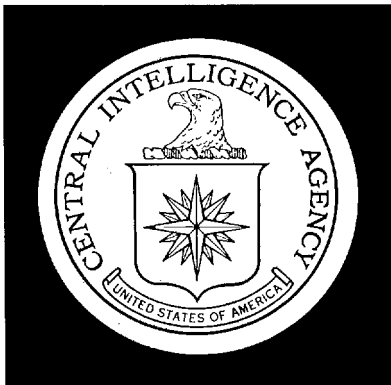


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DIRECTORATE OF  
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# *Central Intelligence Bulletin*

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**№ 040**

4 May 1971

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Approved For Release 2003/05/19 : CIA-RDP79T00975A018900090001-3

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**EAST GERMANY:** Walter Ulbricht, 77, has stepped down as first secretary of the East German Communist Party (SED) in favor of 58-year-old Erich Honecker.

There is no evidence that Ulbricht was forced out. He will retain his position as head of state and will take a newly created honorary post as "chairman" of the party. While age and health were certainly factors in Ulbricht's decision, policy problems also entered into it. Ulbricht was outvoted last December on economic policy, when the East German leadership had to recognize that the pursuit of overambitious plans had brought the economy into serious difficulties. The pressure of Bonn's Ostpolitik may have influenced the move as well, because Ulbricht has on occasion been at odds with his allies on how to handle it.

Honecker, who has been Ulbricht's heir-apparent since 1961, is considered by most observers to be as dogmatic as his mentor. For several years, Honecker has been running the party's routine operations, and it is not likely that he will encounter meaningful domestic opposition. Honecker is personally known to most of the present Soviet leaders and received special attention from them during the recent CPSU congress. The timing of the move, just six weeks before the East German party congress, gives Honecker time to consolidate his hold and formulate his plans.



Erich Honecker

Ulbricht's retirement will generate considerable speculation in West Germany over prospects for Bonn's currently stalemated Ostpolitik. It is widely

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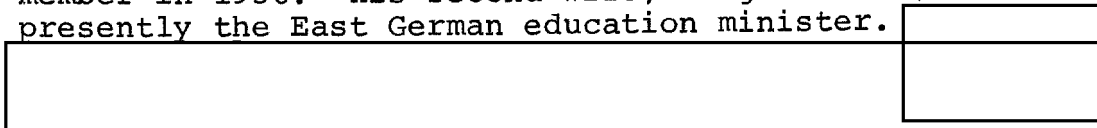
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contended in Bonn that Ulbricht was in large measure personally responsible for frustrating Ostpolitik by successfully lobbying in Moscow. Although the more optimistic West German leaders will hope for new progress with Ulbricht's departure, most leaders, Brandt included, have long regarded Honecker as little or no improvement. For his part, Honecker will want to stress continuity in foreign policy in order to avoid arousing expectations of change which might destabilize the domestic political situation.

Honecker was born in Neunkirchen, which is in West Germany. His father, a Saarland miner who lived in West Germany until his death in 1969, was a Communist and enrolled his son in a party school when he was eight years old. Honecker joined the Communist Party of Germany (KPD) in 1930. He was imprisoned by the Nazis in 1935 and spent the war years in prison. He was liberated by the Soviets after the war and became the party's youth secretary in 1945. He rose rapidly, becoming a candidate member of the politburo in 1950 and a full politburo member in 1958. His second wife, Margot Feist, is presently the East German education minister.

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CAMBODIA: The latest attempt to break the political stalemate apparently is now up for National Assembly approval.

Under a compromise worked out yesterday, Lon Nol would continue as nominal prime minister with Sirik Matak serving as his "delegate." In effect, Matak would discharge most of the responsibilities of prime minister, at least until such time as Lon Nol was physically able to play a more active role. National Assembly President In Tam, whose own bid for the prime ministership was vetoed by Lon Nol, has been offered a new post of vice prime minister. At last report, In Tam was expressing reservations about exactly how the new jerry-built setup would work and has not yet decided to participate.

In Tam's refusal to lend his support to the scheme would hurt its prospects in the assembly, where some parliamentarians are likely to grumble about its constitutionality. The combined weight of Lon Nol's prestige and the backing of the major factional interests could whip the assembly into line, provided there is a general consensus in the capital that the new arrangement is the best that can be hoped for in the present circumstances.

As the proposal now stands, the new government would in effect represent a return to the same situation that prevailed before Lon Nol's resignation. At that time the disturbing prospects of running a country with a physically disabled prime minister and an inadequately supported deputy contributed to the pressure for Lon Nol's resignation and the ensuing two-week political impasse. Although the new arrangement might be acceptable as an interim measure, it does not come to grips with the fundamental cleavages in the political situation.

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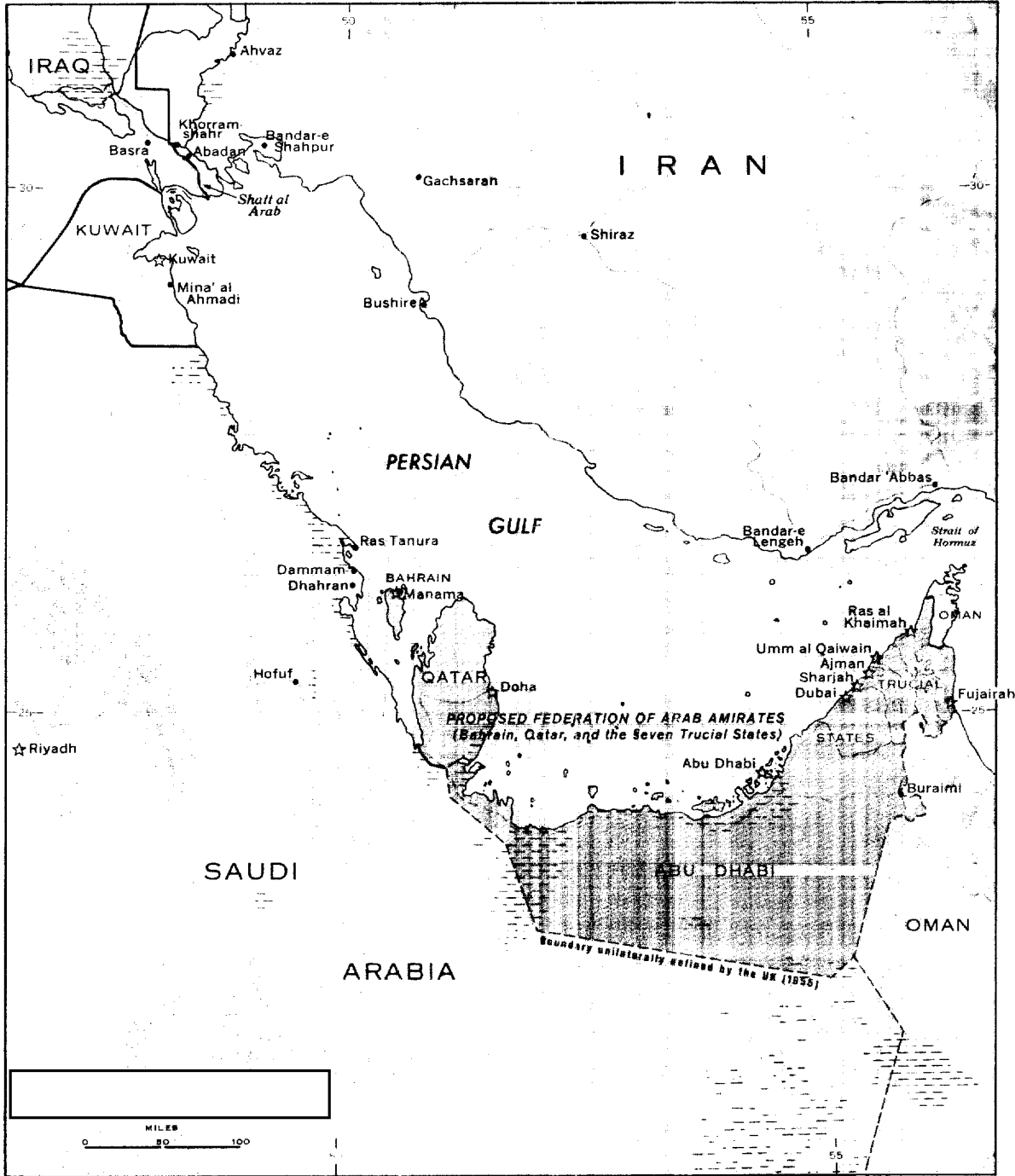
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### Future of Persian Gulf Federation in Doubt



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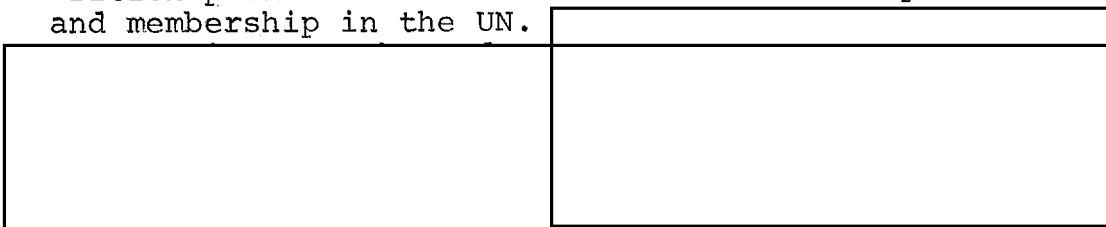
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PERSIAN GULF: Attempts to form a federation of Persian Gulf states continue to be thwarted by conflicting ambitions and personalities.

The UK hoped to federate the nine small states in 1968 when it decided that it could no longer support the political and financial burden of maintaining a "protector" role in the area. This scheme has been dogged by the traditional conflicts among the states, by Iranian ambitions to replace the British as they withdraw in late 1971, and by Saudi Arabia's dilatory support for the project.

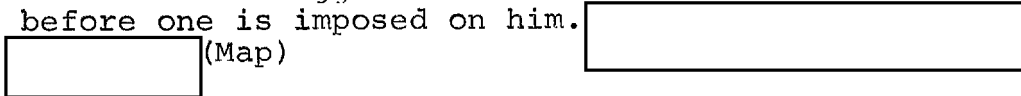
Bahrain, the most populous and advanced of the nine gulf states, has now decided to abandon the British plan for federation and to seek independence and membership in the UN.



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Britain still hopes to salvage a smaller, seven-state federation after Bahrain and--probably--Qatar declare independence. Abu Dhabi and Dubai, however, are believed to oppose a truncated union. The remaining states--still without significant oil finds--are too small and poor to influence the decision or even to maintain their own independence. These states, in fact, maintain close relations with Iran, whose claims to several small gulf islands conflict with the interests of several Arab sheikhdoms supported by Saudi Arabia.

Bahrain intends to reveal its plans to the other states shortly and to use the six-week delay to prepare for the formalities of independence. The Bahraini move will encourage a new flurry of political activity among the lower gulf states as each ruler struggles to reach some accommodation before one is imposed on him.



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CYPRUS: The Turkish Cypriots are taking a harder position in the intercommunal talks in retaliation for President Makarios' recent statements favoring enosis (union with Greece).

The Turkish Government, apparently believing that Makarios was trying to exploit the recent political crisis in Turkey, called Rauf Denktash, the Turk Cypriot negotiator in the local talks, to Ankara for consultations. Denktash subsequently has agreed to continue the talks but has warned that the Turk Cypriots would react strongly to any further pro-enosis statements by prominent Greek Cypriots. One possibility, according to Denktash, would be to declare "permanent" the Turk Cypriot community provisional administration, a move that President Makarios has already threatened to oppose at all costs.

Denktash has suggested that only Athens and Ankara could really resolve the problem of enosis. The dangers involved in forcing a solution on Makarios, however, have so far precluded any serious discussion between the two states. Both prefer that the talks continue, if only to preserve the present tenuous peace on Cyprus.

Denktash met with his Greek counterpart, Glafkos Clerides, on 28 April and agreed to see him again on 17 May. Further meetings will be determined by the Greek Cypriot reaction, but the toughening of both sides' position will probably keep the talks stalemated.



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CHILE: Allende has increased pressure on Chile's remaining private banks by sharply restricting their foreign currency operations.

Except for some export-import transactions, only state-owned banks--including those recently taken over--may now deal in foreign exchange.

25X1 [REDACTED] this move will greatly increase the already large losses sustained by private banks. Chile has already taken over seven domestic private banks, and two West European - owned banks are reportedly about to accept offers from the government to buy them out. The two US-owned banks have not yet received government offers.

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The timing of these recent actions may have been influenced by falling reserves and the need to increase government control over foreign exchange operations. The restrictions may be counterproductive, however, because they will probably further reduce the credit lines available to Chile from foreign banks.

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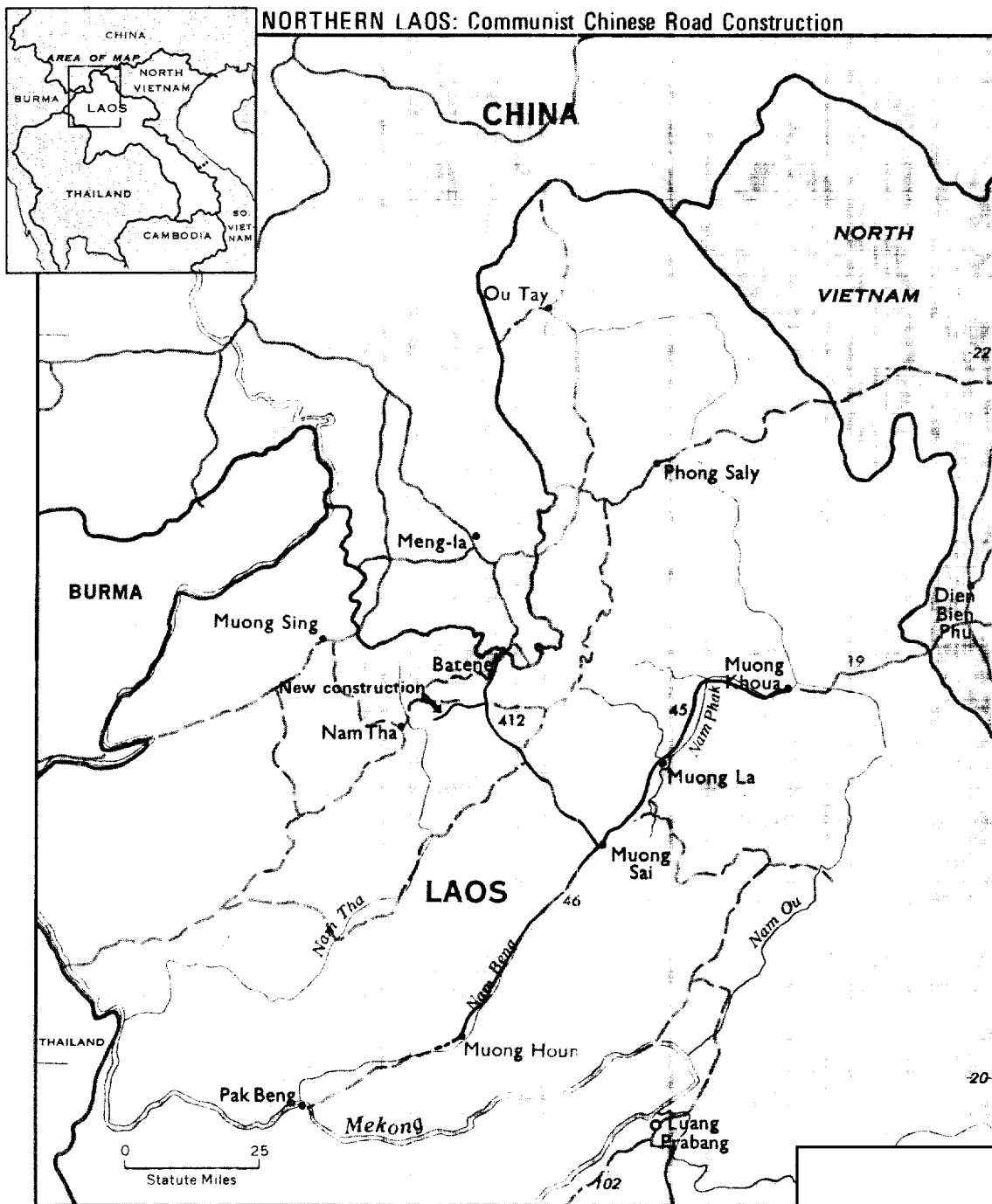
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COMMUNIST CHINA - LAOS: Chinese road builders in northwest Laos appear to have done relatively little new work this dry season, which should end in mid-May. Recent photography shows that Route 46 southwest of Muong Sai to Muong Houn has not been extended this dry season. Road construction is continuing on Route 45 northeast from Muong Sai. The Chinese also are constructing a number of small bridges and culverts on the northern half of this route. Construction of a large bridge or ferry across the Nam Ou River to connect with Route 19 from North Vietnam, however, has not yet been started. During the past month, the Chinese have constructed three miles of new motorable road and there are signs of four miles of survey traces from Route 412, close to the China border. It is not clear whether work on this road will continue into the rainy season.  (Map)

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PHILIPPINES: The fatalities that occurred in the May Day demonstrations in Manila probably will provoke a new period of domestic turmoil. Present were only untrained antiriot forces, who fired on leftist student and labor protestors after they allegedly hurled home-made bombs; four people were killed and 30 injured. An indignation rally set for 7 May promises to be massive, although the clear readiness of the security forces to open fire may encourage the organizers to avoid provocative acts. Any violent street action could prompt President Marcos to impose martial law, a step that would further harden battle lines.

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