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DIRECTORATE OF  
INTELLIGENCE

# *WEEKLY SUMMARY*

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27 August 1971  
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*(Information as of 1200 EDT, 26 August 1971)*

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## International Economic Developments

European money exchanges and the Japanese stock exchange continued to reflect a lack of decisive foreign governmental response to the new US economic policy. Chaotic conditions did not materialize this week, however, as only marginal transactions were carried on in money markets while officials continued to grapple with possible moves.

Most of the European foreign exchange markets that had been shut down last week to allow the governments to contemplate the new US economic measures reopened on Monday, with each country implementing its own arrangements. The Germans and Dutch have continued their currency floats. The French adopted a dual rate system, adhering to a fixed parity for commercial transactions while permitting the rate for financial transactions to float. Belgium also is employing a dual rate, but its commercial franc is floating in concert with the Dutch guilder. Italy with the UK maintained fixed parities, albeit with wider bands.

Although Tokyo stuck to its support of the yen-dollar rate and absorbed about \$2.7 billion dollars since President Nixon's announcement on 15 August, continued apprehension caused Japanese businessmen to unload stocks of export-oriented industries until mid-week. At that time the Tokyo stock exchange recovered sharply, following reports that overseas investors were seeking bargains. This encouraged some Japanese investors to take advantage of depressed stock prices. Stringent Japanese controls on capital transactions and mild reactions on reopened European exchange markets calmed the situation on Tokyo's foreign exchange market. Japanese commercial banks have been forced to buy back some of the dollars they sold last week in order to maintain dollar balances called for by "unofficial guidelines" of the Bank of Japan. Avoidance of new violent activity in the exchange market will make it easier for Tokyo to stick to its decision

not to revalue the yen except as part of a multi-lateral realignment of parities.

European foreign exchange activity has been cautious, with the US dollar showing some weakness. At first, the dollar actually strengthened against some currencies as outstanding dollar obligations were covered by traders. By mid-week, however, the value of the dollar depreciated on the average of two to three percent from the rate of two weeks ago as jittery dealers reacted to Managing Director of the International Monetary Fund (IMF) Schweitzer's suggestion that the price of monetary gold be increased and noted an IMF study advocating multinational realignment of currencies. His recommendations entail large upward revaluations of the Japanese yen and certain European currencies against the dollar. European officials dismissed the IMF staff proposals as untenable.

Canadian Finance Minister Benson, chairing the Group of Ten major industrial countries (US, UK, Sweden, Canada, Japan and EC member countries), continues to urge that the Deputies Committee meet on 4-5 September to draft a list of suggested changes in international currency parities for discussion by the Group of Ten finance ministers in London on 15 September. The results of these meetings are to serve as the basis for a formal proposal at the annual IMF meeting on 27 September in Washington.

After failure to reach a common exchange rate policy at a 16-hour Council session last week, the EC countries scheduled another session for 13 September, two days before the Group of Ten convenes. The Benelux countries, who hope that successful operation of their scheme for managing exchange rates might serve as an example for the community, advocated an even earlier meeting. This proposal, however, was quickly rejected by the French on Wednesday because, in their view, the earlier meeting would not allow sufficient

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time for necessary preparations. Paris, in fact, is skeptical that its basic differences with the Germans can be bridged even by 13 September. Because it is generally felt that political decisions are needed to break the deadlock—essentially one between France and West Germany—the EC foreign ministers will join the finance ministers at the next session.

Despite more cautious statements from some members of the community, notably West Ger-

many, EC Commissioner Dahrendorf took a very tough line on the US ten-percent import surcharge at this week's GATT meeting in Geneva. The community presumably will aim to have the GATT working group's report on the surcharge—expected prior to the September IMF meeting in Washington—be as negative as possible in order to provide a rationale for the threat, at least, of trade retaliation should the surcharge not be removed. [REDACTED]

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### Improved Oil Supply Provides a Short Breather

The availability of oil from the Middle East and a complete turnaround in the shortage of tankers that plagued the market just a few months ago assure Western Europe of favorable oil supply conditions as the heavy winter consumption period approaches.

Unlike last year, when short-haul oil from Mediterranean sources was in tight supply and selling at a premium, oil producers currently are using only part of their production capacity. The Trans-Arabian Pipeline (Tapline), which carries Saudi Arabian crude oil to the Mediterranean, has been operating at less than half capacity since June. The Iraq Petroleum Company pipeline system to the Mediterranean is also operating at substantially below capacity, and Libyan oil production has declined below the limit allowed by the government. This slack in the system at the present time stems from precautionary stockpiling in Western Europe following threatened production shutdowns last spring as well as from lower consumption during the summer.

Short-run tanker rates in the past year have dropped from over \$3 to less than \$1 per barrel

of oil moved from the Persian Gulf to Western Europe. This change and high pipeline transit fees have shifted some demand for nearby Mediterranean oil to that from the Persian Gulf. Producers there have responded by raising output in the first six months of this year by 20 percent.

The current excess of oil supplies is not likely, however, to alter the long-range plans of Middle East oil producers in the Organization of Petroleum Exporting Countries (OPEC) to seek "participation" in the operations of Western oil companies. OPEC will meet soon in a special session to discuss a plan calling for a 20-percent equity in the production processes of oil companies, but some time will be required to explore the potential role of member governments. Wide differences in operating conditions and varying complications in existing agreements between governments and oil companies will require extensive study before a plan acceptable to all OPEC members can be developed for negotiations with the oil companies. Implementation of any measures decided upon would take place over several years, according to OPEC officials. [REDACTED]

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## FAR EAST

### Indochina

#### Vietnam: Reluctant Candidates in the South

The withdrawals of Big Minh and Vice President Ky from the presidential race have left President Thieu unopposed in the 3 October contest and have contributed to a very unsettled political atmosphere in Saigon. In a rapid series of developments beginning late last week, Minh announced he was pulling out of the contest, the Supreme Court reversed an earlier decision and put Ky's name back on the ballot, but Ky publicly stated that he would not go along with the decision and re-enter the campaign for the presidency.

Minh's resolve to run had been wavering for some time; his announcement of withdrawal on the grounds that Thieu was rigging the election was consistent with Minh's earlier expressed fears that he would be denied a fair chance to win. Ky, on the other hand, remained interested in running and delayed a final decision for two days following the Supreme Court's action while he consulted with various political and religious groups. He apparently received little encouragement, and probably concluded that the odds were stacked too heavily against him to allow a respectable showing. The vice president probably will try to remain politically active in hopes of staking out a position as the leader of the opposition.

The withdrawals have discredited the election in the eyes of Vietnamese observers. Opposition groups such as the An Quang Buddhists have begun to call for a boycott of the election. Extremist groups, including some students, veterans,

and left-wing agitators may attempt to exploit the situation by instigating disruptive antigovernment protests. Criticism of the government's election policy had already been increasing prior to the announcements of Minh and Ky. Some usually progovernment elements, particularly in the National Assembly, have joined opposition groups in protesting abuses of authority by government officials in connection with the presidential election and next Sunday's Lower House contests.

Despite the criticism of his policies, Thieu is standing firm and intends to go ahead with the presidential election on schedule.

Thieu is aware of the increased possibility of demonstrations and is taking additional security precautions. In addition, he is meeting with government and military leaders, seeking an informal vote of confidence on his election policy.

Many opposition groups, including the politically potent An Quang Buddhists, are actively engaged in campaigning for the Lower House elections, and large-scale disruptive protests are unlikely before these are held on 29 August. Most groups will probably wait to assess the results of these contests before deciding on any new course of action. Progovernment candidates are expected to win a majority of the 159 Lower House seats at stake, but if many appear to do well because of unfair official interference on their behalf, some opposition groups might consider adopting more militant tactics.

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politics of the 1954 Geneva Conference, but it now is accusing the Chinese of heretical revolutionary concepts, including failure to understand either the appropriate tactics or proper targets of revolution.

*Communist Military Action*

The Communists began their latest surge in military activity about as expected during the week with damaging attacks against the US base at Cam Ranh Bay and Da Nang City. At Cam Ranh, allied personnel casualties were relatively light, but enemy sappers succeeded in setting off explosions that destroyed a huge ammunition dump and damaged many buildings. Communist mortar and rocket fire in the Da Nang area caused fires which destroyed more than 100 houses. The Communists also are maintaining pressure along the DMZ and, at scattered points elsewhere in the country, have stepped up light shellings and sapper probes to harass allied bases. So far the Communists probably believe they are succeeding in impressing upon a considerable number of the South Vietnamese—on the eve of the Lower House elections—that they are still a force to be reckoned with.

*Jitters in Hanoi*

Hanoi's concern that Peking might try to play a mediating role in the Vietnam war has not abated. In the past few weeks expressions of concern have taken on new dimensions. Although Hanoi has not attacked the Chinese by name, the target of the invective is clear. Brief, but unmistakable denunciations of the Peking-Washington detente are appearing regularly in all major North Vietnamese publications. Not only has Hanoi warned against any replay of the big power

One of the strongest barbs came this week in a party daily article accusing President Nixon of trying to "spray the toxic gas of chauvinism into opportunist heads in a bid to play the socialist countries against one another." In the latest issue of Hanoi's theoretical journal, *Hoc Tap*, the lead editorial denied Vietnamese allegiance to any foreign revolutionary model and claimed that the Lao Dong party would not "act in complete conformity with any existing formula." Hanoi's army daily in early August accused the Chinese of not being able to distinguish friend from foe.

Part of Hanoi's anguish may stem from concern that the Sino-US developments will have an unsettling effect on Vietnamese party cadre. Some of the issues for which the Chinese are being taken to task are believed to have long been a matter of dispute within the Lao Dong party. The effort to squelch the idea that the US-Peking detente provides a new way to end the Vietnam war may be intended to discourage Vietnamese cadres from leaning in that direction. The authoritative *Hoc Tap* editorial, for example, was broadcast throughout North and South Vietnam almost as soon as it hit the streets in Hanoi.

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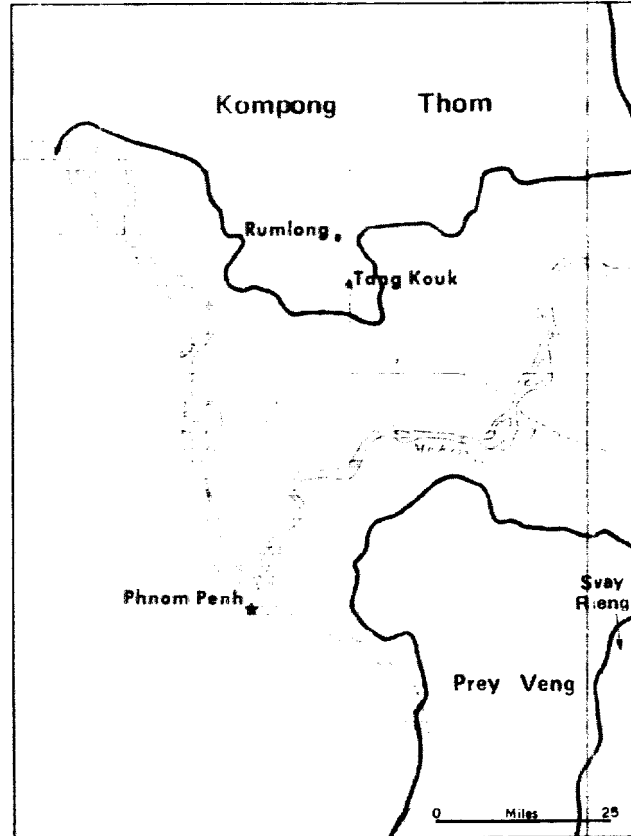
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**Cambodia: FANK Takes the Initiative**

During the rainy season, Phnom Penh is continuing to exploit the lull in significant Communist military activity by conducting short-term offensives designed to expand areas under government control and give some Cambodian Army (FANK) units badly needed field experience. The most ambitious government campaign now under way involves the use of 12 FANK battalions to clear a six-mile portion of Route 6, north of the village of Tang Kouk, in Kompong Thom Province. If that objective is achieved without too much difficulty, the government plans to commit more troops to the operation in order to advance as far north along the highway as possible. A FANK drive of major proportions was attempted by the Cambodians along Route 6 in this same area last fall, but Communist resistance bogged it down at Tang Kouk.

The Cambodians reached their initial objective, the village of Rumlong, on 24 August. They ran into some stiff Communist resistance en route, and suffered 19 killed and 41 wounded in a series of skirmishes with enemy elements. The FANK advance was also slowed by poor road conditions. The Communists have destroyed many bridges and culverts on Route 6, and have also dug many trenches across the road.

More modest FANK clearing operations in the southeast and also in the Phnom Penh area were concluded during the week, after encountering only token enemy opposition. A nine-battalion operation in the Prey Veng - Svay Rieng provincial border area south of Route 1 generated



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some Khmer Communist ralliers and helped improve the morale of the local population. The latter result was particularly timely, because many villagers were still smarting from the abusive behavior of South Vietnamese troops who, until recently, had been operating in the same general sector.

**Laos: Still Stalled in the South**

The government has reorganized its forces attempting to take Paksong on the Bolovens

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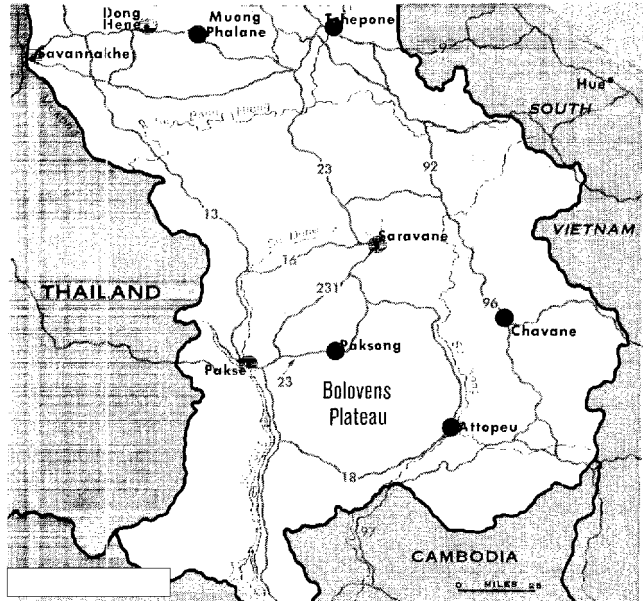
Plateau, but has been unable to dislodge the North Vietnamese from the town. A new three-pronged assault was launched on 21 August when two battalions were airlifted to positions south-east of Paksong. At the same time, three other irregular battalions were ordered to push toward the town from the northwest, while three Lao Army battalions again began to move east along Route 23.

The government has used Lao T-28s and artillery to pound the North Vietnamese forces holding Paksong—probably from the three battalions of the NVA 9th Regiment—but they have so far shown no disposition to fall back. The North Vietnamese are fighting from well prepared positions along Route 23, and they have made effective use of flanking attacks and heavy weapons to thwart government advances.

they may also be using tanks, at least in the Route 23 area.

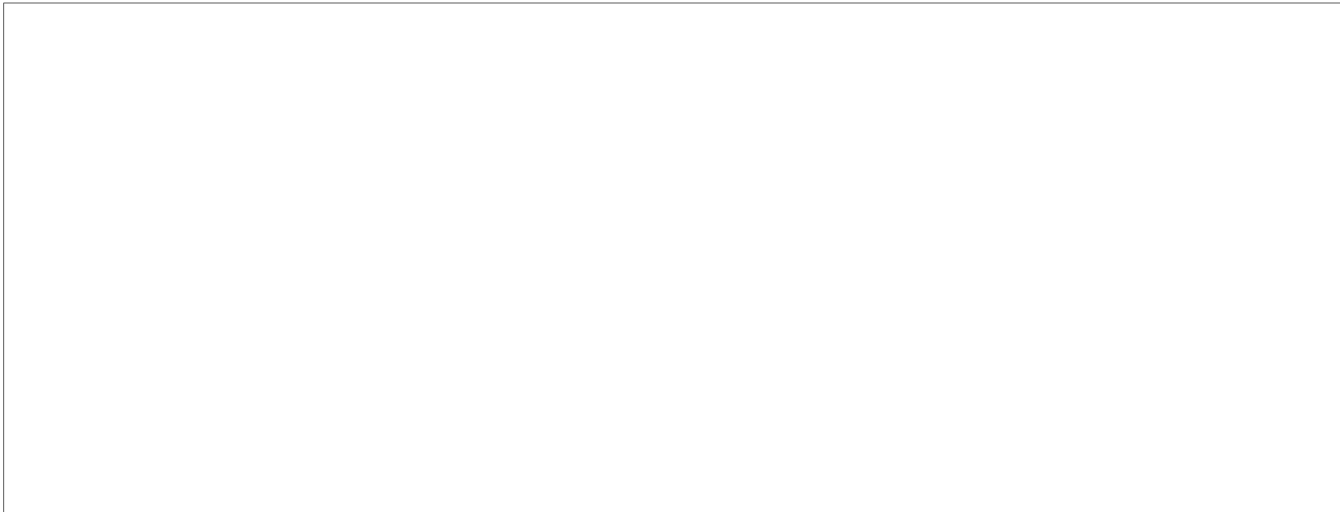
As yet, the Communists have not undertaken seriously to contest government sweep operations that are being conducted by four irregular battalions in the Saravane area. Several skirmishes have occurred near Saravane, however, and the Communists used rockets against the town airstrip on 24 August. No damage was reported.

Military activity has remained relatively light in other sections of the country. Vang Pao's



irregulars on the Plaine des Jarres have been skirmishing daily with Communist units, but little territory has been gained or lost. The operation to retake Muong Soui, the former neutralist headquarters, continues to move slowly because of Communist harassing attacks and poor weather conditions.

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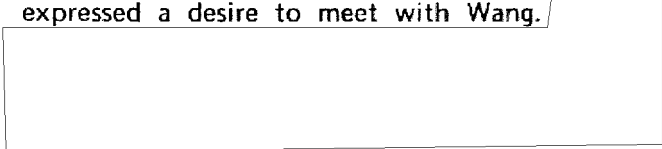


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CHINA-JAPAN: Japanese attention to the China issue will be increased as a result of a visit to Tokyo by Peking official Wang Kuo-ch'uan. A long-time specialist on Japan, Wang attended funeral services on 26 August for Kenzo Matsumura, a persistent advocate of closer Sino-Japanese relations.

Wang reportedly will remain in Japan for about a week. Prime Minister Sato, the major Liberal Democratic Party (LDP) contenders for the prime ministership, and other top government officials, as well as opposition politicians have expressed a desire to meet with Wang.



Peking's decision to send an official of Wang's stature to Tokyo suggests that the Chinese hope to capitalize on the prevailing favorable

"China mood" in Japan and possibly strengthen it. Wang almost certainly is prepared to meet with important Japanese officials, possibly including members of Sato's cabinet, but it is not clear how he will handle the request for discussions with Sato himself. The visit will increase pressure on the Sato government from elements in the LDP, opposition parties, and the media to take new initiatives toward improving Tokyo's relations with Peking. It also could affect current discussions in Japan on approaching the question of Chinese representation in the UN.

An announcement on 25 August that agreement had been reached to double the size of the Japan-China trade offices in Tokyo and Peking was probably also intended by China to tantalize the Japanese over the prospects of increased trade with the mainland, once Tokyo adopts a more "progressive" attitude toward China.



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### Sino - North Korean Relations: *Back-scratching Diplomacy*

The growing closeness in Sino - North Korean relations has been underlined in recent weeks with exchanges of high-level delegations and accompanying policy statements supporting the latest developments in the foreign affairs of both countries. Although this warming trend has been in train for some time, it appears that in light of China's evolving new position with the US both Peking and Pyongyang have found added advantages for putting on an eloquent display of Sino - North Korean solidarity.

The Chinese seem to have had little difficulty allaying possible North Korean misgivings about the impending US presidential visit to Peking. When the announcement was made on 16 July, a Chinese vice premier, Li Hsien-nien, was in Pyongyang at the head of a delegation observing the tenth anniversary of the signing of the Sino - North Korean treaty of friendship, cooperation, and mutual assistance. The responsibility for informing North Korean leaders about President Nixon's visit and for explaining the rationale behind Peking's invitation almost certainly fell on Li's shoulders. Several days later Prince Sihanouk arrived in Pyongyang from Peking and, presumably, further allayed any fears on Pyongyang's part. In a speech at a rally honoring Sihanouk on 6 August, Premier Kim Il-sung for the first time publicly endorsed Peking's decision. Peking promptly gave wide publicity in its official propaganda media to Kim's speech. Kim remains the only foreign Communist leader to have endorsed publicly the Chinese move toward the United States.

Peking clearly welcomed Pyongyang's support, which came at a time when certain other of China's allies, most notably Hanoi, have been voicing misgivings about Sino-US developments. The Chinese have apparently been unable to still completely Hanoi's apprehensions that North Vietnamese interests will be sacrificed as a result of the Nixon visit. Peking had probably hoped to reassure Hanoi somewhat by flaunting the endorsements from Kim Il-sung and Sihanouk and by playing up Peking's continued close relations with them. Peking, moreover, may have intended to exploit Pyongyang's

support as a means to help counter some of the criticism coming out of Moscow.

In a more narrow bilateral sense, the Chinese also perceive in closer Sino - North Korean relations the added expedient of helping to keep down tensions on the Korean peninsula in the sensitive period prior to and during the presidential visit. This consideration—in addition to the need to find justification for its own approach to negotiations with the US and to win over North Korean support—has been at least partly responsible for a number of unusual steps that the Chinese have taken recently. These include the appointment of a Chinese representative to the Military Armistice Commission (MAC) for the first time in five years, Peking's precipitate endorsement of the North Korean eight-point unification plan and the seven demands put forward by the Communist side at a recent MAC meeting, and Peking's support for negotiations between Pyongyang and Seoul on the question of divided families. Peking has also added economic inducements—the signing of an economic cooperation agreement on 15 August and the likelihood of a military aid pact to be worked out between Chinese military leaders and a visiting high-level military delegation from Pyongyang.

The North Koreans, meanwhile, have in mind advantages of their own in reaffirming a close relationship with Peking. Kim Il-sung probably calculates that by close support of Peking he can reap significant benefits for his own regime, particularly in the area of international recognition and acceptance. This approach might well pay immediate dividends in the forthcoming debate on Korea at the UN. Moreover, Pyongyang probably considers that, for the moment, working closely parallel to Peking offers a good opportunity of hastening a US withdrawal from Korea. Indeed, both Peking and Pyongyang are attempting to channel current pressures for US military withdrawals from Indochina and Taiwan to the Korean area as well. In addition, Pyongyang may feel that the Chinese will be more useful in helping to forestall a concomitant rise in Japanese influence in South Korea as the US withdraws.

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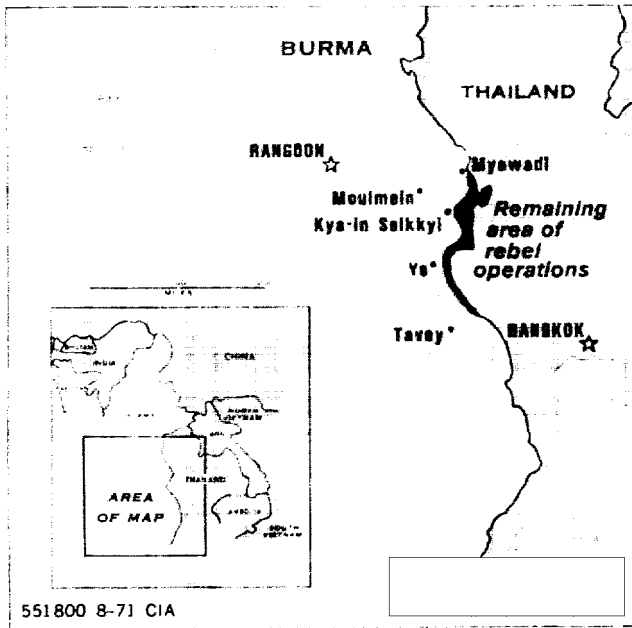
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### Burmese Claim Advances Against Insurgents

The operational area of former prime minister U Nu's rebels apparently has been reduced by Burmese military action. The insurgents have been pushed back to the Thai border from advance positions inside Burma, according to the deputy commander of the Burmese military region opposite the rebels' bases in Thailand. He admitted the Burmese Government was concerned over the insurgents' presence near Moulmein and Tavoy earlier this year but claimed that the main infiltration points around Myawadi now have been sealed.

Insurgent bands continue to drift across other sections of the border, however. Inasmuch as the Burmese admittedly find it difficult to keep track of all of the infiltrators, there is a possibility of continued isolated incidents some miles inside Burma by Nu's forces or by ethnic insurgents long in rebellion against the Rangoon government. According to Rangoon press accounts, one such incident occurred recently in which government forces suffered five fatalities in a two-hour engagement.

Despite the likelihood of occasional incidents of this sort, U Nu's potential for trouble-making appears to have been lessened as a result of increasing troubles with his reluctant allies among the Burmese minorities. The Karens, who constitute the main ethnic group along the Burmese-Thai border, halfheartedly cast their lot with Nu to secure weapons and funds from him. Now that some arms have been delivered, the Karens, traditionally antipathetic toward the Burmans, are apparently less disposed to be helpful.



[Redacted]

Nu also must cope with frustration among his fellow exiles over the limited accomplishments of the two-year-old resistance movement. [Redacted]

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## Political Bombing Upsets Philippine Scene

President Marcos' actions in the wake of last weekend's grenade attack on a campaign rally of the opposition Liberal Party have provoked charges that he is only interested in turning the incident to his benefit. There is popular suspicion that Marcos' Nacionalista Party was involved in the bombing, in view of the Nacionalistas' record of violence in the 1969 presidential elections. It appears that the net effect of the affair will be to erode further Marcos' public standing.

The President has suspended the writ of habeas corpus, contending that the action was necessary to permit the apprehension of the radical leftists he claims were responsible for the bombing that caused nine deaths and the hospitalization of all eight Liberal senatorial candidates. No evidence has developed to confirm the radicals' guilt. The violent effort to wipe out the Liberal Party leadership, however, does not fit the traditional pattern of Philippine political violence, which has been marked by attacks on individual adversaries more than by wholesale slaughter.

The Liberal Party, which was nearly eclipsed by Marcos' Nacionalistas in the 1969 elections, believes that public sympathy developing for it in

the wake of the bombing will improve its prospects in the November senatorial and municipal elections. The Liberals view Marcos' threat of martial law as a possible step toward tampering with the election timetable and thus denying them the political mileage they hope to get from the tragedy. Their fears that Marcos may use the habeas corpus measure against selected Liberal candidates have been heightened by Marcos' concentration on building a case of complicity in the bombing against Benigno Aquino, the only Liberal senator not at the fated rally. Marcos sees Aquino as a potentially serious rival. If Marcos took advantage of the present situation to move against Aquino—who has admitted contacts with Philippine leftists—the action would bring cries of political repression.

The government's restraint to date in rounding up suspects in the bombing incident has somewhat eased tensions in Manila. Continuing acts of terrorism have, however, prompted Marcos to reiterate his threat of martial law. The radical left would like to nudge Marcos into overreacting by taking this unpopular step, and will likely maintain its disruptive action. [REDACTED]

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## EUROPE

AUSTRIA-SWITZERLAND: The Austrian press has revealed that Swiss President Rudolf Gnaegi recently proposed the establishment of an arms pool by Switzerland, Austria, and Sweden and cooperation in defense matters, including the development of an antitank system. Access to Swedish military technology obviously has great appeal to Switzerland, which already has some limited cooperation with Austria. Gnaegi's proposal, however, essentially reflects Bern's concern over the

decline in Austria's military credibility since Chancellor Kreisky's Army Reform legislation reduced the term of military service from nine to six months. Although irritated by Swiss criticism of his defense policies, Kreisky is interested in Gnaegi's proposal, if for no other reason than to allay domestic critics of his reform measures on the eve of the national elections scheduled for 11 October. [REDACTED]

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### Berlin: *Potential Accord Will Raise Hopes of Detente*

The Berlin agreement referred to the Four Powers by their ambassadors on 23 August will be well received in Eastern and Western Europe—with the notable exception of East Germany. Although some time will be required to complete the steps necessary before the agreement can be signed, the impetus toward detente in Europe is apt to increase as these stages are passed.

Assuming the Four Powers approve the draft, East and West Germany must then negotiate an agreement on such details as documentation and administration of traffic between West Germany and West Berlin, handling problem cases, and increasing communications between the Soviet and Western sectors of Berlin. Although Pankow would probably prefer to obstruct the consummation of the accord, which voids East Germany's claim to full control over its territory, it has been left little room for maneuver and will be under Soviet pressure to come to terms. Indeed, Pankow has suggested moving up the meeting dates of the East - West German and East German - West Berlin negotiators who have been sparring for some months to no purpose.

Bonn is predictably enthusiastic about the terms of the accord, which are better than it had anticipated and which it expects to present to the West German public as a prize justifying Chancellor Brandt's Ostpolitik. The opposition Christian Democrats' initial reaction has been subdued. The Social Democratic - Free Democratic coalition also anticipates that it will be able to present for ratification well before the 1973 elections the treaties with Moscow and Warsaw that were hostage to a Berlin agreement.

Approval of the accord will also satisfy NATO's condition for moving toward a Con-

ference on European Security. Soviet spokesmen are already putting additional stress on a security conference that, along with such detente measures as mutual and balanced force reductions, is designed to reduce the American presence and role in Europe. Most European states, anxious to gain a greater voice in European affairs and to avoid increased defense expenditures, will feel under pressure to speed preparation of negotiating positions.

Bonn will see these efforts as complementing the broader purposes of Ostpolitik—to promote a European reconciliation by overcoming Soviet and East European fears of German intentions. In this way, Brandt hopes to make German reunification ultimately possible. Topics still on this agenda are a treaty of reconciliation with Czechoslovakia, normalization of relations with Hungary and Bulgaria, and a broad settlement of differences with East Germany.

Most East European states welcome this trend as enhancing their national security by removing a potential German challenge to postwar boundaries. They also hope to gain greater access to Western technology and financing, which they hope to use to ease domestic pressures. East Germany, on the other hand, feels threatened and may attempt to frustrate an East - West German accommodation by setting such preconditions as full diplomatic recognition and UN membership. Pankow's campaign to limit East - West German contacts and to eliminate the more obvious evidences of a common German identity, already under way, will nevertheless tend to isolate it from its allies.

Although present Soviet policy entails some risk for East European stability over the long

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term, the Soviets no doubt believe this can be contained and see themselves as gainers from recent events. The Berlin agreement, in addition to its effect on detente prospects, is probably viewed as a milestone in gaining Western acceptance of Moscow's primacy in Eastern Europe and of East Germany's legitimacy as a sovereign state. More-

over, Moscow probably correctly expects Bonn, with its confidence increased and its need for support reduced, to become more independent in dealings with its allies. The Soviets probably anticipate new opportunities for playing off one Western state against another and for delaying consolidation of the European Communi-

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## Yugoslavia Reacts to Warsaw Pact Pressure

The Yugoslavs are becoming increasingly sensitive to Soviet-inspired pressures in the Balkans. Some Warsaw Pact countries have treated Yugoslavia roughly in their press since their leaders met in the Crimea early this month. Belgrade is nervous and uncertain about the motivation behind Brezhnev's visit now scheduled for 22-24 September. Tito may be overreacting to make it clear that he does not intend to concede anything in his talks with Brezhnev.

Although there have been some minor polemical skirmishes with Moscow's allies, the Yugoslav media have directed most of their complaints to Moscow. In one broadcast beamed to the USSR, for example, the Yugoslav party condemned Soviet attempts to control and direct the foreign policy of its allies. The thrust of this attack indicates Belgrade's willingness to embarrass publicly those East European regimes doing Moscow's bidding and thereby fuel latent anti-Soviet sentiment in the area.

This tactic is a particularly dangerous threat to Budapest which, prior to the Crimean party summit, had friendly relations with Belgrade. Moreover, the 15th anniversary of the Hungarian revolt is only two months away and party leader Kadar would like to avoid any further potential for anti-Soviet manifestations during this sensitive period. Belgrade senses Budapest's vulnerability and has so far used this advantage sparingly in direct replies broadcast to Hungary.

There are also indications that Tito is paying special attention to the areas in Yugoslavia that border on Hungary and Bulgaria. Last week, for example, Belgrade made an issue of a fairly innocuous display of Hungarian nationalism at a soccer game in the Vojvodina, probably as a firm warning to the smaller minorities in Yugoslavia to refrain from nationalistic demonstrations. In Macedonia, Yugoslav officials speaking at the national revolution anniversary vigorously warned, again without visible cause, against Bulgaria's "renewed" irridentist claims to Macedonia.

These preventive measures also play a role in Tito's preparations for Brezhnev's visit. Tito has made it clear that he is in firm control of areas where the Soviets might consider arousing nationalist tensions. In addition, he has reportedly levied tough preconditions for the visit, including a requirement that the Soviets renew their commitment to the declarations of 1955 and 1956 which guaranteed Yugoslav sovereignty and the right of all Communist parties to pursue "different roads to socialism." Tito also is currently demanding that Moscow end its support of hostile Yugoslav emigres. The Yugoslavs say that the Soviets claim their only purpose in the Brezhnev visit is to improve relations. Tito obviously is not accepting these assurances at face value or relaxing his guard. Brezhnev appears to be in for tough bargaining sessions in Belgrade.

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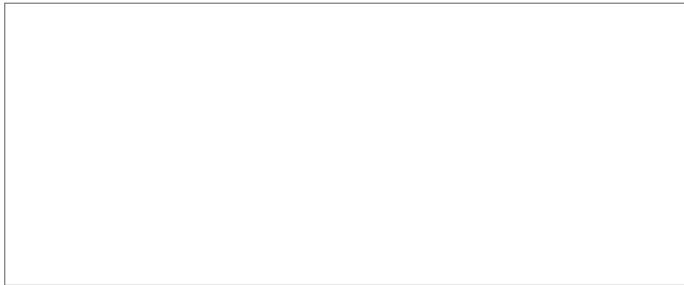
### Romania: *Ceausescu Charges Ahead*

Romanian leader Ceausescu used the days leading up to Bucharest's 27th "liberation" anniversary on 23 August to emphasize Romania's adherence to an independent course in the Communist world. Although faced with psychological pressure from Moscow and his other Warsaw Pact allies, Ceausescu confidently carried his campaign for national sovereignty and solidarity to all sectors of Romanian society last week. After receiving popular acclaim during an extensive tour of the provinces, he obtained unanimous party and government endorsement of his policies at a highly unusual joint session of all leading party and government bodies on 19 August.

Before this session, Ceausescu had met with Soviet Ambassador Drozdenko at the latter's request. The meeting probably did not go smoothly inasmuch as the talk was described as "comradely," a term that in the Communist vernacular implies disagreement. The ringing endorsement of Ceausescu's policies by the leading party and government bodies thus takes on the character of a defiant reaction to Drozdenko's apparent menacing attitude.

Ceausescu further advanced his nationalism campaign in a speech on 20 August to a graduating class at the Romanian military academy where he emphasized that "the Communist movement does not need any center in any part of the world," a reference mainly aimed at Moscow. In the same speech he also remarked, in an obvious reference to China, that "we do not forget for one moment that the socialist system is composed of 14 countries in Europe, Asia, and America." Belgrade's replay of Ceausescu's remarks the same day probably increased Moscow's suspicion about Yugoslav-Romanian collusion, and reinforced the

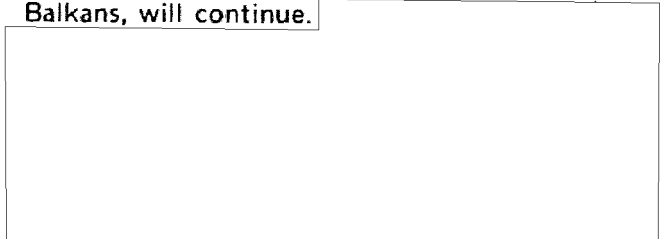
Kremlin's general apprehension over the course of events in the Balkans.



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Amid such atmospherics, a high-level Chinese military delegation flew from Tirana on 22 August to begin a five-day visit in Bucharest, where it was accorded red carpet treatment at the "liberation" celebrations. Furthermore, on 23 August in Peking, the acting Chinese foreign minister strongly supported Romania's independent stance by saying that "those (read Moscow) who pursue a policy of hegemony are again creating tension in the Balkans." The Kremlin's displeasure with the coziness in Romanian-Chinese relations was apparent in the low-level Soviet turnout at Romanian celebrations in Moscow, as well as in two recent press articles which asserted that China "was trying to oppose one country against another and to shake the socialist community."

It appears that the rivalry between the USSR and China for influence in Romania, indeed in the Balkans, will continue.



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## Geneva Conferees Ponder Nuclear Test Ban and China's Views

Encouraged by the favorable prospects for the US-USSR draft convention curbing biological weapons (BW) many delegates at the 25-nation Geneva disarmament talks now are giving greater attention to the possibility of other arms accords—particularly a comprehensive ban on nuclear testing (CTB). The conferees find it difficult to discuss these matters, however, without speculating on the impact Communist China will have on future disarmament negotiations should it enter the UN this fall.

Last week the Japanese delegate described a CTB as the "most important" subject on the agenda, a reference to the prevailing view at Geneva that a CTB would be a far more meaningful measure than the BW agreement. Tokyo and Ottawa are pressing particularly hard for action on this topic because they are worried about the environmental implications of a US high-yield underground test in the Aleutians this fall. Many other delegations are anxious to see a CTB become a reality because they believe it would inhibit further research to improve strategic weapons and thus reinforce any agreements made at the superpowers' strategic arms limitation talks.

Moscow is sensitive to these ruminations and may be preparing a new initiative to respond to the growing concern over the need for a CTB. Such a move also would have the advantage of carrying the "disarmament offensive" that Brezhnev launched last March a step further. The Soviets do not appear inclined to concede to the US insistence that on-site inspection is necessary to verify compliance with a CTB. Nor is there any sign that the Soviets have reversed their opposition to partial measures, such as a ban on tests

beyond a threshold defined by the Richter seismological scale. However, Soviet delegate Roshchin has implied that Moscow might be interested in subscribing to a CTB verified by an international "nuclear detection club" using seismic data exchanges.

Roshchin also told US officials recently that he hopes Peking participates in the talks should China enter the UN this fall. He said this should be accomplished through a modest enlargement of the Geneva conference that would not jeopardize the serious negotiating atmosphere the Soviets find so desirable. Roshchin may have been talking for effect in order to disguise Soviet uneasiness over the possibility of China's entry into organizations such as the Geneva Conference. The Japanese have commented privately in much the same fashion. They, like the Soviets, want to avoid a disarmament conference open to all states, a concept the Chinese have consistently favored.

There are some indications that Peking would eventually be willing to participate in the Geneva talks. In a recent speech, the Pakistani delegate implied that Peking might join the conference once its UN membership is secured.

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## MIDDLE EAST - AFRICA

## Middle East Developments

*Israelis Continue to Resettle Gaza-area Arabs*

In mid-August, in part to improve their immediate security but also perhaps to better their long-range control, the Israelis began to reduce the size of the volatile Arab refugee camps in the Gaza Strip by resettling the residents and cutting broad military patrol roads directly through the camps. [redacted] this has drawn minimal refugee or fedayeen opposition, despite the summary evictions and the demolition of hundreds of houses. The Israelis vigorously deny, however, that they are forcing the Arabs out of the strip.

Through 18 August, according to UNRWA officials, about 2,300 families—some 12-14,000 persons—had been relocated. Most have found their own housing in Gaza town or elsewhere in the strip, but some 200 families have been moved into homes provided by the Israelis. About 350-400 families have elected to go to Al Arish in the Sinai, some 30 miles south of Gaza, while some 150 families have gone to the West Bank, according to an UNRWA estimate.

[redacted] there is talk of using vacant housing near Jericho for the refugees. On the other hand, however, [redacted]

[redacted]—in Phase Two—the Israelis intended to construct four new resettlement areas in the Strip. UNRWA officials have voiced suspicions that Israel intended to engage in large-scale resettlement outside the Strip in preparation for an eventual Israeli annexation of the area. Defense Minister Dayan's recent speech about "more permanent arrangements" in the occupied territories has increased these suspicions.

UNRWA officials believe that the lack of opposition from the residents arises from a feeling

among them that the Arab states have abandoned their cause, as well as from the presence of more than the usual numbers of Israeli military personnel. International Red Cross personnel on the scene attribute the calm to an atmosphere of shock intentionally created by the Israelis through such means as midnight visitations, short notice to the refugees, and the quick demolition of their houses. Egypt has protested the Israeli action to UN Secretary General Thant and seems certain to insert the subject into any Middle East debate at the upcoming General Assembly session.

*Meanwhile, Back in New York*

The Jordanians are apparently still talking about taking the issue of Israeli activity in Jerusalem to the Security Council, presumably before the General Assembly convenes late in September. Although the Jordanians are probably hoping to limit the discussion to the single issue of Jerusalem, such a move by Amman would almost inevitably open the door to an airing of the entire Middle East question by other Arab states who are not disposed to cooperate closely with Jordan following its recent clash with the fedayeen.

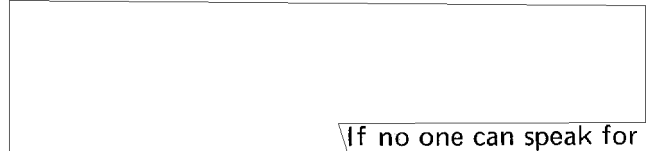
Even if the Jordanians reconsider their decision, a heated debate in the UN General Assembly on the whole Middle East problem is looming over the horizon. An Egyptian "diplomatic offensive" to gain support is already under way, although Cairo media indicate that tactical decisions relating to the assembly were still being worked out this week. [redacted]

The Israeli Foreign Ministry is also working intensively in preparation for the assembly

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session. It is apparently concerned that the Arabs this year will seek passage of a milder resolution, which the US might find palatable. Such a text could call on the Israelis to make a more positive response to the proposals of UN mediator Gunnar Jarring and could censure Israel for its actions in Jerusalem. To bolster its case, Tel Aviv is blasting the terms of the Damascus communiqué setting up the Federation of Arab Republics, and is also emphasizing recent Egyptian remarks on the imminence of resumed warfare.



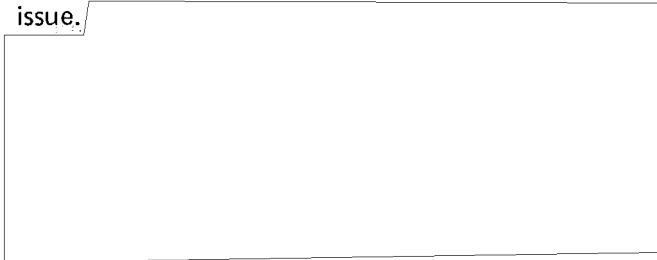
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If no one can speak for the fedayeen, and if King Husayn stands pat on the terms he presented to the Egyptian-Saudi negotiating team, any settlement—even one that is largely a face-saving gesture for all parties—remains out of reach.

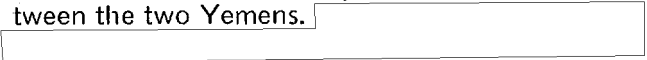
*Jordan-Fedayeen Mediation*

*New Government In Yemen*

President Sadat continues to work hard to bring about an agreement between the Jordanian Government and the fedayeen. Following the FAR meeting in Damascus, he flew to Jidda to inform King Faysal—also involved in the mediation effort—of the outcome of discussions on the issue.



The cabinet of new Premier Hasan al-Amri was announced on 24 August. An unexpected development was the naming of a southern Yemeni, Abdullah al-Asnaj, as minister of foreign affairs. Al-Asnaj was active in southern Yemeni trade union and political affairs until his exile in 1967. He is one of the more prominent leaders of the National Unity Front (NUF), a band of exiles who have been mounting a campaign based in Yemen against the radical regime in Aden. The appointment of al-Asnaj will cause a further deterioration in the already hostile relations between the two Yemens.



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EQUATORIAL GUINEA: A massive roundup of President Macias' tribal foes and some foreigners that began early last week is continuing. The most important spokesmen for the tribal minority have been arrested, as well as some of the President's own tribesmen, a handful of Nigerians and one Spaniard. A purported "loan" by a Spaniard to the vice president—one of the arrested minority leaders—apparently triggered Macias' actions. The absence of any public charges indicates that the

government is still preparing its case, but circumstantial evidence suggests that Macias is reacting to a real plot rather than simply consolidating his position further.



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### Arab Federation: *Another Step Toward Nominal Union*

The constitution of the Federation of Arab Republics (FAR) was approved on 20 August in Damascus by the leaders of Egypt, Syria, and Libya. It strengthens earlier indications that the member states will surrender few sovereign powers to the union.

The text is based on the Benghazi Declaration promulgated at the FAR summit last April and gives more appearance than substance to any supposed supranational authority for the federation. Each member of the presidential council, composed of the three heads of state, will have a veto on any decision made by the council for a period of two years after the constitution comes into force. This provision formalizes an arrangement already in use for summit-level consultation on foreign and defense policy. The requirement for unanimous decision in the council also preserves the authority of each head of state over his country's domestic affairs.

There is no reason to expect that the projected Federal National Assembly will have any more political weight than the present Egyptian and Syrian legislatures, which operate as creatures of the respective regimes. The establishment of a federal capital in Cairo and the adoption of a common flag, anthem, and emblem are merely an attempt to contrive the trappings of union.

not specifically defined and such limited responsibilities as may be assigned will be decided by the presidential council.

In the military sphere, each chief of state retains control of his armed forces, in effect making the proposed federal command a paper organization. The right of military intervention to protect a threatened member regime, explicitly provided in Article 64, would seem to have practical application only with regard to Libya. Syria and Libya do not have the military muscle to intervene in Egypt and logistic problems virtually preclude any effective Egyptian action beyond air support for a threatened Syrian regime.

The appointment of a follow-up committee to "supervise the implementation of the constitution" suggests that the federation's institutional machinery will be set up at a deliberate pace. After the constitution is submitted to a referendum in the three countries on 1 September, one of the first steps that will presumably be taken is the selection of the first chairman of the presidential council.

Meanwhile, despite the rhetoric in the conference declaration of "no conciliation, no negotiation with the Zionist enemy," the Egyptians have yet to announce that they have abandoned efforts to work out an interim settlement. Similar language was incorporated in the FAR's Benghazi Declaration last spring, apparently at Qadhafi's insistence, but did little to obstruct Sadat's subsequent diplomatic maneuvering. Israeli Foreign Minister Eban, however, was quick to claim that the intransigence of the Damascus Declaration proved that the Arabs were responsible for the absence of visible progress in the talks.

Each state will retain indefinitely its separate foreign service and its own membership in the UN. The jurisdiction of the other federal ministries is

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MALAWI - SOUTH AFRICA: President Banda's state visit to South Africa from 16-20 August was judged an outstanding success by both sides and almost immediately prompted reports in the South African press of a forthcoming summit meeting between black and white African leaders. The visit—the first by a black African head of state—was designed to project an image of inter-racial harmony, and thereby show that black African states can communicate with South Africa. It is doubtful, however, that most black African

states, with their long-standing animosity to South Africa's apartheid policy, will be convinced. Although there has been no official confirmation of a summit, such a meeting would be a logical follow-up to Banda's visit. According to the press, the meeting is being planned for next February in Blantyre, Malawi, and will include Malawi and South Africa along with Rhodesia, the Malagasy Republic, Botswana, Swaziland, Lesotho, and perhaps the Ivory Coast. Leaders from South Africa's black African homelands may also attend.

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### South Africans Sharpen Debate Over Coloreds

A recent statement by nearly 30 Afrikaner university professors advocating full citizenship rights for Coloreds (persons of mixed parentage) has brought to a head the long-simmering question of the future of South Africa's Colored population and threatens a further split in the once-monolithic ruling National Party.

South Africa's two million Coloreds have always been a problem for the practitioners of apartheid. In pursuit of their policy of separate development, the Afrikaners have established a vast system of African homelands where every black could eventually be resettled, regardless of where he was born and raised. The Coloreds, however, have no traditional tribal home and therefore do not fit into this scheme. The National Party has ignored the problem for years, although last December party leaders spoke vaguely of a policy of "parallel development," which seemed to be a compromise between total integration with the white community and territorial separation.

The university professors' statement was quickly rejected by the government, but was endorsed less than a week later by a group of over

100 prominent Afrikaners from the Cape area, where the bulk of the Colored population lives. Moreover, an unprecedented number of letters poured into newspaper offices, almost all "astoundingly sympathetic" to integration.

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A week ago, the National Party repeated its commitment to parallel development, an indication of the seriousness with which the party leaders view the current debate. They undoubtedly intend to apply both pressure and persuasion to bring party rank and file back into line. Although Prime Minister Vorster appears to be leaning toward greater integration, he probably believes he is unable to move too rapidly without losing support from the party's conservatives.

The Coloreds' increasing discontent with second-class citizenship was brought home forcefully last spring when they rioted during a local bus strike. Until that time, most South African whites regarded them as docile and easy-going,

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and only a few observers had decried the deterioration in white-Colored relations that had taken place in the past few years.

Most whites and a substantial number of Coloreds believe that accommodation between the two groups is still possible, provided the whites take steps soon to grant full equality to the Coloreds. The government has shown some

signs of moving in this direction; in June, for example, it reversed a decision taken several months earlier and announced its intention to pay Coloreds and whites equal wages for equal work in public service and urged private industry also to raise the Coloreds' salaries. Whether the government can act quickly enough to prevent irreparable damage to prospects for future cooperation is questionable, however.

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## WESTERN HEMISPHERE

### Bolivia: *A New President; a New Direction*

The new military-civilian coalition government led by Colonel Hugo Banzer is strongly anti-Communist, and the new President has vowed to reverse the leftist policies of the Torres regime. Banzer was swept to power on 22 August by a revolt that began three days earlier in the eastern province of Santa Cruz and ended in bloody fighting between the rebel forces and the military and leftist civilian backers of Juan Jose Torres in La Paz.

The move against Torres had been many months in planning but was finally sparked by a pre-emptive move by the government on 19 August that resulted in the arrest of Colonel Banzer and several other plotters in Santa Cruz. Rebels quickly seized control of Santa Cruz and began picking up the support of army divisions throughout the country. By midday on 21 August President Torres' support had dwindled to the army regiment charged with his protection and several thousand leftist students and workers, armed but completely unorganized. The serious fighting lasted only a few hours, resulting in more than 100 dead and 500 wounded, but sporadic clashes between army troops and armed students continued through midweek.

The military was supported in its move against Torres by the Bolivian Socialist Falange (FSB) and the Nationalist Revolutionary Movement (MNR). These parties, the two largest and best organized in Bolivia, now have equal representation in the Banzer government. This lends the new government an appearance of popular support and strength, but the traditional and intense rivalry between the moderately rightist FSB and moderately leftist MNR will create serious problems for the new president. In addition, MNR leader and former president Paz Estenssoro is back in La Paz after seven years of exile and will probably soon be at odds with the government as he seeks the political limelight that was his from 1952 to 1964.

President Banzer has served notice that he will take a hard line against leftist dissidents. This attitude was dramatically demonstrated by an armed assault on the university in La Paz where leftist students were continuing to resist the new government. He has also announced that a priority task for his government will be to crush the pro-Cuban guerrilla group that has sworn to continue its opposition. The campaign against pro-Cuban guerrillas and student dissidents could

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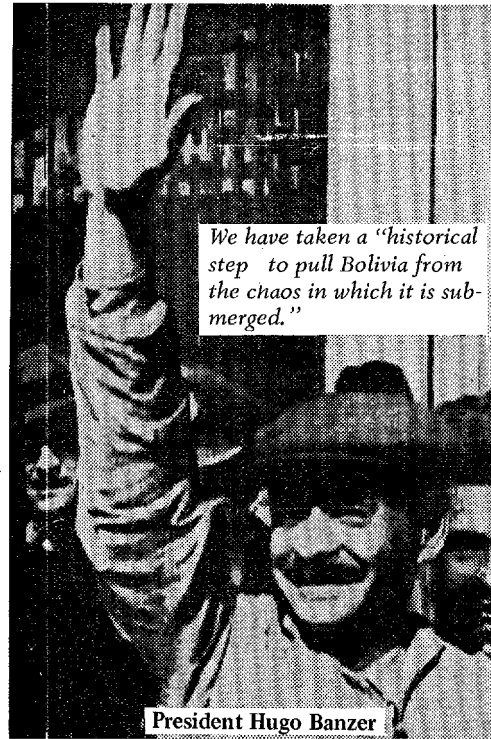
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serve as a pretext to eliminate all leftist opposition to the Banzer government.

Other policy statements by the new president indicate that he plans to steer a basically moderate course. He has noted that some of the more irresponsible actions of the two previous governments will be reversed, but the clock cannot be turned back and such things as the expropriation of the US-owned Bolivian Gulf Oil Company cannot be undone. In domestic politics, Banzer has said he will strive for national unity, eliminating the terms left and right from the vocabulary and "speaking only of nationalism." He has avoided setting a date for elections, saying "the country's problems must come first."

Argentina, which apparently provided some support for Banzer's move against Torres, was the first Latin American nation to recognize the new regime

Banzer said in a press conference that he will continue relations with the Soviet Union and the East European countries, but is not interested in restoring relations with Cuba. Relations with the US are expected to improve, and the Bolivians have already indicated



they will be seeking substantial economic assistance.

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## Mexican Student Riots Claim Another Political Victim

Attorney General Julio Sanchez Vargas resigned last week, the latest political victim of the events of 10 June

[redacted] Sanchez' departure probably reflects President Echeverria's desire to establish credibility as the students' champion beset by disloyal or ineffective subordinates. The change may offer the bonus of saving Echeverria from having to account fully for the June affair when he delivers his state of the union address at the opening of Congress on 1 September.

Several top-level politicians had resigned last June, ostensibly to free the attorney general's hand in investigating the causes of the violent clash, which saw students harshly repressed by a group of toughs called "halcones" who are generally acknowledged



Pedro Ojeda Paullada

[redacted] Sanchez Vargas' preliminary report last month was a blatant whitewash, and pressure from opposition critics and from the public media has been mounting. Sanchez, a man of high personal integrity and political insensitivity, may himself have demanded permission to issue a full and honest report and thus precipitated his own downfall.

The naming of 37-year-old Pedro Ojeda Paullada to replace Sanchez has been praised by

the government's critics. Ojeda, unlike Sanchez, is not burdened by association with past student troubles and his inexperience for the attorney generalship will grant him a period of grace before public pressure rebuilds.

Sanchez' removal will help endear Echeverria to the political left. The former attorney general is known as a hard liner who believes in taking stern measures against leftists, students, and others who disrupt order and seek a change in the political system. He is believed to have been unsympathetic to Echeverria's policy of releasing most of the student leaders jailed for the 1968 disturbances, and Echeverria is probably pleased to have rid himself of the conservative Sanchez. The President has energetically sought to portray his administration as more open and democratic than past regimes. In particular, he has worked at opening lines of communication to students and the left in general. His policies have not been popular with the old guard, which views them as offering dangerous possibilities for the destruction of the Mexican system of government. Echeverria's alienation of this powerful and moneyed element is likely to give him some tough political crises in the future.

Rumors that other politicians on the cabinet level will fall in Sanchez' wake may be the normal consequence of a dramatic political happening. Echeverria may, however, be displeased with the performance of some of his lieutenants, whom he appointed on the basis of their loyalty, youth, and enthusiasm. The inexperience of various officials has caused the government some chagrin, and Echeverria is most likely weighing the merits of their removal against the reflection their ousters would cast on his own judgment.

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HAITI: The first evident clash between members of the new administration has demonstrated that the majority is still disposed to cooperate in order to preserve the collegial government. Disagreement on several matters [redacted]

[redacted] between Minister of Interior Luckner Cambronne and the President's sister and private secretary, Marie Denise Dominique, led to a showdown of sorts earlier this month. The principal members of the government, most importantly the President's mother, sided with

Cambronne. The incident ended, for the time being, on 12 August when the Dominiques and a sizable entourage returned to France where Madame Dominique's husband is Haiti's ambassador. The incident itself probably did little if any immediate harm to the government. [redacted]

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**EI Salvador Prepares for Election Campaign**

With the presidential election now only six months away, the governing National Conciliation Party (PCN) has chosen its candidate, and opposition parties are taking hesitant steps toward coalescing behind a single opponent.

As required by the constitution, the PCN candidate, Col. Arturo Armando Molina, was relieved of active military duty last week. Several vice presidential hopefuls have been mentioned, but it is generally assumed that Colonel Molina will be allowed to select his own running mate during the party convention next month. Because the PCN is the largest single party, is the best organized, and has the advantages derived from being the governing party, its candidate is considered a sure winner.

Opposition parties, however, believe that if they can throw their combined strength behind one person, they have a chance of capturing the presidency, as well as the substantial portion of congress they have gained in the last four elections. The Christian Democratic Party (PDC), two smaller leftist parties, and one conservative party have begun talks. Given the lack of enthusiasm among the conservatives, however, any coalition that results will most likely include only the PDC and its leftist allies and be dominated by the PDC,

by far the largest of the three. Regardless of the success or failure of the coalition, opposition parties will be concentrating on the legislative elections in March because, under the Salvadoran system of proportional representation, they have every expectation of again electing a sizable portion of the legislative deputies.

Anticipating the stresses of the approaching election campaign, the government is making an effort to reduce the chance of embarrassing disorders by trying to settle a seven-week-old teachers' strike. The government's offer, including pay increases, was rejected by the teachers' union earlier this week, and the minister of education replied on nationwide TV that the government's offer was final. A teachers' demonstration on 25 August resulted in significant disorders. Security forces did not intervene, but officials have warned union leaders and some Communists involved against further violence. As a result, another demonstration planned for 27 August may have few participants. The teachers appear to be losing support because of their intransigence, while the government, already strongly backed by the military, is gaining public support for a fully operative school system. [redacted]

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### Chile: *Rivalry Increases Within the Government*

The Socialist Party's (PS) increasing determination to extend influence in the labor field is heightening internal rivalry in the Allende government. The Socialists reportedly consider Communist Party (PCCh) organizational efforts among workers a failure, despite the advantages of administration patronage and support from Moscow. PS leaders criticize PCCh policies such as profit-sharing for workers as conservative and compromising and call militantly for mobilization of the workers to greater consciousness of the needs of the revolution.

[REDACTED]

The PCCh considers itself the senior

partner of the two Marxist parties in their long domination of the labor organization, and it has many plans to use the confederation to strengthen Communist political power.

Meanwhile, the opposition Christian Democrats have been using their own influence in some copper and peasant unions to encourage wage demands, strikes, and other tactics to exacerbate Allende's growing economic woes. Particularly galling to the Communists is the Christian Democratic hold on many peasants, who are resisting government attempts to transform agrarian reform settlements into units resembling state farms.

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