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# CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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**T H E   W E E K   I N   B R I E F****PART I****OF IMMEDIATE INTEREST****MIDDLE EAST DEVELOPMENTS . . . . . Page 1**

Egypt gives no sign of willingness to make significant modifications in its memorandum on the operation of the Suez Canal; France and Britain are planning to call an early meeting of the UN Security Council on this issue. Hammarskjold, who says he is satisfied with the arrangements for the UNEF's operations in Gaza, has asked the Israelis to accept the UNEF on their side of the border. King Saud has again voiced his determination to oppose Israeli use of the Gulf of Aqaba. Leftist elements in Syria and Jordan still appear to have the upper hand. In Syria, leaders of the opposing factions have joined to protest Israeli activity in the demilitarized zone near Lake Hula. [REDACTED]

**SOVIET INDUSTRIAL REORGANIZATION PUSHED . . . . . Page 3**

On 30 March, the Soviet press published for public discussion Khrushchev's "theses" calling for the reorganization of industry on a territorial basis. These proposals are to receive formal consideration at the Supreme Soviet session scheduled to begin on 7 May. Khrushchev hopes through these changes to return the rate of industrial growth to the 10 or 12 percent required to meet the present Five-Year Plan goals. [REDACTED]

**SOVIET DIPLOMATIC MOVES DIRECTED AGAINST NUCLEAR TESTS AND BASES . . . . . Page 6**

In response to recent announcements on Western military planning, the Soviet Union in the last two weeks issued blunt warnings to Great Britain, Norway, Denmark and Greece of the dangers inherent in allowing nuclear bases to be established on their soil. These warnings followed a campaign of propaganda threats and informal diplomatic approaches to other countries, including Japan, Turkey and Ethiopia. At the same time, the USSR is maneuvering through diplomatic channels to gain support for its proposal at the London disarmament talks for the suspension of nuclear testing. [REDACTED]

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## PART II

### NOTES AND COMMENTS

#### SOVIET ACTIVITY IN THE MIDDLE EAST . . . . . Page 1

The USSR continues to support the Arabs against the West and to back anti-Western factions in the Middle East, while warning Israel and France against renewing the military conflict with Egypt. The Soviet Union last week aligned itself with the Nabulsi faction against the Jordanian king and, in order to help Syrian leftists, spread alarmist rumors of Israeli troop concentrations.

#### NEW BRITISH DEFENSE PROGRAM . . . . . Page 2

The substantially reduced British defense program is based on what Prime Minister Macmillan described at Bermuda as Britain's entrance on a new phase as a nuclear power, as well as the need to reduce the defense burden on the nation's economy. Macmillan envisages cutting the armed forces by nearly half over the next four years, drastically reducing overseas garrisons, and no longer attempting effective over-all air cover for the United Kingdom.

#### FURTHER STRAINS ON THE MACMILLAN GOVERNMENT . . . . . Page 4

Prime Minister Macmillan has sustained further serious losses in domestic prestige as a result of Lord Salisbury's resignation on 29 March, charges that the Bermuda conference increased Britain's dependence on the United States, and the government's handling of the extensive labor disputes. Differences within the Conservative Party now center on the annual budget, scheduled for presentation to Parliament on 9 April.

#### CYPRUS DEVELOPMENTS . . . . . Page 5

The Greek majority on Cyprus apparently regards Britain's release of Archbishop Makarios as a victory for the union-with-Greece movement. The Greek Cypriots show no willingness to compromise on the self-determination issue and are unlikely to agree to any self-government program which fails to provide a mechanism for an eventual change in the island's status. Although Athens has publicly rejected any negotiations with Britain and Turkey, as Ankara in particular demands, it has hinted that secret negotiations among the three governments would be acceptable if at the same time Britain negotiated with Makarios.

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## INDONESIA . . . . . Page 6

Continued Moslem party unity against the inclusion of several prominent fellow travelers in the Indonesian cabinet has forced formateur Suwirjo to return his mandate to President Sukarno. Sukarno has now reportedly invited party and provincial leaders to a meeting in Djakarta to discuss ways to solve the crisis. The president, who apparently is attempting to intimidate his opponents, may be stalling, hoping that dissension within the autonomous areas will force the provinces to ease their political and economic demands. [REDACTED]

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## RIOTS IN CHILE . . . . . Page 7

The future of the Ibanez government in Chile is in doubt following serious rioting over the government's economic stabilization program. A state of siege was declared on 2 April, and President Ibanez convoked an emergency session of congress on 3 April to request "extraordinary powers" for six months. [REDACTED]

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## ARMY TAKES OVER IN HAITI . . . . . Page 7

Provisional president Sylvain of Haiti was forced out of office on 2 April by a general strike, and the Haitian army has assumed control until a provisional government or a permanent president can take office. Presidential and senatorial elections previously announced for 28 April are reportedly still to be held as scheduled, but potential rifts within the army and lack of agreement on provisional government arrangements suggest that a more serious breakdown in civil order may occur before then. [REDACTED]

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## ARGENTINE ELECTION TIMING PROVOKES CRISIS . . . . . Page 8

President Aramburu's announcement on 30 March that national elections will be held on 23 February 1958 instead of late in 1957 provoked near rebellion by the Argentine air force. The army and navy are reported supporting Aramburu against ousted air minister Krause, who appeared to be playing partisan politics on the question of the election date. [REDACTED]

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PHILIPPINE POLITICAL SITUATION . . . . . Page 9

In the absence of a highly popular figure such as the late president Magsaysay, the campaign for the Philippine election in November is shaping up as a fight between the two major parties. Maneuvering for nominations is intense. President Garcia appears to be in the strongest position for the Nacionalista nomination, but the possibility that the administration party may split over rival contenders has improved Liberal Party prospects.

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SOVIET-JAPANESE RELATIONS . . . . . Page 10

A Soviet statement to the Japanese that the Okhotsk Sea will be closed to foreign fishing by 1959 indicates an intention to pre-empt the area for the rapidly growing Soviet fishing industry and may also be related to security considerations and weapons testing. The Japanese have called Soviet terms in the fishery negotiations unacceptable, but their weak position may force them to agree, in the hope that benefits might come from subsequent trade development and atomic energy co-operation.

25X1 [REDACTED]

JAPANESE SOCIALISTS SENDING GOOD-WILL MISSION TO COMMUNIST CHINA . . . . . Page 12

The Japanese Socialist Party is sending a mission to Communist China on 10 April for a two-week stay. The Socialists, planning to make relations with China an issue in an anticipated general election, probably hope for some specific gesture indicating Chinese willingness to negotiate with their party.

25X1 [REDACTED]

SINO-CZECH TREATY SIGNED DURING SIROKY VISIT TO PEIPING . Page 13

The Sino-Czech treaty and the joint communiqué issued by Chou En-lai and Czech premier Siroky during Siroky's visit to Peiping suggest that the Chinese intend to play an increasingly active role in East European affairs. The treaty calls for co-operation on matters of economic, scientific and cultural development.

25X1 [REDACTED]

ECONOMIC PROVISIONS OF SOVIET-HUNGARIAN COMMUNIQUE . . . Page 13

The comprehensive Soviet-Hungarian economic agreement concluded on 28 March strengthens Moscow's control over Hungary's economic future. In return for substantial immediate concessions in the form of goods and credits, Hungary pledged to expand shipments to the USSR over a long-term period.

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YUGOSLAVIA REORIENTING FOREIGN ECONOMIC POLICY TOWARD  
THE WEST . . . . .

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The political dispute with Moscow has forced Yugoslavia to re-evaluate its long-term foreign economic relationships. It apparently now feels it must rely on a greater extent on the West, in particular on the United States. Yugoslav officials state that the shift in attitude is prompted by growing distrust of the Soviet Union. [REDACTED]

PRINCE PETSARATH RETURNS TO LAOS . . . . .

Page 15

Since his return to Laos, Prince Petsarath has called for a policy of "strict neutrality" and for diplomatic relations with Communist China and North Vietnam. While disclaiming anti-American bias and any intention to accept Chinese Communist aid, he has been sharply critical of the "bad utilization" of American assistance. The arrest of one of Petsarath's followers in connection with a political murder unsolved since 1954 may intensify disunity in Laotian political circles. [REDACTED]

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Page 16

SINO-BURMESE BORDER DISPUTE . . . . .

Page 17

Burmese premier U Nu's 11-day visit to Communist China ended on 2 April without a final agreement on the Sino-Burmese border dispute. Peiping is politely evading the issue but is maintaining the appearance of reasonableness. Rangoon can be expected to press for a settlement and, failing that, to revive its previous tactic of publicizing the issue. [REDACTED]

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MOLLET GOVERNMENT WEAKENED . . . . . Page 19

The sharply reduced margin which the French National Assembly gave Premier Mollet in the 28 March vote of confidence underlined his dependence on rightist votes for survival. Mollet's next period of crisis is expected during the debate on budgetary and tax issues in May when the right may attempt to overthrow his government.

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## PART III

PATTERNS AND PERSPECTIVES

RESISTANCE CONTINUES IN HUNGARIAN SCHOOLS . . . . . Page 1

The Hungarian Communist regime is meeting with strong, united opposition in the nation's schools. Students of all ages, in many cases acting in concert with their teachers, are maintaining the spirit of the revolution in the classroom. The party and the government have responded with traditional techniques of intimidation and force.

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ECONOMIC REFORMS IN RUMANIA . . . . . Page 3

The Rumanian regime is overhauling its economic planning and the organization of the central government in order to deal with inefficient production and unrest brought about by shortages, mounting unemployment and high prices. New responsibilities delegated to the people's councils--the local unit of government--give them a key role in economic planning.

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## INDIAN NATIONAL ELECTION RESULTS . . . . . Page 5

In India's second national election, Prime Minister Nehru's Congress Party retained its firm hold in parliament but lost ground in nine of the 13 state governments. It lost Kerala to the Communists and has such a small plurality in Orissa that it may not be able to form a stable government there. Serious declines in the Congress Party's power in some other states, coupled with an overall increase in Communist strength at both state and national levels, raise problems regarding the amount of co-operation a Congress-dominated parliament can obtain from the states during the next few years. [REDACTED]

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## NORTH VIETNAM'S STATUS IN THE BLOC . . . . . Page 7

The Viet Minh leadership, while drawing on Soviet and Chinese sources for guidance, is setting its own pace in the management of North Vietnam's internal affairs. In foreign affairs, the leadership has reluctantly subordinated its own aspirations to the lines of policy drawn in Moscow and Peiping. Chinese commitments to North Vietnam are somewhat larger than those of the USSR, and Chinese influence seems to be correspondingly greater. This influence, however, has been exerted in full awareness of Vietnamese nationalist sensibilities and with the declared intention of avoiding the error of "great-nation chauvinism." [REDACTED]

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## INFLATIONARY TRENDS IN WESTERN EUROPE . . . . . Page 11

At a time when Western Europe's attention is increasingly centering on such major plans as the Common Market, inflationary pressures are slowing the general rate of economic growth, weakening the area's dollar position and, in France, threatening a financial crisis with serious political repercussions. [REDACTED]

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## PART I

OF IMMEDIATE INTEREST

## MIDDLE EAST DEVELOPMENTS

Suez Canal

British and French UN representatives have indicated that their governments intend to call for an early meeting of the UN Security Council unless Egypt makes substantial modifications in its memorandum on Suez Canal operations. The essence of the Western objections is that nowhere in the document is there reference to the six points agreed on last October, nor is there any provision for international participation in the operation or in decisions on the development of the canal.

Egyptian foreign minister Fawzi has vaguely indicated Egypt would agree to some of the changes of language proposed by the United States, but there has been no sign yet that Cairo will make concessions of a kind that would appease British and French leaders.

The Israelis, who have said they would not "push to the head of the queue" on the question of canal passage, at the same time have shown some fear that their claims are being ignored. To counter this, Tel Aviv is repeating at frequent intervals its threat to try to send a test ship through--but does not say when.

Ships flying the flags of more than a dozen nations--including Greece, Liberia, Norway, Panama, West Germany, Italy and the USSR--have already passed through the canal and paid tolls to Egypt. Some vessels have not had the types of currency

called for by the Egyptian payment regulations, however, which are designed to replenish Egypt's hard currency resources and to assure that toll payments will not simply be debited from blocked Egyptian accounts in Britain or France.

A pilot force equal to that which was operating in the canal before hostilities reportedly is again available, and, it is believed, will do at least an adequate job under the favorable climatic conditions which should prevail during the next few months. A shortage of tugs and other ancillary equipment may lead to some abnormal delays in traffic, however.

Gaza

The Egyptian authorities formally raised their flag over the Gaza strip on 2 April. UN Secretary General Hammarskjold reported to his advisory committee that he believed the arrangements being worked out between the UNEF and the Egyptians will be satisfactory.

General Burns, the UNEF commander, does not seem to be as sanguine as Hammarskjold appears to be. Burns has reported that the UNEF still does not have authority to shoot at cross-border infiltrators, although it can otherwise try to capture them. Certain national contingents of the UNEF, such as the Indian, are precluded from using force by policies of their governments. The Palestine police, a force under Egyptian control which existed

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in the strip prior to the Israeli occupation, reportedly has joined the UNEF in border patrolling.

Hammarskjold has formally asked the Israelis to permit the UNEF to function on their side of the border. The Israelis have already indicated that their response will be negative; they assert that they see no relationship between such a request and their own disappointed "assumptions and expectations" regarding the functions of the UNEF in Gaza.

Hammarskjold and the UN advisory committee have emphasized the importance of the Cairo government's making clear publicly that it is against border-crossing by individual marauders as well as by organized fedayeen. This is the kind of undertaking Cairo has in the past found very difficult to fulfill, and the present situation is unlikely to be an exception.

Veteran refugees are not easily discouraged from returning to their old habits, and the Israelis will take full propaganda advantage of the incidents these elements are almost certain sooner or later to become involved in. An even more immediate danger of a resumption of serious incidents comes from the fedayeen believed to have returned to the strip in civilian clothes.

Aqaba

The situation in the Gulf of Aqaba remains quiet. While

the Egyptians avoid comment, the Saudis remain adamant against allowing Israel free passage. King Saud told American charge Jenkins on 30 March that this question is "a matter of life and death to us and to our country." There has been no interference with shipping under Israeli charter passing through the straits, however.

Jordan

King Hussain's position in Jordan appears to be becoming more precarious. The Nabulsi cabinet, which had decided to resign on 1 April in protest against Hussain's sending a personal emissary to Cairo without consulting it, remains in office. Nabulsi is seeking support wherever he can get it. He reportedly has made a personal appeal to local Communist leaders, who are co-ordinating their efforts with left-wing nationalist elements.

The announcement on 3 April that the cabinet intends to establish diplomatic relations with the Soviet Union is almost certainly a calculated blow at the king's prestige, and, through him, at the West.

Syria

The various Syrian army factions remain stalemated in their efforts to gain ascendancy. The only action during the past week was the bombing of the headquarters of the conservative Populist Party. It is not clear whether this act was a provocation, aimed at spurring the conservatives

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to new action against the leftists, or whether it was a leftist move to further intimidate the conservatives and at the same time justify the perpetuation of the martial law which has covered the arbitrary proceedings of the leftist military faction.

Against Israel, however, the Syrians can always demonstrate unity. Last week they did so. Colonels Sarraj and Nufuri, representatives of the contending factions, jointly summoned the chairman of the Israeli-Syrian armistice commission to deliver an ultimatum. Either Israel would withdraw all its troops east of the

Jordan River, in the neighborhood of Lake Hula, or the Syrian army would eject them by force--deadline 1200 hours, 31 March.

After the deadline had passed, the Syrians agreed they would be willing to negotiate on this matter; they protested strongly, however, against Israeli bridge-building activity in the demilitarized zone just south of the lake and against the alleged presence of Israeli troops in the zone. The Syrian UN representative in New York said he might take this issue to the Security Council if he could get more information from his government.

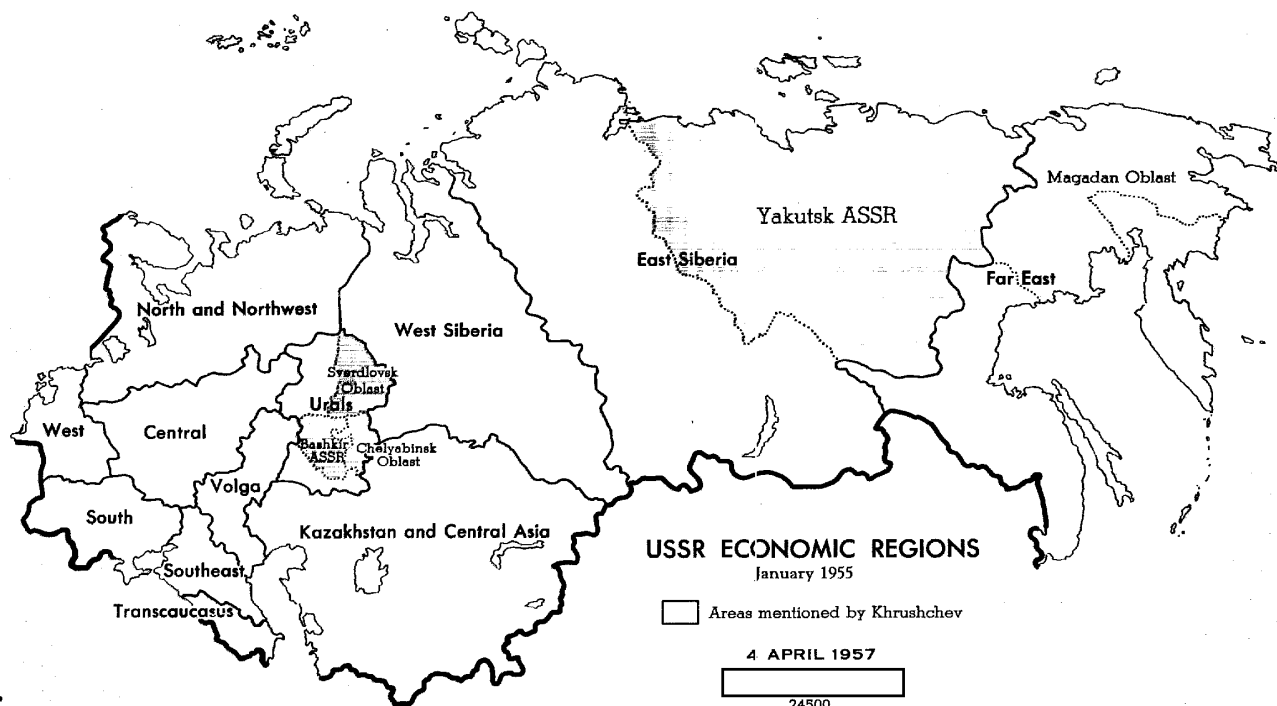
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**SOVIET INDUSTRIAL REORGANIZATION PUSHED**

On 30 March, the Soviet press published for public discussion Khrushchev's "theses" calling for the reorganization of industry and construction activities on a territorial basis. The proposals are to receive formal consideration and approval of the Supreme Soviet session scheduled to begin on 7 May. Khrushchev hopes through these changes to return the rate of industrial growth to the 10 or 12 percent required to meet the present Five-Year Plan goals. The new structure would retain the advantages of

central planning while maintaining the rights of the union republics. Economic councils would be responsible for administering industrial and construction activity within geographic areas. Examples described in the theses as ideal areas include the Bashkir ASSR, Sverdlovsk Oblast and Chelyabinsk Oblast. The Urals area is said to be too large. Though also large, the Yakutsk ASSR and Magadan Oblast are to have councils because of their geographic remoteness.

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The councils and the territorial governments would be able to allocate manpower, finances, material supply, and, within the framework of the national plan, could allocate products, locate new construction and exercise operational control over individual enterprises in their areas.

The new Council of Ministers of the USSR would include the chairmen of the republican Councils of Ministers much as the USSR Supreme Court now includes the 15 Republic Supreme Court chairmen. It would also include some subordinate officials from the State Planning Commission (Gosplan), and the

head of the Central Statistical Board.

Khrushchev urged that Gosplan, now responsible for long-range planning, should be strengthened and expanded to assume responsibility for the yearly plans and their implementation and also some of the responsibilities of the present specialized ministries. It would also allocate resources among regions, handle plans for strategic stockpiles, review the work of regional planning bodies and control the distribution of certain items in short supply.

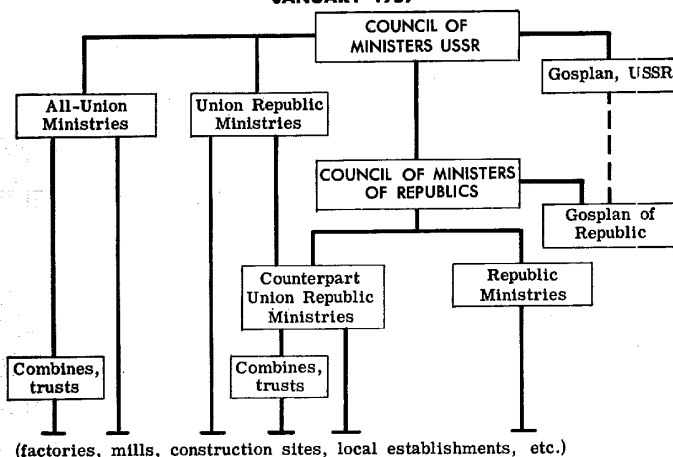
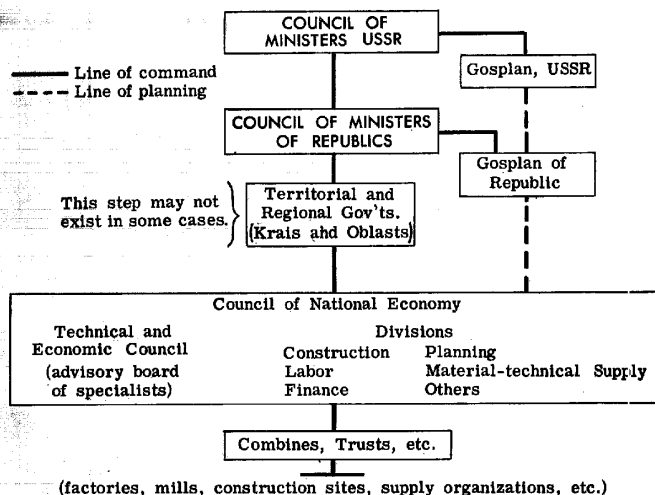
The State Economic Commission, headed by Mikhail

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Pervukhin, would then be unnecessary and should be dissolved. Khrushchev's discussion of this point did not reflect any dissatisfaction with the work of Pervukhin's commission. Khrushchev urged, in fact, that

key personnel assigned to Gosplan should have ministerial rank as "in the case of the State Economic Commission." This suggests that the present top-level administrators assigned to the State Economic Commission might be transferred to the new State Planning Commission. Failure to assign Pervukhin to an important post in the reorganization, however, would suggest dissatisfaction with his performance in the preparation of the 1957 plan.

**ORGANIZATION OF SOVIET INDUSTRY  
JANUARY 1957****KHRUSHCHEV'S PROPOSED ORGANIZATION OF SOVIET INDUSTRY**

The Ministry of State Control, headed by Vyacheslav Molotov, was sharply criticized, and Khrushchev called for a new statute requiring the organization to bring its work in line with "Leninist" directives on control work. This probably means making its work more responsive to direction by the collective leadership.

Accounting and statistical matters are to be centralized in a greatly strengthened Central Statistical Board. The board would also provide for machine data processing centers to be established regionally under its control.

Khrushchev hopes that his proposals

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will buoy up Soviet industry and construction as the virgin lands program did for Soviet agriculture in 1956. His theses reiterate the goal of catching up with the West and put unusually strong emphasis on the continued primacy of heavy over light industry. He stated that the nation's future growth would suffer "if we yield to an incorrect and false interpretation" that light industry should have priority. This suggests that the issue may have been the subject of recent debate. Khrushchev apparently feels that present unrest in the Soviet Union does not call for such improvement in living standards as to require further diversion of effort from heavy industry to housing or consumer goods.

Soviet vulnerability to attack will eventually be reduced by the decentralization, although this is not a reason for the reorganization. In fact, Khrushchev emphatically stated that

any tendency toward regional self-sufficiency was undesirable.

Soviet economic objectives would not be changed in any fundamental way by the reorganization, nor any of its major chronic problems be solved. The key economic goals and the tempo of development will still be set by the central administration monitored by the party.

Nevertheless the ramifications of such a reorganization are numerous. Thousands of middle-level bureaucrats and technicians may be ordered to leave the relative comforts of Moscow and Leningrad for the rigors of life in the provinces. Initial confusion will be considerable. Once overcome, however, there may be some improvement in Soviet industrial efficiency, though probably not enough to warrant the present confidence of the Soviet press in the USSR's ability to meet the original Sixth Five-Year Plan goals.

(Prepared jointly with ORR)

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## SOVIET DIPLOMATIC MOVES DIRECTED AGAINST NUCLEAR TESTS AND BASES

In response to recent announcements on Western military planning, the Soviet Union in the last few weeks issued blunt warnings to four NATO countries--Great Britain, Norway, Denmark, and Greece--of the dangers inherent in allowing nuclear bases to be established on their soil. These warnings followed a Soviet campaign of propaganda threats and informal diplomatic approaches to other countries, including Japan, Turkey and

Ethiopia. The campaign began in January with an official TASS statement on "US atomic bases and preparation for atomic war."

The Soviet campaign is tailored primarily to generate strong popular reaction and to give new impetus to political parties and independent groups already on record as opposing atomic bases in Europe and favoring a cessation of

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nuclear tests. These groups are by no means all Communist or Communist-inspired. Moscow hopes it can so spur public opinion on these issues that the incumbent governments will have to accede at least partially to these pressures.

Moscow's warnings of nuclear retaliation complement its campaign for an immediate ban on nuclear tests, a subject which, on Soviet insistence, is being given priority at the disarmament subcommittee talks in London. Soviet chief delegate Zorin had pressed for personal appearances before the subcommittee of representatives from Japan, Norway, India and Yugoslavia, but later settled for subcommittee consideration of written statements from these countries, all of which

are promoting either a limitation or ban of nuclear tests.

Moscow has capitalized on widespread efforts by the Japanese to promote at least limited agreement on the cessation of tests. In a note to the Japanese government on 1 April, devoted solely to the tests issue and in reply to the Japanese note of 5 March requesting a cessation of tests, the USSR urged Japan to support the Soviet proposal for an immediate ending of nuclear tests.

Following the USSR's proposal on 26 March for a "temporary" ban on testing, Moscow propaganda media have given high priority to this issue, especially in broadcasts to "densely populated" Western European states associated with NATO.

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## PART II

NOTES AND COMMENTS

## SOVIET ACTIVITY IN THE MIDDLE EAST

The USSR continues to support the Arabs in their demands against the West and to back anti-Western elements in the Middle East, while warning Israel and France against renewing the military conflict with Egypt. The Soviet Foreign Ministry has recently set up two separate divisions to deal with the Middle East area in apparent anticipation of even heavier commitments there.

The Cairo press reports that a Soviet UN delegate declared publicly on 28 March that the "Gulf of Aqaba is Arab landlocked territorial water," which would be the flattest public statement of support by a Soviet official thus far on the issue.

A TASS statement on 28 March that the Soviet government "resolutely condemns" Israeli and French preparations for a "new aggression against Egypt" may have been inspired by Soviet reports from Paris.

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The TASS statement made no specific threats of Soviet action, merely pointing to the "heavy consequences for

the cause of peace" of any Israeli action.

Soviet ambassador to Israel Abramov, who was recalled to Moscow last November, is reported en route to Israel via Paris. The USSR will probably seek to convince the Arabs that Abramov's return will aid in a renewal of Soviet pressures on Israel. Israeli press reports of talks "now under way" on the resumption of Soviet oil shipments have not been confirmed.

Moscow recently attempted a rumor campaign in Syria similar to the one it conducted last November.

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Soviet propaganda directed to Jordan, like that broadcast to Libya and Lebanon recently, has distinguished between internal segments of political power in order to support one faction over another. Since 30 March, Soviet broadcasts have lauded Jordan's action in terminating its treaty

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with Britain, praised the Nabulsi government and criticized King Hussain for his order banning "all progressive papers in opposition to the people's demands."

Izvestia on 30 March commemorated the first anniversary of the treaty of friendship between the USSR and Yemen by promises of continued support and by a reference to recent reports of "thousands of people" volunteering to fight on Yemen's side, a renewed

attempt to focus attention on Britain's position on the Arabian peninsula.

The Soviet Foreign Ministry recently divided its Near and Middle East Division into a Near East Division under A. P. Pavlov, formerly assistant chief of the parent division, and a Middle East Division under G. T. Zaitsev, formerly chief, apparently in anticipation of greater participation in the area's affairs. 25X1

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## NEW BRITISH DEFENSE PROGRAM

A substantially reduced British defense program has emerged after many months of reappraisal. Its underlying philosophy, as described by Prime Minister Macmillan at Bermuda, is recognition of Britain's entrance on a new phase as a nuclear power, as well as the need to reduce the defense burden on the nation's economy in the face of the growing Soviet economic threat.

At the Bermuda conference, Prime Minister Macmillan said he hoped to reduce the present armed forces strength of 750,000 by nearly 50 percent over the next four years. Instead of maintaining a chain of overseas garrisons, Britain would station forces only in a few key areas, relying on quick

reinforcements airlifted from a central reserve--presumably in the United Kingdom. He said the Persian Gulf area would be defended by a combination of forces based at Aden, plus reserves stationed in East Africa and a naval task force in the Indian Ocean. Macmillan hoped all forces might eventually be withdrawn from Libya. In Malaya and Singapore, the air force will be maintained, but there and in Hong Kong as well the ground forces will be reduced.

The mission of fighter aircraft will be to defend the sites of "deterrent forces." Effective over-all air cover for the United Kingdom is no longer envisaged. The navy is to be organized in carrier task

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groups consisting of more modern vessels, with a reduction of about one third in present D-day strength.

More details of this general plan will probably appear in the defense white paper being issued this week.

Some of the reductions seem to be already under way. No replacements are scheduled so far for a battalion which left Singapore last month and for three leaving Hong Kong by the end of April, although another unit leaving Malaya in May has a replacement.

Britain recently informed the United States that it would withdraw its 1,600 remaining ground forces in Korea by October, leaving a small liaison mission, and maintaining "for the present" its warships in Korean waters.

Scheduled cuts in Germany will in the next 12 months reduce the 76,000 ground troops by 13,500, consisting about equally of combat and administrative units. Another 8,500 are to be removed in the second year, but the British say they are "open to convincing" on an additional 5,000-man strategic

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reserve element they wish to withdraw.

British troops must be withdrawn from Jordan by 13 September--six months after termination of the 1948 Anglo-Jordanian treaty on 13 March. For Libya, the timetable is not yet firm and may await the forthcoming talks in Tripoli on this and economic aid. Several reports before the Bermuda conference predicted the 7,800 troops would be reduced by half within about a year, but re-placements are now scheduled for two battalions to return home during April. Cyprus was mentioned in Bermuda as having a

declining military importance, and a recent London press report states that a massive troop withdrawal is planned as soon as the political situation settles down.

The contemplated decrease in over-all armed forces strength to under 400,000, consisting as far as possible of regular troops, would bring nearer the abolition of conscription--a long-standing demand of the Labor opposition, rather ineffectively countered by government promises to achieve it as soon as practicable. [ ]

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## FURTHER STRAINS ON THE MACMILLAN GOVERNMENT

British confidence in Prime Minister Macmillan's leadership has been further weakened by the resignation on policy grounds of Lord Salisbury, one of the most highly respected members of his cabinet, and by the widespread belief that Britain's dependence on the United States has been increased as a result of the Bermuda conference. Criticism centers on the Anglo-American missile agreement and the government's apparent reversal of policy in rejecting limitation of H-bomb tests outside a general disarmament agreement. Conservative Party dissension now turns on conflicting approaches to the annual budget to be presented to Parliament on 9 April.

The growing feeling of frustration among Conservative supporters, accentuated by the

unfavorable trend in recent by-elections, has produced a split among party leaders on the budget. Convinced that "bread and butter" issues are the main concern of the average voter, they believe that increasing dissatisfaction with the government's economic program is the primary cause of its present unpopularity at the polls. Some party officials insist that major income tax concessions to middle-class groups are the only effective way of regaining their electoral support. Abstentions by Conservative MP's on votes on controversial clauses in the rent decontrol bill recently reduced the government majority in the House of Commons to 25, the lowest since the 1955 general election.

Other party leaders, aware that the Conservatives must continue to draw substantial support

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from the working-class voter, oppose granting any favors to special groups. Still others contend that the budget must continue to be a restrictive one if Britain is to expand its industrial potential. They view the recent nationwide strikes in heavy industry and shipbuilding as proof that inflationary pressures are still endangering Britain's economic progress.

The government's award of a 5-percent wage increase to its 500,000 railway employees on 22 March has undercut the

widespread belief in industrial circles that a period of wage and price stabilization was in sight. Macmillan's evident willingness to risk inflationary pressures, despite his previous insistence that he would take "unpopular decisions" to stimulate industrial expansion, will accelerate what the American embassy in London has called "a spreading defeatist philosophy" in Conservative ranks, and could render the government's program completely ineffectual.

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## CYPRUS DEVELOPMENTS

The Greek majority on Cyprus apparently regards Britain's release of Archbishop Makarios as a victory for the union-with-Greece (enosis) movement. The Greek Cypriots show no willingness to compromise on self-determination and are unlikely to agree to any self-government program which fails to provide a mechanism for an eventual change in the island's status.

The American consul in Nicosia reports that news of Makarios' release brought a general and spontaneous favorable reaction and belief that a great victory for enosis had been achieved. Not least among those sharing the glory of this victory was EOKA, and the consul believes it is "quite doubtful" that EOKA chief Grivas or his organization will withdraw soon. EOKA, still apparently commanding the support of most Greek Cypriots, would probably continue to do so if it decided to resume its anti-British operations.

Because of the opposing stands of Greece and Turkey on the Cyprus issue, tension between the Greeks and Turks on Cyprus has increased and the Turkish Cypriots are increasingly nervous. During the celebrations on 28 March, Greek Cypriots apparently sought opportunities to taunt and threaten the Turks for their public opposition to Makarios' release.

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King Paul of Greece told Ambassador Allen on 31 March that Prime Minister Karamanlis is "furious" at Makarios because of the latter's statement rejecting negotiations with the British unless he could return

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to Cyprus. Makarios also told the press on 2 April that negotiations regarding Cyprus could be held only by himself and the British; while he was willing that the rights of Turkish Cypriots be "internationally safeguarded," he rejected their participation in any negotiations.

Athens apparently expects, however, that Turkish Cypriot

representatives and Makarios will be brought to London for negotiations. Although it has publicly rejected any negotiations with Britain and Turkey, as Ankara in particular demands, Athens has hinted that simultaneous secret negotiations between the three governments would be acceptable, provided there were prior assurances of "no leaks." [REDACTED]

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**INDONESIA**

Continued Moslem unity forced cabinet formateur Suwirjo to return his mandate on 2 April. The Moslem parties objected principally to the participation in the cabinet, as demanded by Sukarno, of several prominent fellow travelers.

Sukarno reportedly has now invited leaders of various parties and outlying provinces to an early meeting to discuss ways and means to solve the crisis. There is no indication, however, that former vice president Hatta, a Sumatran and a strong anti-Communist, has been invited, even though his participation in the next government has been consistently demanded by the Moslem and Christian parties and leaders in non-Javanese areas.

Although Sukarno is probably considering further limited concessions, he undoubtedly still hopes to preserve the essentials of his concept. This calls for at least a gesture toward Communist participation in the government and the establishment of an appointed national council which will represent all significant elements of organized Indonesian life.

The army has arrested several prominent political

leaders in Djakarta and summoned for questioning at least 30 others as part of an alleged anticorruption drive, which may well be designed to intimidate Sukarno's opponents. In this connection, Sukarno has publicly identified himself with the drive and has also charged that certain political leaders are being utilized in an "imperialist plot" to "disintegrate the nation."

The president may be stalling, hoping that in the interim, dissension within the autonomous areas will so weaken resistance to the central government that the provinces will be forced to withdraw their political and economic demands. The governing council in Central Sumatra is said already to be suffering from political factionalism and economic deterioration as the result of insufficient planning before the local government was seized in December. In South Sumatra, an abortive counter coup on 31 March may have been stimulated by Sukarno, who had visited the area only a few days previously. A weakening of Sumatran resistance could be expected to impair seriously the determination of similar movements in East Indonesia and Borneo.

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**RIOTS IN CHILE**

Serious rioting, apparently rooted in a general resentment of the government's economic stabilization program, broke out in Chile on 29 March and several hundred have been killed or wounded. Despite the declaration of a state of siege late on 2 April, the stability of the Ibanez government is still threatened.

The economic stabilization program, initiated in January 1956 on the advice of an American investment firm, was responsible for keeping the cost-of-living rise down to 37 percent in 1956 as compared with over 80 percent in 1955. Real worker income is declining, however, since the government has limited compensating wage increases to under 31 percent. Furthermore, during the period from November 1956 to February 1957, the government--with an eye to the 3 March congressional elections--used price controls and subsidies to give an appearance of almost complete price stabilization. Consequently, price increases in March were particularly sharp and bitterly resented by a public lulled into a feeling

that stabilization had been accomplished.

A 50-percent increase in public transportation fares sparked the rioting, which was originally directed by leaders of a non-Communist student federation. Leaders of the Communist-dominated labor federation, the Communist Youth organization, and individual Communists reportedly were aiding the disturbances. On 2 April, Communist Party officials, previously standing back, reportedly decided to join the disorders. A call from the student federation for an end to the demonstrations was ineffective, despite government annulment of the transit fare increase.

President Ibanez convoked an emergency session of congress on 3 April to ratify the declaration of a state of siege which will permit the transfer of individuals to outlying parts of the country. He is also requesting "extraordinary powers" for six months to suspend constitutional guarantees, thus suggesting that he feels the stability of his regime is still threatened.

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**ARMY TAKES OVER IN HAITI**

Increasing instability in Haiti culminated in the ousting of provisional president Sylvain on 2 April after a two-day general strike. Similar strikes overthrew president Magloire on 21 December 1956 and provisional president Plerre-Louis on 3 February.

The latest strike was the climax of a week-long campaign against Sylvain's government led by six of the seven major presidential candidates in the

national elections scheduled for 28 April. By the evening of 2 April, Sylvain was under house arrest in the presidential palace, and the army chief of staff, General Leon Cantave, was in charge of a military regime until a provisional government could be appointed or a permanent president inaugurated. It is reported that all presidential candidates continue to favor holding elections as scheduled.

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A more serious breakdown in civil order may occur during the interim period. Cantave has reportedly announced that the army will maintain peace and stay neutral in regard to a new provisional government. A rift between Cantave's senior officer faction and junior officers may, however, disorganize the army.

While Cantave recently assured American embassy officers that he has assumed a nonpolitical attitude, he played a big role early in the current election campaign and may become active again. There may also be considerable delay before the elections in reaching agreement on the make-up of a provisional government. [REDACTED]

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## ARGENTINE ELECTION TIMING PROVOKES CRISIS

President Aramburu's announcement on 30 March that national elections will be held on 23 February 1958 instead of late in 1957 provoked near rebellion by the air force, adding another crisis to those straining the stability of the provisional government in recent weeks. The army and navy, along with most of the political parties, are reported supporting Aramburu and his timetable against ousted air minister Krause, who appeared to be playing partisan politics on the question of the election date.

Aramburu's "political calendar," which he said was "irrevocable," calls for electing a constituent assembly on 28 July to revise the constitution, issuing the call and conditions for general elections on 15 November, holding general elections on 23 February, and transferring power on 1 May 1958. Previously no firm election date had been set, and Aramburu explained the February date as dictated by "technical difficulties," presumably the time required for revising the constitution.

This calendar indicates that constitutional revision, to be undertaken in September or October, would have to be completed prior to the call for elections on 15 November, a relatively short period for air-

ing conflicting views. Virtually all political leaders agree that the 1853 constitution needs revision.

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ical calendar, the near rebellion has added to the political strain caused by the recent cabinet crisis over proposals to meet Argentina's economic difficulties, the escape to Chile of important Peronista prisoners, and the forced resignation of the formerly powerful under secretary of the navy. [REDACTED]

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## PHILIPPINE POLITICAL SITUATION

In the absence of a public figure capable of capturing the public imagination as the late president Magsaysay had done, the campaign for the Philippine election in November appears to be shaping up as a straight fight between the Nacionalista and Liberal Parties. During the short time since Magsaysay's death, political maneuvering by a steadily rising number of aspirants for the presidential nominations of both parties has become increasingly intense.

President Garcia, with the



GARCIA

powers of office at his disposal, holds the inside track for the top spot of the Nacionalista Party ticket. The president's nomination would satisfy the party's "old guard." It might also be acceptable to a large segment of the party's younger membership, despite their fears of re-emergence of old-guard rule. Garcia's prompt pledge to carry on Magsaysay's policies was calculated to win wide popular support, while reports that Garcia has the backing of party president Rodriguez suggest that "professional" assistance in consolidating Garcia's party

and popular strength may already be assured.

Another important Nacionalista figure is Senator José Laurel, puppet president during the Japanese occupation in World War II. Laurel has let it be known that he is available, and is reported working assiduously to be "drafted." There are some indications, however, that Laurel is not a serious candidate because of his age and uncertain health, and is serving as a stalking-horse to gain at least the vice-presidential nomination for his son, House Speaker José, Jr.

Neutralist-inclined Senator Claro Recto appears determined to maintain his candidacy, although entertaining little hope for the Nacionalista nomination. Recto will face major difficulties as an independent candidate. The intense public emotional reaction to Magsaysay's death lends substance to the view that Recto's candidacy will suffer from his identity as the chief opponent of Magsaysay's policies. He is, moreover, persona non grata with the Roman Catholic hierarchy in the Philippines.

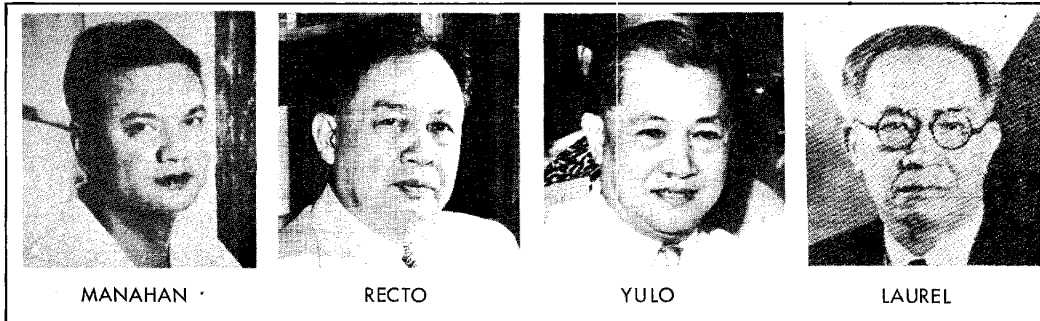
The possibility that the Nacionalistas will split over the rival contenders has improved the prospects of the otherwise weakened Liberal opposition. Liberal leaders, who have considerable financial resources, are now being approached by politicians of all shades. The Liberals reportedly hope to hold an early convention and nominate the respected elder statesman, former house speaker José Yulo, who they believe can unite their party and possibly be elected despite his age. For the vice presidency the Liberals are casting

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about for a younger man who would stand to win back the support of the sugar bloc, and the Democratic Party followers of Ambassador Carlos Romulo, and--above all--appeal to the admirers of the late president.

In an effort to prevent their own political eclipse and to maintain pressure for continuing the Magsaysay policies, close associates of Magsaysay have launched a "Spirit of Mag-

saysay Movement" and are grooming as a vice-presidential hopeful former customs commissioner, Manuel Manahan, a man personally and politically close to Magsaysay. Although their cohesiveness against the pressures of more seasoned politicians remains to be tested, they may well exercise some influence in the election through the movement's ability to trade on the name of a revered public hero.

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## SOVIET-JAPANESE RELATIONS

Moscow's statement to the Japanese that the Sea of Okhotsk would be permanently and entirely closed to all foreign fishing by 1959 at the latest was apparently motivated by a combination of economic, foreign policy and military security considerations. Closure of the sea would both strengthen military security of the Soviet Far East and provide a restricted area for military activity or weapons testing.

The Soviet Far East has become the most important fishing region in the USSR, and this move would pre-empt the Okhotsk area for the rapidly expanding Soviet fisheries.

This sea provided 29 percent of the Soviet 1956 catch in the Far East.

Permanent closure of the Sea of Okhotsk would also lessen the possibility of any future return of the southern Kurils to Japan. Setting of the 1959 deadline may be aimed at pushing Japan into negotiations for a peace treaty which will involve discussions concerning return of the islands.

Fishery negotiations, in which agreement was reached on a total Japanese catch of 120,000 tons, are again deadlocked on the conditions attached by the USSR to that figure. The Japanese have informed the USSR

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they cannot agree that the 120,000-ton quota for all types of fish in the restricted area is exceptional and good only for 1957, and that the Okhotsk Sea is to be closed to all foreign fishing. Exclusion from the Okhotsk area would have a serious impact on the Japanese fishing industry since, even with a short season and a reduced number of fleets, the 9,363,000 salmon caught in that area in 1956 constituted 32 percent of the catch from the Soviet-restricted area and 10 percent of Japan's total catch.

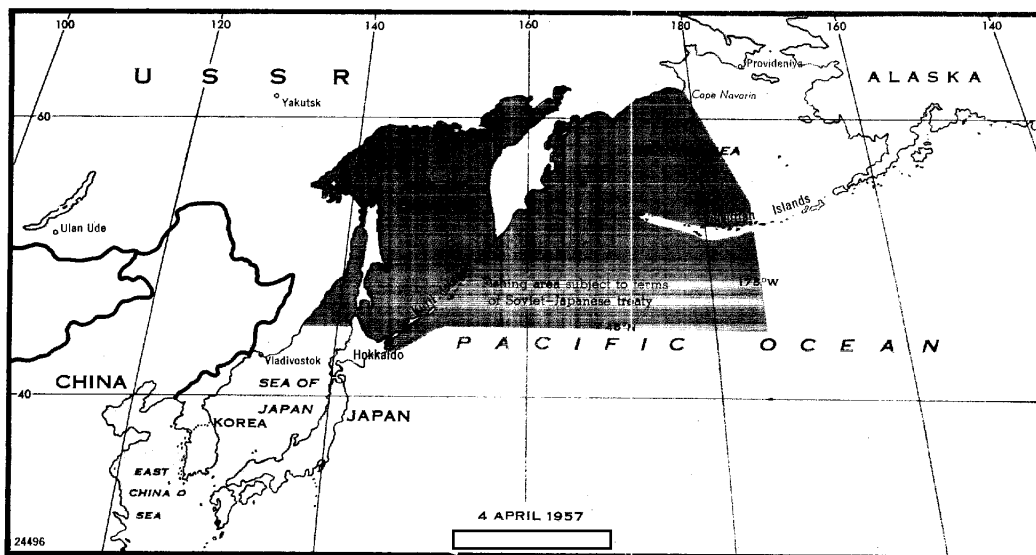
The Japanese are vigorously pressing for some concessions from the USSR which will provide a compromise. The Japanese especially desire that the quota for this year be designated as provisional rather than as exceptional in order to avoid setting a precedent for a maximum Japanese catch.

The need to avoid delay in preparing for the coming fishing season, however, may

force Tokyo to agree to Moscow's terms. There is an unconfirmed press report that an agreement will be signed 6 April.

The USSR has made official overtures for a trade agreement. In response, the Japanese have maintained that a satisfactory fishing settlement is a prerequisite for negotiations on trade and other matters. While the Japanese discount Soviet trade prospects, the idea has political appeal and the bait of potential markets held out by the five-year development plan for the Soviet Far East may stimulate pressure in Japan for a commercial treaty.

The Japanese cabinet decided on 29 March to open negotiations for an atomic power agreement with the USSR, apparently in an effort to provide a broad technical and material base for Japan's atomic energy industry. The Japanese probably have been attracted by reports that the USSR will supply atomic facilities and materials



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on a commercial basis with no strings attached. Leftists among Japanese scientists also have exerted pressure for co-

operation with the USSR in nuclear energy development.

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## JAPANESE SOCIALISTS SENDING GOOD-WILL MISSION TO COMMUNIST CHINA

The Japanese Socialist Party is sending an official "good-will mission" to Communist China on 10 April for a two-week stay. The mission will sound out Peiping's reaction to recent modifications in Socialist policies which call for early normalization of relations with Peiping and for treating Taiwan's status as an "internal" Chinese problem. The Socialists favor Japan's maintaining relations with Taiwan, however, as long as the island remains independent.

The party hopes eventually to replace both the Sino-Soviet treaty of friendship, which designates Japan as a potential enemy, and the US-Japanese security treaty with a Locarno-type pact among the four nations. In the interim, however, it expects Peiping to agree that American bases in Japan are no bar to the restoration of relations. It also expects the Chinese to renounce reparations claims.

In sending the mission, the Socialists are motivated by a desire to create a "big issue" for an anticipated general election. For maximum political advantage, the Socialists probably hope for some specific Communist gesture indicating that the Chinese will negotiate with party representatives on

some such subject as a renunciation of reparations claims or a declaration ending the state of war. The party also hopes the inclusion of representatives of all factions in the mission will help to unify the party's views on closer relations with the mainland.

There is some evidence that the Socialists hope to become a "go-between" on the Taiwan problem. One of the mission's objectives will be to determine the truth of rumors of direct Communist-Nationalist talks. The Chinese may exploit the Japanese visit to enlarge their psychological warfare claims on this subject.

The most important member of the mission probably will be Shichiro Hozumi, because of his ability as a "go-between" with the Japanese government. A high Socialist Party official has indicated also that the party hopes to send a mission to Washington after the one to China returns.

Chinese interest in the mission may be reflected by a report that "Peiping representatives" in Japan asked that it be headed by a top party leader. Nevertheless, the Chinese Communists are not likely to make any genuine concessions before formal government-to-government talks begin.

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## SINO-CZECH TREATY SIGNED DURING SIROKY VISIT TO PEIPING

The Sino-Czech treaty and the joint statement issued on 27 March during Czech premier Siroky's visit to Peiping suggest that Peiping's role as moderator during the bloc crisis in Europe last year was not a one-shot performance: the Chinese apparently intend to play an increasingly active role in bloc European affairs. The Czechs have been steadfastly loyal to Moscow, and Siroky's trip, which is in line with Peiping's growing interest in East Europe, almost certainly had the approval of the Kremlin.

The Sino-Czech treaty is the second Peiping has signed with an East European Satellite --the other, a similar one, being the treaty with the East Germans in 1955. The operating clauses of the new treaty, like those of the Sino-Soviet alliance, call for consultations concerning important questions affecting the interests of both parties while promising co-operation on matters of economic, technical, scientific and cultural development. The agreement has no provision for military co-operation. It will confer prestige on the Czechs and open the way for further expansion of bilateral relations between Peiping and Prague. Chou has already agreed to return Siroky's visit at an unspecified future date.

The lengthy joint statement issued by Chou and Siroky is stodgily orthodox in most respects, but the discussion of intrabloc relations indicates that Peiping intends to keep reminding the Kremlin of the good behavior promised by its declaration of 30 October last year in this matter. In the communiqué the two parties affirm that the October declaration is of "extremely important significance to the improvement of mutual relations of the socialist countries...."

The communiqué states that both Prague and Peiping will continue to regard strengthening the unity of the bloc "headed by the Soviet Union" as their "prime international duty."

This is the only reference in the statement, however, to the Kremlin's sole leadership of the Communist world. In Hanoi a week earlier, Siroky signed a communiqué with the Viet Minh which called for unity of the socialist countries "around the Soviet Union and the People's Republic of China." Speaking in North Korea on 1 April, Siroky used a similar formulation. Both Siroky and North Korean premier Kim Il-sung affirmed, however, that the USSR is "heading" the bloc.

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## ECONOMIC PROVISIONS OF SOVIET-HUNGARIAN COMMUNIQUE

The comprehensive Soviet-Hungarian economic agreement concluded on 28 March strengthens Moscow's control over Hungary's economic future. In return for substantial immediate concessions in the form of goods and

credits, Hungary pledged to expand shipments to the USSR over a long-term period.

In response to Hungary's request for a considerable increase in 1957 deliveries of

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raw materials, semimanufactured products, equipment and other commodities, Moscow agreed to deliver, largely on credit, goods totaling over \$250,000,000. Under the agreement, Soviet credits available to Hungary in 1957 will total about \$220,000,000, consisting principally of a \$190,000,000 commodity and foreign currency loan at 2-percent interest repayable in kind over a 10-year period beginning in 1961.

Recognizing the inability of the Hungarian economy to fulfill all its obligations, the USSR deferred repayment of almost \$40,000,000 in earlier loans and canceled a Hungarian debt of approximately \$90,000,000 "incurred" when Moscow turned over to Hungary the former German assets and the Soviet share of joint Soviet-Hungarian companies.

The USSR agreed further to consider requests for economic and technical aid in reconstruction and building of "certain industrial establishments" and to continue to help in prospecting for uranium, building

atomic power stations and providing necessary fissionable materials. Hungary is to ship to the USSR all uranium "not needed" in Hungary.

The provision for repayment in goods over a 10-year period will ensure Hungary's continued economic orientation toward Moscow. The Soviet intention in this regard is brought out by emphasis in the communiqué on "the positive effect of long-term agreements in the planned development of the economy of both countries."

Furthermore, agreement by both sides to discuss mutual commodity deliveries through 1960 suggests that Hungary's trade with the West may be somewhat curtailed. Expanded Hungarian commitments to the USSR under this agreement will tend to impair Hungary's credit in trade with the West and may discourage Western traders who have recently been actively seeking new markets in Hungary. Hungary's future trade relations with the West will be developed only under Moscow's watchful eye.  (Prepared by ORR)

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**YUGOSLAVIA REORIENTING FOREIGN ECONOMIC POLICY TOWARD THE WEST**

The political dispute with Moscow has forced Yugoslavia to re-evaluate its long-term foreign economic relationships. It apparently now feels it must rely to a greater extent on the West, in particular on the United States. Yugoslav officials clearly state that the shift in attitude is prompted by growing distrust of the Soviet Union.

Yugoslav vice president Vukmanovic-Tempo told an American official on 4 March his

country must now orient itself toward the United States and Canada, adding that the key factor in Yugoslavia's long-run economic development is American aid. The Yugoslavs, according to Tempo, feel that the Soviet bloc has interrupted its investment agreements with Belgrade to undercut the economy of Yugoslavia and demonstrate, particularly to the satellites, that what he termed the "liberal" methods of the country's economic system would inevitably bring about its collapse.

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Further, he stated that although it cannot completely ignore its trade relationship with the USSR, Yugoslavia simply does not "believe" in Soviet equipment.

Yugoslav officials assert they are fully aware that a breakdown of deliveries under the seemingly favorable 1957 trade agreements with the USSR and all the Satellites except East Germany could occur at any time, as proved to be the case with the investment agreements.

These attitudes contrast sharply with those revealed in Yugoslav-American economic discussions in 1956. Yugoslav officials then emphasized their desire to maintain a balanced economic position between East and West, not being overly committed to either. Although they sporadically mentioned some lack of faith in Moscow, their behavior did not confirm this. They consistently played East against West, endeavoring to obtain the most advantageous arrangements for financing large

industrial investments in aluminum, electric power and copper. This was most sharply emphasized last August when they abruptly agreed to the Soviet-East German \$175,000,000 aluminum deal while in the midst of discussions with Western nations for aluminum development.

Implementation of the Soviet-East German aluminum agreement has, however, been "delayed," and Belgrade now appears to have lost hope that the East will give it economic aid without political strings. Further evidence of this disillusionment is the interest displayed by Foreign Minister Popovic to the French ambassador in Belgrade in the possible association of Yugoslavia with the European Common Market. While the Yugoslavs are probably not yet ready to commit themselves fully to such a move, for the first time since 1954 they apparently want to avoid being left out of a major Western European development.

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## PRINCE PETSARATH RETURNS TO LAOS

Laotian prince Petsarath, half brother of both Premier Souvanna Phouma and Pathet Lao chief Souvannouvong, has seized the center of public attention since his widely acclaimed return to Laos on 22 March. Despite his 11 years of self-imposed exile, he has not hesitated to speak out almost as though he were the head of state.

The prince had hardly set foot in Laos before he began to advocate a "mass reduction" in the Laotian army and the establishment of diplomatic relations

with Communist China and North Vietnam. In a press interview on 28 March, he endorsed a policy of "strict neutrality," and sharply criticized the "bad utilization" of American aid, which he said "enriches a minority while the population remains poor." He contended that this poses a greater danger of Communist subversion than the integration into the national community of the Pathet Lao, whom he regards as "sincere patriots above all." Souvanna reportedly stated that the ideas expounded by Petsarath matched his own.

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In a conversation with the American ambassador in Vientiane, Petsarath disclaimed any anti-American sentiments and said his concern over American aid was merely directed toward making it more effective. He said Laos would never accept Chinese Communist aid because of Laos' historical fear of Chinese expansion. The American ambassador found Petsarath well informed, "sharper" than Souvanna, but evasive on controversial issues in Laotian-American relations.

Petsarath has indicated that he will visit the provinces, including Pathet-held

territory, before he determines his future plans. Firsthand contact with the realities of the Laotian scene may cause him to modify some of his present ideas.

One immediate consequence of Petsarath's return is the re-opening of a murder case, unsolved since 1954, in which major political figures have been implicated. An individual in Petsarath's entourage has been arrested for alleged participation in the crime. It is quite possible that a public trial may rekindle animosity and intensify disunity in Laotian political circles.

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**SINO-BURMESE BORDER DISPUTE**

Burmese premier U Nu's 11-day visit to Communist China ended on 2 April without producing a final agreement on the Sino-Burmese border dispute.

Chou En-lai in his speech of farewell emphasized, however, the growth of Sino-Burmese friendship and predicted that "ties of kinship will develop ceaselessly" between the two countries.

Peiping's shift to a policy of polite evasion on the border question may well have started during Chou En-lai's "good-will" visit to Burma last December, when Chou began to emphasize that the complicated problems involved in a border settlement would have to be

worked out "step by step" and could not be resolved "at one stroke."

Following Chou's visit, the Chinese began to display renewed sensitivity on the border question. At the same time Peiping became increasingly evasive regarding Burmese suggestions that negotiations be quickly concluded.

Chou's decision to meet with Nu last week despite a heavy schedule of important business demonstrates Peiping's concern for maintaining appearances. It seems clear, however, that the Chinese intend to pursue a dilatory course for some time to come, possibly to chastise Rangoon for its temerity

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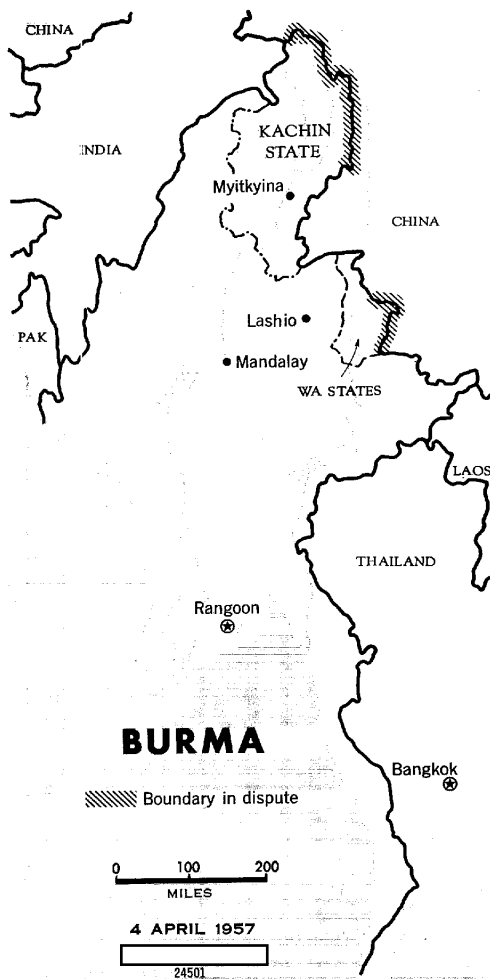
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last summer in launching a propaganda campaign which greatly embarrassed Peiping and eventually brought about withdrawal of Chinese Communist troops from disputed territory along the frontier.

Peiping's temporizing stand on the border question is undoubtedly a great disappointment to the Burmese government. Once it had overcome opposition of the Kachin minority to the cession of three border villages to China, it confidently expected the agreement to go through quickly and with a minimum of difficulty. Rangoon can be expected to keep pressing for a settlement, and, failing that, is likely to revive its previously successful tactic of publicizing the issue.

Nu was probably especially disappointed at the failure to reach a final agreement on the border during his visit to Communist China. He had undoubtedly counted on such a ceremony to get his new term as prime minister off to an auspicious start.



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MOLLET GOVERNMENT WEAKENED

The confidence vote in the French National Assembly on 28 March showed a serious weakening of the Mollet government's position and underlined its dependence on rightist votes for survival. Mollet's next period of crisis is expected after the Easter recess during the debate on budgetary and tax issues, when the right may attempt to overthrow his government.

Although the deputies voted 221 to 188 in favor of the government, the 110 recorded abstentions, largely from such right-center parties as the Independents and Social Action Peasants, have weakened Mollet's position. It is apparent that these groups were deterred from throwing their support against Mollet largely because they lacked fully developed plans for an alternative government.

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They may now be expected to be more insistent on policy concessions.

The debate also underlined the growing splits among the parties of the left and center which have tended to strengthen the key position of the right. Within the Socialist Party, whose long-standing division over Algerian policy has been masked by Mollet's control over the party organization, there are signs that elements opposed to Minister Resident in Algeria Lacoste's pacification policy have been strengthened. The Radicals, which have already split into three groups, now show signs of generating yet another splinter party following the failure of Mendes-France's followers to vote as a bloc against the government.

The Popular Republicans, whose assembly leader proposed that the base of Mollet's minority government be broadened, appear to have supported the government with an eye to obtaining a bid for participation in the cabinet. While they are still separated from the Socialists on the church school

question, the Popular Republicans espouse a social and economic program similar to Mollet's party and must stay close to it to maintain their dwindling popular support.

Unresolved overseas problems such as Algeria and Suez, for which no one has a clear-cut alternative policy, still tend to work in Mollet's favor. The imminence of the ratification debate on EURATOM and Common Market treaties also deters some deputies from bringing down the government now.

On the other hand, the government's vulnerability continues to be increased by France's melting foreign exchange reserves, mounting inflation, and Finance Minister Ramadier's politically unpalatable proposals for budget cutting and new taxes as solutions. The mid-May debates on tax bills and other provisions of the budget will offer the opposition a more clear-cut opportunity than the recent general policy debate to use their own increased potential and exploit the reduction in Mollet's support.

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## PART III

PATTERNS AND PERSPECTIVES

## RESISTANCE CONTINUES IN HUNGARIAN SCHOOLS

The Hungarian Communist regime is meeting with strong, united opposition in the nation's schools. Students of all ages, in many cases acting in concert with their teachers, are engaged in a not-so-silent conspiracy against all central authority and are maintaining the spirit of the revolution in the classroom. The party and the government, reneging on earlier promises of reform in the schools despite occasional apologies, have responded with traditional techniques of intimidation and force.

According to First Deputy Minister of Education Magda Joboru, speaking in late January, demonstrations in the schools had been universal during the revolution. She admitted that revolutionary theories are still alive among students and teachers, and that there is "complete disillusionment" with the doctrines of the past. Teachers are refusing to follow orders on grounds that the admitted errors in school books invalidate that obligation. She added that students are in the habit of quoting sarcastically and with "malicious glee" the "erroneous, unscientific statements of the textbooks that offend the intellect and feelings."

In some schools, resistance to Russian language instruction has taken the form of "stupidity strikes," while in others there have apparently been incidents of students persecuting colleagues who refused to accept religious instruction. In regard to the regime's political reindoctrination program, some students and teachers appear to have made gentlemen's agreements to avoid discussion of political topics altogether.

The regime's reactions to these forms of resistance and ideological anarchy have been mixed. Some members of the regime continue to search their souls in public. The party press printed an open letter which claimed that youth has turned away from the party because it had frustrated their ideals. In a speech on 1 March, Joboru attributed the "serious evils" in the political and moral development of youth to the Rakosi-Gero "sins," and spiritual and moral conflicts, to the "frequent contradictions between what the children were taught at school and what they learned in the family and in life."

Basically, however, the regime seeks a return to pre-revolution standards. It has,

--Hungarian First Deputy Minister of Education  
Speaking on "Current Problems in Education," 29 January 1957.

How is life in our schools today? In our opinion in the majority of the schools the atmosphere is tense and agitated. We believe the main cause is that many pupils and teachers still do not appraise the events following 23 October correctly; they do not see their counterrevolutionary character and they take them for a revolution and a fight for freedom. A part of the teachers and pupils who hold this view do not speak openly and use allusions to express their secret understanding. It is said on these grounds there are excellent relations in many places between teachers and pupils and there is discipline and order in the schools.

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--Comment by a Budapest Schoolteacher  
In Magyar Ifjusag, 2 February 1957.

I am surrounded by an atmosphere in which to utter the name of Lenin in our class amounts to a sin.

The instructions say that teachers who can tell the story of the October Revolution (Soviet) properly, may speak about it. The answer of my colleagues is that they cannot tell it properly.

I cannot understand why it is considered a sin if a teacher tells the children the Russian folk tale "The Cat With The Grey Whiskers." That is what a colleague of mine did and he was attacked by the other teachers, who said that if foreign folk tales had to be taught, he should have chosen a French or other folk tale instead of the Russian one.

Recently children attending the first form staged a demonstration in the corridors. They shouted at the top of their voices: "We won't learn Russian!" I tell you, these were children from the first form, who do not have to learn any foreign language!

Little Peter is one of our best pupils. Some days ago I went into the classroom and saw his name written in huge block letters on the blackboard with the label "Pagan." Little Peter was the only child who had not enrolled for religious instruction. The stronger boys boxed his ears, the rest scoffed at him, and nobody played with him during the break.

for example, restricted foreign language classes to those conducted by "qualified" teachers, virtually assuring compulsory Russian instruction since a "shortage of teachers" limits instruction in Western languages. In addition, the government has decreed--contrary to earlier promises--that only those students enrolled in classes for religious instruction in September can now be enrolled; the regime's complete intolerance of religion in state schools has been openly declared.

The party apparently recognizes that a return to traditional educational policies cannot be achieved without some force and the issuance of some sensational threats. A party organ suggested in February that Hungarian children might more or less permanently be separated from their parents and brought up in "special towns" where unreliable influences could be eliminated. On a more practical note, the regime has organized a successor to the discredited prerevolutionary youth organization and has re-established the younger "Pioneer" groups.

Teachers of elementary and secondary schoolchildren are being forced by the party to attend lectures on how to deal with "counterrevolutionary" children. One city's party executive committee has ruled that most of the teachers who participated in the revolution "can only be blamed for a momentary blunder for which they should not be condemned and branded," but this tolerance is not typical. In February, the regime reportedly was threatening that teachers must either join the new party or be deported to the countryside.

Moving against both teachers and students, the regime has introduced the police into the schoolroom. Stories of the secret police examination of the personal papers of 12-year-old boys in class have been confirmed, and on 1 March, Joboru frankly stated that units of the militia appear from time to time in some schools, a measure, she said, which is "absolutely unavoidable" in these "extraordinary" times.

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## ECONOMIC REFORMS IN RUMANIA

Rumania has followed the example of Hungary and Bulgaria in "rationalizing" its government structure. On 16 March, the politburo demanded a reduction in the number of central ministries from 26 to 15. It proposed the creation of an all-encompassing, ministerial-level economic council to "solve economic problems" and recommended an extension of the prerogatives of local government organs.

Addressing the Grand National Assembly three days later, Premier Stoica outlined important fundamental changes to be made in the economic organization of the country. He decried "excessive centralization" and advocated relieving the ministries of many tasks which "should be allocated to lesser units."

As a part of the general streamlining of the government, the people's councils--the local units of government--are to assume far-reaching responsibilities for management of local industries, including distribution of output and the management of a large percentage of the profits of these enterprises in the development of public works and social and cultural activities.

The councils will be empowered to draft and execute construction projects of local interest, such as workshops and mills, earnings of which will be used to raise the economic level of the communities. When compulsory quotas were abolished for most produce on 1 January, the councils took over supervision of local procurement of agricultural commodities for the state. The councils are "to lead the entire local activity in the economic, management, social, cultural, and administrative fields of the territorial ad-

ministration units where they are elected."

[redacted] the Rumanians have been forced into decentralizing industry by the realization that "a heavy-handed bureaucracy" makes real progress impossible.

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[redacted] The need to reduce government expenditures and increase production by giving greater incentive to producers has become all too apparent to Rumanian officials at higher government levels.

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State revenues in 1956 were about 7 percent less than expected and the financing of the new agricultural contract purchase system and wage increases presents problems. The inadequacy of Rumania's foreign exchange position was pointed out by the need for a 270,000,000-ruble Soviet loan in December 1956. The appointment of "rehabilitated" Aurel Vijoli as minister of finance may be particularly significant in the light of these difficulties. Vijoli, a former deputy finance minister, was purged in 1952 for rightist deviations and opposition to a currency revaluation. According to the American legation in Bucharest, his return may presage orthodox banking techniques and perhaps serious monetary reforms.

Unemployment is more serious now than at any time since the war. A recent resolution calling for dismissals of state or state enterprise employees with more than one source of income was a tacit admission by the regime that there are not enough jobs to go around. The resolution, withdrawn after

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a storm of protests, apparently was interpreted by the employees as an ultimatum threatening their very existence by permitting only one wage earner per family, many of which barely manage to exist at a substandard level by having two wage earners in the family or through extra jobs in addition to regular employment.

Major causes of general discontent in Rumania, aside from unemployment, are high prices, consumer goods shortages and totally inadequate housing. The 30 December communiqué of the party central committee called for a major overhaul of the economy in order to increase agricultural and consumer goods output to raise the standard of living. Industrial expansion is to be slowed as a result, although continued "priority development" of heavy industry is ensured as the "guarantee of continual progress for the economy." To alleviate the lack of housing, over one billion lei (\$167,000,000 at the unrealistic official rate) will be allocated in 1957 alone, compared with two billion for the entire First Five-Year Plan.

The government is to spend five billion lei (\$833,000,000) in 1957 to improve salaries, pensions, and subsidies for children, to develop socio-cultural projects and increase peasant income.

Poor crops in 1956 resulted in a decrease in agricultural exports and necessitated increased imports of wheat and other foodstuffs, with a resultant deterioration in Rumania's foreign exchange position. Yields in the socialized sector continue to be disappointing compared to those in the privately held acreage, and Agriculture Minister Stanco has called the problems to be faced in organizing and strengthening the socialist sector a "gigantic task." In this connection, some 272 state farms are to be reorganized into 377 smaller ones

to achieve more effective operation and control. The cost of replacement of the compulsory collections system by a contract-purchase system for agricultural commodities will be considerable and will add to inflationary pressures in the economy.

Workers will receive some benefit from a resolution passed in December to raise wages an average of 15 percent and establish a new system of basic wage rates. Under the new system, which is being extended gradually, a worker's basic wage will represent up to 75-85 percent of his total salary in contrast to present levels as low as 40-50 percent supplemented by bonuses.

The new basic wage will be based on the total the worker is presently earning, and his new norm will be increased to approximately his current output. As before, he will receive a premium for output over the norm. Thus, the worker will no longer be completely at the mercy of his machinery or his factory's supply of materials and power since he will have a more adequate basic wage to count on. Production is expected to increase since the worker will have an incentive to produce more than formerly in order to obtain bonuses.

The deterioration of the Rumanian economy has caused the regime to take a new look at its planning. A serious attempt is apparently being made to reduce administrative inefficiency in the government and to improve incentives as a means of increasing production. Some economic aid is being given by the Soviet Union in the form of raw materials and goods, but much depends on the extent to which the workers can be induced to co-operate and the effectiveness of the people's councils and other reorganized units in implementing the new program.

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**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****4 April 1957****INDIAN NATIONAL ELECTION RESULTS**

Prime Minister Nehru's Congress Party has retained its firm hold over parliament. Virtually complete returns from India's second national elections show the party has lost ground in nine of the 13 state governments, however, despite the fact that it still holds an absolute majority in 11 of them. The loss of Kerala State to the Communists, the very small size of the Congress Party's plurality in Orissa, and the serious reduction in Congress strength in Bombay and Uttar Pradesh state assemblies raise questions regarding the amount of co-operation a Congress-dominated parliament can expect to obtain from state governments during the five years until the next elections.

While final figures are not yet available, the Congress, the Communists, and the rightist Jan Sangh appear to have increased their shares of the popular vote for parliament over the 45, 4.5, and 3 percent, respectively, they polled in 1952. The fourth national party, the Praja Socialists, lost some of the 11 percent polled in 1952. All four national parties increased their shares of the popular vote in state contests compared to 1952 returns. The Congress Party, however, suffered a net loss in state seats.

In addition, the Congress Party suffered a considerable number of "prestige" defeats as a result of opposition efforts to concentrate on unseating prominent Congress leaders.

The party lost two ministers and two deputy ministers in the national government and at least 15 state ministers and six state deputy ministers. Other important defeats involved the Congress Party boss in Uttar Pradesh, the party presidents in Assam and Mysore, and other

important party members not in the government structure. Since in many states a considerable number of successful Congress Party candidates lack previous government experience, the defeat of these party leaders as well as of numerous members of state assemblies will result in a "new look" on Congress Party benches in the future.

**The Situation in Parliament**

Of the 488 parliamentary seats for which elections have been held, the Congress Party has won 365, the Communist Party 27, the Praja Socialist Party 19, the rightist Jan Sangh 4, other parties 45, and independents 28. Elections to four seats in Himachal Pradesh and two seats in the Punjab will be held in June, when snows have melted and weather permits polling. The Congress Party is expected to win most of these seats. An additional six seats, completing the total of 500 in the lower house, will be filled when the president of India appoints this number of delegates from Indian-held Kashmir.

In 1952 the Congress Party won 364, the Communists 16, the Socialists 21, the Jan Sangh 3, other parties 40, and independents 38, out of a total of 489 elected seats.

These totals indicate that the Congress Party itself with over 75 percent of the seats will be slightly stronger in parliament than it was in 1952, when it held 74 percent of the seats. On the other hand, less outside support may gravitate toward the Congress Party than in the past because of stronger anti-Congress feeling on the part of deputies from small parties and independents who represent linguistic groups and defectors from the Congress Party.

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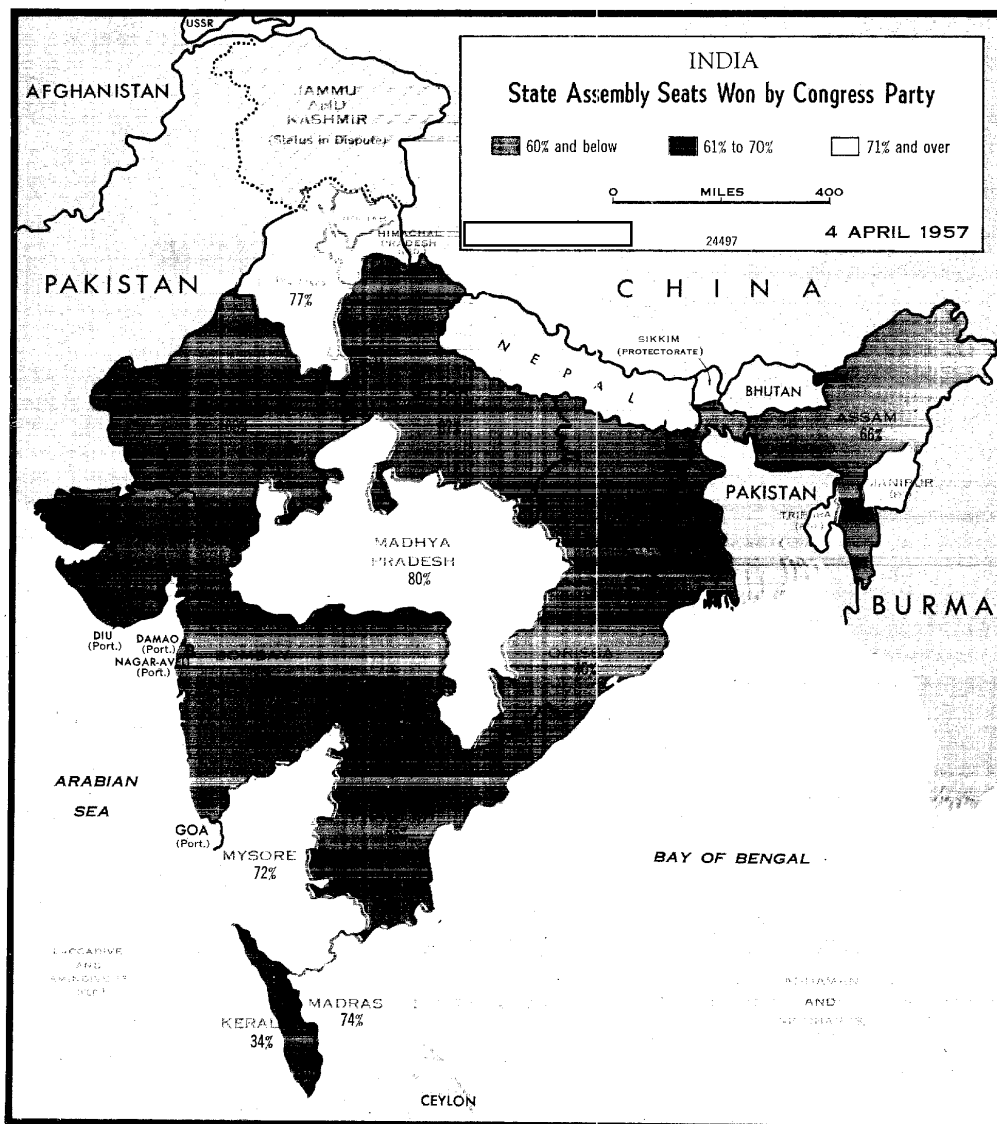
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The most important change in the parliament's line-up is that the Communists replaced the Socialists as the leading opposition group, the Communist Party alone having won nearly as many seats as it and its allies have held since 1952. This presumably will increase Communist prestige somewhat, though the party is still too weak to affect the nature of legislation significantly.

The Situation in the States

At the state assembly level, the Congress Party, in winning 1,889 of the 2,901 seats announced to date, has obtained only 65 percent of the total 2,906 seats as against 68 percent in 1952.

In Kerala, the Communists won 60 out of 126 seats and, with the aid of at least five independents, are to form a



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government. In Orissa, the Congress Party repeated its 1952 failure to win an absolute majority, but unlike 1952 its present plurality of 56 seats out of 140 is so slight that it may not be able to form a workable government. Both the Congress Party and the Ganatantra Parishad, which won 51 seats, face the prospect of having to work with ideologically incompatible parties to obtain the 71-man majority required.

In both Kerala and Orissa, the ruling party's majority margin may be so slight as to make stable government impossible. This would represent a distinct setback to the prestige of the Indian government. So also should the fact that the Communists, Nehru's "Enemy Number One," are now represented for the first time in every state assembly in the country.

Future Prospects

The state election results demonstrate that the Congress Party must increase its grassroots activity, even in those states it considers most safe, if it hopes to remain in power.

Party factionalism, linguistic controversy, and provincialism may be expected to plague the Congress Party's national and state governments during the five years until the next scheduled election.

Aside from rivalries within its own organization, many of which are expected to re-emerge now that elections are over, the Congress Party may be hard pressed to maintain amicable relations with the Sikhs in the Punjab, an alliance which was presumably responsible for the Congress victory there. Linguistic agitation is almost certain to continue in Bombay, where the Congress Party enjoys only a small majority. The provincialism shown by the voters of Kerala, Orissa, and Assam especially has not been overcome by the Congress Party. This last is a particularly important battle for Nehru's government to win if it expects to build a strong federal structure in India and if it hopes to mobilize India's maximum effort in making the Second Five-Year Plan a success.

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**NORTH VIETNAM'S STATUS IN THE BLOC**

The Viet Minh leadership is setting its own pace in the management of North Vietnam's internal affairs, while drawing on both Soviet and Chinese sources for inspiration. In foreign affairs, the leadership has reluctantly acquiesced in the subordination of its own aspirations to the lines of bloc policy drawn in Moscow and Peiping. With Chinese activity in North Vietnam and Peiping's economic commitments to the Viet

Minh exceeding those of the USSR, Chinese influence may be correspondingly greater. This influence, however, has been exerted in full awareness of Vietnamese nationalist sensibilities and with the declared intention of avoiding the error of "great-nation chauvinism."

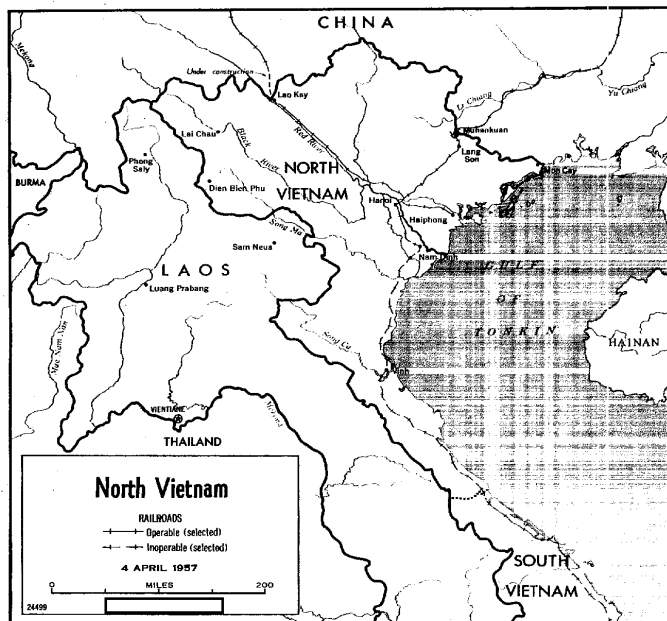
Chinese Influence

The Viet Minh leaders have applied distinctively Chinese

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tung" constituted the party's guiding doctrines--a formulation taken from the Chinese Communist Party constitution and inferentially acknowledging the Chinese claim to a unique development of Communist theory.

Soviet theorists in November 1951 criticized the concept of "Mao's road" and cautioned Asian Communist parties against viewing the Chinese revolution as a "stereotype" for revolutions in Asia. Nevertheless, the Viet Minh continued to advise its cadres that the "valuable

methods in their efforts to consolidate Communist control in North Vietnam, faithfully copying Peiping's policies on land reform, taxation, and relatively moderate treatment of native capitalists. The extension of Communist control to the entire China mainland in 1949 gave the Viet Minh access to substantial outside Communist support for the first time. Completion of the Chinese railroad to Munankuan on the border greatly increased the Sino-Soviet bloc's ability to provide military support and undercut the French military position.

The Chinese Communist aid which contributed so much to Viet Minh successes, including that at Dien Bien Phu, greatly increased Peiping's prestige among the Vietnamese Communists. Vietnamese theoreticians underscored their common doctrinal position with the Chinese on agrarian revolution. In March 1951, Vietnamese Communists promulgated party statutes which declared that Marxism-Leninism and the "thoughts of Mao Tse-

experiences of the Chinese revolution" were a major subject for their studies. The post-Stalin leadership has conceded that Mao and the Chinese Communist Party have made a "major contribution to Marxist-Leninist theory," which can serve as "a model for many peoples."

Deferring to Vietnamese nationalist sensibilities, the Chinese Communists exert their influence without bullying methods. Chinese Communist advisers, probably several thousand, are present in North Vietnam in various areas but

have not been placed in positions of authority. In a December 1952 handbook, Peiping instructed its cadres that they were going to North Vietnam as allies to help Ho Chi Minh in "his leadership" of the Viet Minh armed forces, with whom they were instructed to "live and die." In the charged atmosphere following the East European disorders, Premier Chou En-lai took pains during his visit to Hanoi last November to stress Peiping's

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intention to avoid the error of "great-nation chauvinism."

Soviet Influence

Soviet interest in the Viet Minh prior to 1949 was almost negligible. The Chinese Communist victory, however, heightened Moscow's appreciation of the prospects for further Communist successes in Asia, and Soviet propaganda and diplomatic support of the Viet Minh greatly increased as Ho's armies launched a general offensive in early 1950. Reports suggest the continuing presence of a few Soviet military and economic advisers.

In accepting Soviet assistance, the Viet Minh became correspondingly responsive to Soviet policy. By offering to negotiate a settlement with the French in late 1953, Ho Chi Minh subordinated his own favorable prospects for further military successes to the USSR's broader international objectives. There is evidence that many North Vietnamese party members opposed Ho's move.

Ho may have been persuaded by Moscow that political methods offered the best chance for attaining Communist control over all Vietnam. [REDACTED]

Viet Minh hopes for a coalition government in Vietnam waned as Soviet officials began to suggest in April that an Indo-China settlement might be based on partition. Objections were registered by Hanoi, but the Kremlin disregarded Viet Minh desires in the matter.

Peiping, which had not taken a public stand on the division of the country, concurred in the Soviet-imposed partition solution.

Chinese Primacy

The Chinese Communists have persistently projected themselves as the principal champion of the Viet Minh. Chou En-lai's leading role as spokesman for the Communists at the Geneva conference, while perhaps entirely acceptable to Moscow, was probably meant by Peiping to illustrate Communist China's intention to remain the Viet Minh's closest "brother."

Aid commitments to North Vietnam further illustrate Peiping's determination to appear as the principal patron of the Viet Minh. There are considerably more Chinese than Soviet military and economic advisers in North Vietnam. In the course of Ho's visits to Peiping and Moscow in July 1955, the Chinese made a \$326,000,000 aid grant to the Viet Minh, while the value of the Soviet aid was \$100,000,000.

Less inclined than Peiping to defer to Viet Minh national sensibilities, Moscow has paid only lip service to Viet Minh demands for national elections and has shown continued willingness to accept the indefinite existence of two Vietnamese states.

After endorsing a proposal by Hanoi and Peiping for reconvening the 1954 Geneva conference, Moscow last May agreed to a British counterproposal for talks by the Geneva co-chairmen, the USSR and Britain. During the talks, Soviet representative Gromyko gave the impression of only perfunctory

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support for Chinese Communist and Viet Minh demands for a new conference.

This difference between Soviet and Chinese attitudes was also evident in the USSR's move last January to counter an American proposal to admit South Vietnam and South Korea to the United Nations. The Soviet delegate proposed that both North and South Vietnam and North and South Korea should be admitted simultaneously as "separate states." Hanoi and Peiping avoided direct comment on this proposal, but continued publicly to reject the concept of dual membership.

Ho continues to defer to Moscow's wishes and publicly to oppose a return to forceful methods for unifying Vietnam. In view of Peiping's agreement with Moscow that bloc solidarity must remain the primary consideration in relations among Communist countries, Ho probably sees no other course open to him for the present. In an implicit rebuke of party militants last summer, Ho rejected the notion that Hanoi's problems are a "'personal affair' which no longer concerns the international proletariat."

Viet Minh Maintains Independence

While dependence on bloc military and economic support severely circumscribes Viet Minh freedom in foreign policy, Hanoi continues to set its own pace in the management of internal affairs. In contrast to the Chinese Communists, for example, the Viet Minh leadership has virtually suspended its liberalization program. Hanoi's position is that the Chinese policy to "let all

schools of thought contend" will not be applied to North Vietnam until social and ideological "reform" has neutralized the threat from "counterrevolutionaries."

In their public statements, the Viet Minh leaders display no undue subservience toward either the USSR or Communist China, balancing each off in a show of impartiality. Hanoi often refers to the Communist camp "headed by the Soviet Union and China"--a phrase originally formulated by Soviet speakers for occasions demanding flattery of Peiping but borrowed for frequent usage only by North Vietnam.

The party apparatus developed by the Ho leadership in the long years when communication channels to the USSR and Chinese Communists were poor apparently is still free from outside domination. Minor reshufflings in the leadership have been inspired by domestic considerations rather than by Moscow or Peiping. Truong Chinh, for example, was dropped from his post of secretary general last fall because of "mistakes in land reform." He nevertheless continues active in party affairs and remains an influential member of the politburo.

With its own Vietnamese cadres advising the Pathet Lao dissidents, the Viet Minh plays the primary role in implementing and possibly formulating bloc policy toward Laos. The injection of a Chinese Communist economic aid offer into the current negotiations with Laos suggests that Hanoi is consulting with Peiping on major policy decisions, but the Pathet Lao looks to Hanoi for guidance on day-to-day tactics.

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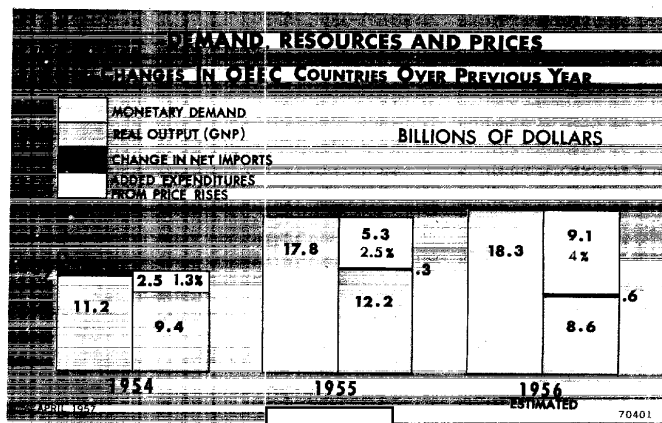
## INFLATIONARY TRENDS IN WESTERN EUROPE

At a time when Western Europe's attention is increasingly centering on such major plans as the Common Market, inflationary pressures are slowing the general rate of economic growth, weakening the area's dollar position and, at least in France, threatening a financial crisis with serious political repercussions. The oil shortage caused by the closing of the Suez Canal did not reduce industrial production to the extent widely anticipated but raised costs and dollar outlays for oil, coal, and freight.

The past three boom years have seen rising internal demand pressing increasingly on limited resources of skilled manpower, key materials and plant capacity. Since early 1955, total monetary expenditures have risen faster than output, and wage rises have exceeded increases in productivity. For Western Europe as a whole, the gross national product grew 6 percent in 1955 but slowed to a 3.9-percent increase in 1956 and is expected to rise only 3.7 percent in 1957.

Average price increases for the 17 OEEC countries were 4 percent for 1956 as contrasted with only 1.3 percent in 1954 and 2.5 percent in 1955. This compares with a rise in the United States of 3.0 percent in retail prices for the entire three-year period. Despite this accelerating rise, economic experts of the OEEC believe the inflationary problems and related trade and payments difficulties can be managed if the various governments adopt sufficiently firm policies in co-operation with each other.

The extent of inflation varies widely in the Western European countries, depending largely on the time each entered the boom phase, approached the limits of availability of key resources and then applied corrective measures. Britain, Sweden and Norway entered this cycle in late 1953 and their 1955 disinflationary measures have now begun to have some stabilizing effect. The Benelux countries, on the other hand, entered the cycle comparatively late and have only in the past few months reached the stage of preparing disinflationary measures. France entered its boom phase in 1954, encountered



inflation late in 1955 and has not yet taken adequate corrective steps.

The Italian economy, with extensive American assistance, has shown impressive gains in production and trade for three years and consumer prices appear to have reached a plateau in 1956--though their rise since 1953 is above the average for major Western European countries and unemployment remains high.

West Germany is in a category by itself; its production and trade have expanded more than those of any other Western

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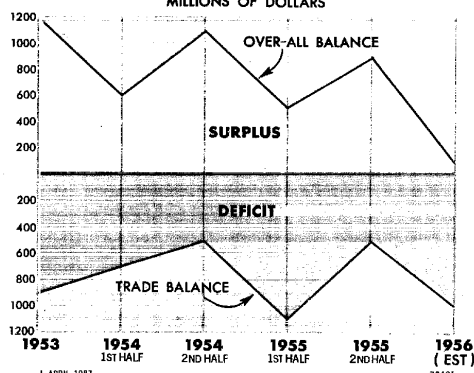
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European country. Large reserves in a labor force, which has been moderate in demands for wage increases, and prompt application of disinflationary measures have promoted internal financial balance. However, this balance may now be threatened by labor shortages and more aggressive wage demands, by the added strain of armaments production, and possibly by excessive political concessions to particular interests in an election year.

Effects of the Oil Shortage

The oil shortage, which amounted to only 17 percent of normal supplies during the first quarter of 1957 and is estimated at 5 percent for the second quarter, has proved much less serious in its over-all effects than was feared in the weeks immediately following the Suez intervention. In the United Kingdom, it actually

OEEC COUNTRIES: CURRENT BALANCE OF PAYMENTS  
MILLIONS OF DOLLARS

reinforced disinflationary efforts by further curtailing demand for labor and materials through its retarding effect on some industries. In such countries as France, however, where adequate disinflationary measures have not been undertaken, the oil shortage has significantly added to the upward pressure on prices.

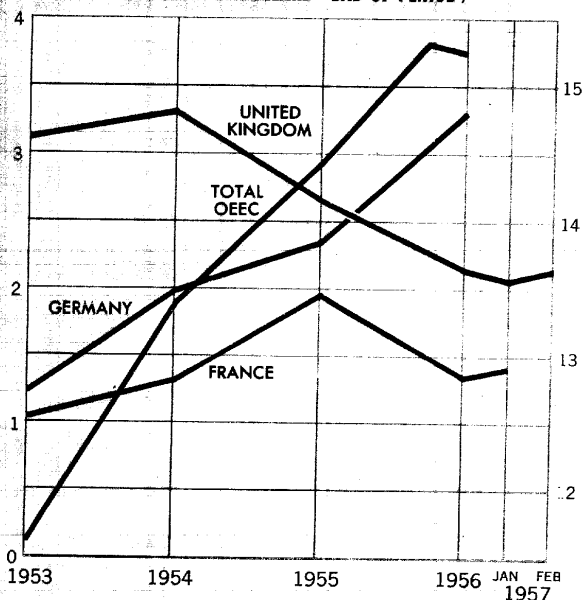
Outlook in Britain

Britain's economic outlook, though still extremely uncertain, is considerably better than in December. The British had previously expected a \$560,000,000 surplus for the fiscal year ending 30 June and still foresee some improvement in the gold and dollar reserves during the second half of 1957 if the international situation develops satisfactorily. Britain now expects to achieve an approximate balance on its current international account by mid-1957.

By mid-1956 the measures taken during the previous 18 months to tighten credit, trim government expenditures

GOLD AND SHORT-TERM  
DOLLAR RESERVES

(BILLIONS OF DOLLARS - END OF PERIOD)



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and curtail consumption already had a discernible effect in curbing inflation and improving Britain's international trading position. For the year as a whole, industrial production remained at the same level as in 1955 and the upward movement of prices was less pronounced. The government will, however, probably continue its broad disinflationary program. There is considerable pressure for some slight concession to particularly hard-hit middle-income taxpayers in the budget to be presented to Parliament on 9 April.

The Suez crisis initially posed a greater financial threat to Britain than to any other European country because of loss of revenues from sales of Middle East oil, the need to substitute dollar oil for Continental customers as well as in the domestic market, and consequent speculation against the pound. Pressure on sterling had intensified in July 1956 because of uncertainties in the international situation and increased until the government took vigorous measures in December by obtaining \$1.8 billion in emergency assistance from the United States and the International Monetary Fund (IMF). The pound's dollar rate thereafter improved gradually until the shipbuilding and engineering strikes in March brought a renewal of short sales against sterling on the Continent. Support operations by the Exchange Equalization Account probably wiped out the early March gains in the gold and dollar reserves, and the pound continues under pressure.

French Outlook

France has long been expected by the experts to encounter a crisis in its external financial relations during 1957 and the added Suez dollar drain of an estimated \$100,000,000 to \$150,000,000 may bring this

about in the first half of the year rather than in the second, as previously anticipated. The government's persistent reluctance to disinflate is fostered by an urgent desire to continue the rapid growth of industrial production, which increased by 11 percent in 1956--more than in any other Western European country.

Gold and dollar reserves of nearly \$2 billion at the beginning of 1956 made it possible until mid-1956 to suppress inflation artificially through subsidies on living essentials and through increased imports, but it has since become increasingly apparent that this policy is leading France into a balance of payments crisis. Heavy losses of gold and dollar reserves began in the second quarter of 1956, when severe winter weather necessitated large wheat imports, and the Suez crisis added an estimated \$100,000,000 to \$150,000,000 to the drain. By the end of the year the reserves had fallen by about \$600,000,000 and were only \$358,000,000 above the \$1 billion minimum safe working level.

In recent months the government has even resorted to subsidizing the production and marketing of key items in the cost-of-living index to keep it from rising to 149.1, at which point negotiations for an increase in the minimum wage would become mandatory under the terms of the July wage-price freeze. By March the index had reached 148.0 and the unions were increasingly bitter at what they term the practice of "cooling the thermometer to cure the patient."

With France's EPU deficit for March near a record high of \$150,000,000, the government has approached Washington for assistance totaling about \$300,000,000 and has announced new corrective measures at home.

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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These measures reveal no intention of sacrificing the policy of continued economic expansion, and the specific economies to effect an announced budget cut of \$750,000,000 are still under cabinet negotia-

tion. Right-center dissatisfaction with the government's handling of the economic situation nearly brought about the Mollet government's overthrow in a confidence vote on 28 March.

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