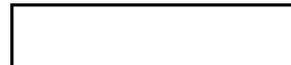


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DIRECTORATE OF  
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26 April 1969

State Dept. review completed

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South Vietnam: A few sharp clashes developed on 25 April in I and IV corps.

Southwest of Khe Sanh, a combined US and South Vietnamese force engaged an enemy unit, killing at least 30 North Vietnamese. The allied force lost 12 killed, 55 wounded, and three armored personnel carriers destroyed.

In the delta, popular and regional force units on a sweep operation several miles northwest of Ben Tre in Kien Hoa Province were hard hit by an enemy force. Some 26 personnel were killed in the action and another 27 wounded. North of Saigon, US troops reported killing 34 Communists in separate clashes.

Communist terrorists launched several bomb and grenade attacks against electric power transformers in Saigon last night, but the attacks caused no damage.

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Korea: Pyongyang's announcement on 24 April that an increase is required in defense spending may be in part a means of excusing continuing economic problems.

Similar statements conveying the impression of large increases in defense allocations were issued in 1967 and 1968, and defense budget increases in response to "US war maneuverings" were cited in 1966 as necessitating a three-year extension of the Seven Year Plan for economic development. Military appropriations have been very heavy in recent years, but the stated portion of the national budget allocated for defense since 1967 has actually remained at about 31 percent.

In his speech on the 1969 national budget, the finance minister on 24 April said the budget was designed "to help achieve the major goals of the Seven Year Plan." Continuing economic problems could, however, prevent completion of the plan even by the 1970 target date. These problems are being soft-pedaled by the regime as it focuses its propaganda on the need for a strong defense against "US aggression."

\* \* \* \*

In Tokyo, there is growing concern in official circles that an extended deployment of the US naval task force off Korea will raise questions in Japan regarding US intentions toward North Korea. A Foreign Ministry official has privately expressed the hope to the US Embassy that the task force could soon be withdrawn because the US had already demonstrated its military capability to react with force and speed.

Despite Japan's strong support for the US position on the shutdown, this concern of Japanese officials reflects their sensitivity to continued exploitation of the alleged US "overreaction" by the opposition parties and news media.

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South Korea's President Pak, in his first public statement since the downing of the US reconnaissance plane, strongly endorsed the US response as "wise and appropriate." While warning that "excessive self-restraint" on the part of the US and South Korea could lead North Korea to overstep the bounds of tolerance, he rebuked advocates of immediate retaliatory action. Pak also restated South Korea's view that the pending negotiations on Okinawa's return to Japan must take into full consideration the importance of the island's military bases for the security of "many nations" in Asia.

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Communist China: The composition of the new central committee reveals little shift in the balance of forces and interests among China's rulers.

A preliminary assessment of the new committee list suggests that it is a compromise, composite product, with divergent interest groups well represented. There are no important casualties among strong supporters of the Cultural Revolution, but a few apparent victims of Red Guard attacks have been resurrected. Provincial military and political leaders are particularly prominent, but officials from the central government ministries also are present in fair numbers.

The fact that the new committee is much larger than its predecessor suggests not only that it is the result of compromise but also that it will be too unwieldy to play a major political role. The presence on the new body of a number of political nonentities will tend to reduce further its political significance.

The communiqué winding up the ninth party congress was, like the two issued during the proceedings, remarkable for its bland and uninformative character. The new central committee should meet shortly to name a reconstituted politburo. At that time a new secretariat and other important administrative appointments may be announced.

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[ France: Unless De Gaulle's dramatic TV appeal of last night reverses the present negative trend, Sunday's referendum vote will go against him.

In his short, emotion-charged TV speech to the nation, De Gaulle defended the substance of the proposed reforms, and again stated flatly that he would resign immediately if the referendum fails. He warned that a negative vote would lead to "disastrous upheavals" and told his countrymen that they held the "destiny of France" in their hands. The general raised the specter of "diverse, disparate, and discordant oppositions" that would lead France to "national collapse," but the lack of any recent serious challenges to political stability and public order made this familiar "me or chaos" argument less persuasive than in the past when it played a substantial role in many Gaullist victories.

De Gaulle's performance was impressive, but he is fighting an uphill battle. Polls released on the eve of his speech by France's most reliable private polling organization showed that 51 percent of those who had made up their minds will vote "no" on Sunday. The percentage of those who either are undecided or plan to abstain has dropped sharply from 44 percent last week to 21 percent in the current poll. In past referenda the abstention rate has always run over 21 percent; thus it appears that there now remain few undecided voters to be swayed by De Gaulle's oratory.

All four previous referenda which De Gaulle has proposed have passed by well over 60 percent. If his current initiative fails, it will be only the second to lose since the first referendum was held in France in the 18th century.

If De Gaulle loses the referendum, he will almost certainly be true to his word and resign. Alain ]

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[ Poher, the 60-year-old president of the Senate, would then take over as interim president until new elections are held not sooner than 20 and not later than 35 days after the resignation. Poher, an anti-Gaullist centrist who was not nationally known until his recent election to the Senate presidency, has a consistent record of being pro-US and pro-European integration. He has declared that he would assure public order if De Gaulle resigns, and there is at the moment no indication that a resignation would lead to civil violence.

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Western Europe: Fears that the Gaullist referendum on Sunday might be defeated had an unnerving effect on Europe's foreign exchange markets last week.

Uncertainty about the outcome of Sunday's vote, which may force De Gaulle to resign, pushed the dollar value of the franc to its lowest level since November despite stringent exchange controls. These pressures were reinforced on 16 April by the rise in the West German discount rate, which triggered a round of increases in German interest rates.

The Bank of France lost over \$400 million in foreign exchange during the past two weeks in its efforts to support the franc. As during the financial crisis last November, the British pound also suffered. Coordinated action by the major central banks, however, substantially sapped some of the strength of the mark and reduced pressures on sterling.

An increased demand for gold reflected the jitters in the foreign exchange markets. The price for gold rose significantly only in France, however, where exchange controls isolate the franc from exchange markets abroad. The heightened demand in the principal gold markets of London and Zurich was met by recently increased private sales of gold by South Africa.

Speculation on the fate of the franc, arising from the referendum issue and the increased German interest rates, exacerbated the generally declining confidence in the franc caused by domestic inflation and large external trade deficits. Other more general concerns disturbing the exchange markets this past two weeks included tensions in the Far East and renewed fighting in the Middle East. [redacted]

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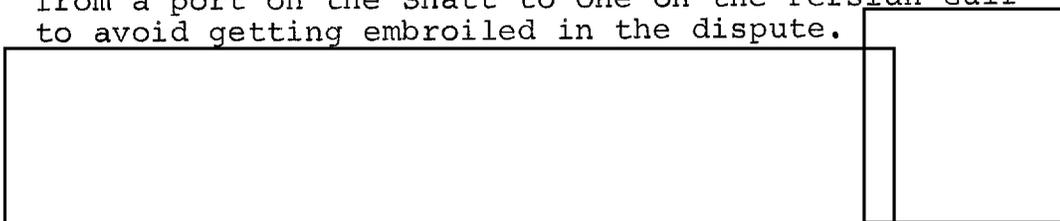
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Iran-Iraq: The Shatt al-Arab dispute is already having some effect on third-party shipping to river ports.

The Iranian Government, which no longer recognizes the validity of the 1937 treaty that gave sovereignty over the major part of the river to Iraq, expects ships transiting its "half" to proceed as if they were in Iranian territorial waters. Iranian ships will fly their own national flag but not the Iraqi courtesy flag; foreign ships bound for Iranian ports will fly their own flags as well as Iran's, but not Iraq's. Although the Iranians, to be consistent, should also demand that only Iranian river pilots be used, a shortage of qualified men has forced Tehran to ignore this requirement.

These Iranian practices have complicated the use of the Shatt for nonriparian powers. Because the 1937 treaty requires the use of Iraqi-licensed pilots, the use of Iranians would void the insurance policies of ships that comply with Iranian demands. Tehran may agree to insure Iranian ships, but it has made no such offer to other powers.

A Japanese ship was recently allowed to divert from a port on the Shatt to one on the Persian Gulf to avoid getting embroiled in the dispute.



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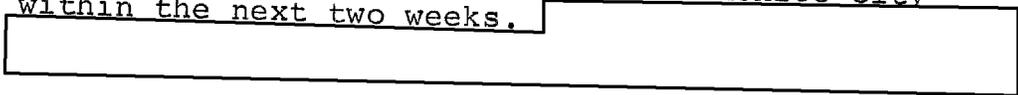
Mexico: Agitators attempting to revive the antigovernment student movement now hope to disrupt the officially sponsored labor parade on 1 May.

At a student rally on the national university campus, self-styled spokesmen for workers and peasants urged further struggle against the Diaz Ordaz administration, which they accused of "selling Mexico to the Yankees." They blamed the US for the "massacre" of students last year during the student strike, and attacked the May Day march as an "imperialistic fiesta."

Anti-Americanism has not previously been a prominent feature of the student movement, and it is not clear whether a new anti-US group is bidding for student support or whether the new theme reflects the waning emotional appeal of last year's political demands. Agitators have found it difficult to revitalize the movement, which is hampered by the continued incarceration of the major leaders, fear of the security forces, and the absence of a large, unified organization.

The government is unlikely to allow off-campus student demonstrations, and police can be expected to deal harshly with any attempt to interfere with the labor parade. Extremists may hope to provoke a clash with security forces to rekindle student wrath. An official of the ruling party's youth directorate has told the US Embassy that he expects a student demonstration in downtown Mexico City within the next two weeks.

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Trinidad-Tobago: The illegal strike by transport workers that began on 21 April promises to exacerbate already poor relations between labor and government.

The strike by the militant Transport and Industrial Workers Union--a small but influential labor group--stems ostensibly from a decision by a labor court last month to award the union only a third of its wage demands. The walkout is also viewed as a challenge to the government's 1965 Industrial Stabilization Act, which virtually prohibits the right to strike and provides for binding arbitration.

Government response to the strike has been typically indecisive. The administration probably wants to avoid an open clash with labor over the provisions of the unpopular Stabilization Act because an energetic attempt to enforce it could prompt other unions to support the strike. The fragmentation in the labor movement has given the government the upper hand so far. Popular reaction to continued official procrastination, however, could force the government into actions that might result in violence.

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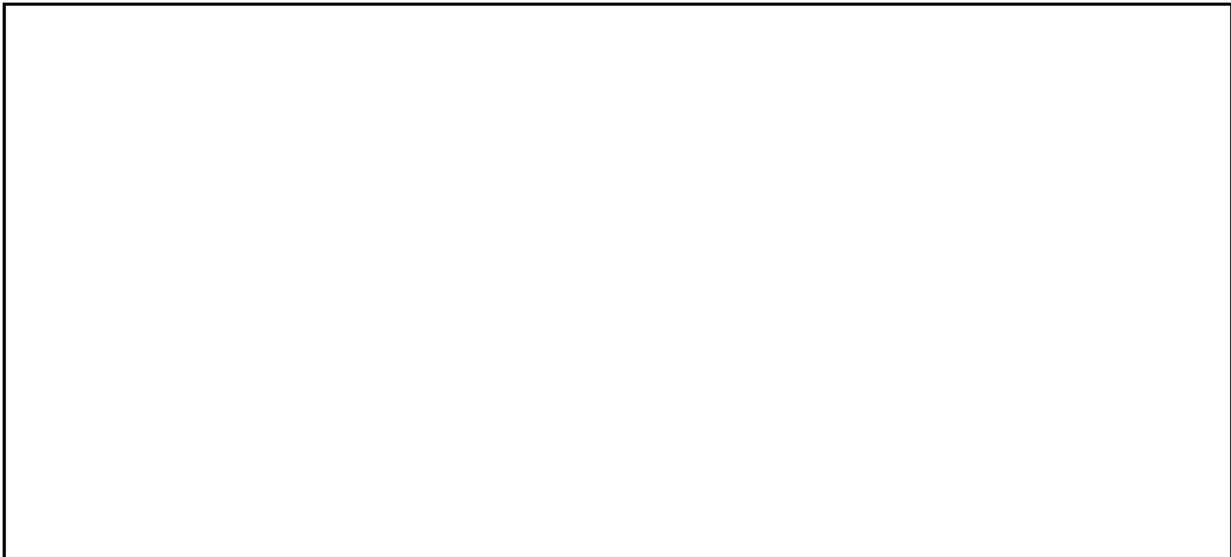
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Malaysia: The murder in Penang of a Malay member of the government political party on 24 April by elements of the predominantly Chinese leftist Labor Party could trigger serious communal violence. Penang is a traditional racial tinderbox and was the scene of violent rioting in November 1967, when more than a score were killed. Authorities have imposed a partial curfew and are attempting to play down the incident, but the press has already printed the story and pictures of the body.

Security forces throughout racially divided Malaysia have been on the alert to head off communal violence in connection with the national and state elections to be held on 10 May, and the campaigning up to this point has been relatively peaceful. Despite possible violence, the outcome of the election in favor of the governing Alliance is not threatened.

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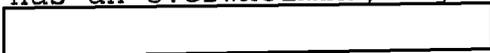


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South Africa: A splinter group of South Africa's National Party has been formed by ultra-rightwingers to fight the Afrikaner government. The long-simmering dispute between Prime Minister Vorster and right-wing spokesman Hertzog intensified in mid-March when Vorster claimed that the party was strong enough to fight on two fronts--against both internal dissension and opposition parties. Hertzog's response last week in a parliamentary speech criticizing Vorster and his government paved the way for the split. The division will not seriously weaken the National Party, which has an overwhelming majority in parliament. [redacted]

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Dominican Republic: The fourth anniversary of the US military intervention on 28 April and the traditional May Day celebrations could be occasions for disturbances. The Dominican Communist Party has singled out 28 April as a day of protest against "Yankee domination." Security forces are well prepared, however, and President Balaguer's recent dismissal of his police chief, partly in response to opposition charges of repression, appears to have cooled tempers somewhat. The anniversary on 24 April of the outbreak of the 1965 revolution passed without any major violence or demonstrations. [redacted]

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