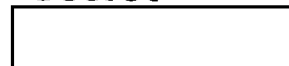
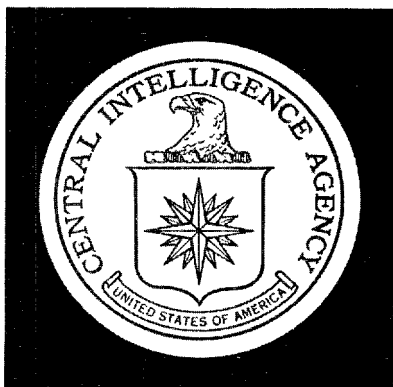


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

State Dept. review completed

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15 December 1967

No. 0320/67

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Approved For Release 2007/03/06 : CIA-RDP79-00927A006200010002-3

Approved For Release 2007/03/06 : CIA-RDP79-00927A006200010002-3

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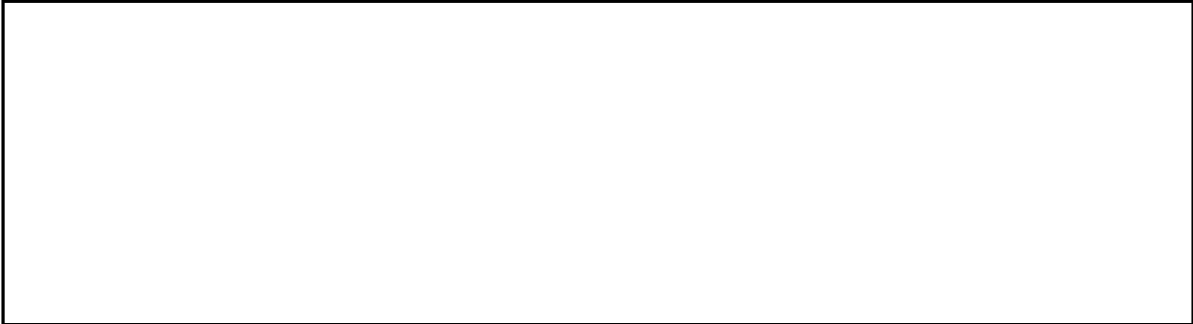
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FAR EAST

Hanoi has again rejected United Nations competence to deal with the Vietnam question. In its first comment on US soundings concerning renewed debate in the Security Council, Hanoi denounced this step as an attempt to make the UN serve US policy and to "scrap the 1954 Geneva agreements." The National Liberation Front also denied that it had tried to send representatives to the UN despite U Thant's statement that such an approach had been made.

In a move to emphasize its ability and determination to continue the war without concessions, Hanoi publicized a renewed pledge by Foreign Minister Chen I of Chinese support "until complete victory" has been won.

The struggle within the Chinese leadership shows no sign of diminishing. The confusion and indecision produced by this struggle underlie the failure to deal firmly with unruly Red Guard groups and to end civil disorders which have spread throughout China.

The trend toward a moderation of the confrontation in Hong Kong continues. Local British authorities seem to be more optimistic about the situation than at any time since demonstrations and terrorism began last Spring.

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VIETNAM

The Communist country-wide "winter-spring" offensive has recently encountered a series of costly reverses.

The largest action occurred last weekend when a three battalion enemy force engaged two battalions of the South Vietnamese 21st Division in the Mekong Delta province of Chuong Thien. Such a concentration of enemy troops is unusual in the delta where the enemy for more than a year has operated primarily in company-size formations, and has launched only occasional battalion-size attacks. The encounter reportedly cost the Viet Cong some 450 killed. Sixty South Vietnamese were killed and 102 wounded.

Large-scale fighting continued in the rice-rich coastal flatlands of northeastern Binh Dinh Province near Bong Son where elements of the 22nd Regiment, a subordinate of the North Vietnamese 3rd Division, have been attempting to fight their way out of an Allied encirclement. This engagement--known as the "Battle of Tam Quang"--has thus far resulted in more than 500 enemy soldiers killed since it began on 6 December. The fighting suggests that the North Vietnamese 3rd Division forces, which have suffered serious losses since early 1966, have been reinforced and resupplied.

There continues to be evidence that some Communist main force units hope to evade major contact with allied forces on sweep operations.

Elements of the North Vietnamese 2nd Division also continue to avoid major confrontation with US sweeps in central I Corps. This division, which reportedly is beset with morale and leadership problems, has suffered heavy losses in the Quang Tin - Quang Nam province area in recent months.

South Vietnamese Political Situation

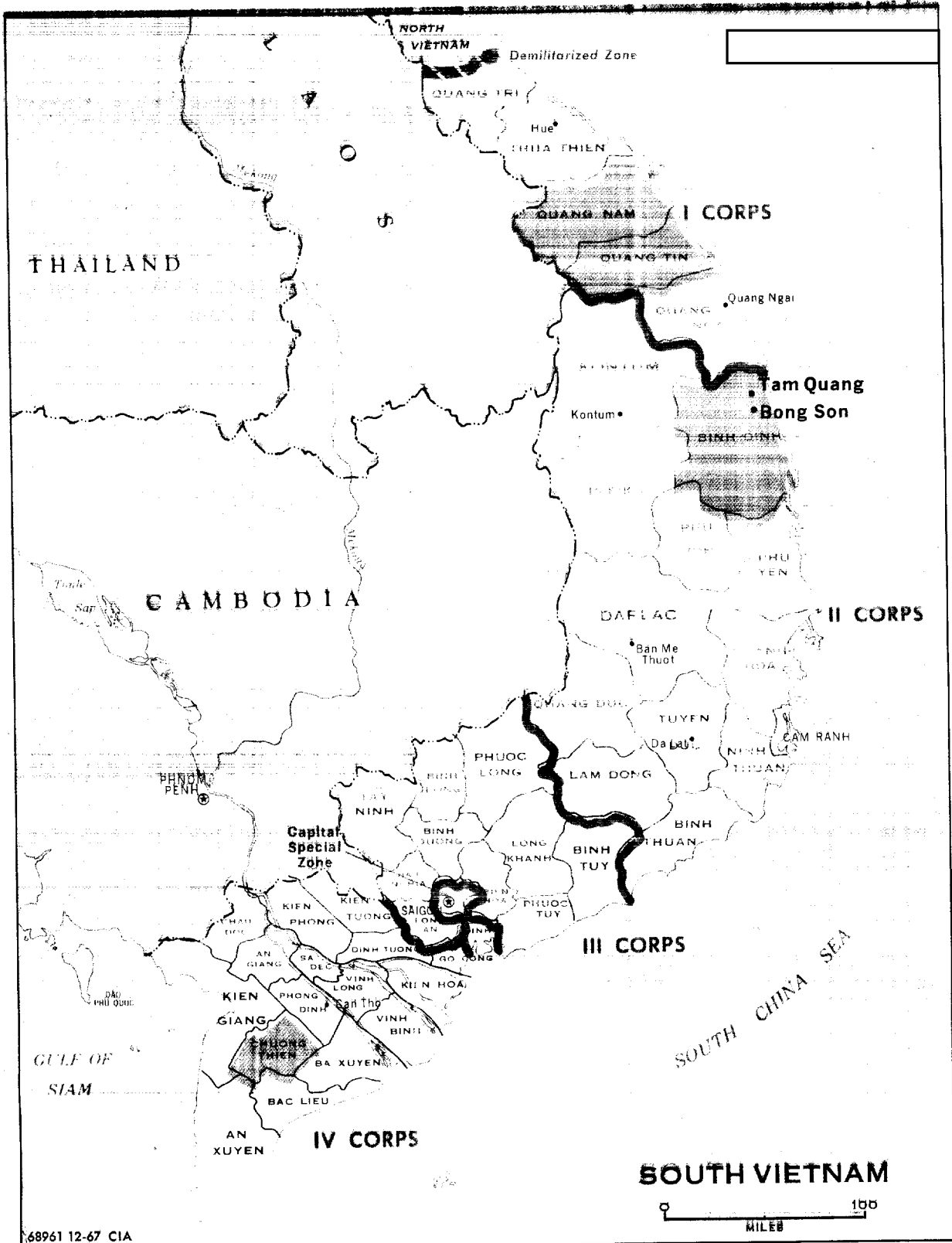
The new government of President Thieu after a month and a half in office has shown few signs of developing promising new programs for the country. Thus far, the government seems to be mainly concerned with its own internal organization and relationships. There are indications that the unsettled feud between Thieu and Vice President Ky may be complicating the whole process of working out future programs. Although not deliberately sabotaging Thieu's efforts, Ky appears content to adopt a wait-and-see attitude in the apparent expectation that the President will commit serious political errors which will enhance Ky's own future political prospects.

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Complaints have been voiced by persons close to the government about what they call Thieu's dilettante approach to the day-to-day problems of governing. Moreover, Thieu is evidently not providing adequate guidance to Prime Minister Loc who appears to be waiting for cues from the President before moving ahead. Loc's cabinet, composed largely of technicians, has yet to come up with any significant new programs. It appears particularly reluctant to take any bold steps in the economic sphere which might draw criticism from influential circles.

In addition to the internal pressures which are contributing to the government's lack of decisiveness, Thieu is reportedly faced with a rising tide of resentment from certain military officers who fear they may lose their prerogatives under the civilian government. Such attitudes among the military, which must still be taken into consideration by the new administration, seem to be delaying the government's anticipated reorganization of the military establishment, and may further hinder its promised reforms of the civil administration, including the anticorruption drive.

Neither house of the National Assembly is yet in a position to enact legislation, and no legislative proposals have yet been placed before it. Both the Upper and Lower houses are still preoccupied with their own internal or-

ganizations--a process which may continue into early 1968. So far, members of both houses have been content only to present resolutions calling the government to task for its manpower mobilization decree and its handling of political prisoners.

Certain antigovernment elements, particularly in the Lower House, may be expected to continue such efforts which are mainly designed to embarrass the government. Although a majority in each house appears basically inclined toward cooperation with the government, National Assembly members generally seem eager to demonstrate their independence of the executive branch and to ingratiate themselves with their constituents.

Hanoi Again Rejects UN Jurisdiction

In its first comment on the possibility of renewed UN consideration of the Vietnam question, the party daily, Nhan Dan, on 12 December charged that the US was up to its "old tricks" of making the UN serve its "aggressive plan against Vietnam" and of "scrapping the Geneva agreements." It reiterated Hanoi's contention that the UN has "no jurisdiction whatsoever" in the Vietnam problem. The article insisted once again that the Geneva Conference is the only international body with any responsibility for the Vietnam problem and that the UN has the duty to respect it.

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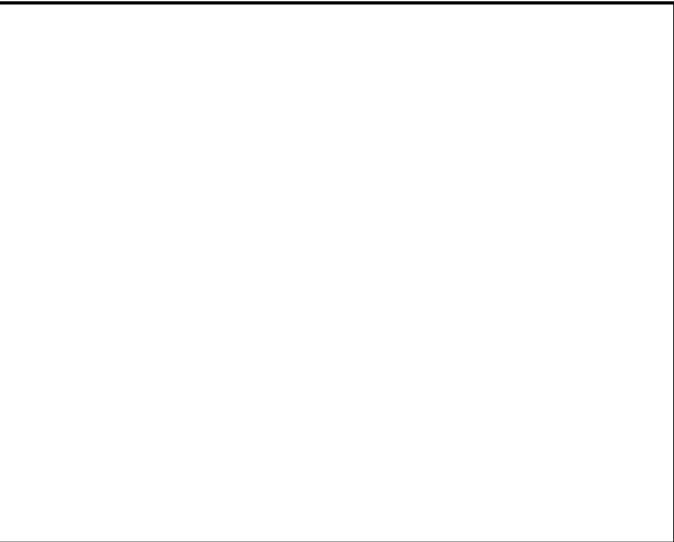
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PEKING STILL DEALING INDECISIVELY WITH CIVIL DISORDERS

The level of civil disorders remains high throughout China, but leaders in Peking remain reluctant to deal firmly with factions and unruly Red Guards who fight and disrupt transportation services.

In many areas, the targets of current Red Guard attacks are military officers now exercising civil governing responsibilities, although it is seldom clear why they have been selected as targets.

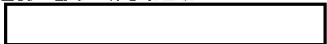
This confusion and vacillation at the center may in part reflect a continuing decline in Mao's physical and mental state. He will be 74 on 26 December, and appears to be suffering from progressive hardening of the cerebral arteries.



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Nevertheless, they appear to be doing what they can to cope with disruptions to the economy.

The Cultural Revolution is being conducted very cautiously in rural areas. Although the 1967 harvest was probably larger than in 1966, the regime faces a serious problem in collecting food and distributing it to government warehouses. Nevertheless, the rural control apparatus has been severely weakened in the past year, and it is unlikely that the government will succeed in securing the share of grain it would normally have obtained.



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PEKING REMAINS HOSTILE TOWARD BURMA

The worsening relations between Communist China and Burma have been marked in recent weeks by increased Chinese propaganda support for the insurgent Communist Party of Burma (CPB). Peking's covert assistance to the Communist guerrillas has remained cautious, however, and the Chinese apparently see little prospect of developing an effective Communist insurgency movement against the Ne Win government.

Chinese propaganda has been calling for a Communist-led "people's revolution" against the "fascist Ne Win clique" and has been reporting "victories" of the CPB in its 20-year guerrilla war against Rangoon. Peking has for years been harboring exiled Burmese Communist leaders and in the past has unsuccessfully pressed Ne Win to make peace with the party and allow Communist participation in his government. Last summer, heavy-handed Chinese attempts to promote the Cultural Revolution in Burma led to anti-Peking demonstrations and a government crackdown on Chinese propaganda activity in Burma. Peking, then, for the first time openly supported the CPB.

The Burmese Communists do not represent a serious threat to the regime. The CPB's 4,000-man guerrilla force, which operates mostly in the interior of Burma where government control and military capability is greatest, has to date been little more than a nuisance. Unlike the ethnic insurgents who operate in Burma's remote and rugged minority areas,

the CPB has had no success in developing a popular base. In fact, open Chinese support for the party has probably lessened its appeal to the average Burmese peasant, who is generally anti-Chinese.

Substantial Chinese material support for the Burmese Communists would be difficult to deliver since the party's area of operation is far from the Chinese border. The problem of Chinese support is compounded by the fact that most Burmese territory adjacent to China is under control of traditionally anti-Communist Kachin and Shan ethnic insurgents. Although reports indicate that the CPB may now be trying to establish a presence in the border area, significant cooperation between the party and the ethnic insurgents appears unlikely.

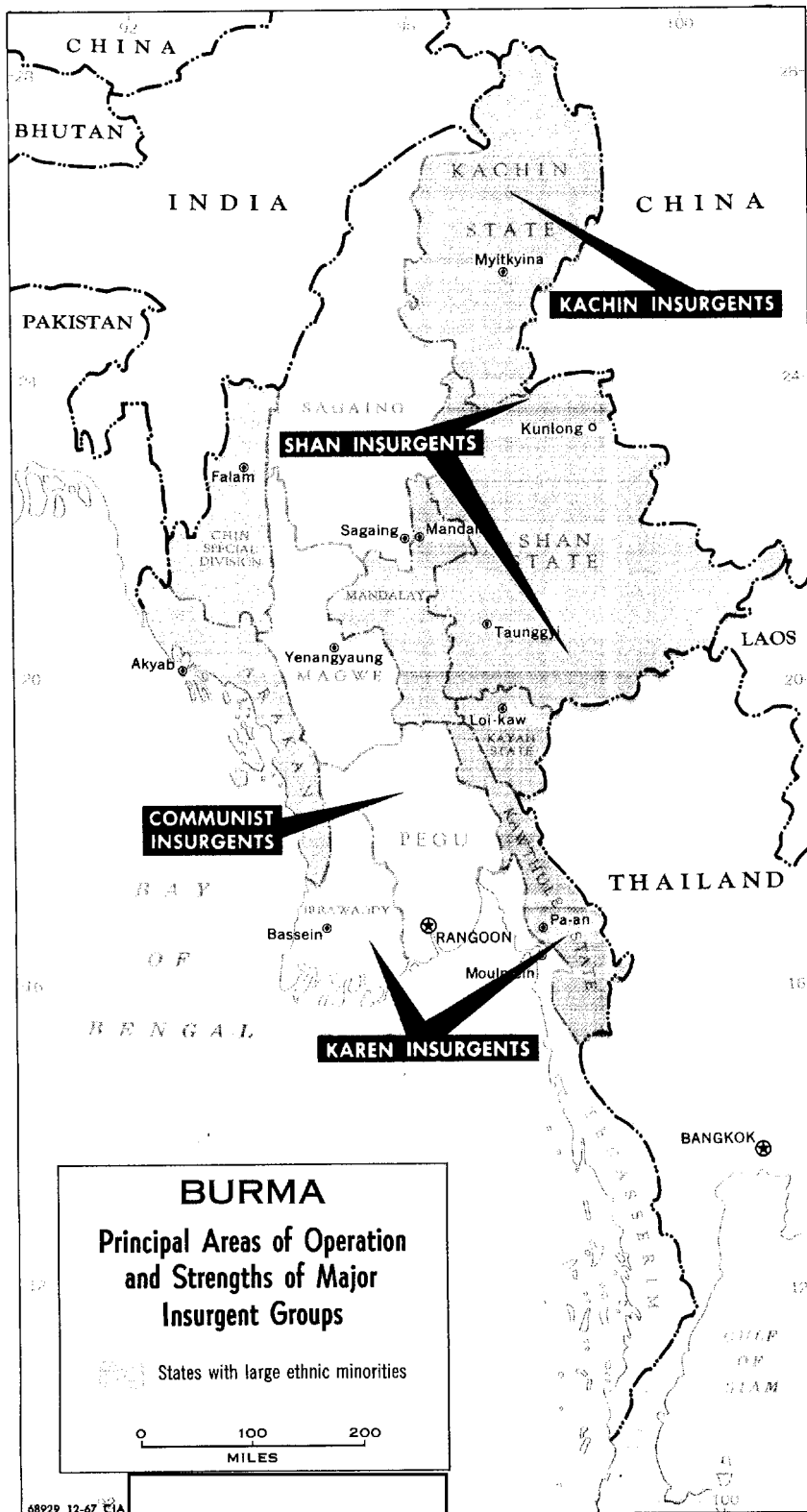
The CPB probably has received some limited financial and material support from China. The Chinese have apparently also been providing some paramilitary training for CPB members.

Aware of the present low state of the Communist movement in Burma, Peking undoubtedly hopes that such low-keyed assistance will lead to a gradual strengthening of the CPB. In the foreseeable future, however, Rangoon should continue to have little difficulty in containing Communist insurgency.

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EUROPE

There was unusual high-level diplomatic activity during the past week as the Eastern Europeans consulted with the Russians on a variety of urgent national problems and policy questions regarding Germany and Western Europe.

Soviet Foreign Minister Gromyko went to Poland for discussions with Gomulka and other leaders mainly on Germany and European security problems. Soviet party leader Brezhnev probably discussed the same topics with Czech leader Novotny in Prague as well as Novotny's pressing troubles in his party.

East German party boss Ulbricht hastened to Moscow for a short visit to receive reassurances once again that Moscow would not make concessions either to Bonn or on European security matters at his expense. The strong statement out of Moscow last week on West Germany was intended in part to do this. Ulbricht also probably expected to work out means for dealing with his large trade deficit with the USSR, at present a sore subject in Soviet-GDR relations. Simultaneously East German Foreign Minister Winzer arrived in Belgrade on a probably hopeless last-ditch mission to dissuade the Yugoslavs from re-establishing relations with Bonn.

Rumanian party leader Ceausescu, bearing his new government title of President, arrived in Moscow on 13 December, his political energies freshly fired up by the just concluded Rumanian party conference. He probably intends to go over economic troubles between the two countries, differences concerning the upcoming consultative meeting of Communist parties in Budapest, and the question of their friendship treaty which expires early next year.

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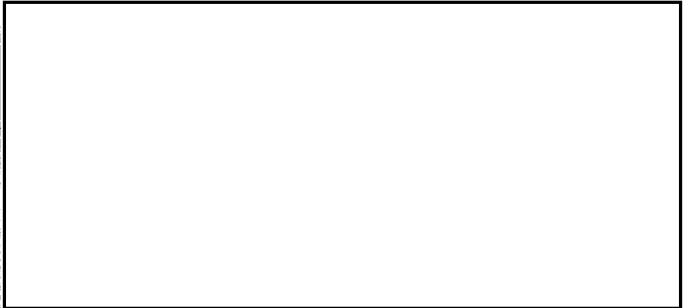
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FRENCH ARMS SALESMEN COURT ARABS

The French-Iraqi arms deal reportedly signed in late November may be De Gaulle's first move toward rescinding his embargo on arms sales to all the belligerents in the recent Arab-Israeli war.

The agreement calls for France to supply mortars and armored cars valued at nearly \$22 million. Paris has attempted to justify the sale by claiming that its embargo does not apply to countries providing "energy" to France. Iraq, which sells petroleum to French refineries, is the only belligerent excluded from the embargo under this clause.

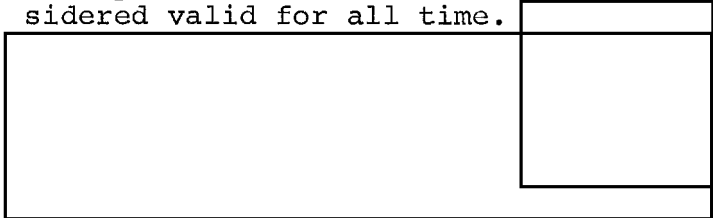


Other Arab countries may also request French arms. A high-level Syrian Government delegation that arrived in Paris on 10 December for economic talks may want to discuss a possible arms deal as well.

The recent opening up of sales to Arab countries may signal the eventual lifting of the embargo against Israel's 50 Mirage 5s. The French Government issued a statement on 8 December claiming that France is delivering to Israel all military equipment ordered prior to the embargo, with the exception of Mirages. The statement added that in view of the explosive situation in the Middle East, France is not now delivering Mirages to any country in the region but that this position is not to be considered valid for all time.



An Israeli news service reported in late November that Iraq will turn over Hunters to Jordan. Jordan had two squadrons of Hawker Hunters before the war but lost 20 aircraft during the hostilities. Twelve aircraft from Iraq, four acquired from the UK since the hostilities, and the four that survived the war would bring Jordan's squadrons nearly to full strength.



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SOVIETS TO INCREASE SPENDING FOR "SCIENCE" AND SPACE

The Soviets plan in 1968 to increase expenditures for "science" nearly 11 percent, almost double the growth planned for this year. The "science" category includes the costs of the Soviet space program and of military and nonmilitary research and development in the USSR.

While part of the increase undoubtedly reflects price increases made in 1967, in terms of equivalent US resource costs next year's allocations still will exceed significantly the \$17 billion the Soviets are estimated to be spending this year. About \$13 billion of this year's expenditure has gone to the space program and to military R&D. Military-related research and space currently are costing the USSR as much as the deployment and operation of its strategic offensive and defensive forces.

Since 1950, Soviet expenditures for R&D and space have grown more than sevenfold, and expenditures for military R&D and space have increased twelvefold. Allocations in the US have followed a similar trend. For example, Soviet expenditures

for military R&D and space grew from six percent of the total military and space spending in 1955 to 25 percent in 1965; in the same period military R&D and space outlays in the US increased from eight percent of the defense and space budget to 28 percent.

The rates of growth recently have slackened in both countries, but much less so in the USSR, which in absolute terms still is spending less than the US. To some extent, in both countries this slackening is due to the fact that large parts of the investment in facilities for some major military and space programs already have been made.

The perennial Soviet boasting about the allocation of resources to R&D in the USSR recently has been tempered by concern for greater efficiency. This interest in better utilization of rubles for research reflects the heavy claim on Soviet resources now being made by military and space programs. In the eyes of some Soviets, a portion of this effort might better be channeled to the improvement of industrial technology and general economic development.

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USSR STANDS FAST ON GERMAN POLICY

Moscow's verbal attack on Bonn last week made clear that there is virtually no give in Soviet policy toward West Germany.

Ostensibly, the statement handed to the West German ambassador was occasioned by the recent activities of the right-wing National Democratic Party, and the document accused Bonn of nurturing neo-Naziism. Essentially, however, the statement only reiterated long-standing Soviet policy. Thus Bonn and other interested parties were told that improved relations with the Soviet Union still depend on West German acceptance of the results of World War II, that is to say, the existence of two German states, the permanence of Germany's borders, and the separate identity of West Berlin.

The Soviet broadside, like one last January, appears to be aimed at dispelling any impression that Moscow's price for better relations with Bonn is going down. The statement in January came just before the opening of diplomatic relations between Bonn and Bucharest, and the recent one was issued at a time when the early resumption of relations between Bonn and Belgrade appeared likely. It was also clearly meant to reassure East Germany publicly that the Soviets had not been careless of Pankow's interests during the series of conversations between Brandt and Soviet Ambassador Tsarapkin in Bonn.

Presumably Bonn would have to meet various prerequisites for a general improvement in Soviet-FRG relations to make possible an exchange of agreements on the renunciation of force, a topic that was a focal point of the Brandt-Tsarapkin talks. Moscow, although abusing Bonn in public, evidently wants to keep some conversations going on the quiet.

Moscow's informal, exploratory conversations with Brandt, however, are not accompanied by evidence that the USSR is prepared for serious negotiation on the German question. Moscow probably considers the contacts with Brandt a useful and inexpensive way of sounding out the Germans on what they might do in the interest of detente, and of encouraging Bonn to try its ideas on Soviet ears first.

In Bonn, the harshness of the Soviet note was taken as a confirmation of Chancellor Kiesinger's pessimism and a blow to Foreign Minister Brandt's optimism over the state of relations with Moscow. Brandt, however, still hopes to pursue improved relations by continuing the dialogue with Tsarapkin. The German Foreign Ministry is contemplating only a brief, nonpolemical reply, to refute the Soviet allegations.

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EAST GERMANY CURTAILS CONTACTS WITH EASTERN EUROPEANS

A recently issued East German directive curtailing cultural exchanges with Eastern European countries points out the Ulbricht regime's persistent ideological and political differences with its allies.

The East German regime has long feared the adverse political effects that might ensue if East German intellectuals were permitted to exchange ideas freely with colleagues elsewhere in Eastern Europe. Such exchanges could lead to attempts to follow artistic theories other than the "socialist realism" sanctioned by the regime.

The regime has thus curtailed nearly all cultural exchanges with Western Europe, and has attempted to prevent the introduction into the GDR of the "revisionist" theories and works of leading Eastern European intellectuals. The regime, for example, has publicly criticized the works of leading Marxist theoreticians such as Poland's Adam Schaff and Austria's Ernest Fischer and in 1964 publicly rebuked the Czech party for its "permissive" attitude toward intellectuals.

The newest directive, issued by the party central committee,

lays down guidelines to be followed by members of the East German Film Studio. The directive apparently also applies to any East German who comes into contact with Eastern European cultural delegations.

In issuing the directive, an East German cultural functionary reportedly stated that East Germans must guard against subversive influences being spread by "avant garde" and "too international" cultural figures in Poland, Czechoslovakia, Hungary, and Rumania. The restrictions on contacting delegations from these countries reportedly are now virtually as severe as those on contacting Western European groups.

This latest move to restrict cultural contacts with Eastern Europe is likely to add to the current political difficulties the regime is having with its allies. The Czechs in particular have resented past criticisms by Pankow, and both the Czechs and Hungarians have recently complained of the GDR's refusal to improve its relations with West Germany and its interference in their attempts to do so.

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NONPROLIFERATION TREATY NEGOTIATIONS AT IMPASSE

The control provisions of the draft nonproliferation treaty (NPT) are still the subject of controversy, and the treaty will therefore not be discussed at this session of the UN General Assembly.

The fundamental problem is that the five EURATOM countries consider that the treaty as drafted "discriminates" against presently nonnuclear countries; they have indicated, however, that they can tolerate this if adjustments are made on certain points. They want assurance that the treaty will not set aside the EURATOM safeguards system, and have objected to the language of the Soviet draft which specifically calls for application of the safeguards system of the International Atomic Energy Authority (IAEA).

They much prefer the US draft which calls for safeguards as set forth by an agreement to be negotiated between EURATOM and IAEA. Furthermore, they want assurance that during what may be a prolonged period when a safeguards agreement is being negotiated between IAEA and EURATOM there will be no interruption in the US supply of nuclear materials to EURATOM. According to the US draft article, nonnuclear countries shall not receive nuclear material not subject to control. The Belgians have suggested that the US and EURATOM conduct informal talks to determine the feasibility of an IAEA-EURATOM agreement.

The Europeans are also unwilling to immobilize their

nuclear development in perpetuity and want the duration of the treaty limited to 10 to 25 years. They want to change the amendment provisions so that these will not be binding for those countries not voting for them. Finally, they want the treaty to provide specifically for periodic conferences to review the situation and possibly negotiate changes that then seem necessary or desirable.

All of these European concerns are the subject of discussion between the US and the Soviet Union. Moscow is reluctant to work out compromises until the safeguards article has been completed. Although this article may be worked out by the end of next month, there are still a host of other problems to be dealt with in Geneva, such as peaceful uses of nuclear energy, security assurances, and disarmament obligations for nuclear powers.

After the Geneva talks are completed, the treaty will go to the UN General Assembly or to the UN Disarmament Commission, where, although it would be time consuming, the treaty would undergo a comprehensive review and then be reported to the General Assembly in the fall. There is increasing pressure in New York to hold a resumed session of the General Assembly in the spring. However, if the NPT is placed on the agenda of such a session, it would have to compete for attention with Middle Eastern problems.

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MIDDLE EAST - AFRICA

Some tense situations in the area seemed to be cooling off last week, but new crises quickly sprang up.

The potential Greek-Turkish military confrontation over Cyprus was defused as the troop withdrawal from the island proceeded normally. King Constantine, however, seized the occasion to attempt a coup against the Athens junta, probably counting on disgruntlement in the army over the "humiliation" of Greece on the Cyprus issue. He misjudged the strength of his support and his effort failed.

In Turkey, there has been some strong criticism of the Demirel government's handling of the Cyprus issue, but the political situation generally still appears to be under control.

In Yemen, royalist elements in various parts of the country have moved into the vacuum left by the withdrawn Egyptian troops. Soviet aid has enabled the republican government to hold off the immediate royalist threat, and Moscow's determination to save the beleaguered republicans has shown no sign of flagging. In fact, evidence of direct participation of Soviet personnel in the conflict is increasing.

The Arab summit conference has been delayed until 17 January, probably to allow time to persuade Saudi King Faysal to attend. In any event, the Arabs are unlikely to agree on a common policy toward a settlement with Israel.

Indian Prime Minister Gandhi's government continues to move ahead on several controversial fronts. The Kashmiri nationalist leader Sheik Abdullah, under intermittent detention for 14 years, has now been permitted some freedom of movement, but the "lion of Kashmir" is demanding complete freedom or nothing. A controversial language bill which ensures the continued official use of English along with Hindi was passed after five stormy days in Parliament.

In Africa, the shaky regime in Dahomey has been subjected to new strains by another flare-up between President Soglo and the politically important chief of staff of the army, coincidental with another wave of labor unrest. At a minimum, Soglo's prestige will be further diminished and his government weakened by the crisis.

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GREEK COUNTERCOUP FAILS

An attempt by King Constantine to overthrow the military government in Athens has failed. The junta, with a newly juggled cabinet, seemed to be in full control of the country on 14 December. The King and his family have taken refuge in Rome.

The King left for Kavalla, about 100 miles east of Salonika, on the morning of 13 December. He issued an appeal calling for a "reforming of the government without the villainous elements" who falsified his name on the coup decree of 21 April. The junta reacted swiftly, declaring its intention to pursue the 21 April revolution, and calling for national unity and calm.

The general military support for which Constantine hoped never materialized. The junta gained firm control of Athens and arrested a few key military officers whose loyalty was uncertain.

The junta has formed a new cabinet with Papadopoulos acting as prime minister, minister to the prime minister, and minister of defense. Lieutenant General Zoitakis has been appointed "regent" in the absence of the King. Some instances of fighting were reported on 13 December, but no major battles or bloodshed have been confirmed. Athens appeared to be calm, if somewhat dazed, and there were no reports of widespread arrests such as those which oc-

curred in the wake of the coup in April.

The King appears to have acted on impulse rather than from a concrete plan, probably with the full confidence that his mere presence in the north would rally support for his revolt. The junta had previously expressed concern that Constantine would attempt to take advantage of reported discontent in Greece over the Cyprus settlement.

The King's departure raises the question of the future of the monarchy in Greece. Although the appointment of a "regent" to serve in the King's stead may leave some room for accommodation with the Palace, any such arrangement is likely to be on the junta's terms. Even before the King's flight, the junta was expected to insist on pruning his former political prerogatives, if and when parliamentary government was resumed.

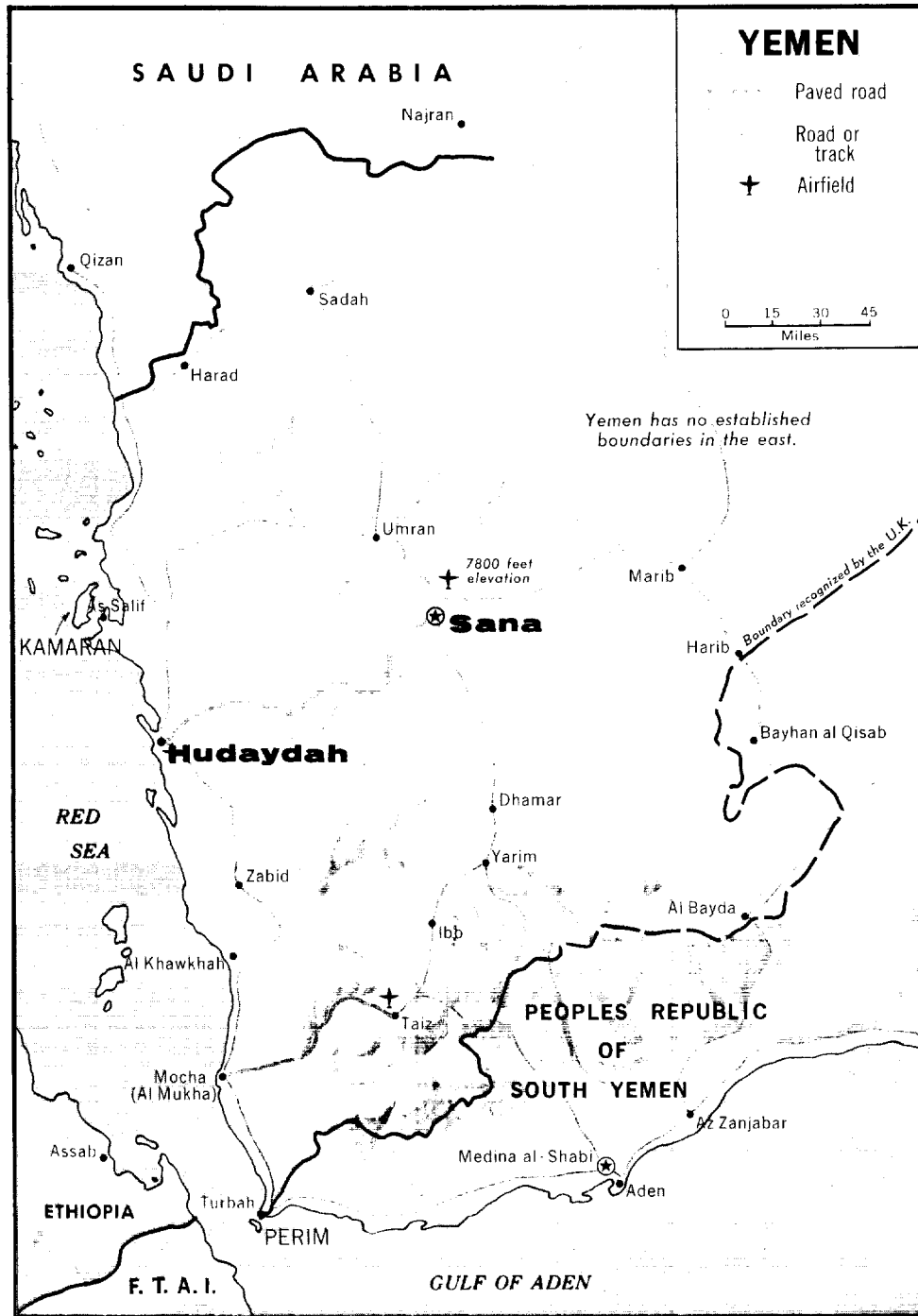
A new draft constitution reportedly was scheduled to be submitted to the regime sometime this month, with a constitutional referendum and elections to be held possibly during the next year. It is likely that the attempted revolt will delay a return to parliamentary government, however.

Greek troops continued to leave Cyprus this week and Greek Foreign Minister Pipinelis has assured the Turks that his government intends to honor the Greek-Turkish agreement.

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YEMENI REPUBLICAN REGIME STALLS ROYALISTS

The royalist drive on Sana seems to have stalled, primarily because of Soviet air attacks on royalist positions.

The royalists had been closing in on the capital for weeks, and last week appeared to be on the verge of taking the city. On 10 December, however, a battle was fought which appears to have gone against the royalists, despite the fact that both sides claimed victory. The Sana airfields, previously reported under royalist control, seem to have been reopened.

The key factor turning the tide against the royalists is the support of Soviet pilots and air force ground personnel.

Another battle was fought on 12 December in the mountainous north of Sana between a republican force using tanks and heavy weapons and a royalist force of unknown strength. It seems evident that, although the royalists had possessed the ability to harass the capital with artillery from the surrounding heights, they lacked sufficient manpower to storm the city, at least in the face of effective air support.

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CYPRUS DISPUTE AGAIN MOVING INTO DIPLOMATIC ARENA

Greek-Turkish tensions over Cyprus were relaxed markedly prior to the abortive Greek royal coup attempt on 13 December, and the island has since remained generally quiet as the UN now considers a further extension of its mandate. As of mid-week, Greek troops were leaving the island at a faster rate than earlier anticipated, and all sides were trying to ensure that there would be no provocative incidents to hamper the operation.

In Turkey, the military alert over Cyprus appeared to be relaxing. The Turkish Army, however, apparently intends to maintain about one third of the forces

it has deployed along the southern coast and near the Greek-Turkish border until a satisfactory diplomatic settlement has been reached. The Turks are not planning any immediate removal of their unauthorized troops from Cyprus.

The unstable political situation in Greece may lead to increased Turkish vigilance along its western border and may slow troop withdrawal from the area, but it probably will not alter appreciably Ankara's attitude toward Cyprus. The Turks presumably regard the Greek problem as strictly internal; they may even believe that it will

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accelerate the withdrawal of Greek forces from the island.

With Athens diverted by a new domestic crisis, Ankara and Nicosia may try--within the context of an independent Cyprus--some moves toward a mutually acceptable resolution of their differences. A high-level Turkish Cypriot leader recently declared for the first time that the Turkish Cypriot community is prepared to negotiate a revision of the 1960 Cyprus constitution.

The UN Security Council meets this week to consider a further extension of its peacekeeping mission on Cyprus. While there may be some opposition within the Council, the mandate probably will be renewed, although probably for less than the usual six months. There is general agreement among the interested parties that the mandate should be extended, but the debate could nonetheless become heated. President Makarios, who personally favors a simple extension of the

mandate, says he is worried that the USSR might try to exploit the debate. He characterized the Soviet role during the recent crisis as "ambiguous."

On Cyprus, Makarios' "normalization" program is having trouble getting started. He fears that armed extremist groups of both the left and right may emerge following the withdrawal of the mainland Greek troops. The Greek Cypriots have offered to relax controls on "strategic" materials and abandon a number of armed positions if the Turkish Cypriots withdraw from certain key positions. The initial Turkish and Turkish Cypriot reaction has been negative, but there may be some maneuverability on this issue. The Turks also have been critical of the ineffectiveness of the UN force in controlling the fighting during the recent crisis and have little confidence that it would intervene to protect them in the future.

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CONGOLESE ECONOMY WEATHERS MERCENARY CRISIS

The mercenary crisis did not seriously affect Kinshasa's economic stabilization program. In the aftermath of the crisis, however, the government faces great problems in rehabilitating the economy after seven years of almost continuous turmoil.

On 24 June President Mobutu announced sweeping monetary and fiscal reforms designed to stimulate the sagging economy. These reforms were approved by the International Monetary Fund.

Less than two weeks later the mercenary-led revolt broke

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out. Mercenary occupation of Bukavu--an important commercial center in eastern Congo--brought economic activities there to a near standstill; but elsewhere most of the Congo's economic problems were caused by the antics of the Congolese National Army (ANC). Looting of homes and businesses, for example, was extensive when Bukavu and other cities were reoccupied by the ANC. Their brutal treatment of white expatriates--largely Belgians--in Katanga resulted in a substantial departure of European mining technicians. Manganese mining operations in western Katanga have been completely disrupted.

Nevertheless, the Congo economy has weathered the crisis. Mobutu's moves to improve security for the expatriates slowed the departure of the Europeans and permitted continuous operations in the copperbelt and at most other important economic installations. Fortunately a factor outside the Congo's control helped: the prolonged US copper strike, which kept world prices high, benefited Kinshasa's financial reform program. Copper revenues amount to about half of

all funds collected by the central government.

Thus, despite higher than anticipated military expenditures, the Congo has had a balanced budget since July because of the larger copper revenues. Higher export earnings from copper--which account for about two thirds of all foreign sales--have also been the major reason for the rapid rise in foreign exchange holdings since July.

The five-month revolt has, however, further damaged the Congo's longer term prospects. The exodus of European mining personnel from the copperbelt has seriously affected operational efficiency and forced a cutback in necessary research and exploration work. Any further substantial loss of expatriate technicians would certainly mean a decline in copper production. Moreover, Belgium and other governments now want to restrict technical assistance personnel to a few major cities where there is a better chance for safety. Thus, the populace of the Congo's vast rural areas will get even less attention than before.

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WESTERN HEMISPHERE

The deadlock in the election of a new secretary general for the Organization of American States (OAS) continued to be a subject of major interest this week. The OAS met on 14 December to consider a number of proposals for dealing with the problem. No dark horse candidate for the position has as yet emerged. Indeed, it appears that the three candidates who have brought on the impasse, which is lessening the prestige of the OAS, are still in the race. The election may well be put off until early next year.

Several countries seemed to be more receptive than formerly to aid and trade offers from the USSR and other Communist countries of Eastern Europe, but as yet no significant deals have been reported.

Guerrillas in Venezuela clashed twice with army patrols in the first serious encounters in several months. In Uruguay, the growing strength of the radical left finally provoked the government to crack down on its activities. Six leftist parties were banned and several prominent extremists were held for criminal action suits.

Tensions heightened in the Dominican Republic amid rumors of coup planning among rightists, and the mysterious disappearance of a former "constitutionalist" leader has further complicated the political scene. In Haiti, the number two leader of Duvalier's feared Ton Ton Macoute was wounded by a would-be assassin on 7 December. Some of the many rumors suggest that the shooting resulted from a personal vendetta while others intimate the involvement of palace "insiders." There is no evidence as yet to support either thesis.

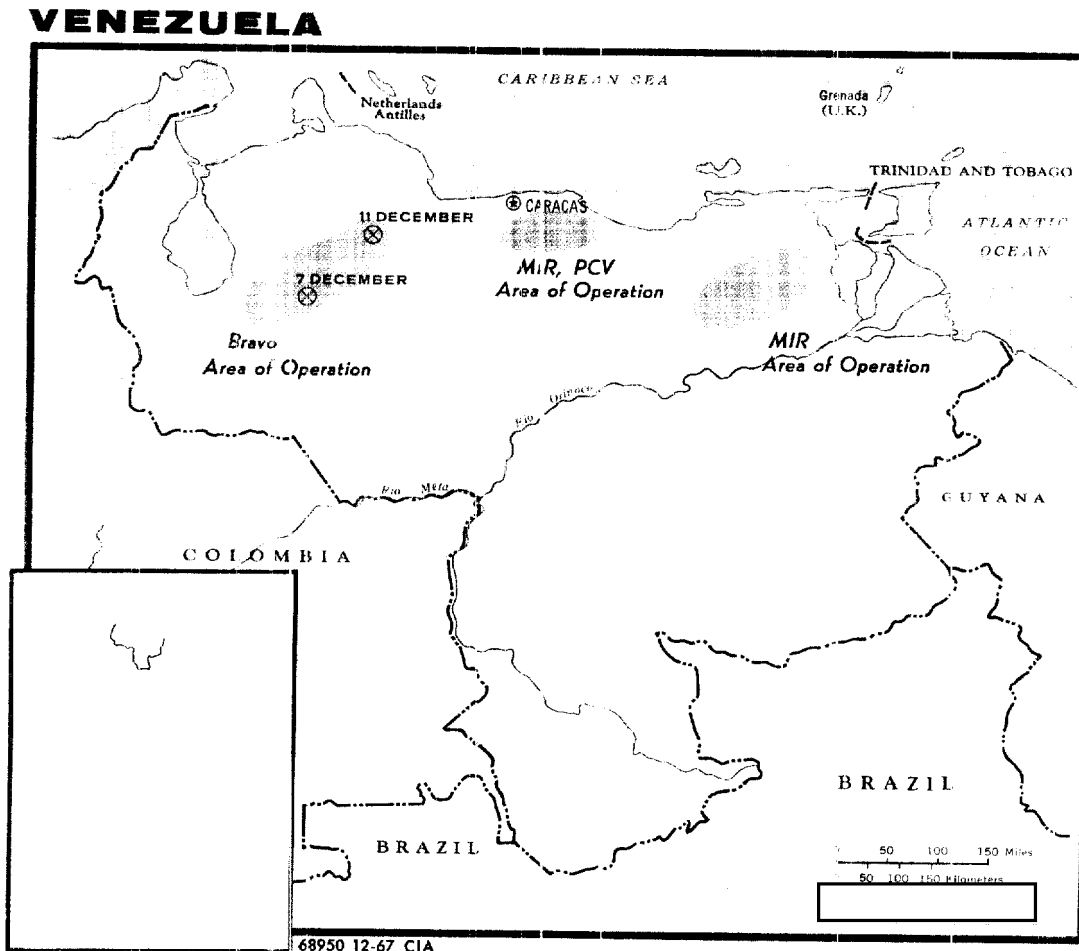
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VENEZUELAN GUERRILLA ACTIVITY INCREASES

Two encounters between government troops and guerrillas in Western Venezuela in the past two weeks are sharp reminders that the guerrillas retain a capability for action. On 7 December an unknown number of insurgents ambushed an army convoy and injured eight soldiers. A clash on 11 December reportedly left four guerrillas and one soldier dead.

These are the most serious incidents in this area since last spring. Both took place in the part of Venezuela where Douglas Bravo's Cuban-supported insurgent group usually operates. Bravo has been reported on the run recently, and the guerrilla initiative may have been designed to deflect government pressure from one of his units.



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The increase in guerrilla activity may also be related to the restoration last month of constitutional guarantees, which had been suspended in March. Although the direct effect on the

guerrillas would be minimal, the task of their support apparatus would be eased considerably by the reimposition of constitutional limitations on the investigation and detention powers of the police.

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FORMER DOMINICAN REBEL LEADER'S WHEREABOUTS REMAIN MYSTERY

The continuing mystery concerning the whereabouts of Colonel Francisco Caamano Deno, leader of the "constitutionalist" forces during the 1965 civil war in the Dominican Republic, is adding to political tensions in Santo Domingo.

Caamano, who went into "voluntary exile" as Dominican military attache in London in January 1966, was last seen on 25 October in The Hague where he was visiting two former "constitutionalist" officers.

Since the news of Caamano's disappearance was made public in late November, Santo Domingo has been full of rumors that he has defected to Cuba, that he has returned secretly to the Dominican Republic to lead a guerrilla movement, that he returned to the country at President Balaguer's behest and is in hiding, that he was the victim of foul play by "foreign intelligence agencies,"

or that he is simply "out on a spree."

High-ranking military officers are reportedly convinced that Caamano is in Cuba. They have indicated that if they are proven right Caamano will be separated from the military as a traitor and they will use his dismissal as an excuse for removing all former "constitutionalist" officers from the armed forces and labeling them as traitors.

Juan Bosch and other leaders of the Dominican Revolutionary Party (PRD) have intimated they know of Caamano's whereabouts and activities. Bosch sent several newspapers a written statement, which clarified little but insinuated a good deal, that Caamano had "voluntarily absented" himself from duty in London, that he had left Europe willingly and "gone to a place in the world where he can prepare himself, according to his conscience, so that Dominicans will not again

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suffer abuses and mockeries." His statement seems to have been intended to alert Caamano's "constitutionalist" followers to prepare themselves for his eventual reappearance in the role of a "savior" of his people.

Caamano's disappearance is another ingredient in the current state of unease characterized by

rumors of a coup from the right and by the first public disorders since last April and May. If Caamano returns to the country he might serve as a rallying point for dissident leftist elements. Although he is not believed to have widespread popular support nor many followers in the military, his return would have an unsettling effect on the country.

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COMMUNIST TRADE AND AID PROSPECTS IN LATIN AMERICA

A recent flurry of aid and trade offers by the Soviet Union and certain Eastern European nations may prove significant for some individual Latin American countries. These offers, however, will not result in any substantial broadening of over-all Communist trade ties in this hemisphere.

Soviet trade with Latin America continues to be small and sporadic, and has fallen off this year after completion of the large Soviet wheat purchases from Argentina in 1966. Although East European countries have increased some trade ties in Latin America, they have only a limited demand for the area's major agricultural exports. Recent Soviet aid offers to Argentina and Uruguay have yet to be accepted, while an earlier Soviet credit to Brazil and a credit extended to

Chile this year, which total some \$160 million, remain largely unspent.

A high-level Soviet trade delegation is expected to arrive in Brazil soon with new credit and commercial offers. The Soviets may urge Brazil to use some portion of the \$100-million trade credit they extended last year. Another Soviet trade delegation is expected to visit Uruguay on 20 December to discuss a \$20-million Soviet credit offer made last year. Uruguay may accept the offer, but the US Embassy in Montevideo expects little trade to result from the agreement.

The Soviets have expressed willingness to enter into a consortium with Western countries by offering a \$60-million credit to aid in the construction of the El Chocon hydroelectric project.

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in Argentina. [redacted]

[redacted] the UK and West Germany have made additional offers of aid and equipment for the project. The USSR had made a similar offer before, but the Argentine government has been reluctant to deal with the Soviets.

A Hungarian trade mission recently offered Argentina a \$30-million credit on commercial terms for the purchase of industrial and railroad equipment. The Hungarians also offered a \$5-million credit to Chile, a \$10-million credit to Uruguay, and urged implementation of a \$40-million credit offered to Brazil last year.

The Soviet and Hungarian aid offers come at a time when a number of Latin American governments are seeking to demonstrate their independent initiatives in foreign policy and trying to establish new markets in the USSR and Eastern Europe for their agricultural commodities and manufactured goods--some of which are hard to sell in the West. Colombia, Venezuela, Ecuador, and Peru have recently made moves toward increasing trade with Eastern Europe or the USSR.

To aid Colombian sales to the USSR, President Lleras is

planning to establish consular relations with the USSR in January or February 1968. An official Venezuelan delegation plans to visit the USSR early next year to explore possibilities for expanding trade. The delegation is prepared to move toward resuming diplomatic relations to assist the discussions on trade. The simultaneous presence last week in Ecuador of Czech, Polish, and Hungarian economic missions illustrates the marked increase in Ecuadorean interest in trade with Eastern Europe. Hungarian and Yugoslav trade missions have been warmly received by Peruvian officials who hope to find new markets for coffee and cotton. In another move, Czech trade officials have offered a Costa Rican firm the rights to distribute and assemble Skoda cars in Costa Rica and the Central American Common Market countries.

Some increase in trade for Latin America may occur from expanding commercial contacts, but the USSR and Eastern Europe probably will not be willing to accept the sustained increases in purchases of agricultural products or manufactured goods necessary to bring about a rapid trade expansion. The Communist aid proffered is similarly not likely to be used rapidly. [redacted]

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