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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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45

17 October 1969
No. 0392/69

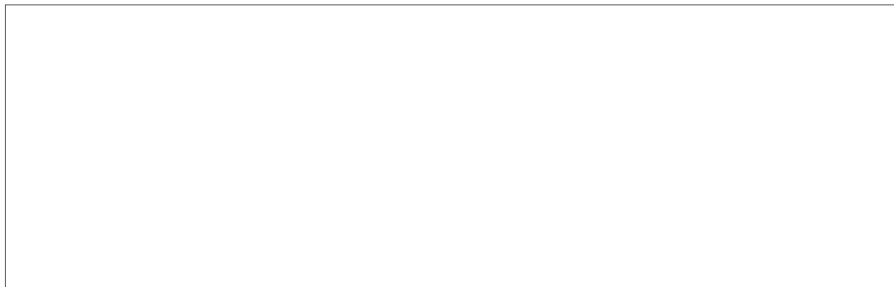
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The **WEEKLY SUMMARY**, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office 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 pages.

W A R N I N G

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(Information as of noon EDT, 16 October 1969)

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CEYLON LOOKS TOWARD ELECTIONS

The ruling United National Party and the leftist opposition coalition have begun campaign preparations for the 1970 general elections. Although moderate Prime Minister Dudley Senanayake presently appears to hold a slight edge, a mixed economic picture and a potentially volatile communal situation could help Mrs. Bandaranaike, the former prime minister, regain power. (Published separately as Special Report No. 0392/69A)

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| The formation of a government after the national elections on 24 October may be difficult because no party or party block appears capable of winning a majority. | |

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FAR EAST

The North Vietnamese continue to seek a middle way between the Soviets and the Chinese. Hanoi's recently warmer relations with Peking were balanced this week by Premier Pham Van Dong's visits to Moscow and Pankow and the signing of new aid agreements with those two governments. Viet Cong delegations have also been touring abroad. One delegation has been on an extended tour of Chinese cities and another, along with a North Vietnamese labor union group, has been in Hungary. This surge of activity strongly suggests that Hanoi feels a special need to assure itself of support from its principal Communist allies.

Lao Government forces have been consolidating their positions in the mountains northwest and northeast of the Plaine des Jarres in preparation for an expected large-scale counteroffensive by Communist troops. The enemy stepped up raiding and patrolling actions this week, but his over-all posture remained defensive. In southern Laos, intensified enemy activity has caused at least a temporary setback to the government.

The moribund International Control Commission machinery in Laos received perhaps a fatal blow with Canada's decision, for budgetary reasons, to withdraw its staff from the investigative body. The Canadians are also pulling their personnel out of Cambodia, but Prince Sihanouk had already taken action that made the future of the commission in Phnom Penh questionable.

Prince Sihanouk has been growing increasingly irritated over what he believes are moves by the government he appointed last August to exceed its mandate to resolve Cambodia's economic problems. He has been particularly critical of Deputy Prime Minister Matak, but he is not likely to make any changes in the government soon. Sihanouk would be reluctant both to encourage his critics by interfering and to resume the burden of economic decision making.

Attempts by North Korea to infiltrate agents into the South have inadvertently aided Seoul's campaign to secure a third term for President Pak. The President's supporters have exploited incidents, both seaborne and across the Demilitarized Zone, to paint an exaggerated picture of an increased threat and to extol the administration's ability to defend the nation.

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VIETNAM

Hanoi's campaign to strengthen its ties with its Communist allies shifted into high gear this week. Premier Pham Van Dong and economic affairs expert Le Thanh Nghi, who have been abroad since late September, began conferring with Brezhnev and Kosygin in Moscow on 14 October. The North Vietnamese presumably discussed their intentions in the war and ways in which the Soviets could be of help, including military and economic assistance. A brief press announcement on 15 October indicated that agreement was reached quickly on new but unspecified amounts of Soviet military and economic assistance. Speeches accompanying the visit underscored Soviet support for Hanoi's present course in the war, and promised unlimited military assistance until a peace settlement satisfactory to Hanoi had been achieved. Kosygin urged a peaceful settlement based on the ten points "without delay and procrastination."

A Vietnamese - East German aid agreement was announced at the conclusion of the visit of Dong's party to East Germany on 13 October. The accord included the establishment of a joint committee to assist in implementing the aid program. This innovative step in Communist assistance to Hanoi may be the prototype for aid agreements to be reached soon with other countries. Because this device would have application in long-range economic cooperation, the inclusion of such committees in

other bilateral aid agreements would indicate that North Vietnam was giving increased attention to problems of postwar reconstruction.

The Communists are also sending Viet Cong delegations abroad to show the flag. The Vietnamese Communists have not indulged in this kind of barnstorming diplomacy for a long time. It strongly suggests that the leadership in Hanoi feels a special need to assure itself of support from its principal Communist allies and has reached some preliminary conclusions about economic reconstruction needs.

Communist military activity in South Vietnam this week consisted largely of widespread harassing and small-unit actions. Enemy emphasis continued to be on the delta, where sporadic shellings and occasional ground attacks on remote and lightly defended outposts were staged, possibly in an effort to shake popular confidence in the ability of the South Vietnamese armed forces to protect the region's more isolated hamlets and villages.

Most Communist main-force combat units remained throughout the week in border sanctuaries or in remote in-country redoubts. As in past periods when enemy forces have been between seasonal campaigns, they are engaged in extensive regrouping and resupplying.

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Nearly all of the 17 Communist regiments that have been operating in the five northern provinces of I Corps are currently spread out along the Laotian and North - South Vietnamese borders, or are in base areas well away from allied military bases and population centers. Some 10 Viet Cong main- and local-force infantry battalions and 11 sapper battalions, together with approximately 13,400 guerrillas, remain in positions to keep up pressure in the Corps or to threaten smaller urban targets.

The five North Vietnamese infantry regiments and one artillery regiment earmarked for operations in II Corps are currently positioned near the Cambodian border or in base areas of II Corps' interior. The heaviest concentration--equivalent to nearly a division--is poised in Cambodian sanctuary near the II-III Corps border. This enemy force moved southward during the summer from Kontum Province, and may either be targeted against two Special Forces camps in northwestern Quang Duc Province or planning to move on into III Corps.

Other enemy assets available for operations in central Vietnam include 16 Viet Cong main- and local-force infantry battalions, five sapper battalions, and some 11,000 guerrillas.

In III Corps the current disposition of Communist units is much the same as that in I and II Corps. Major elements of the four enemy divisions based in the Corps have repaired to remote jungle areas or to redoubts along the Cambodian border. Several independent Communist regiments, however, are still in their normal operating positions in the provinces flanking Saigon. Other enemy forces scattered throughout III Corps include nine North Vietnamese/Viet Cong main-force battalions, six Viet Cong local-force battalions, 14 sapper battalions, and an estimated 6,000 guerrillas.

Most of the eight Communist main-force regiments in IV Corps are also positioned in or near enemy base areas. Still in the field, however, are some 19 Viet Cong local force battalions and nearly 22,000 guerrillas.

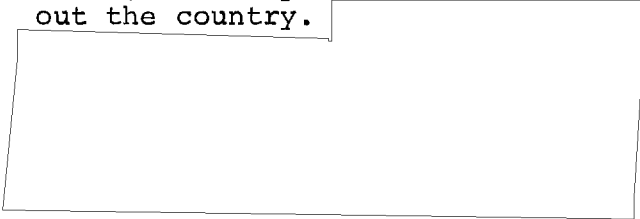
Despite the general stand-down of Communist main forces, there have been indications that some are planning to increase hostilities. Most notably, artillery units in the eastern Demilitarized Zone area have renewed shellings of allied positions in northwestern Quang Tri Province. Enemy units in the area just to the west of Saigon are preparing for limited tactical operations, probably against allied artillery positions or remote field positions.

There are suggestions from scattered sections of a modification this fall of the enemy's "highpoint" strategy. A regular

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feature of seasonal campaigns earlier this year had been the attempt to mount a coordinated highpoint of brief, but intense, military action throughout the country.



The modified enemy strategy was noted during a series of attacks on South Vietnamese positions in IV Corps on 4-5 October. New surges of activity by units in other areas of South Vietnam are probably being planned for the remainder of the month or at least until the more comprehensive Communist "winter-spring" campaign gets under way.

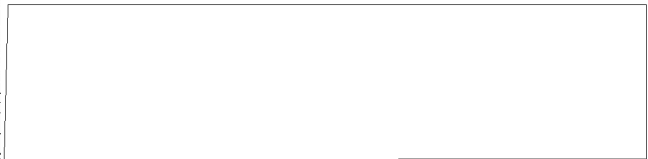
South Vietnamese Political Developments

The National Assembly opened its regular fall session last week amid indications that relations between the Assembly and the government remain somewhat strained. Although President Thieu has initiated efforts in recent months to increase support in the Assembly for the government and has discussed procedures for improving executive-legislative relations, these endeavors have yet to bear fruit. Many legislators reacted adversely to Thieu's remark in his speech to the opening meeting of the As-

sembly that he was prepared to take necessary actions even if they went against the desires and wishes of the Vietnamese people. The legislators are particularly sensitive to any hint that Thieu might ignore their prerogatives and act on his own, as they believe he has sometimes done in the past.

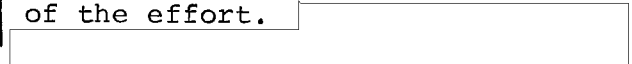
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Elections for new officers in each chamber of the Assembly do not appear to have improved prospects for greater cooperation with the presidency. Although a supporter of Thieu replaced an opposition legislator in one of the Lower House's leadership positions, the government did not fare so well in the Upper House. The two groups that had been negotiating to form a majority bloc to support the government won most of the committee chairmanships but failed in an attempt to dictate the chairmanship of the Upper House.



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The Assembly's organizational elections, which revealed the inability of government supporters in the Upper House to enforce voting discipline and showed a hardening of existing bloc lines in the Lower House, have cast further doubt on the success of the effort.



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CAMBODIAN CABINET AND PRINCE AT ODDS

Serious strains have arisen between Prince Sihanouk and the government over the latter's attempts to exercise its administrative authority. Sihanouk believes the cabinet has overstepped the mandate he gave it upon installation last August to tackle the country's numerous economic problems.

Sihanouk has up to now exhibited a public show of support for the government.

[Redacted]

On 6 October he publicly criticized Deputy Prime Minister Sirik Matak for trying to curtail his constitutional rights as chief of state. Referring to a recent move by Matak to exclude his participation in certain educational matters, Sihanouk accused him of wrongfully attempting to assume the palace's responsibilities at a time when Prime Minister Lon Nol was on a leave of absence.

Although the government for the most part has been trying to exercise what it views as the authority originally vested in it by Sihanouk, some of its actions have clearly gone beyond what Sihanouk intended.

[Redacted]

[Redacted]

The government has also sought to stretch its participation in foreign affairs, a move that would particularly vex Sihanouk.

Sirik Matak, one of the few Cambodians openly critical of Sihanouk's past policies, is emerging as the cabinet's predominant figure and has been the driving force behind much of the effort to reduce the pressures of princely interference. He has sought to assure Sihanouk that his aims are limited while at the same time making it clear that he expects a free rein in carrying out his responsibilities.

Sihanouk clearly believes his tolerance is being tested and will be tempted to make changes in the government if it continues to whittle away at his position. For the moment, however, he is probably reluctant both to encourage his few but vocal critics by reneging on his promise to give the government a chance or to resume the burden of economic decision making. In addition, Prime Minister Lon Nol has recently returned to his post. He is more responsive to Sihanouk's sensitivities, and under his direction the government will probably ease up on some of the activities most galling to Sihanouk.

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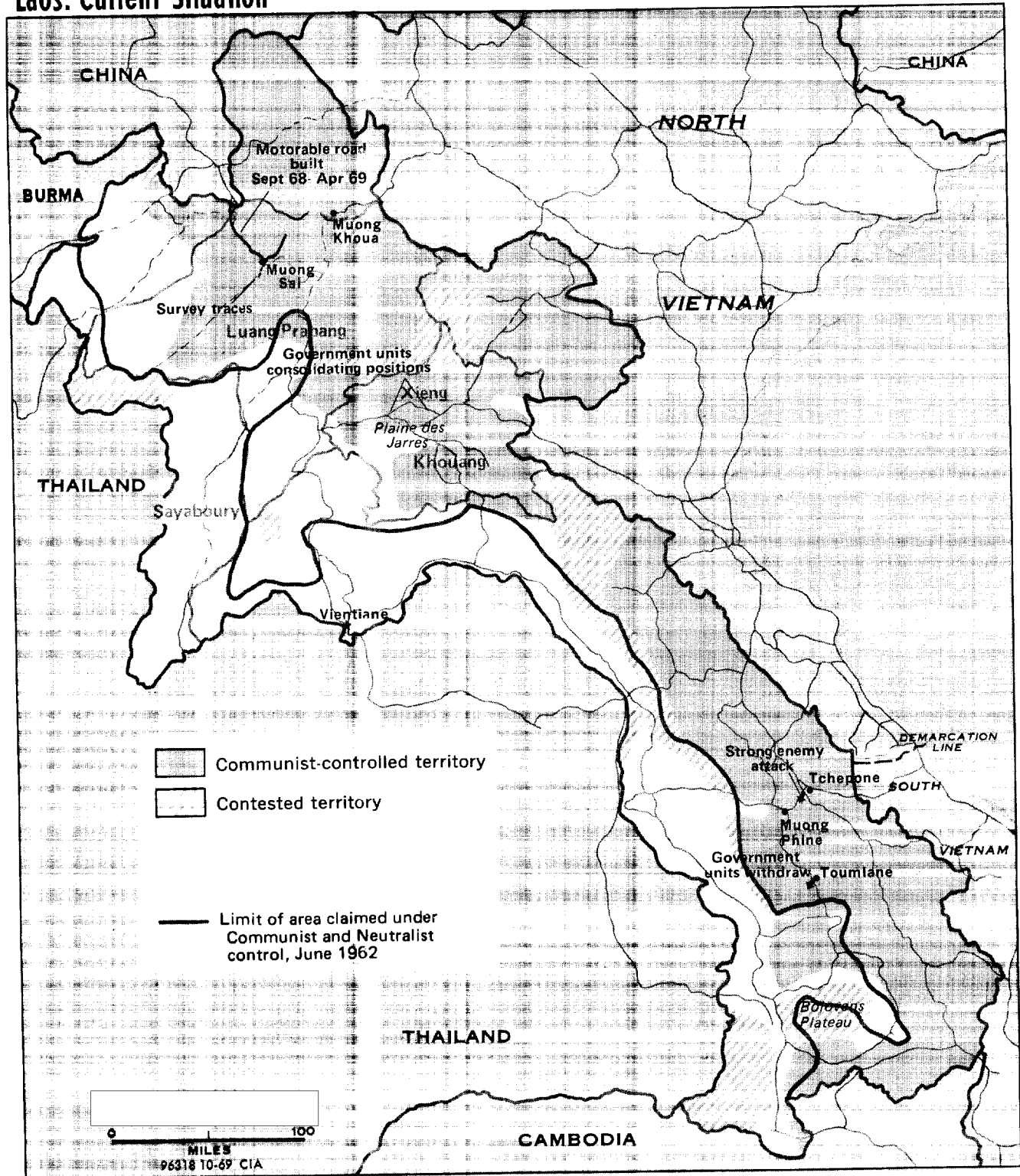
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Laos: Current Situation



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LAO GOVERNMENT HOLDS IN NORTH, FALLS BACK IN SOUTH

The eight-week-old government offensive in northern Laos registered only limited gains this week amid continuing strong signs that Communist troops are preparing for a large-scale counteroffensive. In the south, meanwhile, increased enemy pressure forced government units to withdraw from several recently occupied positions.

Meo General Vang Pao's troops in Xieng Khouang Province have concentrated on consolidating their hold over key mountain terrain northwest and northeast of the Plaine des Jarres. The enemy stepped up their raiding and patrolling actions, including those on the Plaine itself, but their over-all posture remained defensive.

In southern Laos, intensified enemy activity caused at least a temporary setback to the government when government units were pushed south out of the town of Toumlane and off an important piece of high ground southwest of Tchepone. Muong Phine and its immediate environs also continue to be held by the Communists.

Chinese Communist engineers in northwestern Laos may be preparing to resume their roadbuilding activities during the dry season, [redacted]

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A new road south from Muong Sai presumably would be used to support North Vietnamese and Pathet Lao troops in Sayaboury and Luang Prabang provinces and could also facilitate Chinese support to Communist elements in northern Thailand. When construction halted last spring, the Chinese were building a road north from Muong Sai toward Muong Khoua, the terminus of a motorable road from North Vietnam. Completion of this road would give the North Vietnamese their first direct route to their forces in northwest Laos.

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On the political front, the almost moribund International Control Commission (ICC) received perhaps a fatal blow with the announcement that Canada, who along with India and Poland staffs the investigation body, is pulling out its Vientiane-based personnel for economy reasons. [redacted]

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Although the ICC has never effectively fulfilled its duties under the 1962 Geneva Accords, it has been of some use to the Lao Government in documenting Communist violations of the accords. [redacted]

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EUROPE

Trouble over a mutually acceptable agenda may cause a delay in the opening of Sino-Soviet border talks. Negotiations were expected to begin in Peking sometime next week, but neither side has confirmed that talks actually will start then. Soviet diplomats have said privately that Moscow was disturbed by Peking's abrasive statement of 8 October on the border problem. The Soviets have not yet made a public response, and they may not do so before going to the bargaining table.

Moscow, although it has been publicly noncommittal, has been watching with interest and satisfaction the building of a new detente-minded West German government.



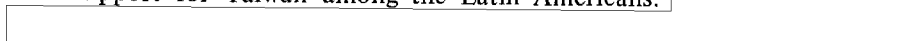
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Eastern European leaders have reacted quickly to the prospect of the coalition in West Germany. The East Germans have made an overture designed to influence the coalition's forthcoming policy statement. The Poles sent a senior trade representative to Bonn charged with negotiating a more favorable trade agreement. Hungary concluded an agreement with West Germany granting the trade missions of the two countries the power to issue visas and passports.

The Czechoslovaks see possibilities for better relations with Bonn in the future, but now they are preoccupied with putting their own house in order in preparation for a visit to Moscow by the Prague leadership, reportedly scheduled for the week beginning 20 October. During the past week the parliament was stripped of liberals, and purges were begun in trade unions and youth organizations.

Some uncertainty has developed regarding the outcome of this year's UN debate on the Chinese representation question, but the seating of Peking still remains unlikely. The more fluid situation has resulted from the Canadian and Italian moves toward Chinese recognition, an undercurrent of doubt concerning the future course of US-Peking relations, and some erosion of support for Taiwan among the Latin Americans.



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CZECHOSLOVAK LEADERS SET FOR MEETINGS IN MOSCOW

Party first secretary Husak is expected to head a delegation of the country's top leaders to Moscow on 20 October for a week's discussion of his regime's progress toward "normalization." The most pressing issues are factionalism within the Czechoslovak party, the scheduling of a party congress next year, national elections in 1972, and the rejuvenation of a deteriorating economy.

Husak, harassed by increasing pressure from regime conservatives, probably will seek and receive a more open and direct endorsement for his leadership. Moscow no doubt is pleased with the Czechoslovak party chief's record to date, particularly his continuing nationwide campaign to remove Dubcek liberals from virtually all influential posts.

The National Assembly this week formalized Dubcek's removal as head of parliament, and replaced

him with a conservative. The purge of progressives is also gaining momentum in the trade unions and in the scientific and technical community. In addition, the government has threatened the workers with a six-day work week--reduced to five by Dubcek last year--unless they end the production slowdown that has plagued Czechoslovak industry since the invasion.

While in Moscow, Czechoslovak officials probably also will discuss plans for a new, positive economic program to follow the austerity measures already in effect. They may also ask for a large credit from the USSR, and, as a token of Soviet confidence in the Husak regime, greater freedom to work out domestic problems in their own way. The Soviets possibly might extent a credit--although less than Husak would like--but they probably will not loosen the reins on Prague to any perceptible degree.

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EAST GERMANY PROBES NEW BONN COALITION

The East Germans, perhaps sensing a more forthcoming attitude among the leaders of the prospective Socialist-Free Democratic coalition in West Germany, have indicated a qualified willingness to talk about improving relations with Bonn.

An East German functionary who claims to speak for Premier

Stoph recently informed the West Germans that his government is "particularly pleased" with the prospect of a new administration in Bonn. East Germany, he said, would agree to a meeting between Stoph and Willy Brandt if the latter makes certain concessions in a public declaration of the new coalition's policy.

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The East Germans asked Brandt to commit Bonn to negotiate on the basis of East Germany's draft treaty of 1967, which was a catalog of Pankow's maximum demands. Brandt was also specifically asked to state that Bonn is willing to conclude an agreement on the renunciation of force, to ratify the nuclear non-proliferation treaty, to participate in a European security conference, and to ban the right-wing National Democratic Party. This done, the eventual high-level talks might address "humanitarian" issues, such as reduced travel restrictions for West Germans visiting East Germany and, possibly, similar freedom for West Berliners. Questions relating to West Berlin, however, would be dealt with by special representatives from the two parts of the divided city and not by the principal East - West German negotiators.

Whether the East Germans are seriously interested in such talks is uncertain. West Germany would find it almost impossible to conduct meaningful negotiations if the East Germans require strict adherence to the principles of the 1967 draft treaty. Pankow, however, probably is under pressure from its allies--particularly the Soviet Union--to seek some improvement in relations

with Bonn. This recent proposal may be intended to relieve such pressure and at the same time sound out the new coalition on its policy toward East Germany.

This could be a re-run of the fruitless Kiesinger-Stoph exchange in 1967. One significant difference, however, is the new coalition in Bonn, which is expected to be more forthcoming toward East German demands. In addition, there are various tempting nuances in the East German proposal. The 1967 draft treaty called for recognition of West Berlin as a separate political entity, but the recent proposal by Pankow asks only that discussion of topics relating to the city be conducted outside the context of the main negotiations. This might provide more flexibility for the main negotiators, who would not have to deal with the thorny Berlin problem at the outset. Furthermore, the East Germans have not made full diplomatic recognition a prerequisite for talks and the draft treaty simply calls for "normalization" of relations. In addition, the East German emissary stated that, if Brandt insisted, Pankow would accept negotiations on the state-secretary level prior to a meeting of the heads of government.

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WEST GERMANY MODERNIZING ITS NAVY

The Bundesmarine is in the midst of a modernization program. The first of three US-built guided-missile destroyers (DDG) is completing shakedown and will berth in Germany this month for the first time. A contract has been signed for the construction of 12 additional submarines, and the Bundestag has approved plans for the production of four guided-missile frigates.

Germany's other two DDGs have been launched by an American shipyard and shortly will be delivered to the German Navy. The crews of all three ships and civilian maintenance and repair technicians received their training in the US.

The 12 new submarines will be small coastal defense units weighing 450 tons--the maximum allowed by treaty. They will bring to 23 the number of this class of submarine operated by the navy. The new units will be built by German firms at a total cost of about \$90 million. Deliveries will take place from 1971 to 1973.

Four missile frigates are scheduled to enter service in 1974. They will be powered by a relatively new, combined diesel and gas turbine propulsion system that will provide greater speed and endurance. Like the

destroyers, they will be armed with a missile system developed by the US Navy as a replacement for the Tartar weapons system. The missile, called the Standard, is effective against both air and surface targets. It will substantially improve the German Navy's ability to defend against air attacks and will also provide a defense against Osa- and Komar-class missile patrol boats. Each frigate also will carry torpedoes and four 76-mm. guns.

Beginning in the mid-1970s, the four frigates and three DDGs will be the principal command ships of the German Navy. In an effort to improve command and control, the Germans have provided these ships with electronic data processing equipment similar to the US Naval Tactical Data System.

Of the three West German services, the navy is handicapped the most by inadequate and obsolescent equipment. With the currently programmed additions to the fleet, it will be better able to fulfill its missions of providing forces to NATO for the control of the western Baltic Sea, supporting the left flank of NATO forces in central Europe, and keeping open sea lines of communication across the North Sea.

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CONTROVERSY OVER SWEDISH AID TO HANOI CONTINUES

The controversy over the Swedish offer of \$40 million in unilateral aid to North Vietnam continues despite Stockholm's embarrassed postponement of the offer.

Foreign Minister Nilsson had proposed the aid program strictly as a Swedish effort that was to include loans and grants extended over a three-year period for reconstruction purposes beginning in mid-1970. This proposal represented a sharp reversal of Stockholm's previous policy that reconstruction aid was to be extended to both North and South Vietnam only at the end of hostilities and would be part of a comprehensive Nordic program jointly agreed on by Denmark, Norway, Finland, and Sweden.

A storm of criticism broke out in the other Nordic countries as a result of Nilsson's surprise announcement. In addition, questions were raised in Washington as to whether the Export-Import Bank could extend further credits to Sweden if aid were extended to Hanoi. Almost immediately the Swedes backed off. Nilsson insisted that his proposal was meant to be part of the Nordic program, was intended only to facilitate planning, and would not go into effect before the end of hostilities. He explained that any aid extended by Sweden to North Vietnam while the war was still in progress would be humanitarian, such as the hospital and medical equipment now being delivered via the Swedish

Red Cross and fertilizer for delivery in mid-1970.

At a meeting of Nordic officials in Helsinki on 10 October to discuss the joint Nordic plan, the Swedes were lectured for their discourtesy in not consulting their Nordic partners prior to announcing their proposal and were accused of disrupting previously agreed plans. Attempts by the Swedes to have their offer included in the overall Nordic program as well as their definition of humanitarian aid were rejected, and the meeting adjourned in confusion and acrimony. From the US came reports of cancellations of talks for new contracts with Swedish companies and the threat of a boycott of Swedish shipping by American longshoremen.

The new government of Prime Minister Olof Palme is taking steps to repair the damage. Palme has made himself available for extensive interviews with American newspapers, magazines, and television, while Foreign Minister Nilsson has been sent to the US to clarify Swedish policy further. At the same time, Nilsson has assured the Swedish public and the other Nordic countries that this is all a misunderstanding created by garbled newspaper reports. Having been pilloried by the Swedish press for this attack on its journalistic integrity, Nilsson is now hearing calls from the right for his resignation.

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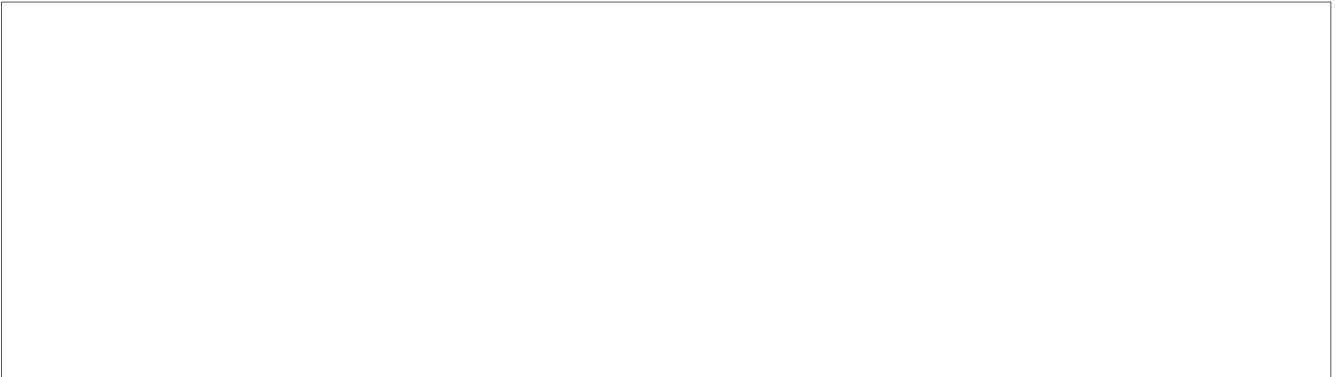
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BRITISH TRADE PICTURE IMPROVES

Britain's improved trade position signals some success for a national economic policy geared to erasing persistent balance-of-payments deficits. Substantial over-all surpluses must be achieved and maintained, however, if Britain is to meet scheduled foreign debt repayments.

Britain's trade balance in September showed a surplus for the second consecutive month. Exports, although down from the record level in August, were strong enough to continue their rising trend. Imports grew slightly as a result of larger purchases of food, beverages, and tobacco. Last month's surplus of some \$62 million was sufficient to yield a cumulative trade surplus of \$70 million for the third quarter of 1969, and trade surpluses of the past two months have bolstered the pound in foreign exchange markets.

The recent strong trade performance results from a spurt in exports and a slowdown in the growth of imports. Stimulated

by world demand, exports, particularly of machinery, transport equipment, and chemicals, have risen sharply. The demand for imports, on the other hand, has been subdued somewhat by deflationary budgets and by the use of an import deposit scheme discouraging the purchase of foreign goods.

Because Britain's current account, which includes merchandise trade and such invisibles as investment earnings and shipping receipts, has also been in surplus this year, London's balance of payments will probably show an over-all surplus for the entire year. Continued improvement in the international payments picture will not be easy, however. The anticipated removal of the import deposit scheme this December, coupled with increased political pressures for higher domestic growth, probably will spur imports in 1970. In addition, any slowdown in world trade would dampen British export prospects.

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PORTUGAL PREPARES FOR FIRST POST-SALAZAR ELECTION

Political contention, suppressed for 40 years under the Salazar dictatorship, is sharpening under the stimulus of approaching National Assembly elections. Marcello Caetano, who took over the prime ministership last year, has tried to move somewhat away from the ultra-conservatives but has apparently run into a military roadblock. All political factions still plan to play some role in the elections on 26 October although the relaxation of Salazarist controls will evidently be slight.

Within the government's National Union, old-line supporters of Salazar are vying for power with moderate reformers, including some Christian Democrats, who are led by a close associate of Caetano. The two groups appear to be represented more or less equally among the great majority of National Union candidates who appear on the government slate for the first time. In two provinces, government party splinters are running separately from the National Union.

The antigovernment elements are split because Socialist leader Mario Soares and his group refuse to associate with the Communists. Caetano allowed Soares to return to Portugal from his Salazar-imposed exile. Soares now apparently reasons that his best strategy is to gamble on Caetano's wanting a moderate, anti-Communist opposition to play more of a role in Portugal. The

remaining opposition is associated with the Communists and is stronger numerically than the group led by Soares, but is weak in leadership. Its adherents are younger and include some Socialists and Christian Democrats, as well as orthodox and pro-Peking Communists and other extremists.

The prime minister has made some small moves to modify policies established by Salazar. In early September in a campaign speech he asked the people to support a policy working toward eventual autonomy for the overseas territories of Angola, Mozambique, and Portuguese Guinea. Caetano also eased election regulations to permit, for example, the opposition to provide witnesses for the vote count.

Such relaxation evidently caused concern among the ultra-conservatives.

The military opposes even raising the question of granting autonomy to the African provinces, refuses to have the military eased out of government positions, insists on more pay and equipment, and will not tolerate student or opposition demonstrations.

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In apparent deference to this military pressure, the prime minister in late September advocated strengthening the powers of the presidency, and a few days later made an emotional public defense of Portugal's traditional overseas policy. Thus, at least for the moment, he met the military's demands on the African provinces.

The firm position of the military has served notice on the moderates, and especially on the opposition, that they must operate within narrow limits. In any case, even the opposition candidates themselves do not expect to be elected except in token numbers.

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SOVIETS BID TO ENTER WEST EUROPE'S NATURAL GAS MARKET

The Soviets are stepping up efforts to enter West Europe's natural gas market; they are seeking long-term exchanges of natural gas for large-diameter steel pipe.

Technical discussions are well along for sales of Soviet natural gas to West Germany, and France also recently agreed to discuss future purchases of Soviet natural gas. Although price differences stalled Soviet-Italian negotiations last year, the Soviets reportedly are still interested in supplying gas to Italy via a proposed pipeline extending through Austria to Trieste.

Natural gas is a commodity the Soviets can logically seek to barter in Western Europe for much-needed supplies of large-diameter steel pipe. Current Soviet production of this size pipe is inadequate to meet ambitious Soviet plans to bring oil and gas from

new West Siberian fields to consuming areas in European Russia.

Although the Soviets have obtained West German assistance in fabricating pipe up to 99 inches in diameter--the USSR currently uses up to 48-inch pipe for its pipelines--production of the larger sized pipe will not be ready for at least another two years. Meanwhile, progress on Soviet pipeline programs will continue to depend to a considerable extent on Soviet ability to import Western pipe and steel plate.

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French consuming areas. Recent press reports claim that discussions involve the sale of gas in exchange for large-diameter steel pipe valued at between \$180 million and \$200 million.

The USSR and France signed an agreement last month that provides for continuing discussions on Soviet gas exports to France, with deliveries to start around 1977. Many matters, including price and quantity, must be settled, however, before final accord can be reached. In addition, West Germany's approval may have to be obtained, because France prefers to receive Soviet gas via a pipeline through West Germany to facilitate delivery to major



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The West European nations may find it necessary to coordinate their requirements for Soviet natural gas because of the need to provide adequate pipelines for delivery, or from the standpoint of arriving at a Common Market policy on such purchases.

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MIDDLE EAST - AFRICA

Israel continued its almost daily bombing of Egyptian positions along the Suez Canal this week, as well as guerrilla bases near the cease-fire line in Jordan. Prospects for a peace settlement dimmed further as Cairo repudiated its earlier apparent willingness to engage in "Rhodes-type" negotiations with Israel. In Lebanon, the Beirut office of the Palestine Liberation Organization (PLO) was hit by rocket fire, an attack for which the organization promptly blamed Israeli intelligence—probably to prevent PLO adherents from taking vengeance on rival fedayeen groups.

The Somali Republic remains calm following the assassination of its President, Abdirasid Ali Scermarche, on Wednesday. A policeman whose motivation is unknown was arrested for the murder. There is no obvious successor in the wings, but pro-Western Prime Minister Egal and the powerful minister of interior will play important roles in the political maneuvering preceding the election of a new chief of state.

The Biafran Air Force has struck another oil company installation in the Mid-West State, the seventh such raid since May. This one caused some damage to storage facilities.

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Tanzanian authorities have arrested seven people, including four army officers, for allegedly plotting to overthrow the government while President Nyerere is out of the country. If there was a plot, it must have been a minor one because the army is overwhelmingly loyal to Nyerere.

Sierra Leone's Prime Minister Stevens is coming under increasing fire from within his faction-ridden All Peoples' Congress.

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In India, the struggle for control of the Congress Party between Prime Minister Gandhi and her old-guard opponents has again flared into the open. Meanwhile, New Delhi is once more examining the possibility of granting full diplomatic recognition to East Germany. As in the past, however, the Indians will be hesitant to take any action that would imperil continued economic aid from Bonn.

The recent lull in antigovernment agitation in East Pakistan is expected to continue, in part because schools will be closed over the next two months for a succession of holidays. President Yahya Khan is moving ahead with reforms, however.

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CONGRESS PARTY RIVALRIES RENEWED IN INDIA

India's Prime Minister Gandhi has acted quickly to protect her newly won dominance over the Congress Party. On 15 October, she summarily requested the resignations of four junior cabinet officers who had sided with her opponents in earlier party contests. This followed equally decisive and even more dramatic action late last week.

Upon learning that party president Nijalingappa, a traditional opponent, was preparing to oust three of her supporters from leadership positions within the organization, Mrs. Gandhi successfully forestalled the move by bringing his maneuvering into the open. Even though Nijalingappa was thus blocked, at least initially, in his attempt to move against Mrs. Gandhi's supporters, he has staunchly defended his right to do so, and the struggle is far from over.

Despite a "unity resolution" passed by the Congress leadership after Mrs. Gandhi's triumph in the presidential contest less than two months ago, the party's old guard has been seeking an opportunity to reassert itself. A meeting of

the party's governing Working Committee is scheduled for 30 October and will be the scene of a further test of strength between the two sides.

Mrs. Gandhi probably believes she now has the strength to defeat her opponents and consolidate her control over the party or she would not have moved so decisively against Nijalingappa. Her letter of protest to the party president was signed not only by herself and four old allies, but also by the politically powerful home minister, Y. B. Chavan. Although Chavan opposed Mrs. Gandhi during the presidential race, he acted as the party peacemaker after she had won. His presence on her team is a formidable asset and may convince undecided Congress Party leaders that Mrs. Gandhi represents the "wave of the future," which prudent politicians would be well advised to join.

Nevertheless, the old guard party bosses are unlikely to give in without a fight, and the leadership struggle, in which the immediate contest is only one round, is expected to be prolonged.

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CHINESE CONTINUE TO WORK ON TAN-ZAM RAILROAD

Work on the Communist Chinese - sponsored, 1,200-mile Tan-Zam railroad is progressing on schedule. According to a Zambian official, the engineering survey will be finished in November and construction will start next March. The first consignment of material and equipment has already arrived in Tanzania.

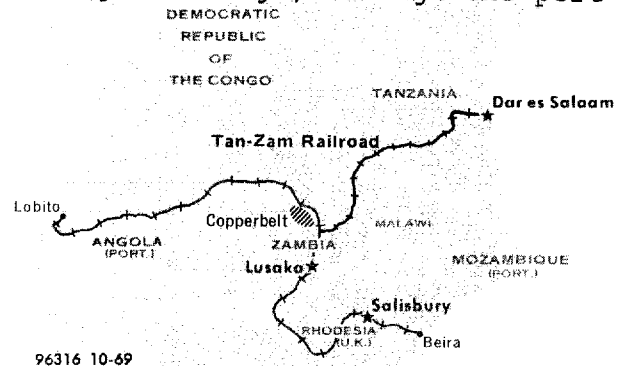
The Tan-Zam railroad is the largest Chinese aid project in Africa. As many as 1,000 Chinese railroad technicians may now be in Tanzania and Zambia, and up to some 5,000 Chinese workers may eventually be brought in to help build the railroad.

Although the over-all cost of the project and the terms of repayment will not be worked out by the three governments until December, the terms are expected to be generous. The Chinese have already agreed to supply equipment, material, and the salaries of Chinese personnel under an interest-free loan. Local costs are to be financed from the resale of Chinese goods furnished under a commodity credit arrangement.

Tanzania and Zambia have been impressed by the scale and speed with which the Chinese have provided aid, as exemplified by the railroad project, and also by their unobtrusiveness. Moreover, the Chinese have not only been generous but are willing to

tailor their assistance to the two African countries' highest priorities--economic development and the liberation struggle against the white regimes in southern Africa. In this way, Peking hopes steadily to erode Western and Soviet influence in the area and thus gain predominance.

For the Tanzanians and Zambians, who are well aware of the dangers of the Chinese presence, the importance of the railroad is as much political as economic, and therefore worth the risk. When the line is completed sometime in 1975, Zambia will be able to ship most of its copper exports, which earn over 90 percent of its foreign exchange, through the port



of Dar es Salaam. Zambia now must export the bulk of its copper over the railways running through the white-ruled states of Rhodesia, Mozambique, and Angola.

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WESTERN HEMISPHERE

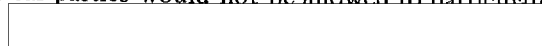
Last week's outburst of terrorist activity has subsided. The Uruguayan Tupamaros, in fact, may have been dealt a staggering reversal as a result of an attempted holdup in the suburbs of Montevideo. Three of the guerrillas were killed and 16 captured in a gunbattle with police. The following day three more were captured in a raid on a photographic shop where the guerrillas had been fabricating documents. On 13 October, police discovered a Tupamaro arsenal of firearms and bombs. At the present time more than 100 of the guerrillas are in jail.

In Bolivia, pressures are increasing on President Ovando to nationalize the US-owned Bolivia Gulf Oil Company. Initially, at least, nationalistic sentiment and expectations that the company would be expropriated were deliberately aroused by Ovando and other top government officials to build popular support for their coup-installed government. Several cabinet ministers are now pushing for nationalization, and Ovando may be unwilling or unable to withstand the pressure from within and outside the government, even if he is convinced that expropriation would be economically unsound.

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In the Caribbean area, the Jamaican government's banning of a visit by a leftist Guyanese professor has raised hackles at several university campuses. In Jamaica, especially, there is a danger that student demonstrations could turn into a confrontation with police. In October last year, student protests over a similar exclusion by the government led to serious rioting in Kingston. In the Bahamas, Prime Minister Pindling has temporarily quelled opposition to his leadership by making some cabinet changes. He assigned several ministerial posts to party legislators, probably in order to buy enough "loyalty" to fend off any attempts to oust him at the party convention later this month. Deputy Prime Minister Hanna, a focal point for discontent, has remained in power, however, and Pindling still faces opposition from the important Freeport business community.

In Middle America, Mexican President Diaz Ordaz' successor will be identified soon when the country's ruling Institutional Revolutionary Party announces its presidential candidate. There have been rumors in recent weeks that the party's nominee will be a complete surprise. Indications are, however, that Minister of Government Luis Echeverria will be the next president. Panama's provisional junta government last weekend celebrated the first anniversary of the coup and left little doubt that it intended to maintain tight political control indefinitely. The government promised to call a constituent assembly late in 1970 to amend the constitution, but revealed that the political parties would not be allowed to participate in the selection of delegates.



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ARGENTINE GOVERNMENT WINS TEMPORARY LABOR PEACE

The new wage-price policy announced by the Ongania government last week will probably produce a temporary respite from the labor unrest that has plagued Argentina since May.

On 9 October, the minister of labor and economy announced that a wage increase of nearly 18 percent would be given all workers, except civil servants, in two increments--1 November 1969 and 1 March 1970. In addition, the government intends to increase all pensions by 8 percent at the beginning of the year.

It is expected that the 10- to 12-percent raise on 1 November will about equal this year's inflation rate and will provide approximate wage-price parity for the year. The minister also announced that a national council on prices and salaries would begin operating at the same time the wage hike goes into effect. He said the Ongania government would take all measures necessary, including the denial of tax credits and the imposition of price controls, to ensure that employers do not pass on the wage increases in the form of higher prices.

Reaction to the announcement has been mixed. [redacted] labor leaders have publicly criticized the new wage policy as inadequate [redacted]

[redacted] Despite government disclaimers, the new wage increases appear to have been part of a deal negotiated with leaders of the Peronist-dominated Gen-

eral Labor Confederation (CGT) in return for their calling off a potentially crippling general strike early this month.

Labor appears to have won nearly all the concessions it had hoped for. These include an automatic review of wages by 1 January 1971, to be followed by wage adjustments if prices have risen during 1970; the release of political prisoners, elections in government-intervened unions; and the reorganization and unification of the CGT. On 10 October the government released 58 unimportant political prisoners who had been held without trial under a state of siege imposed on 30 June. Still in custody, however, are 140 others, including militant antigovernment labor leader Raimundo Ongaro.

There has been little employer reaction to the new measures, but some economists have expressed dismay at the inflationary aspects of the wage hike and the adverse effect it will have on the government's economic stabilization program. It is feared that employers may construe the government's recent action as capitulation in the face of labor threats and as indicative of future action if labor demands further wage hikes in 1970. Although leaders of the CGT are ready to cooperate with the government, some dissident unions are accusing national labor leaders of a sellout and are formulating plans to set up a dissident confederation and to attempt a "general strike" on 28-29 October. [redacted]

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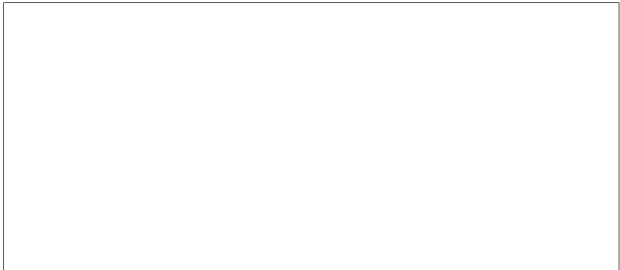
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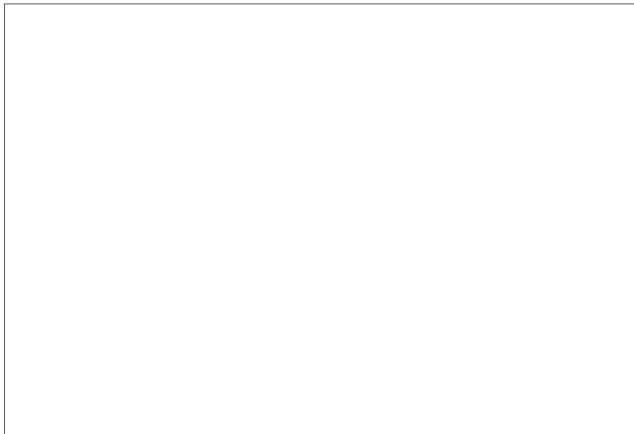
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RISE IN COMMUNIST INSURGENCY EXPECTED IN GUATEMALA

Communist terrorists are again threatening political figures and US officials in what appears to be the opening of a campaign to disrupt the Guatemalan electoral process.




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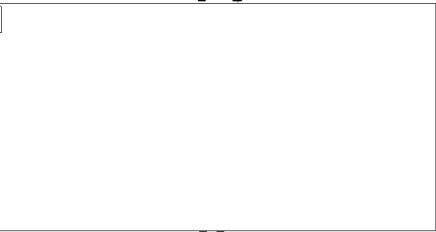


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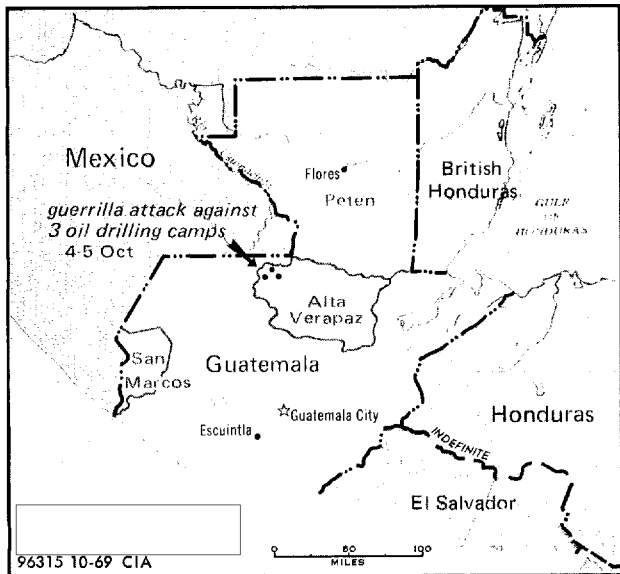
There are signs that rural insurgency, which has been at a low level over the past year and a half, may pick up. On 11 October, Col. Carlos Lopez Mendizabal was assassinated in Catarina, Department of San Marcos. Three other assassinations took place this week, two of them in Escuintla, and there were minor acts of sabotage elsewhere.


The elections must be formally convoked in early November, and the FAR may initiate their campaign at that time. 

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A large guerrilla attack against three oil drilling camps near the Mexican border took place on 4 and 5 October. Witnesses described the attackers as a well-disciplined FAR group of 40 men in terrible physical condition. 

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The leader of the band told witnesses that the group planned to cross into Mexico and make trouble that would embarrass the Guatemalan Government. After rearming, the guerrillas would then return to begin pre-electoral disturbances. 

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BRAZIL'S NEW ADMINISTRATION TAKES POWER ON 30 OCTOBER

On 14 October the governing triumvirate issued Institutional Act 16 declaring the presidency and vice presidency vacant and setting an "election" to fill the posts.

The act states that President Costa e Silva is unable to exercise his responsibilities, and that it is necessary to replace him immediately and permanently. The nation's only two authorized political parties are instructed to register their candidates for the presidency and vice presidency with the officers of the Senate. On 25 October a joint session of Congress will "elect" a president and vice president on the basis of an absolute majority vote. Although this provision raises the possibility that there will be more than one candidate for the top post, there is no doubt that the choice of the military high command--General Emilio Medici--will be the victor. The new chief executive will take office on 30 October and will serve until 15 March 1974.

Although no official announcement has been made, the new vice president probably will be retired Admiral Rademaker Grunewald, the Navy minister and a member of the present ruling triumvirate. Some cabinet members and military officers, particularly in the air force, have criticized Medici's selection of the staunchly conservative Rademaker instead of a younger and more progressive man.

Medici's probable cabinet selections suggest that the general

policies of the Costa e Silva administration will be maintained. Some projected appointments, however, may lead to improvements in certain key areas. For example, the nomination of Labor Minister Jarbas Passarinho to replace Education Minister Tarso Dutra would indicate that some attempts at reform may be made in this long-neglected field, and the substitution of Brazil's ambassador to the US, Mario Gibson, for strong nationalist Jose Magalhaes Pinto as foreign minister could be a boost to US-Brazilian relations. Finance Minister Antonio Delfim Neto will probably continue to be the architect of Brazil's economic policy.

Institutional Act 16 specifies that the triumvirate will continue to exercise the powers of the executive until the inauguration, and authorizes it to issue decree-laws as it considers necessary. This provision suggests that additional cancellations of the political rights of persons allegedly implicated in subversive and corrupt activities are likely.

Institutional Act 17, issued on the same day, authorizes the chief executive to transfer to reserve status for a specified period any officers deemed guilty of endangering the unity of the armed forces. This sanction may be aimed directly at controversial General Albuquerque Lima, whose protests about not being considered for the presidency angered top army commanders.

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Early reaction to the future Medici administration has been moderately optimistic. In Sao Paulo, for example, progressive churchmen and some leftist intellectuals and politicians approve Medici's speech of 7 October emphasizing the need for basic reforms in areas such as education. Opinion leaders in the

underdeveloped Northeast reportedly also are favorably disposed to Medici's designation. In general, however, the attitude remains one of waiting to see how far the new president will actually go in implementing much-needed reforms.

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EL SALVADOR - HONDURAS DISPUTE REMAINS DEADLOCKED

The El Salvador - Honduras dispute remains deadlocked despite the persistent efforts of the Organization of American States to promote a settlement.

At the urging of the OAS, the foreign ministers of both countries came to Washington for extended negotiations after attending the opening session of the UN General Assembly. The meetings, which are still under way, have been generally cordial, but the two delegations thus far have shown virtually no flexibility on the key issues. The Salvadorans are demanding that Honduras open its section of the Pan American Highway to Salvadoran trade with Nicaragua and Costa Rica, but have refused to bow to Honduran pressure for immediate talks on the border dispute. The Hondurans, on the other hand, have refused to open the highway unless El Salvador agrees to demarcation of the border and revision of the Central American Common Market.

This inflexibility is firmly rooted in the domestic political pressures on both governments. The Salvadoran government in particular seems to have little room for maneuver. Sensitive to charges that it withdrew from Honduran territory without any clear gains, the government apparently fears that further concessions would be politi-

cally damaging. At the same time, public reaction to the continuing exodus of Salvadorans from Honduras and the closure of the highway has become increasingly bitter. Demands that the government do something about the situation are mounting. One step might be to close the border to Nicaragua, Guatemala, and Costa Rica to force them to put pressure on Honduras.

Although Honduran President Lopez' domestic position is somewhat more secure, he has not wanted to oppose the anti-Salvadoran, anti - Common Market mood of his country and has been unwilling to give up his strongest bargaining point without getting something in return. Continued OAS pressure and fear of another Salvadoran invasion, however, might soften the Honduran position.

Honduras may also find itself under pressure from the other Common Market countries. Honduran obstruction of Common Market trade has already affected Nicaragua, and President Somoza has decided to call a meeting of the five member states in an effort to resolve the problem. Should his efforts be unsuccessful, he may try to protect his country's economy by a temporary embargo of all Common Market imports. This would lead to a further paralysis of the Market.

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SURINAM HEADING FOR ANOTHER COALITION GOVERNMENT

The formation of a government after the national elections on 24 October may be difficult because it appears that no party or party block can win a majority. The elections will mark the end of the nine-month interim government headed by Arthur May that took over after labor unrest and cabinet dissension toppled the administration of Johan Pengel last February.

The United Hindu Party and the National Progressive Party seem to be in the strongest position to win enough seats to form a ruling coalition. These two parties now control 14 of the 39 seats in the Staten, the unicameral legislature. They stand to gain others from the Surinam National Party because of widespread dissatisfaction over the National Party's performance and the well-known corruption of its leader, former minister-president Pengel.

The incoming administration will be faced with important decisions regarding independence, the border dispute with Guyana, and the serious problems of unemployment and economic development. All major parties espouse independence from the Netherlands, but each has widely varying timetables and degrees of enthusiasm. The left-wing Nationalistic Republican Party wants all ties severed completely and immediately. On the other hand, the United Hindu Party block reluctantly agrees in principle to independence but believes it should come after several years of careful study and preparation. All parties support Surinam's claim to the area in dispute with Guyana but believe the matter should be settled by peaceful means.

No major disturbances are expected before the elections, but racial tensions might produce isolated incidents.

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