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DIRECTORATE OF
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WEEKLY SUMMARY

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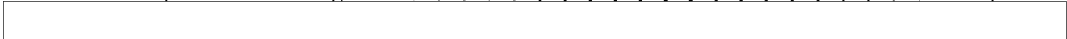
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FAR EAST

Indochina

South Vietnam: A Referendum for Thieu

President Thieu's plan for a referendum on his policies in place of a contested presidential election is drawing the heaviest and most widespread criticism he has yet faced. Even some political figures who have been friendly to Thieu believe that the President's recent tactics have been unwarranted and have hurt the country.

The Communists also are watching the political situation closely, and there are indications they have some hope that dissension within the ranks of the non-Communists will eventually cause a collapse in Saigon. Opposition to the President, while widespread, is nonetheless still far from united, and those hoping to force Thieu to change his course face formidable obstacles.



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The heightening tension in Saigon was underscored late in the week when the powerful An Quang Buddhist sect, which has helped bring down governments in the past, announced that it would call for a boycott of Thieu's 3 October referendum.

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One factor still contributing to stability is the loyalty of most leading generals. Thieu knows that his position ultimately rests largely on their support, and he has taken special pains to reward many of them and keep them in his camp. Big Minh has a following in the army, but since his withdrawal from the presidential race he has shown little disposition to become involved in opposition activities. Ky's support among the military is limited, but his capacity for forceful and dramatic action—possibly with the help of air

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force elements over which he still retains some control—cannot be discounted.

The most likely sources of popular support for activist opposition to Thieu in coming days are among student and veteran groups. The students in Saigon have been particularly aroused by the election developments, and they are probably responsible for the recent rash of fire bombings of US vehicles in Saigon. There already have been a number of self-immolations by veterans. Even though student leadership is divided and the Thieu government has reached out to meet some veterans' grievances, more fire bombings, immolations, and demonstrations are likely.

The ability of Thieu's opponents to mount an effective challenge against him probably depends mainly on whether they can work in coordination with one another—no small task because their interests and objectives are so different. The Buddhists, students, veterans, and various political factions usually think mainly in terms of their own causes and are naturally suspicious of each other. In order for these groups to unite behind any single opposition leader, that leader must speak out in a way that will draw them together. No one has yet been able to do this, but it is clear that Ky will be trying hard in coming days to find slogans for rallying support. Thieu's opponents will be taking an especially hard look at the modalities of the coming referendum to see if they provide any meaningful way to express and register dissent. Any "mistakes" by Thieu—for example, any moves that might make his regime appear more authoritarian or repressive—could give impetus to a more unified opposition movement.

Lam Son 810

The Communists have offered little resistance to the 15,000-man South Vietnamese

drive—dubbed Lam Son 810—into western Quang Tri Province, but numerous enemy weapon and munition caches have been uncovered since the push began on 6 September. There is no hard evidence that they plan to send units across the DMZ to counter the South Vietnamese operation. Elsewhere in South Vietnam, other enemy units are preparing for activities to disrupt the upcoming presidential election, but most preparations are in low key and do not appear to include plans for large-scale attacks.

Flood Recovery in the North

Flood waters in North Vietnam appear to be subsiding, allowing the government to proceed with relief and recovery measures. The large 10th-month rice crop has probably been heavily damaged, and some industries have been at least temporarily disrupted. There is no indication, however, of heavy loss of life.

The government is providing material aid to stricken communities, including free food to flood victims, materials, seeds, and fertilizer. The Chinese and the Soviets, taking advantage of the opportunity to show their solidarity with the Vietnamese, already are delivering construction supplies and equipment. Increased deliveries of food can be expected as relief measures use up domestic food stocks.

Cambodia: The War Winds On

The tempo of military action increased during the week as Communist forces reacted to Cambodian Army (FANK) operations in several

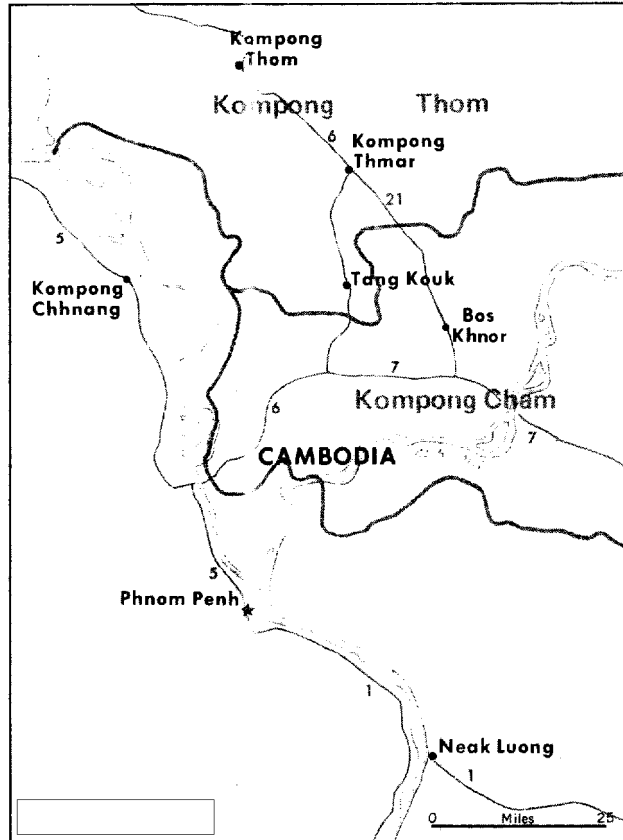
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sections of the country. Some of the sharpest fighting of the rainy season was reported in southern Kompong Thom Province. Elements of the government's Chenla II task force, which previously had met surprisingly light enemy resistance in clearing Route 6 between Tang Kouk and Kompong Thmar, took some sizable losses as a result of Communist ground attacks near the latter town. The Cambodians were also badly mauled on Route 5, south of Kompong Chhnang city; a security sweep there lost at least 46 killed and 51 wounded during a series of encounters with enemy troops. The enemy attacks in this area probably were designed to help disrupt rice convoys between Battambang and Phnom Penh. The convoys have only recently been resumed after repairs to a bridge on Route 5 that the Communists destroyed late last month.

Despite such reverses, however, Phnom Penh showed no signs of reducing its determination to maintain some military momentum against the Communists. East of Route 6, for example, Cambodian forces have continued to advance up Route 21 toward several rubber plantations in Kompong Cham Province that long have served as enemy base areas. Early in the week, four battalions moved unopposed into the town of Bos Khnor, which had been held by the Communists for many months. After resting a few days, the battalions apparently will resume their push north. It is not certain if they intend to try to clear Route 21 all the way to its junction with Route 6. The Communists probably would strongly challenge such a move.

Khmer Krom Power

Elite Khmer Krom units evidently have moved closer to a semiautonomous status within the Cambodian Army. Prime Minister Lon Nol has authorized the formation of a high-level Khmer Krom (KK) "committee" to coordinate and oversee Khmer Krom military affairs. The committee is headed by a prominent KK civilian,



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but all other key positions are held by KK commanders. The committee's organization parallels that of the Cambodian Army headquarters and presumably is meant to supplant the latter as a staff organization for some 14 KK infantry brigades in the country.

The committee's establishment appears to have been prompted by the concern of KK officers over what they viewed as serious shortcomings in the army's use of their units. Their grievances have included a lack of operational planning, poor logistical support and the failure to clamp down on corruption.

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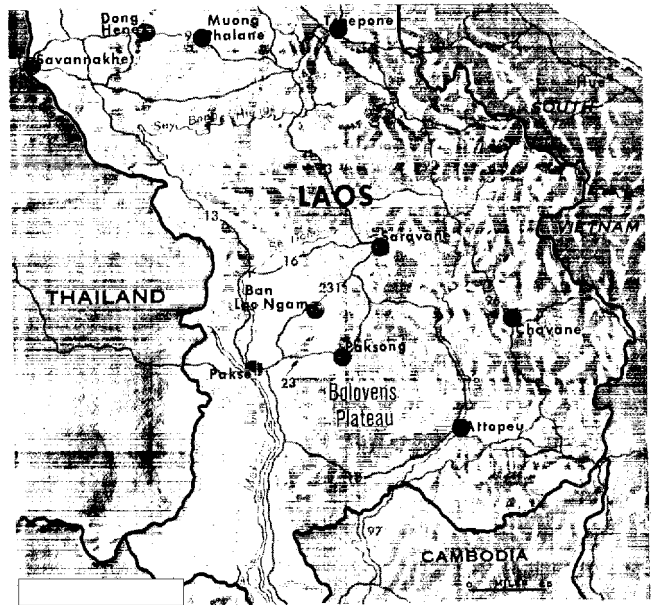
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The establishment of the committee appears, however, to be a step backward from the government's half-hearted efforts to integrate the KK fully into the Cambodian Army. It is not yet clear how the new KK organization will operate in practice, or how it will relate to army headquarters, particularly in supply procurement. There has been a minimum of difficulty so far between the KK and the army's top echelon, which appears to have subordinated questions about the KK's political loyalties to the realization that the KK units are Cambodia's most effective fighting force.

It is not yet clear who took the initiative in setting up the new committee, but Lon Nol probably estimates that by giving KK units such a wide measure of military independence he has ensured the retention of their political support.

Laos: Capture of Paksong

Government forces have captured Paksong on the Bolovens Plateau. Elements of two irregular battalions moved into the town on 15 September. The irregular troops are part of a larger government task force that, with artillery and air support, has been pushing toward Paksong since it was airlifted to positions three miles from the town on 11 and 12 September. By midday of 16 September the troops had cleared enemy forces from nearly all of Paksong after some tough house to house fighting. The government's next step presumably will be to try to link up with other government battalions that have been attempting to advance to Paksong along Route 23 for the past seven weeks. Paksong, the commercial center for the Bolovens Plateau area before its loss to the Communists in mid-May, is an



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important road junction, and its capture will give Vientiane a welcome psychological boost. 25X1

Some Action in the North

Vang Pao's irregulars have launched a limited offensive operation to improve their defensive posture before the end of the rainy season. The irregulars are trying to capture strategic high-ground positions north of the Plaine des Jarres. Units advancing north from near Route 74 encountered only light resistance as they moved on to several small hills, but they are likely to run into tougher resistance near Phou San, which was lost to the Communists in late August. Aerial observers report that the North Vietnamese there have built many new field fortifications. 25X1

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Indonesia: *Accent on Economic Progress*

President Suharto's postelection cabinet reshuffle, announced on 9 September, reflects the enhanced prestige of civilian technocrats, the decreased influence of political parties, and the government's determination to continue its priority on economic development. Despite the appearance of enlarged civilian responsibility, however, the Indonesian Army continues to hold predominant and ultimate power. Indeed, the role of political parties in the cabinet has been reduced to the bare minimum; each of the three largest—National Party,

Nahdatul Ulama, and Muslim Party—has only a single representative in a relatively insignificant post.

Suharto created a new portfolio of development planning for Widjojo, the able director of the National Planning Board who will continue to serve concurrently as head of that body. Three other economists on Widjojo's team have also been given cabinet posts; two replaced ineffective military men, and the other replaces an ailing civilian

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politician. Five of the 24 ministers are military, a decrease of one.

Of potential importance domestically is the assignment of the Ministry of Religion to Mukdi Ali, an apparently moderate Muslim who heads one of the member organizations of Golkar, the government's quasi-political party that won over 60 percent of the elected seats in the July parliamentary elections. His appointment appears to be a move toward ending control of the ministry by the corrupt and traditionalist Nahdatul Ulama. If Mukdi Ali is able to bring some semblance of efficiency and new thinking into his department, which reaches grass-roots levels through the Muslim school system, this change alone could help move some of the population into the twentieth century.

One other potentially important change is the elevation of General Panggabean, the deputy commander of the armed forces, to ministerial rank as assistant to Suharto. For the time being, Panggabean's assignment seems to clarify his position as the second-ranking military man after Suharto. It may also presage his appointment as defense minister if Suharto decides to relinquish that portfolio.

Domestic reaction to the cabinet reshuffle has been favorable. Youth leaders in particular, who have been the principal gadfly of the Suharto administration, have expressed their surprise and pleasure at the increased expertise of the cabinet. Other government critics have come reluctantly to realize that the Suharto administration is the most effective and progressive government in Indonesia in 22 years of independence.

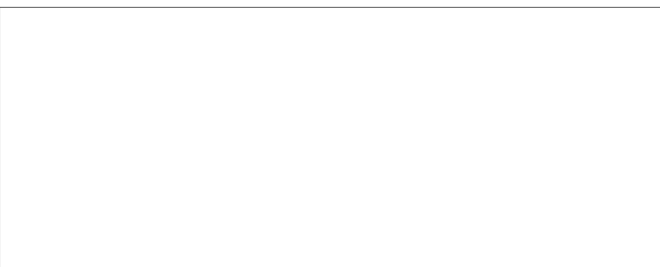
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Major Strides in Sino-Burmese Relations

Prime Minister Ne Win's sojourn to China a month ago has generated substantial progress toward resolving key issues separating China and Burma. Furthermore, the likelihood that he will return to Peking as a featured guest for the Chinese National Day celebrations on 1 October is added testimony that Sino-Burmese relations have nearly reached the high-water mark of pre-Cultural Revolution days.

The most significant result of the August visit was an agreement between Ne Win and Premier Chou En-lai that Rangoon would initiate a dialogue with Burmese Communist Party (BCP) leaders who are currently in China. Ne Win has already selected an emissary to meet BCP representatives in Peking this fall. Chinese support to the Burmese insurgents is the major outstanding issue between Peking and Rangoon as far as the Burmese are concerned. Chou's intentions appear to be to maneuver the insurgents into a phase of less inflammatory anti-government activity and thereby create a situation that would help protect Peking's diplomatic—and ideological—flank.

Chou and Ne Win also made progress on the sensitive issue of the status of Overseas Chinese in Burma. Chou apparently assured Ne Win that Peking would no longer foster close ties with Chinese communities abroad, and as a result Rangoon has relaxed its restrictions on the activities of local Chinese. Ne Win apparently also agreed to pay compensation to local Overseas Chinese for losses suffered during the anti-Chinese riots in 1967. This had been a major bone of contention and had been one of the original demands Peking made on the Burmese Government before normalizing relations. 25X1



Once lingering bilateral differences are satisfactorily ironed out, a new Sino-Burmese friendship and non-aggression agreement may also be in the offing. 25X1

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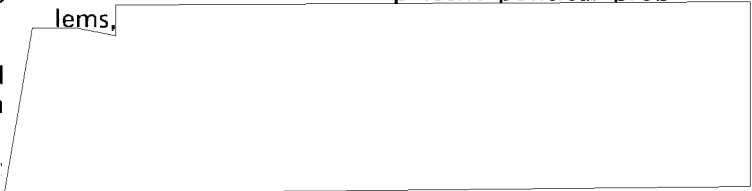
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Burma: *We'll Handle Our Drug Problems Ourselves*

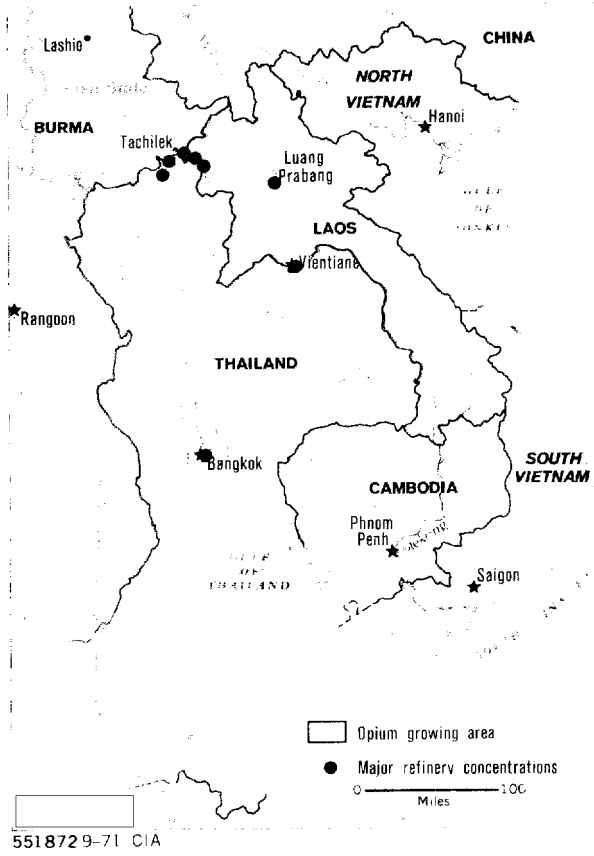
Prompted by growing international attention to the drug problem, the leaders in Rangoon have been unusually forthcoming to US approaches concerning the control of narcotics traffic in northeast Burma. Nevertheless, in recent talks with US officials the Burmese have made it clear that there are limits to how far they are willing to go and that Burma still holds to its long-standing isolationism.

Burmese officials have recently emphasized their determination to attack the domestic opium

production problem with a minimum of outside assistance or interference. Burma is willing to exchange information with the US on trafficking and refining, but it has rejected any involvement in international action. The Burmese have argued that joint efforts with Thailand and Laos to eliminate trafficking in the triborder area would present political problems.

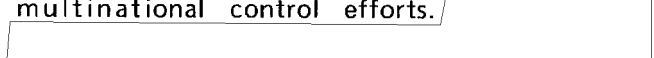


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The Burmese have on occasion confiscated opium in transit to transshipment points on the Thai border and have periodically closed down refineries in the border town of Tachilek. Burmese Government access to the Shan states area east of the Salween River, where much of Southeast Asia's opium is produced, is restricted, however, by Communist and ethnic insurgents who are active there. The area's proximity to China also makes the Burmese sensitive to any proposal that calls for third country activities. Rangoon is obviously reluctant to arouse Chinese suspicions and endanger the considerable improvement in Sino-Burmese relations that has resulted from General Ne Win's recent visit to Peking.

Despite Rangoon's freshly stated misgivings, it has still come a long way from the days when any cooperative effort with the US was ruled out. Sensitivity to international publicity about Burma as the source for much of the opium that is fed into world markets, plus awareness that the problem cannot be tackled singlehanded, may eventually prod Rangoon into greater participation in multinational control efforts.



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26th UN General Assembly Opens

The upcoming General Assembly session, expected to be highlighted by the voting on Chinese representation, will probably be the most acrimonious in years. From the heated debate, however, there may emerge an organization more reflective of changing international power relationships.

The China issue is not expected to be brought to a vote before the end of October. Nationalist supporters are preparing resolutions making expulsion of Taipei possible only by a two-thirds vote and calling for dual representation (DR), while opponents have already submitted a resolution calling for Peking's admission and the expulsion of Taipei. Neither side, however, has yet secured a decisive number of votes, and many states will remain uncommitted until the last moment.

The second focus of attention will be the selection of a successor to Secretary General Thant. Although Thant reiterated this week that he has no desire to serve again, the Soviets, who are satisfied with his generally passive attitudes toward the role and prerogatives of the office, may still seek to dissuade him. Finnish UN delegate Max Jakobson enjoys influential Western backing and reportedly Peking's endorsement, but his candidacy rankles Moscow. The Soviets appear troubled by Jakobson's writings in defense of Finnish neutrality, his strongly independent stance reminiscent of Dag Hammarskjold, and his Jewish background. In the event of an impasse, the leading potential compromise choices are Ceylonese delegate H. S. Amerasinghe, Austrian delegate Kurt Waldheim, UN Middle East envoy Gunnar Jarring, and Prince Sadruddin Aga Khan, the UN high commissioner for refugees.

The Assembly appears certain to deal with the Middle East and South Asian crises and possibly with the situations on Cyprus and in Northern Ireland. As usual, the Arabs may use the Assembly, whose resolutions are not binding, to push through controversial statements on ways of resolving their conflict with Israel. A heating up of the Indo-Pakistani dispute, the strong potential for famine conditions in the subcontinent during the session, and the impact of Peking's possible entry into the UN could make South Asia a focal point of Assembly debate.

Disarmament may be another key area of concern. Although the superpowers' draft convention curbing biological weapons appears headed for relatively smooth sailing through the Assembly, the nonaligned members—abetted by the environmental concerns of Canada and Japan—are likely to push hard for a comprehensive nuclear test ban (CTB) this fall. Sweden recently offered a draft CTB treaty that would attempt to resolve the thorny issue of verification by calling for "good faith cooperation" in international seismic exchanges. The nonaligned may also find appealing last week's Soviet initiative for a world disarmament conference.

The Assembly session will almost certainly again demonstrate its utility as a forum for the airing and, in some cases, easing of grievances. In certain areas, such as the Middle East and South Asia, UN discussions may exacerbate immediate problems, but prospects are that the meeting will show once more that there are still international concerns that the UN alone is equipped to address.

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International Economic Developments

The meeting of the finance ministers of the Group of Ten, that ended yesterday in London, highlighted and increasingly unified opposition among the Europeans, and the Japanese, to the recent US monetary and trade measures.

Earlier in the week, the European Communities' finance ministers agreed on what may be an initial bargaining position for international monetary reform. A set of recommendations was presented to the Group of Ten meeting and received strong British support, as well as the general informal backing of Canada and Japan. The recommendations call for a devaluation of the dollar as part of general currency realignment, a widening of currency fluctuation margins, and greater use of Special Drawing Rights in the creation of new international reserves. The EC ministers were also united in their call for the prompt removal of the US 10-percent import surcharge as well as cancellation of proposed tax benefits restricted to domestic US investments. They contend these measures make a realistic adjustment of exchange rates an impossibility. The EC ministers' appeal received strong support from the other Group of Ten members and it is possible that they will insist on such actions before agreeing to a general currency realignment.

Although the EC pulled together on the question of monetary reform, the Six have been unable to come up with a common exchange rate policy. Currently, they are standing pat with their present national exchange rate schemes. In part, this reflects some satisfaction with the workings of the various floating and dual-rate systems. The EC Commission has warned, however, of the potentially dangerous consequences for intracomunity trade in general, and the common agricultural policy in particular, if a joint exchange rate policy is not established. Nevertheless, the Six are likely in the immediate future to stress unity on broad principles for international monetary reform, while side-stepping the more sticky problem of reconciling French-German differences over exchange rate changes. Some of the EC countries remain worried, however, about the political consequences of hardening European attitudes against the US economic measures. The Germans, in particular, have expressed the hope that a confrontation could be avoided by the US re-emphasizing its devotion to liberal trade policies.

In a related development, the joint call for a dollar devaluation triggered the purchase of strong currencies, particularly the German mark, which at midweek has appreciated to a post - May 1971 high of 8.8 percent over parity.

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UN: The UN comptroller this week reported that the organization was barely able to meet its mid-month payroll and cannot honor its end-of-the-month obligations without substantial contributions from the member states. He believes Secretary General Thant may have to impose arbitrary restrictions on UN programs, although Thant probably would be reluctant to do so without the General Assembly's approval. This devel-

opment is certain to exacerbate the usual Assembly debate on budgetary problems, already heightened this year by the threat of staff employees to engage in strike action unless they win a 15-percent pay boost. UN deficits stem in large measure from Soviet and French refusals to pay a number of past assessments for peace-keeping missions, particularly the Congo operations of the early 1960s.

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USSR: *Good Harvest, but Grain Problems*

Despite indications that the quantity of grain harvested this year may fall just short of the previous record, insufficient reserves of breadgrains may increase Soviet requirements for grain imports. This situation arises because of a sharp increase in the use of wheat as livestock feed, a higher level of dependence of East European and other client states on Soviet grain, and physical deterioration of some grain reserves, making them unsuitable for human consumption.

If normal weather conditions prevail during the balance of the harvest, 1971 grain production is expected to fall midway between the record crop of 150 million tons in 1970 and the 135-million-ton average for the last five years. The completed harvest of winter grains, that normally account for about 36 percent of production, appears to have reached last year's record level. Because of lateness in ripening and harvesting, the outlook for spring grains remains uncertain. By 1 September only about 60 percent of the total grain acreage had been harvested, compared to a long-run average of 70 percent. If, as often happens, weather conditions rapidly deteriorate by the end of September, there could be a reduction in the harvest below the present forecast.

Even with a good harvest, it appears that the Soviets will face problems because reserves of wheat suitable for breadmaking are low. Soviet grain reserves, earlier placed at half the annual foodgrain requirement, now have been reduced, reflecting the use of greater amounts of grain as seed and the deterioration of some grain through improper storage. In addition, an official campaign to alleviate domestic meat shortages has led to increased use of wheat as feed. For example, in 1970 the amount of wheat fed to livestock was three times the normal rate, seriously adding to the reduction of buffer stocks.

If bad weather interferes sufficiently with the rest of the current harvest, the USSR could be in the market for more imported grain. Moscow already has contracted for four million tons to be delivered in the year ending June 1972, about twice the average annual imports for the 1967-70 period. Nevertheless, because of pressures to meet traditional commitments to client states, the Soviets are expected to remain net exporters of grain.

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FINLAND: President Kekkonen's proposal on 11 September to establish diplomatic relations with both Germanies may have been prompted in part by Helsinki's desire to win Soviet approval for future commercial arrangements with the European Communities. The gesture, which includes identical draft treaties for Pankow and Bonn, appears to have been initiated entirely by the Finns and not at Soviet behest. The Finns may hope to impress the Soviets with a move that gives equal treatment to East and West Germany.

There are aspects of the proposal, however, that are unacceptable to either of the Germanies.

Although the East Germans appear delighted at the prospect of recognition by a West European country—an anathema to Bonn—the draft treaty calls for reparations from Bonn and Pankow for German-caused destruction in Finland during World War II. This aspect of the proposal, which contradicts East Germany's policy of shunning all responsibility for Nazi excesses, suggests the Finns hoped to make the stakes too high for early acceptance by either country.

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NATO Allies Prepare to Move Toward Security Conference

The Western allies appear willing to wait until all three stages of the Berlin agreement are concluded before moving to multilateral preparations for a Conference on European Security. They generally assume, however, that by December, when the NATO foreign ministers meet in Brussels, the Berlin accord will have been concluded or will be far enough advanced to enable them to authorize multilateral moves toward a security conference.

The success of the four-power phase of the Berlin talks has relieved much of the tension within the Alliance over NATO's insistence that a Berlin accord precede any conference preparations. The allies view a security conference with varying degrees of enthusiasm, but they all realize that they must now work out a consensus on what kind of a conference they prefer and what it would seek to accomplish.

There is substantial agreement that at a conference on European security the West should press for liberalization in Eastern Europe. The allies will attempt to undercut the "Brezhnev doctrine" through a strong reaffirmation of the principles of sovereignty and territorial integrity of all European states. The Soviets will also be challenged to permit freer movement of persons, ideas, and information in the bloc. In addition, the allies intend to promote broader East-West cooperation in environmental and trade matters. In the latter area, the members of the European Communities (EC) are discussing whether the Communities should be represented at such a security conference. All but the French now favor Community participation in order to promote direct dealings between the Communist states and the Community as a unit.

Prior to the ministerial, the allies may have sharp differences over two competing concepts of conference procedures. Many of the allies, including the US, currently favor low-level East-West discussions leading up to the conference, possibly in late 1972. The West Germans particularly desire methodical preparations, preferring that the conference itself be held after they reach a modus vivendi with the East Germans on UN membership for the two states. Paris, however, probably will continue to argue for an initial high-level conference—possibly in early 1972—followed by working-level sessions, and finally a second security conference at which any agreements reached earlier would be ratified. Some allies find the French position attractive and the question may have to be left for the ministers to discuss.

The relationship between a Conference on European Security and Mutual and Balanced Force Reductions (MBFR) remains a tricky question for NATO, particularly because of French opposition to MBFR. Many allies believe that a security conference and force reduction negotiations should develop in parallel, thus ensuring that "cooperation"—the major ingredient of Soviet conference proposals—is accompanied by measures dealing with "security." Although none of the allies believes it feasible to negotiate force reductions at a security conference, some feel it might be possible to relate the two in some less integral fashion. Moreover, any security conference umbrella for force reductions, while not resolving French concerns about the dangers of such reductions, might moderate France's ideological objection to MBFR as a perpetuation of the bloc-to-bloc system in Europe.

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Malta: Mintoff Is Still Negotiating for Foreign Aid

Over the past several months, Prime Minister Mintoff has improved his country's prospects for external financing from a variety of sources by taking a more independent stance on foreign policy. Final conditions for aid, the amounts, and even the contributing countries concerned, however, are still under discussion.

Relations with the United Kingdom have been increasingly acrimonious, but both sides still seem to expect an eventual agreement on new defense and financial arrangements. The NATO countries have put together a package of almost \$24 million a year for the British to offer Mintoff. Malta's over-all budget totals only \$111 million for the 1971 fiscal year. Mintoff apparently realizes that NATO's offer is unlikely to go any higher, and he now wants to know what individual NATO countries are willing to offer on a bilateral basis.

Malta's warmest relationship appears to be with West Germany. The Germans, although becoming impatient in recent weeks with Mintoff, have contributed to the NATO package and are

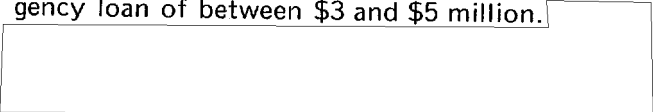


Prime Minister Mintoff

inclined to offer a substantial amount in subsequent bilateral aid.

Mintoff and his Labor Party have been antagonistic to Italy, which has been associated with right-wing forces on Malta. Rome is especially interested in the Mediterranean, however; it has pledged its contribution to the UK-NATO package and is tentatively thinking of \$5 million in additional aid to Valletta over a five-year period. Bilateral aid to Malta is also under consideration in several other NATO capitals.

Outside the Western camp, Mintoff has apparently had success, primarily in Tripoli. Libyan aid appears thus far to be restricted to an emergency loan of between \$3 and \$5 million.



Negotiations with Moscow have been limited by Mintoff's long-standing determination to avoid a close relationship with the USSR. Nevertheless, following nonresident Soviet Ambassador Smirnovsky's second visit to Valletta this summer, Moscow has announced that it has a "favorable attitude" toward giving economic assistance to the island and that Soviet merchant ships will use Malta's drydocks for repair.

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Mintoff apparently hopes to obtain enough development aid from the variety of foreign sources available to make his country economically independent within the 1970s. He faces serious hurdles on the domestic front, however, even if his quest for foreign aid is successful. Despite his leadership of the Labor Party, Mintoff has not been able to eliminate strife in the dockyards, Malta's most important industrial asset. On the contrary, the dockworkers have undertaken a wildcat work slowdown to implement their demands for a say in the management of the yards.

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Berlin: *Second Phase of Talks Stalled*

After three "negotiating" sessions between East and West German officials and between East German and West Berlin representatives, the inter-German phase of the Berlin talks has stalled. Pankow has refused to adhere to the German text of the quadripartite treaty earlier agreed to by both German states. It has also attempted to shift negotiations on the transit of West Berliners to West Germany from the East-West German forum to the East German - West Berlin forum. By these tactics, Pankow hopes to loosen the ties between West Berlin and West Germany acknowledged by the four-power accords and to strengthen East Germany's contention that West Berlin is a separate political entity.

The East Germans have not simply resorted to intransigence; they have loaded the negotiating tables with draft treaties and agreements. At the same time their media is flooded with statements proclaiming readiness to bring the talks to a swift conclusion and decrying alleged West German obstructionism. By posing as the more "reasonable" partner in the inter-German talks, Pankow hopes to gain international support for its claim to equal status with West Germany. Furthermore, by resurrecting the broader issues already settled by the

four powers, Pankow wants to underscore its claim to sovereignty that was overridden during the four-power phase of the talks.

The East German position has posed a dilemma for the West Germans. They are eager to wrap up the inter-German talks in a matter of weeks, although apparently not at the cost of acknowledging East German legal conceptions or of encouraging further chicanery by Pankow. Bonn, therefore, apparently hopes a firm stance, as evidenced by its unwillingness to pursue substantive discussions pending a settlement of the textual issue, will bring pressure to bear on the East Germans.

In addition, Chancellor Brandt, during his meeting with Brezhnev at a Black Sea resort on 16-18 September, is almost certain to seek Soviet help in moving the inter-German talks forward. Brandt also is expected to sound out the Soviets on prospects for bilateral trade, cultural, and commercial air agreements. The early conclusion of such pacts would contrast sharply with East Germany's foot-dragging tactics and would dampen the critical fervor of opposition Christian Democrats, who are always eager to exploit any slackening in the pace of Ostpolitik. [redacted]

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Soviet Ships Show Flag Near US Territory

An eight-ship Soviet task group continues an extended North Pacific deployment that includes operations in areas close to US waters. The deployment from Petropavlovsk began in late August and has been highlighted by operations in the Gulf of Alaska and in the vicinity of Hawaii. A guided missile light cruiser is the flagship of the group that also includes a nuclear-powered cruise missile submarine, two diesel-powered attack

submarines, two guided missile destroyers, a submarine tender, and a tanker.

The ships deployed northward from Petropavlovsk about 25 August in two groups. The tender and two F-class attack submarines transited north of the Aleutians while the surface group passed to the south. After rendezvous, the task group moved into the Gulf of Alaska to

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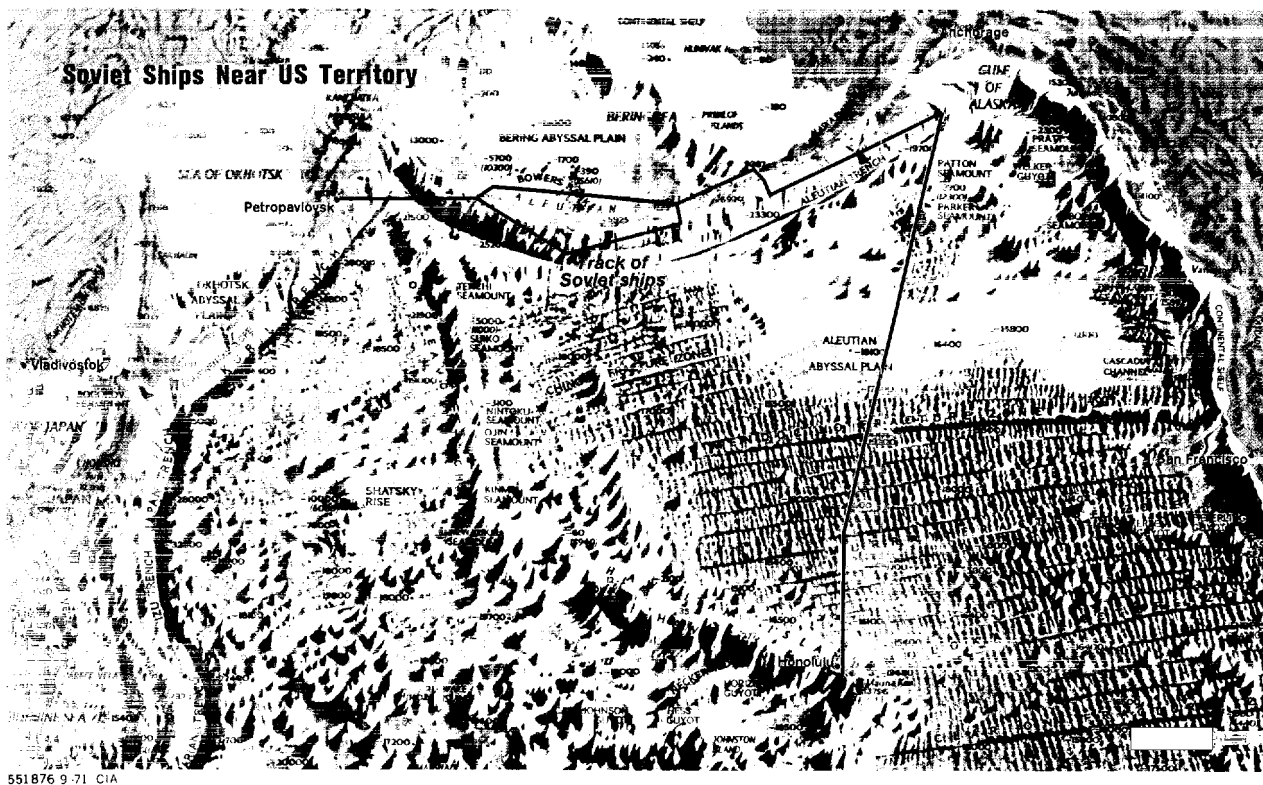
conduct basic ASW, task group, and helicopter operations. During the transit and while in the Hawaiian area the Soviet ships have conducted various task group operations. They were located about 30 miles south of Honolulu, before beginning the return transit to home waters on 14 September.

This is the first deployment of Soviet surface combatants so close to the Hawaiian Islands, although two guided missile destroyers operated for a month in mid-1966 near the western reaches of the Hawaiian Island chain. The two destroyers

may have been supporting space operations at that time.

The mission and length of deployment of the current task group remains undetermined. Thus far, all exercises could have been performed in the normal Soviet naval operating areas in the western Pacific. The significant aspect of the deployment seems to be that the Soviets chose to conduct these exercises in areas close to US territory and far from their own waters. Thus, the deployment seems to be both a demonstration of the maturity of the Soviet Pacific Fleet and an exercise in "showing the flag."

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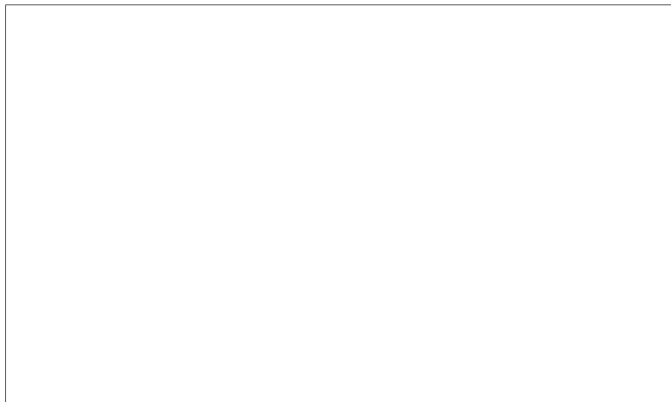
Soviets Stepping Up Research in Antarctica

The Soviets are preparing their largest expedition to the Antarctic since beginning research there in the mid-1950s. The program announced for the expedition is a further expansion of the Soviet effort to explore the Antarctic for scientific and military purposes—an effort that has doubled since 1967.

The seventeenth Soviet Antarctic Expedition is scheduled to begin in late October and will involve 420 scientists and technicians. During this expedition, the Soviets plan to begin preliminary work for establishing their seventh permanent research station, giving them the most extensive coverage of any country studying the Antarctic environment. The Soviets also plan several field programs during the expedition, including a geological and geophysical study of the Prince Charles Mountains. In addition, they will attempt two long traverses—one a joint effort with the French from Dumont d'Urville to Vostok utilizing US air support.

The new Soviet program calls for the continuation of research in several scientific fields. A wide range of basic meteorological and geophysical observations has been regularly conducted at all stations. The collection of meteorological data is facilitated by the use of small sounding rockets launched from the Molo-dezhnaya station. Oceanographic research has also been an important part of the program and is being increased. New or expanded research programs will be conducted in radio communications, space medicine, surface and satellite

geodesy, marine biology, glaciology and geomagnetism.



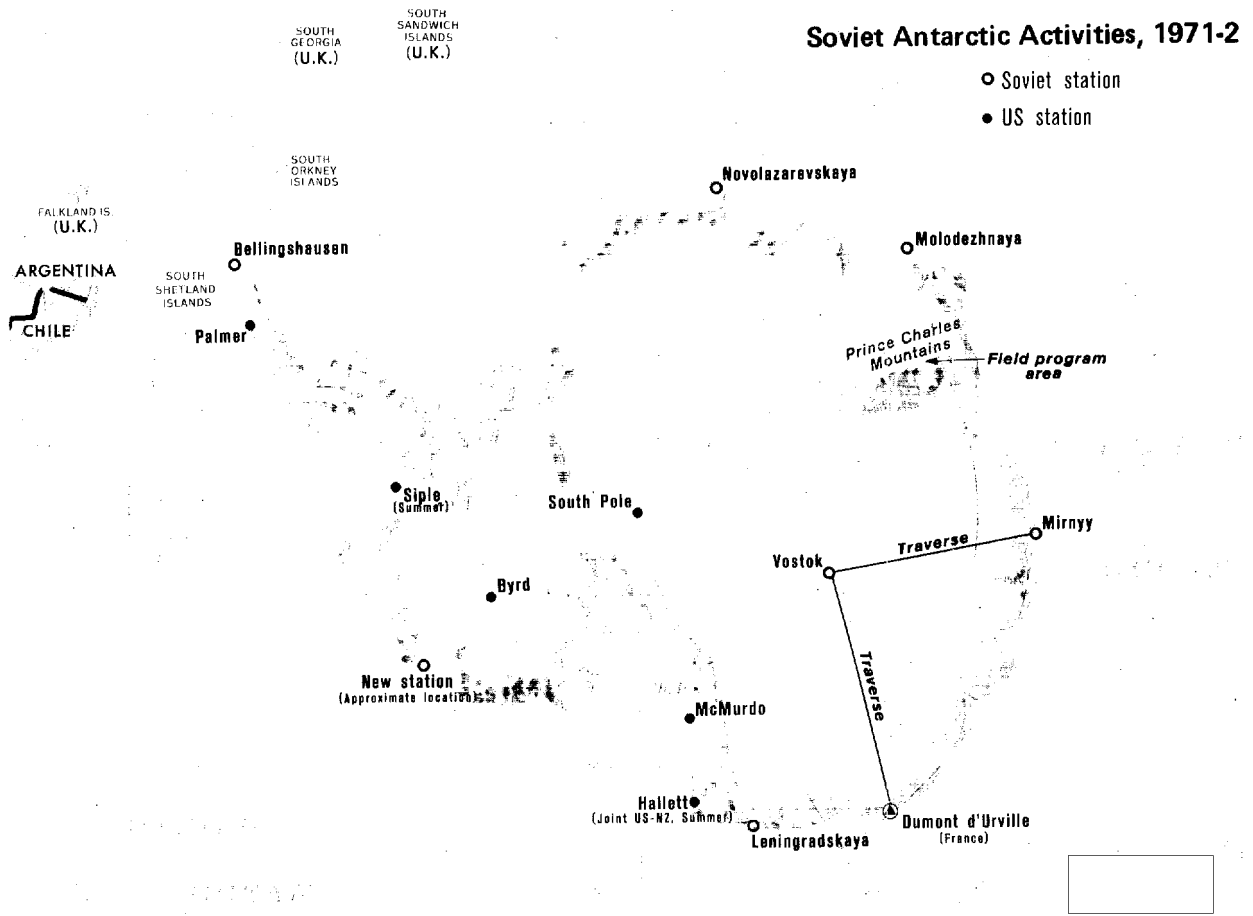
As Soviet research has been expanded, monitoring Soviet activity has become more difficult despite a 12-nation treaty that requires annual written reports on all Antarctic explorations. In recent years, the Soviet reports have provided incomplete information on several categories of activities and have omitted completely the names of the scientists who participate in the summer programs. The Soviets normally have submitted these reports well after the time specified in the treaty and have yet to provide the US with one—due last November—on their sixteenth expedition. In addition to these reports, the signatory nations have the right to visit each other's research stations. In this connection, the US has sent one scientist to work at a Soviet station each year and the Soviets have reciprocated. The US supplements these exchanges by inspections of one or two Soviet stations every three or four years.

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Polish Leadership Campaigns Against Corruption and Crime

The Polish regime, with party leader Gierek in the forefront, has launched an intensive drive against corruption at all levels of the bureaucracy, but with particular emphasis on the decay in local party organizations. The campaign has a message for all elements of Polish society, however, and

appears to be an attempt to instill in the populace an awareness of the need for over-all improvement in administrative efficiency and moral standards, if Gierek's program of "national renewal" is to be realized.

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Local party plenums are screening out those party officials and rank-and-file members who are unwilling or incapable of implementing Gierek's programs. Thousands of members have been dropped from party rolls for passive attitudes or their inability to respond to the workers' needs. Although passivity seems to be the cardinal sin, other offenses have been aired in the press.

The main party daily, *Trybuna Ludu* recently admitted that the party had been "invaded by people who use their membership for private ends." The article said the current review of party ranks was designed to ferret out such "careerists" who join to secure connections. The daily cited cases in which members used positions of influence to establish criminal networks that embezzle "socialist property." The exposé stressed that these "syndicates" operated successfully only because there was a "collusion of silence" among corrupt party members. It was noted, for example, that in some provinces very few members are reprimanded or dismissed from the party even after they have been sentenced to prison terms.

Character-building lectures, however, have not been addressed solely to party members. An extensive crackdown is under way against all those who have violated general law and order. In the first half of 1971 cases of assault and battery have increased 18 percent and cases of rape 26

percent compared to the first half of 1970. Alarmed by this rapidly increasing crime rate the media have criticized lenient sentences given to "hooligans," and summary court proceedings have been introduced in several large cities. In a recent study of 290 enterprises, state inspectors uncovered widespread tardiness, a general lack of work discipline, and unjustified absenteeism by employees engaged in illegal part-time jobs.

The central theme running through all of these sermons is that criminal activity and bad management, even though not always identical, are related, because they both sap the material resources of the country and erode the ethical standards of the populace. Gierek clearly recognizes that if he is to permanently quell the popular discontent that erupted last winter Poland's productivity must increase. This will not be possible, however, unless social irresponsibility and noncommitment are curbed. Gierek also realizes that if the party is to be the leading force in Polish society its members must set the example in self-discipline. He will also find it convenient to use this rededication process not only to comb out deadwood but to insert his own supporters into the party's ranks prior to the congress in December.

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Denmark: *Parliamentary Election Likely to be Close*

An extremely close outcome is anticipated in the quadrennial Danish parliamentary election on 21 September. The basic continuity of Danish policies is not in question, but a parliamentary stalemate and a weak—possibly minority—government could complicate Danish relations with the US and Western Europe.

The incumbent three-party coalition of Radical Liberals, Conservatives, and Moderate

Liberals, which won 54 percent of the vote and 98 of the 179 seats in parliament in 1968, hopes to remain in power. The popularity of this coalition under Prime Minister Hilmar Baunsgaard reached a nadir last spring, however, reflecting the government's inability to check inflation and to cope with perennial balance-of-payments difficulties. Opinion polls have shown an upward trend since then, but it is moot whether the improvement will be translated into a solid majority at the polls.

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The chief threat to the governing coalition comes from the opposition Social Democrats (SDP), Denmark's largest party with 62 seats in parliament. Their leader, former prime minister Jens Otto Krag, harbors no illusions of winning a majority. He is prepared, however, to form a minority government if his party regains the seven seats lost in 1968 and the present coalition loses its majority. Such a minority government probably would have the tacit support of the small left-wing Socialist People's Party (SF), but at the cost of pulling governmental policies to the left on some issues.

The domestic economy is the major campaign issue, with concern over Danish entry into the European Communities playing an important, if indeterminate, role behind the scenes. The coalition parties and the SDP are officially in favor of entry, but there is some, and possibly growing, opposition in all of them. Moreover,

some SDP leaders fear that a few oppositionists in their party may defect to the SF, which is opposed to entry. Nevertheless, even an SDP minority government need not fear that dependence on the SF would hamstring it, for the decision on EC entry ultimately depends upon a national referendum next year; observers confidently predict that the outcome will register in favor of membership.

All major contenders also support continued Danish membership in NATO, but the SDP at its annual convention in August called for the adoption of a more aggressively anti-Greek and anti-Portuguese stance in NATO, and the party is on record favoring a retrenchment of the country's defense establishment. An SDP minority government also would be more likely to extend early diplomatic recognition to North Vietnam than would a renewed version of the present coalition.

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Prime Minister Baunsgaard



Otto Jens Krag

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MIDDLE EAST - AFRICA

India-Pakistan: *Whether or Not to Invade*

In the next few weeks, Prime Minister Gandhi will probably decide whether to invade East Pakistan this fall. By early October, or sooner, the end of monsoon rains will make large-scale operations in East Pakistan possible. Some of her advisers will argue that further delay will only increase India's problems and make intervention at a later date more difficult. War could be forced on India by some pre-emptive move of the Pakistanis, but it is more likely to stem from an Indian decision based on the continuing flow of refugees, on fear that without intervention East Pakistan will eventually be taken over by leftists, or on domestic political pressure.

According to the Indians, there are now almost 8.5 million refugees, and they continue to arrive at the rate of 40,000 a day. If there seems to be no letup, at some point the Indians may well decide that war is the only solution to the refugee problem.

President Yahya, by appointing a civilian governor in East Pakistan, by issuing an amnesty for all but the insurgent leaders, and by taking steps toward establishing an elected civilian government sometime next year, has attempted to improve the political situation. The Indians tend to discount these moves as a facade for continued military action, and the mistrust built up over the last six months makes most Bengalis skeptical of Yahya's intentions. It is still too soon to tell whether Yahya's actions will have any significant effect on political conditions and consequently on the refugee flow, but the Bengali reaction will be clearer in a few weeks.

Famine could lead to an increase in the number of refugees. The latest estimate by the US Consulate General in Dacca, however, is that the

likelihood of famine in October has decreased. The prevention of serious food shortages will still depend on the food distribution system functioning smoothly.

There is no immediate threat of a leftist take-over of the insurgent movement, and most guerrilla bands are still loyal to the principles of the moderate Awami League. Leftist influence in the guerrilla movement, however, has grown steadily, and recently the league and the Indians felt it necessary to form a "National Liberation Front" and to include both pro-Soviet and other, more radical, Bengali leftist leaders.

The Indian Parliament will probably not meet until November, so Mrs. Gandhi will not have to contend with immediate domestic political problems. She knows, however, that her critics will eventually try to exploit any failure to save Bangla Desh.

Mrs. Gandhi will also hear strong arguments against intervention. Her advisers will argue that an invasion of East Pakistan means a costly war.

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[Redacted]

The final assessment of Chinese intentions could be crucial in Mrs. Gandhi's decision. The Soviets have consistently urged restraint. Mrs. Gandhi will go to Moscow on 27 September, and her assessment of the degree of Soviet support or disapproval that India can expect will be an important factor in her decision.

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In the meantime, both India and Pakistan continue to prepare for war. India apparently has moved another brigade to the eastern border of East Pakistan bringing its strength there to a full

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division. There are some indications that India's only armored division may be moving closer to the West Pakistan border. It had been assumed that India would not go to war as long as this division remained in central India.

There have been no recent major troop movements on the Pakistani side of the border, but forces are in a high state of readiness there.

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Middle East Developments

Along the battlefronts...

The most serious incident in the Suez Canal area since the cease-fire was instituted in August 1970 occurred this week when the Israelis shot down an Egyptian SU-7 aircraft on a reconnaissance mission over the Sinai Peninsula. Other Egyptian flights have been fired on by the Israelis, but this is the first one brought down. Continued Israeli flights over Egyptian territory also pose the risk of further incidents.

From Cairo...

The strike at the industrial center of Hulwan in late August allegedly had political implications. The organizers of the strike were said to be demonstrating their support for former leftist vice president Ali Sabri, who is being tried for planning a coup against President Sadat. The delay of more than a week in announcing the strike seems unwarranted for what was officially described as a routine wrangle between labor and management. Moreover, Sadat had intimated that the strikers had ties with "certain centers of power"—interpreted by observers as Sabri and his alleged coconspirators. Sabri formerly wielded considerable influence with Hulwan's large work force. If this strike was politically motivated, it would represent the first public opposition to Sadat. The president now may take an even more active interest in the conspiracy trials, which are entering their third week behind closed doors in Cairo.

Sadat seized the occasion of a nearly unanimous popular vote in favor of the constitu-

tion last Saturday to order the formation of a new government. Prime Minister Fawzi submitted his resignation and is now serving as the head of a caretaker cabinet. The successor government is expected to be announced this weekend, according to the US Interests Section, which anticipates some major personnel and structural changes. Sadat may mollify some of the deposed ministers by appointing them to posts in the newly formed Federation of Arab Republics (FAR). The president has portrayed the new constitution and the imminent government reorganization as the latest phase in the restructuring of Egyptian institutions pledged last April when he cashiered Sabri and others who shared Nasir's mantle.

In Damascus...

The Italian diplomat who represents US interests in Syria says President Asad is still seeking ways to develop popular support and to assuage opposition forces both within his own Baath party and among Syrian Communists.

When Asad assumed power last November he planned to form a party that would include all political interests. The President now appears to want a "progressive front" to allow the Baath Party to remain dominant, to satisfy dissident elements in his own party, and at the same time to provide some accommodation to the Communists who have supported all of his major policy formulations so far. A cabinet reshuffle and some changes in the Foreign Ministry may also be in the offing.

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A significant sector of the Syrian public is believed to oppose Syrian participation in the FAR. The government admitted four percent of the voters in a recent referendum opposed Syria's participation, an admission considered to be an attempt by the government to remain credible in the face of this opposition.

Asad's continuing hard-line position toward Jordan over fedayeen problems and the submission of the Jerusalem question to the UN Security Council, as well as anti-US statements from the recent Baath Party congress, are also symptomatic of his need to hold the line in the face of opposition. [redacted]

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Ghana: *Government Moves Against Labor Federation*

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The government moved last week to break the back of organized labor, the strongest independent force in Ghana.

Ghana's heretofore strong trade unions which have some 340,000 members may soon wither.

The government, stung by recent sharp attacks on its new austerity program by leaders of Ghana's central labor federation, has rushed through parliament a measure abolishing the federation, eliminating the dues check-off system, and outlawing compulsory union membership. In addition, the labor minister was empowered to decree a 90-day cooling-off period to prevent strikes, after which he may impose a settlement.

The government has announced that it will deal harshly with any strikes, and given the state of preparedness of the police, it seems unlikely that any strikes will get out of hand at an early stage. Over the longer term, however, the blow against the unions will deepen the workers' disenchantment with Busia, especially if the regime maintains its uncompromising stand against demands for relief from Ghana's serious inflation. The result may be a growing wave of wildcat strikes and other spontaneous disruptions by workers. [redacted]

Prime Minister Busia, whose constituency is mainly rural, claims the moves are directed solely at the labor federation, which he asserts had illegally retained powers it gained as an arm of the Nkrumah regime. The legislation, however, strikes at the basic sources of strength of the member unions as well. Deprived of a secure financial base and the power to compel workers to become members and virtually denied the right to strike,

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Bolivia: *Banzer's Problems Persist*

President Banzer has increased pressure on the extreme left, but the stability of his coalition government is also threatened by developments within the National Popular Front.

Several clashes between army units and guerrilla groups—apparently on military initiative—have been reported since 3 September. Oscar Zamora's pro-Peking Communist Party and the Union of Poor Peasants, which is also headed by Zamora, have been implicated. The alleged presence of foreigners among the guerrillas, however, suggests that the National Liberation Army is also involved. The government is probably taking preemptive action against what it perceives as a real guerrilla-terrorist threat. These suppressive measures are part of a wide-ranging campaign against centers of extreme leftist activity. The universities have been ordered closed until next March, and arrests of labor leaders are being followed up with an attempt to install a more pliable brand of leadership and to restructure the unions.

respond to old personal rivalries and long-smoldering ideological differences. A formal party split resulting in the MNR's left wing leaving both the government and the party could occur. Thus far, the Bolivian Socialist Falange appears to be united in its support of the coalition.

Banzer is probably convinced that should the National Popular Front disintegrate, his regime could carry on with only the support of the military. Maintaining the loyalty of the armed

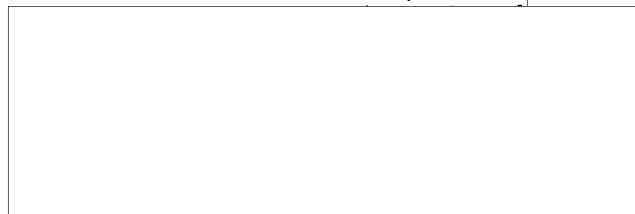


President Banzer



While Banzer deals with the extreme left, centrifugal forces within and among the uneasy allies in the National Popular Front are building. Dissension within the Nationalist Revolutionary Movement (MNR) is reportedly intensifying. Intraparty battle lines, centering on continued participation in the government coalition, cor-

forces is thus of the utmost importance.



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Chile: *Dissension Inside and Outside of the Government*

President Salvador Allende, reacting to differences within the ranks of his Popular Unity (UP) coalition as well as to the virtual certainty of economic hard times ahead, has mounted a broad-front attack on opposition forces. His efforts may indeed further weaken an already divided opposition, but dissension within the UP and other elements of the left have weakened the government's prospects for monolithic rule despite the facade of consensus to which it clings.

Through all government-controlled media, Allende has attacked "sedition," which he charges is increasingly evident in Chile. He also pointedly sent his interior minister to seek the cooperation of the largest opposition group, the Christian Democratic Party (PDC), in ferreting out subversive elements. The appeal to the PDC was sweetened by Allende's inclusion of the far left, as well as the far right, under the subversive label. The government then brought formal charges under the national security law against two prominent conservative spokesmen—National Party leader Sergio Onofre Jarpa, who had accused the government of turning Chile into a "totalitarian Communist state opening the road to Soviet penetration in Latin America," and *Sepa* magazine editor Rafael Oterq, who has allegedly slandered the Chilean Army.

These actions have been accompanied by an intensified attack on the few remaining opposition newspapers, particularly *El Mercurio*. The small group of pro-UP workers at *El Mercurio* have publicly charged some of the newspaper's executives with evading taxes by carrying their own supposedly voluntary salary cuts as operating expenses, thus reducing earnings to workers under the organization's profit-sharing arrangement. Ignoring the newspaper management's refutation of the government's charges, UP-controlled editorialists and broadcasters pressed on with their attack, accusing *El Mercurio* and its sister journal, *La Segunda*, of persecuting their pro-UP employees and of being instruments of the CIA. The opposition newspapers are aware that the ma-

ajority of their employees support their position, but there is a real fear that the workers' stand could be changed dramatically by a government threat against their jobs.

The pluralistic support on which Allende has placed so high a value—the UP contains non-Marxist as well as Marxist elements—is being undercut by disagreements and splits on the left. The struggle for supremacy within the UP between the Communists (PCCh) and Socialists (PS) continues, with the tide slowly turning in favor of the PCCh. Allende himself, although a long-time PS leader, is increasingly taking the more moderate stance of the PCCh. Partly because of his interest in Christian Democratic cooperation and partly through simple prudence, he has issued arrest warrants for activist leaders of the extremist Movement of the Revolutionary Left. For their part, the Socialists, already suffering from the President's disfavor, are also being challenged by the Radical Party for working-level positions in several administrative agencies.

In addition to differences between the Communists and the Socialists, and within the Socialist Party itself, Allende's coalition has also been shaken recently by the splintering of two of its other member groups—the Christian Left Movement has emerged from the Unitary Popular Action Movement (MAPU), and the Independent Radical Leftist Movement has splintered off from the Radicals. One member of Allende's cabinet offered to resign after leaving MAPU, but his resignation was not accepted. Another cabinet position was taken over by a member of MAPU following the resignation of a minister representing the Social Democratic Party, another small UP constituent. The Social Democrats and the main body of the Radicals appear to be making their own independent power adjustment by laying the groundwork for a merger. The upset in the balance of power within the coalition is likely to be further remedied by a number of additional cabinet changes.

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Uruguay: *Angry Rhetoric and a Promise of Action*

President Pacheco has responded to the Tupamaros' spectacular prison break by assigning control of the counterterrorist effort to the military. Pacheco's emotional rhetoric also included the promise of further action, including a proposal for "national control" of the educational system—a persistent problem for the administration.

On the face of it, the transfer of responsibility for combating subversion from the police to military commands appears to presage a significant broadening of government powers. Armed forces authorities indicated they believed that legal jurisdiction for terrorist crimes would now fall to military courts, that search-and-seizure operations would not be encumbered by legal procedures, and that captured terrorists would come under military guard and not be subject to civil penal regulations. The civilian government apparatus has generally operated within the letter of such constitutional safeguards and has been unable to strike a telling blow against the urban guerrilla movement. Both the Congress and the Supreme Court have blocked past administration efforts to gain more sweeping powers, and they could again pose difficulties for the President.

In a second step, Pacheco announced that he would soon propose a law for reform of the schools, which he described as centers of ideological indoctrination at the service of the enemy. Recent demonstrations by secondary school students have led to several major confrontations with police, and the university is a recognized breeding ground for Tupamaros. Pacheco has clashed with the legislature several times in an effort to implement better state control; the government intervened the schools last year and administered the secondary system until June of

this year, ceding authority when the Congress passed a bill establishing a new governing council. The President's new proposals, when made public, will bring opposition from the university sector and increase chances for antigovernment action by the students.

In promising to root out corruption in government, Pacheco pledged an all-out defense of democracy and, in a burst of emotional rhetoric, pledged to lay down his life in the battle. The government repeated its promise to hold elections in November.

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The Tupamaros meanwhile attempted to maintain their initiative by freeing British Ambassador Jackson last week after eight months of confinement—a further reminder to the public that the government cannot effectively counter the terrorists. A Tupamaro communiqué also repeated support for the leftist coalition, Frente Amplio, in the November elections. The terrorist document, although still contending that armed revolution is the proper path to success, was the warmest endorsement of the electoral process to date. It also disclaimed responsibility for recent revenge killings of police, claiming the movement had in fact stayed its hand despite provocations by the oligarchy.

Striking successes by the government against the Tupamaros will at least partly justify the new measures, but a lack of results will lend substance to the terrorists' public position that elections are necessary but made meaningless by government repression.

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Venezuela Moves Toward Andean Pact

Prospects for Venezuelan entry into the Andean Pact are brightening, and President Caldera reportedly will decide Venezuela's course before the end of the year. Most political parties and technocrats are favorably disposed, especially as the pact members seem increasingly willing to accommodate Venezuelan conditions for privileged treatment, and this attitude seems likely to outweigh continuing opposition from industrial interests.

The Caldera administration convoked a "national forum" last month, seeking new bases for policy making on economic integration. On the basis of its final report, Caldera will decide whether to buck important business interests and lead Venezuela into the pact—a move with diminishing political risk now that most sectors regard it positively.

The Andean Pact, which now includes Bolivia, Chile, Colombia, Ecuador, and Peru, would be significantly boosted by Venezuelan membership. Venezuela's foreign reserves (the highest in Latin America) and stable currency would be powerful assets in international negotiations, and with the second highest per capita product in Latin America its entry would substantially enlarge the group's effective consumer market. Venezuela's inclusion in the pact also would considerably strengthen the group's combined position in the Latin American Free Trade Association and give it a more powerful voice in dealings with the relatively advanced "big three," Brazil, Argentina and Mexico.

Venezuelan businessmen fear the competition from the lower cost industries in the pact nations, particularly Colombia. Over the last 20 years Venezuela has promoted manufacturing under hothouse conditions of state protection and credits in order to lessen its dependence on oil, which still accounts for over 90 percent of its export earnings. The country has paid a high price to diversify because, over the years, a strongly

protectionist atmosphere has developed. As a result, manufacturers have been content to produce on a small scale, with high costs and broad profit margins, for the captive domestic market of 10 million people. Supporters of pact membership believe that the Venezuelan consumer is paying too much for industrialization and claim that Venezuelan companies, if forced into a competitive situation, will become more efficient and eventually enjoy enlarged new markets.

Early this month the new director of economic policy in the Foreign Ministry indicated that the pact members and Venezuela have moved closer together on essential points. Venezuela has abandoned its earlier notion of associative participation and will join as a full member or not at all. The five meanwhile have made membership more attractive by being more receptive to Venezuela's conditions, such as special safeguards against devaluation by other member states and restrictions on the migration of cheap Colombian labor into Venezuela.

One major obstacle has related to the Andean investment code, which is potentially restrictive toward foreign investment, but there has been a recent suggestion that the code is no longer a serious stumbling block. A blue ribbon commission in Caracas is preparing draft legislation for an investment code, which has been represented by some key members as leaning toward the Mexican model, defining economic activities in which foreign investment is not permitted to operate, those in which there must be majority local control, and those in which foreign investors may be full owners. The pact members, however, noting the economic nationalist mood in Venezuela, may expect the Venezuelan Congress to enact a more stringent code akin to the Andean one. In any event, signs of optimism that Venezuela will join have appeared in all the pact countries, and these have been reflected in Caracas.

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