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(Information as of noon EDT, 3 July 1968)

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The rash of student-led disorders that shook Brazil in June have made clear the gulf separating the Costa e Silva government from the majority of the Brazilian people.

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Nicaragua reportedly has threatened to break up the Common Market if the other members do not promptly ratify a 30-percent tariff surcharge on imports from outside the area.

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President Pacheco has decreed a temporary freeze on wages and prices but strong opposition forces continue to threaten his efforts to restore economic and political stability.

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FAR EAST

The lull in Communist military activity throughout South Vietnam since early June continues.

There has been no shelling in the Saigon area for the past two weeks. It probably is too early to conclude that this decline in the level of Communist military action to the lowest point so far this year represents a deliberate signal of military restraint designed to influence the US position on the issue of a complete cessation of bombing. There are strong indications that Communist plans for a major attack against Saigon have had to be postponed because of intensive allied ground operations and incomplete preparations.

Hanoi's announced intention to release three more captured US pilots, however, suggests that the North Vietnamese may be seeking to create a favorable atmosphere for breaking the impasse in the Paris talks. Politburo member Le Duc Tho, the "senior adviser" to the North Vietnamese delegation, has returned to Hanoi for consultations but a delegation spokesman indicated that he would come back to Paris soon. Although Hanoi radio has rejected the idea of an early cease-fire and has carefully avoided any hint of flexibility on the bombing issue, Le Duc Tho reportedly has indicated that the North Vietnamese are prepared to continue the talks beyond the US elections in November.

Both Hanoi and Peking are making deliberate efforts to counter recent reports of growing friction in their relations. The North Vietnamese publicly praised Chinese assistance and made an unusual gesture in expressing a wish for the success of the Cultural Revolution. Peking, for its part, broke a long silence on Vietnam by hailing Hanoi's claim of having destroyed the 3,000th US aircraft. Foreign Minister Chen Yi met Le Duc Tho when the latter passed through Peking en route to Hanoi.

An apparent effort by radical Maoists to recover the initiative in the domestic struggle is reflected in Peking's inflammatory propaganda since the fall of the acting chief of staff in late March. This agitation has led to a marked upsurge in political disorder and clashes between rival Red Guard groups in many areas of China. The situation is particularly chaotic in Kwangtung and in the border province of Kwangsi through which the rail line to North Vietnam runs.

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VIETNAM

Hanoi's high ranking adviser at the Paris talks has returned home for consultations. Le Duc Tho is expected back in Paris shortly, [redacted]

25X1 [redacted] and any forward motion on Hanoi's part in the Paris talks will probably
25X1 await his return.

Tho had well publicized discussions with top Soviet leaders on his way home and was met in Peking by Foreign Minister Chen Yi. He spent equal time in both Communist capitals.

Within the past week, both Hanoi and Peking have made special efforts to counter a growing public impression that disagreements over the Paris talks had led to a serious deterioration in over-all relations between the two. On 28 June Peking broke its propaganda silence on the Vietnam war, congratulating the North Vietnamese on their claim of having shot down 3,000 US aircraft. Hanoi, for its part, went out of its way to praise the Chinese on the occasion of the party anniversary.

Political Developments
In the South

The gradual erosion of the power and influence of generals who had been politically domi-

nant since at least 1965 continues. Having earlier removed some officers from posts in the Saigon area, President Thieu last week accepted the resignation of one general in command of a corps area and may take early action on the offer to resign of another. General Thang replaced in IV Corps by General Nguyen Viet Thanh of the 7th Division, has been reportedly assigned as a special assistant to the Chief of the Joint General Staff. III Corps commander Khang, who has reportedly been assured by President Thieu that his resignation will be acted on "in a few days," expects to be offered the ambassadorship to Taipei. There are reports that General Do Cao Tri, who was exiled a few years ago by the senior generals and later became ambassador to South Korea, will be named to replace Khang.



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Meanwhile, the formation of a progovernment political front took a major step forward at a meeting in Saigon on 29 June of some 200 delegates, representing a number of existing fronts, political parties, religious sects, and National Assembly blocs. Addressing the delegates, President Thieu urged them to unify and noted that the constitution committed the state to "encourage" the development of a two-party system. He expressed a hope for cooperation between the government and emerging "major parties" as the country moved toward the day when the struggle against the Communists would shift from the military to the political arena.

Senator Tran Van Don, who hopes to chair the new front when it is formed, scheduled a further organizational meeting for 1 July. Various reports indicate that the front will be officially proclaimed during the coming week and will be accompanied by a specific endorsement of Thieu and his programs. Some groups which do not endorse Thieu evidently are expected to become the nucleus of a formal opposition party.

It appears that one of the conditions for possible adherence to the new front by one key group, the Citizens Front for All Religions, was the release on 30 June of militant Buddhist leader Tri Quang and other monks held in protective custody since Tet.

The War in the South

The relatively low rate of enemy activity which followed the offensive against Saigon in early May continued throughout South Vietnam this week. Enemy actions are now at the lowest level of the year. Communist ground assaults and rocket and mortar attacks have also returned to the pre-Tet level.

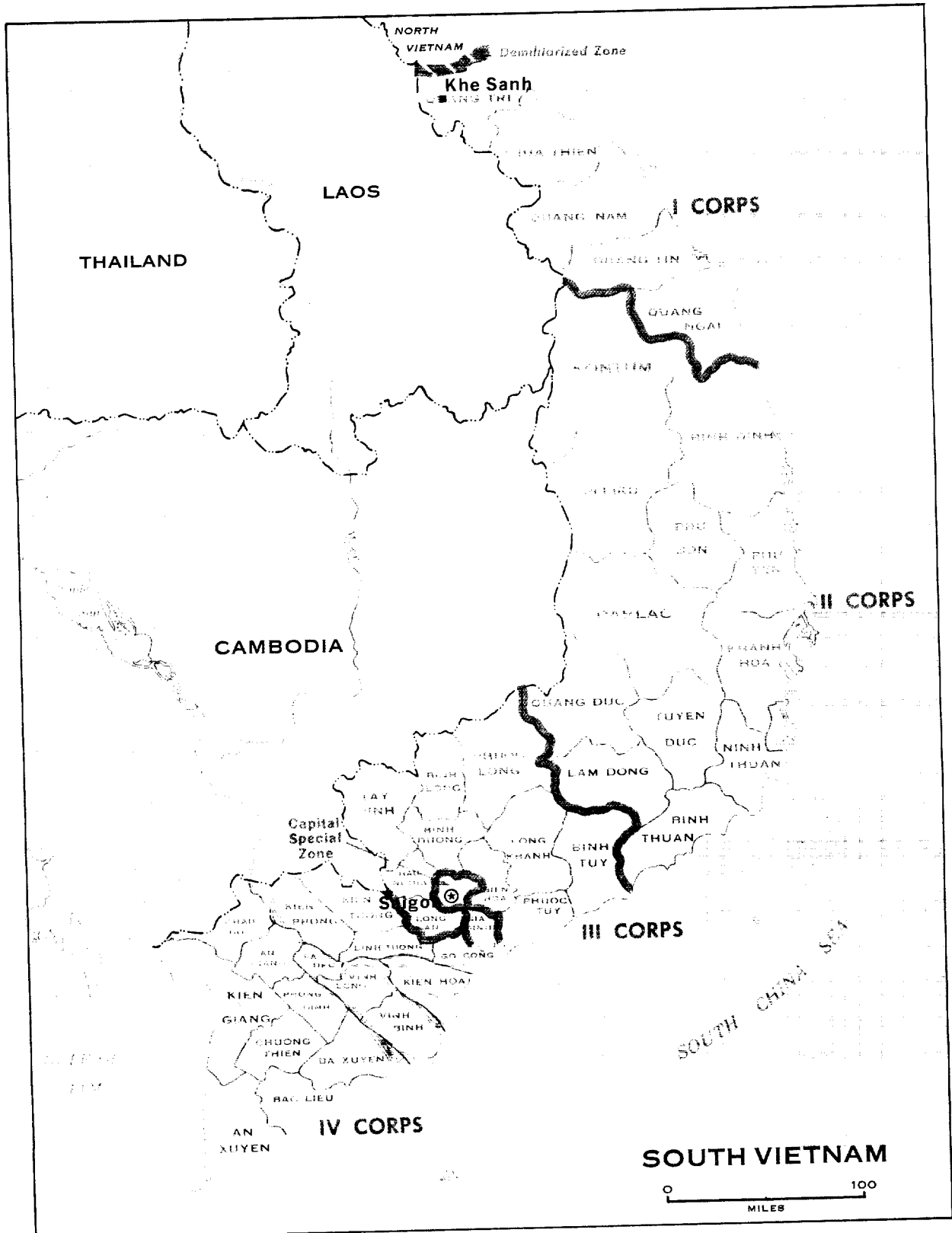
Following the general pattern of recent weeks, the most significant clashes between allied and Communist troops this week took place in I and III Corps. The majority resulted from allied efforts to find and destroy enemy troop concentrations, base areas, and supply points.

Early in the week a Communist force struck US Marine defensive positions southeast of Khe Sanh. Extensive allied air strikes and supporting artillery were used to repulse the attackers. A subsequent sweep of the battlefield found 157 enemy bodies and

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73 weapons. Enemy forces in the northern provinces concentrated on rice procurement and refitting maneuvers; offensive action was limited for the most part to bombardment of allied installations and harassment of lines of communication.

Around Saigon and in III Corps generally, scattered clashes resulted from intensive allied maneuvers designed to pre-empt any renewed enemy moves against the capital. As of midweek, the respite in enemy shellings of Saigon was well into its second week.

There is considerable evidence that the Communists have been forced to reschedule their

timetable for a new campaign against Saigon, but their exact timing for another try remains unclear. Interrogation of a Viet Cong infantryman who defected to allied forces on 26 June indicates that the third and final phase of their so-called "second general offensive" against Saigon was to have begun on 28 June, but was delayed. The rallier's information is in line with a recently captured document which suggested that the planned offensive phase may have been postponed from mid-June - early July until perhaps as late as August. Another high-ranking prisoner, [redacted] also stated that a delay became necessary because of incomplete preparations and the stepped-up allied operations. [redacted]

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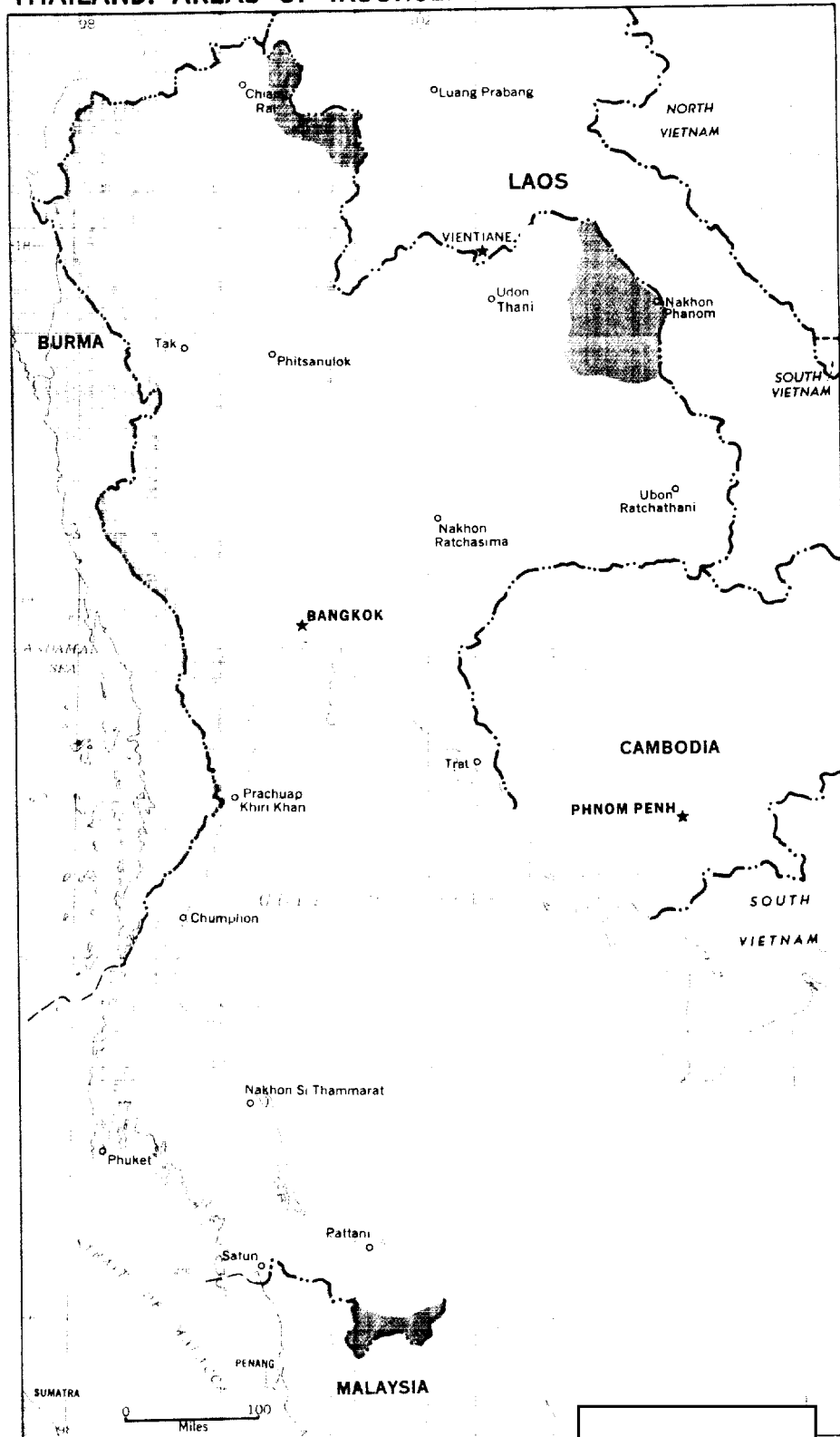
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THAILAND: AREAS OF INSURGENT ACTIVITY



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THAI OPERATIONS AGAINST INSURGENTS HAVE MIXED RESULTS

Communist insurgents in the critical northeast area apparently are being hard pressed by army operations.

Despite some monthly variations, statistical indicators show that over-all Communist activity in the northeast has levelled off well below the highs established in early 1967. In addition, defectors and captured documents reveal that army sweeps have forced insurgent bands to move out of base areas, have disrupted their supply sources, and have undermined insurgent morale. One high-level Communist document, for example, has revealed that long-standing problems of leadership and recruitment are being severely aggravated by government operations.

The picture in the northeast is not entirely favorable, however. Although army operations have put strains on the Communists, the guerrilla bands are still intact, their casualties have been low, and they are still able to avoid contact with superior government forces. In addition, one unforeseen consequence of the government's military operations appears to be that the Communists are making a greater effort to remedy their organizational weakness in the villages.

The government's village security program recently received a sharp setback when the police refused to sign a US-sponsored

agreement providing for the training and arming of villagers.

The government, meanwhile, still has its hands full with tribal insurgents in the northern provinces. In recent weeks, the guerrillas have become more aggressive and for the first time have struck army truck convoys. Although the northeast remains the key area for the Communists, it is increasingly clear that the north has also become a major target.

Bangkok may also be faced with a growing problem from the activities of the Malaysian Communist guerrillas based in southern Thailand. On 17 June guerrillas ambushed a Malaysian police unit across the border and killed 16 policemen. Kuala Lumpur now is seeking greater cooperation from Bangkok in improving joint border security operations. In response to a Malaysian request, senior officials of the two countries are meeting this week in Kuala Lumpur to discuss more effective tactics.

Bangkok is expected to respond to Malaysia's request by increasing security forces in the area while avoiding the politically sensitive issue of independent Malaysian operations on Thai soil. Should the guerrillas step up their cross-border activities, however, the Thai will come under increasing Malaysian pressure to overcome their complacency toward this security problem. 25X1

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HANOI LOOKS TOWARD REBUILDING

Hanoi appears to be developing plans for economic rehabilitation although construction work under way continues to be limited to repairing bomb damage.

Deputy Premier Le Thanh Nghi's current aid-seeking mission to Eastern Europe and the USSR appears to be oriented in part toward finding out how much assistance is available for a relatively long-range rehabilitation plan. Some of the agreements concluded during his tour call explicitly for acquiring complete plants in addition to the usual immediate economic and military support for North Vietnam's war effort which, until this spring, had been the primary concern of Nghi's visits.

Hanoi also has made preliminary contacts with Western industrial sources. Several months ago a North Vietnamese delegation visited Paris to discuss economic development with French firms and more recently a number of Japanese firms indicated that they were interested in participating in any efforts to rebuild North Vietnam.

The Vietnamese, however, will rely primarily on their Communist allies for aid in rehabil-

itating their economy. Hanoi has continuously maintained a modest but positive trade balance with hard currency countries but could make only small purchases of Western equipment and technology.

Current construction work in North Vietnam continues to be limited primarily to repairing essential transport and power services. Since the beginning of the limited bombing halt on 31 March, the seven dropped spans of the Doumer Bridge over the Red River at Hanoi have been replaced and the bridge opened to rail traffic. The main rail line from Hanoi to the Chinese border has also been cleared. The repair of power plants has restored about 45 percent of the Hanoi-Haiphong power grid compared with 36 percent in March.

Construction has not resumed at the Thac Ba hydroelectric plant where work was suspended during the bombing of North Vietnam. Construction of the steel plant at the Thai Nguyen Iron and Steel Complex also has not been resumed and repair of bomb damage has not been started. Some foreign Communist technicians remain at these projects, however, providing maintenance assistance. [REDACTED]

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INSTABILITY AND UNREST INTENSIFY IN CHINA

Signs of disorder and instability have been multiplying in recent weeks in many areas of China. Clashes between rival Red Guard organizations have grown more severe in a number of provinces, particularly in Kwangtung and in the border province of Kwangsi, through which the rail line to North Vietnam runs. Much of the ensuing violence has been fed--and in many cases may have been initially encouraged--by inflammatory propaganda from Peking. This propaganda has grown increasingly shrill since late March, when acting chief of staff Yang Cheng-wu fell.

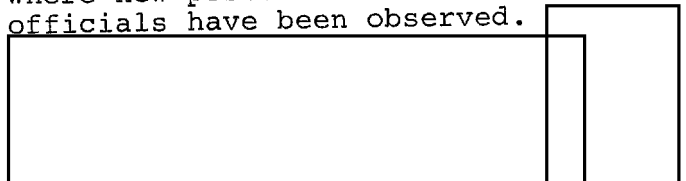
Clashes and other indications of instability have been especially noticeable in those few provinces where no "revolutionary committees," the new provincial governing organs, have been set up, but they have by no means been confined to these areas. Supposedly "pacified" provinces--Kwangtung is a prominent example--have been hard hit by continuing problems.

Troubles are also besetting the "revolutionary committees" themselves. On 20 June, the nationally distributed Shanghai newspaper Wen Wai Pao stated that splits among mass organizations, between "old and new" cadres, and among leading officials have rendered many provincial revolutionary committees incapable of "effectively grasping the struggle against enemies." This theme has been echoed by editorials from cities in several other prov-

inces. In Shanghai itself, posters have appeared attacking the municipal revolutionary committee. Members of the municipal committee in Hangchow, Chekiang, reportedly have themselves been involved in brawling.

In addition to political turmoil, South China has been afflicted by heavy rains, which have caused flooding in many provinces. The most severe flooding has been reported from Kwangtung, where both local traffic and traffic to North China has evidently been disrupted. Elsewhere floods along the main rail line to North Vietnam have been described as serious and presumably may be adding to traffic disruptions caused by civil disorders.

Signs of instability and tension are also evident in Peking, where new poster attacks on leading officials have been observed. 25X1



Other posters denounce alleged attacks on Chou En-lai and Peking city boss Hsieh Fu-chih. Still others call for defense of Mao's wife, who has played an increasingly prominent role in the past several months. Such attacks reflect continuing crosscurrents in the central governing group as well as in the provinces. 25X1

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EUROPE

In Moscow, party leader Brezhnev gave a speech reviling American society. It was clearly meant to counterbalance any impression held by Moscow's friends and allies that the Soviets would be soft in their relations with the US.

East Germany's Walter Ulbricht had his 75th birthday to celebrate this week but little else. The East Germans are making their new restrictions on West German access to Berlin stick but are not achieving their basic aim of gaining recognition by Bonn. Instead, East Germany's moves could have a backlash effect detrimental to its trade and commercial interests. Concern in Bonn over Pankow's restrictions seems to have receded to a seasonal low as the annual summer vacation exodus got under way this week. Few if any senior officials will be available until after Labor Day.

Czechoslovak affairs during the week were characterized by conflict, concern, and confusion. Preliminary selection of delegates to the September party congress began amid controversy over a published appeal to drive conservatives from their positions of power. The timing of the withdrawal of the Soviet and Eastern European military units which participated in the Warsaw Pact maneuvers in Czechoslovakia that ended 30 June remains unclear. The confusion that has arisen seems to be another reflection of the hasty planning for these exercises and points again to the political nature of the entire action.

Plans went ahead in Poland for a party central committee plenary session to open next week; no official announcement has been made yet, however.

The minority Christian Democratic government in Italy expects to survive a vote of confidence to be held soon. The Unified Socialist party and the small, Republican Party will probably either support the government or abstain.

The last tariff barriers between members of the Common Market were eliminated on 1 July. Jean Rey, head of the Market's Executive Commission, used the occasion to put forth a strong declaration calling for more dynamism in the European Community.

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MOSCOW OKAYS MISSILE LIMITATION TALKS

Moscow's decision to enter into an "exchange of opinions" on the limitation of offensive and defensive missiles was influenced in part by the judgment that its strategic position had improved but would begin to slip over the next few years if current US military plans take effect.

Negotiations will be long and hard, but some Soviet leaders probably are convinced that it would be advantageous for the USSR to attempt to halt or slow the arms race and they were able to persuade others on the politburo to agree at least to explore the prospects.

Economic, political, and military considerations all played a part in the Soviet decision. The possibility of a de-escalation of the Vietnam war raised for Moscow the prospect that the US would be free to channel more funds into new and better offensive and defensive missile systems. With competing demands on its own scarce resources, the USSR would be hard pressed to match additional US spending. The length of time that Moscow took to reply to the US offers to hold talks, however, suggests that the decision in Moscow was made only after considerable weighing of the alternatives. Foreign Minister Gromyko's speech on 27 June and Brezhnev's remarks on 3 July indicate that there are lingering

misgivings among the Soviet leaders.

The list of nine disarmament topics subject to negotiation put forth in the Soviet memorandum made public on 1 July also suggests that Moscow will seek a high price for any agreement. The list contains familiar Soviet proposals--such as a ban on nuclear overflights and the liquidation of foreign military bases--that have been advanced in various forums over the years. It makes no explicit mention of limiting antiballistic missile deployment, but it does propose restrictions on offensive strategic missiles and missile carrying submarines. The memorandum's treatment of regional disarmament was aimed particularly at the Middle East, but a disarmament agreement was made conditional on Israeli withdrawal from occupied Arab territories.

The memorandum appears to be a more serious offering than the usual "general and complete" disarmament propaganda package. In publicizing the memorandum, Kosygin said that "stage-by-stage" implementation would be a "serious contribution" to slowing the arms race. Some of its elements probably are intended for independent consideration in the UN or its subsidiary bodies. Other elements may be the quid pro quo sought in bilateral talks with the US.

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GAULLISTS WIN SWEEPING ELECTION VICTORY

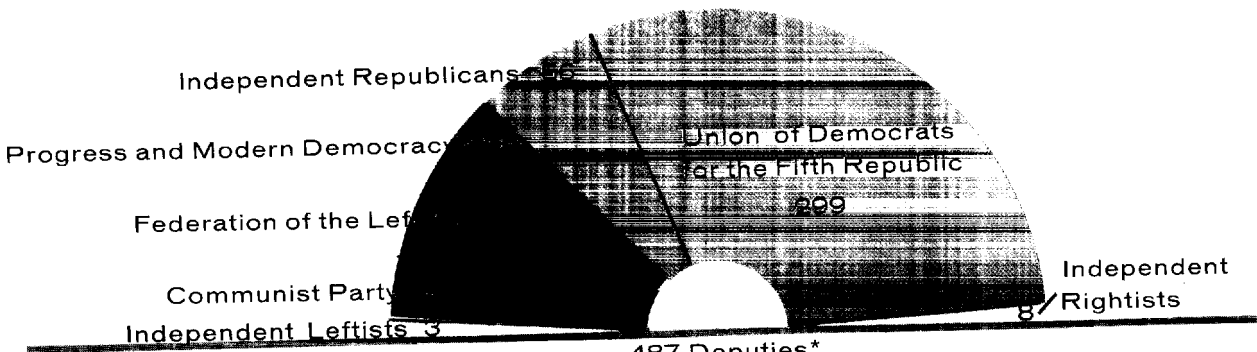
The spectacular Gaullist election victory on 30 June gave the Union of Democrats for the Fifth Republic an absolute parliamentary majority, something no single party has had before in French republican history. Many Frenchmen, apparently frightened by the student-labor rebellion in May, chose public order and stability as represented by the status quo. The combined French left lost more than 50 percent of its parliamentary strength and the center declined still further as a viable political force.

The Union of Democrats and Valery Giscard d'Estaing's Gaullist-allied Independent Republicans, who together held a near-majority of 242 seats in the previous National Assembly, won a total of 355 seats. Although

the Giscard group increased its representation by one third, it has lost its bargaining power, since the government no longer has to depend on it for a majority. Ill feeling between Premier Pompidou and Giscard, which flared during the crisis and the campaign, may make it difficult for Giscard to continue his supporting role. Pompidou may try to use the Gaullist victory to undercut him as a potential rival for power in a post - De Gaulle era.

The left saw significant numbers of its traditional supporters, particularly workers, shift to the Gaullists. It lost seats in such areas of leftist strength as the industrial and coal mining north, the Paris "red belt," and departments in the southwest and around Marseille.

Party Strengths in French National Assembly Elected June 1968



*TWO SEATS STILL UNACCOUNTED FOR ARE IN FRENCH OVERSEAS TERRITORIES.

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Francois Mitterrand's Federation of the Left paid a heavy price for its electoral cooperation with the Communists. Although Mitterrand was re-elected, a number of his key associates were not and the future of the Federation as well as Mitterrand's own future as leader of the non-Communist left are in doubt.

The Communists, who now have the smallest number of deputies since the 1958 legislative elections, must decide whether the moderate line of Secretary-General Waldeck Rochet is appropriate for the future or whether the party must exchange respectability for militancy.

De Gaulle's opposition, faced with the possibility of a rubber stamp parliament, may seek other "avenues" to express dissent. Whether the dissatisfaction becomes great enough to erupt again into overt action against the establishment depends primarily on De Gaulle. There is some fear that the landslide may lead him to lose sight of the substantial grievances that still exist. De Gaulle, however, during the campaign emphasized the need for massive changes and the victory could give impetus to meaningful reform. The 154 new deputies in the parliament are an unknown quantity but may prove to be an effective force for such reform.

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EC ACTS ON FRENCH TRADE MEASURES

The exceptional trade measures that Paris has announced have cast a shadow on the elimination of virtually all customs duties within the European Community on 1 July, and its institution of, and the first cuts in, their common external tariffs under the Kennedy Round.

The EC Commission's response was sympathetic to the French plight, but firm in pointing to the unacceptability of unilateral action. It evidently intended to get Paris to acknowledge the primacy of Community procedures in return for approval of special economic measures beneficial to France.

The new French measures limit certain imports and provide subsidies to exporters hit by wage increases resulting from strike settlements. The immediate reaction among most Community and member state officials was hostile, sometimes bitterly so. Although there was general recognition that special consideration for France was in order, the French justification for specific measures was regarded skeptically and, in particular, Paris' virtual ignoring of treaty provisions was held a danger both to the Common Market and international trade rules. This feeling was somewhat balanced by satisfaction that France would respect the 1 July

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abolition of tariffs and scheduled Kennedy Round reductions.

The Commission deliberated for nearly three days on its note to the French, then seriously questioned the extent and duration of the new French trade measures. The main thrust of the message, however, was to emphasize putting into operation "appropriate Community procedures." Under the treaty, the Commission can recommend "mutual aid" to the Council for a member state in "difficulties or threatened by difficulties" in its balance of payments. The French measures, and specific Commission responses to them, will be examined at a Council meeting during the week of 15 July. Before that, the EC Monetary Committee will be consulted.

The Commission's firm response--probably the least it could have done to preserve its role as defender of the treaty and Community interests--has been welcomed by the Five. The French have not yet taken issue with it. Prospects are uncertain of getting any substantial change in the French measures, although Paris has already held off on the quotas set on steel imports from the Five because of Community rules. There will be considerable pressure, however, to assure that the measures are brought into a Community context and are temporary.

The Council debate nevertheless may not be easy. The Ital-

ians are hard hit by the French actions; the Germans, though reluctant to oppose Paris' move, have specific and pointed reservations; the Dutch have already delivered a strong note of protest to Paris.

In addition to holding out to the French the prospect of Community-sanctioned aid, the Commission expects to remind the French how important it is to them to adopt measures which the Community could support in the GATT and OECD. In fact, a principal concern of the Community is that Paris' actions do not provoke retaliation from the US and other countries.

The Commission's bid to use France's economic difficulties as a means to revive Community solidarity is paralleled by the unprecedented--for this Commission--political tone of a "manifesto" it issued on 1 July. It is not only critical of the nation-state's ability to solve the fundamental problems of society, but also specifically endorses majority voting, increased democratization of and powers for the European Parliament, and enlargement of the Six.

The Commission is also trying to seize the initiative in bringing labor and management, youth, and farm groups into a greater direct participation in Community affairs.

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FRENCH MILITARY PROGRAMS FACE DELAYS

The economic costs of the recent crisis will significantly set back France's military programs. Minister of Defense Messmer announced on 24 June that the 1969 military budget will be maintained at its 1968 level of \$5 billion. This new budget makes no provision for the additional costs resulting from higher wages and increases in equipment prices; consequently these costs must be absorbed by cuts in military programs.

Foreign Minister Debre stated on 14 June that the nuclear strike force, so dear to the De Gaulle government, would incur delays. The first nuclear-powered missile submarine may become operational in 1970 as scheduled, but construction of each of the remaining four units at scheduled two-year intervals may be delayed.

The French will probably try to prevent significant slippage in the program to deploy 27 silo-based IRBMs, but deployment of the first nine may still be delayed beyond the current scheduled completion date of 1970. The Pluton tactical missile may also have its operational date of 1972 delayed. The ICBM program, which has been in the early planning stages and

has had no precise schedule for development, has been abandoned for the present.

Plans to replace the supersonic Mirage IV bombers apparently have been shelved, and an extended delay in the previously planned phase-out now seems likely.

While neither Debre nor Messmer has specifically mentioned cuts in the conventional forces, there are possibilities for economies in this field, e.g., a reorganization of the conscription system, slower delivery of new tanks and artillery, and a phasing out of aircraft carriers. In recognition of the role of the army in the recent crisis, however, the budget for conventional army forces probably will not be cut and may in fact be increased.

A detailed breakdown of the military budget will not be available until the fall, when the entire budget will be debated in the assembly. Ultimate delays in military programs and reductions in defense spending probably will be even greater than those specified thus far by Debre and Messmer. [REDACTED]

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CONSTRUCTION OF SOVIET FIAT PLANT CLOSE TO SCHEDULE

The midpoint between the signing of the contract for the Fiat plant in the USSR and the target date for initial production has passed. The assembly of cars may begin by the end of 1969, as scheduled.

The plant at Tol'yatti on the Volga will be a significant step forward for the Soviet motor vehicle industry. The 660,000 cars a year that this plant is scheduled to produce by 1972 is more than two-and-one-half times the number of passenger cars made in the USSR in 1967. The Soviets have given the project a high priority and are trying hard to ensure its completion within the three-and-one-half year period set up in the contract.

Construction is under way on all major production buildings, scheduled to be completed by the end of this year. Despite severe weather and difficulties in hiring and retaining workers, the buildings will apparently be far enough along by then to permit the installation of large amounts of equipment.

Contracting for plant and machinery is probably completed now. The Soviets have been hard bargainers in placing contracts for Western-built machinery but have managed to stay within the time limits of the contract schedule. Italy and other Western European countries are supplying more than 75 percent of the ma-

chinery for the plant; 18 percent will be supplied by the USSR and Eastern Europe. Deliveries are scheduled to begin in the last quarter of 1968.

Orders for US machinery, for which export licenses have been granted or requested, so far total about \$29 million or about 5 percent of the total. Without financing by the Export-Import Bank, it is doubtful that all of the \$40 to \$50 million worth of US-made machinery that Fiat originally recommended will be bought. European licensees of US firms, however, have contracts for machinery that total between \$100 and \$150 million. The Soviets will be able to pay cash for US-made machinery through credits granted by the Italian state-owned investment bank. These credits are for 11 years at 5.6 percent.

The stipulation in the Fiat contract that some cars must be produced by the end of 1969 can be met, although the first cars off the line mainly will have Italian parts. If the 1970 goal of 200,000 cars is not met, the reason more likely will be trouble in getting equipment and putting it into operation rather than failing to have the buildings ready. The Soviet motor vehicle industry has normally taken prolonged periods to master production processes but even this problem may be eased with Italian technical assistance and the availability of foreign parts. 25X1

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EAST GERMANY FACING BACKLASH FROM ACCESS TACTICS

Bonn's grudging compliance with new Berlin access regulations while refusing East Germany's demand for recognition, may be raising some doubts in Pankow about the effectiveness of its recent tactics.

High-ranking East German foreign trade officials are apprehensive that West Germany may take countermeasures against GDR representations abroad, despite Bonn's policy of avoiding such restrictions.

There are indications that East Germany's neighbors also may be dissatisfied with its tactics. The Czechoslovaks privately have expressed their disapproval of the East German regulations, and the Soviets have made it clear they want no crisis over Berlin. Nevertheless, the East Germans again have rejected a West German proposal for an all-German renunciation-of-force agreement, which serves to remind their neighbors that they would not be dissuaded from their hard-line policy toward Bonn.

Ulbricht may now be having some reservations about the propriety of this policy, however, as he reflects on the type of delegation dispatched by Eastern European countries to his 75th birthday celebration on 30 June. While the Soviet Union and Poland, his closest allies, sent Presidents Podgorny and Spychalski,

most other "bloc" countries sent low-level or back-bench party members.

The East Germans also may have cause to question their stringent policy. Over the weekend West German canal authorities stopped and detained an East German barge headed for Rotterdam via West German waterways when Pankow failed to respond to a Bonn request for reciprocal rights on East German waterways to transport goods to Poland and Czechoslovakia. The action has the effect of negating a recently concluded shipping agreement between East Germany and the Netherlands. Bonn notified the East German Transport Ministry that it must transfer the goods to either a West German or a Dutch vessel or return.

The East Germans, however, have tried to process as expeditiously as possible both West German travelers and goods to Berlin during the past week. Nevertheless, the red tape stemming from the voluminous procedures and levies on such traffic is beginning to take its toll. The Berlin trucking association reports that transporters are finding it difficult to hold on to or hire drivers because of the additional paper work. Many reportedly have sought employment in West Germany or with local inner-city services.

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THE STRUGGLE WITHIN THE CZECHOSLOVAK PARTY CONTINUES

Czechoslovak district party organizations began preliminary selection of delegates to the party congress amid controversy over a published appeal to drive out conservatives from their positions of power. There also apparently are differences between Prague and Moscow about the final phase of the Warsaw Pact exercise.

The district conferences selected delegates to regional conferences which, in turn, will pick representatives for the party congress in September. The conferences also discussed a variety of topics, particularly the appeal published on 27 June in three papers and the writers' journal. This emotional statement charged that a majority of entrenched party functionaries are preventing change and it called on progressives to hold public demonstrations, strikes, and boycotts in order to force these conservatives to resign. It also suggested that workers in various enterprises elect their "natural leaders,...irrespective of party affiliation." It voiced concern over the possibility of foreign intervention--obviously Soviet and pledged to support the government with arms, if need be.

Reactions to the appeal varied with the views of the factions within the party and bared the dissensions existing among the reformers themselves.

One conservative denounced the appeal as a "call to counterrevolution." Secretariat member Alois Indra, who is emerging as a spokesman of the conservative wing of the new leadership, called it an attempt to disintegrate the party and establish anarchy.

The party presidium immediately commented critically, denying the appeal's major theses, calling it "politically irresponsible," and vowing to oppose any attempts to implement it. In a more moderate vein, however, the presidium stated that it did not question the good intentions of the appeal's signers. It urged them to re-examine their views and called on the public not to disturb the calm, constitutional nature of the changes which are taking place.

Premier Cernik, addressing the National Assembly, echoed the presidium's views, and the assembly voted unanimously to support the government's stand. The unanimity of this vote suggests that even some liberals were afraid that it was too contentious.

Some of the district conferences, however, criticized the presidium's commentary, and called for an active discussion of the appeal. Several conferences elected as delegates to the regional meetings supporters of the appeal,

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including at least one of its signers.

An apparent controversy over the disposition of Soviet troops ensued after TASS announced that the exercise had ended, then withdrew the announcement. A German correspondent claimed that TASS had stated that the item was withdrawn because it was "wrong." Czechoslovak officials, however, repeated that the exercise was over and that

all foreign troops were preparing to leave Czechoslovakia.

TASS, however, finally announced on 3 July that Marshal Yakubovsky had participated in an evaluation of the exercise with many of the top Czechoslovak leaders. The TASS statement indirectly confirmed the completion of the exercise, but made no mention of troop withdrawals. In a probable effort to allay public apprehensions, Prague scheduled a press conference on 3 July to discuss the results of the meeting.

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MIDDLE EAST - AFRICA

Israeli border settlements were not harassed by Arab artillery this week. The Jordanians apparently heeded Israel's warning that such shellings would provoke a major strike against Jordanian villages. The possibility of Israeli retaliation is always present, however, should Israeli civilians be killed in some isolated terrorist incident.

The Israeli cabinet on 2 July approved Prime Minister Eshkol's protege, Yigal Allon, as deputy prime minister. The approval is a victory for Eshkol over Defense Minister Dayan in the struggle for control of the Israel Labor Party.

In Greece, a dispute within the junta may be holding up publication of its version of the new constitution. The military leaders apparently are sharply divided over constitutional provisions defining the future role of King Constantine.

In northern India, another state coalition government has unraveled. After the fall of the third successive coalition regime in Bihar since the 1967 general elections, New Delhi has dissolved the state assembly and imposed direct rule. Bihar, like neighboring West Bengal and Uttar Pradesh, will now have to hold new elections.

In the Nigerian civil war, one year old on 6 July, federal military forces continue to push slowly into the oil-rich Rivers area of southern Biafra, and have captured a number of key towns. The federal commander in the area is still anxious to push on into the Ibo heartland, but General Gowon remains reluctant to expose the Ibo masses to further slaughter. In the northern sector federal forces under new leadership are again beginning to move slowly south. Biafran resistance, however, continues to be stubborn and well organized, and although military supplies are critically low, an early end to the fighting remains unlikely.

Sierra Leone is again in a state of high excitement as a result of wild rumors that an American-Belgian mercenary force is gathering to invade the country. The fact that a large segment of the new government of Prime Minister Stevens apparently believes the rumors is likely to embolden regime radicals to step up their anti-Western and especially anti-US propaganda campaign.

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DAHOMY'S MILITARY REGIME TO INSTALL CIVILIAN GOVERNMENT

Dahomey's volatile provisional military regime has moved to impose a new civilian government after failing to get the country's rival political factions to agree on a presidential candidate. The military named former foreign minister Emile Zinsou to head the projected new government, which is supposed to assume power on 1 August for a five-year period. He is a capable moderate, but does not have a political base.

The predominantly junior officer regime headed by Lt. Col. Alley had promised, after taking over from senior officers in a coup last December, to withdraw to the barracks in six months. Subsequently Alley sought in vain to lay the foundation for a viable elected civilian government through consultation and agreement with Dahomey's three exiled political kingpins, each of whom heads one of the three regionally based political factions. Pressure from younger officers anxious to hand over the government to civilians finally forced Alley reluctantly to agree to impose Zinsou on the country. Apparently no early elections to legitimize the new government are contemplated.

The military's selection of Zinsou, who is well regarded in

Paris, was almost certainly influenced in part by a desire to get desperately needed French budgetary subsidies resumed. These have been curtailed since the coup last December in which former president Soglo was ousted just after he had been on a visit to Paris.

Even with a restoration of French aid, Zinsou will have to rely on the army for his basic support. He is not especially popular with any of the three major political factions, and tracts attacking him have already begun to appear. Rumors of possible demonstrations against his nomination suggest that he will be confronted with mounting political pressures over the next month.

Zinsou will also have to contend shortly with strong pressures from labor, whose long-standing demands for higher wages and reduced taxes were ignored by both previous regimes. Although politically divided, Dahomey's labor leaders are united in their determination to secure a redress of the workers' grievances and will probably not wait long before applying pressure by new demonstrations.

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WESTERN HEMISPHERE

The five Central American presidents will meet in El Salvador over the coming weekend to examine the progress of the Central American Common Market and to lay the basis for more rapid economic and social development in the area. President Johnson will join them on 6 July, and will visit each of the other four countries briefly on his way home on 8 July.

Bolivian President Barrientos will also meet with President Johnson—in Texas on 5 July. An irritant in US-Bolivian relations was removed on 28 June when Bolivia finally signed a \$4.5-million special budgetary assistance loan after agreeing to the prerequisite self-help measure of a 10-percent surcharge on imports.

Recalcitrant students and obstreperous labor unions continue to make trouble in Argentina, Brazil, and Uruguay. In Argentina, police put down a series of student demonstrations on 28 June, the second anniversary of the coup that placed General Ongania in the presidency. Students and workers may attempt more demonstrations in July, but the government has made it clear that it will not tolerate violence.

Disaffected Brazilian students continued to stage sporadic demonstrations throughout the week. They have gained popular support, and are now a major problem for the government. In spite of continuing unrest and frequent strikes in Uruguay, President Pacheco is attempting to maintain essential services. He has mobilized public service employees as well as all retired military personnel, putting the latter at the disposal of the minister of defense.

West of the Andes, things were generally quiet. In Chile, the resignation of the army chief of staff last week has renewed public concern over the deteriorating economic position and morale of the armed forces. Although there is no indication at this time of any strong sentiment within the armed forces for antigovernment action, a delay in the promised pay raise and further deterioration of the military's economic position could increase the number of hotheads within the armed forces.

In Peru, public and private reaction to the government's financial stabilization program has been generally favorable. The program calls for new and increased taxes, restrictions on imports, and cuts in government spending. The military reportedly will take the largest budget cut. [REDACTED]

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DISCONTENT STILL SIMMERING IN BRAZIL

The rash of student-led disorders that shook Brazil in June have made clear the gulf separating the Costa e Silva government from the majority of the Brazilian people.

Students in most large cities--except Sao Paulo--were able to generate substantial popular support for their complaints about the archaic Brazilian educational system. Clergy, professors, parents, teachers, opposition congressmen, and some workers supported the legitimate protests, and in so doing became more aware of the government's long-standing unresponsiveness to popular needs and aspirations. Student leaders, many with ties to Communist and other extreme leftist groups, had no trouble in broadening the protests to include antigovernment and some anti-US themes. In Sao Paulo, however, many citizens are irritated at student-caused destruction and fearful of terrorist violence.

Although Education Minister Tarso Dutra was a principal target of student disgust, President Costa e Silva himself came in for criticism. He has been charged with poor leadership and with the failure to produce significant reforms not only in education but in other critical social fields as well. In a recent address, the President said the government

wanted to talk with students and to study their problems, but that they must realize the outmoded educational system was developed over many decades and cannot be repaired during one administration.

Such platitudes are not likely to satisfy the students who have called for further peaceful demonstrations in both Rio de Janeiro and the northeast if their demands are not met. These demands now include the release of those arrested in the June demonstrations and an end to "political repression and artistic censorship." Outspoken Archbishop Dom Helder Camara of Recife and other liberal churchmen have given their support to the students.

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The President has frequently expressed his belief that there is a vast, subversive plot to

undermine his government.

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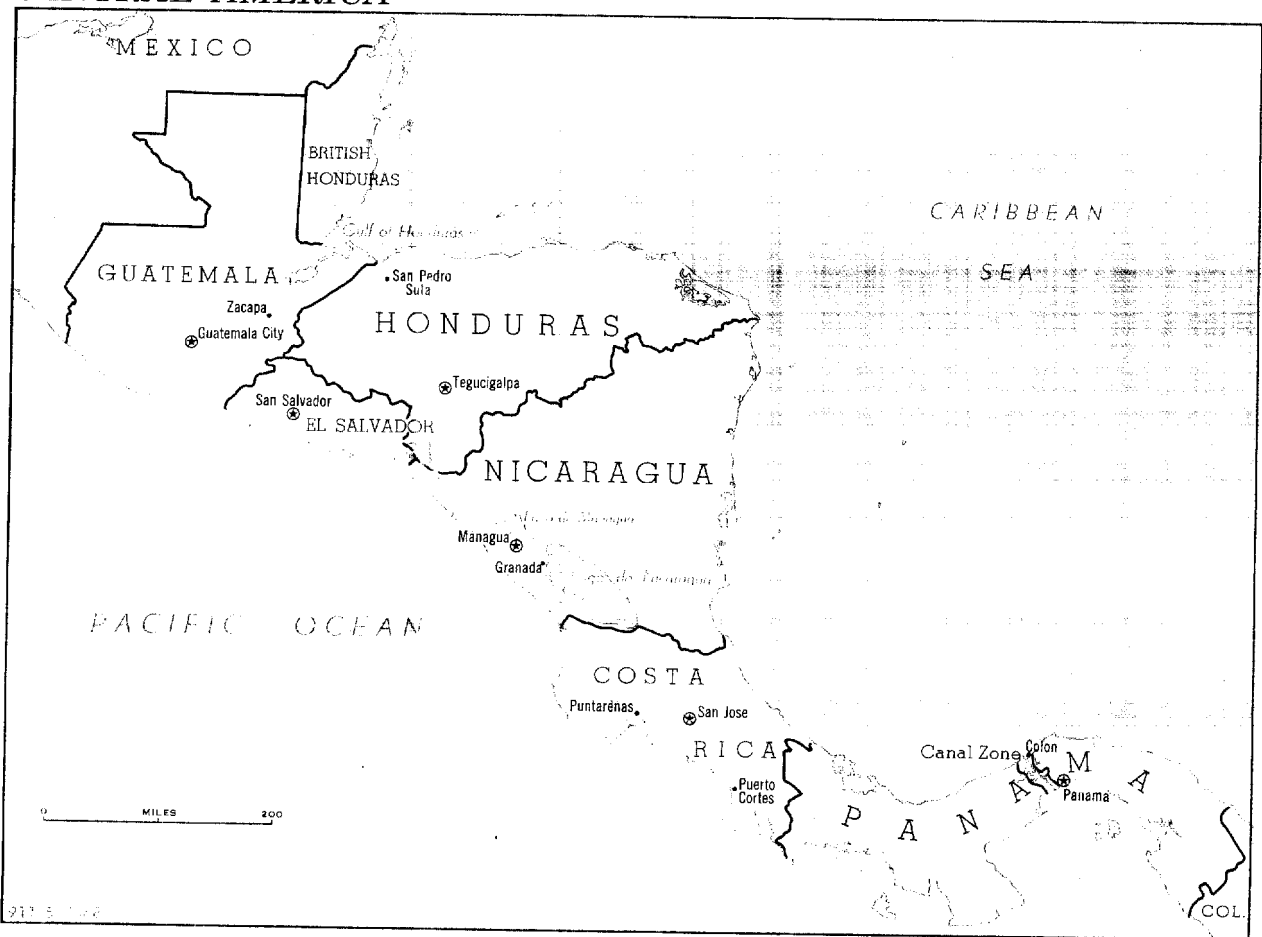
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CENTRAL AMERICA



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CENTRAL AMERICAN COMMON MARKET THREATENED

Nicaraguan pressure tactics have strained relations among members of the Central American Common Market (CACM) on the eve of the presidential summit meeting in El Salvador the weekend of 6-7 July.

Nicaragua has reportedly threatened to break up the Common Market if the other members do not follow its lead and promptly ratify a 30-percent tariff surcharge on imports from outside the area.

Nicaragua's intention was probably to get early action on a measure that would help ease its balance-of-payments problem, but the effect may be just the opposite. Business interests in the area already oppose the surcharge and congressmen in the other countries may be reluctant to give the impression that they are obediently complying with Somoza's demands.

The Common Market was established in 1961. Favorable

economic circumstances followed, but the booming economies of its members have slowed substantially in the last year. The surcharge was agreed on early last month as a means of dealing with a rising trade deficit in the Common Market and was not to go into effect until at least three legislatures had ratified it. Nicaragua, however, imposed it unilaterally, and then began stopping shipments of goods from other members at its borders. Denials that the detention of goods was related to the tariff measure probably have not convinced other Central Americans, who see this action as another pressure move.

In El Salvador, legislative action has been postponed, and the government has called for an urgent meeting of the Central American Economic Council. The minister of economy, in an obvious reference to Somoza, asserted on 26 June that "his foolish acts could be attributed to youth or just personal business interests."

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CRISIS CONTINUES IN URUGUAY

President Pacheco is attempting to curb runaway inflation and suppress labor-student disorders in Uruguay, but strong opposition forces continue to threaten his efforts.

On 28 June Pacheco decreed a temporary freeze on wages and prices in a desperate effort to end the inflationary spiral that is seriously weakening the economy. The cost of living has risen approximately 50 percent during the first five months of this year.

Past government attempts to control inflation have been blocked by congress, and this decree faces many challenges. The Communist labor unions, already engaged in a series of strikes protesting government economic policies, will be even more intransigent. Furthermore, congress might override the President. It has already approved some salary increases and it is not clear if the President can keep them from going into effect. The Senate is discussing a committee report on the devaluation on 29 April. The report is highly critical of the President and his top economic advisers.

Pacheco is attempting to maintain essential services, but the government-operated natural gas company and the municipal

transportation system were interrupted during the successful general strike on 2 July. Last week Pacheco reorganized the directorates of the national telephone and power company and the railroads in order to exercise greater control over the workers. He has since mobilized all public service employees, as well as all retired military personnel, putting them at the disposal of the Defense Ministry. Pacheco apparently felt that subjecting workers to military discipline would lessen the probability of a full strike, but police estimated that 70-80 percent of the workers were out on strike on 2 July.

Although Pacheco is trying to impose tighter security measures, he has been unable to crack down on key agitators. Last week he ordered the arrest of about fifty labor and student leaders, and since then more names have been added to the list. Only a few have been rounded up thus far.

Rumors of an impending coup appear unfounded, but Pacheco's position will become increasingly difficult. His efforts to employ tougher measures against agitators will not solve his basic problems. He continues to head a minority government that has been unable to halt economic deterioration or restore public confidence. 25X1

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