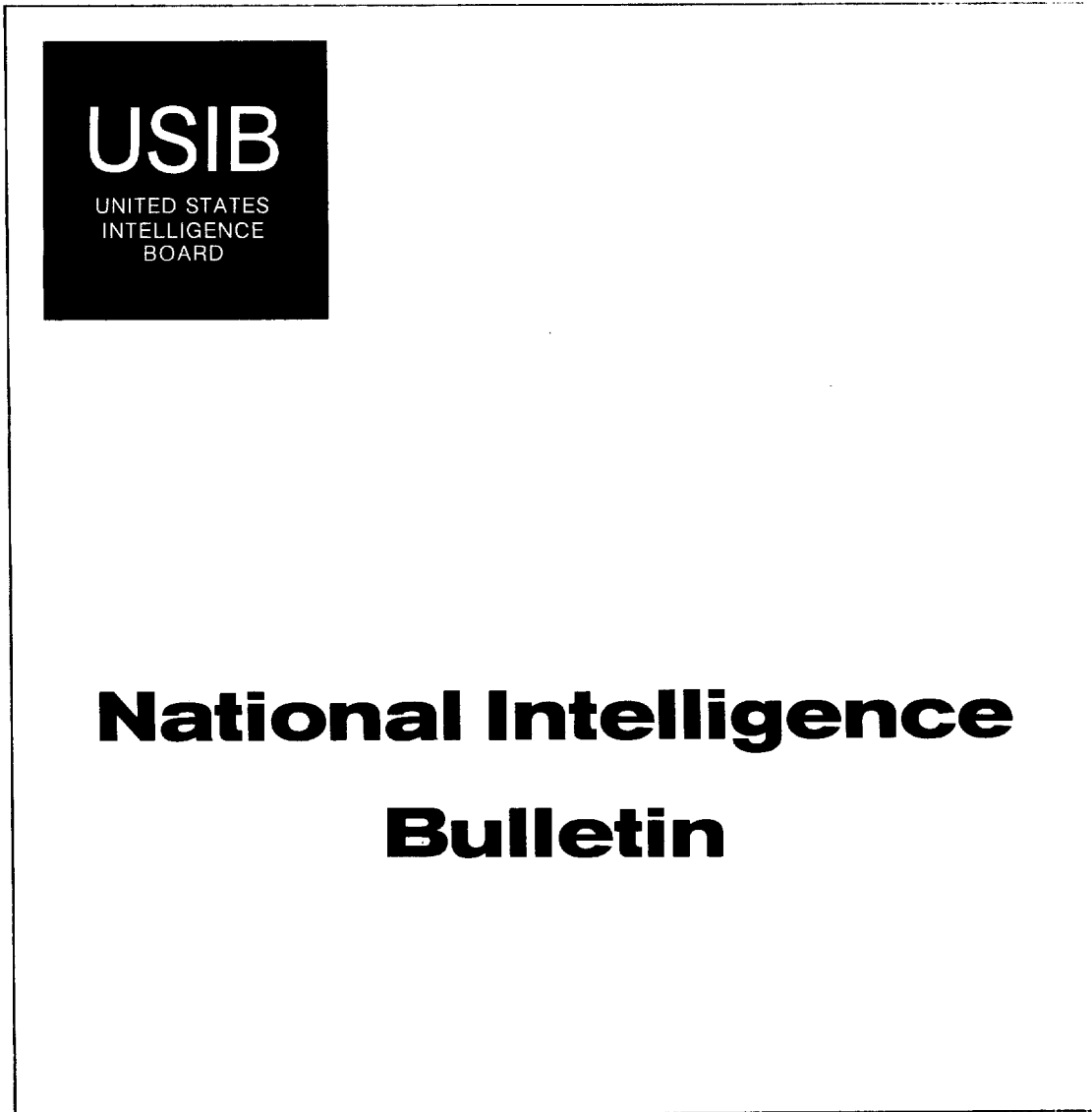


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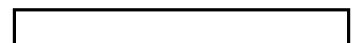


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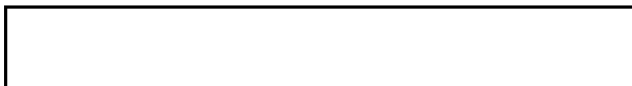


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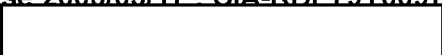


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ITALY

Italian Prime Minister Moro's government will probably make a major effort to placate the Socialist Party during the parliamentary debate that began yesterday on portions of a new economic plan. Socialist leader De Martino earlier this week cited the government's failure to consult the Socialists adequately on the economic plan as a major reason for his threat to withdraw Socialist parliamentary support from Moro's coalition.

The portion of the plan submitted to parliament yesterday consists of the government's proposals for industrial restructuring and conversion. The government proposes to:

- earmark about \$9.3 billion for industrial restructuring, conversion, and development;
- establish an interministerial planning commission to direct the fund;
- provide expanded compensation for workers who lose their jobs or are laid off as a result of industrial restructuring.

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The Socialists are concerned that support for the bill as it stands would put them out of step with their supporters in organized labor. Most of organized labor is sharply critical of the government's proposals. These labor organizations maintain that certain proposals give businesses a "license to fire." They also claim that there are no provisions for maintaining jobs in restructured industries or for creating new jobs.

All of this has made it increasingly difficult for De Martino to maintain control of his badly divided party as it prepares for a national congress in February. His rivals within the party are scoring points by arguing that the Socialists gain nothing politically by continuing to support Moro.

Earlier, De Martino had been inclined to avoid challenging Moro until after the congress. He is not likely to return to that position unless some concessions are made to the Socialists—on the economic plan or some other issue—before the Socialist directorate meets next Wednesday. The directorate is slated to make a final decision on whether to end Socialist support.

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Some such concessions may have been foreshadowed by the conciliatory tone Moro's Christian Democrats adopted in their initial comments urging De Martino to abandon his threat. The Communist press is also arguing that now is not the time for a change of government.

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INDIA

Prime Minister Gandhi's recent charges that Western nations, particularly the US, have interfered in the internal affairs of India reflect her long-standing personal bias as well as her frequent use of foreign scapegoats when trying to justify controversial political moves at home.

It is too early to tell whether the Prime Minister's blasts mean that, as far as she is concerned, the period of slowly improving relations between New Delhi and Washington is over. Relations had begun to improve in 1974. Her statements, delivered at a just-concluded national conference of her Congress Party, were largely extemporaneous and may have been influenced in part by the responsiveness of her audience to such rhetoric.

Gandhi used the meeting to obtain party approval for an indefinite extension of the state of emergency that she imposed six months ago and for a one-year postponement of national elections. She also revealed her intention to seek constitutional revisions—expected to be introduced in the parliamentary session beginning on Monday—that will probably make permanent the powers she now exercises on an emergency basis.

There appears to be little opposition within the Congress Party to these moves, but Gandhi remains highly sensitive to criticism, particularly from the West, about her authoritarian rule. Her attacks probably were also aimed at appeasing leftists in the Congress Party and the pro-Moscow Communist Party of India, which supports her party. Indian leftists, and probably the USSR, are displeased over what is widely seen as a "lurch to the right" in New Delhi since the emergency was imposed.

A trend to the right is reflected in the increasing prominence of Gandhi's son Sanjay, in the less radical leadership of the Congress Party's youth wing, in the choice of new central cabinet members, and in the government's focus on pragmatic rather than ideologically based economic policies. At the conference, Gandhi emphatically denied there had been a "lurch" and reaffirmed her government's commitment to socialist goals.

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ZAIRE

Effective January 2, Zaire is allowing foreign investors to buy back into nationalized businesses they once owned—up to a limit of 40 percent. The government will share with private Zairian citizens, on a selective basis, the 60-percent equity it is retaining in these enterprises. Zaire also will return all nationalized property of long-term foreign residents 60 years of age or older.

Kinshasa has listed 83 firms immediately eligible for the program, including Mobil, Texaco, Shell, and a number of construction and agricultural enterprises. More firms probably will be added later. The petroleum sector was nationalized in 1974, and most other large businesses have since been taken over. A state-owned copper company was established in 1967 by nationalizing a Belgian firm, but a few small foreign firms have been allowed to operate in mining since then.

The new measures are part of a scheme being worked out with the International Monetary Fund to help Zaire overcome its current foreign exchange problems. Zaire's estimated balance-of-payments deficit last year was \$400 million. Kinshasa hopes that the return of foreign investors, together with fiscal reforms and import controls, will give the economy a shot in the arm.

Those foreign firms that have remained active despite nationalization will almost certainly take advantage of the new measures. Others, such as Mobil, have all but completely withdrawn and are less likely to incur the expense of reinvesting, particularly in view of Zaire's shaky economic situation.

Other conditions that have hurt the Zairian economy show no sign of improving. The low world price for copper, the source of two thirds of Zaire's foreign exchange earnings, will delay recovery. Zaire still cannot ship copper on the Benguela railroad through Angola to the port of Lobito. Moreover, implementation of a number of austerity measures which are part of the IMF program could cause political problems for President Mobutu.

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CHILE

The Pinochet government evidently intends to ignore a recently published indictment of its policies by former president Eduardo Frei, leader of Chile's largest political party, the Christian Democrats.

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Although Pinochet was angered, he has decided not to make an issue of Frei's attack, probably recognizing that strong government retaliation would merely brighten the fading image of the Christian Democrats as well as further damage Chile's image abroad.

[Redacted]

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Despite his uncharacteristic decision against a counterattack on Frei, Pinochet may yet revert to type. Yesterday, Frei rebuffed an offer by the junta to participate in a "council of state" composed of former presidents and other distinguished citizens. Pinochet had hoped to create a favorable impression by instituting the council, which was given formal status in a ceremony on December 31. The council is billed as a distinguished body set up to advise the government on important matters, but it is not expected to be much more than window-dressing.

In announcing his refusal to join the council, Frei said it would not be "honest or loyal" for him to take part in a body whose basis of origin and powers of representation are in question.

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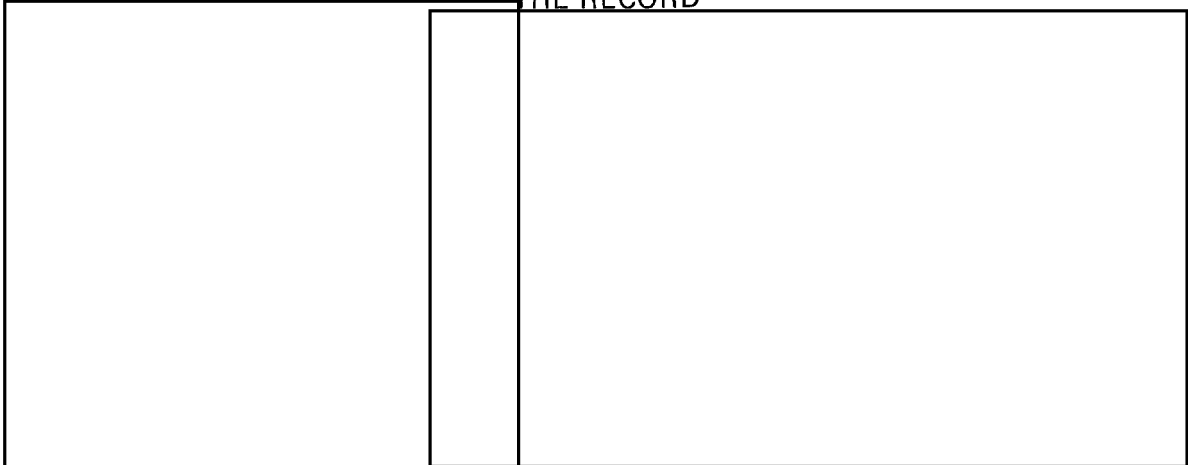
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THAILAND-LAOS: Bangkok apparently feels it has made some progress in inducing the Lao to exercise restraint along the border in return for the Thai reopening of the border near Vientiane. Foreign Minister Chatchai announced just prior to the border opening on January 1 that the Lao had agreed not to fire on Thai patrol boats along the Mekong; he characterized the reopening of the border as a normalization of relations. We have no confirmation that the Lao made such a promise, but Vientiane probably recognizes that the Thai could close the border again if any serious incidents along the river should reoccur.



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GUYANA: Prime Minister Burnham has announced "full support" for the Popular Movement for the Liberation of Angola, and formal recognition will probably come soon. During his speech to celebrate the nationalization of Reynolds aluminum mines, Burnham introduced three visiting representatives of the Popular Movement and stated that Guyana will give even greater support to their cause than it had in the past. Burnham characterized the Angola struggle as not a civil war but a war by blacks to throw out the South Africans, whom he accused of trying to annex Angola. In pledging support to the "freedom fighters" of the MPLA, Burnham said they were "waging a war that is ours."



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