks, politburo member Le Duc Tho, returned to Paris this week after an absence of over a year. This comes at a time when the North Vietnamese are most unlikely to believe there is any hope of nudging the talks forward in some meaningful way. Tho's return might be part of Hanoi's effort to encourage American critics of US policy who argue that setting a troop withdrawal date is the way to end American involvement in Vietnam and to get back American prisoners. Now that the US Senate has passed a resolution calling for a troop withdrawal deadline linked to release of American prisoners, the Communists may be ready to float a more specific commitment to release prisoners in response to curtailment of US involvement in Vietnam. Hanoi might calculate that such a move would place the Nixon administration in an awkward position, stimulate support for a withdrawal deadline, and have an unsettling effect in South Vietnam. On the other hand, Tho may simply sit still in Paris as he did early

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last year in the hope that his mere presence will be enough to generate fresh pressures on Washington and Saigon.

*Enemy Eyes Elections*

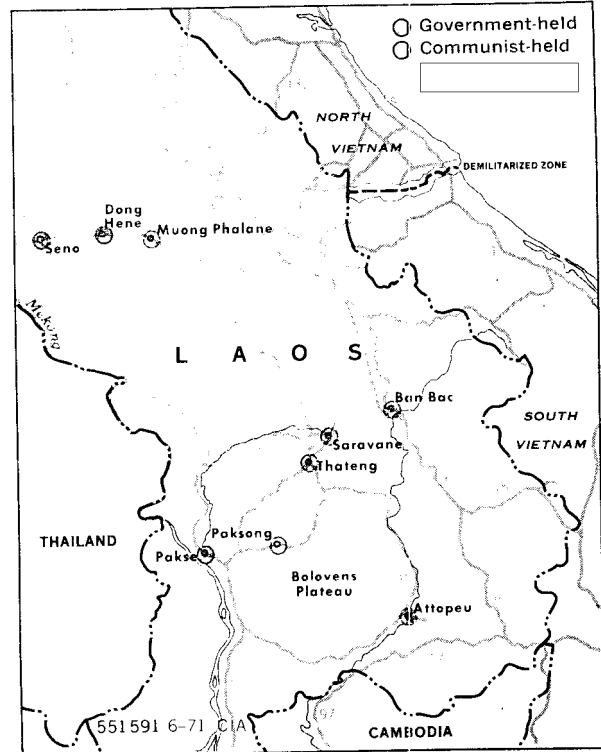
The Viet Cong are planning to work hard in support of antigovernment candidates for South Vietnam's lower house elections in August. [redacted] Communist cadre plan to work on behalf of almost anyone who speaks out against the government, who has ties with the Viet Cong or who, consciously or unconsciously, shows sympathy for Communist objectives. "Legal" cadre—enemy agents with authentic government documentation living in government-secured areas—will be used to encourage the election of such candidates by speaking out against unpopular government economic and social actions and by forecasting the imminent collapse of the Saigon government because of decreasing US troop and financial support.

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[redacted] legal cadre are beginning to form political action teams that will operate in the countryside to assess potential candidates and to organize support for them once they have been selected. Agents also will join legally established government parties and social organizations and attempt to rally support among members from inside these groups. In areas that are strongly controlled by the government, terrorism, such as selective assassinations of government-sponsored candidates and sabotage of polling places, will be used judiciously to offset the Communists' inability to find suitable candidates to support.

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Although the Communists clearly would like to maximize the number of opposition candidates elected to the lower house, their cadre organization probably is not strong enough in most areas to tip the balance in favor of candidates who do not already have strong local support. Moreover, many antigovernment candidates probably will be chary about receiving overt Communist backing. Nonetheless, behind-the-scenes Communist ac-



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tivity could help elect more antigovernment spokesmen to the lower house in August, broaden the base of popular discontent, and perhaps even encourage a stronger opposition vote in the presidential elections in October.

Laos: On the Plaine Again

Vang Pao's irregulars have moved across the southern part of the Plaine des Jarres, and on 18 June took the summit of Phou Theung on the southeastern edge of the Plaine. Phou Theung gives the irregulars a vantage point for directing air and artillery fire on Communist positions in the area, and commands a portion of Route 4. Other irregular units have moved northward to take several high-ground positions in the central Plaine.

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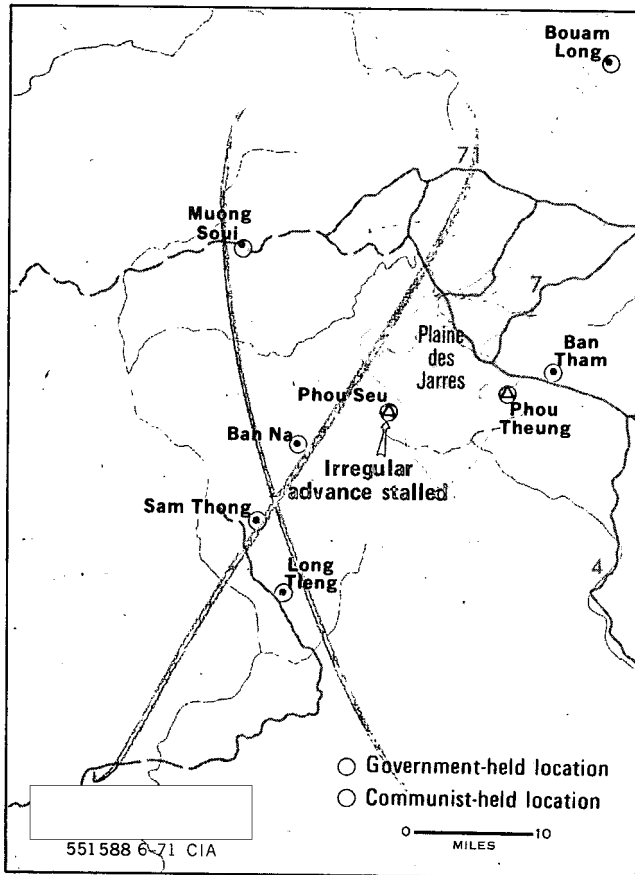
The moves to the eastern and central areas of the Plaine presumably reflect Vang Pao's tactical adjustments to support the counteroffensive that was initially targeted against Communist positions along the western portion. The offensive in the west is not in fact going as well. Irregulars have been unable to make any progress toward dislodging well-entrenched North Vietnamese from the summit of Phou Seu.

In the panhandle, a joint irregular-regular army operation to sweep eastward from Dong Hene toward Muong Phalane has been scaled down and limited to small-unit patrols and clearing operations with tactical air support. Bad weather has severely limited air support for the

task force, and high water has hindered ground operations. In addition, enemy forces recently have heavily fortified the Muong Phalane area and appear ready to offer strong opposition to any government thrust into the vicinity.

There has been little action in the Bolovens Plateau area of south Laos during the week. On 15 June the North Vietnamese attacked and scattered the last irregular battalion remaining in the Paksong area of the Plateau. ~~There are now no organized irregular units left on the Plateau other than one group conducting small-unit harassing operations on the southern edge of the Bolovens and along Route 18—well away from the current focus of enemy attention.~~ Most of the dispersed irregulars have now made it back to friendly lines and are being sent to a base camp for regrouping and refitting.

~~An indication that the North Vietnamese may intend to commit additional forces to the Bolovens area was received on 15 and 16 June. An experienced commando-raider team operating near Route 16/23 south of Saravane on 15 June reported sighting 16 tanks and five trucks—four of which were pulling heavy weapons—loaded with North Vietnamese troops moving southward toward Thateng. On 16 June at the same location the team saw eight tanks and 22 trucks accompanied by an NVA battalion. According to the team's report, the North Vietnamese said they were headed for Paksong "in order to attack Pakse."~~



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Cambodia: Some Forward Military Motion

During the week government forces finally began to make some headway in their campaign to dislodge the Communists from the marshy area northeast of Phnom Penh. At the same time, however, there was evidence that the enemy may be preparing to increase military pressure against the government elsewhere in the country.

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A nine-battalion Cambodian Army column, consisting primarily of crack Khmer Krom units, ran into stiff Communist opposition shortly after it moved eastward out of Vihear Suor in another effort to relieve the beleaguered government garrison at Kompong Chamlang. After four days of fighting and an advance of only three miles, the column's commander halted its drive in order to rest and refit his troops. Despite the slow and rugged going, the morale of the government soldiers remained high because they were well supplied and were supported by heavy US and South Vietnamese air strikes. The government task force resumed its drive on 22 June, and quickly ran into more Communist opposition—particularly at the village of Phum Dol, a few miles northwest of Kompong Chamlang. On the next day elements of a Khmer Krom brigade successfully linked up with elements of the government garrison at Kompong Chamlang, which included the former defenders of nearby Kompong Ampil, who abandoned their positions on 20 June. Preliminary casualty reports at midweek on the fighting between Vihear Suor and Kompong Chamlang indicated that 26 Cambodians were killed and 219 were wounded, while enemy losses were estimated to be 285 killed.

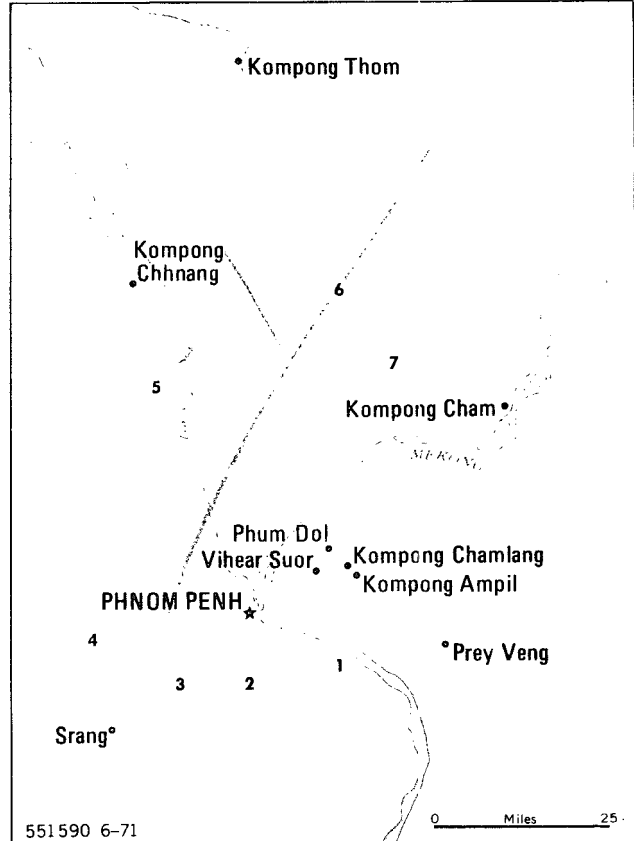
*Some Economic Progress, Too*

A rapidly deteriorating financial situation and a pressing need to stabilize the economy apparently have persuaded the government to implement the extensive fiscal and monetary reforms recently recommended by the International Monetary Fund (IMF).

[redacted] the cabinet has accepted in principle the total IMF package, including increased taxes, advance deposits on imports, and a flexible exchange-rate system. Government acceptance of the latter measure was particularly difficult, however.

[redacted]

[redacted] thanks to the urging of the governor of the National Bank, the regime is now



prepared to accept an arrangement for periodic adjustments in the exchange rate.

The flexibility principle is considered of fundamental importance, by US officials, who had feared a repetition of the experience in South Vietnam where adoption of a realistic rate was long avoided. Moreover, acceptance of a moving rate is more or less a prerequisite to establishment of an exchange support fund (ESF), an arrangement now under consideration that would significantly increase Cambodia's foreign-exchange reserves through US aid and cash contributions from friendly countries. The ESF would give Cambodia flexibility in its import procurement, an effective means of generating counterpart revenues, and a powerful instrument against inflation.

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### Burma to Hold Party Congress

The military establishment is continuing to go through the motions of loosening its grip on the government. On 28 June it will open the first congress of the government's party, the Burma Socialist Program Party (BSPP). The avowed purpose of the congress—to transform the BSPP, the only party permitted since 1963, from an elite body into a mass organization—is another manifestation of the nine-year-old military regime's desire to give the impression that it intends to make good on its promise to return power to the people, while ensuring that its control remains undiminished.

The result of the upcoming congress clearly will be a highly authoritarian political party that will perpetuate the present military leadership. Even if the new party apparatus gradually replaces the army as Burma's policy-making body, the membership and organization of the BSPP have been configured to ensure that the key positions will be held by the military. A membership drive has boosted party membership over the past year from a handful to over 73,600, but over half are from the military or the Defense Ministry. About one half of the 1,118 party congress delegates are military officers or government appointees, and the government is probably confident that the other delegates, who are chosen by local BSPP chapters, will be politically reliable.

As part of the civilianization campaign, Rangoon reportedly has retired five members of the ruling Revolutionary Council from the armed forces. All of the men concurrently held ministerial portfolios, which they will retain as civilians. The retirement ploy was obviously timed with the party congress in view.

The retirement program could, however, cause strains within the military, because the individuals chosen are probably concerned that the loss of military command will weaken their hand if General Ne Win were to pass from the scene.



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Progress toward setting up a civilian facade will in any case be at the snail's pace that has characterized Burmese politics under the military's rule. The new arrangement will not begin to function until a new state constitution is promulgated, which regime spokesmen have said will not occur until at least two years after the party has been transformed.



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### South Korea: *Party Developments Following the General Elections*

Since the general elections in May, changes in the leadership of President Pak Chong-hui's Democratic-Republican Party reflect a careful balancing of factional interests designed to keep the party responsive to Pak's direction while minimizing intraparty strife. Control of the party machinery remains in the hands of the political adversaries of the new prime minister, Kim Chong-pil, making it easier for Pak to keep a tight rein on the politically ambitious Kim. Kim, a long-time political associate of Pak's and a leading contender for the succession when Pak steps

down, undoubtedly will seek to use his new job to broaden his political base.

The changes also confirm the ascendancy in the party of the group most likely to accommodate themselves to the increased strength of the minority New Democratic Party. The New Democrats won more than a third of the seats in the enlarged 204-member house. In the old assembly they held only 42 seats and frequently felt compelled to resort to obstructionist tactics in the face of the government's overwhelming

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majority. The ensuing strife often resulted in legislative turmoil and some public disenchantment with the legislative process.

[redacted] The New Democrats' factional strife points up the loose-knit nature of the opposition in South Korea and the degree to which it has failed to develop beyond a temporary coalition of political "outs."

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Whether the situation will improve in the new Assembly depends to a large extent on the New Democrats' success in resolving their leadership problems. Kim Tae-chung, President Pak's energetic and popular opponent in the April presidential election, appears to have a good chance of gaining the party's top post. The party is divided by deep factional differences, however, and Kim's enemies retain considerable power.

The failure of the New Democrats to resolve their current leadership struggle is also delaying the selection of the party's Assembly officers. With the first session of the new Assembly scheduled for early July following President Pak's 1 July inauguration, these posts must soon be filled if the New Democrats are not to risk dissipating much of the prestige the party gained from its relatively strong performance in the elections.

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EUROPE

**USSR: *Spring Peace Offensive Continues***

The Soviets are maintaining the momentum of their spring "peace offensive." In recent days, top leaders have strongly defended their initiatives against foreign and domestic skeptics.

In a speech on 11 June, party chief Brezhnev strongly defended "the struggle for disarmament" and again gave SALT his personal endorsement. Brezhnev seemed to aim his remarks, at least in part, at Soviet critics of arms control, declaring that the USSR's disarmament proposals reflected political objectives that are becoming "ever more attainable." Pointing to what he characterized as a favorable change in the world balance of power, the general secretary emphasized that socialism is now sufficiently powerful to ensure both a reliable defense and economic development. Nevertheless, he admitted that "of course, without large defense expenditures we and our economy would move ahead far more quickly." This speech, more than any other in recent months, underscores Brezhnev's personal commitment to negotiations with the US on a wide range of topics, but especially on limiting strategic arms.

Early this month, President Podgorny and politburo member Kirilenko finally broke the high-level silence on SALT that had prevailed since the 24th party congress, and became the only Soviet leaders so far specifically to endorse the US-Soviet joint understanding of 20 May. In contrast with previous Soviet comments, Podgorny's choice of language generally accords with the US interpretation of the understanding—in effect, that offensive and defensive limitations will be discussed together. His remarks also suggest a willingness on the part of Soviet leaders to work for a compromise on SALT, even though treatment of the 20 May announcement by the Soviet press and by some Soviet diplomats indicates that the Russians may haggle a bit in Helsinki over the meaning of the understanding once actual negotiations get under way.

Podgorny's and Brezhnev's statements on SALT were followed last week by formal Soviet demarches in Washington, London, Paris, and

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Peking for a five-power nuclear disarmament conference. This step formally brings to the attention of the recipients yet another of the overtures made by Brezhnev in his speech to the 24th party congress in March.

The five-power conference idea and other proposals, including discussions on curbing naval deployments and on force reductions in Central Europe, have been offered with studied ambiguity and a paucity of detail. ~~Soviet Foreign Minister Gromyko~~ tried to explain such calculated vagueness when he told Ambassador Beam on 30 April that the USSR had "deliberately not sought to develop the disarmament ideas into a broad program and did not wish to concretize the various measures," but offered them for interested governments "to think over and make their own views known." Since then, Moscow has been ~~probing for Western views.~~

Moscow's interest in eliciting Western responses and eventually negotiating on at least some of these issues appears real. Nevertheless, the Soviets have undertaken the initiatives with a keen appreciation of their potential for quick political and propaganda gains.

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**Soviet "Peace" Initiatives Since 30 March 1971**

- 30 March Brezhnev calls for European force reductions
- 30 March Brezhnev suggests five-power nuclear disarmament conference
- 30 March Soviets table biological warfare treaty in Geneva
- 5 May Special Soviet trade delegation begins two-week visit in US seeking to expand trade
- 14 May Brezhnev again urges European force reductions
- 20 May US-Soviet understanding reached on SALT
- 8 June Soviets propose draft treaty on legal status of the moon
- 12 June Brezhnev proposes talks on distant naval deployments
- 16 June Soviets make formal demarche on five-power nuclear disarmament conference

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DISARMAMENT: The 25-nation Geneva disarmament conference resumes next week; attention is expected to focus on completion of a convention to curb biological weapons. Although the nonaligned conferees would prefer limitations on chemical weapons as well, they are not likely to block an accord that represents the maximum of superpower agreement in this particular area of disarmament. Interest in prospects for a com-

prehensive nuclear test ban has been whetted by several developments, including concern over US plans for a high-yield underground test in the Aleutians this fall. The longstanding differences between the superpowers over policing a comprehensive test ban have not been narrowed, but seismic experts will meet next week for another review of verification measures.

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## Communist Imports of Free-World Oil Are Rising

Moscow's hosting of the World Petroleum Congress last week focused attention on the importance of oil in Communist - free-world trade. Last year the USSR and East Europe exported slightly more oil to the free world than they had in 1969, but their imports of free-world oil almost doubled. The USSR did not use any of the free-world petroleum it obtained to meet domestic needs, but shipped it instead to help satisfy export commitments to other Communist countries. As in 1969, it shipped more oil to other Communist countries than to free-world nations. East Europe exported to the free world about the same amount of oil in 1970 as it had in 1969 while its growing imports accounted for most of the increase in total Communist petroleum imports from the free world.

In 1970 the USSR exported 45 million tons of oil to the free world, an increase of less than four percent over the previous year and about the same as in 1968. These exports were valued at about \$610 million, of which about \$365 million earned hard currency while the remainder were barter transactions. Major non-Communist customers of Soviet oil last year were Italy, Finland, and West Germany; exports to Japan rose but did not reach the level of the early 1960s. Although the volume of oil delivered by the USSR to the free world probably will continue at about the same level as in the past, hard-currency earnings should increase because of the recent sharp rise in world oil prices.

The USSR acquired 2.5-million tons of oil from Algeria and Egypt, which was shipped on Soviet account to Bulgaria, Cuba, and East Germany. This year Moscow expects to receive about

three million tons from Egypt, Syria, and Algeria through barter deals, which will free an equivalent amount of Soviet oil for export to hard-currency customers. The Soviets are not expected to use imported oil for their domestic needs in the near future.

Romania, East Germany, and Bulgaria imported more than five million tons of oil directly from the Middle East and North Africa in 1970, and this year their imports are expected to increase. As is the case with the USSR, East Europe obtains most of its free-world oil through barter or as repayment of credits. Romania, with a large refinery industry increasingly dependent on foreign crude oil, is expected to continue to be the principal East European customer for free-world oil. Bucharest probably will maintain its current level of imports of Iranian oil and will perhaps receive some oil from Saudi Arabia under an agreement that has been dormant for several years. Czechoslovakia, Hungary, and Poland are expected to import as much as 1.5 million tons this year, some of which will be shipped to third countries.

Communist China, on the other hand, is largely self-sufficient in petroleum and has carried on little oil trade in recent years. Since 1965, Peking has imported less than five percent of its total supply, primarily from Egypt, Romania, and the USSR. China's exports of petroleum have consisted primarily of petroleum coke supplied to Japan, although it apparently has exported small quantities of products to other Communist countries such as Albania, North Korea, and North Vietnam.

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USSR - WEST GERMANY: Moscow and Bonn are negotiating a second agreement to exchange Soviet natural gas for German large-diameter pipe and pipeline equipment. Terms are being worked out for the delivery of 4 billion cubic meters of gas annually for 20 years, beginning in the late 1970s, in return for up to 1.7 million metric tons of pipe and related equipment. This deal is larger than the initial agreement signed last year. The unusually low interest charge agreed to by the Germans at that time will not be offered again, however, and the current negotiations may be comparatively more protracted.

Notwithstanding the financing problem, there are substantial economic advantages for both parties in a new agreement. For the Germans, such a pact would guarantee the use of plant capacity to produce pipe for which there are few other customers and will help Bonn meet its rapidly rising demand for natural gas. Although not directly related, an agreement also would provide a fillip to Bonn's lagging Ostpolitik. For the USSR, a new contract would enable the Soviets to acquire, without the expenditure of foreign exchange, pipe and equipment to exploit the remote West Siberian oil and gas fields, which are crucial for the successful fulfillment of Moscow's 1975 oil and gas production target.

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## East German Party Congress Quietly Closes

*We know only one goal, the benefit of man and the happiness of the people.*

Erich Honecker, 15 June 1971

This may have been the stated goal, but it was not sustained during the eighth congress of the East German Party (SED), held in East Berlin 15-19 June. Instead, the proceedings were used by the party's new chief, Erich Honecker, to establish his position both at home and among the other Eastern European leaders. Caution and restraint characterized the handling of all domestic and foreign policy matters at the smoothly staged conclave. In stressing continuity, Honecker probably calculated that this was the best way to reassure both his allies and the East German party and people that he presently plans no startling changes.

The congress stands out because it was the first one that the old curmudgeon Walter Ulbricht, who will be 78 on 30 June, failed to attend. It is significant that in the seven weeks since the changeover, Ulbricht has slipped from

the role of a senior statesman in Eastern Europe to a backbencher whose absence was belatedly attributed by East German press accounts to "acute circulatory disturbances." No medical prognosis has been issued, and there is no evidence on which to make a determination whether his illness is genuine or political.

Honecker was unanimously re-elected as first secretary, while Ulbricht retained membership on the politburo and the honorary post of party chairman. Significantly, however, the congress did not pay much attention to Ulbricht, and he was not re-elected to a position on the secretariat, where he would have had a hand in running the party's daily affairs. Otherwise the composition of the secretariat is unchanged. Three new members—Werner Krolikowski, Erich Mielke, and Harry Tisch—were added to the politburo, bringing the total of full and nonvoting members to 23. This enlargement plus that of the central committee itself (from 181 to 189 members) roughly parallels the growth of the SED since the last congress in 1967.

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The manner in which the East German press handled the speeches of delegates from other Eastern European parties provides a basis for assessing Pankow's relations with these regimes. Verbatim coverage was provided for the speeches by Brezhnev, Husak, Gierek, and Kadar, but the speeches by the Yugoslav and Romanian delegates were significantly abridged in a manner designed to imply that they gave unqualified support to East German policies.

Both the Yugoslav and Romanian speeches were brief and not very effusive in paying tribute to East Germany's achievements. Yugoslav delegate Gligorov almost certainly raised Honecker's hackles, however, when he failed to mention East Germany's objectives in the international arena. He neglected, for example, to speak of the relationship between East and West Germany as well as to extend Belgrade's support to Pankow's intensified efforts to gain admission to the United Nations.

Major foreign policy themes were embodied in a closing resolution that stressed a "deepening

of the alliance" with the USSR as well as peaceful coexistence with West Germany based on "the norms of international law." The resolution additionally reasserted a willingness to contribute to the normalization of relations with West Berlin, but Pankow again stressed that the city "never was nor will be part of the FRG."

Honecker thus emerged from his first congress facing the same problems and paradoxes as his predecessor. He is as much a captive of geography, the split German nation, and great-power interests as Ulbricht was. His policy will be conditioned by the same old questions: how can East Germany respond positively to Bonn's Ostpolitik, with its call for reconciliation, and still survive as a separate state—yet how can it survive if it rejects Bonn's call while its own allies are responding to it? Honecker clearly recognizes that the answer lies with the great powers. Nothing in his five-hour speech nor in the modest leadership shifts suggest that he is anything but a disciple of the status quo as well as a practitioner of orthodox Communism. [redacted]

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YUGOSLAVIA: Earnings from tourism last year were disappointing and the goal of \$750 million in 1975 is not likely to be reached, although earnings at that time probably will be double those of 1970. After several years of 25 to 30 percent increases, earnings from tourism in 1970 rose only 2.5 percent to \$248 million. Bad service and unsafe air travel have resulted in some complaints, but more important, especially for the future, are inadequate accommodations.

Yugoslavia cannot afford a prolonged slowdown in tourism. In recent years net earnings from this source have covered about a quarter of the country's chronic foreign trade deficits, and the deficit currently is double that of 1970. In addition, the industry provides jobs and helps buy the time needed to develop export industries that earn hard currency. The post - 1975 period outlook is better, because large, externally financed projects are scheduled to provide additional tourist facilities. [redacted]

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## European Communities Edging Toward Monetary Controls

The EC Council may decide on 1 July to take measures aimed at discouraging volatile movements of capital such as those that brought on last month's monetary crisis. The council envisaged such steps at a meeting on 8-9 May when the Germans and the Dutch announced they would float their currencies. Intracommunity recriminations over the causes and consequences of the crisis now have died down and attention has focused on a search for corrective devices. The contemplated actions would strengthen unity among the Six on monetary policies and could provide a new basis for movement toward economic and monetary union.

At a meeting of the council on 15 June the finance ministers of the Six considered a variety of possible steps to control short-term capital movements to and within the community. Among these were a widening of the margins within which community currencies might be permitted to fluctuate vis-a-vis the dollar, creating a dual-rate system in the exchange markets, Bonn's proposal for a common community float vis-a-vis the dollar, establishing minimum reserve requirements for Eurodollar deposits, and other controls on Eurodollar movements. Any action determined advisable by the EC Council, however, would probably be considered within wider international forums, such as the Group of Ten and the IMF.

Dual, or two-tier, exchange rates, which already exist in Belgium, involve a fixed rate for commercial transactions but a floating rate for

capital movements. The idea is advocated by Commission Vice President Barre but runs up against French fears that the franc would be up-valued on the "free" tier of the market. This, according to an adviser to Economics Minister Giscard d'Estaing, would provide an incentive for French savers to invest outside France. Germany's proposal to let EC currencies float as a bloc against the dollar is also unacceptable to France, in part because it would also lead to an increase in the value of the franc.

A widening of exchange-rate margins with respect to the dollar seems to have gained support since the finance ministers' meeting. A spread of two to three percent on either side of parity apparently is contemplated. An agreement along these lines would imply a German commitment to end the float of the mark and would permit resumption of movement toward narrowing exchange margins among the community currencies—a step toward monetary union the EC had planned to take on 15 June.

German thinking on continuing to float the mark remains unclear, but Bonn has been under sustained pressure from its EC partners to end a situation that poses great difficulty for the smooth functioning of the common agricultural policy. The Commission presumably hopes that the control measures it will propose to the council will be considered by Bonn sufficient protection against future massive inflows of capital.

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### France: *Mitterrand Is Alive and Well...*

Written off by all and sundry following his ineffective and controversial performance during the 1968 student-labor crisis, former presidential

candidate Francois Mitterrand has emerged once again as the leader of France's non-Communist left. His election last week as first secretary of the

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Socialist Party and his success in pushing the Socialists toward a policy of closer cooperation with the French Communist Party (PCF) present the first major challenge to the ruling Gaullist party since the period prior to the 1968 crisis.

Under Alain Savary, Mitterrand's predecessor as party leader, the Socialists conducted an inconclusive two-year "dialogue" with the PCF. Mitterrand has taken this one step further by proposing discussions aimed at hammering out a joint political program that would be followed if the two parties come to power. Many fear that this amounts to the formation of a "shadow popular front" cabinet with the Communists, but Mitterrand's primary goal is probably to exact public statements committing the PCF irrevocably to fundamental democratic procedures. Should he succeed in this extremely ambitious task, the PCF's public image would be considerably improved and Socialist cooperation with the Communists would be viewed by the public with less suspicion.

Mitterrand undoubtedly hopes to demonstrate that he can hold his own in negotiations with the more powerful PCF, and thereby attract other opposition groups to a new union of the left that could successfully compete with the Gaullists in the 1973 parliamentary elections. Beyond 1973, Mitterrand is looking toward the 1976 presidential elections, at which time he hopes to have the kind of broad-based leftist backing that he had when he challenged De Gaulle in the 1965 elections.

Many Gaullist leaders are already pressing Pompidou to call special parliamentary elections within the next few months. They argue that this would have the effect of stopping Mitterrand before he can forge an effective opposition grouping. Pompidou, however, may see merit in allowing Mitterrand's efforts to proceed in order to infuse a new unity of purpose into the ruling party.

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### Malta: Mintoff Takes Over

During his first week in office Prime Minister Dominic Mintoff has concentrated on changing his country's foreign policy. The key Maltese relationship with the United Kingdom and indirectly with NATO appears to have first priority in Mintoff's reappraisal of foreign affairs.

Sworn in on 17 June, the Prime Minister within hours called for the renegotiation of the Maltese - United Kingdom defense and financial agreements, which are not scheduled to expire until 1974. Mintoff stated that his government has a "mandate for change" and that arrangements must offer "reciprocal advantages" to both countries. He also demanded immediate but unspecified interim changes for the negotiation period. At stake is the use of Malta's port and air facilities by NATO countries, a matter now sanctioned by the agreements. NATO also has its naval headquarters for southern Europe

(COMNAVSOUTH) on Malta along with a handful of NATO personnel.

Mintoff installed his cabinet on 21 June, retaining the foreign affairs portfolio for himself. Almost immediately after the ceremonies, Mintoff sent his administrative secretary to tell British Governor General Sir Maurice Dorman that he was relieved of his position as of 22 June. The peremptory and informal manner of this communication is a clear indication of Mintoff's tough negotiating stance. On 22 June, the prime minister declared NATO's NAVSOUTH commander, Admiral Birindelli, persona non grata and informed him he should leave Malta. In addition, the Mintoff government has expressed opposition to a conference of NATO sea commanders on Malta on 28 June, thus suggesting a hostile attitude toward NAVSOUTH in general.

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The Mintoff government may also have a less friendly attitude toward the West in its handling of the visits of foreign naval ships. Prior to his election victory, Mintoff indicated he would work for closer relations with Libya as well as with other Arab countries of the Mediterranean. On 17 June the British high commissioner was informed that units of the Libyan Navy would visit Malta later in the month, and Valletta pointedly insisted that the communication was only for information.

Mintoff has granted permission for two US ships to visit in June, but this schedule had already been approved by the previous government. The Foreign Ministry has refused permission, "pending revision of general arrangements," for

Sixth Fleet visits to Malta during the July-September quarter. A Maltese official pointed out to the US Embassy recently that Mintoff had made it clear in his election campaign that those using Malta must pay, and in the official's view this applied to fleet visits.

The prime minister's principal moves in domestic affairs center around the removal of his main Labor Party rival, Lorry Sant, from a politically important post as chief of Malta's most powerful labor union. Sant has been given the Public Works Ministry with its considerable pork barrel influence, but he was not made minister of labor as most observers had expected.

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MIDDLE EAST - AFRICA

**Egypt-Israel: *Pessimism on an Interim Settlement***

Spokesmen in both Cairo and Tel Aviv are clearly registering the impression that prospects for any interim agreement to open the Suez Canal have severely diminished.

Egyptian criticism of US efforts to work out a settlement, which has been building up this month, became particularly bitter last weekend. In his weekly editorial in the semi-official newspaper, *Al Ahrām*, Muhammad Haykal, a confidant of President Sadat, warned that the period for probing US intentions was coming to a close. Haykal averred that in the six weeks since Secretary Rogers' visit to Cairo, the Egyptians had come to despair that the US could press the Israelis to agree to acceptable terms for opening the canal. Although Haykal left the door open to negotiations by stating that Cairo was not yet ready to break off the dialogue with Washington, he placed both the US and Israel on notice as to the precarious state of the cease-fire.

Egyptian Foreign Minister Riad took an even harsher line on the US role in the negotiations in

a press interview in Paris. He zeroed in on Secretary Rogers' trip to the Middle East, flatly accusing the US of deceiving the Egyptians in an attempt to prolong the cease-fire. Such Egyptian rhetoric is at least partially intended to encourage the US to lean more heavily on the Israelis, but it also seems to stem from waning hopes in Cairo for an interim settlement.

For their part, the Israelis appear to agree completely with the Egyptian assessment of poor prospects for the negotiations. Foreign Minister Eban told a news conference on 22 June that Cairo's public stance, which he said calls for a "100-percent Egyptian advantage," does not augur well for an agreement.

Eban's remarks echoed public positions taken last weekend by cabinet ministers Dayan and Galili. During a press interview, Defense Minister Dayan expressed doubt that a Suez agreement could be achieved in view of the gap between the positions of the two sides. In an attempt to place the onus for the impasse on the

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Egyptians, he predicted that hostilities would break out "sooner or later" in the absence of some movement on Cairo's part. Taking a similar line, Minister Without Portfolio Galili speculated that the Egyptians might embark on another war of attrition, relying on the "new weapons" they have received from the Soviet Union.

Israeli newspapers, meanwhile, are saying that the government is seriously concerned over

reports that the US is planning to present its own proposal on a Suez agreement. According to the press, "Israeli sources" have commented that any such plan would probably cause a deadlock in the negotiations for an interim settlement, just as—in Israeli eyes—UN Mediator Jarring's earlier proposals had created an impasse in negotiations toward an over-all settlement.

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### Tanzania: *Exodus of Asians*

The Nyerere government's most recent step toward socialism has impelled many of Tanzania's unpopular Asian minority to try to emigrate, a development that will compound the country's economic problems.

Since President Nyerere outlined his socialist objectives in the Arusha Declaration in 1967, many of the country's 70,000 Asians (Indian, Pakistani, and Iranian), who make up a large part of Tanzania's commercial class, have been living on borrowed time. Only a handful had their assets nationalized at the time, and few heeded the warning signs. Subsequently, the government has steadily whittled away at the areas of traditional Asian economic predominance—the import-export and the wholesale-retail trades.

As government policy became more evident in the last year or so, many Asians began to send or smuggle their wealth out of the country. This outflow became so large that the government imposed strict exchange controls early this spring. The passage of the Acquisition of Buildings Act in late April finally ended whatever hopes some Asians still had of working out an accommodation with the government's socialist policies. Under this act, which empowers the government to acquire or confiscate all rental properties worth over \$14,000, local authorities have taken over more than 2,000 buildings in Dar es Salaam and other urban centers. Although some party

and government officials have been affected, the main blow has fallen on Asians of the property-owning class, whose unpopularity and political weakness make them an easy target.

The step-by-step expropriations have aroused an intense feeling within the Asian community that it is under siege and the object of racial discrimination by the black majority. Although the government has tried to reassure the Asians that their retail businesses will not be nationalized, many no longer see any future in Tanzania. Some have already left, and more than 2,700 others, including some senior civil servants and professional people, have applied thus far for emigrant allowances from the Bank of Tanzania.

This exodus represents not only a loss of critically needed skills and entrepreneurial talent, but also a drain on the country's already slender foreign-exchange holdings. Presently pending requests for emigrant allowances total almost \$19 million, and Tanzania's foreign-exchange holdings at the moment are only \$66 million. So far, the Bank of Tanzania has gotten around the problem by simply not processing these applications, but it cannot continue to do so much longer.

If the personnel and foreign-exchange drain continues, it will do substantial damage to the economy, particularly the urban sector. A pall in fact already hangs over commerce in Dar es

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Salaam. Nyerere, however, is unlikely to relent in his efforts to build a socialist society—no matter what the costs. ~~Indeed, he said as much recently when he told the British high commissioner that~~

although he regretted the Asians leaving because it would "damage the country," he would not stand in their way. [redacted]

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CHAD: The last of the special French military units sent two years ago at the government's request to counter the Muslim insurgency have left Chad. Some 2,500 French military advisers and regional intervention troops permanently stationed at Fort Lamy remain in the country, however. With their help and continued French financing, President Tombalbaye's weak regime will attempt to provide security in the troubled Muslim regions and deliver promised administrative reforms and development projects necessary to help restore peace—a large order for resource-poor Chad.

The over-all level of dissidence has dropped markedly since 1969. Central Chad, where a limited settlement has been effected, is particularly calm at present, but the north and east remain more recalcitrant. The Toubou tribesmen in the north apparently still receive modest aid from Libya, and the impending rainy season in the central and eastern areas could spark renewed fighting there as government forces are immobilized. [redacted]

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### Guinea: *Arrests Continue*

President Sekou Toure continues to sustain the tense atmosphere that has prevailed since the Portuguese-backed attacks of last November. His belief that new attacks from bases in neighboring states are now being planned with the connivance of traitors at home has led to a new spate of arrests and to tight restrictions on the movement of foreigners within Guinea.

"Confessions" obtained from those already imprisoned have implicated a widening circle of Guineans. A sharp increase in new arrests and a further tightening of security measures have been noted since 15 June when a special investigative commission reported that only one quarter of an alleged fifth column had been rounded up. Toure's present "purification" campaign, like previous ones, has focused on businessmen, technicians, and others who have come under suspicion because of their close contacts with foreigners—particularly Westerners. Hardest hit have

been officials within the economic ministries that figured prominently in a cabinet reshuffle on 20 June.

The normal functioning of the diplomatic community and of foreign technical aid missions has been hampered as Guineans avoid close contacts. One casualty has been the US Peace Corps program, renewed only last year after having been abruptly terminated in late 1966 during a strained period in Guinea-US relations. The current phase-out stems not from bad bilateral relations, but from Toure's obsession with security and his heightened mistrust of foreigners operating within the country. Although heads of the technical ministries wanted the US program to continue, dominant influence now is wielded by party militants in charge of internal security, who were opposed.

Since the raid on Conakry last November, Toure has used almost every public and private

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occasion to warn Guineans and friendly governments of what he claims is a continuing threat of external attacks, particularly from "mercenary" bases in Portuguese Guinea. In addition to Portugal, he has singled out West Germany, with which he broke relations last January, as one of the main plotters. Two African states, Senegal and Ivory Coast, also are charged with aiding the "imperialists" by not denying use of their territory to anti-Toure elements. To help forestall the attacks he believes will come, Toure has threatened immediately to shoot those now imprisoned for complicity in last year's raid, and

to take offensive action against Portuguese Guinea at the first sign of an invasion.

Despite Toure's convictions, there is no independent evidence that foreign-backed attacks on Guinea are imminent. Portugal, however, probably maintains contact with the elements of the anti-Toure National Liberation Front of Guinea (FLNG) who also were involved in the November operation.

[redacted] the organization would require substantial foreign financial and logistical support before it could mount any significant move. [redacted]

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### Pakistan-India: *The Refugee Flow Slackens*

The Pakistani Government, attempting to present a more favorable international image, has now decided to allow foreign newsmen to travel freely in East Pakistan. Together with its earlier decision to let foreign relief officials enter the province, this could put restraints on further punitive action by the army.

The average daily outflow of refugees has fallen to a little over 15,000 from a high of 100,000 a few weeks ago. President Yahya has publicly promised that members of the "minority community"—the Hindus—will be given full protection if they return from India, and the government has set up several camps to handle returnees. Although a few thousand refugees have recrossed the border, it is unlikely that many of the nearly six million East Bengalis will leave India soon.

In a further step to court international opinion, President Yahya is expected to announce on 28 June his program for eventually turning the government over to civilians. He may well, however, delay implementation of his plans for some time.

Islamabad's attempts to project a more favorable image have not yet had much international effect. The Western aid consortium has put off any decision on new economic commitments until prospects for a political settlement between East and West Pakistan improve. The donor nations were decisively influenced by a very negative report from a World Bank/International Monetary Fund team that recently visited both parts of the country. The team reported widespread disruption of economic, commercial, and governmental processes, physical destruction and disruption of transportation and communications, food shortages, and a pervasive fear that is inhibiting any return to normal conditions in East Pakistan.

The UN high commissioner for refugees announced this week that sizable new financial aid contributions had been received. The UN's relief program continues to suffer from organizational problems, however, and officials have been meeting to formulate an "action and coordination plan."

In the meantime, India and Pakistan continue to accuse each other of serious border

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violations, and New Delhi has again warned that unless the refugee problem is solved soon, it will

have to take unspecified unilateral action.

[Redacted]

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Ceylon: *Insurgency Situation Report*

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The government appears increasingly confident in its handling of the insurgency, but problems still remain.

insurgents lying low in Colombo.

[Redacted]

Earlier this month, the nightly curfew was shortened from nine to six hours, and Prime Minister Bandaranaike announced a second and "final" amnesty period during which insurgents could surrender. The government claims that about 6,000 rebels gave themselves up during a similar period in early May. Only a few hundred insurgents, however, apparently did so during the second amnesty.

Rehabilitating the 12,000 rebels now in detention centers may prove a serious problem.

[Redacted]

The government's indoctrination program seems to have had little effect as yet, and officials seem uncertain of how to proceed.

One reflection of the largely quiescent nature of the insurgency at present is the small number of incidents reported. Although the rebels occasionally attack government and police installations, most of their efforts consist of attempted robberies of individuals. The army commander recently estimated that there were only about 100 insurgents at large outside Colombo, and that they were scattered over five of the island's 22 districts. He did not consider this small number a threat, although he appeared concerned over the unknown but possibly large number of

The government has taken advantage of the emergency to widen its control of the press. Henceforth, a censor must approve any stories covering cabinet proceedings and actions or any matter "considered or alleged to be considered by any minister or ministry." Previously, the government had imposed censorship on all newspaper editorials, arousing protests from many papers, including those affiliated with the prime minister's Trotskyite and Communist coalition partners. Presumably, nearly all of the Ceylonese press will be unhappy with the new regulations, which could in practice be extremely restrictive. Although Mrs. Bandaranaike can claim that the insurgency requires this increasingly stringent control, she probably views the current situation in part as presenting an opportunity to hobble some old enemies who have been critical of her in the past and who were partly responsible for the downfall of her previous government in 1964.

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Mrs. Bandaranaike is also considering economic reforms, such as ceilings on land holdings and incomes, that she believes would be responsive to some demands of the insurgents. Also, contemplated charges for the country's presently free medical and educational services would be a

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small step toward improving the government's capability to pay for its massive social welfare expenditures, a prime ingredient of its budgetary

problems. At this time, however, Mrs. Bandaranaike does not plan the politically volatile step of reducing the subsidized rice ration.

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## WESTERN HEMISPHERE

### Copper and Politics in Chile

Copper and politics continue to be overriding concerns in Chile, providing President Allende with both opportunities and problems as he moves to transform Chile into a socialist state as smoothly and quickly as possible.

Exploiting the long-standing Chilean desire to control the country's major resource, Allende is preparing to take over completely and soon the extensive copper mining operations still partially owned and managed by Kennecott and Anaconda. Chile apparently will not begin negotiations for compensation until the operations are nationalized under a constitutional amendment that will become law on 12 July. In an effort to demonstrate a selective approach to US investors, Chile will probably announce at the same time an agreement to buy out the Cerro Corporation's new Andina - Rio Blanco mine.

Allende has preferred to approach copper nationalization carefully in order to avoid alarming potential Western sources of investment and credit, which Chile needs to replace US capital. Extremist Socialists, however, objected to the terms of the Cerro agreement, which Allende had approved, and have stalled its announcement since 20 May. In turn, their more cautious Communist rivals in the Popular Unity (UP) governing coalition apparently feel obliged to come up with schemes to regain the initiative on this vital issue. A barrage of vituperation against Anaconda and

Kennecott has become a daily feature of the progovernment media; both are accused of deliberate mismanagement that nullifies any need for indemnification. The Communist daily is publishing a series recounting "twelve great copper scandals" allegedly perpetrated against Chile's interest by those companies and the United States. The opposition is unlikely to challenge Allende on the copper nationalization, although some congressmen have blamed the government for conditions that cause copper production shortfalls.

Opposition parties are, however, taking an increasingly aggressive stance on issues where the President and his supporters are more vulnerable. The most telling criticism has been that the administration's coddling of leftist extremists has created an atmosphere of lawlessness with widespread effects, including the recent murders of Christian Democratic Party (PDC) leader Edmundo Perez Zujovic and several policemen. Accusations by the UP that rightists and the US were involved in the Perez shooting have boomeranged, especially with the revelation that one of the assassins was released last February under an amnesty granted to imprisoned leftists by Allende.

Another of those released by the President as "misguided idealists," despite criminal charges against them, is the chief of Allende's bodyguard.

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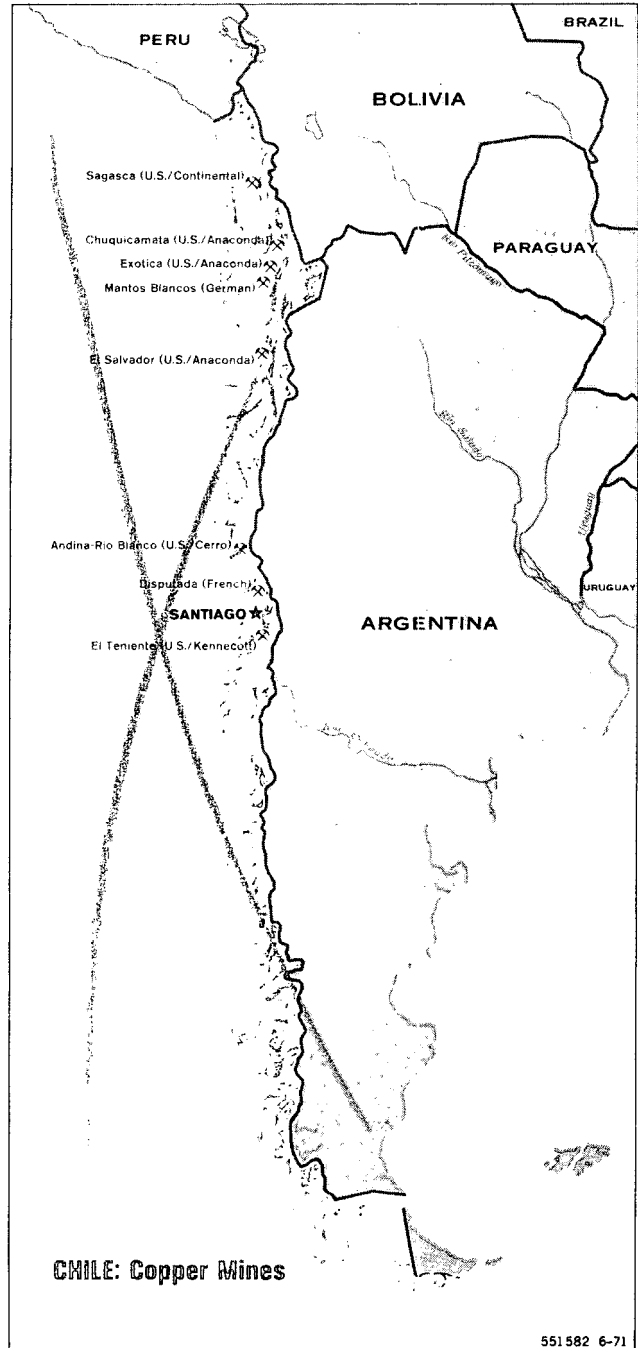
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Opposition spokesmen argue that this irregular security force should be replaced by the regular police who, traditionally guard the president. A bill to augment the police forces with men of the government's choice was recently defeated in Congress, but several high-ranking officers of the traditionally anti-Marxist uniformed police, the *carabineros*, were forced to retire.

Efforts by the PDC and conservative opposition parties to cooperate more closely are still plagued by mutual distrust and personal ambition. They plan to support a single candidate against the UP candidate in the by-election on 18 July for a vacant legislative seat and have defeated the UP candidate in the politically important election for rector of the University of Chile. The opposition majority's ouster of the UP leadership of the Chamber of Deputies, however, foundered on 22 June when the conservative Nationalists broke with the PDC and Democratic Radicals to help re-elect a non-Marxist UP candidate as Chamber president. Leftist young Christian Democrats who want to work with Allende are also doing all they can to break up common opposition activity.

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## Brazil Cautiously Enforces the New Sea Law

The government is continuing restrained enforcement of its 200-mile territorial seas limit by warning fishing boats out of the area, rather than taking them into custody.

Government officials have indicated that their policy is the result of an intention to apply the new law on the first occasion against fishing boats operating within 12 miles—rather than 200—of the coast. They believe Brazil's exclusive fishing rights are more generally accepted within the narrower zone. The US, for instance, recognizes a three-mile territorial sea and a 12-mile fishing zone. A Nationalist Chinese boat seized on 16 June was released with a warning because, although it was picked up when only 10 miles from shore, it was determined to have been fishing approximately 100 miles from the coast. ~~US captains have reported several incidents in the last two weeks involving harassment by Brazilian ships and planes, but the US boats have withdrawn from the waters tempo-~~

~~rarily rather than risk a confrontation.~~ Foreign craft, however, apparently continue to fish the area, and a serious incident could easily occur.

On the diplomatic front, the Brazilians are continuing to seek support and to encourage nations to negotiate fishing agreements. The Yugoslav vice minister of foreign affairs, on a visit to Brazil in late May, stated his support of the Brazilian position in principle, noting that every country has a right to determine its own territorial waters. The foreign minister of Ecuador, which also has a 200-mile claim, strongly endorsed a joint stand with Brazil during his visit to Brasilia last week. Fishing negotiations with the government of Trinidad, whose shrimping industry is endangered by the new Brazilian regulations, will reportedly begin in July. The French have also indicated an intention to enter into bilateral negotiations in the near future.

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## Panama: *Priest's Disappearance Troubles the Government*

The disappearance on 9 June of a popular young Colombian priest who had opposed the Torrijos regime has kicked up the biggest public outcry against the government in its two and a half years in power. The priest, Father Gallegos, was apparently kidnaped and killed by the National Guard. ~~Although hard evidence is still lacking, the popular belief is that he had antagonized the government by casting official reform efforts in a bad light or, alternatively, that he had offended members of Torrijos' family who owned land in Veraguas Province, where he worked.~~

~~The regime has used repressive measures in the past against extremists as well as to intimidate opponents. In March 1970, for example, it arrested and exiled a Spanish Jesuit who had made radio broadcasts critical of the regime. Nevertheless, it has generally exercised some degree of restraint except when dealing with known militants.~~

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The government, surprised by the agitation over the incident, has gone to great lengths to deny its involvement. Its attempts, however, to portray itself as a friend of the priest and its halfhearted efforts to blame right-wing elements or the US have severely damaged its credibility with the populace.

The incident comes at a particularly bad time for the government. Since April, Torrijos has tried to reinforce his leftist, populist image and has redoubled efforts to mobilize support that could be used against the US in connection with canal negotiations. Having consistently portrayed itself as a revolutionary regime protecting the interests of the "little man" rather than the oligarchy, the government is particularly embarrassed at having handed the opposition a popular issue on which students,

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peasants, the church, and business can unite. Torrijos may have to come up with a suitable scape-

goat, and in the future he may be more circumspect in the use of "extralegal" methods.

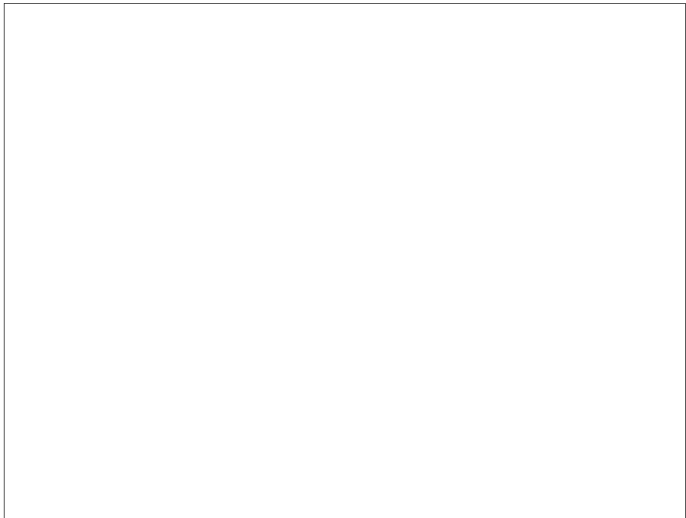
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**Bolivia: *Torres Hangs On***

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Government denunciations of "rightist" coup plotting, the imposition of a state of emergency, and the reconvening of the extreme left's unofficial Popular Assembly provide the backdrop for President Torres' continued efforts to secure extreme leftist support. Meanwhile, the political atmosphere in La Paz remains tense and uncertain.

Torres is trying to establish an identity of interests between his regime and the extreme leftist-dominated labor and student groups that are behind the assembly by focusing attention on the common threat posed by "rightist" opposition conspirators. The ingredients for a showdown between the "popular forces" and the government remain, however. The President has not yet reacted to renewed claims of governing power by the Popular Assembly, which began meeting on Tuesday. The assembly's sessions also revealed internal friction among its sponsors, who remain divided by ideology and personal ambition.

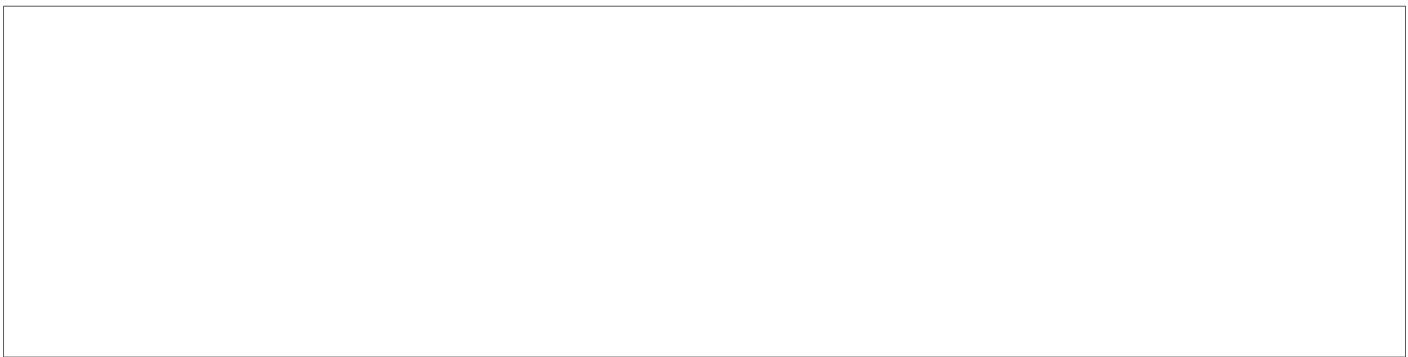


The establishment by the Bolivian Labor Central of a "military command" and its announced intention to organize a national militia are certain to have an impact throughout the armed forces. These actions could cause even more military men to feel a need to move against Torres.

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