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INTELLIGENCE MEMORANDUM

BRITISH PROBLEMS AND POLICIES ON THE EVE OF THE WILSON VISIT

DIRECTORATE OF INTELLIGENCE

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CENTRAL INTELLIGENCE AGENCY
DIRECTORATE OF INTELLIGENCE
13 December 1965

INTELLIGENCE MEMORANDUM:

SUMMARY

Prime Minister Wilson, who arrives for talks in Washington on 17 December, is enjoying a wave of popularity in Britain. Although the UK is far from out of the woods economically, the recent improvement in the balance of payments has removed the immediate threat to the pound, but at the cost of economic growth.

Britain is searching for the minimal nuclear sharing arrangement acceptable to Bonn and would, in fact, trade any sharing plan for Moscow's agreement to a nonproliferation treaty. The most critical decisions have yet to be taken in Britain's comprehensive defense review, but the government is strongly disposed to reduce the UK's military position East of Suez.

Still shying from the use of force in Rhodesia, Wilson is employing strong economic sanctions to effect a retraction of the independence declaration, and is also working for renewed political negotiations. He publicly supports US policy in Vietnam, but out of deference to British opinion would like to act as a mediator.

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BRITISH PROBLEMS AND POLICIES
ON THE EVE OF THE WILSON VISIT

1. Prime Minister Wilson will arrive for his 17 December meeting with the President with a number of serious problems on his mind. The Rhodesian declaration of independence has added an acute current crisis to a lengthy list of perennial British problems, all of which revolve about the nation's economic difficulties and its effort to find a new role in world affairs tailored to present British resources and interests. If the Rhodesian crisis worsens and is prolonged, as seems likely, much of the improvement of recent months in the UK economy and in Wilson's political posture could be lost.

Wilson's Political Situation

2. With a parliamentary majority varying in the past year from one to four--currently at two--Prime Minister Wilson has not only succeeded in preserving his government, but has significantly strengthened its position. He has shrewdly dodged some troublesome issues, such as nationalization of steel and has conducted affairs as if he had a 100-seat majority on others, such as his program for coping with the balance-of-payments crisis. His narrow majority has at least had the advantage of keeping the Labor Party's leftwing in line, although it may not remain so. While Labor came to power in October 1964 with less than a one-percent margin over the Conservatives, recent polls show a much wider lead. Press opinion has reflected the general rise in the esteem in which Wilson is held by the public. This is due, among other things, to his handling, thus far, of the Rhodesian crisis, to his success at the recent Labor Party conference in squelching opposition to his foreign and domestic policies, and to a general disappointment with the performance of his rival, the Conservatives' new leader, Edward Heath. Nonetheless, Wilson's majority is constantly threatened by the possibility of deaths or illnesses among Labor MPs, several of whom are octogenarians.

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3. This general situation might seem to suggest that Wilson would find it to his advantage to call for new elections to strengthen his position, but he denies any such intention. He probably shares the views of some experts that the polls are not wholly reliable. In fact, they have not been borne out by the results of recent by-elections. Moreover, Wilson would probably prefer to lay a solid foundation of legislative accomplishment before going to the country. It now seems unlikely that Wilson will call for new elections before next fall.

Economic Trends

4. The recent improvement in the British balance of payments has removed the immediate threat to the pound, but has been achieved at the cost of a sharply reduced rate of economic growth. The government's measures to hold down imports and stimulate exports have shown positive results: in the first ten months of 1965, imports rose only about one percent over 1964 while exports rose about 6.5 percent. As a result, the deficit in the balance of trade was cut by about half. This improvement in the trade balance, combined with the sharp reduction in the outflow of long-term capital in the second and third quarters of 1965, led to marked improvement in the balance of payments. Confidence in sterling was further reinforced in September by the availability of \$1 billion in new foreign central bank credits. By the end of September, the pound was traded above parity for the first time in two years, and official reserves began to rise.

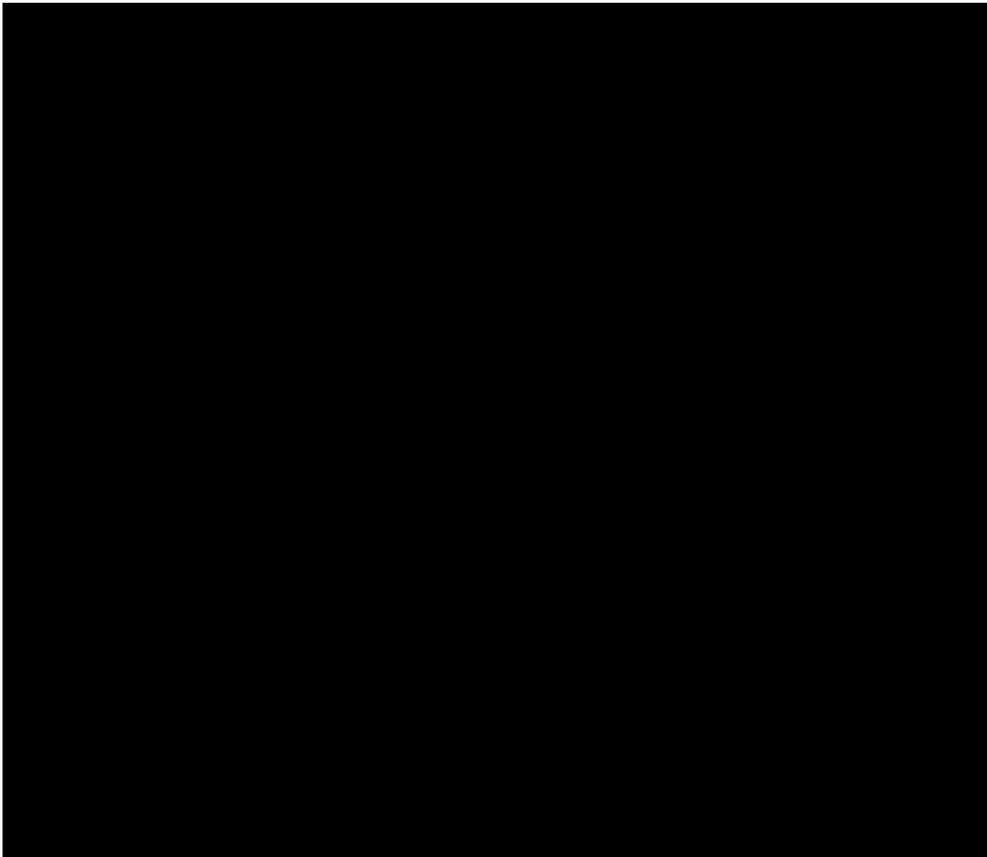
5. This improvement is likely to continue into 1966. With the present low level of reserves, however, the pound is still highly vulnerable to upsetting foreign developments. A worsening of the Rhodesian situation will halt or reverse this favorable trend. As in earlier sterling crises, payments have been balanced by curbing the growth of industrial production; consequently, we believe that any significant growth in industrial production during 1966 is unlikely.

6. As the payments situation has eased, the British Government has turned its attention increasingly to the fundamental problems which have kept Britain's rate of economic growth far below that of most other European countries. The will to do something about these problems has grown, and both major parties have seen the need to raise the rate of investment, stimulate technological improvement, improve industrial management, restrain prices, and keep wages in line with productivity. The National Plan, announced in September, calls for a 25-percent increase in the national product between 1965 and 1970 --a considerably faster growth than in the past. It is not at all clear, however, how the British Government hopes to achieve these desirable objectives. Whatever progress there may be in the very long-term, for the next few years stimulation of a high rate of growth, financing of Britain's foreign political and military obligations, and maintenance of a balance in foreign payments cannot be achieved simultaneously.

Nuclear Weapons

7. The interwoven questions of Britain's nuclear force, nuclear sharing in the Alliance, and nonproliferation are commanding priority attention in London. The government's attitude toward a British nuclear deterrent is ambivalent. Before coming into office in October 1964, the Labor Party opposed the retention of the British force on the grounds that it adds nothing to Britain's security, was costly, and impeded efforts to achieve a nonproliferation agreement and reduce East-West tensions. In office, the Labor Party promptly decided to go ahead with the construction of four Polaris submarines already begun under the Conservatives. One reason for Labor's change of attitude was probably the political advantage of nuclear status. Another factor may have been the Chinese entry into the field, carrying implications for Britain's position East of Suez and suggesting that proliferation is by no means ended. There were misgivings over retiring from the nuclear arena just as others come in.

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Nonproliferation

9. While London would find some comfort in a nonproliferation clause in an ANF agreement, it would find even greater comfort in a general nonproliferation treaty, assuming that the Soviet Union and West Germany were among the signatories. Since Moscow contends that West German nuclear sharing would rule out agreement on nonproliferation, London wants to make every effort to obtain a treaty before making any decisions on nuclear sharing. It would be amenable, in fact, to dropping the idea of nuclear sharing if it could thereby obtain Soviet agreement to a nonproliferation treaty.

British Defense Review

10. The thoroughgoing review of defense policy which the Wilson government began early this year was

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inspired by the intention of holding the defense budget in 1970 to the present level (\$5.6 billion a year), even allowing for rising costs, and by the belief that Britain's overseas commitments should be reduced. The review is only now approaching its most critical decisions.

11. To keep within its cost ceiling, the government decided that it was necessary to pare \$1.12 billion from the defense program. It was able to save \$616 million of this amount by adopting economies in the military establishment and dropping certain weapons development programs and purchases, such as the TSR-2 bomber. The remaining \$504 million, it seemed, would have to come from force reductions and the abandonment of garrisons and bases. With this setting, various events occurred which probably affected the frame of mind in which Defense Minister Healey approached his task: terrorism against the British forces in Aden reached serious proportions, so that London had to suspend the colony's constitution; Singapore was detached from Malaysia, casting more doubt on the future of Britain's Singapore base; and the Indonesian coup and counter-coup brought at least a lull in the confrontation with Malaysia.

12. The upshot so far has been that Healey and many other party leaders are strongly minded to reduce British forces in the Mediterranean and East of Suez, to plan for the closing of the Aden base, and to contemplate a large reduction in Singapore and Malaysia within a few years. They feel that Britain can still meet its many commitments in Southeast Asia, the Middle East, and the Commonwealth countries from a series of bases in Australia and islands of the Indian Ocean--Aldabra, Diego Garcia, and the Cocos Islands. In the British view, these bases, and their cost, must be shared with the US and Australia. This would reduce sharply the present expense to Britain of maintaining operations East of Suez. However, the British reluctantly recognize that this conversion cannot be completed until Indonesian aggression against Malaysia has ended.

13. Britain would like also to cut its 62,000-man force in Germany. The British believe that an all-out war would be nuclear, and that anything less would be border clashes requiring only small, highly mobile forces. London recognizes, however, that the political complications of a reduction or withdrawal make this a long-range prospect. For the immediate future, Britain will probably continue to use the Rhine Army as a strategic reserve for overseas requirements, and may seek to formalize that practice in NATO.

Rhodesia

14. In the Rhodesian question, Wilson's main considerations are to avert damage to British relations with African and other developing countries, a breakup of the Commonwealth, and retaliation against Britons throughout Africa. These objectives require that he take a stern view of the Rhodesian declaration of independence, and make a strong effort to get it rescinded, while still not moving further or faster than British opinion will support. He has repeatedly said that he would not use force to crush Rhodesian independence, but there are clearly situations in which British force would be used. By sending a squadron of RAF fighters to Zambia in response to President Kaunda's request, Wilson has served notice that he will defend Zambia's interests. He has given assurances that Britain will act to prevent a cut-off of Zambia's power supply from the Kariba power station across the border in Rhodesia. And, perhaps most significantly, British troops would probably be used in the unlikely event of widespread disorder or racial conflict within Rhodesia.

15. To bring the Smith regime to heel, Wilson will probably continue to rely on political and economic sanctions--especially the almost total boycott on Rhodesian products. These measures, however, have numerous drawbacks. They will probably take months to produce a serious economic impact on Rhodesia, and there is little chance that they will actually bring down the Smith regime. In addition, they will cost Britain heavily in foreign exchange. For example, if all trade between Rhodesia and Zambia were broken off, so that Zambian copper could not be exported to Britain, the UK would lose about \$225 million in foreign exchange from that alone.

16. It is reasonable, therefore, for Wilson to try to return to political negotiations. He is trying to contact Rhodesian moderates with a "peace plan," hoping to persuade them to accept it, overturn Smith, and assume control. The "peace plan" probably includes a Rhodesian retraction of the declaration of independence, modification of the 1961 Constitution to provide for consultation with the Africans, the holding of early elections, and the opening of discussions on ways to move Rhodesia toward majority rule. Wilson is not advocating an immediate "one man, one vote" solution. The British have not ruled out the possibility that Smith himself might shift course enough to return to negotiations.

17. Even if the Smith regime is brought down, it will be extremely difficult, if not impossible, for the UK to forge a successor government which would have the confidence of both blacks and whites in Rhodesia. This might, therefore, foreshadow a period of direct British rule in an essentially hostile atmosphere, with all the difficulties that this would imply.

Vietnam

18. Wilson has so far given strong public support to US policy in Vietnam. He is faced, however, with a small circle of pacifists and neutralists in the left wing of his own party, and he is conscious of the strength of British public opinion for detente with the East. In his judgment, the role he must play to keep matters under control at home is that of a responsible world statesman, patiently seeking the resolution of disputes while remaining loyal to his chief ally. This accounts for the various initiatives he has taken to bring about negotiations. Wilson will probably make new attempts to find the key to unlock the Vietnam problem and would be delighted to be assigned such a mission by the US at an opportune moment.

NATO

19. Britain is taking virtually the same attitude as the US on the problems being created for NATO by De Gaulle. Its basic position is that the Allies should not provoke a confrontation, but that

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they should engage in thorough planning for contingencies expected in the near future. The British Government believes that the Fourteen must preserve the Alliance and the Organization built up under it, continue with the integration of commands, and if necessary, move the headquarters, facilities, and supply lines out of France.

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