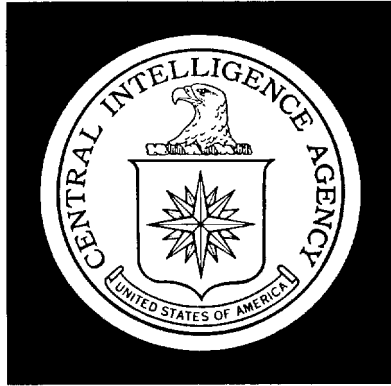


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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(Information as of noon EST, 15 April 1971)

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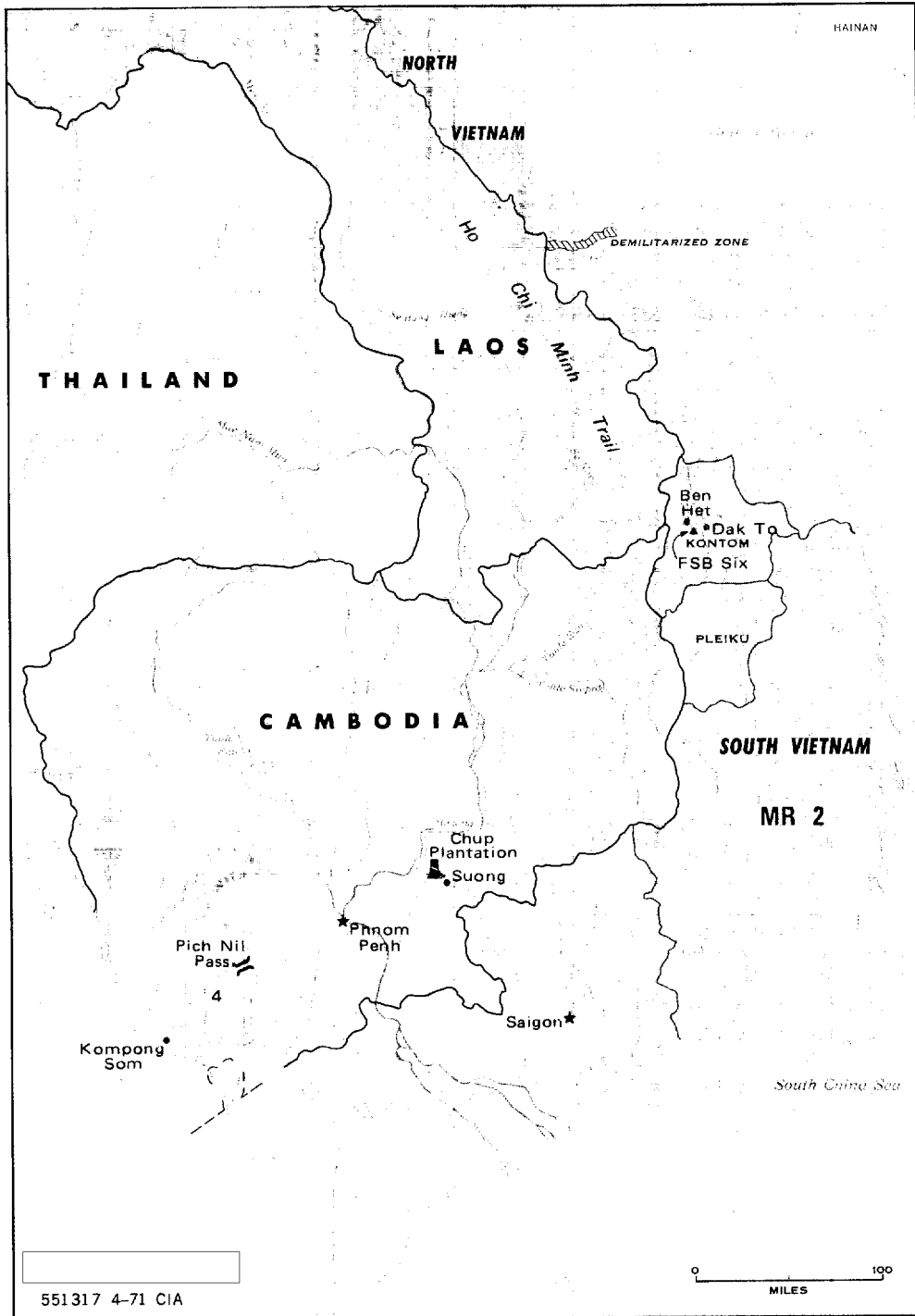
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FAR EAST

Indochina: *The Communists Press the Fight*

Heavy ground combat is still under way in South Vietnam's central highlands, where the Communists have been setting a sharp pace for nearly two months. All the evidence suggests heavy casualties for the enemy forces, but they appear as determined as ever to take South Vietnamese positions and to inflict as much damage as possible on South Vietnamese units. Numerous shellings and heavy antiaircraft fire have hindered allied air resupply operations, and ground contacts up to battalion size have occurred in the rugged terrain near the Ben Het and Dak To Ranger camps in western Kontum Province.

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Although the Communists clearly would like to overrun one or more of the South Vietnamese highland border camps as part of their follow-up to the recent fighting in Laos, they probably have other objectives in mind as well. In the past, strong attacks in the border regions of Kontum and Pleiku provinces have often been made in hopes of drawing allied forces away from the populated coastal regions of MR-2. Once this happened, the enemy stepped up attacks along the coast to disrupt the government's pacification program. 25X1

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Major General Dzu, commander of MR-2, recently acknowledged that he has deployed half of his regular army troops—14 battalions—around Fire Support Base 6 to combat the three enemy regiments currently fighting there. Dzu is concerned that he does not have enough reserves to cope with enemy actions elsewhere, and has urgently requested that Saigon send him additional support.

Big Minh and the Communists

Whatever military tactics the Communists try in the days ahead, as the presidential election in South Vietnam approaches they will pursue tactics calculated to help oust President Thieu. Moreover, because Big Minh is Thieu's most formidable potential opponent and because the Communists almost certainly think their prospects would be enhanced by Minh's election, they appear to be looking for ways to help Minh at the polls next October. 25X1

The Communists appear bent on keeping up the pressure in the Ben Het - Dak To sector for some time.

[Redacted]

There is no consistent evidence of what the Communists are doing now in this regard, [Redacted] 25X1

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[Redacted] Viet Cong cadre have begun at least a limited propaganda effort on behalf of Minh. They are said to be telling some villagers that he would be the better man to bring peace to South Vietnam, and they may eventually try to conduct a coordinated "whispering campaign" to this effect throughout South Vietnam. The Communists may also try to help other groups supporting Minh, but at this stage it seems most unlikely that they will be able to stimulate much additional voter support for him.

[Redacted]

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The South Vietnamese Government probably is eager to tar Minh with the Communist brush.

[Redacted]

For the moment, however, Lon Nol's physical presence should help to calm some of the political agitation that surfaced during his absence. With him in the wings, the regime may now be more inclined to deal with the various pressures underlying the recent ferment. Foremost among these are the persistent demands by students, young military officers, and others backing the government for a high-level housecleaning of corrupt and inept officials, including some cabinet ministers.

Cambodia: The Leader Comes Home

The Military Situation

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The country observed the beginning of a new year this week, but about the only cause for any real rejoicing was Lon Nol's return to Phnom Penh. Although his health measurably improved as a result of his two-month stay in Hawaii, it apparently will be some time before the prime minister is physically fit to reassume full leadership.

Lon Nol was not greeted with news of any significant Cambodian Army accomplishments. As was the case when he departed, his soldiers are still largely on the defensive in many areas of the country. Moreover, the government's major military operation of the moment—the push along Route 4 to reach the Pich Nil pass—is making little, if any, real progress. Early in the week, the roadbound Cambodians were still trying to shake off the costly and demoralizing effects of the sharp attacks by Communist forces that halted and fragmented the column on 7 April. Nevertheless, the government apparently is determined to carry on with the operation when more reinforcements from Phnom Penh are added to the task force.

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In Kompong Cham Province, South Vietnamese troops reportedly inflicted heavy

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casualties on the Communists in a succession of battles. Most of the fighting occurred near the town of Suong, a few miles southeast of the Chup plantation. By mid-week, the South Vietnamese claimed to have killed just over 500 of the enemy. According to the South Vietnamese their losses were slight by comparison.

Laos: The Calm Before the Storms?

Since the fall of the Ban Na artillery site last week, the Communists have not pressed major ground assaults on fortified government positions around the Long Tieng complex, and the rainy season—when Communist military activities around the Plaine des Jarres have traditionally lessened because of logistic difficulties—is now only about a month away.

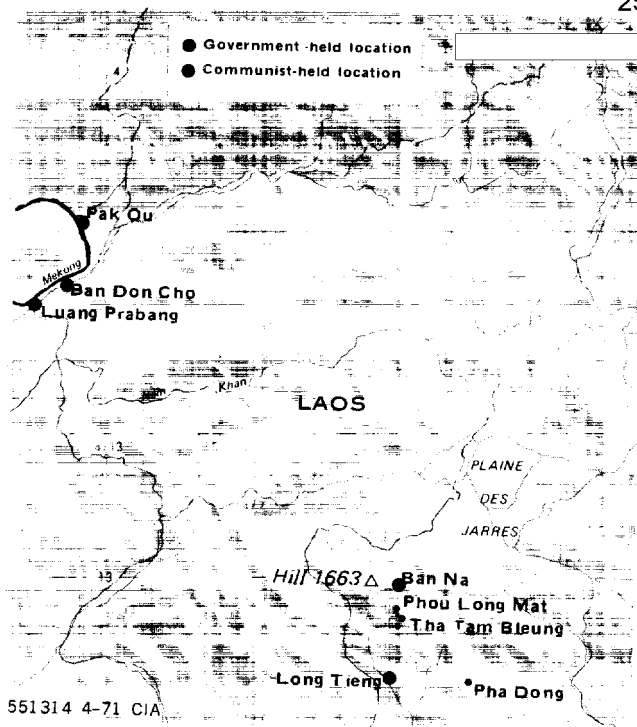
Government irregulars have begun strengthening defensive positions in a line running roughly from Hill 1663 northwest of Ban Na, southeasterly through Phou Long Mat to Pha Dong. The line is anchored on both ends by howitzer batteries, which are also deployed at key intermediary positions in the Phou Long Mat area.

The irregulars are expecting stronger Communist attacks on these positions, particularly at Hill 1663 and at two ridge positions between Long Tieng and Tha Tam Bleung. Both areas have been the target of heavy Communist shelling attacks during the week; irregulars trying to take the eastern highpoint of one of the ridge positions have been beaten back repeatedly by dug-in North Vietnamese forces. The determined enemy defense of these positions suggests that they are regarded as vital to maintaining and protecting the supply lines from the Plaine des Jarres. At nearby Phou Long Mat, irregulars abandoned a

key hill position on 11 April following heavy and accurate enemy shelling attacks, that had made resupply drops increasingly difficult. Another irregular company has been airlifted into the area to reoccupy the position, however.

Luang Prabang Status Quo

A multibattalion government clearing operation around Luang Prabang was launched on 11 April, but the two irregular task forces involved have made very little progress. One task force was airlifted into an area about 12 miles northeast of the royal capital to begin sweeping westward along the Mekong. The second force is to move northeast along Route 4 from Ban Don Cho, b:1

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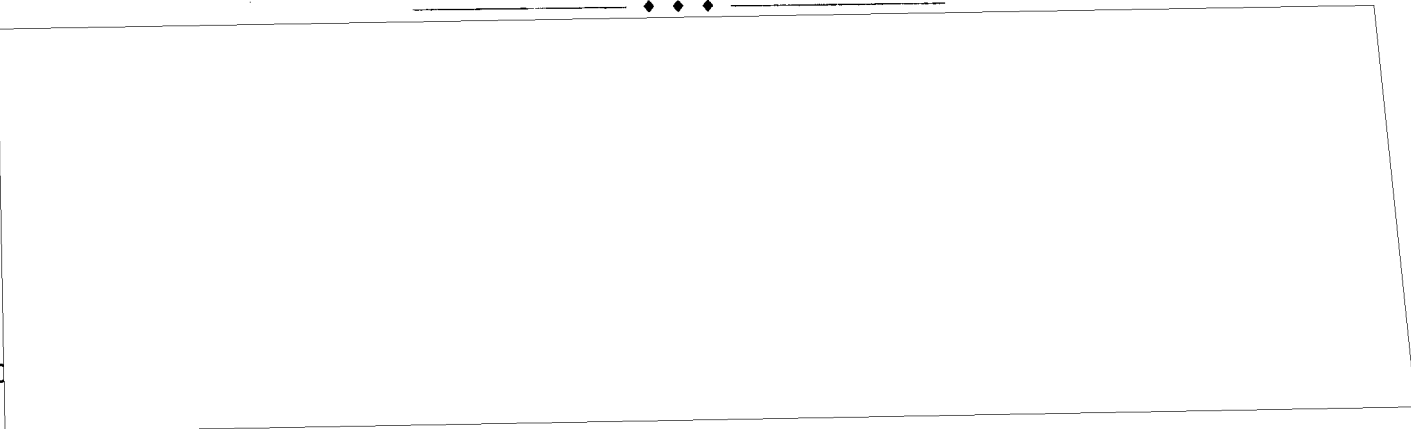
it has been stymied because the Communists are occupying the high ground on the force's right flank.

The Communists continue, however, to make political gestures suggesting that they do not intend to overrun the royal capital or to threaten King Savang. Hanoi sent official greetings to the King on the Lao New Year (April 13 to 16) reasserting the hope that friendly relations "would be strengthened." In addition, the Pathet Lao offered to let either the King or the Crown

Prince visit the Pak Ou caves—a holy site north-east of Luang Prabang—during the New Year festivities. The royal pilgrimage to Pak Ou has been a feature of the celebrations for years, and it was only in the last few weeks that the Communists occupied the area. The King has not responded to the overture and probably has little wish to acknowledge even tacitly Communist control of the area, which is one of the key objectives of the government's current operation to regain ground around the royal capital.

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US-GRC Relations: "Oil on the Fire"

A Gulf Oil Company proposal in early April to declare a moratorium on oil exploration in the East China Sea and a US statement that the Senkaku Islands would be included in reversion of the Ryukyus to Japan next year have created additional strains between Washington and Taipei. Acting Foreign Minister Yang, echoing the shock expressed by several high-level Nationalist officials, delivered a strongly worded protest to the US over the proposed moratorium, which he said Taipei must reject as deeply prejudicial to its

essential interests. In a later expression of his government's grave concern over the US statement on the Senkakus, Yang added that the timing of the comment was impossible to understand, coinciding as it did with the moratorium proposal and the latest well-publicized demonstration by Chinese in the US reasserting Chinese rights to the islets. Yang and Economic Minister Sun had already said that Taipei viewed current US treatment of the oil rights dispute as yet another indication that Washington was ignoring Nationalist interests to appease Peking.

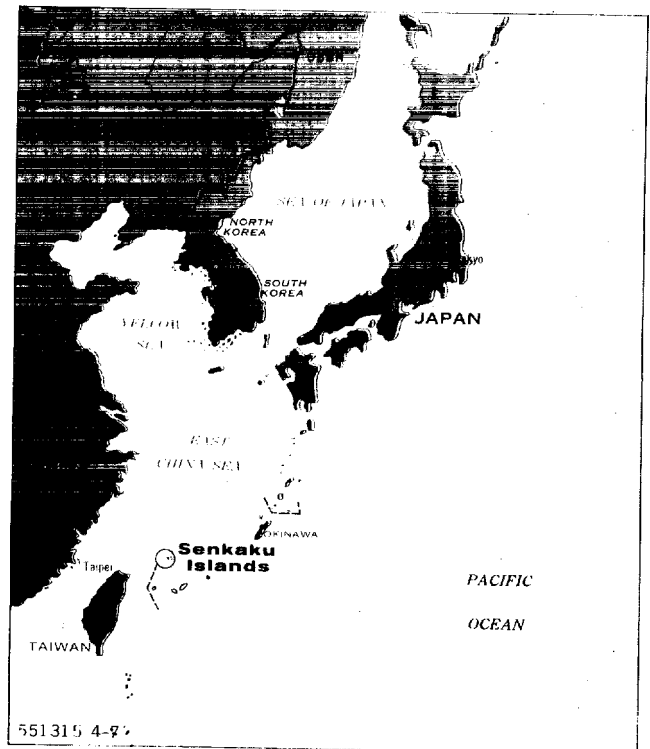
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There are also domestic reasons for the Nationalists' reaction. They have focused on the Senkaku issue in their public comments on the moratorium not only because of the US statement but also in an attempt to counter continuing charges from the Legislative Assembly and the press, as well as demonstrators abroad, that Taipei is giving in to pressures that could prejudice its claims to the resources of the East China Sea. Many of those charges have focused on the Nationalists' "passive" stance on their sovereignty over the islets and potential oil deposits in their immediate area. Chinese and Japanese rival claims there have a broader significance because the islets could form part of a base line determining the division of rights to the whole continental shelf in a future negotiated settlement.

Peking's claim to the Senkakus is another factor influencing Taipei's stance. In discussing the importance of the Senkaku issue with the US ambassador earlier this month, Yang said his government felt that Peking's propaganda was having widespread harmful effects and added that Taipei could not afford to be less zealous than the Communists in opposing Japanese claims. He asked that Washington refrain in general from actions that would put Taiwan in a poor light as defender of a Chinese national interest, and specifically that it do what is possible to damp down Japan's pursuit of its claim to the Senkakus. One of the Nationalists' concerns has been that Peking might be able to exploit the issue and make permanent inroads among overseas Chinese communities, especially student and scholar groups in the US. Taipei has cited their allegiance as proof that it represents more than just the people of Taiwan. Yang told the ambassador that the US statement on the Senkakus could only "pour oil on the fire" of the Nationalists' problems caused by the demonstrations. In an apparent effort to show that the demonstrators' opposition to Japan's claims to the Senkakus need not also be critical of Taipei's handling of the dispute, and to place additional pressure on the US, the Nationalists have staged their own demonstrations by students at US offices on Taiwan.

Nationalist officials undoubtedly now believe that acceptance of any proposal to slow or cease Taipei-sponsored oil exploration would merely leave the field open to rivals. Japan, in the short term, could circumvent a moratorium by contracting with other companies and, over the long term, could disregard Taipei's claims by making an arrangement with Peking. At the same time, the Nationalists fear that failure to gain public US recognition of their claim to the Senkakus will have unpleasant repercussions on Taipei's image at home and abroad. Thus, Nationalist expressions of outrage, centering on the moratorium proposal, probably relate as much to apprehensions regarding US policy toward Peking and Tokyo as to the specifics of the proposal itself.

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Peking Starts Some Diplomatic Volleying

The visit to China of the US table tennis delegation has, in Premier Chou En-lai's words, "opened a new page" in the relations between the Chinese and American people. Until Chou's meeting with the group on 14 April, the visit, although unprecedented, had been a "people-to-people" one; his decision to meet with them lifted it to semi-official status. The meeting with Chou had all the earmarks of a last-minute decision—the team's trip to Shanghai had to be set back a day to allow for the audience—and seems to have been arranged after Peking's leaders had assessed the overwhelmingly favorable international reaction to their diplomatic coup.

Since the US group's first arrival on 10 April, Peking has gone to considerable lengths to emphasize the friendship between the American and Chinese people and to ignore completely Sino-US political differences. According to British diplomats in Peking, the Chinese even removed prominent anti-US slogans from the stadium and the hotel where the team was staying.

Interest is now running high in the US, and elsewhere, on the possibility of similar visits and other cultural exchanges. Indeed, acceptance by Peking of an invitation to send a table tennis team of its own to the US is almost a certainty. Chou specifically pointed out, moreover, that more US newsmen would be allowed to enter China now that the ice had been broken. Peking initially granted visas to three US reporters who were informed that they could accompany the table tennis team until it concludes its stay in the country, presumably this weekend. The Chinese followed this up by issuing an additional visa to US correspondent Tillman Durdin of the New York Times, who probably will be allowed to remain there beyond this weekend. Scores of other US journalists are applying for visas, and Chou has said that they will be allowed to visit China at intervals.

These unprecedented steps represent Peking's first clear response to the recent US decision to remove all restrictions on travel to the mainland. The Chinese had studiously ignored previous US moves to relax gradually long-standing trade and travel restrictions aimed at China. Peking's decision to push ahead now is obviously timed to influence a number of important moves that will be made this year directly affecting China's interests. Peking is undoubtedly concerned with presenting a reasonable image in light of the US initiatives to improve relations and probably hopes to stir up support in the US for its side of Sino-US bilateral differences. Fundamental to the Chinese is the US attitude on the subject of Taiwan and the US commitment to the Nationalist Chinese Government. Peking no doubt anticipates that its actions will further exacerbate the already tense relations between Taipei and Washington.

In a broader sense, the Chinese probably also hope to improve the atmospherics, both in the US and internationally, that surround discussions concerning various approaches to this year's vote in the UN on Chinese representation. The visit of the US table tennis team and newsmen is even now having a considerable impact in the UN. According to the US Mission in New York, the general impression is spreading among the delegates that Peking's actions represent a carefully timed step in its world-wide campaign to win as many votes as possible when the China question comes up this year. Most agree, moreover, that these efforts are sure to help Peking's case at the 26th General Assembly and make it very difficult for the US to lobby effectively for its traditional position that any change in Chinese representation is an Important Question requiring a two thirds affirmative vote.

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USSR: *Brezhnev's Gains at the 24th CPSU Congress*

General Secretary Brezhnev emerged from the 24th CPSU Congress with real, if unspectacular, political gains to match the increased public pre-eminence he has achieved over the past year. The congress itself approved the USSR's current active diplomacy, endorsed the regime's program for improved consumer welfare, and adopted several reforms that will probably strengthen the hand of the party's professional bureaucrats.

On 9 April, the final day of the congress, Brezhnev announced that the Politburo had been expanded from 11 to 15 full members by the elevation of three candidate members and a party secretary. There were no other changes in the top ruling organs; all 11 full members and the six other candidate members retained their Politburo seats, and the membership of the party Secretariat remained the same.

The new Politburo members are Kazakh party boss Kunayev, Ukrainian Premier Shcherbitsky, party secretary Kulakov, and Moscow city party chief Grishin. Kunayev has been one of Brezhnev's most unabashed public promoters. Shcherbitsky comes from Brezhnev's home territory in the Ukraine and worked there under Brezhnev's ally, Kirilenko, for a number of years. Kulakov has worked closely with Brezhnev and Deputy Premier Polyansky in formulating policy for agriculture. Grishin has praised Brezhnev warmly in public speeches and may also have ties to Kirilenko.

At least three and probably all four of these competent but uninspiring bureaucrats can be counted as Brezhnev supporters. Their addition to the Politburo probably enables the general secretary to ease one or another of his rivals out of the leadership if he chooses to do so. At the least, it

will be more difficult for any of Brezhnev's rivals to organize a majority against him in the near future. The membership of the CPSU central committee was also enlarged at the congress, and, even if the new membership is not a Brezhnev-packed group, its greater size is likely to reduce whatever effectiveness the committee has as a real deliberative and policy-making body.

Brezhnev's domination of the congress was underscored by the failure of any of his colleagues, save Premier Kosygin and Ukrainian party boss Shelest, to address the gathering. Moreover, several Politburo members who have taken independent positions in the past—Kosygin, Russian Republic Premier Voronov, and trade union chief Shelepin—suffered protocol snubs. Consequently, although the independent-minded party secretary, Suslov, maintained his high protocol standing, the proceedings raise real questions about "collectivity" in the leadership henceforth. Brezhnev will probably take his time, however, if he attempts to alter the manner in which policy is made in Moscow.

In the economic field, the congress resolution and the final guidelines for the 1971-75 economic plan followed expected patterns in most respects. The resolution echoed Brezhnev's report with its emphatic language on behalf of the consumer sector and, in discussing growth rates, placed consumer industry in the same category as the glamor industries critical to technical progress. The directives leave questions, however, on how this policy will be implemented.

The resolution gave little comfort to liberal economists interested in going further with economic reforms. It did declare the party's support for industrial associations, but also repeated

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Brezhnev's call for expanding the rights of party organizations to control the work of the administrative apparatus in economic ministries and scientific agencies.

The congress resolution makes it clear that the party intends to purge those whose loyalty is less than undivided. Public support for this proposal was notably thin at the congress, however, and it remains to be seen just how thorough a "housecleaning" will take place. The congress also

lengthened the period between such accountability sessions as congresses and conferences. This will make party officials more secure in their positions and probably will be most beneficial to those who are resistant to change. At the same time, the resolution failed to authorize creating enlarged party committees, which could serve as an instrument for democratizing the party. On balance, the congress seems to represent a setback for those who would reform the Soviet system from within.

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NATO Debates Position on Mutual Force Reductions

Brezhnev's reference to regional disarmament at the 24th Party Congress, the potential relationship between SALT and Mutual and Balanced Force Reductions (MBFR), and the anticipated need to refer to force reductions at the NATO June ministerial have made MBFR much more than a hypothetical question for the Allies. Nevertheless, they are far from a consensus on the value of the NATO initiative and on the potential risks of any such reductions.

The most recent British studies of MBFR have concluded that NATO's public position is ahead of its preparedness to move to MBFR talks. At NATO headquarters, the UK is emphasizing the difficulties involved in negotiating any reductions that would be consistent with preserving Western security and has even referred to MBFR as "the most dangerous thing we have ever played with." West Germany, however, continues to be a strong advocate of eventual force reductions, stressing that MBFR proposals enhance NATO's detente image and militate against unilateral US troop cuts. Paris has remained aloof from NATO discussions of MBFR, but is giving the subject more serious consideration than ever before. A French official recently said that France sees no

virtue in force reductions, given the current political climate, but should the climate change, he could not see how France could avoid participating.

A crucial concern has been the attitude NATO should take toward the suggestion of the Warsaw Pact last June that reductions in "foreign" or stationed forces might be possible. At least one ally, Canada, is eager to pursue this approach. A recent preliminary US paper on MBFR was quickly interpreted by the Canadians and others as support for reductions in stationed forces as an initial step leading eventually to reductions also in indigenous troops. However, an informal Canadian suggestion that NATO signal its readiness to have the US negotiate mutual US-Soviet force reductions was received coolly by the European allies.

Brezhnev's vague appeal in his party congress speech for reductions of "armed forces and armaments" in areas such as Central Europe has clearly sparked the curiosity of many NATO members. Brezhnev did not narrow the issue to "foreign"

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forces, and his remarks may have been a hint that Moscow is reconsidering its position. However, Moscow has yet to follow up the statement and it may have been only political rhetoric.

Nonetheless, his comments, combined with Secretary Laird's suggestion that forward based nuclear-capable weapons systems might be

handled in MBFR talks instead of in SALT, as the Soviets have insisted, will ensure lively discussion of MBFR in the weeks ahead. The question for the NATO foreign ministers in June will be whether to put the emphasis on advancing the incipient dialogue with the Pact or on trying to keep the subject cooled down for the time being. 25X1

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West European Stake in INTELSAT Negotiations

The 79-member International Telecommunications Satellite Corporation began a five-week meeting in Washington this week to convert the interim INTELSAT accords—in force since 1964—into definitive arrangements for providing global communications satellite (comsat) services. Previous conferences have drawn up drafts of most of the necessary conventions—including intergovernmental and operation agreements—but difficult problems remain. Most of these stem from Western Europe's desire to safeguard its future role in space.

The Europeans are particularly concerned about the US interpretation of Article XIV of the proposed intergovernmental agreement, which they claim might enable one third of the INTELSAT members to block the regional comsat system Europe plans to establish. They want assurances protecting their interests, and without them are reluctant to go further in exploring the possibilities of post-Apollo space cooperation with the US. In the context of closer cooperation with the US, the Europeans hope to be able to buy US launch services for regional satellites in return for their financial contributions to the next generation of US satellite vehicles.

This is a crucial issue for the Europeans, due in good part to the fact that cooperation with the US will largely shape the future European space

effort. Without assured availability of US launchers, the Europeans would have to choose between launching no satellites or going along with France, which insists that Europe build its own launchers. Most members of the Conference on European Telecommunications Satellites (CETS) would clearly prefer to avoid this expensive alternative.

In order to assuage European concern over Article XIV, a new voting arrangement has been proposed that would allow the Assembly of Parties—in which INTELSAT governments are each represented by one vote—to approve a regional system by a simple majority. Although this would reduce the chances that a regional system could be voted down, some Europeans believe the French will still not be satisfied.

Another contentious question is the sharing of procurement contracts for comsat equipment. The particular issue is whether to award contracts on a purely competitive commercial basis or to use some "sharing" system. The Europeans presume that the US would be favored under a competitive system and, as with post-Apollo cooperation where a similar problem arises, they would like to assure a significant piece of the action for European industry.

The French have complained for some time that the proposed INTELSAT arrangements leave

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the governments—as opposed to the telecommunications agencies (COMSAT, in the US case)—with little authority. Paris has in fact proposed either increasing the governments' powers or completely revamping the accords into a mere commercial agreement among agencies. Most countries, how-

ever, are not prepared to scrap the years of effort put into working out the present drafts of the definitive arrangements. The French proposals could nevertheless gain support among the Europeans if their demands are frustrated. [redacted]

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Soviets Adopt New Labor Code

A new labor code became effective in the Soviet Union on 1 January, superseding one promulgated in 1922. This code, as other recent labor reforms, is more a change in form than in substance, however, and will do little to promote labor efficiency or to improve worker morale.

The new code, officially known as the Principles of Labor Legislation, is the basic law regulating all aspects of the labor market, including hours, wages, working conditions, trade unions, and workers' rights and obligations. As in the past, workers' obligations can be cited in order to maintain absolute control over the labor force, while workers' rights are virtually meaningless without independent judiciary and trade union systems. Consequently, power resides not in the document but with those who enforce it.

The present code contains a number of inconsistencies. Workers have the right to participate in the management of production, for example, but the dominant authority of the manager cannot be questioned. Discrimination in hiring based on sex, race, nationality, or religious attitude is forbidden, but the new code may actually raise the costs of hiring women because it provides them with increased benefits. The code was modified to facilitate implementation of the economic reforms, but, by adding to management prerogatives in matters of hiring, firing, and wages, the rights "guaranteed" to workers in the labor code have been diminished.

A discernible strengthening of the code's provisions governing the conduct of workers is consistent with the regime's campaign to tighten labor discipline. The code stipulates the usual worker obligations to observe work discipline, to care for public property, and to meet work quotas. Unlike the former code, however, a new section is devoted to penalties for violators. There are also wider grounds for dismissal, specifically including "coming to work in an intoxicated condition," thus supporting the current campaign against drunkenness.

The inclusion, for the first time, of a provision for part-time employment reflects the regime's efforts to bolster the work force. Rather than adding to the total labor effort, however, this provision may encourage many workers, especially women, to withdraw partially from the labor force to gain more leisure time.

The efficacy of the new code depends, in part, on its success in improving the allocation of labor and raising the motivation of workers—the major obstacles to increased labor productivity. The new code broadens some managerial prerogatives, which will facilitate redistribution of the work force, but these are only procedural improvements. Managers still do not have incentives to operate with the most efficient use of labor. Moreover, the code fails to remove the inequities that have led to a labor force characterized by cynicism and apathy. [redacted]

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Hungary: *Economic Reform is an Effective Compromise*

After more than three years, Hungary's New Economic Mechanism (NEM) remains essentially a compromise between market incentives and continued centralized controls. It does not represent, as some press articles suggest, a rapid move toward capitalism, but the end result probably will be a more flexible and less wasteful economic system.

The main objective of the NEM is to make the economy function more efficiently by discontinuing detailed plan directives, reforming the price system, and encouraging producers to gear production to demand. The state retains ample control to assure that national priorities embodied in the economic plan will be attained.

Enterprises now are expected to respond to the profit motive and their directors have a greater role in establishing policy and in guiding the operation of the plants. Worker, as well as management, bonuses are tied directly to sales results through a profit sharing fund. Moreover, the foreign trade system has been revamped to link foreign and domestic prices and to force producers engaged in trade to take account of actual world market prices.

Although the state has reduced its role in making plans for enterprises, detailed economic regulation by central authorities has not decreased appreciably. The state owns the enterprises, and enterprise managers, who continue to

be representatives of the state, remain subject to ministerial controls and to indirect state influence. Budapest retains controls on investments, credit, profits, wages, prices, and foreign trade, and pays substantial subsidies to cover losses resulting from the reform of prices and foreign trade.

There generally has been a smooth transition to the new system, reflecting comprehensive preparations and control. In 1968 and 1969, however, some reform policies contributed to a slow-down in industrial output and, even more disturbing, a stagnation in industrial labor productivity. In 1970 output and productivity rebounded. The Hungarians claim the reform was responsible, but sustained progress in increasing efficiency will be necessary before the reform can be judged a success.

Hungary does not consider the NEM complete and has indicated some future steps that could lead to a more competitive system. These probably will include measures to attract foreign investments and to reform the banking system. Revisions in the consumer price structure also are promised, and leaders may revitalize trade unions to make them more representative of workers' interests. Hungary's leaders, who remain sensitive to Soviet opinion on the NEM, will undoubtedly continue to keep the USSR well informed on their intentions.

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Yugoslav Economic Problems Persist

Serious economic difficulties still plague Yugoslavia despite a recent devaluation of the dinar and the government's economic stabilization program. The persistence of adverse trade and price trends has increased Yugoslavia's dif-

iculties in liberalizing imports and revising the banking system.

According to data just released for the first quarter of 1971, the trade deficit of \$376 million

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was more than double that of the same period last year. Exports did not increase at all, while imports were up markedly. Other foreign exchange earnings such as tourism, rose during the period, however, providing some relief. The Yugoslavs expect that the 20-percent devaluation made last January will begin to prod exports later this year, but it probably will not deter imports, as evidenced by first quarter figures.

Across-the-board efforts to reduce inflationary pressures have met with little success. Prices increased in January and February and again in March. Industrial and retail price increases, for example, caused the cost of living to spurt 1.9 percent during the month. Government-approved hikes in telephone rates and in domestic train fares contributed to the significant rise in prices.

These adverse trends have blocked plans to remove controls on prices and imports and have impeded revisions planned for the banking and foreign exchange systems. The Federal Executive Council, which has been criticized sharply for its lack of initiative in stabilizing the economy, has only recently answered critics by promising to

present a detailed analysis of the economic situation to the Federal Assembly before the end of the month.

The government's proposed decentralization program, which will transfer a great deal of political and economic power to the republics, makes it imperative to move quickly and decisively in tackling the country's economic problems. Decentralization already has resulted in confusion and bickering among the republics over the problem of redefining republic and federal responsibilities. Although Tito expects the new constitutional amendments to "tidy up" spheres of responsibility, increased cooperation among the republics and between republics and the federal government will be necessary if the system is to work properly.

The Yugoslavs admit that the success of their economic policies depends on their ability to obtain new credits and debt relief from the US and other major western trading partners. With these objectives in mind, Finance Minister Smole is now in the US for high-level talks with government and business officials.

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Croatian Chauvinism Undermines Yugoslav Federation

Yugoslavia's traditional regional rivalries and animosities have reached a postwar high in recent months. Each republic is maneuvering for the considerable political and economic power that will be transferred to local levels as a result of Tito's decentralization programs. Croatian chauvinism has been particularly acute, underscoring the emotional regional attachments Yugoslavia must overcome if it is to continue as a federation in the post-Tito period.

Many Croatian officials fervently believe—recalling pre-Communist Yugoslavia—that unless they are vigilant, Yugoslavia will one day again be simply greater Serbia. They have put party discipline aside in order to prevent this from happening. Last month, for example, a senior Croatian party official, Mika Tripalo, called for greater rights for the autonomous province of Kosovo—a region the Serbs view as an integral part of their republic. Tripalo's action may have been in part a

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response to publicly aired accusations from Serbian party officials that the Croats have been too tolerant of republic nationalism.

The issue of regional autonomy has become so sensitive that even a seemingly innocuous event such as the current population census can surface bitter hostilities. The Croats became aroused over the fact that the question on nationality affiliation permitted a wide variety of responses, such as Dalmatian and Muslim. Croatian officials indignantly claimed that this was an attack on the integrity of their republic, designed not only to undercut its national identity but its voice in the affairs of the federation as well. The Croats won their case, but not before the census dispute developed into an unprecedented media imbroglio between a major Serbian daily, *Borba*, and the leading Croatian journal.

Earlier this year, the two papers polemicized at length over alleged Croatian attempts to pres-

sure national minorities living within the borders of Croatia to identify themselves as Croats. One fallout from the dispute was the resignation of a prominent Croat and vice president of the Federal Assembly, Josip Djerdja, from the editorial board of *Borba* because he considered the paper's attack on his home republic unjustified.

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HUNGARY: The Kadar regime's much vaunted electoral reform has failed to arouse more widespread public interest in the parliamentary elections due on 25 April, but it seems to have had some success in maneuvering opponents of Kadar's reforms into disadvantageous positions. Voters in only 14 percent of the constituencies used their new right to nominate candidates to oppose the party-endorsed candidate and it appears that half of these "contests" had been fixed. The reluctance of entrenched bureaucrats

to open the system to new forces was an important factor preventing more extensive development of the electoral reform. Under the new system, however, some conservatives were separated from their local strongholds. Party secretary Zoltan Komocsin, reportedly out of step with the Kadarist majority, was shifted into a less significant district, as were trade union chief Gaspar and politburo member Apro. Other moves also presage some leadership changes after the elections.

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MIDDLE EAST - AFRICA

Middle East: *The Uneasy Calm Continues*

Egypt and Israel seem no closer to any real movement toward peace. If anything, their public statements suggest that they have moved further apart by increasing their demands. The Egyptian proposal for the opening of the Suez Canal—which would bring Egyptian military units east of the waterway—was essentially rejected by Israeli Defense Minister Dayan, who said that any re-opening must be accompanied by an Egyptian agreement for a permanent cease-fire with no Arab troops in the Sinai.

tough language on the question of withdrawal continues to emanate from Tel Aviv.

In Jordan, there were some fresh clashes this week, but the significant move was the withdrawal of most fedayeen from the Amman urban area. The army had reportedly been prepared to force the commandos from the city, but the guerrillas evacuated voluntarily. The movement of the fedayeen to the countryside has improved the prospects for security in the city, but the increasing numbers of guerrillas in the rural areas, particularly in the north, may result in new fighting there.

Although Egypt is still working to dislodge the Israelis from the occupied territories by diplomatic means, if diplomacy continues to founder, President Sadat may find it difficult to resist the apparently growing pressures from some political and military elements for an armed thrust at the Israelis; for some of these militants, the only real solution to the territorial problem is war. This basically pessimistic "war is inevitable" attitude will probably deepen as the impasse persists and

In Cairo, meanwhile, Arab representatives have been discussing the problems in Jordan, but little of note has come out of these talks. At midweek, the presidents of the Tripoli Charter states—Egypt, Libya, Syria, and Sudan—had convened a quadripartite conference in Cairo. They subsequently shifted to Benghazi, minus Sudanese President Numayri, who flew to Moscow.

UN - MIDDLE EAST: Commissioner General Michelmore of the UN Relief and Works Agency (UNRWA) has told the US the agency's fiscal position may not be as gloomy as earlier projections had indicated. The deficit for 1971 may go no higher than \$1.5 million as a result of several recently devised cuts in welfare services to the Middle East refugee camps. None of these meas-

ures would vitally affect the education program—the area in which economies would surely facilitate fedayeen recruitment among Palestinian teenagers. A special General Assembly session on UNRWA thus may be put off, leaving the issue for the annual review at the fall meeting.

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More Communist Economic Aid for Iraq

Moscow, which recently bolstered its aid program in Egypt and reviewed its commitment in Syria, has further cemented its Middle East Arab relations by reaffirming and expanding its economic commitment to Iraq. Petroleum remains a particular object of Soviet interest. A recent Hungarian agreement to participate more in development projects also appears to be linked largely to securing an additional source of oil.

Last week a high-level Soviet delegation agreed to provide about an additional \$220 million in credit for new project assistance. The loan will be repaid in oil, a form of repayment often stipulated recently by the Communist countries in their economic contracts with Iraq. The amount of oil and the length of time over which the loan will be repaid are not known.

The Soviet delegation, which included Deputy Foreign Minister Kozyrev, was almost certainly empowered to discuss other aspects of Soviet-Iraqi relations. There have been a number of Iraqi moves over the past year or so that have undoubtedly pained the Soviets, such as opposition to Egypt's acceptance of Secretary Rogers' initiative, support for extremist fedayeen positions, and the campaign against the Iraqi Communist Party. As the new aid pact demonstrates, however, the Soviets appear as willing to overlook Iraqi failing vis-a-vis the USSR as they are Syrian shortcomings.

Under the new pact the Soviets will increase their direct role in the development of Iraq's petroleum industry by building a refinery at Mosul and by laying two pipelines, one to supply the refinery and another to carry petroleum products from Baghdad to Basra. In addition, the Soviets will assist other areas of the economy by building several hydroelectric stations, dairy product plants, and a superphosphate fertilizer plant; they also will assist in the development of a

phosphate mine and help to expand the fishing industry.

The Soviet delegation, furthermore, discussed several long-term projects that Moscow might aid, including the financing of the Rawah Dam, opening a canal between the Tigris and Euphrates rivers, surveying and constructing an iron and steel complex, and providing crude oil tankers.

The USSR still is working on projects under a 1959 line of credit, against which nearly \$60 million remains to be drawn. In addition, in 1969 Moscow extended about \$120 million in credits to develop the oil industry, principally at the North Rumaylah oil field; part of these credits will be repaid in oil.

Significant progress has been made at North Rumaylah since late last year when the Soviets and Hungarians began drilling operations. The Soviets also have begun laying a pipeline from North Rumaylah to the port of Fao and are constructing several crude oil storage tanks at the port. Iraqi officials are working on plans for the second stage of North Rumaylah which will raise annual production from the five million tons anticipated at the end of the first stage to 18 million tons.

Hungary also is engaged in the oil industry. Its technicians have successfully drilled three wells at North Rumaylah and are working on their final well, financed by an \$11-million credit extended in 1969. Budapest soon will begin drilling three other wells in northern Iraq. A recent Hungarian press article stated that Budapest also may undertake exploration for oil and geological surveying near the Syrian-Iraqi-Turkish border as well as just south of Baghdad on the Euphrates. The foreign exchange costs for this work may be financed under a \$31 million credit extended last year.

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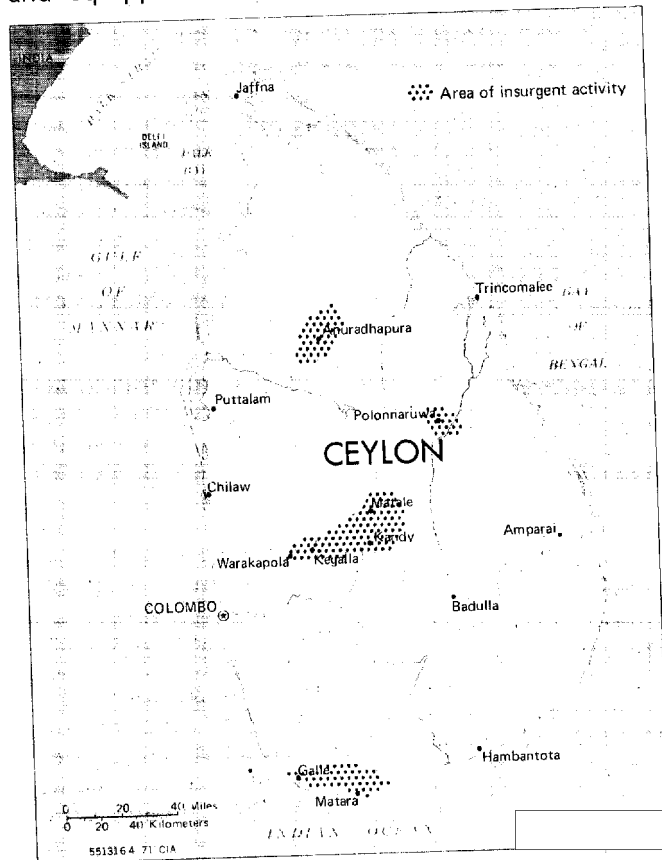
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Ceylon: *The Government's Position Improves Slightly*

Although the government had earlier been alerted to expect an attack on Colombo by 14 April, the situation in the city was apparently under control as of mid-week and no attack seemed imminent. Insurgents have continued their scattered attacks outside Colombo, however. The government still imposes daily curfews, although their length has been shortened. It has also placed seven of the island's 22 districts under military control, apparently because civil administrations there have virtually collapsed.

direction of the moderate home minister, Felix Bandaranaike, a relative of the prime minister; the other, apparently planned for Colombo alone, is headed by leaders within the two leftist parties of Mrs. Bandaranaike's coalition, the Ceylon Communist Party/Moscow and the Trotskyite party. One or both of these organizations conceivably could be used for political purposes at a later time.

In addition to the liabilities presented by inefficient organization and improperly trained and equipped forces, the government may soon



Although some estimates of the rebels' strength have ranged beyond 100,000, it is more likely that they number 20,000-30,000, roughly a 1-to-1 ratio with the security forces at maximum strength. Even this lower figure, however, probably includes many supporters and sympathizers as well as active insurgents, just as the total for the security forces includes all reserves, many of them apparently still unmobilized and generally more poorly trained than the regular military.

Ideological divergences over the insurgency have been evident on the government side. In speeches last weekend, officials were markedly inconsistent in assessing the situation. Furthermore, two different civilian security organizations are being hastily organized. One is under the

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be faced with other problems. Rigid implementation of orders to shoot curfew breakers on sight may be lowering public morale. Food shortages have occurred, causing prices to climb. The virtual stoppage of operations at Colombo's port will hurt Ceylon's already poor foreign exchange situation.

[redacted] press reports from Colombo on 15 April claimed Ceylon had broken diplomatic relations with North Korea. 25X1

[redacted]

Ceylon has, however, begun to receive some desperately needed military aid. There are now two Pakistani-operated helicopters and six Indian-flown helicopters operating from Colombo's two airports. Six helicopters purchased by the UK from the US for transfer to Ceylon should arrive shortly. Both India and the UK have supplied some small arms and ammunition. About 150 Indian troops have arrived in Colombo, supposedly to help guard the airport, and Indian warships are patrolling off Ceylon, probably in an effort to prevent any arms from being smuggled onto the island.

Ceylonese military leaders envisage a long, difficult struggle against the insurgents. For their part, the rebels apparently are confident they can take over the country, but at present they do not seem to have that capability. A drawn-out period of turmoil, however, could result in the eventual overthrow of Mrs. Bandaranaike's government by other elements. The military may eventually realize that it possesses the only real strength in the country and may decide to assume complete command. On the other hand, leftist forces within the government might believe they are threatened in some way by Mrs. Bandaranaike and in the reigning confusion could move against her to forestall their own ouster. [redacted]

During the week, the government arrested one junior minister, at least four members of parliament, and the leader of the small Ceylon Communist Party/Peking (CCP/P). [redacted]

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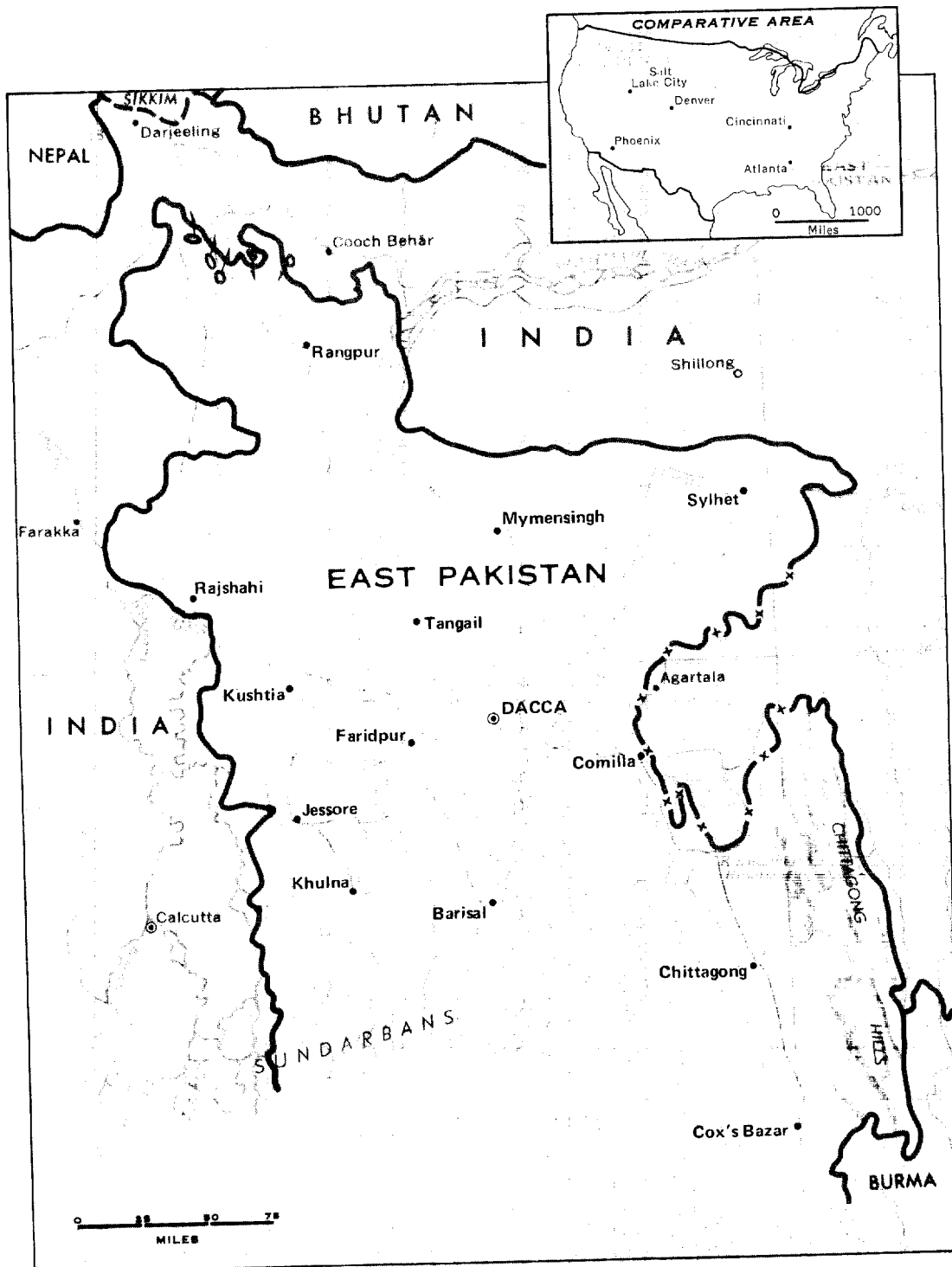
NEPAL: King Mahendra has appointed a new cabinet with Kirti Bista as prime minister. Bista, who has held numerous cabinet portfolios in recent years, is primarily a nationalist who gives total allegiance to the King. The cabinet change is not likely to have much effect on government policies because the King makes the final decision

on all important matters. Bista's anti-Indian reputation may make it easier for Kathmandu to compromise with New Delhi on the long-stalled Indo-Nepalese trade and transit talks; the Nepalese would not regard any agreement that Bista reaches as a "capitulation." [redacted]

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Pakistan: *The Issue Remains in Doubt*

The army appears to be making gains, particularly in the western part of East Pakistan, in occupying the larger cities and in re-establishing communications between them. American correspondents traveling through the province have reported that the West Pakistani troops have continued to destroy villages in an apparent effort to eliminate all means of cover for the separatists. Other observers in the area continue to report on the lack of equipment, disorganization, and poor leadership of the Bengali forces. Despite these problems and their recent military reverses, the secessionist troops give the appearance of having good—if somewhat fatalistic—morale.

Dacca remains generally quiet; government offices are functioning with perhaps 25 percent of the normal work force. One US official estimates that up to 70 percent of Dacca's population has fled the city. Reports describe the port of Chittagong as a "dead city," with only minor activity at the docks and over a score of ships waiting to be unloaded—many carrying PL-480 grain.

The Martial Law Administration has imposed a tough new regulation giving the government almost unlimited power of arrest and detention. At the same time, the West Pakistani authorities in Dacca have secured the agreement of some 140 East Pakistanis—including representatives of several minor political parties—to serve on a "Citizens' Peace Committee" pledged to re-establish a more normal situation in the province.

The outlawed Awami League, largest party in East Pakistan—many of whose leaders were captured or killed during the early hours of the army crackdown—has announced formation of a provisional government of Bangla Desh, according to the Indian radio. Tajuddin Ahmed, who ranks second to the imprisoned Mujibur Rahman in the party, has been named prime minister and is currently in India seeking international recognition for Bangla Desh. Prime Minister Gandhi, in

commenting publicly on the possibility of her government extending recognition to the Bengali regime, stated that the matter would receive "due consideration." Indian recognition of Bangla Desh would almost certainly lead to an immediate break in relations between New Delhi and Islamabad, and could raise tensions along the India - West Pakistan border.

Relations between the two nations are already under severe strain as a result of Pakistan's allegation that India is supplying arms, ammunition, and other supplies to the separatists. The Pakistanis claim Indian troops are operating in East Pakistan and some resident Western missionaries claim they have observed Indian troops in mufti near the city of Mymensingh. A clash of some nature may already have occurred, as claimed by Islamabad, between Indian Border Security Forces and Pakistani troops near the West Bengal - East Bengal border.

Communist China, meanwhile, has increased its verbal support for the Pakistani regime. Premier Chou En-lai, in a message to President Yahya Khan, pledged China's firm support to Pakistan in its efforts to maintain its sovereignty and independence. Chou accused India, the US, and the USSR of meddling in Pakistan's internal affairs. China's "support" however, is likely to remain purely verbal; Chou's message did not commit Peking to any course of action.

The Economic Situation

East Pakistan's economy—one of the poorest in the world under normal circumstances—has deteriorated considerably in recent weeks. The most critical problem has been the disruption to transportation, resulting in inadequate distribution of food and other supplies. Some areas already are short of food and a province-wide crisis could develop by September if distribution problems are not overcome. In Dacca, rice and gasoline

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were in short supply, power had been reduced, and no jute or cotton mills were operating. Elsewhere, aid projects have come to a halt—including work on cyclone rehabilitation.

The economic repercussions are spreading to West Pakistan as well. The cost of financing the military intervention has been a heavy new

burden on a strained budget. Foreign exchange reserves were already badly depleted, and will fall further as a result of the stoppage in exports from Chittagong. Merchants and manufacturers in West Pakistan who depend heavily on trade with the East have probably been hit hardest. [redacted]

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South Africa: Moving Outward

Prime Minister Vorster is determined to pursue South Africa's "outward movement"—his foreign policy of improving relations with black African states—despite opposition within his party and a general rebuff from black Africa. Vorster was encouraged by Ivory Coast President Houphouet-Boigny's call nearly six months ago for discussions with southern Africa, but this approach is still vigorously opposed by the great majority of the African governments. Vorster has taken some steps of his own during the past few weeks, such as inviting Malawi's President Banda to pay an official visit and stating his intention to invite other black African leaders to South Africa for discussions. Additionally, on 26 March, Swaziland Prime Minister Makhosini paid a semi-official visit to Vorster, the first meeting between these two leaders.

South African whites are, at best, ambivalent about the policy. Many believe that increased contacts with black Africans from other states could eventually force modification in South Africa's strict racial policies. Some fear this, and a smaller number welcome it. Important business interests endorse the policy because they see new commercial horizons to explore, and they fear the economic consequences of South Africa's continued isolation. Most members of the ruling National Party parliamentary caucus—the clique that makes government policy—are willing to go along, but are not enthusiastic; in fact, within the National Party as a whole, only a vocal minority approves the policy.

These steps have been hailed in the South African press as evidence that the outward movement is succeeding. The movement was originally formulated by Vorster's predecessor, Hendrik Verwoerd, as a means to break South Africa's isolation, but he was killed before he could work out the details. Although Vorster—a hard-headed and cautious politician—floundered for a while with Verwoerd's phrase, he finally decided to pursue the policy despite the short-run risk of dividing his party. During the past several years, some specific objectives of this policy have emerged—such as normalizing relations with black states to the north.

The basic problem is that South Africa's foreign and domestic policies conflict. If forced to choose, most South Africans would reject the outward movement. Vorster and his supporters may not accept the inevitability of this conflict. They believe, probably correctly, that they are in a position of strength, and they see the outward movement as an opportunity to achieve international respectability and to further South Africa's economic and security interests. Perhaps of equal importance, they could see this as a chance to buy much needed time in a changing world; they may even hope that the world will one day see the "correctness" of their thinking with regard to resolving racial problems. [redacted]

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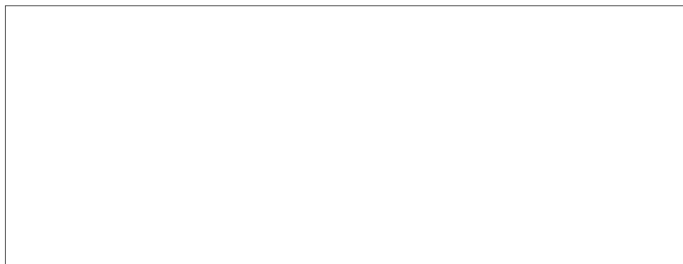
Brazil: *Government Reacts Strongly to Criticism*

The Medici government has demonstrated its hostility to criticism on sensitive issues by cracking down on the country's most prestigious newspaper.

At the end of March, federal police agents were ordered to exercise on-the-spot censorship of *O Estado de Sao Paulo* because of its continued criticism of some of the administration's actions, particularly the methods used to investigate all persons considered for appointment to public office. Although *O Estado* generally has supported the military-backed governments since the 1964 "revolution," it has frequently published articles on topics outlawed by the censors.

Several newspapers in Rio de Janeiro have complained lately about the Sao Paulo periodical's apparent immunity from punishment. The justice minister, with strong backing from top-level military officers, warned that if there were any further criticism of military security organizations or violations of censorship orders *O Estado's* offending editions would be seized and the paper closed. The police censors now have been removed from the premises of *O Estado* in return for the owners' agreement not to print articles specifically prohibited. The publishers have insisted, however, that they will not permit their editorial comment to be affected.

Some of the articles the government considered objectionable probably contained charges of torture; they were written by Sao Paulo's recently appointed Archbishop, Paulo Arns. In addition to publishing the allegation of brutal treatment of a priest, Arns repeated the charges at a meeting of the important National Council of Brazilian Bishops (CNBB) and may have told Pope Paul VI during a recent trip to Rome.



The crackdown on *O Estado* demonstrates again the government's overriding concern about criticism on topics involving "national security." Criticism from a broadening sector of the Brazilian Catholic hierarchy has deepened the suspicion in the minds of many security officials that at least part of the church is consciously giving support to elements who seek to undermine the "revolution."



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Archbishop Arns with Pope Paul VI

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Guyana Faces Serious Problems in Bauxite

The government is having trouble making some operational arrangements connected with its prospective nationalization of the Demerara Bauxite Company (DEMBA), a local subsidiary of the Aluminum Company of Canada (ALCAN).

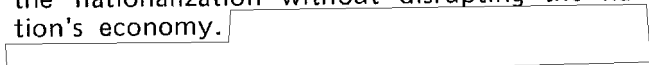
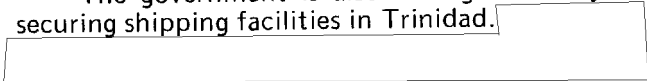


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Minister of Mines and Forests Hubert O. Jack, the cabinet minister responsible for the operation, said that obtaining a guaranteed source of raw materials, especially caustic soda, was the principal problem facing the government. The government has obtained a six-week supply and reportedly has an "agreement in principle" from the Dow Chemical Company to provide caustic soda in the future. Jack added that "vesting day," the date for the take-over of DEMBA, would be decided after the government has obtained an assured source for caustic soda.

Another problem is the lack of any person qualified to analyze the technical aspects of bauxite contracts entered into by the government. Jack said officials fear that, without the advice of a specialist, the government could be outwitted and sign an unfavorable contract. Guyana has not been able to retain the services of alien staff members necessary to run ALCAN's operations. In addition, the workers are still uncertain about the future, despite Burnham's personal visit to allay their fears. Burnham himself continues to be optimistic that he can negotiate the nationalization without disrupting the nation's economy.

The government is also having difficulty in securing shipping facilities in Trinidad.

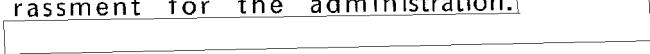


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URUGUAY: The government's most recent efforts to clamp down on the Tupamaros thus far are having only an accelerator effect on terrorist activities. The administration is again pushing for harsher jail sentences and has announced that it is considering construction of a new, high security prison for captured guerrillas. The Tupamaros have promised retribution by "peoples' courts" for legislators and army personnel supporting such measures.

who has financial connections with the recently ousted foreign minister, is missing; the terrorists may be planning another exposé of shady dealings by government figures. In addition, the terrorists have recently employed a new tactical weapon against police—a bazooka type grenade launcher that has been in the testing stage for several months. The urban guerrillas have made no demands for the British ambassador or the adviser to President Pacheco. They apparently intend their confinement as a continued public embarrassment for the administration.

The terrorists apparently have kidnaped their tenth hostage this week. A wealthy industrialist,



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Argentina: *Political Activity Renewed*

The Lanusse government has moved rapidly during its first few weeks in power to loosen the restrictions on civilian political activity and to give assurances that it will return Argentina to civilian rule within three years. These moves have been generally well received, although there is some fear in military circles that Lanusse is preparing to return the nation to the old system and the old politicians that proved so inadequate before the military intervention in 1966.



Lanusse's plans and actions stem primarily from the military's growing frustration at its inability to deal effectively with the nation's political, economic, and social problems since taking power in 1966. This same frustration, however, has prompted many military officers to favor a nationalist-populist approach similar to Peru's rather than a military withdrawal from government.



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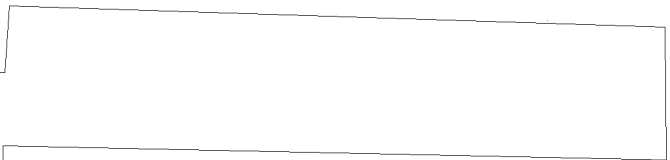
General Lanusse appears to have the solid backing of the major troop commanders at the present time. If he falters in his handling of the restoration of political processes or the troubled national economy, however, he could face serious trouble from those fearful of a return to old style politics or from the growing ranks of younger officers favoring a new military-led "revolutionary" approach.



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Developments in Chile

Although the recent municipal elections provided him a personal triumph, President Allende still faces political and economic challenges.



Within the UP, Communist Party (PCCh) leaders have rationalized their initial dismay over the impressive electoral showing of the rival Socialist Party.



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he had failed to win many peasants away from the PDC.

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Labor difficulties are among the mounting economic problems that concern Allende. In a speech on 9 April he again stressed his preoccupation over poor labor discipline, and demanded greater responsibility from workers. He strongly criticized rampant absenteeism and wage demands above the 35 percent authorized to meet last year's inflation rates. Pressure has kept down some wage settlements, but the government has not publicized the fact that at one copper installation where it has majority ownership, workers won increases of more than 60 percent. Copper workers, a labor elite in Chile, were reminded by Allende in the speech that they do not own the mines. He asked them to join other workers in voluntarily donating time and making a greater productive effort to stimulate the economy.

Finance Minister Zorilla, one of several Communists in top official economic posts, recently warned PCCh leaders that the "economic cushion" of foreign reserves inherited from the Frei government was beginning to wear thin, even before payments are made for increased imports of food products. Zorilla said that expenses were already exceeding the 1971 budget; he blamed inefficiency, indecision, and miscalculation within the administration as well as some of the populist measures that contributed to the coalition's good electoral showing.

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Allende fears that there will be a sharp decrease in food production because many landowners are cutting back agricultural operations in response to recent land seizures and to Agriculture Minister Chonchol's handling of the agrarian reform program. Allende said that Chonchol's activities were not even a political success because

[Redacted]

The newly designated Soviet ambassador to Santiago was re-elected to full membership in the Central Committee of the Communist Party of the USSR at the 24th Congress. He will be one of only three Central Committee members serving as ambassadors in non-Communist countries.

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HAITI: President Duvalier's failure to appear as planned at public festivities on 14 April disappointed foreign journalists who had been invited to see the President and is virtual proof that he is seriously ill. Highly placed Haitians are probably making plans for the post-Duvalier period, but as yet there are no obvious signs of general alarm or uneasiness over the situation. The government of the Dominican Republic, however, is apprehensive about the course events may take in Haiti,

and the armed forces are making contingency plans to protect the Dominican Republic from any effects of civil disorders in Haiti.

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