

22 January 1974

BACK-UP BOOK FOR
DCI CONGRESSIONAL BRIEFING
SENATE ARMED SERVICES COMMITTEE

C O N T E N T S

The Soviet Union

Nato-Warsaw Pack Balance

The Political Situation
Relations With Eastern Europe
Sino-Soviet Relations
Military Aid to the Third World
The Soviet Economy

China

The Chinese Economy

The Middle East

Egypt
The Fedayeen

Western Europe

Economic Problems with EC
European Defense Cooperation

The Far East

Thailand
The Philippines
Indonesia
Japan

Korea

Latin America

Argentina
Brazil
Chile
Cuba
Mexico
Peru

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TOP SECRET

21 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

NATO-WARSAW PACT BALANCE

- I. Over the years the Warsaw Pact has had an image of being an overwhelming land and air force held at bay only by the threat of US tactical and strategic nuclear weapons.
 - A. We believe that this has not been the case for a long time, and I think that the present situation can be fairly described as a balance.
 1. There are, nevertheless, many asymmetries between NATO and the Pact, and it is these asymmetries that have led to most of the misconceptions regarding the force balance. The asymmetries exist partly by design and partly through historical evolution.
 - B. First, I would like to go over the current strengths of NATO and Pact forces.
 1. As you can see from the chart, the current Pact force in the Central Region--that is, East Germany, Poland, and Czechoslovakia--

WP-NATO-1

TOP SECRET

looks impressive, but this needs to be examined in detail.

2. Take manpower, for example. There are about 460,000 Soviet troops in the Central Region. The rest--about 330,000 in the East European field armies--are serving in a structure that is designed to be filled out in emergency by mobilization.
3. By contrast, NATO has about 700,000 men in units which are kept at or near combat strength. Some 160,000 are the US field army forces.

C. The figures on the number of divisions are influenced by differences in mobilization practices, as well as by differences in structure.

1. While there are 58 Pact divisions in the Central Region, five of them are at low strength in peacetime and two are small special purpose divisions. Moreover, the Pact divisions are 6,000 to 7,000 men smaller than those of NATO.

WP-NATO-2
TOP SECRET

2. In addition, NATO has 14 independent brigades, each of which is similar in size to a Pact division.

D. Tanks continue to be the main element of Pact strength. The Soviets have deliberately built up their tank force in the belief that tanks can continue to play the role during conventional war they did in the Nazi blitzkrieg, and that on the nuclear battlefield, a tank has the best chance of surviving.

1. The numbers of the chart show only tanks assigned to units. They do not show the some 3,000 additional ones held in reserve by NATO for airlifted US units and for replacing battle losses. Nor do they reflect the large numbers of antitank weapons held by NATO. (The Pact makes its replacements in combat by whole units, one of the reasons for the disparity in the number of divisions as well as tanks.)

E. You may recall that a simple count of the number of aircraft tends to obscure one of the most important elements of NATO's strength.

WP-NATO-3
TOP SECRET

1. NATO has a significant qualitative edge over the Pact. Its aircraft are generally superior in range, payload, and armament, and its pilots are better trained.
2. The Warsaw Pact relies on medium bombers based in the USSR for the bulk of its conventional strike capability. These aircraft are more vulnerable to air defenses than are NATO fighter-bombers.
3. Much of NATO's tactical nuclear delivery capability is in its dual-capable aircraft--many of which could reach the USSR. This is an area of major Soviet concern.

F. We estimate that if the current forces were augmented by mobilization, the changes shown in the chart would occur.

1. After 30 days, NATO would have significantly more manpower in uniform in the Central Region. The big strength of NATO would come from the rapid West German mobilization, which within a week or so would significantly augment NATO forces in the immediate tactical area.
2. Some 430,000 of the mobilized Pact force would be Soviets from the western USSR.

WP-NATO-4
TOP SECRET

3. The NATO figures, of course, include some 200,000 US men who would be air-lifted across the Atlantic.

G. The figures for tanks and aircraft mobilized after 30 days heighten the comparison of relative strengths I made earlier.

1. The Pact has put its money on tanks, NATO on aircraft.

2. Pact commanders must be concerned with the prospect of the new "smart" munitions which can be delivered by NATO aircraft and which have shown what they can do.

H. To summarize, I want to emphasize again the difficulties in making comparisons between NATO and the Pact, even when we are sure of our numbers. The forces are very different, supported by governments which have different sets of views.

1. As it stands, neither side can initiate war against the other with the certainty that the outcome would be in its favor. That uncertainty is what provides the balance and has kept the two very considerable military machines at bay.

WP-NATO-5
TOP SECRET

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Next 15 Page(s) In Document Denied

14 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

SOVIET POLITICAL SITUATION

- I. Brezhnev made considerable gains last year, building on his foreign policy initiatives to add to his personal authority at home and abroad.
 - A. All his politburo colleagues now acknowledge his preeminent position, although not all view his leadership or policies with enthusiasm.
 - B. Brezhnev, for his part, continues to show an awareness of the danger of getting too far out ahead of the collective and an ability to trim when necessary.
- II. Brezhnev made his biggest gains in the spring and early summer with his trips to Bonn and the U.S. A party plenum on the eve of the visits provided him with a major victory.
 - A. The plenum removed from the politburo his two most outspoken critics, Shelest (former Ukrainian party boss) and Voronov (former Premier of the Russian Republic.)

SOV POL-1
TOP SECRET

- B. Defense Minister Grechko, Foreign Minister Gromyko and Minister of State Security (KGB) Andropov were elevated to full membership on the politburo. All have demonstrated political support for Brezhnev and his foreign policy.
1. Their inclusion on the top policy-making body serves to ensure smoother coordination of foreign policy. It also guards against their institutions becoming focal points of opposition.
- C. The Central Committee strongly endorsed Brezhnev's detente policy and noted his "great personal contribution." This, together with later official statements highly praising Brezhnev's foreign trips, firmly established him as the principal architect of Soviet foreign policy and laid the groundwork for a new surge in the Brezhnev cult.
1. Acknowledgement of Brezhnev's personal contribution became standard ingredient in Soviet propaganda and in the speeches of other officials.

SOV POL-2

TOP SECRET

D. Some revealing differences have appeared, however, in the way Brezhnev's politburo colleagues have treated the "great personal contribution" formulation.

1. His closest political allies, such as Kirilenko, tend to embroider the formulation to inflate Brezhnev's role.
2. Others, such as Shelepin and Mazurov, have stuck to the precise wording.
3. Suslov, the veteran ideologist and guardian of collectivity, provided his own shading. Speaking in July, he misquoted the plenum resolution so as to inflate the role of the politburo and downgrade that of Brezhnev.

III. In late summer and early fall, signs began appearing that some elements in the party and government bureaucracy were again beginning to doubt whether the benefits of detente would outweigh the dangers. This was particularly true of those concerned with ideology and domestic discipline.

A. The first blush of excitement over detente had begun to fade, and the leadership was

SOV POL-3

TOP SECRET

getting down to the more sobering task of detailed negotiation.

B. In a speech in late September, Brezhnev himself was noticeably defensive about the achievements of detente, and backed off from some of his earlier more optimistic statements.

IV. The October Arab-Israeli war vastly complicated Brezhnev's position, by requiring choices between pursuing detente and Soviet goals in the Middle East.

A. In the event, he carefully involved other top Soviet leaders in the management of the crisis and was able to weather it.

V. Brezhnev's authority seems to have reached a new peak in November at the anniversary celebration, where he received unusual personal praise.

A. He was aided by an upsurge in the economy, largely resulting from the record grain harvest.

B. Incidentally, the harvest probably also saved the career of Agriculture Minister Polyansky, who had been made the scape-goat for the previous year's disaster. But all the public credit has gone to Brezhnev.

SOV POL-4

TOP SECRET

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C. In recent weeks there has been a growing emphasis on Brezhnev's role as innovative domestic leader. A Pravda editorial summarized at unusual length his previously unpublished speech at a party plenum in December. The speech is being held up as a guide for all in working to fulfill the 1974 plan.

VI. There are many problems ahead, however.

A. Brezhnev and his colleagues are under pressure to realize some fruits from detente.

B. The latest Solzhenitsyn bombshell revives the leadership's dilemma of how to square the requirement of domestic discipline with foreign policy considerations.

C. Finally, there is uncertainty as to how long some senior politburo members may remain active. This is not a young leadership [redacted]
[redacted] and changes are inevitable.

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SOV POL-5

TOP SECRET

14 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

SOVIET RELATIONS WITH EASTERN EUROPE

- I. Soviet efforts to retain control in Eastern Europe are complicated by two broad developments: the pressures for internal change in the East European countries and Moscow's own push for detente in Europe.
- II. The Eastern European countries want to generate more economic growth, which would provide improved living standards and win greater popular support for the regimes. Some would like to modify their political and economic institutions toward this end.
 - A. The rioting in Poland in December 1970 was indicative of the underlying discontent throughout Eastern Europe.
 - B. Moscow has had to accept some experimenting on the part of the Eastern Europeans, but there are limits, and the case of Czechoslovakia undoubtedly remains fresher in the minds of

SOV-EEUR-1

TOP SECRET

the Eastern Europeans than it does in the minds of the West.

1. In Poland, Gierek has initiated some reforms that have won guarded approval from Moscow.

2. In Hungary, Kadar is carrying out programs of limited economic and political experimentation.

- C. Moscow has kept close watch on cases such as these to make sure that the reforms do not weaken the position of the local Communist Party; in all cases Moscow has urged a "go-slow" policy.

- III. At the same time, Moscow seeks to improve relations with the West without jeopardizing its position in Eastern Europe. CSCE and MBFR negotiations make this problem more acute.

- A. A key Soviet objective continues to be Western acceptance of Moscow's hegemony in Eastern Europe.

- B. Moscow also wants to limit Western ideological and economic penetration of the area, while at the same time to derive benefits from

SOV-EEUR-2

TOP SECRET

Western technological and financial capabilities.

C. The Soviets know that some Eastern Europeans are anxious to turn Moscow's quest for better relations with the West to their own advantage.

1. The Romanians and Yugoslavs, for example, see in the CSCE a forum for advancing their own interests. For one thing, they hope to obtain assurances of national sovereignty to offset the "Brezhnev Doctrine"--which provides the rationale for Moscow's right to intervene in Eastern Europe.

D. Moscow is also alert to any sign that improved inter-German relations are having negative internal effects in the GDR. At present they probably believe that Honecker's regime is able to cope with the consequences.

IV. Moscow continues to be sensitive to Chinese "meddling" in Eastern Europe, although the Chinese are not as active there as they were several years ago.

A. Some Eastern Europeans, particularly the Romanians, may have seen Peking as a tempting counterweight to Moscow.

SOV EEUR-3

TOP SECRET

1. The Soviets have made clear that those who flirt with Peking do so at considerable risk.
 2. As a result, the Romanians have conducted their relations with China more prudently of late.
- V. Nonetheless, Romania's efforts to set an independent course in foreign policy continue to trouble Moscow.
- A. Romania has renewed efforts to assert its independence at CSCE and MBFR and followed an "even-handed" policy toward the Middle East.
1. Ceausescu remains adept at gauging the limits of Soviet tolerance, however, and Moscow is reluctant to see an open split develop.
- VI. Soviet-Yugoslav relations have improved noticeably, but mutual suspicions remain.
- A. Brezhnev's trip to Yugoslavia in September 1971 and Tito's cordial visit to the Soviet Union last November were signposts in this direction.
1. Economic and cultural relations have also

SOV-EEUR-4

TOP SECRET

become closer, highlighted by a \$540 million Soviet credit to Yugoslavia.

- B. By and large, Moscow appears to be seeking to build as favorable a position as it can in preparation for the post-Tito era.

VII. As moves toward detente, particularly CSCE and MBFR gain momentum, Moscow will be increasingly compelled to stress "socialist cooperation."

- A. Frequent Warsaw Pact and bilateral meetings will emphasize the unity theme.
- B. The Soviets will give more attention to CEMA, trying to portray it as an equivalent to the European Communities.
 - 1. Moscow is increasingly trying to tie the economies of its CEMA partners closer to its own by means of long-range planning, participation in joint enterprises and formation of numerous standing and special commissions.
 - 2. We see indications that the Soviets will use the energy shortage in Eastern Europe to gain increased leverage over the economies of those countries.

SOV-EEUR-5

TOP SECRET

C. Efforts to increase ideological coordination are increasing, and will probably become more noticeable as preparations for a World Communist Conference move forward.

SOV-EEUR-6

TOP SECRET

21 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

SOVIET MILITARY AID TO THE THIRD WORLD

- I. The Soviet Union continued to push its military aid diplomacy in the Third World in 1973, with the tempo of activity increasing during the last quarter of the year.
- II. New Soviet military aid commitments totaled at least \$1.2 billion, some \$500 million above 1972's level. The increase can be attributed to the Soviet arms resupply effort following the outbreak of the Arab-Israeli war in October.
 - A. Egypt and Syria received over 75 percent (\$950 million) of Moscow's new aid commitment.
 1. The resupply effort concentrated on re-equipping, with armor, antitank weapons, and ammunition for those Arab units hardest hit in the fighting. In addition, Moscow provided enough surface-to-air missiles and fighter aircraft to maintain the air defense umbrella over

SOV MIL AID-1
TOP SECRET

TOP SECRET

both the Egyptian and Syrian fronts.

- B. Iraq received \$140 million in new aid covering Moscow's first sale of the TU-22 supersonic bombers. (Iraq already had subsonic TU-16s.)
- C. India received a minimum of \$125 million in new aid extensions, covering the introduction of the SA-6 surface-to-air missile system and additional tanks, artillery, radars, and support equipment.
- D. Lesser commitments were made to Morocco (\$2 million), both Yemens--\$8 million for Aden and \$1 million for Sana, and Peru (\$14 million).
 - 1. The equipment to Peru was Moscow's first arms agreement anywhere in Latin America outside of Cuba.

III. The USSR delivered a record \$1.8 billion of military aid to the Third World in 1973, substantially above the annual average of \$815 million delivered during 1970-72. About 80 percent (some \$1.4 billion) of the deliveries went to Arab countries.

- A. Syria received an estimated \$700 million, including 250 jet fighters, 850 tanks, and large quantities of surface-to-air and

SOV MIL AID-2

TOP SECRET

antitank missile equipment. About two-thirds of the equipment arrived in the October resupply effort.

1. During 1973, the Soviets introduced into Syria the SA-6 surface-to-air missile system, the SA-7 hand-held surface-to-air missile system, the Frog-7 tactical surface-to-surface missile system, the Vanya-class minesweeper, the BMP infantry combat vehicle, the 203-mm gun howitzer, and the KA-25 Hormone helicopter.

B. Egypt received some \$450 million of arms in 1973, of which about three-quarters resulted from the October resupply effort.

1. These deliveries included Cairo's first Scud surface-to-surface missile system and BMP infantry combat vehicles.
2. Egypt also received large quantities of ground forces equipment, including 600 tanks and 250 armored personnel carriers.

C. Moscow shipped an estimated \$300 million of arms to Iraq, including the TU-22s.

SOV MIL AID-3
TOP SECRET

1. Deliveries to Iraq--ordered under a 1971 agreement--also included the introduction of the SU-17 Fitter B fighter-bomber and MI-6 helicopter, along with continued supplies of ground forces equipment.

- D. Among other significant deliveries were the first Soviet arms to Bangladesh (18 jet fighters, 3 transports, and several helicopters), \$100 million worth of ground forces equipment to Iran, and \$45 million--primarily tanks--to Afghanistan. India received an estimated \$140 million of arms, including over 50 MIG-21s, a Petya-class escort ship, and ground forces equipment.

IV. An estimated 5,600 Soviet military technicians were employed in Third World countries during 1973, about 40 percent fewer than in 1972. The decrease is accounted for by a drop of over 5,000 technicians in Egypt following Cairo's expulsion order of July 1972.

- A. The number of Soviets stationed in Afghanistan, India, Iraq, Somalia, Syria, Aden and Sana increased during 1973.

SOV MIL AID-4
TOP SECRET

B. Some of these personnel served as technicians to deliver, assemble, and service arms. Their most important function, however, was the training of local personnel in the operation, maintenance, and tactical use of equipment.

SOV MIL AID-5
TOP SECRET

15 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

THE SOVIET ECONOMY

- I. At first glance, the Soviet economy now appears in better shape than in recent years.
 - A. Overall economic growth in 1973 posted a strong recovery from the poor performance in 1972.
 - B. An excellent harvest will alleviate for the time being at least the worst strains on the regime to improve the diet of the population.
 - C. A further boost in oil and gas output assured continued self-sufficiency in energy.
- II. The growth of GNP in 1973 came to nearly 7 percent, compared to the exceptionally low rate of 2 percent in 1972. An excellent harvest led the comeback.
 - A. A decline in farm output of 7 percent in the poor weather year, 1972, was followed by an increase of nearly 12 percent in 1973. Both above-average weather and increased supplies of fertilizer contributed to this surge.

SOV ECON-1
TOP SECRET

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- B. Grain production achieved a record level, 20 million tons over the previous all-time high. This result, coupled with two years of massive grain imports from the West, help to fulfill Brezhnev's promise to put more meat on the nation's tables.
- C. Industrial growth also recovered from the slump experienced in 1972, aided by the large supplies of raw materials from the farms.
 - 1. Soviet industry was not affected by an energy shortage, even though energy goals for 1973 were not achieved.
 - 2. Nevertheless, the chronic industrial problems of low labor productivity, slow assimilation of new technology, and delayed completion of new facilities, persisted.
- D. The spurt in GNP still left the goal of overtaking the US as distant as ever -- the dollar gap between the national products of the two countries again expanded, as it has in 8 of the past 10 years.

SOV ECON-2

TOP SECRET

III. We believe that the long-run outlook for the Soviet economy still has not improved fundamentally. Because much of the rebound in growth of GNP in 1973 was due to bumper farm output, a better perspective of current growth potential of GNP is given by taking the average rate of 4 1/2 percent for the three-year period 1971-73.

A. Soviet leaders have been unable to stimulate the productivity growth that they desire.

The USSR produces only about half as much as the US with a labor force 50 percent greater.

1. The reasons are mainly organizational and political. Inefficient management practices and a cumbersome planning system hinder technological progress. Also, Moscow gives an overriding priority to the quantity of production, to the neglect of cost and quality.

B. The Soviet regime has shown an unwillingness to take the distasteful medicine necessary to bring about fundamental improvement in the operating efficiency. Instead, recent speeches by the leadership indicate further minor tinkering with the system of economic management.

SOV ECON-3

TOP SECRET

IV. Soviet foreign trade has continued to grow rapidly up from \$31.5 billion in 1972 to \$39 billion in 1973.

A. Roughly two-thirds of Soviet foreign trade is with Communist countries.

1. Eastern Europe accounts for about 55 percent of Soviet trade; the remaining 10 percent is with Cuba, Yugoslavia, and the Far Eastern countries.

2. Soviet trade with the Developed West accounts for 21 percent of the total, and the Less Developed countries account for the rest. Trade with the Developed West has increased rapidly, notably in imports of advanced equipment and technology, as well as grain.

B. The massive imports of Western grain in 1972 and 1973 was nevertheless unique.

1. The Soviets will have imported about 37 million tons of grain in U.S. Fiscal Years 1973 and 1974. Almost 25 million tons was purchased from the U.S.

2. Last year's record harvest, together with expected imports, should allow the Soviets to rebuild stocks and export some grain to non-

SOV ECON-4
TOP SECRET

Communist countries.

3. Although Soviet grain imports are likely to drop sharply this year, in the longer run large quantities of Western grain will still be needed to support Brezhnev's livestock program.

C. Soviet exports have lagged consistently behind imports from the Developed West--which accounts for most of its hard currency trade.

1. Largely because of grain, in 1972 the USSR suffered a record hard currency deficit of \$1.4 billion and in 1973 it rose still higher.
2. To help finance these deficits, the USSR sold about \$300 million in gold in 1972 and perhaps as much as \$1 billion in 1973.
3. The USSR also has borrowed heavily to finance imports; it has an outstanding debt of about \$3.5 billion. The USSR now spends roughly one-fourth of its hard currency export earnings to service this debt.
4. The Soviet hard currency deficit probably will decline in 1974, partly because imports of agricultural products will fall sharply and prices for Soviet oil exports will rise.

SOV ECON-5
TOP SECRET

15 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

THE CHINESE ECONOMY

- I. Amid rumblings of high-level policy debates, China turned in a good but not spectacular economic performance in 1973, the third year of the Fourth Five-Year plan.
 - A. Agricultural production recovered from 1972 when poor weather damaged grain and cotton crops.
 1. Peking claimed grain production in 1973 surpassed the record 246 million tons claimed for 1971.
 2. In order to compensate for the poor 1972 crops, the leadership felt constrained to import 8 million tons of grain, compared with the normal 5 million tons.
 3. Contracts already signed will raise grain imports to 9 or 10 million tons in 1974.
 4. The US share in China's grain imports will be about 5 million tons in 1974, the same as in 1973.

CHIN ECON-1
TOP SECRET

B. Industrial production rose by a moderate 8 percent in 1973, to judge from Peking's restrained year-end claims and apparent bottlenecks in coal, iron ore, cement, and mining machinery.

1. Additional equipment--provided by foreign suppliers and China's own domestic machinery industry--is steadily raising industrial capacity, output, and technology.
2. The petroleum industry, which already was on a fast track, is being further speeded up in order to take advantage of skyrocketing world prices.
3. Exports of petroleum to Japan were one million tons in 1973 and probably will expand to 3 to 5 million tons in 1974.
4. China has plenty of petroleum resources to meet domestic requirements (at China's current level of industrialization) and to expand exports.
5. Production of military hardware in both 1972 and 1973 fell roughly 20 percent below the 1970-71 peak.
 - a. The drop was concentrated largely in aircraft production.

CHIN ECON-2
TOP SECRET

b. The reason for the drop is unclear.

Perhaps it may be explained by a policy decision to modernize the general industrial base for the long haul and by a wish to advance weapons technology before making commitments to full-throttle production of advanced weapons.

C. Foreign trade jumped to more than \$8 billion in 1973 compared with just under \$6 billion in 1972. A large part of the increase resulted from worldwide inflation and currency revaluations.

1. Japan was the leading trade partner, shipping \$1 billion worth of goods (steel products, machinery, and fertilizer) to China and receiving back \$900 million worth (foodstuffs, textiles, and oil).
2. China had its usual large earnings of hard currency from Hong Kong--\$650 million from provisioning Hong Kong, \$250 million from goods re-exported from Hong Kong, and \$200 million from overseas remittances and profits channeled through Hong Kong.

CHIN ECON-3
TOP SECRET

3. These earnings were more than offset by deficits in trade with the US, Japan, and Western Europe. Thus China experienced a \$500 million trade deficit with hard currency countries, compared with a slight surplus in 1972.
4. Trade with the U.S. expanded enormously to \$800 million as against \$90 million in the previous year.
 - a. The US shipped \$600 million worth of wheat, corn, cotton, and soybeans to China and about \$140 million worth of aircraft, metal scrap, and other items.
 - b. In return the US bought \$60 million worth of Chinese silk, pig bristles, fireworks, cotton fabrics, carpets, tin, and antiques.
- D. In 1973, China signed contracts with the West for a record \$1.2 billion worth of industrial plants to be delivered over the next several years.
 1. Most of these plants will produce chemical fertilizers and artificial fibers.
 2. In contrast to China's long-standing policy of avoiding foreign debt (outside of the revolving charge account for Western grain and fertilizer),

CHIN ECON-4
TOP SECRET

two-thirds of the cost of these plants involve deferred payments.

- II. China was able to make these important economic decisions (buying more grain, contracting for Western industrial plants on a large-scale, and buying on credit) in spite of unfilled top administrative posts and intensified political wrangling.
- A. The decisions are oriented toward support of the agricultural sector of the economy and maintenance of basic consumption standards.
 - B. Because the new chemical fertilizer and artificial fiber plants will not come on stream for several years, China will continue to depend on the outside world for sizable quantities of grain.
 - C. China's new policies are not inconsistent with Peking's fundamental doctrine of self-sufficiency. Short-run adjustments are being made in order to hasten the modernization of the economy and to insure long-term self-sufficiency.
 - D. Even though Peking's birth control program has been pressed vigorously, it has not so far appreciably affected demographic rates and will not, for several years at least, affect China's need for additional food.

CHIN ECON-5
TOP SECRET

- E. Prospects for the remaining two years of the Fourth Five-Year Plan (1974 and 1975) depend mainly on favorable weather for agriculture. and the continuation of a moderate attitude toward economic organization and incentives.
- F. The signing of long-term contracts for wheat and industrial plants appear to give a continuity to the present middle-of-the-road policy.
- G. Nonetheless, the history of political conflict in China casts doubt on straight line forecasts of economic policies based simply on calculations of economic rationality.

CHIN ECON-6

TOP SECRET

~~TOP SECRET~~

16 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

EGYPT

- I. President Sadat's decision to launch the war in October has measurably improved his domestic image. It undercut those who had criticized him for doing nothing either to resolve the Arab-Israeli situation or to ease economic ills at home.
 - A. The prospect of a protracted negotiating period, however, could revive popular discontent over the no war-no peace situation and over economic problems.
 - B. Thus, while Sadat exerts pressures to ensure that the Arab-Israeli conflict does not again stagnate into a new "status quo," he is moving on the domestic front to head off popular dissatisfaction.
- II. Sadat is currently reorganizing the cabinet so as to relieve himself of prime ministerial duties.
 - A. He intends to turn the job over to Abd al-Aziz Hijazi, a qualified economist and administrator

EGYPT-1

TOP SECRET

who can prepare the government to deal with reconstruction and development.

B. Hijazi, the present Economy Minister, was behind last summer's revitalization of a liberalized economic policy.

1. The policy had first been set forth after Sadat took over the presidency. It is designed to attract greater private foreign investment and to ease Egypt away from socialism.

C. Much of the renewed publicity over the program, which was interrupted during the war, is nothing more than rhetoric.

1. Years would be required to build up an effective reconstruction and development program in any case, and Cairo's penchant for excessive red tape will always stand in the way.

2. Attracting significant private foreign investment, moreover, requires a relatively stable military situation. Cairo, of course, is not about to forswear the military option in the absence of a final settlement.

EGYPT-2
TOP SECRET

D. Nonetheless, Sadat seems sincere in wanting to move in this direction, and a disengagement agreement would permit at least some preliminary moves.

1. He can expect some public pressure. The cease-fire could again bring to the surface discontent with rising prices and a shortage of consumer goods.
2. In addition, Sadat has for some time felt a self-consciousness about Egypt's military and technological inferiority to Israel. Having restored a measure of military honor, he probably feels that Egypt should now show that it can achieve a semblance of equality in other fields.
3. Finally, a disengagement agreement would provide an opportunity to make a start toward reopening the Suez Canal and rebuilding the canal towns.

III. Although Sadat is in no real danger for domestic opponents, his position is far from comfortable.

A. Until a final settlement is reached, he must sustain the momentum of diplomatic progress

EGYPT-3

TOP SECRET

in the negotiations and of economic development at home, without foregoing the threat of renewed war.

- B. Simultaneous focusing on both defense and development will result in many conflicting interests.

EGYPT-4

TOP SECRET

16 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

THE FEDAYEEN

- I. Fedayeen leaders--as always--are divided on how to promote Palestinian interests during the present round of negotiations.
 - A. Yasir Arafat, chairman of the catch-all Palestine Liberation Organization, wants his organization to represent the Palestinians at Geneva.
 1. All Arab states except Jordan support the PLO as representative of the Palestinian people.
 2. So far, of course, the Palestinians have not been invited to attend.
 3. In addition, Arafat has promised Syria's President Asad that even if the Palestinians are invited, they will stay away as long as Syria refuses to participate.
 4. Radical fedayeen leaders supported by Libya and Iraq categorically oppose any

FEDAYEEN-1

TOP SECRET

negotiations with Israel. They are working to undermine support for Arafat's more moderate position.

B. The PLO may soon take the less disputed step of creating a Palestinian government-in-exile.

1. Egypt and Syria have recently urged such a move, and the Soviets would welcome it.
2. The establishment of a provisional government would dignify the PLO's claim to speak for all Palestinians, but it would not significantly reduce the tensions among the many fedayeen groups.
3. Leaders of those groups will remain divided, particularly on whether to announce a willingness to accept a Palestinian state. Moderate Palestinian leaders are increasingly inclined to accept a limited Palestine that would consist of the Israeli-occupied West Bank and Gaza, and coexist with Israel.

II. Radical fedayeen elements are planning terrorist operations to disrupt the Geneva conference, and

FEDAYEEN-2

TOP SECRET

in a few cases to strike directly at Secretary Kissinger.

- A. Leaders of the major fedayeen organizations are trying to prevent such attacks, but cannot effectively control dissident members or terrorists who operate independently.
- B. Libya and Iraq oppose the peace negotiations and may be providing operational support for these terrorists.

1.

Last year, however, the Libyans did give SA-7s to Black September in the hope of avenging the downing by Israel of a Libyan airliner over Sinai.

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FEDAYEEN-3

TOP SECRET

17 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

ECONOMIC PROBLEMS IN THE EUROPEAN COMMUNITY

- I. Following a year of rapid economic growth, the European Community faces a sharp slowdown in 1974.
 - A. In one of the postwar period's strongest consumer-led booms, output in the EC surged by 6 percent in 1973.
 - B. In 1974, a long-expected slackening of economic activity will be aggravated by a \$33 billion rise in oil import payments. Growth rates in virtually all countries will plunge.
 - C. A slowing of growth became evident even in the second half of 1973 as most EC governments tightened economic policy to curtail inflation.
 1. Spurred by sharp increases in world commodity prices and by large wage boosts, consumer prices in the EC soared 8 percent last year.
 2. Many EC countries tightened credit and some implemented price or wage controls.

EUR ECO-1
TOP SECRET

TOP SECRET

D. Spiraling oil prices will result in a sharp contraction in consumer demand unless offset by expansionary fiscal policies, and these almost certainly would aggravate already severe inflation.

II. Varying degrees of pessimism characterize the 1974 outlook in each major West European country.

A. The outlook is bleakest in the United Kingdom.

A coal shortage stemming from a union-government deadlock over wage demands will result in no growth at best.

B. West Germany, will show little, if any, growth. The economy was already slowing down last fall.

1. The government has selectively eased fiscal restraints to stimulate investment and home-building, but is maintaining tight money to combat inflation.

2. Anticipating a rise in unemployment, it has banned the further entry of foreign laborers. This ban will hurt countries--such as Turkey, Yugoslavia, and Spain--that supply large numbers of workers to Germany.

C. Higher oil costs will tend to contract France's economy less than those of the other major EC countries. France enters the new year with low

EUR ECO-2

TOP SECRET

inventories and high levels of investment.

- D. Italy, just recuperating from its longest and most severe postwar recession, will find its recovery aborted and its trade deficit sharply worsened.

III. Trade and balance-of-payments problems will continue to plague many EC countries this year.

- A. The increased price of oil will result in sharp deterioration of the countries' current accounts.
- B. As the dollar strengthens, the foreign exchange cost of oil to the EC countries will rise still more, because most oil contracts stipulate payment in dollars.
- C. Serious balance-of-payments problems will encourage the UK, France, and Italy to pursue beggar-thy-neighbor policies.

IV. Most EC governments thus are faced with problems that call for conflicting policy moves.

- A. They must seek to stimulate their economies to counteract the decline in demand while trying to offset the inflationary impact of soaring oil costs.

EUR ECO-3

TOP SECRET

B. Their reluctance to use expansionary fiscal and monetary policies out of concern for the inflationary effects may encourage attempts to shift the deflationary impact to other countries through exchange rate changes.

EUR ECO-4

TOP SECRET

TOP SECRET

16 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

EUROPEAN DEFENSE COOPERATION

- I. The issue of future European defense cooperation has recently been the topic of much discussion among the West Europeans.
 - A. The French--who have been reluctant to cooperate with their neighbors--have recently suggested that increased cooperation should be considered now.
 1. Foreign Minister Jobert, for example, says that the seven-nation Western European Union might serve as forum for discussion of European defense.
 - B. The advent of MBFR negotiations forced the Europeans to consider whether an MBFR agreement would reduce the chances for eventually creating a common defense organization.
 1. The Europeans wish to deny the Soviet Union any influence in Western defense efforts.

EUR DEFENSE-1

TOP SECRET

TOP SECRET

2. They have emphasized that any MBFR agreements must not restrict their future defense options.

II. None of the West European governments has a firm blueprint for defense cooperation. They have different perceptions of what a common organization and a common policy should be.

A. The Europeans do, however, share some views.

1. They accept the need for closer cooperation as a way of reducing their individual defense expenditures.
2. They see an eventual defense organization as a natural consequence of the move toward a European political union.
3. They realize that Europe ultimately will have to shoulder a larger share of the Atlantic defense burden.

B. Differences arise on the link to NATO. Most prefer that a future European defense organization be tied to NATO.

1. They believe their military security is guaranteed only by the existence of the

EUR DEFENSE-2

TOP SECRET

TOP SECRET

Atlantic Alliance and the U.S. nuclear umbrella.

2. They prefer to use the "Eurogroup" caucus within NATO as a starting point.

C. France has different views.

1. Paris is suspicious that the U.S. will no longer put the interest of the Atlantic Alliance ahead of Washington's bilateral relations with Moscow.
2. Paris therefore desires that a European defense organization be only loosely linked with NATO, although it would continue to rely ultimately on the US deterrent. France's preference for the Western European Union over the Eurogroup reflects that purpose.

III. Movement toward a European defense community will not proceed past the talking stage for some time.

- A. The French have not really sorted out all their ideas.
- B. British Prime Minister Heath recently stated that a truly effective common defense organization cannot be created until there is a

EUR DEFENSE-3

TOP SECRET

~~TOP SECRET~~

common European foreign policy.

1. This day is still well in the future,
for progress in that direction has
been slow.

C. Nuclear weapons also pose a problem. A common defense organization will be effective only if the West Germans are given a voice in deciding on their use.

1. There is still great reluctance on the part of the British and French to give Bonn that voice.

EUR DEFENSE-4

TOP SECRET

TOP SECRET

16 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

THAILAND

- I. Prime Minister Sanya's new civilian government has pursued a slow but steady course toward constitutional government since the student uprising ousted the Thanom-Praphat military regime last October.
 - A. A constitutional drafting committee was quickly formed, and the government apparently intends to live up to promises of early promulgation.
 - B. The King's appointment last month of a broadly based interim assembly promises to broaden popular participation in the emerging civilian political system.
- II. The King's unprecedented emergence into the political arena, is a salient feature of the new situation.
 - A. He has brought his immense prestige to bear in guiding Thailand toward a more democratic system of government.
 - B. The King's initiative gives needed backbone

THAI-1

TOP SECRET

TOP SECRET

to the still somewhat timorous civilian administration.

III. The military appears resigned to a diminished role.

A. It has shown a willingness to give the new government time to prove itself.

B. It showed forbearance during a period of serious labor strife in November and December.

IV. Renewed student agitation could complicate progress toward restoring constitutional government.

A. The CIA letter episode and the visit of Japanese Prime Minister Tanaka prompted unruly demonstrations.

B. Mindful of the students' role in bringing it into office, the government has felt constrained to let them have their say. Prime Minister Sanya has consented to hear demands for an official protest to the US.

C. The government is trying to vent pressure on the issue, however, by reminding the public of the value of US assistance.

V. Preoccupied with domestic problems, Bangkok has limited its foreign policy initiatives to the

THAI-2

TOP SECRET

TOP SECRET

resumption of a dialogue with China.

- A. The Thai deputy foreign minister visited Peking in December, and secured agreement to expand trade and cultural contacts.
- B. Bangkok is heartened by a friendly Chinese attitude, but still seems inclined to defer diplomatic relations.

THAI-3

TOP SECRET

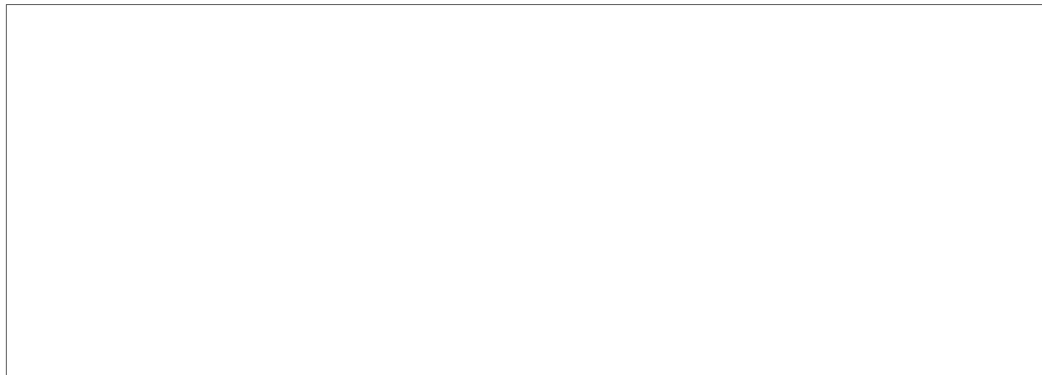
TOP SECRET

16 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

THE PHILIPPINES

- I. President Marcos has faced no serious political challenges during the first 15 months of martial law. The lack of an established succession procedure could lead to political instability in the future.
 - A. Traditional opposition groups--students, Communists, party politicians--have been thrown off balance and have been unable to organize any significant action against Marcos.



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- II. Marcos' major preoccupations are economic.
 - A. Social discontent in urban areas is exacerbated by inflation, food shortages and unemployment.

PHIL-1

TOP SECRET

TOP SECRET

- B. The Philippines need increased foreign investment for development. Investors are attracted by the greater stability under martial law, but international economic conditions may preclude major new commitments for some time.
 - C. Marcos has redistributed some land, but has not yet assured that the new landowners have ready access to the credit, irrigation and marketing facilities.
 - D. Rising world prices for Philippines agricultural exports have boosted foreign exchange reserves, but skyrocketing costs for oil imports could soon change this.
- III. One of Marcos' greatest domestic problems has been coping with the Muslim rebellion in the southern Philippines that broke out after martial law was declared.
- A. Government efforts at compromise have helped damp it down, but his programs have done little to alleviate the basic economic and social tensions that underlie the dissidence. Fighting could erupt again at any time.

PHIL-2

TOP SECRET

TOP SECRET

B. The small Maoist-oriented Communist insurgency in Luzon has been generally inactive. Leaders are concentrating on organization and cadre building.

IV. In foreign policy, problems with Philippine Muslims and the oil crisis caused Marcos to court closer relations with Arab states and to abandon Manila's formerly neutral stance on the Middle East.

A. Desire for new markets and sources of technical assistance resulted in expanded contacts with Communist states. Marcos is still reluctant to establish formal diplomatic ties with Moscow or Peking.

PHIL-3

TOP SECRET

TOP SECRET

16 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

INDONESIA

- I. For the past six years, the Suharto regime has provided a new measure of political stability and has opened the way for economic development. President Suharto remains in firm control.
 - A. Recent signs suggest there is trouble brewing beneath the surface, however. Suharto is now facing new challenges from student activists.
 1. The students are acting as self-appointed spokesmen for emerging public discontent over economic inequities and foreign economic influence--particularly that of Japanese businessmen, as shown in last week's riots during Tanaka's visit.
 - B. Jakarta's first Five Year Development Plan, which ends in April, has brought marked improvements in exports and foreign exchange, but has had less impact on the quality of

INDO-1

TOP SECRET

TOP SECRET

life of the average Indonesian.

1. Rice shortages continue, despite long-standing programs to achieve self-sufficiency.
2. Suharto has announced that the Second Five Year Development Plan will pay greater heed to the economic and social requirements of the Indonesia people and also that it will depend less on foreign capital.

III. Indonesia seeks a greater leadership role among Third World countries, particularly those of Asia.

- A. Jakarta is providing troops for the ICCS in Vietnam and the UN peacekeeping force in the Middle East.
- B. Indonesian officials have taken the lead in urging greater regional cooperation and problem-solving among Southeast Asian states and have tried to mediate disputes between rival neighbors.
- C. Indonesia is wary of the extension of Chinese influence into Southeast Asia. Indonesia leaders have consistently pressed neighboring states

INDO-2

TOP SECRET

TOP SECRET

to go slow in establishing formal relations with Peking.

- D. Jakarta wants to establish itself as the focal point for regional security. It has concluded bilateral agreements with Australia, among others, for intelligence exchange and joint military training. It looks to Australia and New Zealand for military and economic assistance.

INDO-3

TOP SECRET

TOP SECRET

16 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

JAPAN

- I. In recent months, the problems associated with oil supply and prices have dominated Tokyo's approach to foreign affairs.
 - A. Most strikingly, Japan has come out in support of the Arab diplomatic position.
 - 1. The subsequent Arab designation of Japan as a "friendly" country has eased pressures for additional political or economic moves against Israel.
 - 2. Tokyo is stepping up its economic involvement in the Middle East, offering increased aid, technical assistance, and investment.
 - B. The deterioration of Japan's foreign reserve position is spurring a rethinking of foreign economic relations generally.
 - 1. Foreign aid will probably be reduced in 1974. Nations unable to supply critical raw materials to Japan will suffer the most.

JAPAN-1

TOP SECRET

TOP SECRET

II. Strains of the past few months have made Japanese opinion more critical of the US.

A. Japan views the initial Arab cutbacks in its oil supplies as a price paid for its close identification with US foreign policies.

1. Some Japanese consider Washington unsympathetic to their country's present economic difficulties.
2. They also resent past US pressures for trade liberalization that, in hindsight, may have proven harmful to Tokyo's interests.

B. Japan, nonetheless, still views the US as a highly desirable ally.

1. The Mutual Security Treaty remains a key element of Tokyo's foreign policy and defense planning.

III. Tokyo has had mixed success in improving ties with its two major Communist neighbors.

A. Prime Minister Tanaka's summit meeting with Brezhnev last October resolved none of the outstanding Soviet-Japanese problems.

1. Signing of a peace treaty is blocked by Soviet refusal to return several small

JAPAN-2

TOP SECRET

TOP SECRET

northern islands claimed by Japan.

2. Soviet failure to provide adequate information and guarantees has hampered progress toward Japanese participation in developing Siberian oil and natural gas resources.

B. The tone of Sino-Japanese relations is more positive, despite Tokyo's unwillingness to jeopardize its economic and political links to Taiwan.

1. Negotiations on various Sino-Japanese commercial agreements seem to have moved off dead-center, and trade has doubled since normalization of relations in late 1972.

IV. Inflation, by far the outstanding problem in Japanese domestic politics, is causing growing public dissatisfaction with the Tanaka Cabinet.

- A. As a result, the ruling Liberal Democratic Party could lose some critical seats in the Diet this summer. It will not, however, lose control of the government.

TOP SECRET

B. The need to control inflation is forcing shifts in domestic priorities.

1. Public works projects will be cut back, slowing the campaign to clean up the environment.
2. Foreign military procurement and domestic weapons production programs for the Japanese forces will also be cut back.

JAPAN-4

TOP SECRET

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TOP SECRET

16 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

KOREA

- I. Growing demand for basic political reform has prompted President Pak Chong-hui to set aside efforts to mollify his critics and instead to adopt harsh measures. A serious political confrontation could result.
 - A. On January 8 Pak issued decrees making further criticism of his regime punishable by court-martial and imprisonment. He used the same sort of controls to repress opposition in 1971 and 1972.
 1. Pak wants to shatter the protest movement before universities reopen for the spring semester and provide a volatile mass base for the opposition.
 2. He clearly intends to follow through with his threats, but he is not insensitive to the need for some restraint.

KOREA-1
TOP SECRET

TOP SECRET

B. Opposition groups are worried, but seem determined to continue pressing for political liberalization.

1. Outspoken politicians are so far seeking legal means to challenge Pak.

2. Militant Christians, students and intellectuals seem ready to resume their campaign.

II. Pak claims that tight control and stability at home are essential for progress in negotiations with the North Korean regime.

A. He plans to propose a non-aggression pact with the North this month to convince the domestic audience that North-South talks are moving forward.

B. Pyongyang will not regard Pak's proposal as a significant modification of Seoul's earlier positions. It has no desire to provide a breakthrough in the dialogue that would ease his domestic position.

1. The North may nevertheless see the offer, as a way to open discussion of issues it has sought--such as a Korean peace treaty, withdrawal of US forces from the South, termination of the UN Command, and mutual force reductions.

KOREA-2

TOP SECRET

TOP SECRET

- III. A complicated territorial dispute has meanwhile developed off the west coast not far from Inchon.
- A. Since late October, North Korean vessels have established a patrol pattern south of the so-called Northern Limit Line in the Yellow Sea.
1. This line was established unilaterally by the UN Command in the early 1960s to restrain South Korean fishing boats from Northern waters. Until October, North Korea had generally refrained from sending naval units south of the line.
 2. Several times in recent months, North Korean vessels have penetrated within the three-mile-limit of some of the five South Korean island groups lying just south of the line.
- B. North Korea set forth its position at the Armistice Committee meeting at Panmunjom on December 1.
1. Pyongyang claimed that the seas surrounding these islands as were within the 12-mile limit of its territorial waters.

KOREA-3

TOP SECRET

TOP SECRET

2. It accused the South Korean navy of persistently penetrating these waters, and demanded that Seoul obtain Northern approval even to send civilian resupply ships to the islands.
- C. Despite its challenge, Pyongyang apparently does not wish to risk a serious military incident at this time.
1. It has continued to permit South Korean vessels to transit the waters to the island without interference.
 2. In recent weeks, it has nevertheless moved two of its OSA-class Guided Missile patrol boats and several additional torpedo boats to the vicinity of the islands.
- D. Northern objectives appear more political than military.
1. The 1953 Armistice placed themselves under control of the UN Command. By claiming the surrounding seas, Pyongyang may be laying the groundwork for raising the ownership status of these islands, if the UN Command should be phased out.

KOREA-4

TOP SECRET

TOP SECRET

2. The North may also hope to reopen the broader question of the future of the Command--a discussion deferred by mutual agreement at the UN General Assembly meeting last fall.

KOREA-5

TOP SECRET

15 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

ARGENTINA

- I. President Juan Peron's government is preoccupied with the upsurge of terrorism, particularly the kidnaping of foreign businessmen.
 - A. Peron and his advisers are increasingly alarmed over the impact of terrorism on efforts to revive Argentina's long-stagnant economy. The image of instability
 have discouraged potential investors and prompted some companies to move their executives out of the country.
 - B. To combat terrorism, Peron is pressing for legislation that would augment police powers and stiffen penalties for criminal actions. Peron also reportedly favors using extra-legal force against extremists.
 - C. The wave of abductions have been largely the work of the Marxist group called the People's Revolutionary Army. It has been emboldened

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ARG-1

TOP SECRET

TOP SECRET

by success and shows no inclination to slacken its drive to undermine the "bourgeois" Peron government.

II. At the same time, deep rifts in Peron's own disparate movement show no signs of healing.

- A. Peron's crackdown on leftists and his shift to the right have intensified the level of struggle between old guard labor leaders and the movement's radical youth and labor wings.
- B. The focal point has shifted to the major interior city of Cordoba, where labor dissension threatens a showdown.
 - 1. Grave disorders in Cordoba would challenge his ability to maintain at least a semblance of unity in his movement.

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A.

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- 1. we think it likely that his wife, who is vice president, would succeed him, at least for a while.

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ARG-2

TOP SECRET

21 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

BRAZIL

- I. President Medici's military-based regime seeks primarily to maintain rapid economic development and to protect national security. On March 15 Medici will be succeeded by Ernesto Geisel, a retired four star army general.
 - A. An aggressive security campaign has severely hit the urban terrorists that were active in the late 1960s. Today, Terrorist groups are badly disorganized.
 - B. Other opposition elements, including sectors of urban labor, students, and church liberals, as well as the token opposition political party, generally doubt they can significantly affect government policy and usually are apathetic.
 - C. While Geisel is not likely to follow drastically different policies, he may stress economic

BRAZ-1

TOP SECRET

nationalism somewhat more than Medici has done.

II. The administration's stress on economic development has brought notable results.

A. In each of the last four years, the economy has grown by 8 to 11 percent, and inflation has been cut to about 15 percent.

1. However, the Medici administration failed to reduce the cost of living increase in 1973 to its stated goal of 12 percent, and inflation, especially in the price of staple foods, is causing renewed concern.

B. Brazil's concern about instability in Argentina has led to an extensive campaign to strengthen ties with Chile, Uruguay, and several other Latin American nations. It is also promoting links with others in the developing world, especially in the Middle East and Africa.

1. Brazilian leaders see their country as a potential spokesman for the developing nations which might deal with the industrialized world as a near equal.

BRAZ-2

TOP SECRET

15 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

CHILE

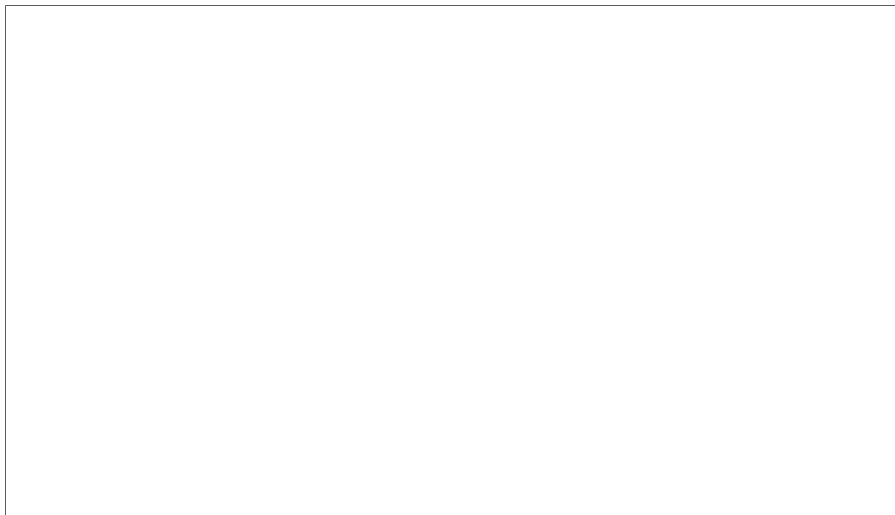
- I. Opponents of the junta recently have carried out several acts of sabotage. They have been less successful in attacks on government installations and security forces, however.
 - A. The left is not yet ready to launch a concerted guerrilla/terrorist campaign. Even the most violence-prone groups are moving cautiously.
 1. Carlos Altamirano, Socialist Party leader and number one on the junta's "most wanted" list, recently surfaced in Havana. He said that for now "adventurous terrorist operations" would be counterproductive.
 2. Opposition leaders do not have effective control over all leftist hotheads, however, and sporadic attacks are likely to continue.
 3. It is impossible to tell what percentage of illegal arms introduced during the Allende government has been seized by security forces. We believe that much weaponry remains outstanding.

CHILE-1
TOP SECRET

II. The armed forces continue to exercise stringent security precautions.

A. These include curfews, raids in search of weapons caches and fugitives, arrests, vehicle checkpoints, and sea and air patrols.

B.



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III. Disagreements over policy matters and personal rivalries have sparked some controversy within the regime.

A. Some officers reportedly suspect that aspects of the economic recovery program are geared to benefit the personal interests of the regime's civilian advisers.

B. There is also a minority feeling that more of an effort should be made to win over supporters of the defunct Allende government.

CHILE-2

TOP SECRET

- C. There has apparently been some disagreement over rotation of the presidency among the junta members. Recent remarks by Army Commander Pinochet indicate that he does not now contemplate rotation of the presidency, which he holds.
 - D. There is a trend toward filling sub-cabinet positions with military officers, often members of the same service as the head of the ministry. The emergence of ministries dominated by individual armed services will tend to increase inter-service rivalries and could impede efficiency. The continuing militarization of the bureaucracy will also strain the armed forces' manpower resources.
- IV. The junta has a number of economic achievements to its credit.
- A. Copper production and exports have been increased to pre-Allende levels and, with the help of high world copper prices, Chile's trade deficit was cut by about 40 percent during 1973. Copper production and exports should reach record high levels this year.

CHILE-3
TOP SECRET

- B. Foreign credits have been obtained to pay for food that must be imported until domestic agricultural production revives. Agricultural production should increase appreciably in the 1974-75 crop year.
- C. A debt refinancing agreement has been reached with the US, and the groundwork has been laid for direct talks between Chile and U.S. copper companies nationalized under Allende.
- D. Chile now has an economic recovery plan that should help insure the success of an upcoming round of talks with the "Paris Club" of its creditors.
- E. The abandonment of strict price controls has meant staggering price increases, however, and wage and salary earners are being severely squeezed.
 - 1. Food prices have risen 200 to 400 percent since the coup. Some individual items have gone even higher.
 - 2. Unemployment has increased substantially with the removal of the underemployed and politically suspect from the public payroll.

CHILE-4
TOP SECRET

3. The government plans to try to hold the cost of living increase to 100 percent this year. An additional wage increase probably will be forthcoming at midyear and an unemployment compensation program has been announced.
- V. The centenary in 1979 of the War of the Pacific, in which Chile defeated Peru, already is heightening Chilean apprehension that Peru may seek revenge.
- A. Chileans are well aware that Peruvian military doctrine calls for national honor to be redeemed before the passing of a century by recovering the lost southern provinces.
 - B. Chilean military men, who view the ouster of Allende as ending a period of national decline, fear that Peru could decide to strike a long-planned blow before Chile can recover and rearm. They also see Peru as the potential center of Moscow- and Havana-inspired subversion against their stridently anti-Communist regime.
1. We see no evidence now that Peru in fact is preparing to attack Chile, but in the atmosphere of mutual suspicion that traditionally has marred relations among Peru,

CHILE-5
TOP SECRET

Ecuador, and Chile, shooting incidents
could occur and tensions could grow
rapidly.

CHILE-6

TOP SECRET

TOP SECRET

15 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

CUBA

- I. The Castro government is beginning its 16th year in power in the midst of a major restructuring of its party and government bureaucracies. This process was begun in 1970 at least partly as a result of Soviet pressure.
 - A. The Cuban Communist Party has been undergoing a reorganization to increase its influence in the formulation and execution of the regime's policies.
 - B. The sweeping reorganization of the upper levels of government in November 1972 freed the top leaders from active involvement in routine matters, and enabled them to concentrate on long-range policy formulation.
 - C. These changes are primarily designed to reduce the economic stagnation and administrative chaos caused by the Castro regime's spontaneous style of decision-making.

CUBA-1

TOP SECRET

~~TOP SECRET~~

- II. Cuba is expanding its ties with other Latin American governments. At the same time, Cuban involvement in subversive activities is at an all-time low.
 - A. Cuba now has diplomatic relations with Argentina, Mexico, Peru, Guyana, Jamaica, Barbados, and Trinidad.
 - B. Venezuela, Honduras, and Panama are trading with Cuba but formal relations do not appear imminent.
 - C. Last fall Cuba's national airline inaugurated a new air route linking Havana to Barbados, Trinidad, and Guyana.
- III. Relations with the USSR reflect Cuba's almost complete dependence on Soviet military and economic support.
 - A. There are some signs that Castro is not entirely happy with the situation, but he knows his options are limited.
 - B. His primary concern is that the Soviet policy of detente may lead to a compromise of Cuba's own interests.

CUBA-2
TOP SECRET

TOP SECRET

15 January 1974

BACKUP FOR DCI CONGRESSIONAL BRIEFING

MEXICO

- I. Conservative criticism of the government for not stemming guerrilla violence was the first serious public attack on Echeverria's rule.
 - A. It was triggered by the murder last fall of a Monterrey millionaire in a kidnap attempt that was thwarted.
 1. Other incidents of extreme leftist and Communist violence had already outraged a broad segment of the conservative establishment.
 2. The critics blamed the government because of its alleged hostility toward business and leniency toward foreign and domestic extremists.
 3. The administration's impassioned response to Allende's downfall in Chile at the time of the Monterrey murder, following its previous support for the Allende government, also came under fire.

MEX-1

TOP SECRET

B. The wave of criticism apparently was a key factor in forcing Echeverria to modify his policy of meeting all the demands of terrorist kidnapers.

1. Since then, the government also has moved against politically inspired crime by arresting several guerrilla leaders.

C. To subdue the criticism from the businessmen, the government has courted them with rhetoric, but has taken few concrete steps to appease them. Another terrorist incident directed at them could revive the vitriol.

II. Mexico's biggest long-term problems are economic: the great inequities in the distribution of wealth, rural underdevelopment, high unemployment, and a dangerously high rate of population growth.

A. In addressing these problems, Echeverria has established a climate of vigorous, activist leadership.

1. In some cases where the goals are clear-cut and the resources and incentives available, he has made some promising beginnings.

B. Most serious is Mexico's rapid population

MEX-2

TOP SECRET

growth--a 3.5 percent annual increase in recent years.

1. Thus the absolute numbers in many underprivileged categories have increased, despite the country's overall welfare and prosperity gains.
 2. There are more landless peasants, more illiterates, and probably more unemployed now than ten years ago.
 3. The government has been recently moving-- but cautiously--to promote family planning.
- C. Closely related is the maldistribution of income and underdevelopment of impoverished rural areas.
1. Over half of Mexico's 52 million people are locked into poverty.
 2. The emphasis of government policy has been on modernization and rapid industrial development, rather than on social welfare.
 3. The poor are still quiescent, but Echeverria fears that in time the sheer magnitude of the problem will create an avalanche of pressure against constituted authority.

MEX-3

TOP SECRET

III. Relations with the United States.

- A. The foreign investment laws provide for closer scrutiny of new investment proposals, majority Mexican control over new enterprises, and government review of contracts involving the import of technology.
- B. The settlement of the salinity issue last year provided major benefits to Mexico and substantial financial concessions on our part.
 - 1. The settlement calls for the construction of a large water desalting plant, the lining with concrete of a canal on the U.S. side of the border, and the building and lining of another canal in Mexico to carry salt-laden drainage to the Gulf of California.
- C. The Mexican government now regards the problem of illegal Mexican immigration into the U.S. as its most pressing bilateral issue with us, even though Echeverria realizes that the only long-term correction is bringing Mexico's standard of living closer to that in the U.S.
 - 1. His foreign minister is pressing for a quicker solution of this emotional problem.

MEX-4

TOP SECRET

He is urging another "bracero" program to allow migrants to cross the border legally for seasonal work.

- D. The Echeverria government has agreed to cooperate fully with the U.S. effort against the drug traffic.
 - 1. It has committed considerable resources to support the commitment.
 - 2. Pervasive corruption and venality in Mexico inhibit the campaign, however. The potential profits to traffickers remain enticing.

MEX-5

TOP SECRET

17 January 1974

BACK-UP FOR DCI CONGRESSIONAL BRIEFING

PERU

I. President Velasco's five-year-old military government retains its leftist-nationalistic character--and with Allende gone, is the most radical regime in Latin America. Coming policy decisions and personnel changes will complicate attempts to tread a path that is "neither capitalist nor communist."

A. Contention could arise over the succession to Velasco.



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2. Prime Minister Mercado retires at the end of this year. To succeed him, Velasco has tabbed General Morales-Bermudez, a respected economist and a moderate.

3. The more radical officers do not welcome the possibility that Morales might later move up to the presidency.

B. Labor problems and inflation are likely to prove troublesome.

PERU-1

TOP SECRET

1. Radical, anti-government leftists still control the mining and teachers' unions and costly strikes this year are a distinct possibility.
2. Any popular support arising out of the takeover of the US-owned Cerro de Pasco Corporation on January 1 may dissipate.

C. The pro-Soviet Communist Party continues to support the regime, but might well resist a possible government move to form a single political party--incorporating the communists.

II. Peruvian leaders feel surrounded by unsympathetic regimes.

A. Velasco probably shares with many other Peruvian officers a distrust of the Chilean junta.

1. Animosity between Chile and Peru dates back at least to 1879, however, when Chile took over a small area of southern Peru. Military education in Peru hammers away at the necessity to "redeem" the country's lost honor.
2. Peru has always feared a preemptive strike by a stronger Chile; Lima's current arms procurement drive can be traced partially to this fear.
3. feel that Chile might consider moving against Peru to detract from that country's pressing economic problems.

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PERU-2
TOP SECRET

B. Peruvian strategic plans also contemplate possible hostile actions by Ecuador or Brazil.

1. Peruvian leaders fear that their neighbors have designs on mineral deposits--primarily oil--in the Amazon basin in the remote northeast.

C. Velasco's proposal that Peru and its neighbors engage in arms limitation talks probably was a hollow gesture to appear as a peacemaker after accepting delivery in November of a shipment of Soviet medium tanks.

III. Peru's military leaders in fact seem determined to expand and modernize the armed forces.

A. The Soviet Union is likely to remain a competitive supplier. Moscow reportedly has offered Peru further equipment.

1. The Peruvians have shown interest in obtaining 130-mm artillery pieces and MIG 21s and the Embassy in Lima believes they may also seek SAM-7 missiles.

B. Logistical and supply problems, as well as lingering distrust of Soviet technicians, however, probably will inhibit a rapid increase in purchases from Moscow.

PERU-3

TOP SECRET

C. Despite the desire of some leaders to turn increasingly to the Communist countries for support, others seek a further reconciliation with Washington.

1. As in the past, Velasco probably will continue to pursue a combination of these two options.

PERU-4

TOP SECRET

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