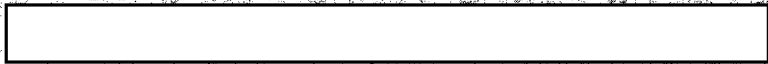


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19 September 1966

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# INTELLIGENCE REPORT

Prepared Weekly

for the

SENIOR INTERDEPARTMENTAL GROUP

DIRECTORATE OF INTELLIGENCE

State Department review completed

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C O N T E N T S

	<u>Page</u>
1. Poland. . . . .	1
2. Rhodesia. . . . .	2
3. Egypt . . . . .	3
4. Thailand. . . . .	4
5. Malaysia. . . . .	5
6. Uruguay . . . . .	6

19 September 1966

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25X1

1. POLAND

There is increasing evidence that moderate elements within the Polish regime have been given the green light to work toward improving long-sagging relations with the US.

During a talk on 1 September with Ambassador Gronouski, Deputy Foreign Minister Winiewicz voiced optimism over future relations and new hopes for a Vietnam settlement. Subsequently the Poles have indicated that "good news" will soon be forthcoming on the protracted consular convention negotiations and have shown some willingness to accommodate the US on the issue of defense attaché representation. Warsaw has also responded favorably to a Ford Foundation approach to resume its educational exchange program there and has expressed interest in expanding commercial relations.

The Polish press gave much publicity to an unusual meeting on 6 September between Gomulka and Polish ambassador to Washington Drozniak, who is on home leave. The meeting and its publicity may be Gomulka's way of publicly indicating that any impending Polish moves vis-a-vis the US have his approval.

The Polish party hard-liners, centered in the military-security apparatus, may yet again organize anti-US incidents, using Vietnam as a pretext, to offset moves friendly to Washington. However, the proponents of better relations, known for their caution, probably would not have taken their recent actions unless they believed that they could prevail. Ambassador Gronouski has sought to strengthen the hand of the moderates by recommending that the US persevere in its initiatives to improve relations.

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-1- 19 September 1966

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2. RHODESIA

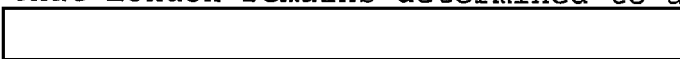
Prime Minister Wilson has until Christmas to attempt a compromise settlement with the Smith regime in Rhodesia. If he fails, however, there are serious pitfalls in the commitments he gave to the recent Commonwealth Prime Ministers' Conference in London.

Wilson promised that if the regime does not end its rebellion he will withdraw all previous offers of compromise made to it and "not thereafter submit to the British Parliament any settlement which involves independence before majority rule." He previously had offered independence to the white minority government, after a temporary return to nominal British rule, in return for guarantees of African rights and progress.

Wilson did not commit himself in the communiqué to a deadline for withdrawing the compromise offer, and he will try to convince the Smith regime of his maneuverability on this matter. He allowed African leaders, however, to believe he meant the end of the year. This interpretation seems to have stiffened the will of white Rhodesians to resist.

Wilson also promised the conference that if the rebellion is not ended by Christmas--and in this case the deadline is explicit--he will agree to selective, mandatory economic sanctions through the United Nations. He hopes to limit these at first to the import of Rhodesian pig iron and chrome, and possibly tobacco--still purchased by American and West German firms. Later, if necessary, he would extend them to oil supplies reaching Rhodesia via Mozambique.

African leaders hope once mandatory sanctions on a selective basis are accepted they can rapidly be escalated to full economic sanctions. This, however, would lead to the clash with South Africa that London remains determined to avoid.



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3. EGYPT

Doctrinaire Arab Socialism apparently has won out over more moderate economic views in the Cairo regime.

This is implicit in the dissolution of the Muhi al-Din cabinet and its replacement by one composed of technicians headed by Muhammad Sulayman. Sulayman, a former High Dam minister, is a capable administrator with considerable experience in working with the Soviets. Muhi al-Din and long-time finance minister Qaisuni had been holding extensive conversations with IMF and World Bank officials, as well as Western financial representatives, regarding new financial infusions for Egypt's faltering economy. The repudiation of these men is viewed with dismay in the Western financial community, despite Cairo's official line that the change signifies no political shift.

Nasir is reverting to an emphasis on expanded industrialization, greater central direction, and more "Arab Socialism." The over-all attitude is one of go it alone. This shift comes at a time when the IMF and World Bank are calling on Cairo to undertake more stringent economic measures--including devaluation of the Egyptian pound and the cutting of subsidies. The make-up of the new government strongly suggests that Nasir is not willing to pay this price.

Although the Soviets regard Sulayman as an efficient administrator, Moscow has indicated no particular enthusiasm for the change. Nasir, nevertheless, may hope that his appointment will loosen Moscow's purse strings. Cairo has announced that a high-level Soviet economic mission will arrive in Cairo on 17 October.

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4. THAILAND

Foreign Minister Thanat is pushing for a re-evaluation of arrangements governing the US military presence in Thailand.

On 14 September the Thais presented a formal note to the US Embassy requesting the US to negotiate "as a matter of grave importance and urgent necessity" a mutual defense agreement which would spell out the "rights and obligations" of the two countries.

Thanat had earlier told US Ambassador Martin that he had cabinet authorization to explore the possibility of negotiating a "satisfactory" agreement covering mutual military obligations. He claimed he had the impression that the US military was "doing as it pleased" in Thailand, although he admitted that Prime Minister Thanom did not share this view. Thanat also argued that continuing criticism of Thailand by important segments in the US led him to doubt the commitment of future US administrations to defend Thailand. He has reacted sharply in recent weeks to criticism of Thailand in the US press.

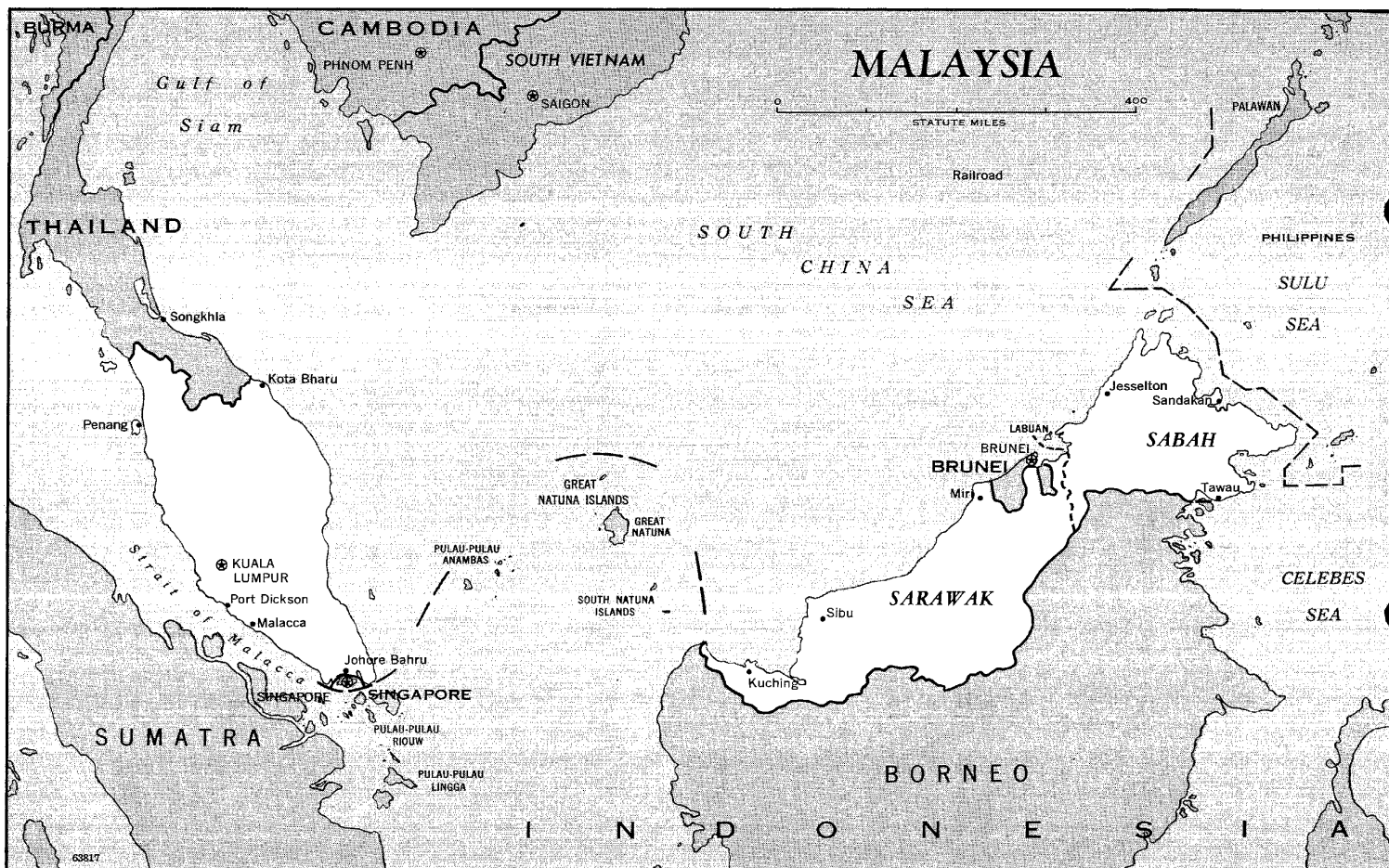
Thanat's current hypersensitivity may result from the lukewarm reaction of Asian nations to his recent Vietnam peace initiative. He was portrayed in some non-Communist Asian quarters as a "US lackey" and not the logical person to sponsor a negotiated settlement in Vietnam.

It is not clear how much support Thanat has among Thai military leaders for his current campaign. Although it is unlikely that they will back a fundamental change in Thailand's military arrangements with the US, some of them, including Deputy Prime Minister Praphat, have in the past criticized US military activities in Thailand.

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5. MALAYSIA

The current crisis in the Borneo state of Sarawak, highlighted by the declaration of a state of emergency on 15 September, underscores the tenuous relationship of the component parts of the three-year-old Malaysian federation (see map).

The crisis stems from the competing claims for the Sarawak chief ministership of the incumbent Stephen Ningkan, whose faction favors more autonomy for Sarawak, and Tawi Sli, who represents those willing to accept Kuala Lumpur's dominance. Kuala Lumpur engineered Ningkan's replacement by Tawi Sli in June, a move upset by the Sarawak high court on 7 September. Ningkan meanwhile has been attempting to obtain the backing of the Sarawak United People's Party, many of whose leaders are openly anti-Malaysia and some of whom are Communist oriented.

On 19 September the Malaysian federal parliament amended the Sarawak constitution so that the governor can convene the assembly to remove Ningkan as chief minister. As a sop to popular sentiment Malaysian Deputy Prime Minister Razak has promised that elections will be held in Sarawak at some unspecified date.

Kuala Lumpur's state of emergency declaration has apparently made Ningkan a national hero and has further strengthened the position of those favoring autonomy. It will probably increase rather than control unrest. In the long run it could create a situation susceptible to exploitation by Indonesia, which, despite the official ending of confrontation, has not abandoned its ambition to separate the Borneo states from the federation.

Another factor which may be expected to worsen the situation is the replacement of British military personnel in Sarawak by unpopular Malay troops from mainland Malaysia. This move, now in progress, is to be completed by Christmas.

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-5- 19 September 1966

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6. URUGUAY

The Communist-inspired general strike on 15 September closed most business and government offices for 24 hours. It was the first major strike the Communists have been able to engineer on primarily political issues.

The Communists will view the strike as supporting their belief that legitimate economic grievances can be channeled into support for party political objectives. Although the aims of the strike included better wages and benefits, its main objective was political: to demonstrate labor's repudiation of the constitutional reform proposal put forward jointly by large factions of the two traditional parties.

This joint proposal, which would substitute a strong executive for Uruguay's ineffective and divided nine-man National Council of Government, is the only plan for governmental reform with a chance to win approval in the 27 November general elections. There will be four proposals on the ballot, and vote splitting may keep any reform from being adopted. If reform fails, chances for a coup, probably by frustrated groups within the governing Blanco Party with some military backing, will increase sharply.

Despite council president Heber's earlier statements that he would not tolerate labor unrest, the government took no measures to prevent the strike. Communist labor leaders will almost certainly be encouraged by their success and by the government's inertia. Increasing labor agitation, perhaps including another general strike, seems likely before the November elections.

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