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4 December 1958

CURRENT INTELLIGENCE WEEKLY SUMMARY



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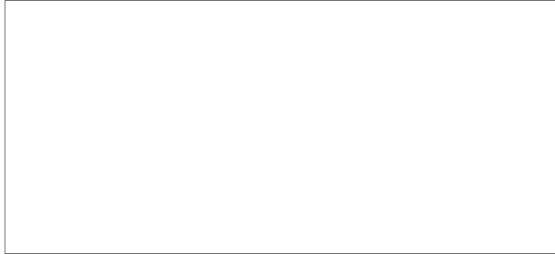
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MIDDLE EAST DEVELOPMENTS

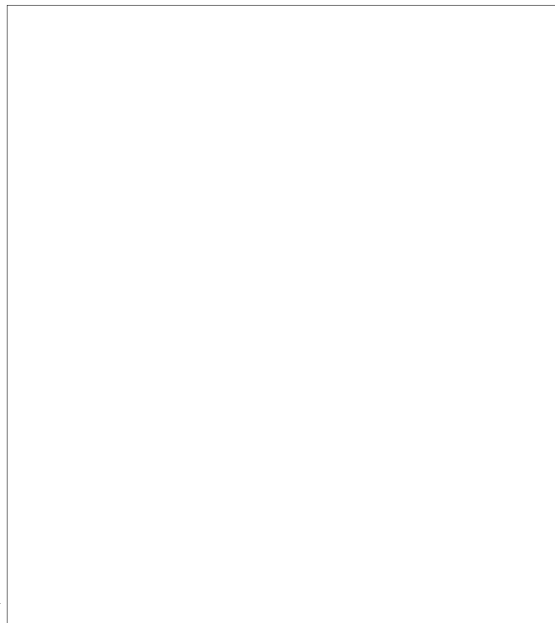
Iraq

Harassment of foreigners in Iraq, particularly American and British, continues amid a general atmosphere of tension. Further negotiations with the Iraq Petroleum Company (IPC) regarding company-government relations are in prospect, but the responsible ministers appear unfamiliar with the technical aspects and have been publicly hostile to the company. Iraqi Foreign Minister Jumard professes to oppose the more obvious manifestations of anti-Western sentiment, such as the Baghdad press play given to nonexistent Communist demonstrations against Vice President Nixon in London, but Jumard appears to have little influence.



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Libya



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Sudan

The political situation in Khartoum is still unsettled, but there are some signs that General Abboud is emerging as a genuine "strong man." The cabinet last week approved acceptance of American economic aid, curbed pro-UAR newspapers, and had pro-Communist leaders arrested. At the same time, however, the government has recognized Communist China. The Egyptian press claims a new Sudanese offer to negotiate the Nile waters question will be forthcoming in a few days.

In a measure to increase the popularity of the government and at the same time to build up pressure on the United States, Prime Minister Kubaar announced on 30 November he would demand renegotiations of the Libyan-American base and aid agreements.

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Jordan

The lifting of martial law in Jordan this week signified no real improvement in the security situation, but was designed to give the government a psychological boost and to undercut UAR propaganda referring to Jordan as a police state. The legal powers of the Rifai government to deal summarily with suspected subversives remain unimpaired.

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AFTERMATH OF FRENCH ELECTIONS

The new rightist-oriented French National Assembly--scheduled for its first legislative session next April--lacks the balance of forces Premier de Gaulle desired, and may seriously curtail his freedom of maneuver in seeking an early solution to France's principal problem--Algeria. De Gaulle is expected to be elected president on 21 December and to appoint a new premier shortly thereafter. With his prestige at a new high and his power to govern by decree extending for some time, he may try to move rapidly toward the comparatively liberal solution he is assumed to favor.

Information Minister Jacques Soustelle's Union of the New Republic (UNR), which has emerged as the strongest party in France, will be an unknown quantity until its real position in the assembly and its degree of cohesiveness are determined. United only by undefined "Gaullism," the UNR is actually a heterogeneous group ranging from completely loyal Gaullists, typified by cofound-

er Edmond Michelet, to an extreme rightist fringe. The party apparently has attracted votes from all parties including the Communists and has absorbed the Poujadist movement practically entirely.

The election results were far from a clear mandate for the integration of Algeria with France, but they will be interpreted as such; De Gaulle's problem will be to decide how far he can go in disregarding this view. Although the UNR is pledged to support the premier's policies, Soustelle immediately hailed the election as a victory for "French Algeria." This view is presumably shared by most of the 71 deputies from Algeria and the Sahara, where only a few victorious Socialists in Algeria may deviate from the prointegration program advocated by the army and the European settlers. Most of the 132 independents, second numerically in the National Assembly, and George Bidault's 13-member "Christian Democratic" wing of the Popular Republicans would also back integration.

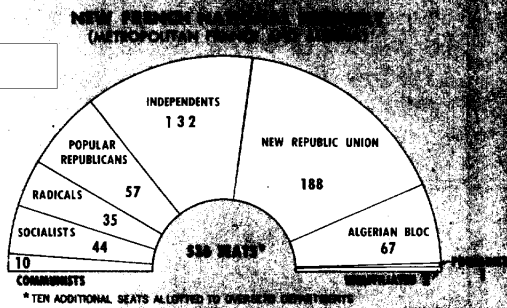
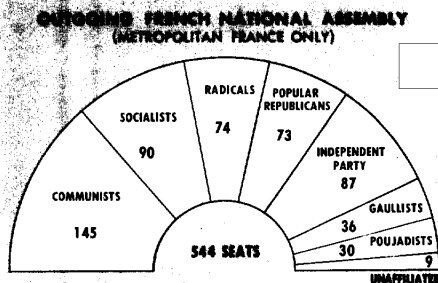
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De Gaulle should be able to divert some of the nationalistic criticism of any moves he makes toward a comparatively liberal Algerian solution by pushing other programs popular with the nationalists. These include his efforts to enhance France's international prestige by demanding equality with the United States and Britain in coordinating global policies, to press for a national nuclear-weapons program, and even to call for further European integration under French leadership. De Gaulle can also divide the rightists on economic and social policies, since truly Gaullist elements of the UNR will be inclined to join forces with the Socialists and Popular Republicans on such matters rather than with the economically and socially conservative Independents.

The Socialists, smarting from their sharp drop in assembly strength, will be strongly

inclined to go into opposition, with an eye to consolidating their new position as the dominant parliamentary representatives of the left. Socialist left-wing elements may press for close ties with the Communists in order to constitute a united left in the assembly. They will probably agree that much of the drop in Communist electoral strength resulted from abstentions rather than from desertions to the right.

The Radicals and the Popular Republicans will probably call on the Socialist party to keep an open mind on the question of participation in the government. They will be eager to put forth the left and center as an alternative to the Independents if the UNR shows any willingness to make good its professed rejection of the rightist label. De Gaulle will almost certainly prefer this in order to avoid permitting the assembly to be dominated by the UNR right wing and the Algerian bloc.

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GENEVA TALKS

In further moves to establish a record which will place on the West the onus for any failure to reach agreements, Soviet bloc delegates in both Geneva conferences have introduced formal "declarations" summarizing bloc proposals and

criticizing Western positions. These declarations, one of which has already been published, are further efforts to place the bloc in the strongest possible position in the final stage of the talks and may foreshadow proposals to raise the talks to

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the foreign minister level. In his 2 December interview with Premier Khrushchev, Senator Humphrey gained the impression that Moscow is willing to make some concessions in order to reach some kind of agreement for nuclear test cessation. However, the Soviet leader gave the impression he does not anticipate agreement on measures to prevent surprise attack.

Nuclear Test Cessation Talks

On 29 November the Soviet delegate introduced a declaration stressing the "merits" of the Soviet position and accusing the West of evading an agreement by insisting on detailed discussion of a control system. After listing four major points in the Western position which "cast doubt on the successful completion" of the talks, the Soviet declaration stated that the USSR would not object to the inclusion of "basic provisions on control" in a treaty on the cessation of tests. This ostensible concession was intended to remove a weak point in the Soviet position--the vague relationship between the Soviet-proposed treaty and a protocol on controls.

On 1 December the Soviet delegate clarified the declaration, stating that although he would prefer to have the treaty and control provisions embodied in two separate documents, he was prepared to accede to Western insistence on one document. The Soviet delegate objected to the article in the American draft agreement requiring the parties to pledge prompt and full cooperation with a nuclear weapons test control organization on the grounds that the American concept would create an international organization

not under control of the three nuclear powers.

On 3 December the Soviet delegate retreated from the recommendations made by the experts at Geneva last summer for a world-wide inspection system, alleging that the technical talks at that time did not examine the question of whether an "entire" system was needed. He is now insisting that any control organization be limited to the three nuclear powers, with decisions based on unanimous agreement. This, in effect, would provide Moscow with a veto over all actions of the organization.

It is apparent from his further comments that the Soviet delegate is particularly interested in his government's veto power over decisions involving inspection of any suspected violation. He insisted that inspection be performed by ad hoc groups formed only after receipt of evidence from which the organization "decides" there is a "strong suspicion" of a nuclear explosion. He then contended that a system confined to the territorial possessions of the three nuclear powers and to the oceans would be adequate at present, since this would cover 80 percent of the territory of the world, and "100 percent of that of the nuclear powers."

The agreement to embody all commitments in one document is a concession in form only and does not alter the basic Soviet position that an agreed draft of a permanent and unconditional test cessation agreement with only the briefest reference to controls must precede discussion of the details of the control system.

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Surprise-Attack Talks

On 28 November the Soviet delegate introduced a declaration which spelled out bloc proposals linking "concrete measures" to reduce the danger of surprise attack with specific disarmament measures. The Czech delegate followed with a draft agreement along the same lines. Both documents restated with minor variations long-standing Soviet proposals for ground control posts and aerial photography to be accompanied by such "concrete" disarmament measures as reduction of foreign forces in Europe by one third and denuclearization of both parts of Germany.

For the first time, Moscow set forth its views on the number and general location of control posts at railroad junctions, major ports, and highways. According to the declaration, 28 control posts should be located on the territories of members of the Warsaw Treaty, including six in the USSR, and 54 posts in NATO and Baghdad

Pact countries, including six in the United States. These totals were said to be based on the density of population and communications networks.

In addition to Moscow's standard proposal for aerial photography in a zone 500 miles on either side of the demarcation line in Europe, the Geneva declaration for the first time extended aerial inspection to Greece, Turkey, Iran, Japan, and Okinawa. Aerial inspection zones in the Soviet Far East and the western United States were made conditional on the establishment of both ground control posts and aerial photography zones in Europe and the Middle East.

This omnibus plan linking inspection systems with specific disarmament steps is designed to sharpen the contrast between the bloc's demand for "practical" measures to prevent surprise attack with Western insistence on a careful technical study of the problem, avoiding political issues posed by the Soviet disarmament proposals.

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PART II**NOTES AND COMMENTS****AFRO-ASIAN ECONOMIC CONFERENCE**

The widely heralded Afro-Asian Economic Conference, to be held in Cairo from 8 to 11 December, will provide a major forum for Soviet and Egyptian anti-Western propaganda. Although the purpose of the meeting is to search for ways to increase foreign trade and economic cooperation among Asian-African countries, significant progress along these lines appears unlikely. The Soviet Union probably will use the conference to reiterate its pledge, "tell us what you need, we can help you," which was given at the Afro-Asian Solidarity Conference held in Cairo last year. Moscow probably will attempt to gain maximum benefit from its Aswan High Dam aid agreement.

UAR leaders have expressed concern over what they describe as the eventual "evils" of the European Common Market. Nasir believes the Common Market will result in discrimination against Egyptian goods and higher prices for European goods. The UAR leaders may therefore attempt to push plans for an Arab "common market" scheme to counter alleged Western economic imperialism.

Iraq, which in previous Arab meetings has been a restraining influence on such Egyptian maneuvers, reportedly will rec-

ommend the creation of a "big Asian-African economic organization" which would establish trade centers for principal products of the area. Baghdad has already called for the establishment of a rice center in Communist China and a cotton center in Egypt.

While Cairo claims that invitations have been sent to "194 economic organizations in 101 Afro-Asian countries," a substantially smaller number of countries are likely to be represented. Communist China, Mongolia, North Vietnam, North Korea, and the Soviet Union will send delegates. Although many countries are sending legitimate Chamber of Commerce representatives, the meeting will be dominated by Egyptians, Russians, and fellow travelers.

Because the problems of establishing meaningful relationships among these underdeveloped areas are so complex, the conference probably will concentrate on setting up permanent planning bodies rather than announcing immediate solutions. These study groups, however, should provide still another vehicle for the extension of Soviet and Egyptian influence throughout Asia and Africa.

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AFRICA AND THE EUROPEAN ECONOMIC COMMUNITY

The current visit to Africa's east coast of a delegation from the Commission of the European Economic Community (EEC) could be significant for Western Europe's future relations with the African continent as a whole.

The mission, headed by Director General for Overseas Territories Helmut Allardt, will be the first real sounding of local sentiment toward the EEC in Madagascar, Somalia, and French Somaliland, which were among those colonial

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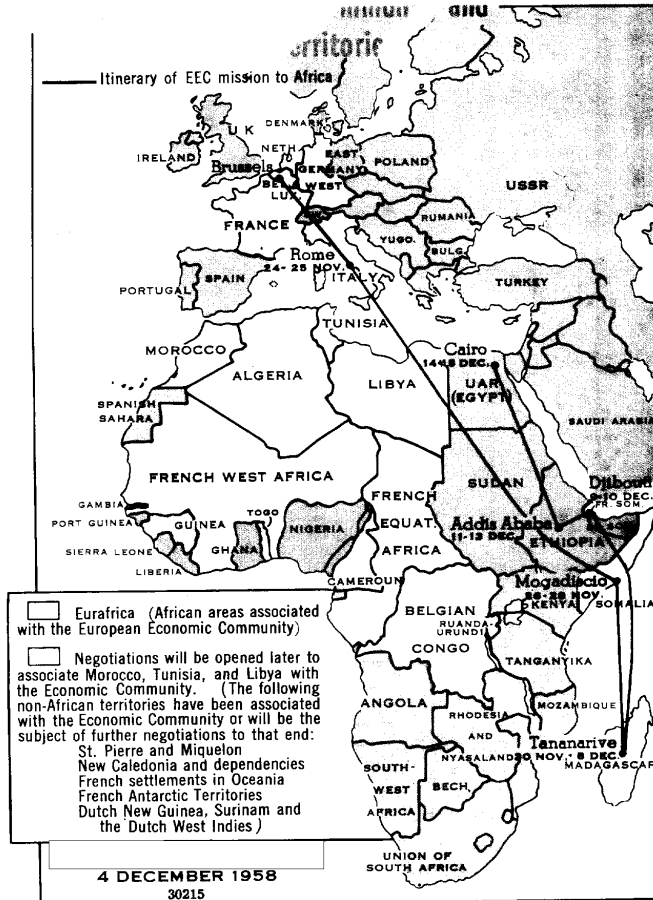
and trust territories associated with the Common Market in keeping with the Eurafrikan concept.

When the idea of European-African cooperation was initially advanced by the French in 1956 it was greeted with great reserve by the other EEC members, but it has become more acceptable as the EEC itself has increased in stature. Allardt and others on the commission staff are effective advocates of a "European effort" to secure an economic hegemony in Africa not based on preservation of the political status quo. They believe the EEC's overseas development fund of \$581,000,000 may be an effective weapon in achieving this objective. Some members of the European Parliamentary Assembly who fear Soviet gains from the dissolution of colonial ties support this thesis and have pressed the commission to assert an "independent position."

Problems arising from Guinea's rejection of the new French constitution have added a note of urgency to these pleas for a "European" policy. The commission, anxious to establish the principle that association with the EEC does not depend on membership in the French community, believes a campaign to win African confidence would be off to a poor start if cooperation is ruled out with one of the first African states to obtain independence after formation of the

Common Market. This thesis has not yet been accepted in Paris, but Allardt feels sufficiently strongly about it to postpone his trip to western Africa rather than go there without stopping in Guinea.

The unresolved conflict over Guinea points up both the delicacy and the importance of the EEC's position. The commission's efforts to establish itself in Africa as a separate entity representing the six-nation community could aggravate the colonial problems of France and Belgium, and, in the event of conflict, the commission's influence among



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Common Market members might be jeopardized. On the other hand, a position of relative independence is probably essential if the EEC is to gain wide-

spread acceptance in Africa and develop as an important funnel for Western economic and technical assistance to the Africans.

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PAKISTANI REGIME BEGINNING TO IMPLEMENT REFORMS

Pakistan's military regime has begun to implement its promises of political and economic reform. The government's prestige depends largely on its ability to provide the country with substantial evidence of progress, particularly in agriculture. It is already encountering opposition from large landowners and the business community.

Politically, the new regime has consolidated its control of the government and withdrawn the army from most local martial-law administration. Among its many new measures, it has delegated extensive administrative authority to government units below the provincial level, apparently to forestall renewed demands for provincial autonomy along linguistic lines. It has also taken strong measures to eliminate corruption in public and business life.

To strengthen the economy, highest priority apparently is being given to raising agricultural production. However, government land reform proposals may have important political repercussions if they threaten the position of the powerful landlord class. Owners of large estates are already trying to obtain the highest possible compensation for lands they may lose. Plans being prepared by the Land Reforms Commission to prevent uneconomic fragmenta-

tion of productive lands are being attacked as "un-Islamic" because they contravene Islamic inheritance laws. In the face of this opposition, the reforms finally implemented by the government may be less substantial than originally hoped.

Although the public has welcomed the regime's initial efforts to reduce prices, the Planning Commission and some civilian government officials are emphasizing the dangers of the regime's price-control proposals. These, they hold, may destroy the incentive of producers and discourage badly needed new investment.

Should the army submit to pressures from large landowners and industrialists and modify previously announced policies, popular disillusionment could build up rapidly and weaken the government's position.

In addition to its economic and political activities, the military regime is pressing for further modernization of Pakistan's armed forces. Probably partly to test Western attitudes toward the new regime and American intentions regarding future military aid, Ayub's government has requested F-100 fighters from the United States

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SOVIET PRESSURE TOPPLES FINNISH GOVERNMENT

The five-party coalition government of Karl August Fagerholm resigned on 4 December as a result of Soviet pressure.

Moscow intensified its two-month-old campaign against Finland last week by canceling orders from several large Finnish firms and by refusing requests for additional shipments of crude oil. The Finns, in an effort to reduce this year's trade imbalance with the USSR, had attempted to purchase Soviet oil for stockpiling--a measure which would only temporarily have alleviated the large trade credit balance now held by Finland. By its refusal, Moscow is seeking a firmer orientation of Finland's trade with the USSR. Cancellation of orders and postponement of advance payments total nearly \$6,000,000, according to the Finnish Foreign Ministry. As a result, unemployment has been increasing sharply.

Fagerholm quit following the resignation of the five Agrarian cabinet ministers. The Agrarian party leaders have been insisting on the necessity of thoroughgoing changes. Until a new government is formed, Prime Minister Fagerholm will also act as foreign minister.

In his search for a government with which the USSR will deal, President Kekkonen is said to favor one composed of all non-Communist parties but the "regular" Social Democrats, some of whose leaders are particularly disliked by the USSR. The regular Social Democrats would be replaced by the opposition Social Democrats, who were expelled from the party on 29 November.

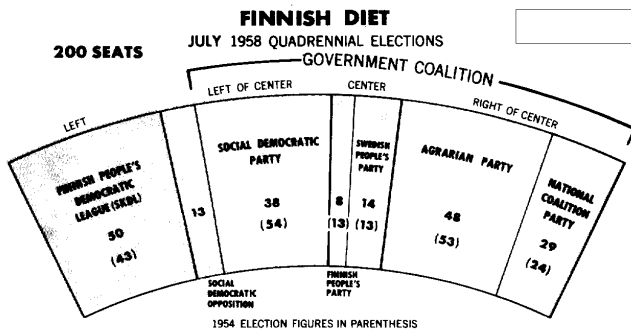
This formalization of the split in the Social Democratic party will have widespread political repercussions and could lead to Communist domination of the Finnish trade union movement through a parallel split in the Confederation of Labor (SAK). The opposition Social Democrats control SAK, but the regular Social Democrats have already formed a rival organization--the "Joint Organization of Trade Unions."

Kekkonen and the other Finnish leaders probably hope to satisfy the USSR without including the Communist-front Finnish People's Democratic League (SKDL) in the cabinet. The possibility of SKDL's participation in the next government, however, cannot be excluded. Pravda has quoted the Finnish Communist press to the effect that only the formation of a government based on "the working class" could solve Finnish economic problems and increase trade with the USSR. The Communists are now in their strongest position since 1948 to demand inclusion in the government and are organizing a mass demonstration on 9 December to press their demands.

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BULGARIA'S NEW ECONOMIC PROGRAM

Bulgarian party chief Zhivkov, speaking at the central committee plenum last month, called for a "great leap forward" in economic development, making even more unrealistic demands on agriculture than the decision in October to fulfill the present five-year plan (1958-62) ahead of schedule.

The primary means to be employed for reaching the new targets--mobilization of the masses, day and night operation of equipment, and economies in the use of raw materials--suggest that the concept of a "leap forward" will be used propagandistically to wring the maximum output from production facilities. Although using Chinese Communist terminology, the appeal is probably inspired by the USSR's recently published Seven-Year Plan. In presenting this plan Khrushchev pointed out that the next few years will be decisive in the struggle between Communism and capitalism.

The Bulgarians are proud their steadfast adherence to orthodox methods has brought acknowledgment in bloc publications that their country is the most advanced of the "people's democracies" in "building socialism," and they have clearly taken a cue from Khrushchev's prediction and have launched an ambitious program of their own in order to retain their leading position.

Zhivkov calls on agriculture to double 1958 production next year and triple it in 1960, an apparently impossible achievement. In recent years, gross agricultural output has decreased from the previous year's

level as often as it has risen, and the five-year plan scheduled only a 35-percent increase.

The agricultural sector is to concentrate on irrigation, other land improvements, and construction--relying heavily on the labor and means of the collective farms, which are now being enlarged by mergers. These mergers apparently entail the transfer of some production activities of the villages to the enlarged farms in order to process part of the produce on the spot. The mergers will necessitate a reorganization of district party organs, and the Bulgarian press has stated there will be only one village council for each enlarged farm. Citing Chinese Communist experience, Zhivkov has said that experimental plots will be encouraged on the enlarged farms.

Capital investment for food and light industries rather than for heavy industry is emphasized because of the huge production increases expected from agriculture and because such investment will have an immediate economic effect. Present plans for heavy industry apparently are not being scrapped. Zhivkov cites various methods by which industrial, construction, and transportation performances can be improved, including reduction of all non-essential imports and the use of substitutes, introduction of additional shifts and assembly-line methods, and more technical training for workers.

Bulgaria has many unemployed, and labor heads the list of reserves on which the economy will draw in its "leap forward." Men under 50, women

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under 45, and government and party workers are to give from 30 to 40 voluntary workdays in production annually. Even central committee members are included under the motto: "Let out leaders step in the mud a little."

While 1962 industrial targets could be achieved in 1960 at the present rate of growth, none of the methods outlined by Zhivkov, can bring about the huge rise in agricultural output demanded.

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COMMUNIST CHINA'S DRIVE FOR MORE IRON AND STEEL PRODUCTION

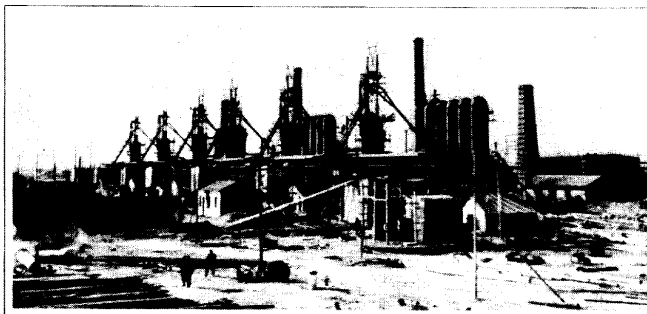
Peiping has singled out the iron and steel industry for special emphasis in its "giant leap forward." Tens of millions of workers have been mobilized in an intensive program to double production this year by turning out 17,000,000 tons of pig iron and 10,700,000 tons of steel. A substantial portion of the expected increase is to come from the numerous small iron and steel installations recently set up in the countryside. The goals are likely to be achieved, but the product will probably be of substandard and uneven quality and of questionable utility.

"in his spare time." Hundreds of thousands of small, locally operated blast furnaces have sprung up during the past few months. Development of the three large modern centers at Anshan, Wuhan, and Paotow has been stepped up, and work is proceeding on a number of



SMALL IRON SMELTING FURNACES IN SINKIANG AND SZECHWAN PROVINCES

The campaign to increase production of iron and steel--unusual even in Communist China, where a mass campaign of some type is almost always under way--has received a tremendous amount of attention and "everyone," from Madame Sun Yat-sen to the ordinary peasant has been engaged in making iron and steel

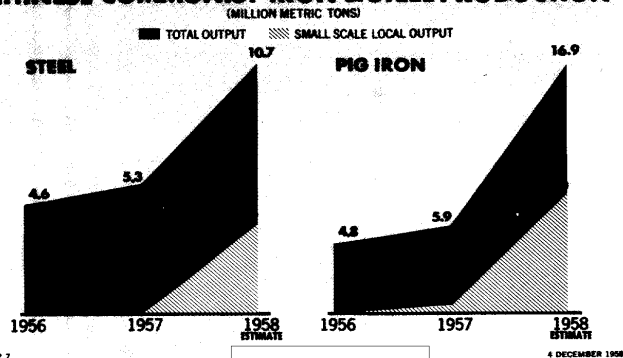


BLAST FURNACES IN HOPEH PROVINCE

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CHINESE COMMUNIST IRON & STEEL PRODUCTION

into steel because of excessive impurities.

The utility of the steel is impaired because the form and shape in which it is cast is probably often not suitable for processing in a rolling mill. The use to which such a product can be put would therefore be limited to blacksmith forging into simple tools or

for smelting for the production of ingots or castings in larger plants. The movement just getting under way for consolidating the thousands of small facilities into larger, more efficient units is, in part, a result of this problem.

In addition to the benefit from the extra production, Peiping also stands to gain from the propaganda impact at home and abroad, particularly in underdeveloped areas. The Indian Government, for example, is planning to send a delegation to study the new Chinese iron and steel program.

(Prepared by ORR)

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smaller, relatively modern plants.

The program, which began in earnest only last summer, seems to have been one of improvisation with little advance planning. Production of pig iron was stressed almost exclusively at first. Peiping then took up the problem of making good steel from the varied quality of pig iron and is now beginning to turn its attention to providing finishing capacity for steel. One of the major problems connected with the small-plant approach to iron production lies in the variations in quality; much pig iron is unsuitable for conversion

KIM IL-SUNG VISITS COMMUNIST CHINA AND NORTH VIETNAM

North Korean Premier Kim Il-sung is completing the last leg of a good-will tour of Communist China and North Vietnam. He is accompanied by Vice Premier Pak Chong-ae, Foreign Minister Nam Il, and Education-Culture Minister Yi Il-kyong. Minister of National Defense Kim Kwang-hyop heads a "military good-will mission" which left Pyongyang on 21 November on the same train and apparently is accompanying the premier's delegation.

Kim set the tone for his public statements in China in a speech at the Manchurian border city of Antung by referring to "sharing the bitter with the sweet in the war against the American imperialists" and to "friendship and unity sealed with blood."

Following a "tumultuous but conventional good-will visit to Peiping, a top-level meeting of Chinese Communists and North

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Koreans took place on 26 November at Wuhan. The New China News Agency dispatch on the meeting was limited to a statement that Mao Tse-tung, Liu Shao-chi, Chou En-lai, Teng



KIM IL-SUNG

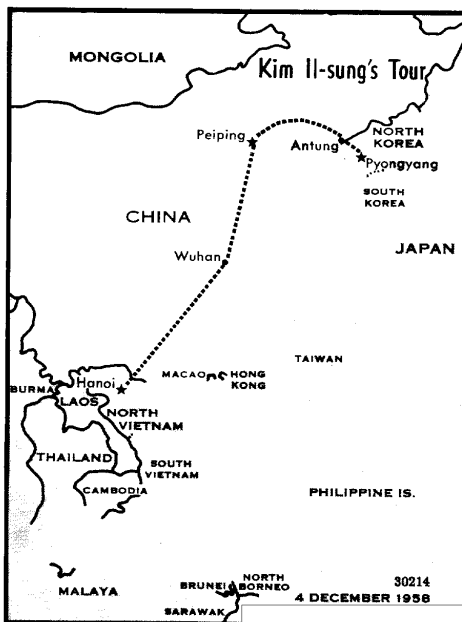
Hsiao-ping, and Chu Te were the Chinese representatives. No mention was made of the topics discussed. Participation by senior policy and ideological authorities emphasizes the importance attached by both parties to the meeting.

Discussions there probably involved further efforts to advance the Communist program for the unification of Korea and a coordination of policy positions on "other divided areas" in the Far East. Relations with Japan and joint action to further the objective of an American disengagement in the western Pacific may also have been covered, as well as such topics as increased Chinese economic assistance to North Korea and the ideological impact of the commune program on Asian Communism.

After leaving Wuhan, Kim went to Hanoi, returning Ho Chi Minh's state visit of last

year. This trip, Kim's first to Hanoi, parallels the recent visit of South Korean President Rhee to South Vietnam.

A joint communiqué issued on 1 December at the conclusion of the talks in Hanoi scored the US for maintaining military bases in the Far East and demanded the withdrawal of all foreign troops from the territory of other nations. Unification of both Korea and Vietnam was proclaimed a common concern, although a clear distinction was made in the solutions to be sought. Korean unification is to be an internal matter "to be set-



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led by the Korean people themselves"; Vietnam must be reunited in "conformity with the Geneva agreement."

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THAI-CAMBODIAN RELATIONS

The widening breach between Thailand and Cambodia threatens to undermine Western efforts to advance regional cooperation aimed at thwarting Communist expansionism in Southeast Asia. If relations between the two countries continue to deteriorate, Cambodian Premier Sihanouk may turn to Communist China for support as he did last summer during his border dispute with South Vietnam.

Sihanouk is surprised by the furor created by his suspension last week of relations with Bangkok over critical items in the Thai press. He now appears anxious to patch up the quarrel. The ruling Thai military group, however, apparently wanting to keep the issue alive for domestic political purposes, has stiffened its requirements for a restoration of relations. In addition, Thailand is considering submitting the dispute to the UN Security Council. Cam-

bodia has already circulated a letter of protest at the UN charging that Thailand's activities are "a threat to the peace." These developments preclude an early settlement of differences between the two countries.

The disposition of Thai leaders to ascribe Cambodia's actions to Communist influence or pressure increases the likelihood that Sihanouk will charge Thailand with acting under "SEATO instructions" to overthrow his neutralist regime. Rumors of American complicity with Thailand in the present crisis are already current in Cambodian official circles. Should Thailand use its American-trained forces in border reprisals against Cambodia's detention of 32 Thai nationals--as is being urged by some Thai military leaders--Sihanouk might feel driven to seek military equipment from Peiping.

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SITUATION IN LAOS

The Laotian Government is in the initial phase of a program of administrative and security reforms designed to restore public confidence and check Communist expansion in the rural areas. A sweeping monetary reform has been followed by an extensive shifting of inept or corrupt administrative officials. More effective patrolling by the Laotian Army has reassured villagers in some areas of the government's ability to protect them from repris-

als by the Communist-dominated Neo Lao Hak Zat (NLHZ) party. In several provinces heavily infested by the NLHZ, military officers have been appointed deputy governors in order to ensure effective army security measures.

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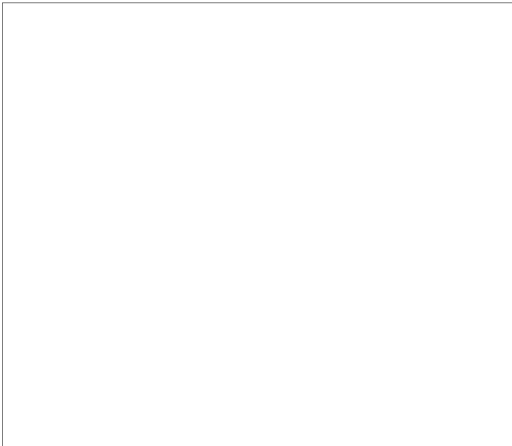
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These first stirrings of a positive government program are threatened by displaced conservative politicians, who continue to harass the government in the hope of recovering former positions of influence now held by young reformist leaders in the cabinet. It is

possible these individuals will use the special session of the National Assembly in January as an opportunity to overthrow the government. Phoui is searching for some means to mollify them, perhaps by expanding his cabinet or by creating suitable government sinecures.

Revulsion against the narrow opportunism of conservative deputies runs strong along the reform axis of Laotian politics --the Crown, the army, and the reformist Committee for the Defense of the National Interest (CDNI). The parliamentary system has become increasingly discredited

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THE SITUATION IN CUBA

The Batista government in Cuba, which announced new arrests of disaffected army officers last week, is in a more precarious position than at any time since Fidel Castro landed on Cuba's southeastern coast two years ago.

Rebel forces, now estimated at more than 8,000, virtually control Oriente Province, Cuba's largest and most populous province, and sabotage and harassment activities in three other provinces have increased. Although the Cuban Army retains possession of the major cities in Oriente, it has been unable to break rebel blockades which have cut off Santiago, Guantanamo City, and other cities, or to prevent the rebels from disrupting transportation and communications in the eastern half of the island. Provisions are

in short supply in many localities.

The rebel drive is seriously endangering Cuba's hitherto prosperous economy. Rebel activities have interfered with the coffee harvest and will probably hinder the sugar harvest scheduled to begin in a few weeks. The disruption of transportation has already caused heavy losses by preventing the shipment of products to domestic markets. Rebel activities have forced several companies, including some US owned, to curtail operations or to shut down, and unemployment, particularly in Santiago, is becoming a serious problem.

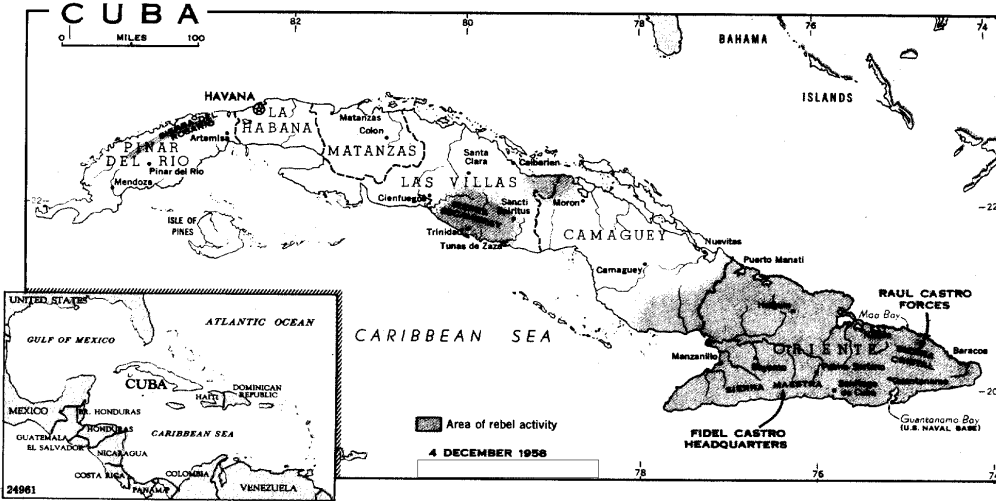
Heavy government expenditures to support the campaign against the rebels are also becoming a drain on the economy.

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The prolonged political instability has had an adverse effect on both trade and tourism, causing unrest within business and commercial circles.

The deterioration of the economy and the government's failure to stem the Castro rebellion are causing serious disaffection in the armed forces.

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Some senior officers are believed to be considering a move with civilian cooperation to establish a military junta which would attempt to negotiate a truce with the rebel movement.

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PART III

PATTERNS AND PERSPECTIVES

PARTY PROBLEMS IN THE POLISH COUNTRYSIDE

Two years after his return to power in Poland, Wladyslaw Gomulka still lacks full control over portions of the party apparatus, especially at the grass-roots level. This has been one of the more serious hindrances to his program for the development of "socialism" in Poland. Local party functionaries--mostly appointed by the Stalinist Bierut regime and still sympathetic to its principles--exhibit a guarded hostility toward Gomulka. Some of them are able to hamper his program, and most remain a potential danger to his authority. Despite his efforts since October 1956, he has not yet succeeded in winning over these hostile bureaucrats or in replacing them with men loyal to him.

Most lower- and middle-echelon party functionaries in the provinces apparently expected Gomulka's tenure as party leader to be a short one. In order to be on the safe side if a change should occur, many of them preferred not to become too closely identified with him. Furthermore, their sense of security in following such a course was bolstered by Gomulka's disavowal of tough Stalinist measures to compel compliance with his program. The fact that Gomulka had long been out of contact with the party and did not know most of the middle- and lower-level officials, nor they him, also made his problem more difficult.

Period Since October 1956

Since October 1956 the local organizations of the Polish United Workers (Communist) party (PZPR) have virtually disintegrated as effective organs of control. Gomulka was

so engrossed with pressing high-level problems involving the very survival of his regime, in the face of attacks by the Soviet-backed elements of the PZPR, he had little opportunity to devote attention to the party organization in the countryside.

Some of the changes which Gomulka himself introduced tended to reduce still further the effectiveness of local party bodies. In an effort to cut costs and rid the party of some of the top-heavy bureaucracy which had grown up under the former leaders, Gomulka decreed a sharp reduction in the number of paid party workers. In many instances the abler party workers at the lower levels lost their jobs, while the entrenched bureaucrats higher in the PZPR hierarchy were able to retain theirs. The loss of police power also proved to be a great handicap to the party apparatus in rural areas.

The populace in rural areas, which never had much respect for the average party functionary, soon came to ignore the activists and treat them as having virtually no authority. Gomulka's disavowal of forced collectivization and the subsequent dissolution of most collective farms encouraged the Polish peasant's individualism and traditional disrespect for authority.

In addition to the weaknesses deriving from these factors, party authority in rural areas was further weakened by the elimination of the "nomenclatura" privilege, which had permitted party secretaries at all levels to approve candidates for specific civil, commercial, and industrial positions. At provincial and lower levels this authority was transferred to

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local government officials, thus increasing their prestige and power at the expense of the party functionaries.

The relatively free elections of January 1957 in which strong identification with the party frequently proved a handicap, swept into office substantial numbers of people who had rather tenuous ties with the PZPR and even a number of non-party individuals. The local party secretaries found they could not depend on the newly elected to reward loyal PZPR activists with the good jobs, so later that year a limited "nomenclatura" privilege was restored to party secretaries. The power of party secretaries has since increased to some degree, but they have not regained their former authority.

The period immediately following October 1956 also brought a significant revival of the old United Peasant party (ZSL) and the beginning of a new struggle between it and the PZPR for dominance in the countryside. Farmers now felt free to express a preference for the ZSL and to reject the efforts of the PZPR activists to induce them to follow Communist directives, a situation contributing further to the party bureaucracy's weakness and lack of influence.

The chaotic situation resulting from the lowered morale, power, and prestige of the local (PZPR) organizations led to a clamor by provincial officials for aid from the party's national headquarters. The officials repeatedly asked the central committee for more trained personnel, but, because of the economy measures undertaken by Gomulka, few paid activists could be added to the party payroll. Party funds had been cut sharply because of the large number of Communists not paying their dues following October. Even after a measure of

party discipline had been restored in the early months of 1958, it was reported that not more than 50 percent of the members were paying their full dues.

Problems of Rebuilding

Although Gomulka has demonstrated remarkable political skill in rebuilding the Polish party from its state of near dissolution two years ago, his inability to reorganize the entire party into a cohesive unit responsive to his will remains a potential threat to his position. No matter how firm his control may be at the top, he must depend on the large number of officials at the grass roots to translate party orders into action. This remains Gomulka's most pressing problem, since he has for the most part succeeded in gaining control of the party apparatus at the national and provincial levels.

Gomulka has always been reluctant to unleash a Stalinist "witch hunt." Nevertheless he has carried out a quiet purge of antagonistic and poorly qualified party functionaries, and he has succeeded in weeding out many incompetents and unreliables without fuss or fanfare. He has consistently refused to be stampeded into rash actions in this direction lest they increase his problems instead of solving them.

Many doctrinaire Stalinist holdovers are especially opposed to Gomulka's agricultural policies. The collective farm is an instrument of political control as well as a unit of production, and the Stalinists considered Gomulka's action in permitting the dissolution of the collective farms "a return to capitalism" and an ideological heresy. Gomulka has always maintained that the "socialization" of agriculture is the basic goal of the PZPR; and has said that capitalism in the countryside is incompatible

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with socialism in the cities. He differs with his opponents, however, on the pace and the methods to be employed. He claims the old coercive measures, which aimed at rapid collectivization, were harmful and caused peasant hostility to the party, as well as low productivity of the socialized sector of Polish agriculture.

Gomulka has been adamant in his position that the principle of voluntary acceptance of socialization in the countryside must be strictly observed. He advocates a program of education aimed at convincing farmers of the advantages of collectivization, and state aid to existing collectives in order to enable them to modernize their facilities and surpass the productivity of private farms. To further this objective, Gomulka has urged that successful and respected peasants be recruited as party activists.

Old-line party functionaries in rural areas are disgruntled because Gomulka made a truce with the church which permitted it a greater measure of freedom than it enjoyed under the Bierut regime. They consider the church agreement one of Gomulka's greatest backward steps, for now the village priest has again become more powerful than the local Communist party official. The priest's influence in Catholic Poland, and especially in rural areas, extends far beyond religious matters, permeating social, political, and economic life as well.

Gomulka too would like to curb the power of parish priests. He has several times characterized the political activities of the clergy in the countryside as a serious problem to be overcome by the party. Gomulka hopes to accomplish his aims gradually through subtle rather than harsh tactics and without provoking trouble. He realizes that Catholicism is

an integral part of life for millions of Poles and that an all-out war against the church would result in a Pyrrhic victory at best.

Gomulka today probably is more popular among the peasants than with any other group in Poland, largely because of his liberal policies toward agriculture and the church. At the same time, the PZPR is weakest in the countryside and has little following among the peasants, who in their political thinking tend to separate Gomulka from his party.

In meeting the formidable task of revitalizing the party in rural areas, Gomulka will probably follow a policy of trying to bring into positions of authority able men who are loyal to him and at the same time have some standing with the people. Few people meet these requirements, however.

Revitalizing the Party

One of the most important innovations introduced by Gomulka to combat demoralization and to revitalize the party at the lower levels was the creation of "problem commissions" by the local first secretaries to solve various problems faced by the organization. "Volunteers" from the party ranks would be named for the commission at a party meeting, and the group thus formed would be assigned to work with a full-time party official. The composition of these commissions was arranged so that no one ever worked on a problem involving his own area of responsibility. Since most problems arose in the fields of propaganda, party education, and discipline, most commissions worked with party officials responsible for these activities.

Through the use of the Problem Commissions, the local party organization was able to get much of its work performed by unpaid party activists under

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the supervision of a full-time party functionary. While the problem commissions frequently were able to shore up the shaky local party apparatus, they did not necessarily strengthen Gomulka's control at the lower levels.

The "verification" of party membership, ordered by the 10th plenum in October 1957 at Gomulka's behest, was another attempt to restore party discipline, rid the ranks of factional and opportunistic elements, and win better control of the party apparatus. Neither politically nor organizationally did it produce all the results Gomulka hoped for, however, since the "verification" was carried out by the apparatus itself. For the most part, those affected were the most apathetic rank-and-file members--15 percent of the party's total membership was dropped--leaving the hard core of the local party machines intact.

Party weakness in the countryside has been an important factor in the repeated postponement of the long-overdue Third Party Congress, now scheduled to open on 10 March 1959. Gomulka refused to call the congress until he considered his control over the central party organization sufficiently strong to enable him to push through his program. The first secretary's announcement at the party's 12th central committee plenum on October of a date for the congress

reflects his confidence that he now has this control.

While no drastic moves against opponents seem likely between now and the congress, many Stalinists, opportunists, and incompetents in the party apparatus probably will be quietly replaced with Gomulka supporters. Gomulka's strategy appears to be one of gradually weakening the conservative faction and, whenever possible, winning over party bureaucrats instead of assaulting his political opponents frontally. Gomulka would prefer to placate, persuade, and reassure able party functionaries and use them for his own purposes rather than carry out a drastic purge.

Gomulka is taking no chances on not having a majority of the delegates to the party congress on his side. Delegates are to be chosen by the party organizations at the provincial level and in industrial enterprises. By having delegates elected by higher level organizations, where he is strong, instead of at the lower levels and in the countryside where his control is weakest, Gomulka will assure himself of a loyal majority at the congress.

Following the election of a new central committee by the carefully chosen congress, Gomulka will for the first time be in a position to remake the entire party apparatus into an instrument responsive to his own ideas and capable of implementing his his policies. 25X1

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THE POLITICAL POTENTIAL OF ARAB LABOR UNIONS

Arab labor unions operate predominantly as political, rather than economic, organizations, and have been subject to governmental suppression or control. Union leaders are conditioned to political action because material gains for their memberships can be achieved only through bargaining with and pressure on the governments, or through labor representation in the governments. The motivation for strikes has been political more often than economic.

Generally speaking, the Arab union movements are still new, loosely organized, and weak, and their development varies sharply from country to country. Their potential as a real political force stems from the basic weakness of other political institutions and from the chronic instability of most Arab governments.

Arab unions have long been a primary target for Communist penetration, and have also become involved in the struggle between Nasir's pan-Arab nationalism and the nationalist movements of other Arab states. Continuing failure by unstable Arab governments to take the forceful measures necessary to improve economic conditions will promote tighter cohesion among workers, further growth of unions, and an increase in their inclination and capability to participate in anti-government actions.

United Arab Republic

In Egypt, where the union movement has been a carefully controlled creation of the government and is dependent on government beneficence, union membership has grown rapidly. Nasir recognized the potential of the trade unions early and used them in his take-over from Naguib in early 1954. He has

since encouraged their growth but has made sure at every step that they remain dependent on the government and subject to his orders.

Before the creation of the UAR last February, the Syrian unions had some independence and a number of pro-Communist leaders. At Nasir's instigation, however, several of the stronger leaders, both Communist and independent, have already been ousted. He now has a program under way for the gradual federation of the Egyptian and Syrian trade union movements; he plans an elaborate new control apparatus to provide close government supervision and direction of union activities down to the factory level. Thus the UAR union movement is an asset to Nasir's political position rather than a threat.

Nasir's ICATU

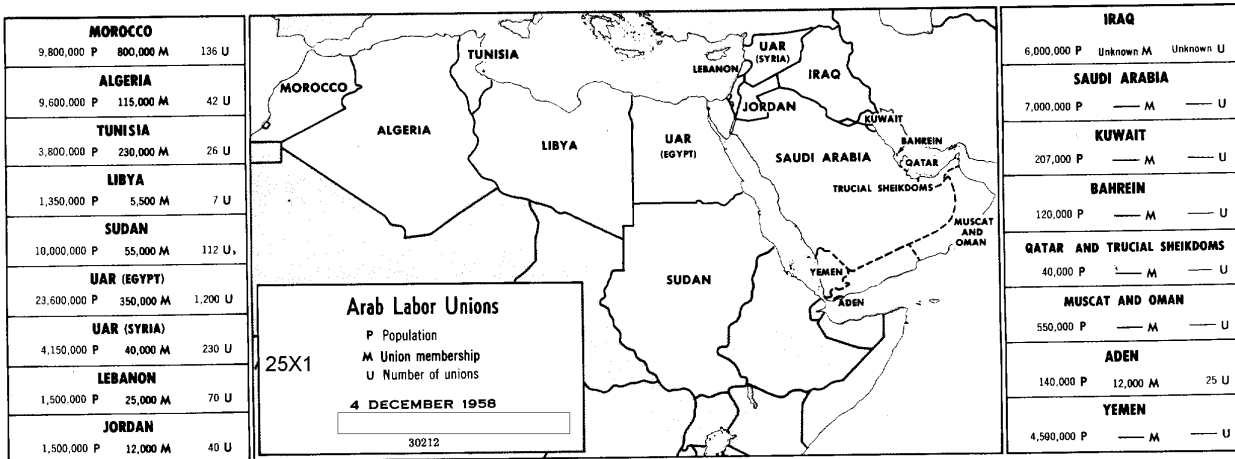
The International Confederation of Arab Trade Unions (ICATU) was established under Egyptian aegis in March 1956, and its purpose is to spread Nasir's gospel and influence among trade unionists in other Arab states and in African states. In some countries, such as Lebanon, Jordan, and Iraq, this effort is a logical adjunct of more direct UAR political intrigue; in others, where the governments quickly clamp down on such political interference but are disinclined to take unpopular measures against labor, it presents an opening for entry of the Nasir doctrine.

When the ICATU was founded, Nasir said it would permit the trade union federations of the individual Arab states to belong to their own "neutral" international organization, rather than to either the "imperialist-controlled" International Confederation of Free Trade Unions

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(ICFTU) or the Communist-controlled World Federation of Trade Unions (WFTU). In practice, however, while many Arab federations have severed their connections with the pro-Western ICFTU, the new ICATU has worked closely with the Communist federation. The most recent example was joint sponsorship by the ICATU and the WFTU of the propagandistic meeting in September of "Trade Unionists in Support of Algeria."

The leadership of the ICATU has become starkly pro-Communist. Its Egyptian secretary general, Fathi Kamel, is reported to be a party member. Its non-Communist Syrian president, Subhi Khatib, has not been present at recent important meetings and has apparently been quietly eased out. Several other members of the ICATU executive body have Communist party records.

Presently affiliated with the ICATU are the big general confederations of both Egypt and Syria, the Communist-controlled workers' federation of the Sudan, two of the four major federations of Lebanon, the Jordanian Federation of Trade Unions, and the one sizable federation of Libya.

Nasir is eager to expand the membership to include trade union federations of other states in Africa and Asia. He sees the

Arab states of North Africa as an area particularly appropriate for such expansion, but there he must contest with the aspirations of the General Federation of Tunisian Workers, which is trying to form a confederation of North African labor unions independent of Nasir's influence.

North Africa

The labor union movement in Morocco is the largest among the Arab states, and almost all members are in unions affiliated with the Moroccan Labor Union (UMT) created in 1955 under the auspices of the ICFTU. The UMT is becoming increasingly powerful and Marxist. Allied with the radical left wing of the ruling Istiqlal party, it is challenging the power of the King and his moderate government.

In Algeria, union members, predominantly Europeans, are affiliated with four federations which are branches of French labor groups. The Algerian affiliate of the French General Confederation of Labor was outlawed, along with the Algerian Communist party, in September 1955. The ICFTU-affiliated General Union of Algerian Workers, created under the auspices of the Algerian National Liberation Front, which is directing the four-year-old rebellion, has

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probably carried out some clandestine operations in Algeria, but its main activity is outside the country and political in nature. The Syndicalist Union of Algerian Workers, created by the rival nationalist organization, the Algerian National Movement, never established a foothold in Algeria, but claims to have 75,000 dues-paying members among Algerian workers in France.

In Tunisia, 98 percent of Tunisian trade unionists belong to the General Federation of Tunisian Workers (UGTT). The UGTT is an auxiliary organization of the Neo-Destour party and has five posts in the 11-member cabinet. A small Communist-directed federation, the Union of Syndicates of Tunisian Workers, dissolved itself in September 1956. The UGTT, having aided the formation of ICFTU affiliates in Morocco and Algeria, is pressing for the formation of a North African trade union confederation.

Three fourths of Libyan unionists are in unions affiliated with the Libyan General Workers' Union. The port workers of Tripoli have Libya's best-organized union. The new, small but rapidly growing Oil Workers' Union reportedly has pro-Communist leaders.

Sudan

The union movement in the Sudan is more significant than its small membership would suggest. Members are concentrated in the key sectors of Sudanese industry and transport, and prior to the 17 November military coup, the Sudanese Communist party controlled the big Railway Workers' Union and the major Sudanese Workers' Trade Union Federation. The new military government has begun action to curtail Communist influence in the unions, dissolve front groups, and drive the party underground.

Iraq

The overtly organized union movement in Iraq is practically nonexistent. But because past Iraqi governments consistently suppressed regular unions, a system of covert workers' groups has sprung up in which the Communist party has played a major role. The Communists have had a part in directing organized activity by the Baghdad tobacco workers and the Basra oil workers, but little is known generally about other workers' groups, except that they remained strong enough, even in the face of stern reprisals by the Nuri Said government, to call strikes and mobilize street demonstrators.

The Nuri Said government's practice of labeling virtually all its domestic opponents Communists and of resorting to waves of indiscriminate arrests resulted in a general feeling among Iraqi workers that the Communists must be on their side. The continuing failure of succeeding Iraqi governments to improve the lot of the workers has resulted in an antigovernment bias of long standing. The return of Communists from exile and the release of Communist leaders from prison since Qasim's coup have permitted an increase in party activities among Iraqi workers.

Lebanon-Jordan

Lebanese trade unions are well developed, relatively independent, and basically anti-Communist. About 90 percent of the members are in unions affiliated with the "big-four" federations, all of which have non-Communist leadership. The Communist party controls one technically illegal federation and seven or eight small unions. The union movement is strong enough to exert considerable political influence. It has not done so as yet, primarily because of wrangling and differing views

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among the leaders of the four main federations.

Trade unions in Jordan are heavily concentrated on the west bank of the Jordan River. Unions accounting for about half the total membership are affiliated in the Jordan Federation of Trade Unions. King Husayn's government last year disbanded many of the unions and ousted both pro-Nasir and pro-Communist union leaders. The government has permitted--and supervised--reorganization of some of the outlawed unions and formation of a number of new ones. As a result, the present union movement does not appear strong enough to initiate anti-governmental political action, but a well-planned coup to overthrow Husayn could probably count on Jordanian unions to furnish organized support.

Arabian Peninsula

In Saudi Arabia, Yemen, Oman and Muscat, Qatar, and the Trucial Sheikdoms, there is little industry--except for oil operations--and no appreciable workers' movement, organized or unorganized. In Kuwait and Bahrein, there are still no trade unions, but laws permitting their organization are being instituted. In Kuwait, there is consider-

able Arab-nationalist and Communist agitation among the oil workers. In Bahrein, the focal point for worker agitation was the Arab-Nationalist, anti-British Committee of National Unity (CNU), which called frequent strikes and terrorist demonstrations until the government suppressed it and imprisoned its leaders in late 1956. No forceful opposition group has yet emerged to replace the CNU, but Egyptian, Iranian, and Saudi agitators continue to be active among the workers.

Three fourths of Aden's union members, including the oil workers, belong to unions affiliated in the Aden Trade Union Congress. The congress, created by the British to forestall development of a "radical labor movement," has become a focal point for Arab nationalism and anti-British activity. Under strong influence from Cairo, it staged general strikes for political purposes in April and November of this year. These strikes, which closed down oil operations and the bunkering facilities of one of the world's most important bunkering ports, endanger the future value of Aden as a British military base.

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WESTERN EUROPEAN RECESSION AND THE UNDERDEVELOPED COUNTRIES

The continuing mild downturn in Western Europe's economy has already caused the curtailment of imports from the underdeveloped primary-producing countries; and, if the trend intensifies, it may seriously aggravate the exporting and foreign exchange difficulties of these raw-materials producers. Although a serious recession in Western Europe is not expected, the continuing

threat to the economic growth of the underdeveloped countries is likely to lead many of them to press for enlarged international development funds and price stabilization arrangements.

Extent of Downturn

For the first time since 1952, total industrial production in the second quarter of this

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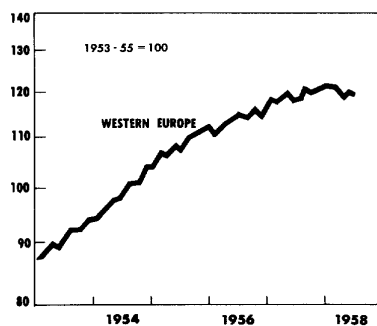
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year in Western Europe turned downward--a decline of about 1 percent--following a much retarded rate of growth in 1957. Subsequent data on various important industries--for example, the present moderate decline in orders for steel products in France and Britain--suggest that the total decline for the year as a whole has been appreciably larger.

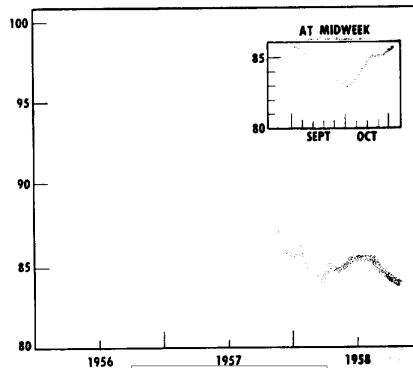
A general decrease in the demand for resources, both for internal consumption and for export, began in the second half of 1957 and has continued during 1958. Slackened demand is manifested generally in the accumulation of stocks in the coal and textile industries, which are unable to compete effectively in world trade. A moderate slackening of demand in the steel and metal-fabricating industries is more significant as it reflects somewhat reduced investment in machinery and equipment and the fact that capacity is catching up with demand. The present tendency to reduce industrial inventories also suggests a pause in economic growth, which might become more serious before new impetus to demand develops.

There has also been a significant reduction in employment levels throughout Western Europe, although with considerable variation from country to country. In Britain, for example, unemployment--2.8 percent of the

INDUSTRIAL PRODUCTION

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4 DECEMBER 1958

COMMODITY PRICE INDEX
1952 = 100

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labor force in October--is causing political concern for almost the first time since the war. In West Germany, on the other hand, renewed expansion in the building and durable consumer goods industries has reduced unemployment to a new low.

European Market's Significance

Western Europe's high industrial development and comparative lack of raw materials make it the most important market of the countries producing raw materials. Although Western Europe's gross national product is only 60 percent of that of the United States, its imports of raw materials during 1956 were valued at \$12.2 billion, or about double those of the United States and Canada.

The coincidence of Europe's stagnation with the recent US recession intensifies its impact on the exports of the countries producing basic materials. In contrast with the situation in 1953-54, when Western Europe's then buoyant economy provided a strong demand for raw materials to offset reduced US buying, the slowdowns in both areas in 1957-58 largely overlapped, with Europe's occurring before the American recovery could exert a compensatory effect.

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Impact in Asia, Latin America

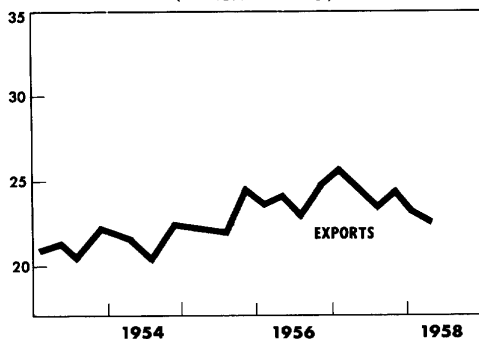
A further downturn in Western Europe's economy, even if limited, can be expected to have disproportionately adverse effects on the economies of the countries producing raw materials. Reduced marketing of their products since the third quarter of 1957 and the general weakness of commodity prices during the past two years have already seriously depleted foreign exchange holdings of most of these countries and led to financial crises in many. Mid-1958 reserves of nonindustrial countries, other

The recent resort to emergency foreign financial assistance in Brazil, Colombia, Chile, Peru, and Bolivia was made necessary mainly by depressed prices and reduced exports of coffee and nonferrous metals. Current foreign exchange difficulties among all South Asian and Middle Eastern countries, except Iran, are caused to a large extent by rising imports in relation to exports and worsening terms of trade accompanying the slack demand for their products by industrial countries.

Prospects

Reversing the cliché that "when the US economy sneezes, Western Europe catches pneumonia," OEEC experts see in the American recovery an impetus toward renewed expansion in Europe sometime in 1959. But, since Western Europe did not reach its peak of industrial production until the first quarter of this year--about 15 months after the crest in the United States--there may well be a delay of several months before the upturn is felt in Western Europe. Moreover, although the US upturn began in May,

TRADE OF NONINDUSTRIAL COUNTRIES OF FREE WORLD
(BILLION DOLLARS)



Excludes the United States, Canada, Japan, and the OEEC countries, as well as the petroleum exporters - Brunei, Sarawak, the Netherlands Antilles, Venezuela, Trinidad, and the Middle East oil producers.

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than petroleum exporters, were down nearly \$2 billion from a year and a half earlier.

Payments and reserves difficulties in Malaya, Ceylon, Indonesia, and most other free Asian and Far Eastern countries are largely attributable to trade deficits brought on by declines in world prices and marketing of major exports such as rubber, tin, and tea. India and Turkey, experiencing international financial crises brought on by overambitious development programs, also face reduced earnings from exports such as fibers and chrome.

there has been a considerable delay in the expected increase in the US demand for imports from primary producers, as indicated by a stable level of total commodity imports through September.

Countries exporting raw materials can derive some reassurance from an incipient upward trend in world prices for some of the more important commodity exports and from a sharp rise in October of letters of credit issued by American banks to finance increased imports early in 1959. Nevertheless, conditions in Europe, the major export outlet of the

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underdeveloped countries may deteriorate even further before an upturn occurs.

Most of the underdeveloped countries, therefore, can be expected to maintain pressure for early implementation of proposals to enlarge interna-

tional development assistance and credit facilities such as an international development association. They will also press for larger resources for the International Monetary Fund and for international commodity price stabilization arrangements.

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PEIPING'S SHIFTING VIEWS ON TRANSITION TO COMMUNISM

Peiping has recently altered its stand on the imminence of Communism in China and now is stressing that the country is still in the stage of "socialist" construction. Politburo member Chu Te on 21 November called for the industrialization of the "entire country" and of the communes, for management of agriculture in the same manner as industry, and for attainment of the "highest world levels in science and culture."

In describing the last-mentioned goal as one of the "necessary conditions" for eliminating the "serious" discrepancies between industry and agriculture, town and country, and mental and physical labor, Chu in effect added another obstacle to China's rapid progress toward socialism on the road to Communism. He complained that Peiping's achievements to date "are still far behind what is needed to complete the building of socialism," and warned against "behaving like Utopians."

Chu's remarks are more in line with current Soviet doctrine than earlier Chinese statements which had played

down a high level of industrialization as a necessary condition for the transition to Communism. In a recent article, the People's Daily on 22 November stated that payment according to "work" rather than "need" would continue throughout the "course of socialist construction." Chinese propagandists now state that the principle of pay-according-to-work, previously described as a "vulgar" practice, is an "objective and unavoidable rule in the economic life of a socialist society." They also say the system of payment in food according to "need" can be introduced only in those communes where supplies are abundant.

The negative cast of Peiping's current statements on the transition to Communism gives some support for the view that Peiping has begun to defer to Soviet leadership, particularly since Soviet Ambassador Yudin on 7 November corrected China's claim of rapid "progress toward Communism." Yudin said that the Soviet Union, where production is beginning to rival that of the most advanced capitalist countries, is just reaching the point where socialism

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begins to change to Communism. By this statement, he implied that the Chinese could not hope to enter the Communist stage of development until a much higher level of production has been reached.

Before November the Chinese had based their views on the future form of Communism almost exclusively on several works of Marx and Engels and on some of Lenin's early writings, rather than on current Soviet theses. They claimed that their views on labor under Communism were similar to those generally expressed in Marx's Critique of the Gotha Program, in which Marx speaks of the "enslaving subordination of the individual to division of labor" disappearing in the "higher phase of Communist society."

Mao Tse-tung's chief lieutenant, Liu Shao-chi, implicitly attacked labor specialization on 16 September, declaring that "all capable persons in our society must engage in labor--particularly physical labor." Propaganda department chief Lu Ting-i made a direct attack earlier the same month, calling for the training of "all-purpose workers" who would be capable of various jobs in the factory, on the farm, and in the militia. Liu cited Mao as well as Marx and Engels as authority, but he did not give any Maoist text. Lu quoted the following from Engles' Principles of Communism: "Education allows young people to familiarize themselves quickly with all systems of production and to alternate from one method to another depending on the needs of society."

In discussing the emancipation of women, the Chinese have stressed liberation from household chores, as discussed in Engles' Origin of the Family, State, and Private Property

and Lenin's 1919 work, The Great Beginning. Communal mess halls, nurseries, and kindergartens are justified by citations from Lenin's article. Thus Peiping's approach to freeing women from the "slavery" of the old-style family continues to differ considerably from Moscow's.

Peiping's claim of early September that it had attained eight of the ten conditions for achieving Communism laid down in the Communist Manifesto and that the last two "are just now beginning to be attained" has not been repeated. The position now seems to be that communalization--a "socialist" process--will take more than six years in some areas of the country, and that Communism will be achieved only after a "relatively long historical period."

Peiping appears at best to be moving toward an announcement at some time within the next four years that the "main" foundations of socialism have been built in China and that a socialist society can be "completely" built--a declaration which may place its progress toward Communism somewhat behind the advance of Bulgaria and Czechoslovakia and considerably behind the USSR's position.

In discussing Communism the Chinese have cited Mao Tse-tung's Selected Works only to illustrate the conditions for Communism but not as a basic source defining these conditions. The concept of the commune as the basic unit for China's future Communist society has been attributed to him, however. In the event that he issues a thesis on the subject, Mao almost certainly will point to the uniqueness of the commune program and apply it to "China's concrete conditions" in order to avoid a direct challenge to Moscow's ideological leadership in the bloc. 25X1

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CHINESE COMMUNIST TRADE WITH THE FREE WORLD

Communist China's trade with the free world, which is often conducted with political objectives in mind, has increased from 26 percent of Peiping's total trade in 1954--after the Korean war--to 38 percent in 1957, when it was valued at \$1.16 billion. It is expected to amount to nearly \$1.3 billion this year, out of China's planned \$3.5 billion worth of foreign trade.

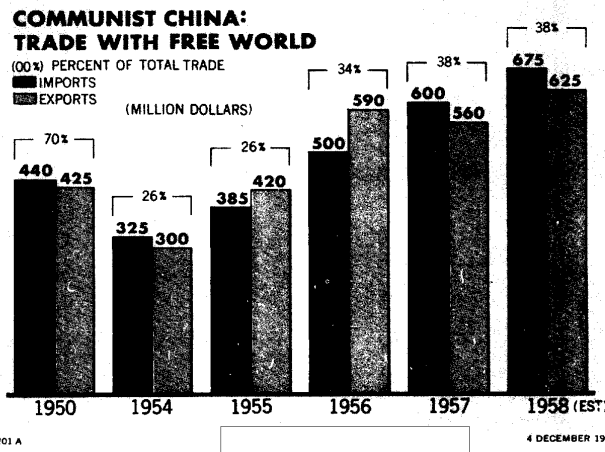
Far East

At least half of China's trade with the free world is with the Far East and Southeast Asia, where potential markets for expanding light industrial exports exist. China's exports to these areas have consistently exceeded imports, earning foreign exchange for Peiping's purchases in Western Europe. Hong Kong and Japan normally account for half of China's Far East commerce.

During the early period of the Chinese Communist regime, Hong Kong served as an entrepot for goods from Western Europe. Now, as a result of establishment of direct trade relations with Europe, China's imports from the colony have fallen from more than \$250,000,000 in 1950 to only \$20,000,000 last year. On the other hand, Peiping's sales have gradually increased to the point where it now earns more than \$150,000,000 in sterling annually from its export surplus with Hong Kong.

Trade with Japan was insignificant until 1954, when China stepped up exports of agricultural commodities and raw materials. At the same time, but to a lesser degree, Peiping increased imports from Tokyo and by early this year trade was nearly balanced. While Chi-

na has found a relatively fertile export market in Japan, its purchases from that country have been made partly from the desirability of maintaining a balance of trade. Japan's high production costs make its prices for steel and fertilizer comparable to identical goods from Western Europe, but it is a nearby source for emergency purchases--as in 1956 when immediate demands for cement were fulfilled rapidly. Japan's payments in sterling for its import surplus have provided China with about \$185,000,000 in foreign exchange to help meet its trade debts in Europe over the past eight years.



China presumably will not be greatly affected over the long run by its cancellation of trade with Japan last spring. Trade contacts are in fact being maintained through Hong Kong. Indirect trade by September had amounted to \$4,000,000.

Southeast Asia

Peiping has been able to further the impression through trade in Southeast Asia that China is the industrial giant of the Far East. It has captured a growing share of markets for light industrial goods, particularly in Indonesia and Malaya, despite a general reduction in demand for these

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goods as a result of depressed economic activity in the area. The large Overseas Chinese population in Southeast Asian countries has assisted Peiping in introducing its consumer goods.

The Bank of China branches in Southeast Asia supply Peiping with commercial intelligence and provide easy credit terms for importers of Chinese goods. Peiping offers products at prices as much as 10 to 20 percent below those prevailing in the current market, and has reportedly offered rebates to merchants to compensate for import taxes. The Chinese effort is not limited to exports. Communist China diverts its rubber purchases from one source to another in order to develop internal pressures for increased economic relations with Peiping.

The Singapore press reports that China now is banning all exports to Malaya, probably in retaliation for Malaya's announced intention to close branches of the Bank of China. Peiping presumably hopes that Malayan merchants, who received loans and financial concessions from China, will press the government for an accommodation with Peiping. Peiping may also decide to withdraw from Malaya's rubber market where, in the first eight months of 1958, Peiping almost doubled its total 1957 purchases. The cancellation would be a temporary setback to China's program for economic penetration. It is likely that some trade with Malaya would continue through Singapore.

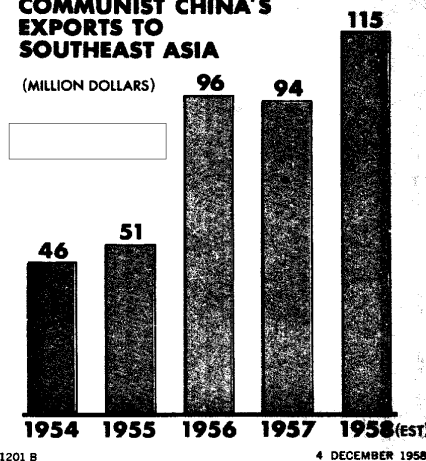
Exploiting Indonesia's anti-Western attitude and disrupted economy, Peiping has secured a firm foothold through long-term commercial credits, loans, and emergency food shipments. In 1957, China supplied over 70 percent of the cotton cloth purchased by Indonesia. To assure retention of this market, Peiping is delivering on long-term credit cotton textiles equal to 25 percent of its sales in Indonesia last year. China has offered to

supply textile machinery and is exporting rice to Indonesia on credit. The Bank of China in normal commercial transactions with Indonesian importers arranges to provide importers of Chinese goods with the 100-percent deposit now required to obtain import licenses. Peiping also offers contracts quoting fixed prices for future deliveries, at a time of wildly fluctuating commodity prices.

In other parts of Asia, China uses credit programs and trilateral trade deals to introduce increasing quantities of its goods in return for surplus agricultural commodities. A loan to Cambodia enabled a wide variety of Chinese consum-

COMMUNIST CHINA'S EXPORTS TO SOUTHEAST ASIA

(MILLION DOLLARS)



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er goods to be exported. Textile equipment continues to be delivered to Burma, and cement factories have been offered to Pakistan. India is importing, for the second year, a variety of Chinese chemicals and newsprint. China is offering industrial raw materials and light manufactured goods to secure a permanent place in the Ceylonese market. New direct shipping lines from New Zealand and Australia to the mainland are beginning to stimulate trade between these areas.

Western Europe

China's imports from Western Europe, mostly nonstrategic

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goods, showed sudden increases in the last half of 1956 and in the last part of 1957, as a result of "exception" procedures to trade controls and the subsequent relaxation of these restrictions. Increased direct purchases of iron and steel--totaling about 125,000 tons in 1957--usually purchased and transshipped via Eastern Europe accounted for most of the recorded increases in shipments of strategic goods. About 1,000,000 tons of iron and steel have been bought in Western Europe this year, reflecting, in part, the cancellation of planned purchases of 400,000 tons from Japan in 1958.

Peiping's trade with individual countries of Western Europe has been subject to wide fluctuations, resulting from political considerations and variations in China's economic planning. It is common Chinese practice to withhold trade contracts until a foreign trade delegation arrives in Peiping in order to propagandize the accomplishments of such missions.

West Germany and the United Kingdom normally account for 50 percent of China's trade with Western Europe. Sino - West German trade has grown rapidly in recent years. It is stimulated this year by China's purchase of over 300,000 tons of steel plates. China's imports from the United Kingdom during the first nine months of 1958 were 75 percent higher than during the same period in 1957. These imports consist chiefly of metals, wool tops, and machine tools.

Trade under the initial agreements signed with the Scan-

dinavian countries in the latter part of 1957 may increase China's trade deficit in Western Europe.

Other Areas

Peiping established its first economic tie with Africa in 1955 by concluding a trade agreement with Egypt. China now conducts \$100,000,000 worth of trade annually with 14 African countries, having official trade pacts with four. Peiping's purchase of Egyptian cotton, amounting to about \$42,000,000 in 1957, has kept Sino-African trade balanced. China is now insisting on barter agreements with those trade partners with whom it has had trade deficits, while its current trade drive elsewhere in Africa is primarily to seek markets for its own goods.

Although the American embargo has virtually eliminated trade with China's former major trading partner in the western hemisphere, Peiping is increasing its efforts to expand relations with Canada and Latin America. China's purchases of Canadian wheat amount to over 100,000 tons this year--ten times greater than last year. In Latin America, Peiping is stepping up imports of Brazilian sugar and exporting large quantities of coal to Argentina. Trade with Latin America probably will reach a new peak this year and may total \$50,000,000.

Communist China's growing import requirements from the industrial West are largely balanced by its growing trade in underdeveloped areas where its export balance provides the necessary foreign exchange. 25X1

(Prepared by ORR)

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