

~~CONFIDENTIAL~~
~~SECRET~~

COPY NO. 17
OCI NO. 5247/57
5 September 1957

CURRENT INTELLIGENCE WEEKLY SUMMARY



DOCUMENT NO. 5
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS
NEXT REVIEW DATE: 1989 ©
AUTH: HR 70-2
DATE: 6/24/79 REVIEWER:

25X1

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

DIA and DOS
review(s) completed.

~~CONFIDENTIAL~~
~~SECRET~~



25X1

THIS MATERIAL CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE LAWS, TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMISSION OR REVELATION OF WHICH IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

The Current Intelligence Weekly Summary has been prepared primarily for the internal use of the Central Intelligence Agency. It does not represent a complete coverage of all current situations. Comments and conclusions represent the immediate appraisal of the Office of Current Intelligence.

~~CONFIDENTIAL~~
~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

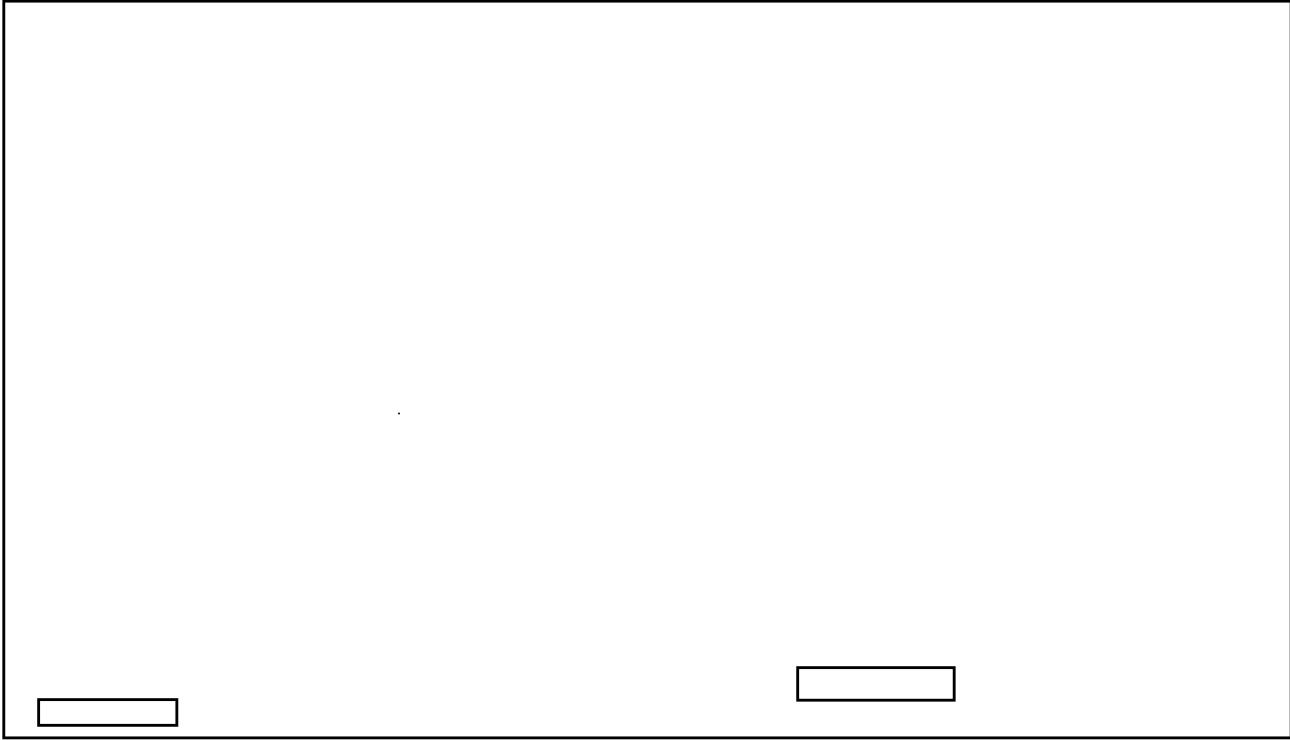
5 September 1957

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

PART I

OF IMMEDIATE INTEREST

25X6



USSR ANNOUNCES LARGE AIR-NAVAL EXERCISE Page 3

The Soviet Ministry of Defense announced on 2 September that Northern Fleet exercises involving aircraft and "various types of modern weapons" would be conducted in the Barents and Kara Seas between 10 September and 15 October. This unusual announcement is probably designed to impress world opinion with Soviet military strength in the same way as the TASS statement concerning the successful launching of an ICBM. The exercise probably will involve at least the simulated use of nuclear weapons. [redacted]

~~CONFIDENTIAL~~
~~SECRET~~

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

ISRAELIS RESUME WORK ON LAKE HULA DRAINAGE PROJECT Page 4

Israel began work on 1 September to complete the Lake Hula drainage project this fall in the demilitarized zone along the Syrian border, increasing the possibility of border incidents in the area. The present Damascus regime could use this development as an excuse to reimpose martial law and still further tighten the grip of the extreme nationalist and pro-Soviet elements on Syria.

[Redacted]

SYRIAN DEVELOPMENTS Page 6

While continuing to attack alleged "imperialist" plotting, the Syrian press is now emphasizing internal affairs, and the leftist magazine al-Baath has declared that the victory against imperialism must be consolidated by immediate social and economic reform. President Quwatli in a speech opening the Damascus Fair assured the world that Syria is not a Soviet satellite and re-emphasized Syria's policy of neutralism.

[Redacted]

25X1

PART II

NOTES AND COMMENTS

THE HUNGARIAN QUESTION IN THE UNITED NATIONS Page 1

The 11th United Nations General Assembly, which reconvenes for a final session on 10 September to discuss the report on Hungary by the five-member UN special committee, probably will commend the report, call for an end to repressive measures in Hungary, continue the special committee, and appoint a special UN representative to investigate the situation. The Kadar regime has had little success to date with a mission it sent to South Asia to gain support for its case in the UN, but a number of the uncommitted countries may abstain on any specific endorsement of the report or condemnation of Soviet actions.

[Redacted]

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

MIDDLE EAST ISSUES AT 12TH UN GENERAL ASSEMBLY Page 1

The primary Middle East issues to be dealt with at the 12th United Nations General Assembly, which opens 17 September, are the future of the UN Emergency Force, the Palestine refugee problem, and the payment of costs incurred in UN clearance of the Suez Canal. Secretary General Hammarskjold believes that Israeli acceptance of at least a token patrol of its territory by UNEF will ensure continuation of the force and aid in negotiations on the refugee problem. The assembly will probably recommend a surcharge on canal tolls to pay for the clearance costs. [redacted]

25X1

BRITISH PLANS FOR ARABIAN PENINSULA Page 2

As the first step toward solving long-standing problems in the Arabian peninsula, Britain is seeking to re-establish diplomatic relations with Saudi Arabia. At the same time, London is trying to strengthen the Sultan of Muscat's authority by military and other means. Regarding Yemen, the British are considering the idea of border talks but are reluctant to become involved in the succession question. [redacted]

25X1

PAKISTANI PRESIDENT WINS LATEST ROUND AGAINST PRIME MINISTER Page 3

Pakistani President Mirza apparently has won the latest round in his political rivalry with Prime Minister Suhrawardy. By dismissing the governor of West Pakistan, an ally of Suhrawardy's, Mirza has taken the political initiative away from the prime minister. Suhrawardy apparently does not intend to contest Mirza's move at present, but may lend his support to a new political grouping whose main aim will be to prevent further consolidation of Mirza's power. [redacted]

25X1

INDONESIA Page 4

The national round-table conference proposed by Prime Minister Djuanda has now been definitely scheduled for 10 to 12 September in Djakarta. Although most participants appear to view the meeting with guarded optimism, they seem to be working primarily to maintain or to improve their personal and regional positions. Meanwhile, the most recent returns from local elections in Java show some gains by the non-Communist parties. [redacted]

25X1

SECRET

~~SECRET~~

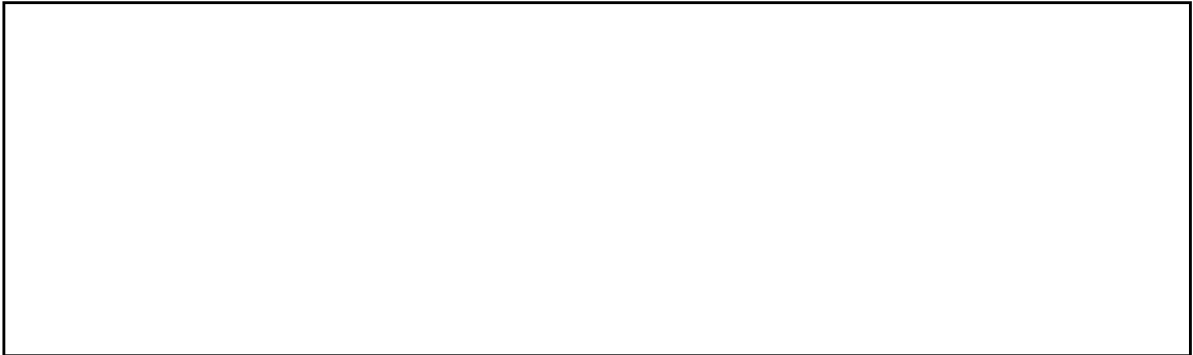
CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

JAPAN TO EXPLORE COMMUNIST TRADE OFFERS Page 5

Japan will begin in September a series of discussions with the USSR, Communist China, and Poland for the conclusion of trade agreements. The Kishi government, although hoping to avoid political discussions, is being forced by domestic pressures to explore the possibilities for economic relations with the Sino-Soviet bloc. [redacted]

25X1



25X1

ARAMBURU ATTACKS "ECONOMIC NATIONALISM" IN ARGENTINA . . . Page 7

Just prior to the convening of Argentina's constituent assembly on 2 September, President Aramburu called a series of high-level meetings with military and political leaders in which he stressed the seriousness of the country's foreign payments position and the need for abandoning excessive "economic nationalism." His immediate aim seemed to be to dissuade the assembly--which is to revise the constitution preparatory to general elections in February--from enacting constitutional amendments nationalizing petroleum and power resources. [redacted]

25X1

TITO AND GOMULKA TO MEET Page 8

Polish Party First Secretary Gomulka, accompanied by other party and government leaders, will visit Marshal Tito this month. This first face-to-face meeting of Tito and Gomulka since 1947 will give them an opportunity to consider points of common interest, to develop closer personal understanding, and to define their respective relationships with the Soviet bloc. [redacted]

25X1

~~SECRET~~

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

NEW SHAKE-UP THREATENS IN BULGARIAN PARTY Page 9

In the campaign for party unity, the official organ of the Bulgarian Communist party in a 27 August editorial strongly hinted at further high-level purging in the near future. The urgent and ominous tone of this piece indicates that there are still elements who oppose the ruling triumvirate. [redacted]

25X1

SOVIET FOREIGN AID ACTIVITIES Page 10

The recent upswing in Soviet foreign aid offers to the Middle East and Asia reveals the continuing high priority being given to increased participation in the economic affairs of underdeveloped countries. The USSR has continued to encourage applications for aid from "neutral" states, and the Soviet organization responsible for these aid programs is assuming a larger role in planning within the USSR. [redacted]

25X1

SOVIET GOVERNMENT REORGANIZES CONTROL BODY Page 12

The USSR Ministry of State Control has been abolished and a Soviet Control Commission organized in its stead, according to an announcement of 28 August. This change is in line with the recent trend toward use of committees and commissions in Soviet state administration and may have been made to provide a structure more nearly parallel to the party control committee, thus facilitating closer party supervision over the fulfillment of state directives. The new organization will apparently play a major role in combating the growth of regionalism. [redacted]

25X1

PEIPING EXCHANGES TRADE DELEGATIONS WITH WESTERN EUROPE . Page 13

French and West German economic delegations are in Peiping and a British group is expected soon. A Chinese Communist trade mission will visit Britain this month. Confronted by a decline in its foreign exchange holdings and an inability to offer substantially increased exports, Peiping had offered various excuses to postpone these visits. Peiping has nevertheless now accepted the trade delegations, probably mainly for political reasons. [redacted]

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

PEIPING PUSHES CULTURAL OFFENSIVE THROUGH MOTION PICTURES Page 14

In its campaign to advance its cultural offensive abroad through the use of motion pictures, Peiping has participated in a number of international film events and is at present sponsoring an Asian Film Festival attended by the USSR and 14 Asian-African nations. The primary target of Chinese film exports is the Overseas Chinese population in Southeast Asia, but motion picture exchange agreements are in effect or being negotiated with Middle East, African, European, other Asian nations, and at least one Latin American country. [redacted]

[redacted]

25X1

HO CHI MINH CONCLUDES TOUR OF BLOC Page 15

The two-month tour of the Sino-Soviet bloc just concluded by Ho Chi Minh consisted largely of a series of ceremonial visits designed to demonstrate North Vietnam's general allegiance to the bloc. The trip was noteworthy for the cordiality of Ho's meeting with Tito, the only Communist leader with whom he signed a joint communiqué. [redacted]

[redacted]

SOVIET "GREAT PROJECTS" Page 16

Several long-range projects to "adjust nature" to Soviet ends have been under public discussion in the USSR during the past year. These have included grandiose schemes, such as damming the Bering Strait, which are merely being debated and others which are under serious consideration. Although some are reminiscent of the "Great Projects" of Stalin's time, the ones now being actively considered, such as certain river diversion plans, appear to have an economic rationale which was usually lacking in the very costly plans of Stalin.

[redacted]

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

PART III

PATTERNS AND PERSPECTIVES

KHRUSHCHEV'S PRIMACY IN THE SOVIET LEADERSHIP Page 1

Since Khrushchev's solid victory in the June plenum of the Soviet party central committee, the measure of collectivity in the Kremlin has been the measure of Khrushchev's willingness to solicit and accept the views of others. Thus, Khrushchev already possesses a great deal of the political power he would need to make himself the sole ruler of the Soviet Union. He is likely to be deterred from using his power for this purpose, however, by the post-Stalin diffusion of political authority and by the safeguards which Khrushchev himself has helped erect against the capricious exercise of power by one man. If party leaders should fall out among themselves, there might be a call for a military strong man to restore "law and order." [redacted]

25X1

INDIA'S ECONOMIC CRISIS Page 6

India's rapidly deteriorating foreign exchange position, which jeopardizes the government's chances of carrying out the Second Five-Year Plan as scheduled, has created a crisis of major proportions. Basically economic, it has political overtones which could lead to the defeat of the Congress party in the 1962 national elections. The Congress party leadership will soon have to make far-reaching decisions on how to cut the cost or lower the goals of the plan. [redacted]

25X1

RISING STEEL PRODUCTION IN LATIN AMERICA Page 10

Five Latin American countries--Brazil, Mexico, Chile, Argentina and Colombia--now produce almost 3,000,000 tons of steel annually, a 250-percent increase over 1947 production. A 100-percent rise over 1956 is likely by 1960 and, because of the political importance of the drive for industrialization, the trend is likely to continue. Most of the large-scale foreign financing required has been supplied by the United States thus far, although French, German, Japanese, Belgian, and Italian interests now are playing substantial roles in some countries. [redacted]

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957



25X1

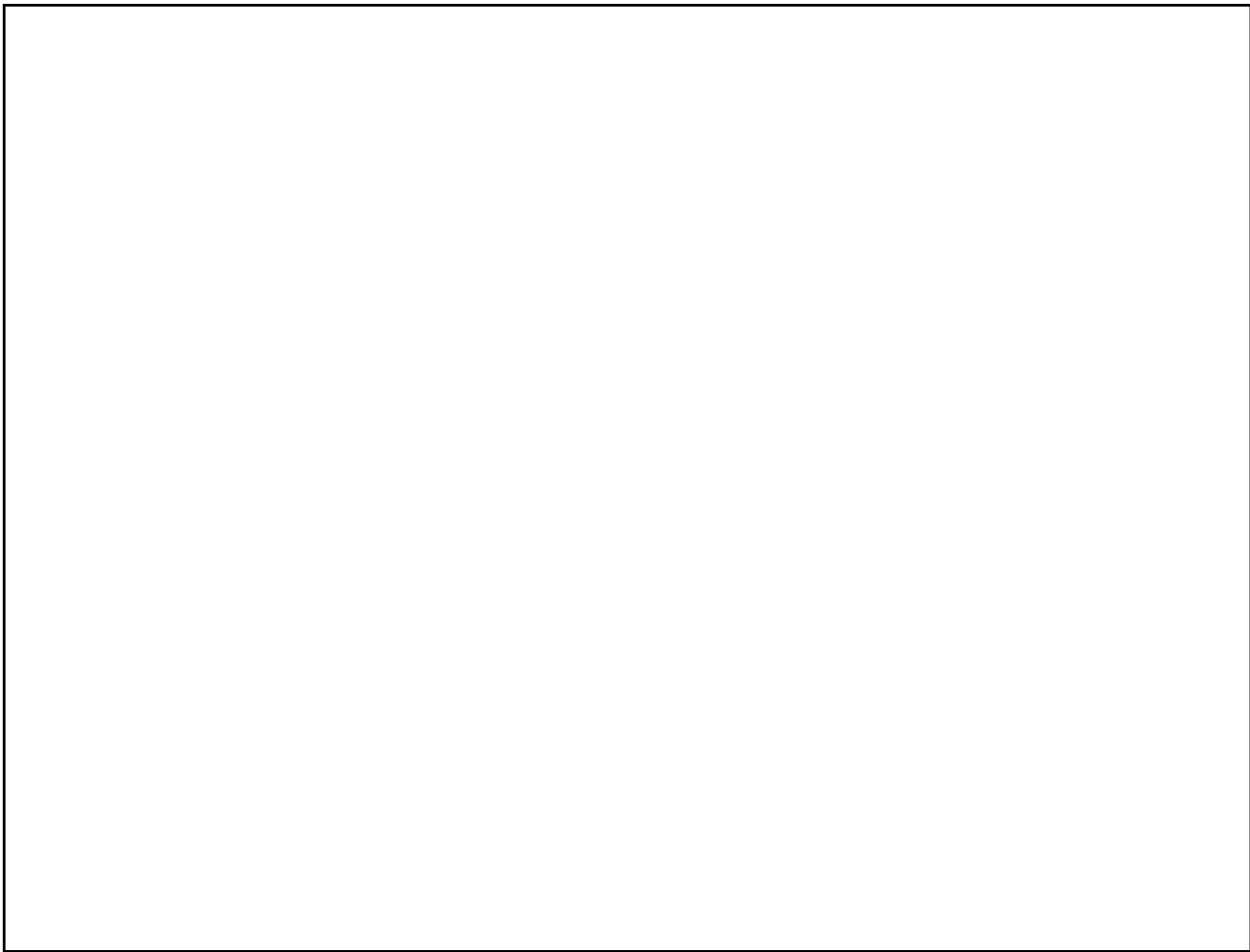
SECRET

Next 1 Page(s) In Document Exempt

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957



USSR ANNOUNCES LARGE AIR-NAVAL EXERCISE

The Soviet Ministry of Defense announced on 2 September that Northern Fleet exercises involving aircraft and "various types of modern weapons" would be conducted in the Barents and Kara Seas between 10 September and 15 October. The statement warned all Soviet and foreign vessels and planes that the USSR would assume no responsibility for damages incurred in the danger zone.

This unusual announcement is probably designed to impress world opinion with Soviet strength in the same way as the TASS statement concerning the successful launching of an ICBM. The USSR may wish to demonstrate that it is capable of large-scale air-naval exercises similar to NATO operations planned for the latter part of this month in the North Atlantic and the Norwegian Sea.

SECRET

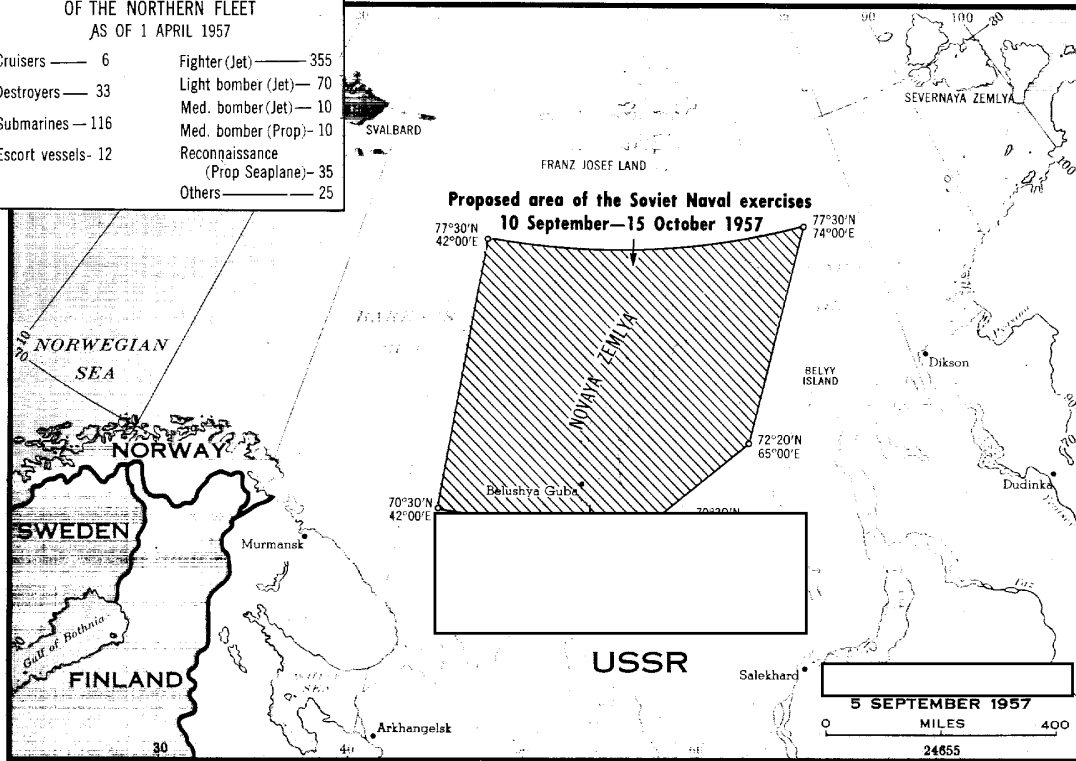
SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

ESTIMATED NAVAL AND NAVAL AIR STRENGTH OF THE NORTHERN FLEET AS OF 1 APRIL 1957

Cruisers — 6	Fighter (Jet) — 355
Destroyers — 33	Light bomber (Jet) — 70
Submarines — 116	Med. bomber (Jet) — 10
Escort vessels — 12	Med. bomber (Prop) — 10
	Reconnaissance (Prop Seaplane) — 35
	Others — 25



25X1

25X1

Reference to "various types of modern weapons" may indicate that the USSR will include the tactical use of at least prac-

tice nuclear weapons, i.e., weapons with nonnuclear cores, and missiles adapted for naval use in this exercise. [redacted] (Concurred in by OSI)

25X1

ISRAELIS RESUME WORK ON LAKE HULA DRAINAGE PROJECT

Israel began work on 1 September to complete the Lake Hula drainage project this fall in the demilitarized zone along the Syrian border. This renewed activity is likely to add substantially to the tensions produced by past border clashes and Syria's latest internal crisis. The present Damascus regime could use this development as an excuse to reimpose

martial law and still further tighten the grip of the extreme nationalist and pro-Soviet elements on Syria. Though the Israelis profess to be aware of the political effect on Syria of their action, they apparently feel the Hula project is so important that they are willing to accept the consequences.

Begun in 1950, the project aims at reclaiming 15,000 acres

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

of potentially rich farm land from Lake Hula and adjacent marshes, to prevent seasonal flooding of another 17,000 acres adjacent to the marshes, and to eliminate malaria.

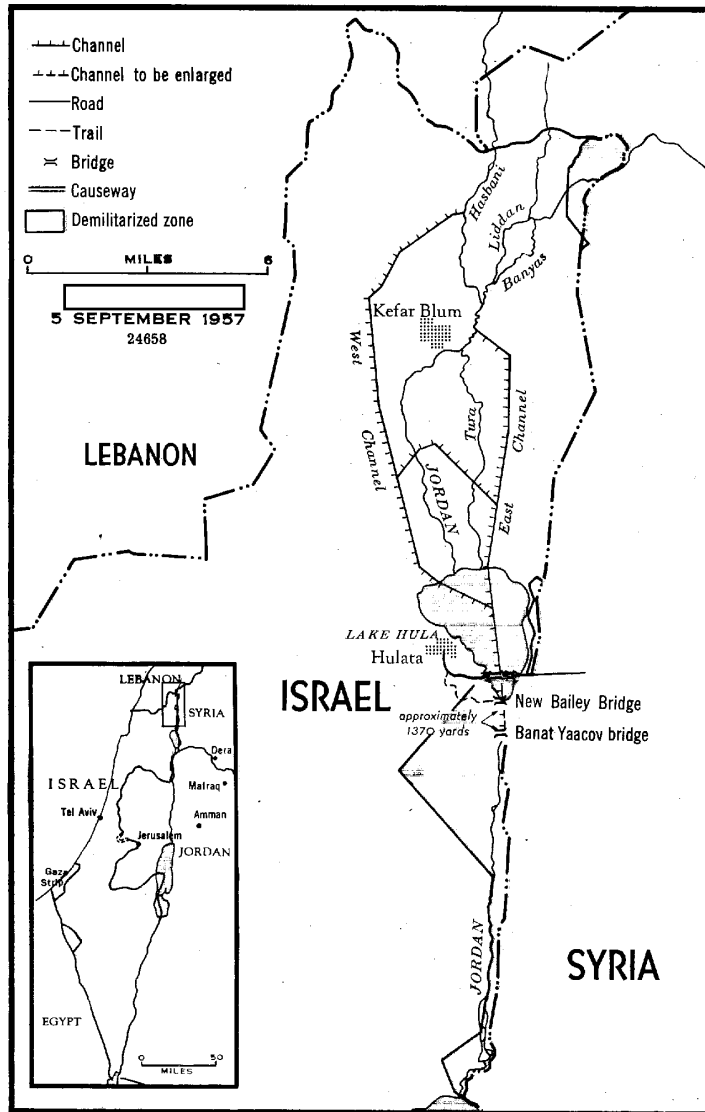
The project has been a source of friction between Israel and Syria from its inception. Syria had unsuccessfully protested twice, in 1951 and 1953, against the project before its complaint to the Security Council last spring concerning a new Bailey bridge set up at the southern end of the lake. The Syrians argued on the first two occasions that by reclaiming the area Israel would derive a military advantage, contrary to provisions of the Syrian-Israeli armistice agreement. In addition, they contended that the work was proceeding on Arab-owned lands and that Syria had a veto right over development activity in the demilitarized zone.

perennial border friction. Estimates of the time required to complete the work have been as long as two months.

In anticipation of possible trouble on resumption of work in the Hula region, Israel has made arrangements with the UN Truce Supervisory Organization to have observers in the area while the work progresses. An

25X1

Enlargement of some 500 yards of the Jordan River channel south of the lake to a depth of 21 feet and a width of 150 feet is the major work now needed to drain the lake and marshes completely. This stretch is within the demilitarized zone, just north of the Banat Yacov bridge, a site of



SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

Israeli official has stated that while the Arabs may again protest the project to the Security Council, Israel regards it as too vital to be deterred. This attitude, coupled with developments within Syria which

have resulted in the assumption of Syrian border commands by officers described as young and impetuous, appears to increase the likelihood of border incidents in the area. [redacted]

25X1

[redacted] 25X1

SYRIAN DEVELOPMENTS

While continuing to attack the alleged threats from foreign "imperialism," the Syrian press and radio, especially the leftist press, is now shifting its emphasis toward internal affairs. The leftist weekly, al-Baath, often an administration mouthpiece, has declared that the Syrian victory against imperialism will be meaningless unless consolidated by immediate economic and social reform accompanied by a purge of the civil service. It charges the present administration with being "slow, hesitant, weak, incapable, and infested."

Al-Baath claims that the first step in carrying out a constructive liberal policy must be a decisive, quick purge of the corrupt, subverted bureaucracy and its replacement by qualified citizens believing in a "liberative policy." The editorial concludes with the statement that if the government cannot develop a new internal policy, it should be replaced by one having a "constructive" mentality and definite reform program.

In line with the "reform" demand of al-Baath, Minister of National Economy, Khalik al-Kallas has called for the end of "complete" economic freedom and its replacement with a "special economic system" of the "progressive and guided" type in order to speed development. Steps toward this goal have already been taken in the organization of two government

organs; the Supreme Economic Council and the Economic Development Institution. Kallas has stated that the trade and economic agreements concluded with East European states have been of little benefit under a system of economic freedom.

The purge of the army continues, with the replacement of lower-echelon police and brigade commanders and the creation of a long-range planning department to serve as a "stable" for "traitors" and Christians. The army now appears divided into three groupings: the leftist Baathist element, which is the majority; the conservative Populists [redacted]

25X1

[redacted] and members of the religious minorities --Druze, Alwites, and Christians. The minorities fear further discrimination, and it has been reported that Moslem enlisted men sometimes have assumed authority over non-Moslem officers.

25X1

The prevailing opinion among the Damascus diplomatic corps is that President Quwatli's days are numbered. [redacted]

25X1

Quwatli opened the Damascus International Fair, with a flowery speech whose main theses were maintenance of Syrian sovereignty against all Zionist imperialist machinations and reassurance to the world that Syria is not "revolving around the Soviet orbit" and that Syria is re-emphasizing a basic policy of positive neutralism. [redacted]

25X1

SECRET

~~SECRET~~**CONFIDENTIAL****CURRENT INTELLIGENCE WEEKLY SUMMARY**

5 September 1957

PART II**NOTES AND COMMENTS****THE HUNGARIAN QUESTION IN THE UNITED NATIONS**

The 11th United Nations General Assembly, which reconvenes for a final session on 10 September to discuss the report on Hungary by the five-member UN special committee, is expected to commend the report, call for an end to repressive measures in Hungary, continue the special committee, and appoint a special UN representative to investigate the situation. The assembly session will probably also recommend that the Hungarian question be placed on the agenda of the 12th General Assembly, opening on 17 September.

The report of the committee --composed of Australia, Ceylon, Denmark, Tunisia, and Uruguay-- on 21 June was a powerful indictment of the Soviet intervention and of subsequent Kremlin policy toward Hungary.

Following issuance of the report, the Kadar regime sent a mission headed by a deputy foreign minister to various countries in the Asian-African bloc in an attempt to prevent or at least soften further UN action. The mission has had little success. India and Ceylon have both stated that the UN should discuss the special committee's report. Burma, although agreeing to study the documents left by the group, is expected to maintain its strong stand against the Kadar regime, and Tunisia has refused even to discuss the matter.

The uncommitted countries are generally agreed that the assembly must consider the report and would most likely support a continuation of the committee and the appointment of a special representative in the hope of ameliorating the lot of the Hungarian people. Some of these countries, however, particularly those in the Asian-African bloc, might abstain on those parts of a UN resolution endorsing the report or condemning the Soviet actions.

The British Foreign Office believes the special committee should be terminated "before it disintegrates." The most likely outcome is continuation of the committee with new members replacing those resigning. There is a strong possibility Ceylon may withdraw.

The idea of appointing a special UN representative with a mandate to use his best efforts to better conditions in Hungary seems to have widespread appeal. The individual being considered most seriously is Prince Wan of Thailand, who was assembly president during the earlier UN debates on Hungary. The Norwegian government has suggested Charles Malik of Lebanon, both because he is capable and because his appointment would provide a convenient means of "driving a wedge between the Asian-African and Soviet blocs."

25X1

MIDDLE EAST ISSUES AT THE 12TH UN GENERAL ASSEMBLY

The primary Middle East issues to be dealt with at the 12th United Nations General Assembly, which opens 17 September, are the future of the

UN Emergency Force, the Palestine refugee problem, and the payment of costs incurred in UN clearance of the Suez Canal. UN Secretary General Hammarskjold

~~SECRET~~**CONFIDENTIAL**

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

5 September 1957

believes that to minimize controversy these questions should be treated separately rather than under one general item as was done by last year's assembly.

Hammarskjold believes deployment of the UN Emergency Force (UNEF) on both sides of the Egyptian-Israeli armistice line will be a critical issue at this assembly unless Israel soon agrees to at least a token patrol of its territory by UNEF. The 11th General Assembly's resolution of 2 February 1957 is generally interpreted to mean that the UN force should be on both sides of the line. For this reason, the secretary general feels this assembly will probably specifically call for such deployment and that Israeli refusal to comply would probably result in an Egyptian demand for UNEF's withdrawal--which, for practical purposes, would mean the end of the UN force.

This assembly must also resolve the problem of financing the force, since contributions have been insufficient. Moscow has refused to contribute, Taipei has indicated inability to pay, and other countries are in arrears. The Scandinavian countries, whose troops comprise a large portion of the force, are having difficulty in meeting costs of equipping and paying their contingents. Indonesia has already withdrawn its troops for financial reasons.

Hammarskjold hopes, given Israeli compliance on UNEF

deployment, to initiate discussions with Egypt, and perhaps Iraq, on the question of resettlement of the Palestine refugees. In July, Egyptian Foreign Minister Fawzi had suggested that the secretary general undertake consultations between the Arabs and Israel under cover of efforts to achieve border tranquility. Hammarskjold evidently intends to pursue these negotiations privately during the forthcoming session.

The assembly must increase contributions to the UN relief organization which cares for the refugees. In the past, over 90 percent of its funds have come from the United States, Britain, Canada, and France, and strong efforts will be made this fall to get other countries to contribute.

The total cost of clearing the Suez Canal was approximately \$8,500,000, covered by advances from various UN members. The secretary general, in consultation with India, Egypt, and several Western countries, has drafted a plan whereby these loans would be repaid by levying a surcharge on all shipping through the canal. This assembly will probably recommend the imposition of such a surcharge. Effectiveness of the UN recommendation would depend to a great extent on the widest possible assembly approval, strong support from public opinion, and the cooperation of a large majority of private shipping companies.

25X1

BRITISH PLANS FOR ARABIAN PENINSULA

In an effort to make some progress toward solving long-standing problems in the Arabian peninsula, Britain is seeking to re-establish diplomatic

relations with Saudi Arabia. At the same time, London is trying to strengthen the Sultan of Muscat's authority by military and other means.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

The British no longer insist that King Saud make the first move and will reopen their diplomatic post if the Saudis will do so simultaneously. Having already conveyed to Saud its desire to re-establish relations, London asked the United States on 26 August to act as an intermediary.

Britain probably wishes to re-establish diplomatic contact with Saud before the Sultan of Muscat's visit to London in October. It believes the Sultan's position would be strengthened if he conferred with Saud on border problems.

To help the Sultan consolidate his authority over his domain, the British chiefs of staff have decided to send a "fairly sizable" military training mission to Muscat soon. Of British forces brought in to quell the July rebellion, only an armored car platoon and some RAF elements are

scheduled to remain to provide support for local units.

While aware of the need, London apparently is not considering nonmilitary aid beyond the \$16,000 annual rent for the airstrips at Salala and Masira Island. The Iraq Petroleum Company pays the Sultan about \$400,000 annually for its concession, and London hopes the new American oil discovery in Dhofar will in time prove profitable to the Sultan.

Though expressing some concern on 29 August that Yemen might be "slipping down the same path as Syria," the Foreign Office appears inclined to temporize for the time being. While the British are still considering Crown Prince Badr's offer to visit London for talks on the Aden-Yemen border dispute, they are unenthusiastic, not wishing to become openly involved in the Yemeni succession question. As a counterproposal, Britain may, however, suggest a low-level conference at the frontier. 25X1

PAKISTANI PRESIDENT WINS LATEST ROUND AGAINST PRIME MINISTER

Pakistani President Mirza apparently has won the latest round in his political rivalry with Prime Minister Suhrawardy. By obtaining on 27 August the resignation of Governor Gurmani of West Pakistan, a leading contender for the presidency of Pakistan in any future election, Mirza has eliminated one of

Suhrawardy's major allies in his struggle against the President. Suhrawardy, who apparently was offered the choice of accepting Gurmani's dismissal or of resigning his own post, seems to have lost the political initiative which had been gaining him increasing popular support in Pakistan.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

The new governor of West Pakistan, Akhtar Hussayn, who was appointed on 28 August, is --like Mirza-- a senior civil servant. He reportedly is close to Mirza and seems likely to accede to Mirza's wishes. His appointment is rumored to be a temporary one, to last only until the Republican party can afford to spare some other leader from the very slim majority it now controls in the National Assembly. Hussayn's appointment has raised some criticism from orthodox Sunni Moslems regarding the addition of another dissident Shia sect member to the number already occupying high positions in the government.

President Mirza, also a Shia, faces a disciplinary problem within his Republican party as a result of the Gurmani ouster. Three Northwest Frontier tribal members of the National Assembly resigned from the party on 24 August, apparently at Gurmani's instigation, and have turned independent. Parliamentary Affairs and Information Minister Amir Azam Khan, a friend of Gurmani's, also has resigned his posts in protest. Gurmani, who reportedly controls about eight of the 79 National Assemblymen and about 30 of the 300-odd West Pakistan assembly members, presumably will lead his followers out of

the Republican camp. Probably in the fear that others may follow, the Republican party is offering provincial ministries to several legislators with political followings.

At the moment, it appears that a new political combination may develop in West Pakistan as a result of efforts to prevent Mirza's acquisition of further power. This would include Suhrawardy's Awami League, the Moslem League--whose leaders in West Pakistan hate Mirza, Gurmani's forces, and other dissident Republicans. Three parliament members of the orthodox Nizam-i-Islam party, who on 25 August withdrew from the ruling Republican-Awami League coalition, may also join this group.

The Moslem League and others have already opened a campaign charging Mirza with "stifling democracy" in order to keep the Republican party in power. It is also being publicized--probably rightly--that Mirza wishes to postpone for some time the national elections which Suhrawardy had hoped to hold next March. If the charges of Mirza's opponents gain any popular backing, he may find that the Republican party cannot command a clear majority in either the national or West Pakistan assemblies, both of which are scheduled to meet in mid-September.

25X1

INDONESIA

The national round-table conference proposed by Indonesian Prime Minister Djuanda now has been definitely scheduled for 10 to 12 September in Djakarta. Although most participants appear to view the meeting with guarded optimism, they seem primarily interested in

maintaining or improving their personal political positions.

Djuanda is involved in a series of private discussions before the conference with some regional leaders and has sent cabinet ministers throughout the islands to urge attendance

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

at the conference. Army Chief of Staff General Nasution called a meeting in Bandung on 29 August of all territorial commanders whom he regards as personally loyal. In South Sumatra, Lt. Col. Barlian scheduled an interregional conference for 4 September, and President Sukarno is touring East Indonesia to appeal for national unity and to stimulate demands for incorporation of Netherlands New Guinea.

The regions, including the disaffected areas, have each been asked to send five representatives to the conference. Lt. Col. Sumual of North Celebes has agreed to attend, and since no refusals have been reported, it is assumed that the disaffected Sumatran commanders will also be present.

Former vice president Hatta, whose scheduled presence at the meeting has been regarded as a factor in favor of its success, feels that the most that can be expected to result is an improvement in the atmosphere between Djakarta and the provinces. He told the American ambassador that his own activity at the conference would be conditioned by the attitude of President Sukarno. He said he would not participate actively if Sukarno

adopted an uncompromising position toward regional grievances.

Meanwhile, late returns from local elections in Java have been favorable for the non-Communist parties. The picture is still unclear, however, and the interior minister estimates official returns will not be available before the end of October.

In East Java, where unofficial returns are 75 percent complete, the Nahdlatul Ulama now has forged slightly ahead of the Communists and is in first place. In West Java, the Masjumi maintained its lead with the Communists in third place. In Central Java, where unofficial returns are largely complete, the Communists maintained their plurality on a provincial level with absolute majorities in a number of regency and municipal councils. The fact remains that the Communists have made impressive gains throughout Java since the 1955 national elections.

In anticipation of provincial elections in Jogjakarta sometime this month, the National party, which lost heavily to the Communists in Central Java, has reportedly voted to end electoral cooperation with the Communist party.

25X1

JAPAN TO EXPLORE COMMUNIST TRADE OFFERS

Japan will begin in September a series of discussions with the USSR, Communist China, and Poland to determine whether economic relations with those countries can be expanded profitably without jeopardizing its relations with the free world. The Japanese government believes that Communist trade offers are in reality politically motivated and doubts that significant

trade opportunities can be developed. However, the demands of Japanese businessmen eager to take advantage of the lucrative-sounding trade offers from the Sino-Soviet bloc in the last year have compelled Tokyo at least to discuss the offers.

A Soviet trade delegation headed by Deputy Minister of Foreign Trade I. F. Semichastnov

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

is scheduled to arrive in Tokyo on 7 September to begin trade discussions requested by the Kishi government. Sadao Hirose, chief Japanese negotiator, led a trade mission to Moscow in July and reportedly has discarded as propaganda Soviet allusions to Japan's participation in Siberian economic development. The Japanese intend to appear unenthusiastic in order to avoid a Soviet attempt to use the talks to obtain political concessions. Japan desires a one-year agreement with a flexible trade goal of about \$28,000,000 each way and a payments agreement calling for cash settlement in sterling.

Foreign Minister Fujiyama on 30 August outlined for Ambassador MacArthur his government's plans for expanding trade with Communist China. Negotiations are complicated by the lack of official relations with Peiping and by fear that increased Sino-Japanese trade will threaten Tokyo's economic relations with the United States.

Moreover, Japanese officials seriously question the ability of Communist China to become an important trade partner.

Nevertheless, the ruling Liberal-Democratic party is sending a delegation to Peiping in mid-September to conclude a new private trade agreement--the fourth since 1952--calling for trade in the amount of \$90,000,000 each way. Kishi has relaxed requirements for fingerprinting of aliens in Japan in order to facilitate an exchange of permanent trade missions with Communist China.

Tokyo also has responded affirmatively to Polish overtures for trade discussions. These talks are expected to begin in Tokyo early in October, and Japan hopes to conclude an agreement for \$10,000,000 each way annually. Past trade between the two nations has been insignificant.
(Concurred in by ORR)

25X1

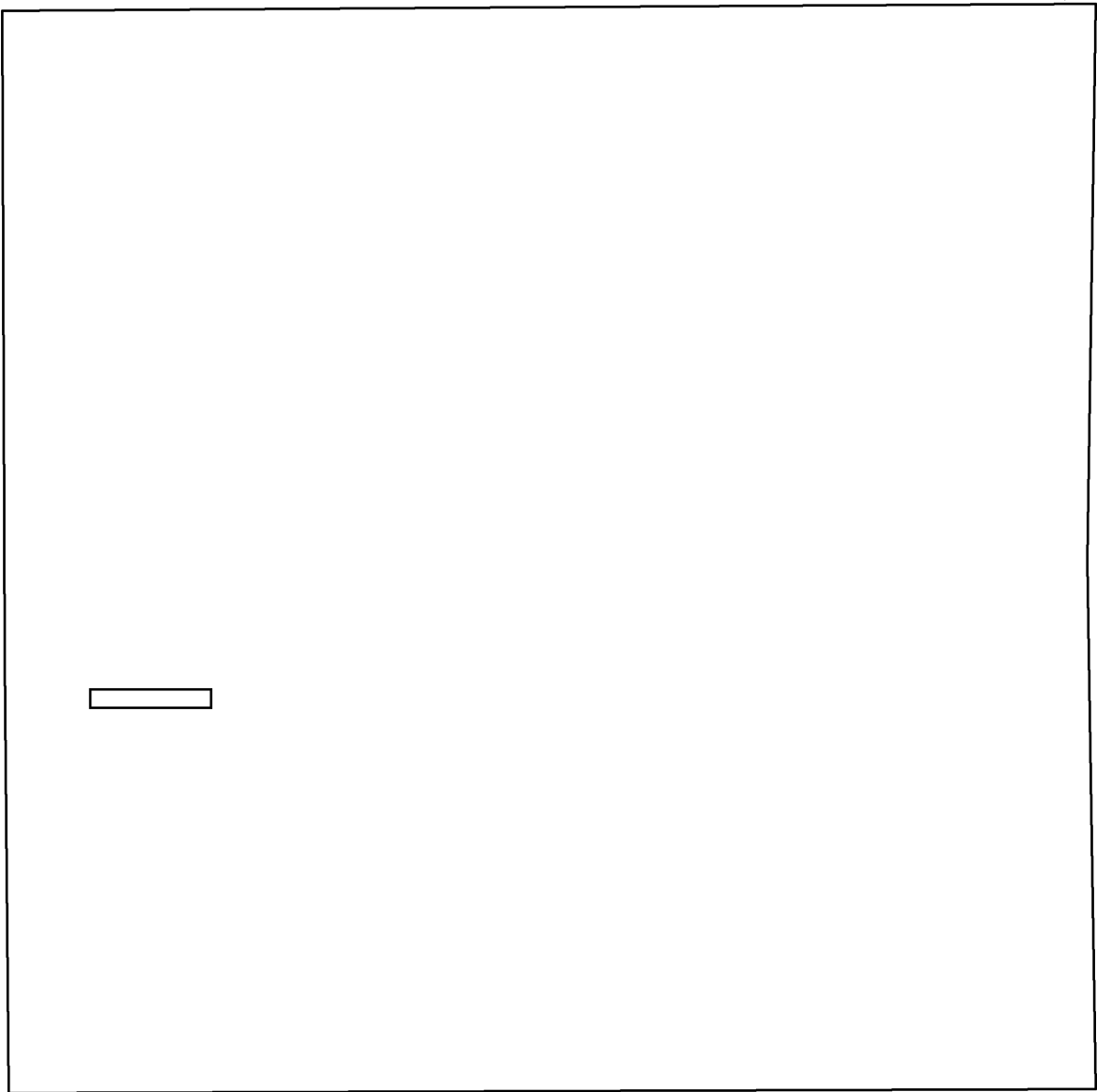
25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957



25X1

25X1

ARAMBURU ATTACKS "ECONOMIC NATIONALISM" IN ARGENTINA

Just prior to the convening of Argentina's constituent assembly on 2 September, President Aramburu called a series of high-level meetings with military and political leaders in which he stressed the seriousness of the country's foreign payments position and the need for abandoning excessive "economic nationalism." His

immediate aim seemed to be to dissuade the assembly--which is to revise the constitution preparatory to general elections in February--from enacting constitutional amendments nationalizing petroleum and power resources.

During the meetings to "review the country's situation,"

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

the treasury minister reportedly predicted a continuing balance of payments deficit of at least \$75,000,000 despite limited imports falling short of essential needs. The commerce minister emphasized the inability of the government to meet the country's need for additional investment in power, petroleum, and industry and in effect confessed that it had not done all it could to make Argentina credit worthy. He was apparently referring to the strong nationalistic pressures which have blocked measures to attract new foreign investment into the two critical fields of electric power and petroleum development. Aramburu reportedly forecast economic and political disaster unless the armed forces, the politicians, and the public abandoned "excessive economic nationalism."

The note of urgency in the government's recommendations probably stems not only from present financial difficulties but also from the fact that a majority of the constituent assembly members belong to parties which favor federal control over power resources.

The assembly's first official meeting in Santa Fe was postponed to 3 September by bitter political arguments which delayed organizational procedures. By then only 120 of the 205 assembly members were present, and the 77 delegates of the antigovernment Intransigent Radical Civic Union--the largest single bloc--had withdrawn from the assembly. The assembly proceedings are expected to be protracted and complicated by jockeying for party position in February's election.

25X1

TITO AND GOMULKA TO MEET

Polish Party First Secretary Gomulka, accompanied by other party and government leaders, will visit Marshal Tito this month. This first face-to-face meeting of Tito and Gomulka since 1947 is being warmly welcomed by both Warsaw and Belgrade and will be a most significant event, in view of the delicate positions of Yugoslavia and Poland in the Communist world. Tito and Gomulka deny that they are "national Communists," but both advocate separate roads to socialism and a nationally independent development of Communism.

In certain areas of internal affairs, Poland has departed more sharply from Stalinist practices since last fall than Yugoslavia has in its nine years of inde-

pendence. In foreign affairs, Yugoslavia formulates and follows its own independent policy, whereas Poland tends to adhere more closely to the Moscow line.

An atmosphere more favorable to Polish-Yugoslav talks has probably been created by the rebuff administered Soviet "dogmatists" at the Soviet party plenum in June and by the Tito-Khrushchev meeting in August. The meeting will afford an opportunity for Tito and Gomulka to consider points of common interest, to develop closer personal understanding, and to define their respective relationships to the Soviet bloc. Gomulka reportedly has been in the Soviet Union during the past week, presumably in order to probe the

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

Soviet view on the recent Tito-Khrushchev talks.

Shortly after Gomulka's rise to power in October 1956, the Yugoslavs expressed their willingness to consult with top Polish leaders but indicated that they realized the political situation might make such a move impossible for Poland at that time. When Yugoslav-Soviet relations began to deteriorate last winter, the Yugoslavs were reluctant to promote such a meeting or to sympathize openly with Polish developments for fear of causing a new crisis in Polish-Soviet relations. Poland, sensitive to charges of Titoism, looked more to China for support, pending restored Soviet acceptance of Yugoslavia. Poland's interest in Yugoslavia was maintained during this period, however, through discreet exchanges of low-level delegations.

After Tito and Khrushchev consulted in Bucharest last month, favorable official references to Yugoslavia began to appear in Poland. The most recent such reference was an article in the Polish party's official theoretical journal by a member of its editorial board who had attended the Yugoslav workers' council congress in June as the representative of the Polish party.

This article, itself an explosive contribution to the

Communist ideological controversy, declared that every attempt to deny the value and benefits which Yugoslavia can confer on the "progress of socialism was a manifestation of megalomania." The article singled out for special praise the Yugoslav attempt to create economic democracy through self-government at the lowest levels. The Yugoslav concept of the party's role in government as one limited to policy-making was also praised by the Poles as one precluding an overbearing and unpopular bureaucracy and reducing the constant tendency for the leadership to become isolated from the people.

Although tactical differences in domestic application exist, the Yugoslavs have approved basic Polish methodology and successes. Tito probably personally welcomes developments in Poland as a vindication of his own long fight with Moscow.

There are certain elements in foreign affairs as well which are common to both countries. They both oppose formation of a new Cominform and rankle at various forms of Soviet hegemony. The Yugoslavs have supported the Poles on the question of the Oder-Neisse line, although no formal agreement has incorporated such support. The Yugoslavs have also encouraged closer relations between Warsaw and the West.

25X1

NEW SHAKE-UP THREATENS IN BULGARIAN PARTY

The campaign for party unity being conducted in the official organ of the Bulgarian Communist party reached a climax in a 27 August editorial which hinted at further high-level purging in the near future. The

urgent and ominous tone of this piece--strongly resembling the 3 July Pravda editorial which preceded announcement of the Moscow presidium shake-up--indicates that, despite the elimination of Chankov, Terpeshev,

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

and Panov in July, there are still elements, probably constituting a significant minority in the central committee, who oppose the ruling triumvirate of Yugov, Zhivkov, and Chervenkov.

The July shake-up appears to have been intended to intimidate a faction led by politburo member Chankov, the former number-two man of the party, and a nativist group led by Terpeshev and Panov. The latter and more important faction is composed of remnants of the old revolutionary party which lost out during the Stalinist purges of the early 50's but was reinstated at the central committee level when collective leadership was established in 1954. Apparently, both Chankov and the Terpeshev faction seized the opportunity provided by the Soviet 20th party congress and the demotion of Chervenkov in 1956 to enhance their positions.

The present leadership is seeking to play down the fight against the "cult of the individual" in order to restore party unity and consolidate its power. The continued attack against sympathizers of the purges indicates that the July shake-up neither removed all the opposing elements nor satisfactorily silenced them. [redacted]

The charge of "revisionism" apparently applied specifically to the Terpeshev group, which had a traditional affinity for the Yugoslav party and would welcome any loosening of ties with Moscow.

The campaign against party dissidents has been accompanied by renewed efforts to discipline liberal elements remaining in the Bulgarian Writers' Union who have been criticizing the party under the guise of a struggle against the "cult of the individual." This campaign against "revisionist" writers was underlined by an 18 July editorial in Literaturen Front, the union's daily newspaper, which denounced "unhealthy and nonparty manifestations," and linked these writers with "the campaign against socialist realism and socialism in general as conducted in certain People's Democracies." These and similar articles may reflect a clash within the leadership of the union itself, presently headed by Khristo Radevsky, a lieutenant of Minister of Education and Culture Chervenkov, former party boss.

The present leadership of the Bulgarian party possibly feels the need for outside support in the present situation and it may be for this reason that Party First Secretary Tudor Zhivkov is escorting "vacationing" Soviet presidium member Kirichenko throughout the country. [redacted]

25X1

SOVIET FOREIGN AID ACTIVITIES

The recent upswing in Soviet foreign aid offers to the Middle East and Asia reveals the continuing high priority being given to increased participation in the economic affairs of underdeveloped countries. The USSR has continued to encourage applica-

tions for aid from "neutral" states, and the Soviet organization responsible for these aid programs is assuming a larger role in planning within the USSR to assure attainment of Soviet foreign policy objectives.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

The importance of the issue of aid to underdeveloped countries in the Moscow shake-up in June is not known, but shortly thereafter, added impetus was given to the promotion of foreign economic relations by the creation of a State Committee of the Council of Ministers for Foreign Economic Relations to replace the less influential Chief Directorate for Economic Relations (GUES).

In the Middle East, the USSR acted rapidly when the political climate in Syria appeared favorable and offered to underwrite a broad economic development program in that country. This was the first firm offer of this nature the USSR made in the Middle East. As has been the case in nearly all recent economic assistance offers, the USSR offered to purchase raw materials or agricultural products to convince Syria that necessary foreign exchange to finance the plan would also be available.

The Sudanese government, about to face national elections and confronted with cotton surpluses, has been offered an opportunity simultaneously to reduce this surplus and to receive Soviet equipment and technicians to aid in the construction of industrial enterprises.

Both Iran and Turkey have been targets for Soviet aid. Iran has agreed to permit improvement of its Caspian sea-ports and in the past two months has entered into a joint venture

with the USSR to study the development of water resources along the common border.

25X1

Under a recently concluded agreement, the USSR will construct a glass and two chemical factories in Turkey, and recent reports indicate that general Soviet offers of additional assistance to Turkey have also been renewed.

In Asia, Ceylon has been told that the USSR would be willing to assist in developing the country's rubber industry and to purchase the additional rubber which would be produced. The USSR reportedly is also expressing interest in Thai industrial development. Although there has been no significant economic exchange with Thailand, the Soviets are reported to have indicated that the USSR can, "at any time," promote commercial interchanges.

The USSR continues to seek an expansion of economic relations with those Asian countries which have formerly been approached. A new understanding with Afghanistan provides additional economic assistance, Indonesia is being urged to ratify and implement the \$100,000,000 loan granted last year, and a Soviet mission in India is negotiating the details of the \$126,000,000 loan granted in late 1956.

25X1
25X1**SECRET**

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

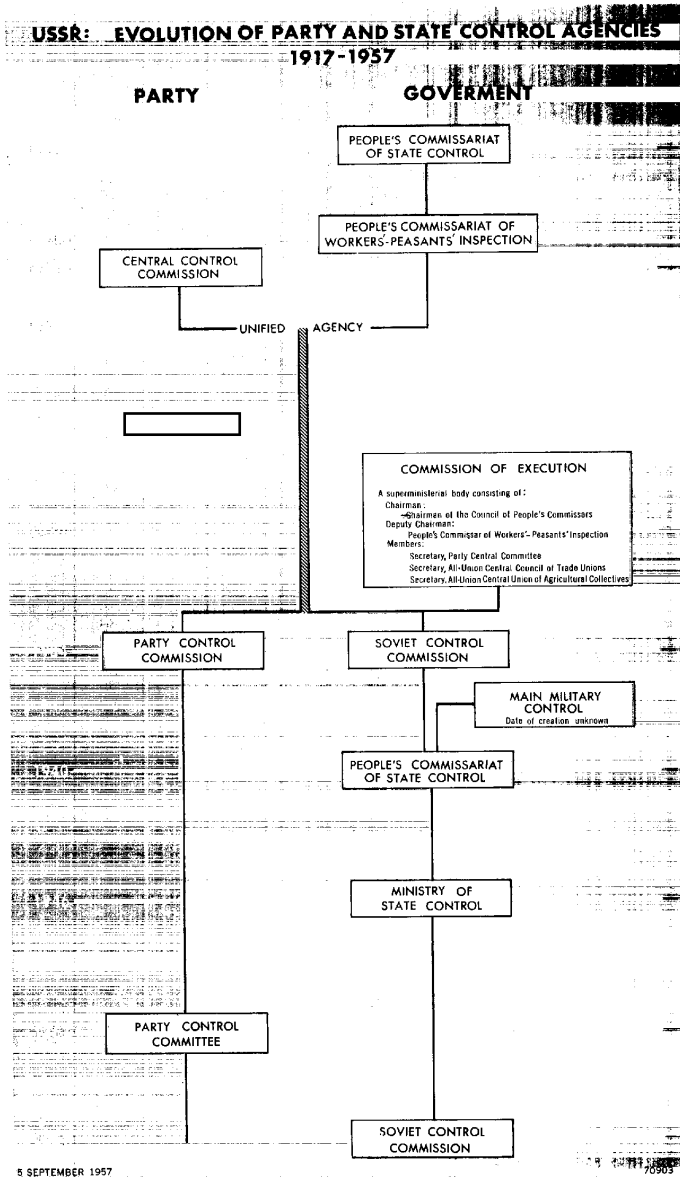
SOVIET GOVERNMENT REORGANIZES CONTROL BODY

The USSR Ministry of State Control, which was headed by Molotov from November 1956 until his purge in June, has been abolished and a Soviet Control Commission organized in its stead. This change is in line with the recent trend toward use of committees and commis-

sions in Soviet state administration and is probably designed to introduce greater flexibility in supervision and checking on fulfillment of state directives, particularly in the implementation of economic plans. At the same time it permits inclusion of representatives of the population and other state organs, thus broadening the control base and enlisting greater numbers of people in carrying out its functions.

The move apparently marks a return to the kind of organization which existed from 1934 to 1940. It may have been made to provide a structure more nearly parallel to the party control committee and hence facilitate closer party supervision and coordination over control work. The statute on the 1934 Soviet Control Commission, for example, stated that the commission should carry on its work "in close liaison" with the party's control body.

The Ministry of State Control was under fire even before Molotov took over. At the 20th party congress in February 1956, Khrushchev sharply criticized the ministry as "feeble" and called for a fundamental reorganization in its work. Molotov was apparently appointed minister in the hope that he could straighten it out. His



SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

opposition to Khrushchev's government reorganization, however, suggests that he was not in sympathy with the kind of reorganization Khrushchev wanted in the state control field.

The political importance of the Soviet government's control body has fluctuated rather widely. It has been comparatively low during recent years. The new control commission may carry increased political weight, but the extent of the increase will not be fully apparent for some time. The importance of the person selected to head it could provide a clue, but no announcement of an appointment to the post has yet been made. The chairman of the party control committee is Nikolai Shvernik, appointed

full member of the party presidium following Molotov's purge.

The new commission has been charged with most of the responsibilities of the former ministry, but with additional mention of the task of overcoming "manifestations of local administrative and parochial tendencies." Khrushchev on several occasions warned against the danger of "localism" inherent in his new system of industrial management. The new Soviet Control Commission, possibly in conjunction with the party control committee, appears called on to play a major role in preventing local self-interest from undermining national objectives.

25X1

PEIPING EXCHANGES TRADE DELEGATIONS WITH WESTERN EUROPE

French and West German economic delegations have arrived in Communist China, and a British delegation is expected soon. A Chinese Communist trade mission will visit Britain this month. Confronted by a decline in its foreign exchange holdings and an inability to offer substantially increased exports, Peiping had made various excuses to postpone these visits. The Chinese Communists have, nevertheless, now accepted the trade delegations, probably mainly for political reasons.

China's exchange of trade with Western Europe in the first quarter of 1957 suggests that the total for the year will not exceed the 1956 level and possibly may decrease slightly. France and West Germany, however, are increasing their share of this total.

Peiping has intimated to France and Italy that political recognition would enhance prospects for more formal trade arrangements. A member of the French mission now in China was informed last May that adequate trade relations had already been established by the earlier Rochereau mission in 1956 and that a political mission would prove most beneficial to expanded trade. French officials believe Communist China probably will demand a break with the Chinese Nationalist government before permanent trade representation can be established.

Traders from the UK and the Netherlands, whose governments already have diplomatic relations with Peiping, are under pressure from the Chinese Communists to remove the trade

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

5 September 1957

embargo completely. The British are expected to announce shortly the removal of voyage licensing and bunker controls on vessels in the China trade. Such a proposal might be presented when a Chinese Communist trade mission, the first since the relaxation of the embargo, visits Britain later this month. Negotiations for the exchange of permanent trade missions between Britain and Communist China have been in progress since British action on the embargo in June.

The West German government, noting Peiping's emphasis on political rather than economic features of the recent reduction of the embargo, is not optimistic

over the prospects for the West German mission to China. Bonn has stated that the main advantage it hopes to achieve is to obtain more direct trade, eliminating intermediary countries.

While negotiating with these delegations, Peiping will try to mask its real trade problem, a lack of sufficient trading resources, and may seek short-term credits, although this would be a departure from previous practice. By manipulation of its trade with Western Europe, Peiping hopes to increase its prestige and advance its ultimate objective of formal recognition. [redacted]

[redacted] (Prepared jointly with ORR) 25X1

25X1

PEIPING PUSHES CULTURAL OFFENSIVE THROUGH MOTION PICTURES

The Asian Film Festival now under way in Peiping and nine other cities on the mainland reflects Communist China's growing emphasis on motion pictures in advancing its cultural offensive for greater prestige and influence abroad. Represented in the celebrations are delegations from the USSR and 14 Asian-African nations--Burma, Cambodia, Ceylon, India, Japan, Lebanon, Syria, North Korea, North Vietnam, Mongolia, Pakistan, Singapore, Thailand, and Indonesia. The film festival has been hailed by the Chinese as "an unprecedented get-together" and a "new step in cultural interchange."

Peiping first entered the international film market about 18 months ago and now has motion picture exchange agreements with some 14 countries. Plans are being made to increase this number to 30 by the end of this year. In addition to bloc countries, nonbloc nations such as Pakistan, Indonesia, Ceylon, Burma, Egypt, and Yugoslavia have signed exchange agreements with Peiping. Chinese Communist films have also appeared in Chile, Finland, Australia, West Germany, Italy, the UK, Thailand, Cambodia, Laos, Malaya, and Singapore.

The primary target in the free world for Chinese Communists

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

5 September 1957

25X1

films seems to be the Overseas Chinese population in Southeast Asia. Employing a "soft-sell" technique, the movies emphasize traditional Chinese life. Travelogues, films on Chinese folk music and dancing, and productions dealing with mainland achievements since the advent of the Communist regime are all pitched to create nostalgic reminders of mainland life and to win the "patriotic" sympathy of Overseas Chinese viewers.

Last spring, however, Peiping began to export to the area a few movies with blatantly propagandistic content. Among these was the "White-Haired Woman," shown to date in Cambodia, Laos, and Thailand, which depicts the glories of Communist society in contrast to life under the Nationalists. These films, which have a much weaker box-office draw, are directed particularly toward Overseas Chinese youth.

To Peiping, the economic benefits resulting from the large-scale export of motion pictures are clearly secondary to the opportunity provided for advertising the regime's accomplishments and spreading its influence. In Indonesia, the Chinese have sought to widen the distribution of their films by proposing that Djakarta retain all profits for its own use.

A \$3,000,-
000 film center is nearing completion at Canton, however, and another major studio is being built at Sian in Northwest China. When these are completed, there will be a total of nine studios operating on the mainland.

The Communists are making a major effort to improve the technical quality of their movies. Foreign film technicians, among them French and Italian, have been invited to produce films jointly with the Chinese. Stereophonic sound has been introduced, and the Chinese plan to increase the number of wide-screen and color productions.

Artistic and technically well made, Chinese Communist films last month were exhibited for the second consecutive year at the Edinburgh film festival, where the Chinese last year won three prizes. Later this month, Peiping plans to exhibit films at the Damascus festival. Participation in such international film events advances Peiping's objective of winning accreditation of its representatives to international art and professional groups.

25X1

HO CHI MINH CONCLUDES TOUR OF BLOC

The two-month tour of the Sino-Soviet bloc just concluded by Ho Chi Minh was noteworthy for the cordiality of his meeting with Tito. Only in Belgrade did he sign a joint communiqué, and Ho's trip was apparently an attempt to improve North Vietnam's status in the Communist world through

publicity and personal contact. It was largely a series of ceremonial visits which underscored North Vietnam's general allegiance to the bloc but which also reflected differing attitudes on intrabloc relations.

North Korea gave Ho the heartiest official welcome,

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

with "hundreds of thousands" of persons marshaled to greet him. In Eastern Europe, he did not refer to his audiences as "brothers and sisters" as he had in Pyongyang--his whole attitude was more restrained.



HO CHI MINH

In capital after capital he noted that despite the great distances separating his hosts from Vietnam, their common goals made them all part of "the great socialist family." With the exceptions of Warsaw and Belgrade, his hosts continually praised the solidarity of the "socialist camp, headed by the Soviet Union," while Ho repeatedly referred to the "socialist camp, headed by the Soviet Union and China."

Perhaps because of this inability to agree on ideological phrasing, all government communiqués with the exception of the one from Yugoslavia were unilaterally issued by the host country just after Ho departed. The communiqués were fairly stereotyped: all supported

Hanoi's efforts to unify Vietnam peacefully, backed the USSR's disarmament proposals, affirmed a desire for world peace, and stated that a "complete identity of views had been reached on international questions."

The Tito-Ho communiqué was a more precise document. It contained the only reference to coexistence and professed a "real similarity of views" between the two leaders. Also, the statement gave more space than did the unilateral communiqués to the formula for relations among "socialist states," i.e., relations based on "full equality...and having a creative approach toward solving the social and international problems which face mankind."

The USSR seems to have gone out of its way to express approval of the Tito-Ho communiqué. In its only radio commentary on the results of Ho's visit in Eastern Europe, Moscow lauded the communiqué as "good news" and remarked that an exchange of experiences between the two countries would undoubtedly be in the interests of both.

During Ho's tour, pacts providing for cultural exchanges were signed with Albania, East Germany, and Hungary. North Korean Premier Kim Il-sung, Chairman of the Polish Council of State Zawadzki, East German President Dieckmann, Chairman of the Bulgarian Council of Ministers Yugov, and Tito all agreed to visit Hanoi. [redacted]

25X1

[redacted] 25X1

SOVIET "GREAT PROJECTS"

Several long-range projects to "adjust nature" to Soviet ends have been discussed publicly in the USSR during the past year. Such discussion

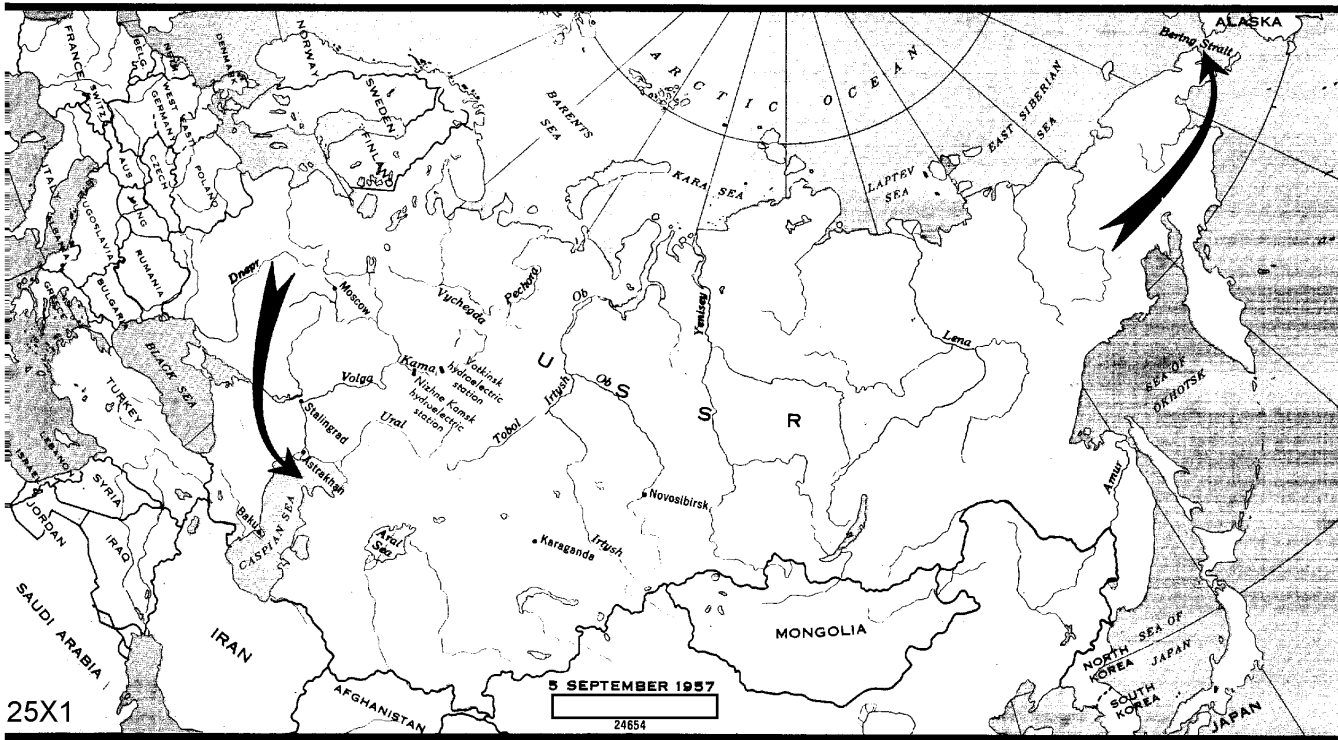
has included grandiose schemes which are merely being debated and others which are under serious consideration. Although some are reminiscent of the

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957



25X1

"Great Projects" of Stalin's time, the ones now being actively considered appear to have an economic rationale which was usually lacking in the very costly plans of Stalin.

One problem under consideration is the falling level of the Caspian Sea, a consequence of inadequate planning in the past which permitted not only diversion of water from the rivers flowing into the Caspian Sea but also made little or no provision to correct urban or industrial pollution of these rivers. Three solutions were proposed at a meeting in Astrakhan in September 1956; two of these were unrealistic and apparently have been rejected, while a third may be feasible.

25X1
25X1

The third plan, at one time discussed by Malenkov, involves reversing the Pechora and Vychegda Rivers to flow into the Kama and Volga, and construction to bring this about may actually be under way. A recent announcement of a plan to increase the installed capacity of the Nizhne Kamsk hydroelectric station by 400,000 kilowatts and the Votkinsk station on the Kama River by 360,000 kilowatts indicates that the diversion scheme will be carried out since such large increases would appear justifiable only if the water flow were increased.

Another project involves plans to supply water to central Kazakhstan by building a 770-kilometer canal from the Irtysh River to Karaganda. This canal, although reminiscent

SECRET

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

of Stalin's projected 1,100-kilometer Main Turkmen Canal, is to be different in scope and purpose. The Main Turkmen Canal was to have provided for the irrigation of cotton in relatively poor lands. The Karaganda Canal, not designed for irrigation, would provide water needed by the huge iron and steel center now under construction near Karaganda.

The most sensational project mentioned in the Soviet press is the suggested construction of a dam across the Bering Straits. This dam would allegedly divert warm Pacific currents southward along the northeastern coast of Asia and along the coast of Alaska and Canada, improving the climates of both areas. This project could not be initiated without

American cooperation, which has not yet been sought.

The vast and expensive "Great Projects" of Stalin were abandoned as a result of a review of investment projects undertaken immediately after the dictator's death. The pressing requirements for investment resources which motivated their abandonment persist, and as long as the present leadership is motivated less by whimsy than was Stalin, it will avoid resurrecting such economically unjustifiable projects as the Volga-Ural Canal, the South Ukrainian and North Crimean Canals, and certain land reclamation schemes, whose immense investment requirements promise only the most remote returns. [redacted]

[redacted] (Prepared by ORR)

25X1

25X1

* * *

~~SECRET~~

~~CONFIDENTIAL~~
~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

PART III

PATTERNS AND PERSPECTIVES

KHRUSHCHEV'S PRIMACY IN THE SOVIET LEADERSHIP

Since Khrushchev's solid victory in the June plenum of the Soviet party central committee, the measure of collectivity in the Kremlin has been the measure of Khrushchev's willingness to solicit and accept the views of others. Thus, Khrushchev already possesses a great deal of the political power he would need to make himself the sole ruler of the Soviet Union. He is likely to be deterred from using his power for this purpose, however, by the post-Stalin diffusion of political authority and by the safeguards which Khrushchev himself has helped erect against the capricious exercise of power by one man. If party leaders should fall out among themselves, there might be a call for a military strong man to restore "law and order."

Under the pressure of the need for unanimity, Khrushchev has expelled his opposition from the presidium and has, willingly or not, thereby taken a step in the direction of Stalinism. Yet revulsion from Stalinist methods contributed, at least indirectly, to the outcome, and Khrushchev has felt obliged to justify the action as a guarantee against the resurgence of these methods. Despite continuing personal and policy conflicts within the post-Stalin leadership, it has been shaped around the hope or need for some kind of stable arrangement for the sharing of power.

The search has not been successful--it ended in a power struggle which, if less bloody than some in the USSR's earlier history, was still full of danger for the participants and for

the stability of the regime and state. The threat of new outbreaks, from which the regime may not always emerge intact, will remain until Khrushchev or someone else achieves absolute control or until binding restraints on the use of power have been imposed.

For the moment, there are few apparent limitations on Khrushchev's power. He is riding the crest of victory. The enlargement of the presidium is likely to have the effect of magnifying his authority. The new body has been, in any case, heavily weighted in his favor by the appointment of individuals who are where they are because they performed loyally in Khrushchev's party machine and are nothing by themselves. The holdovers from the pre-June presidium are hardly strong enough to challenge him individually or jointly.

Voroshilov is a figurehead. Bulganin has slipped badly, if, indeed, he was ever much in his own right. Mikoyan may not be completely in Khrushchev's pocket, but has made a career of being on the right side at the right time and is hardly likely to change his tactics now. Suslov is more of an unknown quantity than the others--before June, the Yugoslavs consistently placed him among the ultraconservatives with Molotov and Kaganovich. He ranks second only to Khrushchev on the secretariat, which may have become the effective seat of power, and it would probably be a mistake to write him off as simply a long-haired ideologist. It remains to be seen, however, whether he will use his present position to build the kind of personal following and organizational

~~SECRET~~~~CONFIDENTIAL~~

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

control which would give him the power of initiative. Kiri-chenko is what he has been all along--a solid Khrushchev man. With the possible exception of Zhukov, a possibility which will be discussed later, there does not seem to be any person or group in the present presidium capable of opposing Khrushchev on any point on which he is really determined to have his way.

Stalin did not stop at the point which Khrushchev has now reached but went on to build an enormous autocracy which was institutionalized in the "cult of personality" and supported by a semireligious awe and the apparatus of terror. Khrushchev does not and may never inspire respect as Lenin did nor fear as Stalin did. His style of leadership and his policies are also, as events since 1953 have shown, capable of arousing misgivings, resentment and enmity among his colleagues.

He has set high goals in domestic and foreign policies and, despite his assurance, is confronted with many complex problems for which it is by no means certain solutions will be found. His present strength in the presidium and, beyond it, in the central committee, is not necessarily unshakeable. Political loyalty in the USSR is a rather ephemeral thing--e.g. Shepilov--and Khrushchev's man today might be someone else's man tomorrow. Moreover, Khrushchev is old enough--63--that some of his colleagues may already be thinking about the post-Khrushchev future, and it will not be surprising if the Aristovs, the Brezhnevs and the Koslovs, willing followers as they might be, begin soon to feather their own nests.

With greater power Khrushchev will take on greater responsibility and in the future will not find it as easy to cover himself with the cloak of collective decision as he did after Hungary. As long as things are going well, Khrushchev may consider himself secure in his present powers. But there are obviously many difficulties inherent in the policies on which Khrushchev has chosen to base his leadership--the policies confirmed by the June plenum. These policies, though barely tested, have already produced unforeseen (and, in the case of Hungary, alarming) results for the Soviet regime and have yet to prove themselves workable in the long run.

A Western commentator has pointed out that "a totalitarian system attempting to reform itself in a more 'liberal' direction invariably finds that, at least to a certain degree, it loses control of the situation, that the dynamism of released forces proves stronger than the channels created to contain them, and that unanticipated consequences result." To his complex task Khrushchev brings a temperament which is aggressive and self-assured but also, to a degree, impulsive and quixotic. He is shrewd, pragmatic, and relatively flexible, but is also driven by a visceral optimism which seems often to get the better of good judgment and foresight.

He certainly did not foresee some of the more important consequences of his peacemaking with Tito or of his anti-Stalin speech, and he has been forced to improvise on and compromise his original intention. Responding to the pressure for economic readjustment, he has overridden the economic specialists, supplanting them with

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

5 September 1957

party functionaries in the process, and has launched a program whose experimental or unrealistic features are concealed behind euphoric slogans about new upsurges and overtaking the West.

It may be that the combination of high goals with Khrushchev's approach to them will eventually produce a situation in which Khrushchev would be obliged to convert his dominance into unchallenged supremacy or, failing that, to surrender part or all of his present power.

There undoubtedly are many similarities between the course taken by Khrushchev and the one followed by Stalin in the 20's --the creation of combinations against first one rival and then another, the piecemeal weakening and eventual expulsion of the opposition from the leadership, the resort to the party apparatus and the central committee, and the barefaced adoption of policies once espoused by opponents. There are, however, many factors in the present situation which were absent in the 20's, and although there is no way of demonstrating that they will force the development of the Soviet leadership one way or the other, they are certainly important enough to prevent foreclosure of the issue.

Khrushchev has not yet developed Stalin's megalomania. He is domineering, impatient of restraint, and has a fondness for the center of the stage and, like Stalin, has made good use of organizational manipulation and the power play. Nevertheless, he has so far built his position partly on aggressiveness, bravura, and political compromise, and not solely on intrigue and intimidation of his colleagues and lieutenants. With all his bluster and belligerence he must seem far less ominous to other Soviet and satellite leaders than Stalin, and he has not yet displayed

those qualities which led Stalin to base his leadership on sycophantic subservience and paralyzed awe.

Khrushchev's conduct in Warsaw last October may have been typical of him--he charged breathing fire but retreated quickly when he had measured the strength and determination of his antagonists. Though he can spout slogans with the best of them and probably says what he thinks when he talks about whistling shrimps and the oncoming era of universal communism, Khrushchev is less of an ideologue than Stalin, just as the latter was less of an ideologue than Lenin, and is probably far more inclined to swim with the tide wherever possible.

Certainly the character and motivation of one man will not tell the whole story. They could be important, though, because there undoubtedly are currents in the USSR today which run strongly against the kind of organized repression which was the core of Stalin's dictatorship. Stalin's successors, and Khrushchev not the least among them, have given way to them in many ways. The relaxation of police control, the amnesties, and the emphasis on "socialist legality" have been plainly noted by the Soviet population and taken as a guarantee of greater personal security.

These measures were not taken from humanitarianism but because the regime regarded the tensions and sullen apathy in Soviet society and in the Communist bloc as a whole as a handicap and sought ways to engender a more affirmative acceptance of its leadership. A movement in the opposite direction would obviously endanger this objective. Nevertheless, the pendulum could swing the other way.

Much the same can be said about the related program of intellectual and ideological

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

reform, in which Khrushchev's attack on Stalin provided the most dramatic passage. It has released forces within the USSR and in the satellites which had been largely concealed. They have not yet come to rest. The ferment within the USSR is not likely to lead to an explosive outbreak after the Hungarian example and may even be safely canalized. But as Kaganovich said about de-Stalinization at the 20th party congress: "This is no easy matter."

Outright repression would restore an atmosphere considered to be undesirable, but if the questioning which has been stirred up is allowed to grow unchecked, the mental habits essential to a totalitarian system could be seriously undermined. Whether or not a safe middle ground can be found, the anti-Stalin campaign has destroyed an image which cannot be restored and has made difficult, if not impossible, the foisting of a new leader cult on a society whose sophistication has almost certainly increased since the days when the Stalin myth was founded.

Stalin's forced-draft industrialization had behind it primarily a ruthless and single-minded concentration of manpower and resources in strategic areas of the economy. The economic problem has become more complex since the Soviet Union has set out to compete with the industrially advanced West in terms of output, productivity, and technological achievement while, at the same time, it has some commitment to support the economic development of the Communist empire as a whole.

The economic machine has come under pressure to adjust itself to a greater flexibility and diversification and to bring into play greater initiative. Even though there is no impla-

cable law which demands it, less reliance on the knout and fuller engagement of the wills and energies of the population may best serve this purpose, and many of the measures taken since Stalin's death in the direction of increasing incentives and relaxing economic discipline reflect a preference for this solution.

Khrushchev's industrial reorganization plan carries the tendency further and is at least a step away from Stalinist centralization. Even Mikoyan agreed with Ambassador Bohlen that "once in force and over a period of time, decentralization of industry will inevitably have an effect on the political structure of the Soviet Union," thus raising the possibility of an eventual devolution downward of political power. But as yet there has been no irrevocable surrender of central authority: failure of the new arrangement to produce rapid results or the appearance of strong centrifugal tendencies could quickly bring intervention from the center.

Khrushchev is dealing with other trends which diverge from those which Stalin controlled in the 20's. He himself has given them a push. He has reasserted the party's claims against those of the police and the governmental bureaucracy, both of whose powers Stalin consistently enlarged. He has appealed to the central committee over the heads of other presidium members and has, deliberately or not, given it a role it has not played since the 20's.

When Khrushchev's use of the central committee is compared with Stalin's, one difference is noted. Stalin inherited the central committee from Lenin--it was still more or less a going concern. He did not contribute to an

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

5 September 1957

increase in its authority--he recognized its powers only as long as it was expedient to do so, and as soon as he could he ignored it entirely. Since his death, whether anyone has willed it or not, there has been some movement in the opposite direction--the central committee has gone from total impotence to a point where, on at least one occasion, it was called on to referee a conflict within the presidium.

Here again we cannot say we are dealing with an irreversible trend. Having established his dominance in the presidium, Khrushchev may choose increasingly to ignore the central committee or, through his power of appointment, to make it once again a rubber-stamp body. But this is not a foregone conclusion. In one sense, the central committee's role has been a response to the circumstances of an interregnum--it has helped to fill the gap between the powers of an absolute ruler and a committee divided within itself. The June plenum narrowed that gap.

At the same time, the resurrection of the image of a Leninist party, with all its artificialities and irrelevancies, is not entirely a propaganda exercise. The isolation of the leadership from the party and the population at large has evidently been recognized as a real problem. The people who make up the central committee are important enough to be vital cogs in the functioning of Khrushchev's organization and program, and his inclination seems to be not to operate in a vacuum. With the support he can count on there, Khrushchev would seem to be risking little in continuing the practice of consulting the central committee. If he does, however, he will be reinforcing precedent and may instill in the central committee a feeling

of authority which a successor would find difficult to override.

A final factor in the present equation which Stalin did not reckon with to the extent Khrushchev does is the Soviet military. Experienced analysts of Soviet affairs see Zhukov in many different parts --from kingmaker and an indispensable prop to Khrushchev's authority to Khrushchev's "disciplined yes-man marshal." Accounts of how Zhukov figured in the June conflict differ and, in the circumstances, it is mostly a matter of opinion as to whether one sees his elevation to full membership on the presidium as payment-on-demand or as a gesture with little relation to his political power.

The London Observer correspondent, Richard Lowenthal, has made the point in a recent article that, even if he had simply looked on in silence, Zhukov, as the personification of force, could have influenced the outcome of the struggle. This suggests that the mere fact of Zhukov's presence on the presidium, rather than the circumstances and intent which brought it about, is the essential thing. It has been pointed out that, before his latest promotion, Zhukov had precedence among the presidium candidates and it would have been awkward to pass him over.

But this raises the question: How did it happen that he was the ranking candidate member? At Stalin's death he had been merely a candidate member of the central committee. Because of the downgrading of the police and the unresolved problem of the succession, the Soviet military has been persistently wooed over the past four years and has been given a number of concessions which have included, perhaps willy-nilly, increased political authority.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

5 September 1957

There are, of course, both advantages and dangers for Zhukov in his present position. His advice can hardly be ignored within the presidium when it relates to matters affecting Soviet defense and strategic position--an area which, directly or indirectly, embraces a broad range of political decision. To the extent that Khrushchev seeks an accommodation with him and attempts to hold his support as a political asset, Khrushchev will have accepted limitations on his own authority.

In the event of a serious disagreement, Khrushchev would be faced with a real dilemma since, at this point, it would be risky to try to unseat Zhukov as were Malenkov, Molotov and Kaganovich. At the same time, there is no evidence one way or the other as to whether Zhukov drew any concessions from the party leaders beyond his own promotion, nor any trustworthy assurance that his own interests and those he represents will always be protected. This will be something to be closely watched--whether the military will receive larger representation on the central committee or whether there are signs of a relaxation of political control of the military organization.

As it now stands, Zhukov is only one man among 15 and he has barely tested his political wings. Khrushchev and his coterie of party secretaries

would be more than a match for him if it came to political maneuvering and infighting. An outright break would be as dangerous for Zhukov as for Khrushchev, and an attempted coup at this stage is an unlikely course for a man who is used to massing his weapons and men before opening a campaign.

At several critical junctures since Stalin's death, however, Zhukov and the military have, willingly or not, been drawn into purely political decisions. They have become a political factor as they never were before. Their gains have been at the expense of groups or interests which, under Stalin's close control, ruled the USSR in coalition with the party--namely, the secret police and the economic bureaucracy.

Lowenthal points out that the weakening of those two pillars may well have the effect of making the military pillar all the more essential. If the party leaders fall out among themselves again at some time in the future and threaten to throw the USSR into the turmoil of a new purge, he asks, "would not the call for a strong man who could stop the bloodshed and the ideological nonsense and restore law and order become irresistible if addressed to the only possible candidate for that role--the head of the army?"

25X1

* * *

INDIA'S ECONOMIC CRISIS

India's rapidly deteriorating foreign exchange position, which jeopardizes the government's chances of carrying out the Second Five-Year Plan as scheduled, has created a crisis of major proportions.

Basically economic, it has political overtones which could lead to the defeat of the Congress party in the 1962 national elections. The Congress party leaders will soon have to make far-reaching decisions on

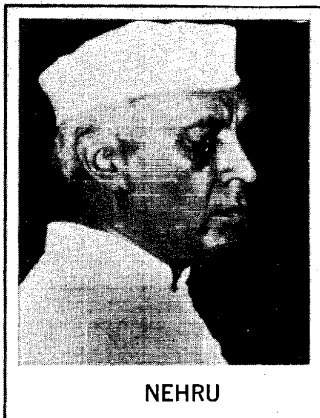
SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

5 September 1957

how to cut the cost or lower the goals of the plan.

Prime Minister Nehru and his government, openly engaged in a rivalry with Communist China for economic and politi-



NEHRU

cal leadership in Asia, have staked their political future on the rate of India's economic development, which depends on the successful completion of the Second Five-Year Plan. Developments and expenditures not anticipated when the plan was drawn up in 1955, however, have made it more expensive than originally foreseen and jeopardized its success.

When the final draft of the plan was completed, it was found the cost would be about \$15 billion, over one billion dollars more than earlier estimates. Rising costs, chiefly of imported industrial equipment, have added another billion dollars to the cost of the plan since it began on 1 April 1956. Because the plan emphasizes industrial rather than agricultural development, the necessity of importing machinery and raw materials has placed a heavy burden on foreign exchange reserves. These reserves have fallen from \$1.566 billion when the plan began to \$809,400,000 on 23

August 1957, and would have fallen even further if India had not borrowed \$200,000,000 from the International Monetary Fund late in 1956.

Industrial production, which was scheduled to increase by about 45 percent during the plan, increased by 9 percent during 1956 and appears to be increasing at least as rapidly in 1957. Textile production during the first six months of 1957 was as high as was scheduled for 1961. Although the central and state governments made only 85 percent of their planned expenditures during 1956, the private sector apparently invested at a rate that more than made up for the shortfall in the government activities.

Much of the industrial growth, however, is in construction of major projects which will not be productive for several years, and the increase in personal incomes resulting from development expenditures has caused inflationary pressures. Since the Indian people are spending a large proportion of their incomes on food, these pressures have made their greatest impact on food prices. Despite the 30-percent increase in food-grain production in recent years--1956-57 was the second best year on record--the growth in population and per capita consumption have forced food prices upward. The government has found it impossible to limit food-grain imports to about 1,000,000 tons a year as had been hoped; instead it has had to import several million tons annually. This in turn has added several hundred million dollars a year to the drain on foreign exchange.

In fiscal 1957-58, moreover, India has for the first time increased military

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

expenditures significantly above normal levels, partly because American military aid deliveries to Pakistan are beginning to show a marked effect on Pakistani capabilities. Most of India's military expenditures abroad are for heavy equipment that can neither be manufactured locally nor be paid for in Indian currency.

New Factors

India has in the past met and conquered crises of considerable magnitude in the fields of finance, transportation, and food. Under Nehru, the government has shown itself to be capable and willing to attack forcefully problems requiring administrative talent and domestic resources. At the time of independence in 1947, however, India was one of the great creditor nations of the world, having supplied the World War II allies with great quantities of war materials. The Congress party government in 1947 was a monolithic organization supported by the vast majority of the Indian population. That population, facing the new adventure of independence, was also full of hope and willing to sacrifice and suffer in the task of nation-building.

The situation today is vastly different. Despite incontrovertible progress in many fields--administration, technology, and production--India's political and economic future is uncertain. Years of telling the people that they can live a better life have resulted in greater expectations. The problems of industrialization, the heart of the Second Five-Year Plan, have been found to be more complicated than those of the first plan, which was mainly agricultural. Nehru's Congress party has progressively lost touch with the people, and may continue to support it

only for lack of a suitable alternative.

Most important of all, the chief problem India faces today--a shortage of foreign exchange--is one which it is virtually powerless to do anything about. Further austerity measures for the Indian people, nationalization of industry, heavier taxation, and more stringent control of consumer goods imports can affect this difficulty only slightly. Without the machinery to produce, India cannot materially increase its exchange-earning exports. India therefore is almost entirely dependent on the good will of other nations to supply the capital or the credit for the heavy industrial equipment it must import to make its plan a success.

Deputations which during the past year have visited Europe, Great Britain, and the United States in search of public and private funds, credit, or investment capital have found both public and private sources to be either incapable or unwilling to provide large-scale assistance of the billion-dollar magnitude which India requires. Finance Minister Krishnamachari reportedly is pessimistic about obtaining additional funds during his September visit to the United States. The situation, therefore, presumably will remain beyond the Indian government's control unless it basically alters its political and economic outlook or makes major modifications of its Second Five-Year Plan.

Dangerous Features

This situation is politically explosive. For instance, it sharpens the division within the Congress party high command between the liberals committed to the welfare-state concept and the conservative group which favors private

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

capital and traditionally cautious financial policies. Nehru presumably would be disinclined to see wasted his strenuous efforts to create a welfare-state economy capable of creating its own forward momentum. On the other hand, a strong group in his cabinet--probably including Home Minister Pant, Commerce and Industry Minister Desai, and Irrigation and Power Minister S. K. Patil--is probably arguing that India's economic future should not be jeopardized for the sake of the welfare-state principle.

The government may alienate important segments of the population by whatever action it takes. The Communists, encouraged by their election successes of 1957, are eager to criticize the government for mismanagement and submission to "capitalistic" conservatives. Linguistic groups, which are still agitating against the Congress party in Bombay, the Punjab, and Madras States, are ready to turn against the government on any new issue. A recent noticeable increase in labor's demands for higher wages, caused by the rising cost of living and by the fact that the Congress party advocated general wage increases in its pre-election campaign, also raises an acute financial problem for the government, whose resources are already extended to the utmost. Finally, there seems to be increasing opinion that Nehru should cut down on his foreign policy moralizing and spend more time on domestic affairs.

Available Choices of Action

After six years of planned economic development, Nehru and the Congress party probably cannot basically alter the socialistic course they have set. The government therefore presumably faces three possible choices in attempting to resolve the crisis.

The first is to preserve the present scope of the plan, cut foreign exchange reserves far below the margin of safety, and hope that subsequent economic improvement will be rapid enough to eliminate any risk of the Indian public's losing faith in the government. Such a course would provide more time in which to search for foreign aid. It could, however, lead to such pressure on Nehru that he could be forced to resign, to desertion by significant elements of his cabinet and party, to widespread, violent criticism by the business community, which hitherto has overfulfilled its portions of both the First and Second Five-Year Plans, or to possible economic chaos if continued too long.

A second choice would be openly to cut the size of the Second Five-Year Plan and bring it within the limits of India's capabilities. A major difficulty with this choice is in determining what portions of the closely integrated industrialization program to cut. A cut of a billion dollars in industrial goods imports would force elimination of considerable portions of the most vital part of the plan and leave other important installations half completed. Present strains on ports, shipping, and railroads are such that these facilities probably could not handle increased traffic caused by an expanding economy if they themselves do not grow.

The politically troublesome specter of increasing unemployment would also be raised by any slowdown of industrial construction. This choice would be a severe blow to the Congress party's prestige and would provide Communists and others with an opportunity to criticize the government's handling of planning problems. It would probably also disjoint the operation of the plan, the

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

factors of which are intricately geared to each other, and cause an over-all loss of momentum which the plan might never regain. Each cutback would probably become a political issue in the state affected, and charges of favoritism or neglect would be rife.

Major cuts in the scope of the plan would also presumably necessitate Nehru's subordination of his own desires to those of the conservative group in his cabinet and to increasing efforts on the part of this group to dictate to the prime minister. Whether Nehru would accept such a position is debatable.

A third choice would be to make no formally drawn and publicized cut in the plan, but to make minor adjustments, possibly to alter basic economic policies slightly to attract foreign capital, and to draw down foreign exchange reserves below safe levels but not to a point of extreme danger. Such a compromise would minimize the most serious problems of the other two courses of action and still leave some hope of "muddling through." It could, however, unless carefully handled, lead merely to increased criticism from all sides.

Probable Course of Action

Public statements by Finance Minister Krishnamachari and others indicate that the government has already made some cutbacks in its plans and is seriously considering others

in the face of its unsuccessful efforts to obtain foreign aid.

Nehru probably recognizes that neither he nor any other individual can eliminate the foreign exchange problem, and that under this condition retention of the full plan program would make a potentially disastrous failure virtually certain. He seems likely, therefore, to acquiesce to proposals eliminating or curtailing certain projects, especially in the housing and education sectors. However, since presumably neither he nor conservative Congress party leaders wish to expose themselves to the dangers attending the adoption of extreme positions, it is probable that they will choose the third alternative as the most acceptable course of action. This choice would, in effect, be a play for time and, without new large-scale foreign aid, would merely postpone more drastic action.

Whatever the Congress party high command decides, its decision probably will be made before the end of 1957. The government must soon seek parliamentary authorization for a further reduction in foreign exchange reserves, which probably will continue to decline for some time whether or not cuts are made in the plan. If cuts are to be made, they should be made in the near future to save as much foreign exchange as possible. A series of compromise measures would give Indian leaders a little more time in which to study the situation, but even the choice of a compromise cannot be postponed for long.

25X1

* * *

RISING STEEL PRODUCTION IN LATIN AMERICA

Five Latin American countries--Brazil, Mexico, Chile, Argentina, and Colombia--now produce almost 3,000,000 tons of steel annually--a 250 percent increase over the past ten years--and continued growth

of the industry in Latin America is likely, even though fuel shortages severely handicap the potential for economical production in many areas. Expansion planned in the five countries which now are producers and

SECRET

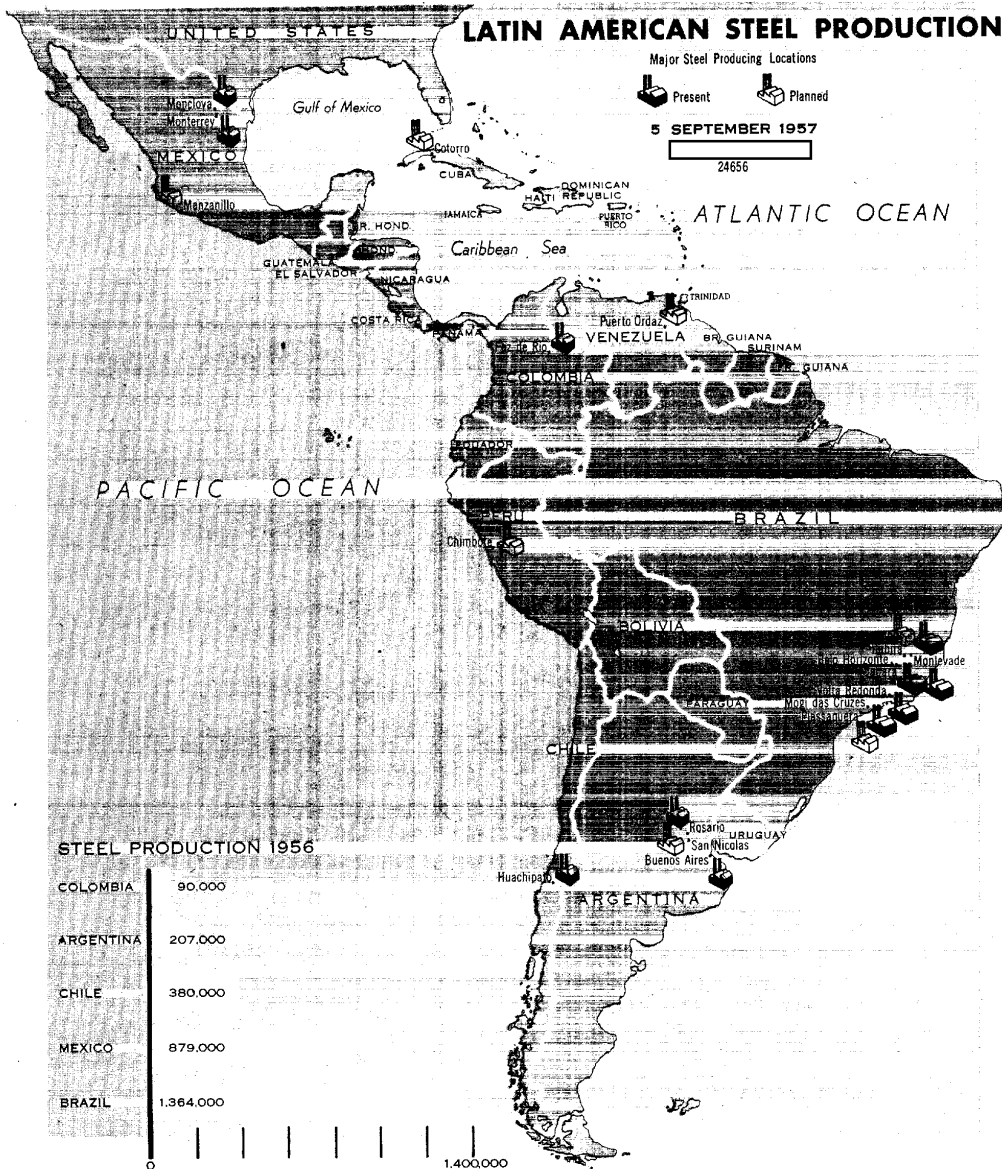
SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

new production proposed in three others would double the 1956 output by 1960. Virtually all plans require large-scale foreign financing, thus far supplied largely by the US Export-Import Bank, although French, German, Japanese, Belgian, and Italian interests are playing substantial roles in some countries.

The continuing upward trend in steel production, which is one of the more prominent aspects of Latin America's drive for economic development, is in part politically motivated. It reflects not only a general desire to raise living standards but also a strong conviction that the countries which live by producing raw materials have



25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

5 September 1957

an inferior semicolonial status in world affairs. The Latin Americans believe economic stability can be achieved only by developing local industry and by lessening their dependence on the export of primary commodities. The progress of its steel industry is regarded as a key index of a country's success in industrialization.

Brazil

The Brazilian steel industry is the largest in Latin America. Its intensive development is continuing, despite such handicaps as a lack of suitable domestic coking coal, increasing difficulties in the supply and accessibility of charcoal, a serious transportation problem, and a critical power shortage which limits use of the coke-saving electric reduction process.

Brazil's largest steel mill is the government-owned plant at Volta Redonda in Rio de Janeiro, founded and constructed in 1940-41 with Export-Import Bank aid. A new \$35,000,000 line of credit from the Export-Import Bank--which brings the total aid to Volta Redonda from that source to \$105,000,000--is to help the company complete its third and last construction stage and will raise its annual production of steel ingots from 740,000 to 1,000,000 tons by 1960. Three privately owned steel mills representing German, Belgian, and domestic financial interests make up most of the rest of the industry. They plan a 280,000-ton expansion in annual production by 1960.

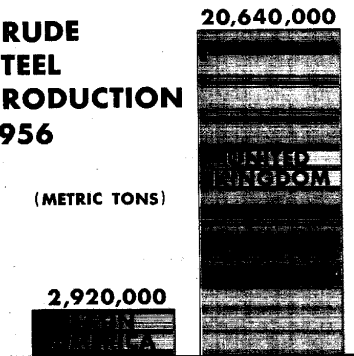
A further increase is to result from a proposed Japanese-Brazilian steel mill to be built near Brazil's high-grade iron ore deposits in Minas Gerais. According to present plans, the plant will be in partial operation in three years and in six years

will reach its full production of 500,000 tons of ingot steel annually. Two of the five directors and a third of the employees are to be Japanese, the latter provision reflecting Japan's search for an outlet for industrial emigrants. The plant is also seen as a source of steel plate for a shipyard the Japanese plan to build in Brazil.

In addition, a project in Sao Paulo State for a steel mill producing 210,000 tons annually is scheduled for completion by 1960. The location of the plant at Piassaguera near Santos will permit the use of marine transport for raw materials--formerly wasted iron ore particles from the port of Vitoria and low-grade coal from Santa Catarina for the contemplated electric reduction

**CRUDE
STEEL
PRODUCTION
1956**

(METRIC TONS)



5 SEPTEMBER 1957

70830 2

process. The site is also close to good road and rail transport to Brazil's fastest growing industrial area, of which the city of Sao Paulo is the center.

Mexico

The first of Latin America's modern steel plants was constructed in Mexico in 1900. The country's present total production capacity of 1,100,000 tons--double that of 1953--

SECRET

25X1

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

5 September 1957

represents an investment estimated at \$240,000,000, with the Mexican government owning about 10 percent and the rest in the hands of private stockholders. The industry plans an \$80,000,000 expansion over the next few years and production is expected to rise to 1,500,000 tons annually by 1960. While present plans for a new steel mill of 150,000-ton capacity in western Mexico contemplate a \$35,000,000 French banking loan, foreign financing of Mexican steel production has thus far come largely from the United States--principally the Export-Import Bank.

Mexico currently relies on locally produced primary iron or local scrap for about 63 percent of its steel production, the remainder coming from imported raw materials. Long-term factors making it difficult for Mexico to produce in free competition with other countries are the high gaseous content and poor coking quality of Mexican coal and the fact that coal and iron ore are not found in the same areas.

Chile

Chile's new and growing steel producer, Compania de Acero del Pacifico, has in recent years been exporting about 15 percent of its output to Japan, Argentina, Brazil, the United States, the United Kingdom, and Canada. In the first half of 1957, it set a new production record of 193,800 tons of steel ingots and shows promise of reaching the 400,000-ton mark for total yearly production. The company has shown steadily increasing profits since 1952 and has apparently yielded Chile considerable net dollar savings in each year's balance of payments.

The US Export-Import Bank has authorized about \$77,500,000 in loans for the construction and expansion of the com-

pany since it was begun in 1950. Of this sum, \$16,000,000 was approved in March for expansion to include a strip mill to be completed in 1961. The plant uses high-grade Chilean iron ore--provided for the most part by the US-owned Bethlehem Company--and domestic coal.

Argentina and Colombia

Argentina has probably the highest steel consumption in Latin America--about 2,000,000 tons annually--but as a steel manufacturing country is handicapped by its dependence on imported raw materials. Local finishing mills have a total rated capacity of about 1,000,000 tons yearly, but domestic ingot production in 1956 was only about one fifth of that needed. Government and private interests are utilizing a \$60,000,000 Export-Import Bank credit to build an integrated mill at San Nicolas with an annual capacity of 588,000 tons of ingots. The plant is to be completed in 1960 and is to use imported coal and iron ore.

In Colombia, the government-controlled Paz de Rio steel mill--financed and equipped by French interests--produced about 90,000 tons of steel in 1956 but has been operating at a loss because of poor management and unreliable cost accounting.

25X1

the equipment is adequate, and conveniently located resources are sufficient to meet plant needs for the next 50 years. Moreover, 70 percent of Colombia's 200,000-ton market lies in the immediate vicinity of Paz de Rio. The mill reportedly showed a profit for the first six months of 1957, which probably indicates a recent improvement in management.

Cuba, Peru, and Venezuela

Three additional Latin American countries are seeking

~~SECRET~~

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

5 September 1957

industrial status through construction of steel plants. In Cuba, the cornerstone for a predominantly Cuban-financed 72,000-ton steel plant near Havana was laid last February. Most raw materials, however, including 80 percent of the pig iron, will be imported. In Peru, a French-financed Peruvian government plant at Chimbote is expected to produce 52,000 tons of steel products, possibly by 1958. For financial and technical reasons it promises, however, to be an uneconomic operation, despite the use of domestic high-grade iron ore and hydroelectric power.

The third and most ambitious of all Latin America's new steel projects is the Venezuelan National Steel Mill at Puerto Ordaz with a projected annual capacity of 1,200,000 metric tons. It will depend almost entirely on local sources of raw materials, drawing on Venezuela's large reserves of high-grade iron ore and employing electric smelting furnaces to allow use of low-grade domestic coking coal. Major installations are to be completed in March 1958, with all units in full operation in 1960. Payment of the \$342,000,000 contract price to the Italian construction firm is to be completed by fiscal 1963-64.

25X1

* * *

SECRET

