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# CURRENT INTELLIGENCE WEEKLY SUMMARY

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CURRENT INTELLIGENCE WEEKLY SUMMARY

9 October 1958

THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

TAIWAN STRAIT SITUATION . . . . . Page 1

The Chinese Communists clearly want to continue the Warsaw talks, through which they hope to bring about an evacuation of the Chinmen and Matsu islands, and there have been hints that the cease-fire may be prolonged. The Communists have strictly maintained their self-imposed cease-fire since 5 October.

The Chinese Nationalists, while taking the line that Peiping's cease-fire is a propaganda move to divide the United States and Taiwan, have refrained so far from provocative actions. They are disturbed at suggestions that a withdrawal from the offshore islands would be desirable. [redacted]

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MIDDLE EAST DEVELOPMENTS . . . . . Page 3

Militant Lebanese Christians apparently are pressing President Shihab to replace the Karame cabinet with a neutral military government. Rioting and terrorism continue sporadically. Nasir has reorganized the UAR government structure to improve his control of Syria, but he may face more local Communist activity in the area following the return from the Soviet bloc of Syrian Communist leader Bakdash and dissident Iraqi Kurdish chief-tain Barzani. In Iraq, the political balance remains uncertain, with ousted Deputy Prime Minister Arif seeking to avoid leaving the country. The ailing Imam of Yemen is again planning a trip to Italy, while illness may hamper Saudi Crown Prince Faysal in his reform program. [redacted]

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**CURRENT INTELLIGENCE WEEKLY SUMMARY**

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**PART I (continued)**

**PRESIDENT MIRZA'S TAKE-OVER IN PAKISTAN . . . . . Page 5**

With the support of the army, President Mirza seized full control of the Pakistani Government on 7 October by abrogating the 1956 constitution, dismissing the central and provincial governments, and abolishing all political parties. Mirza charged army commander Ayub with broad authority to administer the country under martial law. While the initial reaction has been calm, opposition may develop later over Mirza's cancellation of the first national elections, previously scheduled for February. The Mirza-Ayub regime will maintain Pakistan's pro-Western orientation. [redacted]

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**PART II**

**NOTES AND COMMENTS**

**FRENCH RIGHT ORGANIZES FOR ELECTIONS . . . . . Page 1**

A new coalition of French rightist groups formed to participate in National Assembly elections on 23 and 30 November will probably seek to identify itself as the "national" party representing De Gaulle's aspirations. The new electoral law is expected to drastically reduce Communist representation in the next assembly. [redacted]

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**BRITAIN'S CONSERVATIVE PARTY MEETING . . . . . Page 2**

Prime Minister Macmillan's Conservative party is holding its annual conference from 8 to 11 October in an atmosphere of mounting confidence that it will be returned for a third consecutive term of office in Britain's general election expected next year. The Labor opposition, aware that public opinion strongly endorses Macmillan's foreign policy, evidently plans to exploit the moderate economic recession, and should this deepen, it could reverse the political trend, as expressed in public opinion polls, which now favors the Conservatives. [redacted]

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**THE COAL CRISIS IN THE EUROPEAN COAL-STEEL COMMUNITY . . . Page 2**

Mounting stocks of unsold coal, which may reach 26,000,000 metric tons by the end of 1958, are leading to strong pressure on the High Authority of the Coal-Steel Community (CSC) to grant further relief to the complaining coal industries in Belgium and West Germany.

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**PART II (continued)**

Some of the proposed measures, however, involve a degree of protection which would probably create serious problems for the CSC with the United States and GATT, and among its member countries. [redacted]

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**DISARMAMENT AND RELATED ISSUES--13TH UN GENERAL ASSEMBLY . Page 4**

The USSR's resumption of nuclear testing, coupled with the release of the UN Scientific Committee's report on the effects of radiation, will probably serve to focus the General Assembly's discussion of disarmament and related issues on the question of halting nuclear tests. Hammarskjold's 1 October memorandum on disarmament was designed to ensure some measure of UN control in the field. He hopes the assembly will endorse a broad set of principles along the lines of his memorandum. Such an endorsement, he believes, would effectively sidetrack the USSR's specific bids for nuclear test cessation and military budget cuts. [redacted]

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**BONN CONSIDERS RELATIONS WITH EUROPEAN SATELLITES . . . . Page 5**

West Germany probably will reach a decision within three weeks on whether to take steps toward establishing relations with the European satellites. Chancellor Adenauer has already indicated a change in Bonn's attitude on nonrecognition of the states--other than the USSR--which maintain relations with East Germany by exempting the satellites from this category. Bonn will probably propose an exchange of economic missions with consular rights as a first step toward full diplomatic relations. [redacted]

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**FINNISH GOVERNMENT FACES SERIOUS ECONOMIC PROBLEMS . . . . Page 6**

The Finnish coalition government of K. A. Fagerholm, which took office on 29 August, faces a serious economic situation in the country's growing unemployment, which may reach 100,000 this winter out of a total labor force of some 2,000,000. The cabinet not only must provide interim relief measures, which will strain the budget, but must also stimulate an expansion of industry. Failure to do so is likely to bring in a new coalition, which would include the Communist-front Finnish People's Democratic League. [redacted]

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**ADJUSTMENTS OF SOVIET SEVEN-YEAR PLAN CONTINUE . . . . Page 7**

USSR Gosplan is working feverishly to complete the draft Seven-Year Plan for release prior to the 21st party congress in January. A meeting of some 2,000 Gosplan and sovnarkhoz officials was recently held in Moscow,

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**PART II (continued)**

apparently to consider problems connected with final drafting of the plan. Recurrent changes in some of the goals planned for 1965 have required extensive readjustments in the draft, with the result that the present state of the planning process is, according to a Gosplan official, "a continuous series of erasures and re-entries." [redacted]

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**SOVIET OFFICIALS ATTEND BRUSSELS FAIR IN LARGE NUMBERS . . Page 8**

The Brussels Fair has occasioned the largest influx in recent years of Soviet officials into Western Europe. The USSR apparently views the fair as an opportunity for Soviet officials to see Western technological exhibits, while at the same time offering them a much-coveted European vacation. Several high-ranking members of the party presidium have already toured the fair, and preparations are now apparently under way for the arrival of Premier Khrushchev. In addition scores of regional party and government officials have quietly visited the fair since its opening. [redacted]

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**VOROSHILOV'S VISIT TO AFGHANISTAN . . . . . Page 9**

The recent visit of Soviet President Voroshilov to Afghanistan was designed to counter Afghan expressions of interest in Western economic overtures and signs of Afghan rapprochement with Western-oriented Pakistan and Iran. No new economic aid was officially announced, although there have been rumors that a \$30,000,000 aid offer was made. An otherwise noncommittal joint communiqué on 6 October professed that the views of both countries on major international problems "are close and in many ways identical." [redacted]

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**INDIA'S STEEL EXPANSION PROGRAM . . . . . Page 10**

India's steel expansion program--calling for an increase in annual crude steel production from 1,700,000 metric tons in 1955 to more than 6,000,000 metric tons in 1960--will be advanced about 10 October when a new blast furnace of the privately owned Tata Iron and Steel Company begins operation. This unit, with a capacity of 2,000 tons per day, as well as other processing units scheduled to go into production throughout the country in the next few months, should ease India's steel shortage, which has restricted industrial expansion during recent years. [redacted]

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**PART II (continued)**

**LAOTIAN POLITICAL SITUATION . . . . . Page 11**

A political crisis appears to be imminent in Laos as a result of opposition to the government's 30 September monetary reform agreement with the United States. A motion of no confidence may be raised against Prime Minister Phoui after he presents the reform to the assembly on 10 October. The government's parliamentary base is so small that even three or four defections might cause the cabinet to fall. A period of extreme political instability would probably result, and there are continuing reports that rightist elements backed by the army might ultimately intervene to impose a government.

[Redacted]

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**POSTCRISIS DEVELOPMENTS IN BURMA . . . . . Page 12**

Burmese Commander in Chief Ne Win is scheduled to assume the premiership on 28 October for an announced period of six months, but there are already signs he may remain in office longer. Additional information tends to confirm the view that the army forced U Nu's resignation on 26 September. However, both Ne Win and U Nu, undoubtedly to maintain the impression that democratic processes are being followed, now assert that the army merely collaborated in a voluntary transfer of power.

[Redacted]

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**WESTERN COMPANIES AND TECHNICIANS PREPARE TO LEAVE IRAQ . Page 12**

Labor problems and difficulties in dealing with the new Iraqi regime are causing many Western companies to prepare to leave the country as their present projects are completed. The resulting vacuum may encourage the UAR and the Soviet Union to seek a major role in Iraq's development program. The insubordination of Iraqi laborers has caused uneasiness on almost all large development projects, and there may be serious labor unrest when considerable numbers of Iraqis are dismissed as the many sizable development projects instituted under the previous regime near completion.

[Redacted]

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**PROGRESS OF TURKEY'S STABILIZATION PROGRAM . . . . . Page 13**

Turkey appears to be trying to meet obligations under the \$359,000,000 economic stabilization program announced on 3 August. Progress has been slow, however, and there is still political pressure to revert to some aspects of the previous inflationary investment program.

[Redacted]

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**PART II (continued)**

GUINEA . . . . . Page 14

Prompt recognition of the new state of Guinea by the USSR, Communist China, and the UAR may give these nations an advantage in influencing Guinea's orientation. The major Western nations have withheld recognition in deference to French requests that such action be delayed until economic and political negotiations are completed between Guinea and France. [redacted]

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NICARAGUAN-HONDURAN RELATIONS AGAIN STRAINED . . . . . Page 15

The infiltration into Nicaragua early this month of a guerrilla band of perhaps 300 men from Honduras has heightened friction between the two countries and could lead to clashes between their armed forces. The rebels, however, do not seriously threaten the Somoza regime in Nicaragua. [redacted]

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PEIPING CLAIMS RECORD ECONOMIC ACHIEVEMENTS . . . . . Page 16

The Chinese Communists claim that in the past year their economy has progressed at a rate never before achieved anywhere, presumably including the USSR. Notable advances have very likely been scored in the course of this year's "giant leap forward," but particular production claims now being made by Peiping's propagandists seem exaggerated. [redacted]

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TRANSPORT TIE-UP HAMPERS CHINESE COMMUNIST ECONOMY . . . . . Page 17

Peiping's intensified economic development has placed an extremely heavy burden on China's transport networks. Serious difficulties began several months ago and grew worse during September. Peiping is determined to push on with its economic speed-up, but has so far been unable to provide effective remedies for the transport snarl which, if it continues, will seriously handicap accomplishment of the "leap-forward" goals. [redacted]

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**PART III**

**PATTERNS AND PERSPECTIVES**

THE CHURCH-STATE CONFLICT IN POLAND . . . . . Page 1

Relations between the Catholic Church and the Communist government of Poland have steadily deteriorated since 1956 as a result of the Gomulka regime's fear of

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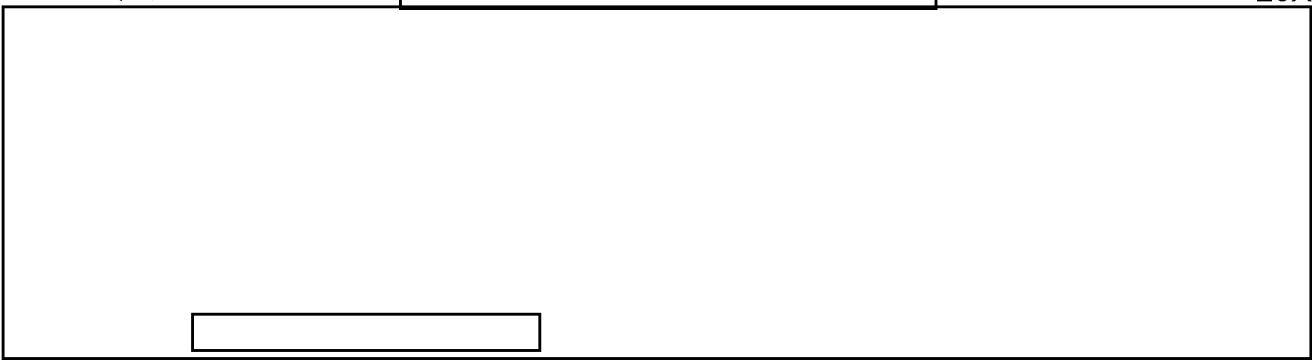
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**PART III (continued)**

the church's ability to extend its influence over more and more areas of Polish society. The increasingly harsh attacks on the church by regime officials and the press, and the police raid on the national religious shrine of Jasna Gora in July, are symptomatic of the fundamental and inevitable conflict between an aggressive Communist state and militant Catholicism. The Communists, recognizing the impossibility of eliminating the church and its influence, now seek to curtail church activities in every possible way.

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**NEW STUDENT DEMONSTRATIONS IN LATIN AMERICA . . . . . Page 9**

Recent student demonstrations in Argentina, Uruguay, and Panama reflect similar tactics and effective Communist influence in student organizations, but their concurrent timing would appear to be determined primarily by national issues rather than by increased coordination among Latin American Communists. Unusual violence marked both the Uruguayan student protest over a university charter and the bitter Argentine controversy over a law authorizing the establishment of private universities. In Panama, students are agitating for a limitation of the powers of the security forces.

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**PART I****OF IMMEDIATE INTEREST****TAIWAN STRAIT SITUATION**

In an effort to maintain publicly its claim over all Chinese territory, Peiping's official statements have shown renewed sensitivity to "the US plot" to create "two Chinas." Premier Chou En-lai and Foreign Minister Chen Yi have found occasion to attack this concept, and Peng Te-huai's cease-fire order in part was designed to underscore the "domestic" aspect of the dispute between Peiping and Taipei.

Peng's 6 October cease-fire order appears mainly to be an attempt to probe American intentions with regard to a possible withdrawal of Nationalist troops from the offshore islands. Peiping is presenting the United States with a de facto cease-fire and probably looks for an American reaction at Warsaw.

In addition, Peng's move was probably intended as the first step in a campaign to disengage the United States from any active military support of the Chinese Nationalists in the offshore islands area. The continuation of American naval convoying activity and night air cover has confronted Peiping with a military challenge which it has been unwilling to meet with direct action. Cessation of shelling on condition that the United States discontinue convoying provides a convenient way for the Chinese Communists to withdraw from a situation which might eventually prove damaging to their prestige.

Peng's use of a formal and polite Chinese-language style,

almost unprecedented in the history of Peiping's exhortations to Taipei, suggests that the appeal for Communist-Nationalist negotiations was intended to reach a sympathetic audience, particularly among middle-level Nationalist officials. The Communists probably hope to engender feelings which would lead to the formation of anti-Kuomintang and anti-US groups, as Peiping almost certainly does not expect a Nationalist agreement to hold talks in the near future.

Moscow has apparently initiated widespread diplomatic efforts to block early consideration of the issue by the United Nations. In demarches to Austria and Ceylon on 8 October, Soviet diplomats requested support for Soviet opposition if the question were raised in the UN; 25X1

Moscow and Peiping probably prefer to postpone such debate until they have had more time to test American intentions in the light of recent developments. 25X1

Peiping's Foreign Ministry on 8 October issued its 24th "serious warning," charging that between 6 October and the early morning of 7 October American warships and aircraft "intruded into China's territorial waters and air space." The warning noted, however, that after 0600 hours on 7 October there were no intrusions and called this "worthy of notice" as a response to conditions set in Peiping's cease-fire order. Later, a 25th warning complained

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of intrusions in the Matsu and Pingtan areas.

Peiping recently has moderated its anti-US propaganda. Peng's cease-fire order has apparently changed the focus in the Chinese and Soviet press to an emphasis on peaceful means in contrast to a past emphasis on the right of Communist China to use force. During the 1 October National Day parade in Peiping there were none of the posters showing American troops being pushed out of Taiwan which had been prominent on Peiping streets in recent weeks. The slogan "American troops get out of Taiwan" was seen only once.

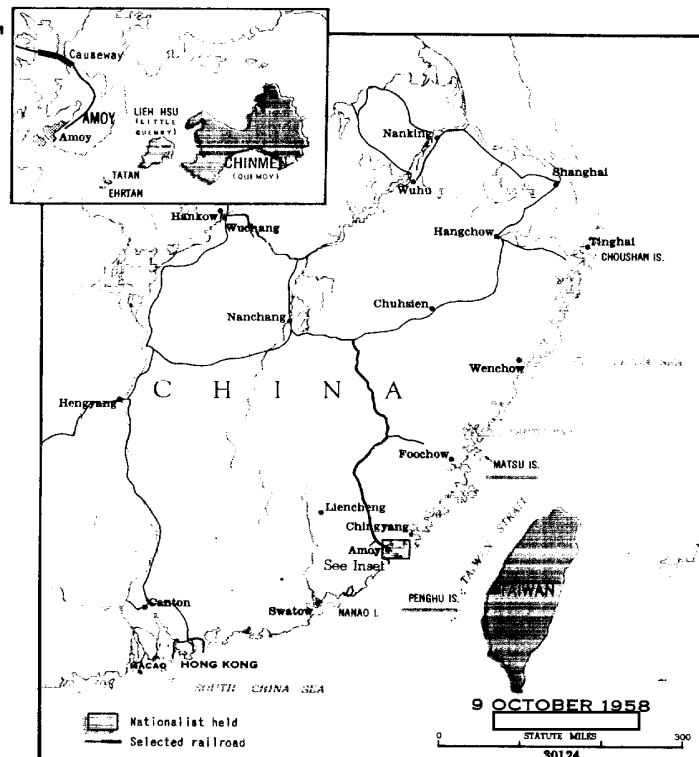
Khrushchev's statement of 5 October in reply to a TASS query was widely broadcast by Moscow and reported by Peiping and was intended to help pave the way for the Chinese Communists' self-imposed cease-fire. Replying to President Eisenhower's remarks on 1 October that the public Soviet commitment to aid Peiping belies Communist claims that the Taiwan Strait controversy is an "internal affair," Khrushchev emphasized that the dispute between the Chinese Communists and Nationalists is clearly a "civil war."

Denying that the USSR would participate in such purely "civil war," he explicitly repeated the Soviet position: "The USSR will come to the help of Communist China if the latter

is attacked from without; speaking more concretely, if the United States attacks China." Khrushchev's statement also set forth for the first time the Soviet position that the scale of American "interference" to date has not constituted a sufficient provocation for the Soviet commitment of support to Peiping to go into effect.

Communist Military Activity

The Chinese Communists are estimated to have expended only a small fraction of their total ammunition stockpile between 23 August and 6 October. If firing were renewed at the levels maintained prior to 6 October, it is believed that the Communists have sufficient ammunition to continue the bombardment for another 15 months.



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Furthermore, the total amount of ammunition fired to date could be brought into the Amoy area within four or five days without disrupting existing logistical facilities. The volume of fire delivered thus far is believed to have consumed about one tenth of the tube life of the artillery pieces in the area. At this rate of fire, Communist guns could last another four months if their tube life had been half expended on 23 August, or nine months if the pieces were new. Communist artillery has not fired on the Chinmens since a little after midnight on 5 October.

Chinese Nationalist Reaction

The Chinese Nationalist reaction to the Chinese Communist cease-fire appears to be to refrain from provocative actions, while warning that it is a propaganda maneuver designed to divide the United States and Nationalist China.

On Chinmen Island, the cease-fire was greeted by Nationalist troops with relief and cautious optimism. The Nationalists are planning to take advantage of the respite to pour as many supplies as possible onto the island and to shuttle additional supplies to the badly damaged islands of Tatan and Erhtan.

Taiwanese Reaction

Numerous reports indicate that Taiwanese leaders, includ-

ing Provincial Assembly members and businessmen, are unsympathetic toward the Nationalist Government's goal of a return to the mainland and believe the holding of the offshore islands is not worth Taiwanese lives. A number of Taiwanese families reportedly believe the government is reporting false casualty figures and, by way of protest, they are refusing to collect the death bonus offered by the Ministry of National Defense.

The cease-fire probably will rouse the hopes of the native Taiwanese that the present crisis can be resolved without further casualties among the Taiwanese, who constitute over half the garrisons on the offshore islands. The Taiwanese support the American commitment to defend Taiwan, but the majority would probably prefer to see Chinmen evacuated rather than to have military action resumed.

Kuomintang secretary Chang Li-sheng has stated that "if criticism continues," then all powers would be used, including antipress laws and martial law, to suppress the Taiwanese until the present crisis is over. A provincial government official believes that if there are large casualties or if the crisis does not end soon, Taiwanese opinion might become anti-American as well as anti-Kuomintang.

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**MIDDLE EAST DEVELOPMENTS**Lebanon

Militant Christian elements in Lebanon have kept up

their terrorist tactics in an effort to compel a change in the Karame cabinet to a less obviously rebel-dominated government.

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UAR

President Nasir's long-heralded reorganization of the UAR government structure was begun this week. The changes affect Syria rather than Egypt, and Syrian regional Vice President Asali is the only prominent figure dropped so far. Syrian Baathist leader Hawrani and former Egyptian Revolutionary Command Council member Baghdadi, both of whom have been at odds with Nasir, were retained in the government as vice presidents with cabinet portfolios; their roles may be merely nominal, however.

It seems doubtful that the changes in themselves will produce the more dynamic, united administration in Syria which Nasir wants, especially since he is inclined to move less boldly in domestic political matters than in foreign affairs.



Nasir also complained privately last week, possibly for the benefit of an American audience, about the extent of Communist activity in the Middle East, especially in Iraq. His concern may well be increased

by the return to Damascus on 5 October of Syrian Communist party leader Khalid Bakdash, who has been in the Soviet bloc since he left Syria early this year following the formation of the UAR. Bakdash's return to Syria almost coincided with the arrival in Baghdad of Mulla Mustafa Barzani, dissident Kurdish leader who has spent the last 12 years in exile in the Soviet Union. Although both UAR and Iraqi government officials probably have reservations about Barzani's return, he comes with their outward blessing, having spent three days in Cairo and having had an interview with Nasir before flying to Baghdad on 6 October in response to the standing public invitation of the Iraqi regime.

Iraq

Iraqi Prime Minister Qasim has moved to smother any opposition which might group around former Deputy Prime Minister Arif. It still is not clear who will eventually benefit from Arif's downfall. The cabinet shifts which followed his original demotion appear to have strengthened relatively conservative army elements, but the Communists remain the best organized civilian grouping.

Jordan

There are continuing reports that Jordan's King Husayn may wish to remove Prime Minister Rifai, partly as preparation for the installation of a more "popular" government as the British troops depart. A parliamentary attack on Rifai on 7 October may be the opening move to get rid of him. Husayn is also proceeding with his personal plans for a vacation in Europe early next month. UAR-sponsored clandestine radiobroadcasts

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are still attacking the King in violent terms, although West Jordan, the hotbed of pro-Nasir sentiment, has been quiet.

Yemen

The ailing Imam of Yemen has become increasingly detached from public affairs, with a consequent deterioration in effective government, and his ability to control Soviet influence in Yemen appears continuously more doubtful. He has renewed plans to seek medical treatment in Italy and his departure may be imminent, although he is prone to delay at the last minute. Recognizing that his absence could provoke political instability in Yemen, the Imam has taken the precaution of sending his brother, Prince Hasan, back to New York to head the Yemeni UN delegation. Since Yemen's northern patrician tribes, which by tradition elect each new Imam, are believed to favor Hasan over Crown Prince Badr, Hasan's presence in Yemen during the Imam's absence could have invited an uprising against Badr.

Even the absence of Prince Hasan is unlikely to free the incompetent and increasingly unpopular Badr from difficulties. The Italian chargé in Taiz believes that Badr's position has been maintained only by the presence of the Imam and that, if the Imam travels abroad, popular dissatisfaction will erupt in revolt against the re-

gime. Badr, who is seemingly indifferent to the deterioration within the government, appears interested primarily in increasing the influence of the USSR and the UAR in the country in the belief that support by these powers will ensure his succession. Badr's confidence in holding power in his father's absence is presumably based on the belief that his control over the army's modern Soviet bloc weapons will permit him to intimidate or crush any opposition by ill-armed tribesmen.

After long delay the executive council of the United Arab States (UAS) has been formed, and its first meeting was held in Cairo in early September. According to press reports, the council, which will sit permanently in Cairo, visited Yemen at the end of September. The Aden press reports that the Egyptian yacht Hurriya has arrived in Yemen to carry the Imam to Italy.

Saudi Arabia

Mecca radio's announcement that Crown Prince Faysal has been ill draws attention again to his health as a factor in the balance of power in Saudi Arabia. Prolonged illness might delay the implementation of Faysal's badly needed reforms, which might at least temporarily strengthen the more conservative forces in the royal family led by King Saud.

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## PRESIDENT MIRZA'S TAKE-OVER IN PAKISTAN

Pakistani President Mirza's seizure of full power on 7 October with army support was the culmination of a bitter struggle between Mirza and Pakistan's leading politicians over the past three years. In an unqualified resort to dictatorial rule, the 59-year-old former civil servant abrogated

the 1956 constitution, dismissed the central and provincial governments, and abolished all political parties. He named army commander in chief Mohammed Ayub Khan as administrator of martial law throughout the country. The initial reaction to the Mirza-Ayub coup has been calm and in many quarters

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favorable. Those groups which in the past have been Mirza's primary source of support--such as the civil service and business community--have welcomed the take-over as a respite from the chronic instability under governments led by the politicians. The man in the street



MIRZA

apparently hopes that the change will improve his lot. No reaction has yet been reported from East Pakistan, where opposition to rule by the West Pakistan-controlled civil and military services is more likely to develop.

The groups most affected by Mirza's action, such as political leaders and journalists, are either remaining silent or reacting with great caution. These and other sections of the intelligentsia are likely to develop opposition--to the extent possible--to the imposition of a dictatorial regime at a time when it seemed Pakistan's first national elections would finally be held in February. Mirza immediately canceled the elections and apparently will try to implement

his long-standing objective of framing a new constitution with a much strengthened executive.

Mirza and Ayub both denounced the politicians as being solely responsible for Pakistan's troubles. Mirza apparently intends to form a nonpolitical "advisory council" to assist in governing the country. He may find it difficult, however, to recruit the top-level "advisers" he will need to cope with Pakistan's serious economic and social problems.

General Ayub announced on 8 October that in administering the country he would rely to the greatest extent practicable on regular civilian agencies of the government in order to permit the army to concentrate on its normal duties. Government offices are likely to be



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run more efficiently, but Ayub probably will find it difficult to banish corruption from government, since it is nearly as prevalent among civil servants as politicians.

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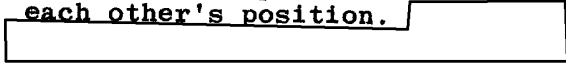
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Both Mirza and Ayub are committed to Pakistan's present pro-Western foreign policy. They will maintain Pakistan's ties with the United States and with the regional members of the Baghdad Pact.

The two leaders probably will continue to work together

in the immediate future in the interest of stabilizing the internal situation. However, conflicting ambitions and political pressures could eventually lead to friction between them and attempts to undermine each other's position.



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## PART II

NOTES AND COMMENTS

## FRENCH RIGHT ORGANIZES FOR ELECTIONS

A new coalition of French rightist groups formed to participate in National Assembly elections on 23 and 30 November will probably seek to identify itself as the "national" party representing De Gaulle's aspirations. The new electoral law, which is aimed at drastically reducing Communist representation in the next assembly, could normally be expected to work to the advantage of the center, but the threat of a strong right may foster leftist alliances with the Communists at the expense of the middle-of-the-road parties.

The mainspring of the new "Union for the New Republic" is Information Minister Jacques Soustelle. Other nationalistic "authentic Gaullists" on its directing committee are Minister of Justice Michel Debre, former Defense Minister Jacques Chaban-Delmas, Social Republican party (GRS) Secretary General Roger Frey, and Leon Delbecq, who played a key part in organizing the 13 May Algiers coup.

The new group hopes to unify the electoral potential of the numerous rightist political and quasi-political organizations formed since De Gaulle's investiture and of the remnants of De Gaulle's old Rally of the French People. These organizations include many former Resistance elements, and veterans' and reserve officers' groups which had previously disparaged the "party system" as the ruin of France. The new coalition claims about 280,000 "militants," a group comparable to

the active core of the French Communist party (PCF). Most groups in the coalition have ties with the extremist military and settler groups in Algeria. Army leaders in Algeria allegedly plan to back a "cartel of national parties" favoring complete integration of Algeria with France.

The orientation of former Premier Georges Bidault's new Christian Democratic Movement and Roger Duchet's nationalist wing of the Independent party is substantially similar to Soustelle's on Algeria and other key issues. Electoral cooperation by these forces could assure an overwhelmingly rightist assembly at the expense of the center parties as well as of the extreme left.

The new law, which provides for single-member constituencies in which a majority vote is required on the first ballot, but only a plurality if a runoff election is needed, tends to favor the center. In view of De Gaulle's promise that two thirds of the deputies elected from Algeria must be Moslems, a special system may be devised for that area.

There is some chance that non-Communist leftist groups might be disturbed by Soustelle's coalition to the extent of forming alliances with the Communists. In any event, the struggle between the right and the center might permit the PCF to elect more deputies than the 30 now considered likely. Soustelle is estimating that the Communists could be reduced to 15-20 seats. 25X1

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**BRITAIN'S CONSERVATIVE PARTY MEETING**

The annual conference of the British Conservative party is being held from 8 to 11 October amid mounting confidence that, for the first time, the party can win a third consecutive term of office at the general elections which probably will be held next year. The elections must be held by May 1960 at the latest. The recent sharp rise in the government's popularity cast gloom over the preceding conferences of the Labor and Liberal parties. The Labor leadership strove hard to present at least a facade of party unity, while the Liberals made a rather unsuccessful attempt to demonstrate vote-catching policies distinct from either major party.

Public opinion surveys illustrate the changed political situation. The most recent Gallup poll gives the Conservatives a half-point lead over the Laborites. A year ago the Labor party had an 18.5-point lead, the widest margin ever recorded.

Prime Minister Macmillan appears to be the major factor in the government's improved popularity. His adroit handling of the Middle Eastern and summit-conference issues last summer and the government's success in stabilizing living costs--previously the major grievance of middle-class Conservative supporters--are widely acknowledged.

Labor and Liberal party leaders are well aware that public opinion strongly endorses Macmillan's foreign policy. Little support has developed, for instance, for Liberal and left-wing Labor demands for a unilateral British ban on the manufacture of nuclear weapons. At a meeting with the prime minister on 25 September, top-level trade unionists acquiesced in the government's decision to refrain from public criticism of American policy in the Taiwan Strait crisis.

There are indications that Labor leaders believe their chances of recovering popularity rest in an attack on the government's economic policy. They charge that too severe anti-inflationary measures threaten heavy unemployment and a stagnant level of production. Unemployment, although now only 2.2 percent of the labor force, is near a postwar high, and government officials privately admit concern about the lack of expansion in the economy. The government plans to end the ceiling on public capital investment later this month. Macmillan presumably hopes that measures such as this, plus the British economy's response to the American economic recovery, will deprive Labor of the recession issue in what probably will be the last parliamentary session before the general elections.

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**THE COAL CRISIS IN THE EUROPEAN COAL-STEEL COMMUNITY**

Mounting stocks of unsold coal in Western Europe are confronting the European Coal-Steel Community (CSC) with one of the most difficult problems the organization has faced since it came into being in 1952. The

Belgian and West German governments in particular are under strong pressure from industrial circles to "do something" about the situation, and these governments, in turn, are pressing for action from the CSC. Some

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of the measures either taken or contemplated are highly protective in character, however, and seem likely to involve the High Authority in difficulties with the United States and GATT, and among the member governments in the CSC.

The relatively sudden development of this surplus--expected to reach 23,000,000 to 26,000,000 metric tons by the end of this year--is generally blamed on the unusual increase in European imports of American coal during the past few years. These imports were contracted for on the basis of the chronic European energy shortage, expected to continue for years to come, and the presupposed indefinite continuation of boom economic conditions.

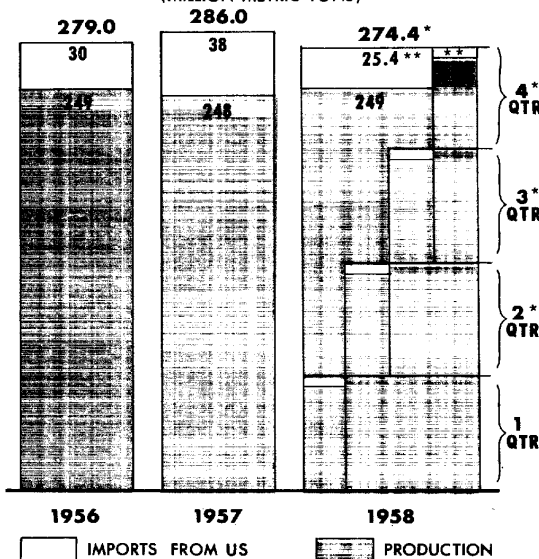
While the long-term estimate is still valid, the leveling off of economic activity

since mid-1957 has contributed to a serious glut on the coal market--already aggravated by increased industrial utilization of petroleum, supply and price inflexibility in the European mining industry, and competition in shipping which tends to make freight rates on American coal very low.

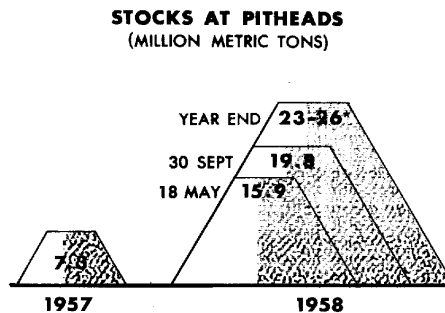
Faced with the prospect of serious unemployment in the mines and other domestic pressures, Belgium and West Germany have already imposed restrictions on imports of American coal and sought "mutual assistance" from the High Authority to preclude such coal from entering their markets via other CSC members. Some price reductions on domestic coal have also been made, and the Germans are trying to negotiate long-term supply contracts with users in return for rebates. If these measures are not sufficient,

**EUROPEAN COAL-STEEL COMMUNITY**

**COAL PRODUCTION AND IMPORTS OF US COAL**  
(MILLION METRIC TONS)



**STOCKS AT PITHEADS**  
(MILLION METRIC TONS)



\* ESTIMATED  
\*\* ESTIMATED BEFORE RECENT RESTRICTIONS WERE INSTITUTED

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demands may be pressed for CSC financing of stockpiles, more stringent curbs on imports of American coal, the adoption of a common import policy by the CSC, and even the declaration of a "manifest crisis" and the allocation of production.

Such proposals, which will be taken up at a meeting on 13 October, pose difficult alternatives to the CSC Council and High Authority. Some would involve a degree of intervention in the coal market which the High Authority has always sought

to avoid, but failure to act would open the way for further governmental intervention and a gradual weakening of CSC authority. At the same time, the High Authority is well aware of the long-term dependence of Europe on American coal, of the financial support the CSC has received from the United States, and of the probability that patently protective measures would be a boon to critics of the European Common Market.

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## DISARMAMENT AND RELATED ISSUES--13TH UN GENERAL ASSEMBLY

Soviet resumption of nuclear testing, plus the release of the UN Scientific Committee's report on the effects of radiation, will probably serve to focus General Assembly discussion of disarmament and related issues on the question of halting nuclear tests. UN Secretary General Hammarskjold's 1 October public memorandum on disarmament was designed to ensure that the UN maintain some measure of control in the field. By gaining assembly endorsement of a broad set of principles, the USSR's specific bids for nuclear test cessation and military budget cuts could be sidetracked.

Many UN members who are actively interested in progress on disarmament have apparently been encouraged by the success of the midsummer technical talks on control of nuclear testing, by the forthcoming 31 October Geneva negotiations on cessation of nuclear tests, and by the coming November talks on prevention of surprise attack.

Hammarskjold's memorandum capitalizes on this feeling and

may pave the way for a resolution endorsing technical talks outside the UN but recognizing the UN's fundamental concern with disarmament, particularly in any "follow-up action" on control. The secretary general believes this type of resolution would also deter countries like India from attempting to have the assembly tell the technical negotiating parties "what to do." Britain, Canada, and France are generally in accord with Hammarskjold's ideas, although Paris will raise objections to any phraseology which dissociates test cessation from control of nuclear production. The West is encountering difficulty in getting cosponsors for its draft resolution because no positive statement on cessation of nuclear tests is incorporated.

When the assembly discusses the UN Scientific Committee's radiation report, the Soviet bloc, India, and the UAR are expected to claim that the scientific data compiled by the committee justifies assembly action to halt nuclear weapons testing. India is circulating

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a draft resolution calling for such cessation. Because of the scientific make-up of the committee and the general desire of UN members to keep such committees out of political controversies, this assembly is likely to limit itself to a commendation of the committee's report and call for continued study and research in the field of radiation.

During assembly discussion of the US-initiated question of outer-space use, the USSR will attempt to have the assembly ban the use of cosmic space for military purposes. UN members have already expressed considerable support for a committee to develop an international cooperation program in the field of peaceful use of outer space along the lines set by the International Geophysical Year. [REDACTED]

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## BONN CONSIDERS RELATIONS WITH EUROPEAN SATELLITES

In a press interview on 3 October, West German Chancellor Adenauer indicated that the question of establishing diplomatic relations with the Eastern European satellites is under consideration. A final decision will be made after the cabinet reviews a Foreign Ministry study of the question, probably within three weeks. A similar study has also been undertaken by the Bundestag Foreign Affairs Committee. Adenauer plans to explore the matter with the Soviet ambassador before making any official overtures to individual satellite countries.

Bonn has previously been interested in improving relations with Warsaw and Prague, but Adenauer now intends to treat the satellites as a group. The West German press states that Bonn representatives have already held informal talks with Polish, Czech, and Rumanian officials in Berlin. Foreign Ministry officials feel that an approach to Poland alone might arouse Moscow's suspicions and lead to Soviet pressure on Gomulka's government. Bonn probably will propose economic missions with consular rights as a first step toward full diplomatic relations.

Bonn's policy of diplomatically boycotting any state--other than the USSR--recognizing East Germany has been one of the principal hindrances to the "active Eastern policy" demanded by the opposition parties and supported by some Foreign Ministry officials. Adenauer indicated, however, that this policy may be completely reversed. He drew a distinction between the satellites, which had no choice in recognizing East Germany, and other states recognizing East Germany of their own volition. Bonn would still consider the latter an "unfriendly act."

Warsaw's insistence on the permanence of the Oder-Neisse boundary remains an obstacle to full diplomatic relations with Poland. It is not politically possible for Bonn even to imply recognition of Poland's claim to the areas east of the Oder-Neisse, since there are over 8,000,000 expellees from these territories in West Germany. The Social Democratic party, which has pushed for eventual diplomatic relations with Poland, has rejected any recognition of the Oder-Neisse line. [REDACTED]

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**FINNISH GOVERNMENT FACES SERIOUS ECONOMIC PROBLEMS**

The Finnish coalition government of K. A. Fagerholm, which took office on 29 August, faces a serious economic situation in the country's growing unemployment, which may reach 100,000 this winter out of a total labor force of some 2,000,000. The cabinet not only must provide interim relief measures, which will strain the budget, but must also stimulate an expansion of industry. Failure to do so is likely to bring in a new coalition, which would probably include the Communist-front Finnish People's Democratic League (SKDL).

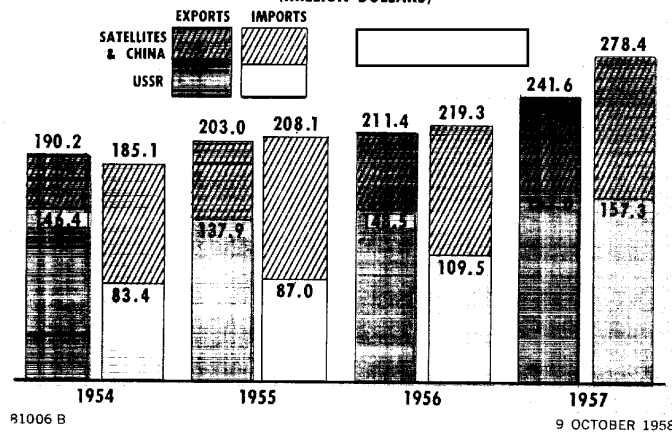
Finland is seeking a \$30,000,000 loan from the IBRD and \$20,000,000 from the United States. These funds would be used chiefly to develop the hydroelectric system and woodpulp and paper industries. During President Kekkonen's visit last May, the USSR offered economic assistance worth \$100,000,000 to \$125,000,000 in rubles. The Fagerholm government is reluctant to accept any significant assistance from Moscow, but if no other assistance is available, domestic pressure to accept Soviet aid will increase. Any successor government, particularly one including the SKDL, would be almost certain to accept the Soviet offers of aid. President Kekkonen has appointed a delegation to negotiate a Soviet loan, but no date has yet been set by Moscow.

If Finland decides to accept any appreciable Soviet economic assistance, it will distort the already seriously unbalanced financial relations

between the two countries. Under the 1955-60 trade agreement, Finland's annual export surplus was to be settled each year by triangular trade arrangements with the satellites and by a Soviet cash payment in convertible currencies. The USSR during 1958 sought to eliminate these payments and to bring its trade with Finland into closer balance. Nevertheless, at the end of August, Finland had an export surplus of some \$42,000,000. Although the Finns have adopted remedial measures, such as plans to stockpile petroleum products and metals, a balance

**FINNISH TRADE WITH SINO-SOVIET BLOC**

(MILLION DOLLARS)



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of about \$25,000,000 is expected at the year's end.

Trade negotiations with the USSR for 1959 are scheduled to start later this month. If Finland purchases additional Soviet goods, it will cause a drop in imports from and discourage exports to the West. On the other hand, the balancing of Soviet-Finnish trade by a decrease in Soviet purchases from Finland would depress the Finnish economy still further and aggravate the unemployment situation.

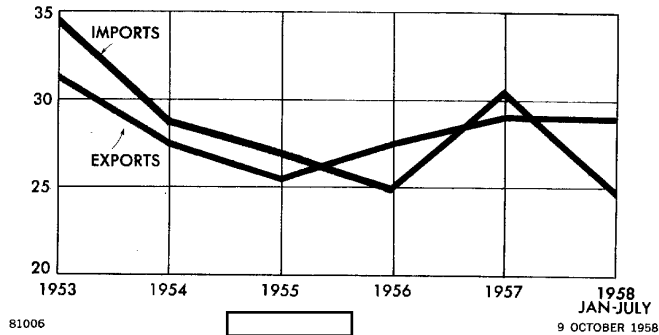
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**FINNISH TRADE WITH THE SINO-SOVIET BLOC  
AS A PERCENTAGE OF TOTAL TRADE 1953-1958**



exert political pressure on Finland. There is some apprehension among Finnish officials that the USSR will utilize the situation to emphasize Soviet displeasure with the "rightist" character of the Fagerholm government, which includes the regular Social Democrats, whose pro-Western leadership is disliked by the USSR, and, for the first time since the war, the conservative National Coalition party.

(Concurred in by

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The forthcoming trade negotiations also provide an opportunity for the USSR to

## ADJUSTMENTS OF SOVIET SEVEN-YEAR PLAN CONTINUE

USSR Gosplan is working feverishly to complete the draft Seven-Year Plan for release prior to the 21st party congress, opening on 27 January. A meeting of some 2,000 Gosplan and sovnarkhoz officials was recently held in Moscow, apparently to consider problems connected with final drafting of the plan. Recurrent changes in some of the goals planned for 1965 have required extensive readjustments in the draft, with the result that the present state of the planning process is, according to a Gosplan official, "a continuous series of erasures and re-entries."

The same official stated that the "control figures" for the plan will be published some two months before the party congress. These presumably will provide the basis for the expected "theses" which Khrushchev has stated will be up

for discussion prior to adoption of the plan. The delay in finishing the plan, originally scheduled to be completed on 1 July, almost certainly accounts for the fact that the trade union congress, which was to meet to discuss it at the end of October, has been postponed.

A few more goals have recently come to light. A goal of 303,000,000 tons of raw iron ore has been set for 1965. This is higher than the conservative goal for 1972 set by Khrushchev last November.

In the case of agriculture, however, the new grain target is an admission that the earlier one was unrealistic. The grain goal of 180,000,000 tons originally planned for 1960 has apparently been put off to 1965. A newly announced meat goal for 1965 of 22,000,000-24,000,000

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tons represents an increase over the 1960-1962 goal of approximately the amount necessary to accommodate the growing population and is consistent with the USSR's aim of matching the United States in per capita meat production. Since the 1960-62 goal is unrealistic, Soviet propaganda will presumably emphasize the goal for 1965, which has the advantage of being further in the future, thus postponing the day of reckoning.

The regime may be hoping that this convenient overlooking of Khrushchev's previous promises will be at least partially compensated for by this year's anticipated bumper harvest. In April, Khrushchev for the first time qualified his promise to catch up with the US in livestock products by making it contingent on solution of the fodder problem. [redacted] (Prepared by

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## SOVIET OFFICIALS ATTEND BRUSSELS FAIR IN LARGE NUMBERS

The Brussels Fair has occasioned the largest influx in recent years of Soviet officials into Western Europe. The USSR apparently views the fair as an opportunity for Soviet officials to see recent Western technological exhibits, while at the same time offering them a much-coveted European vacation. Several high-ranking members of the party presidium have already toured the fair, and preparations are now apparently under way for the arrival of Nikita Khrushchev. In addition, scores of regional party and government officials have quietly visited the fair since its opening.

Full members of the party presidium who have made the trip since July include Anastas Mikoyan, Nikolay Shvernik, Yekaterina Furtseva, Kliment Voroshilov, Frol Kozlov, and most recently Mikhail Suslov. Other officials such as the USSR ministers of health, foreign trade, and higher education have also visited Brussels. With the exception of President Voroshilov, who went in his official capac-

ity, all Soviet officials have toured the fair as private citizens--more to see than be seen. In some cases their presence was unpublicized and virtually unnoticed, and a number of these officials, including Suslov and Mikoyan, were accompanied by members of their families.

The selection of officials to attend the fair has apparently been handled systematically with a view to gaining maximum exploitation of the fair through wide regional and professional representation.

Numerous scientists, artists, and professional workers connected with organizations in Moscow were also given the opportunity to make the trip.

Encouragement of attendance at the fair has involved the risk of exposing thousands of Soviet citizens to Western influence, but those selected to go are primarily members of the Soviet party and government elite--men who, although certainly curious about the West, are by virtue of their

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privileged position less susceptible to Western influence than other segments of the population. Furthermore, Soviet visitors were carefully shepherded in large groups and given little opportunity for independ-

ent sightseeing. The impressiveness of the Soviet exhibition, particularly from a technological point of view, could also be counted on to offset somewhat the impact European standards of living might have on Soviet tourists. 25X1

## VOROSHILOV'S VISIT TO AFGHANISTAN

Soviet President Voroshilov's six-day state visit to Afghanistan was concluded on 6 October with the publication of a joint communiqué which noted achievements in the field of Soviet-Afghan economic and technical cooperation and professed that the views of both countries on major international problems "are close and in many ways identical." In addition to Voroshilov, the Soviet delegation included N. A. Mukhitdinov, a party secretary and presidium member and a leading spokesman on Soviet-Moslem affairs; Deputy Foreign Minister N. P. Firyubin; A. P. Pavlov, head of the Middle Eastern countries division of the Soviet Foreign Ministry; and important cultural and economic figures.

The visit was made ostensibly to repay that of Afghan King Zahir Shah to the USSR in July 1957. The composition of the delegation, however, suggests that Moscow, concerned about recent Afghan interest in Western economic overtures and signs of Afghan rapprochement with Western-oriented Pakistan and Iran, sought a reaffirmation of Afghan "neutrality."

Soviet officials in Kabul showed concern over Afghan receptivity to Pakistani and Iranian approaches for a loose

"Aryan Union," and possibly a regional pact including Turkey. Although there is no evidence of Soviet pressure, on 3 October a spokesman for the Afghan Foreign Ministry reaffirmed earlier statements that there is "no question" of Afghanistan joining such a federation and reaffirmed Kabul's policy of neutrality and nonalignment. The visit resulted in widespread publicity within Afghanistan on the theme of Soviet-Afghan friendship; and the Soviet press and radio featured Soviet-Afghan relations as a concrete example of successful cooperation between countries with different political and social systems. Voroshilov made the usual protocol and tourist calls, and witnessed tactical exercises conducted by the Afghan Army with Soviet equipment.

No new economic agreement was officially announced, although Kabul is alleged to have received an offer from Voroshilov of a \$30,000,000 loan, at least part of which would probably finance an Afghan civil air development program offered by the USSR in August. This program, which provides for modern aircraft, the construction of additional airports, and the training of Afghan personnel, is especially favorable to Kabul because no Afghan contributions are required. 25X1

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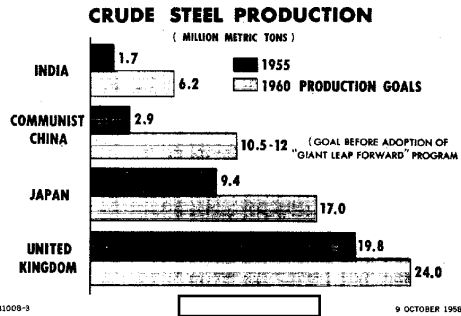
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**INDIA'S STEEL EXPANSION PROGRAM**

India's steel expansion program--calling for an increase in annual crude steel production from 1,700,000 metric tons in 1955 to over 6,000,000 metric tons in 1960--will be advanced about 10 October when a blast furnace built by the Kaiser interests for the privately owned Tata Iron and Steel Company begins operation at Jamshedpur. This new furnace, with a capacity of 2,000 tons per day, as well as other processing units scheduled to go into production throughout the country in the next few months, should ease India's steel shortage, which has restricted industrial expansion during recent years.

The expansion program calls for the two privately owned mills at Jamshedpur and Burnpur to increase their

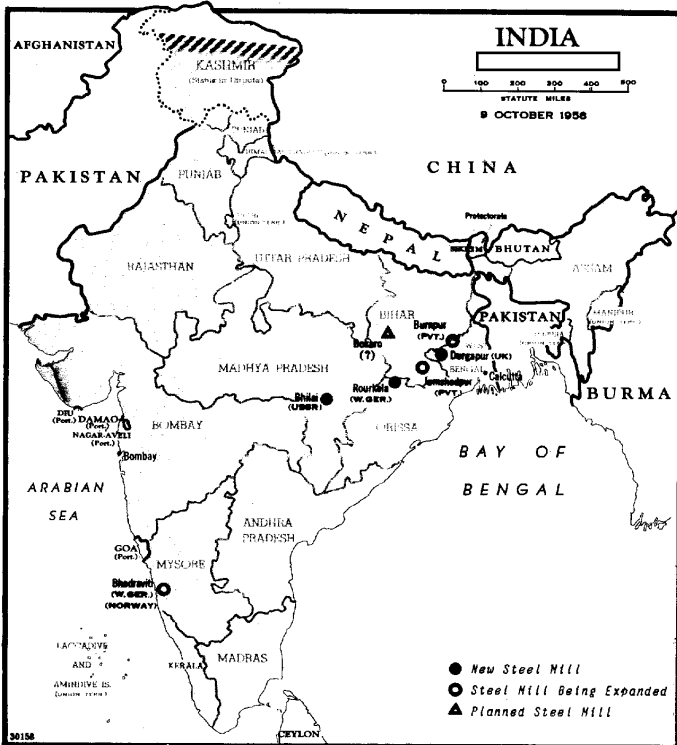


output from 1,500,000 to 3,000,000 tons annually by 1959. The major part of the program, however, consists of the construction at Rourkela, Bhilai, and Durgapur of three new government-owned steel mills with aid from West Germany, the USSR, and Britain. Each of these mills is to have a capacity of 1,000,000 tons

of crude steel, with basic facilities necessary to expand production to 2,500,000 tons. The final cost of these mills and their auxiliary facilities probably will be about \$1.4 billion.

The two private mills and the British mill are carrying out their expansion programs approximately on schedule. The West German and Soviet mills are at least six months behind schedule--and indications are that the production target of over 6,000,000 tons will not be reached before 1961.

Although no goal for steel expansion during the Third



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Five-Year Plan (1961-66) has been officially announced, many Indian leaders hope to construct at least one additional mill at Bokaro, Bihar State, and expand the others enough to raise production to 15,000,000 tons in 1966. The USSR apparently has offered to construct

the new mill, although India is also seeking offers from the West. While New Delhi may be able to construct the new mill, the country's financial difficulties and shortage of experienced personnel make it unlikely that the entire ambitious program can be carried out.

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LAOTIAN POLITICAL SITUATION

A political crisis appears to be imminent in Laos as a result of opposition to the government's 30 September monetary reform agreement with the United States. While the reform itself if basically unpopular, assembly deputies are also angry at Prime Minister Phoui Sananikone for not consulting with them prior to signing the accord. In addition, Phoui's efforts to keep the new kip-dollar exchange rate secret until after the scheduled adjournment of the assembly on 11 October were thwarted by leaks almost immediately. The assembly subsequently voted unanimously to remain in session until the end of October.

[Redacted]

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Ex-Premier Souvanna Phouma and National Assembly President Pheng Phongsavan apparently are fanning opposition to Phoui in hopes of succeeding him. Souvanna's frequent meetings during the last week of September with the chief of the Communist-dominated Neo Lao Hak Zat party, Souphannouvong, and with the leader of the leftist Santiphab party suggest that he is maneuvering to form a government of national union.

Although Phoui's position is precarious, he retains some leverage. He has the strong public backing of the crown prince, the somewhat unexpected cooperation of Deputy Premier Katay, and the support of the army and the reformist Committee for the Defense of the National Interest (CDNI).

Phoui's overthrow would probably create extreme instability, and the prospect for a rightist coup backed by the army would be greatly increased. In a 20 October conversation with an American official, Laotian Army Chief of Staff Ouane strongly intimated that the army would impose a government "after the Phoui government falls."

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Phoui has been forced to modify his timetable and plans to present the issue to the assembly on 10 October. His prospects for surviving this test are not good, especially since bitterness against Phoui's tactics is running strong in his own party, the recently formed Rally of the Lao People (RLP).

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**POSTCRISIS DEVELOPMENTS IN BURMA**

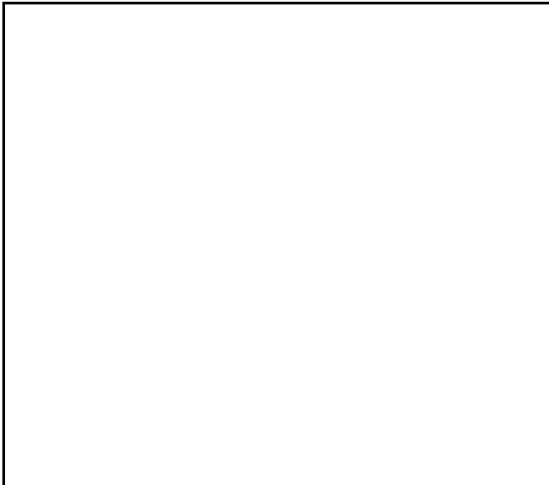
Burmese Commander in Chief Ne Win is scheduled to assume the premiership on 28 October for an announced period of six months, but there are already signs that he may remain in office much longer. According to an army spokesman, the army will need one to two years to prepare for elections.

Additional information tends to confirm the view that the army forced U Nu's resignation on 26 September. However, both Ne Win and U Nu, undoubtedly to maintain the impression that democratic processes are being followed, now assert that the army merely collaborated in a voluntary transfer of power.



Ne Win's projected ascendancy to the premiership on 28 October will undoubtedly undermine Nu's faction of the Anti-Fascist People's Freedom League (AFPFL) in any national election. The self-sacrificing tone of Nu's surrender, however, will probably increase his own personal popularity. It may be that the viciousness of the attack on Nu's government by his AFPFL rivals, former Deputy Premiers Ba Swe and Kyaw Nyein, as they announced support for General Ne Win, came in recognition of the astuteness of Nu's retreat. So far there have been no overtures reported for reconciliation among the feuding leaders.

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**WESTERN COMPANIES AND TECHNICIANS PREPARE TO LEAVE IRAQ**

Large numbers of Western companies are leaving Iraq or planning to do so when they complete present contracts. In some cases companies are breaking their contracts, citing labor problems and difficulties in dealing with the new government as the principal reasons for their action.

There may be serious labor unrest when considerable numbers of Iraqis are dismissed as the many large development projects instituted under the previous regime near completion. The former management of the Development Board attempted to schedule projects so that surplus labor would be absorbed continually

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in new projects. Since the revolution in July, however, business has been stagnant and no significant new contracts have been assigned.

With the present government seeking some spectacular new project designed to capture the public's imagination, the problem of surplus labor has received little consideration. A number of French technicians at the nearly completed Dokan Dam are threatening to resign, fearing trouble with Iraqi laborers when the long-planned reduction-in-force begins. About 800 Iraqis are being dismissed now, and another 1,200 are scheduled for release in the near future.

The insubordination of Iraqi laborers has caused uneasiness on almost all large development projects. Germans, Englishmen, Americans, Swedes, and other foreign technicians reportedly are becoming jittery and are prepared to break their contracts in order to get

out. In virtually all cases, Iraqi army commanders have sided with local labor against the foreigners.

Members of the British staff of the Iraq Petroleum Company are quietly seeking other employment and a number have already quit. Representatives of American employees at the Dura oil refinery owned by the Iraqi Government recently demanded increased compensation, thus assuring their earliest replacement. Responsible officials of some large foreign corporations in Iraq are recommending to their head offices that they pull up stakes and leave the country.

The vacuum being created by the departure of large numbers of Western companies and their technicians may encourage Baghdad to ask Cairo and Moscow to seek a major role in Iraq's development program.

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## PROGRESS OF TURKEY'S STABILIZATION PROGRAM

Turkey appears to be trying to meet its obligations under the \$359,000,000 economic stabilization program announced on 3 August. Progress has been slow, however, as a result of the inefficiency of the Turkish bureaucracy as well as unfamiliarity with economic practices required by the West as the price for financial support. There is still, nonetheless, political pressure to continue a rapid and consequently inflationary economic development program which, in the coming months, may lead to departures from the deflationary course now being charted for the stabilization program.

Since the Menderes administration came to power in 1950, economic development has been substantial but purchased at the price of serious monetary instability. The administration's insistence on proceeding with development at a much faster rate than warranted by available resources resulted in a serious imbalance throughout the economy.

The Menderes government refused to recognize the need for restrictive measures until late last year, by which time it had become apparent that a solution to Turkey's problems was beyond the country's own

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resources. As a result of an on-the-spot examination of the Turkish economy in June 1958 by experts from the International Monetary Fund and the OEEC and the promise of Western aid, Ankara agreed to adopt a comprehensive economic stabilization program.

In return for substantial multilateral help from its Western partners, the Menderes government has adopted a program designed to (a) eliminate inflationary pressures; (b) ensure a rapid increase of goods and services in the domestic economy; (c) establish an investment program designed to strengthen the balance-of-payments position; and (d) rationalize foreign trade.

To enable the Turks to carry out this program, the United States, the IMF, and OEEC and EPU members have agreed to extend credits and aid totaling \$359,000,000. Of this total, the United States will provide \$234,000,000, the OEEC and EPU members \$100,000,000, and the IMF \$25,000,000.

Turkey's major trading partners are also conferring on the problem of rescheduling An-

kara's staggering foreign debt. While progress is being made in arriving at a repayment schedule consistent with Turkey's ability to pay, a final determination is not expected for a few weeks.

In the month immediately following announcement of the stabilization program, economic activity in Turkey came to a virtual standstill. In September, however, the pace of implementation quickened somewhat. Among its liberalizing measures, the government announced global import quotas and abolished some import duties.

A capable administrator, Sebati Ataman, has been appointed to head the new Ministry of Coordination set up to oversee implementation of the stabilization program.

On balance, prospects for a successful stabilization program are relatively bright. The government will be hampered, however, by a lack of trained personnel and may find it difficult to resist political pressures for a return to some aspects of the previous inflationary investment program.

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## GUINEA

Recognition of the new African state of Guinea by the USSR, Communist China, the UAR, and several African countries may play a significant role in deciding its future orientation, particularly in view of the refusal of any major Western na-

tion to accord early recognition against French wishes.

Guinea's legislature proclaimed the state's independence on 2 October following an announcement by the French representative at Conakry--

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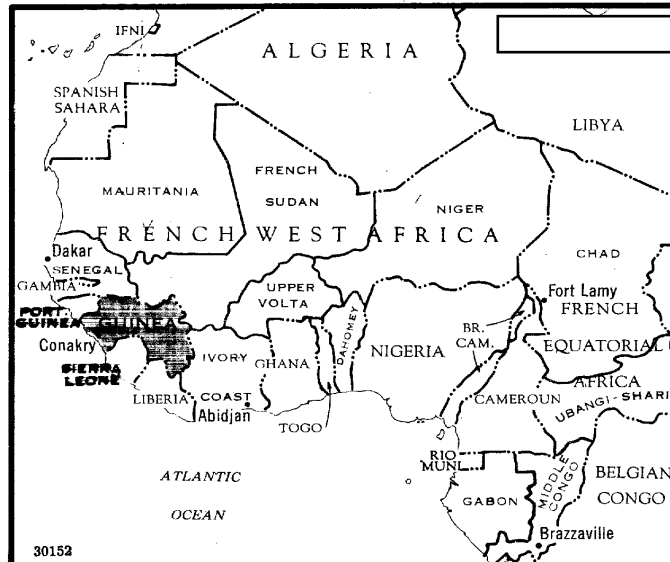
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who appears to have gone beyond his instructions--that Guinea acquired de facto independence at midnight on 30 September. Meanwhile, the French are refusing to transmit messages from Western states to the government of Guinea.

aid; however, his pride and readiness to take offense may prompt him to request Communist economic assistance.

Guinea's independence is already disturbing colonial

The lack of diplomatic action by the West may play into the hands of non-Western states. Ghana, which accorded the first recognition, is moving to establish particularly close relations with Guinea. Accra intends soon to exchange diplomatic representatives with Conakry, and a goodwill mission from Ghana is now in Guinea to discuss economic cooperation and technical and financial assistance. Ghana also plans to sponsor Guinea in the United Nations.



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The UAR and the USSR quickly followed Ghana in granting recognition, and Moscow indicated its desire to exchange diplomatic representatives. If this exchange is effected, the USSR would gain its first representation in West Africa. Guinea's premier, Sekou Toure, has Marxist sympathies, although his educational, political, and labor experiences appear to have made him aware of the dangers of close association with Communism. If he is denied Western assistance for economic

authorities in adjacent territories. Portuguese officials are reported "literally trembling" at the possible threat to the political stability of Portuguese Guinea, particularly with the expected rapid departure of French troops, as requested by Sekou Toure. Governor Dorman of the British protectorate of Sierra Leone is troubled over the future threat of Guinea-instigated border incidents in an area which recently has witnessed rioting and anti-government disturbances.

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**NICARAGUAN-HONDURAN RELATIONS AGAIN STRAINED**

The infiltration into Nicaragua early this month of a guerrilla band of perhaps 300 men from Honduras has heightened friction between the two

countries and could lead to clashes between their armed forces. The rebels, however, do not seriously threaten the Somoza regime in Nicaragua.

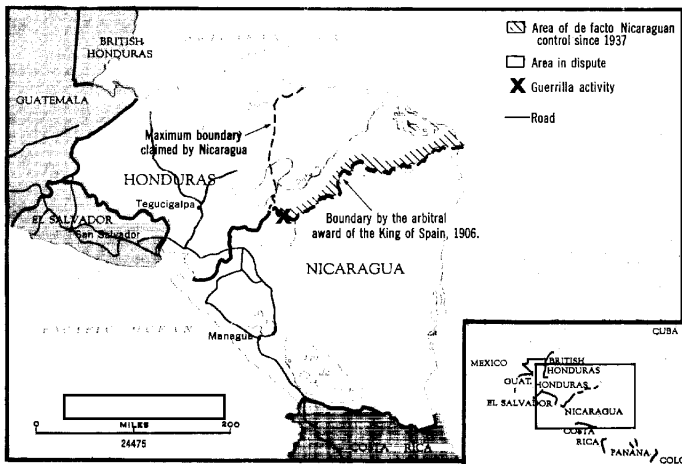
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Nicaraguan officials have been aware for almost a year of revolutionary preparations by small groups of Nicaraguan exiles just across the Honduran border. Repeated Nicaraguan requests for Honduran action against the exiles have seldom brought results, however, and Nicaraguan officials are convinced that the rebels are being covertly assisted by Hondu-

disputed border is located near the scene of present guerrilla activities. The Nicaraguan Government has considered calling in the OAS again to deal with the present problem, but has apparently decided to try negotiations with Honduras first. The mixed Nicaraguan-Honduran military commission, inspired by the OAS in 1957, met on 5 October and was to proceed immediately to the border to investigate the situation.



The guerrilla band is under the command of "General" Ramon Raudales, a long-term follower of the anti-American Sandino, who led the guerrilla campaign against the US marines 25 years ago. According to President Somoza, there are only some 15 Nicaraguan exiles in the band; the remainder are

ran civil authorities. At any rate, the strong anti-Somoza feeling of the Honduran public has permitted the rebels to prepare for action in a sympathetic environment.

The friction between the two governments is further aggravated by the century-old border dispute which caused hostilities last year. Following the intervention of the Organization of American States (OAS), the case was referred to the International Court of Justice, where it is now being adjudicated. Part of the

Honduran and Cuban mercenaries. Raudales evidently expects to carry on guerrilla operations in the wild border area until he wins enough support from sympathizers throughout the country to oust the Somoza regime. He is likely to be disappointed, however, since anti-government feeling is not high in most parts of Nicaragua and the armed forces are believed loyal and capable of suppressing the guerrillas. A Nicaraguan infantry company was sent to the border area on 2 October.

**PEIPING CLAIMS RECORD ECONOMIC ACHIEVEMENTS**

In the year since its last 1 October celebrations, Peiping claims that the nation's economy has progressed at a rate never before achieved either at home or "anywhere abroad," presumably including the USSR.

The regime states that although late crops have yet to be harvested, the equivalent of last year's 185,000,000 tons of food grains has already been gathered, and that the final 1958 total will almost double last year's figure.

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Peiping boasts that China's wheat and cotton crops this year will top American figures. While Peiping's early crop estimates usually are inflated, this year's claims appear highly exaggerated. Plans for the state purchase of grain call for the same amount to be procured as last year, and most of the claimed increase in output is to remain in rural areas. There is as yet, however, no definite evidence that rations have been improved either in rural or urban areas.

In industry, the Chinese Communists say that the total value of production during the first three quarters of the year was 57.1 percent greater than in the corresponding period last year; for the third quarter alone, it was twice that of the third quarter of 1957. Priority is being given the iron and steel industry, and Peiping asserts that on 29 September the nation's daily output of steel reached a record 58,220 tons. The regime hopes to sustain this level of production, which was made possible only by a tremendous expenditure of labor, during the entire month of October. It is likely that a substantial portion of the steel being turned out at this rate is of low quality, limiting its usefulness.

These victories are claimed at a time when the leadership has been forcing through a major social change in China's rural areas. The mass movement to establish people's communes, Peiping reports, by the end of September had enrolled more than 90 percent of the nation's farm households. This surpasses both in scope and speed the intensive drive of late 1955 to set up agricultural cooperatives, and it is suspected that many of the communes are still largely paper organizations.

Communist China has almost certainly scored notable economic advances in the course of this year's "giant leap forward," but at a huge cost in waste and inefficiency. Moreover, the figures claimed by Peiping very likely go far beyond the realities of China's economic situation. In many cases the regime's economic propagandists appear to be generalizing for the entire country on the basis of some particularly favorable local achievements. The compilation and release of such figures at this time accords with the officially expressed view that statistical work should faithfully serve the leap-forward drive. They accurately reflect the continued insistence of the party leadership on driving the economy ahead at breakneck speed.

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(Prepared by ORR)

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**TRANSPORT TIE-UP HAMPERS CHINESE COMMUNIST ECONOMY**

Peiping's "giant leap forward" in economic development has placed an extremely heavy burden on China's transport networks. Serious difficulties began several months ago and grew worse during September. Peiping is determined to push on with its economic speed-up, but has so far been unable to

provide effective remedies for the transport snarl which, if it continues, will seriously handicap accomplishment of the "leap-forward" goals. It is doubtful that these difficulties have seriously interfered with the movement of the materiel necessary to maintain pressure on the offshore islands.

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Congestion at all major ports along the China coast

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[Redacted] unusual shortages of manual labor at the docks, and ships have encountered long delays before being worked. Similar congestion has been noted on the inland waterways of the country.

Congestion is also evident on the nation's railroads and very probably in motor transportation as well. The rail lines have been laboring under immense tasks, and yard capacity has not been up to the increased demands. Peiping has said the freight-loading plan for September came to only a little over 70 percent of the nation's needs.

The authorities launched a mass movement to send all available workers to railway stations to help handle freight. As a result, from 28 to 30 September, car loadings were 40,984 a day, and now railway workers are being asked to load an average of 35,000 to 45,000

freight cars a day during the last quarter. Achievement of this level of car loadings would require that actual turn-around time--the average time between loadings of a given car--be cut from an estimated four days as of the end of 1957 to around two days, a task which seems impossible. In spite of these difficulties, Peiping has estimated that railroad freight traffic in 1958 may exceed 380,000,000 tons, an increase of more than 100,000,000 tons above 1957 performance.

The inadequate performance in China's transportation services has already resulted in local shortages of fuel and raw materials, and the regime's remedies have to date been only partially effective. Peiping has tried, for example, to improve efficiency by encouraging closer coordination between highway, railway, and waterway services. This has not yet had a noticeable effect in solving the present problems. Peiping's prospects for improving the situation in the near future do not appear good. [Redacted] (Prepared by ORR)

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## PART III

PATTERNS AND PERSPECTIVES

## THE CHURCH-STATE CONFLICT IN POLAND

Relations between the Catholic Church and the Communist government of Poland have deteriorated steadily since 1956 as a result of the Gomulka regime's fear of the church's ability to extend its influence over more and more areas of Polish society. The increasingly harsh attacks on the church by regime officials and the press, and the police raid in July on the Jasna Gora monastery--the holiest shrine of Polish Catholicism--are symptomatic of the fundamental and inevitable conflict between an

Cardinal Wyszynski, Primate of Poland, and party First Secretary Wladyslaw Gomulka are the leading protagonists. The cardinal is a Roman Catholic, but also a loyal Pole; Gomulka is a Communist, but he feels that Poland has a destiny that should not be dictated by the USSR. Pressures from the Soviet Union and the Communist bloc have forced the cardinal and the Communist to cooperate in an effort to avert open conflict and the resultant weakness which would invite a reimposition of full control by Moscow.



GOMULKA



WYSZYNSKI

aggressive Communist state and militant Catholicism.

For a thousand years the church, in addition to being a spiritual force, has played a major political, sociological, and economic role in Poland. The Communists recognize the impossibility of eliminating the church and its influence, and the regime's current policy appears to be aimed at curtailing church activities in every possible way short of provoking open warfare with the religious community.

Church-State Agreement

The church-state agreement signed in December 1956, shortly after Gomulka's return to power, represents an attempt to work out a modus vivendi during a period of crisis. This truce was motivated largely by a mutual concern that the Soviet Union might use the unstable situation following the "Polish October" as an excuse for forcible intervention in Polish internal affairs. As a result the moderating influence of the

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church swung to Gomulka's aid during the perilous period in late 1956 and early 1957 while he was attempting to consolidate his position. Yet neither Wyszynski nor Gomulka had any illusions as to the true state of affairs or believed a long-term peace between Catholicism and Communism was possible. Gomulka reportedly admitted that his pact with the church was "a step backward," but one which was necessary.

The state actually made more concessions in 1956 than did the church, perhaps because it needed support more and Gomulka realized the people would follow the church's lead. Following the signing of the agreement, many priests were released from prison, the tempo of the vicious antichurch attacks slackened, and non-compulsory religious instruction was reinstated in state schools. The agreement reaffirmed the state's right to approve church appointments, with the proviso that the appointee must be a Polish citizen, take an oath of allegiance to Poland,

and be subject to removal from office on conviction of a civil crime.

Gomulka's church policy won him considerable support from the Catholics, who saw it as a move toward redressing at least part of the injustices suffered at the hands of the Communists during the Stalinist period. This apparently moderate policy proved to be Gomulka's greatest single political asset--a fact that was demonstrated during the elections of January 1957 when the cardinal threw his support to Gomulka. By this action the cardinal showed his conviction that a weakening of the Gomulka regime at that time would have been detrimental to both the church and Poland.

Uneasy Truce

Although the two antagonists outwardly continue to observe the 1956 agreement, by 1957, a continuous, relatively behind-the-scenes struggle for advantage was causing much friction. The church stood firm on positions it considered to

**POLAND****AREAS OF CHRONIC CONFLICT WITH THE CATHOLIC CHURCH**

*Celebration of the millennium of the Catholic Church in Poland.*

*Religious classes in state schools.*

*Church influence in other aspects of education.*

*Degree of church independence in filling ecclesiastical posts.*

*Church influence in mass youth organizations.*

*Control over charitable organizations.*

*Censorship of religious publications and restrictions on distribution.*

*Administration of cemeteries and determination of burial rights.*

*Divergence between state law and church doctrine on such matters as divorce, birth control, abortion, and property rights.*

*Education of priests--number of institutions and students permitted.*

*Restitution of church property expropriated by the state.*

*Establishment and staffing of new parishes.*

*Open state support for associations of atheists and freethinkers.*

*Regime support for the "PAX" organization, which has a monopoly of the sale of religious articles.*

*Control of the Catholic University at Lublin.*

*Restitution of sacred objects to the church.*

*Travel abroad by church leaders and priests.*

*Construction and repair of churches, the availability of state funds, and the freedom of the church to collect funds for this purpose.*



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be dictated by requirements of faith, and the regime began to challenge the church in matters where the latter could be called intolerant or "medieval." The government vigorously charged that the church militantly discriminated against other denominations, and especially against nonbelievers.

Such actions, the regime charged, were aimed at creating discord in Poland. Stressing its own determination to abide by the agreement and the concessions it had made, the government called on the church to show the same tolerance to other groups and their beliefs which it demanded the regime exhibit toward the church.

In early 1958 disturbances arising from the refusal of local priests to bury nonbelievers--especially Communists--in Catholic cemeteries received widespread publicity. The press seized on isolated examples of excessive religious zeal and gave them national prominence, charging the clergy with inciting the people to violence and fostering forces hostile to socialism. The real problem in many areas, however, was the realization that the priest and not the local Communist functionary constituted the de facto locus of power, not only in matters of religion but in political, economic, and social spheres as well.

Recognizing the implications of such a situation, the government maintained that the continued coexistence of church and state depended on the precise delineation between their spheres of activity and a mutual observance of the dividing line. The church was accused--apparently rightly so--of attempting to extend the scope of its activities beyond the purely religious and ecclesiastical into secular affairs, a challenge which the government could not tolerate.

Relations Worsen

In the most drastic move against the church since Gomulka's return to power, the police in late July carried out a raid on the Jasna Gora monastery, near Czestochowa, Poland's most revered national and religious shrine. The police confiscated much printed material and equipment on the grounds that the church was deliberately withholding printed material from the censors.

On 29 July the government publicly charged the church with distributing subversive and antistate publications printed on a secret press at Jasna Gora, and accused "certain church circles" with systematic violation of the church-state agreement. A group of fanatical young priests had in fact apparently produced inflammatory publications without the cardinal's knowledge or consent.

While it was widely reported that the Jasna Gora raid was the result of Soviet pressure on Gomulka to crack down on the church, it appears more likely that it was motivated by internal power considerations and a genuine concern over the growth and consolidation of church authority. Gomulka himself--his own position in the party being none too strong--probably felt it necessary to take action to reassure the lower level functionaries, whose power was slipping away, by adopting a harsher attitude.

Although the raid on Jasna Gora created widespread indignation throughout Poland and a tense situation developed, the fact that there was no serious disorder is largely attributable to the cardinal's calming influence. On 2 August the regime issued a statement that the church authorities would issue directives on the necessity for strict compliance

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with the laws and regulations concerning mimeographed publications and for all duplicating machines to be moved to premises outside consecrated grounds.

The church is believed to have made these concessions to the regime because it was in fact in an untenable legal position and, furthermore, did not want to force a break with Gomulka which would only strengthen the doctrinaire group within the Communist party which had been demanding stringent abridgement of church rights. In a heated debate in high party circles on church-state relations which reportedly took place early in August, a small majority led by Gomulka narrowly defeated a hard-line group seeking to curtail religious privileges sharply.

Religion in the Schools

Even as the furor over the Jasna Gora affair subsided, the approach of the school year threatened to bring another crisis. The government and the church had agreed in 1956 on religious instruction in the public schools for those children whose parents expressed a desire for such instruction. Religious instruction was to be given by teachers appointed by the state and agreed to by church authorities. Teachers were to be paid by the state, and curricula and texts were to be agreed on by church and educational authorities. Complete freedom either to attend or not to attend religious classes was to be observed by both sides.

The state, however, soon began to charge the church and its members with intolerance and discrimination against individuals who did not attend religious classes.

In August 1958 government officials indicated they would

impose certain restrictions on religious teaching. Religious instruction henceforth would be given only during the first or last hour of the school day in order not to break into the regular curriculum and to permit the nonattendance of those children whose parents did not wish them to participate. The regime also refused to permit monks and nuns to teach, on the grounds that they did not possess the necessary pedagogical qualifications, insisted that crucifixes and other religious symbols be removed from classrooms, and demanded that opening prayers at school sessions cease.

Underneath all the verbiage, charges, and countercharges, the basic point at issue was who should shape the minds of Polish youth. The state appears willing to permit the older people to continue religious observances, since it has little hope of winning them from their faith, but it balks at permitting religious influences to permeate the educational system. The regime apparently believes that if it can minimize the church's influence in the schools, it can wean younger Poles away from Catholicism in the future and convert them to Communism.

The church holds much the same views on the subject and is determined not to relinquish its present rather favorable position; its determination is strengthened by the realization that its hold on the youth has indeed been weakened during the decade of Communist rule in Poland.

Gomulka himself publicly entered the fray on 24 September in a moderate but firm speech at the National Conference on Education in Warsaw. In his first public discussion of the strained relations between the church and government since the police raid on

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Jasna Gora, Gomulka emphasized his determination to observe to the letter the 1956 agreement with the church and warned that he expected the church to do likewise.

Although he reiterated that the regime seeks no war with the church, Gomulka charged it with working "overtly and secretly" to undermine the state's authority and plainly served notice that he would not permit the church's authority to grow. Gomulka exhorted the clergy to obey the scriptural injunction to "render unto Caesar the things which are Caesar's and unto God the things which are God's." Gomulka's speech clearly revealed his fear that the clergy's hold on the majority of the population represents a challenge to the regime's authority.

Prospects

While the present cold war between the Roman Catholic hierarchy in Poland and the government probably will continue, with the constant jockeying for position leading to occasional flare-ups, an all-out struggle seems unlikely. Both the cardinal and Gomulka

recognize that their fundamental differences are in fact irreconcilable, but both men also realize that for Poland's good, and indeed for their own best interests, a total break must be avoided.

The church is certainly the most powerful institution in Poland today, despite the government's control over coercive power. Confident of the church's position, Cardinal Wyszynski has proclaimed a nine-year commemoration, 1958-1966, of the thousand years of Catholicism in Poland, with the aim of rejuvenating the moral and religious fervor of the Polish people.

His plan to dedicate the people of a Communist state to the Catholic Church cuts squarely across the regime's aim of promulgating atheism and ultimately destroying Christianity in Poland, and is certain to bring on clashes between ecclesiastical and government authorities. The Catholic leadership, however, probably hopes to prevent a worsening of relations to such a degree as to disrupt the present truce.

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**NEW STUDENT DEMONSTRATIONS IN LATIN AMERICA**

New student demonstrations in Argentina, Uruguay, and Panama reflect similar tactics and effective Communist influence in student organizations, but their concurrent timing would appear to be determined primarily by national issues rather than by recent Latin American Communist steps toward increased coordination. Unusual violence marked both the Uruguayan student protest over a university charter and the bitter Argentine controversy over a law permitting the establishment of private universities. In Panama, student agitation seeks to weaken the security forces.

Latin American student organizations have traditionally involved themselves deeply in national politics and demanded a voice in university administration and policy. Even the politically immature secondary students are organized and actively participate in rioting. This political tradition has given added impetus to local Communist party efforts to penetrate youth groups as well as to the Sino-Soviet bloc's efforts to expand its exchange program.

Communist Penetration

Communists are in a position to exert substantial influence on the policies of most major student organizations in South America, notably in Argentina, Bolivia, Brazil, Chile, Ecuador, Peru, Uruguay, and Venezuela. To the north, Communists have extensive influence in student and educational circles in Mexico, El Salvador, and Guatemala. Through concentrated activity and exploitation of national themes, Communists have frequently been able to wield influence disproportionate to their small numbers. Secondary students have seem a particularly susceptible target.

In Venezuela, where Communists dominate the leadership of the principal university student organizations, students have not only been active in political demonstrations but also have been organized into paramilitary units. Some of these are armed and can be rapidly mobilized, as in the demonstrations against Vice President Nixon last May and those in support of the governing junta in July and September. Students are believed one of the most difficult pressure groups for the Venezuelan Government to handle, and they constitute a potential source of instability and unrest, despite their support of the caretaker junta thus far.

Government difficulties in controlling student demonstrations are complicated not only by the weight of tradition but also by popular revulsion to strong suppression, which is associated with dictatorships. This problem is a particular worry to Argentine authorities, who are faced with continued student defiance.

Agitation in Argentina

Strong student opposition to a law passed by Congress on 30 September authorizing the establishment of private universities has resulted in repeated clashes between rival student groups and with the police wielding tear gas. Students caused extensive damage, overturning streetcars and hurling stones at and in the vicinity of the congressional building. Agitation occurred at all of the state universities and in some high schools.

The minister of interior declared on 4 October that the disturbances went beyond the educational field and were plainly political moves designed to create an atmosphere of unrest. He also warned that the

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government would close any university where students continued to agitate. Earlier the police chief charged that Communists had been active in exploiting the issue to promote antigovernment student agitation throughout the country.

President Frondizi's Intransigent Radical party (UCRI), which controls both houses of Congress, was split on the issue. Frondizi, in accordance with a pre-election promise, endorsed the establishment of private universities, a step previously decreed by the provisional government, mainly in response to Catholic wishes. Opponents of private universities were trying to change this decree law, which broke the traditional state monopoly over higher education and prompted protests when it was announced.

UCRI deputies were freed from party discipline to vote individually, probably to minimize appearances of friction within the administration. The law resulted from a Senate compromise bill, which authorized private universities but provided that graduates would have to take state examinations to qualify for a professional license.

Since the law in no way affects the operation of state universities, protests boil down to a demand for state control. By contrast, within the state universities themselves, the students continue to demand an increased voice within the administration.

The Argentine University Federation, reportedly dominated by Communist leadership but containing most of the students who support UCRI, ratified on 4 October a decision for students to seize all universities to protest the law. It has also ordered a boycott of classes until 11 October and reportedly is planning to join a strike

scheduled for 10 October by pro-Peronista labor leaders, who hope to promote a general strike protesting high living costs. To counter this and other possible demonstrations, Frondizi has ordered a ban on all public functions in Buenos Aires for one month.

Uruguayan Agitation

Uruguayan students on 1 and 2 October staged the most violent demonstration witnessed in Montevideo in some years, ostensibly to protest changes in a university charter proposed by a congressional committee. The charter had been drafted by the university and approved by the student federation, which is Communist infiltrated. Police efforts to break up the rioting with tear gas and water brought demands for the resignation of the interior minister and police chief. Some 120 students were arrested briefly and another 200 barricaded themselves in the university.

The federation is a leftist, anti-US organization infiltrated by Communists. It frequently promotes the Communist line, but sometimes assumes a "third position" stand with such declarations as a condemnation of suppression in Hungary.

Agitation in Panama

The current student strikes in Panama are directed primarily at forcing legislation to curtail the power of the National Guard, Panama's only armed force. Action to coincide with the convening of the National Assembly on 1 October had been predicted since the serious student riots of last May. The most effective leaders have their strength among the secondary-school students, who favor violent action, while university student leaders have rejected violence. Both groups support the general strike called for by the secretary general of the student

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federation, who is closely allied with the Communists active in the student movement [redacted]

Communists are fighting to regain control of important student unions they once dominated and are probably taking advantage of current popular resentment against the corrupt and brutal guard to increase their influence. The students are the traditional focus of nationalist sentiment, and their proposals that Panama receive 50 percent of all canal tolls and fly its flag in the Canal Zone have received wide support in recent months.

While the concurrent student agitation in Argentina, Uruguay, and Panama reflects similar tactics--exploitation

of nationalist issues, an inordinate amount of violence, and a call for labor support-- there is no evidence of advance coordination by either Communists or non-Communists. The main issues are being pressed by both Communists and non-Communists. [redacted]

Recent plans for increased coordination among Latin American Communist parties have been reported, and a few steps have already been taken. The Argentine Communist party, now the largest in Latin America, has recently been more active in this regard. It has offered to assist the Uruguayan Communist Youth Federation and in July admitted at least a dozen other Latin American Communists to its six-month school for leaders. [redacted]

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