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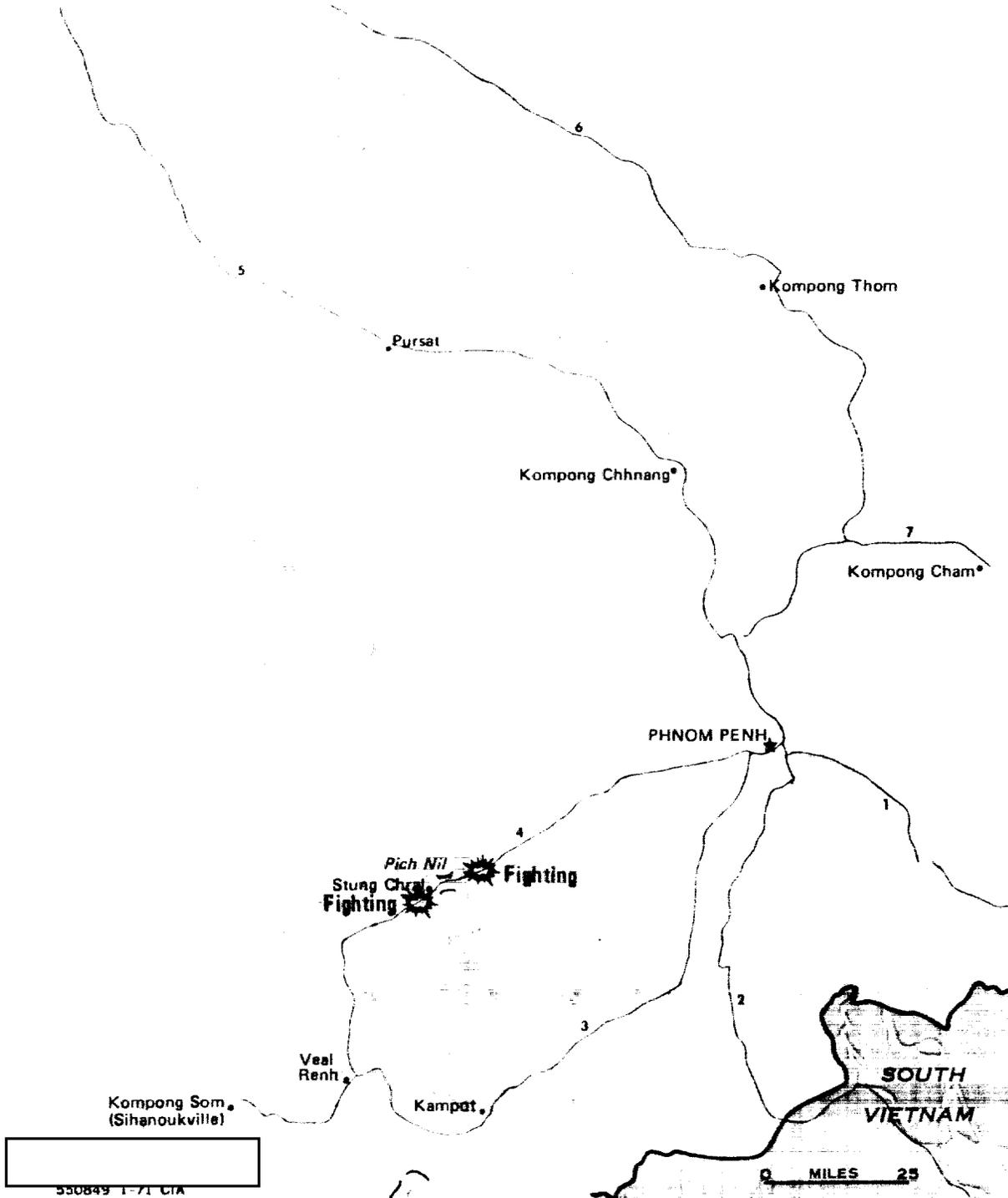


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CAMBODIA: Current Situation



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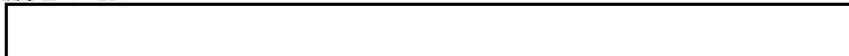
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CAMBODIA: The Cambodian - South Vietnamese clearing operation on Route 4 has made little headway in the past few days.

The Cambodian Army task force attempting to push into the north end of Pich Nil pass remains stalled, in the face of only light Communist opposition. Seven government soldiers were killed and 20 were wounded in the sole skirmish with the Communists reported yesterday.

On the south side of Pich Nil, the three South Vietnamese marine battalions that recently were airlifted into that sector clashed with enemy forces five miles southwest of Stung Chral on 19 January. The marines claimed they killed 33 Communists and captured sizable quantities of ammunition, while four of their number were killed and another 34 wounded.



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WEST GERMANY: The rate of economic growth has declined for the first time since West Germany's most recent boom began in 1968.

Preliminary data show the growth rate of real gross national product (GNP) is 4.7 percent, down significantly from 8 percent in 1969 and below earlier forecasts. GNP in current prices is estimated to have risen 12.4 percent in 1970 to \$185 billion, but more than half of this growth was price inflation.

Signs of a slowdown in the economy had been gathering since late summer, but its extent was unexpected. It resulted from a combination of domestic and foreign market factors. As rising costs of production increasingly cut into profit margins, businessmen slashed investment plans. At the same time, export demand fell off as foreign buyers balked at higher price tags on German goods in the wake of inflation and revaluation of the deutschemark. New orders to industry are down and order backlogs are declining.

Inflationary pressures persist and there are no signs as yet that prices are beginning to level off. Indeed, sizable further increases may result once the large wage hikes granted last fall are reflected in production costs.

The softening in the private sector of the economy buttresses the government's case for a moderately expansionary budget. Other "pump-priming" measures available to the government include refunding of surtax payments and the expenditure of several billion deutschemark that were blocked in previous years' budgets. Whether the current slowdown will provide the much-needed relief from inflationary pressures after two years of hectic growth, or whether it will lead to a recession as was the case in 1966-67, may well affect the future of the Brandt government.

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SENEGAL: The country is facing a serious economic crisis and spreading political unrest.

The economy has been severely hurt by a disastrous drop in the peanut harvest. Drought and the resistance of growers to low government-administered prices have combined to reduce the 1970-71 peanut crop to as little as 300,000 tons, or about one third the size of the average crop since 1965. In normal years peanuts provide as much as 80 percent of Senegal's export earnings. The situation has been aggravated by low supplies of food for domestic consumption. Rice reportedly is virtually absent from shops in Dakar, and the government has applied to an international relief agency for 40,000 tons of food-stuffs.

The signs of unrest and opposition to moderate President Senghor's regime are concentrated in, but not limited to, Dakar. In the most serious outbreak of violence since the student-labor troubles of 1968, two government buildings and the French cultural center were firebombed on 15 January. At the same time, political tracts highly critical of the government have again been circulating in Dakar. Yesterday antiregime students, petroleum workers, and secondary school teachers staged a 24-hour strike to protest the government's detention of labor and student elements suspected of engaging in the recent antiregime activity.

Elsewhere, there are reports of recent disturbances in a traditionally restive southern province and of government action against teachers in another province who were suspected of belonging to an illegal political party. With tensions on the rise throughout the country, the authorities can be expected to deal harshly with anyone suspected of activities inimical to the regime.



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ITALY: A \$368-million surplus in 1970 will permit the government to ease domestic economic policy restraints. The sharp improvement from a \$1.4-billion deficit of a year ago is largely due to the borrowing of \$1.5 billion in Eurodollar funds, mostly by state enterprises and credit institutions. This inflow helped offset Italian capital outflows and a weakened trade account position resulting from domestic production losses caused by strikes. The improved payments position will probably be maintained in 1971. Provided labor is placated by government action on promised public housing and health reforms, increased output and exports are likely. At the same time, heavy Eurodollar borrowings by state firms apparently will continue, as evidenced by \$225 million in such borrowings to date this year.

[Redacted]

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ECUADOR: The government shows no sign of modifying its stand that it can legitimately seize US fishing boats. A Foreign Office communiqué on 20 January charged that the US was violating the sentiment of the OAS charter by adopting retaliatory coercive measures--presumably the announced curtailment of US military aid--and strongly defended Ecuador's position. On Tuesday, the tuna clipper Apollo, which had earlier been taken into custody and heavily fined, was boarded briefly by Ecuadorean naval personnel. The harassment and the foreign ministry's firm stand indicate the government may take reprisals other than possibly seizing more boats. Several foreign ministry officials, however, have indicated to the US Embassy that they are attempting to calm the situation and prevent any further incidents.

[Redacted]

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*URUGUAY: Tuesday's dismissal of the minister of interior, who has been a key figure in setting government policy toward terrorists, is not expected to lead to a change in the administration's refusal to negotiate. The former minister had been under attack from the congress in recent weeks. His discharge also may be part of an effort to find scapegoats for the lack of success against the Tupamaros. The chief of police was also fired. The new minister, a retired 69-year-old former army chief of staff who has been in political and military eclipse for the last ten years, is not expected to wield great influence. Instead, the undersecretary, who has consistently echoed President Pacheco's tough stand toward the guerrillas, is likely to be the strong man in the ministry. [REDACTED]

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EUROPEAN COMMUNITIES - US: A two-day meeting earlier this week between a US delegation and the EC Commission suggests that the Community is eager to maintain some kind of dialogue on mutual trade problems. Although none of the outstanding issues was resolved, the Commission reiterated its hope to avoid price increases in the key area of grains and stated that the EC could be expected to be "constructive" in the negotiations on renewal of the International Grains Agreement. The Commission spokesman promised to try to find a solution to US objections to citrus preferences that the Community grants to some Mediterranean countries, and he seemed interested in US proposals for eliminating competitive subsidies of certain exports. [REDACTED]

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[REDACTED]

*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Defense Intelligence Agency, Department of Defense.

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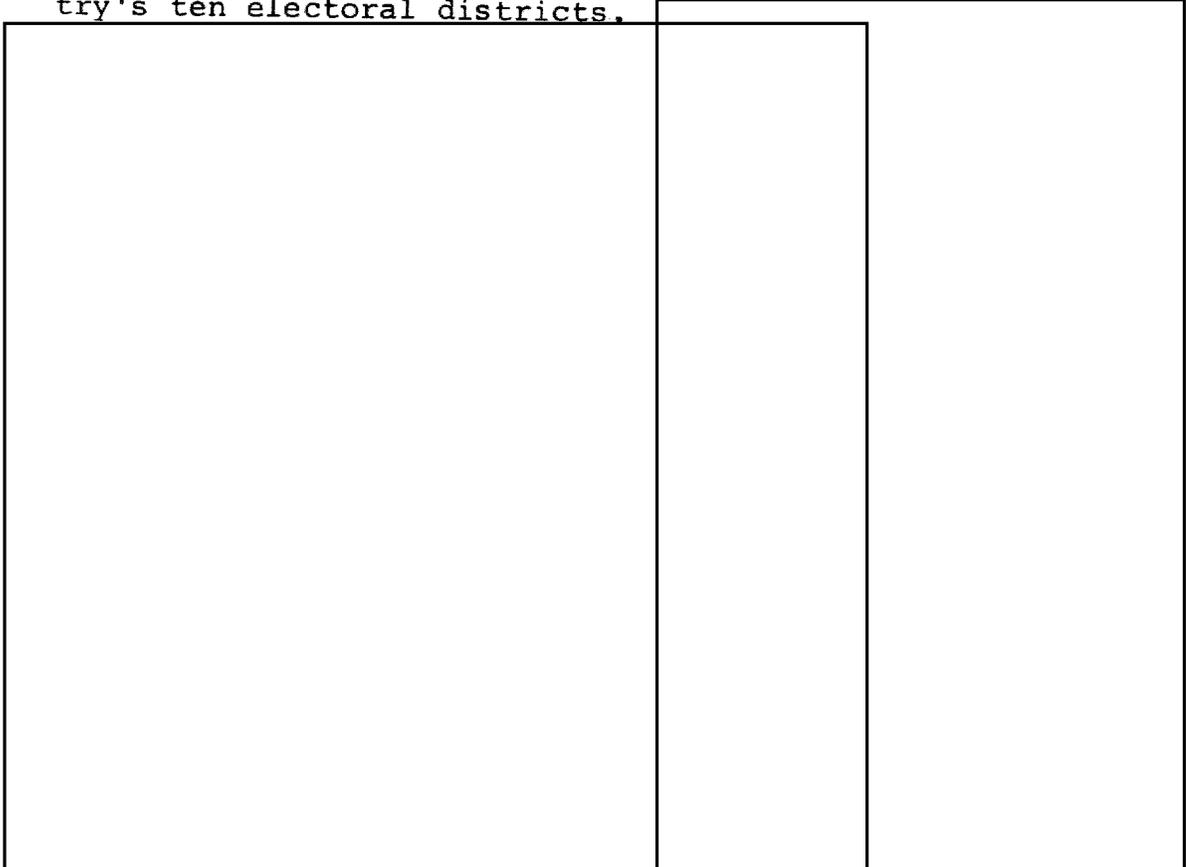
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KUWAIT: The third quadrennial election for Kuwait's National Assembly will be held on 23 January, with supporters of the ruling family expected to win most of the body's 50 seats. Political parties are not permitted in Kuwait, but two long-standing opposition groups--the Arab Nationalist Movement (ANM) and an organization of wealthy merchants--have formed a temporary electoral alliance. The Marxist ANM is the major opposition force and has nominated candidates in all but two of the country's ten electoral districts.



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