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OCI NO. 4049/58

2 October 1958

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Document No. 7
 No Change in Class.
 Declassified
 Class. Changed to: TS S © / D
 Next Review Date: 1999
 Auth.: HR 70-3
 Date: 13 Aug 79 By: [redacted]

Document No. 7
 No Change in Class.
 Declassified
 Class. Changed to: TS S ©
 Next Review Date: 1998
 Auth.: HR 70-3
 Date: 20 Aug 79 By: [redacted]

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PART I

OF IMMEDIATE INTEREST

TAIWAN STRAIT SITUATION

Propaganda - Diplomacy

The absence of Mao Tse-tung and Liu Shao-chi from Peiping during the latter two thirds of September, at a time when the standing committee of the Chinese Communist party politburo would be expected to meet frequently over the Taiwan Strait situation, suggests that Chou En-lai has been directing China's campaign to recover the offshore islands within the framework of policy laid down at a politburo meeting in late August.

Peiping's propaganda continues to reflect a desire to continue the Warsaw talks, blaming the deadlock on American insistence on an immediate ceasefire but making no threat to suspend the negotiations. British Foreign Secretary Lloyd told Secretary Dulles on 25 September that the British chargé in Peiping reported a conversation with an Indian Embassy officer there, from which it appeared that the Chinese Communists "want to keep the Warsaw talks going." The chargé's report apparently contained a hint that India might undertake mediation between the Chinese Communists and the United States. Peiping is unlikely, however, to desire such mediation at this time.

The Chinese Communists apparently hope to derive from the Warsaw talks substantial political benefits which will further their campaign to achieve wider

international acceptance. They clearly believe that bilateral negotiations further their efforts to appear as "near equals" with the United States. Their negotiator, Wang Ping-nan, publicly declared on 29 September that Communist China's authority in the "international arena is rising ever higher."

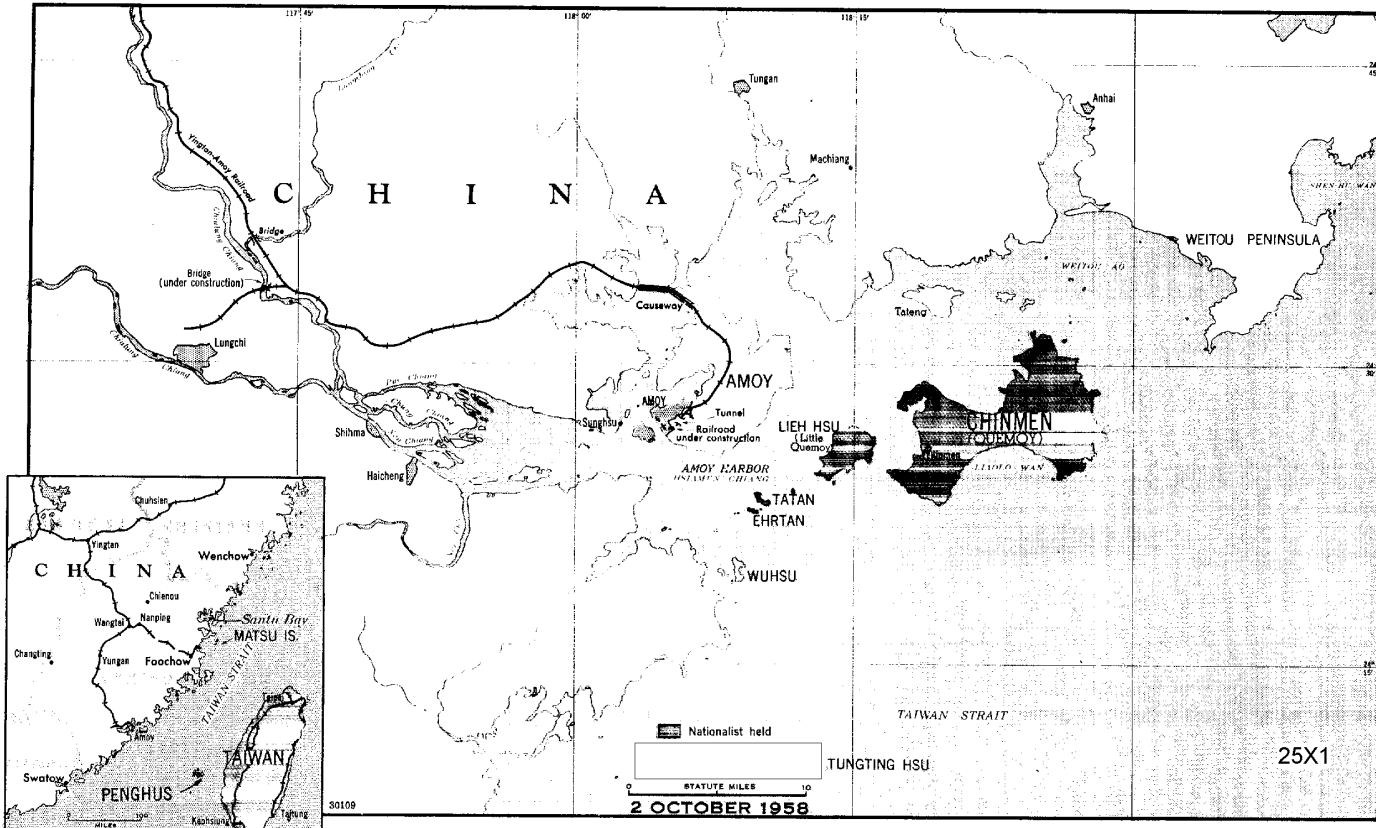
Peiping's propaganda strongly suggests a willingness to consider "recovery" of the offshore islands as the price for a temporary renunciation of force in the Taiwan Strait area. Repeated commentaries state that Communist China has "every right and necessity" to take "military measures" against the offshore islands and imply that other territories--Taiwan and the Penghus (Pescadores)--could be "liberated" by peaceful means. In his National Day speech on 1 October, Defense Minister Peng Te-huai continued this approach, distinguishing between the "direct menace" from the offshore islands and Communist China's aim to liberate Taiwan "at a suitable time."

Mao Tse-tung, appealing for international condemnation of the United States, recently declared that in its threats of "atomic war," the United States has alienated more than 90 percent of the "people of the whole world." This approach was repeated in a People's Daily editorial on 30 September which stated that American

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threats of nuclear war confront the "people of the world" with the task of "staying the hands" of the United States.

Soviet Press

Pravda on 29 September echoed and amplified Peiping's position that American insistence on a cease-fire in the strait area and "renunciation of force" is completely "out of the question," inasmuch as a state of war does not exist between the United States and Communist China. Pravda also charged that the United States is seeking to break off the talks in order to bring the

question before the United Nations, where American pressure tactics and intimidation could be employed. Soviet propagandists have instead stressed the seating of Communist China in the UN, and some have stated this to be the "only solution" to the crisis.

The first Soviet hint since the onset of the Taiwan Strait crisis of willingness to supply "volunteer" assistance to Communist China appeared in the army newspaper Red Star on 25 September. In an article recounting how Soviet pilot volunteers had fought in China against the Japanese, it was claimed that Soviet pilots are

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"ready, if necessary, to come to the aid of their true Chinese friends...." Soviet Aviation has subsequently carried similar items hinting at military support of Peiping; it referred on 28 September to the comradeship-in-arms of Soviet and Chinese Communist pilots and asserted that "like brothers we will fight the hated enemy together if they dare attack us."

The American Embassy in Moscow believes these articles provide the first indications that Soviet military personnel are being psychologically prepared for service in China. Soviet military press organs have been consistently less restrained in commenting on the Taiwan Strait issue than other Soviet propaganda media.

A Pravda editorial of 1 October repeated previous warnings that the Soviet Government regards an attack on Communist China as an attack on the USSR itself, adding that the Soviet people "are prepared at any moment to go to the assistance" of the Chinese Communists.

The Chinese Communist Defense Ministry's announcement that parts of Sidewinder missiles fired by Nationalist planes have been recovered and brought to Peiping for "public exhibition" indicates that American "warmongering" will continue to be a major theme in Communist propaganda during the Warsaw talks. The announcement promised "punitive" action against the Chinese Nationalist Air Force: Premier Chou En-lai on 30 September made a similar promise.

Military Situation

Communist artillery continues its harassing and inter-

dictory fire on the Chinmens. Delayed-action fuses are being used to increase shell penetration of Nationalist defenses.

[redacted] there are 200 new Communist gun positions in the Chinmen area, making a total of over 1,000 positions, of which about 650 have guns. There has been a corresponding artillery increase in the Matsu area, where there are now 105 guns as compared with 70 on 30 June.

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The resupply of the Chinmen Islands has improved during the past week despite bad weather and continued Communist artillery fire. The average tonnage delivered per day has risen from approximately 100 to nearly 200 tons. A number of innovations have been responsible for this increase, including off-loading of bulk cargo from LST's offshore to LCM's for delivery to the beach, stepping-up of air drops, use of motor junks for delivery of foodstuffs, and off-loading of partly filled drums into the sea to be towed ashore. As of 30 September, the Chinmen garrison still had a supply of approximately 30 days of foodstuffs and ammunition.

The loan by the United States of 16 C-119 transport aircraft should substantially increase air-drop deliveries as soon as these are placed in operation. The Taiwan Defense Command expects that improvement in air-drop tonnage and in sea supply will raise tonnages delivered to a total adequate to support the islands indefinitely.

Civilian food stocks on Chinmen are believed to be adequate to support the civil population through next spring. The supply is believed adequate to permit some diversion to

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military use without causing undue hardship. The Nationalist press, however, reports that the situation of the civilians on Little Chinmen is critical, with only a 15-day supply of food remaining on the island.

Chinese Nationalist officials now are optimistic that

the blockade of Chinmen has been broken and that the island is "strangulation proof" unless the Communists use new weapons or new interdiction tactics. They are also more hopeful that means will be found to supply the garrisons on the hard-pressed lesser islands of Tatan and Erhtan.

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MIDDLE EAST DEVELOPMENTS

Lebanon

President Shihab has postponed until next week the special session of Parliament which will be asked to return a vote of confidence for the cabinet of Tripoli rebel leader Rashid Karame. The delay will permit more time to consider proposals for increasing the size of the cabinet to admit some members acceptable to the pro-Chamoun faction. Karame, however, has declared that he will not agree to enlarge the cabinet until it has received parliamentary approval. Chamoun, on the other hand, has asserted that his supporters in the legislature will not approve Karame's cabinet.

Shihab has threatened to dissolve the chamber, which is dominated by Chamoun supporters, if the cabinet does not win support. Dissolution would require Karame-controlled elections within three months, with results unfavorable to Chamoun.

Shihab intends to add 22 seats to the 66-man legislature in order to provide "balanced" representation, and he has indicated that he would also like to obtain decree powers and suspend the legislature for six months. He then could rule

without interference from the pro-Chamoun Parliament.

All seven ministers originally proposed for membership in the Karame cabinet are opposed to Chamoun's pro-Western foreign policy, and four sided with the rebels against Chamoun during the rebellion.

Militant pro-Chamoun forces have adopted the tactics formerly used by the anti-Chamoun rebels by employing violence to seek more favorable representation in the cabinet. The reported intention of two anti-Chamoun Maronite Christian ministerial candidates to resign could open the way for a political compromise and for the appointment of pro-Chamoun representatives to the cabinet. An outright increase in cabinet seats is also being discussed as a possible solution, failing which, the Moslem-Christian split will widen. Shihab apparently has already embarked on a policy of removing or reassigning members of security forces who actively opposed the rebellion this summer.

Syrian Interior Minister Sarraj recently told a European diplomat in Damascus that "nothing would stop Lebanon's association with the UAR," and that he

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was prepared to use violence, if necessary, to accomplish this.

Jordan

Extensive political maneuvering by military and civilian leaders in Jordan is continuing.

New rumors are spreading in Amman and Jerusalem that King Husayn is preparing to bring representatives of opposition groups, possibly including the National Socialist party, into the government, presumably in a bid to avert antigovernment violence after British troops are withdrawn. Such a move could also establish a basis for an orderly transition toward a policy of accommodation with Jordan's Arab neighbors. Installation of a neutral government in Jordan could also prepare the way for the King's departure for a "vacation and medical checkup," following withdrawal of British troops.

The UAR-operated "Jordanian People's Radio," which broadcasts from Syria, has continued a torrent of unusually fierce exhortations to overthrow the pro-Western government in Jordan.

Iraq

Baghdad authorities continue cautious maneuvering to reduce the influence and prestige of the faction within the government favoring union with the UAR. Premier Qasim has further strengthened his position by dismissing pro-UAR Deputy Premier and Interior Minister Arif, as well as two other pro-UAR cabinet members. Arif is being sent to West Germany as ambassador.

Announcement that a land reform program is to be imple-

mented was probably timed to deprive advocates of union with the UAR, which just proclaimed such reforms in Syria, of a major popular issue. Iraqi land reforms would probably increase agitation in Iran against the Shah, whose chief support is from large landowners. Some Soviet bloc arms have been furnished Iraq in the recent past by the UAR. Iraq has also permitted stationing of UAR MIG fighters in Iraq.

Reports from Baghdad reflect the existence of a group of senior officers, apparently emerging as the actual locus of power in Iraq. This group, which includes the four division commanders, did not participate directly in the 14 July revolt.

Arif's former brigade has been sent on a security mission to southern Iraq, and elements of Qasim's brigade may also have been withdrawn from Baghdad. These moves may be intended to reduce the possibility of a countercoup by politically oriented units in the capital.

Middle East Oil

Nasir's expected attempt to gain ultimate control over the terms under which Western oil interests operate in the Arab states has apparently begun. His establishment of a Public Corporation for Petroleum Affairs to plan UAR petroleum policy will assure Cairo of control in all details over Syrian oil matters. Cairo has already stymied Syrian negotiations with the American company (Tapline) operating the pipeline from Saudi Arabia--a move presumably intended to shift decisive negotiations to Cairo. The new petroleum authority

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may well emerge as the instrument for implementing Nasir's over-all Arab oil policy toward Western oil companies.

A spokesman for the Egyptian-dominated Arab League announced in Cairo on 29 September that Kuwait, the Middle East's largest oil producer, had applied for membership, and that the league's secretary general would visit Kuwait in response to an invitation from the Ruler. Kuwait's adherence could set a precedent for the oil-producing Persian Gulf states of Bahrein and Qatar.

According to the Cairo press, Kuwait's deputy ruler declared in Cairo on 24 September that Kuwait was prepared to join the league and contribute to an Arab development bank. Britain is empowered by treaty and custom to handle Kuwait's foreign relations, but in Arab affairs the Ruler, who feels that accommodation with Nasir is necessary, has recently assumed an increasingly independent position.

The Foreign Office in London has stated that it was not consulted on the deputy ruler's move. The Kuwaiti Government secretariat has also denied that Kuwait would join the league. The denial, however, suggests that the powerful deputy ruler may be attempting to cultivate favor with Nasir and with the Kuwaiti nationalists at the expense of the Ruler, who is tied to treaty relations with Britain.

Saudi Arabia

In Saudi Arabia, Crown Prince Faysal's frustration over budgetary problems has led him to charge that the Arabian-

American Oil Company (Aramco) is indifferent to Saudi financial difficulties. Faysal, apparently reflecting the influence of his pro-Egyptian petroleum adviser, hinted to the American ambassador that action to curtail Aramco's rights may be under consideration.

The ambassador also inferred that some form of relations with the Sino-Soviet bloc was under consideration. Saudi banks have been notified verbally that the unofficial ban on Soviet bloc imports has been lifted. This is in line with Faysal's intention to promote a "neutral" foreign policy.

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Nasir's Reorganization Plan

Nasir is expected to reveal soon the details of his plan to centralize the government of the United Arab Republic, giving Egypt greater control over Syria. His choice of personnel is not yet known, but it appears certain that several prominent officials, including Vice Presidents Hawrani, Asali, and Baghdadi, will be dropped because of their past disagreements with Nasir's policies. Syrian strong man Sarraj, at present minister of interior for the Syrian region, has been mentioned as Nasir's choice to head a new "executive council" for that region, with the task of implementing Cairo's policies.

Preliminary steps have already been taken. Nasir has promulgated a state-of-emergency decree, announced a land-reform program for Syria, abolished the extralegal status of Syrian tribes, and is reported to be transferring numerous Syrian military personnel to duty in Egypt.

The land-reform law, limiting individual holdings to about 175 acres of irrigated or 650 of nonirrigated land, will arouse resentment among Syria's numerous large landholders. The law will virtually confiscate excess acreage, since compensation will be in nonnegotiable 40-year bonds at only 1.5-percent interest.

Syrian tribes, previously exempt from many state laws and regulations effective in urban Syrai, are now "subject to all laws, decrees, and arrangements applying to townsfolk in the Syrian region."

The number of Syrian officers who have actually moved to Egypt seems to have been significant, and reports that many of them were followers of Akram Hawrani's dissident Baath party indicate that their transfer was a deliberate effort to remove from Syria another possible source of resistance to Cairo's dominance. 25X1

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PART II**NOTES AND COMMENTS****BRITISH PUT CYPRUS PLAN INTO EFFECT**

Despite the fact that Britain started on 1 October to implement its Cyprus plan, NATO Secretary General Spaak is still trying to persuade Britain, Greece, and Turkey to confer about the island and head off a major crisis to the alliance.

Greece considers any conference useless now in view of Britain's start in implementing its Cyprus plan. Athens is still re-examining its ties with the West. The cabinet, however, apparently has rejected, at least for the present, Foreign Minister Averoff's recommendation that Greece break relations with Turkey, denounce the Balkan Pact, and withdraw from NATO. Averoff may resign over this rebuff to his policies--a move which would probably precipitate a new crisis in the Greek Government. The developing political situ-

ation in Greece has caused King Paul to interrupt his vacation in Austria and hurry back to Athens.

On Cyprus, the first of October and the prior announcement of the appointment of the Turkish consul general in Nicosia as the official Turkish representative to the governor of Cyprus were celebrated by Turkish Cypriots, but Greek Cypriots called a general strike which brought virtually all activity on the island to a halt. Meanwhile, sporadic attacks on British dependents, ambushes of British troops, and island-wide sabotage occurred with increasing frequency. While the predicted 1 October "all-out offensive" by EOKA did not materialize, British officials continue to predict that a major campaign of violence will occur but may not begin for another two weeks.

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DE GAULLE EXPECTED TO PRESS REFORMS

France's overwhelming approval of De Gaulle's constitution will probably encourage the premier to seek an early solution to the Algerian problem, even at the risk of alienating his rightist and perhaps some of his military supporters. The forthcoming electoral reform will be aimed at reducing Communist representation in the National Assembly, but there is some fear it may also favor

the right at the expense of the center parties.

Under pressure of a public mandate to bring peace to Algeria, De Gaulle must now maintain the momentum of a drive for an early solution within the framework of his promise in June to negotiate with the elected representative of the Algerian people. His immediate

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aim, therefore, is to indicate the broad lines of the solution he favors, so that extremists on both sides will not be disillusioned too abruptly. In view of the almost unanimously favorable referendum vote in Algeria, De Gaulle may be in no hurry to assuage FLN sensibilities, but his unwillingness to support the integration theme runs the danger of further exciting irreconcilable elements among the settlers and army.

The Algerian solution De Gaulle envisages will have a direct bearing on the electoral law under which the new assembly will be chosen in November. He would like to reduce Communist strength to perhaps 30 deputies, compared with 150 at present. The fear has been expressed, however, that this could be achieved only at the cost of a heavily rightist orientation of the assembly, which would sharply reduce the possibility of a liberal solution in Algeria. Moreover, such a distribution of assembly strength

would play into the hands of the Communist party by forcing other leftist deputies to align themselves in a single bloc with the Communists. If De Gaulle is to avoid eventual capitulation to the right, he will therefore have to consider an electoral law which would foster a responsible left and center.

De Gaulle has long been disinclined to take measures to outlaw the Communist party, as Soustelle and other rightists have demanded publicly. He believes that Communist electoral strength--averaging a quarter of the electorate under the 1946 constitution--has been essentially a protest vote against the old system and this conviction has been reinforced by the party's inability to muster all its former supporters to oppose the constitution. Instead of trying to reduce Communist strength solely by electoral devices, De Gaulle will probably offer a program of socio-economic reforms to lure the protest vote away from the Communists.

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FRENCH WEST AFRICA

The secession of Guinea and the reported intention of the rich Ivory Coast, and perhaps also of Mauritania, virtually to cut their ties with the Federation of French West Africa are likely to destroy the federation's ability to function effectively.

French West Africa--a federation of eight territories with a total population of over 19,000,000 diverse peoples--covers almost 2,000,000 square miles of desert, steppes, and jungle. Only since 1946 has the federation, centered at Dakar, had real administrative significance.

Recently many African nationalists have sought to enhance the powers of the federal government as a means of gaining greater independence from France, but representatives of at least two territories--the agriculturally rich Ivory Coast and the backward, predominately Caucasian Mauritania--have opposed Dakar's growing power and have demanded stronger individual ties with France. The Ivory Coast is expected to break its ties with Dakar soon and to take measures to halt the flow of its tax money for use by the federation's poorer territories.

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Most French West African leaders urged their followers to vote yes in the constitutional referendum in order to assure the continuation of French economic development funds. At the same time, they expect to take advantage of the constitution's provisions permitting a later request for independence. In contrast, Premier Sekou Toure of Guinea received the support of about 98 percent of the Guinea electorate when he urged a vote for immediate independence.

Toure has frequently indicated his desire to retain close ties with France after gaining independence, and hopes to remain within the franc zone and to associate with the French community provided for by the new constitution. He has promised no "great upheaval" in the social and economic structures, since Guinea, which is rich in mineral wealth, urgently needs assistance for economic development. His past record as a leftist labor leader, however, suggests he will favor socialist economic policies. In view of his previous political activities, he will probably pursue a dynamic nationalist program to gain recognition as the outstanding leader in West Africa, and he may eventually attempt to enlarge Guinea at the expense of neighboring Liberia and Sierra Leone.

Paris has already announced that Guinea is no longer entitled to representation in the government councils at Dakar and Paris, that French economic aid is being curtailed, and that the services of French administrators and technicians will be phased out over a two-month period. Although Guinea gained at least de facto independence on 30 September, France is withholding de jure recognition until the conclusion of diplomatic and economic negotiations, which are expected to be rather lengthy and difficult. Paris has warned that diplomatic recognition by other countries could lead to "unpleasantness" with France,



but on 1 October Ghana announced its recognition and similar action is likely on the part of several other African, Arab and Communist governments. [redacted]

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BLOC MOVES ON RECOGNITION OF ALGERIAN GOVERNMENT

Moscow is hesitating to recognize the Algerian provisional government. The USSR is faced with the problem of attempting, as it has in the

past, to avoid undue provocation of France while at the same time upholding the Soviet pose as the champion of anticolonialism. The USSR has apparently adopted

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a firmer pro-Algerian line, however, in view of Khrushchev's recent strong attack on the De Gaulle government's policies, including its failure to end the "iniquitous colonial war against the Algerian people."

N. A. Mukhitdinov, a top Soviet spokesman on Middle Eastern and Arab affairs, had two "frank and sincere" meetings with "ministers" of the Algerian provisional government during his recent visit to the UAR. The heavy publicity given by Moscow to these meetings--the first such high-level Soviet contact with the rebels--is designed to impress Afro-Asian opinion with its sympathy for the new regime. Soviet leaders may be deferring a decision on the question of recognition, however, pending receipt of Mukhitdinov's report on the prospects of the new government and an assessment of De Gaulle's policies following the constitutional referendum.

The European satellites will probably follow Moscow's lead, although East Germany, which does not have diplomatic relations with France, might undertake recognition in advance of the other Communist regimes in Europe.

Communist China, the first bloc country to recognize the provisional Algerian regime, clearly sought to gain the sympathy of Arab countries--par-

ticularly Morocco and Tunisia--for its own efforts to win increased foreign recognition. North Korea and North Vietnam, which quickly followed Peiping's lead, have found it very difficult to gain international acceptability. Hanoi's relations outside the bloc are limited to a few consulates, while Pyongyang has never received even de facto recognition from the most stringently neutral countries. Although neither North Vietnam nor North Korea is represented in the United Nations, both try hard to identify themselves with the Asian-African bloc, and recognition of the Algerians is a logical extension of this policy.

Peiping's move undoubtedly reflects its impatience with Paris, which, despite sporadic signs of interest, has nevertheless refused to take actual steps to establish diplomatic exchanges. The risk of offending France thus has little meaning for Peiping, and North Vietnam and North Korea are in a similar position.

First-hand, high-level contact could be made between the Algerians and the Chinese Communists later this year, as numerous reports have stated that Premier Chou En-lai will travel to Cairo. The Chinese would exploit any meeting with the rebel leaders to demonstrate their good will toward the "liberation movement."

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CHINESE COMMUNIST ECONOMIC ACTIVITIES IN AFRICA

Communist China this year is seeking greater economic advantage in its trade with Africa now that it has begun to achieve its earlier objective in this trade--enhanced political status in the area. Peiping established

its first economic ties with Africa in the belief that trade eventually would lead to diplomatic recognition. Now officially recognized by Egypt, China has a permanent trade office in Cairo and has laid the

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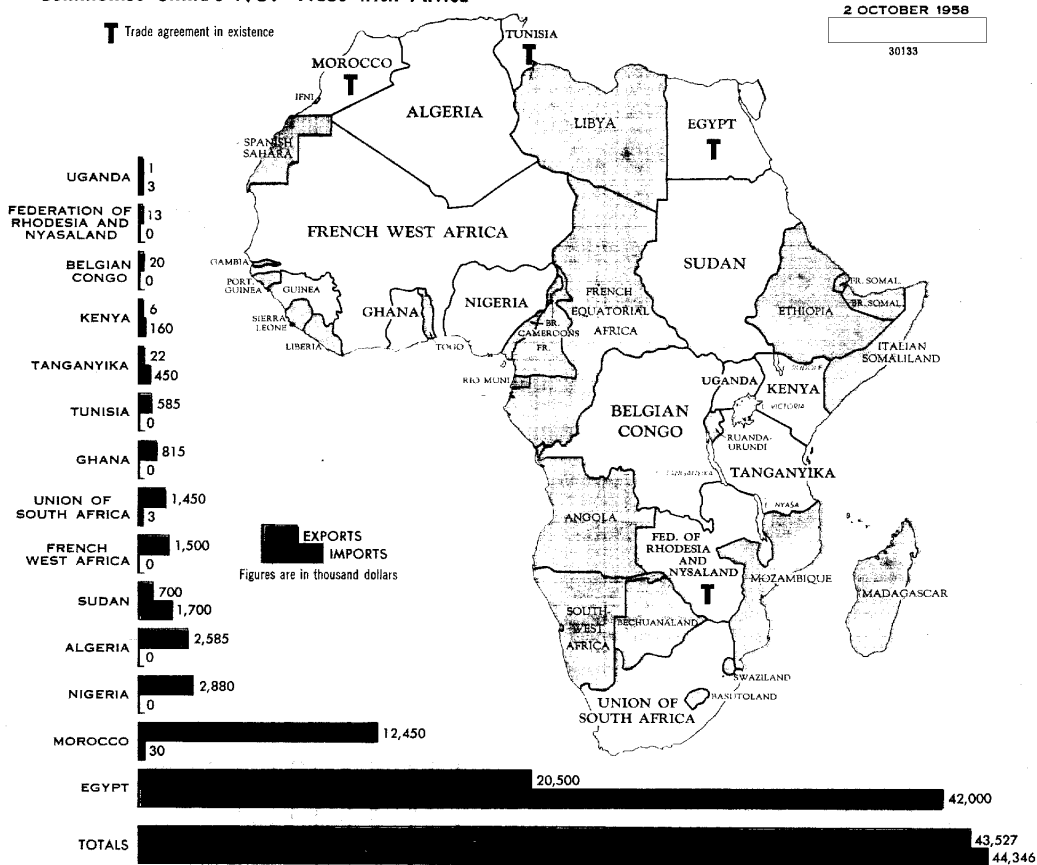
groundwork for closer ties through initial trade agreements with Tunisia and Southern Rhodesia. Negotiations are also under way for a trade protocol with the Sudan and renewal of the Sino-Moroccan trade pact.

Under its original agreement with Egypt, which expires this month, Peiping was willing to import substantial quantities of cotton for cash in order to promote political ties. It now insists on a barter deal to reduce its sterling payments, which have totaled \$50,000,000 during the past three years; for the same reason, a barter agreement is being arranged with the Sudan. Peiping's imports from

Egypt amounted to \$42,000,000 last year, nearly equal to China's total exports to Africa.

China has been trying to increase purchases in Western Europe following the break in economic relations with Japan and is negotiating barter exchanges with France and the United Kingdom involving Africa. To secure a larger share of China's West European contracts, France, which normally sells more to China than it buys, has agreed to a barter basis for its trade. This will enable Peiping to retain much of the foreign exchange earned in the African franc area, where its sales greatly exceed its purchases.

Communist China's 1957 Trade with Africa



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To save foreign exchange, Peiping is also proposing to import British tractors on the condition that London negotiate the delivery of Chinese textiles to West Africa.

In 1957, China traded with 14 African areas; although it imported from only half of them, total Sino-African trade, which amounted to \$100,000,000, was balanced. To help gain a creditor trade position, Communist China continues to seek new markets in Africa. A trade

delegation sent to Southern Rhodesia in July has concluded a six-month agreement for the export of Chinese products, including rice, in return for tobacco. The mission also expressed interest in obtaining African minerals in exchange for a wide range of machinery and machine tools. Similar offers were made to the Union of South Africa during August, and Peiping has proposed to export tires and tubes to Ghana.

(Prepared by
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BLOC RELATIONS WITH YUGOSLAVIA

The Sino-Soviet bloc is conducting an apparently well-planned attack on Yugoslav state affairs, despite Moscow's repeated allegations that it desires to maintain correct state relations with Belgrade. In this attack, definite limits appear to have been set. Bloc countries are not to sever relations with Belgrade, since blame for any diplomatic rupture must clearly fall on Yugoslavia. Each member of the bloc is attacking Yugoslavia on specific issues which each has determined would be most embarrassing. Moscow probably feels that a return to the heavy-handed approach Stalin adopted after 1948 would only increase international sympathy for Tito and permit him to retaliate in a manner embarrassing to Khrushchev's international position.

The pyrotechnics characteristic of the anti-Yugoslav

campaign last spring have subsided, and ideological argumentation, previously the primary element in the dispute, now plays a role secondary to specific attacks against the Yugoslav state. Moscow has not swerved from its stated intention of destroying Yugoslav revisionism theoretically and politically, but it is apparently in no hurry to accomplish this.

To date, the USSR, Communist China, and Albania have led the anti-Yugoslav campaign. Moscow has restricted the distribution of Yugoslav publications in the USSR, has vacillated regarding a promised shipment of 200,000 tons of wheat to Yugoslavia, and reportedly has refused outright to ship coking coal. The Chinese Communists are allegedly boycotting Yugoslav ships and ports, and Belgrade's diplomatic relations with Peiping, as well

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as with Tirana, are becoming increasingly strained. While such developments are reminiscent of Moscow's dispute with Belgrade after 1958, it still appears unlikely that differences this fall will reach the intensity of the earlier dispute, Yugoslav allegations notwithstanding. The other Communist states still confine themselves to propaganda assaults, except for Poland which has remained virtually aloof from the arguments.

The USSR, in what is probably a tactical move, appears now to have reversed its earlier decision to withhold its wheat shipment, hoping thereby to discredit insistent Yugoslav arguments that economic relations with the USSR are correlated with political compatibility and to undermine Belgrade's position in its economic talks with the United States. Such economic harassment will probably continue, and the bloc can be expected to take an equivocal position on the delivery of vital commodities to Yugoslavia. Khrushchev has stated, however, that trade will continue when mutually advantageous.

As more and more elements of Yugoslav public life have become involved in the polemics, the sensitive question of Yugoslavia's policy toward its Albanian and Macedonian minorities has arisen again. Tirana and Sofia have become exceedingly vituperative on the subject, and the Yugoslavs have publicly accused both of "openly expressing aspirations to some territories of our country."

The Yugoslavs have maintained a fairly calm and restrained attitude throughout the campaign, but have--when they considered it necessary--stubbornly defended their position. For the present, Tito's objective apparently is to prove to the world that Moscow is carrying the fight to extremes by interfering in the internal affairs of Yugoslavia, attempting to discredit his policies, and seeking to separate him from his people. Whether Tito will abandon this policy in favor of specific steps in retaliation for bloc harassment seems to depend on how much further Moscow will go.

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USSR DISCLOSES LARGE NUCLEAR POWER PLANT

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The Soviet delegation to the Second International Conference on the Peaceful Uses of Atomic Energy at Geneva announced that a nuclear electric-power plant is in operation at an undisclosed location in Siberia. The announcement stated that the power plant, now operating at a power level of 100,000 electrical kilowatts, was to be expanded to a total capacity of 600,000 kilowatts, which would make it the largest in the world.

The plant may be located at the large atomic energy complex just north of Tomsk, where what appeared to be dual-purpose reactors and associated power-generating facilities were observed under construction in 1957. Some or all of the electric power generated may be consumed by the gaseous-diffusion plant being expanded at this highly secret nuclear-energy complex.

This plant was not specifically mentioned among those which, according to the Sixth Five-Year Plan, would make up most of the 2,000,000- to 2,500,000-kilowatt nuclear-power plant capacity scheduled to be in operation by 1960. Present indications are that the installed capacity of stations specifically designed for power production will not exceed 700 megawatts by that time. It is believed that the lag in the construction program of these plants prompted the USSR to publicize this dual-purpose reactor, and that it considers the propaganda advantages sufficient to outweigh the possible security hazards involved.

Only one of the large nuclear-power plants scheduled under the Sixth Five-Year Plan was reported by V. S. Yemelyanov, chief of the Main Administration for Peaceful Uses of Atomic Energy, to be under construction--

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the 420-megawatt nuclear power plant at Voronezh. He said a similar plant in the Leningrad area will be built. He also reported that a large nuclear-power plant with a capacity of 400 megawatts would be built in

the Urals near Beloyarsk, east of Sverdlovsk. No mention was made of the fourth or fifth large plant in the original Sixth Five-Year Plan.

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"LOCALISM" IN SOVIET INDUSTRIAL MANAGEMENT

While Soviet leaders have expressed satisfaction with the reorganized system of industrial management, the press during the past year has attacked various problems arising from the new system for industrial administration which are indiscriminately classified as "localist tendencies."

At first, official criticism was leveled primarily against nonfulfillment of deliveries among the various economic regions. This culminated in decrees in late spring which provided for a reorganization of the supply system and the application of criminal sanctions to repeating violators of cooperative delivery contracts.

In mid-May the attack shifted to misuse of investment funds by regional administrators acting against central directives in pursuance of projects primarily of local significance. This campaign probably resulted from an unpublicized decision of the central committee at its May plenum. Although official statements have claimed that the plenum was devoted entirely to development of the chemical industry, Party Life last August, in criticizing illegal investments, referred for the first time to "the decisions of the May plenum which noted that if violations of state discipline are not resolutely

suppressed in time, they may disorganize our socialist economy."

Shortly after the plenum, the first articles appeared attacking investment practices by officials of the regional economic councils (sovnarkhozy). The removal, four days after the plenum, of N. K. Baybakov, planning chief of the Russian Republic (RSFSR), may also have been connected with the central committee decision.

About the same time, an investigation by the Industrial Bank into the financial operations of 89 sovnarkhozy revealed that 29 had diverted some 428,000,000 rubles (\$75,000,000) from centrally planned capital construction into local projects. In mid-August, Pravda, Izvestia, and Party Life singled out nine prominent sovnarkhozy for particularly serious malfeasance. The Karaganda Sovnarkhoz, for instance, was castigated for using almost 75,000,000 rubles (\$13,000,000) of the funds assigned for development of the coal and metal industries for such things as the construction of theaters, rest homes, and a circus.

Khrushchev has placed heavy reliance on regional party organizations to check on their counterpart economic councils. At times, however, regional party officials are faced with a conflict of interests between

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national demands and local requirements. The severe criticism of regional party committees responsible for the errant sovnarkhozy attests to the problem of keeping local party units responsive to Moscow's demands.

"Localism," though not a new phenomenon in the Soviet system, has taken new forms under the reorganized industrial management and perhaps has been given a wider framework in which to operate. While Soviet leaders are well aware of the problem and will continue to take measures to prevent serious disruptions of the economy, there

are serious limitations on actions the regime can take to improve the efficiency of the industrial administration by encouraging local initiative. A pointed example stems from a Khrushchev proposal last April to decentralize planning of capital construction to permit the sovnarkhozy, rather than the Moscow planning authorities, to choose construction projects. Recent signs indicate that Khrushchev's suggestion has been severely watered down, at least temporarily, partly because of sovnarkhoz investment malfeasance. (Continued on page 25X1)
 occurred in by ORR)

EAST GERMANS MAY EASE DOMESTIC POLICIES

The East German regime, disturbed by the mass flights of intellectuals, professional personnel, and technicians to the West and by other signs of increasing popular dissatisfaction, is reconsidering the severe domestic program enunciated at the fifth congress of the East German Communist party in July. A party plenum scheduled for mid-October may decide on a new approach intended to slow the exodus and to encourage greater productivity.

In following a less rigid course, the Ulbricht regime would in part be adopting the moderate program advocated by the purged Schirdewan and Oelsner and by Fritz Selbmann, whose opposition to Ulbricht cost him his central committee seat and, quite recently, his post as deputy premier. Selbmann remains a deputy planning commissioner, however, and may yet have a hand in carrying out a more liberal economic program.

The recent concession to physicians and an easement of

cultural and economic policies hinted at by regime leaders at a recent central committee meeting suggest that a relaxation is in the offing. The decree affecting the status of physicians stated that the "apolitical specialist" has a place in East Germany, suggesting that the replacement of industrial specialists by party hacks during the current reorganization of the economic administrative structure will cease. The ranks of specialists and technicians have been the hardest hit of all manpower categories by the flights to the West, and East German manpower reserves are almost exhausted.

The propaganda campaign which was to prepare the way for an increase in work norms throughout industry has stopped abruptly. In an apparent effort to avoid raising norms but still to increase labor productivity, the worker is to be exploited by the "voluntary brigade" system, and students and children are to be drafted for part-time work.

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There is a possibility that pressure on the private business sector will be eased, since large-scale flights of retailers have caused distribution problems. A slowdown in the collectivization of agriculture also appears likely, because so far in 1958 over sixtimes as many cooperatives have been formed as in 1957. The regime could use an interim period in which to bring the newly seized lands of these co-

operatives into "socialist production."

A general relaxation of hard policies will probably not be effective in reducing defections from East Germany, but it is one of the few positive steps the regime can take to further its ambitious plan to bring its standard of living up to that of West Germany by 1961. [redacted] (Prepared jointly with ORR)

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PRE-ELECTION DEVELOPMENTS IN PAKISTAN

The success of Pakistan's ruling parties in dealing with political disturbances in East and West Pakistan fomented by the opposition has apparently strengthened the national government's position. It should also reduce the possibility of authoritarian moves to suspend parliamentary government or to curtail political party activity. These developments should clear the way for holding the country's first national elections as expected in February, although the government's sincerity in this respect is still open to question.

In East Pakistan, sessions of the provincial assembly on 20 and 23 September ended in violent clashes and the arrest of 12 opposition members. The deputy speaker later died of injuries. While the ruling Awami League members appear to have shared responsibility for the disorders, the opposition politicians probably sparked the violence in an attempt to force the national government to impose President's Rule and

thus deprive the Awami League of its control of the administration during the crucial election period. The provincial leaders managed to pass the required budget in the absence of the opposition, however, and adjourned with no further test of their strength likely prior to the February elections.

In West Pakistan, Karachi was the scene of violent agitation by the Moslem League, an opposition party, in protest against a recent government ban on semimilitary party auxiliaries. The outlawing of the Moslem League's "national guard" robs it of an instrument which would have been of considerable use during the elections. In the face of indications that the government was prepared to take drastic counteraction against the party if it decided to defy the ban, its leaders postponed plans for a civil disobedience campaign. Their retreat may damage the party's prestige and stop the recent growth in its popular support. [redacted]

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****2 October 1958****COMMUNIST WEAKNESSES APPEAR IN INDIA'S KERALA STATE**

Attention in India now is becoming focused on the failure of Kerala's Communist-controlled government during 18 months in power to make any progress in solving the state's basic economic problems.

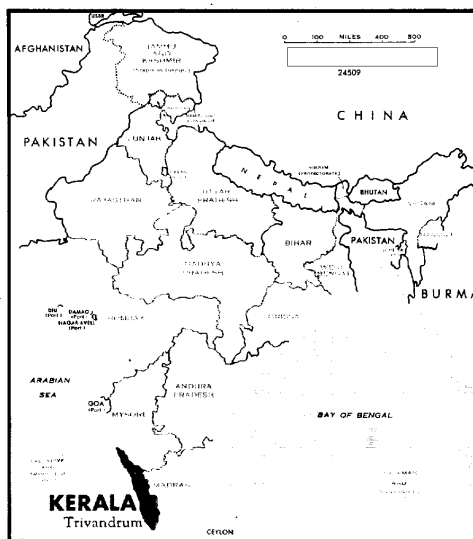
Prior to July, the Communists had appeared to be firmly entrenched in Kerala. In July, however, violent Communist attacks on student and labor agitators resulted in several deaths, producing widespread fear that the government would not maintain law and order except in favor of the Communists.

Popular indignation in India reached such a pitch that the Kerala government finally granted all student demands, thus suffering its first major defeat since it took office in April 1957. Additional publicity regarding the possibility of an investigation by New Delhi has put the state government on the defensive and made it necessary for Communists in other states to abandon attacks on New Delhi and spring to the defense of the Kerala regime.

More significant, however, is the fact that public attention is turning from immediate incidents to longer range appraisals which are bringing to light the Communists' failure to keep pace with other states in increasing agricultural production and their inability to attract much-needed industry to Kerala to relieve widespread unemployment.

Indian Planning Commission statistics show that Kerala has the poorest record in South India in increasing its food production. Furthermore, no important Indian or foreign private industry has invested in Kerala since the Communists took

over. Kerala ministers have unsuccessfully toured India and foreign countries attempting to attract private capital and assure Kerala's achievement of its Second Five-Year Plan targets.



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Preliminary negotiations with Indian industrial interests for establishing a rayon pulp factory in Kerala have produced much adverse publicity for the Communist government, whose tentative agreement to assist the project and to give management considerable control over factory labor raised a storm of criticism not only from Indian labor circles but also from the national headquarters of the Communist party.

Increasing publicity regarding these failures in long-range objectives will tend to weaken the Communists' hold on Kerala. The non-Communist opposition there, which includes the Congress party, is not likely to attempt to take over in the immediate future, however, as it is not sufficiently well organized to improve on the Communists' record.

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ARMY CONTROL IMPROVES PROSPECTS FOR ORDER IN BURMA

General Ne Win's military take-over in Burma on 26 September, welcomed by all but the Communists and the crypto-Communists, appears to have halted the country's drift toward political violence and chaos. Government authorities in Rangoon insist there has been no "coup," that the full cabinet approved the move, and that Premier Nu "invited" Ne Win to take over. [REDACTED]

Strongly anti-Communist General Ne Win can expect nearly



NE WIN

unanimous support from the feuding factions of the Anti-Fascist People's Freedom League (AFPFL) when he is nominated in Parliament on 28 October as interim premier. He is pledged to give the country six months of non-partisan government and to supervise national elections next April. The rival leaders of the factions of the AFPFL--U Nu on the one hand and Ba Swe and Kyaw Nyein on the other--will have an opportunity for a reconciliation under conditions involving a minimum loss of prestige to either side.

Members of the Communist People's Comrade party have left Rangoon and returned to the jungle. This group, considered the best disciplined of the Communist-front organizations, has maintained close liaison with the Burma Communist party of Than Tun. Presumably, it now will resume its guerrilla warfare with weapons known to have been cached in the jungle as its members surrendered during recent months. The crypto-Communists of the National United Front, who have supported Nu since June, have denounced the government move, charging that Ne Win has been made a tool of right-wing reactionaries.

Ne Win, apparently prompted by Home Ministry plans to convert the army into a government party instrument through arrest or retirement of its top leaders, delivered an ultimatum to U Nu on 23 September. Although this demand was backed by the armed forces surrounding Rangoon, Nu appears to have accepted the move as a much-needed reprieve. His gamble to continue control with Communist support was failing, he appeared to have lost his parliamentary majority, and the prospects were for inconclusive returns and large Communist gains in the projected November national elections.

The AFPFL faction of Ba Swe and Kyaw Nyein is favored by the development. Under the heavy and clumsy hand of Home Minister Bo Min Gaung, its members had been persecuted and could have expected increasingly severe repression as the election date approached. Now government pressures have been halted and the faction's prospects for election gains have much improved. [REDACTED]

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COMMUNIST THREAT GROWING IN SINGAPORE

The lack of progress by Singapore's moderate parties toward developing an effective political coalition during more than a year of negotiations points up the growing Communist threat as this British colony approaches internal self-government next year. Formation of the United Socialist Front (USF), proposed by Chief Minister Lim Yew Hock in June, has again been postponed several times. Even if formed in the near future, there seems to be little chance that the USF, or any other moderate coalition, can develop in time to compete effectively with the Communist-influenced People's Action party (PAP) in the Legislative Assembly elections which are to precede self-rule. The party's strength appears undiminished since its candidates won 13 of the 14 seats it contested in last December's city council election and since, more recently, it won a by-election against united moderate opposition.

The Singapore government's chief legal weapon against Communist subversion, the Preservation of Public Security Ordinance (PPSO), will probably be extended by the Legislative Assembly prior to its expiration

this month. While the PPSO has been an effective weapon under Chief Minister Lim's strongly anti-Communist government, a PAP victory in the elections next year would put leftists in a position to set aside the law and obtain the release of key leftist leaders now imprisoned under the law's detention clause. These leftists could then rejoin the PAP with the prospect of achieving early Communist control over the party, now "moderately" led. Thus, the Communist position in the PAP and the likelihood of a PAP election victory next year increase the Communists' chances of controlling the new government of the state of Singapore.

Communist domination of the PAP, and through it the government, might still lead to the appearance of a moderate government in Singapore, however, for the Communists presumably would wish to avoid any provocation which would cause the British to use their reserve powers to rescind the constitution. Furthermore, the Communists know their hope of an eventual merger of Singapore and the Federation of Malaya can be realized only by allaying Malayan fears of an extreme left-wing government in Singapore.

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BOLIVIAN OIL DEVELOPMENT

The inauguration this month of the first international petroleum pipeline in South America, from Sicasica in Bolivia to Chile's Pacific port of Arica, will provide a new impetus to Bolivian petroleum development. The capacity of the new pipeline is 50,000 barrels a day, an indication of the great increase contemplated for Bolivian production. Present pro-

duction, however, cannot provide a steady flow, even at the initially planned rate of 7,000 barrels a day. Exploitation by the Bolivian Government amounted to only 2,000 barrels a day in 1952, but it jumped nearly 300 percent by 1954 and almost equaled local demand. Steady increases since then have provided about 5 percent of the country's export earnings.

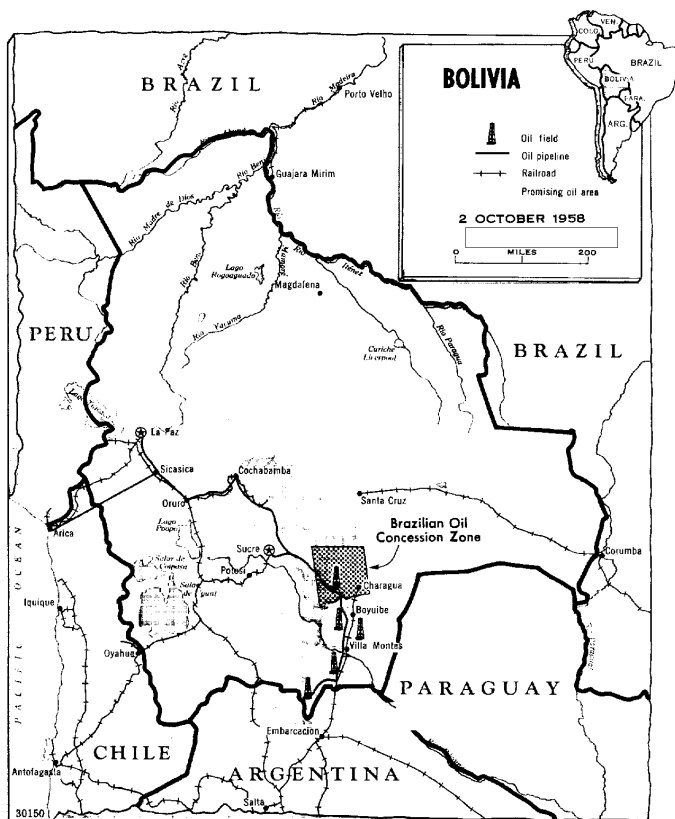
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Bolivia's successful efforts to become a net exporter of oil increased its awareness of the costs of oil development, and in 1955 the government promulgated a new oil code that attracted substantial investment by American companies, as well as by Royal Dutch Shell. These companies have completed considerable geological exploration and seismic work, but production still comes exclusively from the national company, which increased its production only 12 percent in 1957, basically because of the absence of adequate transportation from the fields to ports.

The Bolivian-Brazilian impasse over the development of promising oil land in eastern Bolivia has been overcome, and several private Brazilian companies have taken initial steps to meet the requirement of beginning operations in Brazil's sector before September 1959. All land not under concession by that date will revert to Bolivian control. Because of its acute financial crisis, Bolivia has been interested in granting the land to foreign concessionaires, who would not only bear the production costs but also pay royalties and provide foreign exchange.

Leftist forces are threatening this source of new foreign exchange earnings with a congressional amendment to Bolivia's oil code. Leftist labor



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leader Juan Lechin, President Siles' chief political rival, has proposed an amendment providing for ratification of certain oil contracts by Bolivia's erratic and frequently leftist-inclined Congress. Such a change would be likely to have an unfavorable effect on the development plans of foreign companies now operating in Bolivia, as well as on prospective investors.

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AUSTRIA'S FOREIGN POLICY

An adjustment of Austria's pro-Western foreign policy has become apparent since Chancellor Raab's visit to Moscow last July. Vienna's ties with the West basically are still strong, but a continuation of this trend may make uncertain Vienna's support on major East-West issues.

Austria's intention to pursue a "balanced" policy has been evidenced in various ways in recent weeks--including abstention in the UN vote on the Chinese moratorium issue. Vienna is still maintaining most of the restrictions placed on American overflights during the Middle Eastern crisis, and prospects are for a much less lenient policy than heretofore. By contrast, Austria is trying to improve relations with Prague and has hesitated to take a strong stand with the Kadar regime in Hungary over serious border provocations. There has also been a sharp increase in official visits between Austria and the bloc--Defense Minister Graf is expected to leave for a week's visit to Moscow on 4 October.

Various factors are involved in these developments. Many Austrians, including Chancellor Raab, think of Vienna as a central European capital and

of Austria as a potential mediator in East-West affairs. Competition between the Socialists and the People's party in the coalition government has made the chancellor particularly anxious to score successes in negotiations with the bloc. Other Austrians, from a feeling of insecurity, want to pattern Austria's neutrality after that of Sweden or Switzerland, or even to equate Austria's international status with that of Finland.

A "policy of no principles," however, does not appeal to many Austrians, and, with elections in prospect next year, Raab may hesitate to expose himself to Socialist charges of too cordial a relationship with the Kremlin. Austrian politicians in the past have been disillusioned by developments in the bloc.

Shrewd calculation may in part underlie Vienna's flirtations. Gestures toward the East may make it possible for Austria to make more important moves toward the West, such as joining the free trade area or working out some association with the European Common Market. 25X1

ICELAND SEEKING UN CONSIDERATION OF FISHING DISPUTE WITH BRITAIN

The Icelandic-British "fish war," now beginning its second month, continues to be marked by sporadic encounters between patrol vessels and trawlers of the two countries. Iceland plans to seek early UN consideration of the dispute, apparently in the belief that political decisions must be made since talks among legal experts have proved fruitless.

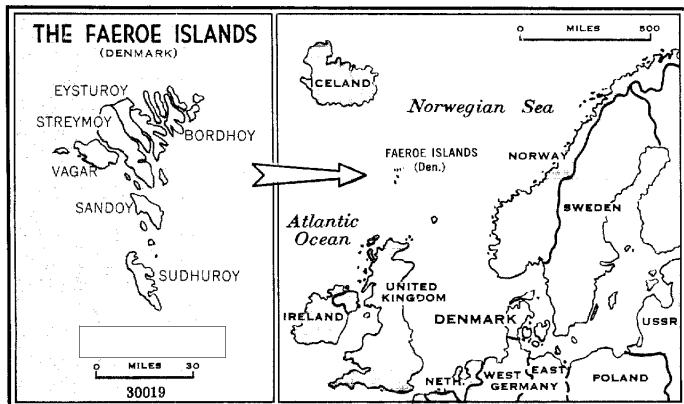
The Icelandic Government has rejected proposals to refer the problem either to a ministerial-level meeting of the NATO countries or to the International Court. It does not desire another Conference on the Law of the Sea; it wants the matter discussed during the present session of the UN General Assembly. According to Foreign Minister Gudmundsson, the fact

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extension of its fishing limits. London's principal concern appears to be in maintaining a posture that will be firm enough to discourage other nations from declaring any similar extensions, while keeping the door open for negotiations. Britain has also declared its willingness to have the dispute submitted to the International Court.

that the question of calling another Conference on the Law of the Sea is on the assembly agenda means that the Icelandic dispute will come up for discussion "as a matter of course." The Icelandic position has hardened and the government believes time is on its side. Icelanders are confident that their position enjoys widespread sympathy among UN members and that pressure resulting from assembly discussion of the matter would force Britain to back down.

While London is ready to negotiate a settlement, it doubts that Iceland would agree to any compromise not explicitly recognizing Iceland's unilateral

Britain and Denmark, meanwhile, are scheduled to resume talks in London on 2 October in an effort to reach agreement on extending the fishing boundaries around the Faeroe Islands. While the Danes appear anxious to reach an amicable settlement with Britain on this issue, they are fearful that any compromise now would affect the Faroese provincial elections scheduled for 8 November, since dissident separatist elements would claim that Denmark had failed to protect Faroese interests. British Foreign Office officials reportedly are pessimistic about the talks and anticipate a deadlock.

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THE COMMON MARKET AND THE FREE TRADE AREA

The meeting of the Council of the European Common Market (EEC) in Venice from 18 to 20 September appears to have dimmed considerably the prospects for an early conclusion of the negotiations on the free trade area (FTA). Although progress was made toward the objective of a joint policy toward the free trade project, the six EEC mem-

bers--France, Italy, West Germany, and the Benelux countries --are still some distance from that goal. Both in timing and substance there appears to have been a general retreat from more negotiable positions taken earlier this year.

The most serious problems seem likely to arise from a

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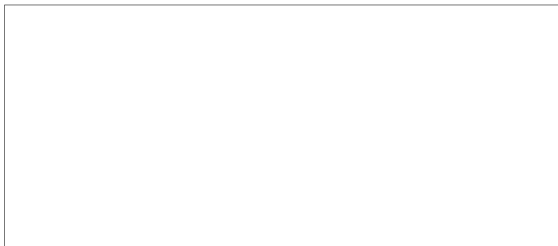
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proposed study of the "distortions" which the Commonwealth's preferential system--among other things--would allegedly cause in the FTA. The findings of this study, to be carried out by a committee under the direction of the EEC Commission and to be completed in three to six months, could serve as a basis for excluding from the FTA or otherwise restricting those products in which the United Kingdom has an advantage because of its preferred access to raw materials in other Commonwealth countries. It will not be easy to agree on the composition of such a list of products, and in any case the conclusion of the FTA treaty will probably be impossible while the EEC is making its study.

Further difficulties seem implicit in the council's views on the timing of tariff reductions. The French have reportedly reneged on their agreement of last July that the tariff reductions of the FTA would coincide with those of the EEC, and they apparently have had some success in persuading other EEC countries to accept this position. The institutional ar-

rangements proposed for the FTA by the EEC Council seem particularly cumbersome. The Common Market countries would be individually represented on the FTA council, but the procedures for arriving at the "common positions" they would take have yet to be worked out.

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The French ministries responsible for the FTA are reported under strong pressure to procrastinate, and, in view of this, the other EEC countries may be reluctant to push the French too hard lest this jeopardize French commitments under the Common Market. A default on these commitments, which begin to fall due in January, would be a serious blow to the Common Market, and without the Common Market there would be little reason for and perhaps little interest in the FTA.

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PART III**PATTERNS AND PERSPECTIVES****NASIR FACES NEW PROBLEMS**

UAR President Nasir, seeking to expand his influence in the Middle East and Africa, is faced with problems which may severely test his leadership. Divisive forces in the Cairo regime and within the UAR, an independent attitude on the part of Iraq, and possible new alignments within the Arab League are all potential sources of difficulty. Although he continues to depend heavily on Soviet economic and military aid, he is concerned over the USSR's backing of Middle Eastern Communists and over activities of UAR elements in Iraq and Syria. Nasir's attitude of suspicion and his uncompromising actions toward the West show little sign that he will try to better relations. Nasir has become deeply committed through propaganda and subversive activities to an expansion of UAR influence throughout the Middle East and Africa, and he would probably be unable to withdraw without risking loss of support at home, since it is primarily the appearance of dynamism which sustains his regime.



NASIR

Domestic Problems

In Egypt, Nasir has never been free from concern over his regime's stability, but judicious placement of personnel in lucrative or influential positions and the maintenance of extreme security precautions have stifled individual and group opposition. The formation of any potentially successful opposition in the near future appears unlikely, but

Egypt's stagnating economy and restrictions on individual freedom are continuing causes of public discontent. Nasir has indicated dissatisfaction with his subordinates' handling of domestic problems, and the reported plan for reorganization of the UAR Government is likely to include measures designed to provide scapegoats and give the appearance of positive steps toward improving unsatisfactory conditions.

Trouble within the regime's inner circle has been widely reported. Able Egyptian Vice President for Economic Affairs Abd al-Latif Baghdadi is slated for removal, and rumors are growing of the pending dismissal of Nasir's heretofore closest adviser, Ali Sabri. Past differences involving key figures in the regime have been settled relatively smoothly, however, and the present difficulties will probably be handled in the same fashion. Rumors of these disputes nevertheless reach the public and increase popular distrust of the regime's motives and activities.

After the first surge of enthusiasm, the process of merging Egypt and Syria into a United Arab Republic slowed down markedly. The reality of Egyptian dominance instead of the hoped-for goal of equal partnership has not been well received in Syria. Although Nasir's personal popularity does not appear to have suffered appreciably, Cairo's efforts to suppress some of the individualistic tendencies of the Syrians have met resistance.

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Syrian politicians and businessmen appear particularly disillusioned by Nasir's attempts to curb party activities and to regulate the free Syrian economy. Syria's outstanding political figure before the union, Akram Hawrani, has reportedly alienated Nasir by his independent behavior. He may lose his vice presidency and perhaps all real authority if Nasir effects his government reorganization plan, which would centralize control in Cairo over both the Syrian and Egyptian regions.

Syria's reaction to a program patently designed to tighten Cairo's control of Syrian affairs is likely to be an intensification of the resentment already prevalent there. The compulsory land reform program recently announced may well mitigate the resentment of the public, even though it antagonizes large landholders who stand to lose both economic and political influence.

External Problems

Another problem facing Nasir, which also involves Syria, is the independent spirit being shown by the new leaders of Iraq. The natural affinity between Syria and Iraq, based on geographic, economic, and cultural factors, may be accentuated by Syrian dissatisfaction with union and the possibility that Iraqi leaders may attempt to challenge Nasir's pre-eminence in the Arab world. Egyptian efforts to rush Iraq into formal union or federation with the UAR have been at least temporarily parried. Iraq's ardently pro-UAR deputy premier, Abd al-Salaam Arif, appears to have been stripped of much of his authority by Premier Qasim, who is showing extreme caution on the question of union and is assuming a more individualistic, nationalistic role.

Egyptians believe that the Iraqi Communists, fearing that

a growth in Nasir's influence would result in their suppression as in Syria and Egypt, have done much to retard a movement toward union. Nasir has said he complained to Soviet party presidium member Mukhitdinov, during the latter's recent nine-day visit to Cairo, about Soviet backing of Communist activity in the area, especially in Iraq.

The role of Iraq in the recent accession of Morocco and Tunis to the Arab League immediately following the visit of Iraqi Foreign Minister Jumard to each country is not clear. There is evidence, however, that Iraq may hope to form a bloc to counter UAR influence and change the league from an Egyptian instrument to a more nearly representative Arab body. The Cairo meeting of the league beginning on 1 October may provide some indication of whether or not Nasir will continue to dominate the organization. The future role in the league of oil-rich Kuwait, which has recently indicated its intent to join, may prove important on this question.

Nasir's Initiatives

The apparent, if not always real, success of Nasir's foreign ventures has been the mainstay of his regime. "Victories" in the name of Arab nationalism and anti-imperialism have forestalled internal opposition by diverting public attention from the regime's failure to cope with basic problems at home. Nasir's appreciation of the effectiveness of such a policy will probably compel him to continue intrigues abroad.

Nasir continues publicly to use opposition to "Western imperialism" as a popular rallying point, despite private assurances that he desires friendship with the West. He has maintained a steady attack on American and British intervention in Lebanon and Jordan, and has

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not completely stopped the UAR subversive activities which helped precipitate the crises in those countries. The possibility of a rapprochement with the British was set back by Nasir's refusal to ease his demands in the UK-UAR financial discussions in Rome early in September. He now appears to be planning to put pressure on the West by assuming a stronger role in determining Arab oil policy. As a first step he has made an impossible demand for higher revenues from the Tapline operation in Syria, which carries Saudi oil to the Mediterranean.

The UAR offensive in Africa shows signs of receiving greater emphasis and wider scope. Cairo radio continues to incite East Africans to struggle for independence from "imperialism," and the recent completion of new transmitting facilities in Egypt probably presages a greater effort. Nasir is also provid-

ing refuge, funds, and facilities in Cairo for exiled nationalist leaders from French territories.

Within the Arab world--particularly Jordan, Libya, and the Sudan--the UAR campaign of propaganda and subversion is likely to be intensified.

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The recent installation of a Lebanese Government devoted to accommodation with the UAR promises to encourage the growth of pro-Nasir sentiment and the type of neutralism espoused by Cairo, an advantage which Nasir can be expected to follow up. Saudi Arabian and, more recently, Kuwaiti moves toward "living with Nasir" provide definite opportunities for exploitation. The result of Moroccan and Tunisian alignment with the Arab League remains to be determined.

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STATUS OF THE SOVIET ECONOMY

The basic Soviet political objective of maximizing the growth of national power continues to dominate economic planning five years after the death of Stalin. Toward this end, the traditional emphasis on a rapid growth of heavy industry and maintenance of a strong military position have been preserved, but the new leadership has embellished Stalin's central theme with the

additional objectives of creating the world's show place of Communist economic achievement and generating active popular support for the regime.

In place of the rigidity of approach to economic problems which characterized the Stalin period, the past five years have been marked by innovation and experimentation. A more flexible system of economic priorities

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has permitted the introduction of economic incentives as a replacement for some of the more oppressive coercive measures used by Stalin. Pursuit of these new objectives has created a situation in which the Soviet consumer and Soviet agriculture, recognized by the post-Stalin leadership as possible deterrents to continued high growth rates in heavy industry, no longer face the certain prospect of being sacrificed to industry with each new problem in that area.

The post-Stalin regime has brought the economy through a difficult period of adjustment with only a slight decline in rates of industrial growth and with considerable improvement in agriculture. Furthermore, the regime's innovations in the operation of the economy probably have increased its ability to cope with future obstacles to continuing high rates of growth, such as rising investment costs and the rising absolute increases in output which are required to maintain constant percentage gains from a growing base.

The individual output goals revealed thus far for 1965 and the broader objectives of the forthcoming Seven-Year Plan (1959-1965), suggest no letup in the continuing Soviet ambition to catch up with the West in the shortest possible time. Industrial growth goals during the period of the Seven-Year Plan--to be discussed at the 21st party congress in January--probably will be maintained at rates nearly as high as those achieved during the past two years. Those rates, although lower than those of the Fifth Five-Year Plan (1951-55), were still considerably higher than

those of the United States. The desire to overtake the United States even more rapidly than these rates permit will probably induce the leadership to continue its efforts to obtain greater efficiency.

Industry

The economic innovations of the 1953-55 period--first Malenkov's program for manufactured consumer goods and then Khrushchev's agricultural consumer-goods program--did not deprive heavy industry of the resources required for continued rapid growth. A new program of automation and re-equipment was expected to raise industrial productivity to the desired

USSR: AVERAGE ANNUAL RATES OF GROWTH

	REPORTED FIFTH FIVE-YEAR PLAN (1951-55)	ORIGINAL SIXTH FIVE-YEAR PLAN (1956-60)	REPORTED 1957	PLANNED 1958	SEVEN-YEAR PLAN GOALS (1959-65)
GROSS INDUSTRIAL OUTPUT	13.1	10.5	10.0	7.6	—
CRUDE STEEL	10.6	8.6	4.9	5.0	5.9
COAL	8.4	8.7	7.9	5.6	—
PETROLEUM	13.3	13.3	17.3	14.5	10.5
ELECTRIC POWER	13.3	13.5	9.1	10.3	11.7
CEMENT	17.1	19.5	16.0	17.3	12.9

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level soon. Limited changes in industrial administration and increased use of incentives were expected to give another boost to industry. However, during those years faulty coordination of plans for new plant capacity with plans for increases in the output of raw-material industries led to a severe shortage of industrial raw materials during 1956.

The Sixth Five-Year Plan (1956-60), which relied on modernization of industry and greater use of raw materials from the eastern areas to solve the productivity and raw-material problem, proved inadequate to cope with the emergency. The regime therefore abandoned the

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plan, cut back industrial output goals for 1957 and subsequently for 1958, and ordered the formulation of a seven-year plan. It also launched a remedial investment program in raw-material industries, while maintaining ambitious programs in agriculture and housing, and in July 1957 instituted a sweeping reorganization of the industrial administrative structure.

The industrial reorganization was intended to achieve a more efficient management of the economy by reducing the amount of detail planned in Moscow and thereby giving greater opportunity for local initiative.

The revised industrial output goals, calling for increases of only 7 and 7.5 percent in 1957 and 1958, proved unnecessarily low, since actual growth was reported to be 10 percent in 1957 and 10.5 percent at mid-year 1958. Nevertheless, the performance of some basic materials industries, particularly those producing ferrous metals, remained poor. Production capacity additions in these industries fell considerably short of goals in 1957 and will be inadequate in 1958 as well. Production goals for 1965 in the basic materials industries suggest that priority treatment for these industries will have to be continued.

There will probably be no increase in the industrial growth rate above the 10-percent level of the past two years, since this would require a substantial overfulfillment of production goals in the basic materials industries. An annual rate of 8 to 10 percent over the next seven years is more likely. In ferrous metallurgy the present investment plan is likely to produce an average annual growth rate of only some 6 percent during the next seven years. Even if resources devoted to this indus-

try were increased, it is unlikely that the growth of steel output could approach the average annual rate of 9.5 percent achieved during the past seven years.

The slower growth of steel output will in turn limit the growth of machinery output at a time when the slower increase of the labor force is heightening the demand for labor-saving machinery. The construction portion of investment is not subject to the same raw materials constraints as machinery and equipment, but industrial construction growth is restricted by the availability of equipment and manpower for use in new factories.

In order to assure sufficient industrial manpower to maintain projected industrial growth rates, substantial transfers of labor from agriculture to industry will be required, since the total increase in the labor force over the next seven years will be approximately 3,000,000 men fewer than during the past seven years. The housing program promises to provide continuing improvement in the well-being of the labor force and will facilitate the transfer of workers from agriculture to industry, but present ambitious agricultural programs will exert pressures to hold labor in agriculture.

The reorganization of the industrial administrative structure, now in existence for a year, has not greatly eased the regime's problems in removing the restraints on future high industrial growth rates. Some simplification of decision-making at the center has been achieved, the role of the party has been strengthened, and Gosplan's influence in planning and controlling economic activity has been increased. However, the exercise of local initiative has been hindered by a number of measures designed to

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forestall any serious erosion of central leadership and control. These actions have precluded the freedom of action at the local level which would be necessary to bring about greater efficiency in the use of resources.

Agriculture

The average annual rate of increase in agricultural production during the next seven years will probably be about 3 percent, compared with the 7.5-percent average annual rate during the past five years. There are several reasons for this: the average annual rate of increase in sown acreage will be only about one fourth that achieved in recent years; the corn program will not contribute to future agricultural output to the same scale as in the past; and the new "single-price system" may provide less incentive than the previous multi-price system.

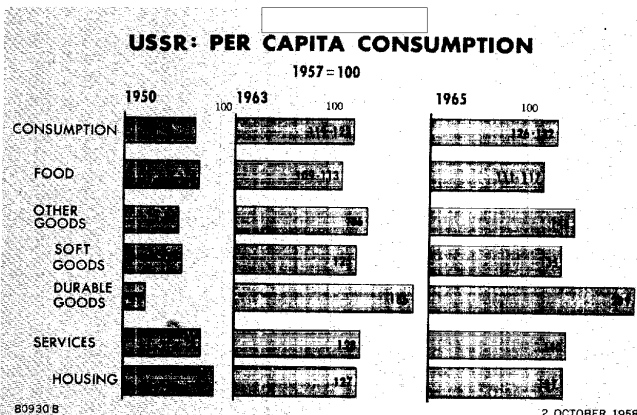
Transfer to collective-farm control of most of the machinery formerly under the machine-tractor stations (MTS) may help to increase output, as it will eliminate the area of conflict between the collective farm chairman and the MTS director. The collective farm chairman now has a free hand in managing the utilization of machinery and has the undivided

use of more skilled labor. On the other hand, the central organs continue to determine procurement goals, and there are few indications that the enterprise manager is exercising a significant choice in what and how much he will produce.

State control over agricultural activities apparently will not be weakened by recent organizational changes, as political functions of the former MTS's are being shifted to other organizations.

The Soviet Consumer

The Soviet leaders, with an eye to propaganda gains, have designated per capita consumption as a new area of competition with capitalist countries. Even if the USSR succeeds within the next seven years in its effort to match the United States in per capita consumption of selected food products such as meat and milk, overall per capita consumption in the USSR will remain well below that in the United States and most of Western Europe because of the lag in other areas, especially consumer durables and housing. Moreover, the Soviet consumer will not experience as rapid an increase in overall consumption as he did during the past seven years, but there will be a qualitative improvement in consumption, and the housing situation will improve.



The post-Stalin leadership has sought to distribute increases in consumption selectively by raising the cash income of lower paid groups in the population while holding retail prices relatively stable. The first to be affected were the peasants, whose total real income rose about 18 percent from 1953 to

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1957. Another group to benefit was the urban labor force; since 1955 a major wage and salary reform, the first since 1932, has been under way with the aim of relating wages more closely to productivity. These measures, together with a higher minimum wage level and the increase in consumer supplies

available from the growth of agricultural output, raised the real income of the average urban wage earner about 18 percent. A doubling of pension levels late in 1956 put pensioners at about the same consumption level as employed workers. (Prepared by ORR)

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POTENTIAL POLITICAL INSTABILITY IN GREECE

Prime Minister Karamanlis' pro-Western government retains a solid working majority in the Greek Parliament, but there are some indications that the relative government stability which Greece has enjoyed for six years may be threatened. Foreign and domestic problems alike are mounting. Developments in the explosive Cyprus issue could at almost any time lead Karamanlis to resign and in time even result in some degree of Greek disengagement from NATO obligations. There is no potential successor to Karamanlis who would be better able to cope with the government's pressing issues. The Communists or Communist-front groups in Greece are not likely to gain control of the government by either legal or extralegal means, but

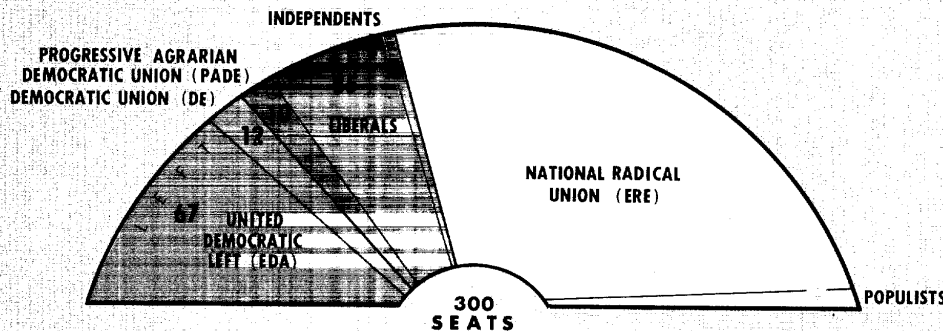
an authoritarian regime eventually might be instituted by the army to counter the leftists.

Present Political Parties

Greek politics today are dominated by Premier Karamanlis and his National Radical Union (ERE), which controls 170 of the 300 seats in the Greek Chamber of Deputies but had the support of only 41 percent of the electorate in the May 1958 election. The ERE is a heterogeneous group of right-center politicians held together by Karamanlis, the absence of effective non-Communist opposition parties to which disaffected politicians might defect, and the fear of the increasing strength of the Communist-front United Democratic Left (EDA).

GREEK CHAMBER OF DEPUTIES

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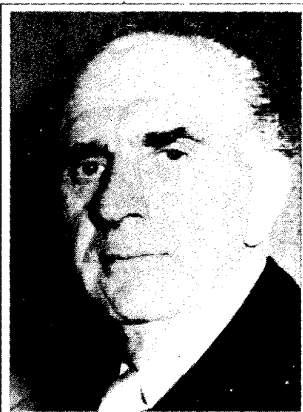
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The premier has the support of the monarchy, and Greeks generally believe he also enjoys the backing of the United States.

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He has often threatened to resign and has actually taken steps to do so on several occasions during the recurrent crises over Cyprus. A further deterioration in the Cyprus situation--particularly if combined with publicly proclaimed American support for the British--could cause him to insist that the King accept his resignation.

The major opposition to Karamanlis is furnished by EDA, the legal front for the outlawed Communist party of Greece (KKE). While EDA has the backing of international Communism, it also has the support of many non-Communists. Its figurehead chairman, John Passalides, is apparently a left-wing socialist. EDA, as a tactical move to attract left-of-center support, espouses a neutralist foreign policy and domestic objectives in line with generally propounded "socialist" aims rather than openly advocating

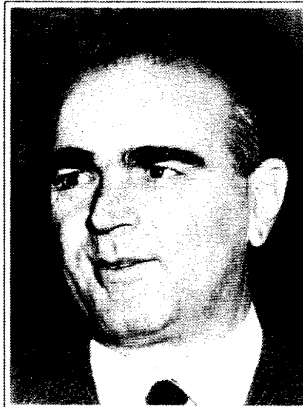


PAPANDREOU

out-and-out Communist policies.

Because of its known connection with the KKE, EDA for

years seemed incapable of gaining more than 15 percent of the vote in a national election. The 25 percent it received in May 1958, which enlarged its parliamentary representation from 17 to 79, has caused a general



KARAMANLIS

reappraisal of Greek politics. While the number of Communist votes in Greece has grown significantly in recent years, as shown in the last election, it is believed that not more than 15 percent of the EDA voter came from ideological supporters of the extreme left. The rest of the EDA vote came from a large and growing section of the Greek electorate which is dissatisfied with the economic situation and the foreign policies of the nationalist parties.

The non-Communist opposition parties in Greece were seriously weakened in the May elections. The traditional centrist pro-Western Liberal party fell behind EDA in the vote and had its parliamentary representation cut from 67 to 35. A lack of constructive leadership, a program not easily differentiated from that of ERE, and a growing polarization of Greek politics between the right and extreme left caused the Liberal loss. There is no indication at present that the Liberals can regain their former position in Greece. Their parliamentary leader, George Papandreou, is striving without appreciable

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success to unite all nationalist opposition parties into a new political party.

Several small parties in the Chamber of Deputies, al-



MARKEZINIS

though relatively insignificant in size, contain ambitious and controversial politicians. Of these, the most vocal is the brilliant but erratic Spyros Markezinis, a spokesman for the Progressive Agrarian Democratic Union, who considers himself Greece's "man of destiny."

Alexander Baltadzis, head of the Agrarian party, is actively attempting to keep the Greek rural vote, a current target of EDA, from going to the far left.

Karamanlis' major internal problems are related--the growth of Communist influence, which in turn has resulted in part from the government's failure to more rapidly develop the economy of the nation.

Following EDA's success in the elections, Karamanlis established an anti-Communist committee within the government to recommend action against the ex-

treme left. A subsequent government campaign to acquaint the public with EDA's close ties with the KKE has been accompanied by the arrest of several EDA leaders and other harassing tactics. Rumors are increasing in Athens that EDA will soon be outlawed.

Such a move might destroy EDA as an organization and at least temporarily crush the morale of the extreme leftists. On the other hand, other camouflaged left-wing parties would probably soon arise, while popular dissatisfaction with the nationalist parties and support for EDA's principles would not be erased. Possibly anticipating repressive action, EDA recently created a new left-wing party--the Democratic Union. This new party, and others which are expected to appear, probably was formed as a haven for EDA members when and if the parent party is proscribed and also will be used by EDA as a bridge to the political center.

The Armed Services

The armed forces are an element of stability in Greece,



PASSALIDES

since their leaders are anti-Communist and almost universally loyal to the crown. The Sacred Bond of Greek Officers (IDEA), formed during World War II, is

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a secret, ultrapatriotic, and anti-Communist organization within the armed forces. IDEA has been largely quiescent since 1951 but EDA's recent success at the polls may lead to a revival of IDEA activity. If a leftist rise to power appeared imminent, by either legal or extralegal means, the armed forces would probably attempt to establish a right-wing authoritarian regime.

Economic Problems

In the economic field, Karanmanlis has recently indicated that he intends to put increased emphasis on the development of agriculture--backbone of the Greek economy. Also, partly to combat left-wing charges that the government has failed to solve economic problems, he has proposed measures aimed at slashing imports of luxury goods, stamping out tax evasion, and ensuring a more equitable distribution of the national wealth. The drive to speed development of the Greek economy is handicapped by a lack of available capital, however, and this largely accounts for the emphasis in the press on the need to secure large-scale West German credits--presently under discussion in Bonn. Soviet blandishments in the economic field have largely been ignored thus far.

Foreign Problems

Nearly all foreign and domestic issues in Greece are affected by the Cyprus problem. This highly emotional issue could result in the government's resignation, and both Communist and nationalist opposition leaders have vainly sought to bring this about. The premier and foreign minister have long since tired of the Cyprus controversy and desire a settlement, but they are forced by intense Greek nationalism and the leaders of the Greek Cypriots to take the lead in the fight against British "colonialism."

The Cyprus problem has at least temporarily ended Turkish-Greek collaboration in NATO, has damaged traditionally friendly Anglo-Greek relations, and has caused a steady decline in American prestige in Greece--the United States being accused of supporting Britain and Turkey in the dispute--and has even resulted in recurrent Greek threats to leave NATO. Greek disillusionment with the West was recently reflected in the UN General Assembly, when the Greek delegate abstained on the Indian resolution for Chinese Communist representation. This indication of a new "independent" Greek foreign policy was warmly applauded by all segments of the Greek press.

Traditional good relations between Greece and certain Arab states, notably the UAR, have improved during the past two years. This results partly from the existence of Greek communities in the Middle East and the position of the Greek Orthodox Church in that area, but is also based on UAR support for Greece in the Cyprus dispute. Consequently, when American and British troops were dispatched to Lebanon and Jordan in July, the Greek press was nearly unanimous in criticizing the Western moves, although the government quietly cooperated with the United States by granting facilities for American planes. Many Greek Government leaders have expressed the view that the United States fails to appreciate Greece's potential value as a bridge between the West and Nasir.

Diplomatic relations with the Soviet Union are correct but cool. A recent agreement with the USSR envisages a large increase in trade between the two countries, but the level proposed remains a small percentage of total Greek foreign trade. However, in certain products, such as tobacco, the increased levels will have an important economic and political impact. Moscow's attempts to expand cultural exchanges have recently

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been rebuffed by Athens, which also took action to reduce the volume of Soviet propaganda disseminated in Greece. Nevertheless, the entire Soviet bloc has backed Greece on the Cyprus issue, although not as vigorously as might have been expected.

In light of the supreme importance of this problem to the Greek people, the USSR can exploit this support in an effort to reduce the traditional ties of Greece with its Western allies.

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FIDEL CASTRO'S "26TH OF JULY" MOVEMENT

Fidel Castro's "26th of July" movement has in less than two years become the symbol of revolutionary opposition to the regime of Cuban President Fulgencio Batista.

As the revolutionary movement has spread and become more violent, heretofore uncommitted Cubans have been forced to take a stand for or against the government, but the bulk of the population probably still favors a peaceful transition to constitutional government through elections. It is more the movement's success than its revolutionary program which has won it a widely varied following, including some respected civic, business, and religious groups.

A good many supporters, however, would not want to see Castro become president. Despite his frequent statements to the contrary, Castro is believed to entertain personal political ambitions, and many responsible members of Cuba's political opposition fear he could become a more formidable dictator than Batista.

Organization, Accomplishments

The "26th of July" movement, so called after the date

of an unsuccessful coup in 1953, is a loose organization nominally headed by Fidel Castro, whose long record of revolutionary activity and whose penchant for the dramatic provide a strong emotional appeal for Cuban youth. In practice, Castro wields direct control only over the rebels under his command in the Sierra Maestra of Oriente Province. Other rebel groups, such as that under the command of his brother Raul in easternmost Oriente, are at least semi-autonomous, principally because of difficult communications.

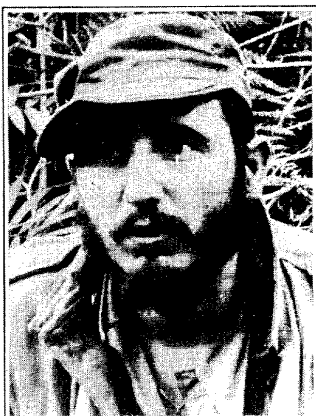
The Castro movement has grown from 12 survivors of the expedition which landed in Oriente in December 1956 to an island-wide organization with effective branches in several other American republics. Recent estimates place the number of armed rebels in Oriente Province between 4,000 and 6,000, with the majority under Raul's command in the larger "second-front" area. There are probably a substantial number of "part-time" rebels who take up arms during night raids and others who could be counted on to join the movement under conditions of intensified hostilities. A shortage of arms and other supplies has limited the size of the fighting force.

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The rebels control most of Oriente Province, except the cities and areas of army concentration, and reportedly have opened "fronts" in Camaguey,



FIDEL CASTRO

Las Villas, and Pinar del Rio provinces. One of Fidel Castro's principal lieutenants has recently moved into Camaguey Province with a column of men, indicating that the movement may attempt to gain control over Camaguey similar to that exercised in Oriente. The rebels have demonstrated their ability to paralyze transportation in Oriente Province at will. They have not, however, shown themselves capable of inspiring spontaneous popular support for "all-out" offensives and twice have failed in attempts to call nationwide general strikes.

An underground organization of nonfighting members operates in many cities and carries on liaison with other opposition groups, both inside and outside Cuba, as well as with "26th of July" groups in exile. Exile groups are most active in Mexico, Venezuela, and the United States, and provide the rebels with important financial and logistical support. Smaller groups operate in other Latin American countries.

At present the Castro movement is supported by the major-

ity of opposition groups, both in Cuba and in exile, although this unity, as in the case of earlier movements, could prove short-lived. The two opposition political parties which have offered presidential candidates for the 3 November general elections--the "autenticos" of former President Ramon Grau San Martin and the Free People's party formed in August 1957 and led by Carlos Marquez Sterling--have been excluded from the unity pact and have renounced revolution as a means of solving Cuba's political problems.

Support for the rebels also emanates from such groups as the Civic Resistance Movement, an organization of respected businessmen and civic leaders which has provided important financial backing. Some individual members of the Roman Catholic hierarchy are believed to support the movement, but the church itself, although increasingly anti-Batista, has never indicated a pro-Castro policy and officially favors a peaceful change in government.

Organized labor, although declaring itself neutral, has



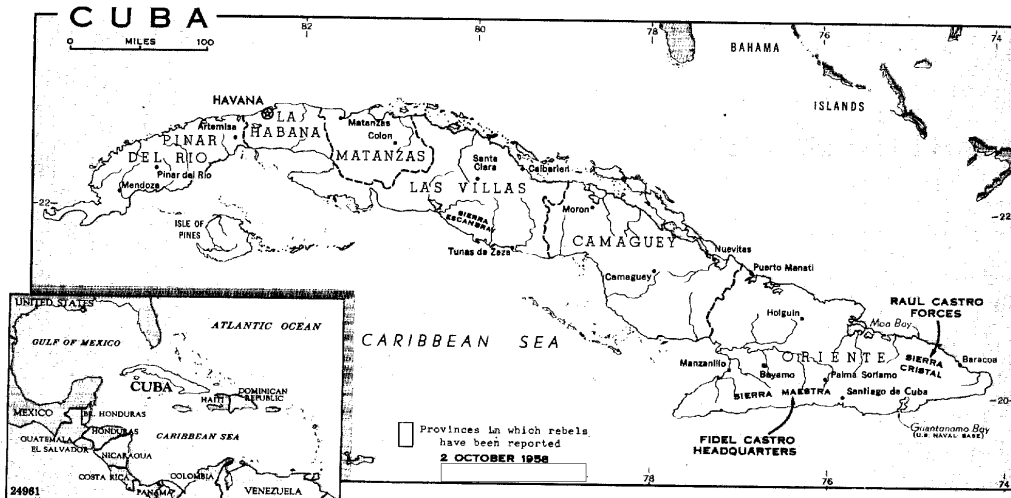
RAUL CASTRO

placed itself firmly in Batista's camp and has endorsed the labor program offered by the government's presidential candidate, Andres Rivero Aguero.

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Communist Influence

The Cuban Government has long charged that opposition groups, particularly the "26th of July" movement, are Communist dominated. On 20 September, Batista told Ambassador Smith that he had papers proving "Communist ties with the '26th of July' movement" and offered to furnish photostatic copies. Batista has failed in the past to provide creditable copies of other such alleged pro-Communist rebel documents.

Although a few alleged Communist sympathizers have positions of importance, particularly within the group commanded by Raul Castro, and others are to be found on lower levels, there is no evidence to support the charge against the Castro movement. The youth and political immaturity of many "26th of July" members, as well as the existence of some anti-Americanism, especially within Raul's command, leaves the movement open to Communist penetration. Castro supporters in Mexico and Venezuela are believed to have turned down Communist offers of support.

The Castro Program

The movement's primary objective is to overthrow the

Batista regime. Castro has from time to time announced political, social, and economic objectives, but has failed to formulate a strong program. Two points have consistently appeared in Castro's pronouncements: agrarian reform and regulation of public utilities. There is little evidence to support charges that his intention is to organize agrarian reform along Marxist lines or to nationalize public utilities.

Castro has long desired recognition as a belligerent and has announced plans to set up a "provisional government" in Oriente Province. Recently the movement has made efforts to set up civil government in the rebel-dominated areas of Oriente Province--which it calls "Free Cuba." It has established schools and hospitals and levied taxes--against US as well as Cuban enterprises--and is reportedly working toward a redistribution of land. Castro recently has announced a set of "labor demands" which appear designed more to attract labor support than to form the basis of a labor program.

Castro's position with regard to the scheduled general elections on 3 November is that no election under Batista can be free. Rebel activities, which

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have prompted the government to keep constitutional guarantees in continuous abeyance since March 1958 and during most of 1957, were largely responsible for the decision to postpone the elections from June to November, and it seems likely that the rebels will again attempt to create sufficient unrest to force another delay. The present suspension of constitutional guarantees is scheduled to remain in effect until 23 October--ten days before the elections, effectively curbing campaign activities. Castro's intention, now supported by a number of other opposition groups, is to establish a provisional civilian government if Batista falls and to hold elections after political conditions return to normal.

Outlook

The rebels are effective in mountain guerrilla operations

but have little capability for fighting on open ground or for taking cities. They are capable of carrying out isolated acts of sabotage, even in Havana. At no time, however, has the rebel movement seriously threatened the Batista regime, and it does not appear to have the capability, barring mass defections from the armed forces or a reversal in organized labor's progovernment policy, of overthrowing the government. The movement has increased its strength and effectiveness, however, since the abortive call for a general strike last April, and now is believed stronger than ever. The "26th of July" rebels will probably continue to fight any government in which the movement does not have a dominant or controlling position.

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ANNEX**SINO-SOVIET BLOC ACTIVITIES IN IRAN****1. General Bloc Policy:**

Bloc policy is directed at weakening Iran's military cooperation with the West and at encouraging Iran to adopt a policy of neutralism. The USSR began a friendship campaign in mid-1956, after it had failed to dissuade Iran from joining the Baghdad Pact. During the past six months, the Soviet ambassador has reiterated standing general offers to aid development of fisheries, industry, and oil exploitation and has pressed hard for implementation of outstanding agreements. The Shah turned down a personal invitation from Khrushchev to visit the USSR which was extended in July.

2. Moscow has urged Iran to take a more active role in opposing "colonialism" and has reminded the Shah several times that Iran is pledged by the 1921 Treaty of Friendship and by the Shah's own personal assurances not to allow Iranian territory to be used as a base of operations against the USSR. During the recent Middle East crisis, Moscow warned the Shah that Soviet forces would move into Iran if its territory were used to attack Iraq, and Moscow maneuvered along Iran's borders to emphasize its readiness to intervene. The slow improvement of Soviet-Iranian relations may have been temporarily halted by Moscow's pressures following the Iraqi coup.

3. Diplomatic Representation: The USSR, Poland, Czechoslovakia, Hungary, and Rumania have diplomatic relations with Iran and maintain missions in Tehran. The USSR also has a trade mission in Tabriz. There are 300-350 bloc nationals in Iran and one fifth of these are

Eastern European. N. M. Pegov, the Soviet ambassador, is a full member of the central committee of the Soviet Communist party and the only ambassador of that status now assigned in the Near and Middle East.

4. Economic Activity:

Trade with the bloc increased from \$45,000,000 in 1956 to \$59,000,000 in 1957, mostly as a result of greatly expanded trade with the USSR. Soviet trade now represents about 10 percent of Iran's total foreign trade and will continue at a high level as the 1957 three-year barter agreement, which calls for annual volume increases, is implemented. Iran's primary imports are sugar, machinery, vehicles, and consumer goods and its primary exports are wool, cotton, minerals, and agricultural products.

5. Exchange of goods will be facilitated by Russian improvement of the Caspian Sea port of Bandar Pahlevi, where dredging was completed in July. A railroad agreement signed in July which provides for doubling to 1,000 tons the daily freight exchanged each way has not yet been implemented. Iran's main railway system was connected to that of the USSR in late February when the Tabriz-Tehran line was completed. Discussions of a civil air agreement remained stalled over the issue of an unrestricted nationality clause for aircrews.

6. A Soviet-Iranian agreement for joint exploitation of the Hari River was signed in March and a survey was to begin in June preparatory to construction of a hydroelectric dam. A similar 1957 agreement on exploitation of the Araks and Atrek rivers which flow to the Caspian has not yet been implemented.

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7. Iran's dealings with Eastern Europe are largely confined to a low volume of commercial exchange which amounted in 1957 to about 4 percent of Iran's total foreign trade. In March, Iran accepted its first postwar long-term credit from the bloc in the form of a Polish contract to build a \$3,000,000 sugar plant at Meshed on a seven-year credit. A few privately owned industrial installations have been equipped by the satellites, and Czechoslovakia is constructing a plywood plant.

8. Cultural and Propaganda Activity: Bloc activity is limited by close Iranian surveillance over all publications and public activities by foreigners. A Soviet-Iranian Cultural Relations Society is allowed to operate in Tehran but its influence is limited. Soviet radiobroadcast hours in Persian have steadily increased to almost 51 a week, and overt bloc propaganda is now stressing Western antistate activities in Iran and the benefits of an "independent" Iranian foreign policy. A transmitter in Leipzig, East Germany, began broadcasting to Iran in early 1958 and follows a much harsher propaganda line. On 25 July it broadcast an Iranian Communist declaration holding up the Iraqi revolt as an inspiring example for the Iranian people in their struggle against a "sellout" by the Shah.

9. The bloc continues actively to promote exchanges of delegations in its efforts to influence Iranian leaders of public opinion. During the first half of 1958, Iran exchanged 21 delegations with the bloc, thus maintaining the increased level reached in 1957.

10. Subversive Activity: The Communist party of Iran (Tudeh) has been illegal since

1949, and, since the fall of Premier Mossadeq in 1953, its estimated 35,000 membership has been drastically reduced. The Tudeh is now most active in Tehran and in the Abadan oil complex. The execution of party chief Khosrow Ruzbah in May appears to have had little adverse effect on the organization. The possibility of Russian subversive activity among Iran's 500,000 Kurds continues to be a residual source of danger.

11. Iranian Reaction: Iran has moved slowly and cautiously toward improved relations with the USSR in limited fields although its attitude is conditioned by the memory of the lingering Soviet occupation of Iranian Azerbaijan following World War II. The Shah regards himself as clever enough to deal with the USSR without becoming inextricably involved.

12. The urban population generally approves of the regime's cautious rapport with the bloc, but the attitude of the peasantry, which constitutes 80 percent of the population, remains amorphous. The increasing amount of foreign activity in the countryside probably has created dissatisfaction with conditions which could make the peasantry a fertile field for future Communist exploitation.

13. Outlook: The USSR will continue to be the bloc's primary agent in Iran and its tactics will probably not change in the immediate future. The Shah might yet accept substantial Soviet aid offers if he feels his regime seriously threatened from within. In any case, he probably will continue to use this prospect as a threat to obtain more aid from the West. Iran remains vulnerable to a weakening of its pro-Western stance through continued Soviet activities.

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