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CURRENT INTELLIGENCE WEEKLY SUMMARY



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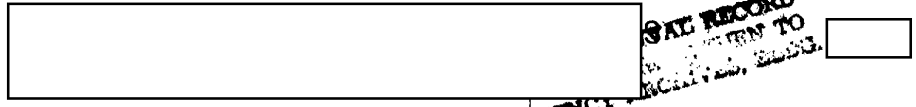
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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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CURRENT INTELLIGENCE WEEKLY SUMMARY

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T H E W E E K I N B R I E F

PART I

OF IMMEDIATE INTEREST

THE SUEZ SITUATION Page 1

Egypt's Position: President Nasr is maintaining the position he adopted at the outset of the Suez crisis. He sees the principle of Egyptian control of the operations of the canal and guarantees of freedom of navigation as two distinct issues; he has been unwilling to compromise on the first, but is willing to negotiate on the second. Despite their public insistence that they are fully prepared to defend the country, Egyptian military authorities appear privately to be pessimistic about the capabilities of their forces.

British and French Moves: The British and French are continuing military preparations in the evident belief that the meetings between Nasr and the Menzies mission may not succeed. No decision has apparently been taken on a plan or date for a joint British-French military move against Egypt.

Soviet Tactics: The USSR is following a cautious course, apparently convinced that time is on Egypt's side. Moscow has been attempting to discourage Western military action against Egypt, while not committing the USSR to any course of action. [redacted]

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PART II

NOTES AND COMMENTS

**POSSIBLE CHANGE
IN FRENCH ALGERIAN POLICY Page 1**

The French government has apparently concluded that it cannot achieve victory over the rebels in Algeria this autumn. Considering the related problem of dealing with Nasr of more immediate importance, Premier Mollet, in conversations on 8-9 September, will urge his minister residing in Algeria, Robert Lacoste, to undertake early negotiations with the Algerian rebels, a move which reportedly now would receive rightist support. [redacted]

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MOROCCO Page 2

The Moroccan government crisis apparently has abated, and the sultan continues in firm control of the government. The Moroccan government is wary of becoming closely tied with Egypt. The sultan, nevertheless, has indicated that Morocco would join the Arab League.

[Redacted]

GREEK GOVERNMENT DISCOURAGED OVER CYPRUS Page 3

The position of the Greek government is precarious as a result of recent developments concerning Cyprus. The surrender ultimatum issued by the British in answer to the truce called by the Cypriot guerrillas, and Britain's publication of captured documents connecting Archbishop Makarios and the late prime minister of Greece, Marshal Papagos, with violence on the island have contributed to the difficult position of the Karamanlis government.

[Redacted]

POLITICAL CRISIS IN JAPAN Page 3

The Hatoyama government is undergoing an internal struggle over whether to send the prime minister to Moscow to seek a compromise on Soviet peace treaty terms. The dispute is intensified by political maneuvering for control of the governing party in the event of Hatoyama's long-expected retirement. The most likely prospect is a cabinet reshuffle, although a party split is a possibility when the issue comes to a head.

[Redacted]

LAOS Page 4

Laotian prime minister Souvanna Phouma is "most disturbed" over the Pathet Lao's frequent violations of the cease-fire agreement and its delay in sending representatives to negotiate the detailed form of the final settlement. The Pathets may use stalling tactics to extort additional concessions from Souvanna, whose political position depends on his ability to reach a settlement. Meanwhile, Souvanna is trying to reduce the unfavorable effects on the West of his recent trip to Peiping and Hanoi.

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**PEIPING HEDGING
ON BORDER DISPUTE WITH BURMA Page 5**

Faced with a resolute Burmese position on the border issue, the Chinese Communists have announced they are willing to withdraw troops from the disputed territory in the Wa States, according to Burmese press reports. Peiping proposed, however, that Burmese troops be withdrawn from the disputed boundary in the Kachin State area--a condition which Burma will almost certainly reject. Continued Chinese intransigence may cause Rangoon to bring the weight of other neutral nations to bear on the Chinese for a final settlement. [redacted]

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**INITIAL OPERATIONS
OF THE TRANS-MONGOLIAN RAILROAD Page 6**

During the first five months of its operations--January through May 1956--the Trans-Mongolian Railroad carried 652,000 tons of goods. At this rate, the line would carry about 2,000,000 tons of goods in its first year of operation. This is about one half the estimated capability of the line and is equal to one third the goods moving between the USSR and China. [redacted]

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**BIRTH CONTROL BEING ADVOCATED
IN COMMUNIST CHINA Page 7**

Communist China is the only Sino-Soviet bloc country which has permitted an educational and propaganda campaign to popularize the practice of birth control. The campaign is taking place despite the standard Marxist dogma that poverty is attributable not to population pressure on the economy but to "pre-Socialist" forms of social organization. [redacted]

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SOVIET-WEST GERMAN RELATIONS Page 9

Controversies over the status of Soviet nationals in West Germany and German nationals in the USSR, together with the banning of the West German Communist Party, have further damaged the already poor relations between the two states, but neither government is likely to move now to break diplomatic relations. [redacted]

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**WEST GERMANS WEIGH SHIFT
IN MILITARY DEFENSE STRATEGY Page 10**

A growing dispute over the nature of West Germany's new defense forces is likely to come to a head in the Bundestag soon after it reconvenes in mid-September. Chancellor Adenauer, who deplures signs of a shift in Western defense strategy from conventional to nuclear weapons, hopes to find support for his view--that Allied manpower in West Germany should not be reduced--at a meeting of the Ministerial Council of the Western European Union scheduled at his request for 15 September in Paris. [redacted]

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EAST GERMAN LIVING STANDARDS Page 11

The people of East Germany are increasingly dissatisfied with their standard of living which, though higher than that of most of the Satellites, remains below the prewar German level. Despite Soviet economic aid to East Germany scheduled for the period 1957-60, which is designed to improve living conditions, standards as high as those of West Germany almost certainly will not be attained. [redacted]

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PART III

PATTERNS AND PERSPECTIVES

THE FORTHCOMING CHINESE COMMUNIST PARTY CONGRESS Page 1

The Chinese Communist Party's 8th Congress, scheduled to open in Peiping on 15 September, is likely to start the party moving in the direction of a "collective leadership," but Mao will almost certainly continue as the dominant figure. The proceedings at the congress--the first since 1945--will throw further light on Mao's intentions with regard to his succession, and may reflect the relative strength of Mao's lieutenants in any maneuvering following Mao's departure from the scene. The congress will elect a new and probably larger central committee, hear reports adjusting the party constitution to the latest Soviet party statutes, and will be presented with an ambitious five-year plan for the period 1958-62. [redacted]

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SOUTH VIETNAM FEARS NEW COMMUNIST PRESSURE Page 5

The government of South Vietnam is increasingly concerned over what President Diem calls the "rampant growth of neutralism" in Asia. In particular, South Vietnam fears that the Laotian government's rapprochement with the Pathet Lao will undermine Diem's own efforts to resist Communism. It anticipates renewed Communist efforts to develop international pressure for holding unification elections.

[Redacted]

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GRANTS UNDER THE SOVIET FOREIGN AID PROGRAM Page 7

The USSR has granted countries outside the Sino-Soviet bloc loans and credits totaling at least \$500,000,000 for economic purposes since launching its "trade and aid" campaign early in 1955. In the same period, credits for the purchase of military equipment extended indirectly by the USSR to the Middle Eastern nations totaled \$300,000,000. In contrast, countries belonging to the bloc have received only \$100,000,000 for economic purposes since early 1955, while \$500,000,000 was granted in military credits--all to Communist China. From 1946 through 1954, the USSR had advanced \$4.7 billion to Communist-controlled countries for all purposes, and made no significant loans to other countries.

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PART I
OF IMMEDIATE INTEREST

THE SUEZ SITUATION

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Egypt's Position

Egypt's President Nasr is maintaining the position he adopted at the outset of the Suez crisis. He sees the principle of Egyptian control of the operations of the canal and guarantees of freedom of navigation as two distinct issues; he has been unwilling to compromise on the first, but is fully willing to negotiate on the second.

Cairo and the Middle East generally are reported to be tense, awaiting the outcome of the talks.

Manifestations of support for Nasr continue both in and outside Egypt. Rallies on 3 September in Cairo contributed to the tension but remained orderly.

[Redacted]

On 4 September, Jordan was reported preparing a protest against British and French troop movements. Syrian president Quwatli has reaffirmed his country's solidarity with Egypt.

Despite their public insistence that they are fully prepared to defend the country, Egyptian military authorities appear privately to be very pessimistic about the capabilities of their forces. [Redacted]

[Redacted]

[Redacted] regular army officers have expressed a low opinion of the national guard, units of which have been put in forward positions along the beaches near Alexandria.

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A certain air of depression among the military may have led to Nasr's alleged plan to resign his presidential functions in case his colleagues refuse to support him in his stand against a compromise of what he sees as the basic issue in the canal dispute.

The canal itself has continued to carry about the same number of vessels daily as it did before nationalization. However, discontent among the pilots is becoming conspicuous.

[Redacted]

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The Egyptian authorities are believed to be more seriously concerned about this aspect of the situation than any other, since they recognize that an interruption of the flow of traffic through the canal could provide France and Britain with an excuse to use force.

British Moves

The British are continuing military preparations to

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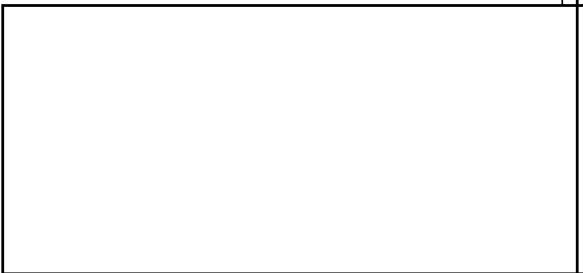
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meet any eventuality in the Suez situation in the evident belief that the Cairo meetings between Nasr and the Menzies mission may not succeed. London is apparently proceeding on the assumption that its demonstrative preparations are essential to maintain pressure on Nasr to come to a settlement. Parliament has been recalled for 12 September.

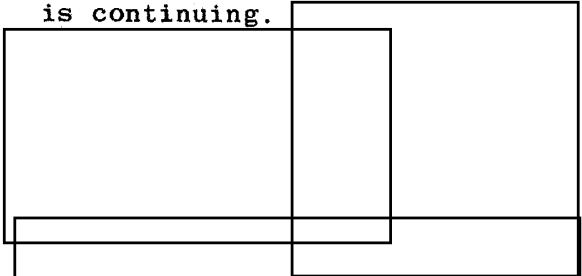
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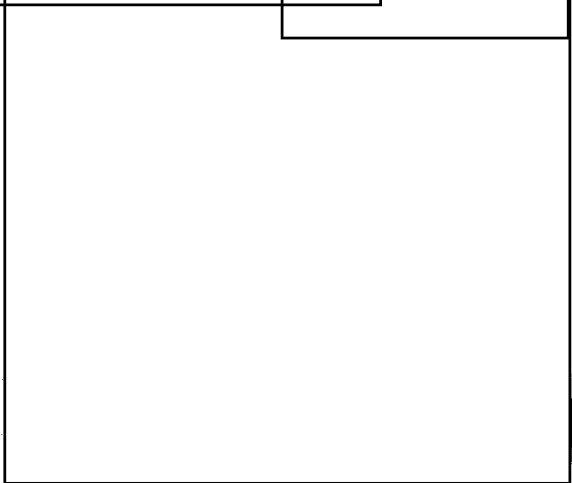


According to press reports, the reactivation of certain reserve naval units and the movement of landing craft and mine sweepers to the Mediterranean is continuing.

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Public opinion in Britain continues divided on the government's policy to date. The American embassy in London believes that, while popular support for the use of force has undoubtedly waned, the Conservative Party "probably solidly supports" the government's policy, including possible military action to assure international control of the canal. The powerful Trades Union Congress, however, representing some 8,000,000 trade unionists, in its annual conference this week demanded that Britain not use force against Egypt without the approval of the UN. It was in recognition of the state of public opinion that the Eden government decided to recall Parliament.

French Moves

The view that Nasr must not be allowed to get away with his

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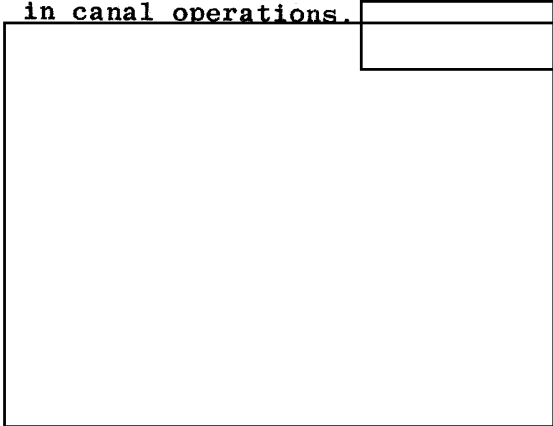
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coup has become stronger in French government circles since the end of the London conference, and Paris is now ostentatiously stepping up military preparations. The American embassy in Paris believes the Mollet government is anxious to push the issue to a climax within a few weeks to avoid giving Nasr time to overcome Egypt's difficulties in operating the canal.

There is a belief in the French government that the pilot shortage will cause a breakdown in canal operations.



There is little hope in Paris that the committee of five will succeed, and unless Nasr yields far more than seems probable, the Mollet government may try to bring strong pressure for immediate and drastic sanctions. Paris, like London, appears to believe that military operations would be speedily effective and is also convinced that the USSR would not intervene.

France's military preparations, [redacted]

[redacted] have received considerable publicity in the last week, particularly with the arrival of French forces on Cyprus.

While total French military personnel actually on Cyprus at this time is not known, press reports indicate that a contingent of air-transported army personnel, numbering approximately 1,000, landed at Nicosia on 30 August. A day later the first of more than 20 cargo and passenger ships which had been reported loading troops and equipment at Marseilles docked at Famagusta and discharged 170 soldiers, representing apparently the advance party of two divisions from Algeria--the NATO-committed Seventh Rapid Mechanized Division and the Tenth Infantry Division (Light), a reserve unit activated in July. Description of the latter as a "parachute division" suggests that some of the French parachute regiments in Algeria may have been attached to it.

The press also reported that an important naval force headed by the cruiser Georges Leygues left Toulon on 28 August, and the most modern of France's major naval units, the powerful new anti-aircraft cruiser De Grasse, formerly based at Brest, has joined the Mediterranean Fleet. The Georges Leygues was reported at Malta on 5 September. Vice Admiral Auboyneau, commander in chief of French naval forces in the Mediterranean, stated on 29 August that the navy would have an essential role in the event a diplomatic solution is not found, and indicated this would involve naval aviation and amphibious units as well as the fleet.



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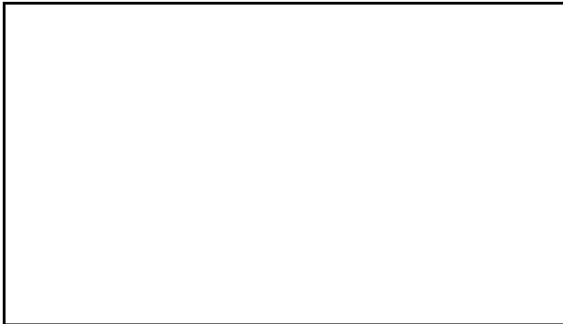
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Soviet Tactics

The USSR is continuing to play a cautious role in the Suez dispute, apparently still convinced that time is on Egypt's side. Moscow probably believes its best course is to avoid unnecessary entanglement in view of what it considers to be a possibility of Western military action.

Although Soviet propaganda calls the French movement of forces to Cyprus an "instrument of pressure," Moscow appreciates the seriousness of the Suez dispute. Soviet foreign minister Semenov, after his return from the London conference, told French ambassador Dejean that if the 18 powers attempted to impose their plan on Nasr, "it would mean war." Foreign Ministry officials said that Dejean was unclear as to whether Semenov intended the remark to be interpreted literally.

Semenov's statement reflects a further Soviet attempt to discourage Western military action against Egypt, without

committing the USSR to any course of action. While there have been repeated Soviet warnings to the West about the dangers of military action against Egypt, these warnings have not been accompanied by any indications that the USSR intends to intervene directly with Soviet forces in the event the West does initiate military action against Egypt.

Moscow is demonstrating its willingness to give economic and military assistance to Egypt. On 4 September a new Soviet-Egyptian wheat agreement was announced providing for 200,000 tons of Soviet wheat in the near future. This would assure Egypt of receiving 400,000 tons out of some 600,000 believed needed during the next year.

Soviet shipments of arms purchased in 1955 and early 1956 are still arriving in Alexandria.

Moscow radio has also broadcasted reports that Soviet and East German ship pilots are already preparing to leave for the Suez Canal.

Nasr's independent line might cause Moscow to move slower in its involvement at this time. Shepilov's difficulties in London and the aftermath of the conference have pointed to the Soviet inability to influence to an appreciable degree the actions of either of the chief antagonists. [REDACTED]

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PART II

NOTES AND COMMENTS

POSSIBLE CHANGE
IN FRENCH ALGERIAN POLICY

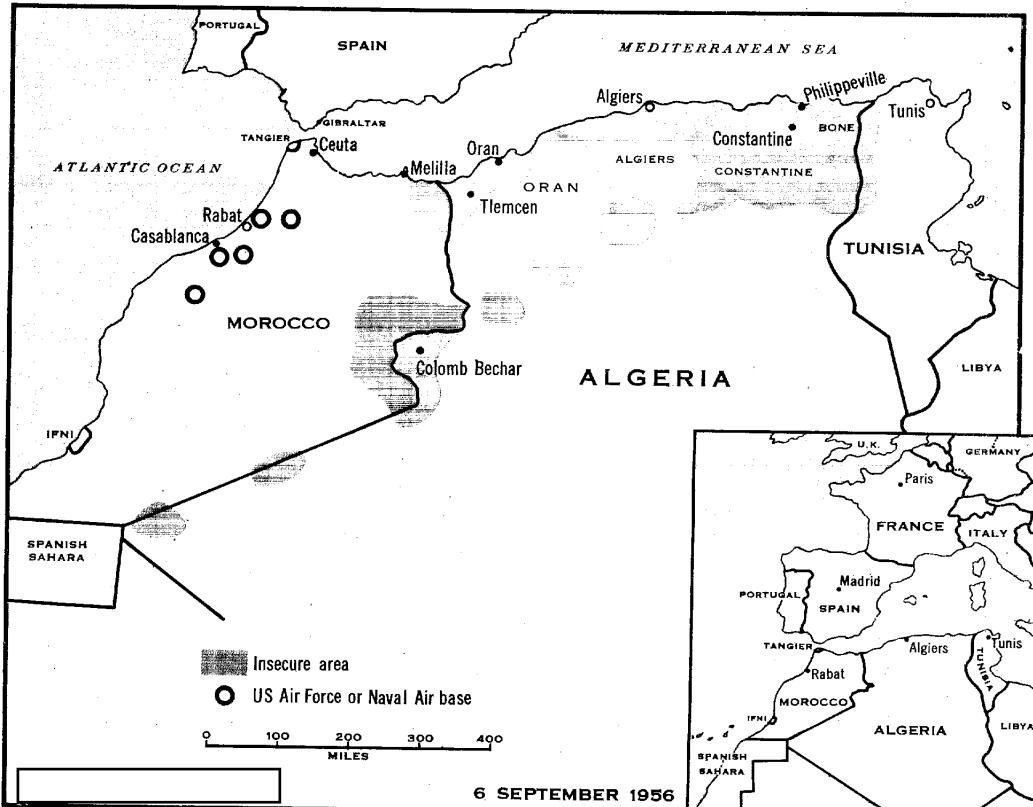
A change in France's hitherto rigid policy of "pacification first" in Algeria may become evident following Premier Mollet's talks on 8-9 September with Robert Lacoste, French minister residing in Algeria. Because Lacoste considers Egyptian premier Nasr the chief troublemaker for France in North Africa, Lacoste may let Premier Mollet persuade him to agree to early negotiations with the Arab nationalists.

Paris reportedly is considering a policy change because it recognizes the virtual impossibility of achieving

military pacification this autumn as had been hoped.

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consideration of a new status for Algeria.

Despite the indications of support from the right and right-center for a policy change, Mollet still runs a risk of clashing with his fellow Socialist, Lacoste, whose resignation from the government would entail at least a major cabinet reshuffle. Lacoste had planned to promulgate broad new reforms in about a month, but such plans are dependent on a setback for Nasr.

Mollet may hope that his firmness on the Suez issue will gain Lacoste's support for early negotiations in Algeria. He might argue that it would be best to move quickly to avoid a prolonged debate on Algerian policy when the National Assembly reconvenes on 2 October, and that early negotiations would weaken the anticipated renewal of Arab criticism of France when the UN General Assembly meets in November. [REDACTED]

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MOROCCO

The Moroccan government crisis apparently has abated, but tensions remain high and no action has been initiated to lessen basic dissatisfactions. The moderate faction of the Istiqlal party seems to have dissuaded the extremist faction from pressing for the immediate resignation of the ten Istiqlal cabinet ministers. This extremist demand which had precipitated the crisis was designed to force the installation of an all-Istiqlal cabinet.

Although the sultan continues in firm control of the government, some reorientation of the cabinet is inevitable if the strife between the dominant Istiqlal party and the small Shoura party is to diminish. Replacement of some Shoura and independent ministers, possibly including Premier Bekkai, by Istiqlal leaders is likely.

Meanwhile, Egyptian blandishments continue. The Egyptian ambassador-designate has not yet arrived in Rabat, however, nor has the sultan yet named an ambassador to Cairo. [REDACTED]

[REDACTED]

Negotiations are under way for the establishment of an Egyptian cultural center and high school. The school is tied in with an earlier Egyptian offer of 15 teachers at practically no cost to the Moroccan government and 50 scholarships for study in Cairo. These negotiations may be prolonged, as the Moroccan government is wary of becoming too closely tied to Egypt.

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No steps are known to have been taken with regard to Moroccan membership in the Arab League, but the sultan recently told an American correspondent that Morocco would join the league. He added that he does not consider such membership in conflict with his desire for close ties with the Western world, as he views Morocco as a bridge between East and West. Entry into the league probably will be postponed until after the UN General Assembly approved Morocco's application for membership in the United Nations. [REDACTED]

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**GREEK GOVERNMENT DISCOURAGED
OVER CYPRUS**

The position of Greek prime minister Karamanlis' government is becoming precarious as a result of recent developments concerning Cyprus. The surrender ultimatum issued by the British in answer to the truce called by EOKA, the Cypriot guerrilla organization, dashed the cautious optimism that had been developing in Athens, and EOKA has resumed its campaign of violence on the island. Subsequent publication in London of captured EOKA documents allegedly linking exiled Archbishop Makarios and the late Greek prime minister, Papagos, to violence on Cyprus have further strengthened the Greek conviction that Britain does not desire a settlement of the issue and seeks the overthrow of the Karamanlis government.

At the same time, the build-up of British and French forces on Cyprus in connection with the Suez crisis underscores Britain's claim of the island's strategic importance to the protection of its

interests in the Middle East and suggests a further stiffening in London's attitude toward the Cypriot claim for self-determination. Also, Turkish president Bayar recently reiterated Ankara's determined opposition to any concession to Greek-Cypriot nationalists and insisted that the only solution to the problem is to maintain the status quo.

The preoccupation of the Greek public with the Cyprus issue has forced the government to devote most of its energies and resources to that problem, to the exclusion of needed economic planning and development. Greek popular impatience with Karamanlis' moderation in promoting Cypriot claims is causing a weakening of party discipline among the prime minister's followers in parliament. If the government should fall, it would almost certainly be succeeded by one susceptible to Communist influence and inclined to promote the Cypriot cause regardless of Greece's ties with its Western allies.

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POLITICAL CRISIS IN JAPAN

Foreign Minister Shigemitsu's return to Tokyo this week to report on the deadlocked Japan-USSR treaty negotiations produced the expected political storm, and presented the Hatoyama government with a serious crisis which threatened to split the conservative Liberal-Democratic Party.

Negotiations With USSR

The debate centered on whether to accept the present Soviet terms, reject them, or to send Prime Minister Hatoyama to Moscow in an attempt to reach a compromise solution. With some elements in the party seeing an opportunity to bring about what they regard as Hatoyama's long-

overdue retirement, the controversy has revived deep-seated factional rivalries, and a struggle for control of the government is under way.

Hatoyama is still determined to make the trip, but is apparently supported only by his own faction of the party. While Hatoyama's opponents fear that, in his eagerness to restore relations with the USSR, he might accept terms unfavorable to Japan, their major concern is that he would be successful in effecting a compromise which could be favorably presented to the Japanese public. This would inevitably enhance the prestige of the ambitious agricultural and forestry

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minister, Kono, and others who presumably would accompany the weak and ailing premier.

A majority of the conservative leaders are probably now convinced, along with Shigemitsu, that further negotiations with the USSR would be futile. Some of them are pressing for an immediate rupture in the talks, to be followed by Hatoyama's resignation, and a renewal of negotiations at some future date by the new government.

Others believe that while no further substantive concessions can be expected from the USSR on the southern Kurils question, a skillful negotiator, fortified by the recent American statement which strengthened Japan's position on the territorial issue, could still convince the Russians to accept the formula contained in the San Francisco treaty which renounced Japan's sovereignty over the Kurils but did not admit to Soviet sovereignty, or which sets aside the issue for future settlement.

Power Struggle

Hatoyama's proposed trip has other implications in the power struggle. The prime minister has often asserted that a restoration of diplomatic relations with the USSR, with or without a peace treaty, would crown his career, and that he would then be willing to retire. Each faction leader in the Liberal-Democratic Party wants to be in a position to take up

Hatoyama's mantle when he retires, which might follow either success or failure at Moscow.

The various party factions also apparently feel that whoever is selected to act as prime minister in Hatoyama's absence would have an inside track in the race for the premiership. The inability of the party to agree on a successor has kept Hatoyama in power, although conservative leaders have long since acknowledged that his weak and inept leadership has become a political liability. The probability that the trip would be preceded by a cabinet reshuffle has given further impetus to the political maneuvering.

In an effort to restore calm, party leaders are concentrating on the question of what course to follow in the treaty negotiations. Japanese press reports indicate that the government has decided to explore further the possibility of restoring relations without actually concluding a peace treaty--a formula which the Soviets firmly rejected during the Moscow talks.

The possibility that the crisis will develop to the point where it would precipitate a party split and the fall of the government cannot be completely discounted. Most observers believe, however, that a cabinet reshuffle is the more likely immediate result of the controversy, since none of the conservatives would view with equanimity the prospect of new elections, in which the now united Socialists would be certain to make further gains. 25X1

LAOS

Laotian prime minister Souvanna Phouma is "most disturbed" over the Pathet Lao's frequent violations of the cease-fire agreement and its

delay in sending representatives to work out a detailed settlement implementing the agreement in principle reached with Prince Souphannouvong.

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The American embassy in Vientiane reports that the Pathet Lao violations of the cease-fire agreement of 5 August in the two disputed provinces of Phong Saly and Sam Neua have caused the Laotian army chief of staff to doubt Pathet "good faith."

Souvanna, who is worried about these skirmishes, has "summoned" Souphannouvong to come to Vientiane at once with his negotiating teams to settle the details covering the imposition of royal authority over the disputed provinces and the integration of Pathet forces into the army.

established. It is probable, however, that they will soon show up to "negotiate," if for no other reason than to prevent the overthrow of the Souvanna government and its possible replacement by a less accommodating regime. The International Control Commission notified the Laos government on 3 September that the Pathet teams were expected on the fifth or sixth.

China Trip

Meanwhile, Souvanna has indicated that he was well-pleased by the "red carpet" treatment he received in Peiping and Hanoi during his recent trip. He was favorably impressed by Chinese Communist advances in heavy industry and was convinced that Chou En-lai is a man of peace.

Since his return, however, Souvanna has sought to dissipate the unfavorable effects his trip had on the West.

Since becoming premier, Souvanna's chief objective has been to reunite Laos. To achieve this objective he has banked heavily on Pathet "patriotism," has promised extensive concessions to the Communists, and may be vulnerable to pressure to make further accommodations. The Pathets' intransigence seems to be aimed at extorting a settlement that will leave them in de facto control of their troops and territory--at least until their political position is firmly

In any event, the unification of Laos as well as the course of its relations with the Orbit depends essentially on the outcome of the negotiations to be conducted in the mixed commissions.

**PEIPING HEDGING
ON BORDER DISPUTE WITH BURMA**

Faced with a resolute Burmese position on the border issue, the Chinese Communists have announced that they are willing

to withdraw troops from the disputed territory in the Wa States, according to Burmese press reports. Peiping proposed, however,

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that Burmese troops be withdrawn from the disputed boundary in the Kachin State area-- a condition which Burma will almost certainly reject. Continued Chinese intransigence may lead to an attempt by Rangoon to bring the weight of other neutral nations to bear on the Chinese for a final settlement.

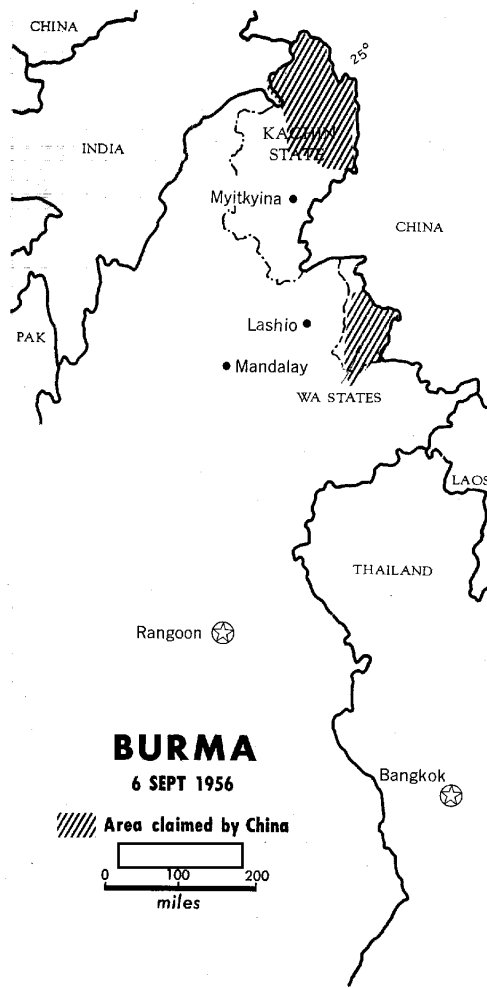
The Chinese proposal apparently was designed to give China a counterweight on the Wa States. Burma's case for the boundary in the Kachin State is less clear-cut. Peiping apparently hopes to prolong any negotiations in order to postpone a choice between abandoning its territorial claims and offending Burma by demanding cession of the disputed areas.

Burma's Prime Minister Ba Swe, whose vigorous demands have been forcing Peiping's hand, probably would meet any continuing deadlock by attempting to create pressure on Communist China through the intercession of neutral nations.

The Burmese newspaper Nation called for India and Indonesia to send observers to Burma and an influential Indonesian newspaper published an editorial strongly supporting Burma and denouncing Chinese "bluster and arrogance."

In the event that any neutral countries intercede with Peiping on Burma's behalf, the

Chinese Communists are likely to try to convince them that China's claim to the disputed areas is at least equally valid. They will probably continue to insist that a settlement of the Wa States dispute must be part of an over-all solution, which would cover the Kachin State issue.



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**INITIAL OPERATIONS
OF THE TRANS-MONGOLIAN RAILROAD**

During the first five months of its operations-- January to May 1956--the Trans-Mongolian Railway carried 652,000 tons of goods. The tonnage

reportedly moved in May was 87 percent higher than that in January, and shipments in June were expected to be still higher.

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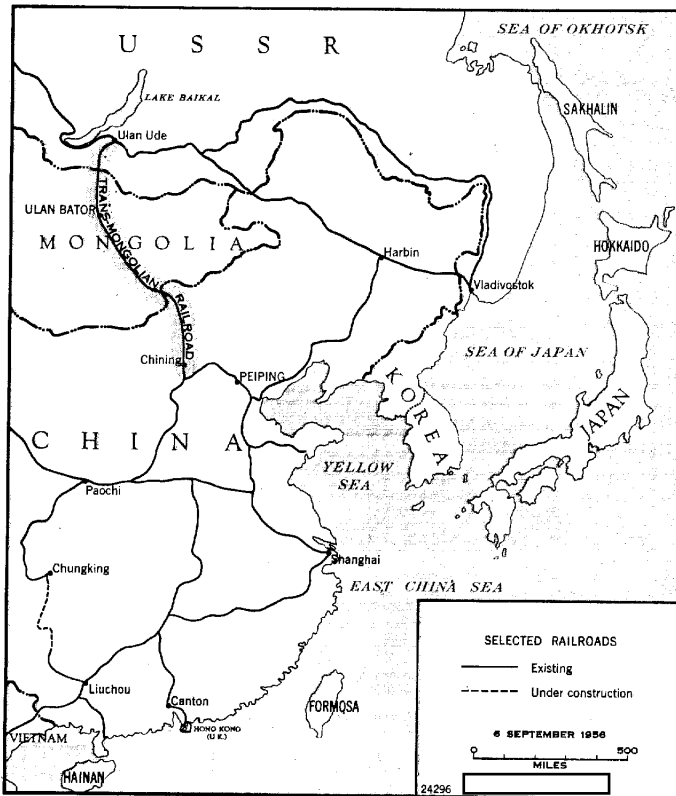
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Chinese exports over the railway consisted mainly of agricultural products and industrial raw materials, relieving traffic over the Manchurian line, formerly China's only rail link with the USSR.

Chinese imports consisted of plant equipment, machinery, electrical apparatus, petroleum products, chemicals and transport and agricultural equipment.

On the basis of freight carried between January and 31 May, it is estimated the line will carry about 2,000,000 tons in its first year of operation. This is about one half the estimated capacity of the line, and is equal to one third the volume of goods moving between the USSR and China. Specific details of grain cargoes reveal that freight cars have been lightly loaded. This practice will probably continue at least through 1956 to prevent major damage to the roadbed, which has not yet settled.

In addition to reducing freight costs, the railway provides a direct route for the equipment to support industrial development in west and north-west China. Moreover, its use decreases the length of freight



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haul previously required of Chinese rolling stock, thereby easing the growing burden on the Chinese freight car park.

This line, in conjunction with other rail developments is greatly increasing China's ability to reach all major parts of the country by a relatively secure rail system and is reducing vulnerability to a coastal blockade. A line connecting Paochi and Chungking has recently been completed, and construction is planned on a line that will connect Chungking with the main north-south system. (Prepared by ORR)

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BIRTH CONTROL BEING ADVOCATED IN COMMUNIST CHINA

Communist China is the only Sino-Soviet bloc country which has permitted an educational and propaganda campaign

to popularize the practice of birth control. The campaign is taking place despite Marxist dogma that poverty is attributable

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not to population pressure on the economy but to "pre-Socialist" forms of social organization.

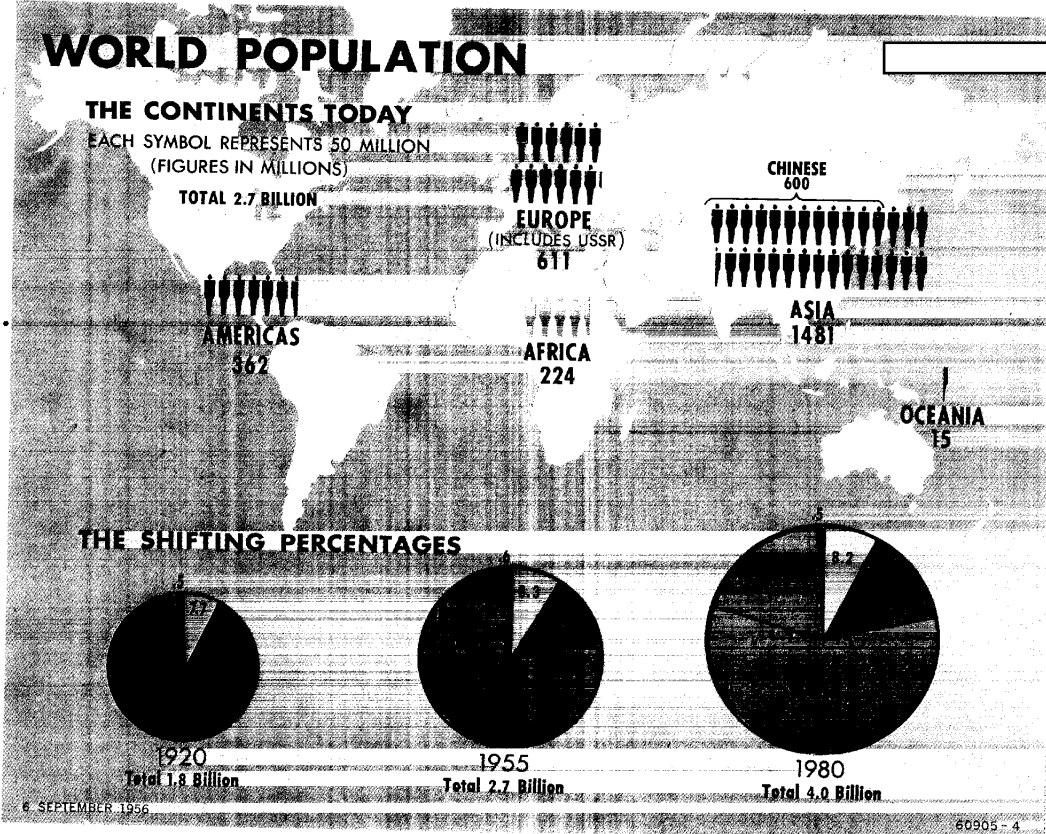
The Chinese Communist Party has refrained from direct criticism of the Marxist doctrine. The party line on the population problem, as theoretician Chen Po-ta affirmed last February, remains that "there is no sign of overpopulation in China." Communist spokesmen reiterate assurances that planned increases in agricultural production will provide sufficient food for the country's expanding population. Party officials allude to the possibility of overpopulation in China only by indirection, as for example in statements urging migration to the relatively unsettled

northeast and northwest to reduce the "surplus rural population."

While unwilling to press for a revision of doctrine at this time, however, the Chinese Communists are apparently determined that doctrinal considerations alone are not to prevent the adoption of realistic policies. At the National People's Congress sessions in 1954 and 1955, non-Communist Shao Li-tzu called for "some restriction on population." This appeal was taken up in the 1956 session of the congress by Minister of Health Li Te-chuan, also a non-Communist.

In press and magazine articles, the Chinese authorities are now giving detailed

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information on contraception. Birth control is described as the "people's democratic right." A directive issued by the Ministry of Public Health last month called on provincial and municipal health organizations to train propaganda workers and to work through women's organizations to spread birth control information.

In deference to Marxist doctrine, the propaganda on birth control appeals to such

considerations as the health of mothers and the welfare of the children rather than the desirability of ameliorating the overpopulation problem in order to raise living standards.

Although the Chinese Communist Party has not voiced its support of the non-Communist advocates of population limitation, the Communist leadership clearly condones and almost certainly approves their views.

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SOVIET-WEST GERMAN RELATIONS

Controversies over the status of Soviet nationals in West Germany and German nationals in the USSR, together with the banning of the West German Communist Party, have further damaged the already poor relations between the two states, but neither government is likely to move now to break diplomatic relations.

Status of Nationals

In a note delivered on 23 August, the Soviet government denied that the tens of thousands of Soviet citizens which it said were in West Germany were actually refugees who desired to remain there. It charged that Soviet citizens, particularly certain ones who have been in prison, were being bullied into avoiding contacting the Soviet embassy to seek repatriation. This is the latest in a series of recent Soviet notes charging that Soviet citizens were being held in West Germany against their will, presumably designed to offset similar charges by Bonn concerning the treatment of German nationals in the USSR.

In mid-August, the West German embassy in Moscow was prohibited from contacting some 30 German guided-missile

specialists being held in the USSR despite the expiration of their contracts, on the grounds that their interests were being handled by the East German embassy.

The West German government has had difficulty in obtaining the return of other German nationals. The USSR has claimed that many on the first list of 1,000 names submitted in March have died, have previously been repatriated, or are actually Soviet citizens. This last point in particular is likely to be a source of continuing dispute. The Bonn government contends that it has the sole right to determine the nationality of Germans desiring repatriation in the USSR.

Reunification

The recall of the Soviet ambassador from Bonn in July was presumably designed to dramatize the charge that the Bonn government had scorned an opportunity to improve the chances of reunification by ignoring Ambassador Zorin. Although his post is likely to remain unfilled for some time, there is no sign Moscow intends to break diplomatic relations.

There is no indication that Ambassador Haas will be

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recalled as a countermove. He has returned to Moscow following talks in Bonn. Bonn is unlikely to break diplomatic relations with the USSR at this time, when the opposition parties could exploit such a move against Adenauer in the 1957 election campaign.

The West German Foreign Ministry hopes to initiate an exchange of ideas on reunification and other questions through a note which it has let be known would be sent this week to the four former occupation powers. The note, addressed primarily to the Soviet Union, will set forth a hypothesis for a new move on reunification, which Bonn hopes will allay Soviet mistrust of the Federal Republic and relieve present tension between the two countries.

Reaction to Party Ban

On 29 August the barrage of Orbit propaganda attacking the banning of the West German Communist Party was climaxed by the publication of a statement of the central committee of the Soviet Communist Party.

**WEST GERMANS WEIGH SHIFT
IN MILITARY DEFENSE STRATEGY**

A growing controversy over the nature of West Germany's new defense forces is likely to come to a head in the Bundestag soon after it reconvenes in mid-September. Chancellor Adenauer, who deplors signs of a shift in Western defense strategy from conventional to nuclear weapons, hopes to find support for his view, that Allied manpower in West Germany should not be reduced, at a meeting of the Ministerial Council of the Western European

In unusually harsh tones, it charged that Bonn was following in the footsteps of Hitler and that its "arbitrary and terrorist" actions showed it was aiming at a "forced reunification of Germany through a new war." It said the ban renders peaceful reunification impossible and talk of free elections meaningless. The Bonn government called the Soviet party statement a "gross interference in West German internal affairs."

The American embassy in Moscow has pointed out that the USSR is particularly sensitive to the ban of the West German Communist Party because it reflects on Soviet efforts to cloak foreign Communist parties with respectability. Moscow may expect its statement to offset the effect of the forthcoming West German note on unification. In view of the widespread criticism of Bonn's action by the opposition parties and by the European press, the Soviet leaders probably believe their sharp attack will help to discredit the Adenauer regime, and put the blame on it for the lack of progress toward unification.

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Union scheduled--at Bonn's request--for 15 September in Paris.

Since the meeting was called on 25 July, the Germans also have become worried over the withdrawal of some British forces from West Germany as a result of the Suez crisis.

The dispute over Bonn's defense forces has gained new momentum from an official article recently published by Chancellor Adenauer in which

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he stressed his view that disarmament is impractical until the USSR manifests a genuine change in attitude. He argues that the shift of emphasis in rearmament to atomic weapons would be a mistake and lessen the chance of avoiding global atomic war.

Deputy Chairman Mellies of the opposition Social Democratic Party (SPD) at once replied that the SPD intended to have this subject taken up in the Bundestag during the debate on the length of service for draftees. Mellies attacked the chancellor's views, saying that the Western powers had already decided to concentrate on atomic weapons. He claimed Adenauer was making a fatal error in believing that a war in Europe could be nonatomic or localized and concluded that the only solution for Bonn was a small army of highly trained technicians.

Meanwhile, Bonn officials have stated that the Germans' main objective at the WEU meeting will be to reach some agreement among member countries as to the political importance of maintaining conventional forces.

They fear that reducing Western forces in Europe and placing less stress on conventional weapons would leave the West dangerously exposed to Soviet bloc actions short of all-out atomic war. Chancellor Adenauer apparently hopes that any support he obtains for this line of argument at the WEU meeting will strengthen his position for the later Bundestag debates and help him "sell" the whole program of rearmament and conscription to the public before the crucial 1957 federal election.

Bonn expects considerable support from the Benelux countries. The British, however, appear to regard the matter of troop cuts in West Germany as a question to be taken up by NATO, and do not see what can be "decided" at the WEU meeting. There are indications that the French, while sharing Adenauer's misgivings, would not strongly support the Germans, since they do not want to offend the British during the Suez crisis.

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EAST GERMAN LIVING STANDARDS

The people of East Germany are increasingly dissatisfied with their standard of living, which though higher than that of most of the Satellites, remains below the prewar German level. The Soviet-East German agreement of mid-July which is to make available 7.5 billion rubles (1.8 billion dollars) to East Germany for the period 1957-60, is designed to improve living conditions. However, standards as high as those of West Germany will almost certainly not be attained.

Although output of consumer goods other than food doubled between 1948 and 1954, the East German worker finds the quality of goods inferior not only to that of the merchandise he bought before the war but also to that of items now available in West Germany. The assortment of goods is frequently quite limited and the distribution to retail outlets, even of products in relatively good supply, is reported to be erratic.

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During present conditions of full employment, when labor productivity has been lower than planned and overtime work has been considerable, the worker has accumulated excess purchasing power. This has created inflationary pressure and stimulated black markets, to the worker's disadvantage. Pressure on the worker to increase his output has heightened his discontent. The regime recently canceled the application of new output norms because of adverse worker reaction.

Housing continues to be inadequate, and during the severe weather of last winter, shortages of coal and electricity caused considerable suffering and a reduction in industrial output.

In agriculture, there was no appreciable increase in output between 1951 and 1956. Reasons include the neglect of agricultural investment, pressure

from the regime for farm collectivization, loss of farmers to industry, and defection of farm workers to the West.

The average consumption of food, in calories, during 1955-56 was lower than in any Satellite except Albania. The quality of the diet, however, generally ranks above that in most Satellites. Fats, meat products and sugar are strictly rationed to ensure that the industrial force is favored. Shortages of meat and butter have apparently been more serious than normal this summer.

Agricultural output is scheduled to expand only 25 percent during the Five-Year Plan (1956-60) and production of all consumer goods only 40 percent. Thus, it is virtually certain that East Germany will not attain a standard of living as high as that of West Germany during this period.
(Prepared by ORR)

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PART III

PATTERNS AND PERSPECTIVES

THE FORTHCOMING CHINESE COMMUNIST PARTY CONGRESS

The Chinese Communist Party's 8th Congress, scheduled to open in Peiping on 15 September, is likely to start the party moving in the direction of a "collective leadership," but Mao Tse-tung will almost certainly continue as the dominant figure. The proceedings of the congress--the first since 1945--will throw further light on Mao's intentions with regard to his succession, and may reflect the relative strength of Mao's lieutenants in any maneuvering following Mao's departure from the scene. The congress will elect a new and probably larger central committee, hear reports adjusting the party constitution to the latest Soviet party statutes, and be presented with an ambitious five-year plan for the period 1958-62.

The party's 7th Congress in 1945, like the Soviet party congresses since the 1920's, was clearly a rubber-stamp for the party leadership, enthusiastically approving its policies and electing its choices to the central committee. This is expected to be essentially the case again, although there will be an appearance of earnest discussion and a mild show of "criticism and self-criticism." In line with similar developments in several bloc countries since Stalin's death, such criticism was expressed during the government's National People's Congress last June and has been encouraged in local party congresses in recent months.

Mao Tse-tung probably will give the welcoming speech. The approximately 1,000 delegates then will probably elect a temporary presidium and secretariat to guide the congress. The 15-man presidium elected

at the 1945 congress included 12 persons who were subsequently elected to the politburo. The guiding organs at the forthcoming congress, similarly, will probably include all members of the politburo which will emerge from the congress.

The Central Committee Report

If the Chinese follow Soviet practice, the report of the party central committee, the first item on the published agenda, will be the major feature of the congress, with an elaborate review of the world situation, China's internal position, and the condition of the party.

If this procedure is followed, Mao himself would probably make the report, just as Khrushchev made the central committee report to the Soviet party congress in February. Mao might delegate the job, however, in order to emphasize collective leadership and to give a fresh indication of his choice as to the second-ranking man in the collective. Liu Shao-chi has been Mao's top lieutenant and his foremost spokesman in party affairs since 1945, while third-ranking Chou En-lai has covered both foreign and domestic affairs many times in his periodic reports as premier.

Alternatively, the congress may restrict the central committee report to a review of party affairs and surround it with other major addresses, thus in effect breaking up a Soviet-style report into several components. For example, Mao might make a report outlining party policies in the "transition to socialism," while several lieutenants might report on their areas of responsibility.

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In any case, the Chinese are expected to make the same generalities about the world situation as Khrushchev did at the Soviet party congress, to the effect that the Socialist camp will triumph in a long-term peaceful competition.

With regard to domestic affairs, the central committee report is expected to assert principally that China remains on the "high tide of Socialist revolution," that this can be completed "in the main," as Mao has said, in three years or less, and that five-year plan goals will be met ahead of schedule or surpassed.

In describing party affairs, the central committee report is expected to assert that the party leadership is faithful to Leninism, and that the party must lead in opposing "conservatism" in all phases of the "transition to socialism."

The central committee report and any other major speeches will probably be followed by "discussion." Central and provincial party leaders may express minor criticisms but are expected to give greater attention to shortcomings in their own spheres of responsibility.

Revision of Party Constitution

The next item on the agenda is a report on a revision of the party's constitution, last revised in 1945. The 1945 report was given by Liu Shao-chi, credited with the largest role in drafting the constitution and generally believed to be the principal supervisor of the central committee's major departments. Liu or one of his deputies is expected to make the report on constitutional revision again. Liu appears to have held on to his position in the party hierarchy--second only to Mao--despite the embarrassment caused him in 1954 by Jao Shu-shih. Jao, apparently

a protégé of Liu and director of the organization department of the central committee, was broken for conspiracy with politburo member Kao Kang.

The constitution adopted in 1945 was modeled on the Soviet party statutes of 1939, embodying the basic Leninist concepts of party organization--centralism, authoritarianism and rigid discipline. As usual, however, the Chinese Communist Party "adapted" the model to Chinese conditions, in particular the dominance of the party by Mao and the party's effort to present its program as "new democracy."

The new constitution will probably resemble in many respects the latest Soviet model of 1952. Of the Chinese features, Mao's personal leadership will probably no longer be emphasized, and the party's tasks will be updated to stress the "transition to socialism."

Of particular interest is the possibility that the number of posts held by the head of the party will be reduced. Mao is chairman of the central committee, the politburo, and the secretariat which directs the daily operations of the party. If one or more of his posts were eliminated, the party would present an appearance of greater collective leadership and would in fact have taken a step toward such a collective. The party might at the same time provide for a leader of the post-Mao collective by creating the post of vice chairman under whichever chairmanship Mao retains.

The constitution may also be revised to expand the role of the secretariat in organizational work, in line with Soviet practice. With the elimination of the organization department or restriction of its functions, the top handful of party leaders would get a tighter grip on the

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key function of assigning party personnel.

Other revisions are expected to include a stiffening of qualifications and procedures for party membership, a definition of the role of the Central Control Committee set up last year, and a provision for some equivalent of the Soviet party's Central Auditing Commission.

Second Five-Year Plan

After discussion of the report on the party constitution, the directive on the Second Five-Year Plan, the third agenda item, will be presented. The speaker may be, following Soviet practice, Premier Chou En-lai, but is more likely to be one of his two top lieutenants for economic affairs: Li Fu-chun, the chief economic negotiator with the USSR and chairman of the State Planning Commission, which has primary responsibility for drawing up the five-year plans; or Chen Yun, the senior vice premier and the regime's principal spokesman for economic matters in general.

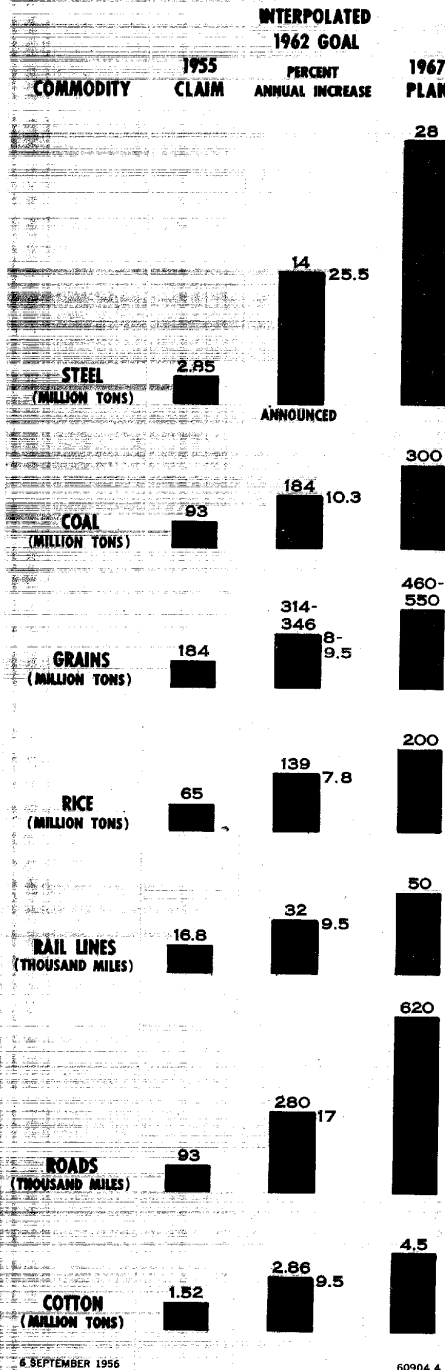
The Second Five-Year Plan in many respects will be China's first co-ordinated long-term plan. In the period 1953-57, officially that of the first plan, controls over the economy and statistical reporting organizations were in process of organization, and most of agriculture, food distribution and other commerce was in private hands and only indirectly subject to centralized planning. Socialization of agriculture, industry and trade will probably be essentially completed in the second plan period.

Unlike the USSR, Peiping has not published a draft of the new plan prior to the congress. Announcements to date have made clear that it will emphasize heavy industry, provide for increased investment in light industry, and call for a great increase in agricultural output.

CHINESE COMMUNIST ECONOMIC GOALS

Chinese Communist planners expect an annual population increase of almost 2 percent, with a mainland population of 780,000,000 in 1987

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Clues as to specific goals may be found in various 12-year plans published by the regime. These have appeared to be early and rough plans--intended in party to dramatize Peiping's expected successes. The planned increase in grain output in particular seems unrealistic.

Election of Central Committee

The final item on the agenda is the election of a new central committee. The present central committee--41 full members and 27 non-voting members--has been of little importance as a body in recent years. The composition of the new membership, nevertheless, will be significant--primarily because it will have been decided on beforehand by the party's top leaders and may reveal their relative strengths.

It seems likely that the membership will be roughly doubled, to between 120 and 150. Most of the 68 present members will probably be named again. New members will probably include leading officials of the central committee's central departments, government and military officials in Peiping, ambassadors and leaders of mass organizations, first secretaries of the party's provincial and municipal committees, and commanders and political commissars of major military areas and operational commands.

The high levels of the party and government in Communist China in recent years have clearly represented Mao Tse-tung's own team. That is, almost all members of the politburo and secretariat, and most of the top two dozen officials of the government (including the principal military leaders) are known or believed to owe their position to Mao more than anyone else. Many of Mao's favorites occupy top party and government posts concurrently.

The central committee elections and appointments will almost certainly continue to reflect Mao's domination of the party, and will throw further light on Mao's preferences as to his heirs.

It is by no means assured that Mao's arrangements will survive him: some of his lieutenants may well have plans of their own. Many of them have acquired protegés and their success in installing their personal followers in key party positions may have a profound effect on the leadership picture following Mao's departure from the scene.

Personalities

Mao's two most powerful lieutenants have long seemed to be Liu Shao-chi and Chou En-lai. Other centers of power seem to be Peng Te-huai, the defense minister, Peng Chen, mayor and party boss of Peiping, and Kang Sheng, long reported as the party's secret police chief.

Figures at the politburo level who would be great assets to any contender for power are economic specialist Chen Yun, the ailing military hero Lin Piao, and long-time political commissar Teng Hsiao-ping.

Other key officials, one or more of whom may be tapped for politburo membership, include: Li Fu-chun, state planning director; Po I-po, who directs the annual economic planning; Teng Tzu-hui, Mao's main lieutenant for agriculture; Li Hsien-nien, a top economic co-ordinator; Lo Jui-ching, the public security chief; Lo Jung-huan, director of the political apparatus in the armed forces; Chen I, a military leader and vice premier; and Su Yu, chief of staff, although Su has been out of the news and may be in trouble.

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Among these lieutenants, Liu Shao-chi's hand is expected to show most clearly in the selection of new central committee members from the committee's present apparatus. In the selection of new members from persons important primarily as government officials, Chou En-lai's influence will probably be most apparent. The military group to be named will probably reflect most sharply the rise in recent years of Peng Tehuai, who has been surrounding himself at the top of the

military establishment with his earlier deputies.

Few of the party leaders outside Peiping can be plausibly aligned with any one of the top handful, although some of them may have been appointed by Liu. Those elected to the central committee will probably have had substantial association with the onetime regional leaders now just below the top level of power, such as Teng Hsiao-ping, Lin Piao, Chen I Teng Tzu-hui, Li Fu-chun and Po I-po.

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SOUTH VIETNAM FEARS NEW COMMUNIST PRESSURE

The government of South Vietnam, having achieved a measure of internal stability and security, is increasingly concerned over what President Diem calls the "rampant growth of neutralism" in Asia, particularly in Laos and Cambodia.

Threat From Laos and Cambodia

South Vietnam fears that the Laotian government's rapprochement with the Pathet Lao foreshadows an anti-Western administration in Laos, which would undermine its own efforts to resist Communism. With Cambodia already strongly neutralist and antagonistic toward Saigon, such a development in Laos would complete South Vietnam's physical isolation from sympathetic allies and further expose it to Communist encroachment.

More immediately, the Diem government fears that the settlement in Laos will provide the Communists with fresh propaganda to revitalize their long-standing, but lagging, campaign

to develop international pressure on South Vietnam to accede to unification elections. Saigon feels that British support of, and India's acquiescence to, Diem's anti-Geneva stand will be adversely affected, since both these countries have tended to consider that a settlement in Vietnam would be dependent on Communist willingness to come to terms in Laos.

Cambodia and Laos, moreover, have both recently signed joint communiqués with bloc nations formally endorsing the full implementation of the Geneva accords in Vietnam, whereas previously they had refused to become involved in Vietnamese affairs. Hanoi radio has already noted Saigon's concern over developments in Laos, and pointedly predicted that "the success of the Vietiane talks has heightened the confidence and spirit of struggle of the Vietnamese people for the peaceful reunification of their country."

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South Vietnam's Tactics

To protect its position externally, Saigon has rushed an envoy to Laos to counteract the arrival of any Communist representation in Vientiane that seems likely to result from Laotian premier Souvanna Phouma's visit to Peiping and Hanoi. The envoy's thinly veiled threat to Laotian leaders prior to their departure for Peiping, however, to the effect that Laos' outlets through South Vietnam might be closed unless Vientiane abandoned its neutralism, appears only to have irritated the Laotians.

Similarly, the South Vietnamese representative in Cambodia has been instructed to "stand and fight it out" in the event Viet Minh diplomats show up in Phnom Penh. In addition, Saigon has decided to continue its disadvantageous trade and payments agreement with Cambodia in order not to push the Cambodians toward closer relations with the Communists.

Saigon is also attempting to convince New Delhi that Indian interests can best be served in Indochina by keeping South Vietnam independent. To this end, the influential secretary of state for the presidency, Nguyen Huu Chau, went to New Delhi with a trade delegation for talks with Prime Minister Nehru and other Indian officials. Chau appears to have had some success, as he has quoted Nehru as saying, "The Red Chinese--they must not absorb Vietnam," an indication that India is becoming apprehensive of growing Chinese Communist influence in the

Indochinese peninsula, despite its official position that the early unification of Vietnam would help relax international tensions.

Internal Situation

Meanwhile, Diem is continuing efforts to shore up South Vietnam's internal defenses against Communism. Constant military and police pressure is being maintained on Viet Minh cadres. Army units are also conducting a major security sweep to eliminate all significant Viet Minh paramilitary forces in the southern part of the country. As part of the antisubversive program, Diem issued a tough antiespionage and treason decree on 21 August establishing the death penalty for any Vietnamese taking up arms against the state.

Diem recognizes that although the danger of overt Viet Minh aggression seems to have receded for the present, he will have to deal with the more subtle long-range problem of political and economic subversion. Spiraling living costs, periodic shortages of commodities and labor agitation are sources of potentially serious unrest. In addition, travelers on the highways have been subjected to lengthy harangues by Communist agents concerning the South's impoverishment and lack of hope for the future, an indication that the Viet Minh is actively exploiting economic conditions in South Vietnam.

Diem blames much of the recent labor trouble and food shortages on corrupt administrators. Accordingly, he has

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served notice that now that a measure of stability has come to South Vietnam, he intends to concentrate on rooting out venal elements in the government. Stiff punishment has already been meted out to high-ranking officials convicted in the black-market sales of government-distributed rice, while the "brains" of this swindle--a former cabinet member--faces a possible death sentence under last October's antispeculation decree. Despite the involvement of high officials, the full publicity given these trials will probably enhance the government's prestige.

Diem is convinced South Vietnam must expand its economy,

both agriculturally and industrially, if it is to compete successfully with North Vietnam in the long run. Efforts for a large-scale expansion of the South Vietnamese economy, however, are still largely in the planning stage, although there are some signs of progress, such as the prospects for a modest resumption of rice exports next year. During 1957, the South Vietnamese plan to give top attention to agricultural projects promising quick results for large numbers of people, but the establishment of certain light industries such as textile, glassware, sugar and jute will also have a high priority.

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GRANTS UNDER THE SOVIET FOREIGN AID PROGRAM

The USSR has granted countries outside the Sino-Soviet bloc loans and credits totaling at least \$500,000,000 for economic purposes since launching its "trade and aid" campaign early in 1955. In the same period, credits for the purchase of military equipment extended indirectly by the USSR to the Middle Eastern nations totaled \$300,000,000. In contrast, countries belonging to the bloc have received only \$100,000,000* for economic purposes since early 1955, while \$500,000,000 was granted in military credits--all to Communist China. From 1946 through 1954, the USSR had advanced \$4.7 billion to Communist controlled countries for all purposes, and made no significant loans to other countries.

Credits to Sino-Soviet Bloc

Soviet aid to bloc countries since 1946 totals \$5.3

*The USSR has recently offered economic aid to East Germany, including a loan of unknown amount, but apparently less than \$250,000,000.

billion. Of this, over \$2 billion has been granted for economic development and for foodstuffs and raw materials. The major beneficiaries of this part of the program have been Poland, East Germany, China, North Korea and North Vietnam. A like amount of Soviet credits has been extended for the purchase of Soviet-owned properties in East Germany, Rumania, Hungary, Bulgaria and Communist China. These so-called "joint stock companies" were largely composed of Soviet-seized assets of Nazi Germany and Japan.

Military aid, totaling \$1.2 billion, accounts for the remainder of Soviet financial assistance to the Sino-Soviet bloc since 1946.

Of the \$5.3 billion total, only \$600,000,000 has been granted since January 1955: Communist China received a military credit of \$500,000,000 for the purchase of Soviet-held equipment and installation in Manchuria, and Bulgaria received about \$100,000,000 worth of economic

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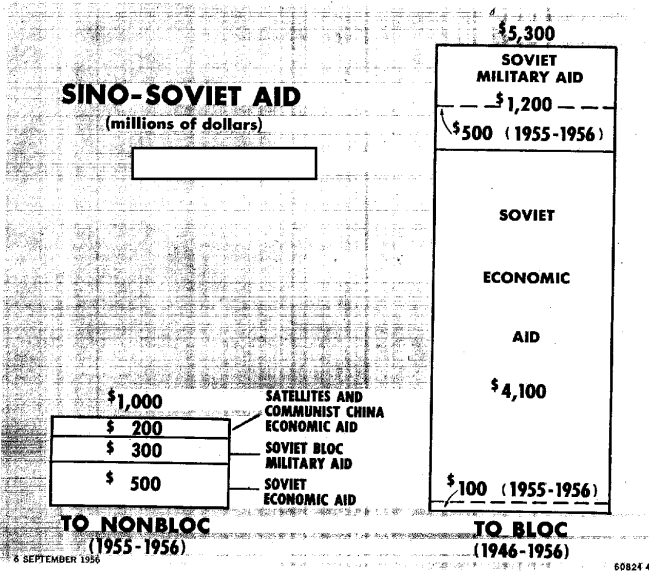
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Free World Credits

During the past year, about \$500,000 in Soviet economic credits--equal to about one quarter of the economic development funds the USSR granted to bloc countries since 1946--have been made available to countries outside the bloc. About 95 percent of this sum went to Yugoslavia, India and Afghanistan for capital goods and technical services. Interest charges have ranged from 2 to 2.5 percent with repayment periods up to 30 years. The USSR has expressed



assistance in 1956 to mechanize and develop agricultural land.

In most cases, repayment of loans and credits and payment of interest charges are made in the form of commodities, frequently the output of facilities built with the credits granted. Interest charges on loans and credits to the bloc range from one to three percent with repayment over periods up to ten years.

The Soviet aid arrangements have been beneficial to both sides. They enabled the European Satellites to acquire urgently needed grain and raw materials in the immediate post-war years, and have assisted them in the development of a vastly expanded industrial capacity.

The USSR, on the other hand, increased its control over the economies of the Satellites. In particular, by specifying the commodities to be sent in repayment, the USSR has been able to some extent to direct investment within the bloc.

a willingness to accept commodities and local currencies in repayment. In some cases, it will receive products from the installations to be built with Soviet aid.

Of \$200,000,000 in economic credits advanced to nonbloc countries by the European Satellites, 90 percent has gone to Yugoslavia. Token loans by Czechoslovakia and East Germany have been made to Indonesia and Afghanistan. A gift of \$22,000,000 from Communist China to Cambodia in June was the first outright grant by any bloc nation to a non-Communist country.

On the military side, the Soviet bloc since late 1955 has extended to Middle Eastern countries about \$300,000,000 in credits for the purchase of arms on extremely attractive terms. These credits are being met by shipments of large surpluses of cotton, for which Egypt--the major recipient of the arms--could not readily find a Western market. (Prepared by ORR)

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