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CHINA

Chinese remarks to foreign visitors and domestic media treatment of Chou En-lai's illness seem to be trying to convey the message--both at home and abroad--that Chou has indeed been very ill, that he is now recovering, and that he has not been shunted aside politically. Chinese officials told visiting Nigerian President Gowon that Chou has had an operation but is now "recuperating well."

[redacted] as a result of his latest bout of illness, Chou is performing very few, if any, duties during his convalescence. His last public appearance, on July 31, reportedly was made against his doctors' orders, and his consistent failure over the last few months to follow his doctors' advice has undoubtedly contributed to his medical problems. This time, his doctors are likely to be more insistent that Chou not resume any activities until they have decided that he has recovered sufficiently.

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Chou's name continues to appear on messages sent to foreign countries, and the domestic media continue to replay the remarks of visiting dignitaries wishing Chou a speedy recovery. Two visiting heads of state, in their toasts to Chinese leaders, inserted the word "respected" before Chou's name, an honor not even accorded Mao. This was presumably done with the approval of Chinese officials, but the practice was not repeated by the visiting Mauritanian president.

Whether or not Chou will again tackle many--although almost certainly not all--of his duties as premier and senior vice chairman of the party will obviously depend on the further progress of his illness. A partial recovery from the heart condition which has presently incapacitated him is possible, but little is directly known about the complications that have apparently again confined him to bed. References by Chinese officials to party Central Committee concern that

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Chou pace himself better in the future suggest that at this juncture at least the hierarchy in Peking hopes and perhaps expects that Chou will continue to be an important factor in the decision-making process.

Chinese media have recently on occasion linked Chou's name with those of aging leaders Mao and the 87-year-old acting head of state Tung Pi-wu. This has led some foreign observers--and some Chinese as well--to suggest that Chou should now be regarded as a party elder, greatly respected, but out of the direct line of authority. If Chou lingers on, alive but essentially incapacitated, this state of affairs will obviously come to pass, but the coupling of Chou's name with that of Tung Pi-wu is not unique, and no clear pattern of linking the Premier with honorary elders has yet been established. Mao, although reclusive for over a decade, remains at the core of Chinese politics, and so long as he is not permanently hospitalized, Chou is likely to retain a large measure of influence even if he should delegate most of his day-to-day duties on a permanent basis. Some of Chou's influence, however, derives directly from his unmatched capacity to manage the detailed problems of running the Chinese bureaucracy. Even in the event of a partial recovery, this aspect of his authority is certain to be diluted.

In the meantime, Chou's representational duties continue to be divided about equally between vice premiers Teng Hsiao-ping and Li Hsien-nien. Recent television coverage of Mao warmly shaking hands with each of them suggests that they both have the Chairman's approval. Neither is likely to press for substantial changes in current Chinese domestic and foreign policies in the event Chou is permanently incapacitated.

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SOUTH KOREA - JAPAN

The arrival of a special Japanese envoy in Seoul yesterday officially resolved the sharpest and longest dispute between Seoul and Tokyo since the two established ties in 1965.

In settling the controversy, Tokyo went a long way to meet insistent Korean demands. The special envoy brought President Pak Chong-hui both a personal letter from Prime Minister Tanaka and assurances--negotiated in advance--that Tokyo accepted a degree of responsibility for the assassination in Seoul last month and would curb anti-Pak Korean activists in Japan. A compromise was struck on language referring to Chosen Soren, the pro-Pyongyang group in Korea that Seoul wanted explicitly condemned. Both Seoul and Tokyo have acknowledged publicly that US mediation played an important role in bringing about a settlement.

President Pak this week provided the US ambassador in Seoul with some additional insight into Korean objectives in the recent dispute. Emphasizing his deep concern over what he described as a leftward trend in Japan over the past two or three years, Pak pointed out the potential danger to South Korea if this continued and Tokyo adopted neutralist or pro-Communist policies. Pak's remarks reinforce the view that Seoul's heavy-handed anti-Japanese campaign of recent weeks cannot be explained fully by Korean emotional and domestic factors, but that it was also a deliberate attempt by Pak to check a policy drift in Tokyo, including moves toward Pyongyang, at least until Seoul can shore up its own international standing.

A question being pondered now in both Seoul and Tokyo is what impact the dispute will have on future relations. The fact that Tokyo has gone far to accommodate Pak's demands has probably encouraged him to believe in the effectiveness of tough tactics in dealing with the Japanese. In his talk with the US ambassador, Pak gave the impression that he took satisfaction from the latest turn of events.

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In Tokyo, there is no doubt that the recent controversy, at least over the near term, has resulted in greater Japanese sensitivity to South Korean interests.

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Japanese diplomats have recently told US and Canadian officials that Tokyo places a high priority on improving relations with Seoul, which have deteriorated over the past year. The Japanese say that any rapprochement with North Korea will have to be very gradual and can only take place during a period of good Seoul-Tokyo relations.

Still, over the long term, there is little room for optimism that the path of Seoul-Tokyo relations will be smooth. Korean-Japanese animosities are deeply rooted, and there is likely to be lingering resentment in Tokyo for some time over recent Korean pressure tactics and the events of the past year. At some future date, Tokyo may prove unwilling to continue the sort of special relationship which Seoul feels it needs while still facing a hostile North Korea.

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EAST - WEST GERMANY

Signs of a thaw in East - West German relations are evident for the first time since the Guillaume spy case of last May. Although major obstacles still remain, both sides now appear interested in improved cooperation.

East German interest took a more concrete form in talks earlier this week. In a meeting with West German mission chief Gaus in East Berlin on September 16, East German party chief Honecker reportedly proposed that negotiations get under way on a number of outstanding bilateral issues, including agreements on culture, postal services, and legal assistance. To launch this new movement, Honecker said his government would be willing to eliminate, within the next three weeks, the compulsory currency exchange requirement for old-age pensioners wishing to visit East Germany. Pankow's move last November to double the minimum amount of money that visitors must change into East German currency cut significantly into the number of visitors, particularly from West Berlin. Bonn has tried for several months to achieve a relaxation of this requirement. The reported offer falls short of the West German objective, however, because it rescinds the requirement only for old-age pensioners.

West German leaders, including Chancellor Schmidt, are reported to be happy with the East German offer. It has, however, run into opposition from West Berlin Governing Mayor Schuetz, who argues that Bonn must hold out for the elimination of the currency requirement for all visitors to East Germany.

Despite its shortcomings, this latest step by Pankow should prove encouraging to the West Germans. Chancellor Schmidt has recently given several hints of a positive West German attitude toward inter-German relations, but he has pointed out that he cannot alone change the climate resulting from the Guillaume affair.

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There may be a number of reasons for this shift. US embassy sources believe Schmidt may have begun to realize that some East German concessions on inter-German issues could, if handled properly, be useful to his government. These sources feel that Schmidt must also allow for the continuing strong interest in Ostpolitik of the Brandt wing of his party.

East Germany stands to gain substantially if it can obtain West German technology and a renewal of the swing credit. In addition, the Soviets could be encouraging East Germany to sustain West German interest in detente, particularly in view of Chancellor Schmidt's visit to the Soviet Union, scheduled for late next month.

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FRANCE

The French government is continuing the defense review begun by President Giscard last month. Various policies reportedly are under consideration, but continued economic, social, and political problems at home will make it difficult for Giscard to make major defense policy changes.

In a wide-ranging discussion with departing ambassador Irwin, French Defense Minister Soufflet claimed he is ready to talk with the US about defense, including tactical nuclear weapons, even though the French defense review will probably continue to year's end. Key subjects probably still under study are armaments production, nuclear policy, European defense, conscription problems, and conditions associated with military service.

Soufflet predicted that Giscard will propose to his European allies that some form of European defense cooperation be considered. Problems of economic and political unity and a desire for continued US engagement in European defense will probably make this unattractive to France's allies. Paris might propose a plan for locating its Pluton tactical missiles with its army corps in West Germany, but concern over Bonn's demand to have a say in employment, and Soviet objections, make this unlikely for the present.

In order to gain advantage in the European arms market, France may well increase its efforts to integrate European weapons manufacture. If no other alternative is available, Paris may eventually opt to consider limited participation in the Eurogroup for this purpose. Closer cooperation with NATO allies may come in the form of greater willingness to coordinate exercises and plans. Soufflet admitted he could imagine contingency planning for NATO lines of communication across France. He stressed, however, that no US troops could be stationed there.

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Soufflet has announced reforms designed to improve the lot of servicemen and induce greater support among French youth, but recent demonstrations against national service and service conditions will certainly prompt further study of this problem. The 12-month term of service will probably not be reduced at this time.

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OPEC

At their conference in Vienna last week, the oil ministers of the Organization of Petroleum Exporting Countries decided to freeze posted prices, but to raise the taxes paid by the international oil companies. Depending on how each of the OPEC members implements the tax increase, the average cost of oil to the companies is expected to increase between 40 and 50 cents per barrel.

The ministers made an effort to convince the consuming nations that the increase in taxes could come out of oil company profits and should not result in higher oil prices to the consumer. It is unlikely that the companies will absorb much of the increase.

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If the companies pass on the full tax increase, the oil bill for consuming countries will rise by between \$4.4 billion and \$5.5 billion annually. The increase for major oil-consuming countries would be as follows: (Million US \$) US 900-1,130; Japan 775-970; UK 335-420; West Germany 450-560; France 410-510; and Italy 290-360.

The ministers also decided that, beginning in January 1975, the rate of inflation in the industrialized countries will be taken into account in setting oil prices. This action would preclude any easing of the burden of oil prices as a result of continuing world inflation.

The OPEC ministers agreed on little else at Vienna. Some of the more contentious issues like managing production cuts and schemes to establish a single price for oil were referred to working groups in preparation for the December OPEC meeting. The prorationing issue was particularly touchy. Iran's representative, Amouzegar, was opposed to any scheme that could require his country to cut production.

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Saudi oil minister Yamani was odd man out in Vienna, just as he was at Quito in July. He refused to go along with the other members' plans to increase oil revenues by raising company taxes. Instead, he indicated that the Saudis had increased their revenues by raising the buyback price of government-owned oil to nearly 95 percent of posted price--the buyback price for most of the Gulf countries being 93 percent. If the Saudis stick to this formula, they will be receiving at least 20 cents per barrel less than other OPEC members. Yamani probably was posturing, publicly choosing a smaller price increase while knowing that the Saudis would later insist that Aramco pay Saudi Arabia at least as much per barrel as other Gulf producers are getting. Aramco will doubtless price its oil with this in mind. In any case, the Saudis apparently plan to take 100-percent control of the company next month and to introduce a new pricing system.

Despite a production cutback of 300,000 barrels per day in Abu Dhabi, the world oil surplus still exceeds a million barrels a day. At the OPEC conference, a number of countries reportedly announced decisions to cut production, but no details are available. If the initiative to reduce liftings is left to the companies, the cuts would fall most heavily on high-priced buyback oil. Most affected would be those Arab countries that have already borne the brunt of the cutbacks--Kuwait, Abu Dhabi, and Libya.

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EC

Political repercussions from failure to resolve disagreements over EC farm policy would be so serious that the agricultural ministers' meeting now under way in Brussels is continuing at unprecedented length. In an attempt to break the deadlock, the ministers have called on their technical experts to work up a package of compromise measures.

The common agricultural policy, which is one of the principal pillars of the Community, has been weakened considerably over the past year as a number of member countries have sought to protect their farm interests through national policies. Costs of fertilizer, farm machinery, and fuel have skyrocketed, but prices paid to farmers have not kept pace. In some cases, beef and pork for example, prices have fallen. The resulting farmer unrest has created heavy pressure for remedial action.

The EC Commission has proposed a number of measures aimed at helping the farmers, including a 4-percent hike in farm support prices and a 7.5-percent devaluation of the special currency exchange rate used to calculate prices for British and Irish agricultural produce. West Germany and Denmark oppose the 4-percent increase in support prices because of its inflationary impact, while France and Belgium want a boost of at least 8 percent. London wants the British and Irish exchange rates to remain on a par, at the present level to maintain British farmers' competitive position and hold down domestic food prices. Ireland, however, is demanding a 15-percent devaluation of the Irish rate in the hope of raising its farm incomes. Disagreements also remain over the solution of Britain's sugar shortage and the legality under the common agricultural policy of measures taken by France and Belgium to aid their farmers.

The Council meeting was originally scheduled to end yesterday, but the ministers appear willing to continue until agreement is reached on the major issues. Latest indications are that the meeting will continue today.

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ROMANIA

The new Romanian party program codifies Bucharest's National Communist Course and challenges the Kremlin's claim to be the sole authority of Marxism-Leninism. The program widens the gap between Moscow and Bucharest, and leaves Romania open to charges of pursuing a "re-visionist" and "national Communist" course.

The cardinal Leninist tenet of a world divided into capitalist and socialist camps is rejected. Instead, the Romanian program contends it is necessary to recognize that the world is made up of developed, developing, and undeveloped nations. This formulation runs counter to Soviet doctrine by taking a non-class approach to political groupings and moves Bucharest closer to the views of Peking and the nonaligned states. It implicitly lumps the Soviet Union with the developed capitalist states.

The program reasserts past Romanian positions, thus confirming Bucharest's parting of ideological company with the Soviets by:

--Criticizing the Sino-Soviet dispute as harmful to socialism and pledging the Romanian party to act with all "determination" to surmount differences between socialist states.

--Describing the "nation" as an abiding and enduring force, one of Ceausescu's favorite themes that leaves Bucharest vulnerable to charges of "bourgeois nationalism."

--Asserting that socialist, as well as capitalist, societies contain "inner contradictions," a view similar to Chinese formulations.

The program criticizes the socialist movement (read Moscow) for seeing all parties in the same light without recognizing the special needs of each in its development. The document also asserts that integration

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can be achieved only when equal levels of development have been reached by all socialist countries. Finally, the program pays lip service to the "humanist purposes" of society, a subject conspicuously avoided elsewhere in the Soviet camp since Dubcek's Czechoslovakia.

The program is to be formally adopted at the party congress in late November. In the meantime, nationwide debates and discussions are to be held to educate the public and to drum up support for the program. [redacted]

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NORTH KOREA

North Korea has quietly turned to the West as a major source for its modern machinery and equipment. This deliberate shift in policy will reduce Pyongyang's long-standing dependence on the USSR and other Communist countries for capital equipment.

Since 1970, the North Koreans have signed contracts with firms in Japan and Western Europe for more than \$500 million worth of industrial plants and related equipment. If current negotiations are successful, the total could reach \$1 billion within the next year or two.

North Korea has been able to diversify its sources of capital goods because of the willingness of the Japanese and West Europeans to finance plant sales through medium-term credits. As a result of this sort of financing for capital imports as well as for record grain imports, North Korea ran a trade deficit with non-Communist trading partners of almost \$170 million last year. This was the first time North Korea's trade deficit with non-Communist countries surpassed that with Communist countries. North Korea's total trade last year with all non-Communist partners was \$400 million.

The aims of the plant import program are to develop export-oriented industries and to strengthen industries producing agricultural supplies, processed foods, and consumer manufactures. Major installations Pyongyang has purchased in Western Europe include a petrochemical complex, a fertilizer plant, a refractory plant, and equipment for the metals industry. Japan sold a cement plant, a textile spinning mill, a polyester fiber plant, a vinylon plant, and other installations.

The North Koreans have attempted through third parties to buy US equipment; they seemed particularly interested in US-made mining equipment and aircraft.

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ETHIOPIA

Ethiopian labor unionists have joined students in demanding the end of military rule and the formation of a broadly based government in which civilians would share power. The military responded to these demands by threatening to use force if labor and students challenge military rule.

The Confederation of Ethiopian Labor Unions adopted a resolution early this week that criticized the provisional military government's ban on strikes and called for an immediate end to military rule. In only slightly veiled terms, the resolution threatened a general strike if the military closed down the confederation's headquarters. The labor group is probably also concerned about the fate, now that the military has dissolved parliament, of the new labor law promised to the confederation earlier this year in return for ending a general strike.

On Wednesday, the ruling military committee publicly castigated the labor leaders and promised swift action against anyone opposing the programs of the new government.

University and secondary students, meanwhile, met with members of the military committee in the aftermath of Monday's student sit-ins and meetings. The military is reported to have appealed to the students to support its programs, but warned them of its willingness to use force if they took to the streets. The students subsequently held another large meeting at which student leaders reiterated their earlier demands for the immediate end to military rule and called for the authorization of political parties and civil liberties.

In the face of opposition from students and their teacher allies, the military has still not determined whether to press on with its plan to send most university students to the countryside to provide the peasants with literacy training and indoctrination on the military's programs.

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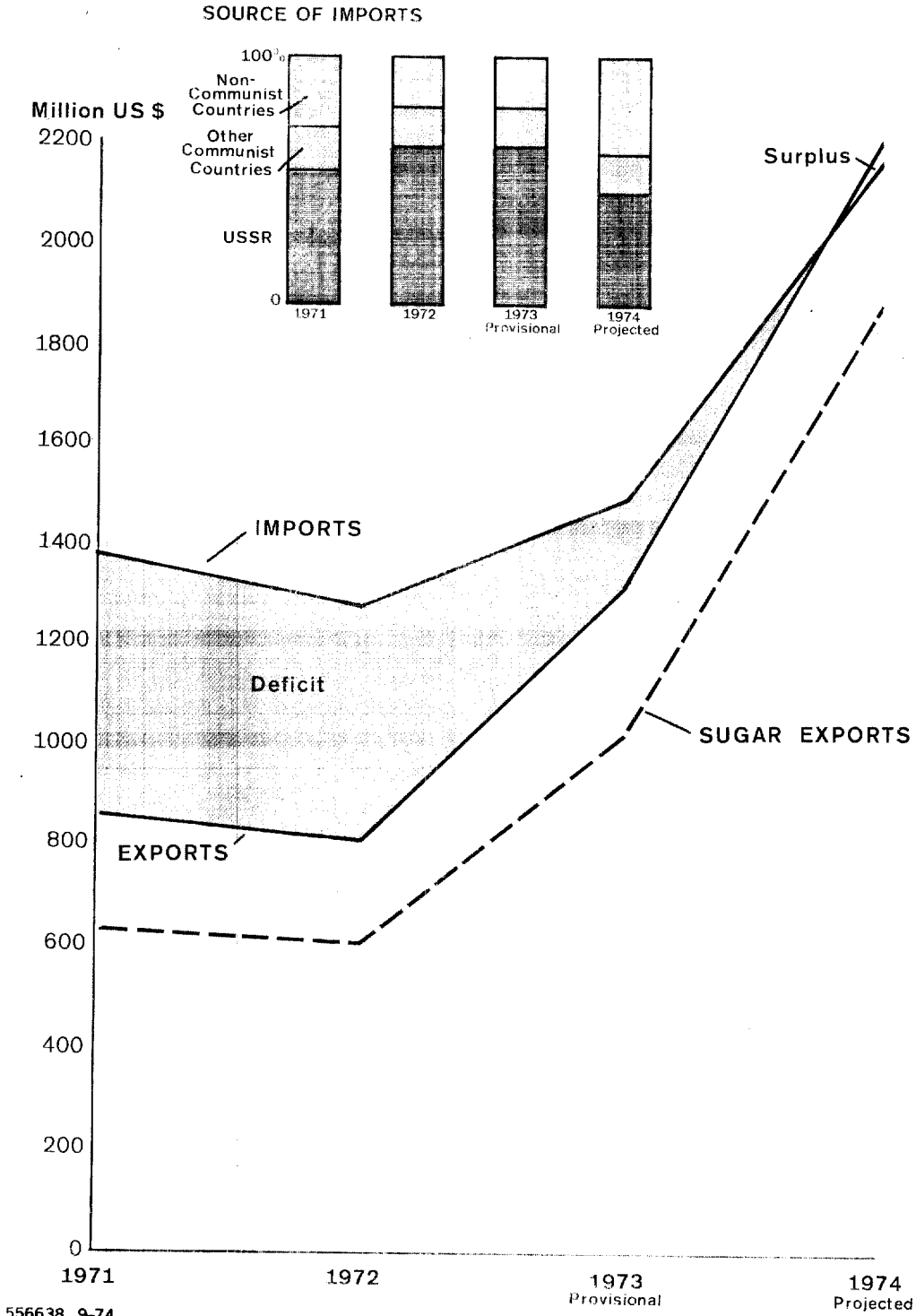
Increasing civilian pressure on the military occurs at a time when divisions besetting the military committee appear to have sharpened. These include a split between those who favor the swift adoption of far-reaching political and social changes and an early trial of the former emperor and those who favor a slower pace toward constitutional civilian rule and want to protect Haile Selassie.

The head of the provisional military government, General Aman, sides with the latter faction, but his power relative to the military committee remains unclear. According to a source of the US defense attaché in Addis Ababa, Aman's opponents on the committee believe he has expanded his influence at their expense. The source also reports that Aman is resisting the role of mere front man and is attempting to assert his dominance over the committee.

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CUBA: FOREIGN TRADE



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CUBA

Cuba's economic situation has brightened dramatically this year because of an improved sugar harvest of 6 million tons, a tripling in world sugar prices to more than 30 cents a pound, and greatly increased economic assistance from Free World countries. The gains have put the Cuban economy on the soundest footing since Castro took over.

Export earnings, almost all from sugar, should jump more than 65 percent, to \$2.2 billion in 1974. More than \$1 billion will be realized from the sale of 35 percent of the sugar crop to non-Communist countries, compared with \$320 million in 1973.

The remainder of the crop is being sold to the Communist countries, principally the USSR, for 12 cents a pound. The Soviets are expected to adjust the price to 20 cents, probably in 1975. Cuba, however, would not come out ahead if Havana were forced to pay world market prices for Soviet oil, as seems likely.

Increased imports from Free World countries this year will give a large lift to the economy and go a long way toward erasing the lingering effects of the US denial program. Cuba is going to get several thousand US-designed automobiles and trucks under a \$1.2-billion Argentine trade credit.

Credit purchases of Canadian locomotives and coastal tankers and Peruvian fishing vessels will provide further benefit.

Free World economic assistance over the next several years probably will average about \$250 million, or one half of recent annual disbursements from the Communist countries. [REDACTED]

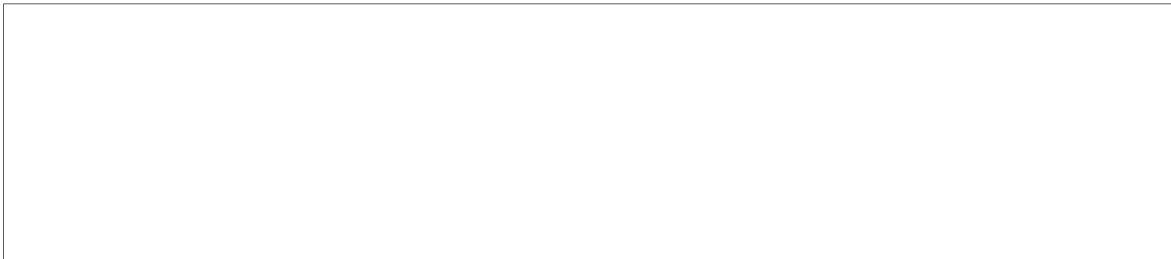
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ARGENTINA

The government of President Peron has yet to find a formula to stem violence as extremists on the right and left of the Peronist movement continue their political fratricide.

Since the Montonero guerrillas broke with the government two weeks ago, bombings and assassinations have taken a quantum jump. So far, the wave of violence has included over a hundred bombings and nearly a dozen killings. Yesterday, Juan and Jorge Born, two of Argentina's most prominent businessmen, were kidnaped by terrorists in spite of the fact that they were surrounded by bodyguards.



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Earlier this week, representatives of Peronist workers met with a number of leftist and Marxist union leaders in the provincial city of Tucuman and announced the formation of an organization to rival the orthodox Peronist labor confederation. Although the new grouping does not yet include national-level unions, it does create an important nucleus of anti-government sentiment that could cause serious problems for Mrs. Peron.

The poor performance of police in dealing with the terrorists has increased the prospect that the military will be forced to take a more active role, especially now that Peronist extremists have stepped up their activity.



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The struggle against the terrorists is likely to be fierce, however, especially if the Montoneros coordinate operations with the Marxist Peoples Revolutionary Army. If public order breaks down completely or if Mrs. Peron shows signs of wavering, military leaders ultimately may demand a more active and open role in the political process. [REDACTED]

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FOR THE RECORD

Turkey: Turkey is purchasing 20 F-104S aircraft, produced in Italy under US license, to replace aging F-84s in tactical and air defense roles. Turkey has 38 F-104G aircraft in its inventory. Delivery of the faster and more versatile F-104S fighter and including two trainer models will be at a rate of six per month; the initial delivery date is not known. The Turkish air force was upgraded by delivery of the first two of 40 US-made F-4E aircraft in late August, and is negotiating for the purchase of 20 more.

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