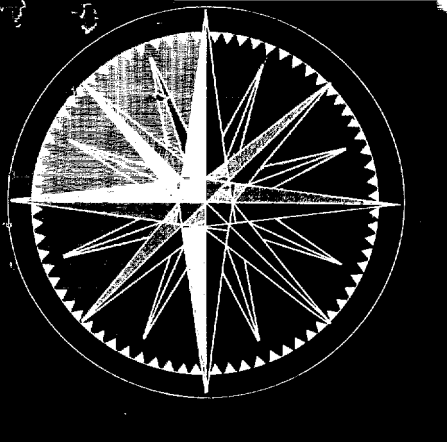


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5 March 1965

OCI No. 0279/65

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WEEKLY SUMMARY

CENTRAL INTELLIGENCE AGENCY OFFICE OF CURRENT INTELLIGENCE

State Dept. review
completed

Navy review
completed.

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In an effort to divert Nasir's attention from the worrisome Arab minority in southwestern Iran, Tehran is fomenting trouble among Iraq's Shia minority

TENSIONS EASE ON CYPRUS 14

Ankara has agreed to postpone its scheduled troop rotation, and Makarios, under some pressure from Athens, has eased his stand on this and the issues of constitutional revision and new elections.

TSHOMBE SCORES MILITARY AND DIPLOMATIC GAINS 15

Rebel activity has slackened off [redacted] and the threat of serious Ugandan involvement has receded. At the current OAU discussions Tshombé has greater support than previously.

EUROPE**COAL-STEEL COMMUNITY TAKES STEPS TOWARD COMMON ENERGY POLICY** 16

By unanimously approving community subsidies to coal mines, the CSC Council has begun to carry out the Energy Protocol Agreement signed last April in which the Six agreed on the objectives of a community energy policy.

EUROPEAN ATTITUDES TOWARD FRENCH VIEW OF WORLD FINANCE 16

French attacks on the present system of international financial settlements are criticized in Europe because of the political overtones and lack of prior consultation with other governments, but there is almost unanimous agreement that the system needs reform. However, most officials anticipate no sudden change.

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Recent indications of an economic slowdown are causing concern in French business circles and among Gaullist politicians whose sights are on the December presidential election. The government will be under increasing pressure to ease its austerity policies in order to assure a solid Gaullist victory at the polls.	
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NETHERLANDS GOVERNMENT RESIGNS	19
Prime Minister Marijnen resigned over the issue of introducing commercial radio and television into the Netherlands. Chances are his Catholic Party will once again emerge as the principal partner in a new coalition.	

WESTERN HEMISPHERE

ARGENTINE CHAMBER OF DEPUTIES ELECTIONS	20
In elections on 14 March for 98 of 192 seats in the lower house, President Illia's party should be able to maintain its position as the chamber's largest party with about a third of the seats. The Peronists will gain seats but, because of their own internal breach and the electoral system of proportional representation, probably will not achieve gains which the military might deem "excessive."	
GOVERNMENT FORMS NEW COALITION IN BRAZILIAN CONGRESS	21
The new Parliamentary Action Bloc (BAP) promises to give the Castello Branco administration at least a slight majority in Congress on most important issues. The strong regional and state orientation of its components, however, could obstruct any effort to convert the BAP into a new nationwide political party.	
URUGUAYAN POLITICAL CLIMATE WORSENS	22
The late president Giannattasio's replacement on the National Council of Government may join other councilors in obstructing decision making in the nine-man executive body. Fear of a coup has intensified public and party discussion of constitutional reform.	

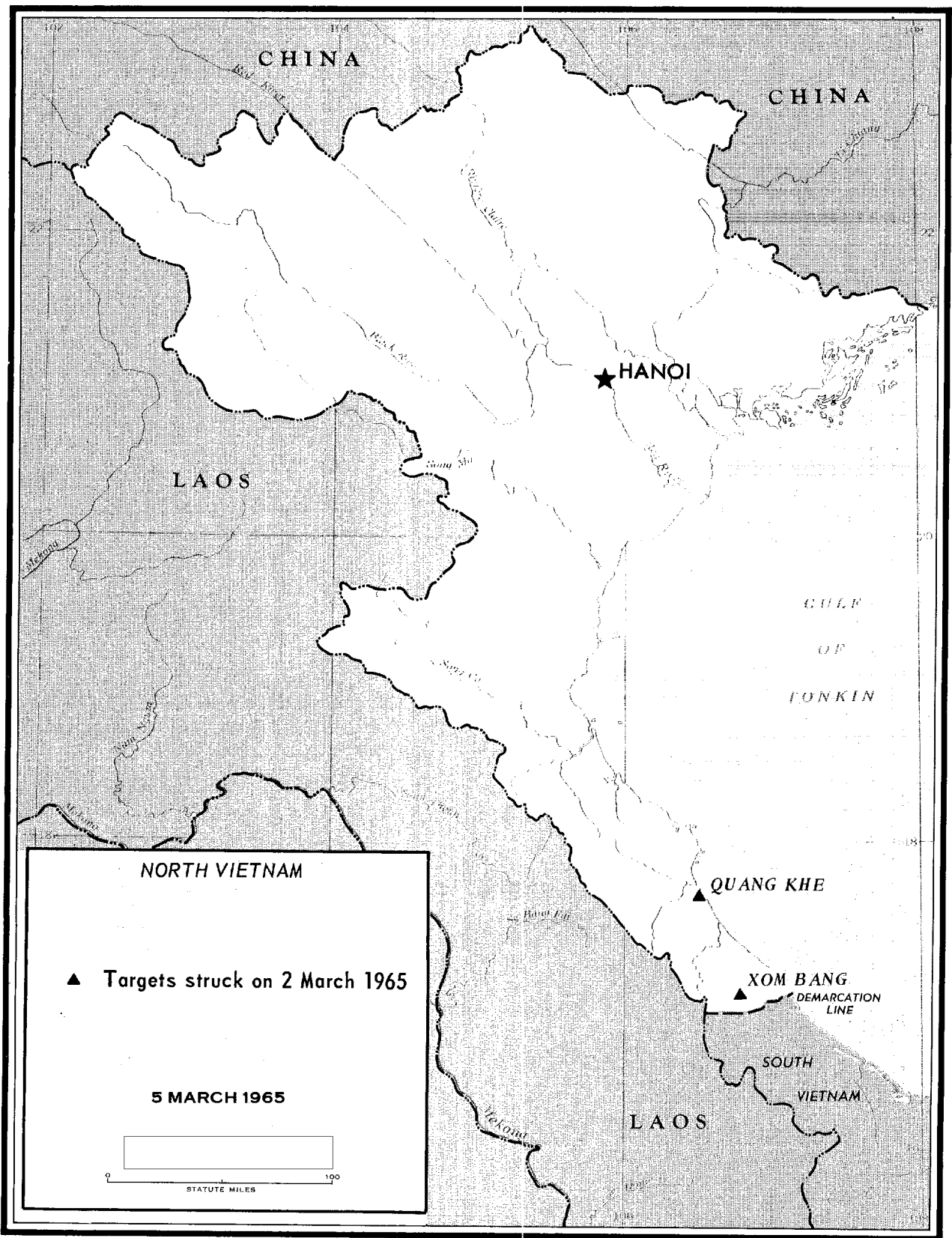
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THE VIETNAM SITUATION

So far, the US - South Vietnamese air strike on 2 March has drawn a negligible reaction from the Asian Communist armed forces. Politically, too, the Communists have been relatively restrained in their response.

Initial reports indicate that extensive damage was done to the Xom Bang target area--an important ammunition/supply depot near the Demilitarized Zone. Damage to the Quang Khe naval base was also reported to be extensive.

Six aircraft were lost as a result of the two raids--five US and one South Vietnamese. One US pilot is still missing; his aircraft was downed inside North Vietnam.

Asian Communist Reaction

North Vietnamese propaganda is attempting to give the impression that the DRV has taken the 2 March air strike in stride. The party daily on 3 March dismissed the raids as having caused "no appreciable losses" and repeated earlier promises to "deal the enemy thunderlike blows" if attacks on North Vietnam continue.

An official North Vietnamese Government statement on 3 March called the raid a "new and extremely serious escalation" of the war, and noted that it marked a US intention

to begin a "continuous air war" against the DRV, in the hope of forcing a negotiated settlement of the war. The party daily flatly rejected the notion that such strikes would lead to a negotiated settlement.

Peiping has given the 2 March strikes front-page coverage in its press and in a 4 March People's Daily editorial, praised the "tremendous victory" of the North Vietnamese. It made no mention of damage to North Vietnamese installations but described the shooting down of "nine enemy planes" as a "sound thrashing."

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The Viet Cong "Liberation Radio" on 3 March broadcast one of its most vitriolic attacks to date against the US and reaffirmed the Communist intention to step up the war in the south. The statement warned the US that further strikes against the North will result in "many more accurate blows" by the Viet

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Cong directly against US personnel.

Soviet Attitude

The Soviet view of the Vietnam question as a whole was highlighted by Soviet Premier Kosygin's 26 February report on his Asian mission. Kosygin's remarks seemed calculated to strike a careful balance. He reaffirmed Moscow's pledge of "necessary assistance" to North Vietnam and announced that the Soviet-DRV agreement on measures to "safeguard the security and strengthen the defense potential" of North Vietnam is being implemented. He also warned that the conflict "will inevitably transcend its original boundaries" if US aggression continues. At the same time, although he refrained from endorsing any specific proposal for negotiations, he asserted that US "aggressive actions" must be ended to "create conditions for the exploration of avenues leading to the normalization of the situation in Indochina."

Kosygin's guarded comments on the possibility of negotiations were designed to avoid open divergence with Hanoi and Peiping, and to stimulate further initiatives by foreign governments toward negotiations. He voiced the desire of "peace-loving countries" for an Indochina solution "at the conference table."

Soviet reaction to the latest US actions against North

Vietnam were along familiar lines, and contained no new threats. Pravda reiterated on 3 March Kosygin's earlier warning that the US had miscalculated if it believed that "aggression against a socialist state would remain unpunished."

Communist Military Reaction

No unusual Chinese Communist or North Vietnamese military deployments have been noted since the latest air strikes.

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The Situation in South Vietnam

The security situation in the central and northern provinces

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Vietnam

of South Vietnam is continuing to deteriorate rapidly as a result of intensive and wide-spread Viet Cong pressures. Sabotage against government highways, bridges, and railroads continues, contributing to the isolation of government forces in scattered urban centers. The Viet Cong, meanwhile, are consolidating their recent gains in rural areas. In the southern provinces, they appear for the time being to be husbanding their resources. Their actions have recently been limited primarily to harassment of posts, hamlets, and district towns.

On the political front, the emergence of peace movements in Buddhist and other civilian circles occupied increasing attention of the Quat government during the week. After a series of statements by leading Buddhist monks on the theme of peace, a small student demonstration in Saigon calling for an end to the war, and the arrest of certain politicians sponsoring a peace petition signed by 300 civil servants, Quat's cabinet met to take a stand on the issue. On 1 March, Quat issued a statement declaring that his government opposed any negotiated peace until the Communists ceased infiltration from North Vietnam and ended subversion in the South.

The government has warned that it will curb Communist-inspired peace propaganda. It has, however, distinguished between such propaganda and the statement of the Buddhists. Buddhist leaders say that a peace movement led by Quang Lien, a second-ranking official of the Buddhist Institute, does not have official endorsement of the entire hierarchy. Nevertheless, remarks of various Buddhist leaders advocating a return to the "relative calm" of 1955 suggests they hope to capitalize on what they feel is strong public sentiment for ending the war. Although they have not so far echoed Communist terms for a settlement, their new emphasis on peace lends itself to Communist exploitation.

A continuing series of command changes within the armed forces reflects the efforts of various generals to step into the strong-man role vacated by General Khanh.

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WEAPONS CAPTURED FROM THE VIET CONG IN 1964

Number of Weapons by Country of Origin

TYPE WEAPON	COUNTRY OF ORIGIN					TOTAL 1964	TOTAL 1963
	COMM. CHINA	US	FRANCE	VIET CONG	OTHER		
90mm Rocket Launchers	1					1	1
82mm Mortars						0	5
60mm Mortars	1	2		4		7	3
75mm Recoilless Rifles						0	3
57mm Recoilless Rifles	2					2	5
50 Cal. Machine Guns		4				4	2
7.5, 7.62, & 7.92 Machine Guns	5					5	11
Light Machine Guns	16		16			32	9
Automatic Rifles	5	13			1	19	35
Submachine Guns	91	104	135	10	25	365	323
Rifles		241	553	92	55	941	884
Carbines	302	229		36		567	304
Pistols	66	16	1	25	50	158	38
Shotguns		19			35	54	*
Other	2					2	*
Total	491	628	705	167	166	2157	1620
% of Total, 1964	22.7	29.1	32.6	7.7	7.7		
% of Total, 1963	8.4	27.7	49.8	8.9	5.3		

5 March 1965

*Not tabulated separately.

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AK 50 Submachine Gun



Chinese Communist Type 53
Light Machine Gun

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Vietnam

VIET CONG RECEIVING IMPROVED ARMAMENT

The number and types of Chinese weapons captured from the Viet Cong during 1964 indicate not only that the firepower of the main force units is being enhanced by more modern automatic weapons but that steps toward standardization are being taken.

A much larger percentage of the captured weapons came originally from Communist China --almost 23 percent, compared with 8.4 percent in 1963. French weapons still predominated, but had dropped from almost half the total in 1963 to about a third in 1964. The percentage of US weapons captured during 1964 remained about the same at 27 percent.

Recent captures include the Chinese Type 53 light machine gun, the AK 50 submachine gun (an assault weapon), and a carbine, all of which use 7.62 mm. ammunition. These small arms have been standard equipment in the Chinese Communist armed

forces for several years and have been supplied to the North Vietnamese.

Weapons of this type first began to appear with Viet Cong units last December and have since been captured in all areas of South Vietnam. This and the fact that they use a caliber of ammunition that cannot be captured from South Vietnamese forces indicate the development of a more dependable supply system. The sinking of a North Vietnamese arms ship off Phu Yen Province on 17 February and the subsequent capture of relatively large amounts of arms and ammunition indicate that increased deliveries are coming by sea.

Most of the newer Chinese weapons are probably still drawn from North Vietnamese Army stockpiles. China now may be replenishing this stockpile at a more rapid rate or perhaps sending some of this materiel directly to the Viet Cong through North Vietnam. 25X1

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The Communist World

MOSCOW PLAYS MEETING OF COMMUNIST PARTIES IN LOW KEY

The minimal publicity given to the meeting of Communist parties convened in Moscow on 1 March provides further evidence of the USSR's effort to keep it as innocuous and noncontroversial as possible.

The Soviets have carefully avoided any mention of the meeting's original purpose as a preparatory session of the 26-party "editorial commission" to make arrangements for a world party conference. On 28 February, Pravda carried a terse announcement of the arrival of delegates to participate in a "consultative meeting." Representatives of 19 parties are taking part, with the Chinese, their Albanian and Asian supporters, and the Rumanians, as expected, refusing to attend.

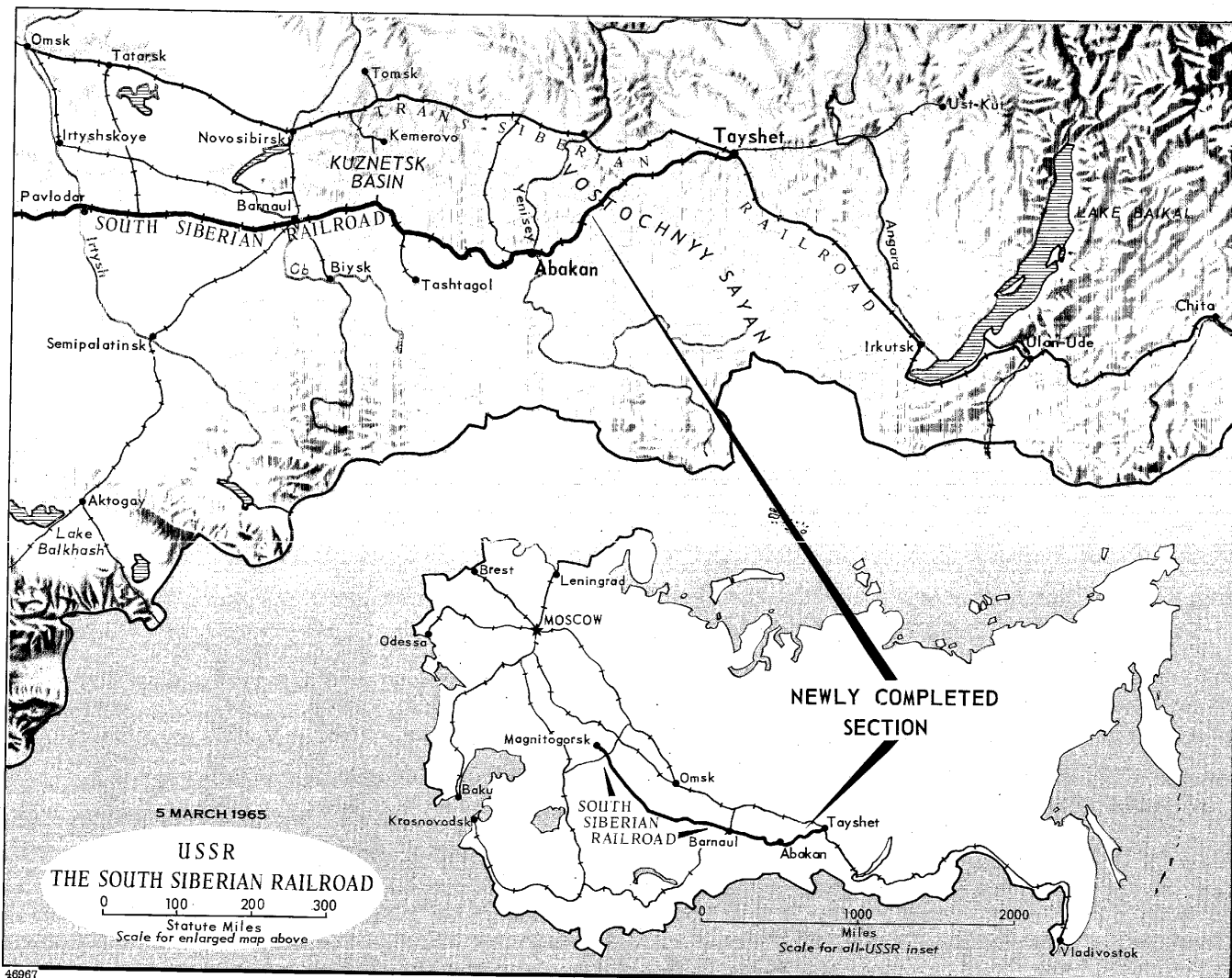
On 3 March, TASS issued the text of a statement, "unanimously adopted by the members of the consultative meeting," which condemned US "open aggression" against North Vietnam, including "barbarous bombings of populated centers." Although the statement voices the parties' "international solidarity" with the Vietnamese people, it is relatively bland and represents another Soviet attempt to underscore the particular need at present for the unity of all "progressive" forces. The USSR also continues to stress the necessity for Communist solidarity and to picture itself as engaged in patient efforts to resolve difficulties within the movement.

The Chinese Communists have not yet taken public notice that the meeting is being held. They have, however, kept up a steady low-key attack on Moscow and are probably preparing to release a new major polemic soon after the gathering is over. Red Flag, the principal vehicle for full-dress attacks on Moscow, has not come out since 6 January. The unusual delay in publishing this authoritative fortnightly probably reflects Chinese reluctance to provide the Russians with a new target which could be exploited during the consultative conference. Peiping may also have calculated that continuation of the formal truce in major polemics prior to the meeting would add to Moscow's problems in persuading some of the invited parties to attend.

Chinese preparations for a renewed assault on Moscow have included extensive publicity concerning anti-China materials which have been appearing in the USSR. The main line of the next Chinese attack is not clear as yet but it seems likely that Peiping will concentrate on what it now is calling "Khrushchevism without Khrushchev." The Chinese can be expected to criticize the present leaders in Moscow for continuing the policies established by Khrushchev, including the decision to go through with the 1 March meeting and alleged Russian softness in dealing with the US and the situation in Vietnam.

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SOVIET NAVAL ACTIVITY IN THE FAR EAST

Seven weeks of unprecedented Soviet out-of-area submarine patrol activity in the western Pacific is apparently concluding. Three Soviet conventionally powered W-class submarines and a subtender which have been operating in the Philippine Sea since mid-January and a guided-missile destroyer which has been operating with two other W-class units south of Kyushu since mid-February have entered the Sea of Japan, apparently on their way home. The latter two Ws are probably returning to home waters also.

The activity in the Pacific is similar to that conducted by Soviet naval detachments in the Mediterranean during the past year. The Pacific Fleet units conducted routine submarine exercises while on patrol, gained experience in extended operations, and probably obtained realistic training in submarine surveillance procedures. This activity will probably prove to be a prelude to generally increased Soviet naval activity in the Far East.

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NEW LINK ON SOUTH SIBERIAN RAILROAD OPENS

A strategic 400-mile section of the South Siberian Railroad which was opened to limited through traffic in January will relieve the overburdened Trans-Siberian Railroad in servicing the important industrialized area of the Kuznetsk Basin. For the first time, railroad traffic can move about 2,000 miles from the Urals to Eastern Siberia without using the Trans-Siberian Railroad. This new link, cutting through difficult terrain and built at a high cost, was one of the major seven-year plan rail construction projects.

Initially, the principal traffic will consist of logs and lumber now straining the capacity of the Trans-Siberian

Railroad from eastern Siberia westward to the Kuznetsk Basin and to Central Asia. The transport distance for this traffic has been shortened by 210 miles, and the line should also permit development of the minerals and forests of the Vostochnyy Sayan Mountains.

Limited traffic is permitted on the Abakan-Tayshet line now, and full operation is scheduled to start in the fourth quarter of this year. The line will be electrified and a central traffic control system installed to handle a heavy volume of movement. Construction of this link began in 1958 with completion originally planned for 1963.

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EASTERN EUROPE'S REACTIONS TO US "BRIDGE-BUILDING" PROPOSALS

Most East European regimes are treating US "bridge-building" proposals with a cautious mixture of economic appetite and political apprehension. Their economies have generally reached a stage where they need Western equipment and technology in order to achieve planned goals, but their growing political self-reliance has not reached a point where they are comfortable about entering into new relationships with the US.

Poland, Czechoslovakia, and Hungary have displayed the greatest ideological and political sensitivity and have issued specific statements designed to allay the anxieties of domestic and external Communist critics. At the same time they have taken positive steps to improve relations with the US and are expressing strong interest in increased economic cooperation. The US proposal has added impetus to Yugoslav and Rumanian plans for expanding existing economic and cultural relations without generating political fears. Bulgaria appears to feel that the time is not yet propitious for improved relations with the US, but it is improving its ties with West European countries. Albania views the US initiative with distaste and apprehension. The Ulbricht regime, although

not included in the bridge-building program, has sought to capitalize on West German discomfiture over the French - East German trade agreement and the evidence of US businessmen's interest in East German contracts.

The Polish regime has welcomed the US proposal as an opportunity to improve ties and to revitalize and expand the "special relationship" established in 1957. Since last fall the Poles have taken a number of steps to remove irritants to mutual relations, and in private talks with US officials have repeated their interest in expanding trade. Planning boss Jedrychowski reportedly wishes to discuss a number of political and economic proposals when he visits Washington this spring. Domestic and external counterpressures, however, may force the regime to seek a restatement of the 1957 understanding that closer relations will not lead to alteration of Poland's basic political orientation.

Prague, motivated by economic problems and a growing measure of self-assertion vis-a-vis Moscow, is seeking to establish rather than expand relations with the US. Despite concern over the recent US decision not to sign a long-negotiated claims agreement, Prague

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The Communist World

officials have consistently expressed a desire for closer relations. Deputy Foreign Trade Minister Kohout will visit the US this month as a member of a Czechoslovak Chamber of Commerce delegation.

However, Prague is deeply concerned about the political wisdom and the ideological rectitude of this course. In a recent article, Deputy Foreign Minister Klicka emphatically rejected alleged attempts

to build "bridges of influence ... motivated by selfish, imperialist interests."

A similar ambivalent attitude was reflected in a recent official Hungarian statement which, while rejecting "imperialist plans to use trade" to drive a wedge between Hungary and the Soviet Union, also chastised "those who would close the door to closer economic relations with the West." [REDACTED]

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STALEMATE IN EAST - WEST GERMAN TRADE TALKS ENDS

A three-month stalemate in talks on German interzonal trade (IZT) ended on 23 February when the Communist negotiator accepted with minor changes a package proposal the Federal Republic had tabled on 5 February. The postponement for one year of the cash settlement of imbalances in IZT accounts was the most significant West German concession. In return East Germany signed the new agreement without settlement of the sensitive petroleum products subsidy issue and avoided raising the question of credentials.

Agreements were signed on consolidation of IZT subaccounts covering services and soft goods, expansion of East German machinery deliveries, and estab-

lishment of 1965 trade levels for brown coal and hard coal. Oral agreement was also reached on the 1965 level of East German purchases of iron and steel.

Despite the unusual length of time taken in reaching the settlement, the concessions granted by each side indicate that both have a vested interest in maintaining interzonal trade at its high level. [REDACTED]

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INTERNAL OPPOSITION TO POLISH - WEST GERMAN ECONOMIC VENTURES

The political and emotional contradictions inherent in the joint West German - Polish industrial ventures in Poland now under negotiation at the initiative of the Krupp combine are beginning to surface and could jeopardize conclusion of any agreement. Exaggerated Western press speculation on an eventual East-West ideological and political breakthrough had led both Polish and West German spokesmen to deny such implications. In their statements, however, both sides have been careful not to disparage the economic aspects, and a Polish delegation is scheduled to resume the negotiations in Essen next month.

However, Polish proponents of the negotiations are reportedly being hard pressed by others within the regime to defend their stand. The main party daily on 20 February vehemently rejected the possibility that the deal could lead to Western political penetration of Eastern Europe. Even Premier Cyrankiewicz, who with Krupp general manager Berthold Beitz is largely responsible for the discussions, has felt called upon to deny any political implications. According to press reports of a speech he gave on 1 March at the Leipzig Fair, in the presence of the Soviet and East German premiers, Cyrankiewicz said that

there was "no question of Krupp's owning a part of the proposed enterprise, since this would conflict with the Communist system."

Despite this evidence of internal opposition, the Poles have made approaches for similar projects to other Western firms.

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The West German Cabinet granted tentative approval of the Krupp proposal in mid-January, and promised a federal guarantee of credits if the pilot project got off the ground. However, West German delegates to the NATO Economic Advisers' meeting on 24 February spoke of the project in terms radically different from those detailed by Beitz in his recent discussions with top US officials. Beitz now is talking of beginning with an investment of three to four million dollars, but the German officials intimated that the deal would be "of modest size and unlikely to depart significantly from existing cooperative Polish sales efforts with Sweden, Austria, and Belgium."

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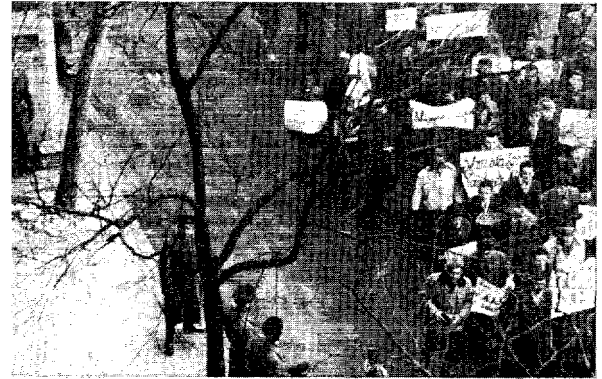
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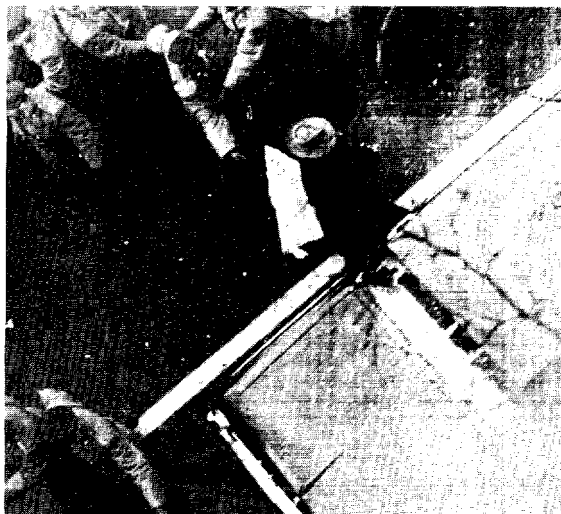
DEMONSTRATION AGAINST US LEGATION IN BUDAPEST, 13 FEBRUARY 1965



Hungarian organizers await mob's arrival.



First wave of demonstrators.



Policeman keeps colleague from restraining demonstrator breaking windows of legation car.



Second wave of demonstrators. Note organizers (bottom of photo) giving orders.



Besides wrecking vehicles and smashing windows, the demonstrators ripped the US seal from the legation door and, after breaking into the building, did extensive damage to the interior.



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The Communist World

HUNGARY'S KADAR REBUFFS POLITICAL CRITICS

In a lengthy speech to the Hungarian parliament on 11 February, Hungarian premier and party first secretary Kadar candidly admitted that his program of gradual domestic reform continues to spark opposition from both party and non-party elements. He dismissed such people, however, as "armchair strategists" who cherish futile and foolish hopes, and vigorously reaffirmed his commitment to a policy of national self-interest in both domestic and international affairs. In an unusually frank discussion which probably reflected the magnitude of the opposition--especially within the party--he asserted that the regime's stability was amply demonstrated by its success in weathering the domestic political storm following the ouster of Khrushchev, his mentor.

Kadar gave no details of his secret meetings with Brezhnev and Podgorny from 29 to 31 January. It is likely, however, that the new Soviet leaders made the journey to Budapest at least in part in order to display support which would help Kadar quiet his critics.

Kadar's treatment of foreign affairs centered on Hungary's need to continue exploration of new trade and cultural contacts with Western Europe. He encouraged the expansion of cooperation, including the establishment of "joint economic projects," with capitalist enterprises and further discussion of the nebulous Gaullist concept of a "European Europe."

He sharply criticized US actions in Indochina and asked the assembly to pass a resolution of

protest; later, however, he expressed hope that the US would soon eliminate its "trade embargo" and extend most-favored-nation status to Hungary as a contribution to peaceful coexistence.

Progress in normalizing Hungarian-US relations suffered a serious setback two days later when a Hungarian-led mob of more than a thousand Asians, Africans, and Hungarians stormed the US Legation building in Budapest after a rally protesting the US air strikes in North Vietnam. No demonstration of such magnitude had been permitted since 1956, and there are indications that the regime was seriously split over the advisability of allowing this one.

Commenting on this year's relatively austere economic plan, Kadar assured the parliament that no "adventurous experimentation" would take place and that 1965 would be a year of study rather than of major decisions. He coupled the announcement of a domestic retrenchment in some fields with an attack on the perpetrators of economic and social abuses. This reference to recent scandals--which reportedly involved politburo members and the ministers of justice and defense--probably does not presage drastic punitive action, however, inasmuch as protegés as well as opponents of Kadar had been implicated.

Kadar also scotched rumors that those guilty of economic crimes might be released in a general amnesty on 4 April, the 20th anniversary of Hungarian liberation.

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Asia-Africa

INDONESIA PURSUES ANTI-AMERICAN COURSE

Anti-American moves in Indonesia have reached a new high, and Communist strength apparently continues to grow.

Prolonged Communist agitation over American-owned rubber estates in North Sumatra culminated on 26 February in the Indonesian Government's announcement that it was taking control of them. According to the minister of estates, Indonesia will run the plantations under contract with the American owners, but continued American presence on the estates for more than a brief interim period seems doubtful. The seven estates involved are owned by Goodyear, US Rubber, and Hawaiian Sumatran Plantations and are roughly valued at a total of \$80 million. The Goodyear tire factory in West Java was placed under "temporary supervision" on 20 February.

On 27 February, First Deputy Prime Minister Subandrio announced that the five USIS libraries in Indonesia had been closed "temporarily." Three of these had in fact been closed ever since mobs invaded them last year.

General harassments have also reached a new high. On 28 February a mob of students invaded the ambassador's residence; some 500 youth have demonstrated against American sightseers in East Java; Americans have been harassed in streets

and shops; Indonesian employees of the US Embassy has been threatened; and most Americans on the diplomatic list have received anonymous letters threatening physical violence.

Communist domination of the press was strengthened by the banning on 25 February of 21 newspapers which last fall supported the anti-Communist and now-defunct "Body to Promote Sukarnoism." Minister of Trade Adam Malik, the principal leader of "Sukarnoism" and a major target of the Communists, retains his post but has lost his principal functions. On 23 February responsibility for foreign trade was transferred to Subandrio, who is close to the Communists.

Despite Indonesia's proposals for peace talks with Malaysia, anti-Malaysian military activity continues. Infiltration operations against peninsular Malaysia have picked up sharply in the past two weeks. A force landed late last month is proving the most successful infiltration of Malaya since guerrilla landings began last August. On 28 February this force ambushed a platoon of Malaysian troops killing eight and wounding five. Two other teams that landed last week have been eliminated.

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Asia-Africa

COMMUNIST MILITARY FORCES STAY ACTIVE IN LAOS

Communist military activity continues in widely scattered areas of northern Laos. The center of Communist pressure is in the northeastern hill region, where government forces have been driven from several key positions along Route 6, a fair-weather road linking Ban Ban with Samneua town. In an attempt to retain a foothold in this region, the government has ordered reinforcements into the Na Khang area, where rightist forces have regrouped.

Farther south, air strikes were mounted during the past week against two key "choke-points" on the overland supply routes from North Vietnam. One of these was made on 28 February against the Mu Gia Pass area on Route 12, and there are indications that the road through the pass has been blocked--at least temporarily--by a landslide triggered by the bombing. Another strike, launched on 3 March, resulted in considerable damage to Route 8 in the Nape area near the North Vietnamese border.

Before these strikes, roadwatch reports indicated that the Communists had been moving substantial quantities of supplies into south-central Laos. During February, roadwatch teams spotted more than 200 trucks moving west through the Mu Gia Pass from North Vietnam. Other roadwatch team reports indicate that the bulk of these trucks moved south along Route 23 toward the Muong Phine - Tchepone area on Route 9.

In Vientiane, Premier Souvanna continues to have problems stabilizing his coalition cabinet. On 1 March neutralist Pheng Phongsavan resigned as minister of foreign affairs, charging that Souvanna had failed to back him against political attacks by the rightist Sananikone family. However, he retained his post as interior minister. Only shortly before, Souvanna had ousted ministers Phoumi Nosavan and Bouavan Norasing as a result of their roles in the recent take-over attempt.

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Asia-Africa

IRAN TRIES TO COUNTER EGYPTIAN INFLUENCE

The Iranian Government is meddling in Iraq and Yemen in an effort to oppose what it sees as a threat from Egypt. The Shah recently stated in private that he considers Nasir a greater immediate danger than the Soviet Union.

Iran's historic concern over signs of Arab expansionism, especially on its western borders with Iraq, has been heightened in the past year by the Iraqi Government's increasingly close ties with Nasir. Tehran is especially worried over Nasir's influence among the predominantly Arab population in its oil-rich southwestern province of Khuzestan. Late last year Iran approached both the US and Britain to cooperate in the development of contingency plans to deal with this "threat" --which probably is far less real at present than the Iranians believe.

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Asia-Africa

TENSIONS EASE ON CYPRUS

Tensions have eased on Cyprus in the past two weeks. At the urging of UN officials, Ankara has agreed to postpone the rotation of Turkish troops on Cyprus, originally scheduled for 3 March, until after the 20th of the month. President Makarios under pressure from Athens, seems ready to forego a new confrontation on this issue. He has also indicated that he will not push now for revision of the constitution or for new elections. Ankara and the Turkish Cypriots had threatened to retaliate if he acted on these matters.

Athens' warning to General Grivas, commander of Greek Cypriot forces, has brought at least a temporary end to harassing tactics against UN troops. In Famagusta, however, where both Greek and Turkish Cypriots have been strengthening their defenses, violence could still break out at any time.



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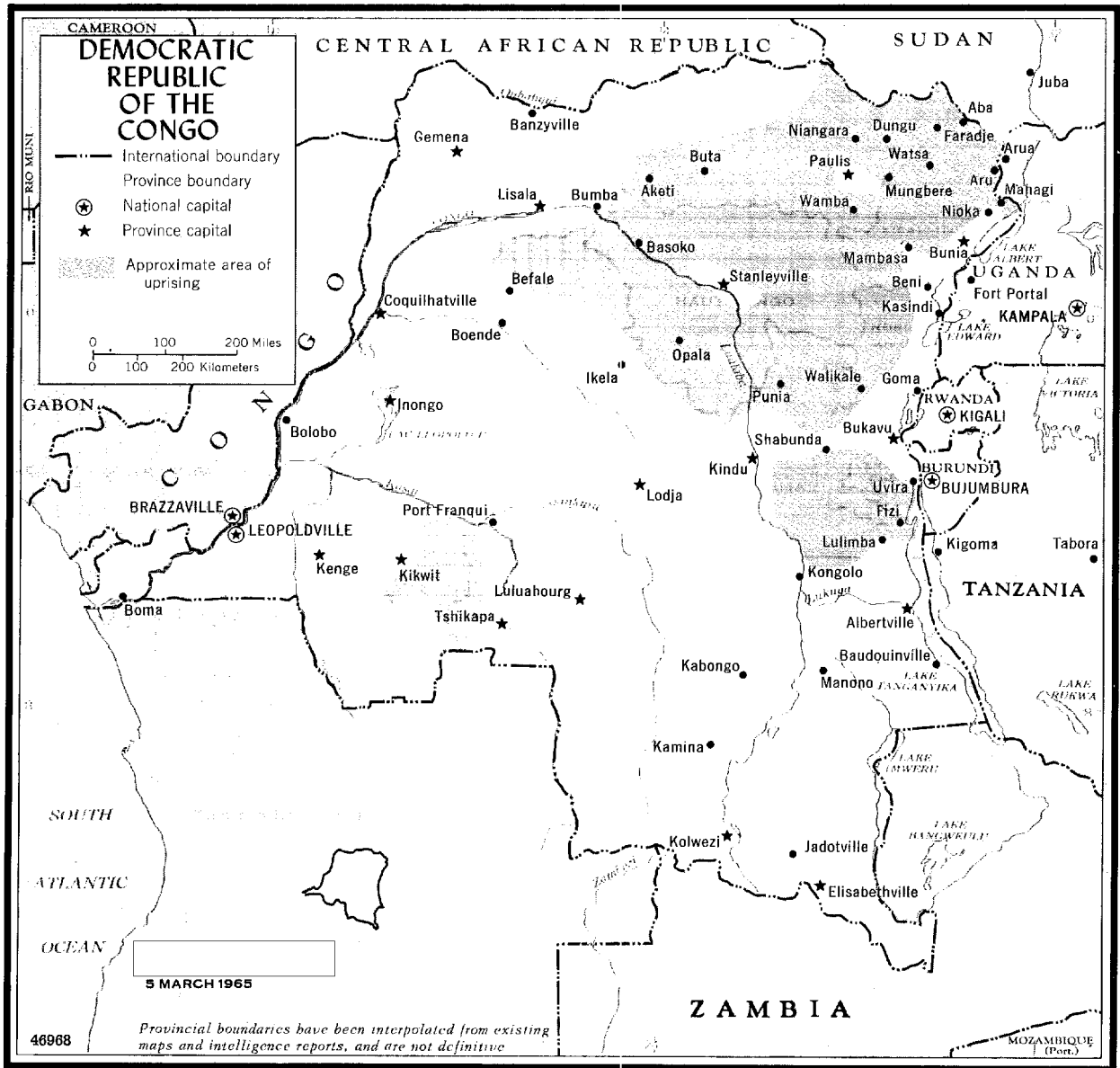
No progress has been made toward starting direct negotiations among the disputants, but all have agreed to extend the mandate under which UN troops are stationed on the island another three months beyond 26 March. UN mediator Galo Plaza plans to submit his report to Secretary General Thant after the Security Council extends the mandate. He probably will propose no specific solution but will urge direct negotiations between the Greek and Turkish Cypriots.



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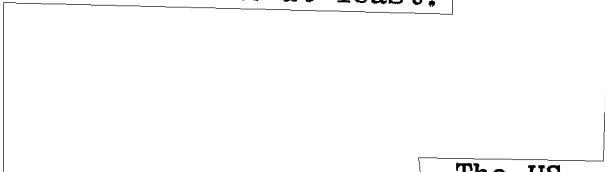
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Asia-Africa

TSHOMBE SCORES MILITARY AND DIPLOMATIC GAINS

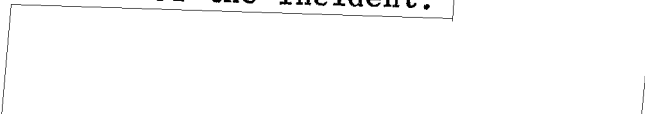
Tshombé's fortunes appear to be looking up this week on both the military and diplomatic fronts.

The threat of serious Ugandan military involvement in support of the rebels on the Congo's eastern frontier has receded for the moment at least.



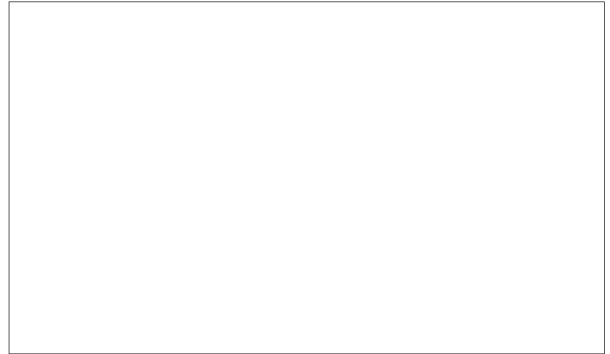
The US Embassy in Kampala believes that Obote's adventures are looked upon with disfavor by most Ugandans, and that he may find himself in political trouble at home if he pursues his course or gets more deeply involved.

There are some indications now that the alleged bombing of a Ugandan missionary school on 22 February may have been a provocation by third parties. No firsthand reports have been received, and Congolese aircraft are believed to have been clear of the particular area at the time of the incident.



Rebel military activity remains at a rather low level. Rebels still occupy Mahagi, north of Lake Albert, but their assaults on government positions south of the town have been desultory and inept. The security situation in Stanleyville is said to be improving. Rebels

no longer menace the city's approaches, and order has been largely restored. Downriver near Bumba, two government columns on 27 February started in the direction of Stanleyville to clear the river banks of insurgents. Southeast of Kindu and on the shore of Lake Tanganyika government forces have also taken the offensive.



The Organization of African Unity's special Congo commission and the OAU foreign ministers began meetings on 25 and 26 February in Nairobi, and here also Tshombé's prospects appear to have markedly improved. His representatives have handled themselves well and have reportedly created a more favorable impression than the rebel delegates. A broad grouping of OAU moderates has formed in support of Leopoldville, and the radical African states appear less cohesive and less enthusiastic in pushing the rebel cause than previously. Tshombé himself arrived in Nairobi on 4 March to present his case.



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COAL-STEEL COMMUNITY TAKES STEP TOWARD COMMON ENERGY POLICY

The European Coal and Steel Community (CSC) has taken a significant first step toward implementing a common energy policy which the six member states have been seeking for seven years. By unanimously approving a key article proposing community subsidies to coal mines, the CSC Council has begun to carry out the Energy Protocol Agreement signed in April 1964 in which the Six formally agreed on the objectives of a community energy policy. The Council's decision gives the community's High Authority considerable supervisory power over the granting and administration of the subsidies and, with regard to aiding depressed regions, increases its powers even beyond the original agreement.

The agreement on subsidies is due primarily to a recognition

by the Six that something had to be done for the declining coal industry. To reach it, it was necessary to overcome German fears about the extension of community controls over member states' social security systems and Dutch concern over stretching the provisions of the original CSC treaty, and to meet Belgian and French insistence that subsidy payments be degressive. The use of subsidies avoids the need for direct protectionist measures.

Although a policy covering all energy markets remains a distant goal, the High Authority's increasing prestige is undoubtedly an important factor in moves toward closer consultation between the community and the member states on other aspects of the energy protocol.

EUROPEAN ATTITUDES TOWARD FRENCH VIEW OF WORLD FINANCE

Recent French attacks on the present system of international financial settlements have been criticized in European financial circles because of the political overtones and the lack of prior French consultation with other interested parties. There is nevertheless almost unanimous agreement that reform of the present arrangements is

in order and that the French may have achieved one desired result: spurring the US to remedy its balance-of-payments deficit. Most officials, however, anticipate no sudden change in the present payments system and note that French proposals would have the effect of restricting world trade.

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Europe

European suspicions of French motives and intentions include some feeling that the French hope to increase their role in the international monetary area before a reversal of their payments position and intensifying internal problems (see next article) reveal economic weaknesses. Some officials, however, speculate that De Gaulle's extreme position calling for a return to the gold standard is in fact intended only to gain support for France's more moderate proposals for a new international composite reserve unit (CRU).

Some diplomatic circles note that unless an adequate substitute is found for the international monetary reserves which are presently made available by the large US deficits, the trend will be toward creation of "common currency areas." De Gaulle's somewhat vague call for a "European reserve currency" is generally regarded as premature in most Common Market capitals, but EEC President Hallstein has apparently been pushing the EEC Commission to undertake studies

looking toward "monetary union," and German Economics Minister Schmuecker is advocating, at the least, agreement among the Six on common monetary policies. The EEC Monetary Committee's report published this week stressed the importance of prior consultation among the Six in order to present a common front in the IMF and other international forums.

Some Europeans have also indicated that EEC differences with the US and UK now will become more pronounced, and there is concern these strains could be aggravated if the UK requests additional credits from the IMF before May, when repayment of its current loan is due.

The immediate issue raised in Europe by the French position on world finance is the willingness of West Germany and Italy to continue holding large dollar and sterling reserves. Officials in both countries have indicated that no shift in policy is in the immediate offing.

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OUTLOOK FOR THE FRENCH ECONOMY

Indications in recent months of an economic downturn in France are causing pessimism in business circles and concern among Gaullist politicians whose sights are on the presidential election in December. These indications include a slow decline in industrial activity, reduced private capital investment, rising inventories, and a general weakening of domestic demand. The textile industry has been particularly hard hit, and its contraction is aggravating the poor psychological climate that now prevails in French industry. These circumstances do not augur well for the government's aim to achieve a 4-percent growth in the GNP this year.

Underlying France's present difficulties is the problem of adapting the country's economic structures to meet increasing international competition. France is still handicapped by obsolescent, family-owned enterprises, an inadequate, government-dominated capital market, and insufficient expenditure on basic and applied research.

Meanwhile, the government's economic policy continues to rest on a stabilization program, initiated in 1963, which is keyed to price controls, credit restraints, and a tight budget. This program succeeded in hold-

ing last year's price increases to less than half the 1963 rate, but the rigidity with which it was enforced was partially responsible for the slowdown in economic activity.

Finance Minister Giscard d'Estaing maintains that continued austerity is necessary until the economy has made the adjustment from an inflationary situation to one of stability. Other cabinet officials, however, believe that restraints should be eased to stimulate an immediate upturn even though this might have the undesirable effect of driving prices up in an election year. A little inflation, in their view, would be a lesser evil than the deepening recession that would be the price of inaction.

The government, faced with more severe economic difficulties than any it has had to deal with since 1958, will be under increasing pressure to alleviate the situation to assure a solid Gaullist victory in December. There are already indications that some relief measures, such as limited tax reductions, are being prepared. French fiscal officials, however, are non-committal about easing the more drastic restraints like the industrial price freeze and credit controls.

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FINNISH PRESIDENT CONDEMNS WEST GERMAN MEMBERSHIP IN MLF

Finnish President Urho Kekkonen at the end of his Moscow visit on 24 February publicly took the position that West Germany's inclusion in a Western multilateral nuclear force (MLF) would endanger the peace of Europe. Kekkonen at least appeared to imply that the Soviets would be justified in calling the Finns into "joint consultations" for mutual defense under the 1948 Finnish-Soviet treaty if an MLF were established. The treaty provides that Moscow may demand such talks if the USSR is attacked, or is threatened with attack, by West Germany or its allies.

The Soviets had for some time been pressing Helsinki to condemn the MLF, but with no success. Kekkonen, who stayed

on in Moscow after the other members of his delegation departed, presumably decided that an accommodation on the MLF was a reasonable price to pay to get in good standing with the new Soviet leaders. His political stock in trade has always been his capacity to get along with the Soviets, which was epitomized by a friendly relationship with Khrushchev.

Kekkonen has nonetheless touched a sensitive Finnish nerve and may have handed his domestic enemies a useful weapon. The Finns fear that "joint consultations" might give rise to Soviet demands infringing on their sovereignty. Kekkonen's remarks in Moscow have already provoked the reaction by some Finnish papers that he departed from Finland's policy of strict neutrality.

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NETHERLANDS GOVERNMENT RESIGNS

Prime Minister Marijnen submitted his resignation on 27 February in the wake of a cabinet split on the question of introducing commercial radio and television into the Netherlands. Popular opinion strongly favors entertainment financed by advertising rather than the government-sponsored programs, which are regarded as too heavily cultural and educational. Certain influential religious and political organizations, however, favor the status quo.

For the present, efforts are being directed toward putting together a new cabinet, and there is hope of averting a general election. Considerable time, however, may elapse before a new government is installed and able to act on new issues. In the end, the chances are that Marijnen's Catholic Party, to which Foreign Minister Luns also belongs, will once again emerge as the principal partner in a new coalition.

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ARGENTINA: PARTY COMPOSITION OF NATIONAL CHAMBER OF DEPUTIES

<u>Party</u>	<u>Seats Won 1963</u>	<u>Present Seats</u>	<u>Seats at Stake in 14 March Election</u>
People's Radical Civic Union (UCRP)	72	64	37
Intransigent Radical Civic Union (UCRI)	40	18	10
Movement of Integration and Development (MID)		18	11
Peronist-oriented parties	22	22	12
National Federation of Center Parties (FNPC)	12	12	6
Union of the Argentine People (UDELPA)	15	11	6
Progressive Democrat Party (PDP)	12	11	5
Christian Democrat Party (PDC)	7	7	3
Argentine Socialist Party (PSA)	6	6	2
Democrat Socialist Party (PSD)	5	5	3
Others	1	-	1
Independents	-	6	2
TOTAL	<u>192</u>	<u>180</u>	<u>98</u>

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ARGENTINE CHAMBER OF DEPUTIES ELECTIONS

The 17-month record of the Illia government in Argentina faces its first test by ballot on 14 March when 98 of 192 Chamber of Deputies seats will be contested in general elections.

The government party, the People's Radical Civic Union (UCRP), should be able to maintain its position as the chamber's largest party with about a third of the seats, even though many more of these are at stake than of those held by other parties. In the UCRP's favor are a good legislative record and improving economic conditions. The government's effective handling of Peronist agitation during the past year as well as the fiasco of Peron's recent attempt to return also stands the UCRP in good stead. In addition, the continuing fragmentation and disunity of major opposition parties, particularly in the Peronist movement, presumably will benefit the UCRP.

The Peronist movement is at present roughly divided between orthodox supporters of the pro-Peron Popular Union (UP) party and the neo-Peronist Confederation of Popular Justicialist Parties and Movements. The majority orthodox Peronists, who obeyed Peron's order to cast blank ballots in the 1963 election, accounted for about 16 percent of the ballots in that election. The neo-Peron-

ists polled 9 percent of the total and won 22 seats in the chamber--12 of which they will have to defend in the coming election. Both Peronist wings are expected to gain seats at the expense of other parties, but their own incompatibility, together with the proportional representation system now in effect, will probably preclude gains in the lower house which the military might consider "excessive." The orthodox Peronists will probably receive considerable support from the Argentine Communist Party.

The government's attitude of "tolerance" toward the Peronists, along with its controversial economic policies, has produced a sense of uneasiness in certain Argentine circles, particularly among the military. The military probably will not try to prevent Peronists from participating in the elections, but they will carefully observe the results in terms of judging the government's ability to cope with Peronism in the future.

There are indications that on 14 March Peron will temporarily leave Spanish soil--where he is forbidden to engage in political activity--in order to deliver a speech to his Argentine supporters. This could determine how the Peronists will vote and thus provide a new measurement of their current strength and unity.

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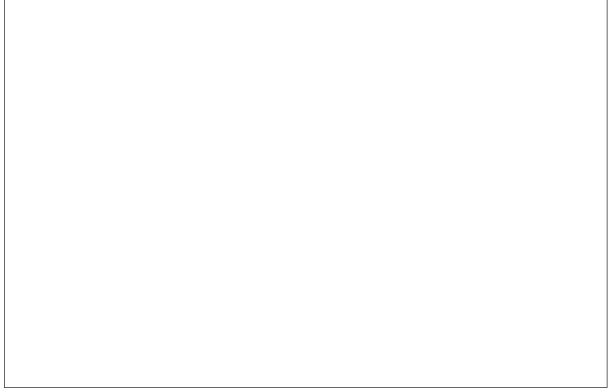
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GOVERNMENT FORMS NEW COALITION IN BRAZILIAN CONGRESS

The Castello Branco administration has strengthened its position by persuading members of several political parties to form a progovernment coalition in the Brazilian Chamber of Deputies. The nucleus of the coalition, known as the Parliamentary Action Bloc (BAP), is the conservative National Democratic Union (UDN). Its other elements are factions of the two other major Brazilian parties--the Social Democrats and the Labor Party--as well as deputies from several small political groups.

In the past, the administration has had the consistent support of only about one third of the 409 deputies. The BAP, however, promises to give it at least a slight majority in Congress on most important issues.

The BAP weathered its first test of strength last week when the chamber elected its officers. Most of the coalition candidates won, some in hard-fought races. Its nominee for chamber president, Bilac Pinto, won a three-way contest by polling 200 of the 393 votes cast.

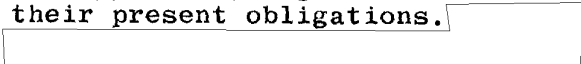


Should the BAP consolidate its early success, there is a strong possibility that Castello Branco will move a step further and attempt to turn it into a political party.

The strong regional and state orientation of Brazil's present parties present formidable obstacles to the establishment of a new, nationwide party. Many political leaders nevertheless fear that the emergence of the BAP may cause splits in their respective parties which will be difficult if not impossible to repair. They note, in particular, the Social Democrat and Laborite defections to the BAP. In any case, the development of a solid government bloc may well tend to promote a political polarization between those who support the government and those who oppose it, regardless of their present obligations.

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URUGUAYAN POLITICAL CLIMATE WORSENS

The recent death of President Giannattasio and his replacement on the nine-man National Council of Government (NCG) by former foreign minister Zorrilla de San Martin may hasten the deterioration in Uruguay's political situation by paralyzing decision making in the NCG. Although Zorrilla, like Giannattasio, represents the Orthodox Herrerista faction of the governing Blanco party, he is much truer to Herrerista nationalism and will undoubtedly join fellow Herrerista Heber and the three minority Colorado party councilors in frequent obstruction of proposals of the four Blanco Democratic Union (UBD) members.

Government ineptitude and a worsening economic situation have combined to produce a serious decline in public morale. Uruguay's democratic traditions and apolitical military establishment have been major factors in discouraging extraconstitutional change, but the climate is rapidly becoming more propitious for a coup, and the military is showing an unusual willingness to speak out on political matters. Influential civilians who have stoutly supported democratic government have stated that they could no longer defend the present system. A major deterrent to a coup is

the lack of a leader capable of forming a viable government.

Fear of a coup has intensified public and party discussion of constitutional reform. All Blanco factions have publicly supported re-establishment of the single executive. The new NCG president, UBD Councilor Beltran, is a strong proponent of reform but will face a perplexing variety of proposals from within his own party and the opposition Colorados. Historically tied to the plural executive system, the Colorados nevertheless also realize the need for a change and favor a collegial system with a permanent president and four members representing only the majority party. Colorados will move slowly toward reform, believing that they stand to win the 1966 elections and will then be able to make changes favorable to themselves.

Uruguay's vocal leftist labor and student groups continue to call for economically unrealistic pay increases. The threat of crippling strikes, a serious economic setback, or a breakdown in public order could trigger a coup before the forces working for constitutional reform are able to produce an acceptable alternative.

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