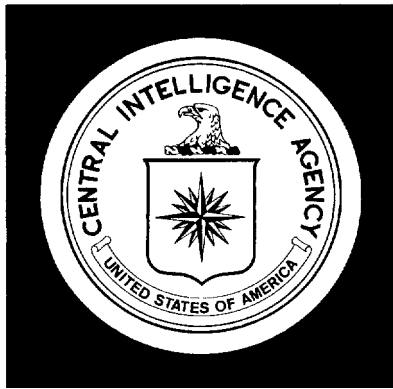


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Central Intelligence Bulletin

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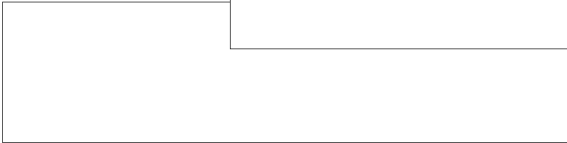
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May 23, 1974



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May 23, 1974

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Central Intelligence Bulletin

CONTENTS



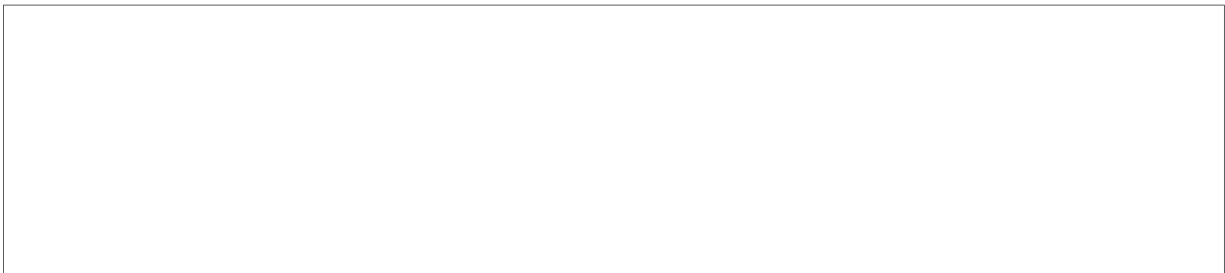
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INDIA: Nuclear program depends on foreign help.
(Page 3)



25X1

PORTUGUESE AFRICA: Officials express reservations
about future of Mozambique. (Page 5)



25X1

SOUTH VIETNAM: Survey of Communist military action.
(Page 11)



25X1

INTERNATIONAL MONETARY DEVELOPMENTS: Decline of dol-
lar may be ending. (Page 15)

NETHERLANDS-NATO: Negative reaction to Dutch pro-
posal. (Page 16)

UNITED KINGDOM: London reportedly prepared to ap-
prove plans for US base at Diego Garcia. (Page 17)

INDIA: Government breaks rail strike. (Page 18)

CHINA: Chou Not Well, But Still in Charge. (Page 19)

FOR THE RECORD: (Page 24)



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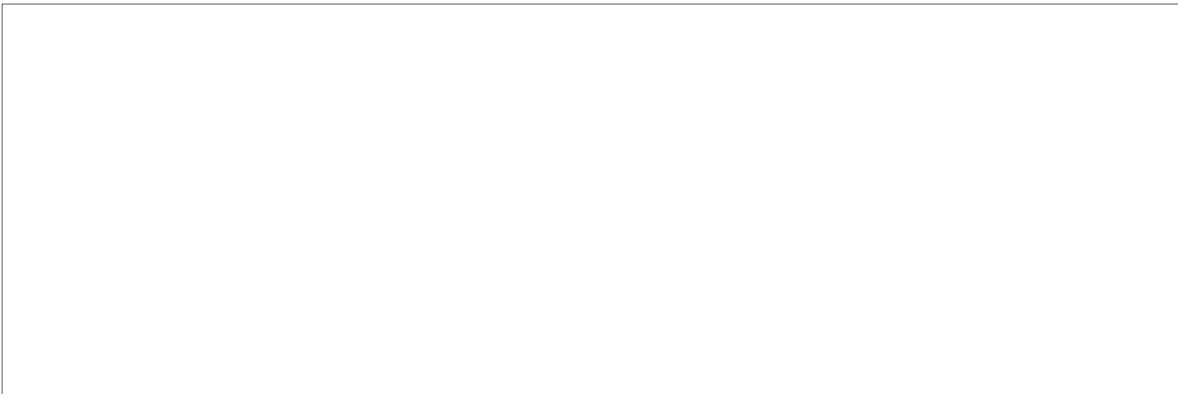


INDIA: Although the device exploded in the Indian nuclear test last Saturday was indigenously produced, New Delhi was able to build it only by taking advantage of technology and materials provided by Canada and, to a lesser degree, the US and the USSR. The nuclear material itself almost certainly came from the Canadian-built CIRUS research reactor at the Bhaba Atomic Research Center at Trombay.

The CIRUS reactor, which has been in operation since 1960, has used heavy water provided by the US to slow the flow of neutrons. Some of India's heavy water requirements have also been filled by imports from the USSR. The CIRUS reactor uses natural uranium that comes from Indian mines.

Since the early 1960s, the Indians have been producing weapons-grade plutonium from the irradiated fuel used to power the reactor. This work has been done at an Indian-built chemical separation plant also located at Trombay.

The only reactor safeguard agreed to by New Delhi was a written statement to the Canadians that the reactor and its products would be used only for peaceful purposes. Canada has long held that any explosion would be a violation of this agreement, but India has never accepted this interpretation. A Canadian official said yesterday that Ottawa for the present is suspending all shipments of nuclear equipment and material to India and is ending all exchanges on nuclear technology.



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PORTUGUESE AFRICA: Portuguese authorities are optimistic about relatively peaceful political settlements in Angola and Portuguese Guinea, but they are expressing grave reservations about the future of Mozambique.

In a private discussion with the US ambassador in Lisbon on May 20, General Costa Gomes, the number-two man in the junta, expressed fear that a referendum on self-determination in Mozambique would result in a vote for independence and would be followed by civil war. He based his fears on the rapid deterioration in relations between Mozambique's blacks and whites in recent years and the bitter ethnic rivalries within the territory's African majority. Costa Gomes also expressed concern that should the insurgents win political control in Mozambique, Chinese influence over the insurgents would preclude any future ties between Lisbon and the territory.

Costa Gomes is more optimistic about the future of Angola and Portuguese Guinea, where there is less racial and ethnic antagonism. In Angola, none of the three competing liberation groups is politically or militarily capable of pressuring Lisbon into negotiating independence on its terms.

The prospects for ending the war in Portuguese Guinea are good. The two sides will begin cease-fire negotiations in London on May 25. Lisbon recognizes that the insurgents form the only organization of any consequence there, and the Portuguese, therefore, might be willing to recognize their claim to the territory.

Costa Gomes' views are probably shared by many other officials in the provisional government. Despite his reservations, he reiterated his belief that the government must follow through in its commitment to give the territories' inhabitants a free choice in deciding their future. His scenario for Mozambique may be unduly bleak, particularly with regard to his

May 23, 1974

Central Intelligence Bulletin

5

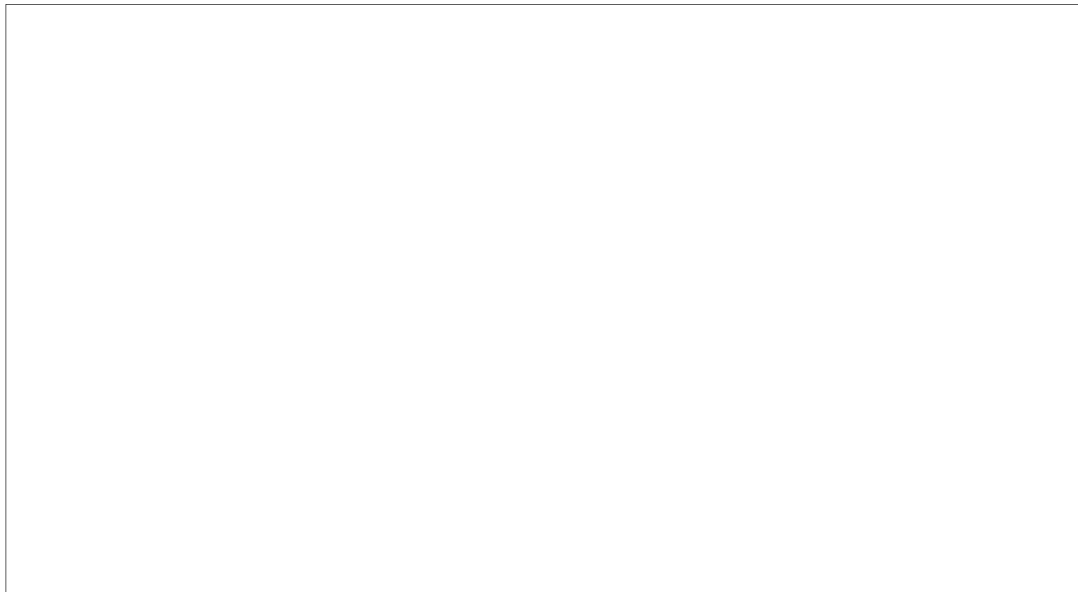
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estimate of Chinese influence. His comments on racial and ethnic tensions, however, are close to the mark, and these tensions presage a dangerous political situation for the territory.

The provisional government's commitment to self-determination for the territories, including the option of independence, was emphasized publicly this week by Interterritorial Minister Santos in a press conference in Lourenco Marques. Santos expressed the belief that Mozambique would opt for independence and that a black government would come into being in the territory. His statements came as dramatic news to his listeners, but were really only a restatement of the provisional government's basic position on self-determination for the territories.

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May 23, 1974

Central Intelligence Bulletin

6



25X1

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SOUTH VIETNAM: Increased Communist military action is continuing in the northern provinces but falling off in most other areas. The latest actions, consisting largely of rocket and mortar shellings, have been directed at the provincial capital of Tam Ky, the Quang Ngai airfield, and several other military and civilian targets in the northern coastal area. Only scattered ground contacts have been reported in this region, however, since elements of the South Vietnamese 2nd Division on May 20 abandoned their efforts to retake lost territory in southern Quang Tin Province.

Communist attacks have decreased significantly in the central provinces, but Route 1--the only north-south land link--remains blocked because of the destruction of three bridges by Communist sappers.

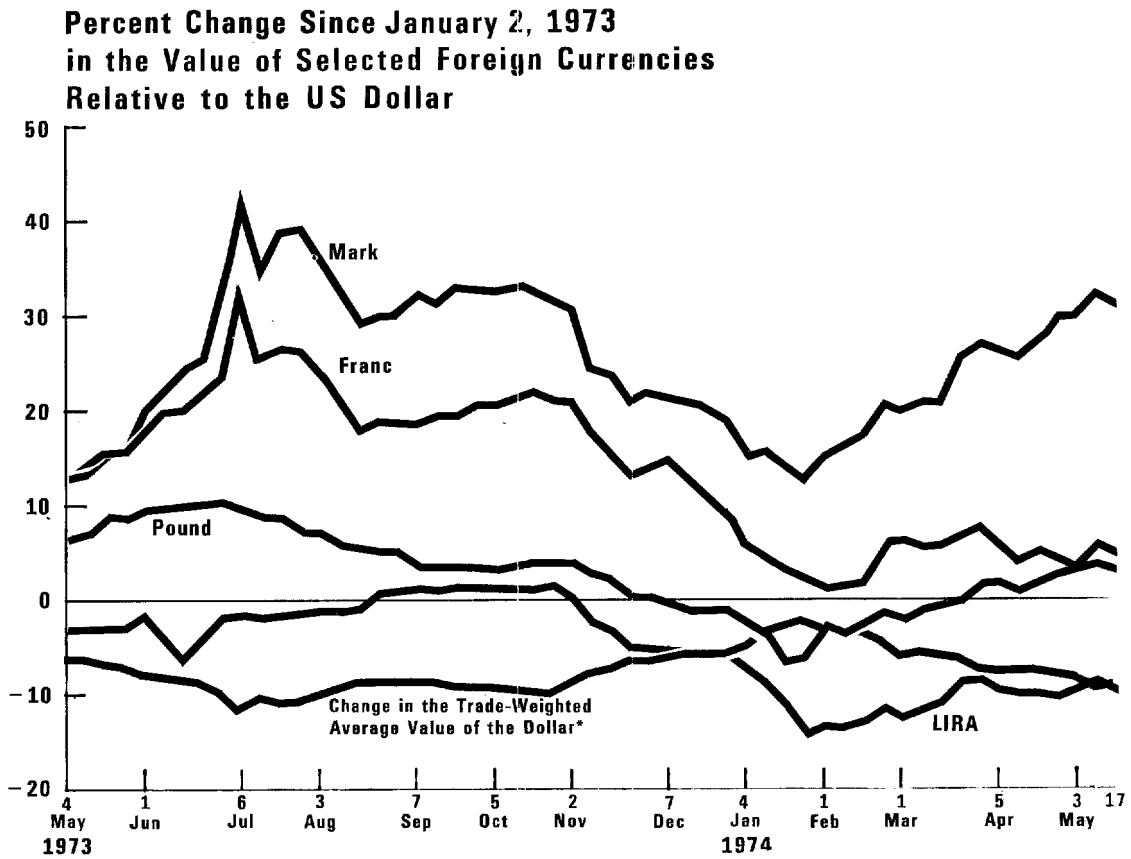
May 23, 1974

Central Intelligence Bulletin

11

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*Relative to 16 major currencies.

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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar's extended decline--which dates back to mid-January--may finally be over.

--US interest rates have been rising in recent weeks, and this has encouraged dollar purchases.

--A general consensus has apparently emerged in the market that the dollar's decline has gone too far, considering the relatively favorable outlook for the US current account.

--Participants in the market also believe that central banks are now prepared to intervene to prevent a decline in the dollar.

Press reports of a central bank agreement to halt the dollar's decline helped push it up sharply last week. The dollar gained about 3 percent against the German mark, the Dutch guilder, and the Swiss franc in the six trading days following the reports. Smaller gains were recorded against most other major currencies.

The impact of the reported agreement in Basel on May 14 among the US, Swiss, and West German central banks to support the dollar has so far been largely psychological. Token dollar purchases by the West German central bank, coupled with inaccurate press reports of US and Swiss intervention, convinced the market that the authorities would force up the exchange rate of the dollar.

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NETHERLANDS-NATO: The initial NATO response to the Netherlands' draft ten-year defense plan, which would significantly reduce active Dutch military forces, has been overwhelmingly negative.

The Belgian representative at the NATO Defense Planning Committee meeting on May 21 was particularly incensed. Branding the Dutch plan "disastrous" and "brutal," he said it was a breach of the Netherlands' commitments to NATO and raised doubts about Alliance solidarity. He pointed out that the proposed Dutch reductions would increase the defense burdens of the other member countries, and added that the request for a formal NATO reply in one month represented questionable consultation procedure. He also expressed fear that the Dutch proposals would set a precedent that might be contagious.

The US, UK, and West German representatives associated themselves with the remarks of their Belgian colleague. The chairman of NATO's Military Committee summed up the opposition when he stated that the Dutch proposals went beyond the point where quality could substitute for quantity.

Adverse NATO reaction has been anticipated--even counted on--by Dutch opponents of the plan. The Defense White Paper has only provisional approval of the Dutch cabinet and Prime Minister den Uyl's five-party coalition is deeply divided, for the first time on a major issue, over the cutbacks. The left wing of the coalition, including members of Den Uyl's own Labor Party, does not feel that the reductions go far enough, while the two centrist Christian Democratic parties have warned the government that drastic reductions are "unacceptable." Defense Minister Vredeling and Foreign Minister van der Stoep are adamantly opposed to Dutch defense efforts' falling below a certain level and are reportedly prepared to resign over the issue.

(continued)

May 23, 1974

Central Intelligence Bulletin

16

25X1



A final cabinet decision is scheduled for June 21, but NATO has asked that it be postponed at least until June 24. Should NATO voice strong formal opposition, Vredeling and Van der Stoel, backed by the Christian Democrats, would almost certainly demand that the defense paper be reconsidered. Any concessions by Den Uyl could split his own party and drive the leftist Radical Party from the coalition.

A cabinet crisis cannot be ruled out, but two factors militate against it. None of the five coalition parties appears anxious for an election now, and there is no alternative government leader of Den Uyl's stature in sight. Den Uyl, however, is known to be frustrated by his government's slow progress on implementing social reforms. He is aware that recent opinion polls show that support for NATO is rapidly diminishing in the Netherlands, and he is also mindful of his party's election promises to reduce defense expenditures. He may become even less amenable to compromise if his party does well in the nationwide municipal elections on May 29.

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UNITED KINGDOM: London is prepared to approve plans for a US naval and air base on Diego Garcia, according to a high-ranking official in the British Foreign Office. The assurance was conveyed on May 17 to the US ambassador to India, who is visiting London.

The remarks of the British official appear to remove any doubt about the Labor government's willingness to conclude a base agreement. Former Prime Minister Heath's Conservative government had reached an agreement in principle with the US, but the base agreement appeared to run counter to the Labor government's expressed interest in supporting various international moves to create a zone of peace in the Indian Ocean.

25X1



25X1

May 23, 1974

Central Intelligence Bulletin

17



25X1



INDIA: Firm government action has broken the nationwide rail strike that began on May 8. Although the strike has not ended officially, rail employees are returning to work in increasing numbers, and train schedules are approaching normal.

Prime Minister Gandhi still refuses to resume negotiations with the rail unions until the strike is called off. The government, emboldened by the success of its hard line, may be unwilling to grant any significant concessions, or even agree to an official settlement of the strike. Union leaders, meanwhile, are divided over whether to fight on or accept defeat.

Although industrial production has declined because of transport disruptions, the overall economic effects of the strike are less severe than were anticipated. Industrialized eastern India has been hardest hit, but steel production there reportedly had fallen off even before the strike went into effect on a nationwide basis. In most urban centers, food prices are rising, but adequate supplies of basic commodities have been maintained.

The government's success in refusing to be intimidated by the nation's largest single group of employees may help to cool other discontented government and quasi-government employee groups. It is unlikely, however, to have any significant impact on labor in the private sector, which accounts for 80 percent of the country's industrial production.





CHINA: Chou Not Well, But Still in Charge

Age has finally caught up with China's 76-year-old premier, Chou En-lai, forcing a change--probably permanent--in his operating style. He has cut down on his onerous protocol functions in order to concentrate on important matters. He seems still very much the man in charge of running China.

Chou's health could, of course, continue to decline and force a further curtailment in his activities. Such a contingency could present dangers in that Chou has been instrumental in keeping domestic affairs on a relatively even keel and in executing Mao's policies toward the US.

Beginning this month, a new pattern has emerged in Chou's dealings with visiting foreign dignitaries. The premier has skipped the physically taxing and time-consuming aspects of these visits--airport receptions and send-offs and state banquets. He has met the visitors at the state guest house, accompanied them to meetings with Mao, and conducted the opening round of talks, leaving the follow-up discussions to vice premiers Li Hsien-nien and Teng Hsiao-ping.

Chinese officials have attributed the change entirely to old age rather than to any specific illness, and have suggested that Chou's lighter workload would allow him to concentrate on more important matters.

Politburo member Chi Teng-kuei said the party Central Committee had agreed to reduce Chou's protocol responsibilities and that with a reduced workload, health would not prevent him from working "normally" on "other matters." Chi added that Chou is still very much in control of day-to-day affairs.

Anti-Confucius Campaign

Foremost among the "other matters" demanding Chou's attention is almost certainly the anti-Confucius campaign, now in its tenth month. The premier

May 23, 1974

Central Intelligence Bulletin

19



25X1

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has undoubtedly been deeply involved in the repeated and only partially successful attempts from the center to keep the campaign from getting out of hand. Central Committee directives setting strict limitations are finally having some impact in the provinces. Political wall posters have been removed from unauthorized areas, and provincial media have in some cases called for obeying party instructions "to the letter."

There is still much to do. At least some of the attacks on provincial leaders may not have official party sanction, and factionalism, including armed conflict, remains a problem in a number of places. Although the students, who were disruptive in the early stages of the campaign, are not finding the propaganda support they once had, [REDACTED] calm has not yet been restored to many schools.

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The resolution of the campaign, which probably will include the fall of certain top party leaders, is still in the future. Chou's lower public profile has led to speculation outside China that the premier is on the losing end of the anti-Confucius campaign and has been pushed into the background by his political opponents, led by Mao's wife Chiang Ching.

It is far more likely that pressure from his opponents kept Chou in a more active role for longer than he originally intended. In order to provide visible evidence of his continuing political health, he did not begin to reduce his public appearances until he had the situation in hand. Vice Premier Teng Hsiao-ping reportedly said last January that Chou would not be meeting as often with foreign visitors because of his old age.

Chiang Ching's Challenge

In February, Chiang Ching and her supporters made a strong bid to gain control of the anti-Confucius campaign, launching a savage attack in the cultural sphere that seemed aimed at a top party official.

(continued)

May 23, 1974 *Central Intelligence Bulletin*

20

25X1

Chiang and her backers also brought pressure on the moderates led by Chou to adopt a stiffer propaganda line on certain foreign policy questions like Taiwan.

Chou did not alter his public activities until after he seemed to have successfully weathered Chiang Ching's challenge. Her cultural attacks have not claimed a high-level victim, and PRC media have not repeated the line of last February that seemed to allow for a military liberation of Taiwan.

There also is speculation that Chou is preparing to resign. Recent photographs showing Teng Hsiao-ping in Chou's usual seat to Mao's right with Chou on Mao's left suggest that Teng, for now at least, is the front runner to replace the premier when the time comes. Barring Chou's death or incapacitation, that time will probably not come soon.

The party theoretical journal Red Flag ran an article last November--and it has been republished this month--that speaks disapprovingly of an ancient prime minister who resigned under political pressure, using ill health as a pretext. The article notes that the reformist programs of the prime minister, policies that closely resemble Chou's, had to be abandoned because the prime minister was more concerned with his "personal safety" and "family fortune" than with outmaneuvering his opponents in order to preserve his reform.

Chou Will Not Give Up

Chou has survived decades of political infighting and is not very likely to abandon the struggle now, especially because the policies now at issue will affect China well after his, and Mao's, death. Among these is Sino-US detente, referred to in the Red Flag article as "making friends with distant states."

Because Chou, like Mao, is deeply committed to this and other policies, the message Red Flag is conveying seems to be that the resignation of the ancient

prime minister was a bad mistake and ought not be repeated. Indeed, the article implies in another historical account that the anti-Confucius campaign is necessary to protect current "Chouist" reforms, domestic and international, and that the resignation of the premier would be a disaster to China.

For a quarter of a century, Chou has thrived on a backbreaking schedule unmatched by any of his colleagues. Even with a reduced workload, Chou's burdens are greater than those of other Chinese leaders. In recent years he has done everything from approving editorials in the party newspaper People's Daily to persuading Mao to upgrade academic standards in the universities and complaining about the performance of the foreign trade ministry.

In addition, he has always functioned as his own foreign minister, a task that has increased dramatically with China's expanding diplomatic contacts.

Sharing the Burden

From the start of the Cultural Revolution in 1966, Chou has until lately had only one major helper, Vice Premier Li Hsien-nien, an economic specialist and perhaps Chou's closest personal associate in the leadership. With the political rehabilitation a year ago of Teng Hsiao-ping, the premier began to transfer more responsibility to both Li and Teng.

Either would be a logical successor, but Teng has been given more prominence recently and, as a former secretary general of the party, is the more politically experienced of the two. Both have been careful to mention Chou when they have stood in for him in the last two weeks, and they will probably continue to defer to him.

Should Chou depart, both men would want to continue present policies, but lacking power bases of their own and the close working relationship with Mao that Chou has, they would probably be less successful than Chou in resisting leftist pressures.

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May 23, 1974 *Central Intelligence Bulletin*

22

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Following the reduction in his protocol burdens, Chou has been mentioned in the Chinese media more frequently than he would have been if he had not reduced his protocol activities. At least two foreign visitors have been officially described as visiting China at Chou's invitation, an unusual formulation. The Chinese have been at obvious pains to quell any rumors from within China or without of Chou's political demise.

This concession to public opinion may eventually be abandoned as the world gets used to seeing less of Chou. But if, as seems the case, Chou's political influence remains undiminished, the premier does not have to be seen in order to be effective. [REDACTED]

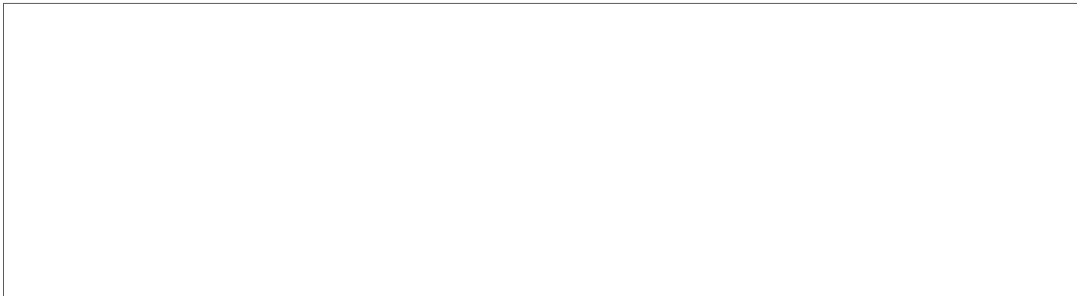
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FOR THE RECORD

Ecuador: Limited oil reserves and inflationary trends caused by the rapid inflow of revenue have prompted the government to curtail production. The Texaco-Gulf consortium, which accounts for 98 percent of Ecuador's approximately 240,000-bpd output, may have to be cut back to 200,000 bpd. Quito indicates that it expects higher prices in the future. 

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Sudan: The trial of the Black September terrorists charged with murdering two US diplomats in March 1973 is expected to begin in Khartoum early next month. The Sudanese minister of interior informed the US embassy this week that pre-trial preparations are nearly complete and that he does not anticipate a further delay. A public announcement, however, is unlikely until after May 25, the fifth anniversary of the coup that brought President Numayri to power.

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