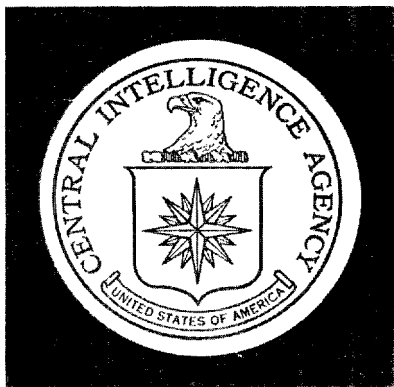


Secret



25X1



DIRECTORATE OF
INTELLIGENCE

*Pres
(Rec Center)*

WEEKLY SUMMARY

Secret

State Department review completed

52

17 November 1967
No. 0316/67

25X1

Approved For Release 2007/03/07 : CIA-RDP79-00927A006100060001-0

Approved For Release 2007/03/07 : CIA-RDP79-00927A006100060001-0

C O N T E N T S

(Information as of noon EST, 16 November 1967)

Far East

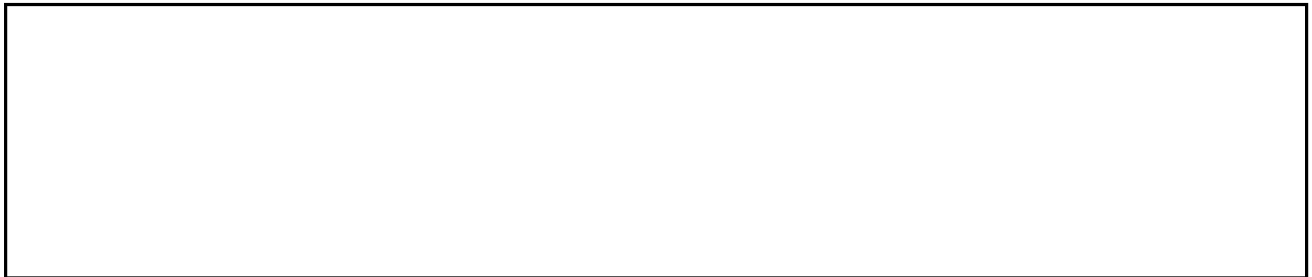
	<u>Page</u>
THE WEEK IN PERSPECTIVE	1
VIETNAM	2
Communist main force units, supported by local Viet Cong elements, have launched an ambitious "winter-spring campaign" in South Vietnam's western highlands. On the political scene, Prime Minister Nguyen Van Loc announced the formation of the new cabinet on 9 November.	
NORTH VIETNAM'S SHIPPING PROBLEMS GROW	5
North Vietnam's port operations continue to be hampered by cargo handling difficulties. Essential needs are being met, however, and in recent months port congestion has been somewhat eased.	
CIVIL DISOBEDIENCE CONTINUES TO TROUBLE CHINA	6
Peking's attempts to unite rival Red Guard factions appear to be running into trouble and clashes between opposing groups are increasing although the level of violence still remains well below that of last summer.	
PEKING CONTINUES MODERATE STANCE TOWARD HONG KONG	7
The Chinese Communists are continuing their efforts to restrain the more militant elements in Hong Kong and to direct the confrontation with the British into channels that will not seriously injure China's economic interests.	
INDONESIA: RICE AND POLITICS	8
Indonesia's current rice shortage and spiraling prices may become a major political problem for the Suharto regime.	

SECRET

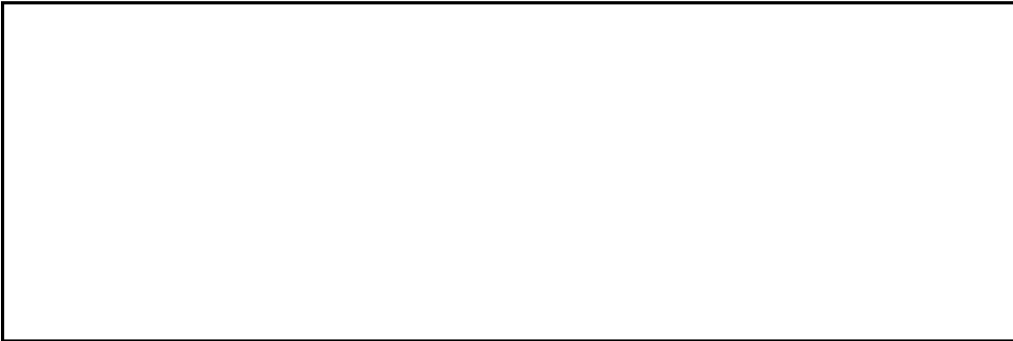
Europe

THE WEEK IN PERSPECTIVE

9



25X1



25X1

BULGARIA INCREASES CONTACTS WITH NON-COMMUNIST WORLD
Bulgarian party chief Zhivkov, seeking to reap the
benefits of a more balanced policy between the East
and West, recently has been energetically trying to
improve Sofia's political and economic relations
with the non-Communist world.

11

SECRET

SECRET

Middle East - Africa

- THE WEEK IN PERSPECTIVE 13
- MERCENARY PRESENCE PLAGUES CONGO (KINSHASA) AND RWANDA 14
The problem of what to do with the mercenaries in Rwanda has been turned over to an OAU subcommittee and may drag on for several weeks, while the batch of mercenaries who invaded Katanga has returned to Angola.
- BRITISH TO TURN OVER SOUTH ARABIA TO NLF 15
Although the British have now agreed to negotiate with the National Liberation Front (NLF) for the formal transfer of authority in South Arabia, the Saudi Arabians remain concerned over the prospect of NLF domination and may try to undermine the new regime.
- TENSIONS RISE ON CYPRUS 16
A tenuous cease-fire has halted serious fighting, but Greek and Turkish emotions remain high and a period of tension and mutual recriminations can be expected.

Western Hemisphere

- THE WEEK IN PERSPECTIVE 17
- PANAMA COALITION STILL SPLIT ON PRESIDENTIAL NOMINEE 18
A recent ruling by the Electoral Tribunal has thrown the race wide open again, and the continuing dispute among the governing parties is giving opposition leader Arnulfo Arias a definite lead.

25X1



SECRET

- NEW THREATS TO PERU'S STABILITY 20
President Belaunde's political prestige received a sharp setback on 12 November when his party lost two important congressional by-elections and the Christian Democratic Party withdrew from the governing coalition.
- CHILEAN STABILIZATION PROGRAM HEADS FOR TROUBLE 21
The 1968 wage-price policy of President Frei has provoked opposition from virtually all political and economic sectors, and although he appears finally to have the support of his own party, prospects for congressional approval are dim.

SECRET

SECRET

FAR EAST

The Communist "winter-spring campaign" in South Vietnam focused last week on the western highland provinces of Darlac and Kontum. The willingness of Communist commanders to take heavy losses in actions around Dak To underscores their aim of drawing in and tying down major allied forces in order to relieve pressure on Communist positions in coastal areas and the delta. This objective was also reflected in Hanoi propaganda claims that US forces have lost the initiative in the highlands and have been forced into a "passive posture" throughout South Vietnam.

In Saigon, Prime Minister Nguyen Van Loc announced a cabinet that is dominated by generals and holdovers from the Ky government. Although the new cabinet is balanced regionally and religiously, only a few members have been chosen on essentially political grounds and most appear to be competent technicians or experienced administrators.

Efforts to unite rival Red Guard factions in China are making little progress and disorder is spreading again. Although the level of violence remains well below that of last summer, militant groups have been emboldened to defy appeals to end disorder and the military is again displaying some hesitation in dealing with factional conflicts. The Chinese press continues to voice implied support for the militants and to greet the growing violence as a "great victory" for the Cultural Revolution.

A rice shortage in Indonesia and the consequent rise in prices threaten to develop into a major political problem for the Suharto regime. Student organizations have seized upon the issue to renew demonstrations against corruption and inefficiency in the government. [REDACTED]

25X1

25X1

SECRET

VIETNAM

Communist main force units, supported by local Viet Cong elements, have launched an ambitious "winter-spring campaign" in South Vietnam's western highlands. Since the campaign began early this month, the enemy has staged a series of large-scale assaults, ambushes, and heavy mortar barrages on US and South Vietnamese positions from southern Darlac Province to central Kontum Province.

The focus of this activity has been the area around Dak To, where at least five North Vietnamese regiments--some 7,000 men--are currently deployed. US and South Vietnamese forces countering the Communist threat in this area now total more than 9,000 men, including 12 battalions and their respective headquarters units.

Enemy losses thus far in the campaign around Dak To have been extremely high and will undoubtedly affect the efficiency of future efforts. Since the current fighting began on 3 November, more than 600 enemy soldiers have been killed in contrast to friendly casualties of 102 killed and 533 wounded. The Communist forces nevertheless possess the manpower and heavy weapons, possibly including rocket forces, to mount additional large-scale actions.

The enemy strategy evidently also includes maintaining pressure on allied units in Pleiku and Darlac provinces. The North Vietnamese 95B Regiment, which has been recently reinforced, remains ac-

tive in western Pleiku. Small unit attacks, probes, and shellings are expected against some of the more lucrative allied targets in the area. Elements of the North Vietnamese 33rd Regiment have been involved in several mortar attacks on US positions near Ban Me Thuot.

According to a recently captured enemy document, Communist plans for the "winter-spring" offensive in the highlands call for large-scale maneuvers designed to draw in and tie down large numbers of allied troops, thus relieving to some extent allied pressure in the coastal areas. The highlands campaign has apparently also been coordinated with recent intensive enemy efforts farther south in northern III Corps.

For the present, however, a lull in activity in northern III Corps continues. Some of the Communist forces in northern Binh Long and Phuoc Long provinces are regrouping, while others are continuing to prepare for future offensive activities. Elements of the Viet Cong 9th Division, which apparently took heavy losses in the recent fighting around Loc Ninh, have moved northward to positions near the Cambodian border. Elements of two North Vietnamese regiments are just south of Song Be. They have been noted making battle preparations, including the construction of defensive positions and, possibly, the preparation of 140-mm. rocket

SECRET

SECRET

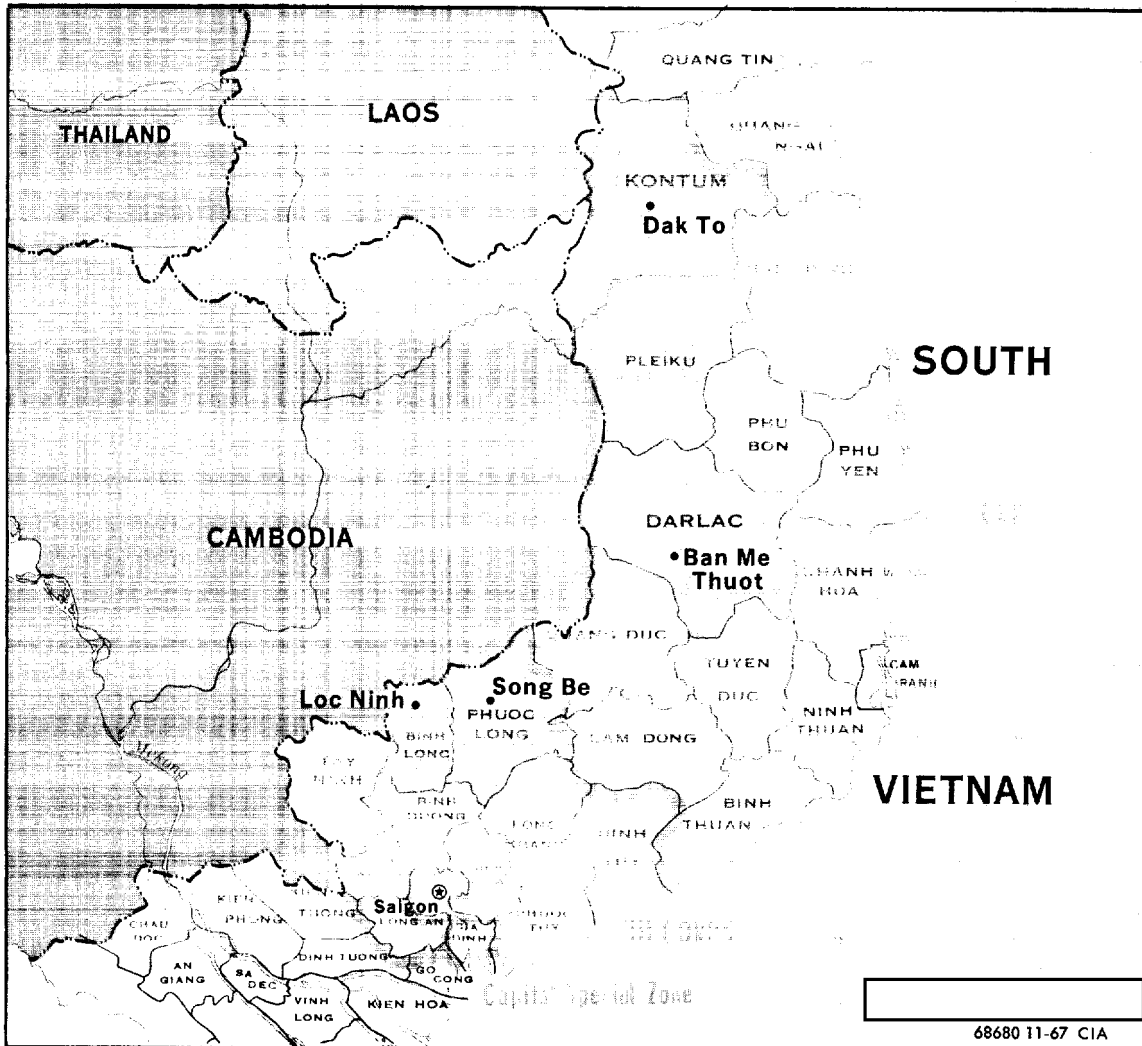
firing positions--heretofore un-
observed in III Corps.

Political Developments
In South Vietnam

Prime Minister Nguyen Van Loc announced the formation of the new cabinet on 9 November. Nine of its 17 ministers served in the previous cabinet. The key ministries--defense, interior, foreign affairs, revolutionary development,

and economy--are headed either by generals or by holdovers from the Ky government.

Although the new cabinet is balanced regionally and religiously, only a few of the appointees have been chosen on essentially political grounds. Rather, most appear to be competent technicians or experienced administrators. The appointments therefore largely confirm earlier statements



68680 11-67 CIA

25X1

SECRET

of President Thieu that cabinet members would be selected on the basis of competence and ability to work together.

The recently elected lower house of the National Assembly held its first working session on 8 November. Nguyen Ba Luong was named acting chairman and Duong Van Ba acting secretary general. Luong has since announced he will be a candidate for the permanent chairmanship of the lower house. His principal rival for that post probably will be Ho Huu Tuong, a prominent Buddhist layman identified with the militant Buddhist faction. The government is opposed to Tuong's candidacy, and is reportedly attempting to organize opposition to it.

The upper house, continuing to work on its internal organization, has decided to create 12 standing committees to deal with legislative matters and its own internal affairs. The senators decided not to create a position of secretary general, principally because they did not want so much power vested in one man. Instead, a five- to ten-man internal affairs and rules committee will probably act as the regulatory body for such matters as controlling the agenda and ruling on legislative procedures.

Political maneuvering in the legislature, apart from the competition for assembly offices, presently centers on efforts to create political blocs in the lower house. Although there are reports that religious and other

groups are endeavoring to form blocs that would give them political leverage, the most successful effort to date appears to be that of the government in launching the Democratic Bloc, with possibly as many as 50 members.

The Democratic Bloc, being promoted by Ky and other top leaders, will reportedly assume a strong progovernment stance in the lower house and will support Nguyen Ba Luong's bid to become chairman of that body. Luong will be the nominal head of the bloc, but the actual leadership will be vested in Representative Le Tai Hoa, reportedly at Ky's request.

Ho Chi Minh Possibly Ailing

[REDACTED] 25X1
[REDACTED] 25X1
Ho was "very weak" and was confined to bed when the Soviet ambassador invited him to the celebrations in Moscow. The 77-year-old leader, moreover, has made no public appearances since North Vietnam's national day celebrations in late August.

Despite his inactivity and apparent aloofness from the political scene, there has been no indication that his subordinates have had difficulty in running the country without his immediate leadership and direction. The evidence suggests that the regime's major policies--particularly on strategy for the war and on possible peace negotiations--have been the result of collective decision-making. [REDACTED]

25X1

SECRET

SECRET

NORTH VIETNAM'S SHIPPING PROBLEMS GROW

North Vietnam's port operations continue to be hampered by cargo handling difficulties. Essential needs are being met, however, and in recent months port congestion has been somewhat eased.

Imports by sea in the first half of this year reached a record high average of about 128,000 tons per month. This placed heavy demands on port facilities, particularly at Haiphong. Ships had to wait days before starting to unload and cargo began to pile up on the docks. By August, turnaround time for ships was averaging more than 30 days.

Since then, however, imports by sea have been cut back and congestion has eased. In October, only about 90,000 tons were unloaded and the average turnaround time dropped to 19 days. This was still higher, however, than in 1966 when the average turnaround time was only 13 days.

Silting in the main channel into Haiphong also creates problems and most ships must now enter the harbor at high tide. Those drawing as much as 26 feet of water have been forced to wait ten days or more for a high enough tide.

The average load per ship is now being reduced--possibly to permit entry to the harbor at any

high tide. In some recent cases, small Soviet ships carrying flour have been diverted to other ports to ease the strain at Haiphong.

Bomb damage to key bridges in the Haiphong area has made the moving of goods through the port area increasingly difficult and time consuming. Pontoon bridges, ferries, and the intensified use of inland waterways, however, have minimized the disruption to the transport system. In addition, frequent air raid alerts, especially at Haiphong, cut considerably into working time at the docks.

Despite these problems, North Vietnam continues to import essential nonmilitary goods by sea. Bulk foodstuffs accounted for over 65 percent of October's imports and petroleum totaled another 13 percent. The North Vietnamese should be able to maintain the present level of cargo arrivals.

Instead of using Haiphong, cargo from incoming ships can be loaded into barges at the many island anchorages in the Gulf of Tonkin. This has been done in the past with tankers but probably would be done on a large scale only as a last resort because barges shuttling to and from the mainland would be highly vulnerable to air attacks.

25X1

25X1

SECRET

CIVIL DISOBEDIENCE CONTINUES TO TROUBLE CHINA

Peking's attempts to unite rival Red Guard factions appear to be running into trouble, and clashes between opposing groups are increasing. Although the level of violence still remains well below that of last summer, it has again begun to affect China's transportation network. The disorders, which never entirely ceased in September and October, now seem to be spreading, both in long-troubled areas of west China and in the east.

Militants in Peking have given no clear sign to the radical Red Guards to resume "revolutionary" activity, but the leftists appear to be ignoring appeals for calm and order, and the army seems unwilling or unable to deal effectively with the growing civil disobedience and anarchy. The military continues to intervene in many cases once outbreaks have occurred, but it does not appear to be acting with uniform determination throughout the country.

The regime has announced that many schools have opened throughout the country, but a growing body of evidence suggests that in many cases neither students nor teachers are actually returning to the classroom. Middle schools in Canton were reportedly closed after a school was burned down on 4 November.

Developments in Peking suggest that current policies may be in flux. Several moderate figures who were sidelined in August--in particular Foreign Minister Chen Yi and army leaders Yeh Chien-ying and Hsu Hsiang-chien--have recently been ap-

pearing in public with Mao Tse-tung in circumstances that suggest they have been partly rehabilitated. Li Hsueh-feng and Yu Chiu-li, two former leaders who had been pushed even further into limbo, appeared on the same occasions. Their public appearance seems designed to underscore the strength of the moderate faction. Regime propaganda continues to stress such moderate themes as the importance of unity among "revolutionaries" and the need to resume classes.

The press, however, has recently been carrying a number of articles and editorials that appear to emphasize the radical point of view. A People's Daily article on 10 November found great value in disorder, calling it "a great victory for the Cultural Revolution." On 13 November a People's Daily editorial warned that ideological fervor was sagging and that those who did not display proper zeal may "be thrown off the wagon."

In addition, a recent series of editorials in the Liberation Army Journal and People's Daily dealing with problems in the army stressed that the military lacks proper understanding of mass movements. This suggests that the army is being accused of treating the Red Guards too harshly.

On 14 November, many regional military leaders appeared publicly in Peking in the company of Mao Tse-tung. A high-level review of current policies, and in particular the army's role in governing China, may be under way in the capital. [REDACTED]

25X1

25X1

SECRET

PEKING CONTINUES MODERATE STANCE TOWARD HONG KONG

The Chinese Communists are continuing their efforts to restrain the more militant elements in the Hong Kong apparatus and to direct the confrontation with the British into channels that will not seriously injure China's economic interests in the colony.

Recent talks between leading Hong Kong Communists and Chinese authorities in Canton were probably aimed at ensuring that the Hong Kong Communists did nothing to mar the current trade fair in Canton and to explore ways of expanding Communist earnings in the colony.

negotiations between the Chinese Communist and British authorities continue. According to local Communist press reports, the principal issues under discussion are the reopening of a border crossing and the return of three Hong Kong policemen, including one British inspector, and five mainland Chinese. No public announcement has been made on the progress of the negotiations.

In Hong Kong, the militant Communists are continuing the use of genuine and dummy bombs in their campaign to erode British authority. They are becoming more selective in choosing targets, however, and are employing more powerful and sophisticated devices. Last week, an apparent sabotage attempt was made against a road and tunnel complex. The use of dummy bombs places a maximum burden on the police while avoiding adverse public reaction to civilian casualties. At the same time, the militants are stepping up their propaganda in labor unions and schools to win public support in a long-term campaign against the colonial government.

The Hong Kong mainland border has been relatively quiet as ne-

25X1

* * *

SECRET

INDONESIA: RICE AND POLITICS

Indonesia's current rice shortage and spiraling prices may become a major political problem for the Suharto regime. Although imports will provide some relief, the scarcity--aggravated by poor distribution--will persist and prices probably will continue to rise until the next harvest in late March. In some areas the price has already gone up 50 percent.

Rice represents more than a third of the cost of living index in Djakarta and is an important determinant of other prices. The Djakarta cost of living index is used to judge the progress of the national stabilization effort--the priority task of the present regime. Both the government and its critics therefore regard rice as an indirect gauge of the success or failure not only of the stabilization program, but of the Suharto regime itself.

The political problem is compounded by indications that serious planning errors have been made in the rice procurement program and that army officers have been involved in speculation. These circumstances add weight to charges of government corruption and of Acting President Suharto's reluctance to take forthright action against it.

Various political organizations are exploiting the rice issue for their own purposes. Indonesia's university and high school student confederations--KAMI and KAPPI--have staged a series of demonstrations protesting high prices and corrupt or inefficient officials. Although they may be motivated in part by a desire to protect the consumer, the students need a popular issue to maintain their role as political gadfly of the "New Order" and to restore some semblance of unity in their own ranks.

The large National Party (PNI)--now under heavy pressure from Suharto to support the government or be banned--has hinted that it will defend the cabinet on the rice issue if the government will stop the anti-PNI campaign. The rice problem has served to bring together such disparate elements as the leftist PNI university student organization and the anti-leftist KAMI.

Suharto has effectively blunted the student demonstrations so far. The persistent shortage, however, combined with failure to deal with corruption and with the political frustrations of all Indonesian civilian groups, is likely to create recurrent and perhaps mounting political problems over the next few months.

25X1

SECRET

SECRET

EUROPE

The USSR seems to have won agreement from some Communist parties to hold another meeting. [REDACTED]

25X1

25X1

[REDACTED]

25X1

The session will be made to look like a preliminary to a world conference, a goal the Russians have been pursuing off and on since before Khrushchev's removal. Nevertheless, the world gathering itself is still far in the distance. Moscow's present aim is probably to achieve at least the appearance of progress toward Communist unity.

Rumania and Hungary last week exchanged drafts of a new friendship and mutual assistance treaty to be signed in February 1968. In recent years, their relations have been poor and at times even hostile. The renewal may signal Bucharest's intent to renegotiate similar accords with the USSR, Bulgaria, and Czechoslovakia, which also expire early in 1968. There is no sign that such negotiations are yet under way.

The Harmel study on the future of NATO remains on a thorny path. NATO Secretary General Brosio is drafting a summary to be presented at the ministerial meeting next month. The French abstained in the vote authorizing Brosio to make his summary, contending that the ministers themselves must negotiate a text. The French will probably find matter to criticize when Brosio's draft is reviewed at the meeting of the Special Group on 22-23 November.

25X1

[REDACTED]

SECRET

Approved For Release 2007/03/07 : CIA-RDP79-00927A006100060001-0

25X6

Approved For Release 2007/03/07 : CIA-RDP79-00927A006100060001-0

SECRET

BULGARIA INCREASES CONTACTS WITH NON-COMMUNIST WORLD

Over the last seven months, Bulgaria has consulted with 28 economic or political delegations from various non-Communist countries of western Europe and the Middle East, and a variety of new arrangements has resulted.

Sofia has signed agreements for increased trade with Sweden, France, Italy, Egypt, the Sudan, Syria, and Iran. It has entered into joint trading companies with France and Australia, and has concluded tourist agreements with Norway, Austria, Iraq, and Egypt. Finally, Sofia has agreed to scientific, technical, and agricultural cooperation with Iraq, Denmark, and France.

These efforts to get on good terms with the non-Communist world have been in large part motivated by trade problems. The country's hard-currency purchases have resulted in a cumulative trade deficit with the West of about \$350 million since 1964. Bulgaria's exports to the industrial West last year were worth approximately \$200 million. The economic pinch that has ensued was particularly evident at the Plovdiv fair in October when Bulgaria was unwilling to purchase Western industrial goods in the quantities some coun-

tries--notably Britain, France, and Belgium--had been led to expect.

In a new departure for Sofia, a high-level trade delegation headed by the deputy minister of foreign trade is scheduled to arrive in the US next April to begin consultations with government and business officials. These meetings will help overcome the misconceptions Bulgarian officials have harbored in the past about free market processes. The Bulgarians hope to reach agreements to expand their exports--particularly of tobaccos and wines--to cover the cost of modern industrial goods they need to purchase in the US.

Sofia's interest in consultations, and its new desire to display its products to prospective American customers, attest to the regime's growing awareness of the importance of developing greater flexibility in foreign contacts, especially with the US. The desire for increased contacts with the US and other non-Communist countries also illustrates Bulgarian party leader Zhivkov's determination to assert Bulgarian national interests in new and different ways. [REDACTED]

25X1

25X1

SECRET

Approved For Release 2007/03/07 : CIA-RDP79-00927A006100060001-0
SECRET

* * *

SECRET

Approved For Release 2007/03/07 : CIA-RDP79-00927A006100060001-0
Page 12 WEEKLY SUMMARY 17 Nov 67

SECRET

MIDDLE EAST - AFRICA

Problems in the area continue to smoulder and could ignite at any time, as shown by the flare-up of fighting on Cyprus this week.

Israeli troop movements--billed by an Israeli Army officer as routine troop rotations--could increase Arab fears of another retaliatory strike, particularly since units in the Syrians heights area are involved. The potential for trouble is further heightened by reports that Arab resistance organizations on the West Bank of Jordan are planning to increase terrorism this month. Moreover, it appears that Israel intends to hold its positions along the Suez Canal at least until the Arabs agree to negotiate.

In strife-torn South Arabia, the Saudi Arabians may be planning to work with exiled South Arabian rulers to undermine any regime dominated by the National Liberation Front. The Front, after months of fighting its rival nationalist group, now seems to have the upper hand and is in process of negotiating with the British.

The leadership dispute between Algeria's Boumediene and his chief of staff remains unresolved. A "good offices" commission has been set up to mediate, but the leftist pro-Egyptian chief of staff is confident that he can force the ouster of three of Boumediene's henchmen.

The Nigerian civil war appears likely to continue for some time. Biafra shows no signs of giving up, despite suffering sizable losses in attempts to retake Enugu and in the fighting around Calabar. The Organization of African Unity has failed to date to follow through on the resolutions of the Kinshasa meeting and all attempts by would-be mediators to bring the two sides together have bogged down over mutually unacceptable terms for opening peace talks.

25X1

SECRET

SECRET

MERCENARY PRESENCE PLAGUES CONGO (KINSHASA) AND RWANDA

Efforts to evacuate Schramme's mercenaries and Katangans from Rwanda are proceeding slowly, while the batch of mercenaries who invaded Katanga has returned to Angola.

On 9 November, Congolese President Mobutu called a special meeting of an Organization of African Unity (OAU) subcommittee to discuss the mercenaries. The ten-nation subcommittee, meeting from 10 through 12 November, produced a resolution that does not mention extradition to the Congo but does stipulate certain conditions to be met before the mercenaries can be evacuated.

Among these conditions is a demand that both the mercenaries and the governments of their countries of nationality give written guarantees that the mercenaries will never return to Africa nor engage in activities that might endanger the stability of African states. The mercenaries reportedly signed their guarantees on 15 November, but there is still some question whether Belgium and France will be willing or able to meet the resolution's demands. Additionally, Mobutu seems anxious to commit these governments to some scheme for the reconstruction of Bukavu before he will agree to the evacuation. Rwandan

President Kayibanda is eager to get rid of the mercenaries as soon as possible. There have been signs that he was thinking either of braving the OAU's wrath and mounting an independent evacuation or attempting to have them extradited back to the Congo. Some mercenaries reportedly are quietly slipping away in small groups.

The 1,600 Katangans and dependents who were with Schramme's mercenaries are presenting their own problems. Tentative arrangements to have them airlifted to Zambia have been delayed until Zambia receives an official request from the Mobutu government to take the Katangans. Although Mobutu says he has "no objection," the Zambian Government does not want to risk later recrimination from Mobutu and is waiting for something more specific.

The mercenaries who invaded western Katanga in early November have returned to Angola. They have been disarmed by Portuguese authorities and are to be returned to their home countries. Now operating in a "postcrisis" atmosphere, President Mobutu has ordered the army units flown to Bukavu and Katanga for the emergency to return to their garrisons.

25X1

SECRET

BRITISH TO TURN OVER SOUTH ARABIA TO NLF

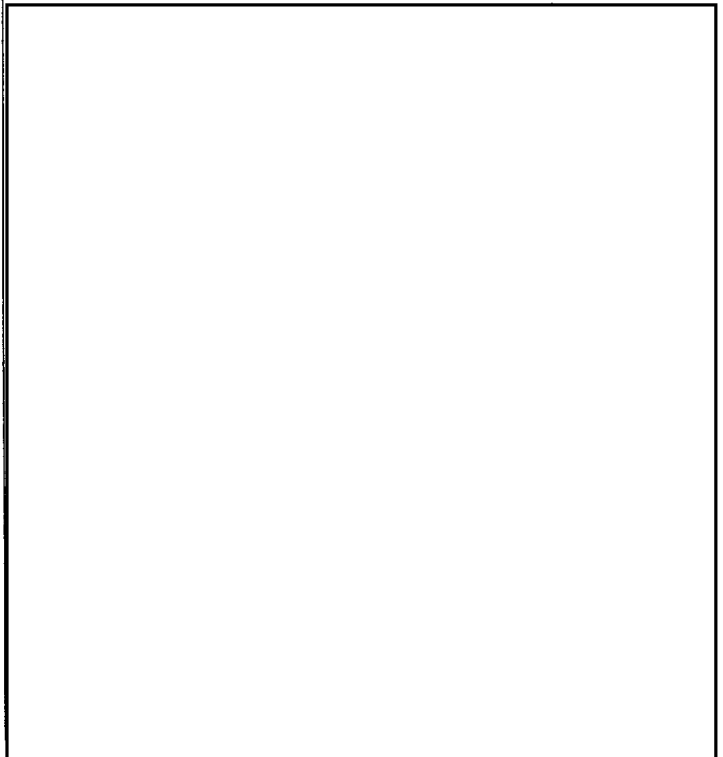
The British have agreed to negotiate with the National Liberation Front (NLF) for the formal transfer of authority in South Arabia. Geneva has been chosen for the negotiations in order to emphasize that the NLF is an equal and freely consenting party. Lord Shackelton will head the ministerial-level UK negotiating team.

The British decision has increased chances for an orderly withdrawal of their troops and has heightened chances that the NLF will be able to set up an operative government before the British leave. Britain's earlier reluctance to meet the conditions originally demanded by the NLF had dimmed prospects for an orderly turnover of power. The NLF had called for a ministerial statement from the British, prior to negotiations, recognizing the Front as the sole representative of South Arabia.

Although the British had pledged to turn over authority to whatever group gained effective control, Foreign Secretary Brown was reluctant to give formal recognition to the NLF. His difficulty was mainly a reflection of the sensitivity of Saudi Arabia, Egypt, and the Persian Gulf states. London especially did not wish to jeopardize the recent improvement in UK-Egyptian relations which had resulted in Egypt's granting authorization for British aircraft to overfly Egypt during the final evacuation.

The NLF eased the tension on 11 November by indicating that it was willing to forgo formal recognition in advance provided the negotiations were held in a neutral venue. Brown then announced on 14 November that Britain will begin negotiating the transfer of power in about a week and that UK forces will be completely withdrawn by 30 November. If negotiations are not completed by that date, he said, "there is nothing to stop them from continuing as between independent countries."

The Saudis remain particularly 25X1
concerned at the prospect of a
South Arabia dominated by the NLF,



SECRET

TENSIONS RISE ON CYPRUS

A tenuous cease-fire has halted serious fighting that erupted in the Ayios Theodoros - Kophinou area of Cyprus on 15 November. Greek and Turkish emotions remain high, however, and a period of tension and mutual recrimination can be expected to accompany efforts to negotiate a more stable arrangement.

The day-long battle--the most serious in two years--broke out after the Greek Cypriots in the southeast coast area attempted to resume routine police patrols that had been discontinued last July. On 14 November, a patrol entered Ayios Theodoros without being opposed by the Turkish Cypriots, who were apparently taken by surprise. The next day, however, when the patrol attempted to re-enter the town, shooting began and quickly spread northward in Kophinou. With the UN peace force unable to intercede, the National Guard took control of both areas, overrunning a number of UN observation posts in the process.

The incident apparently resulted largely from Cypriot armed forces commander General Grivas' insistence that the patrols be resumed, by force if necessary--a policy reportedly opposed by Cypriot President Makarios. Grivas may have seen this course of action as a chance to repair his dwindling prestige in the Greek Cypriot community.

The Greek Government, which has been critical of Grivas' tactics in the past, apparently approved of his plan to resume the

patrols. It is not clear, however, whether this support was the forerunner of some further Greek initiative on the over-all Cyprus problem. Whatever its initial intent, Athens later ordered both the cease-fire and the withdrawal of the Greek Cypriot National Guard from the area of the fighting.

Ankara expressed its grave concern and strongly implicated Grivas in the affair. During the fighting, a Turkish Foreign Ministry official warned of possible air involvement if the issue were not resolved. Upon hearing of the cease-fire, another Turkish official said it remained to be seen whether the Greek Cypriots could be compelled to restore the status quo. The cabinet was in emergency session through most of the night of 15 November, and a session of the Grand National Assembly was held on 16 November.

The Greek and Turkish governments appear to be more agitated than at any time since the Turkish air strike on Cyprus in 1964. Concern over the outbreak was increased by several previous incidents that had already heightened tensions. Both air forces have been in a high state of alert for several days as the result of alleged mutual overflights. The clandestine entry into Cyprus of Turkish Cypriot leader Denktash earlier this month, his arrest, and his subsequent release also contributed to generally strained relations. [REDACTED]

25X1

25X1

SECRET

SECRET

WESTERN HEMISPHERE

Several Latin American countries have been giving increased consideration to expanding ties with the USSR and some East European Communist nations.

Colombia recognized Rumania this week. It has also signed a new five-year trade agreement with the USSR, and diplomatic recognition may be in the offing. A Soviet trade mission is expected in Ecuador shortly, a follow-up to a European visit of a similar mission from Ecuador last month.

President Gestido of Uruguay has called for increased trade with the bloc, and his government is considering several deals. Guatemalan officials hope to sell surplus coffee in Eastern Europe and may enter into some kind of barter agreement.

Although Chile and the USSR agreed last January on a trade and technical assistance package amounting to some \$57 million, there has not yet been any significant increase in trade between them. Peru recently rescinded a law forbidding trade with Communist countries, but no action has followed and the Peruvians have been cool toward recent Czechoslovak overtures for a trade agreement.

In another development, Mexico reportedly has made an arrangement with Cuba whereby the Mexicans will sell some \$4.5 million worth of henequen fiber from the economically depressed state of Yucatan to help the Cubans ease a shortage of jute fiber. Fiber is essential to the Cuban economy because it is used in the manufacture of sugar bags. [REDACTED]

25X1

25X1

SECRET

PANAMA COALITION STILL SPLIT ON PRESIDENTIAL NOMINEE

The presidential race is wide open again, with the division in government ranks giving opposition leader Arnulfo Arias a definite lead. The Electoral Tribunal's ruling that National Guard Commandant Bolivar Vallarino--a possible compromise candidate--does not have "command jurisdiction" appears to exempt him from the requirement that public officials who intend to run for the presidency must resign by 12 November.

Failing to reach agreement with his coalition partners on a mutually acceptable candidate for the May 1968 election, Robles backed off from his earlier endorsement of David Samudio. He suggested Comptroller General Olmedo Rosas as a compromise, but opposition to Rosas and displeasure with the Electoral Tribunal's ruling on Vallarino prompted the President to reaffirm support for Samudio. The four dissident coalition parties are continuing to back Second Vice President Arango.

Meanwhile, Robles has canceled a scheduled meeting with the eight coalition parties and postponed the national conventions of the four loyal parties, which were to be held on 18 November. Efforts to settle the deadlock could continue until 13 January, when presidential candidates must be inscribed.

Thus far, Robles has managed to alienate a large segment of

the elite group that controls Panama and most of the military, which has traditionally kept the group in power. At one point, a group of guard officers demanded Robles' resignation for refusing to nominate Vallarino, but apparently backed off when Robles took a strong stand against their interference.



25X1

Although military action appears unlikely, Robles is faced with the difficult task of finding a candidate at least palatable to both the elite and the military. Failure to do so only increases the chances of the controversial Arnulfo Arias.

Arias has been ousted from the presidency on two occasions for his dictatorial and authoritarian behavior. The popular Panamenista leader has already concluded tentative agreements with some of the dissident coalition leaders for an electoral alliance. The cabinet officers who represented the dissident parties have now resigned, leaving their parties free to make a formal deal with Arias. Indeed, the continuing rift in the

SECRET

SECRET

25X1

coalition may encourage just such a move.

25X1

There is little or no knowledge of Arias' position on

the proposed canal treaties except that they "are a dead issue" until after Robles leaves office.

25X1

[REDACTED]

[REDACTED]

SECRET

NEW THREATS TO PERU'S STABILITY

Peru's fragile political and economic stability is threatened by recent developments. President Belaunde's political prestige received a sharp setback on 12 November, when his party lost two important congressional by-elections and the Christian Democratic Party (PDC) withdrew from the governing coalition.

Although the government expected to lose the race in La Libertad Department, a stronghold of the opposition APRA party, its poor showing in Lima--which has nearly 41 percent of the electorate--came as a shock to party leaders. Not only did the opposition APRA party run well ahead of the government candidate, but extreme leftist candidate Carlos Malpica showed surprising strength and drew nearly 13 percent of the vote. Malpica's electoral alliance of extreme leftist and Communist parties, which attracted nearly 100,000 votes, may develop into a strong and threatening "leftist" front.

The PDC's withdrawal from its nearly five-year-old alliance with the Belaunde administration stems from disillusionment with the pace of economic and social reforms, the President's indecision in coping with current problems, and a growing leftist trend within the party. PDC leaders are now openly calling for the formation of a "democratic left-

ist front" to contest the presidential elections in 1969.

The present unstable political situation will probably add a new dimension to growing public concern. There have already been repeated demands from groups that normally support Belaunde that he come to grips with mounting economic problems or step down.

The President's indecisive handling of recurring economic crises and his apparent decision not to intervene to secure congressional approval for vitally needed tax reforms are already having their effect on the economy. Foreign exchange reserves are almost exhausted, and the administration must soon choose between further devaluation or strict economic controls. One major bank is reportedly warning its clients that foreign exchange reserves are too low to sustain the present unrealistic exchange rate for long.

Whatever the government's decision, it is almost certain to provoke new demands for wage adjustments to match the rising cost of living. In this charged atmosphere, military leaders are continuing with contingency plans to take over the government if the situation deteriorates to the point where they believe it is necessary. 25X1

25X1

SECRET

CHILEAN STABILIZATION PROGRAM HEADS FOR TROUBLE

A split appears to have been averted in President Frei's Christian Democratic Party (PDC) over the 1968 wage-price policy, but the legislation still faces opposition from virtually every other political and economic quarter.

Frei considers the wage re-adjustment legislation a vital part of his stabilization program, which is aimed at curtailing the inflation that has plagued Chile for more than 50 years. The legislation provides for an over-all wage increase in 1968 of 25 percent for employees of private firms and 20 percent for government employees. The government's original plan called for 15 percent of the increase to be in cash and the remainder in bonds. The bonds would be used for a fund to increase government investments in fields such as petrochemicals.

The PDC cabinet members approved the plan, and threatened to resign unless the party supported it. The party finally agreed to a graduated scale that would give lower income workers a higher percentage of cash. If this compromise is accepted by the government, a formal split between Frei and the leftist PDC leaders will be averted.

The Communists and other leftists have made no secret of their opposition to the bill. Conservatives and private businessmen also are apprehensive, because they fear further government involvement in economic activity. Businessmen object strongly to the price control provisions of the legislation, and prospects for congressional approval of the entire program are dim.

The labor unions, many of which are controlled by Communists and Socialists, contend that the legislation does not adequately compensate union members for the inflationary price increases last year. Furthermore, the proposal contains a one-year ban on the right to strike. The Communist-controlled Chilean Workers' Central is considering calling a general strike in opposition to the legislation.

Although general strikes for political purposes rarely have much success in Chile, opposition to the wage program is so widespread that this one might gain nationwide support. Even if the strike ban is included in the final legislation, 1968 is certain to see increased labor agitation because the government has had only mixed success in dealing with illegal strikes. 25X1

SECRET

25X1

Approved For Release 2007/03/07 : CIA-RDP79-00927A006100060001-0

Approved For Release 2007/03/07 : CIA-RDP79-00927A006100060001-0

Approved For Release 2007/03/07 : CIA-RDP79-00927A006100060001-0

Secret

Secret

Approved For Release 2007/03/07 : CIA-RDP79-00927A006100060001-0