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DIRECTORATE OF  
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\*South Vietnam: [Rumors of a possible compromise settlement of the war are circulating in South Vietnam where they are generating widespread uneasiness over the firmness of US purpose.]

[In the northern provinces, stories are prevalent that the US is trying to engineer either a coalition government or a partition of the South. They are being given some credence by the public. In Saigon, the press has been full of warnings of a possible US sell-out, and the allegations are being reinforced by the spread of charges that the US has been in touch with the Liberation Front. There is also wide awareness of recently captured enemy documents which cite the goal of coalition.]

[some Catholic communities near Saigon are so fearful of an early US move to bring about a coalition that they have offered to support the local corps commander, General Khang, in any move to prevent Saigon from entering into such an arrangement. The corps commander has said that, for his part, he would march on Saigon if the Americans were to set up a coalition involving the Front.]

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[President Thieu and both houses of the national assembly have reiterated their opposition to recognition of the Front in any form. In addition, Thieu has played down the idea of an unconditional suspension of the US bombing in order to open talks with Hanoi.]

Year-end results reflect a substantial gain of 34 percent over the previous year in the Chieu Hoi ("Open Arms") program, although the total was below the target.

The Chieu Hoi rate began to fall below the 1966 pace in early October of 1967. The enemy's more aggressive military posture and the unsettled Vietnamese

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political situation very likely contributed to the fall-off. Enemy countermeasures, including terrorism against returnees, attacks on Chieu Hoi centers and tighter control of personnel probably were also involved.

Of the 27,178 persons who rallied to the government during 1967, about 18,000 were military personnel and 4,700 were linked to the Viet Cong political apparatus.

Communist China: Recent Chinese statements reflect Peking's cautious approach in supporting Communist insurgency in Southeast Asia.

The statements coincide with the apparent recovery by Foreign Minister Chen Yi of much of his political importance and his control over the Ministry of Foreign Affairs. This suggests that the advocates in Peking of more moderate foreign policies have managed to regain the influence in this field that they lost to extremists during the summer. Chen Yi, suspended last summer while under heavy attack by proponents of "revolutionary" diplomacy, resumed a busy schedule in November. On 28 December he received the French ambassador for a relaxed and animated tour d'horizon, the first such session with a Western diplomat in a year. The ambassador received the impression that Chinese diplomacy has returned to policies pursued before the Cultural Revolution.

Year-end New China News Agency status reports on the Communist movements in Laos, Burma, and Thailand, while hailing a series of "brilliant victories," laid heavy stress on the long-term nature of "people's war" and underscored the virtue of "self-reliance." It was noted, for instance, that the Pathet Lao can win final victory only by "arousing and relying on" their own people and continuing to pursue a Maoist "protracted struggle."

The less advanced Thai and Burmese parties were applauded for their efforts in building a popular political base among the masses, cited as a necessary prerequisite for a successful "people's war." The Burmese party in particular was lauded for its twenty-year "revolutionary civil war," but probably derived

little comfort either from Peking's admonition that further "protracted struggles" lie ahead or from the Chinese inference that its bleak years of isolation and "self-reliance" were the correct environment for "party-building."

[Peking's preoccupation with domestic affairs and its effort to support the war in Vietnam have no doubt reinforced its cautious attitude toward these insurgent movements. None of the statements contained even a pro forma pledge of immediate or future Chinese support. The rosy picture of an "excellent revolutionary situation" noted by Peking seems designed primarily to cloak China's current reluctance to involve itself more heavily in the armed struggles in the three countries.]

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UK: [Sharp cuts in defense spending expected soon will greatly accelerate Britain's military withdrawal from East of Suez and possibly affect the F-111 contract.]

[According to a senior Ministry of Defense official, London has set the end of 1971 as the date for a final pull-out from Southeast Asia, scrapping last year's withdrawal target date of the mid-1970s. Commonwealth Secretary Thomson has been given six month's leeway beyond the new deadline in discussing the withdrawal with Britain's Commonwealth allies. Accelerated departure from the Persian Gulf has also been proposed despite the vigorous objections of Foreign Secretary Brown. The question of a reduction of British forces in Germany will be deferred pending talks with the US and West Germany.]

[The F-111 contract is still under cabinet scrutiny. Defense Minister Healey has taken the position that the contract should be kept because, among other reasons, US cancellation charges would be prohibitive. The contract is opposed by Chancellor of the Exchequer Jenkins, who has disliked the F-111 program ever since he was minister of aviation. Healey probably is working toward a compromise to cut the number of aircraft purchased from 50 to 35 aircraft.]

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\*Australia: [Senator John Gorton will become Australia's next prime minister.]

[Gorton was chosen to succeed the late Harold Holt as leader of the dominant Liberal Party--and automatically as prime minister designate--at a party caucus this morning. Initial reports from Canberra indicate that he may take office as early as 10 or 11 January.]

[Gorton will replace John McEwen, the leader of the junior party in the government coalition who became interim prime minister on Holt's death last month. Within the next several weeks, Gorton will probably resign from the Senate and seek election to the lower house, from which prime ministers are traditionally chosen.]

[Although Gorton has reportedly been somewhat less firm than was Holt in his support of US policy in Vietnam, his administration is not likely to introduce any significant changes in Australian foreign or domestic policies. He issued a statement this morning reaffirming Australian determination to stay in the Vietnam war and to show the Communists that "aggression does not pay."]



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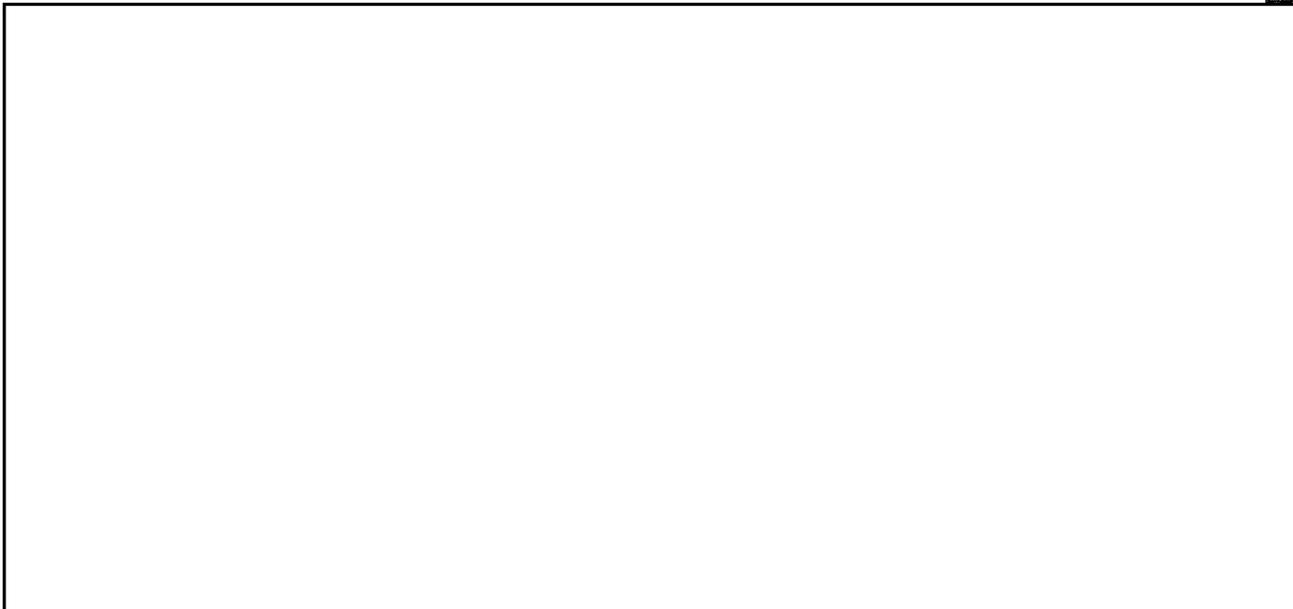
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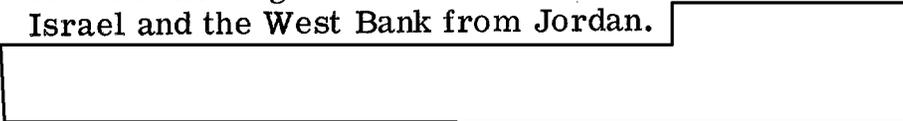
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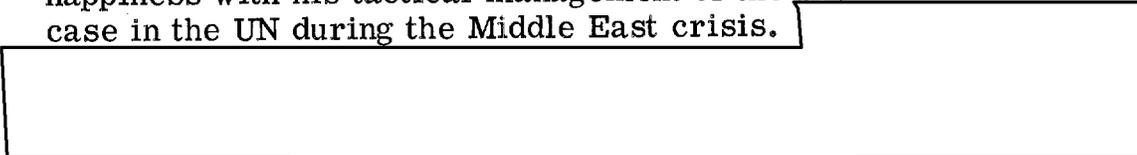
Israel-Jordan: The level of tension along the border between the two countries remains high in the wake of yesterday's firefight. This was the fourth such incident this month and the first time since 21 November that the Israelis used planes to silence Jordanian artillery. These clashes can be expected to occur as long as Arab terrorists infiltrate into Israel and the West Bank from Jordan.

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USSR: Deputy Foreign Minister Yakov Malik will replace Ambassador Fedorenko as Soviet ambassador to the UN later this month. Malik served in the post from 1948 to 1952, and since 1960 has been responsible for African affairs in the Soviet Foreign Ministry. It has been rumored for some time that Fedorenko was to be removed because of Moscow's unhappiness with his tactical management of the Soviet case in the UN during the Middle East crisis.

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Iran: [Representatives of the Western oil consortium have informed Tehran that they will make up for the shortfall which resulted when they calculated part of their last quarterly payment on the predevaluation value of the pound. The Shah was furious over the resulting \$12 million shortfall, and the government had prepared unilateral legislation designed to ensure undepreciable payments. The consortium still believes that its legal position was sound, but may have decided that the money was not worth the furor. Iranian officials had implied that resolving the payments problem might pave the way for compromise on other difficult issues, such as the level of oil exports.]

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Arab States: Postponement of the summit conference scheduled for 17 January highlights the continuing Arab differences over how best to deal with the Israeli problem. Syria and Saudi Arabia refused to attend. Militant Syria has refused to participate in any meeting where the moderate view would probably prevail, while Saudi Arabia has said that a summit now would be premature. The "unity" evidenced at the Khartoum Summit in September has somewhat dissipated, and prospects for an early meeting appear dim.

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