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DIRECTORATE OF
INTELLIGENCE

Central Intelligence Bulletin

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21 May 1970

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Approved For Release 2003/06/11 : CIA-RDP79T00975A016300040001-6

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No. 0121/70
21 May 1970

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Communist China: Yesterday's Chinese statement on Cambodia, attributed to Mao Tse-tung, is largely standard Peking boilerplate designed to extract the maximum propaganda mileage from recent developments in Indochina.

The statement breaks no new ground, but does add the weight of Mao's personal prestige to previously established Chinese positions: support for Sihanouk, recognition of his government-in-exile, and endorsement of the communiqué issued by the Indochina "summit" conference last month. A personal statement of this sort by Mao is relatively rare but by no means unique. The last such statement was issued in 1968, in connection with the assassination of Martin Luther King.

The statement is meant to give added force to Peking's present strategy in Indochina, which has been to embarrass the Soviets and to enhance China's position in Hanoi at the expense to Moscow. For example, Mao pointedly notes that some 20 nations have recognized the Sihanouk government. The implication that the Soviets have been lax in this regard is obvious.

The statement is quite mild and falls short of previous Chinese commentary on Indochina. It contains no commitment on Chinese action in Cambodia--not even the vague promise of material support in the struggle. Mao's remark that the danger of a new world war "still exists" and that the people of all countries must be "prepared" is also standard. Variations on this theme have been played by the Chinese since the Ninth Party Congress in April 1969, when it was first surfaced by Lin Piao.

The statement meshes fairly neatly with the attitude taken by Peking in connection with the postponement of the Warsaw talks. Chinese willingness to discuss a new date for the next meeting through the normal diplomatic mechanism in Warsaw suggests that Peking does not expect the situation in Cambodia to lead to a world crisis, and the tone of Mao's statement tends to bear this out. [REDACTED]

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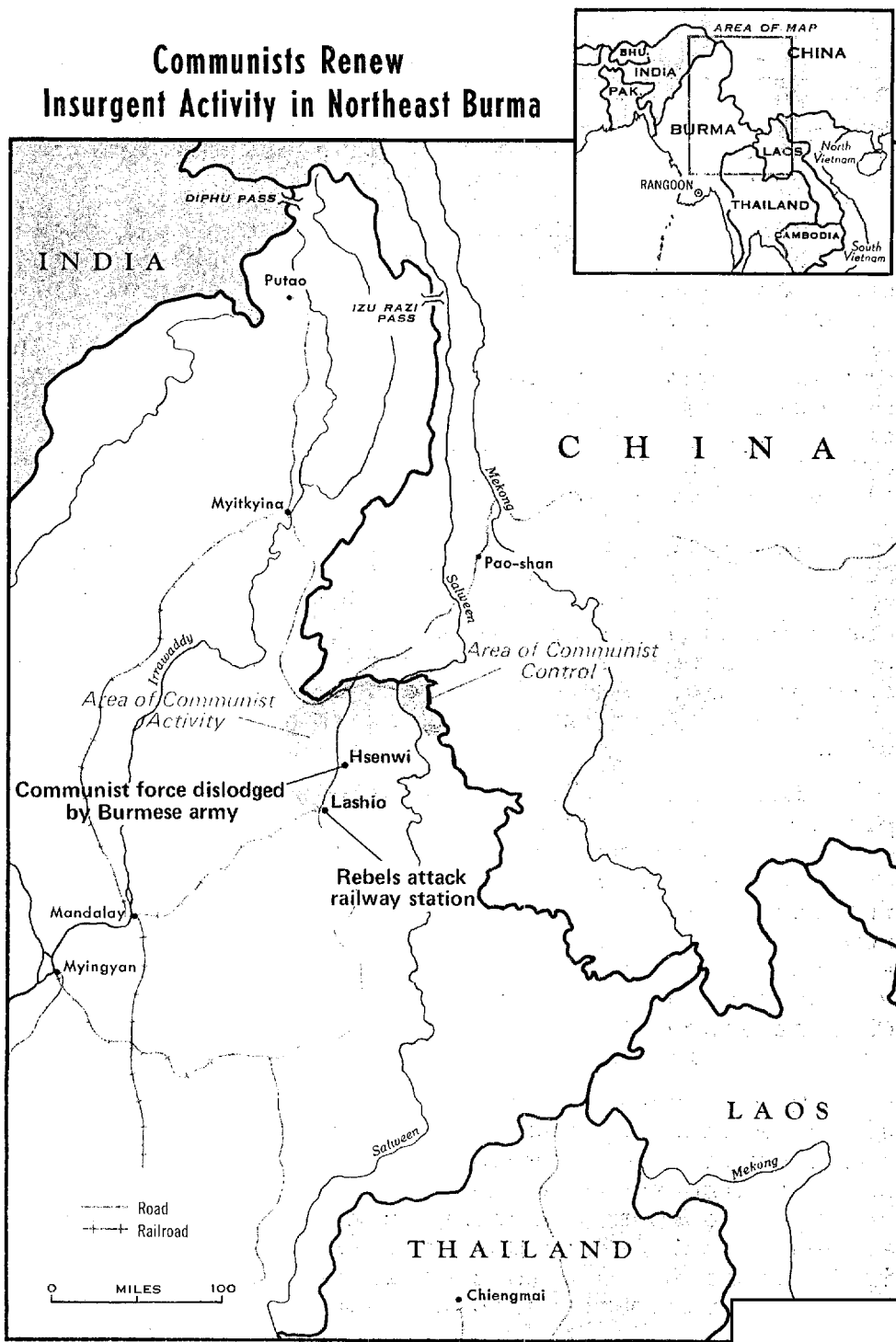
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Communists Renew Insurgent Activity in Northeast Burma



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Burma: Incursions by Communist insurgents into two government administrative centers point up the Burmese Army's tenuous control over the north-east.

Some 200 rebels attacked the railway station of Lashio, the principal city of northern Shan State, on 19 May and damaged at least two locomotives [redacted] [redacted] A few days earlier, about 300 Communists overran the town of Hsenwi and were dislodged by the army only after repeated efforts.

These incidents are the first significant insurgent activity reported since the Communists captured several government towns and outposts in late March. The recent attacks were probably intended to intimidate the Burmese Army before the monsoon rains, which begin next month, inhibit both rebel and Burmese military operations. The insurgents do not appear to be trying to broaden the narrow strip of land they control along the Chinese border before the rains begin. [redacted]

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Japan-US: Prime Minister Sato is increasingly concerned about the impasse with the US over textile exports.

At a recent press conference, Sato urged the Japanese textile industry to agree to compromise with the US on the issue of voluntary export quotas. In his strongest appeal yet to Japanese industry, Sato claimed that the US had adopted a more flexible attitude, and he "suggested" that the Japanese should be willing to accept a two- or three-year agreement on voluntary restraints.



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The Prime Minister is worried about the possible damage to broader US-Japanese relations that could result from prolonged failure to reach an agreement on the specific textile problem. Moreover, despite his contention that the US Congress has shown some flexibility, Sato is obviously concerned that US protectionist legislation is becoming more and more a possibility.

Although maintaining that the textile issue is not a government-to-government problem, Sato seems determined to use the full weight of his office to help resolve the impasse. Given the delicacy of the issue and its underlying nationalistic aspects, however, he has been moving cautiously and indirectly toward a solution up to this point.



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Cuba: Fidel Castro's speech early yesterday was particularly aggressive toward the US.

Castro accused the US of planning and launching exile attacks such as the kidnaping of the Cuban fishermen, threatened to withdraw the Swiss Embassy's status to represent US interests, and indicated that it is only a matter of time until the former US Embassy building is taken over. He said the withdrawal of status would doom the US-operated Cuban refugee airlift program because the refugees are processed through the Swiss Embassy.

He said the British should demand that the US stop using the Bahama Islands as bases for exile attacks and warned that if the attacks continue, Cuba will "seek every means to pass from the defensive to the offensive." Castro also complained that air searches for the fishermen were cut short by the "very limited range" of his MIG-21s and lamented that "unfortunately our country does not have long-range aircraft." The latter also represents an implied threat to Guatemala and Nicaragua, which he charged with supplying "bases for aggression."

The kidnaping incident has brought forth Castro's most vociferous reaction to recent exile operations. He is probably concerned about the vulnerability of his extensive fishing fleet to more than just harassing attacks by exile groups. Castro probably wants it made quite clear that his government will not be blackmailed into making deals and hopes that exile groups will despair of such tactics. His aggressive, confident tone may also be a prelude to a possible announcement of new military assistance from the Soviet Union.

Castro also announced that the ten-million ton sugar harvest goal will not be reached and admitted that this is a bitter defeat because the

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honor of the revolution is at stake. He praised the Cuban people for doing as well as they have in already achieving a record harvest and made no attempt to place the blame for the failure on the US or elsewhere. He said that "our goal was too high" but urged Cubans to an even greater effort in the remaining time of harvest. In another speech last night, Castro dwelt extensively on reasons for the failure of the sugar harvest to reach his original goal; Castro did not resume the strong anti-US line he emphasized in his earlier speech

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Peru: The military government's harsh new controls on foreign exchange have dealt a severe blow to the wealthy and business classes, and will further weaken the economy.

In the wake of the unexpected decree recently issued prohibiting all private dealings in foreign currency, the government promptly sealed off banks, currency exchanges, and tourist agencies to prevent withdrawals. Deposits of foreign currency in private banks were frozen and after audit will be converted to sols.

Within 30 days, all residents must declare their foreign currency investments and claims, and must sell all foreign exchange holdings in Peru and abroad to the National Bank. Penalties for violations of the decree are extremely severe.

The wealthy and middle-class businessmen thus far have reacted with uncertainty and fear. The final outcome, however, could be to solidify the heretofore fragmented and ineffective opposition to the military government. The exchange controls could also accentuate the divisions within the military because many top officers have family ties with the business community, and some probably have personal foreign exchange holdings that they would like to protect.

The uncertainty caused by this action will further depress domestic and foreign business confidence and could result in a partial financial paralysis over the next few weeks. It is not clear how the new controls will affect the operations of US and other foreign companies in Peru, but the foreign minister claims that some portions of the new law will not apply to foreign businessmen temporarily resident in the country. [redacted]

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NOTES

CEMA: The new International Investment Bank established at a recent CEMA meeting will not operate according to the principle of unanimity of decision previously applicable to all CEMA organizations. A Polish announcement says that all bank decisions will be by a two-thirds majority of the CEMA states. As in some other international organizations, the "votes" might be weighted according to contributions by members to the organization, a provision that would ensure Soviet control in most circumstances. The departure from the unanimity rule probably makes it unacceptable to Romania and explains why Bucharest has not joined the bank. [redacted]

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Morocco-Algeria: King Hassan will meet with Premier Boumediene next Monday at Tlemcen, an Algerian town near the Moroccan border. A recent exchange of high-level visitors presumably has set the stage for this meeting, which was originally scheduled to take place last year. [redacted]

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[redacted]

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Chile - North Korea: Chile has granted permission for a North Korean commercial mission to visit the country [redacted]

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[redacted] North Korea does not have diplomatic or commercial relations with any Latin American country except Cuba at the present time. Communist China has maintained a trade information office in Santiago since May 1964. [redacted]

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Costa Rica: President Jose Figueres, who was inaugurated less than two weeks ago, continues to move rapidly on his announced intention to expand relations with Eastern Europe. Immediately following the establishment of diplomatic relations with Hungary, Figueres sent Communist leader Manuel Mora to Moscow on a coffee sales mission [redacted]

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[redacted]

[redacted] Mora is one of two Communist deputies in the newly installed legislature, and his increasingly prominent role in administration affairs will probably disturb anti-Communist groups already concerned by what they view as Figueres' indifference to the threat of the far left. [redacted]

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Uruguay-Brazil: Uruguay will receive ten small aircraft from Brazil under a security arrangement concluded at a meeting of the two presidents on 11 May. Some weapons may also be provided by Brazil, [redacted]

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[redacted] The communiqué issued at the end of the meeting did not mention security matters. They were probably discussed, however, in view of President Pacheco's sympathy with his military leaders' growing desire to replace Uruguay's largely obsolete arsenal. An example of the military's concern is the earnest request this week by the Uruguayan Navy chief for discussions with his US counterpart about the obsolescence and deterioration of the navy. [redacted]

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