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24 July 1958

CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I

OF IMMEDIATE INTEREST

MIDDLE EAST DEVELOPMENTS

Lebanon

Political activity in Lebanon is reviving. Speaker of Parliament Usayran professes to be confident that a quorum will be on hand for the presidential election session he called for 31 July after canceling the session scheduled for 24 July. Opposition leaders, although they are still insisting they will not participate in any election until American troops have been withdrawn from the country, are considering candidates. The leading contender in the opposition's mind appears to be Yusuf Hitti, a nonentity who presumably would be easy for the pro-Nasir elements to manage. President Chamoun is putting forward similar candidates on his side--Jawad Bulus, a respected Maronite savant who seems to have a number of supporters but little influence, and Alfred Naq-qash, a 70-year-old former foreign minister. General Shihab is no longer being seriously considered by the civilians, although some army officers still hope for a coup to put him in.

Rebel military activity, which dropped off sharply when the American forces arrived, shows signs of resuming its usual pattern. Kamil Jumblatt's Druze rebels are again moving on the Beirut-Damascus road, courtesy of the army which has vacated positions opposing them, and reports of larger scale infiltration from Syria are again being received. There has been no indication of a rebel intention to attack the American forces, although sniping at American aircraft continues.

Jordan

As tight a security lid as King Husayn's government can forge has been placed on Jordan, but officials still fear the outbreak of disorders or a coup attempt. Disturbances seem particularly likely to occur in West Jordan if the Western powers appear to be becoming reconciled to the new Iraqi regime. Husayn and Prime Minister Rifai have stopped pressing for American troops to join the British forces in Jordan, although they would still like to have them. Rifai's latest concern is Jordan's isolation from international air traffic, which occurred when the UAR banned the flight of Jordanian civil aircraft over its territory.

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Iraq

The new regime in Baghdad has further consolidated its position. Reports from the provinces this week indicate that there was very little if any opposition anywhere to the coup, although the middle class generally has adopted a "wait-and-see" attitude. Public services and communications have been restored throughout the country, the curfew period in Baghdad has been abbreviated, and the border with Syria has been opened, although others remain closed. Officials of the regime have continued to present an appearance of friendliness toward the West and have reiterated assurances that they will respect existing oil agreements, although they do wish

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to renegotiate them in due course.

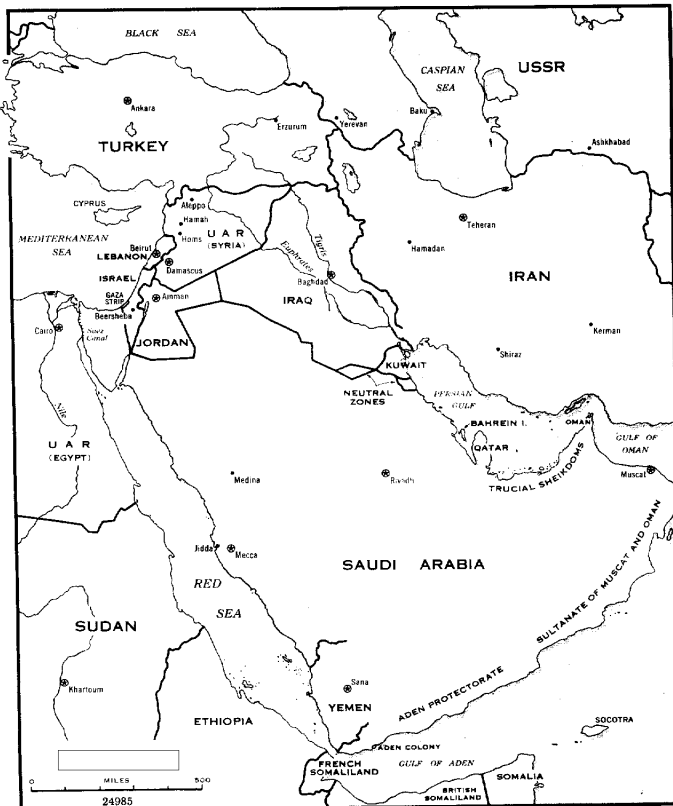
Behind the facade of calm and friendly assurances, however, the Iraqis have clearly been fearful of Western intervention against them and have sought Nasir's full support. On 19 July an Iraqi delegation headed by Colonel Arif, deputy prime minister and possibly the "strong man" of the regime, signed an alliance treaty with Nasir in Damascus.

It is also clear that the Iraqi regime intends to follow Nasir's policy, even if it does not actually join the UAR. Colonel Arif, who does most of the speaking for the regime, has officially defined the new course

in Baghdad as "positive neutrality," and the Iraqi statement welcoming Soviet recognition "emphasized" the Iraqis' desire for the further development of relations with the USSR. One of the first practical forms this emphasis is likely to assume is an invitation to bloc suppliers and contractors to bid on Iraqi development projects. Invitations were previously restricted to Western bidders; the new regime has already canceled a contract awarded an American firm for a sulfur plant.

UAR

Nasir's top priority project this week has been to ward off any Western intervention against the new look in Baghdad. His trip to Moscow and a private UAR propaganda line that the purpose of this trip was to persuade the Kremlin not to intervene in the Middle East were almost certainly aimed in part at frightening the West. UAR officials are evidently fearful nevertheless that they may find themselves at war with the West, and military preparations have been hastened in both Egypt and Syria against such an eventuality. Emphasis has been placed on anti-aircraft defenses; ships loaded with cement are reported in position in the Suez Canal; and the ports of both countries have been closed during the night. Much of the defense activity is ostentatious,

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and may be designed to reassure the populace, particularly in Egypt, of the UAR's ability to meet hostile attack. At the same time, however, Nasir and UAR agents have been active in seeking to exploit other peripheral situations to undermine the Western position in the area.

Kuwait

The Ruler of oil-rich Kuwait, who has been in Damascus on vacation, had two interviews with Nasir this week, and is reported to have assured the UAR leader of his good will, citing the fact that he had resisted efforts to bring him into the Iraqi-Jordanian union. While there is no confirmation of Syrian press assertions that Kuwait may soon join the UAR, public sentiment in Kuwait favors such a move, and the Ruler might do so if only to use Nasir for protection against the revolutionary Iraqis.

Sudan

In the Sudan, pro-Western Prime Minister Khalil is facing discord within his own party and increased activity by the opposition, partly at least Egyptian-inspired. A unanimous vote by the Sudanese Senate on 23 July condemning American landings in Lebanon and the British action in Jordan sug-

gests that Khalil may be losing his hold over even his own followers.

Saudi Arabia

The Saudi Government, fearful that the revolutionary surge may engulf it along with Iraq, is pursuing an open policy of accommodation to Nasir. [REDACTED]

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Israel

The Israeli Government remains alert to possible dangers to it in the Middle East situation, but has not yet mobilized reservists other than those probably needed to plan more general action. Tel Aviv, concerned that its acquiescence in the British airlift to Jordan will serve to identify it further as a tool of imperialism in the minds of neutralist Asian and African nations, is protesting vigorously against the continuation of the operation. The Israelis are redoubling their efforts to obtain promises of Western support and materiel. Foreign Minister Meir is now on a mission to Western Europe for that purpose. [REDACTED]

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SINO-SOVIET AND FREE-WORLD REACTIONS TO MIDDLE EAST CRISIS

Soviet Premier Khrushchev's ostensibly favorable reply to American and British proposals for a UN Security Council session at the heads-of-government level is designed to maintain the momentum of the bloc's dip-

lomatic and propaganda campaign to exploit Arab-Asian opposition to Western policies in the Middle East. The Soviet response attempts to construe the Western letters as acceptance of Khrushchev's 19 July proposals and

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is deliberately ambiguous as to the agenda, participants, and procedure of such a meeting so as to maintain maximum freedom of maneuver. Moscow's aim apparently is to ensure that all the important discussions will be conducted in a Security Council subcommittee composed of the Big Four and India plus representatives of "interested Arab states."

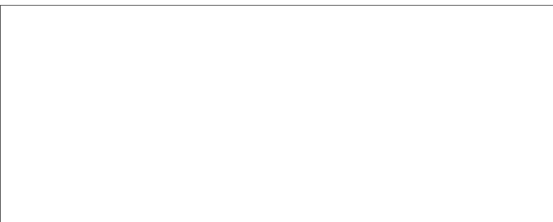
The Soviet summit call highlights a concerted bloc campaign to extract maximum diplomatic and propaganda benefit from the Western landings in Lebanon and Jordan and to inhibit additional Western military moves against the "Arab liberation movement." Moscow moved promptly to establish diplomatic relations with the new Iraqi Government and to extend its diplomatic and propaganda support. Bloc embassy officials in various world capitals privately have pressed the line that the USSR is not particularly concerned by Western troops in Lebanon and Jordan, but that any military move against Iraq, either alone or in concert with Baghdad Pact countries, will provoke "serious" but unspecified Soviet counteraction.

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the Soviet chargé in Ankara

expressed the hope that Turkey "will refrain from taking any steps which might increase tension." This appears to be part of a coordinated effort to reinforce psychological pressures on Western and neutral

countries as to dangers inherent in the Western moves.

Although the Arab press has reported Soviet assurances of "volunteers" in the event of Western military action against the UAR or Iraq, Moscow has not played up this possibility in the present crisis. Moscow radio has devoted more attention to present Middle Eastern developments than to any other international matter in the whole post-Stalin period. Moscow propaganda does not reflect concern that Soviet security has been threatened by the landings in Lebanon and Jordan, although frequent reference is made to the dangers of "world conflagration" which might arise from a continuation of Western aggressive moves in the area.

Massive "popular demonstrations" throughout the bloc and the Soviet Aviation Day speeches of Marshals Malinovsky and Ver-shinin on 20 July were designed to reinforce the false sense of crisis contained in the Khrushchev summit letters.

Neither Moscow nor Cairo has released the substance of the secret Khrushchev-Nasir consultations held in Moscow on 16-17 July, but Khrushchev at the Polish Embassy reception on 22 July stated that he and Nasir reached "an identity of views." Nasir's brief public account of the talks and press accounts originating from Damascus and Cairo reinforce the popular image of close Soviet-UAR collaboration.

Soviet maneuvers in the UN have been designed to mobilize world-wide opposition to recent American and British action in the Middle East and to forestall additional Western military

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moves. Soviet UN delegate A. A. Sobolev on 22 July, following Security Council rejection of Soviet amendments, vetoed the watered-down Japanese resolution to strengthen the UN Observation Group in Lebanon, suggesting Moscow is more interested in keeping the issue alive before the UN than in gaining early withdrawal of American troops from Lebanon.

On 19 July, Sobolev vetoed the American proposal for sending a UN emergency force to Lebanon in line with Moscow's longstanding opposition to such UN forces. The 18 July Soviet proposal for calling a special session of the General Assembly was not voted on [redacted]

[redacted] Moscow would hold off pressing for an immediate assembly meeting pending Western response to Soviet proposals for a summit meeting.

Peiping's Reaction

Since 17 July, the day after the Western intervention, Communist China's press and radio have devoted almost exclusive attention to the situation, and Peiping has joined Moscow in a massive propaganda counter-attack against the West's "aggression." Mass protest rallies were held from 17 to 21 July throughout the mainland surpassing those held during the Suez crisis; Peiping claimed on 21 July that some 21,000,000 Chinese had participated in demonstrations.

There are still no signs that Peiping is considering any kind of major military diversion in the Far East. Chinese Communist efforts, like those of Moscow, have been aimed chiefly at limiting and containing Western intervention, while whipping

up world opinion in opposition to the West.

Apparently confident that diplomacy and propaganda can bring about a disaster for the West, Peiping has made no direct mention of "volunteers" nor has it indicated any intention to intervene directly under present circumstances.

Free-World Reaction

Free-world opinion has rapidly accepted the fact that the next approach to the Middle East problem will be through a summit conference under UN auspices. Many countries nevertheless harbor deep misgivings, fearing that the meeting will not produce any progress toward a solution, and several nations not now members of the Security Council are pleading their cases for inclusion in the discussions.

The Asian Baghdad Pact powers are especially skeptical of the meeting's ability to achieve a satisfactory solution. Other Asian countries, such as Ceylon and Indonesia, will feel that they have less opportunity to be heard than in a General Assembly session.

Those most directly concerned with the Middle East are anxiously awaiting clarification as to which Arab countries Khrushchev referred to in his note of 23 July. Nasir has indicated a desire to come to New York, and all other Arab countries will probably also wish to be represented. Both Israel and Turkey feel they should attend any Middle East meeting, raising the possibility that Iran and Pakistan may also put in their bids. Recriminations from rejected countries will be directed toward those

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powers responsible for the selection.

North Atlantic Council discussions have brought out differences among NATO allies as to the objectives of a summit meeting. At a 23 July meeting, the German representative, supported by the French, Italians, Dutch, Turks, and Belgians, expressed deep concern lest the discussions with the Soviet Union be broadened to cover long-range Middle East problems. They did not appear satisfied with the British statement that only the pending immediate problems of Jordan and Lebanon would be discussed, with broader questions necessarily awaiting more extensive Western consultation.

UN Secretary General Hammarskjold takes the position that his previous terms of reference are sufficient for the time being to enable him to proceed legally despite the Soviet veto of the Japanese resolution. He plans to retain political control of the enlarged group himself. Despite his previous reluctance, the secretary general now appears willing to set up a force as large as necessary to control the situation.

Meanwhile, additional nations are recognizing the new Iraqi regime. Sino-Soviet bloc countries have all recognized Iraq. With India's recognition on 23 July, the number of Asian and African nations following suit is expected to increase materially. Indonesia, the Sudan, and Tunisia took the step prior to India. Since West Germany also appears to favor recognition, a general movement in this direction may develop soon in Western Europe.

Western Europe

Both France and Germany seem apprehensive lest too close a connection with the Anglo-American intervention hurt their own standing with the Arabs. Bonn wishes to maintain its economic interests and preserve its political neutrality in the Middle East. The De Gaulle government fears the intervention may have harmful repercussions in North Africa, and Paris now seems anxious to avoid joining in the intervention. Although De Gaulle appears to agree with a Foreign Ministry group that has been urging that the close French-Israeli diplomatic and military contacts be played down, a standing agreement with Tel Aviv for a French landing in Israel in certain circumstances may already exist.

Among Western European democracies, the Netherlands Government has offered the firmest support of the intervention. Austria, while privately approving, has stated it will permit no more military overflights of its territory for the present. Sweden failed to persuade Norway and Denmark to take a joint approach in urging Western acceptance of Khrushchev's call for summit talks. Of NATO members, only Canada called for a "positive" response.

Latin America

Official reactions to the Middle Eastern events have ranged from full support of the US position by most of the smaller countries to only very tentative support by Mexico.

There is serious concern among some that the UN may be weakened by what the Mexican foreign minister referred to as the threat of a return to "unilateral action by the great powers." Others fear being

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put into a position of opposing what they regard as the justified aspirations of Arab unity and nationalism. Public opinion has been less favorable to the US position, with leftists and Communists strongly condemning the "brutal and im-

perialistic" US moves in Lebanon. Communist-inspired anti-US riots have twice erupted in the Argentine capital, and on 20 July at an election rally, Communists in Chile protested the US action. [redacted] 25X1

[redacted] 25X1

BRITAIN'S MOVES IN THE MIDDLE EAST**Persian Gulf**

The gradual but steady concentration of British forces in the Mediterranean, Arabian Peninsula, and Indian Ocean areas appears designed to enable Britain to retain control throughout the Persian Gulf area and particularly to safeguard the vital Kuwait oil supply. The British will probably not occupy Kuwait's oil installations against the wishes of the Kuwaiti authorities unless trouble develops.

The populace in Kuwait has welcomed the Iraqi coup, but authorities have told Britain they can maintain order and would consider occupation of the airfield premature at this time. If a quick airdrop becomes necessary, a paratroop battalion is available on Cyprus. In the event of overflight problems, infantry units would have to be sent by sea from Bahrain. A British official in Kuwait claims troops could be there in six hours.

The British political agent appears to have developed a good working relationship with Acting Ruler Abdullah Mubarrak. The British had previously supported Mubarrak for the succession and might try to work out some deal with him if the Ruler should move closer to Nasir.

No animosity or discrimination has been shown to Americans or the British so far, but the American Consulate expects trouble, as the reformist nationalists have been ominously silent.

In contrast to Kuwait, the Ruler of Bahrain has agreed to receive British reinforcements, and a battalion has already arrived. A destroyer en route to Bahrain will augment the normal patrol vessels in the Persian Gulf.

The British were also concerned about possible disturbances in Qatar, where sabotage occurred during the Suez crisis, and sent a frigate with a landing party aboard to stand by. The frigate returned to Bahrain when the strike of native oil workers was settled without incident on 21 July.

Libya

In order to protect and if necessary evacuate the King of Libya, [redacted] 25X1

[redacted] the British dispatched a marine commando unit to Tobruk, [redacted] 25X1

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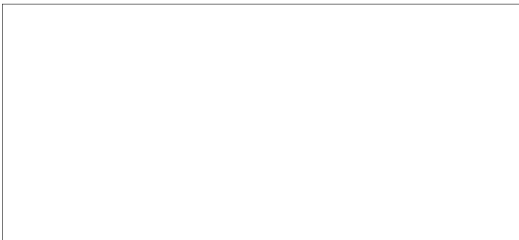
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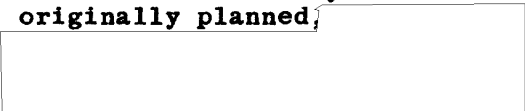


Aden-Yemen

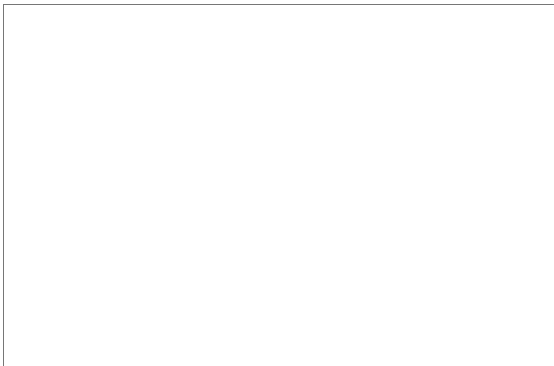
The British in Aden are preparing for increased Yemeni agitation. The Anglo-Yemeni talks in Ethiopia on 14 July produced reasonably friendly discussion but no agreements. Britain has declared it will extend both economic and military aid to the prospective federation of Aden principalities and may specify details in talks planned shortly between the rulers and the governor of Aden. Meanwhile, preventive aerial reconnaissance of Yemeni territory has increased.

London has indicated it will increase both its economic and military aid to the Sultan of Muscat beyond that originally planned.

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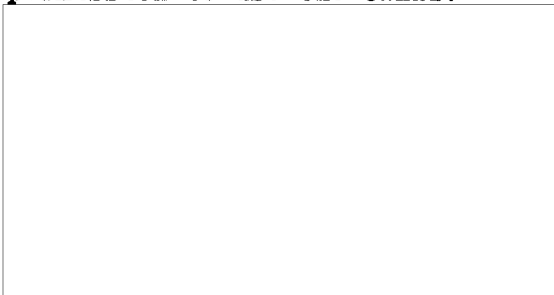


There have been indications for some time of a prospective increase in Omani rebel activity.



Jordan

In an effort to minimize friction, the 1,700 to 1,800 troops are confined mostly to the Amman airfield. Forces are being supplied via overflights of Israel--high and at night, at Israeli request--but London is urgently attempting to organize shipments through the Suez Canal. The War Office has declined to specify London's next move should Nasir refuse permission to use the canal.



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PART II

NOTES AND COMMENTS

MIDDLE EAST OIL SITUATION

Iraq

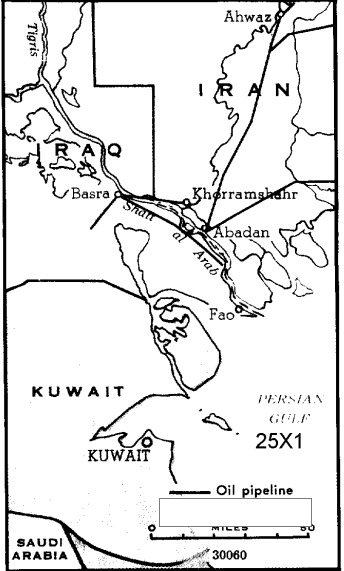
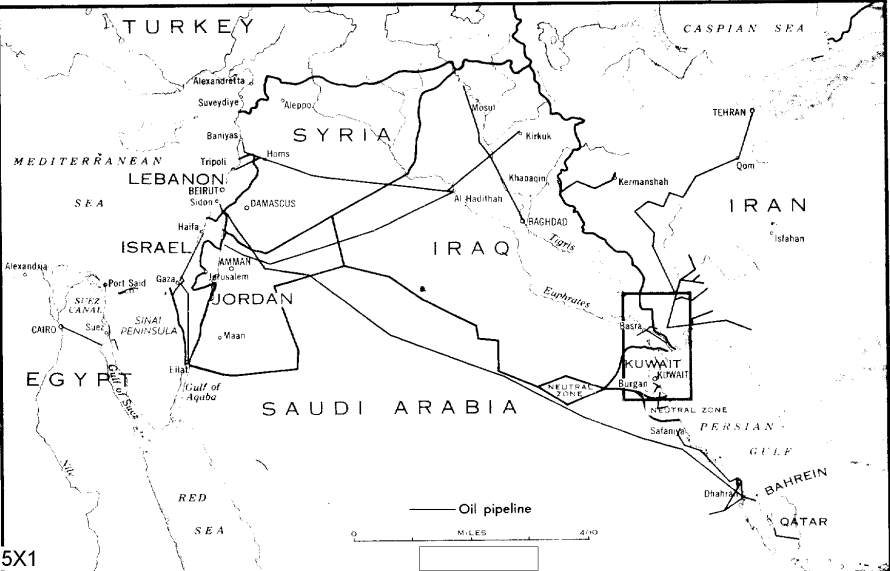
The Iraqi regime's assurances to the West that the flow of oil will not be interrupted are probably aimed at discouraging Western intervention. As a result of the confusion, however, tankers initially were stopped from proceeding up the Shatt al Arab River to the Iraqi ports of Fao and Basra. A few tanker diversions to other ports did occur, but the situation now is normal. Shipments of Iraqi oil to Jordan, which began just before the coup, have been halted, thus stranding in Iraq about half of Jordan's tank trucks.

Iraqi cooperation with the UAR on oil matters has already begun. Officials of the rebel regime reportedly consulted with Nasir in Damascus on 18-19 July regarding plans to build a new pipeline through Syria.

Kuwait

Oil continues to flow from Kuwait, the Middle East's largest producer, at a record rate of nearly 1,600,000 barrels a day, and there are no indications that the flow will be halted. However, riots, strikes, and sabotage are possible. Over half the approximately 200,000 inhabitants of Kuwait come from Arab Palestine, Iraq, Syria, and Egypt. These elements are predominantly responsive to Nasir's brand of revolutionary nationalism, as are many of the remaining 100,000 Kuwaitis.

Commenting on widespread reports that Kuwait would soon join the UAR, an official Syrian spokesman stated that "no formal decision has been taken thus far" but that the UAR welcomes the Kuwaiti people to "join the caravan of liberated Arab nationalism." The Ruler of Kuwait, who was visiting Damascus when the Iraqi



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coup occurred, met with Nasir there this week.

Saudi Arabia

Saudi Arabia's denial of overflight permission to US aircraft for an airlift of products from the Bahrein refinery to Jordan derives from Crown Prince Faysal's policy of seeking an accommodation with Nasir.

The Saudi Council of Ministers--a body headed by Faysal--has just issued a decree announcing that the 44,000-square-mile "preferential area" west of the Aramco concession and encompassing the city of Riyadh will be broken up and given out to possibly as many as ten different companies. The Royal Council apparently does not intend to honor its contractual agreement with Aramco guaranteeing the company what amounts to a first refusal on this area.

Bahrein

Bahrein is a relatively large supplier of military POL requirements for both British and American military units, although it is not an important oil producer by Middle Eastern standards and accounts for only about 37,500 barrels a day--less than 1 percent of production in the area. Bahrein has a major refinery with a capacity of 211,000 barrels of crude a day and cracking facilities for 43,320 barrels a day.

American refinery officials on British-controlled Bahrein fear there is an even chance of a strike, since the refinery employs about 1,000 Iraqi Arabs plus numerous other pro-Nasir groups. During the Suez crisis,

acts of sabotage did occur at the refinery. The Ruler of Bahrein, the British political agent, and the American refinery manager all feel that sabotage is inevitable without heavy guard. It is doubtful, however, whether a heavy guard could prevent violence.

Iran

The present crisis has had no effect on Iranian production or transportation of oil, and the Tehran government is unlikely to take any action which would either halt or reduce the flow of its oil to the West. The major oil terminal and refinery area of Abadan has been heavily reinforced by Iranian troops, and travel in the area has been restricted. Friction is said to be developing between the thousands of Arabs employed locally and the Iranians, and Arab- or Communist-directed violence may develop.

Preparation for Sabotage

Iraq and the UAR have made preparations for denying oil to the West. Two old barges have been towed by the Iraqi regime to the Iraqi port of Fao at the mouth of the Shatt al Arab River, which forms part of the Iraq-Iran border. These barges if sunk would block the river channel, effectively denying oil tanker transit not only to the Iraqi ports of Fao and Basra but to the Iranian oil terminals of Abadan and Khorramshahr as well. Cairo is said to have moved at least two cement-loaded block ships into position in the Suez Canal. Explosive charges have long been in place along the Iraqi and Saudi pipelines which pass through Syria, but it is not believed Nasir will destroy them unless his position worsens considerably.

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Prospects

With the exception of Iran, all of the major Middle Eastern oil-producing countries now have indicated some degree of responsiveness to Nasir's influence. While Iraq has assured the West that oil will continue to flow, it has declared its adherence to Nasir's brand of nationalism and has announced its intention to seek renegotiation of IPC's concession agreement. Even the conservative and pro-Western regime of the late Nurd Said of Iraq, however, was beginning to pressure the IPC for substantial changes in the company's concession area and a

change in the profit split toward the newly established 75-25 Iranian pattern.

The Ruler of Kuwait, who is still in Syria, may have come to some form of working arrangement with Nasir during his two meetings with him there, although the Ruler's main concern is probably to protect his own income. Before he went to Damascus, he had been urging an accommodation with Cairo as the only practical course. In Saudi Arabia, the recent developments make clear that future oil policy will be determined with one eye directed toward Cairo. 25X1

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GENEVA TECHNICAL CONFERENCE ON TEST DETECTION

The Soviet delegation to the Geneva technical conference appears to be seeking a wide enough measure to agreement to handicap the West in insisting on more extensive inspection measures and bring pressure to bear on Britain and the United States to halt tests. In pursuit of this objective, the Soviet delegation has conceded that limited flights by aircraft to collect samples of nuclear debris could be made under certain circumstances over Soviet and US territory.

The Soviet delegates abandoned their insistence that surface stations alone be used to collect nuclear debris and agreed to the use of aircraft over oceans and, if a test alert resulted from other detection techniques, over Soviet and American territory. Soviet delegates have also hinted at agreeing to mobile ground inspection after a test alert at

the option of an international control body.

At an informal meeting on 17 July, Soviet delegates made a strong bid for concluding a unanimous agreement on a control system and thereby avoiding an intergovernmental dispute. They argued that this was possible if the West did not make too extensive demands for inspection. The Soviet delegates claimed that an elaborate inspection system that could guarantee a high probability of detection was unnecessary because no country would undertake nuclear tests if there were any real likelihood of detection. They suggested that a minimal control system could be established initially which could be expanded when more highly developed detection techniques were perfected. The delegation appears interested in getting agreement on the outline of an inspection system without much consideration of its details, an approach that

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could exaggerate the amount of agreement that had actually been reached. The Soviet delegation has not presented as much scientific evidence for its proposals as have the Western scientists.

The conference has reached agreement on acoustic and nuclear debris sampling methods of detection, but some differences still remain on seismic and electromagnetic methods.

While the scope of inspection that Moscow might agree to will not be clear until there

is a comprehensive discussion of control systems, the scientific papers thus far presented by bloc scientists at Geneva are designed to prove that a sufficient degree of inspection can be achieved with a modest inspection system. A remark by one Soviet delegate that it will be difficult to complete the conference before 6 August suggests that the USSR does not plan any abrupt break in talks after the 30 days it originally specified for the conference have elapsed.

(Concurred in by [redacted] OSI) 25X1

SOVIET HARVEST PROSPECTS

According to present prospects, the USSR will have a bumper harvest this fall--possibly the largest in Soviet history. Favorable weather, following a late, cool spring, has prevailed thus far in most of the new lands and in the traditional growing areas. The American Embassy comments it has become increasingly apparent in recent weeks that if favorable weather continues, a record crop could be harvested this year.

Khrushchev, in his 17 June report to the central committee on agricultural procurement, indicated that prospects were good for most crops, and Minister of Agriculture Matskevich said that as of 10 July the condition of grain crops was good almost everywhere, except for some districts in the Urals and western and northern Kazakhstan. A Gosplan official recently told an American delegation of agricultural economists that the grain harvest would exceed that of 1956, the best year thus far.

In 1956, harvest losses caused by both rainy weather during the harvest season and by inadequate transportation and storage facilities were high in

the new lands area. Storage facilities have been substantially expanded since that time.

A bumper grain harvest this year would enable the USSR to increase its exports to non-bloc countries and to the European satellites, especially in the south, where prospects are for a small-grain harvest somewhat below average. Although serious floods may be developing in China, Peiping will probably not receive agricultural products from the USSR. The flow of agricultural products has been traditionally from China to the USSR.

A bumper harvest would also aid in the drive to catch up with the United States in meat and milk production. Milk production may increase sufficiently in 1958 for the USSR to claim to have caught up with or even to have surpassed the United States in total production. In 1957 the USSR claimed to have produced 95 percent as much milk as the US; a more accurate comparison, however, would probably put Soviet milk production closer to 85 percent of that of the United States. (Prepared by ORR) 25X1

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COMMUNIST CHINA ENTERING FINAL STAGE OF "RECTIFICATION"

Peiping's "rectification" campaign, which is the regime's systematic program for refining Communist cadres to the point where they are capable of regimenting the populace without provoking antiregime sentiments, is "nearing conclusion" in central government departments. Rectification in these departments has been the pilot for the over-all campaign, and last week's announcement that 90 percent of them will conclude their drives by the end of July suggests that Peiping expects to wind up rectification in all areas by fall. The campaign for the past several months has been directed toward drumming up popular enthusiasm for the regime's all-out production effort, and the Chinese Communist party continues to avoid the crude and repressive measures used in national campaigns during 1950-54.

During the present campaign, the regime has attempted to appear solicitous in redressing popular grievances against Communist cadres. The People's Daily on several occasions has attacked the "phenomenon of inequality," which it admits still exists in the relationship between leaders and the public. Public debate and the lodging of popular protests have been stressed as the means for preventing discontent arising from the "mistakes" of cadres.

Posters with large Chinese characters, which have been plastered on factory buildings and agricultural cooperative headquarters, were declared on 17 July to be the "permanent method of airing views in the future." Unlike the free-speech period during the spring of 1957, however, the criticisms contained in the posters apply only to lower level cadres and administrative personnel--including some plant managers--and for the large part discuss major production measures before the measures are put into effect.

The rectification campaign within the Chinese Communist party is similar to its predecessor of 1942-44, which was designed to improve the indoctrination of party members and train them to apply Bolshevism to Chinese conditions. Thus far there has been no confirmation of rumors of a Stalinist-type purge and killing of "old comrades." Only a handful of "rightists" have been exposed in the party, and none of these is believed to have been punished severely. The number of Communist party members expelled since October 1955 as "counter-revolutionaries"--well before the start of the rectification drive--came to less than one percent of total party membership, according to the minister of public security.

Rectification in the Ministry of Public Security points up the relatively moderate nature of the campaign. Police boss Lo Jui-ching recently stated that "only a part" of the people's police is "liked by the masses," primarily because the police "speak rudely to the masses and do not treat them as equals." Lo stated that, during the rectification drive, inhabitants of such cities as Peiping and Shanghai have been criticizing the police by using posters; he claimed that "public criticism of the police is permitted nowhere else in the world." In exhorting public security personnel to improve, he warned that whether the populace "dares to criticize us or not" constitutes an important criterion for judging whether police-populace relations are "normal." However, the people, too, have been "bound to good behavior" by publicly signing pacts under which individuals are to educate themselves in "socialism" and become, in effect, part of the docile labor force of "red" experts and workers now being created.

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PEIPING'S ARMED FORCES ASSUME LARGER ROLE IN CIVILIAN ECONOMY

In support of this year's all-out drive for rapid economic development, Peiping has assigned more troops to civilian tasks, evidently hoping that military personnel, with their disciplined labor force and relatively high technical skill, will set a beneficial example to workers and peasants and refurbish the image of the armed forces as a friend of the masses. This campaign will probably not be allowed, however, to interfere significantly with the training and efficiency of combat units.

Members of the armed forces, from "generals to privates," have been ordered to contribute this year some 30,000,000 man-days to agricultural work, a 50-percent increase over last year. By the end of April, however, the armed forces had already contributed 15,000,000 man-days to water conservancy work alone, and the year's target seems almost certain to be overfulfilled.

The army's railway construction corps recently doubled its target for railroad building in the Second Five-Year Plan (1956-1962), to a total of over 6,000 miles of new line. In the Sinkiang autonomous region, where the army has been particularly active in the past, army units plan to reclaim more than 600,000 acres of farm land this year alone, as compared with a total of only 500,000 acres reclaimed in the past seven years by army labor. These units will also play a key role in the regime's plan to turn Sinkiang into one of the nation's top cotton-producing areas.

Since late last year, military factories have been diverting part of their productive capacity to the manufacture of civilian goods. Thus, an aircraft plant which formerly produced for the military is now making light transports for China's civilian air line, and a naval ship repair facility in Fukien is making steel for civilian consumption. Numerous articles have appeared in the mainland press detailing how machine shops and repair facilities of the armed forces are producing small tractors, irrigation pumps, and other types of equipment for China's farms. Military units have been reported helping civilian authorities build the local industrial installations which are a featured part of Peiping's new program for socialist construction.

At least one military unit, which has retained its organizational integrity after discharge from the armed forces, has been active as a construction company at the No. 1 Auto Works in Changchun and later at Fularki. The majority of this year's discharged servicemen, including officers, have "volunteered" for work on state farms in northern Manchuria. Others have been assigned to work on farms and mines in northwestern China. This diversion of the military to support the civilian economy illustrates the importance the leadership in Peiping attaches to achieving a measurable degree of success in the present drive for economic development. [redacted] (Prepared by ORR)

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PEIPING CONTINUES HARD LINE TOWARD JAPAN

Peiping is giving no sign of letting up its pressure on the Kishi government in Japan. Economic and cultural exchanges broken off by Peiping in early May remain in abeyance, and Communist spokesmen have recently called for further sanctions to be taken against the Japanese.

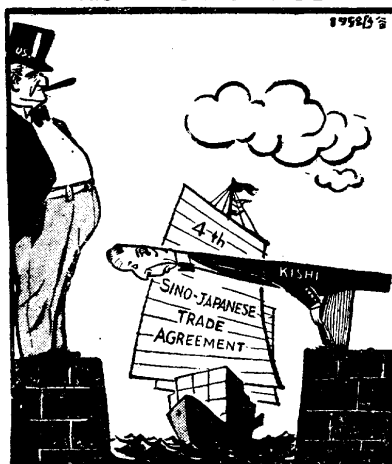
The Chinese still insist that the Kishi government must take the first step if relations are to improve. It now appears that Peiping's minimum price for a resumption of trade is Kishi's approval of all provisions of the fourth private trade agreement. The terms of this agreement, which permits the exchange of trade missions with quasi-diplomatic rights and the right to fly the national flag, very nearly caused a rupture in Japanese - Chinese Nationalist relations last spring before it was rejected by the Japanese.

For a normalization of all relations, however, Peiping says it will require full diplomatic recognition from Kishi, or, at a minimum, a break in ties between Tokyo and Taipei.

The latest tactic that Peiping is using to increase the pressure of Japanese business interests on Kishi for a resumption of trade is the threat of a boycott by Overseas Chinese of Japanese goods in areas of Southeast Asia. At a recent meeting in Peiping of an organization of Overseas Chinese who have returned to China, two Com-

unist spokesmen called on the "broad masses of patriotic Overseas Chinese" to boycott Japanese goods and thus assist the "motherland" in the struggle against Japanese "economic expansion."

It is doubtful that Peiping could carry off a boycott

**CHINESE CLAIM
KISHI BLOCKS TRADE**

"A bow to his master"

-- from Peiping Review
22 Apr 1958

throughout all of Southeast Asia, but Japanese goods have been losing their pre-eminent position in markets there for some time--in large part because competitive Chinese goods are consistently underpriced. The mere threat of a boycott, however, has heightened concern in Japan, particularly among textile interests, that it might lose Southeast Asian markets to Communist China.
(Concurred in by ORR)

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PEIPING'S ECONOMIC OFFENSIVE IN SOUTHEAST ASIA

Communist China, already well established in consumer goods markets in South and Southeast Asia, is selling increasing amounts of machinery and industrial raw materials there as well. Peiping's exports, although relatively small in the area, will probably expand rapidly since they are tied in with the Chinese aid program and attractive terms are being offered.

Under Peiping's recent loans and grants worth about \$60,000,000 in Southeast Asia, Chinese consumer goods are being sold in local markets to finance the construction of light industrial plants. Indonesia is receiving a textile factory, and Burma is importing Chinese machinery for soap and textile plants. Under its grant to Cambodia, China is to construct

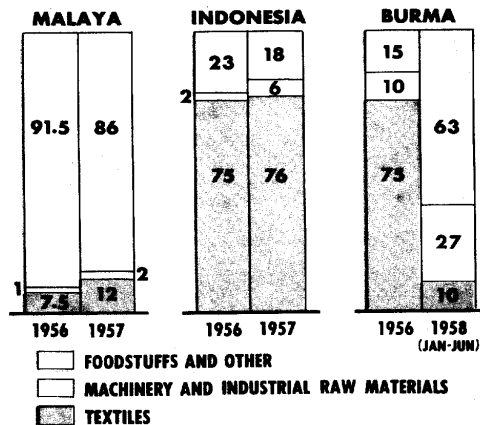
sion from that country is investigating the possibilities for this venture. Exports of machinery and consumer manufactures as a form of assistance have increased the willingness of underdeveloped areas to accept Chinese aid programs, and have established a foundation for Peiping's expansion of political relations as well.

China is emphasizing exports to Southeast Asia, to offset its growing trade deficit in Western Europe. China also is able to purchase raw materials from Southeast Asia for its own use or for re-export to the Soviet bloc. The growth of Communist China's sales in the area has been conspicuous since 1955, and total exports to Southeast Asian countries amounted to \$95,000,000 in 1957, double those of 1955.

Peiping focuses its trade drive on the Overseas Chinese communities in these countries, particularly in Indonesia and Malaya, where there are large groups of Chinese. Peiping-controlled branches of the Bank of China are sources of marketing information and offer credit facilities for Chinese merchants. Peiping has made a practice of granting Asian importers short-term letters of credit and long-term contracts protecting merchants from price declines. Pro-Communist associations exhort Overseas

PATTERN OF CHINESE COMMUNIST SALES IN SELECTED SOUTHEAST ASIAN COUNTRIES

(PERCENT OF TOTAL SALES)



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four industrial plants to produce textiles, paper, cement, and plywood. China has also offered to set up textile mills in Ceylon, and a technical mis-

Chinese consumers and businessmen to buy mainland China goods, and Peiping sets prices lower than in the local markets. Peiping now is publicly urging these

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communities to boycott goods from Japan, with whom Peiping has severed economic relations in a blatant appeal to enter markets primarily supplied by Japan.

Although China is not able at present to supply many manu-

factured goods in large quantities, its advertising indicates that further export diversification is planned. For the first time China is offering trucks and buses for sale in Southeast Asia. [redacted] (Prepared by ORR) 25X1

CAMBODIAN RECOGNITION OF COMMUNIST CHINA

The Sihanouk government's de jure recognition of Communist China, to include an exchange of ambassadors, follows several weeks of demagogic stage-setting by the premier. Sihanouk has been alluding to the need for a "new ally close at hand" to offset alleged Western bias against Cambodia in its increasingly bitter territorial and other disputes with South Vietnam. Cambodia heretofore has deliberately avoided any closer ties with Peiping than the economic and cultural relations entered into in 1956.

Many influential Cambodians, apparently including King Suramarit and Queen Kossamak, are deeply concerned over the implications of this step. They fear this will aggravate the problem of Communist subversion and jeopardize the continuation of American aid. Although Sihanouk is still firmly in command, open defiance of his power may develop among conservative political and military elements who are increasingly critical of his one-man rule.

Strong reaction can be expected from South Vietnam, where

officials fear Sihanouk also intends to grant representation to Communist North Vietnam. Saigon is convinced that Sihanouk--who is likened to a less intelligent Nasir--harbors grandiose plans of restoring, with the support of Communist China, the ancient Khmer Empire at South Vietnam's expense. President Diem has regarded Sihanouk's past accommodation of the Sino-Soviet bloc a serious menace to Vietnam's security. He has dwelt recently on growing internal opposition to Sihanouk and can be expected to support, if not actually promote, a scheme to remove him from power.

Cambodia's recognition of Communist China constitutes a significant political victory for Peiping and will enhance its prestige throughout Southeast Asia, particularly among the influential Overseas Chinese communities. Taipei's already shaky influence among Cambodia's 250,000 Chinese will be virtually eliminated, and chances for accrediting the unofficial Chinese Nationalist consul now in Phnom Penh appear nil. [redacted] 25X1

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INDONESIA

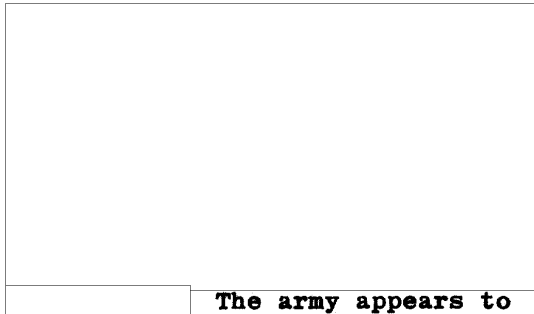
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Army Chief of Staff Nasution has ordered law enforcement agencies to take steps to prevent strikes and sabotage or any other threats to public order. This is an apparent reference to the recent threat of SARBUPRI, the Communist-dominated agricultural workers' union, to take action against American rubber interests in Sumatra unless US troops are withdrawn from Lebanon. At least two other Communist-led labor unions and one Communist-manipulated organization have threatened action against American economic interests.



Indonesian Government leaders believe the dissidents in Sumatra plan to transfer their headquarters from Central to North Sumatra, specifically to Tapanuli, an area where the dissidents have been most effective.

The army's ability to prevent extensive damage should the Communists choose to follow through on their threat is highly questionable in view of the troops' present difficulties in maintaining order in the dissident Sumatran areas. A concerted sabotage campaign in Sumatra would also affect American oil installations, where another Communist-dominated union, PERBUM, is strong.



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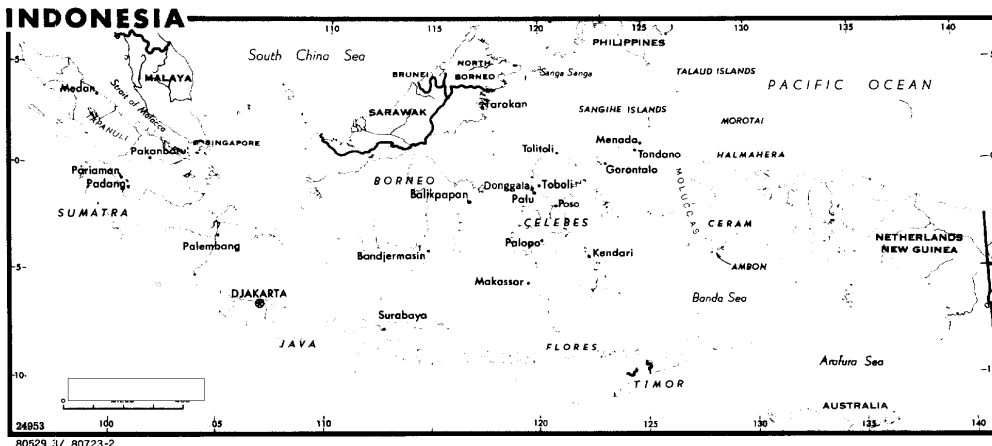
Indonesian Government forces occupied Tondano, a city near Manado in the North Celebes, on 17 July, thereby further reducing the area still under dissident control.

The army appears to have abandoned plans for postponing the 1959 national elections, probably as a result of nonsupport from President Sukarno. According to Deputy Chief of Staff Djatikusumo, military leaders are considering strengthening IPKI-- a small party supported by certain army elements--as a political vehicle rather than supporting one of the larger non-Communist parties.

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HONG KONG - CHINESE COMMUNIST RELATIONS

Hong Kong - Chinese Communist relations, already strained by British efforts to curb Communist subversion in the local schools, may be further exacerbated by Peiping's order for "peaceful" demonstrations in the colony to protest Anglo-American intervention in the Middle East. The Hong Kong authorities also believe Peiping may take economic reprisals against the colony, which receives about 80 percent of its foodstuffs from the mainland. While the local security forces are believed capable of controlling any civil disorder short of an all-out Communist attempt to take over the colony, Hong Kong's dense and volatile population poses a latent threat of mass violence that might be ignited by any civil crisis.

Both Hong Kong and London have been concerned for some time over Peiping's reaction to the colonial government's refusal to permit Communist-controlled local schools to fly the Chinese Communist flag. The ban is aimed at combating Communist subversive activities in the schools, although local British courts may not uphold the government's action. Communist propaganda has strongly condemned the ban, and Peiping on 10 June officially protested this "unfriendly act."

One London official has termed Peiping's attitude increasingly "nagging and trucu-

lent." Despite this, however, London has authorized the Hong Kong authorities to take action against the principal of the colony's largest Communist-dominated school for his continued violation of the prohibition of political activity in the schools. London's reply to Peiping's protest of 10 June will declare that the flag ban was ordered to prevent possible civil violence which could arise if the Communist-controlled schools continued to fly Peiping's flag. Most of Hong Kong's population, which is 98-percent Chinese, is believed opposed to the Peiping regime.

The Hong Kong police recently withdrew permission for an international trade fair to be sponsored by local supporters of the Chinese Nationalists in mid-August. The police explained that the fair also would constitute a threat to public safety. The government's action in this instance, however, appeared primarily intended to demonstrate its impartiality.

Peiping's local machinations in response to the Middle East crisis appear to have increased the possibility of civil disorder in Hong Kong. However, the capabilities of the Hong Kong security forces have improved since the riots of 1956, and the British continue to assert their right to control Hong Kong affairs without outside interference.

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PRO-COMMUNIST LEADERSHIP OF JAPANESE TEACHERS' UNION CHALLENGED

The pro-Communist leadership of the influential Japan Teacher's Union (Nikkyoso) is being challenged by a moderate left-wing faction and by the

government, which is moving to eliminate leftist influence in the educational system. The internal power struggle is related to the government's newly

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established system for evaluating teachers. If the moderate wing wins out in the convention scheduled for 27 July, it probably would try to make some compromise with the government on the teacher rating system, which appears certain to become effective throughout most of Japan in September.

Prime Minister Kishi, together with conservative leaders in business and education, regards the teachers' union as the greatest threat to Japan's democratic institutions. The government is attempting to restrict Nikkyoso's influence by reimposing some degree of central government control of education as well as by direct measures to restrain the union's political activities.

Since 1956 local school boards have been appointed by governors and mayors instead of elected despite the opposition of scholars, educators, and the press, who charge a revival of state control of education.

The government has devised a standardized rating system for teachers throughout the public school system. The system, which has been implemented in two of Japan's 46 prefectures and is expected to become effective in most others in September 1958, offers incentives to outstanding teachers and is designed to improve personnel methods and raise the level of instruction. A recently passed government bill gives school principals a special allowance and is designed to induce them to leave Nikkyoso. Prime Minister Kishi also has intimated that, if necessary, he would resort to legislation excluding principals from membership in the union, and the government is considering standardizing textbooks throughout the country. Texts are now selected by individual teachers.

The teachers' union is the country's largest labor organization, comprising about 85 percent of Japan's 645,000 primary and junior high school teachers. Teachers in senior high schools have a separate union. Japanese schoolteachers are traditionally conservative, but since World War II have been dominated by Communists holding powerful policy-making positions in the union. Nikkyoso exercises political power through its position as the largest union in the General Council of Trade Unions (Sohyo), and through its control of 24 Socialist members of the Diet.

During Nikkyoso's annual convention in early June, controversy over policy toward the government's system of rating teachers and factional rivalry over the election of the secretary general revealed a split in the union between moderate and leftist factions. Secretary General Miyoshi Hiragaki, representing the pro-Communist elements, walked out of the convention when Vice Chairman Sadamitsu Miyanojara, leader of the moderate faction, won the election, apparently by one vote. The convention adjourned without validating the election requiring a new convention to settle the dispute.

The union charges the government with attempting to control individual teachers by arbitrary discharges, penalties, and a return to prewar institutions. The government appears determined, however, to continue its attack against Communist influence in the teachers' union and to discourage teachers from using their classroom positions for political activities. The government program has not aroused popular opposition, and Japan's teachers probably will gradually become more responsive to central direction. 25X1

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NEPAL'S DETERIORATING FINANCIAL POSITION

Nepal's efforts to develop its primitive economy are impeded by the country's limited financial resources. The budget for fiscal 1959, which began on 15 July 1958, indicates that the government will exhaust its funds by the end of 1958 unless it cuts economic development activities or resorts to printing paper currency. Since either move would cause political problems for the government in view of the elections scheduled for February 1959, Katmandu is more likely to attempt to secure additional foreign aid.

Expenditures budgeted for the present fiscal year total \$14,950,000. Normal government expenses account for \$11,836,000 of this sum, and the remaining \$3,114,000 is to be used for economic development, chiefly in conjunction with foreign-aided projects. Total anticipated revenues are only \$10,310,000, leaving a deficit of \$4,640,000. Katmandu can use \$2,330,000 in unutilized Chinese Communist aid which was given in the form of cash, as well as the remaining \$820,000 the government has in the Nepal State Bank, thus reducing the deficit to \$1,490,000.

While Nepal could increase taxes enough to eliminate even this shortfall, no political leader in the present interim government is likely to support such a move or to take responsibility for cutting economic development expenditures before the elections. The government, therefore, probably will attempt to secure additional foreign aid to enable it to carry out present development plans.

The Soviet-Nepalese communiqué issued at the end of King Mahendra's recent visit to the USSR stated that Moscow agreed to extend economic assistance to Nepal and that discussions on the scope of such aid would be undertaken after the King returned to Katmandu. While the Nepalese Government probably is willing to receive some Soviet aid, it is reluctant to accept Soviet technicians and may attempt to use the talks with the USSR to stimulate India and the United States to expand their existing aid programs. India is already supplying \$20,000,000 in assistance to Nepal's Five-Year Plan. 25X1

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MILITARY DISAFFECTION IN CEYLON

The reported deterioration of morale within Ceylon's military and police forces, which suppressed widespread communal violence in late May and early June, creates doubt concerning their ability or desire to maintain internal security in the event of further disturbances. Their lowered morale stems chiefly from apparent disagreements between Prime Minister Bandaranaike and Governor General Goonetilleke over the role

of the armed forces and who is to control them under emergency rule. Bandaranaike's intervention has hamstrung military efforts to execute orders from Goonetilleke, who took over primary responsibility for directing the armed forces when he assumed emergency powers on 27 May. Increased unrest in the services might eventually cause key military elements to become antagonistic toward the government.

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Bandaranaike's directive to the police on 2 July threatening severe consequences if he received further reports of police excesses in their efforts to maintain order, and his order of 5 July to arrest a high-ranking Tamil naval officer accused of abusing Singhalese agitators substantially damaged police and military morale. US Embassy employees who visited Ceylon's eastern province during the last week of June reported that military personnel



BANDARANAIKE

stationed there blamed the government--particularly the prime minister--for the island's troubles. Military personnel also stated that it is "high time" the governor general took action "to end this administration," mentioning in this connection "a caretaker govern-

ment" which might include military participants.

The increase in Goonetilleke's personal power as a result of his firm use of emergency powers and the corresponding decrease in Bandaranaike's prestige may be responsible for at least two



GOONETILLEKE

recent indications of friction between the two men. At a meeting on 28 June which Goonetilleke and Bandaranaike held with major newspaper editors to discuss existing press censorship, Bandaranaike granted permission for free reporting on parliamentary proceedings, then withdrew it, apparently at Goonetilleke's request. An emergency regulation authorizing arrests without warrants, which Bandaranaike revoked on 5 July, was restored the next day, probably also at the governor general's insistence.

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DE GAULLE'S ECONOMIC AND CONSTITUTIONAL PROGRESS

Premier de Gaulle hopes to profit from a postponement of France's pressing economic problems to put the finishing touches on the constitutional

revisions to be submitted to a referendum either on 28 September or 5 October. Both business and labor interests will become increasingly restive over his

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economic program, however, and he is apprehensive over the repercussions Middle East developments may have on the Algerian situation.

France's most immediate economic difficulties have been temporarily put off. Finance Minister Pinay's gold-backed loan, which brought in approximately \$785,000,000, including \$169,000,000 in gold, has improved foreign exchange holdings to the extent that France may not have to resort to foreign assistance before the end of the year. De Gaulle's promise to review the wage situation in the nationalized industries before the end of the year if economic circumstances warrant will not satisfy labor, however, and Christian and Socialist union leaders appear seriously concerned over worker reaction. Nevertheless, a Communist union official has expressed doubt that a strike would be called in the immediate future.

On the international economic front, the premier has instructed the cabinet to find some means of reaching agreement on the proposed free trade area in the interest of maintaining unity within the Western world. Farm and business groups, however, which had been reluctant even to enter the Common Market despite its concessions to France, will oppose a too lib-

eral interpretation of this order.

The cabinet is completing its review of an initial draft of constitutional revisions which will be submitted to an advisory committee of legislators and jurists by the end of July. It has been announced that the overseas territories will be asked after the referendum to decide whether they prefer (1) continuation of their present status, (2) full integration with France as departments, or (3) "association" in a framework of federated territories.

Algerian settler extremists, who reject any form of federal relationship and demand complete integration of Algeria into France, can be expected to react sharply to this proposal in view of De Gaulle's earlier statement that Algeria would have a "choice place" in a future federal association of France and its overseas possessions. Their reaction will probably be intensified by a debate just published in Paris in which the prointegration side admitted a federal relationship was the only practicable way of associating Algeria with France. De Gaulle now seems fearful lest Middle East events precipitate developments in North Africa which would prevent the application of a moderate program.

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THE ITALIAN GOVERNMENT

The close margin of 295-287 by which the Italian Chamber of Deputies approved Amintore Fanfani's Christian Democratic-Democratic Socialist government on 19 July points to a situation of inaction or chronic instability. The government is pledged to support active participation

in NATO and to a program of social legislation but, because the government coalition is in a minority in the chamber, it must depend on the help of other parties. Moreover, both government parties have sharp internal divergencies on policy that may prevent much progress and may

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even cause the government to fall.

The coalition has a majority in the Senate, but it will continue to be dependent in the Chamber of Deputies, as it was in the investiture vote, on support from one Community Movement representative and the abstention of six Republicans and three deputies representing the German-speaking portion of the South Tyrol. Republican participation will not be decided until the party congress in October, and support from the conservative Liberals would threaten the existence of the present center-left coalition. Enactment of the government's proposed social legislation might win some eventual Nenni Socialist support, but Fanfani's strong endorsement on 19 July of the American and British moves in Lebanon and Jordan makes unlikely any Nenni Socialist backing for the time being.

Fanfani has tried to create a "new-broom" impression by imposing strict working hours on

government employees and cabinet members. His program, however, which was adopted by a joint meeting of the two coalition parties on 28 June, closely parallels that of the recent ineffectual Zoli government. In general, it calls for intensified spending on the underdeveloped



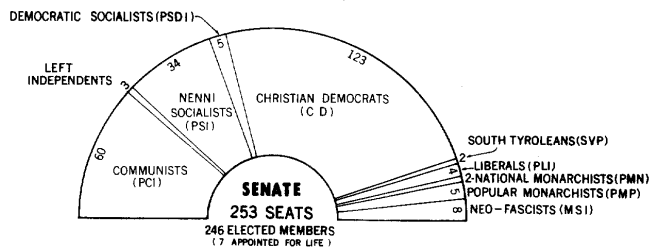
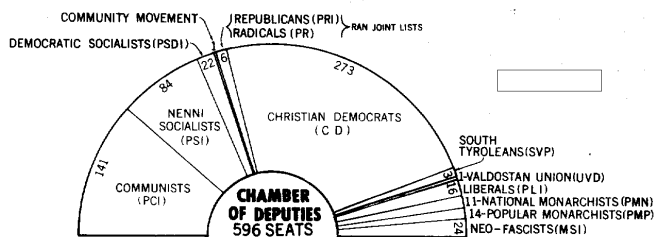
FANFANI

south, a variety of housing and other welfare measures, a plan for development of educational facilities, legal and administrative reforms, action in favor of European unification, and a defense of the consumer against monopolies. The government must contend in any case with foot-dragging by right-wing Christian Democrats and pressure from influential conservative church and industrial groups.

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Former Democratic Socialist party secretary and left-wing leader Matteotti and two of his supporters have reportedly resigned from the party's governing body, although they apparently intend to remain party

ITALIAN PARLIAMENT
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members in order to wrest control from party secretary Saragat and pull the party out of the government. Although all 22 of the Democratic Socialist deputies voted in favor of Fan-

fani's investiture, some six of these are believed to be supporters of Deputy Matteotti and could take steps to bring down the Fanfani government if the party crisis deepens.

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BRAZIL RELATES DULLES' VISIT TO WESTERN SECURITY

During Secretary Dulles' planned good-will visit to Brazil, scheduled for 3 to 5 August, President Kubitschek will probably emphasize not only Brazil's serious financial difficulties but also the pressing need for "Operation Pan-America"--his term for a "comprehensive reappraisal" of inter-American relations proposed in a letter to President Eisenhower in early June. Kubitschek views underdevelopment as the weakest link in hemisphere security, and he has pointed to the urgent need to remedy the situation.

While Kubitschek has left a specific blueprint for "Operation Pan-America" to a later inter-American meeting, he has described in recent speeches some of the Latin American grievances which he feels threaten to undermine the inter-American system.

Brazil views itself as the United States' senior partner in Latin America, not only because of its size and strategic location but also because of its close political and military support of the United States. Brazil believes this close cooperation increases its vulnerability in the East-West struggle and that it should have more of a voice in international affairs--that the Latin Americans should no longer be "a simple choral group."

Kubitschek told top government and military officials on 18 July that it was of primary importance to "maintain indestructible relations" with the US and, therefore, Brazil's duty to express unhesitatingly its sincere reactions. Kubitschek described his letter to President Eisenhower, which he sent shortly after Vice President Nixon returned from South America, as a "warning cry against the cold war that is now beginning to exhibit its first symptoms in our continent." In addressing Latin American diplomats on 20 June, he urged that the sickness of underdevelopment be combated with modernized international financial institutions, technical assistance, and measures to protect primary products from excessive fluctuation. His views have been heartily endorsed in Latin America.

Increasing financial difficulties in Brazil, linked to lower prices and reduced coffee exports, which supply 60 percent of Brazil's foreign exchange, have limited Brazil's economic development plans and caused rising discontent. Nationalists friendly to the United States, as well as extremists, are exerting pressure on the government to seek quicker solutions to pressing economic problems.

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The Communists--showing some recovery from last year's dissension--are exploiting discontent to press for increased trade and diplomatic relations with the Soviet bloc. Opposition campaigning for the 3 October gubernatorial and congressional elections will put additional pressure on the government.

Communist-influenced student groups have publicly

threatened a "peaceful" demonstration against Secretary Dulles, hinting at a road blockade, [redacted]

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[redacted] The police, who are trying to anticipate possible points of difficulty, claim to be capable of controlling any violence which might occur. [redacted]

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PART III

PATTERNS AND PERSPECTIVES

MIDDLE EASTERN MEMBERS REAPPRAISE BAGHDAD PACT

Turkey, Iran, and Pakistan are engaged in an intensive re-appraisal of regional security along the "northern tier" in preparation for the Baghdad Pact Ministerial Council meeting in London on 28 July. Alarmed over the effects of the Iraqi coup on collective defense arrangements and on the stability of governments in the area, Ankara, Tehran, and Karachi will strive for greater regional integration, full US adherence to the pact, and increased military assistance. They anticipate that the British role will be de-emphasized in any event.

Impact of the Iraqi Coup

The sudden overthrow of King Faysal's regime was as much a psychological blow to the three other Moslem nations in the Baghdad Pact as it was a loss in purely strategic terms. The shocked reaction of the Turkish, Iranian, and Pakistani chiefs of state was quickly translated into concern over the future of the collective defense system and also over internal repercussions in their own countries. Demoralization among the pro-Western countries in the area was recognized as a real danger.

News of the military coup in Iraq broke as the leaders were gathering on 14 July in Turkey for a meeting of the Moslem members of the pact in advance of the Ministerial Council meeting in London. The conference was hurriedly converted, in the absence of King Faysal, into a round of inten-

sive consultations among the Shah of Iran, Turkish President Bayar, and Pakistani President Mirza on the fast-developing Middle Eastern crisis.

The pact leaders adopted a more confident tone in statements following the Ankara talks, observing that recent events in the area stressed "more than ever the need for collective security and for an organization having a very practical nature." Officials made clear their determination to increase the collaboration between Turkey, Iran, and Pakistan, and thus strengthen the "Baghdad" Pact. While public avowals of closer cooperation were designed primarily to demonstrate the solidarity of the Moslem countries in the pact, it was evident that all three governments did in fact feel the need to draw together as never before in the interest of self-preservation.

Strategic Considerations

The Moslem members had long regarded Iraq as the weakest link in the alliance, and had frequently considered the possibility of its withdrawal. They did not anticipate, however, that King Faysal's government might be forcibly overthrown and Iraq transformed into what they view as a hostile base.

Much of the alarm expressed in Ankara and Tehran reflected the greatly increased threat to each nation's frontier security posed by the new government in Iraq. Most of Iran's western borderland, as well as its vulnerable northern border with the

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USSR, now is open to infiltration by subversive elements. Moreover, Iran's access to the Western world will be curtailed by Iraqi control over the major highway between Tehran and Baghdad. Turkey, which recently displayed great apprehension over the danger of subversion from Syria, now is even more concerned at the extension of what it considers to be pro-Communist influence along the remainder of its southern flank. Officials in Ankara and Tehran probably see the developments

in addition, give the remaining members greater leverage in exerting pressure on Washington to join the pact, since they would reason that the United States' arguments against allying itself with Baghdad in opposition to other Arab States no longer apply.

The denial of important bases and lines of communications located in Iraq would constitute a more considerable loss for the pact in strategic terms than the loss of Iraq's 65,000 troops. The take-over of Baghdad by potentially hostile forces, moreover, involves far more than a blow to the pact's prestige, for in addition to lending its name to the pact, Baghdad housed the secretariat where classified files of the various political, military, economic, and counter-subversion organizations are stored. The reported seizure of

these documents is likely to be fully exploited for propaganda and intelligence purposes.

National Concerns

Turkey will continue to be a vigorous supporter of regional security arrangements in the Middle East. While Prime Minister Menderes and Foreign Minister Zorlu privately may feel less satisfied with the pact, largely because of its failure to provide the mechanism for Western-backed armed action against the Iraqi rebels, these leaders can be expected to work energetically to increase the effectiveness of the pact agreements.

Turkey's continued participation in the pact is not likely to be affected by the disfavor with which important segments of the population view



in Iraq as a further step in Moscow's "leapfrog" strategy of penetrating the Middle East behind the free world's defense line.

The new Iraqi Government has not yet indicated its final attitude toward association with the Baghdad Pact. Its withdrawal or expulsion from the pact would remove the Arab element in the alliance. While the influence of the pact throughout the Middle East would be considerably lessened as a result of its dissociation from the Arab world, it might produce an alignment with greater unity of outlook and purpose. Historical relations and continuing disputes between Turk and Arab, and between Persian and Arab, had tended to inhibit genuinely close cooperation among the Turkish, Iranian, and Iraqi leaders. Withdrawal by Iraq would,

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MIRZA



SHAH OF IRAN



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the whole approach toward relations with the Arab world which the pact represents. A number of influential Turks have shown considerable suspicion of Arab leaders in the pact, accusing them of trying to use Turkey and the pact apparatus to further their own national or personal interests.

Iran is likely to relate its commitment to the pact in the future on the prospects for US adherence and additional American arms, and on the willingness of its allies to join in an effort to restore a pro-Western government in Iraq. Should these conditions remain unfulfilled, the Shah probably would strive for some alternative to the pact as presently organized.

In forthcoming pact conferences, Tehran can be expected to express its urgent concern over Iran's increasingly exposed position between the USSR and Nasir's sphere. Continuing Soviet maneuvers on the northern border are likely to intensify its apprehension over the timeliness and effectiveness of US support in the event of an aggressive move by Moscow against Iran.

The Shah is particularly worried over possible domestic repercussions of the events in

Iraq, and fears anti-Western nationalist elements will be encouraged to attempt similar action against his regime. Like the Turkish authorities, Tehran officials will be especially preoccupied with the effects of Cairo radio's propaganda on the Kurdish minority as well as on Arabs in southern Iran.

Pakistan is interested in the Baghdad Pact primarily as a counterweight to the influence of India and other nonaligned countries. Karachi will want to repair the damage to the pact's prestige by strengthening its cooperation with the like-minded governments in Tehran and Ankara and adopting a more aggressive stand against the encroachments of Nasirism.

Senior Pakistani army officers have placed themselves strongly on record as favoring prompt military action to liberate Iraq. President Mirza has been particularly outspoken in his advocacy of forthright steps to recover the situation in the Middle East, but he is unlikely to resort to action without consulting US officials.

While the Pakistani Army appears united in its support of the country's present leadership, there is considerable sympathy among lower and middle-class elements for the Moslem

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nationalism of which Nasir is a symbol. Opposition parties are likely to achieve considerable success, especially in East Pakistan, in stimulating popular protests against the government's pro-Western foreign policy on the basis of recent Middle Eastern developments.

Future Alignment

The Middle Eastern members of the pact will concentrate immediately on tightening the working relationship between Ankara, Tehran, and Karachi. The increased danger to all of expanding nationalism on the one hand and Soviet threats on the other is likely to impel the three countries toward closer integration of their political, economic, and military activities.

Uppermost in the minds of government leaders will be the objective of committing the United States to a more active association with the pact. Turkish, Iranian, and Pakistani officials will argue that the latest developments in the Middle East demand a thorough rethinking of regional security needs. Requests for substantial increases in military force goals and for stepped-up economic assistance, calculated on the basis of new estimates of each country's security position, are likely to be forwarded to Washington within the near future.

British association with the Baghdad Pact, on the other hand, may be de-emphasized as a result of the new situation, since London's participation in the alliance stemmed largely from

its special relationship with Iraq. A growing sensitivity to identification with colonial powers has been evident in the pact capitals since the eruption of nationalism in Baghdad. The Moslem allies can be expected to exert strenuous efforts to increase American influence in the pact.

As pact members reassess the security of the "northern tier," renewed interest in proposals for a regional federation of some kind is likely to be stimulated. The Shah of Iran, concerned over the weakness of Iraq as an ally, has for some months urged President Mirza to consider some form of federation between Iran and Pakistan. The Shah's interest in sharing Pakistan's more advanced military force is certain to be enhanced by the presence of forces viewed as unfriendly on his western flank.

The three Moslem nations also are likely to pay greater attention in the future to the position of Afghanistan. Tehran may attempt to iron out longstanding differences which have strained its relations with Kabul in the past. Similarly, Karachi and Ankara can be expected to renew efforts to establish closer ties with Afghanistan. When Turkey's President Bayar visits Kabul in September, he may broaden his discussions of the status of the Turkish military mission there to include proposals for Afghan association in a new regional grouping. However, while the royal Afghan Government has been shaken by the fall of the Iraqi monarchy, it is not likely to modify its policy of neutrality to any significant degree.

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SCIENTIFIC DEVELOPMENT IN COMMUNIST CHINA

Science in Communist China figures prominently in state policy and planning considerations, as is reflected in numerous public statements by leading personalities. The call to "storm the fortress of science" was made by Premier Chou En-lai to the National People's Congress in July last year. Vice Premier Li Fu-chun at the Eighth All-China Congress of Trade Unions in December said that China had to fulfill its scientific goals if it is expected to carry through its over-all plans for future development.

Government support of science in 1957 was marked by a budget increase of 25 percent over 1956, granted in the face of a general hold-the-line budget policy. Estimates for 1958 show a 30-percent increase over 1957. The percentage of the total budget is 1 percent and better, a fairly high figure considering the modest size of Communist China's research establishment.

China has undertaken to attain or approach in the next 12 years world-power status in those scientific fields determined to be most important in strengthening national power, including nuclear energy, electronics, jet propulsion, mineral exploration, metallurgy, heavy chemicals, agricultural chemistry, flood control, power development, and fundamental research.

The amount of research done so far has been slight. The scientists have been busy organizing, planning, and training, and research work has been devoted largely to low-level industrial testing, troubleshooting, assimilating foreign technology, and overcoming industry's inability to provide equipment and material needed in research and development. Scientists' time has also been

absorbed by various political campaigns, such as land reform, the 3- and 5-anti programs, and the antirightist and rectification program now drawing to a close. The effect on science of the present government's wide program to reduce overstaffing and improve contact with the people is not yet clear. Its application to scientific establishments has been mentioned, but with few details.

China is beginning to produce its own laboratory equipment and materials, including some for meteorological and geophysical exploration. Because of the minimal support given science by industry in China, the scientists have taken on the job themselves. Scientists have successfully engaged in refining germanium crystals for their budding transistor "industry," actually still in the trial-production state in the laboratories. Production of chemical reagents is moving along slowly, and the Communists report success in some metallurgical projects and some advances in the technology of synthetic fuel production.

Expansion in the organization of research probably now is tapering off. The Academy of Sciences has 55 research institutes and some 20 subordinate research bodies. The general fields of medicine and agriculture are both organized under central academies under the Ministries of Public Health and Agriculture respectively. The various technical ministries have under their jurisdiction a total of about 100 research institutes, not including local industrial laboratories or provincial agricultural experiment stations.

Science is controlled at State Council level through the Scientific Planning Commission, set up in 1956 with 35 members

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and enlarged to 106 in 1957, at which time it was made a permanent working body of the State Council, with Vice Premier Nieh Jung-chen as chairman. Although the commission is concerned mainly with natural science and technology, less than half the members are scientists or engineers, and, of those, less than one third are party members. Among the economists, politicians, and military men making up the majority, on the other hand, over half are party members, including 11 central committee members.

During the height of the "blooming and contending" episode in the spring of 1957, some brave statements were made doubting that the "laymen" could lead the "experts," but this idea was soon submerged and the articulate scientists were suppressed as rightists. One consequence of the anti-rightist campaign was the expulsion of five natural scientists from the commission, further reducing the scientific representation.

Manpower and Training

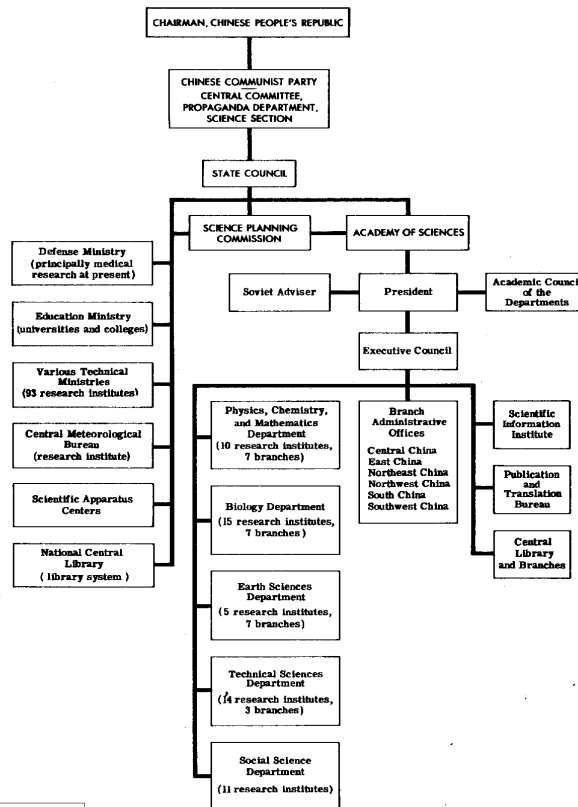
Nearly 20,000 persons are engaged in research in Communist China's research establishments and universities. According to official reports, this figure includes apprentices and laboratory assistants. About 1,000 are of a quality to plan and carry out research comparable to that commonly carried out in the West. Among Communist China's scientists some 600 hold scientific and engineering degrees of the doctor of philos-

ophy level. Since Chinese universities offer no doctorates except in medicine, these men were all educated abroad, mainly in the United States.

The regime, clearly in need of its trained scientists, has put up with their lukewarm attitude toward Communism. After six years of pressure to "re-

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educate and reform," interlaced with a few periods of relaxation and even coddling, the effort still goes on to make the scientists both "red" and "expert." The effectiveness of the scientists is probably reduced by the deadening aspects of these political campaigns. This is the case in the recent "antirightist" campaign which was turned on following a rash

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of criticism of the party following the invitation to "let all flowers bloom" and to help "rectify" the party.

The Overseas Chinese scientists are viewed by the regime as a potentially rich source of new badly needed talent. In the United States alone there are about as many Chinese nationals with doctor of philosophy degrees as there are in Communist China, and the regime has been trying to entice them to return to the mainland. Some 100 have returned since the Communist take-over.

There has been little increase in the number of qualified researchers under the Communist regime. Examination of candidates for the advanced-degree program of the Academy of Sciences revealed surprisingly poor preparation. In technician and engineer training, shortcomings have also been disclosed when graduates with very narrow fields of specialization could not be fitted into changing personnel requirements. Policies are changing, with more emphasis on quality and fundamentals which are more broadly applicable.

An intensified effort to train advanced scientists in China got under way in the Academy of Sciences in 1956, with some 200 scientists being named as graduate tutors. In the fall of 1957 a similar program was started in the universities with about 130 tutors. About one half of these 330 have doctor of philosophy degrees. Each tutor apparently takes on one or two trainees each year for training up to four or five years.

The training program in the Academy of Sciences calls for producing 10,500 scientists of the doctor of philosophy level by 1967, a goal that could conceivably be met if the

number of tutors is expanded and if training is the principal activity of the few good scientists. A hitch in the program may have already developed inasmuch as no announcement of the enrollment of new graduate students in the academy has been made for the 1957-58 academic year. Instead, according to an announcement of 17 June, the academy is setting up a new "university of science and technology" to enroll 950 undergraduate students this summer. These students are to work in or in very close association with the academy's research institutes. This plan may be the academy's answer to the problem of getting qualified men for its advanced program.

The Academy of Sciences sent 129 men to the USSR in 1956 for advanced study, and the Ministry of Higher Education sent about 500 postgraduates, some of whom will be trained as researchers. The number sent is limited by the shortage of qualified men and by the need to keep the older men in China to carry on research and teaching. Returnees with "associated doctorate" degrees numbered 62 in 1956; two received doctorates in 1956. An estimated one hundred such trainees will return each year during the early years of the 12-year plan, and the number will increase in the latter years.

Relations With Soviet Bloc

A Soviet adviser is regularly assigned to the Chinese Academy of Sciences and Soviet scientists have lectured in China, but on the whole the USSR has not shown an enthusiastic interest in promoting research and development in Communist China. Until this year there has been no known overall research and development agreement with the Soviet Union. Formal relations in the scientific field are believed to

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have been limited to statements of intention and ad hoc relations. Sixteen Soviet scientists arrived in China in the spring of 1956 to help work out the 12-year plan, and in March 1956 Communist China joined with the Soviet Union and the satellite countries in establishing the Joint Nuclear Research Institute at Dubna near Moscow. China, which contributes 20 percent of the operation costs of the institute, is permitted to use its research and training facilities.

The Chinese probably instigated the three-month-long negotiations in Moscow which led to an agreement in January 1958 providing Soviet assistance to China on its 12-year plan. Details of the agreement are lacking, but apparently an attempt was made to tie it down to specific goals of the 12-year plan. The agreement probably also clarifies and extends arrangements for giving Chinese scientists advanced training in the USSR.

Another agreement was signed in December 1957 between the science academies of the two countries aimed at facilitating cooperation. This agreement appears to be a belated effort to implement the Chinese and Soviet resolutions agreed on when the Soviet academy mission visited Communist China in June 1955.

Relations with other bloc countries are nominal. There has been some exchange of lecturers, and research students have received some advanced training in satellite countries.

Relations With Free World

Peiping is on record that it will seek knowledge wherever possible including the free world. Mao Tse-tung is reported to have said to the Supreme State conference in February 1957 that "it is even necessary

to learn from the United States, especially in the field of science and technology."

Communist China's scientists are beginning to make contact with free-world scientists --particularly Japanese--by attending scientific congresses. The Japanese Science Council and the Chinese Academy of Sciences exchanged delegations in 1955 and a group of Japanese physicists spent a month in China in the spring of 1957. There is some indication that Peiping would like to have Japanese scientists come to China for extended periods for research and teaching.

The Chinese Communists withdrew officially from the International Geophysical Year because that body recognized Nationalist China as an official participant. They continued in an observer capacity, however.

Nuclear Energy Developments

With a very limited number of nuclear physicists, few training facilities, and limited industrial capacity for the production of nuclear facilities, Communist China is heavily dependent on the USSR for its progress in the field of nuclear energy.

As a country in a position to contribute uranium resources to the Soviet nuclear energy program, Communist China was designated in 1955 as one of the bloc countries that would receive Soviet aid in nuclear research. On 1 July, China announced that the 6.5-10 megawatt thermal research reactor and 25,000,000-electron-volt cyclotron built with Soviet assistance began operating on 13 June. These facilities, largest in the bloc outside the USSR, are believed to be located in Peiping.

Some alleged details of the agreement connected with nuclear energy development have

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been received and are considered possibly true. The Soviet Union reportedly is to train 50 Chinese scientists in the Soviet Union and furnish 20 nuclear scientists to supervise Chinese nuclear research. During the Chinese Second Five-

Year Plan (1958-62), the Soviet Union will aid in the construction of two nuclear power plants, another research reactor, and a 50,000,000-electron-volt cyclotron, and will keep China current on the results of Soviet nuclear research. [redacted] (Pre-25X1
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POWER ELEMENTS AND STABILITY PROSPECTS IN VENEZUELA

Six months after the ouster of dictator Perez Jimenez, Venezuela's caretaker junta is still attempting to balance antagonistic military and civilian elements, and faces serious difficulties in carrying out its plan for a peaceful transfer of power to a coalition government expected to be elected on 30 November. The conditions essential to a peaceful transition--survival of the junta and election arrangements acceptable not only to the disparate parties but also to the traditionally dominant military--may be difficult to meet.

Governing Junta

The governing junta, with three military and two civilian members, appears to have the backing of civilian groups, the press, and public opinion generally, and to retain the majority, but diminishing, support of the military. Junta President Larrazabal, key personality in the government at present, is a high-ranking naval officer whose brother is commander of the navy--an association which has seemed to carry a special guarantee of naval support for the regime.

Although theoretically apolitical, the junta is in a position to influence the out-

come of the elections for a constitutional government. Through the policies it adopts and the use of its appointive powers, it is able to promote the interests of one or more of the political parties. Larrazabal himself has been considered a coalition presidential candidate.

The Military

The traditionally dominant military has the power to take over the present government or prevent an elected government from assuming office. Factors promoting such a move include the military's strong hostility to Venezuela's largest party, the leftist but non-Communist Democratic Action (AD), and concern over the growing influence of the Communist party.

Serious checks on the freedom of the military to intervene, however, include the continuing reorganization of the armed forces following the ouster of senior officers who served under the former dictatorship; the minority of the military which might oppose a coup at the present time; and the pronounced public opposition to a return of strong military rule. Civilian groups also might unite to oppose a coup, with resultant widespread violence. Moreover, the military are probably reluctant to act without some

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advance indications that US recognition of a new military-sponsored regime would be forthcoming at an early date.

Political Parties

Four of Venezuela's five major political parties have reorganized rapidly since the fall of the dictatorship, and one new party has been founded. The voting strength of these groups can only be estimated because of the lapse of time since the last free national elections were held.

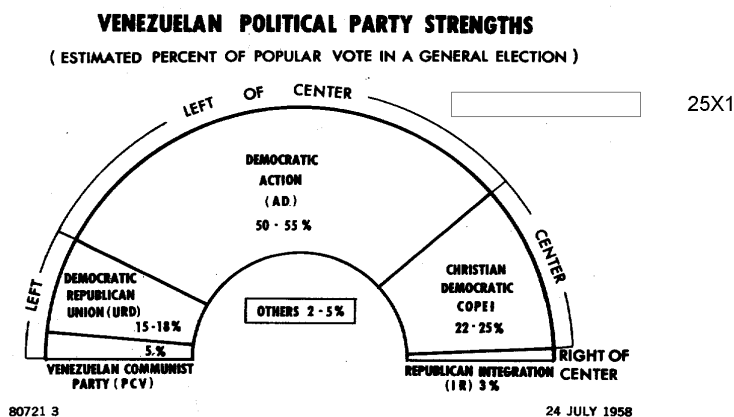
AD, although probably the majority party, is limited by the attitude of the military, who tend to consider it Communist. Its leader, Romulo Betancourt, is virtually eliminated from the presidential race as a consequence. AD, however, apparently has substantial influence in the present government and the support of the great majority of organized labor.

The Venezuelan Communist party (PCV) wields political influence out of proportion to its estimated strength through its reported penetration of the government at all levels; its prominent position in student, teacher, intellectual, and journalistic circles; its influence over the non-Communist press; its position in organized labor, probably second only to AD among the major parties; and its respectability and security through association with united labor and political organizations. The PCV may also have penetrated the other parties in some degree as the latter reorganized rapidly.

Both the Democratic Republican Union (URD) and especially the Christian Democratic COPEI

have the advantage of being national parties somewhat more acceptable to the military than either AD or PCV. COPEI also has the endorsement of the Catholic Church.

The influence of the moderate Republican Integration (IR) cannot be measured accurately, but it has been accorded favorable treatment by the government, and its membership includes a number of respected individuals. Unlike the other four parties, however, it has no known labor following or youth auxiliary. Other minor parties do not appear to have any perceptible influence at present.

Other Civilian Power Elements

Union labor is so organized as to be in large degree a political arm of each of the major parties except IR. All four parties have labor organizations with membership on the United Syndical Committee, a labor unity group which in theory is supervising the reorganization of Venezuelan labor and maintaining a labor truce among the parties. The strength of organized labor, which could probably launch a partially effective general strike, has not yet been tested but is believed to be increasing. At present,

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the great majority of labor is reportedly affiliated with AD.

Under the present uncertain political conditions, the growing number of unemployed--estimated at 70,000, primarily in Caracas--lend themselves to political manipulation and could serve as a significant element of force for political parties.

Avowedly apolitical, the Roman Catholic Church in Venezuela exercises some influence on government and politics, although less than in some other Latin American countries. It is associated with the COPEI party and COPEI's labor affiliate, for which it acts as counselor. The Catholic paper La Religion, which has an estimated circulation of 28,000 and is the only periodical which is anti-Communist at present, probably has some political influence over moderate and conservative readers. Moreover, clerics are active on political bodies such as the Patriotic Front.

The press has become increasingly influential under the present government, which seems highly sensitive to public opinion, with the number of papers and their circulation increasing since the ouster of dictator Perez. The press, which tends to be antimilitary, is largely leftist-owned and -managed, and most of the staffs of the principal newspaper are penetrated by Communists or sympathizers. Virtually no anti-Communist material is printed in the non-Communist press, which also serves as an outlet for Communist propaganda. Thus the press has considerably enhanced the position of the PCV as a power element.

Student groups, which took the initiative in the overt civilian phase of the movement which ousted Perez, have become one of the leading forces in Venezuelan politics. The major political parties except IR also

have youth auxiliaries. The principal independent organizations in the Caracas area are penetrated and, in large measure, dominated by Communists. Politically oriented, the students are readily manipulated by political agitators. Since the public in Venezuela is generally hostile to forceful action against student demonstrations--a situation which often embarrasses an incumbent regime--students are a power in national affairs beyond their strength in numbers.

The principal business organizations are in part designed to influence national economic policies to favor Venezuelan industry and commerce over foreign competition, but they are also a potential stabilizing force. The financial resources of the members, the majority of whom tend to be conservative, could be applied to influence the military or the political parties.

Outlook

Much of the present uncertainty derives from the fluid relationships among Venezuela's power elements. The junta has alienated some military support recently by complacency toward the growing Communist influence and by its quick response to civilian pressures. The principal check on a military coup apparently is the likelihood of widespread civilian violence against such a move, as was demonstrated on 22-23 July when Defense Minister Castro Leon was forced to resign.

The strength of parties vis-a-vis the military depends in large degree on the maintenance of their proclaimed truce and unity program. All major groupings are members of the Patriotic Front, which played a key role in the ouster of Perez and whose present objectives are to ensure an elected constitutional government and to

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guard against the return of military dictatorship. Any breakdown of unity among the parties would be likely to enhance the position of the military as the dominant element in Venezuela. The parties have not yet agreed, however, on the nature of the elections and on their respective positions in a future coalition regime.

In the event a peaceful transfer of power takes place next April, the doubtful ability of civilian groups to cooperate in the actual exercise of governmental power while retaining essential military support fore-shadows at least a measure of long-range instability. [redacted]

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