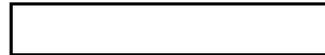


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3 October 1961



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CENTRAL INTELLIGENCE BULLETIN



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- 5. South Korea: Dispute between military junta and leading businessmen is contributing to industrial stagnation. *(Page iii)*

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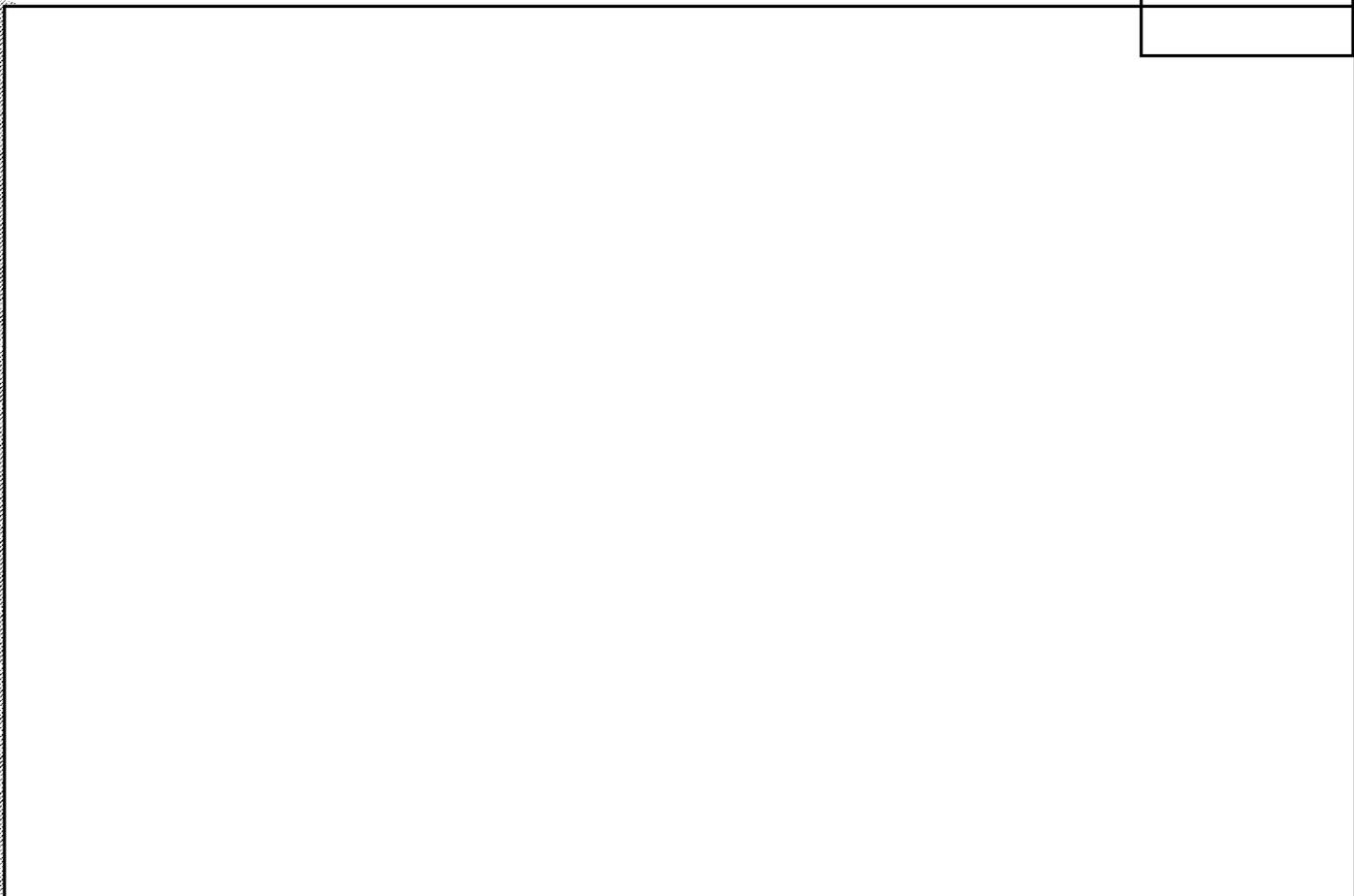
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3 October 1961

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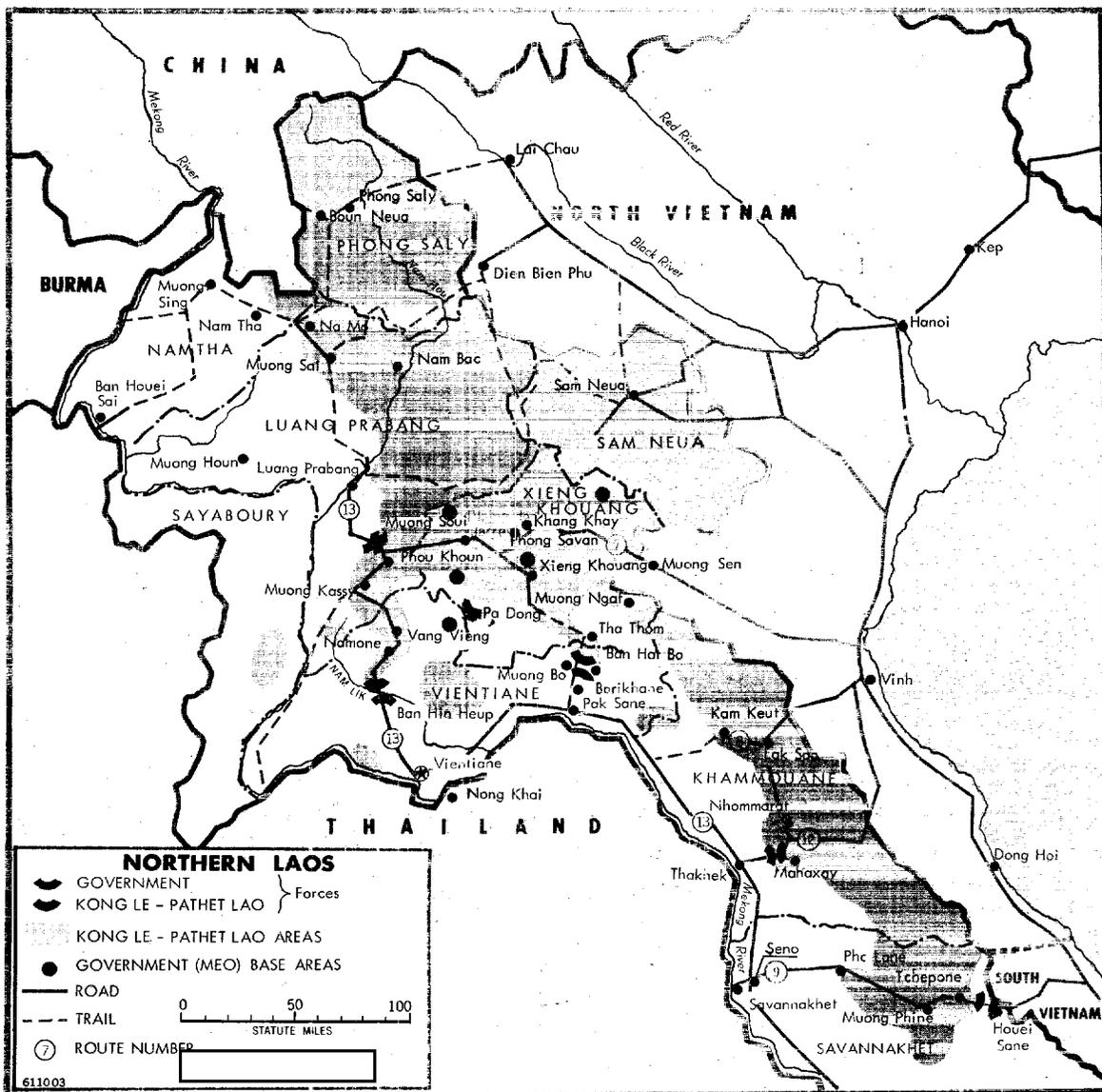
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Laos: Souvanna Phouma, Souphannouvong, and Boun Oum are to meet at Ban Hin Heup on 6 October to continue negotiations and resume discussions on the formation of a coalition government. This meeting will take place in territory controlled by Vientiane on the south bank of the Nam Lik River, which divides the town; thereafter meetings are scheduled to be held on alternate sides of the river.

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General Phoumi told Ambassador Brown on 1 October that Souvanna would be acceptable as premier if agreement could be achieved on the composition of a coalition cabinet which would reflect a proper "balance" between the three groups. Phoumi indicated he would endeavor to retain key cabinet posts for "his" group, but felt Souvanna probably would demand for himself the Defense Ministry.

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Congo:

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There are indications of increasing doubt among government and business circles in Belgium of the wisdom of supporting Tshombé in Katanga and thus strengthening Gizenga's position in Leopoldville. Foreign Minister Spaak favors a reconciliation between Adoula and Tshombé which would lead to "a decisive blow against the Gizengists," but support in Belgium for Tshombé continues to frustrate his efforts.

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Rioting by anti-Tshombé Baluba tribesmen in areas around Elisabethville has made more difficult the efforts of Tshombé and the UN to reduce the tensions which have persisted since the cease-fire. (Backup, Page 1)
(Map on reverse of page)

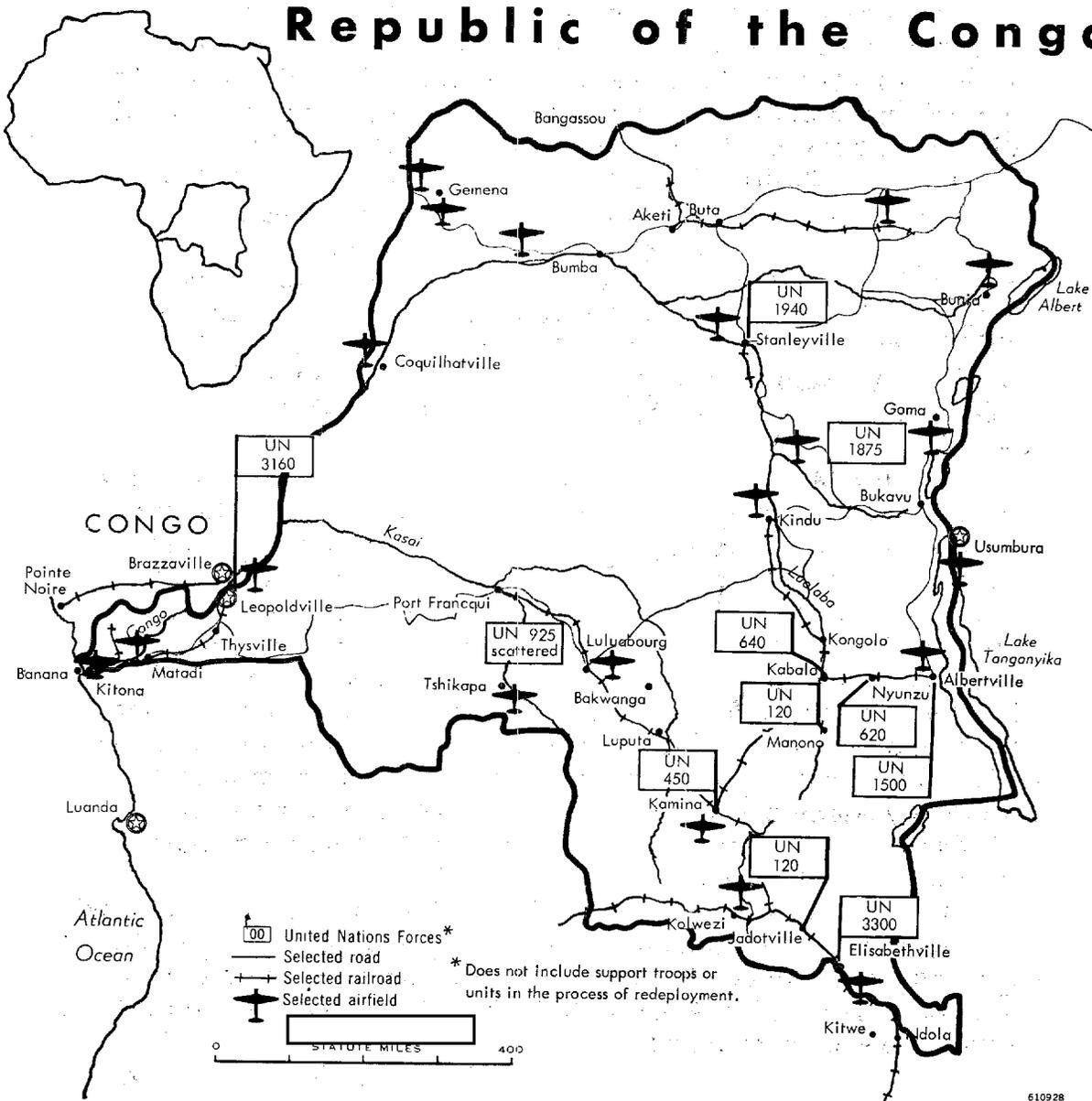
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Republic of the Congo



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South Korea: A dispute between the military junta and the business community over the payment of delinquent taxes and fines for illegal profiteering is contributing to industrial stagnation and, according to Ambassador Berger, may end in the nationalization of the country's principal industries. Twenty-seven leading businessmen, who own practically all South Korean industry, have been given six months to pay a total assessment of \$37,000,000. They are believed to have cut back their operations, while contending that the penalties are excessive and in several instances would require liquidating major manufacturing and financial enterprises. There are believed to be influential officers within the ruling junta who favor a state-operated economy and who may be pressing for nationalization of these enterprises despite the government's acknowledged lack of economic planners and managerial talent.)

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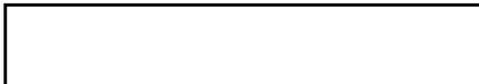


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European Satellites: Total grain production in the European satellites in 1961-62 will be about 43,000,000 tons--the same as last year--but a decline is expected in most satellites in the production of potatoes, sugar beets, fodder supplies, and animal products. As was the case last year, imports of roughly 6,000,000 tons of grain will be necessary to maintain consumption levels. East Germany, Hungary, and Bulgaria are expected to encounter the most difficulty in meeting consumer demand for foodstuffs. The availability and variety of food in the satellites remain somewhat greater on a per capita basis than in the USSR and far greater than in Communist China. Although the average caloric intake in the satellites is expected to be sufficient in the coming year, the variety of the diet will deteriorate.
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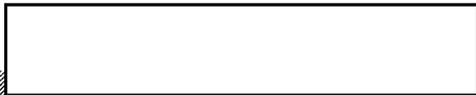
Brazil: The American Embassy in Rio de Janeiro comments that the action of the Brazilian Congress in accepting "in principle" the program of the Goulart-Neves government actually reflects widespread dissatisfaction with the program. The Congress reserved the right to consider specific proposals as they are developed by the government. The domestic financial policy set forth in the program was generally conservative, while in international affairs the program promised a continuation of Quadros' independent line without, however, disregarding

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DAILY BRIEF

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Brazil's hemisphere commitments. Leftist deputies criticized the financial policy, while the foreign policy statement was attacked by center and rightist deputies.

Objections to specific provisions of the government's program were heightened by congressional resentment of Prime Minister Neves' failure to oppose Goulart in his assumption of powers which congressional leaders believe they transferred to the Council of Ministers and to Congress itself in the constitutional amendment of 2 September. Congress was probably unwilling to disapprove the program, however, because it feared to disrupt the newly instituted parliamentary regime. [redacted] [redacted] 25X1

Ecuador: President Velasco is preparing to take strong measures to suppress a general strike set for 4 October by Ecuador's principal labor organization, which is Communist dominated. The strike is designed to force the retraction of proposed tax increases and the July devaluation of the monetary unit--measures which are part of the government's effort to remedy the deteriorating economic and financial situation. The security forces are believed capable of controlling any violence arising from the strike. 25X1

The President recently postponed his state visit to the US scheduled for late October, probably because he feared that opposition elements would take advantage of his absence to attempt to oust him. [redacted] (Backup, Page 7) 25X1

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DAILY BRIEF

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[redacted]

Congo

Both sides in Katanga are apparently anxious to avoid a renewal of fighting at this time. On 1 October UN troops began a withdrawal from two points they had occupied in Elisabethville, while Tshombé inspected conditions at the camp for UN prisoners at Jadotville. Despite Premier Adoula's rejection of his offer to hold talks at a neutral site, Tshombé has maintained a posture of moderation. In response to UN pressure, Tshombé announced on 30 September that he had discharged white officers serving with the Katangan forces. Press reports from Elisabethville, however, indicate that Tshombé's white officers have gone "underground" rather than leave Katanga.

Even though Tshombé probably will retain the services of the European officers in some form, their removal as troop commanders could have serious repercussions. Discipline in Tshombé's army has been tenuous, and it may be adversely affected by the combination of renewed tribal antagonisms and the loss of its European officers.

The tribal warfare in southern Katanga--which began south of Elisabethville on 27 September and spread to the city on 2 October--has invariably involved anti-Tshombé Baluba tribesmen. The origins of the fighting are obscure. The American Consulate reports that the number of dead may be more than 50, and characterized the outbreak as a political setback to the Tshombé government. There are unconfirmed reports that the fighting was initiated by Balubas from the UN-sponsored refugee camps outside Elisabethville. Spokesmen for the Balubas in the past have indicated their intent to overthrow the Tshombé government.

Following a meeting with Tshombé in late September, Rhodesian Prime Minister Welensky--a harsh critic of the UN operation in Katanga--characterized Tshombé as prepared to fight rather than capitulate outright to the UN, but willing to negotiate terms for Katanga's reintegration with the

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Congo. Welensky described Tshombé's fear of communism as "strong and real," and stated that Tshombé was not a stooge of the Belgians "or anybody else."

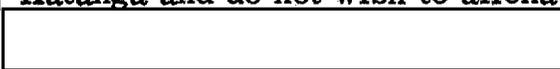
In Leopoldville, there is evidence of a continuing schism between the moderate and Gizengist factions which has not been healed by Adoula's appointment of numerous Gizengists to his cabinet. Despite the apparent agreement among moderates and Gizengists on the need for a tough policy toward Tshombé, the moderates apparently feel under pressure from the Gizengists and are apprehensive concerning their motivations. General Mobutu--whose army continues to be the main prop for the government--reportedly has contemplated military action against the Gizenga group but fears that the Gizengists would be aided by the UN.

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Ambassador MacArthur in Brussels reports that the head of the Union Miniere in Katanga has not been carrying out the policy of the Belgian Government with respect to persuading Tshombé to reintegrate Katanga peacefully into the Congo. The ambassador had several conversations with top officials of the Union Miniere in Brussels who agreed on the necessity of pressing Tshombé to meet with Adoula. The officials were bitter about what they consider "bungling and illegal action of the UN" which triggered the recent trouble in Katanga. These officials profess to understand the importance of counteracting the impression in Leopoldville that the Union Miniere is pro-Tshombé; at the same time they want him to continue in Katanga and do not wish to alienate him permanently.

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South Korea May Nationalize Industry

The 27 businessmen had control of 133 enterprises concentrated in the manufacturing, foreign trade, and financial sectors of the economy. The government already has confiscated bank shares held by these businessmen--in effect assuming charge of South Korea's commercial banking facilities--and reportedly placed the other enterprises under the management of government supervisors. The South Korean mining industry has been government-controlled since the founding of the republic in 1948.

The businessmen's resistance to the government moves has taken two forms--reduced operations and a plea for extension of the period for payment of delinquent taxes and fines by several years. Some have banded together in the "Korean Businessmen's Association," ostensibly to show their willingness to promote national economic development, but more probably to have a lobbying group in their own behalf. Virtually all appealed the original assessments against them, which totaled \$64,000,000, and succeeded in having them reduced to a total of \$37,000,000.

According to the latest available figures, South Korean manufacturing production in June 1961 was down 7 percent from the comparable month in 1960. Nevertheless, the desire among the military officers to punish businessmen for offenses committed during the Rhee and, to a lesser extent, the Chang Myon administrations appears stronger than concern for industrial sluggishness.

In a discussion with Ambassador Berger on 28 September, Lt. Gen. Pak Chong-hui, chairman of the Supreme Council for National Reconstruction (SCNR), revealed his personal bitterness toward the Korean businessmen, calling them "rapacious wolves without a drop of patriotism." He asserted that the government's compromise on the original assessments had not satisfied them and they were "using every dodge to evade payment of illegal gains." Pak's own position on nationalizing

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South Korean industries is not known, but he is probably under considerable pressure within the ruling military group to do so.

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The SCNR faces economic difficulties in the agricultural sector as well. The Korean rice crop now being harvested is considered plentiful, but farm credit has become a major problem as a result of government policies. An official crackdown on usurious interest rates for loans to farmers has backfired by drying up funds in the rural areas and alienating the farm community. In addition, the government's efforts to stabilize farm income by purchasing rice through official channels at preferential prices, but extending payment throughout the year, have been unsuccessful. The farmers have thus far preferred to sell to private markets for lower prices, but quick cash.

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Food Supplies in the European Satellites

Previous forecasts of 1961 crop production in the European satellites appear to have been too high. Since mid-June adverse weather conditions and organizational difficulties encountered by collective farms have altered the picture. In the northern satellites, rainy and cool weather which prevailed until late August increased harvesting losses and reduced the quality of grain for milling. Cultivation of row crops was hindered by excessive rainfall, and the lack of sunshine lowered the sugar content of beets. By contrast, some parts of the area from eastern Czechoslovakia south to Bulgaria experienced near-drought conditions which have adversely affected the yields of all fall-harvested crops, especially corn.

Although weather conditions in East Germany, Czechoslovakia, and Poland were similar, harvesting losses were greater in the first two countries, where officials admitted that socialist farming units did not organize field operations properly. Moreover, Czechoslovakia imitated the USSR by initiating two-stage grain harvesting, a move which increased losses because periodic rains prevented proper drying. The satellites as a whole obtained about 13 percent of their total grain requirements from imports in 1960. East Germany imported approximately 30 percent of its requirements for the year.

With the possible exception of Albania, no basic improvement is expected in the per capita availability of food during 1961-62. Production of potatoes, sugar beets, and forage crops will be lower than in 1960 except in Poland and Albania. By the spring of 1962, production and market availability of animal products are expected to be adversely affected by the decline in fodder supplies, and vegetables may also be in short supply.

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Labor and Political Unrest in Ecuador

The Ecuadorean Confederation of Labor is not believed capable of carrying out a strike of more than limited proportions and duration; its previous attempts to call a general strike have failed quickly. It is capable, however, of causing some disruption in the nation's economic life at a time when the government is facing a budgetary crisis, a balance-of-payments problem, and flight of capital.

These economic difficulties result in part from the irresponsible monetary policies of President Velasco's regime and in part from his pro-Cuban and leftist foreign policies, which have undercut the business community's confidence in the political outlook. The minister of the treasury, who is concerned over the government's inability to meet salary payments, is considering a trip to the US to seek an immediate loan--possibly in the amount of \$10,000,000 to \$20,000,000--as a means of meeting the urgent cash requirements of the regime. The government signed a stabilization agreement with the International Monetary Fund in June to support the country's monetary unit and reverse the sharp decline in foreign exchange reserves.

During the past six months, Velasco has been confronted with considerable opposition activity from leftist and Communist groups on the one hand and rightists and moderates on the other; there has also been some plotting among the military and dissension within his own heterogeneous party. He has broken openly with his close friend Manuel Araujo, leader of the pro-Castro forces in Ecuador and former minister of government, and is having sharp differences with Vice President Arosemena. Arosemena, formerly one of Velasco's staunchest supporters, now apparently aspires to lead the leftist opposition. The chief of the Ecuadorean armed forces advised the US army attaché in Quito on 29 September that Arosemena hopes the planned strike will get out of control and force Velasco's resignation. [redacted]

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