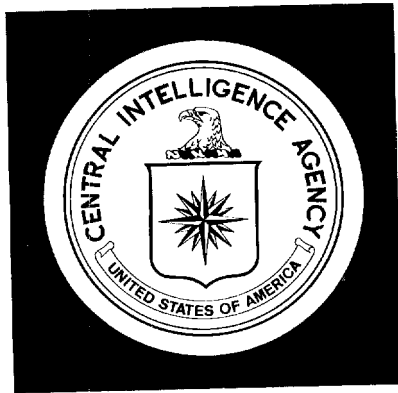


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Weekly Summary

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31 August 1973
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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

WARNING

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary.

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China

THE SHORT CONGRESS

(1+2)

China's leaders evidently decided that, with respect to their Tenth Party Congress, brevity was the soul of virtue. The congress, which met in Peking from 24-28 August, was the shortest since the Communists gained power in 1949. A new Politburo and new Central Committee were elected, a revised party constitution was adopted, the deceased Lin Piao was denounced by name and the Soviet Union was clearly labeled China's principal enemy. The brevity of the meeting suggests that the leadership found it expedient to avoid a full discussion of many controversial policy issues. That nettlesome job was presumably left to the new Politburo.

Mao presided at the five-day affair, and Chou En-lai gave the political report, a task usually assigned to the number two man in the party. The new Politburo, like its predecessor, has 21 full members and four alternates and is a mix of moderate officials, radical ideologues, military men, and elder statesmen. There are nine new faces, but none of the active members has been removed and none of the former Politburo members rehabilitated earlier this year regained a slot. The group seems evenly balanced between moderates and radicals.

The new, enlarged Central Committee retains the same mixed flavor. While the number of senior military officers on it declined slightly to approximately 30 percent of the total, they still retain a higher level of representation than at any time prior to the Cultural Revolution. Recently rehabilitated officials, who were dropped at the last Congress in 1969, are back on the Central Committee.

The Congress denounced Lin Piao by name for the first time, and formally read Chen Po-ta, Mao's former speech writer and a Cultural Revolution radical, out of the party. Both Lin and Chen have been subjected to veiled criticism since 1971. The Congress reached a unanimous decision on the fate of other high-ranking military men who disappeared from view at the time the Lin

plot in 1971 was announced, but did not say what that decision was. Criticism of Lin Piao and his followers was cited as the primary task, indicating that further purges may be in prospect for those adjudged to have been associated with the former defense minister or his policies.

Perhaps the biggest surprise to come out of the Congress was the rise of Wang Hung-wen, a young Shanghai party official who was a radical during the Cultural Revolution. Wang gave the report on the new draft party constitution, which will remove Lin's designation as Mao's successor. Wang is now one of the five vice chairmen of the party. He is probably more acceptable to Chou and other moderate leaders than either Madame Mao or Yao Wen-yuan. Another significant promotion went to Chang Chun-chiao, the Shanghai party boss. Chang, who may have moderated his once radical views, has been a power in the central leadership since the Cultural Revolution. He may now be performing the duties of party secretary general, although no one was specifically assigned to that position, last held by the rehabilitated Teng Hsiao-ping.

The special attention accorded the Soviet Union in the communique made clear that Moscow is still considered the most dangerous threat to Chinese security and Peking's foremost ideological foe. The congress called on the Chinese populace to be on guard, particularly against a surprise Soviet attack. In other respects, the communique reaffirmed the basic premises and directions of China's post-Cultural Revolution foreign policy.

Many outstanding issues remain to be sorted out by the new Politburo; foremost among them are the role of the military in the political arena and the question of what to do with rehabilitated officials. The radical attacks in the media, which were appearing even as the Congress met, suggest that the Tenth Party Congress was not the "Congress of Unity" it claimed to be and that sides have been chosen for further debate on these questions.

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Libya-Egypt

UNION: NOT THERE YET

(3+4)
After months of controversy, much of it a public spectacle, President Sadat has successfully blocked President Qadhafi's drive for "complete and immediate" union. The joint announcement issued earlier this week was a major victory for Egyptian efforts to postpone the actual integration of the two countries. President Qadhafi is not accustomed to such public setbacks, and he will be even more difficult for Sadat to handle in the months ahead.

The declaration, while paying lip service to the Libyan principle of full union, provides for

nothing more than another round of planning and a few token steps toward unification. According to the statement a constituent assembly—composed of 50 delegates from each country—will be selected on 1 September to draft a new constitution, nominate a president (presumably Sadat), and arrange for a referendum to be held in both countries. A ministerial planning council will also be formed to coordinate preparations for eventual merger. The only step toward actual integration was an agreement to use an Egyptian-Libyan dinar as the unit of accounting between the two countries. No specific deadline was given for the completion of these measures, and during the interim the two countries will remain separate.

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The declaration indicates that the Egyptians who have considerable experience in merger experiments, got their way on almost every point. The omission of a deadline for full partnership will give Sadat time to press his search for alternatives to Libya's wealth. More important, he will be able—at least for the time being—to conduct Egypt's affairs in his own way.

Nevertheless, Sadat will not be free of trouble from Qadhafi. The Libyan leader is no doubt feeling the sting of the first really telling failure in his single-minded campaign for full merger and will almost certainly intensify his efforts to have his own way. Qadhafi is well aware that Sadat has deepened his involvement in the union—however slightly—and he may believe that Sadat will thus be less able to withstand further Libyan pressures. Qadhafi has already staked his participation in the unity scheme—and, indeed, his leadership of Libya—on a merger which reflects his principles. Despite the compromise he has had to make, this remains in effect. The threat that an unsatisfied Qadhafi might retire to the desert at any time will be used along with other forms of Libyan pressure to hasten the Egyptians along the desired road.

Another tortuous round of negotiations thus seems inevitable, and they will bring the deep divisions between Qadhafi and Sadat on both foreign and domestic policy into ever sharper focus. The two leaders disagree on a very wide range of issues—from the question of war with Israel to the proper use of the Arab's oil wealth. Libya's antagonism toward Washington and Moscow diverges from Egypt's more pragmatic attitude toward both capitals. Qadhafi's revolutionary ideas and unorthodox style will cause Sadat many headaches, as such issues as Libya's "cultural revolution" challenge Egyptian tolerance. These differences will make coordination of their policies difficult, and the viability of the shaky relationship questionable.

VISITING FRIENDS

⁶ Prior to the merger announcement, Sadat spent five days in Saudi Arabia, Qatar, and Syria, primarily in pursuit of new economic assistance for Egypt. Sadat was also trying, however unrealistically, to forge a unity among the Arabs that will enable them to compete on more even terms with Israel.

The recent emergence of Saudi Arabia, rich in oil and money, into prominence in inter-Arab affairs, has added a new factor to the Arab equation and given impetus to Sadat's current efforts. The situation created by superpower detente, Sadat says, must be met by building on what he calls "intrinsic Arab power"—that is, oil and money. Cairo radio commentaries have hinted that the political use of oil against the US and other supporters of Israel was the chief topic of Sadat's talks with King Faysal, but these commentaries appear to be primarily for propaganda purposes.

Sadat has more prosaic—but more pressing—uses in mind for the "intrinsic power" that Saudi oil money constitutes; Saudi financial assistance to, and investment in, Egypt are no doubt Sadat's main interest. The Saudis have been far from generous, but Faysal has recently shown himself to be willing to loosen the purse strings if only to buy political influence in Cairo. One sign of this is the report that Saudi Arabia is buying a number of French Mirages, some of which will be handed over to Egypt.

The oil Sheikdom of Qatar offers Egypt similar, if more modest, prospects for aid. Syria has no money to give away or oil to use as a political weapon, but it is the principal front line state after Egypt itself, and continued good relations with the Syrians are vital to Sadat in his move to forge Arab unity.

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North Vietnam: A Militant Speaks Up

(15 - 19)

Recent articles suggest that a debate is going on within the North Vietnamese leadership over North Vietnam's strategy in the South. On 18 and 25 August the North Vietnamese Army daily published articles by an author who in the past has strongly favored an aggressive military policy in South Vietnam. The author—whose pen name is Chien Thang ("the victor")—was pushing as early as the first part of 1971 for a major offensive, and he published an authoritative exposition of Hanoi's war strategy on the eve of the 1972 offensive. He has not been heard from since last September, just before the Paris talks began to bear fruit.

Chien Thang's two new articles update his assessment of the military situation. He claims:

- that the US military withdrawal has decisively tilted the military balance in South Vietnam in the Communists' favor;
- that the Communists in the South now have "all the decisive factors to win victory";
- that North Vietnam has the ability—and by implication the duty—to support the struggle in the South as it has in the past;
- that aid from Hanoi's Communist patrons is far less important than the "subjective" assets that the Vietnamese Communists already possess in abundance; and
- that the North's "basic needs" can be taken care of as they were in earlier phases of the war. (He apparently is prepared to acknowledge that reconstruction in the North would suffer if Hanoi stepped up its investment in the southern struggle.)

Chien Thang does give a nod to the need to implement the Paris Agreement and the joint communique in June, but his articles focus on the

military opportunities he claims to see in the present situation. In this respect he is at odds with present North Vietnamese strategy, which stresses reconstruction in the North and political struggle backed by limited military operations in the South.

Although Chien Thang is arguing a case for intensified military pressure, the magnitude of the effort he is urging is not clear. He may be advocating a major offensive as he did in 1971, but several references in the articles to a "protracted" struggle could indicate that he prefers a longer-term effort at a somewhat lower level. Also, it is not clear how much support Chien Thang can count on for his views—and particularly for his highly optimistic account of present Communist capabilities. The fact that he was able to publish his views does suggest that he has some backing, and it may be concentrated in the North Vietnamese military hierarchy and the apparatus inside South Vietnam.

The tone of the articles suggests that Chien Thang and his allies think the question of future strategy is open—or at least more open than at any other time in the last year. This would in fact be a logical time for the leadership to review its strategy in the South, taking into consideration both its experience with the cease-fire and the aid agreements recently concluded with Peking and Moscow, which apparently emphasized economic rather than military assistance. Such a review could begin when First Secretary Le Duan returns from his long sojourn in the USSR. Le Duan left Moscow on 28 August and is now in Peking.

If the regime adopts Chien Thang's line, the shift would probably be reflected in:

- Hanoi's domestic propaganda, which almost certainly would modify its current emphasis on reconstruction;

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- new directives to units in South Vietnam, reversing the current emphasis on a low military profile.

high turnout to counter Viet Cong claims of support among the population. The Communists did little to disrupt the election; only a few scattered terrorist incidents marred the polling.

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INDOCHINA

NO SURPRISES IN SENATE VOTE

(15-19)

[The government scored a landslide victory in the Senate election last Sunday, easily capturing all 31 seats at stake. More than 92 percent of those registered went to the polls, exceeding the figures for all other nationwide elections in recent years. The government worked hard to ensure a



Thieu now controls more than two thirds of the votes in the 60-seat Senate; opposition Buddhist and Catholic groups have about 15 seats. Since Thieu already enjoys a wide majority in the Lower House, the National Assembly seems certain to become a rubber stamp for government legislation. Moreover, Thieu would be in a position to carry out any plans he may have for amending the constitution to strengthen his position still further. It is widely rumored that Thieu would like to abolish the present two-term presidential limit that would force him to give up his office in 1975.

The election demonstrated Thieu's current unchallenged position vis-a-vis his non-Communist opponents. The Democracy Party passed its first major test at the polls with flying colors, but its victory reflects the strength and discipline of the government apparatus rather than popular acceptance. The election does not reflect any new support for Thieu; it does point up the fact that those opposed to him remain divided or have withdrawn from an active political role.

LAOS: THE RIGHTISTS WANT MORE

(22+23)
Prime Minister Souvanna late last week managed to extract two additional concessions from the Pathet Lao, but the rightists in Vientiane continued to raise other objections. The Lao Communists reportedly agreed that their man did not have to be named the senior of two deputy prime ministers and they gave additional ground on the delineation of areas of control. Souvanna immediately took these concessions to his critics, hoping to get their approval for a signing ceremony, but he met more foot-dragging. The Lao Communists have made it clear that they will not make further adjustments and have threatened to return to their headquarters in Sam Neua if the stalemate with the rightists continues much longer.

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Souvanna, who remembers how the assassination of the pro-Communist foreign minister led to the failure of the coalition in 1963, would prefer not to have a repeat performance. As a result, he has been making persistent efforts to gain right-wing approval for the new political settlement. He may now, however, have little recourse but to ignore the objections of the military officers and politicians and sign the agreement as it stands.

This week Souvanna reiterated his intention to resign if the rightists do not accept the draft agreement. While he almost certainly has no intention of actually stepping down, Souvanna probably believes that this threat will cause alarmed Western diplomats to put additional pressure on the rightists. He may also hope to split rightist ranks, dividing those willing to see him leave the government from those who believe he must remain as prime minister if there is to be any hope of a lasting settlement in Laos.?

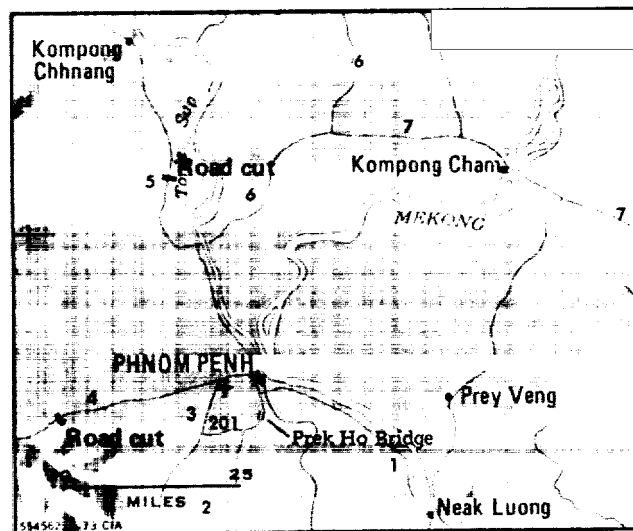
Route 5 leading to the capital from the northwest was reopened on 30 August, but Route 4 is cut about 30 miles from the capital. Although the capital is cut off from the seaport of Kompong Som, most supplies have been arriving aboard Mekong River convoys. Two convoys have made the run upriver since the bombing halt and encountered little Communist shore fire. There is no shortage of rice or petroleum in the capital.

Things have not been going so well for government defenders at the provincial capital of Kompong Cham. Several outposts north of the city fell during the week, and the insurgents have shelled and probed the western and southern perimeter every day. The airstrip just northwest of Kompong Cham is still in government hands. It is within range of insurgent artillery, however, and the Cambodian Air Force has begun to air-drop supplies.

CAMBODIA: HOLDING THE LINE

(20 + 21)
Phnom Penh's defenders have held up well during the round of fighting that began last week. Elements of the Cambodian Army's 1st Division quickly beat off insurgent attacks on Route 1 southeast of the capital and claim to have killed over 200 Communist troops. Later, units from the division moved to the opposite side of the city and drove a small insurgent force from Route 4, ten miles west of Pochentong Airport.

The insurgent effort on the southern front fared no better. Early on 29 August small Communist units breached the defense line on Route 201 south of the rain-swollen Prek Thnaot River and quickly gained control of a mile of the highway. Government troops—supported by artillery—counterattacked late in the day and forced some of the Communists to withdraw.



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PHILIPPINES: A FIRMER GRIP

24 [Last September President Marcos declared martial law and seized full power, and a year later he shows growing confidence that his most pressing political and security problems are under control. Marcos demonstrated his self-assurance by opening a public trial of his long-time political antagonist, Senator Aquino, on charges of subversion and by permitting a four-man delegation of Islamic foreign ministers to tour the areas of Muslim dissidence in the south.]

28 [Under the old constitution, which Marcos has consigned to the ash heap, Marcos was ineligible to run for president, and Liberal Party leader Aquino was the leading contender. With the imposition of martial law, however, Aquino was one of the first arrested. Although most other political prisoners under martial law have been freed, Aquino was held until a case against him could be built. By holding a public trial, Marcos hopes to convince his critics that Aquino's arrest was justified. Earlier this year, such a trial might have triggered student and liberal demonstrations, but Marcos has carefully neutralized these sources of opposition and can now expect the trial to proceed with few if any disruptions.]

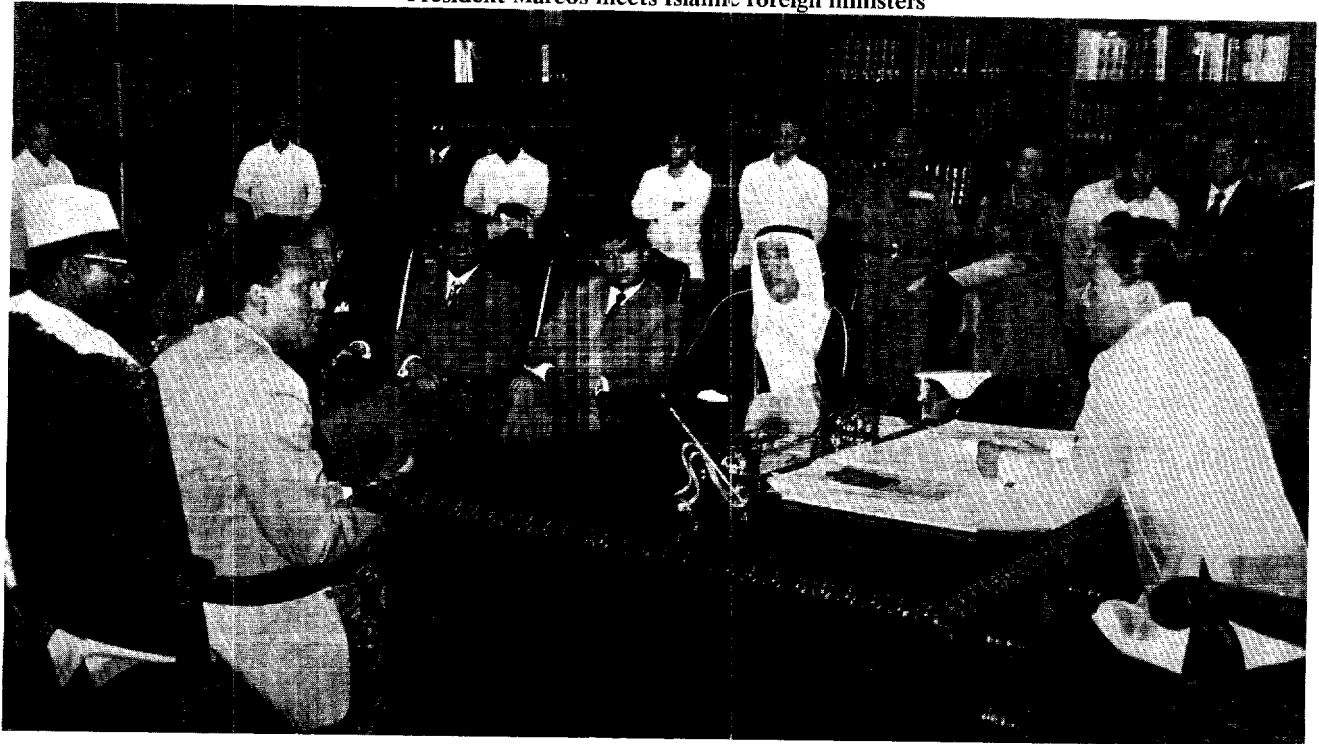
28 [Marcos' most pressing problem is the continuing threat of a rice shortage which could create opposition to martial law among urban middle and lower classes. Marcos should be able to weather even a severe shortage, because there is

at present no leadership available to mobilize an opposition movement.]

28 [Marcos has undertaken new moves to deal with the Muslim rebellion in the south, a serious security problem for the last 11 months.] With the fighting stabilized for the time being at a manageable level, Marcos is offering political compromises, which he hopes will meet Muslim grievances without giving the appearance of caving in under pressure. On 18 August, he created three new provinces in the rebel areas by redrawing boundaries to correspond better to the distribution of Muslim and Christian populations. Although he refused to remove two unpopular Christian military commanders, as demanded by the rebels, he did restrict their area of operation. It is expected that Muslims will be appointed to the top posts in one and perhaps two of the new, predominantly Muslim provinces.]

26 [These conciliatory efforts are unlikely to convince the more militant rebels, but they may appeal to the more moderate Muslims, both at home and abroad, and the President is clearly interested in the latter. A recent visit by four Islamic foreign ministers apparently went surprisingly well, and they departed without a word of criticism. Marcos made an all-out effort to establish his good intentions and to give them an idea of the complexity of the problem. Although disappointed at Manila's close supervision of their

President Marcos meets Islamic foreign ministers



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25X1 itinerary, the delegation members were generally pleased with the visit. [redacted]

JAPAN: FERMENT IN THE PARTY

30 ¶ The Liberal Democratic Party, since its inception in 1955, has been an uneasy coalition of semi-independent factions competing for power within the party. These factions often embrace divergent political philosophies, and their squabbles have sometimes led to tensions. The infighting, however, has also fostered policy debate and promoted flexibility in meeting new challenges and has thus contributed to the basic strength of the party. ¶

29 ¶ Debate among the factions has intensified recently. The party is faced with an important Diet election in 1974, and Prime Minister Tanaka has at times appeared vulnerable. Some ambitious faction leaders, foreseeing a party leadership contest within the next couple of years, are stimulating policy debate. The primary forum for these debates are informal discussion groups that draw members from a number of the dozen Liberal Democratic Party factions. ¶

29 ¶ The Seirankai, formed earlier this summer by 30 young turks, is currently the most active pressure group. Avowedly critical of Tanaka, the group advocates a return to more conservative, anti-communist positions in foreign and domestic affairs. In addition to deploring the current warming of relations with China and North Korea, the Seirankai wants to rewrite Japan's constitution and upgrade the status of the defense forces and the Emperor. ¶

30 ¶ Most members of the Seirankai are junior Dietmen who are frustrated with the party's seniority system and its lack of dynamic leadership. Their fervor has stirred speculation about right-wing defections from the party, but this appears unlikely. Senior leaders of the party's conservative factions denounce the group, and most voters seem offended by the society's aura of prewar

nationalism and outdated cold war concepts. The group's long-term influence is also limited by the absence of any member powerful enough to meld the 30 members of the Seirankai into a working political faction. ¶

30 ¶ Even with these limitations on its ultimate role, however, the Seirankai has exerted a measurable impact upon party policy. They have reinforced demands from other conservative elements that Tanaka stop catering to the Communist Party and that he use his parliamentary majority more forcefully to control Diet business. This Seirankai position coincides with a noticeable rise in public disillusionment with the radical left in recent months. ¶

30 ¶ In contrast to the conservative Seirankai, other recently formed study groups are concerned with specific economic and urban policies in Japan. Composed of both young and old Diet members, these groups are critical of the ruling party's devotion to economic growth at the expense of environmental protection and welfare services and see this emphasis as a real political weakness. One such group is the Hirakawakai, headed by a former trade minister who is one of Japan's foremost economic planners. It is concerned about skyrocketing land prices that have put home ownership beyond the reach of many Japanese and wants a complete reorientation of land policy, in which land is considered public rather than private property. ¶

30 ¶ Such a position would be far too revolutionary for the party as a whole at this point, but the agitation will probably contribute to an evolution of party policy toward a better balance between big business and environmental issues. Hirakawakai, like many other policy groups, is not basically anti-Tanaka, but it does seek changes in some aspects of current government policy. ¶

30 ¶ The multiplicity and overlapping membership of these pressure groups give an impression of confusion, but their activities are a healthy sign of a party roused from its more usual complacency. They will aid the Liberal Democrats to move toward needed change before the Upper House election of July 1974. [redacted]

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USSR

ON ASIA

31 After months of preoccupation with Europe and the US, the Soviet leadership appears to be giving more attention to Asia. Moscow has launched a new press campaign aimed at further isolating China from the socialist community and enlisting more support for Brezhnev's four-year-old "Asian collective security proposal." The USSR is also hedging its bets on Cambodia by giving more public support to Prince Sihanouk.7

China

31 The current press campaign against China intensified this week when "I. Aleksandrov" (a pseudonym denoting high-level endorsement) published his second anti-Chinese diatribe in less than a month. He set forth in some detail Moscow's conclusion that current Chinese foreign policy is non-socialist in character. The article, coupled with the recent Politburo statement calling for "collective analysis" of Communist problems, adds weight to reports that the USSR is considering convening a new world communist conference to excommunicate the Chinese. Moscow's East European allies, save Romania, have reprinted the Soviet charges, but a number of the world's parties probably would resist taking part in more formal proceedings against the Chinese.7

Asian Security

32 Moscow's renewed emphasis on Brezhnev's Asian security scheme is an attempt to take what advantage it can of the shifting power relationships in Asia as a result of the US withdrawal from Indochina. Moscow realizes that the chances of creating such a system are not good, but hopes to secure enough endorsements to build a convincing case that the Chinese are the only obstacle to detente in Asia.7

33 In recent weeks Soviet propaganda has emphasized the importance of Japan and India—China's chief rivals—to Asian security. The Soviets

are clearly getting ready for the visits by Prime Minister Tanaka to the USSR and Soviet leaders to India scheduled for later this year. Neither the Indians nor the Japanese have endorsed the idea, and both expect to come under considerable Soviet pressure to do so explicitly—as the Iranians did in March.

Cambodia

31 Soviet media have paid more public attention to Prince Sihanouk and his government-in-exile in recent weeks than ever before, even though the Prince continues to deride and belittle these Soviet gestures. This attention probably means that Moscow takes a more optimistic view of the Prince's prospects; it does not mean that the USSR will break diplomatic relations with the government in Phnom Penh.7

31 The USSR is uncertain about the depth of the US commitment to the Lon Nol government. Until Moscow has a better idea of what the US



Tanaka

Sihanouk

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plans to do in the wake of the bombing halt, it is unlikely to take any irrevocable steps?

INTELLECTUALS AND DETENTE

(35+76)
Soviet authorities, apprehensive lest detente lead to a freer flow of people and ideas, are making strenuous efforts to hold the ideological line at home. Having made clear at the Helsinki talks that they have no desire to open a cultural "window to the West," they have increased their pressures against internal dissent and have succeeded in silencing most of the protest within the country.

The trial this week of dissidents Petr Yakir and Viktor Krasin climaxes the authorities' drive against the "Chronicle of Current Events." "Chronicle," the major *samizdat* serial publication, has carried on a long struggle for civil liberties in the Soviet Union. Yakir, the son of a famous victim of Stalin's purges who was posthumously rehabilitated, and Krasin, an economist, were charged with serving as paid agents of emigre organizations striving to overthrow the regime. Their real sin in the eyes of the authorities, however, was that they had key roles in the publication of the "Chronicle."

The only remaining dissidents of stature, Andrey Sakharov and Aleksandr Solzhenitsyn, have come under particularly heavy fire. This month Sakharov, a member of the Soviet Academy of Sciences and a founder of the unofficial Soviet Human Rights Committee, defied a high-level warning against foreign contacts. In a meeting with Western newsmen, he cautioned them against detente on Soviet terms. Since then, the domestic media have carried a letter criticizing Sakharov signed by 39 members of the Academy of Science.

Nobel prize-winning novelist Solzhenitsyn was told last week that his request for a Moscow residence permit had been denied. He reacted by sending a letter to the minister of interior harshly criticizing the Soviet Union's internal passport

system. The novelist announced to Western newsmen that he intended to move to Moscow this winter and claimed that threats had been made against his life. Sakharov and Solzhenitsyn are clearly feeling the pressure and may be making last desperate gestures of protest.

The regime's success in muting outspoken dissidents opens the Soviet leadership to further criticism from the West, and it is responding in a new manner. Instead of ignoring adverse foreign comments, the Soviet press on several recent occasions has sought to undercut them by publishing such comments and coupling them with an official rebuttal. The net effect has been to release additional information to the Soviet public.

At the same time, there are some signs that controls on "establishment" intellectuals are being eased slightly. As outlets for open protest are cut off, intellectual ferment may be channeled into the academic arena, where the participants are less well-known in the outside world. By allowing a modicum of freedom there, the regime may hope to placate the intelligentsia, on whom continued progress in the scientific and technological revolution ultimately depends.

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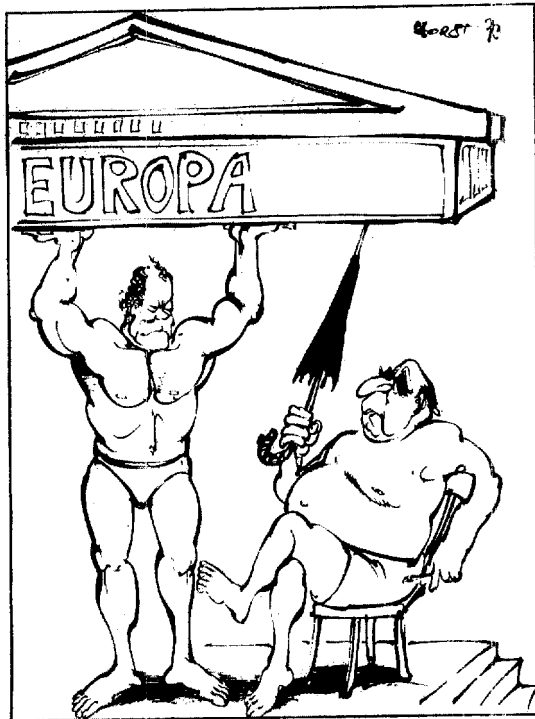
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West Germany:
TROUBLES EAST AND WEST

(34 - 59)

Bonn's efforts to put the finishing touches on Ostpolitik by early autumn have come a cropper. Negotiations on establishing diplomatic relations with three Eastern European states have stalled, and talks with the East Germans are on a dead center. On top of this, Bonn is also having problems with the French who are complaining about short- and long-term German goals.

West German and Czechoslovak negotiators talked for three days last week, but failed to resolve the one remaining roadblock to relations—whether the prospective West German embassy in Prague would be able to represent West Berlin institutions and provide consular services for West Berlin citizens. Bonn's negotiations with Hungary and Bulgaria are stalled over the same issue.



Nürnberger Nachrichten

„...etwas mehr Engagement, Monsieur Brandt!!!“
“...a little more engagement, Mr. Brandt.”

The West Germans are being insistent partly because they did not do so in their treaty with Poland and have encountered subsequent difficulties in representing West Berlin's interests. In addition, the government does not wish to leave itself open to criticism from the opposition that it is making compromises that adversely affect Bonn's ties with West Berlin.

The West Germans have informed the East Europeans that they do not intend to retreat. Bonn has warned the Soviets, who reportedly have instructed their allies to stand firm, that the impasse could sour Soviet - West German relations. Since then, Moscow has criticized “irresponsible politicians and journalists” who read too much into the Quadripartite Agreement on Berlin. Moscow has pointedly commented that West German representation of West Berlin is limited, suggesting that the Soviets are not interested in moving quickly.

The East Germans, too, are stonewalling Bonn. The first round of talks on regulating legal relations between the two Germanies foundered over the issue of West Berlin representation. The two Germanies are also unable to resolve differences over how their respective permanent missions should be accredited.

Upset at this obstructionism in the East, the West Germans were further annoyed by the charge made on 13 August by French Agriculture Minister Chirac that Bonn is “turning away from Europe.” Chirac's remarks were designed specifically to defend France's gains from the common agricultural policy of the EC, but his criticisms reflect a more general French concern about West German intentions. A major French fear is that West Germany may in the future be prepared to purchase reunification at the cost of a neutralized Germany.

The Brandt government's initial public reaction to Chirac was restrained. The Chancellor, however, privately expressed displeasure and ordered the Foreign Office to protest Chirac's remarks. A meeting in Bonn between the French

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ambassador and a senior official in the Foreign Office reportedly resulted in sharp words. West German officials have begun to reply in public to Chirac. They defended Bonn's record as a member of the EC, attacked Chirac personally, and raised critical questions about French policies. In one of the sharpest attacks, State Secretary Apel charged that French unwillingness to compromise was holding up European integration. Foreign Minister Scheel and other German officials are trying to calm the situation, but given French suspicion about German policies and German resentment of criticism from Paris, relations could remain strained for some time.

EC—CEMA: IN NEED OF A POLICY

61 The community's lack of progress in developing a common commercial policy toward the East will compound the EC's difficulties in responding to the CEMA initiative for negotiations between the two blocs.

60 CEMA Secretary General Fadeyev, in an informal meeting with Danish Foreign Minister Norgaard in Copenhagen this week, said his organization was willing to enter into direct negotiations with the EC. As a first step, Fadeyev suggested that the EC and CEMA appoint delegations to begin exploratory discussions. Norgaard promised that Denmark would place the matter on the agenda at the EC Council's next session on 20-21 September.

61 Fadeyev's demarche puts the community in an awkward position. The EC clearly welcomes recognition from a previously hostile quarter, but it is reluctant to recognize CEMA in return. On a practical level, the EC is aware that CEMA is limited in what it can negotiate externally; more important, the EC itself lacks a relevant negotiating mandate from its members.

61 Such a mandate would probably be based on a common commercial policy toward Eastern Europe. The countries to the East have been exempt from the commercial policy generally applicable to the other EC trade partners. In 1969 members of the EC committed themselves to

eliminate that exemption. In 1973 the EC Commission acquired the right to negotiate new commercial arrangements between the community and the East. The existing country-to-country agreements expire, however, only at the end of 1974. Even then, these bilateral agreements are renewable in the absence of a common commercial policy.

61 The only progress toward a common EC commercial policy toward the East has been the consolidation into a single list of the import items from Eastern Europe that the individual EC members have been willing to exempt from quota restrictions. No agreement is in sight on the more significant elements of economic relations such as industrial cooperation, energy and transportation policies, and credit arrangements. Broad cooperation agreements have in the meantime been signed between individual members of the EC and CEMA; France, in particular, maintains that such arrangements are outside the purview of any common EC commercial policy. Pending clarification on these fronts, the community collectively will have little to say to CEMA.

61 On the other hand, there is no good reason to believe that CEMA is united in the desire to open a dialogue with the EC. Romania, for one, values its bilateral ties with Western Europe and is suspicious of anything that could give the Soviets additional economic levers over Bucharest. For all these reasons, any early talks between the two regional organizations are likely to be largely symbolic. This may be precisely what the Soviet Union is seeking, for it would provide a pretext for the further consolidation of CEMA and could have a dampening effect upon the growth of relations between the individual states of Eastern Europe and the West. The symbolism would, however, be of questionable value to the EC. It would add only marginally to the EC's stature as an institution, and it might retard the development in Eastern Europe of the more market-influenced economy the EC states hope for.

61 The EC will therefore probably be inclined to take its time in formulating a response to the CEMA initiative—at least insofar as the courtesies of detente permit.

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SECRET**YUGOSLAVIA: MODERATES AT BAY**

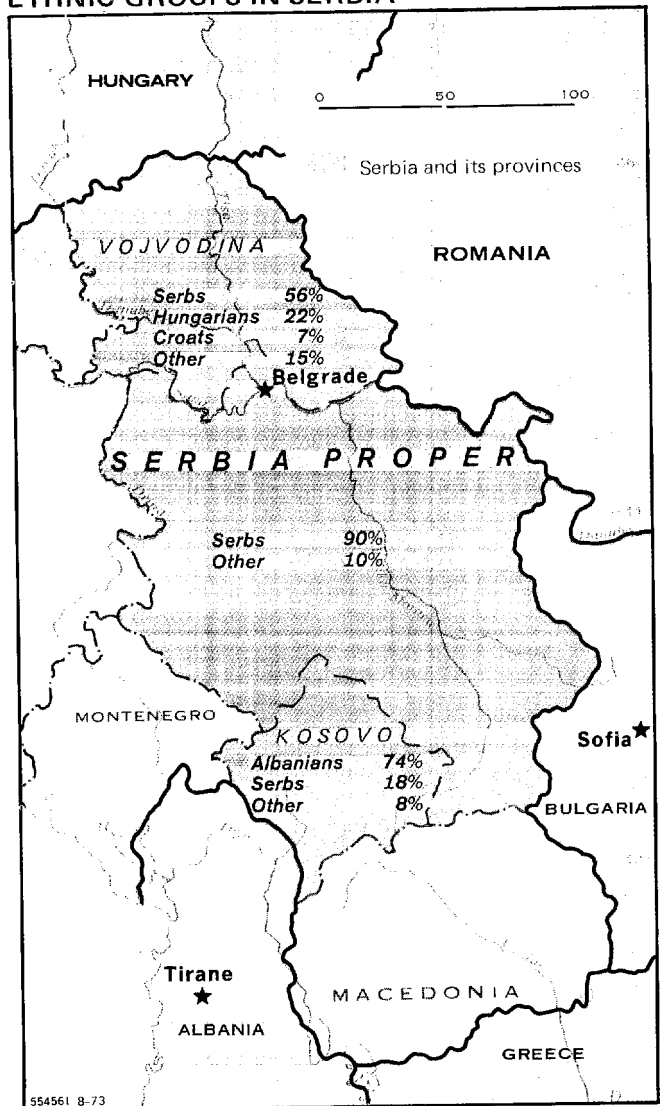
64 The party committee in Belgrade city meets early next month and if the threatened show-down between moderates and conservatives develops, it could set off factional disruptions throughout the Serb Republic. The federal party, which is in part responsible for the simmering dispute, could be drawn in if events get out of hand.

64 Debate in Belgrade will center on the moderates' attempt to satisfy Tito's standing order for a thorough purge of party liberals without setting off a witchhunt. Serb party boss Vlaskalic has tried to follow a middle course; he has moved to restrain conservative zealots in Vojvodina, but has permitted liberals to retain some posts in Serbia. Vlaskalic also has personally displayed support for the Kosovo party chief, Mahmut Bakali, a holdover from the liberal era.

62 As a result, he came under fire from party units in Vojvodina a month ago. Last week, a local organization in southern Serbia charged the Belgrade city party organization, the most important in the Serb Republic, with being soft on liberals. The federal party weekly, *Kommunist*, seconded the criticism. Some of this latter criticism was ultimately aimed at Vlaskalic.

63 The question is whether Vlaskalic's subordinates in Belgrade can muddle through the key meeting in early September merely by voicing mild self-criticism and making a token sacrifice of liberals. Conservatives, who sense an opportunity to take over influential posts, will press hard for wide-ranging personnel changes. A situation could develop in which only federal party intervention could prevent serious factional turmoil which would upset preparations for the Serb party congress.

64 As in most tangled problems in Yugoslavia, nationalism—in this case the Serb variant—lies just below the surface. The new breed of Serb functionaries in Vojvodina have already cracked down hard on ethnic Hungarians who came to power during an earlier liberal drive for increased minority representation. In addition, the southern Serbs who are now attacking the Belgrade city

ETHNIC GROUPS IN SERBIA

organization have a reputation for unflagging hostility toward ethnic Albanians in Kosovo. Should this group of Serbs gain increased influence in Belgrade, all the smaller Yugoslav minorities, and particularly those in Kosovo, will have cause for concern.

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SECRET**ITALY: MIXED PROSPECTS****NO SOURCE**

An economic revival is well under way. Industrial output and investment activity are recovering from strikes that depressed economic activity in the first quarter of this year. Renewed vigor is also apparent in consumer demand. Rapidly rising prices, a looming fuel shortage, and possible food shortages, however, could shatter Italy's fragile labor peace this fall and jeopardize the revival.

The Rumor government's prediction of a real growth rate for the year of at least 5 percent is optimistic, but even a somewhat lower rate would be an improvement over the postwar low of 1.6 percent in 1971 and the disappointing 3.2 percent last year. If strikes do not intervene, the economic revival should carry over into 1974, when the 5-percent growth rate may be achieved.

Strike activity is, however, likely to resume in the fall, especially if the government fails to hold down price increases. Caught in the dilemma of how to control inflation and yet maintain economic growth, the government has chosen emergency price controls. This measure affects the symptoms, not the causes, of Italy's inflationary pressures. Prior to the recently instituted freeze, prices were rising at an annual rate of 11 percent.

Although the government has moved aggressively against freeze violations by small shopkeepers, it has yet to face major challenges by larger firms. Domestic producers, caught in a profit squeeze, are beginning to withhold supplies instead of selling at the current fixed price. The situation could worsen and black marketing may develop, particularly in such food items as wheat and meat. The expansionary 1974 budget, recently approved, is incompatible with the anti-inflationary objectives of the new government. Mounting pressures in Parliament for long-awaited social reforms make spending cuts very unlikely.

An oil shortage may also endanger economic progress later this year. Caught between rising

crude prices and rigidly controlled product prices, the major oil companies are diverting their crude supplies from the Italian market to more lucrative ones in northern Europe and the United States. The oil companies maintain they lose almost \$.03 on each gallon of gasoline they sell in Italy. Gasoline is already in short supply and a heating fuel shortage is expected this winter. Cold homes plus spiralling prices could lead to labor unrest by the end of October and serious headaches for the new administration. October is also the deadline set by the labor unions for the government to reduce inflation; if Rumor fails, the unions will demand new wage increases to supplement those recently negotiated.

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IRELAND: US INVESTMENT SOARS**NO SOURCE**

US investment is playing a significant role in the industrialization of both the Irish Republic and Ulster. US industrial investment in the Republic of Ireland has grown rapidly to over \$400 million, and US subsidiaries in the republic are now the major source of Irish industrial exports. In Ulster, US investment is at a high level and increasing, despite the violence.

Over 75 percent of the subsidiaries in the republic were incorporated after 1960. Many of these firms are fairly large and export over 80 percent of their production. Major factors behind the US investment surge have been low labor costs and the republic's membership, first in the European Free Trade Area and then in the EC. Ireland's membership in the EC will increase the incentive for US subsidiaries to use the republic for a base for European production as EC tariffs on industrial exports from Ireland are eliminated.

In addition, US investment, which creates jobs and expands exports, is generally more welcome in the republic than in most other EC

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countries. The republic provides financial inducements for US investment in the form of a 15-year exemption from taxes on export profits, cash grants for plant construction, and special benefits for new projects in certain areas, such as around Shannon Airport. Moreover, most Irish businessmen and labor unions are favorably disposed toward US business in the republic.

Exports of US subsidiaries from the Republic of Ireland are estimated to total nearly \$400 million a year, accounting for 25 percent of the republic's total exports and for over 50 percent of industrial exports. The EC is the chief destination of the exports, receiving 39 percent of all US subsidiaries' exports; some 15 percent go to the US market.

US-owned industry makes other important contributions to the republic's welfare. Nearly

17,000 Irish workers—over 5 percent of industrial employment—are employed by the 126 US subsidiaries. Moreover, the operations of these subsidiaries, whose annual sales exceed \$500 million, stimulate economic activity in related Irish-owned enterprises.

In Northern Ireland, the US stake is even more vital to the economy. Total US investment there is estimated at \$225 million. More important, US subsidiaries employ 25,000 persons in Ulster, over 12 percent of industrial employment. US business interest in Ulster is high because, like the republic, it offers a wide range of financial incentives for foreign investment. The violence that has affected much of the economy has hardly touched US firms, as workers have consistently left their sectarian differences outside the plant gates.

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CYPRUS: ATHENS TAKES A SIDE

65 Departing from his previous public detachment from the rivalry in the Greek Cypriot community, Greek President Papadopoulos last week strongly urged General Grivas to disband his organization and end his campaign of terror against President Makarios. Papadopoulos said this step would be the "highest service" the general could render to the interests of Cyprus and the "national center," i.e., Athens. The Greek Government previously had limited its pronouncements to generalized denunciations of all violence.

66 Athens may believe that Makarios' determined anti-Grivas efforts are taking a heavy toll of the general's forces, and the Papadopoulos regime presumably wishes to avoid being drawn more deeply into the quarrel at a time when it is focusing on its own reorganization.

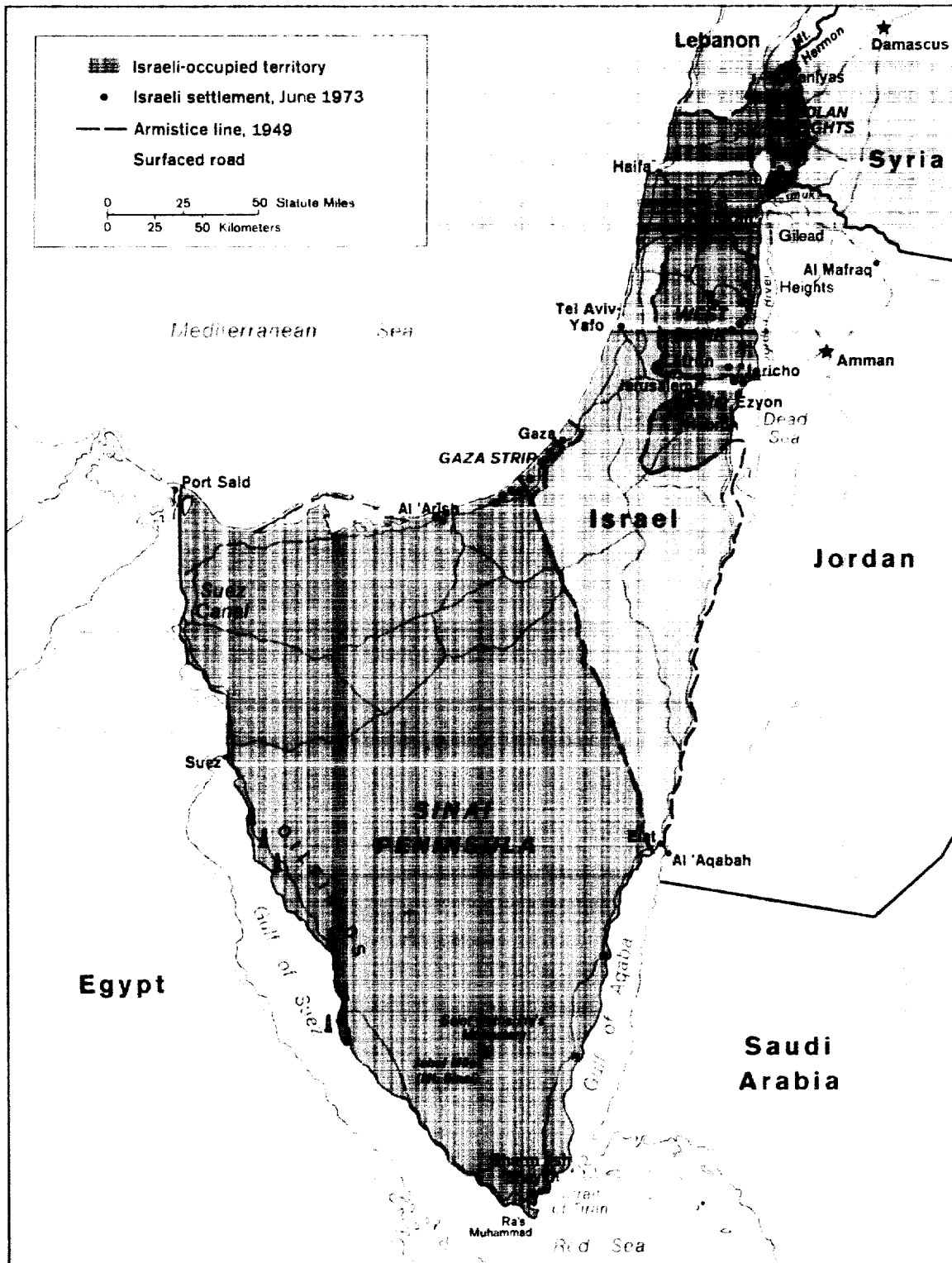
66 Grivas has rejected Papadopoulos' plea and has said the struggle for enosis will go on. Grivas has released the Cypriot Justice Minister, kidnapped a month ago, saying that the step was not a measure of weakness. Grivas does appear to have lost some ground recently as Makarios' forces continue to round up Grivas' men.

65 Makarios has expressed his pleasure to Athens over its initiative, and the Greek press says that the Archbishop will visit Athens in mid-September. At that time, Papadopoulos, who is interested in fostering good relations with Ankara, will probably renew his long-standing effort to persuade Makarios to resolve his problems with the Turkish Cypriot community. The intercommunal talks on Cyprus are continuing, but without progress on the critical issue of autonomy for the minority Turkish Cypriots.

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Israeli Settlements in Occupied Territories



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ISRAEL: SETTLING IN

67 Prime Minister Meir's Labor Party, after much internal wrangling, has decided to endorse a more active Israeli role in the occupied Arab territories. As the new policy is implemented, it will result in a tightening of the Israeli grip on these territories and will be bitterly resented by Arab countries.

68 The stepped-up program worked out by party leaders last week will be an important part of the party's platform for the parliamentary elections in late October. The program will be submitted to the Labor Party Secretariat on 3 September where it is assured of adoption. Mrs. Meir will personally urge its approval. The program will also serve as a policy guideline for the next government. The program calls for:

- expanding the boundaries of the municipality of Jerusalem as reunited following the 1967 war;
- at least three dozen new Israeli settlements in the Arab territories (about 50 now exist);
- accelerated government acquisition of Arab lands;
- private purchase of Arab lands by individual Jews and companies;
- government incentives for Israeli business in the territories;
- development of economic and social services for the inhabitants.

69 The new program is designed to meet the Labor Party's immediate political requirements, particularly the need to keep Defense Minister Dayan, who has been demanding a more active program, on the party ticket for the October election. Other considerations include the growing annexationist temper of the Israeli public and the threats of Labor's coalition partner, the National Religious Party, not to join any government that restricts Jewish settlement in Old Testament areas along the Jordan River. The Labor Party also wants to undercut the out-and-out annexationist policy of the opposition Gahal party.

69 The new program, while a compromise, gives Dayan much of what he wanted. The Defense Minister has long championed Israel's keeping the Golan Heights, East Jerusalem, and Sharm ash Sheikh. There has been little question that Israel would retain them, and the new program as it is implemented will give Dayan the additional links he wants with the two more heavily populated Arab areas—the West Bank and the Gaza Strip. He has referred to the West Bank as Israel's "homeland" and insists that Jews have a right to settle anywhere in it. Dayan values Gaza, which he wishes to secure with a string of Israeli settlements, as a buffer to help block an Egyptian military advance from the Sinai.

67 More dovish Labor Party leaders, such as the powerful Finance Minister, Pinhas Sapir, and Foreign Minister Eban, have wanted to move more cautiously. They are concerned over the economic costs, the demographic threat posed by Arabs in the occupied territories, and the adverse diplomatic effects of a more activist program. After the elections, these leaders may work to hold back the program; Sapir holds the whip hand over the funds needed to finance it. They would almost certainly have the support of the Mapam party, a pro-Arab group allied to the Labor Party that distrusts Dayan and sharply opposes his activist program. Dayan will keep up the pressure, however.

67 At this point, the Arab inhabitants of the territories have, for the most part, made a pragmatic adjustment to the fact of Israeli control. The daily violence of the 1969-1971 period is gone, although occasional incidents occur. The individual Arab is instead working and earning money; upwards of 60,000 Muslims and Christians from the West Bank and Gaza Strip commute daily to jobs in Israel. Unemployment on the West Bank is all but unknown. Israeli health services are good, and schools and municipalities are receiving Israeli aid. All in all, the Arab inhabitant, while unhappy with the fact of occupation, is clearly more prosperous than he was before the war, and the two peoples—as Dayan wants—are getting a better look at each other. They may not like what they see, but there is co-existence and mutual dependence.

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SOUTH ASIA: OVER A BIG HURDLE

(No source)

Prospects for a general normalization of relations on the subcontinent brightened with the signing in New Delhi this week of an agreement between India and Pakistan. The agreement has the concurrence of Bangladesh. It settles several key problems resulting from the 1971 war, but leaves a number of other issues still to be worked out between Pakistan and Bangladesh.

The agreement provides for the repatriation of all but 195 of the 90,000 Pakistani prisoners of war held in India since December 1971. The repatriation is to begin immediately and is expected to take at least four months. When it is done, the three countries are to hold talks on the disposition of the 195 prisoners. Dacca has insisted on putting on trial for war crimes. Pakistan will, however, have to recognize Bangladesh before this meeting is held.

The agreement also provides for the exchange of the approximately 160,000 Bengalees in Pakistan—including 203 former officials. Pakistan had threatened to try for treason—for a "substantial" number of non-Bengalee Muslim Biharis in Bangladesh. The omission of numbers is a token of Pakistan's unwillingness to commit itself just now to accept even half the 260,000 Biharis who reportedly want to leave Bangladesh. Pakistan maintains that accepting Biharis in larger numbers would cause serious domestic problems. Islamabad, nonetheless, agreed to discuss the subject later.

It is unlikely that any of the prisoners held back will ever face trial in Bangladesh. Sentiment is growing there in favor of early reconciliation with Pakistan even at the expense of dropping the trials. Bengalee Prime Minister Mujib may eventually agree to forgo them following recognition by Pakistan, especially if Islamabad agrees to accept more Biharis.

Once recognition is granted and the prisoner issue finally resolved, the way will be open for negotiations on a division of foreign and domestic assets and liabilities between Pakistan and Bangladesh. At present, Islamabad is being held respon-

sible by the Western consortium for all debts incurred by the former united Pakistan.

The New Delhi agreement should help improve Indo-Pakistani relations, including the eventual restoration of economic and diplomatic ties. The sensitive Kashmir issue was removed as an immediate problem when the two agreed to a new cease-fire line last December.

Efforts toward reconciliation on the subcontinent hold the likelihood of improved relations for India and Bangladesh with China. Chinese officials earlier expressed Peking's willingness to support UN membership for Bangladesh and to normalize relations with India once the problem of the Pakistani prisoners was resolved.

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YEMEN (SANA): IRYANI'S WAY

70 President Iryani seems to have succeeded in extracting sufficient concessions from his political opponents, and he may now withdraw his resignation. On 29 August, a delegation of cabinet ministers and military commanders went to Syria, where Iryani is, and submitted new proposals "to rectify the political and administrative situation in Yemen."

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70 Iryani insists that he resigned primarily because of intrigues by some of his colleagues to diminish his power and differences over how to deal with the threat from Yemen (Aden). He is also unhappy about the repressive policies of local officials that are, in his view, increasing the north's vulnerability to Adeni subversion. In any case, it is evident that the resignation was a political ploy designed to bring Iryani's political opponents into line and to get a clear Saudi endorsement.

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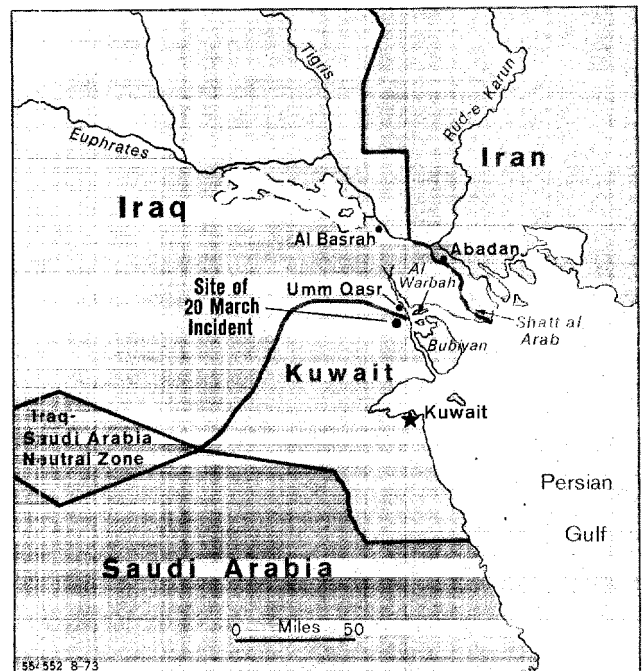
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SECRET**IRAQ-KUWAIT: TALKS FAIL**

74 Saddam Husayn al-Tikriti, vice chairman of Iraq's Revolutionary Command Council, and Prime Minister Jabir al-Ahmad of Kuwait failed last week to resolve any part of the nagging territorial dispute between their two countries. They could only agree to keep trying, and the next round of talks will probably be held in Kuwait in about a month.

75 The border problem flared up last March when Iraqi troops seized a police post about two miles inside Kuwaiti territory. Following mediation efforts by other Arabs, Baghdad pulled its forces back, but they reportedly still remain inside the Kuwaiti line. The border has been closed since March. Baghdad also covets the Kuwaiti islands of al-Warbah and Bubiyan, which are located on the approach to Umm Qasr, site of an Iraqi naval base.

75 The latest effort to reach a settlement came in the wake of the attempted coup in Baghdad in late June and may have been intended in part to demonstrate Saddam Husayn's strength and the regime's confidence in its position at home. In a recent press interview Saddam Husayn termed Iraq's incursion in March a mistake, but Baghdad continues to seek control of al-Warbah and Bubiyan islands, as well as a strip of Kuwaiti coastline south of Umm Qasr. Baghdad rejected a Kuwaiti offer to lease al-Warbah and the coastal strip in return for a final demarcation of the border and the lease of an equivalent amount of Iraqi territory, according to the Kuwaiti foreign



minister. Iraq does not appear ready at this time to use force to take the islands.

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75 The likelihood of an early agreement on either the border or the islands seems remote; Iraqi demands have apparently not softened and Kuwait will find it hard to come up with concessions acceptable to Baghdad.

CHILE: PENCHANT FOR PROCRASTINATING

80 On the third anniversary of President Allende's election, a wait-and-see mood has postponed either showdown or an easing of political tensions. Spring is in the air, and contending forces are taking another look at whether they can put off the day of reckoning.

79 General Prats resigned from the cabinet and the army last week under pressure from fellow
80

generals. He probably still harbors presidential ambitions. Navy chief Montero has also left the cabinet and may soon leave the service. National police chief Sepulveda is still in the cabinet in a very minor role. Flag rank officers of the three services are serving as ministers of transportation, mining, and finance following a minor cabinet reshuffle on 28 August.

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Carlos Altamirano

the nonaligned conference and to selected African countries. The Communists, nervous that the retirement of Prats and other tolerant generals increases the prospect for a coup, reluctantly accept the necessity of a token military presence in the cabinet. The Socialists are less amenable to having officer ministers, but this week extremist party secretary general Altamirano appears even more upset by another of Allende's appointments. The President has just named Carlos Briones to be interior minister; Briones is so moderate that Altamirano rejects his Socialist Party credentials. The leaders of the Movement of the Revolutionary Left are buffeted by arrests and arms raids and have prudently decided that revolutionary zeal should not be so reckless as to destroy the movement.

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GUYANA: RIDING HIGH

81 Prime Minister Burnham is enjoying increased power at home following his landslide victory six weeks ago, and he may now begin to strike out against his enemies and try to project himself as a spokesman for the English-speaking Caribbean.

81 Opposition leaders, notably Cheddi Jagan, leader of the People's Progressive Party, continue to denounce Burnham for rigging the 16 July election. Jagan, an East Indian, alleges that Burnham, a black, is setting up a one-party state. Although the opposition has been unable to organize an effective civil resistance campaign, their efforts are continuing, and Burnham may decide to arrest some of them. Burnham has reinstituted the 1966 National Security Act, which allows for arbitrary arrests and detention, and the predominantly black defense forces have maintained an obvious presence in East Indian communities to deter serious violence.

81 Burnham has moved swiftly to capitalize on his party's two-thirds parliamentary majority. One new bill has abolished the right of appeal to the British Privy Council, effectively precluding court action challenging the election's validity.

80 There is still no reason to believe that armed service leaders extracted any real concessions from Allende in exchange for the support of his policies that is implicit in continued military participation in the cabinet. The Christian Democrats, divided and indecisive as ever, have all but despaired that top officers will impose constraints on Allende. Perhaps to encourage lower ranking officers to take a stand, Christian Democrats have challenged Allende's forced retirement of an army captain who is an active critic of the government.

80 Strikes and shutdowns by various opposition groups have been quite effective in some areas this week, but no general strike has developed. The truckers' all-or-nothing attitude in negotiations after five weeks on strike has aroused military irritation and government retaliation. Neither the strikes nor the terrorist acts ascribed to rightist groups have triggered the hoped-for military intervention.

76 Nonetheless, Allende and his Popular Unity coalition are uneasy and dissatisfied. The President has so little faith in his latest jury-rigged cabinet that he has canceled his cherished trip to

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Burnham reportedly will also move to centralize control over the nation's economy, and the administration is reported planning to open talks with the large US-owned Reynolds Guyana mines aiming toward government take-over.)

82 In foreign affairs, Burnham is preparing for the expected visit by Cuban Prime Minister Castro on 2 September. According to US Embassy reports, Burnham then plans to accompany Castro to the nonaligned conference in Algiers from 5 to 8 September. At the conference, Burnham will surely make strong statements in favor of the less developed countries and against big-power meddling. In the following weeks, Burnham probably will continue to strengthen ties with Cuba and expand relations with China and the highly nationalistic countries of Africa and Asia.

principal export—were 18 percent above the same period in 1972.

During the past three months, La Paz has received pledges for nearly \$145 million in foreign credits from public and private sources, largely for resource development. Japanese firms have committed \$100 million, largely for petroleum and mineral exploration. A West German credit of \$38 million is to be used primarily to double tin smelting capacity. A Soviet credit of about \$7 million will be used to increase tin output.

Brasilia has agreed to help La Paz build a 1,750 mile natural gas pipeline from Santa Cruz, in eastern Bolivia, to Sao Paulo to transport about 90 billion cubic feet of Bolivian gas annually to Brazil. The Bolivian Government will put up \$25 million for facilities on its side of the border, while Brazil will provide \$500 million for its portion of the project. 25X1

BOLIVIA: ECONOMY MOVES FORWARD

Increased export earnings and large foreign credits are picking up Bolivia's economy, the poorest in South America. Production and export of minerals—particularly silver, copper, and lead—are increasing sharply in response to high world market prices. In the first six months of this year, export earnings from tin—Bolivia's

Several foreign firms are venturing into small industrial projects in Bolivia. Two edible oil factories are being built: one, an \$11 million plant, is being financed by the Argentine-Belgium Corporation; the second, a \$4 million plant, is being financed by an Israeli consortium. A US firm, W. R. Grace, is undertaking to build, in conjunction with Bolivia, an agricultural processing plant. 25X1

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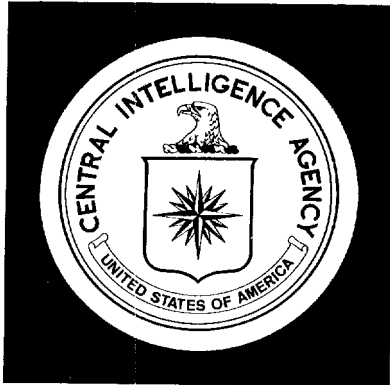
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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Czechoslovakia: Five Years Later

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CZECHOSLOVAKIA: FIVE YEARS LATER



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SECRET**Summary**

In the five years since the Soviet invasion in August 1968, Czechoslovakia's Communist Party General Secretary Gustav Husak has achieved political normalization and economic stability, placated the Czechoslovak consumer, and pursued a pattern of foreign relations imposed by the Soviets. Husak has kept control by firmly dealing with overt political problems without reverting to the administrative and police tactics prevalent during the early Novotny era.

Economic policies have revolved around maintaining central control of the economy while increasing the supply of consumer goods. Meanwhile, the pattern of economic activity remains substantially unchanged from the Novotny era, and the old problems of poor worker discipline, poor management, and inefficiency continue. The next Five Year Plan (1976-1980) should bring a few minor changes, reflecting Husak's emerging confidence in his ability to control the domestic situation.

For now, the only major initiatives—under the watchful eye of the Soviets—will be in improving relations with some Western powers, particularly the US. Prompted by Soviet movements toward detente, Husak has been seeking accords with West Germany, Austria, and the US. Moreover, Czechoslovak trade with the West is increasing rapidly.

Political "Normalization"

August 20 marked the fifth anniversary of the Soviet-led invasion that terminated Czechoslovakia's experiment with "socialism with a human face." Although the Prague regime continues to be plagued by the consequences of these events, it has regained, under the leadership of Gustav Husak, a degree of political stability and is displaying a budding self-confidence. There are signs that it may be ready to relax some of the more stringent policies instituted during the forced return to orthodoxy.

When Husak took over in March 1969, he faced a faltering economy and a thoroughly disordered society. A supporter of the reforms during the "Prague Spring," Husak as general secretary adopted a policy of "realism," i.e., broad compliance with Moscow's demands in the face of Soviet military intervention and the palpable threat of violent repression. Although most Czechoslovaks looked with distaste on his oppor-

tunistic willingness to do what Moscow wanted, they were generally agreed that he was the best man all around in a difficult situation.

Husak, in doing Moscow's bidding, did manage to inject a degree of restraint into the "normalization" process, but as time went on the bulk of Dubcek's reforms were dismantled: censorship was reinstituted, the party's control over all segments of the government and society was restored, freedom of travel to the West was sharply curtailed, and the various special interest groups that had sprung up under Dubcek were either disbanded or reoriented to serve the purposes of the party. Moreover, the party was subjected to a massive purge. Of the 1.7 million party members when Husak came in, some 300,000 were stricken from the rolls and another 200,000 resigned in disgust. In the end, the individuals who were in the forefront of the Dubcek reform movement were removed from positions of power and ostracized. Dubcek, for example, runs a motor pool for the Slovak forestry administration—a non-job.

Special Report

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31 August 1973

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Alexander Dubcek...

Nevertheless, the Husak "normalization" never included the administrative and police practices prevalent during the early days of Novotny. Husak, himself a victim of a purge of so-called Slovak "bourgeois nationalists" in the early 1950s, successfully opposed putting the reformers on trial. His success in deflecting the more severe reprisals advocated by the party's ultra-conservatives, however, has led to squabbling among the leadership. The question of how to deal with the leading figures of the reform era remains a major point of contention five years after the events of 1968. While one faction apparently feels that the time has come to use selectively the talents of the Dubcek reformers in economic affairs and cultural efforts, the ultra-conservatives continue to voice paranoid concern over the continued danger posed by these "rightist opportunists."

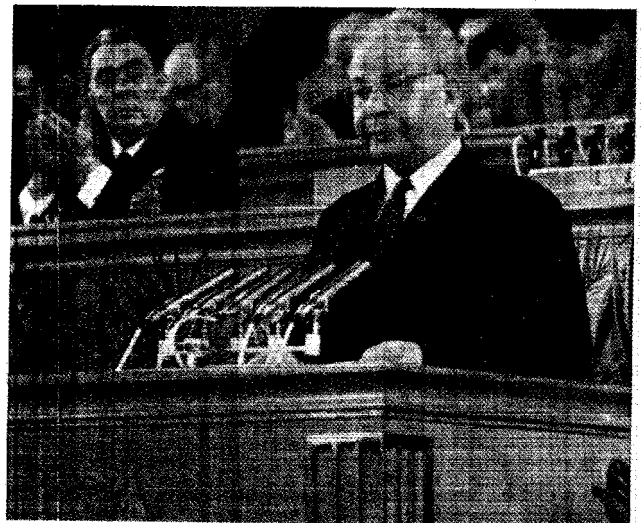
Husak seems to favor a policy of "differentiation." He would separate the ex-reformers into an irredeemable "hard core" responsible for the events of 1968, and "honest Communists" who were merely duped and who can return to the mainstream of Czechoslovak life by recanting. Although most of the country's technocrats appear to have reached a *modus vivendi* with the regime, most creative artists and other intellectuals have resisted all the regime's blandishments

and have boycotted the party-controlled cultural organizations. As a result, the country has become a cultural wasteland. Within the party, Husak has repeatedly counseled patience in dealing with the intellectuals, and since early this year there have been some signs of a new and less oppressive cultural policy.

Husak has taken a well-publicized interest in popular welfare, and is continually reminding the people that they "never had it so good." Indeed, he has taken steps to raise the standard of living. More and better consumer goods are available, and for the most part, the populace has responded by grudgingly granting qualified acceptance to the Husak regime.

Even more important, Husak has been accepted by the Soviets. Soviet party chief Brezhnev made it clear during his visit to Prague last February that Husak had passed the performance test, ending speculation that his stewardship over the party would be temporary and that he would be replaced by a more reliable conservative.

In spite of all this, the Czechoslovak regime's claims to "normalization"—i.e., that the "Prague Spring" has been obliterated—are a sham. The leaders, the people, and Moscow recognize this. Internal repression, though hidden behind an aura



...Replaced by Husak

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of material prosperity, is harsher than it was in 1967, and leaders of the reform are in exile, in jail, or at least out of the way. Neither their erstwhile supporters nor their opponents who are now in power can forget the impact of the reformers. Indeed, current policies are what they are in large part because the reformers once held sway and because they continue to influence, even if negatively, the thinking of the leadership.

The Domestic Economy

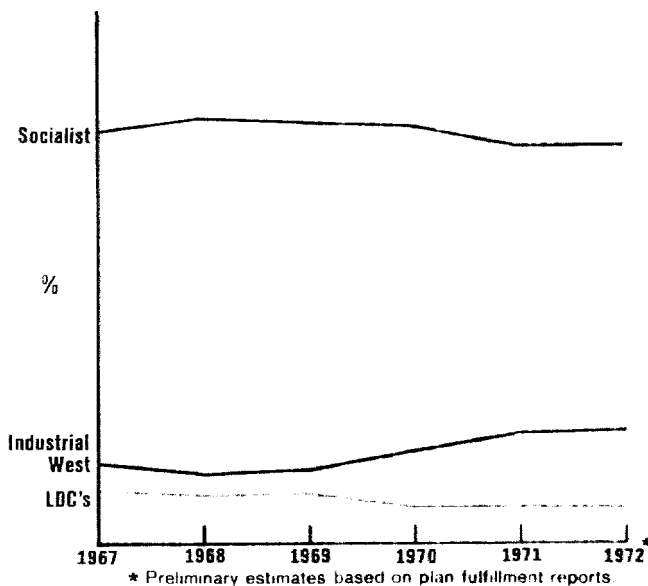
Husak has successfully carried out two major economic tasks he set for himself—placing the economy under stronger central control and increasing the supply of consumer goods. The leadership does seem to be debating the introduction of some mild reforms during the Sixth Five Year Plan (1976-1980).

Stability, not change, has been the watchword. Husak's first act was to strengthen control over planning and direction in the economy. Inflationary pressures forced him to raise retail prices, halt planned wage increases, and cut back

new investment projects. Inflation was brought under control by the end of 1970. At this point he unveiled a new Five Year Plan (1971-75), and it turned out to be the most cautious of any CEMA country—and the most closely attuned to Soviet desires. The plan basically called for a renewed stress on heavy industry, closer cooperation with the USSR and other Communist countries, and increased attention to the immediate needs of the Czech consumer.

A number of significant steps have been taken in pursuit of improved consumer welfare. The Czech diet, already one of the best in Eastern Europe, has been steadily improved through increased output of milk and meat and imports of previously scarce fruits and vegetables. The supply of consumer durables has steadily increased, and while still far short of Western standards, Czechoslovakia is the only East European country that has no waiting list to buy a car. In 1972, when the domestic supply of consumer goods was threatened by a spending spree by East German tourists, Prague acted quickly, placing strict quotas on purchases by the tourists. Finally,

**Consumer Imports: % Share
From Major World Trading Blocs**



Czechoslovak shopper

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"We are thinking over...our domestic and foreign relationships...to ensure that the 15th Congress can determine the economic, political, and other tasks of the next period.... Such an approach is necessary to ensure that the stabilization process which we have achieved in the past two years can continue and that the advantage of socialism, which our people feel today, will not be a transitory period but a lasting prospect."

Gustav Husak, 4 July 1973



Brezhnev and Husak

Husak's regime has greatly stepped up the pace of housing construction since the beginning of the plan period.

Although Czech national income and industrial production are growing at about 6 percent a year, a number of old problems remain. The labor supply is very tight, and various sources suggest that labor-management problems are growing. Construction and production costs are increasing faster than planned, largely because of poor worker discipline and unsound management. Many industrial facilities are antiquated and lag far behind their Western counterparts.

Various sources have reported that reforms in wages, prices, and managerial techniques are being debated. For one thing, the Czechs are paying a good deal of attention to the New Economic Mechanism in Hungary. Within the past year, every major Czech economic periodical has discussed one or another aspect of the Hungarian reforms. The Czech Central Committee recently approved a new system for top-level managers. An experimental wage system, tying wages to productivity, is being tried in a few industries. Heavily backed by Premier Strougal, this system is likely to be introduced more generally in the next Five Year Plan. The political rationale for such economic reforms in Czechoslovakia would presumably be that similar reforms were approved by the 13th Party Congress in 1966 and that "revisionists" like Ota Sik deviated from the guidelines. In any case, really sweeping changes are not likely,

and any reform that is enacted will be kept under strong party control.

Foreign Policy

During the first three years of its existence, the Husak regime focused its attention on bringing order to the domestic situation. Its foreign policy during the period was characterized by total subordination to Moscow. As Prague gained acceptance from the invaders, its relations with Yugoslavia and Romania deteriorated over the issue of the invasion and Husak's domestic policies. Relations with the Western countries became strained as Husak moved to cut off the free travel of Czechoslovak citizens to the West, and as his hard domestic policies came under growing Western criticism.

During the past year, as the regime gained self-confidence and Moscow elaborated its policy of detente, Prague has moved out of its isolation and won some successes. The most important was the negotiation of a bilateral treaty with West Germany. The agreement was made possible when Prague abandoned its demand that Bonn declare the 1938 Munich Agreement invalid "from the beginning" (*ab initio*). This demand had been a basic tenet of Czechoslovak foreign policy for over 30 years, and Husak's retreat has been attributed to Soviet prodding in the interest of Brezhnev's detente policy. Problems have arisen at the last moment over the question of Bonn's representing West Berlin; these will almost

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Cathedral in Prague

certainly delay Chancellor Brandt's visit to Prague scheduled for the first week of September. Despite the delay, both sides seem intent on overcoming this impediment. The treaty and the Brandt visit will open the way for diplomatic relations and will be welcomed by the Husak regime as a further recognition of its legitimacy.

The Husak regime has buried the hatchet with Romania. The improvement in relations was underlined by Romanian President Ceausescu's visit to Prague earlier this year. Normalization of relations with Yugoslavia is progressing more slowly, but relations have tangibly improved. Husak will travel to Belgrade in October.

Some progress has also been scored in negotiations with the Vatican. For the first time since the Communist coup in 1948, Prague has permitted the appointment this spring of bishops to fill vacant seats. Husak has not neglected neighboring Austria, and Prague has moved to work out long-standing financial claims and periodically troublesome border problems.

Although Prague has become more active in the field of foreign relations in the past year, its activities in the field will clearly remain circumscribed by its loyalty to the Soviet Union. Indeed, Czechoslovakia is the loudest proponent of a "coordinated socialist foreign policy." The Husak regime, however, will do what it can to utilize the openings created by the Soviet policy of detente to seek further recognition of its legitimacy.

On the other hand, the potentially corrosive impact of detente will perhaps be felt more in Prague than elsewhere in Eastern Europe. After all, Moscow's rationale for the 1968 invasion was to counter the danger stemming from Dubcek's inability to resist the alleged subversive influence of Western ideas. Husak inherited this rationale, but it now looks as if he may have to contend with much the same Western influence as a matter of course, treading a tightrope between the impact the west will have on popular expectations and the demands of Soviet-imposed discipline. His success in this is by no means a foregone conclusion.

US-Czech Relations

A major development in Prague's foreign policy has been the new momentum given its relations with Washington by the recent visit of

US-Czechoslovak Negotiating Issues

- The US holds about \$70 million in Czech gold (18.4 tons) pending compensation for \$72 million of US property in Czechoslovakia seized after World War II.
- The US has blocked withdrawal of \$1.7 million in Czech accounts, and the Czechs have defaulted on a bond issue valued at \$2.7 million.
- Czechoslovakia seeks return of \$17 million paid for a steel mill never delivered by the US.
- The Czechs want most-favored-nation trade treatment and a Czech consulate in Chicago in exchange for a US consulate in Bratislava.

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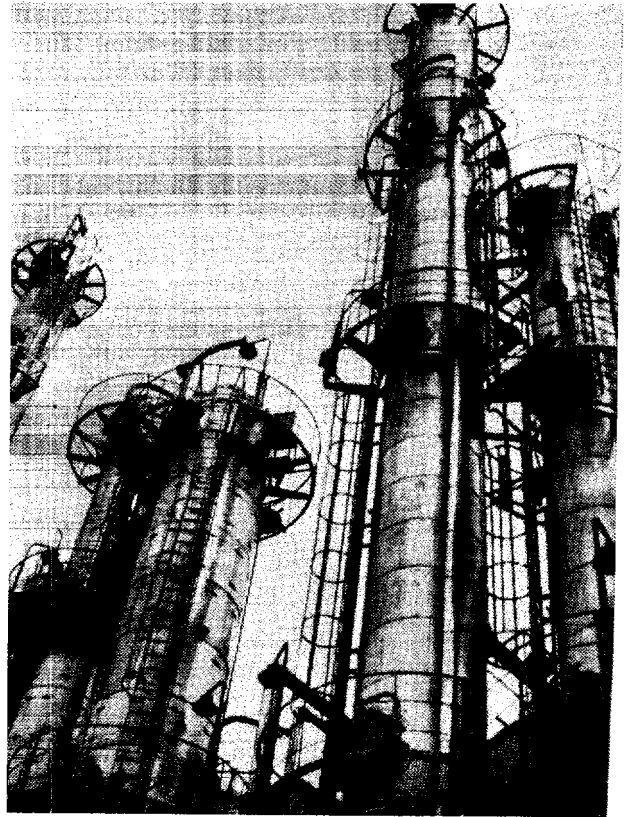
Secretary of State Rogers to Prague. On 10 September, the US and Czechoslovakia will begin talks aimed at settling outstanding financial claims, one of the major roadblocks to improved bilateral relations.

Indications are that the Czechs, for the first time since the 1968 invasion, are interested in making progress on these matters and will probably propose a new financial settlement package. A Foreign Ministry official, in relaying the latest Czech position, indicated willingness to pay \$29 million of \$72 million in US property claims if the US makes good on the \$17-million steel mill. If the US agrees to this and returns gold being held in Fort Knox, the official noted that the Czechs might spend the dollar value of the gold for US technology.

Foreign Trade Policy

Prague's policy on foreign trade, like its foreign policy in general, is careful and centered on the Communist world, particularly the Soviet Union. Compared with the rest of Eastern Europe, Czechoslovakia has not been aggressive in seeking Western industrial products and technology. While trade with the West is increasing substantially this year—due in part to sizable agricultural purchases from the US—there is no sign that Czechoslovakia plans to follow Poland and Romania in making large purchases of Western machinery on credit.

The Czech economy, since the end of World War II, has been organized to meet the needs of the Soviet Union and CEMA. Most machinery and equipment plants set up since the late 1950s, for example, are geared for export to Czechoslovakia's socialist neighbors. The Czechs have lost their comparative advantage within the group. Products equal to the Czechs' in quality are being produced in other socialist nations, no longer guaranteeing a market for Czech machinery, which had long enjoyed the reputation of being the best in Eastern Europe. Moscow is growing unhappy with Czech industrial goods, and Prague has begun to feel the consequences. For example, a plant designed to produce locomotives for the Soviet Union is operating at only 20 percent of its capacity because the Soviets find that the Czech

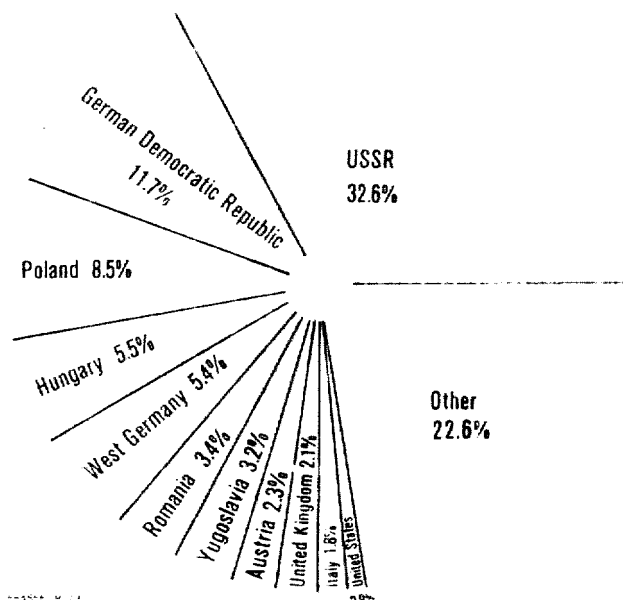
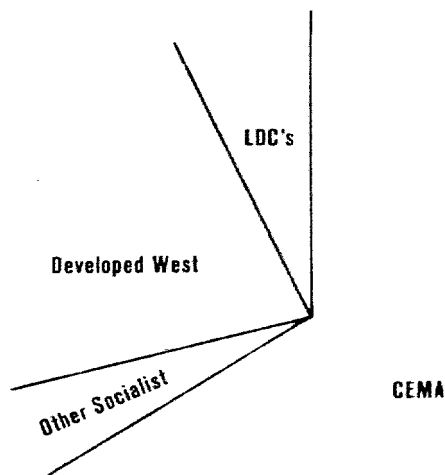


Czechoslovak-Soviet Friendship Chemical Works

locomotive no longer meets their needs. On the other hand, the Czechs have felt the impact of last year's Soviet economic setbacks. The setbacks led to lower Soviet exports, quickening Czech concern that future Soviet difficulties may carry even larger costs for the Czech economy.

The Husak regime is the strongest supporter of integration within CEMA and has been openly critical of the slow progress being made toward this goal. Deputy Premier Hamouz described the regime as "dissatisfied" with the slow pace of cooperative ventures. Prague had hoped that major projects in industrial cooperation—at least in specific areas such as automobile production—could be started by 1976. The Czechs are now pessimistic. Joint auto production with East Germany and Hungary has now been put off until at least 1980.

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SECRET**Selected Major Trading Partners-1972****1972 Regional Breakdown of Foreign Trade****Trade with Non-Socialist Countries**

Trade with non-socialist countries is increasing faster this year than in any year since Husak took control. In the first six months of the year exports to the "capitalist" nations were up 14.4 percent, and imports were up 20.5 percent. These advances were above planned levels and outran increases in trade with the socialist countries. The increase in imports has mainly come in the form of agricultural products, consumer goods, and raw materials—not machinery. Midyear figures show that Czechoslovakia continues to rely on the socialist countries for machinery imports.

Unlike Poland and Romania, the Czechs have shown little interest in obtaining long-term Western credits. The only sizable borrowing Czechoslovakia has done this year was a \$48-million credit from the Japanese Export-Import Bank for a petrochemical plant.

Licenses have been more important than credits in recent years, although the Czechs say only 2 percent of total production can be accounted for by licensing arrangements.

Czechoslovakia must import most of its raw materials. The Soviet Union has been the main source of these imports since World War II, but sizable increases in the future are doubtful even with additional Czech investment in Soviet raw material production. As a result, the Czechs have had to look elsewhere; to the Middle East for oil and cotton; to the developing countries—particularly Brazil and India—for ores; and to the US for agricultural products. The share of raw material imports from non-socialist countries will surely increase. A Czech economist recently wrote that priority will be given in granting credits to developing countries that repay in raw materials, particularly oil.

Good Prospects for Trade with the US

Last year, Czech-US trade reached \$89 million, an increase of 61 percent over the previous

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**Imports of Consumer Goods
1967=100**

	Total Imports	From Socialist Nations	From Industrial West
1967	100.0	100.0	100.0
1968	147.8	152.7	130.4
1969	180.0	183.7	166.9
1970	185.5	187.0	219.4
1971	177.4	170.9	249.6
1972	195.1*	187.8*	282.0*

**Preliminary estimates based on plan fulfillment reports.*

year. Czech exports to the US were \$26 million, 13 percent higher than 1971, and imports reached \$63 million, double the 1971 figure. All signs point toward further increases this year. The Czechs have placed orders for \$100 million worth of US goods so far this year, about 80 percent of which have been for agricultural products, mostly soybeans.

In 1971, only 24 percent of Czech imports from the US were manufactured products and machinery. The Czechs, however, have been cautiously seeking access to US technology. Major

US trade missions have been well-received in Prague, and interest was shown in US machine tools, as well as automotive and petrochemical technology. In addition, US bids are now being solicited for several turnkey plants already incorporated in the next Five Year Plan. The Czechs' conservative attitude toward credits will restrict their shopping list, but the recent Husak moves to diversify trade with the West and to reduce trade with West Germany could mean more business for other nations, particularly the United States.

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