

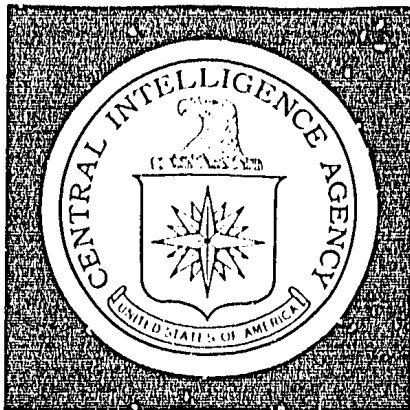
CIA OCI CIB 0234/71 CENTRAL INTELLIGENCE BULLETIN
SEC., NFD 30 SEPT. 71 01 of 01

CIA Doc 015 0234/71

Doc / 5112

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No Foreign Dissem



DIRECTORATE OF
INTELLIGENCE

Central Intelligence Bulletin

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SECRET

No. 0234/71
30 September 1971

Central Intelligence Bulletin

CONTENTS

COMMUNIST CHINA: Political situation apparently is still far from being resolved. (Page 1)

USSR-INDIA: Prime Minister Gandhi's visit to Moscow. (Page 3)

CHILE: Allende ready to risk showdown over compensation for expropriated copper companies. (Page 5)

25X1C



CEYLON: Insurgency may be renewed. (Page 8)

25X6



INDIA: Government loses Italian firm's bid to move plant to India (Page 10)

ITALY: Government tactics on price freeze (Page 10)

SECRET

SECRET

COMMUNIST CHINA: The eleventh-hour decision to cancel this evening's National Day banquet suggests that the current political situation is still far from being resolved.

According to press reports, a Ministry of Foreign Affairs spokesman announced that the banquet, which usually features a speech by Premier Chou En-lai and is well attended by the ruling politburo members based in Peking, will be replaced by a one-and-a-half hour reception sponsored by the Foreign Ministry. The spokesman reportedly was unable to affirm that Chou would speak at the reception; but even if he does speak, it seems clear that Peking may be departing from previous practice in order to rationalize what may be only a limited turnout of top leaders. Since the banquet has not been attended by either Mao Tse-tung or Defense Minister Lin Piao for some years, Peking may be seeking to conceal recent significant changes in the politburo below the level of Mao, Lin, and Chou.

The impression that the prolonged power struggle between moderate and radical forces on the politburo has produced further breaks within the leadership has been reinforced by Jack Chen, a regime publicist in Hong Kong who recently circulated Peking's official version of the current campaign against the extremist "May 16 Corps." According to the US consulate general, Chen is advising Western journalists to focus on the possibility of leadership changes as the cause for the unusual developments in China rather than speculating on the death of Mao. Although Chen's knowledge of current developments in Peking is unconfirmed, his remarks, taken with the continued public absence of several ranking military leaders, an accumulation of rumors regarding interne-cine quarreling at the top, and the cancellation of tonight's banquet, all suggest that the power struggle in Peking has entered a new and more serious phase which probably centers on the political futures of China's top-ranking military leaders.

(continued)

30 Sep 71

Central Intelligence Bulletin

1

SECRET

SECRET

Whether this struggle has been precipitated by the illness or sharp decline in the health or political strength of Mao or heir-designate Lin Piao is still unclear.

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25X1C

Preparations are going forward for low-key National Day celebrations in Peking tomorrow.

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Since mid-September, the Soviet press has been cautious and noncommittal in treating internal affairs in China. A brief TASS item on 25 September indirectly refuted speculation that events in Peking are somehow related to Sino-Soviet tensions. At a public lecture in Moscow on 28 September, the Soviet speaker conveyed the impression that the position of the extremists in Peking has been weakened. (SECRET)

30 Sep 71

Central Intelligence Bulletin

2

SECRET

USSR-INDIA: Prime Minister Gandhi's visit to the USSR seems to have been fairly successful.

She was accorded the unusual honor of being housed in the Kremlin and of having the top three Soviet leaders take part in the discussions. There is still no conclusive explanation for the unusual activity that surrounded the beginning of her visit or for the inclusion of Brezhnev and Podgorny in talks that were originally to have involved only Kosygin. It may be that the Soviet leaders wanted to present a united front to Mrs. Gandhi in order to underscore their message on the need for restraint.

The main topic of discussion during the visit was clearly the unsettled situation on the subcontinent. As Kosygin's luncheon speech and the final communiqué indicate, the Soviets, although taking the Indian side, clearly have not abandoned their policy of trying to prevent another Indo-Pakistani war. Kosygin, for example, was quite harsh in his criticism of West Pakistan's actions in the East wing and placed most of the onus for easing the refugee problem on West Pakistan. He was equally firm, however, in his opposition to another Indo-Pakistani war, maintaining that the USSR would do its utmost to prevent another conflict.

Mrs. Gandhi, for her part, took a somewhat different tack. She reiterated India's opposition to war as a means of resolving the refugee problem and pleaded for concerted international assistance to help India cope with the influx. She went on, however, to express the hope that Soviet efforts to encourage the Pakistanis to work for a political solution would bear fruit and reminded her audience that "peace cannot be obtained by waiting and hoping."

In the communiqué the Indians joined with Moscow in "demanding" that the West Pakistanis take "urgent measures to reach a political solution" to

30 Sep 71

Central Intelligence Bulletin

3

SECRET

their problem with East Bengal. The language is virtually identical with the appeal to Yahya made by Soviet President Podgorny last April, however, and consequently cannot have been especially encouraging to the Indians. The Indians also agreed that all problems at issue in relations between countries should be settled by "peaceful means." Both parties agreed to further exchanges of views on the East Bengal problem.

Another important topic on the agenda doubtless was China. Just prior to Mrs. Gandhi's visit to the USSR, Moscow sent a special envoy to New Delhi to discuss future Soviet and Indian strategy at the UN. Moscow is particularly interested in securing India's cooperation against China should Peking gain admittance to the UN and in getting a better reading of recent Indian moves to improve Sino-Indian relations.

The communiqué indicates that the two sides also discussed Indian Ocean matters. The Soviets agreed with the Indians to study the question of declaring the Indian Ocean "a zone of peace." The two sides also agreed to establish a joint commission for economic, scientific, and technical cooperation. Both Brezhnev and Kosygin accepted Mrs. Gandhi's invitation to visit India, but no date was fixed. (CONFIDENTIAL)

30 Sep 71

Central Intelligence Bulletin

4

SECRET

CHILE: President Allende's very hard stand on expropriated Kennecott and Anaconda copper operations in Chile indicates that he is prepared to risk a showdown with the US Government over compensation.

Allende's charge on 28 September that the companies owe Chile \$774 million in "excessive profits" ensures a substantial negative indemnification balance when added to his government's excessive claim of about \$1 billion already made against the companies for alleged equipment deficiencies and mine damage. The companies' remaining 49-percent interest in their extensive Chilean copper operations was taken over in July under a constitutional reform, but Allende's promise to negotiate compensation has not been kept.

The final reckoning will be announced on 15 October when the Chilean controller general, nominally a political independent, reveals his calculation of the net worth of the companies' Chilean holdings. The announced claims will leave a negative balance that would more than cancel debts still due the companies for the purchase of their first 51-percent interest during the Frei administration. Such a balance could also be used by Allende to justify reneging on his promise that Chile would honor foreign debts incurred by the companies in extensive copper production expansion programs only recently completed. Finally, it could trigger claims for extensive insurance the companies hold with the Overseas Private Investment Corporation.

The Cerro Corporation probably will receive compensation for its mine that started producing a few months ago, as a gesture to indicate to potential sources of international credits that the Allende government is reasonable and selective in its dealings with investors. The \$56-million compensation--already negotiated but not signed--would be a small price for Chile to pay for Cerro's agreement to serve as purchasing agent for equipment necessary to maintain the larger companies' expropriated properties.

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30 Sep 71

Central Intelligence Bulletin

5

SECRET

SECRET

Allende has successfully nurtured substantial international cordiality toward his government as a "worthy socialist experiment," although this has not brought Chile the credits so desperately needed to bail it out of increasing economic difficulties. Allende apparently has decided that a hard stand on the copper issue will strengthen his posture as champion of underdeveloped countries willing to defy large foreign investors.

Allende's action also may be an attempt to use a nationalistic issue to strengthen further his internal political position in order to launch an overdue domestic austerity program. (SECRET NO FOREIGN DISSEM)

30 Sep 71

Central Intelligence Bulletin

6

SECRET

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SECRET

CEYLON: The security situation continues to deteriorate and a renewal of insurgency is possible.

Most current rebel activity seems directed at obtaining arms and, according to the US defense attaché, the insurgents are starting to regroup in the jungles. Their current strength is estimated to be no higher than 400. Although the security forces believe they could still control the situation, they already are spread thin and may soon be confronted with additional difficulties. Some 14,000 youthful prisoners arrested last spring are growing increasingly restive in their "rehabilitation centers." The government had hinted at plans to release a large number of detainees in connection with a national holiday on 26 September, but very few were actually freed, and escape attempts or explosive demonstrations by the prisoners are likely.

The coalition government, a tenuous alliance of moderates and leftist extremists, has been able to muddle through so far, but it appears incapable of decisive action, and according to the defense attaché, military leaders are frequently asked when they will take over and "set things right." The military remains reluctant to get involved in politics, but the present government seems to be unable to improve the situation and the military's prestige has never been higher. (CONFIDENTIAL)

30 Sep 71

Central Intelligence Bulletin

8

SECRET

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Approved For Release 2005/06/09 : CIA-RDP85T00875R000800010032-4

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SECRET

INDIA: New Delhi's indecision, which stems from its concern over foreign-owned and -managed plants, has resulted in the loss of an Italian firm's bid to move its motor scooter plant to India along with a commitment to export all of its production. India can ill afford to lose the deal, which would have promoted ancillary industries, increased employment opportunities, and earned foreign exchange. Investment is already lagging and industry is in the doldrums, with production having increased barely 1.5 percent during the first half of 1971. A private Indian business delegation is scheduled to visit West Germany next month, primarily to pursue offers from German manufacturers seeking foreign plant sites in order to reduce mounting labor costs. New Delhi's attitude toward the Italian firm, however, may dampen these manufacturers' interest in relocating in India. (CONFIDENTIAL)

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ITALY: The government, with a fine hand, has given the impression that a price freeze for foodstuffs and other basic commodities has been instituted without actually implementing price ceilings or rollbacks. Rome has merely reminded provincial officials of existing decrees, which were designed to counter wartime price speculation and black marketeering and which authorized them to control prices. To date, however, the provincial prefects have not attempted to use this old authority. By publicizing the long-dormant statutes, Rome meant to reassure the press, unions, and popular elements that the government had the statutory power to control prices. The only real action taken in the price field so far, however, has been a temporary suspension of increases in public service rates. (CONFIDENTIAL)

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