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22 August 1957

CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I

OF IMMEDIATE INTEREST

THE MIDDLE EAST SITUATION

The purge of neutral and pro-Western officers from the Syrian army and the appointment of Communist Afif Bizri as chief of staff have profoundly disturbed pro-Western governments in the Middle East.

Lebanese officials, already concerned over Syrian military reinforcement along the border, now openly express alarm over large-scale internal subversion, and have asked for a formal American guarantee against Syrian aggression. They state that Sidon and Tripoli, terminals for the Arabian and Iraqi oil pipelines in Lebanon, are overrun with Syrian agents to the point where the Lebanese doubt the ability of their security forces to cope with the situation.

King Hussain of Jordan feels the Syrian developments will lead to a further acceleration of the Egyptian-Syrian campaign to overthrow his pro-Western government. Jordanian security forces have taken extraordinary precautions to prevent sabotage, attacks on American installations, and assassination attempts on the King. Hussain has gone to Istanbul, possibly to confer with the Turkish government and the King of Iraq, who is at present in Istanbul.

Iraq and Saudi Arabia, less immediately threatened by the leftist move in Syria, have not reacted so sharply. The Iraqi government, which recently has been following a policy of rapprochement with Syria, believes that some counteraction should

be taken in concert with the West.

King Saud has called home his ambassadors from Beirut, Damascus, and Amman, as well as his royal councilor and confidant Yusuf Yasin, for consultation on the Syrian problem. One councilor has stated that Saud is "really worried" by the Syrian situation. So far Saud has given no indication of what line of action he will pursue.

Even the Egyptians seem to be not entirely pleased with the latest developments in Syria. While continuing efforts to blacken the United States in Arab eyes for its alleged conspiracy against the Syrian regime, the Egyptians probably look with disfavor on a close understanding between Damascus and Moscow. Such an arrangement would remove Egypt from the role of intermediary in Arab relations with the Soviet bloc and detract from Nasr's position of Arab leadership.

Israel has adopted an attitude of watchful waiting. Informed Israelis have indicated that the major impact of the leftist ascendancy in Syria will be to undermine the Baghdad pact and Jordan.

In Syria, President Quwatli departed precipitously to Egypt, ostensibly for health reasons. It is generally believed that prior to his departure Quwatli left a letter of resignation in Damascus. Should Quwatli not return to Syria, the presidency would be filled by another weak

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politician, probably Khalid al-Azm, who headed the Syrian mission to Moscow, and the change would have no effect on the

military's hold over the government. Quwatli's "medical treatment" in Egypt may include some stiffening of the spine. 25X1

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PART II

NOTES AND COMMENTS

USSR SUMMARIZES DISARMAMENT POSITION

Soviet delegate Zorin has been summarizing various aspects of the Soviet position on disarmament in publicized statements to the London subcommittee and in private talks with the American delegation. Zorin has made neither new concessions nor new demands, but rather has been reiterating the USSR's prerequisites for an agreement which he laid down earlier in the session.

In recent weeks, the Soviet Union has been trying to concentrate attention on its proposal for a suspension of nuclear weapons tests as the key issue of the present negotiations. It may feel that the impact of the Western aerial inspection plan has been sufficiently great so that the emphasis of the Soviet proposals must be broadened. Zorin has not replied to the Western plan, beyond remarking that aerial inspection could not stand alone without other disarmament measures, but Soviet propaganda has been critical of the plan.

While Zorin appears merely to be summing up the Soviet stand, perhaps in anticipation of a recess, the possibility remains of further Soviet concessions, such as a compromise on the geographical scope of aerial inspection plans. Such concessions would be designed to offset the favorable impact of Western proposals in this field as well as agreement to a two-year period for the proposed ban on nuclear tests.

The Soviet leaders probably believe their flat demand

for a suspension of nuclear tests independent of other aspects of a disarmament agreement will have a strong appeal in any forthcoming debate in the UN General Assembly. Moscow's efforts to marshal broad support in the assembly are reflected in a growing volume of propaganda devoted to worldwide appeals for a ban on nuclear weapons and tests.

[redacted] the Soviet delegate might be preparing to pull out of the London negotiations in favor of disarmament discussions in the General Assembly, where the USSR would take the offensive.

In his recent public and private statements, Zorin has reaffirmed the Soviet stand for a three-stage cut in armed forces, the partial abandonment of overseas bases and withdrawal of troops, and an international pledge not to use atomic weapons. Seeking to avoid any connection of the German unification problem with disarmament, he opposed the Western plan to condition the second and third stages of force cuts on progress toward political settlements.

[redacted] he sought agreement on the principle, rather than on the specific extent, of foreign base and troop cutbacks in the first stage. The pledge not to use atomic weapons is the main Soviet condition for the Western proposal for a ban on future atomic weapons production.

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UNITED NATIONS ELECTIONS

In the Twelfth UN General Assembly session, which opens on 17 September, prospective contests for the assembly presidency and three Security Council seats could have a divisive effect among free world members and correspondingly benefit the Soviet bloc.

Assembly Presidency

The assembly presidency, which is usually bestowed by a substantial majority as an accolade for previous UN activities, is being contested by Foreign Minister Charles Malik of Lebanon, despite the substantial support previously gained by New Zealand's UN delegate, Sir Leslie Munro, who had announced his candidacy in January. Malik does not appear to have the solid African and Asian support he claims, nor much backing from the Latin Americans.

Malik has been promised Soviet bloc support, and on 19 August told the American embassy in Beirut he felt he had an excellent chance of getting 41 votes. He added, however, that if these 41 votes did not include those of the United States, Britain, or France, he would withdraw because he could not accept the presidency against the opposition of the

leading free world powers and with the support of the Communist bloc. The situation would nevertheless afford another opportunity for the Soviet bloc to appear as the champion of Middle Eastern interests against the West.

Security Council Seats

In contests for the three Security Council seats to be vacated at the end of 1957, Canada is expected to succeed Australia in the "Commonwealth seat" and Japan seems virtually assured of following the Philippines in what was formerly considered the Eastern European seat.

For the "Latin American seat" to be filled, Panama seems to have a slight edge over the Dominican Republic, partly as a result of Argentina's withdrawal in Panama's favor. Because of the widespread demand for greater Asian and African representation on the council, moreover, the two seats normally allocated to the Latin American bloc could be jeopardized by Latin American endorsement of a candidate unacceptable to the rest of the General Assembly. The Dominican Republic has received considerable criticism at the UN in connection with the Galindez-Murphy case. 25X1

LABOR DISTURBANCES IN POLAND

Increased labor unrest is adding to the problems faced by the Polish government. In early August, strikes for higher wages in the meat processing and

chemical industries required high-level government intervention, and the city-wide shutdown of public transportation in Lodz from 12 to 14 August brought two

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politburo members to the city to explain why the country could not grant wage increases at this time. The demands of the workers remained essentially unsatisfied, and labor unrest continues to imperil industrial peace in Poland.

The regime has consistently maintained that further wage rises are contingent upon increased industrial productivity. Labor's reply has been to insist that, faced with rapidly increasing costs of living, it cannot, or will not, produce more until it is guaranteed a living wage. On 10 August the government announced a 15-percent tax increase on vodka to combat alcoholism and provide about \$2,000,000 annually in extra revenue to distribute among an estimated 700,000 underpaid workers. The Lodz strike followed, serving notice that halfway measures are not enough.

Lack of labor discipline has been a key factor in a general deterioration of public order and a decline of industrial productivity. "Unjustified" absenteeism is at an all-time high. In the first six months of the year, absenteeism shot up 136 percent, depriving the economy of a total of some 26,000,000 man-hours.

On 18 August the deputy minister of labor and social welfare announced new "get-tough" measures. Chiefs of enterprises have been made personally responsible for the discipline of employees. Absentees and "slackers" are subject to "admonitions, warnings, fines, transfer to lower paid jobs, dismissal with notice, and finally summary dismissal without notice."

Alcoholism has also become a major factor affecting labor productivity. In addition, pilfering from factories has increased, standards of workmanship have declined, and "hooliganism" continues to be a national phenomenon.

Gomulka's regime is caught between two fires. A rise in the wage level would probably pacify the workers temporarily but might induce runaway inflation in an already strained economy. Failure to raise wages would mean continued industrial unrest. Party conservatives, although weakened by the July shake-up in the Soviet presidium, may use the economic issue as a lever to turn the Polish party congress, scheduled for next December, into a showdown fight for control of the country. (Con-
curred in by ORR)

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UNREST IN RUMANIA

A wave of arrests and the meting out of heavy sentences for minor offenses in Rumania have been accompanied by rumors that further political changes, such as the imminent fall of party leader Gheorghiu-Dej, may be imminent. The Rumanian peo-

ple have been tense and restive since the local party shake-up in July and the recent Tito-Khrushchev meeting in Rumania.

The American legation in Bucharest believes the rumors are a reflection of Rumanian

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restiveness and desire for almost any change that will alter conditions, rather than an indicator of actual political change. The party has failed to combat these rumors effectively. In consequence of the July shake-up and resultant government disorganization, and with many leaders on vacation, there is still no party line for future policy.

In this situation, Rumanians are increasingly turning to foreign radios for information and interpretation of what is in store for them. A legation source stated, "We expect changes, especially in the cultural-intellectual area and probably in the direction of liberalization." There has been no indication thus far, however, of such liberalization.

In an attempt to reimpose discipline on the populace following a period of relative relaxation, the regime is arrest-

ing "hooligans," persons committing minor economic offenses, and those whose lax conduct or pro-Western manner marks them as potential enemies. Probably a major objective of the arrests is to eliminate petty thievery and graft which result from low living standards and continuing economic dislocation. The widespread arrests and heavy sentences have given rise to the rumor that thousands of persons are being sent to forced labor camps.

Possibly forecasting an eventual new line, the official party newspaper on 8 August sharply criticized all major ideological publications for superficiality, failure to provide ideological guidance, dissemination of obsolete opinions, and defense of bourgeois methods. This criticism and the installation of a new minister of culture in July may foreshadow ideological changes.

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STATUS OF THE SOVIET INDUSTRIAL REORGANIZATION

Some confusion and uncertainty in the operation of the new regional system of Soviet industrial management have become evident during the initial seven weeks and will probably continue until the new system has become fully operative. The regime has directed its efforts toward minimizing the scope and seriousness of the problems arising during the transitional period and has sharply attacked any tendency to satisfy local interests at the expense of national requirements.

In an attempt to minimize disruption of supply to industrial enterprises while they are negotiating new supply contracts

directly with each other, supply organs of the ministries abolished in the reorganization have been attached to the enlarged State Planning Commission (Gosplan) as a stopgap measure. Nevertheless, problems of supply and distribution will persist until these new supply relationships are established and the respective responsibilities of Gosplan and the regional Councils of National Economy (sovnarkhozy) are clearly defined.

Some local officials have taken advantage of the initial confusion resulting from the reorganization to build up backlogs of materials in order to ride out the transition. The most common forms of this

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practice are apparently to hold back on deliveries called for by contracts concluded prior to the reorganization, or to cancel deliveries on the seemingly flimsy excuse of "irrational transportation." The central press has warned that those guilty of such manifestations of "localist tendencies" will be severely punished, and has cited at least one example of a plant manager who was fined several thousand rubles. Soviet propaganda, to date, suggests that "localism" may be blamed for most future supply problems.

The apparatuses of the Councils of National Economy vary in size from several hundred persons in the smaller republics to 3,000 in the Moscow city sovnarkhoz. It was planned that a large portion of these jobs would be filled by persons drawn from the abolished USSR ministries in Moscow. Some sovnarkhozy have already complained, however, that the specialists promised from Moscow had not arrived at their new posts. In one instance, only 18 of 83 had arrived, perhaps indicating a delay in liquidation of the former ministries and continued reluctance to leave Moscow for the provinces.

So far most of the problems mentioned in the Soviet press have related to the period of transition to the new system and many will probably disappear or be sharply reduced when the change-over is completed. It is not yet possible to determine the effect these difficulties

will have on industrial output in the USSR, but if they persist or if new difficulties arise, Soviet industrial growth might well suffer.

The reorganization has been accompanied by an enhancement of the party's role, which suggests that the influence on top economic policy of the technically trained industrial administrator has been curtailed. At the highest level, the June central committee plenum replaced government administrators on the party presidium with party careerists, and the former USSR ministers, many of whom have been assigned to work in the sovnarkhozy, certainly do not now exercise the influence on policy they did while ministers in Moscow.

Sovnarkhoz chairmen, moreover, may be faced with increasing intervention in their work by local party organizations. Khrushchev has already made it clear that the party will continue to exercise its prerogatives in the selection of personnel for top positions in the sovnarkhozy, and at least one item in the press has exhorted party organizations to "take the problem of ensuring deliveries under control." In addition, one sovnarkhoz chairman has already been replaced by a party official. The move may presage further incursions of party functionaries into the industrial management field.

(Prepared jointly with ORR)

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SOVIET GRAIN HARVEST PROSPECTS

This year's grain harvest in the USSR apparently will be considerably smaller than last year's excellent harvest despite an increase of 3,700,000 acres in the area sown in grain.

Weather data and trip reports by American embassy officials indicate that the grain crop has been affected by drought in varying degrees. Between 4 and 15 August, embassy

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officers observed drought conditions in the eastern Ukraine and parts of the North Caucasus and reported near failures of the crops in parts of the lower and middle Volga regions. Drought conditions had been reported previously in the southern Ukraine and portions of the New Lands area.

The Soviet press has made few claims of high yields for this harvest. Instead it has urged an early harvest and a rapid completion, and has lauded the extent to which the two-stage method of harvesting has been used.

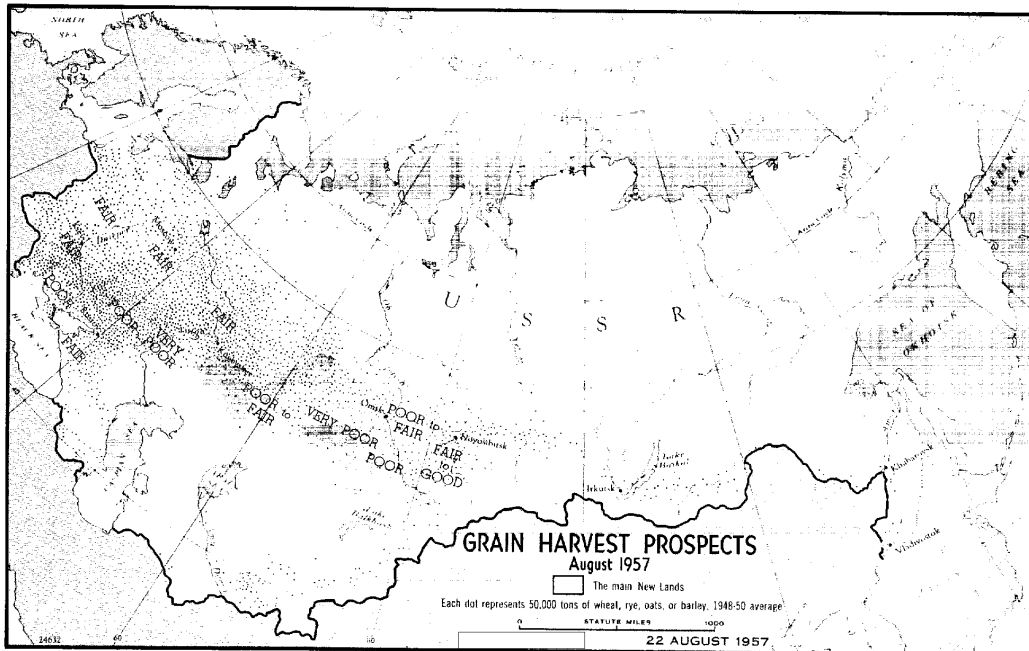
It is very tentatively estimated that the 1957 harvest--not yet completed--will be 10 to 15 percent smaller than the

1956 harvest of an estimated 115,000,000 tons and more like the 1955 harvest of an estimated 103,000,000 tons.

A grain crop substantially smaller than last year's would make Khrushchev's unrealistic schedule of catching up with the United States in per capita milk and meat production even less attainable. Reserves are believed to be sufficient, however, so that a harvest reduced by 15,000,000 tons this year need not alter present consumption levels.

It is not clear what effect the drought may have on late food crops such as potatoes and sugar beets. The grain areas hardest hit by the drought are not the primary potato and sugar beet areas. 25X1

(Prepared by ORR)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****22 August 1957****COMMUNIST CHINA RESTRICTS JAPANESE FISHING**

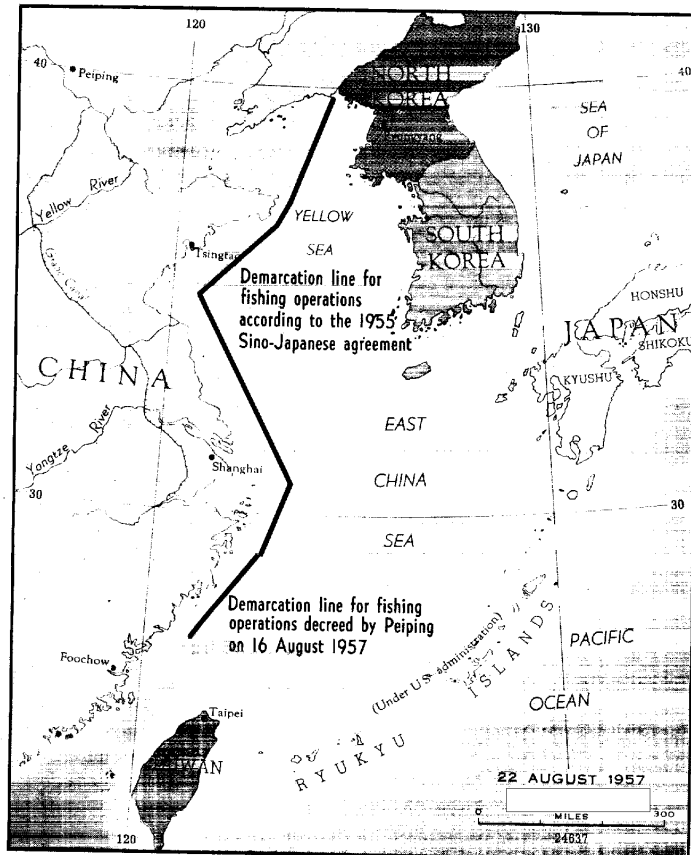
The decree issued last week by Communist China placing new restrictions on the operations of fishing trawlers in the East China Sea may have been designed to persuade Tokyo to enter into formal negotiations with Peiping on the issue. The motorized trawler is the vessel most commonly used by the Japanese fishing fleet operating in East China waters.

The fishing issue is one on which Peiping has long counted to win official contacts between Japan and Communist China. An unofficial agreement, signed in 1955 with a private Japanese fishing group, established a line some 40 to 70 miles off the China coast running from Manchuria down to the 29th parallel, west of which fishing by motorized trawlers was forbidden. Peiping has expressed the hope that this agreement would be followed by government-to-government negotiations.

Communist China's recent action extends this line down to the 27th parallel and coincides with the opening of a fisheries conference in Moscow. The conference was scheduled under the terms of a 1956 convention signed by the USSR, Communist China, North Korea,

and North Vietnam, which provides for membership by Japan and other Pacific fishing countries through application to Communist China.

The Chinese decree seems unrelated to considerations of military security, such as probably governed Moscow's closing of Peter the Great Bay. The Chinese restriction applies to no shipping other than motorized trawlers. Peiping recently eased restrictions on Japanese commercial vessels calling at four Chinese ports.



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The Japanese Foreign Ministry has reacted to Peiping's decree with a statement that Japan cannot recognize any unilateral imposition by another nation of restrictions on high seas fishing. The Foreign Ministry statement appears designed to uphold Japan's official position on freedom of the high seas, and this probably will be the extent of Tokyo's official action.

Japanese fishing in the affected area reportedly is now relatively minor, although these grounds were important in the pre-World War II period. Peiping's move, however, could increase pressure by fishing interests in Japan on the government to conclude an official fishing agreement with Communist China. [redacted] (Concurred in by ORR)

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CABINET CRISIS IN THAILAND

A political crisis may be developing in Thailand as a result of the resignations from the cabinet of Defense Minister Sarit and several of his closest followers. The resignations were followed by orders issued by Sarit and Police Director General Phao placing the army and police respectively on alert status. [redacted]

This latest flare-up of political tension in Bangkok was apparently set off by Premier Phibun's recent order to cabinet ministers to sever their lucrative connections with government and commercial corporations or resign. Some reports have suggested that Phibun's move was directed primarily against the Sarit clique, which has become increasingly aggressive since the postelectoral crisis last March. This contention may have some validity in view of the fact that Phao, in contrast to the resigning ministers, has announced he will divest himself of his commercial interests rather

than give up his portfolio as minister of interior.

The army alert, however, suggests that Sarit may be attempting to turn the tables on Phibun. In this connection, the American army attache' has been informed by a source he considers reliable that the Sarit clique hoped by its withdrawal from the cabinet to force Phibun to dismiss Phao from his government post. Phao's presence in the cabinet has reportedly been a source of extreme irritation to Sarit, ever since Phibun allegedly assured him last March that Phao would be permitted to retain only his post as police chief.

Despite the present tense situation, there remains a good chance it will be resolved peacefully. This may be achieved through an arrangement in existence prior to the February elections under which Phibun himself held the defense and interior portfolios, with Sarit and Phao acting as deputy ministers. Phibun, in fact, has stated that he may take over the Ministry of Defense.

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INDONESIA

In a new effort to solve the problem of provincial defiance, Indonesian Prime Minister Djuanda is making plans for a national round-table conference which would include the disaffected commanders and would be held early in September. According to Djuanda, the disaffected commanders will be invited to Djakarta for private talks prior to the formal sessions. As an added inducement for provincial cooperation, both Sukarno and former vice president Hatta reportedly will act as advisers to the conference.

Djuanda is particularly anxious to hold the conference soon to assure Hatta's presence, since the latter leaves for a tour of Communist China on 12 September. Hatta is a strong anti-Communist and is popular in the non-Javanese provinces. His acceptance of the Chinese invitation presumably was prompted by a genuine desire to observe Chinese economic development himself, particularly since President Sukarno apparently was so impressed by his visit to China in 1956.

Sukarno, in his 17 August independence day speech, reiterated his conviction that "political democracy" is not feasible for Indonesia but that the country must strive instead for "social and economic democracy." He said his new social democracy will place the interests of the state before group or individual interests, and that to achieve this objective a "disciplined guided democracy" is necessary.

Sukarno claimed that the economic basis for his new democracy must be provided by the

return of Netherlands New Guinea and the complete abrogation of the 1949 agreements with the Dutch. In fact, however, these issues are essentially political and their solution in Indonesia's favor would not make for national economic gains. The references to remaining Dutch influence are a restatement of Sukarno's consistent contention that the Indonesian revolution is still incomplete.

The president devoted the latter part of his address to the "new life movement," apparently a vehicle to introduce a concept of discipline to Indonesian life. The final form of his projected political system is not clear from the speech, but something close to Communism or national socialism is indicated.

Sukarno can be expected to continue to rely on the Communists for support and advice and to permit their increased influence in the government.

The Communists, for their part, apparently are making an effort to prevent the formation of an effective anti-Communist or non-Communist front by offering top local posts to the National Party and the Nahdlatul Ulama even in areas where the Communists won clear majorities. They would reserve lower posts for themselves. By this maneuver they apparently hope to consolidate their gains at grass-roots levels without interference, let two of the non-Communist parties take the blame for the expected continued lack of economic progress, and at the same time continue the political isolation of the anti-Communist Masjumi.

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THE SITUATION IN GUATEMALA

With the election of a successor to the late president Castillo Armas reportedly set for 20 October, maneuvering for control of the Guatemalan government among politicians and army men in and outside the present interim government is intensifying. The greatest threat to stability appears to be the developing split in the administration between a slightly right-of-center group, which has the support of Defense Minister Col. Juan Francisco Oliva, and a faction which is further to the right led by Col. Enrique T. Oliva, the defense minister's half-brother who is the government's coordinator of intelligence.

Defense Minister Oliva has thrown his influence on the side of constitutional succession and in favor of the presidential candidacy of the able and the pro-US president of the supreme court, Miguel Ortiz Passarelli. The defense minister is the acknowledged leader of the politically important army and probably enjoys the personal loyalty of most key officers. The group supporting Ortiz' candidacy includes those who were closest to the late president in the government and in the powerful administration

political machine, the National Democratic Movement (MDN). However, this group might be less able and possibly less inclined than was Castillo to resist pressure from extreme rightists against the middle-of-the-road policies developed during the last several years.

The extreme rightists, including some who were exiled for subversive activity by Castillo, are believed receiving organizational and financial support from Dominican dictator Truillo.

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Elections in October would be at least two months earlier than had been expected. Early elections minimize the chance that any new party, possibly leftist or pro-Communist, might develop at the expense of the now-dominant MDN. If the MDN remains united, it is virtually certain of victory in the October elections.

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THE OUTLOOK IN BRITISH GUIANA

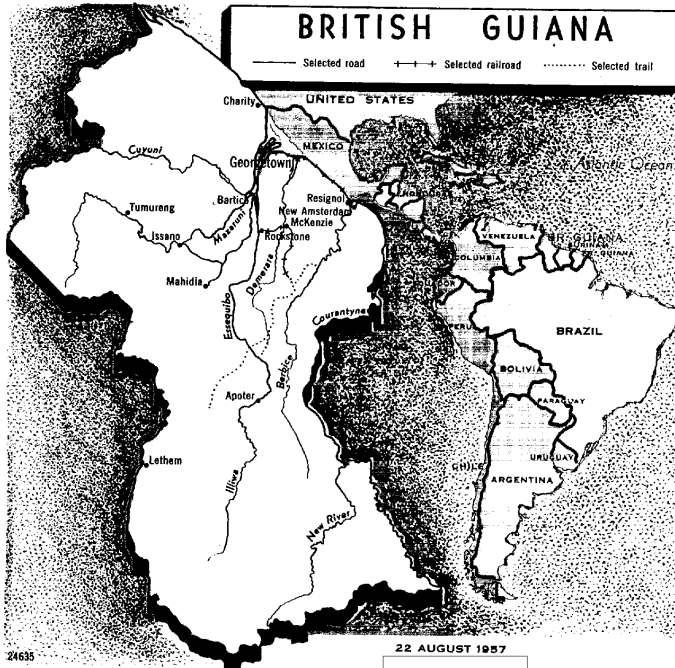
Following the electoral victory in British Guiana of his Communist-dominated faction of the People's Progressive Party (PPP), Dr. Cheddi Jagan reiterated his intention to pursue

his aims constitutionally. In view of this, Governor Renison will shortly select the new government in close consultation with Jagan, and opening of the new Legislative Council by

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Jagan says he does not favor nationalizing established industries--principally sugar and bauxite--but wants some form of cooperation between the government and private enterprise in establishing much-needed new industries. In consultations with Governor Renison on 16 August, he sought maximum governmental responsibility for his party by requesting an effective majority in the 10-member Executive Council--or ministerial group--as well as in the Legislative Council.

12 September is unlikely to involve the British in any immediate political crisis.

Jagan has made every effort to appear cooperative and reasonable. After winning 9 of the 14 elective seats in the 12 August election, he told the American consulate in Georgetown that, while holding to his 1953 objective of an independent, "socialistic" state, he plans no radical attempts at implementation. He informed the press on 16 August that his party has ousted both its right-wing and left-wing extremists.

Under present constitutional safeguards and the effective police organization, it will be extremely difficult for Jagan to pursue Communist aims overtly. Rather, the recent series of defections from his faction of the People's Progressive Party suggest that he may have to concentrate on mending his political fences.

Governor Renison told the American consulate he was willing to have Jagan lead a majority party, and will presumably closely consider Jagan's views in selecting members of the councils. Of the 11 members he may appoint to the Legislative Council, two will also sit in the Executive Council and five additional Executive Council members will be picked from the elected legislators. One of these is sure to be Jagan, but the governor is not bound to act on the advice of the Executive Council.

When in office, Jagan is expected to strive for the time being to be constructive and to seek foreign capital for economic improvement. The \$62,000,000 five-year development plan inaugurated last year has apparently been inefficiently implemented so far, and Jagan campaigned on the question of Britain's "exploitation" of the colony. Disputes with the

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governor are likely to arise when the PPP attempts to introduce legislation on the most pressing economic issues, such as social welfare, land resettlement, and foreign aid.

Meanwhile, Governor Renison continues to hope that Jagan's PPP rival, Lyndon Burnham, will

head a combined opposition, but London believes this may further stimulate bitterness between East Indians and Negroes. London also believes that ambition may cause Jagan and Burnham to join forces, and that demands would then be focused on constitutional change.

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CYPRUS

Greek Prime Minister Karamanlis remains opposed to Britain's plan for a tripartite conference on Cyprus next month in London. He believes that acceptance of such an invitation would subject him to immediate attack by the entire Greek press and by Archbishop Makarios, as well as by all opposition parties. Foreign Minister Averoff says he has been trying to "soften Makarios up" on the subject of a tripartite conference but states that a special meeting of the North Atlantic Council to consider Cyprus would be more acceptable to Greece. Karamanlis would accept an invitation to such a council meeting even over Makarios' opposition, since he could publicly defy Makarios on the issue of Greek loyalty to NATO.

Turkey favors a new tripartite conference but prefers that it be postponed until after the Turkish national elections, probably late in October. The British would presumably be amenable to such a postponement.

On Cyprus, the Nationalists are reported concerned over the increasing political strength of the outlawed Communist-front Reform Party of the Working People (AKEL). AKEL leaders claim their membership has grown from 3,000 to 6,000 in the last six months, and British

security officials believe it is steadily gaining ground.

Andreas Ziartides, leader of the Communist-dominated Old Trade Unions, which claims 30,000 members, made a recent widely publicized trip to Athens to consult Makarios. Although primarily a gesture to persuade Greek Cypriots of Nationalist-Communist solidarity on the issue of self-determination, Ziartides also was believed to be prepared to threaten Makarios with the destruction of the underground EOKA if the archbishop continues to reject AKEL's cooperation. The American consul in Nicosia recently reported a rumor that AKEL had threatened to ruin EOKA if it renewed violence. He believes AKEL could carry out such a threat.

A resumption of terrorist activity by EOKA continues therefore to be unlikely in the near future, particularly inasmuch as Makarios and the Greek government apparently desire to avoid further violence. In the absence of progress toward settlement of the Cyprus issue or the formulation of an alternative course of action by the Nationalist leadership, however, more Greek Cypriots are likely to drift toward support of AKEL.

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National elections probably will be held in Turkey in the latter part of October. Prime Minister Menderes so informed two American newspapermen, and his recent activity, including a tour of smaller cities, has been interpreted as the opening of the political campaign. Leaders of Turkey's major opposition parties are holding strategy meetings and warning their adherents to be sure that their names are on the voting lists.

The present Grand National Assembly was elected in May 1954 and its term would normally end in May 1958. However, the assembly may enact a law by a simple majority providing for new elections prior to expiration of the term. According to the present electoral law, election day is the first Sunday 45 days following promulgation of the special law calling for new elections. As the assembly is scheduled to reconvene on 2 September, elections probably will not take place prior to 20 October barring a last-minute change in the electoral law.

More than 80 percent of the members of the 541-member Grand National Assembly belong to the Democratic Party. The three major opposition parties are the Republican Peoples Party, the Freedom Party, and the Republican Nation Party.

The Democratic Party has several factors favoring it in an election held this fall.

The harvests for 1957 are expected to be larger than those of recent years, the government subsidy on wheat has been increased, many large-scale economic projects are being initiated, extensive urban redevelopment projects are in progress, the conservative element in the population approves the tolerant attitude of the Democratic Party toward active observance of the Moslem religion, the government's position on the Cyprus problem has met with widespread popular support, and foreign governments, particularly West Germany, are making large-scale investments in Turkey.

The three opposition parties will probably strive to make the rapidly rising cost of living the major issue in the campaign. They can also be expected to concentrate on so-called undemocratic acts of the government, such as the recent jailing of the leader of the Republican Nation Party. All parties favor continued close cooperation with the United States.

The opposition will enter the campaign under handicaps imposed by the present electoral law. Opposition leaders attended a meeting in mid-August during which cooperation against the Democratic Party was discussed and reportedly received considerable support. The personal rivalry of party leaders has made effective cooperation impossible in the past.

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SUHRAWARDY FAILS TO GAIN NEEDED SUPPORT IN PAKISTAN

Pakistani Prime Minister Suhrawardy failed to gain additional political support for his weakened Awami League during the intensive negotiations which

began immediately after his return from the United States on 5 August. His tenure as prime minister remains largely dependent on President Mirza,

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who apparently intends to continue supporting him while at the same time keeping his power within manageable limits.

After nearly a week of negotiations in Karachi, Mirza and Suhrawardy visited East Pakistan from 9 to 13 August in an effort, which turned out to be unsuccessful, to reach an agreement with leaders of the Krishak Sramik Party for the latter's adherence to both the national and provincial government coalitions. Such an agreement would have bolstered Suhrawardy's position in Karachi and offset the losses his party suffered in East Pakistan from defections to Maulana Bhashani's new leftist opposition party.

Without additional support in the East Pakistan assembly, the Awami League government apparently will be dependent on the Hindu minority groups in its coalition to maintain a majority. While these groups are likely to side with the opposition in the elections tentatively scheduled for next year, they probably will seek to avoid a renewal of political instability in the province at this time because of the possible consequences it might have for the minority segment of the population. In addition, opposition parties seem reluctant to assume the responsibilities of government prior to the elections and therefore may

make no effort to precipitate the fall of the provincial government.

The erosion of Suhrawardy's political base in East Pakistan has prompted Mirza's Republican Party, major component of the national coalition, to put increasing pressure on the prime minister to stop intervening in West Pakistan politics and to grant the Republicans additional posts in the central cabinet. Republican leaders who accompanied Mirza and Suhrawardy to East Pakistan reportedly stayed behind to negotiate an agreement between their party and the Krishak Sramik Party, possibly with the intention of forming a new national coalition excluding Suhrawardy and the Awami League. 25X1

There is little indication, however, that Mirza plans now to oust Suhrawardy. He probably continues to feel that Suhrawardy is the best hope for effective leadership at the present time. 25X1

COMMUNISTS ASSUME VIRTUAL CONTROL OF INFLUENTIAL SINGAPORE PARTY

The replacement of the two "moderate" leaders of the People's Action Party (PAP) by pro-Communists puts what is probably the largest and best organized party in Singapore under virtual Communist control. The victory is not without liabilities for the Communists, however, for it

discards two of the PAP's most effective spokesmen and, by clearly identifying the party as pro-Communist, will facilitate any new antisubversive campaign against the party by the Labor Front government.

The party's move to the left eliminates the possibility

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of its cooperation with Chief Minister Lim Yew Hock's Labor Front in the forthcoming city council and Legislative Assembly elections. Within the next few months, it may drive moderate elements away from the PAP and induce them to unite with most of the present Labor Front in a new political organization.

A Labor Front source has told the American consulate general that Lee Kuan Yew may remain with the PAP temporarily in order to use his faction on the party executive committee to create confusion among the leadership.

Failure to regain his authority, which appears likely because of his present weakened position, may lead to his resignation at an opportune moment to help the Labor Front form a new party.

Since the April talks in London on internal self-government for Singapore, Lim and Lee have cooperated closely in the Legislative Assembly and in the June by-elections. With Lee's loss of influence in the PAP and Lim's need for a stronger political organization than the weak and divided Labor Front, cooperation between the two in establishing a new party would be a logical development. Lim knows that in order to maintain his position, he must build a party capable of competing with the financial resources of the conservative Liberal Socialists and the organizational ability and mass appeal of the PAP.

Time is becoming an increasingly important factor in Lim's plans to retain a strongly anti-Communist government in Singapore. It is probably already too late to build a party which could successfully contest the city council elections in December; there still may be time to create an organization which would be effective in the crucial Legislative Assembly elections which will probably be held late next summer.

ITALIAN OIL COMPANY'S MIDDLE EAST ACTIVITIES

Enrico Mattei, president of the Italian government's National Petroleum Company (ENI), is reported negotiating with Saudi Arabia and Morocco for extensive oil exploitation rights, and has stated he already has an agreement with Libya. In Iran, the lower house of parliament on 15 August approved the agreement he reached in March with the National Iranian Oil Company (NIOC). There is some question that Mattei has the technical means to exploit all of his concessions, but his terms, compared with

the usual 50-50 profit-sharing patterns, are very attractive.

Mattei said on 6 August he expects to receive oil exploration rights covering approximately 210,000 square miles in Saudi Arabia. He indicated, however, that he is "ready to play ball" with Aramco, and the American embassy in Rome considers his negotiations a blackmail attempt to gain participation in Aramco.

He also claims that ENI has concluded an agreement with

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Libya for an 18,000-square-mile concession in the Fezzan, contiguous to the French Sahara oil development. Libya would receive 62.5 percent of the profits from this venture, would put in 25 percent of the capital, but would not be required to pay its share until a commercial deposit is found.

ENI's agreement with the National Iranian Oil Company in March has been strongly backed by the Shah. This agreement calls for formation of a joint Italo-Iranian company to develop oil deposits outside the area controlled by the international consortium. The Italian company would initially put up all capital for exploration; after the discovery of oil, the Iranian government would start paying half of further development costs. Under the agreement, the Iranian government would receive 75 percent of all profits--50 percent as royalties and tax and also

half of the remaining profit made by the joint company. Italian President Gronchi and Foreign Minister Pella are scheduled to begin a state visit to Iran on 7 September, presumably to honor the new partnership.

Mattei appears to be trying to work his way into profitable foreign operations partly to compensate for ENI's failure to find crude oil deposits in Italy and partly to make a deal detrimental to American oil interests for opposing the oil bill in the Italian parliament which he favored. Even if he musters adequate capital, he will be dependent on foreign technicians and equipment in order to carry out all of his foreign undertakings. His success in obtaining formal agreements may jeopardize other Western oil agreements in the Middle East by breaking down the established 50-50 profit-sharing pattern. (Concurred in 25X1 by ORR)

POSSIBLE REPLACEMENT OF ITALIAN COMMUNIST CHIEF

Speculation on the possible ouster of Italian Communist Party leader Togliatti has been revived by an implied rebuke in a communiqué issued by a recent party delegation to Moscow. Intraparty friction is reportedly limiting his influence, and there have been rumors that he will be replaced after the 1958 Italian national elections.

The communiqué issued on 11 August included an appeal "to consolidate the unity of the socialist camp, of which the Soviet Union is the center and greatest force." Italian observers see in this a rebuke by Khrushchev for Togliatti's past advocacy of "polycentrism,"

and see a further reprimand in the acknowledgment that efforts to make recent Soviet



TOGLIATTI

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accomplishments better known to the Italian people have been "insufficient." The criticism is sharpened by the fact that a long-standing Togliatti adversary, Communist Party Vice Secretary General Longo, headed the delegation and reportedly stayed on in Moscow.

Giuseppe Di Vittorio, head of the Communist-dominated Italian labor confederation, also visited Moscow in early August in what Togliatti reportedly feared was an effort to have him removed on the grounds of age and inept leadership. A report that Togliatti would be replaced after the 1958 national elections is attributed to Velio Spano, a member of the party directorate who also has ambitions to succeed Togliatti.

The American embassy in Rome, though doubting that Togliatti will be removed from the party's helm other than for reasons of health, believes the communiqué and the Spano report indicate that "some decision adverse to Togliatti's policy" was recently taken within the Soviet bloc.

Togliatti is reported also finding his control of the party seriously threatened by "sectarian" leaders who are using the central control commission to ensure that all policy decisions conform to Communist theory and practice. These leaders have compelled Togliatti to acquiesce in a purge of "revisionists." 25X1

FURTHER DETERIORATION OF SPAIN'S ECONOMY

The Spanish government's recent relaxation of price controls increases the likelihood of new wage agitation early in the fall.

With practically all commodities in continuing short supply, the Franco regime has apparently given up hope of controlling prices. Price increases decreed by the government within the past month include a 20-percent boost on some types of bread, a 50-percent rise in Madrid's surface transportation fares, and a substantial hike on beer, wines, and cigarettes. In addition, cotton, wool, and silk textiles have been freed from price controls, which suggests that the government is relying only on "rationing by the purse" to achieve the reduction in consumption which the commerce minister announced last June as a primary goal.

The economy-minded ministers of commerce and finance have made some progress in their program for economic stabilization by reducing government borrowing, instituting some credit restrictions, encouraging exports, and safeguarding the country's gold and dollar reserves. Nevertheless, they are facing a tough battle with cabinet members and other proponents of "big spending," one of whom has just ordered construction begun on a vast irrigation and hydroelectric power project on the Ebro River in northeastern Spain.

The American embassy sees considerable political danger in the relaxation of price controls, particularly during the coming months when seasonal shortages of basic food items will cause further sharp price increases. The workers have already lost a large share of their gains from last year's two large pay

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boosts as the result of the steady rise in the cost of living, and they certainly will demand new wage increases, which the government is likely to grant in order to avert widespread strikes.

The accelerated wage-price spiral will not only weaken Franco's political position, but may also be reflected in popular resentment toward the United States for not giving more economic aid and in reduced government cooperation on the base program.

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PART III

PATTERNS AND PERSPECTIVES

JAVA'S ECONOMIC DEPENDENCE ON OUTER ISLANDS OF INDONESIA

The dissatisfaction of Indonesia's outlying islands with a system of economic control centered in Java is a major factor behind the dissident movements in Indonesia. Although these areas produce over three fourths of Indonesia's exports, Java releases to them less than one fourth of the imports. While Djakarta's loss of control over the outlying provinces has caused economic difficulties on Java, the effects have been cushioned because the major exporters--mostly Western companies--still turn their foreign exchange earnings over to the central government in return for rupiahs. If the non-Javanese areas were to declare themselves independent, however, the loss of foreign exchange earnings would soon cause economic chaos in Java.

Structure of the Economy

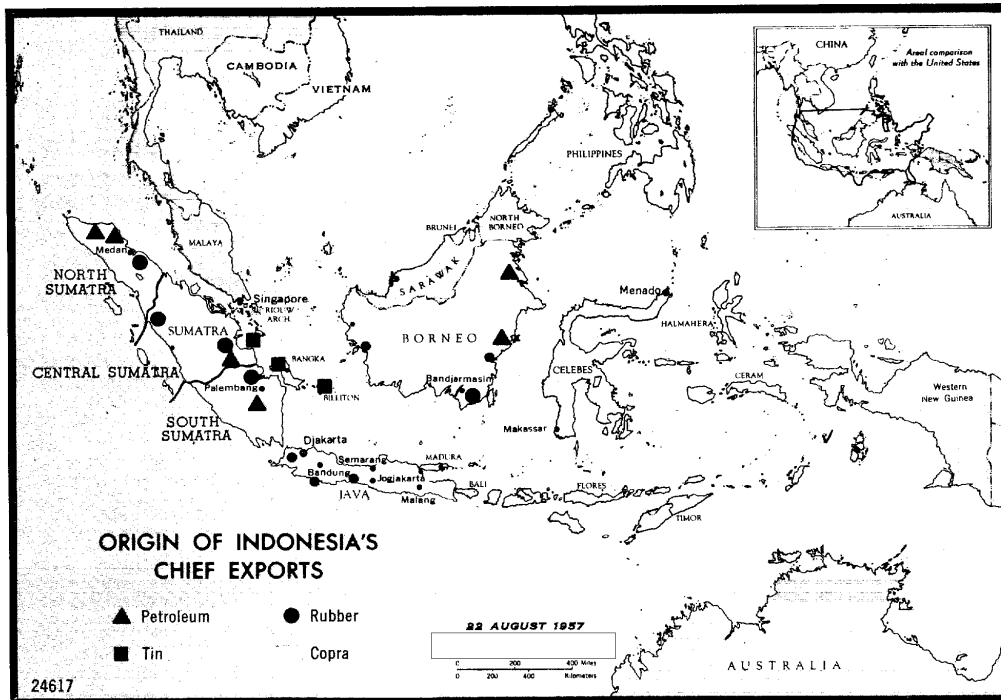
Indonesia's basically agrarian economy is virtually stagnant at subsistence levels. While near self-sufficiency in food production has been achieved and minimum consumer goods import needs have been met throughout most of the postwar period, Indonesian living standards are probably below pre-World War II levels. The government's economic development program has resulted in gross investment, both public and private, of only about 5 percent of the national income. The increase in output generated by such a low level of investment is at best barely sufficient to keep up with population growth.

The only dynamic elements in the Indonesian economy are the Western oil companies and



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the large, efficient agricultural estates, which are the major sources of government revenues, domestic savings, and export earnings. These enterprises are almost entirely Western-owned and have been subjected to strong political attacks, especially from leftist and strongly nationalist groups. As a result they have been unwilling to expand their production to full potential, although the oil companies have been less restricted than the plantations by the government.

Foreign Trade

Indonesia's total exports have remained relatively stable in the last five years, ranging from a low of \$819,633,000 in 1953 to a high of \$931,415,000 in 1955. Over 95 percent of the total is with the free world, although trade with the Sino-Soviet bloc--particularly Communist China--has grown in recent years. Despite a favorable balance of trade of \$633,309,000 during the last five years,

large annual payments for invisibles caused Indonesia's gold and foreign exchange holdings to fall from \$592,000,000 at the end of 1951 to \$213,140,000 at the end of 1956.

Indonesia's principal export commodities are rubber, petroleum, tin, and copra. These generally comprise over 70 percent of exports, with tea, tobacco, palm oil, sugar, and coffee accounting for another 15 to 20 percent.

Rubber is the most important export, over 40 percent of the total in normal years. About 40 percent, in terms of value, of the rubber is produced on the large, foreign-owned plantations, the remaining 60 percent on small, private plots, most of only a few acres. Sumatra accounts for over two thirds of the total rubber output; Java, while producing about one third of the estate rubber, accounts for only about 15 percent of the total output.

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Petroleum products, between 20 and 25 percent of Indonesia's total exports, are second in importance. Sumatra produces approximately 85 percent of Indonesia's petroleum, Borneo nearly 10 percent, and Java less than 5 percent.

Tin accounts for from 7 to 10 percent of exports. All of the tin is mined on the islands of Bangka, Belitung, and Singkep, which lie off the east coast of Sumatra. Copra, which accounts for 4 to 6 percent of the total exports, is produced almost entirely in Celebes, the Moluccas and the Lesser Sundas. In addition to these four major export commodities, the dissident areas also produce approximately two thirds of the remainder of Indonesia's exports.

Government Finance

A major complaint of the provinces is that they provide a higher percentage of government revenues than they receive in the way of economic development funds. Although no accurate figures are available on the amount of taxes levied directly on the outer islands, approximately half of the central government's tax revenues are derived from duties on imports, and an additional 12 to 14 percent of its tax revenues come from the company tax, a large portion of which comes from foreign-owned companies operating outside Java. While most of the imports are destined for Java, which thus pays the import taxes, residents of the outer islands feel that only through their exports are such imports possible, and that they should therefore share in the expenditures made possible by such taxes.

The central government has long concentrated most of its

limited expenditures for economic development on Java. While it would be normal for Java to receive more funds since it contains two thirds of the population and has serious unemployment, past governments have overdone this and virtually no economic development has taken place in the outer islands. The present government is attempting to remedy this situation, and has announced that the new budget will allocate additional funds for them. It is severely handicapped, however, by the deteriorating economic situation, particularly on Java.

Economic Conditions

Despite its loss of political control over outlying prov-

INDONESIA: PRINCIPAL EXPORTS
(THOUSANDS OF DOLLARS)

	1951	1952	1953	1954	1955	1956
FOODSTUFFS						
TEA	36 585	25 365	23 421	39 825	31 135	23 616
COFFEE	21 319	19 570	30 088	40 000	15 958	28 506
TOBACCO	20 530	18 525	24 035	32 106	27 748	NA
PALM OIL	33 163	27 740	27 544	25 526	22 246	NA
SUGAR	2 106	1 520	10 526	23 070	20 088	17 308
RAW MATERIALS						
RUBBER	627 206	464 765	270 528	265 441	429 913	303 913
POI PRODUCTS	163 710	177 245	181 580	189 212	169 882	NA
TIN ORE & SLAG	81 066	93 195	80 790	59 474	59 488	NA
COPRA	128 442	55 100	56 930	50 946	35 328	38 766

NA - NOT AVAILABLE

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inches, the central government has not been deprived of all of the foreign exchange earned by the export commodities produced in these regions. The oil companies, rubber plantations, and tin mines are owned by Westerners--or the Indonesian government--and have continued to turn their foreign exchange earnings over to the central government, in return for rupiahs. The separatist authorities have not forbidden this, accepting the companies' argument that since their rights came from the central government, they must obey its laws.

Some of the provincial authorities have tried to obtain

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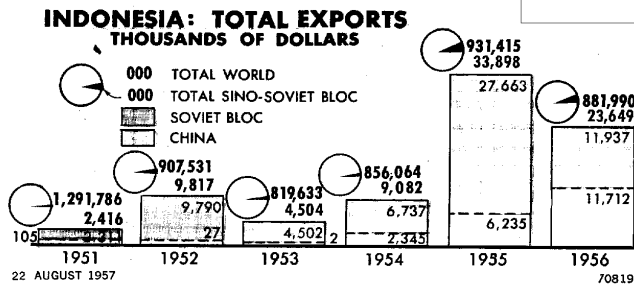
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tax payments from the companies, but have not insisted on such payments when the companies have resisted. There have been numerous reports that the central government is losing a large part of the foreign

notes in circulation rose by 22.6 percent and cash advances to the government increased 61.5 percent.

Increasing quantities of exports, particularly rubber and copra, began to be bartered by the provinces without central government control. An official of the Bank of Indonesia stated in early June that the value of export permits issued during April and May was 40 and 50 percent, respectively, below the past averages for those months, although actual exports probably had not fallen this sharply.

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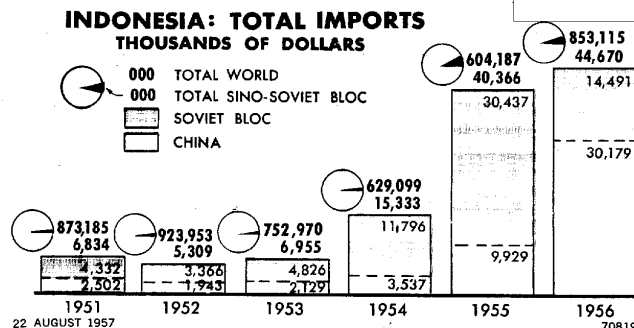


exchange earned from the sale of copra and rubber from native-owned plots.

Indonesia's economic situation, which had improved in 1955 with a favorable balance of payments, was deteriorating during 1956 before the revolts began in late December. A sharp drop in the gold and foreign exchange holdings resulted chiefly from a sharp rise in imports, which accounted for the large supply of goods in stock and which in turn prevented inflation during the early months of the revolts.

The provinces' revolts, coming on top of an already unfavorable economic situation, have resulted in a steady deterioration in the central government's economic position. The Indonesian rupiah, although officially pegged at 11.4 to the dollar, fell in value from 31 to 48 to the dollar between January and mid-August 1957. The holdings of gold and foreign exchange fell from \$213,140,000 to \$159,386,000 from January to the end of June 1957. During the same period, bank

Faced with this situation, the government on 20 June announced new foreign exchange regulations which in effect amount to a freely fluctuating exchange rate for foreign trade purposes. Although this has resulted in increased exports,



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it has also considerably increased their costs. These costs, plus the increased level of deficit financing in recent months as the government has granted more funds to the provinces while its tax revenues have been reduced by the revolts, have resulted in severe inflationary pressure.

Many imported items have increased by 50 to 100 percent

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in price, and in some areas rises of this magnitude in the price of rice have occurred. This in turn has caused workers to demand substantial wage increases which, if granted, may set off an inflationary spiral that could easily get out of control.

The fact that economic conditions on Java have so rapidly deteriorated to the present extent, despite the central government's retention of most of the foreign exchange earned by the outer islands, is a clear indication that economic chaos on Java would result if the outer islands became independent. Although about 85 percent of the people of Java are engaged in subsistence farming, and thus would feel little immediate effect of the loss of foreign exchange earnings, most of the remaining 15 percent are directly or indirectly dependent on foreign exchange earnings. Since most of these people live in the cities and are the politically conscious segment of the population, the political effects would be sharp and immediate.

The economic effect would also be immediate, as many of

these people would lose their jobs, thus adding to Java's already serious unemployment problem. Eventually the burden of providing for them would fall on the remaining 85 percent of the people, thus forcing the standard of living below the subsistence level and making it impossible for the government of Java to increase national income as rapidly as Java's population, which is now growing by nearly a million a year.

As the Indonesian situation is today, limited interdependence of Java and the outer islands continues. The outer islands are receiving from the central government funds, foodstuffs, and to some extent technical advice. The salaries of army personnel and civil administrators still come from Djakarta.

Should Indonesian fragmentation develop to the point of outright or de facto separatism, however, the major disaffected provinces undoubtedly could develop new sources of foodstuffs and technical knowledge. If they could make arrangements with the Western companies and formalize existing barter trade, they could probably develop a viable economy.

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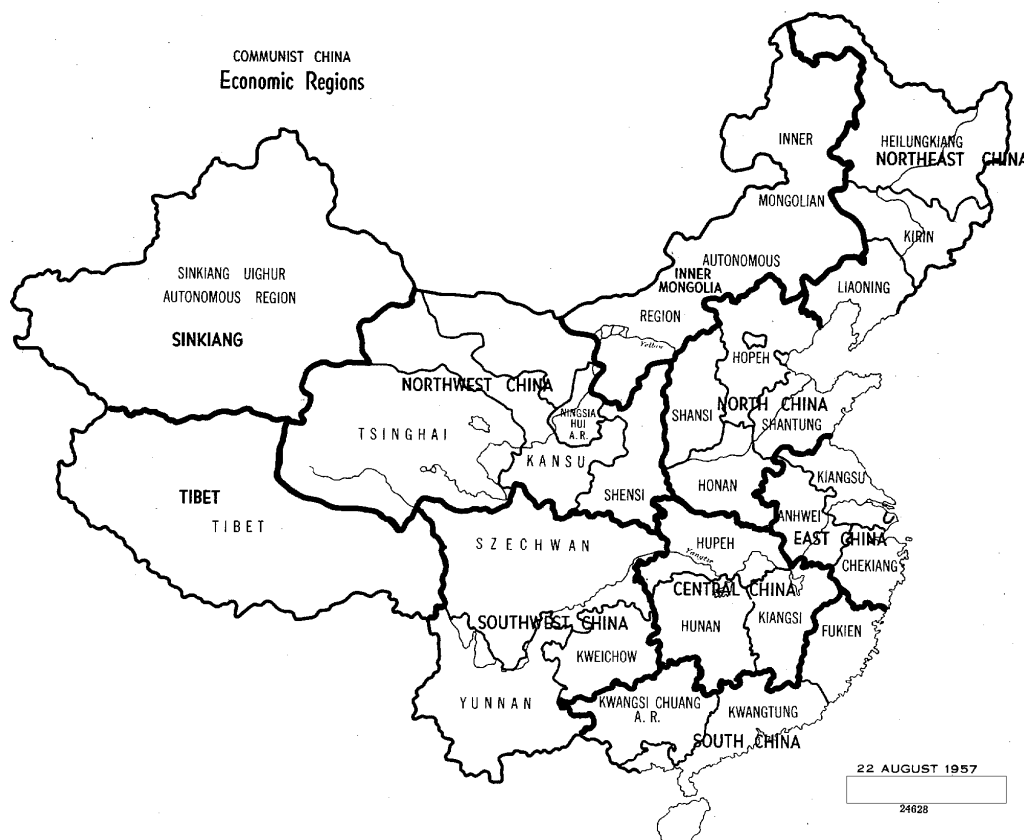
ECONOMIC REGIONS OF COMMUNIST CHINA

Motivated primarily by strategic considerations, Communist China's planners hope to effect a more balanced distribution of economic activity within a 15-year period ending in 1967. Peiping also considers it necessary to build new industry closer to sources of raw materials and potential markets in the interior. This area produced but 20 percent of China's

total industrial output in 1949, as against 80 percent in the seven coastal provinces.

The impact of this redistribution program will not begin to be felt until the nation is well into its Second Five-Year Plan (1958-1962). In the course of its First Five-Year Plan, Peiping has concentrated on rebuilding and expanding the

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existing industry in order to gain quick production increases, supply current needs, and provide capital equipment for its future plans. Any significant expansion of industry in the remote hinterland must await the development of transportation facilities and sources of energy as well as the proving of mineral resources. Material shortages and financial stringencies have recently caused setbacks in this program.

Trends

The Chinese Communists took over an industrial structure that was concentrated in southern Manchuria, in North China around Tientsin, and in East China around Shanghai. These three regions still dominate China's economy, producing about 60 percent of the nation's output. The Northeast region

contributes 20 percent of the gross national product and ranks first in industry. The North China region contributes 25 percent and ranks first in agriculture and services (e.g., government, military, education), and second in industry, and the East China region produces about 17 percent of the national output, ranks first in trade and in light industry, and is a major agricultural area.

During the First Five-Year Plan, the area north of the Yellow River gained further prominence in the national economy. The Northeast and North China regions received over 70 percent of total industrial investment from 1953 to 1955. Half of the 156 key industrial projects receiving Soviet aid are located in the Northeast, among them China's first motor vehicle plant at Changchun, a dozen

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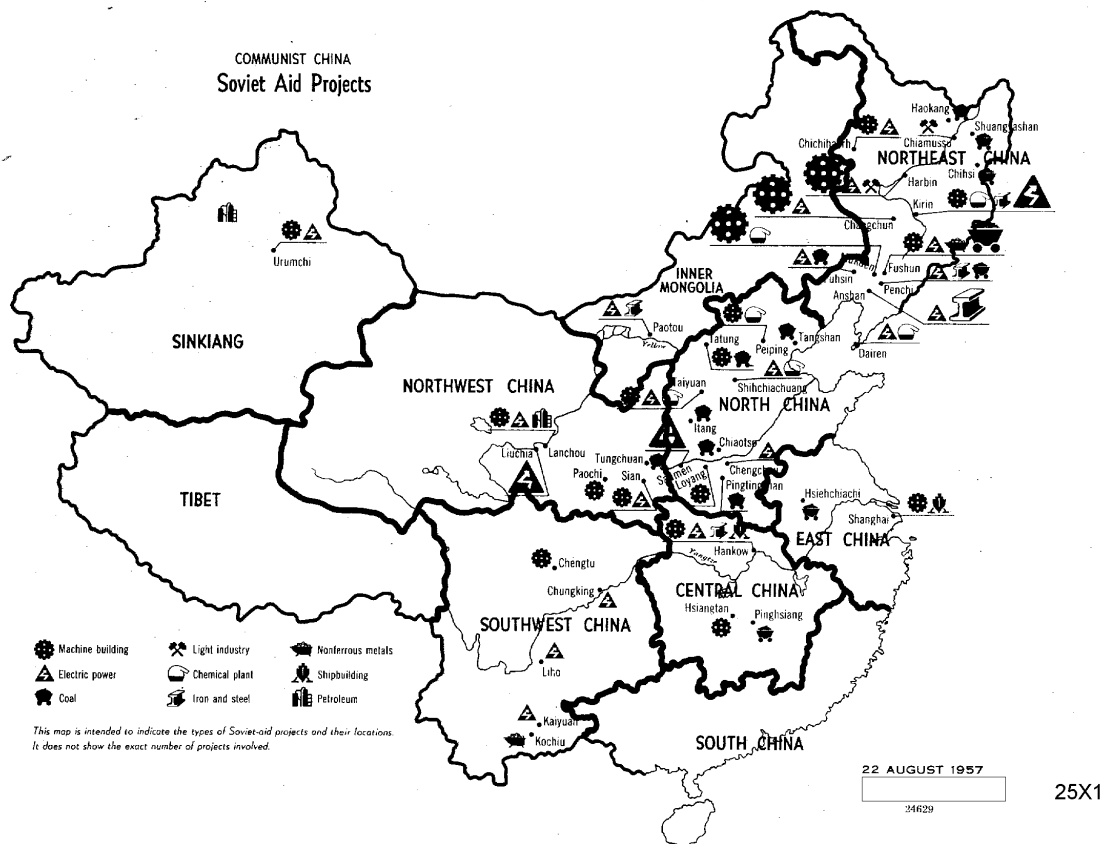
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major installations at the big iron and steel combine at Anshan, several machine building plants in Mukden and Harbin, and an aluminum plant at Fushun. The area around Mukden, Anshan, Fushun and Penchi has been especially favored and has received nearly one fifth of all Soviet aid projects.

Shanghai, China's largest industrial city, criticized by the regime for its over-concentration and "colonialist" industrial development, will continue to be built up after

This trend toward even greater concentration of industry will continue well into the Second Five-Year Plan when the new industrial bases in the hinterland will be coming into production.

By that time the new iron and steel combines in Inner Mongolia (Paotou) and Central China (Wuhan) and the rebuilt iron and steel combine in the Southwest (Chungking) will be operating, and the gigantic hydroelectric developments at Sanmen in North China and at



having been bypassed for a brief period. Peiping has found it cannot afford to overlook the advantages of Shanghai's large skilled labor force and rich legacy of buildings and equipment.

Liuchia in the Northwest will be nearing completion. Northeast China will still produce about 40 percent of the nation's electric power in 1962, the same as in 1957, but will account for only half of crude steel

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production in 1962 as compared with 70 percent at the close of the First Five-Year Plan.

The trend since 1952 in the distribution of light industry, probably to be continued through the Second Five-Year Plan, has been away from East China, especially Shanghai. This has resulted mainly from development of cotton textile production, which accounts for about 40 percent of light industrial output, in the cotton-producing areas of inland China. Great new textile centers have been built at Peiping and Shih-chiachuang in North China, at Chengchou in Central China, and at Sian in the Northwest.

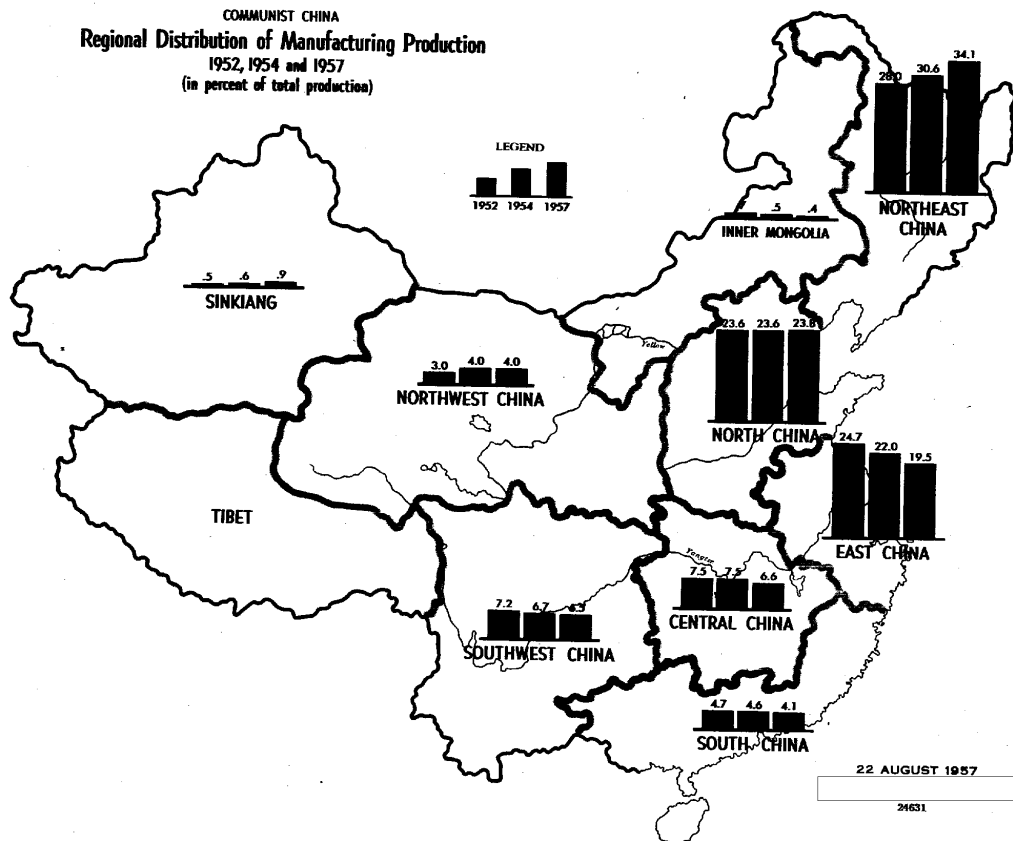
Transportation

The plans for dispersal are most clearly reflected to

date in the developments in transportation, particularly in regard to railroads. New line construction has been directed toward creation of a network connecting all of China's regions and provinces, additional rail links with the Soviet Union, increasing Chinese logistic capabilities in the Taiwan Strait area, and making available the petroleum and nonferrous minerals located in the Southwest, Northwest, and Sinkiang.

Between 1950 and 1957, some 4,000 miles of new lines will have been added to the rail net. Major achievements have been the line giving access to Yumen, China's largest petroleum producer, in Kansu Province, completion of the trans-Mongolian line to the Soviet Union, and the linking of the Northwest

COMMUNIST CHINA
Regional Distribution of Manufacturing Production
1952, 1954 and 1957
(in percent of total production)



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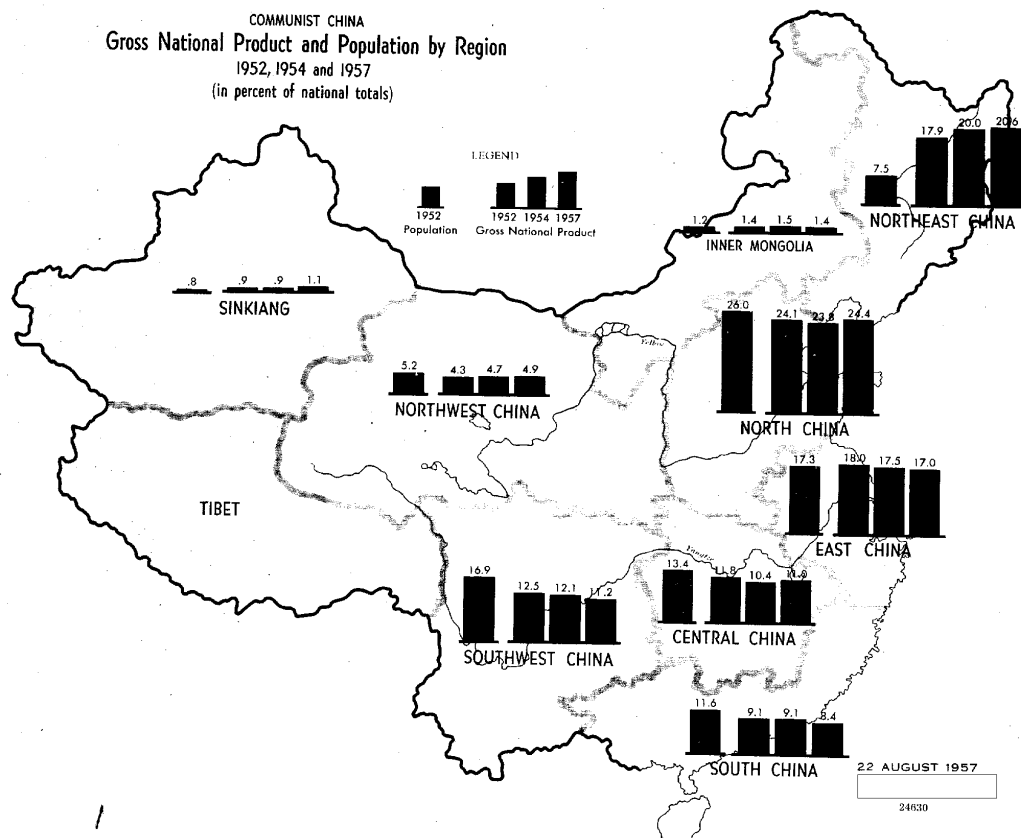
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and Southwest by means of the Paochi-Chengtu line.

Proposals have been made to build 5,000 to 5,600 miles of new line during the Second Five-Year Plan. By 1962 the rail network will connect all of China's provinces, with the possible exception of Tibet;

Agriculture

The regime has shown no disposition to allocate to agriculture the enormous funds required to open enough new land to alter significantly the existing pattern of agricultural production. Thus the distribution of agricultural output



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branch lines will be extended to the oil deposits in the Tsaidam and Dzungarian basins; and the trans-Sinkiang line will be completed as a fourth link with the Soviet Union. Also by that time, a north-south trunk system 600 miles inland, extending from Outer Mongolia to the Indochina border via Paotou, Lanchou, Chengtu, and Kunming, is scheduled for completion.

will remain relatively stable at least through the Second Five-Year Plan, with the major producing areas--North, Central, and South China--probably even increasing their proportion of total output by means of intensive farming techniques.

The new lands scheduled to be opened to cultivation during the period of the Second Five Year Plan should add no

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more than 5 percent to existing acreage, and over half of this will be in the northern part of Heilungkiang Province.

Problems for New Areas

Faced with the tremendous cost of establishing new industrial bases and with financial problems, material shortages, and transportation congestion connected with existing industrial areas, Peiping has slackened the rate of development of the new areas.

New rail line construction in 1957 in the new areas has been drastically reduced and greater emphasis placed on improving the capacity of older lines. Investment in such key projects as the Paotou and Wuhan iron and steel plants is apparently going to be stretched out over a somewhat longer period than originally planned.

Peiping has complained of the expense of building cities in the new areas, particularly "nonproductive" facilities. Standards and appropriations for this type of construction

have been sharply reduced for 1957 and 1958. Considerable discontent over living conditions in the new centers exists, and there have been a number of long-winded explanations of why municipal facilities must wait on basic "socialist" construction.

One facet of this retrenchment and austerity has been an emphasis on development of small facilities featuring simple technology. Small- and medium-sized metallurgical plants are to be emphasized, and local governments are being encouraged to develop their own coal mines. This will have a modest effect on the distribution of industry, particularly iron and steel production.

The stretched-out investment program and emphasis on existing facilities do not mean that China's planners have changed their ultimate goals, but do underscore the great amount of time and resources that will be required to give China a balanced distribution of economic activity.

(Prepared by ORR)

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FRENCH COMMUNIST PARTY PROSPECTS

The French Communist Party, as a result of its rigid adherence to the Soviet line, is politically more isolated than at any time since World War II. Nevertheless, it is still the largest, richest, and best organized political group in France, and exploitation of the several potentially explosive major foreign and domestic issues facing France could improve its position materially.

Political Isolation

The party had bright hopes of forming a popular front when it endorsed the Mollet government following the January 1956 election. With Mollet's adoption of the "pacification" program for Algeria, however, it was forced increasingly into opposition and has found itself at odds with the National Assembly ever since. A series of

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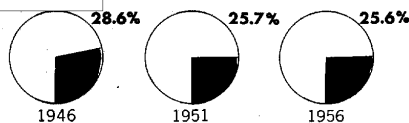
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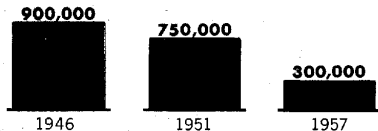
shocks, including de-Stalinization and the Hungarian revolt, and culminating in the party's opposition to the French-British Suez venture, have further isolated the party.

The extent to which the party is out of tune with popular sentiment is illustrated by the failure of the most re-

POPULAR VOTE FOR COMMUNIST CANDIDATES
IN FRENCH NATIONAL ELECTIONS



FRENCH COMMUNIST PARTY MEMBERSHIP



cent party campaign against German rearmament. Virulent propaganda against the nomination of West German General Hans Speidel to a high NATO command position met with little success, and the anti-German line against the European treaties also failed to arouse any appreciable support.

There is some evidence that Communist Party efforts to capitalize on Socialist bickering over official Socialist Party policy on Algeria is causing dissension in Communist ranks. The recent softer party line on the possibility of a continued political bond between France and Algeria has aroused criticism from some party members. Their views are being aired in an anonymous opposition publication, *L'Etincelle*, which has been at odds with the party leadership on several issues.

Electoral Stability

Despite its parliamentary isolation and popular indifference to its propaganda, the

party's major source of political power has not been disturbed: approximately one quarter of the French electorate still believes its interests lie in voting for the leftmost political party. Although French by-elections are normally determined by local factors which do not reflect national trends, little change was apparent in the Communists' electoral strength in the first half of 1957 from their record in the 1956 national elections.

The drop in Communist Party membership since the Hungarian revolt, estimated at 50,000, apparently is a continuation of a decade-long trend. Card-carrying members are now estimated at not more than 300,000, as compared with 900,000 in 1947. Party leaders betray no special concern over membership totals, but may be worried over signs of waning militancy in the ranks. Except in the immediate postwar period, the party has not aimed at building a real mass party.

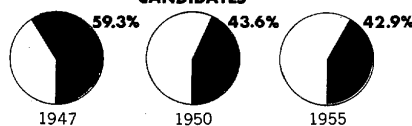
Party Leadership Intact

The loss of party unity threatened by changes in the

GENERAL LABOR CONFEDERATION
MEMBERSHIP



VOTE IN SOCIAL SECURITY ELECTIONS
FOR GENERAL LABOR CONFEDERATION
CANDIDATES



Soviet Union never materialized in the French Communist Party, which has been the most Stalinist of the nonbloc parties. Pierre Hervé, an editor on the party's Paris daily *L'Humanité*, pushed the Soviet 20th party congress

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

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line prematurely and was expelled as a deviationist. The party continued to be openly Stalinist, condemning severely the repercussions of de-Stalinization in the East European satellites. Secretary General Maurice Thorez and his lieutenant Jacques Duclos have thus far maintained firm control of the party leadership, and their position has apparent-



THOREZ

ly been further strengthened by the Kremlin shake-up in June. Thorez immediately endorsed Khrushchev's moves and denounced "revisionists" as well as "dogmatists."

The impact of the Hungarian insurrection on the party appeared initially to be severe. Nevertheless, despite widespread public revulsion against the party's position at that time, neither the party leadership apparatus, nor membership was permanently impaired. No party functionaries on either national or local levels are known to have resigned or to have been expelled over the Hungarian issue, and the party hierarchy has actually increased its control by tightening its hold over internal elections.

The most publicized damage over Hungary was the open rejection of the party line by such prominent members or fellow

travelers as Pablo Picasso and Jean-Paul Sartre. With rare exceptions, however, the defiant intellectuals failed to make a complete break, and many have reportedly been drifting back. Publication of the UN report on Hungary in June and the Kadar government's sentencing of two Hungarian intellectuals that month caused only a brief revival of indignation.



DUCLOS

The party seems to have successfully diverted this indignation by having its chief Stalinist intellectual, Louis Aragon, make a single protest to Kadar, thus averting the confusion and extended discussion which prevailed last November among members of the National Writers' Committee front.

Front Organizations

Although most party front organizations have reportedly suffered substantial drops in formal membership recently, many had in fact long been dormant. There are now indications that the party is reactivating at least two--one to take advantage of any discontent among Hungarian refugees and non-Moslems quitting North Africa, and another to mobilize technicians who could hamstring implementation of the recently approved European treaties.

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The party's strongest front, the General Labor Confederation (CGT), was initially shaken up by events in Hungary and suffered sizable losses in shop steward elections. The union leadership conceded its difficulties but managed to smother a movement to dissociate the CGT from the party. In the Renault automobile factory shops steward elections in May, it still polled 69 percent of the votes, only slightly less than the year before.

On a national scale, the same phenomenon of steadily declining membership being offset by relative stability of the worker "electorate" is indicated in the trend of elections to social security boards during the past decade. The boards, which administer social security in France, are popularly elected and individual candidates are backed by such organizations as the CGT. In retrospect, a large part of the disaffection of last fall may be ascribed less to political events than to CGT bullheadedness in its refusal to admit that labor had obtained some obvious benefits from management.

Future Opportunities

Despite the failure of Communist efforts to prepare the ground for a popular front on the Algerian issue, this question continues to offer the party a potential escape from its parliamentary isolation. Moreover, other tried rallying cries continue to be potentially useful. The party can be

expected to keep alive the theme of the fascist threat to the Fourth Republic, currently exploitable in regard to the army, the European elements in Algeria, and rightists in France.

At the same time, party resources will probably be employed in all-out support of Khrushchev's "coexistence" policy through agitation for a relaxation of international tension on terms desired by the USSR. A major campaign can be expected against any hint that the government is seriously contemplating producing atomic weapons, and pressure will continue for a ban on nuclear tests and the use of nuclear weapons. The party is using a front organization, the National Peace Council, to attract Socialist support in this sphere.

French financial difficulties, particularly the government's efforts to block wage increases this fall, may be the party's most profitable area of exploitation in the immediate future. Worker restraint was markedly high under the Socialist government of Guy Mollet, despite mounting inflation, but Socialist- and Catholic-oriented unions have been increasingly disposed to align themselves with the CGT in promoting strikes for higher wages. Widespread labor demands for wage increases in the next few months would not only severely hamper Finance Minister Gaillard's economy program, but would also advance, at least temporarily, the Communist Party's drive for unity on the left.

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