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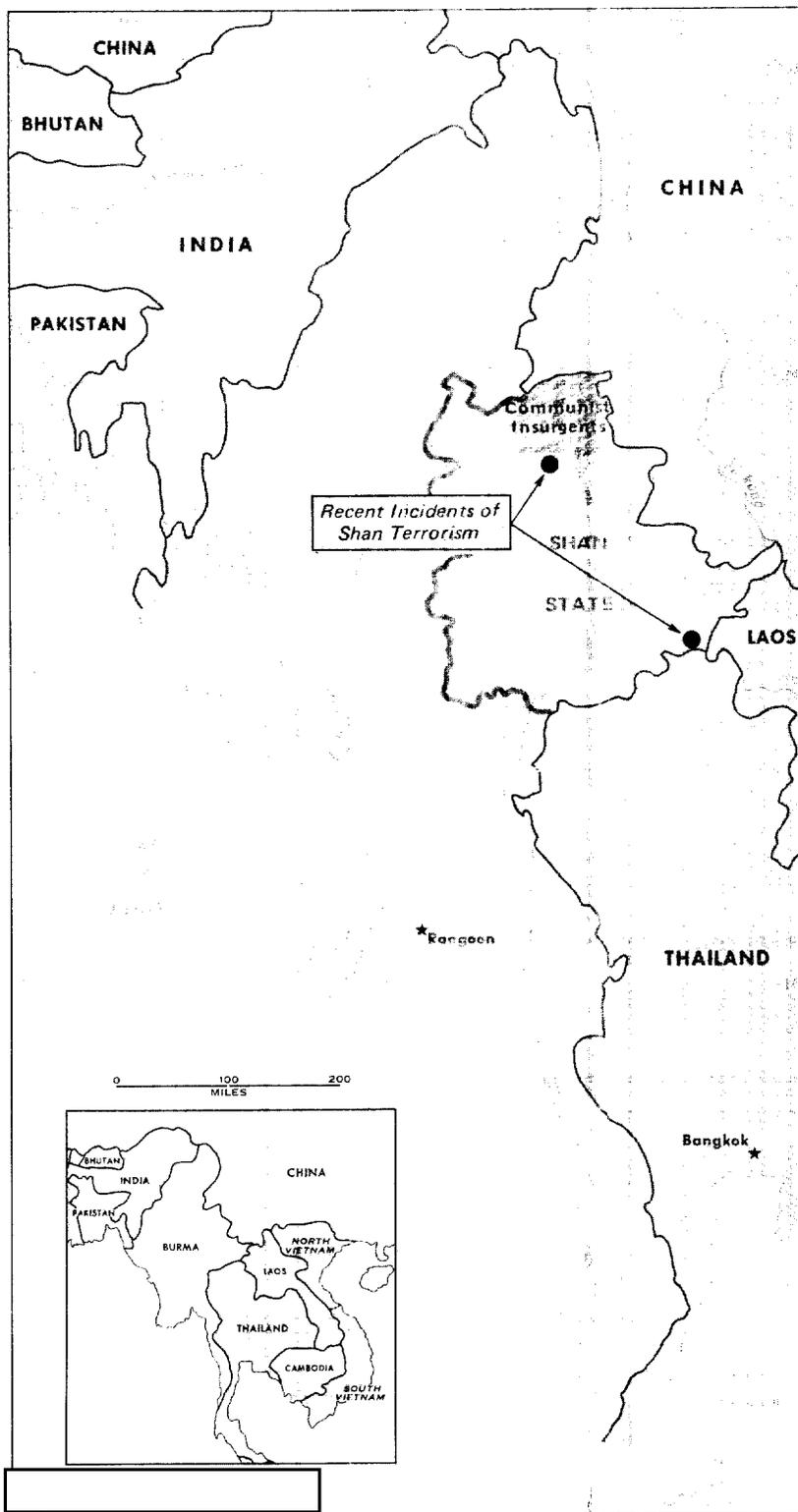
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Burma: Government Faces Increased Insurgency in Shan State



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Burma: The Burmese Army's control of a state bordering China could be further weakened by increased non-Communist military opposition there.

The Burmese Army bought off large elements of the non-Communist, but generally hostile, Shans two years ago by equipping them as militia units. These units total about 12,000 men. Some units have become increasingly upset over Burmese detention since last October of one of their leaders. His followers, who number perhaps 3,000 men, sent an "ultimatum" to Burmese military authorities on 10 January demanding his immediate release. Discontent has already brought a flurry of terrorism to Shan State.

The need to watch this Shan threat may seriously impede the Burmese Army's dry season efforts against Chinese Communist - supported insurgents in northern Shan State. Although the loyalty of some of the Shan militia has long been doubtful, the Burmese military has relied on some units in activity against the Communists. If the army is forced to assume the added burden of dealing with a large increase in Shan opposition, its position in large portions of the state could become precarious.

[redacted] (Map)

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Hungary: The government plans to extend its curbs on the arbitrary powers of the Ministry of Interior.

The ministry's chief, Andras Benkei, writing in the January issue of the party central committee journal Partelet, announced his intention to codify the legal tasks as well as the legal limits of the ministry's activities. The new code would eliminate obsolete functions that date from the Stalinist era and relinquish certain administrative tasks to other government agencies. Benkei said that the new restrictions would no longer permit interference in political, cultural, and economic matters unless criminal activity is suspected.

Benkei's announcement follows a central committee review of ministry activities last November. It demonstrates adherence to the political reform proposals advanced last March.

If implemented fully, the new code would further lessen secret police control over the average citizen's activities and improve the government's relations with the population. With the Czechoslovak example in mind, the party will be careful not to incur Soviet wrath by stripping the ministry of its powers to control unauthorized political activity. The party might encounter difficulties in seeing that ministry employees who disapprove of the restrictions comply with the spirit of the reform.

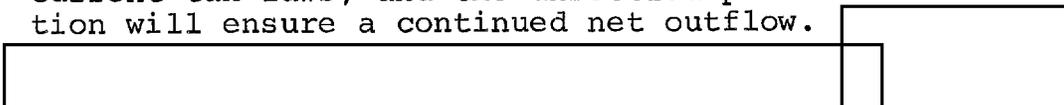
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Italy: The 1969 balance-of-payments deficit of \$1.4 billion is the largest in well over a decade, but the country's net official reserves remain very strong.

The deficit, which sharply contrasts with a \$627 million surplus in 1968, is due entirely to capital outflow. This has continued unabated for five years and reached a record high estimated at \$4 billion last year. Soaring interest rates abroad and international currency speculation as well as continuing domestic political uncertainty and labor unrest were the major reasons for the surge.

Official efforts to stem the outflow of capital, such as increasing the discount rate and allowing interest rates on bond and commercial bank loans to rise, apparently had little effect in 1969. The full impact of many of these measures, however, will be felt in 1970 and might ease the problem. Nevertheless, the lack of investment opportunities at home, current tax laws, and the unsettled political situation will ensure a continued net outflow.



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NOTES

East Germany - West Germany: The East Germans, apparently acting with Soviet support, have demonstrated their displeasure, as they have in the past, over the meetings in West Berlin of West German parliamentary committees and party groups. The meetings were scheduled to begin today. Pankow intermittently closed the autobahn to West Germans yesterday, but did not harass Allied travelers. This action does not signify a crisis, but further disruption of West German traffic may occur when Chancellor Brandt visits the city this weekend. In a low-key statement delivered on Tuesday, the Soviets for the second time expressed their own displeasure over these meetings and said that Soviet - West German relations could be affected. For their part, the West Germans are not likely to back down at this late date.

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Latin America: Chile, Ecuador, and Peru are opposed to the US-Soviet proposals on the extent of territorial waters and fishing rights in adjacent areas.

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Chile, Ecuador, and Peru, which have long advocated a 200-mile limit, want the other Latin American nations to express a unified position on the issue and desire more study on differing viewpoints before a law of the sea conference is convened.

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