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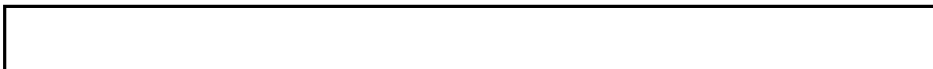
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**USSR - EASTERN EUROPE:** Yesterday's meeting of three top Soviet leaders with counterparts from all their East European allies save Romania was meant to highlight Bucharest's isolation and to put pressure on it to conform to Soviet foreign policy.

The communiqué does not directly threaten or even mention Romania. Its formulations on intra-Bloc relations and Bloc foreign policy are generally routine, but the broad range of topics covered, from economic integration in CEMA to Vietnam and the Middle East, formalizes the seemingly informal vacation gathering in the Crimea and underscores Romania's deviant status.

Frequent bilateral meetings of Soviet and East European leaders in the past month were capped by a CEMA summit in Bucharest last week. Thus, there is scant substantive reason for consultations, except for Romanian recalcitrance. Indeed, there is reason to believe that the meeting was called quite abruptly. East Germany's Honecker had been on vacation but was reported in yesterday's press as having met, presumably on 1 August, with the Soviet ambassador in East Berlin.

Romania has irritated Moscow in recent years by not siding with the Warsaw Pact positions on the Middle East war and Soviet disarmament proposals. Romania also has resisted Soviet plans to integrate CEMA, and did not suppress its delight that this goal, as defined at the CEMA summit last week, will take 15 to 20 years to implement.

Perhaps Ceausescu's greatest present sin, however, is to insist upon neutrality in the Sino-Soviet dispute, to cultivate good relations with Peking, and to welcome the thaw in Sino-US relations. The USSR is gravely worried about the dangers to Soviet interests which it sees in a possible rapprochement between Peking and Washington, and it suspects that Romania has assisted in nourishing

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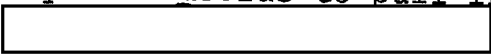
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these contacts. Unable to stop the Chinese, Moscow is determined at least to force the Romanians back into line.

The Romanians, judging by their recent behavior, have not been expecting a sharp squeeze from the Soviets. Earlier this summer, the Romanians were apprehensive that Moscow would try to force them into participating in a joint military exercise in Bulgaria or, alternatively, to permit Soviet troops bound for the exercise to cross Romanian territory. Such reports have died out and there are no indications that the Soviets have reopened the matter of Romanian participation in the forthcoming exercise in Bulgaria.

Having carried their dispute with Romania into the open in this fashion, however, the Soviets are not likely to let the matter rest. If Romania does not cease its misbehavior, Moscow may step up economic pressures, and insist on closer adherence to the Warsaw Pact's foreign policy goals. Ceausescu will be reluctant to appear to give ground under attack, but he may well decide to pull in his horns for a time.



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COMMUNIST CHINA: The purge of leftist politburo member Chen Po-ta, whose political demise apparently is intended to symbolize Peking's repudiation of extremist policies both in domestic and international affairs, has been confirmed by a Chinese official.

[redacted] 25X1  
 [redacted] 25X6  
 [redacted] acknowledged [redacted] 25X1  
 [redacted] that Western press reports of Chen's rumored purge were correct and that Mao Tse-tung had been alluding to Chen's failings in his interview last December with American journalist Edgar Snow. In that interview, Mao condemned "hypocrites" who told lies during the Cultural Revolution, deplored the maltreatment of many former party cadres, and endorsed the accuracy of foreign press reports of internal chaos during the revolutionary period. [redacted] 25X6  
 [redacted] implied that the intent of Mao's remarks was to dissociate himself from the excesses perpetrated by the radical ideologues in his entourage, particularly by Chen Po-ta, who had been Mao's personal secretary and was originally appointed by him to lead the Cultural Revolution Group.

Although Chinese media have yet to denounce Chen officially, there have been ample indications in recent months that Peking is seeking to persuade both domestic and foreign audiences that the influence of the leftist forces represented by Chen is on the wane. These signs include the increasing publicity accorded the year-old campaign against reputed followers of the extremist "May 16 Corps"--which Chen allegedly organized--and repeated apologies to Western diplomats in Peking for excesses perpetrated against foreign missions in the summer of 1967, the period when the May 16 group was riding high.

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It is still uncertain whether Peking intends to make Chen a public scapegoat for the May 16 group's extremism. [REDACTED]

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[REDACTED] because other politburo members, including Madame Mao and Kang Sheng, also were involved, Peking may be reluctant to risk exposure of the full extent of leadership disunity through an open pillorying of Chen.

At this stage, Peking's handling of the downfall of Chen Po-ta reflects the marked shift to the right that has occurred in the bitter struggle over power and policy within China's unsettled leadership coalition since the ninth party congress two years ago. The issues involved have been complex but clearly have included attempts by the leftists in Mao's inner circle to weaken Chou En-lai, to resist the reinstatement of many veteran party and government officials, and perhaps also to thwart the movement of China's foreign policy in several areas in the direction of more moderation and flexibility. The case against Chen Po-ta and the "May 16 Corps" over the past year appears to have been accompanied by a corresponding strengthening of Chou En-lai's personal position, although the ranking of Madame Mao just behind Chou and ahead of Chief of Staff Huang Yung-sheng at the Army Day celebrations last weekend suggests that the jockeying between leftist and moderate elements within the regime has not ceased. [REDACTED]

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CEYLON: Deteriorating economic conditions and rumors of an early renewal of insurgency are leading to increased speculation about a possible coup.

Much of the reporting focuses on General Don Sepala Attygalle, the commander of the army. Attygalle has been described as an extremely ambitious opportunist who at one time believed Ceylon needed a "modified" form of democracy in order to maintain stability. He is also said to be overworked and under great mental stress as a result of the insurgency.

In recent weeks, the general has been caustically critical of the politicians who, he complains, are a frustration for anyone attempting to do good for the country. Attygalle appears to have no strong political attachments, but [redacted]

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[redacted] he would act if he believed the country were going further to the left. [redacted] a coup, with Attygalle backing Prime Minister Bandaranaike in an attempt to move the government to the right, would be possible.

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Rumors of possible military coups are heard occasionally on Ceylon. The present economic and political situation, combined with the personality of Attygalle, gives added weight to the present reports. [redacted]

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CHILE : President Allende reportedly is beginning to blame a US "boycott" of Chile for his increasingly serious economic problems.

He is privately asking Chilean businessmen for unity in the face of "an impending confrontation over copper nationalization and other issues." At the same time, industrialists complaining about the adverse impact of a recent partial devaluation on firms making payments to foreign banks, mostly US, were advised by the minister of economy to simply "not pay and see what happens."

The most pressing problem in Chile is the shortage of important consumer goods. Beef, pork, poultry, and eggs are in especially short supply, and a black market is developing. The sharply increased demand resulting from Allende's populist policies is also causing some shortages of textiles and other manufactured goods. Chile's ability to meet consumer demands by expanding imports is increasingly being limited by dwindling foreign exchange reserves and a drying up of foreign credits. [ Moreover, copper exports--already depressed by managerial problems and poor worker discipline--are now being affected by a strike at the recently nationalized El Salvador mine; the mine is Chile's third largest and accounts for about 15 percent of total output. ]

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FRANCE: The government recently announced that it will oppose the creation of additional special drawing rights, a new form of international reserve activated in 1970.

The present agreement, which provides for allocations totaling \$9.5 billion over a three-year period, expires at the end of 1972. Special drawing rights were created to ensure steady growth of world liquidity envisaged at approximately seven percent a year and to supplant eventually other major assets such as gold and foreign exchange. International liquidity, however, increased at the annual rate of 18 percent in 1970 and at an even faster rate during the first half of 1971 because of the massive infusions of dollars that resulted from unexpectedly large US balance-of-payments deficits over the past two years.

Western European nations, and especially the countries of the European Communities (EC), have become increasingly frustrated by failure of the US to slow the dollar influx, which has had an inflationary impact on the European economies. This frustration could prompt other major countries to rally behind the position of Paris by the time a new agreement is negotiated. A voting power bloc of 15 percent, which could be mustered by the EC alone, is all that would be required to veto a proposal for further large allocations.

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TURKEY - COMMUNIST CHINA: Recognition of Communist China, which was to have been announced this week, may be temporarily delayed by opposition in Parliament. The chairman of the Senate's foreign relations committee has publicly attacked recognition, claiming it would have a bad effect domestically at a time when the government is attempting to stifle Maoist-oriented subversives. A majority of the members of the Senate and Lower House foreign relations committees reportedly oppose recognition and a joint meeting of the two groups will convene within a few days. The parliamentarians will probably ask Prime Minister Erim to defend his China policy and may consider calling for Foreign Minister Olcay's resignation. [REDACTED]

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UN-PEACEKEEPING: In spite of the Soviets' recent negative response to the 1970 US paper on peacekeeping, they evidently wish to resume bilateral talks on the subject. In a recent conversation with the US delegation to the UN, Soviet mission officials referred several times to "impending changes" in the Security Council--i.e., the prospective seating of mainland China--and implied that it would be desirable if an agreement could be reached before these changes occurred. In urging that the bilateral talks continue, the Soviets may also fear that the US will decide to join at the General Assembly with other countries, such as Canada, in sponsoring peacekeeping proposals unpalatable to Moscow. However, as long as Moscow clings to the rigid position it reiterated only last month that the Security Council must exercise full and exclusive control over a peacekeeping mission, it remains difficult to see how any compromise can be reached. [REDACTED]

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ICAO - SOUTH ASIA: The dispute between India and Pakistan in the International Civil Aviation Organization (ICAO) may now be referred to the International Court of Justice (ICJ)--with attendant publicity and aggravation of existing tensions between the two countries. Last February before the civil war in East Pakistan, India banned Pakistani overflights in retaliation for the hijacking to Pakistan of an Indian commercial aircraft by a group of "Kashmiri freedom fighters." Islamabad appealed the ban to the ICAO Council, which last week rejected New Delhi's contention that the council lacks jurisdiction. In view of this setback, Indian Foreign Secretary Kaul has told the US his government will probably take the matter to the ICJ.

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