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CURRENT INTELLIGENCE WEEKLY SUMMARY



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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

MIDDLE EAST DEVELOPMENTS Page 1

The beginning of Turkish military maneuvers on 11 November has resulted in renewed Syrian propaganda charges that a Turkish attack is imminent. The Syrian charges appear designed primarily for internal political purposes. The Turks are expected to withdraw some of the forces not regularly assigned to the Syrian border area on completion of the maneuvers, but these probably could be returned quickly. In Jordan, the Egyptian and Syrian campaign against King Hussayn may mark an all-out effort to bring down the King and his pro-Western government. [REDACTED]

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ECONOMIC PROBLEMS SHAKE NEW FRENCH GOVERNMENT Page 2

Rightist opposition to Premier Gaillard's proposed tax increases has raised a serious threat to his ten-day-old coalition. Even if he obtains National Assembly approval this week end for his request for sweeping economic powers, the prospect of labor pressure for wage hikes and the revival of basic policy differences within his cabinet make its life expectancy doubtful. [REDACTED]

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PART II

NOTES AND COMMENTS

INDONESIA Page 1

Djakarta's anti-Dutch drive claiming Netherlands New Guinea has had no apparent effect on official Dutch policy. The Netherlands not only will refuse to negotiate Indonesia's claim but also appears willing to accept the loss of Dutch commercial interests in Indonesia should Djakarta seize them. Meanwhile the Communists have won a substantial plurality in the 7 November local elections in the sultanate of Jogjakarta, thereby continuing their electoral gains in earlier contests in Java. Indonesia's second national conference, which will make a further effort to return the non-Javanese areas to direct Djakarta control, is scheduled to convene on 25 November under the joint chairmanship of President Sukarno and former Vice President Hatta. [REDACTED]

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THE WEEK IN BRIEF

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PART II (continued)**SITUATION IN LAOS Page 1**

Prime Minister Souvanna Phouma hopes to present a coalition government for investiture on 16 or 17 November. He will propose a cabinet headed by himself in which his half-brother Prince Souphannouvong, the chief Pathet negotiator, will have charge of implementing the government's agreement with the Pathet Lao. The transformation of the Pathet Lao into a political party and its participation in the government will enhance its influence as well as its ability to carry on subversive activities throughout the whole country. [REDACTED]

PHILIPPINE ELECTIONS Page 2

Philippine President Carlos Garcia's election on 12 November, the victory of pro-American vice-presidential candidate Diosdado Macapagal of the Liberal party over Jose Laurel, Jr., and the poor showing of ultranationalist Senator Claro Recto indicate that anti-American sentiment was not an important consideration among the voters. Growing nationalism may soon come to the surface, as one of Garcia's first major undertakings is expected to be a review of US-Philippine relations, including negotiations for the "modernization" of the 1947 American military bases agreement. [REDACTED]

SOVIET DISARMAMENT TACTICS Page 3

Soviet tactics in the UN disarmament debates during the past two weeks have concentrated on bringing pressure to bear on the Western powers to enlarge the present UN disarmament machinery. Despite its threat to boycott future talks of the present commission and subcommittee, the USSR will probably participate in further disarmament negotiations if the General Assembly adopts a compromise measure enlarging the disarmament machinery. [REDACTED]

PLANS FOR NATO SCIENTIFIC COOPERATION Page 4

European hopes for progress at the NATO summit meeting of 16-18 December are centered on prospects for more scientific and technical cooperation, particularly the fuller use of West German talents and facilities and greater American participation. [REDACTED]

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PART II (continued)**WEST GERMAN MISSILE AND ROCKET ACTIVITIES Page 5**

Reflecting a growing Western European interest in West German participation in joint development of modern weapons, Bonn has already requested a revision of the WEU treaty to permit production of an antitank missile and has set up within the Ministry of Defense a research organization concentrating on a surface-to-air missile. [REDACTED]

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KHRUSHCHEV'S ECONOMIC FORECASTS Page 6

The figures for future production of selected items mentioned by Khrushchev in his 6 November speech imply a moderation of the headlong pace of Soviet growth during the next 15 years, although he made no forecast of total Soviet industrial output for 1972. The preliminary 1957 output data given by Khrushchev seem to have made him conservative in his long-range forecasts. Khrushchev's statement on consumer goods goals indicates that pushing rapidly on all fronts simultaneously is apparently now an accepted regime policy. [REDACTED]

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SOVIET ANNIVERSARY SPEECHES STRESS BLOC UNITY Page 7

In his anniversary speech to the Supreme Soviet, Khrushchev attempted to state his policy toward the satellites in such a way as to circumvent the problem posed for Soviet policy by the principle of "different roads to socialism." The views expressed on this occasion by party leaders from Communist China, Poland, and Yugoslavia on the nature of the USSR's relationships with bloc countries and the "different roads" concept underscore the difficulties Khrushchev faces in the matter. [REDACTED]

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NEW DEVELOPMENTS IN CHINA TRADE SHIPPING Page 8

Peiping's first regularly scheduled international shipping line will begin operations soon, using a new Polish-built cargo ship. This line initially will provide service between Canton, Hong Kong, and Haiphong and may be expanded to include major Southeast Asian ports now primarily served by free world vessels. At present more than one third of China's trade with the non-Communist world is with South and Southeast Asia. During the past two years, several free world nations, Australia most recently, have assigned ships to newly inaugurated regular service to the Chinese Communist mainland. [REDACTED]

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PART II (continued)**NEW BRIDGE EASES CHINESE COMMUNIST TRANSPORT BOTTLENECK . Page 10**

The two-decked rail and highway bridge over the Yangtze River at Wuhan is now open to traffic. While the mile-long structure will not be required to handle its planned capacity of 120 trains a day until late in the Second Five-Year Plan (1958-1962), it has already served to ease the major bottleneck to north-south transportation. Its completion well ahead of schedule was made possible through the use of an unusual system of pier construction. [REDACTED]

PEIPING UNDERSCORES OPPOSITION TO "TWO CHINAS" CONCEPT . . Page 12

Peiping's withdrawal from the International Red Cross Conference in New Delhi was designed to underscore its adamant opposition to a "two Chinas" solution for the Taiwan problem. Rather than participate with the Chinese Nationalists, Peiping has also withdrawn from other international events, including the International Geophysical Year. Chou En-lai has stated that in the future, Peiping will not establish diplomatic relations with nations that continue diplomatic ties with Taipei. [REDACTED]

ASIAN SOLIDARITY COMMITTEE PREPARES FOR CAIRO CONFERENCE . Page 13

The Communist-dominated, nongovernmental Afro-Asian Solidarity Conference, sponsored by the Asian Solidarity Committee, is to be held in Cairo from 26 December to 1 January. Preparations indicate that the Sino-Soviet bloc and Egyptian nationalists will try to define a "popular" anti-Western posture for Asian-African countries on subjects such as anti-imperialism, national liberation, and racial discrimination. [REDACTED]

KISHI'S SECOND ASIAN TOUR Page 14

Japanese Prime Minister Kishi will visit seven Asian countries--South Vietnam, Laos, Cambodia, Indonesia, Australia, New Zealand, and the Philippines--between 18 November and 8 December. While his second tour of Asia is designed in general to promote good will and economic cooperation with the area, Kishi will give particular attention to Japan's remaining reparations obligations and he will seek reactions to a revised scheme for an Asian development fund. [REDACTED]

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THE WEEK IN BRIEF

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PART II (continued)**DIEM'S VISIT TO INDIA Page 14**

South Vietnamese President Diem's visit to India in early November was a success in promoting cordial relations between the two countries despite their divergent foreign policies. While defending South Vietnam's anti-Communist posture, Diem apparently tried to play down the differences between his policies and Indian neutralism. [REDACTED]

MOROCCAN PARTY SEEKS GREATER POWER Page 15

Morocco's Istiqlal party appears to be renewing its drive to establish a one-party government. It apparently has set its sights on the post of premier and wants to replace the King's son as chief of staff of the Moroccan royal army. Heretofore the King, who shares his theoretically absolute power with the Istiqlal, has opposed a single-party system. [REDACTED]

DEVELOPMENTS IN THE NENNI SOCIALIST PARTY Page 16

Peitro Nenni's Italian Socialist party has decided to campaign independently in the 1958 national elections. With Socialist reunification ruled out at least until after the elections, Nenni's evident hope is to hold his own party together and increase its popular attraction by alternating appeals to pro- and anti-Communist elements both inside and outside the party. [REDACTED]

COMMUNISTS EXPANDING LABOR ACTIVITY IN SOUTH AMERICA Page 17

A proposed expansion of activities of the Communist Confederation of Latin American Workers (CTAL) includes the establishment of an office in Chile responsible for all South America except Venezuela and Colombia. At present only three influential national labor confederations--in Brazil, Uruguay, and Ecuador--are affiliated with CTAL. The Chilean Communist party has trained leaders capable of giving considerable assistance to the confederation. [REDACTED]

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PART II (continued)**MEXICO'S PROBABLE NEXT PRESIDENT Page 17**

Adolfo Lopez Mateos, capable minister of labor, is expected to be nominated as candidate for president of Mexico at the 15 November convention of the dominant Institutional Revolutionary party (PRI), virtually assuring his election in July 1958. His outstanding labor mediation record has won the confidence of the leftist and nationalist PRI wing led by ex-President Cardenas and of the conservative business wing whose spokesman is ex-President Aleman. Lopez has also received support from local Marxist groups, although he is not known to be sympathetic toward Communists. [REDACTED]

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PART III**PATTERNS AND PERSPECTIVES****ECONOMIC DEVELOPMENT IN SOUTH AND SOUTHEAST ASIA Page 1**

Economic cooperation on a multinational basis is receiving increased attention as a promising method of raising living standards in South and Southeast Asia. Although practical achievements to date have been limited, impetus for regional development schemes has been generated recently by the wide interest shown at the meeting in Saigon last month of the Colombo plan powers and by the Japanese desire to establish a regional development fund. The Communist bloc may attempt to rival present efforts among the free nations of Asia to achieve greater economic cooperation by offering competing projects of its own. [REDACTED]

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GOMULKA'S PARTY REFORMS Page 5

Poland's Wladyslaw Gomulka--faced with a fragmented and discredited party--has launched a campaign to change the party's composition. He wants to cut it down to approximately half its size to facilitate the development of a united and effective group. Gomulka believes the success of his policies depends on the development of what he calls "humanism" in party practice so that the party can gain some degree of confidence and loyalty from the Polish people. [REDACTED]

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PART III (continued)

FRANCE'S ADMINISTRATIVE OFFICIALS Page 8

France's ability to survive cabinet crises like the recent 36-day interregnum between the Bourges-Maunoury and Gaillard governments depends largely on a well-trained and cohesive bureaucracy. Continuity is maintained despite changes in government by permanent administrative officials who often exercise considerable influence on policy. [REDACTED]

ECONOMY OF TAIWAN Page 10

Economic conditions were favorable in Taiwan throughout the past year, and industry on the island continued its steady expansion. If American aid is continued at present levels, the economy should continue to progress and the present level of the armed forces can be maintained. Population growth and limited agricultural resources, however, will ultimately require development of light industry based on export markets if economic viability is to be achieved. [REDACTED]

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PART I

OF IMMEDIATE INTEREST

MIDDLE EAST DEVELOPMENTS

Syrian-Turkish Crisis

The beginning of Turkish military maneuvers on 11 November has resulted in renewed Syrian charges that a Turkish attack is imminent. The maneuvers appear to be on a relatively limited scale. Air participation has been reduced below the level originally planned, and one F-86 fighter-interceptor squadron, deployed near the Syrian border in September, has already returned to its home base in northern Turkey. Following the maneuvers, which are scheduled to end about 15 November, the Turks are expected to withdraw to permanent duty stations all forces not regularly assigned to the Syrian border area. Syrian charges of Turkish military provocations will probably continue for the duration of the maneuvers, and appear designed primarily for internal and inter-Arab political purposes.

Jordan

In Jordan, the Egyptian and Syrian campaign against King Hussayn may mark an all-out effort to bring down the King and his pro-Western government. The current Egyptian campaign, which incites Jordan's Palestinian Arab population to act against the monarchy and the government, is similar to that which preceded the assassination of Hussayn's grandfather, King Abdullah, in 1951. Meanwhile, Moscow Arab-language broadcasts have joined Cairo and Damascus in denouncing Hussayn as an "ally and friend of the bitterest enemies of the

Arab world, the United States, Britain, and Turkey."

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Parliamentary by-elections have been scheduled for 23 and 30 November to replace six opposition deputies who resigned in mid-October. Three "independents," approved by the government, have already been declared elected unopposed. The filling of the remaining three seats will again permit convening a quorum in the legislature, which may then take action to

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hold elections to replace eight other opposition deputies who have fled or are under arrest.

Ultimately, the government desires to promulgate a new election law which would add 15 or 20 seats to the 40-man legislature and ensure a docile parliament.

Egyptian discussions during the past week with Britain, France, and the head of the International Bank reflect progress toward settlement of some of the financial problems arising out of last year's nationalization of the Suez Canal. The Egyptians now appear willing to make some concessions in order to gain a return to normal economic relations. Talks with the French have been resumed in Geneva in what has been described as a friendly atmosphere, and a British official has again expressed optimism over the current economic discussions in Rome.

In a 10 November interview between Nasir and IBRD President Black, it was agreed that the bank would act as a mediator between the Egyptian government and the shareholders of the former Suez Canal Company. Nasir urged Black to expedite the matter, but remained insistent on the point that Egypt would deal only with chosen representatives of the shareholders and not with company officials.

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ECONOMIC PROBLEMS SHAKE NEW FRENCH GOVERNMENT

Rightist opposition to Premier Gaillard's proposed tax increases has raised a serious threat to his ten-day-old coalition. Even if he obtains early National Assembly approval of his request for sweeping economic powers, the prospect of labor pressure for wage hikes and the revival of basic policy differences within his cabinet make its life expectancy doubtful.

The adverse reaction of the right wing of Gaillard's cabinet to his emergency austerity program for new taxes, a price freeze, and stringent disciplinary control over marketing activities has quickly underscored the shaky position of the new coalition. The new taxes and special powers of enforcement he wants are anathema to many supporters of the Independents and Peasants, who have

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indicated they may abstain in the National Assembly vote this week end on special powers to implement this program.

Such a move would make it increasingly difficult for the Socialists to justify their participation in the government. Many Socialists doubted the wisdom of backing Gaillard, and their leaders are fearful lest austerity include a wage freeze, which would alienate their labor support and thereby strengthen the appeal of the Communists.

The need for tight financial policies has received wider public recognition--partly as a result of the pessimistic OEEC report on French finances--and Gaillard's position vis-a-vis the deputies may be strengthened by this development. The slump in the value of the franc on 14 November to 507 to the dollar (the legal rate is 420) may also increase his support in the special-powers vote. Moreover, his refusal to be rushed into supplying arms to Tunisia may re-es-

tablish some of his credit with the right.

Even if the new government survives the immediate threat, it faces a series of extremely touchy problems over the next two months. New labor agitation for wage increases seems inevitable; prices have increased again this week and are expected to climb further as the extension of devaluation pushes import costs upward. In addition to the Communist-led labor union's call for a "peace-in-Algeria strike" on 15 November, the teachers and postmen are going out on 19 November, and further widespread demonstrations are likely if labor demands are not met.

In any event, latent left-right differences will come to the surface when pending reform proposals involving the constitution, education, electoral laws, and medical subsidies emerge from the special study groups where they have been temporarily pigeonholed.

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PART II

NOTES AND COMMENTS

INDONESIA

Djakarta's continuing anti-Dutch drive supporting its claim to Netherlands New Guinea has had no apparent effect on official Dutch policy. The Netherlands' government plans to continue its refusal to negotiate Indonesia's claim to that area and is willing to sacrifice Dutch commercial interests in Indonesia should Djakarta's retaliation make that necessary. President Sukarno has added his voice to those calling for the severance of trade relations with the Netherlands and the confiscation of all Dutch property in Indonesia if the area is not "returned" to Indonesia.

Meanwhile, in the sultanate of Jogjakarta the Communist party has a commanding two-to-one lead over its closest opponent in the 7 November local elections. The major non-Communist parties--the National party, Masjumi, and Nahdlatul Ulama--follow in that order. A breakdown of the vote gives the Communists 143,000, the Nationalists 72,000, the Masjumi 50,000, Gerinda--a minor party--41,000, and the Nahdlatul Ulama 35,000. The Jogjakarta poll is the last of the local elections throughout Java, and the results continue Communist gains in the earlier Java elections, giving the Communist party a larger electoral base than any other political organization in Java.

Indonesia's second national conference is scheduled to convene in Djakarta on 25 November for one week with a possible three-day extension. Joint chairmanship by President Sukarno and former Vice President Hatta now appears likely despite Prime Minister Djuanda's original desire to give Hatta sole responsibility for directing the meeting.

Djuanda has announced that working papers will be presented at the conference on a variety of subjects related to economic development. Presumably this conference will function much as the September one did. This will involve the division of the delegates into a number of working groups which will approve predetermined and vague resolutions calling for cooperation, unity, and social justice.

In addition to civil and military representatives of both the Djakarta and the provincial governments, the conference will also include representatives of "functional groups" and political parties, experts in various economic matters, and "pioneers of Indonesian independence." Included in the last group are Semaun, a leading "national Communist" figure, and Communist party Secretary General D. N. Aidit.

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SITUATION IN LAOS

Prime Minister Souvanna Phouma is planning to present a coalition government for investiture on 16 November. His timetable calls for the opening

of a special session of the National Assembly on 15 November at which time the Pathet Lao would formally turn over control of the two northern

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provinces to the government. Souvanna in turn will propose for investiture a cabinet headed by himself in which Pathet leaders Prince Souphannouvong, his half-brother, and Phoumi Vongvichit will head the Ministries of Reconstruction and Religion. In addition, Souphannouvong may be named minister of integration. This would be a major concession by the royal government, since he would have charge of implementing the government's agreement with the Pathet Lao, for which he was the chief negotiator.

Conservative opposition to the present accords is rapidly crumbling. Interior Minister Katay has on several occasions embarrassed Western officials publicly in what appears to be an effort to belie charges that he is a Western "lackey." The other leading conservative politician, Phoui Sananikone, also seems to be preparing to retreat from a position he con-

siders politically untenable. Souvanna reportedly claims that Phoui's Independent party, Laos' second largest, has agreed to his timetable calling for investiture of a coalition government on 16 November.

The Pathet Lao appears eager for a settlement on the present terms. Its transformation into a political party and its participation in the government will greatly enhance its influence as well as its ability to carry on subversive activities throughout the whole country. Souphannouvong reportedly signed both the political and military accords on 8 November, and the Pathets are preparing the centers in which their troops will be regrouped for integration or demobilization. Pathet Lao soldiers reportedly are surrendering daily to the royal government in groups of two and three, claiming they hope this will assure them better treatment than if they wait for integration.

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PHILIPPINE ELECTIONS

The election of Carlos Garcia to the Philippine presidency in the 12 November balloting is primarily due to the advantages he held as incumbent and to the well-entrenched machinery of the Nacionalista party. His comfortable margin of victory over his nearest rival, Liberal candidate Jose Yulo, may also reflect his success in identifying himself with the foreign and domestic policies of his predecessor in office, the late Ramon Magsaysay. Another factor may have been the election day typhoon which struck hardest in opposition strongholds in the northern Philippines.

Garcia apparently will have as his vice president the Liberal party's Diosdado Macapagal,

who is leading Nacionalista candidate Jose Laurel, Jr. As a congressman, Macapagal has been regarded as able, pro-American, and experienced in international affairs. As vice president, however, he could have little voice in the administration if denied the customary appointment to a cabinet post.

In the congressional elections, the Nacionalistas will retain control of both houses of congress. They apparently are winning at least 80 of the 102 congressional districts and six of the eight contested senatorial seats, giving them control of at least 20 members of the 24-man senate.

The expected defeat of Laurel together with the

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fourth-place showing in the presidential race of ultranationalist Senator Claro Recto indicate that anti-American sentiment played only a minor role in the campaign. Growing nationalist sentiment may again be apparent when the Garcia administration undertakes in the near future to review US-Philippine relations and to resume negotiations for the "modernization" of the 1947 American military bases agreement.

An uncertain force in the Philippine political future will

be the new Progressive party, whose standard-bearer, Manuel Manahan, placed a relatively close third in the presidential contest. The Progressives were handicapped by their lack of finances and an established organization in attempting to turn Manahan's considerable popularity into votes. As the effectiveness of their claim to being the preservers of the "spirit of Magsaysay" fades, they may throw in their lot with the opposition Liberals.

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SOVIET DISARMAMENT TACTICS

Soviet tactics in the UN disarmament debates during the past two weeks have concentrated on bringing pressure to bear on the Western powers to enlarge the present UN disarmament machinery. Despite its threat to boycott future talks of the present commission and subcommittee, the USSR will probably participate in further disarmament negotiations if the General Assembly adopts a compromise measure enlarging the disarmament machinery.

On 27 October the USSR presented a resolution which would replace the present 12-power Disarmament Commission and its five-nation subcommittee with a permanent commission composed of all 82 UN member nations. Deputy Foreign Minister Kuznetsov on 4 November threatened that the USSR would not take part in further negotiations in the commission and subcommittee "with their present membership," a qualification hinting that a

limited expansion of the disarmament machinery might be acceptable to Moscow. In commenting on passage of the Western 24-nation resolution two days later, Kuznetsov did not repeat his threat of Soviet nonparticipation.

India has consistently pressed for enlargement of the disarmament machinery, and, with Canada, has been active in working out an expansion proposal acceptable to the West and the Soviet Union. An Indian delegate stated on 12 November that the Soviet delegation does not favor enlargement of the subcommittee "at present," a hint apparently designed to help gain Western agreement on additions to the Disarmament Commission which the USSR would accept, before raising the question of enlarging the subcommittee. On 13 November the Soviet delegation publicly promised to give "serious thought" to such a limited expansion plan.

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Efforts by the Soviet UN delegation to translate the effect of Soviet technological achievements into political gains on the disarmament issue have not met with consistent success. There are indications that the heavy majority in favor of the Western 24-nation resolution in the Political Committee of the General Assembly on 6 November was facilitated to some extent by announcement of the launching of a second Soviet earth satellite on 4 November.

In addition to attempts to create a sense of emergency and frustration among other delegations, Soviet delegates have emphasized the desirability of direct talks with the United States on disarmament. Kuznetsov pointed on 5 November to the prospect of conducting private bilateral US-Soviet talks under the aegis of an enlarged disarmament commission.

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PLANS FOR NATO SCIENTIFIC COOPERATION

European hopes for progress at the NATO summit meeting of 16-18 December are centered on prospects for more scientific and technical cooperation, particularly the fuller use of West German talents and facilities, and greater American participation.

Speeches during the past ten days by Secretary General Spaak and Prime Minister Macmillan have contributed to high expectations for the meeting. Macmillan's reference to the "turning point in history" and the need to contribute "some national sovereignty" reflect his government's determination that the meetings bring more than declaration of good intentions.

In seeking an adequate response to increased Soviet missile capabilities, many European governments are more open-minded on German missile

production than ever before. British Foreign Secretary Lloyd has publicly implied that he might favor easing of the WEU restrictions on Germany to allow Bonn to participate in a joint NATO program for modern weapons production.

While Bonn hopes for a relaxation of treaty restrictions, it probably would not initiate a request without definite assurances of support from at least the UK and France. Foreign Minister Brentano's non-committal statements to the press on 4 November stimulated a burst of press speculation which the American embassy in Bonn suggests may have been intended to test opinion throughout NATO countries.

A number of the preliminary ideas on how to achieve greater cooperation reflect continuing doubt regarding the extent of the United States' willingness

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to participate in new arrangements. The chief French NATO representative has suggested that NATO's European members should plan allocation of production of new weapons. Bonn has suggested that manufacturing be allocated by the WEU standing armaments committee augmented by American and Canadian observers.

For reasons of prestige, the British appear the most anxious that the United States

make some token contribution to the common effort by relinquishing its across-the-board production. A high Defense Ministry official has told the American embassy that the Macmillan government's de-emphasis of reliance on the nuclear deterrent would be politically more palatable if the United States would turn over to various NATO allies the "right" to make such weapons as antitank missiles or heavy tanks.

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WEST GERMAN MISSILE AND ROCKET ACTIVITIES

Reflecting a growing Western European interest in West German participation in joint development of modern weapons, Bonn has already requested a minor revision of the WEU treaty to permit production of an antitank missile and has set up within the Ministry of Defense a research organization concentrating primarily on a surface-to-air missile.

Although the Foreign Ministry has denied that Bonn would seek any general revision of the treaty limitations on modern weapons production, there is a willingness to participate in research and development projects within NATO which are permitted by the WEU treaty. As early as 1955, the Ministry of Defense formed a section to cooperate with private industry in various phases of missile work, and the press reported that the defense budget for 1958 will include about \$2,500,000 for missile research.

The Kobra, a small antitank missile, has been developed by the German firm of Boelkow in Stuttgart, and a prototype was produced by the Swiss firm of Oerlikon in October 1956. Bonn requested in September 1957 that the WEU treaty be revised to permit Kobra production in Germany, and a favorable decision is expected.

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Private organizations such as the Working Association for Rocket Techniques in Bremen have taken the lead in the field of experimental rockets, and several rockets have been launched for meteorological research. The association has announced ambitious plans for developing an 11-stage rocket to launch an earth satellite during the International Geophysical Year. The designers, former members of the V-weapons group, are not optimistic about completing the project during the IGY, but the first stage was fired in September and is reported to be capable of reaching an altitude of about 30 miles.

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KHRUSHCHEV'S ECONOMIC FORECASTS

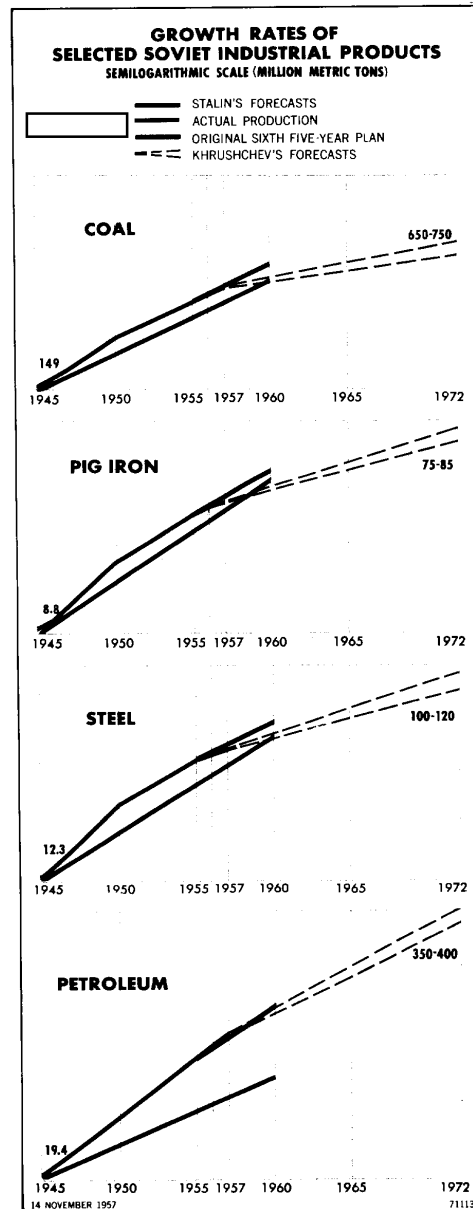
In his speech to the Supreme Soviet on 6 November, Khrushchev made no forecast of total Soviet industrial output for 1972, but his figures for future production of selected items imply a moderation of the headlong pace of Soviet growth during the next 15 years.

Energy availability is a case in point. Analysis of the projected growth of output of fuels suggests an average annual increase through 1972 of about 6.5 percent, as compared with an average annual increase of some 7.8 percent from 1950 to 1955. The importance of petroleum, including the massive natural gas increases, in total fuel supply will perhaps double by 1972, while that of coal will diminish. Electric power production is to increase at an annual rate of about 9.8 percent.

Despite the evident moderation of industrial growth, Khrushchev contended that "it is a quite real and feasible task to outstrip the United States in a very short period." He drew attention to the "chronic crises" of capitalism, the depressions that make capitalist economic growth "intermittent," contrasting this to the "uninterrupted development" of planned socialist states. Taking into account his relatively feasible forecasts for the USSR in 1972 and an assist from a hoped-for Western depression, Khrushchev stated, "The level of output in the United States is no longer inaccessible... as it might have seemed to some people 25 or 30 years ago."

Khrushchev forecast 1972 output for 11 items, covering a considerably broader spectrum than the four items--coal, petroleum, pig iron and steel--

listed in 1946 by Stalin in a somewhat similar "15-year forecast." Besides additional producer goods items--iron ore, gas, electric power, and cement --Khrushchev included consumer



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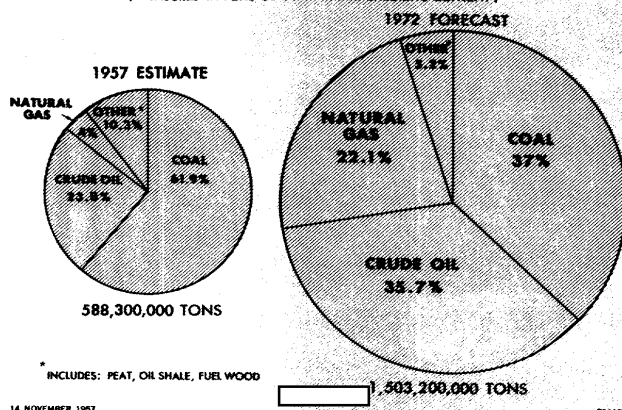
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SOVIET FUEL SUPPLY GROWTH AND COMPOSITION, 1957-1972

(MEASURED IN TONS OF COMPARABLE CALORIFIC CONTENT)



fillment of the modest 1957 plan for total industrial production, seem to have made him conservative in his long-range forecasts. In agriculture, 1957 was disappointing compared with 1956, a bumper crop year; less favorable weather resulted in a harvest much lower than last year, and grain procurement by the state is apparently less than three quarters of last year's record take. Khrushchev offered no further panaceas for agriculture, but spoke of the possible future expansion of the "New Lands" program in Siberia and the Far East.

The course of pushing rapidly on all fronts simultaneously is apparently now an accepted regime policy. Future growth cannot be maintained without balanced attention to the various interdependent activities of the increasingly complex and maturing Soviet economy, with increased reliance on the "carrot" of incentives rather than the "stick" of coercion.

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goods--sugar, woolen fabric, and leather footwear--which, with his statements on housing and agriculture confirming the existing stepped-up programs, served to notify the Soviet people that their material well-being is not being ignored. For the consumer items cited, rates of growth are not markedly lower than those of the cited producer items--despite the continuing preferential growth of heavy industry.

The preliminary 1957 output data given by Khrushchev, presaging only a slight overful-

SOVIET ANNIVERSARY SPEECHES STRESS BLOC UNITY

In his anniversary speech to the Supreme Soviet, Khrushchev attempted to state his policy toward the satellites in such a way as to circumvent the problem posed for Soviet policy by the principle of "different roads to socialism." The views expressed on this occasion by party leaders from Communist China, Poland, and Yugoslavia on the nature of the USSR's relationships with

bloc countries and the "different roads" concept underscore the difficulties Khrushchev faces in the matter.

In an attempt to limit the principle's divisive effects on the Communist world, Khrushchev directed that more attention be given to the similarities that exist among the countries of the Communist bloc rather than to national differences. Bloc

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unity, he said, can be maintained only if all socialist states recognize and adhere to the basic principles of Marxism-Leninism and proletarian internationalism, i.e., recognition that the USSR is the most powerful of the Communist states and that what is good for the USSR is also good for them. In an apparent effort to reassure the Poles and Yugoslavs, Khrushchev added that "all countries of socialism, large or small...have fully equal rights."

Yugoslav Vice President Kardelj described his country's relations with the Soviet Union as based on the "great idea of proletarian internationalism" --defined by the Yugoslavs as support for the Kremlin in foreign policy matters--and on "equality of independent peoples." Polish Party First Secretary Gomulka, as quoted in Pravda on 5 November, listed as the conditions of bloc unity: national independence and recognition of national peculiarities, and the independence of Communist parties.

Mao Tse-tung, while accepting as a "sacred international obligation" the need to

strengthen bloc solidarity under Soviet leadership, nonetheless observed that "we firmly maintain that all nations should practice...principles of mutual respect for sovereignty....non-interference in each other's internal affairs, equality, and mutual benefit," the principles enunciated in the 30 October 1956 declaration.

Gomulka, too in his 6 November speech, acknowledged that the Soviet Union occupied the "first place in the family of all socialist countries," which he described, however, as having equal rights. In contrast to the restraint expressed in the Yugoslav, Polish, and Chinese comments, the orthodox satellites described the happiness of their peoples under Moscow's benevolent guidance.

The need to combat "dogmatism and revisionism"--the latter designated by Mao as the greater danger--was alluded to in the majority of the anniversary speeches, indicating that the threat represented by the deviations of Djilas and Nagy, specifically named by Khrushchev, and the Polish liberals is a matter of serious concern among bloc leaders.

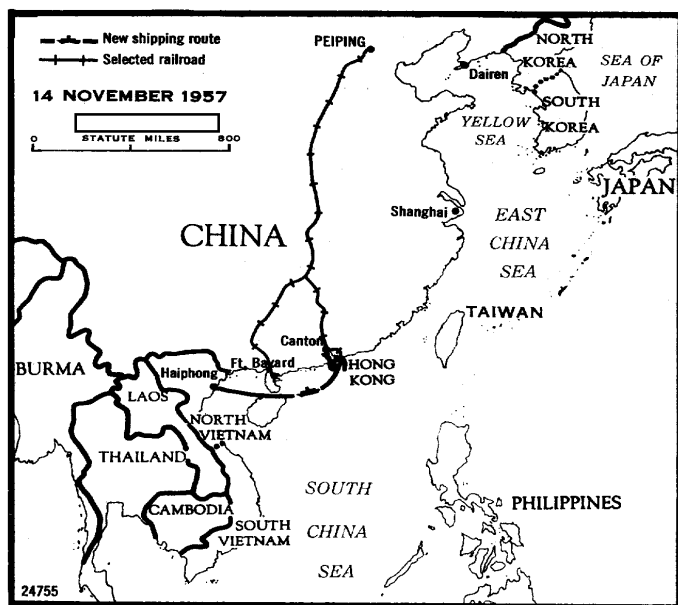
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NEW DEVELOPMENTS IN CHINA TRADE SHIPPING

Peiping's first regularly scheduled international shipping line will begin operations soon, using a new Polish-built cargo ship. This line initially will provide service between Canton, Hong Kong, and Haiphong and may be expanded to include major Southeast Asian ports now primarily served by free world vessels.

Peiping for some time has indicated an interest in establishing its own regular shipping service to South and Southeast Asia, since more than one third of China's total trade with the non-Communist world is with these areas. The Chinese also probably expect that a shipping line will boost their prestige in Southeast Asia.

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erating range of vessels based at Taiwan.

As early as mid-1955, the Chinese Communists began the development of port facilities at Fort Bayard for the promotion of China's commerce with Southeast Asian countries. This port is now equipped with modern cargo-handling machinery and is capable of accommodating five ocean-going vessels at one time. In May of this year, the Chinese Communists began to rebuild a pier in Hong Kong for their own use. The pier probably will play

Earlier additions to China's merchant fleet have for the most part served the needs of North China, but vessels which have recently arrived from Eastern Europe have been assigned to the southern coast. China is expecting delivery of additional cargo ships well suited for operations in Southeast Asian waters. Trained Chinese seamen now employed on Polish vessels operating in the China trade are available for Peiping's growing merchant fleet.

an important role in any expansion of Chinese shipping into the Southeast Asian area, as well as serve the new Canton - Hong Kong - Haiphon run.

In the past two years, a number of countries have started shipping services to Communist China. Just recently an Australian steamship company assigned four vessels to a

Peiping has long been sensitive to potential threats to its shipping in the South China Sea. It still does not run vessels between North and South China, as the routes are subject to Chinese Nationalist naval intervention, but this new international shipping route is beyond the normal op-

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regular passenger and cargo service between Australia and Shanghai. Last month Canada began cargo service between Vancouver and Tientsin. Earlier Yugoslavia and West Ger-

many had assigned ships to the China trade, while the USSR, Czechoslovakia, and Poland have maintained their regular service with Chinese ports.
(Prepared by ORR)

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NEW BRIDGE EASES CHINESE COMMUNIST TRANSPORT BOTTLENECK

It now appears that the new two-decked rail and highway bridge over the Yangtze River at the central China metropolis of Wuhan, opened to traffic last month, will be the only major railroad construction project to be completed this year. Communist China is not diverging widely from its plan to lay only 334 miles of new track this year--as against 1,747 miles in 1956--and is concentrating instead on increasing the capac-

Hsiatung, in western Kansu, almost a year after rail-laying had reached this point, and a program for "rebuilding" the Tien-shiu-Lanchow line, finished in 1952, is now under way.

The completion of the new bridge at Wuhan well ahead of schedule is, however, a significant achievement. The bridge is 5,446 feet long and has nine spans, each 415 feet long. Its superstructure is 52.5 feet high and 75 feet wide. The upper deck has two pedestrian walkways eight feet wide and a six-lane highway. The lower deck carries pedestrian walkways and a double-track railway, only one track of which has been installed so far.

Costing \$30-33,000,000, the bridge is only part of a \$67,000,000 project to make Wuhan a major rail center. The entire project, which includes

new stations, track, and marshaling yards--as well as the rail and highway bridges over the Han River completed earlier--is expected to be finished in 1958.

ity of overworked older lines through a program of double-tracking and on improving freight-handling capacity in stations and yards.

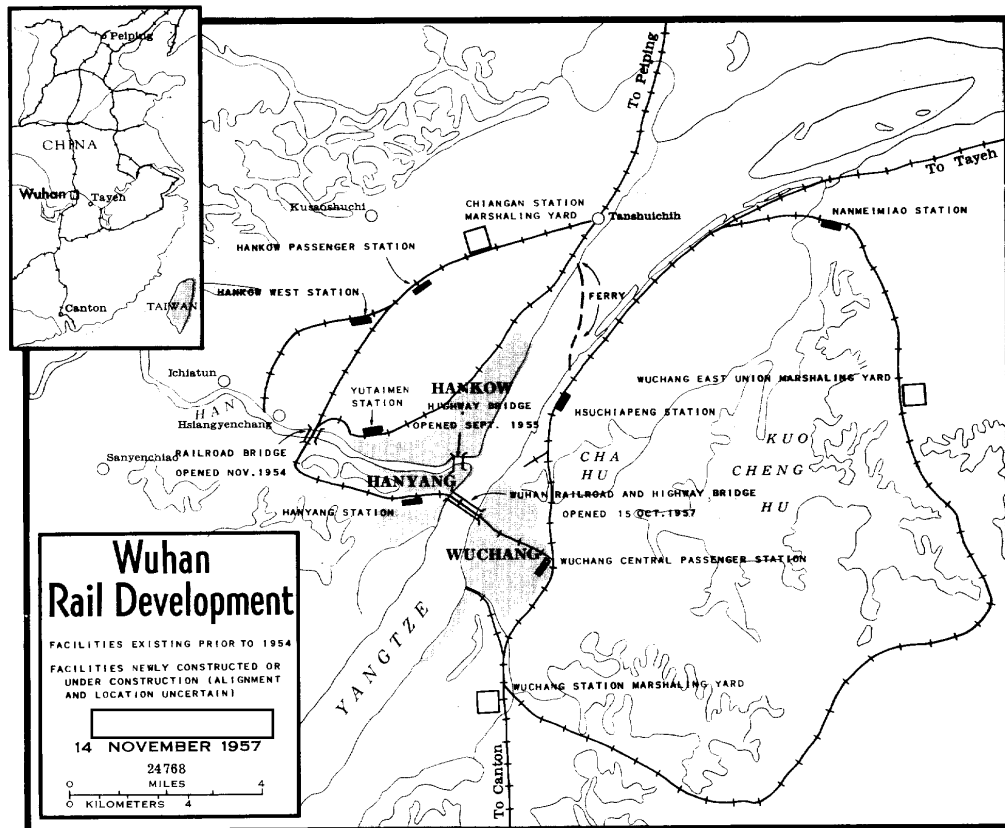
In addition, Peiping has found it expedient to better the standards on some of the lines built with such notable dispatch in the immediate past. For example, the Trans-Sinkiang line has only recently been opened to passenger traffic to

Construction of the bridge was greatly speeded through use of an unusual method of pier-sinking said to have been suggested by the chief Soviet expert on the bridge. It involved sinking to bedrock a series of hollow tubes of reinforced



THE YANGTZE RIVER BRIDGE

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concrete five feet in diameter. These formed a basis for one pier. Through these tubes 30-36 cores, 4.5 inches in diameter, were drilled into the bedrock to a depth of at least 20 feet. Steel rods were then driven into the cores and the tubes filled with concrete, firmly fixing the whole to the bedrock.

Thereupon a steel cofferdam was lowered around the concrete columns and filled with concrete, thus completing the pier. Use of this method enabled the bridge builders, who numbered about 15,000, to avoid practically all underwater work and to continue operations throughout the year.

The bridge is one of the outstanding engineering achievements of the First Five-Year Plan. It will not, however, begin at once to operate at its planned capacity of 120 trains a day since the lines leading onto the bridge will not be able to handle such a number until they are double-tracked. The Peiping-Canton railroad is scheduled to be double-tracked as far south as Hengyang by 1962. The bridge will free the rail ferries formerly used there for use elsewhere, perhaps at the Nanking crossing. It will cut two hours or more from the running time on through trains between Peiping and Canton.

Prepared by
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PEIPING UNDERSCORES OPPOSITION TO "TWO CHINAS" CONCEPT

Communist China is giving increasingly wide publicity to its unyielding opposition to a "two Chinas" solution for the Taiwan problem. On 7 November it dramatically walked out of the International Red Cross Conference in New Delhi after the conference voted to seat the Chinese Nationalist delegation as well as the Chinese Communists.

Before their withdrawal, the Communists had exerted heavy pressure on the Indian government to prevent the seating of the Nationalist delegation. Other participants were warned that their support of the Nationalists would be construed as a "hostile act." Chinese Communist editorial comment since the withdrawal reflects Peiping's position that it will not compromise on issues of this kind even if they impede the regime's campaign to win broader international recognition. The propaganda pictures Peiping as "not eager" for American recognition and describes "two Chinas" as an "illusion" indicating an impasse in America's China policy.

Anti-American invective has accompanied similar withdrawals by Peiping in the past year from other international occasions, such as the Olympic games, film festivals, and scientific and technical events. After months of preliminary planning for participation, Peiping withdrew at the last moment from the activities of the International Geophysical Year. The visits to Taiwan by Prime Minister Kishi of Japan and former Premier Pinay of France provided occasions for further vociferous

protests by Peiping against the "two Chinas" formulation.

Peiping charges that Great Britain, Japan, and France are the countries most guilty of following the American lead and developing closer ties with Taiwan. Under no circumstances, the regime's leaders say, will Peiping enter the UN if the Nationalists remain.

The Chinese declare they will patiently await admission to the UN and that in the meantime the UN will remain stymied in its efforts to solve major international problems.

Communist China's professions on the "two Chinas" concept harmonize with its propaganda campaign to "liberate" Taiwan. Proclaiming that Taiwan is Chinese territory and that the Taiwan issue is an internal affair, the Communists insist that only their regime can be represented in international forums. American "intrigues" are held to be responsible for continued Nationalist accreditation to the UN and other international bodies.

Chou En-lai has stated that in the future Peiping will not establish diplomatic relations with nations that continue diplomatic ties with Taipei. Apparently Peiping's relations with Britain are not to serve as a precedent for other countries. In 1954, Peiping reciprocated British recognition--which had been extended in 1950--without requiring the UK to withdraw its consulate on Taiwan. This consulate, however, is accredited to the Taiwan provincial authorities rather than to the Nationalist government.

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ASIAN SOLIDARITY COMMITTEE PREPARES FOR CAIRO CONFERENCE

The Communist-dominated nongovernmental Afro-Asian Solidarity Conference, sponsored by the Asian Solidarity Committee, is to be held in Cairo from 26 December to 1 January. Preparations indicate that the Sino-Soviet bloc and Egyptian nationalists will try to define a "popular" anti-Western posture for Asian-African countries on subjects such as anti-imperialism, national liberation, and racial discrimination. Sino-Soviet bloc delegates will push the international Communist line in dealing with such agenda issues as the Algerian war, the Syrian question, and a ban on testing and use of nuclear weapons.

The agenda also includes discussion of "support of economic and technical cooperation among the Afro-Asian peoples," and conference propaganda may call for an economic aid relationship which would by definition exclude the West but include the USSR and Communist China. Conference officials expect delegates from 50 nations.

Delegates from 21 Asian-African countries and the Sino-Soviet bloc attended a preparatory meeting in Cairo in October. They included exiles and opposition leaders from Jordan, Iraq, and Lebanon, and left Populist politicians from Syria. "Freedom Fighters"--presumably leaders of nationalist movements--attended from the Cameroons and Algeria. Foreign Ministries in countries where no national solidarity committees exist were asked to act as intermediaries in arranging nongovernmental delegations to the preparatory meeting.

President Nasir has emphatically identified himself with

the conference through press interviews and press releases, and the preparatory committee is headed by one of his close personal advisers who also heads the Islamic Congress. The Egyptian Finance Ministry has furnished quarters for the preparatory committee and financed it. This direct support by the Egyptian government has tended to confuse the nongovernmental nature of the conference.

Communist control of the committee has been disguised by the slow and discreet organizational development and a policy of delegating responsibility to non-Communist Asians. Its origin can be traced to the Communist-front World Peace Council which was never successful in establishing itself in Asia. At an unpublicized meeting in December 1956, the committee decided to expand its activities to include Africa and, in connection with the preparatory meeting, a committee representative said the establishment of new national committees in Asia and Africa then had priority. The committee's emphasis on nationalism and national independence in Asia is reflected in its pattern of organization, which places primary importance on the national solidarity committees rather than on the apparently weak secretariat.

Fellow-traveling members of the committee maintain connections with other Communist-influenced or Communist-front movements in Asia. Committee leaders figured prominently in the Afro-Asian Lawyers' Conference, the World Peace Council meeting in June in Colombo, and the Tokyo antinuclear weapons meeting in August. [redacted]

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KISHI'S SECOND ASIAN TOUR

Japanese Prime Minister Nobusuke Kishi will make a second tour of Asian countries between 18 November and 8 December, visiting seven nations--South Vietnam, Laos, Cambodia, Indonesia, Australia, New Zealand, and the Philippines--which were not included in his tour last May. Kishi views this trip, as he did the earlier one, as an opportunity to use high-level, personal diplomacy to allay latent suspicion of Japan and to promote increased economic cooperation. He will give major consideration to outstanding reparations obligations and he will seek reactions to a revised scheme for an Asian development fund.

The prime minister expects to pave the way for greater acceptance of Japan in the Asian community and hopes that on particular problems he will find a sounder basis for cooperation than he did in May. At that time Kishi encountered a general reluctance to accept his Asian development fund idea as well as a division of opinion with regard to Tokyo's policy toward Communist China.

The Japanese government has been unable to reach reparations settlements with Indonesia and South Vietnam prior to Kishi's visits to these countries. Since Japan recognizes that reparations settlements are a major factor in its attempt to develop closer economic relations with Southeast Asia, Kishi may be prepared to break the deadlocks with new offers.

In addition, Kishi may have revised his thinking on the Asian development fund. It has been coolly received in Asia, particularly with regard to joint US-Japanese sponsorship; the United States prefers a bilateral, project-by-project approach; and Kishi's own roving ambassador in Asia has made recommendations which essentially reflect the American position. Although no official announcements have been made, there are indications that Kishi now believes a limited program including so-called neutral or all-Asian funds and excluding outside assistance may have more appeal. The forthcoming trip will give Kishi an opportunity to test reaction to a revised scheme of this type.

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DIEM'S VISIT TO INDIA

South Vietnamese President Diem's visit to India in early November was a success in promoting cordial relations between the two countries despite their widely divergent foreign policies. The friendly reception accorded Diem by Indian officials and the local press indicates India's growing sympathy for South Vietnam and is in sharp contrast to New Delhi's attitude of only a few years ago. This development is sig-

nificant in view of India's role of arbiter between North and South Vietnam as chairman of the International Control Commission.

In recognition of India's special position, Diem had attached great importance to his New Delhi visit, although he continues privately to express disdain for Indian neutralism. In his public statements in India, Diem emphasized the

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historical, cultural, and economic ties linking India and South Vietnam, cited common political and economic aspirations, and made liberal references to well-known Indian philosophical teachings.

While minimizing foreign policy differences, Diem defended South Vietnam's strongly anti-Communist position and bluntly denounced the "Communist despotism" in North Vietnam as hindering national unification. On the controversial topic of SEATO, Diem praised the organization's "purely defensive" role against Communist subversive maneuvers, but emphasized that South Vietnam was not a member and was not actively considering adherence to any military alliance.

The joint communiqué issued on 8 November by Nehru and

Diem reflected the desire of both to find common grounds. Specifically, the two leaders noted that "the terrible advances in the development of weapons of mass destruction" made most urgent the maintenance of world peace. It also stated that "continued and increased cooperation" between India and South Vietnam was desirable "in common pursuit of the economic and social advancement of their people."

With an eye to the future, Diem apparently intended his New Delhi visit to establish rapport with India's neutralists. He has frequently indicated concern that South Vietnam is threatened with isolation as a result of growing neutralism in neighboring countries, and probably considers that Indian sympathy may prove an indispensable asset in the future. [REDACTED]

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MOROCCAN PARTY SEEKS GREATER POWER

Morocco's Istiqlal party, frustrated last year in its initial attempt to obtain a monopoly of power when King Mohamed V conceded it only majority representation in the government, appears to be renewing its drive to establish a one-party government. With the recent nomination of an Istiqlal leader to head the Ministry of Defense, the party now holds 11 of 18 cabinet portfolios and has set its sights on the post of premier, occupied by Si Mbarek el Bekkai, a close friend of the King, and the position of chief of staff of the Moroccan royal army, occupied by the King's eldest son, Crown Prince Moulay Hassan.

Although the King theoretically remains an absolute monarch, in practice he shares his

power with the Istiqlal. Fearing the prorepublic tendencies of one wing of the party, he has encouraged potential opposition parties as a counterweight to Istiqlal's efforts to eliminate political opposition. He is presumed to have at least tacitly approved the formation in September of the Popular Movement, led by Mahjoubi Ahardane, then governor of the Province of Rabat, and Minister of State Lahcen el Lyoussi, both close to the King. Istiqlal succeeded in having the party banned on 24 October and subsequently Ahardane was removed from office. Premier Bekkai's alleged association with the new group presumably will be the basis for the Istiqlal campaign to force the premier to resign.

Although the King approved the ouster of Ahardane, Bekkai's

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long service on the King's behalf may save the premier. Istiqlal is reported planning to propose as premier Abdelkrim Benjelloun, able minister of justice toward whom the King is favorably disposed. Should the Istiqlal succeed in convincing the King of its point of view, the change-over probably would not occur until after the King returns in mid-December from his visit to the United States.

Meanwhile, Istiqlal, which controls all organized labor through its affiliate, the Moroccan Union of Labor, is continuing to maneuver to obtain closer control over the army and presumably to strengthen its links with the irregular Moroccan Army of Liberation. The party may also attempt to strengthen its organization in rural areas, where Berber tribes have recently expressed dissatisfaction with Istiqlal tactics. [REDACTED]

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DEVELOPMENTS IN THE NENNI SOCIALIST PARTY

The sending of a Nenni Socialist delegation to Moscow for the 40th anniversary celebrations, almost simultaneously with the issuance of Nenni statements criticizing the Communists and the Social Democrats, serves to illustrate the problem facing the Italian Socialist party (PSI) as a result of its announced decision to campaign independently in the 1958 Italian national elections. With Socialist reunification ruled out at least until after the elections, Nenni's evident hope is to hold his own party together and increase its popular attraction by alternating appeals to pro- and anti-Communist elements both inside and outside the party.

Party delegates sent to Moscow included only one from the wing favoring independence from the Communists, three others from this group having begged off at the last minute on grounds of "illness" and "visa delays." An apparent balancing gesture to right-wing elements appeared on 7 November when the party daily *Avanti* reiterated earlier sharp criticisms of the Soviet system and said that the popular sovereign-

ty guaranteed by socialism has not yet been achieved in the USSR.

Shortly before, however, Nenni had attacked the Democratic Socialists for putting the "tombstone" on reunification when their late October party congress made a sharper PSI break with the Communists a precondition for reunion. *Avanti* returned to the other tack on 10 November with a new call for Socialist unity, for friendly discussions with the Christian Democrats, and for further clarification of the PSI's relationship with the Communists.

A further problem is posed by the death on 3 November of Giuseppe Di Vittorio, the Communist chief of the Italian General Labor Confederation (CGIL), whose secretariat includes a number of PSI officials. This event raises the tempting possibility of replacing Di Vittorio by a Socialist, but at a time when Nenni might prefer not to have another point of dispute with the Communists and with certain elements in his own party. [REDACTED]

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COMMUNISTS EXPANDING LABOR ACTIVITY IN SOUTH AMERICA

A proposed expansion of the activities of the Communist Confederation of Latin American Workers (CTAL) includes the establishment of an office in Chile responsible for all South America except Venezuela and Colombia.

tional labor commission of the Chilean Communist party and member of the CUTCH directorate, is a CTAL executive board member. CUTCH has offered to help in setting up the new CTAL office, thus mobilizing support for the project among large segments of Chile's organized labor.

The new office, which will publish the official WFTU publication, will include two members of CTAL's present Mexico City staff but will be staffed primarily by Chileans. The local Communist party is in an excellent position to provide the center with well-trained workers, as has been evidenced by the party's participation in recent meetings in various South American countries and in particular by the role some of its members have played in the labor unrest in southern Peru which led to the declaration of a state of siege on 5 November.

The establishment of the new office is likely to be accompanied by a stepped-up offensive against US business interests in Latin America which may include mass strikes, protest demonstrations, and other militant actions. More efficient reporting for the WFTU on agricultural and other economic subjects is expected to be another result of the planned expansion.

Only three influential national labor confederations--in Brazil, Uruguay, and Ecuador--are formally affiliated with the CTAL. In Chile, however, CTAL has extremely cordial relations with the powerful Communist-dominated Single Labor Central of Chile (CUTCH). Oscar Astudillo, the head of the na-

The proposed CTAL center probably will not be strongly opposed by non-Communist Chilean political leaders, who are now campaigning for the 1958 presidential elections and will try not to offend the labor vote. President Ibanez in particular is indebted to the extreme leftist parties for their support of two of his cabinet ministers recently impeached by congress, and he may accordingly try to avoid any appearance of cracking down on the leftists.

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MEXICO'S PROBABLE NEXT PRESIDENT

Election of Adolfo Lopez Mateos, capable minister of labor, as president of Mexico in July 1958 is already accepted as virtually certain. The 15 November convention of the In-

stitutional Revolutionary party (PRI)--which under various names has governed Mexico for 40 years --will probably nominate him by acclamation.

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Lopez has already received enthusiastic public support from all the diverse components of the PRI. On 7 November, President Ruiz Cortines, who would like to see the moderate policies of his administration continued, told the American ambassador that Lopez is his personal choice. The President's wide powers traditionally include the choice of a successor, but in practice a candidate must be acceptable to the somewhat divergent interests represented by two powerful former presidents--Lazaro Cardenas and Miguel Aleman.

The popular Cardenas, who expropriated foreign oil holdings during his 1934-40 administration, leads the PRI's leftist wing and represents the nationalist, neutralist sentiments strongly held by many Mexicans and sometimes expressed in anti-US attitudes. Cardenas' influence over Lopez Mateos, however, is unlikely to be any greater than it was over Ruiz Cortines.

Aleman, who gave industrial development first priority during his 1946-52 term, speaks for the more conservative business interests which have recently been gaining influence in PRI and government circles. In order to overcome the present leveling off of Mexico's remarkable economic progress of the past ten years, this group wants a favorable climate for private investment and an administration responsive to its concepts of stability.

Lopez has pleased labor with consistent negotiation of

wage increases and with his emergency program in the unstable period following the 1954 peso devaluation. He earned the confidence of management by avoiding major strikes, thereby helping maintain high industrial production. The approval of Lopez by usually divergent lo-



LOPEZ

cal Marxist groups may indicate they expect even more opportunity for action under his presidency than Mexico's traditional indulgence of political leftists has previously provided, although he is not known to have shown sympathy for Communists.

Now 48, Lopez Mateos was a lawyer and teacher before becoming a senator in 1946. As secretary general of the permanent central committee of the PRI, he was active in the presidential campaign of Ruiz Cortines and became minister of labor in December 1952.

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PART III

PATTERNS AND PERSPECTIVES

ECONOMIC DEVELOPMENT IN SOUTH AND SOUTHEAST ASIA

Economic cooperation on a multinational basis is receiving increased attention as a promising method of raising living standards in South and Southeast Asia. Although practical achievements to date have been limited, impetus for regional development schemes has been generated recently by the wide interest shown at the meeting in Saigon last month of the Colombo plan powers and by the Japanese desire to establish a regional development fund. The Communist bloc may attempt to rival present efforts among the free nations of Asia to achieve greater economic cooperation by offering competing projects of its own.

Obstacles to Cooperation

Regional economic cooperation has often been advocated as a method of achieving higher living standards and greater stability in the underdeveloped countries in South and Southeast Asia. A number of formidable political and economic obstacles, however, have heretofore discouraged any move toward area-wide cooperation. Chief among these has been the intense nationalism of the newly independent countries in the area. This sentiment, developed during the period of Western colonialism, and the antagonisms toward the Japanese growing out of World War II have created suspicions that there are ulterior motives behind any proposals for regional development emanating from these sources. Japan's continuing efforts to promote regional economic cooperation as one alternative to deeper entanglement with Communist China and the rest of the Soviet bloc has been handicapped by these fears.

Equally important is the traditional distrust and con-

flict of interest among neighboring South and Southeast Asian countries. As a result, these states hesitate to participate in any multilateral development scheme which might benefit a rival.

The economies of most of the countries in the area, especially in Southeast Asia, are competitive rather than complementary. Each state is dependent on similar exports, such as rice, rubber, tin, and lumber. Geographically, trade and communications have developed in a generally north-south pattern following the valleys of the main rivers and outward to Europe rather than laterally across high mountains and Asian national boundaries.

Finally, there is a certain amount of competition as well as lack of coordination between the various organizations interested in promoting regional development. The Colombo plan, for instance, has been criticized for favoring members of the Commonwealth, and some sponsors of the plan are reluctant to see the development of SEATO as a vehicle for economic aid. In addition, various UN agencies, such as ECAFE, are backing regional projects and tend to operate independently of other organizations.

Factors for Cooperation

Despite these obstacles, there has been some progress toward regional economic cooperation. The United States in fiscal 1957 committed almost \$1.126 billion for nonmilitary aid to South and Southeast Asia. This aid is divided among every country in the area, except Malaya, and at least indirectly promotes regional cooperation. An example of this was the American purchase of Burmese rice to

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**NONMILITARY AID TO
SOUTH AND SOUTHEAST ASIA**

JULY 1956 - JUNE 1957

	ICA TOTAL*	PL-480**
AFGHANISTAN	\$ 14,407,000	\$ 7,200,000
BURMA		1,000,000
CAMBODIA	35,500,000	400,000
CEYLON	6,088,000	2,200,000
INDIA	69,500,000	398,500,000
INDONESIA	11,722,000	
LAOS	44,552,000	
MALAYA		
NEPAL	4,600,000	
PAKISTAN	99,010,000	68,500,000
PHILIPPINES	33,913,000	27,200,000
THAILAND	34,500,000	2,600,000
VIETNAM	259,500,000	11,800,000

Countries in red receive military aid.

* Except in Afghanistan, Ceylon, India, Indonesia, and Nepal, ICA allotments have been primarily for defense support and nonmilitary projects closely allied to the military program.

** Public Law 480 authorized the sale and transfer of surplus agricultural commodities. These figures do not include barter agreements and donations which in fiscal 1957 amounted to approximately 20 percent of the total commitments.

NOTE: Requests for additional aid have been received from all countries except Malaya. Estimated figures for 1958 indicate an over-all reduction of approximately 20 percent, with variations for each country.

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meet a food shortage in Pakistan. The proceeds are being used for technical assistance and training of Burmese.

have insisted that the best way to achieve their goals of industrialization and economic diversification--with or without bilateral foreign

The countries in South and South-east Asia also belong to various international organizations such as the International Bank of Reconstruction and Development, the International Monetary Fund, and the Food and Agriculture Organization. All of these organizations have an interest in encouraging regional as well as purely national economic advancement. In addition, there are friendship and defense treaties between various countries which are also a positive force for the achievement of mutual objectives through cooperation.

There is an increasing awareness among indigenous officials of the desirability of wider cooperation. Heretofore, these officials, recognizing their countries' severe economic limitations,

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS

	 MEMBERS	 MEMBERSHIP APPLIED FOR	 NONMEMBERS UNDER THE PROTECTION OF SEATO AS "PROTOCOL STATES"				
	UN UNITED NATIONS	ECAFE ECON. COMM. FOR ASIA & F.E.	IBRD INTER'N'L BANK FOR RECON. & DEV.	IMF INTER'N'L MONT. FUND	FAO FOOD & AGR. ORG.	COLOMBO PLAN	SEATO S.E. ASIA TREATY ORG.
AFGHANISTAN							
BURMA							
CAMBODIA							
CEYLON							
INDIA							
INDONESIA							
LAOS							
MALAYA							
PAKISTAN							
PHILIPPINES							
NEPAL							
THAILAND							
VIETNAM							

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assistance--was by individual national effort. At the recently concluded Colombo plan conference in Saigon, however, a new note was sounded. Numerous delegates expressed considerable interest in the Japanese idea of an Asian Development Fund to finance projects on a regional scale. There have also been increasing inquiries about the availability

**SOME EXAMPLES OF TREATIES AMONG NATIONS
OF SOUTH AND SOUTHEAST ASIA**

TREATIES	SPONSOR	PARTICIPANTS
MUTUAL ASSISTANCE DEFENSE AGREEMENTS	UNITED STATES UNITED KINGDOM	CAMBODIA - LAOS - PAKISTAN PHILIPPINES - THAILAND - VIETNAM MALAYA
TREATY OF FRIENDSHIP	BURMA	INDIA - INDONESIA THAILAND - PAKISTAN
COMMONWEALTH	UNITED KINGDOM	Ceylon - India PAKISTAN - MALAYA
ANZAM	AUSTRALIA AND NEW ZEALAND	MALAYA

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of assistance through the American Asian Development Fund, now administered by the President's office.

In addition to the demonstrable material benefits to be obtained from regional cooperation, there appears to be a growing concern over the threat of Communist China. This is probably best illustrated by the increasing anxiety of the Burmese government over the problems of border demarcation and Chinese infiltration and the Cambodian government's fear of Communist subversion of the local Chinese. While this fear has not yet been expressed to any great extent in many countries, it may well become a major factor favorable to the growth of regional-mindedness in the area.

Progress to Date

Practical achievements thus far have been modest. ECAFE is promoting international exploitation and control of the Mekong River, which either borders on, or flows through, five of the countries in Southeast Asia. The riparian powers are represented on a Mekong River

Commission, which has made surveys and project proposals preliminary to an ambitious scheme of river valley development. "Operation Brotherhood," under which Philippine medical teams are active in the hinterland of Laos and Vietnam, is jointly sponsored by the Philippine and local Junior Chambers of Commerce. Financed by the International Junior Chambers of Commerce, it has been widely acclaimed both for its humanitarian aspects and as an outstanding example of interregional cooperation.

Future Plans

There have been a number of recent proposals for the future. The Japanese have indicated that they are willing to take the initiative in setting up regional centers to train various types of technicians. The Colombo plan organization is studying the possibility of broadening its student exchange program to give greater emphasis to regional cooperation. Burmese officials have suggested that annual consultative meetings of regional planners could be useful. Consideration is also being given to such specific undertakings as an interregional telecommunications network and joint Thai-Burmese utilization of the power to be generated from the Yan Hee hydroelectric project in northwestern Thailand sponsored by the International Bank for Reconstruction and Development.

Sino-Soviet Bloc Efforts

Sino-Soviet bloc bilateral economic aid programs have proved their appeal in the area. The bloc, particularly the USSR, is now carrying out aid programs in India, Afghanistan, and Burma. Communist China has an effective aid mission at work in Cambodia, and East Germany is setting up a sugar mill and Czechoslovakia a tire factory in Indonesia.

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Of at least equal significance are the bloc's efforts to expand its trade with the area. The best known of these efforts has been the triangular trade involving Ceylonese rubber sent to Communist China which is paid for, in part, with rice obtained from Burma.

The Soviet Union and its European satellites also took advantage of the slump in the rice market in 1955-56 to make barter agreements with Burma. Much of this rice was diverted to North Vietnam and undoubtedly played a large part in averting a major economic catastrophe there in view of the series of crop failures. While the Burmese have been largely disillusioned with their barter arrangements and are seeking to disengage in favor of cash customers, their experience reveals the vulnerability of the countries in the area to Communist trade offers.

The bloc probably will be able to continue such deals as its industrial capacity increases and as long as its need for raw materials remains high. Moreover, a comparison of the economic and technical assistance programs of the free world and the Sino-Soviet bloc does not necessarily provide an accurate gauge of the political impact they have on South and Southeast Asia.

The Soviet Union has long been credited for its support of Asian nationalism and opposition to imperialism, whereas Western nations, no matter how significant their long-range programs may be, bear the burden

of their past and present colonial policies. In addition, the Soviet Union and, more recently, Communist China have the advantage of appearing to Asians as examples of how backward countries can make a quick transition to become modern industrial powers.

Outlook

The national governments of free Asia are all under sim-

SINO-SOVIET BLOC ECONOMIC AID TO SOUTH AND SOUTHEAST ASIA

	ECONOMIC AID (JAN 1954 - OCT 1957)	TECHNICIANS PRESENT (APPROX. AS OF JUNE 1957)
AFGHANISTAN	\$145,100,000	380
BURMA	25,000,000*	35
CAMBODIA	22,400,000***	30
CEYLON	15,750,000***	1-2
INDIA	269,800,000	345
INDONESIA	100,000,000**	65
NEPAL	12,600,000***	—

* Burma has accepted credit only on the assumption that it will be repaid in Burmese produce.

** Loan not ratified by the Indonesian government.

*** Gifts from Communist China.

NOTE: Laos, Pakistan, and Thailand have been offered aid, but have not accepted. Burma and Cambodia were offered larger grants than they accepted. Nepal has announced after using a portion of the Chinese grant, that it will use no more.

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ilar pressures to improve the economic conditions of their countries at a rate sufficient to meet the expectation of their peoples, and their tenure of office is dependent on their effectiveness. Whether closely aligned with the West or neutralist in character, in most cases they speak for the dominant political factions on the national scenes that are least influenced by the Sino-Soviet bloc. If they fail to satisfy their peoples, the opposition parties which are most likely to take over from them are of the far left--left-wing socialist or outright Communist in orientation. (Continued in by ORR)

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GOMULKA'S PARTY REFORMS

Poland's Wladyslaw Gomulka --faced with a fragmented and discredited party--has launched a campaign to change the party's composition. At the tenth central committee plenum of the Polish United Workers' party in late October, he came to grips with the fact that the party had become a powerless instrument in the countryside and commands little support or respect among industrial workers.

Gomulka wants to cut the party down to approximately half its size to facilitate the development of a united and effective group. A complicating factor for Gomulka is that the remaining skeleton of the once-powerful party is composed of full-time functionaries, many of whom are Stalinist elements

Gomulka has been hamstrung chiefly by the apathy and lack of discipline of party workers on the local level. The party's prohibition of "administrative methods"--i.e., interference by direct orders in the administration of government--has immobilized local leaders. Many of them have not adjusted to the new methods of persuasion without force. Since there has been no threat of punishment for a do-nothing attitude, many local functionaries have failed to implement new party policies, and others have not accommodated themselves to the abandonment of policies they had come to identify with orthodox Communism. As a result, the contempt of the populace for party officialdom has been compounded.

The party thus faces difficult problems in its control over key social and political elements in the country. Although "enlightened" methods of controlling the Sejm have been adopted, tight party control over Sejm activities continues, a situation causing growing consternation among non-Communist deputies. The party has relinquished its detailed control over political parties and mass organizations. Now it is only necessary for these elements to "cooperate" with the party, with the result that an opposition espousing Western ideas has infiltrated the most important of these groups and is fighting for control of them.

Gomulka's attempts to handle youth problems have been almost totally unsuccessful. The Communist youth organization is disunited and unpopular and probably numbers no more than 65,000 members, in contrast to its

COMPOSITION OF POLISH UNITED WORKERS' PARTY
(FIGURES IN PERCENTAGES)

	1951	1952	1953	1954	1955	1956	1957* JAN-AUG
WORKERS (INCL. AGRICULTURAL)	49.3	48.2	47.7	48.1	45.1	44.6	37.0
PEASANTS	13.3	13.4	13.0	13.8	13.0	12.8	7.6
INTELLECTUALS (INTELLECTUALS WHO ARE OFFICIALS)	35.2 (19.5)	36.2 (19.3)	37.0 (19.1)	36.2 (17.7)	39.2 (15.6)	39.5 (16.0)	50.0 (23.0)
OTHERS	2.2	2.2	2.2	2.0	2.6	3.1	5.4

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*FIGURES FOR NEW MEMBERS ONLY

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and bureaucrats who are thoroughly compromised in the eyes of the Polish populace. Gomulka believes the success of his policies depends on the development of what he calls "humanism" in party practices so that the party can appeal for the confidence and loyalties of the majority of Poles.

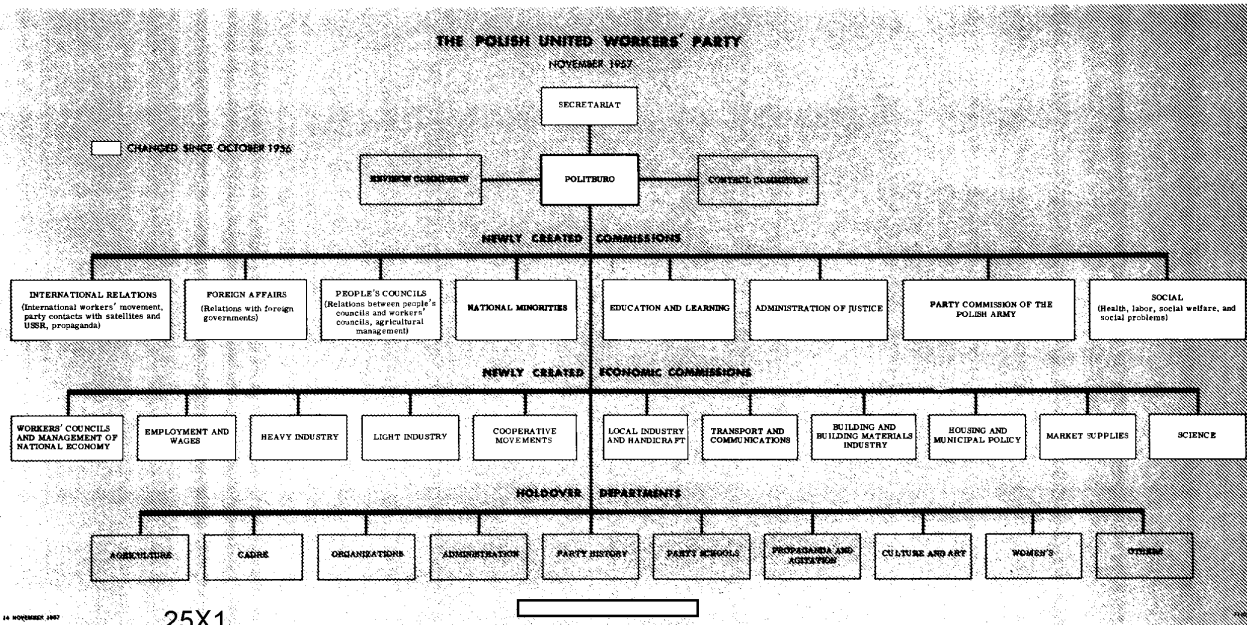
Weak Party Control

In his efforts to assert his power over the party and get his programs implemented,

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predecessor, which in 1955 had a membership of 2,000,000. A separate youth organization affiliated with the Peasant party has outdistanced the Communist youth group and now numbers over 100,000.

Changes in Composition

In an effort to gain unity and a core of reliable party workers, Gomulka has established procedures for eliminating non-Communists, opportunists, and the morally corrupt within the party, as well as his opposition factions--the liberal revisionists and the dogmatic Stalinists. The extreme liberals constitute only a small group which is demanding greater democratization and criticizing relations with the USSR. Although they do not hold key party rank or position, they are highly vocal and their ideas have infected many party members. The Stalinists, who are in opposition to Gomulka's policies, will be difficult to remove because a large majority of the bureaucrats on whom Gomulka depends

for organizational work are Stalinists.

Gomulka has moved against the liberals with his recent crackdown on the student weekly *Po Prostu* and the expulsion of its staff members from the party. He has also sidetracked Poland's most renowned liberal revisionist, Leszek Kolakowski, by arranging for him to study in Western Europe for six months. In moves against the Stalinists, Gomulka has dispatched two prominent party Stalinists to diplomatic posts in Prague, recently removed three provincial secretaries in Koszalin, and cleaned Stalinist opposition out of the principal Warsaw party organization.

Gomulka has also declared war on apathetic elements of the party membership. A recent article in Gomulka's weekly *Polityka* stated: "Two thirds of the party members are passive and are in the party only as a result of the incorrect enlistment methods of previous times; many of them now part gladly with their membership

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cards.... The activists with a few exceptions...have to be taken by the hand. In situations of crisis they are utterly helpless."

According to an official announcement, the total party membership is down to 1,283,-761 from a high of 1,400,000 in 1954. A reduction of about 100,000 has occurred this year through resignations and dismissals. [redacted]

[redacted] goal is a membership of 800,000. The party has failed to attract and keep the majority of working-class members.

Gomulka's attack on corrupt elements is aimed in part at achievement of popular respect for his discredited party. Fully cognizant of the harm done by the past excesses of the party, Gomulka wants to instill into party practices a new code of ethics which he calls "humanism" and thereby gain the confidence of the Polish populace. Furthermore, in a move apparently designed to highlight the changes in the party, it has been proposed that the organization be renamed the Polish Communist party.

To carry out the necessary purges, Gomulka has decided to depend on the party control commission, the composition of which has not been altered since he took over party leadership.

Changes in Organization

Gomulka's plan for organizational reform is designed to achieve a reinvigorated role for the party in Polish political life. Changes have been made in the organization of the central committee staff in the past year which tend to eliminate the party's detailed administrative control of all phases of government operations and substitute in its place a function of policy formulation and control over all major political decisions.

In place of the old departments using large numbers of full-time party functionaries, commissions are being established composed largely of experts drawn from government ministries and agencies, to meet at specified periods to formulate policies. Only small secretariats of the commissions now appear to be in the central committee's full-time employ. Implementation of policies formulated by the party now appears to depend largely on commission members working in their government capacities.

In the process of this reorganization, the party has dropped 8,669, or approximately half, of its full-time party functionaries this year. Of this number 1,700 were from central and provincial committees, and 6,950 were from district, urban, and area committees. The trade union paper Glos Pracy has complained that further cuts must be delayed until provision for other employment can be made, and [redacted]

[redacted] a total reduction of 70 percent is envisaged.

Prospects

Effective control from the center will probably not have been re-established by April 1958, the new date set for the third party congress, at which Gomulka will endeavor to complete his reforms and elect a new central committee. Nevertheless, it is very unlikely that his leadership of the party would be jeopardized at that time.

Even with the withdrawal or expulsion of those elements apathetic and unsympathetic to the party, a long time will be required to restore to the party membership a sense of real value which in turn would engender greater party discipline.

The efforts--not new--to eliminate corruption probably will not succeed in doing more

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than eliminate the most notorious offenders. Some 80 percent of party punishments in 1954 were based on charges of corruption, a tendency defined by a prominent defector as inherent in all responsible party jobs in Poland today. Rather than eliminate all of extremist opposition, Gomulka will prob-

ably attempt to intimidate elements over which he wishes to gain control by making examples of some of the more infamous Stalinists and extreme liberals. Neither group, however, could be entirely eliminated without grave consequences for the party.

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FRANCE'S ADMINISTRATIVE OFFICIALS

France's ability to survive cabinet crises like the recent 36-day interregnum between the Bourges-Maunoury and Gaillard governments depends largely on a well-trained and cohesive bureaucracy. Continuity is maintained despite changes in government by permanent administrative officials who often exercise considerable influence on policy.

Various factors are responsible for the unusual power of the top civil servant in France. One is a long tradition of highly centralized administration which goes back to Napoleon and even the absolute monarchy of the 17th century. In its modern form this tradition is familiarly illustrated in the provincial chief executive appointed by Paris, the prefect. His powers in his own domain are broad enough, however, to obstruct the policies of the government of the moment in Paris.

On the national level, a similar situation obtains. The power of the National Assembly to determine new policy is unquestioned, but the need for continuity of administration results in many opportunities for permanent officials to influence government policy, par-

ticularly in the case of new and short-lived cabinets. The French system is such as to ensure that these top civil servants are exceptionally well trained.

The Bureaucratic Elite

Within the bureaucracy, an elite of several hundred among the million-odd civil servants holds the top advisory posts in the key Ministries of National Defense, Interior, Finance, and Foreign Affairs and fills the personal staffs of the President of the republic and the premier. Made up of individuals who have weathered a rigorous system of competitive education, this elite maintains a considerable degree of cohesion which extends across political, ministerial, and industrial lines. A "super-elite" is composed of top graduates who have successfully passed a stiff examination to become inspectors of finance. This group--which includes Premier Felix Gaillard--is particularly influential in major public and private financial circles.

The state professional schools have an annual enrollment of approximately 15,000.

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Most of France's top public administrators are likely, however, to be alumni of a select group of graduate schools--including the Polytechnic School, 52 percent of whose graduates are in the government service, the Graduate Normal School, and the National School of Administration. The last is an institution set up in 1954 to train specifically for public service a rigorously selected group of students.

The influence of the top administrative elite is particularly important in such key assignments as the personal staffs of the President of the republic and the premier. The two top men serving President Coty--Charles Merveilleux du Vignaux and Henri Friol--have had distinguished careers, including service in the cabinets of other French political leaders. His military adviser, General Ganeval, has figured prominently in reports of Coty's political contacts with General de Gaulle.

Political and Business Ties

The influence of the graduates of the specialized schools in public administration is heightened by the large number of their fellows who have built up successful political careers. Mendes-France's performance in the field of finance led directly to his political prominence, and Gaillard's standing as an inspector of finance was an obvious asset in his investiture on 5 November.

A number of former premiers and present first-rank political leaders such as Edgar Faure, Robert Schuman, Guy Mollet, and Bourges-Maunoury are graduates of the top professional schools, as are Coty and Finance Minister Pflimlin. Strategic diplomatic posts are usually filled by alumni of these schools. Herve Alphand, ambassador to Washington, Jean Chauvel, ambassador to

London, and Maurice Couve de Murville, ambassador to Bonn, are examples.

The frequency of political crises because of financial and economic issues has given specialists in these fields quasi-political influence. Directors of the budget, taxes, foreign exchange, and the treasury are inspectors of finance, as is the governor of the Bank of France, Wilfrid Baumgartner. Since most recent governments have felt the pinch of financial necessity, Baumgartner has had a major voice in determining whether or not a bank advance would be granted. Public loans require the approval of Treasury Director Pierre-Paul Schweitzer, and Budget Director Gilbert Devaux occupies a strategic position in governments chronically in financial difficulties.

The national importance of the bureaucratic elite is further enhanced by the number of key industrial and business firms controlled by members of the same educational fraternity. Aircraft manufacturer Marcel Dassault, whose company makes the Mystere, Jean Marie, president of the Compagnie Generale Transatlantique, and automobile manufacturers Jean-Pierre Peugeot and Pierre Dreyfus of the Renault Company all bear the "elite" stamp.

Control Over Government Policy

With permanent officials of this stature, a minister's powers within his own ministry are limited. Should he move too far or too fast, the career staff can usually slow him down by strict adherence to regulations which immobilize him in red tape. This check on policy is strengthened by the traditional political complexion taken on by individual ministries despite the merit system. The political right, for example, is strong in the armed services and the Paris Prefecture of

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Police, while the center strongly influences the Interior and Foreign Affairs Ministries.

Mendes-France, when premier, soon ran afoul of a number of these limitations on his power. Initially scornful of the expertise of the Foreign Ministry's career staff, which he regarded as too much under the influence of the Popular Republicans who had controlled the ministry for a decade, he was forced to follow their guidance before his tenure ended. Meanwhile, his reshuffling of its personnel to promote those who favored his policies aroused a violent campaign against him which shook the confidence of his supporters and France's allies.

In the early days of the Mollet government, career officials in the Quai d'Orsay were successful in resisting French disarmament delegate Jules Moch's tendency to exceed his instructions in East-West disarmament talks and in toning down the repercussions in French policy of ideas for increasing

East-West contacts launched by Foreign Minister Pineau without consultation with the ministry.

French government administration, despite its capable elite, suffers, however, from bureaucratic sluggishness in responding to new requirements. A wave of political strikes led the Ministry of the Interior to create the rank of "super-prefect" to ensure unity of command in the internal security forces under civil authority. Reforms of long-range importance are now being undertaken by the Foreign Ministry, which is still organized along outdated lines, with more consulates in Italy than the United States. It is overloaded with top grades, whose incumbents have the privilege of refusing to serve in undesirable posts, and it receives only a trickle of new blood from the National School of Administration. Secretary General Louis Joxe has begun to make changes, however, and an extensive reorganization is in prospect.

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ECONOMY OF TAIWAN**Agriculture and Industry**

Economic conditions were favorable in Taiwan throughout the past year, and industry on the island continued its steady expansion. The agricultural crop year 1956-57 was a record one, and the high price of sugar on the world market brought the Nationalist government much-needed foreign exchange. Two new fertilizer plants began production, and expansion of the transportation,

chemical, fertilizer, and mining industries continued at a rate of from 5 to 10 percent per year.

The gross national product continued to increase at a more rapid rate than the population, now around 10,000,000. The limited amount of available arable land will, however, force Taiwan--already a net importer of grain--to develop in the relatively near future light industries based on export markets

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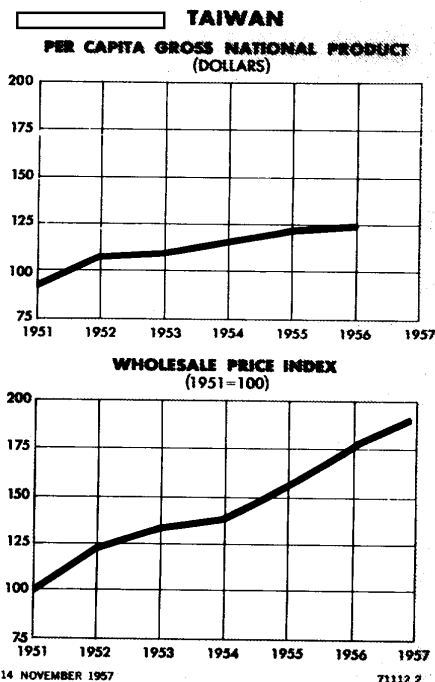
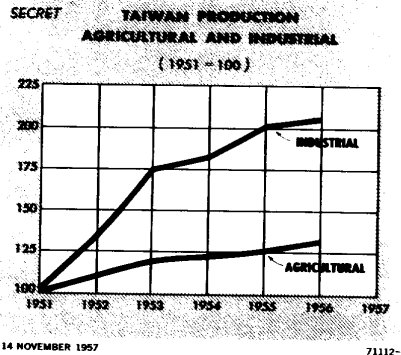
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in order to earn foreign exchange now gained by agricultural exports.

Four-Year Plan

A new Four-Year Plan, approved by the Executive Yuan on 9 May, envisions a total capital investment of approximately \$800,000,000 and an increase in national income of 25 percent by 1960. American officials believe the plan is based on unrealistic assumptions, however, and feel it will be difficult to fulfill. The government is apparently not prepared to hold down rising military expenditures and to economize enough to fully implement the plan.

which has been slow and steady, has generated considerable pressure from underpaid military and government officials for wage raises. Some relief for these individuals will probably be forthcoming, but this in it-

**Inflation**

Inflation has continued despite economic growth, and the cost-of-living index--based on 1952 levels--rose nearly 10 percent between October 1956 and October 1957. This increase,

self will create additional inflationary pressure.

This creeping inflation stems largely from the government's failure to budget resources realistically and its attempt to expand simultaneously its military forces, private consumption, and investment. The budgetary imbalance for fiscal 1957 will be about \$25,000,000 if planned expenditures are not reduced. Defense expenditures will total more than 50 percent of the national budget.

Foreign Trade and Investment

In 1956 the Chinese Nationalist government, with American support, began a much-publicized campaign to increase foreign trade with Southeast Asia and to promote foreign investments on Taiwan. It was hoped that Nationalist prestige could be boosted and export markets expanded to help reduce the island's deficit in international transactions, which since 1951 has remained substantially unchanged at approximately \$75,000,000 per year. Committees were established within the government and some tentative steps

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were taken to simplify entry and exit regulations, but the principal motive of the Nationalists was propagandistic rather than economic.

Officials have admitted that the measure of Nationalist interest in specific trade projects is usually the extent to which the United States will underwrite them. The Nationalists have indicated reluctance to allocate their own resources to the Southeast Asian program and permit a diversion of existing American aid. They do not accept the American view that each project must be economically feasible.

They also have been reluctant to consider seriously suggestions to abolish Taiwan's complicated system of multiple exchange rates, which must be altered before extensive trade and foreign investment projects can begin. They argue that the differential in the rates furnishes an important segment of government revenue, and that inflationary pressure would be heightened if the artificially high rates were reduced to levels which would make buying and selling on international markets possible.

A basic hostility to foreign investment exists among some members of the government, particularly in the legislature. Repeated demands have been made to investigate the circumstances of a contract leasing the facilities of the government-owned Taiwan Shipbuilding Company to an American syndicate to build two 36,000-ton supertankers. Although the contract appears to be sound from a financial viewpoint and successful completion of the project would

greatly aid the economy and prestige of Nationalist China, so much xenophobic opposition has appeared that it is problematical whether the venture can be carried out. Preparation for construction of the tankers has already fallen behind schedule. Foreign Minister George Yeh has stated that the Chinese fear exploitation by "rich foreigners" and are reluctant to offer "even partial ownership of companies to foreign investment."

Future Prospects

Little progress can thus be made in expanding foreign trade and increasing foreign investments in the foreseeable future. A basic change in attitude on the part of the government and Chiang Kai-shek is necessary before progress can be made in reducing Taiwan's balance-of-payments deficit. Conversely, the island will continue to require American aid to make good the imbalance.

Given present levels of American aid, the prospects are good for the next few years for continued progress and relative stability in the Taiwan economy. It should be possible to hold inflation within bounds and maintain the armed forces at their present strengths. In the future, however, as the population increases, the development of additional export industries will be necessary, requiring a revision of the present attitudes of government officials. Development of an economy capable of functioning without American aid would be virtually impossible unless the size of the armed forces were reduced.

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