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6 March 1961

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CENTRAL INTELLIGENCE BULLETIN



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Approved For Release 2003/03/10 : CIA-RDP79T00975A005600050001-4

Approved For Release 2003/03/10 : CIA-RDP79T00975A005600050001-4

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Pakistan-USSR: The agreement on oil exploration signed in Karachi on 4 March after several months of bargaining is the first major Soviet aid program accepted by the Pakistani Government. The agreement provides for a credit of \$30,000,000 to finance a five-year program of technical assistance in oil prospecting and surveying. The credit carries the usual favorable terms--repayment over 12 years at 2.5-percent interest. Pakistani officials, impressed by the discoveries of Soviet teams in India and Afghanistan, hope that the Soviets will succeed where Western oil companies have failed. Leaders of the military government probably are also motivated by political considerations. While maintaining Pakistan's commitment to its Western alliances and continuing to rely strongly on US aid, President Ayub and his associates have sought in recent months to demonstrate a greater "independence" in foreign policy as a reminder that Pakistan's cooperation should not be taken for granted.

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West Germany: In a sudden move, Bonn has raised the exchange value of the West German mark 5 percent in an effort to halt the steady influx of foreign exchange--chiefly dollars--which has contributed to US balance-of-payments difficulties. The Netherlands has announced that the guilder is being similarly revalued. Although

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German government and banking officials--under strong pressures from industrial and commercial interests--had repeatedly rejected revaluation, the failure of Bonn's recent easing in its tight monetary policy to correct West Germany's chronic billion-dollar payments surplus and the threat of another wave of speculation apparently convinced Bonn officials that a more realistic pegging of the mark was unavoidable. This action--which applies a brake on inflation but also makes German exports more expensive

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may be

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intended to demonstrate Chancellor Adenauer's willingness to take additional steps to ease pressure on the dollar.

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Pakistan and USSR Sign Agreement on Soviet Aid in Oil Exploration

Agreement in principle on the Soviet credit was reached in Moscow in December during the visit of the Pakistani minister of fuel, power, and natural resources, but consummation of the deal was delayed pending further negotiations in Karachi. Pakistani officials had originally hoped that Moscow would agree to share the expense of exploration if oil is not found--Pakistan paid only 25 percent of the cost of exploration undertaken by Western oil companies--but this idea was promptly dismissed by Soviet negotiators. Pakistani officials also pressed for even more favorable credit terms than they received, including repayment in nonconvertible rupees. In the end Pakistan apparently conceded its main points, although the Soviets, in agreeing to rupee repayment, probably assured Pakistani officials that Moscow would not demand conversion to hard currency unless acceptable exports were not available.

The Soviet ambassador recently discussed publicly the possibility of additional assistance in such areas as atomic-energy development for peaceful purposes, medical training, and agrarian problems. He also expressed hope that a cultural agreement would be signed. Pakistani officials have shown some reluctance with regard to further aid programs, but conclusion of the oil deal may make it difficult for them to turn down publicized offers in the social welfare field, because these are keyed to popular demands and have stirred considerable public interest.

Despite President Ayub's repeated reaffirmation of Pakistan's pro-Western foreign policy and commitment to the CENTO and SEATO alliances, neutralist tendencies have been increasingly evident in government circles since mid-1960. A number of top officials, sharing the view held by many intellectuals and large sections of the public, question the value of a rigid commitment to the West, noting that

neutralist countries often gain more by exploiting the competing interests of both major power blocs. The military government since early this year has permitted much of the press to carry on a sustained editorial campaign calling for "gradual disengagement from the role of a committed nation" and for improved relations with the bloc. The line taken by the press presumably has reinforced the latent neutralist sentiment of the bulk of the population, especially in East Pakistan.

In his latest conversation with Ambassador Rountree, Ayub explained that in view of Pakistan's "extremely difficult strategic position"--with enemies or potential enemies on all sides, excepting Iran--it was essential to avoid trouble with Communist China. Ayub felt he could not secure a border settlement from Peiping--which would ease the threat to Pakistan's security from that direction--without modifying his government's position on Chinese representation in the UN and specialized agencies. Ayub indicated that Pakistani delegations would abstain on procedural questions involving the seating of Chinese Communist representatives, and would have to vote for acceptance should a substantive resolution come to a vote.

Ayub and his associates also calculate that an accommodation with Peiping will increase pressure on India in connection with the Kashmir dispute, and that better relations with Moscow will put Afghanistan at a disadvantage in its dispute with Pakistan over the Pushtoonstan issue.

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Bonn Raises Value of West German Mark

[Foreign exchange trading in West Germany was briefly interrupted on 4 March and then resumed at a new rate of four German marks to the dollar, compared with the old rate of 4.23. Later, Economics Minister Erhard confirmed that Bonn has revalued the mark and described himself as the "initiator and driving force behind the action." He explained the move as a necessary step to maintain the stability of the German currency and price levels in West Germany, as well as to stem the speculative influx of dollars into the country. International financial circles have long been concerned over Bonn's chronic balance-of-payments surplus, which increased another \$2 billion in 1960 for a total gold and foreign exchange reserve of more than \$7.5 billion. Revaluation is intended to help correct this imbalance. Although the move benefits German consumers through lower or stable prices, German businessmen and labor leaders are critical because of the resultant reduction of Bonn's competitive price edge in world markets, which they fear may put a damper on Bonn's continuing boom.]

[While praising the move, some Western officials have questioned whether a 5-percent revaluation is sufficient to reverse the imbalance. These officials suggest that instead of an immediate flow of dollars back to the United States, speculators might stand pat in anticipation of further changes not only in the mark but in other currencies as well.]

[In a press interview on 5 March, Erhard gave assurances that in addition to revaluing the mark, Bonn intends to go ahead with plans for a billion dollar aid program for underdeveloped countries as a further means of easing the US financial burden.]

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Hostility to Trujillo Intensifying

Arrests and tortures have increased markedly in recent weeks, particularly in traditionally anti-Trujillo cities in the interior, according to information reaching the American Consulate from a number of independent sources. Although opposition to Trujillo extends to all social and economic levels except the generally politically inert peasantry, it has long been led by middle class and professional elements who are moderate and friendly to the United States. It is these groups that have been most gravely weakened by the government's repression and by the economic difficulties of the past two years. Dissident leaders fear that unless Trujillo is soon ousted, there will be little hope of a moderate successor.

The military and police organizations, which remain the key to Trujillo's survival, show no sign of disaffection. However, relatives of certain key officers have been victims of Trujillo in the past year, and these and other officers may well desert him if they become convinced that his end is near.

The American Consulate noted on 3 March that Trujillo, who is probably aware of the gravity of the current political and economic situations, may be planning a simulated coup. Under such a plan, the government would be turned over to a military junta composed of officers ostensibly opposed to Trujillo but actually controlled by him. After OAS sanctions against the Dominican Republic had been lifted and the government assured of a market for Dominican sugar in the US, Trujillo would be recalled. Such a strategy is consistent with Trujillo's mentality and with tactics he has used in the past.

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