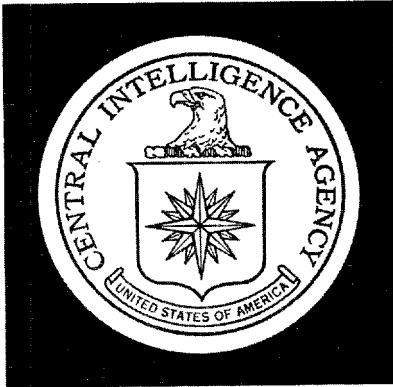


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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51

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(Information as of noon EST, 4 January 1968)

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Opposing forces for Panama's presidential elections in May have solidified around two leading contenders, Arnulfo Arias, twice elected and twice ousted from the presidency, and former finance minister Samudio. Arias, now by far the stronger contender, is moving to ensure his victory at the polls.

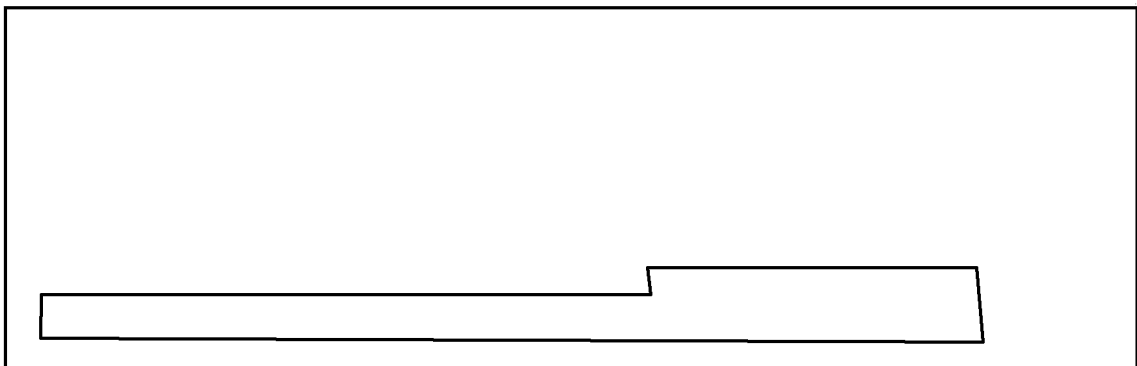
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FAR EAST

Hanoi has issued a less ambiguous statement of its position regarding talks following a cessation of bombing in an effort to stimulate greater international and domestic pressure for US concessions. Foreign Minister Trinh's statement that Hanoi "will hold talks" with the US after an unconditional halt in bombing and other "acts of war" against North Vietnam may have been timed to encourage efforts to extend the cease-fire during the lunar new year in late January. North Vietnam's terms for a negotiated settlement remain unchanged. Chinese displeasure over Hanoi's move to appear more flexible on negotiations was evident in Peking's silence on Trinh's statement.

Cambodia Chief of State Sihanouk has issued a flurry of statements designed both to deter major allied intrusions into Cambodia in pursuit of Vietnamese Communist forces and to warn the latter to limit their presence in Cambodia. He has sought to gain time and greater maneuverability in dealing with this dangerous problem by indicating willingness to receive an American envoy and by distinguishing between US operations into isolated areas of Cambodia and intrusions into populated areas. Hanoi, Peking, and the National Liberation Front have attempted to exploit international attention to this "sanctuary" issue by promising support for Cambodia in the event of US "aggression."



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VIETNAM

The allied New Year's cease-fire was punctuated by a record 170 Communist-initiated incidents and two large-scale enemy attacks, resulting in heavy casualties on both sides. Most losses were suffered during a major Communist attack on a US artillery position in northern Tay Ninh Province.

The multibattalion enemy attack in Tay Ninh was launched on the night of 1-2 January, well before the end of either the Communist or allied cease-fire periods. Two regiments of the Viet Cong 9th Division--the 271st and 272nd--struck a newly constructed US artillery position just eight miles below the Cambodian border with mortar barrages followed by several unsuccessful attempts to overrun the site. More than 380 enemy troops were killed and American losses totaled 23 killed and 153 wounded.

Both Communist units involved had suffered heavy losses last October, but have been sufficiently reinforced, probably with North Vietnamese infiltrators, to mount an attack of this scope. It is possible that the attack was also designed to divert allied attention from a current movement of men and supplies along nearby infiltration routes.

The second major enemy violation of the cease-fire occurred in southern Dinh Tuong Province in the Mekong Delta where elements of two Viet Cong battalions--

identified as the 261st and 263rd--shelled a South Vietnamese base camp. The intense enemy mortar and rocket bombardment was followed by ground assaults on the garrison. Before they were routed, the attackers lost 60 killed, reportedly including a battalion commander, while friendly losses in the action came to 19 killed and 48 wounded.

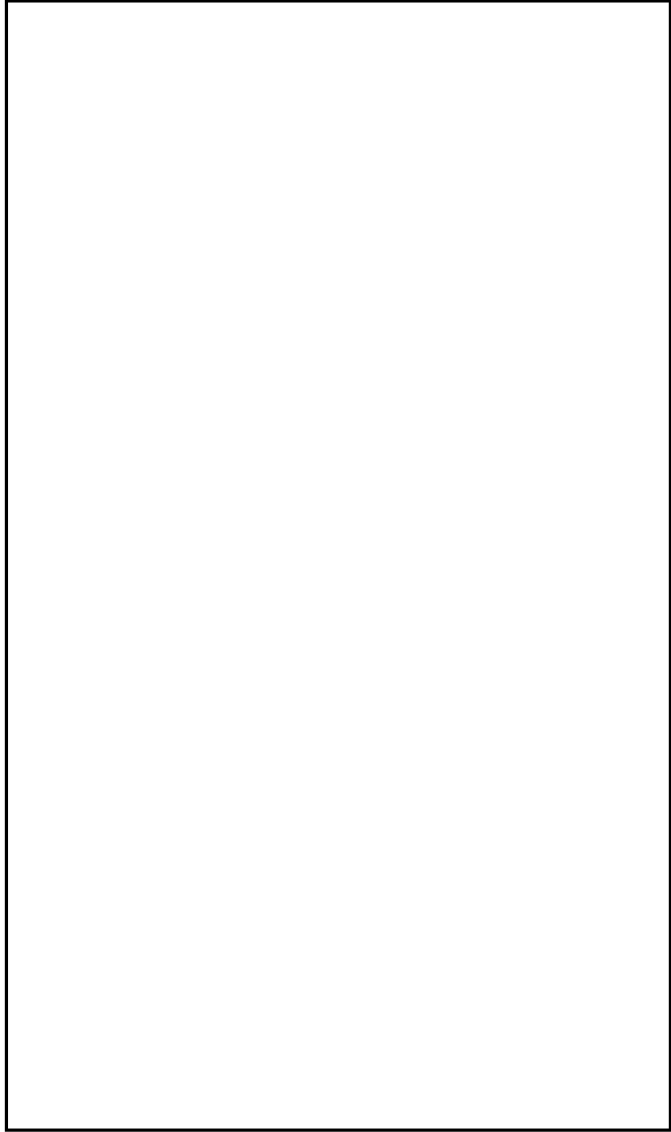
As in the Christmas cease-fire period a week earlier, Communist forces in both North and South Vietnam were observed taking advantage of the New Year's stand-down. Heavy truck traffic was noted above the Demilitarized Zone.

Since the end of the holiday respite and the resumption of major allied search-and-destroy operations in Communist-dominated territory, contact with the enemy has been sporadic.

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bombing of North Vietnam, but shows no sign of modifying its hard-line terms for a negotiated settlement.

In a speech at a diplomats' reception last week, Foreign Minister Nguyen Duy Trinh declared that his government "will" hold talks with Washington "about questions concerned" if the US unconditionally terminates the bombing and all other "acts of war" against North Vietnam. Hanoi's previous position had been based on Trinh's statement of 28 January 1967 to the effect that there "could" be talks if the US took these actions.

This less ambiguous North Vietnamese position probably is designed to increase domestic and international pressure on the US for a bombing halt and an extension of the cease-fire during lunar new year later this month. An end to the attacks has long been a primary objective of the Hanoi regime, and the original offer a year ago was designed to achieve this without making any significant substantive concessions on a settlement of the war.

The foreign minister avoided spelling out the timing or content of any talks, but indicated that the basis for solving the Vietnam problem remained Hanoi's four points and the political program of the Liberation Front.

Hanoi on a Cessation
Of Bombing

Hanoi has publicly committed itself to begin talks with the US in return for an end to the



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CAMBODIA SOFTENS STAND ON "HOT PURSUIT"

In the face of mounting indications that allied forces might soon conduct ground operations against Communist units utilizing Cambodia for sanctuary, chief of state Sihanouk has moved to take some of the heat out of the crisis.

He announced to Western news- men last week that he would make a tacit distinction between US operations conducted in isolated areas of his country, where there was little likelihood that Cam- bodian personnel or property would be jeopardized, and Ameri- can probes in populous sectors. In the former case, his reaction would be passive and limited mainly to diplomatic protests against both the Communists and the US. He would send forces "im- mediately," however, to "repel" American units threatening harm to Cambodian property or people.

Sihanouk probably believes his stand will deter any immediate American action along the heavily populated southern section of the Cambodian-Vietnamese border, where the most serious consequences for his regime are likely to ensue if "hot pursuit" operations are un- dertaken. Moreover, by making known his willingness to discuss Cambodian-US relations with an American "envoy," he doubtless hopes to head off cross-border operations while such talks are under way and until their outcome is clear.

Sihanouk also sought to put additional pressure on the Com- munist side. He blamed Soviet and Polish intransigence for the failure of efforts to strengthen the International Control Com- mission (ICC) and implied that their resistance was stimulated by the Vietnamese Communists. Sihanouk has long advocated the strengthening of the ICC both as a counterweight to the Communist presence along the border, and as an example of Cambodia's desire to remain "neutral."

Meanwhile, the developing crisis has prompted Sihanouk to make changes in his government. He called for the resignation of the Son Sann "interim" cabinet, and asked Sirik Matak, who sub- sequently turned him down, to form a new government. Matak, the Cambodian ambassador to Japan, is considered pro-Western and conservative, and Sihanouk's in- terest in him may be one more in- dication that he is seeking to project a slightly more pro-West- ern stance.

It is likely, nonetheless, that Sihanouk's softened position on the border issue during the past week mainly reflects his cur- rent appraisal of the power re- alities in the area and is not indicative of any genuine willing- ness to reach a real accommodation with the US.

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JAPANESE-SOVIET ECONOMIC RELATIONS GROWING

Trade between the Soviet Union and Japan reached an all-time high in 1967, and the two countries are discussing the further expansion of economic relations.

Assisted by the rapid growth in Soviet exports, total Soviet-Japanese trade in 1967 probably will reach some \$600 million. This will surpass Japan's trade with Communist China, which was Tokyo's major Communist trading partner in 1966. Soviet exports of raw materials such as timber and metallic ores increased in 1967, although crude oil shipments dropped off because of the closure of the Suez Canal. The Soviets also increased purchases of machinery, equipment, and consumer goods.

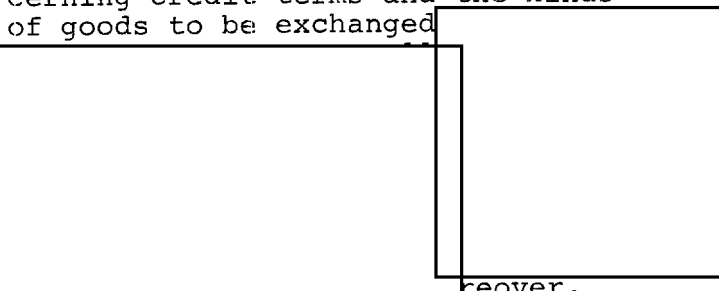
In addition to these transactions arranged by the governments, private barter trade agreements also expanded. A potential \$167-million deal is presently under negotiation involving the exchange of Soviet timber for Japanese plant and equipment to develop forestry resources along the Amur River over a five-year period beginning in 1969.

Japan already has the largest business representation in Moscow of any non-Communist country, and the Soviets recently permitted a Japanese trading corporation to set up the first permanent non-Communist trade office in Moscow. This privilege was also extended to other Japanese firms.

New developments in transportation will also facilitate Soviet-Japanese economic relations. Test shipments via the Trans-Siberian railroad are in progress for Japanese goods destined for Western Europe and the Middle East. Earlier this year, the two countries began direct flights between Moscow and Tokyo using Soviet aircraft. The Japanese hope eventually to gain onward rights to Western Europe using their own aircraft.

Soviet-Japanese economic commissions are studying several joint ventures for development of Siberia and natural gas fields in northern Sakhalin. The Soviets have shown some interest, for example, in Japanese assistance in exploiting underdeveloped copper and oil resources. Moreover, the Soviets have permitted some Japanese technicians to tour western Siberia, but they are still reluctant to permit more than short visits.

Problems persist, however, concerning credit terms and the kinds of goods to be exchanged.



Moreover, political problems related to a peace treaty and the return of the Kurile Islands are also likely to slow the development of joint Soviet-Japanese industrial ventures.



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EUROPE

Factional discord, dissidence among intellectuals, economic problems, and alienation of youth are taxing both the Polish and Czechoslovak regimes. In Warsaw, the Gomulka administration seems to be preparing to reestablish rigorous controls in an effort to head off a crisis of confidence such as is now shaking Czechoslovakia. In Prague, party chief Novotny is still in charge, but his grip seems weaker, and a leadership shake-up could occur at a party central committee meeting reportedly scheduled to begin during the week of 2 January.

Preparations continue for the Communist consultative conference in Budapest scheduled for February. [redacted] high-ranking Italian, French, and Yugoslav party officials have consulted with their Hungarian counterpart in Budapest concerning the meeting.

In Yugoslavia on 3 January, Rumania's Ceausescu and Yugoslavia's Tito also got together to discuss the meeting, which both oppose. They strongly believe that such Soviet-sponsored affairs tend to restrict their independence and erode Communist unity. These two held similar consultations before individually declining to attend the April 1967 meeting of European Communist parties in Czechoslovakia.

Brezhnev's on-again, off-again trip to Cairo, which seemed to have been set for next week, has once more been postponed. There is no ready explanation for this most recent postponement, but the press of domestic business may have been an important factor. [redacted]

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SA-3 AIR DEFENSE EQUIPMENT INTRODUCED INTO EAST GERMANY

The Soviets are installing equipment in SA-3 Goa surface-to-air missile (SAM) sites in East Germany, marking the first deployment of this air defense missile system outside the USSR.

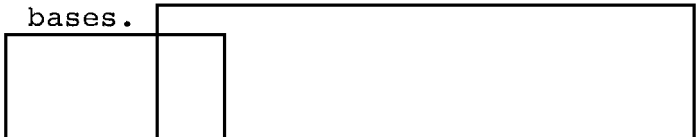
bomber threat from Western Europe. The system is estimated to be effective against aircraft at altitudes possibly as low as 500 feet.



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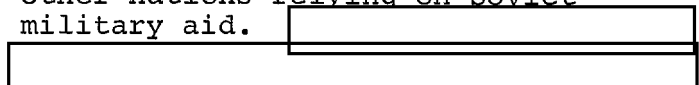
The poor performance of the SA-2 SAM against aircraft maneuvering at low altitudes in Vietnam and the Middle East may also have influenced Moscow's decision to deploy the SA-3 in Eastern Europe.

In addition to contributing to the over-all defense of East Germany, the SA-3 sites are positioned to provide point defense for Soviet tactical aircraft bases.



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More than 100 SA-3 sites have been identified in the Soviet Union since deployment began in 1961. The system probably will go to Soviet forces in Poland and Hungary, and eventually might also be exported to the armed forces of Eastern Europe and other nations relying on Soviet military aid.



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The Soviets probably decided to introduce the SA-3 into East Germany in an effort to counter more effectively the fighter-



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POLAND'S GOMULKA TACKLES PARTY INSTABILITY

Year-end political developments in Poland indicate that party boss Gomulka is adopting a stern line against prevailing economic problems, public restiveness, and factional instability in the party. At the moment, elements favoring greater rigor appear to be in the ascendancy, and there may be further personnel and organizational shifts in coming months more significant than the relatively low-level changes in recent weeks.

Gomulka evidently has been working to reassert his control over the party since last summer, but postponed the first round of his personnel shifts until after the 50th anniversary of the Russian revolution. His current moves, however, may have been spurred by the impact of widespread restiveness, which surfaced after a meat price rise in late November. There are signs that the party leadership is becoming deeply concerned by the state of Poland's economy and its prospects. Economic problems thus may become the catalyst for expected future policy and personnel changes.

The imposition in Warsaw on 23 December of the first death sentence in an espionage case since 1956 is the most telling recent indication that hard liners--who control the security

apparatus--may be achieving their long-sought goal of a general tightening of domestic policies. These nationalistic and anti-Semitic elements have been seeking to influence Gomulka, and since last June, have sought to exploit factional instability arising from the impact of the Middle East crisis in Poland. Until now, their efforts had not resulted in any clearly demonstrable gains.

The personnel shifts have involved the appointment of Jan Ptasinski, tough-minded former party boss of Gdansk Province, as ambassador to Moscow, and his replacement by Stanislaw Kociolek, formerly party chief in Warsaw and long considered Gomulka's mouthpiece there. Other changes include the political demise of Leon Kasman, veteran chief editor of the main party daily, and the ousters of the mayor of Warsaw and the local government chief in Lodz. These shifts--especially of Kasman, who is Jewish--have also renewed fears among the party's moderate Jewish segment that they will be targets of a gradual, future purge.

Gomulka's recent moves, however, probably are only the initial stages of a gradual process designed to construct a new factional balance in the party.

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CZECHOSLOVAK LEADER HINTS AT ATTEMPTS TO MUDDLE THROUGH

Czech President and party boss Novotny appears to be seeking compromises in grappling with his domestic and party problems.

In a New Year's day speech, he endorsed reinvigoration of the economic reform program, a stand that may help to blunt the thrusts of his liberal challengers. Perhaps with these people in mind, Novotny once again gave his blessing to making use of "everything progressive...including things...in the capitalist countries." The Czechoslovak party leader, however, also threw a small bone to regime conservatives by aligning the future of the reform program with Prague's economic ties with the Soviet Union and the East European countries.

Novotny attempted to allay popular fears of reform by playing down a series of price increases slated for the coming year, and indicated that increased wages would offset the over-all rise of retail prices.

Novotny also suggested he has been able to smooth over his differences with Slovak leaders, at least temporarily. Novotny apparently believes he has bought them off with a resolution passed by the central committee in December, which called for acceleration in the growth of the Slovak economy. Novotny's future relations with the Slovaks will depend in part on how well he will be able to deliver on this promise, but it is difficult to see how he could be paying more than lip service to Slovak desires for "equality."

In sum, Novotny's speech seems to point to a continuing attempt on the leadership's part to muddle through its major problems, including the crisis of confidence within the party leadership. This, incidentally, is not yet over: a party plenum is reportedly scheduled to convene this month to discuss remedies for the critical political situation.

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TOP-LEVEL CEMA MEETINGS NOTE SLOW PROGRESS

Communiqués issued by recent Council of Mutual Economic Assistance (CEMA) meetings have stressed the standard theme of expanded cooperation in spite of continuing economic problems

among member states. Multilateral activities are to be increased, specifically in the establishment of new industries, production specialization, and research activities.

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The Council--the organization's policy-making organ--met from 12 to 14 December in Budapest, but presented no surprises. Agreements reportedly were adopted on mid-range economic planning, on further development of industrial specialization, and on financing scientific/technical research. The Executive Committee--which supervises activities of the organization--met from 15 to 19 December to discuss coordination of two- and three-year plans.

CEMA's most successful multilateral efforts to date have been of a technical nature. The Joint Freight Car Pool, established in 1964, has permitted more efficient use of freight cars. The Friendship Oil Pipeline brings more than 80 percent of the total Soviet crude oil deliveries to Poland, East Germany, Czechoslovakia, and Hungary. The Integrated Electric Power System permits its members to cover peak power demands more adequately.

During its long history, the organization has made some progress toward coordination of economic plans and conclusion of agreements on industrial specialization. An accommodation evidently was made during 1967 between Rumania and other members that should make it

easier to establish multilateral CEMA projects in which all members do not wish to participate. Moreover, in the past year progress has been made in expanding direct contacts among the producing, purchasing, and foreign trade agencies of various CEMA members.

Despite these modest successes in multilateral cooperation, however, in recent years bilateral Soviet - East European relations have been of greater importance within CEMA. This is in part the natural consequence of the overwhelming disparity in size and resources between the USSR and the smaller countries, which renders Moscow far more important to them than they are to each other.

Statements regarding the recent meetings reflect continuing differences of opinion on some economic issues. Disagreements over prices in Soviet - East European trade persist. Moreover, Soviet demands for East European credits for Soviet exploitation of raw materials have been received unenthusiastically by other members. Finally, Poland apparently has gained little support for its long-standing proposal for settling mutual accounts at least partly in gold or convertible currency rather than by shipments of goods.

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MIDDLE EAST - AFRICA

New strains have developed in several of the area's trouble spots, while in others there has been some forward movement.

Greek Cypriot officials have reacted with predictable rancor to the Turkish community's formal establishment of an administrative council to oversee Turkish Cypriot affairs. The Makarios regime claims the move is illegal and has cautioned foreign ambassadors against contacts with the Turkish Cypriot leadership.

Meanwhile, a hitch may be developing in the implementation of the Greek-Turkish troop withdrawal agreement. No Greek troops have left Cyprus since 20 December, and the Turks are concerned that Athens will not make good on its pledge to withdraw all forces by 18 January.

Egypt is reportedly preparing to carry out the clearing operations needed to allow the release of the 15 merchant vessels trapped in the Suez Canal since the June war. Cairo is probably responding to the numerous appeals for the release of the trapped ships in the hope of capitalizing on the favorable publicity that will likely attend such a move.

The tripartite Arab committee seeking peace in Yemen has called for the formation of an all-Yemeni committee to prepare for a conciliation conference. Much could happen to thwart the proposal, however, between now and the first meeting of the proposed committee, scheduled for 12 January.

In the Nigerian civil war, Federal military progress continues to be slow, with heavy losses suffered on both sides. Biafran resolve does not seem to have weakened. Biafran-hired French mercenaries are beginning to play an active role in ground operations against federal forces.

Dahomey's shaky new military regime is in immediate trouble as a result of a French decision to continue to withhold essential subsidies. Paris seems determined to force a further change in the composition of the government even at the risk of a possible breakdown of order in the country.

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NEW TENSIONS ARISE ON CYPRUS

The Turkish Cypriots' announcement on 29 December of the creation of a provisional administrative council to manage the affairs of the community has created new strains on the island. The Turkish Cypriot community, which has been isolated in separate enclaves since the fighting of December 1963, has handled its own affairs since that time, but until now has not formalized the existence of such a governing body. The Turkish Government aided in the formation of the council and has approved of its implementation.

The Greek Cypriots reacted predictably. President Makarios called the action "devoid of any legality," and other Greek Cypriots regard it as the first step toward the establishment of an independent Turkish Cypriot state. The Makarios government has banned foreign ambassadors from having any contact with Turkish Cypriot Vice President Kucuk and the threat exists that any ambassador visiting Kucuk may be declared persona non grata. This has already been done in the case of the Turkish foreign minister, who visited the island just before the Turkish Cypriot announcement. It also seems likely that Makarios will not now carry out his planned "normalization" measures to remove some of the restrictions on the Turkish Cypriot community.

Although Ankara gives full support to the Turkish Cypriot action, it has attempted to em-

phasize the temporary nature of the council, insisting that the existence of such a body is clearly within the limits of the 1960 constitution, which guaranteed rights to the Turkish Cypriot minority. A Turkish official has admitted that Ankara failed to anticipate the seriousness of the Greek Cypriot reaction, but insists that foreign observance of Makarios' ban would be considered an "unfriendly act" toward Ankara as well as the Turkish Cypriots.

The Greek Government has declared that the move appears to violate the recent Greek-Turkish agreement and is likewise contrary to UN Secretary General Thant's appeal for restraint by both parties.

Ankara is concerned that Athens will use this latest incident as a basis for delaying the removal of its "illegal" forces from the island. A Turkish official says that the lack of any withdrawals since 20 December could mean that the Greeks will not have their troops out by the agreed deadline of 18 January. Approximately 3,200 troops reportedly have departed so far.

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ALGERIA'S POLITICAL PACE QUICKENS

The Boumediene regime apparently continues to move from a position of strength to revamp the national institutions but, despite massive security measures, has not yet apprehended the ring-leaders of the mid-December military revolt.

Ahmed Kaid, the ruthless, energetic, and anti-Communist chief of the country's only party, the National Liberation Front (FLN), has moved swiftly to begin the restructuring of the party. For the present, Kaid will retain the advisers of Cherif Belkacem, who was the principal member of the party's five-man ruling committee that Kaid supplanted early last month. Belkacem, himself, although long close to Boumediene, seems to have dropped out of sight. He was known, however, to have been critical of the moribund FLN and to have urged its restructuring. Kaid's authority is supported not only by Colonel Boumediene, who has made clear that the party is to play a dominant role in the new Algeria, but also by three strong men who have emerged from the shadows in the aftermath of the Z'Biri revolt--presidency advisers Abdelkader Chabou and Sliman Hoffman, and gendarmerie chief Ahmed ben Cherif.

Kaid has also seized control over the country's only labor organization, the General Union of Algerian Workers (UGTA), and will attempt to mold it into an arm of

the FLN. Although the party has always sought to control labor, some factions within the UGTA wanted it to develop into an independent organization. Many labor leaders have become increasingly critical of the regime, particularly those who prefer worker management rather than state control over production. Some leaders encouraged former chief of staff Colonel Tahar Z'Biri to launch his abortive revolt. Kaid has already decided that the recently postponed congress of the UGTA will be held early this year.

Meanwhile, the military cadres summoned to Algiers by Boumediene last week have pledged their loyalty, denounced the mutinous movement, and declared themselves anxious to persevere the "holy unity" of the army. With this overt support, Boumediene can be expected to engage in a massive purge of the disgruntled former guerrillas, to tighten the command structure, and thus to enhance the efficiency of his military forces.

Weeding out the disloyal from military or party, however, can only enlarge and perhaps strengthen the thus far weak and disunited hard-core opposition. Even though he continues to move rapidly, Boumediene also can expect to encounter great difficulty in selling his program to the rural Algerians who demand land and to the urban unemployed who want jobs. 25X1

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PEACE EFFORTS RENEWED IN YEMEN

The tripartite Arab committee on a peace settlement in Yemen has decided to set up an all-Yemeni committee to prepare for a conciliation conference, as the royalists apply more military pressure to the republican regime.

The committee, composed of Morocco, Iraq, and Sudan, has once more taken steps to end the Yemen conflict following a republican announcement of their intention to cooperate. After meeting in Cairo, the committee announced on 31 December that it had decided to form a preparatory committee that would include an equal number of representatives of the royalists, the official republicans, and the republicans not in the present government.

The republicans, however, emphasized the two conditions that have formed the basis of their policy: the republican form of government must be maintained, and the family of the royalist imam must not be permitted to take part in future Yemeni governments. If either the official republicans or the royalists come to believe that the third party in the preparatory committee--the "republicans not in the government"--will be able to turn the committee against them, the idea will probably collapse and the first meeting--scheduled for 12 January in Beirut--will not take place.

Meanwhile, the royalists have been rebuilding their military pressure. Sana and Taiz are under harassing fire, and the roads to the capital remain cut.

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INDIAN GOVERNMENT STRENGTHENED BY RECENT DEVELOPMENTS

Prime Minister Indira Gandhi's government seems to be recovering from the paralysis that overtook it after the scare of last February's general election.

The decline in influence of inflexible outgoing Congress Party president Kamaraj, Mrs. Gandhi's gradual consolidation of her own position, and the increasingly evident disarray of the opposition parties have contributed to the government's new willingness to act on politically hazardous issues.

The change was first translated into action late last year when the green light finally was given to Congress state units to undermine several failing non-Congress coalitions. Within a short time, West Bengal and the Punjab both had new Congress-backed regimes, although as yet the party has declined to enter their cabinets. In addition, the politically stymied government of Haryana was replaced with direct rule from New Delhi, and the ensuing parliamentary storm in New Delhi was met with determination and skill. Only in chaotic West Bengal did the Congress move provoke violence, and even there the challenge by the ousted coalition members proved less

effective than most observers had expected.

A more determined legislative program also emerged during the recently ended session of the national Parliament. The government's strong parliamentary performance reflected a growing sense of self-confidence.

Most noteworthy was a bill enacting the assurances of prime ministers Nehru and Shastri that English will be used--along with Hindi--as the central government's official language as long as any non - Hindi-speaking state so desires. Mrs. Gandhi and Home Minister Y. B. Chavan skillfully steered the bill on its difficult passage through the Congress Party's legislative ranks and in Parliament. Although the compromise legislation inflamed popular emotions, it may serve in the longer run to take some of the poison out of the long-festering language issue.

Legislation was also passed that paves the way for the projected lifting of the highly controversial state of emergency on 10 January. The new unlawful activities act empowers the government to apply selectively some

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of the more important "emergency" powers it heretofore exercised under the unpopular Defense of India Rules, promulgated after the Chinese Communist attacks of 1962.

The legislation also gave the government the leeway to free the long-detained Kashmiri nationalist leader Sheik Abdullah on 2 January. If he behaves, the relatively moderate Abdullah's presence in Kashmir could actually help New Delhi by drawing support away from more extremist elements. If, on the other hand, he presses too hard for Kashmir autonomy, there is adequate provision in the unlawful activities legislation to arrest him once again.

Her recent political successes have improved Mrs. Gandhi's image, although much of her government's belated forward movement can be attributed to the parliamentary skill of Home Minister Chavan and the continuing support she gets from her arch-rival, Deputy Prime Minister Morarji Desai. Both men harbor strong ambitions for the prime ministership, but tend to balance each other off and seem content for now to continue their cooperation. As long as they continue to pull together and the opposition remains in disarray, the Gandhi government should be able to improve on its past uninspiring performance.

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WESTERN HEMISPHERE

Economic problems and prospects figured prominently in end-of-year statements by many Latin American government leaders,

In Brazil, where the government devalued the cruzeiro by 19 percent on 29 December, President Costa e Silva stressed the curtailing of inflationary pressures during 1967, and for the future reaffirmed his intention to promote the fullest use of nuclear energy in his country. Argentina's President Ongania similarly hailed the progress toward stemming the tide of inflation and called for national unity in following this course, while reiterating that the country is not yet ready to return to constitutional rule.

Chile's President Frei, in his year-end assessment, seemed to disregard the politically difficult situation he faces. He pointed to strikes and work stoppages as the greatest obstacle to his country's development, but avoided criticizing the Communists and socialists who are responsible for many of them. Frei also glossed over his deep differences with the leadership of his Christian Democratic Party.

Venezuelan President Leoni, along with his claims of economic progress, hit hard at continued Castroite subversion, and promised a continued battle against "antidemocratic sectors." Although Colombia's Lleras made no reference to subversion in his economic-oriented message, the arrest of two Colombian guerrillas as they returned from training in Cuba gave fresh evidence that Castro has not been discouraged by his recent setback in Bolivia.

Castro himself, in his traditional speech on 2 January, reaffirmed in fairly routine terms his intention to support the world-wide revolutionary movement to the limit of Cuba's capabilities. While insisting that Cuba would continue to follow its "own path" and to maintain its own ideology--an implicit dig at Moscow--he went out of his way to pay tribute to the Soviet Union's efforts to keep up petroleum shipments. Castro addressed most of his comments to measures to deal with the petroleum shortage. 25X1

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FIDEL CASTRO DELIVERS ANNIVERSARY SPEECH

Fidel Castro spent the bulk of his anniversary speech on 2 January discussing Cuban internal developments, as is customary on this occasion. With regard to international problems, he reiterated Cuba's support of armed revolution and again criticized US "imperialism."

Relations with the USSR came into the speech somewhat indirectly. In discussing Cuba's acute fuel shortage, Castro said it was caused by rapidly increasing domestic consumption, primarily in the fast-growing agricultural and industrial sectors. He went out of his way to say that the Soviet Union is doing all it can to supply Cuban needs. In fact, Soviet petroleum deliveries last year were about the same as in 1966--about five million tons. Although deliveries fell off somewhat in late summer after the Middle East crisis, they returned to normal again in the last quarter.

Castro made it clear that he intends to continue his revolutionary efforts despite the fact that this issue has strained relations between Havana and Moscow and is a divisive factor in most Latin American Communist

parties. He said that Cuba will continue "without hesitation of any sort" to support the world-wide revolutionary movement "as far as it is capable." He also said that Cuba will maintain its own ideology, "its most absolute independence and its very own path determined by its own people." Castro designated 1968 as the "year of the heroic guerrilla" as a tribute to Ernesto "Che" Guevara and the "other Cubans (who) died fighting" with Guevara--his first admission that Cubans had accompanied Guevara to Bolivia.

Castro's jabs at the US were fairly routine. He spoke out against US efforts to "sabotage Cuban trade deals with non-Communist countries, but avoided any repetition of his denunciation last summer of Moscow's trade and aid activities with "oligarchic" governments in Latin America.

Castro promised that education through the pre-university level will be made mandatory some day soon. He also plans to incorporate compulsory military training for both men and women into the regular school curriculum.

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BRAZILIAN LABOR BECOMING RESTIVE

Brazil's long-silent labor movement has begun a united campaign against the government's restrictive wage law and the continuing inflation. Six of the country's seven labor confederations have agreed to a plan calling for joint union meetings and the formation of committees to coordinate grievances with the aim of petitioning Congress to repeal the law. The other confederation--the largest--has drawn up a memorandum appealing directly to President Costa e Silva.

The workers so far have not benefited from the 1964 revolution that ousted leftist president Goulart and, in fact, have actually lost ground. The cost of living has continued to rise, although the rate of increase for the first 11 months of 1967 was only 24 percent, compared with 41 percent for all of 1966. Real wages have continued a decline that began in 1961, and for many industrial workers it is estimated that real wages may have dropped ten percent since 1964.

As a result, workers believe that they are being made to bear the brunt of the government's stabilization program. This belief has made it easier for Communists and extreme leftists to regain the influence they had had in key labor unions under Goulart.



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Further, the workers' alienation has been exploited by opportunistic politicians, such as fiery conservative leader Carlos Lacerda. He has already attacked the government in general terms and is now zeroing in on the wage policy.

The concerted campaign offers an easy target for exploitation by Communists and other leftists. They have already instigated a congressional hearing to be held this month on charges of "foreign intervention" in Brazilian unions. The International Federation of Petroleum Workers has been a particular target of such allegations and hints of US complicity have been given headline treatment.

It is not clear what the administration's response to a newly vocal labor movement will be. The government is very sensitive to instances of possible subversion. On the other hand, the legitimacy of many of the workers' grievances and the President's oft-stated desire to "humanize" the Brazilian revolution as it evolved under his predecessor may lead the government to seek some compromise.

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WEEKLY SUMMARY

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PARAGUAY TIGHTENING UP ON OPPOSITION AGAIN

The atmosphere of political liberalization that existed during last summer's constitutional convention in Paraguay appears to be deteriorating somewhat in the stress of the present presidential election campaign.

Last year, President Stroessner allowed the Radical Liberal Party (PLR) to become the major opposition party, after being outlawed for 25 years, and permitted several of its exiled members to return to Paraguay. Now, even though Stroessner is soon to be re-elected, his government may be having second thoughts about permitting the opposition to campaign freely for the February election.

In late September, Carlos Pastore, former president of the Liberal Party in exile, was picked up for questioning by the police shortly after returning to Paraguay. Last week, following a hard-line campaign speech

by Stroessner himself, his Colorado Party newspaper reminded voters of past conspiratorial activities of the PLR and expressed the hope that returning exiles would not constitute a new threat.

This change in atmosphere may be having its effect on opposition leaders. PLR officials recently claimed complete ignorance of a party-sponsored radiobroadcast that reportedly referred to President Stroessner as a "police chief" and attacked US assistance to Paraguay as one of the main props of the regime. A top party official further stated that the program was not under the direct control of the party.

Despite the apparent restraints on opposition activity, however, next month's elections will probably be the most democratic in Paraguayan history, as three opposition parties are being allowed to participate openly in the campaign.

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LINES FIRMLY DRAWN FOR PANAMA'S ELECTIONS

After weeks of uncertainty and shifting, the opposing forces for Panama's presidential elections in May appear to have solidified around two of the leading contenders, Arnulfo Arias, twice elected and twice ousted from the presidency, and former finance minister David Samudio. With official registration closing on 13 January, no other nominations are expected.

Two government parties have already picked Samudio as their candidate, and two others are scheduled to do so on 5 January. Arias was nominated last month by the National Union (NU), made up of his own mass-based Panamenista Party and four parties

that formerly belonged to the government coalition.

President Robles' attempts to assemble a stronger government coalition to oppose Arias fell through last week when he failed to persuade Samudio--his earlier choice for the nomination--to step down in favor of National Guard commandant General Vallarino.

Robles hoped that Vallarino's candidacy might win back some of the former government parties now aligned with Arias. Neither Vallarino nor Samudio was enthusiastic about the President's plan, however, and Samudio announced on 27 December



David Samudio Avila



Arnulfo Arias Madrid

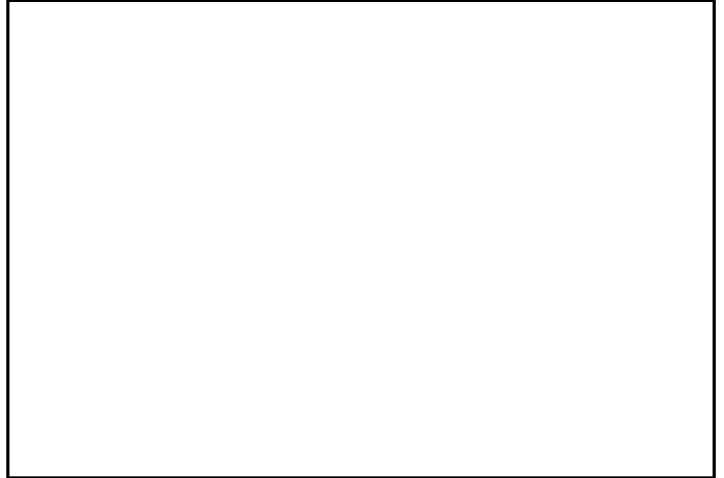
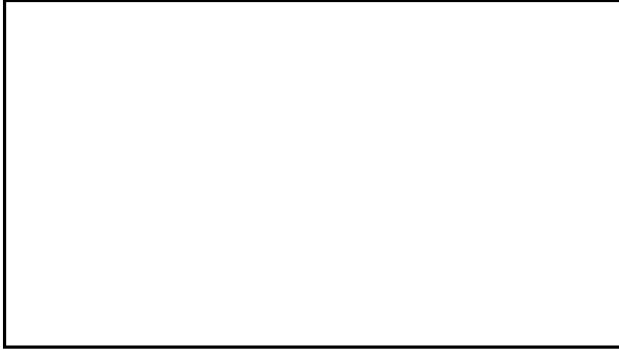
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that he would continue the race
"regardless of the obstacles."



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