

**Top Secret**



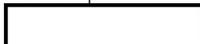
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2 October 1974



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CHINA

The 25th anniversary of the founding of the People's Republic of China on October 1 was marked by a deliberate show of unity. All of the active members of the Politburo with the exception of Mao appeared for the occasion. The very large leadership turnout was highlighted by the return to public view of several long-absent military officials who were under severe attack earlier this year and by the rehabilitation of a considerable number of civilian and military officials purged during the Cultural Revolution.

Ailing Premier Chou En-lai presided and made a speech at a reception on September 30, but he apparently was still not strong enough to join the other leaders for a walk in Peking's parks yesterday.

Peking's major publications issued a joint editorial that offered little in the way of policy guidance but gave heavy play to the unity theme. The editorial made it clear that the divisive anti-Confucius campaign, which has moderated since this summer, is to remain in low gear. Although the campaign is to continue "for a long time," its main emphasis is on study rather than on attacking party officials; the campaign is also to be used to boost production.

The emphasis on unity has been evident for several months, beginning approximately at the time Chou En-lai became seriously ill. In the face of Chou's health problems and the related succession question, the divided leadership may be trying to compose its differences--to the extent possible--rather than concentrate on potentially disruptive issues embedded in the anti-Confucius campaign.

While Chou's appearance--his third in two weeks but his first outside the hospital in two months--suggests that he may soon be able to resume at least some of his

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duties, the longer range implications of his illness and of Mao's own uncertain health have clearly preoccupied Chinese minds recently. Several articles reassessing the "positive" contributions of the much-maligned eighth-century Empress Wu appear to have had the object of setting forth Chiang Ching as a possible ultimate successor to Mao himself; this "positive" view of the Empress Wu was firmly attacked in a wall poster in August.

The new round of rehabilitations includes a number of provincial party leaders and central ministers who fell early in the Cultural Revolution, as well as several figures active in the early purges who were themselves disgraced in later phases of the convulsion. These rehabilitations suggest that an attempt is being made to build the widest possible consensus among the second-echelon leadership, in anticipation of a transition period in which the two top leaders are no longer active.

Consensus and continuity were also apparent in the joint editorial's brief treatment of foreign affairs. A reference was made to Mao's "revolutionary policy in foreign affairs," a code phrase for the opening to the United States. The editorial also incorporated the slogan "dig tunnels deep"--a reference to possible war with the Soviet Union. This was a prominent propaganda theme in 1972 and 1973, but it has appeared less frequently recently as the Chinese have stressed the notion that Moscow is merely "feinting" to the East while preparing for war in the West.

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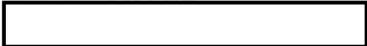


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ITALY

Italy's Social Democrats may be on the verge of withdrawing from the center-left government because of a dispute with their Socialist coalition partners.

The threatening noises made by the Social Democrats may only be part of the bargaining now going on over Socialist proposals that, in the view of the other coalition members, would scuttle the austerity program passed in mid-August. If the Social Democrats do pull out of the coalition, their exit would almost certainly be followed by Prime Minister Rumor's resignation and the beginning of protracted and difficult negotiations on a new government.

The Social Democrats--the coalition's most ardent anti-Communists--have also been irritated by recent Socialist suggestions for some form of governmental collaboration with the Communist Party. 

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### ETHIOPIA

There are signs of increasing dissension among factions in the Armed Forces Coordinating Committee that now runs Ethiopia.

Armed forces units in the capital were placed on alert yesterday during an emergency session of the committee, according to press reports. Air force jets made several passes over the Fourth Division Headquarters, where the ruling military group usually meets. Air force officers, who have been among the more radical members of the committee, have been eclipsed by moderates in the past few months. The flyover suggests the air force is trying to reassert its influence.

The current discussions of the military committee reportedly center on the issue of whether the military should take over operation of the government from civilians. Late yesterday, the committee announced that it will continue to rule through a civilian cabinet.

The status of General Aman was probably also discussed. On September 28, the committee announced that Aman had been replaced as chief of staff of the armed forces but that he retained the posts of titular head of government, prime minister, and defense minister.



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The committee's rescission yesterday of appointments made two days earlier of officers well regarded by Aman appears to substantiate reports that Aman has lost some status.



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WORLD GRAIN

The world grain situation has tightened in recent weeks. A 4-percent decline in production from last year's record crop of 969 million tons now seems likely; last spring, chances had seemed good that output would rise.

Supplies of wheat and corn available for export in the next year are expected to be down by 2 percent and 20 percent, respectively; stocks will be reduced to record lows by June 30, 1975.

World wheat production will probably fall about 20 million tons, or 5 percent, this year. Argentina and Australia will export more wheat, but the US and the EC will export less because of reduced availability in the US and increased use of wheat to feed livestock in the EC countries. Canada, with stocks equivalent to two years' domestic consumption, may have difficulty moving as much grain as last year because of transport strikes.

With exportable supplies at 59 million tons and world import demand at 61 million tons, stocks will be further drawn down, and prices will remain high. Export demand for US wheat and flour will be about 28 million tons, compared with 31 million last year.

The supply situation for feed grains, especially corn, is even tighter than for wheat. Production of corn in the major exporting countries is expected to be down by 11 percent to 149 million tons. US production is expected to decline to 127 million tons, or 40 million tons less than last year. This total may be trimmed further by damage from early frost. Production of corn in Argentina, South Africa, and Thailand probably will drop almost 7 percent, to 22 million tons.

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Because stocks are the lowest in 20 years, corn available for export in the next year will fall to 34 million tons--9 million tons below last year's figure. Import demand will also be down because of high prices, depressed livestock markets, and increased feeding of wheat to livestock. The net effect will be additional upward pressure on prices and a further dwindling of stocks.

Export demand for US corn is forecast at 23 million tons, compared with 35 million last year.

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SOUTH VIETNAM

In a nationwide speech yesterday to the South Vietnamese people, President Thieu blamed many of his country's problems on reduced economic and political support from the US.

The anti-US tone of his remarks was apparently adopted largely at the insistence of some of his close advisers, who feel political mileage can be gained by making Washington the scapegoat for South Vietnam's increasing difficulties.

Thieu charged that since the cease-fire, the US had not lived up to South Vietnamese expectations in terms of aid and had failed to "react vigorously" to Communist violations of the cease-fire agreement. He also asserted that "certain interests in the US" (read US Congress) "erroneously" believed that a strong South Vietnam would mean continued fighting and an unwillingness on the part of Saigon to negotiate. He labeled such ideas "naive" and "ill intentioned" and claimed that they would only encourage the Communists to intensify their efforts to topple his government by force.

Turning to domestic matters, Thieu tried to take some of the sting out of recent charges by Catholic and Buddhist dissidents that corruption is rampant in his administration and among members of his family. He categorically denied that he or any member of his family had ever engaged in corrupt acts and said that he would resign if the people had lost confidence in his ability to govern. Otherwise, he said, he would stay in office for another term--the first public indication that he would seek re-election in 1975.

Alluding to the recent increase in political agitation, Thieu cautioned the protesters not to "create favorable conditions and opportunities for the Communists to take over the South." [REDACTED]

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EC

The agriculture and foreign ministers of the EC, meeting this afternoon in Brussels, will probably manage to paper over the disagreements on foreign policy. Two ambassadors to the EC say that the member governments just about agreed on the outcome:

--The special 5-percent increase in support prices vetoed by Chancellor Schmidt last week will reportedly now be approved, provided the increase is subtracted from the next annual increment due to be calculated in February.

--The fundamental review of the common agricultural policy that West Germany wants evidently will be approached slowly, with a final decision awaiting completion of preparatory studies.

--Satisfactory declarations from countries like France, Belgium, and others that have been contravening the Common Agricultural Organization may be sufficient, at least initially, to meet Germany's demand for abolition of national measures.

The reported outlines of the compromise will meet the Wilson government's election requirements. The plan would retain the immediate benefits for British farmers while endorsing the standing UK demand for a basic review of the EC's high-cost farm policy.

In France, the farm bloc will be dissatisfied, but President Giscard may welcome an EC agreement to help him deal with demands that French farmers are making. Reports have circulated that he worked with Schmidt to develop the German opposition to any increase in support prices, but these reports are almost certainly exaggerated.

Even if a compromise is reached without bitter exchanges, the contretemps underlines Bonn's increasing weight in EC councils. For one thing Chancellor Schmidt is quite willing, if not indeed eager, to trade on West Germany's financial strength.

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Frustrations among the officer corps have deepened with the recent assassination campaign of the People's Revolutionary Army (ERP), which has resulted in two officers killed and three wounded since September 25.

Military leaders are committed to operate within the constitutional framework, but the army's commander, General Anaya, publicly vowed on the 27th to destroy the terrorists "to the last man." This has apparently increased his stature among army officers, who regarded an earlier antiterrorist statement by him as too soft.

The military leaders are aware that an underlying objective of the terrorist campaign against the army is to provoke it into violent reaction, possibly a coup--a common Argentine military solution to deteriorating political situations since 1930. ERP leaders would view such a move as the first step in the destruction of political institutions, thus hastening the leftist revolution they maintain is their prime objective.

The military hierarchy recognizes that the armed forces do not have a ready solution to Argentina's political ills. A military coup in the near future therefore seems unlikely. In the event a political vacuum occurred, such as the resignation or illness of President Peron, the army would prefer to adopt the role of behind-the-scenes power broker under a civilian provisional president. Should this fail, it might see no satisfactory alternative to a seizure of power. [REDACTED]

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NIGERIA

In a broadcast yesterday marking Nigeria's 14th anniversary, General Gowon ruled out a promised return to civilian rule in 1976. He said his decision was made to preserve the stability the country has enjoyed since the end of the civil war. He also declared that the eight-year ban on political activities would continue.

Gowon's actions are in line with the military's resolve to retain careful control over the pace and direction of Nigeria's political evolution for as long as they deem necessary. The announcement is likely to be greeted with mixed feelings. Some Nigerians will welcome the decision as the best way to avoid a return to the divisive tribal politics that contributed to two coups in 1966 and the onset of civil war in 1967. On the other hand, there are likely to be protests by disgruntled students as well as former politicians and their supporters who have been maneuvering behind the scenes in anticipation of a renewal of political activity. The army probably can contain any short-term unrest that might develop.

Gowon declared that recent events have demonstrated that the target date of 1976 he set four years ago is unrealistic and, if adhered to, would only plunge the country into chaos. Political tensions throughout Nigeria have been building for several months, and the government's image has suffered recently from a number of corruption charges against high officials. There has also been grumbling among middle-grade officers and workers beset by inflation.

Gowon did not rule out an eventual return to civilian rule, but he said it could come only when there was no threat to stability. He indicated that the military's nine-point program for a gradual transition to civilian rule had not been abandoned.

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To give the impression that the government remains determined to implement the program, Gowon announced that:

--a panel will be established to draft a new constitution;

--a new formula is being prepared for allocating revenue between the states; and

--corruption, especially in the military, will be dealt with more severely.

To reassure various dissatisfied groups, Gowon announced several other decisions, including the appointment early next year of new military and civilian officials to replace all cabinet heads and state military governors, and a salary review for the military and civil service--an indication that the two-year-old wage freeze will be lifted by next year and followed by a wage increase for both the public and private sectors. [redacted]

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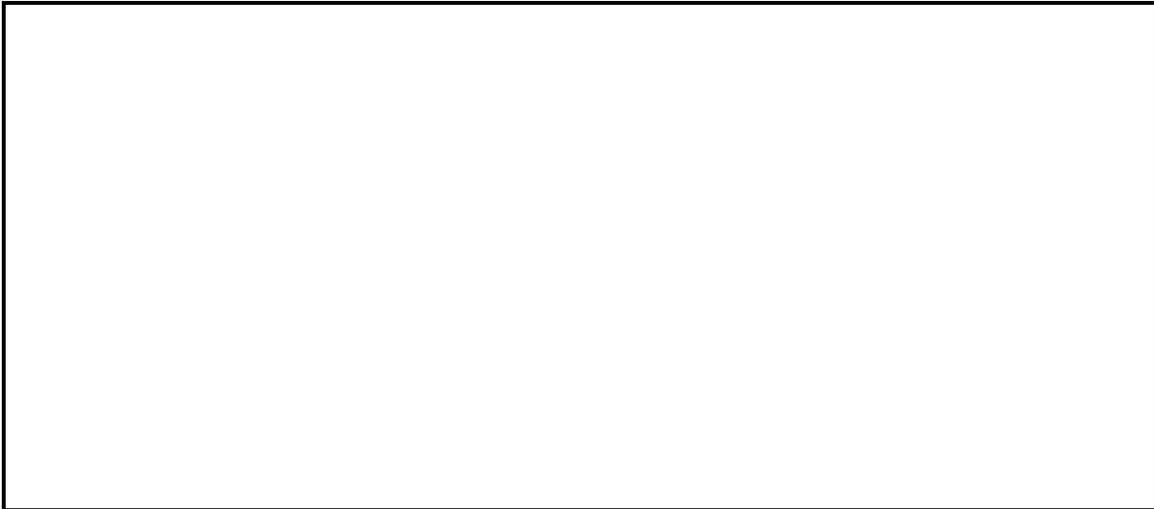
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FOR THE RECORD



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Japan: Acceding to the request of the Intergovernmental Council of Copper Exporting Countries, Tokyo said yesterday it will temporarily ban direct sales of refined copper on the London Metal Exchange. Rumors of the agreement led to a slight upturn in the price of copper. Large Japanese exports this year have been an important factor driving the price of copper down by about 55 percent since April. Spokesmen for Japanese trading firms said Tokyo's decision would not prohibit sales to the London market via dealers. They expect no substantial decline in exports unless domestic demand picks up sharply or the government helps the smelters finance their inventories. 

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Chile: Santiago and the Kennecott Copper Corporation have reached a preliminary agreement on compensation for properties nationalized by the Allende government. Kennecott's board of directors is scheduled to meet later this month to consider the agreement. Although the settlement is far below what Kennecott claimed as the value of its properties, the company's chief negotiator believes it is the best that can be obtained. Kennecott would receive \$67 million, after a \$21 million assessment for back taxes. This agreement, if approved, would settle the last major claim by the three US copper companies for nationalized properties. The only major compensation issue still to be resolved is with International Telephone and Telegraph. 

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