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CURRENT INTELLIGENCE WEEKLY SUMMARY

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

THE GERMAN PROBLEM Page 1

Moscow probably plans to counter a Western proposal for a foreign ministers' conference this spring with demands for another heads-of-government meeting. Khrushchev's speeches to the party congress stressing the "positive reaction" throughout the world to the 1955 Geneva summit meeting and indicating that Moscow will continue to press for another top-level conference probably reflect his desire to enhance his personal stature as a world statesman. Bonn has indicated that, in the event of East-West negotiations, it might undertake to make some conciliatory moves in its relations with Poland.

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IRANIAN-SOVIET NEGOTIATIONS BREAK DOWN Page 2

The Soviet delegation which came to Tehran at Iranian invitation on 29 January left on 11 February, after the negotiations for a nonaggression pact broke down. The talks collapsed over Iranian insistence on remaining in the Baghdad Pact and signing a bilateral defense agreement with the United States. The USSR will probably retaliate with a strong propaganda attack aimed primarily at the Shah, and with economic and diplomatic pressure.

[Redacted]

MIDDLE EAST DEVELOPMENTS Page 3

Cabinet shifts in Iraq appear to be bringing into sharper focus the conflict between Iraqi nationalists, pro- and anti-UAR, and the Communists. The pro-UAR ministers had apparently hoped that their resignations, along with those of the Sovereignty Council members, would pressure Qasim into stronger action against the Communists. Instead, Qasim seized the opportunity to replace them with extreme leftist, but still non-Communist, figures. However, the new cabinet also seems to be in trouble on the Communist issue. Iraqi developments and a large-scale celebration in Kuwait of the anniversary of the UAR have frightened the Ruler into a crack-down on nationalist elements.

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PART II

NOTES AND COMMENTS

NUCLEAR TEST TALKS Page 1

The Soviet Foreign Ministry statement on 7 February demanding an unequivocal Anglo-American response to Moscow's insistence on a permanent unconditional test-cessation agreement, in combination with recent Soviet moves at Geneva, suggests that Moscow is preparing the record in anticipation of a stalemate which could lead to a suspension of negotiations. While Moscow remains obdurate on key issues, the statement gives an appearance of willingness to negotiate. Moscow is attempting to blur the present sharp focus on the issue of effective control and shift the attention to the Western stand on duration of the treaty.

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PEIPING TAKING MORE MODERATE LINE IN FOREIGN RELATIONS . . Page 2

Peiping's first editorial comment since the Soviet 21st party congress is one of several recent indications that the Chinese Communists may be adopting a somewhat more moderate line in foreign policy. The comment follows closely Khrushchev's line of "peaceful competition" with the West and lays heavy stress on growing "demands for peace." Peiping may be trying to offset unfavorable impressions resulting from its previous diplomatic posture, the Taiwan Strait crisis, and the commune program, and to reduce the divergence between its own line and Soviet pronouncements on "peaceful competition."

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NEW SINO-SOVIET ECONOMIC AGREEMENT Page 3

The new Soviet agreement to assist China in the construction of 78 heavy industrial installations, like earlier Sino-Soviet "aid" pacts, is a pay-as-you-go barter arrangement, involving no Soviet loans or credits. The USSR is contracting to deliver to China, over the next nine years, industrial equipment and technical materials in exchange for Chinese products. The announcement, timed

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to coincide with the end of the Soviet party congress, is designed to give substance to the many references at the congress of the "inviolability of Sino-Soviet friendship."

SOVIET CONCERN WITH MANPOWER FOR EASTERN REGIONS Page 4

Soviet Premier Khrushchev denied recently that the USSR's Seven-Year Plan would fail because of a manpower shortage. He asserted that there are "several extra people" in Moscow for every job, and that he intends to send about a million of these to the eastern regions to "really work." Khrushchev's evident determination to shift labor resources to the east may develop into one of his pet campaigns. In any case, his remarks reflect the determination of the regime to expand its exploitation of the resources of this area, despite the relatively great initial investment requirements per unit of return.

FLIGHT OF REFUGEES FROM EAST GERMANY Page 5

Defections from East Germany, although down 22 per cent from 1957, continued at a high rate throughout 1958, when over 204,000 persons fled, most of them to West Berlin, in reaction to the increasingly repressive policies of the Ulbricht regime. The total number of escapees from East Germany has reached approximately 2,350,000 since 1949. In addition to the loss of skilled workers, technicians, and managers, a very large increase in the defection of doctors, scientists, and teachers has created serious problems.

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TITO'S TOUR INTENSIFIES HIS DISPUTE WITH THE BLOC Page 8

The Kremlin's mounting concern over the effect of Tito's current visits with Asian and Middle Eastern leaders has been reflected in statements made at the Soviet 21st

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PART II (continued)

party congress. Tito has stepped up his efforts to strengthen ties with states in South and Southeast Asia and the Middle East--as demonstrated by the extension of his UAR visit and the inclusion of Greece in his itinerary.

[Redacted]

VOROSHILOV'S VISIT TO INDIA Page 9

The visit of Soviet President Voroshilov to India for two weeks beginning on 24 February will probably be used by Moscow to smooth over recent signs of friction with New Delhi and to express continued Soviet support for India's economic development plans. The visit will also serve to focus public attention on Soviet economic aid to India, such as that for the recently opened Bhilai steel plant.

[Redacted]

ELECTIONS IN NEPAL Page 10

Nepal's first national elections beginning on 18 February are unlikely to achieve King Mahendra's purpose of relieving the country's chronic political instability. It is doubtful that any one of Nepal's many parties and factions can win a majority in the new parliament. The probable result will be an ineffective coalition government, with the King remaining the dominant force. The Indian Government, trying to promote a stable and progressive government in Katmandu to protect its interests and limit Peiping's influence, apparently is supporting the moderate socialist Nepali Congress party, which will probably win the most seats.

[Redacted]

AFRO-ASIAN YOUTH CONFERENCE Page 11

The Afro-Asian Youth Conference in Cairo ended on 8 February with a show of unanimity and the adoption of a long list of anti-imperialist resolutions, although there were numerous indications of conflict between neutralist and Communist delegations. Neutralist suspicion of Moscow and Communist aims is apparently reflected in the wording of the resolution condemning imperialism "in all its forms" and "foreign interference in the affairs of other countries." The UAR garnered considerable propaganda advantage as host, while the Soviet press and radio interpreted the conference as affirming the identity of interest between the Communist bloc and underdeveloped nations.

[Redacted]

BRITISH PLANS FOR ADEN Page 12

The current visit of Colonial Secretary Lennox-Boyd to Aden will probably lead to development of a timetable for constitutional evolution toward independence within

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five to ten years of Aden Colony and of the Aden Protectorate Federation. Yemeni-inspired disturbances preceding London's inauguration of the federation on 11 February, however, underline the major obstacle to orderly steps toward the intended grant of self-determination.

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TUNISIAN-FRENCH RELATIONS Page 13

Tunisia's relations with France are again deteriorating following the recent arrest in Tunis of French citizens on espionage charges, President Bourguiba's claim to a portion of the Algerian Sahara, and the shelling of Tunisian territory on 9 February by French Army units in Algeria. Bourguiba may be playing up these issues not only to reduce further France's favored position in Tunisia but also to divert attention from the government's failures in economic and financial matters.

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THE CAMEROONS PROBLEM IN THE UN Page 14

The UN General Assembly will resume its session on 20 February to decide on termination of the French trusteeship over Cameroun and to discuss the related problem of the British Cameroons. There is considerable distrust of the Paris-sponsored moderate Cameroun Government on the part of the Asian-African bloc. If the required two-thirds majority for an agreement is not secured and settlement is postponed until next fall, there could be serious disorders in Cameroun, and the pro-Western government might fall.

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SPANISH GENERALS UNEASY OVER FRANCO'S SUCCESSION Page 17

Top Spanish Army generals, concerned over Spain's deteriorating political and economic situation, seem to be maneuvering to reach an understanding with the non-Communist opposition in order to ensure an orderly succession to Franco.



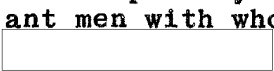
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PART III

PATTERNS AND PERSPECTIVES

MIKOYAN'S VISIT TO THE UNITED STATES Page 1

The Soviet leaders apparently conceived First Deputy Premier Mikoyan's visit to the United States as a major move in their developing political offensive in Europe which opened with Khrushchev's challenge to the Western position in Berlin. Mikoyan's two principal objectives were to sound out official and public opinion on Berlin and Germany and to create a political climate which would facilitate Soviet efforts to bring the Western powers to high-level negotiations on terms favorable to the USSR. Mikoyan's remarks on Soviet internal affairs were calculated to convey an impression of stability and normalcy and to portray the Soviet leaders as rational and tolerant men with whom the West could do business.



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MIDDLE EAST OIL PRODUCTION 1958-1959 Page 5

The prospects for Middle East crude oil production in 1959 are for a record year, although output probably will not increase as sharply this year as last. The area produced 4,247,000 barrels daily in 1958, up a record 20 percent from 1957, while production declined in the rest of the free world. The Arab states' reaction to the first major breaches of the 50-50 profit-sharing principle will probably intensify the industry's political problems in the area.



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PART III (continued)

THE PROSPECTS FOR CONTINUED FINNISH NEUTRALITY Page 13

Moscow's role in bringing about the fall of the Fagerholm government has underscored Finland's precarious position as a virtually unarmed state on the Soviet border. Finland feels that it is free to develop internally along the lines of a Western democracy, but that it must to a large degree tailor its foreign policy to suit Moscow. Finland will continue to trade extensively with the bloc both for political and economic reasons and will not associate itself in the near future with any of the projected European cooperation programs. The Finns will, however, work cautiously toward closer economic ties with Scandinavia--including a Nordic customs union--presumably with the assent of the USSR.

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THE WEEK IN BRIEF

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PART I

OF IMMEDIATE INTEREST

THE GERMAN PROBLEM

Soviet Premier Khrushchev's speeches to the party congress stressed the "positive reaction" throughout the world to the 1955 Geneva summit meeting and made it clear that Moscow will continue to press for another top-level conference. Khrushchev's strong preference for a summit gathering probably reflects his desire to enhance his personal stature as a world statesman.

These statements favoring a four-power heads-of-government meeting this spring have been accompanied by Soviet press treatment of the Mikoyan visit to the United States and Prime Minister Macmillan's forthcoming trip to the Soviet Union as forerunners of another summit conference. An Izvestia article of 5 February by Lord Chorley, British left-wing pacifist Laborite, declared, "There are at present more favorable signs for a summit meeting than at any time since the 1955 Geneva conference." The Prague radio suggested that the Macmillan trip will serve as "a kind of prelude for negotiations between the great powers."

Reaction to Dulles Trip

Bloc propaganda described Secretary Dulles' trip to Western Europe as an urgent attempt to overcome differences among the Western Allies on Berlin and Germany. Particular emphasis was placed on attempts to contrast the "intransigent and unyielding attitude" of Chancellor Adenauer with the flexible approach of British leaders. The Soviet press

concluded that Dulles had failed to remove the "grave differences" among the Allies and that his trip produced no change in Western cold-war policies and determination to "maintain the occupation of West Berlin."

Macmillan Visit to Moscow

The Soviet leaders probably welcome Macmillan's forthcoming visit as an opportunity to probe for divergencies in American and British approaches to Berlin and Germany and to the desirability of a new summit conference. The Soviet press has stressed the British public's "profound satisfaction" with the visit and suggested that the forthcoming British general elections strongly influenced the prime minister's decision.

Soviet propaganda has sought to create the impression of American displeasure over Macmillan's trip, charging that one of Secretary Dulles' purposes was to dissuade the prime minister from going to Moscow.

Preparations for Transfer

Communist statements on Berlin continue to point to 27 May as the time when access controls will be turned over to the East Germans, despite high-level Soviet suggestions that the Kremlin will defer the turn-over if negotiations are then under way. The Soviet chief warden at Spandau Prison recently told his American counterpart that "they" were planning to turn their functions over to the East Germans on 27 May. The East German regime has

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consistently maintained that it will be given the access controls when the six-month grace period ends, despite other international developments.

Physical preparations to transfer controls over East Berlin are continuing. A transit system between East Berlin and points in East Germany bypassing the Western sectors and a customs or control barrier on the elevated system's sector border crossings now are ready for use.

The Kremlin is reported planning to do away with the Western military liaison mission now accredited to the Soviet forces in East Germany. The protocol chief at the Soviet Embassy in East Berlin commented recently that the missions were incompatible with Soviet policy on East German sovereignty and would go at an early date. If this step were taken, the USSR would in turn lose its military missions in

the three former Western occupation zones, but would have its embassy in Bonn available to gather military information.

West German Position

Bonn has outlined what is probably its maximum effort to appear more conciliatory in the event of negotiations on Germany. The steps which Bonn is prepared to take in East-West negotiations --bilateral nonaggression pacts and diplomatic relations with its Eastern neighbors and recognition of the Oder-Neisse boundary--would not be new concessions, since Bonn had held these moves in reserve as potential bargaining points prior to the Berlin crisis. All of these proposals are aimed at Warsaw and would serve the dual objective of satisfying internal West German demands for an "active Eastern policy" and Bonn's desire to exploit any weakening of bloc support for Ulbricht.

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IRANIAN-SOVIET NEGOTIATIONS BREAK DOWN

The negotiations on a non-aggression pact between Iran and the USSR have broken down, and the Soviet mission led by Deputy Foreign Minister Vladimir Semenov has departed Tehran. Additional Soviet pressure on Iran is likely to follow this rebuff.

The Shah took the initiative in beginning these negotiations last month and at the outset appears to have been willing to specifically exclude a bilateral agreement

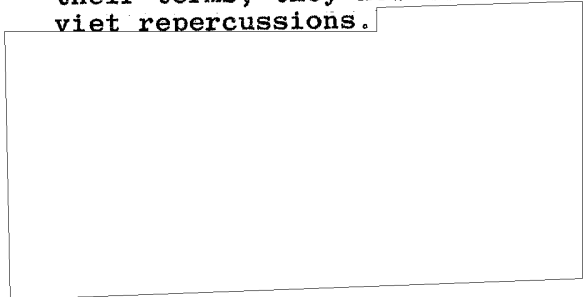
with the United States in return for concessions in respect to the Soviet-Iranian treaty of 1921. Later the Shah developed misgivings and sought to avoid meeting with the Soviet mission on grounds of "illness." After pressing the United States for additional aid and guarantees, the Iranian Government stiffened its terms in the negotiations with the USSR by insisting that a nonaggression pact should not preclude the right to sign the pending bilateral agreement with the United States.

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While the Shah and Iranian officials earlier expressed the hope that the USSR would reject their terms, they now fear Soviet repercussions.



Other possible Soviet measures include military demonstrations on the frontier

and threats to exercise the right to advance troops into Iran under the 1921 treaty. The Kremlin might also encourage dissident groups and stimulate labor trouble or sabotage by Arab workers in Iran's oil fields. Moscow could upset the Iranian economy by withholding shipments of construction, consumer, and light industrial goods for which Iran depends on the USSR. The USSR could also upset Iran's wool and cotton industries by cutting back on purchases for which there is no free world demand.

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MIDDLE EAST DEVELOPMENTSIraq

Cabinet shifts in Iraq appear to be bringing the conflict between Iraqi nationalists, both pro- and anti-UAR, and the local Communists into sharper focus. Last week pro-UAR nationalists, including moderate Foreign Minister Jumard and firebrands like Minister of State Rikabi, apparently felt last week the time had come to carry out their oft-repeated threats to resign. They almost certainly believed Qasim would accede to their demands for a stronger anti-Communist policy rather than have an open break in the government. They probably felt that, if Qasim did not, their resignations would be the spark for a general movement against him by dissatisfied army elements and others.

Qasim, however, seized the opportunity to replace the six dissidents with ten new appointees, retaining in the cabinet

the two most pronounced leftists --pro-Communist Minister of National Economy Kubba and Finance Minister Hadid. Hadid, a member of the National Democratic party (NDP), which is led by Kamil Chadirchi, Qasim's chief political adviser, was joined by four or five other civilian NDP sympathizers. Under Chadirchi's guidance, the NDP has followed policies which have often paralleled the Communist line, and Chadirchi has often denied that the Communists pose any threat in Iraq.

Near Eastern press reports, however, state that Husayn Jamil, the new propaganda minister, has submitted his resignation because Qasim overruled Jamil's decision to suspend a Communist newspaper. Jamil's action, if followed by resignations by other members of the NDP, would indicate a reversal of the NDP attitude toward the Communists and a possible temporary coalition between this party, which has opposed closer

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ties with the UAR, and the pro-UAR elements on an anti-Communist program.

The reaction of the army to this reported second cabinet crisis is not yet known. In the cabinet appointments announced earlier, Qasim seemed to be trying to respond to army sentiment that there should be more military representation in the cabinet and at the same time to divide his choices between officers whom he could control and officers who, while unsympathetic to his policies, would be less dangerous or influential in the cabinet than in their previous positions. If he rides out the latest crisis, Qasim presumably will attempt to make further transfers in the army.

UAR propaganda has sought to reap some advantage from the Iraqi developments; student demonstrations were organized to protest the death sentence announced for Colonel Arif, the former Iraqi deputy premier, and the UAR-controlled press alleged that the Iraqi Army was near "rebellion" over the cabinet changes.

Kuwait

The Ruler of Kuwait, who is reported to have observed developments in Iraq with growing anxiety and who has long been worried by the growth of radical Arab nationalist sentiment in his own domain, last

week was frightened into cracking down on the more vocal nationalists. Passports of some were taken up, others were fired from their government sinecures, and the more fervently nationalist "literary clubs" and journals were closed down.

The immediate cause of this action was the celebration in Kuwait of the anniversary of the formation of the UAR, which was turned into a general nationalist demonstration with strong antigovernment overtones. The Kuwaiti Government now has been reorganized, both to strengthen the public security forces and, if possible, to bring together in a common front all the elements of the ruling Subbah family.

The crackdown undercut a policy of appeasement of the nationalist forces which the Ruler had been pursuing for some time. Only a fortnight ago he was on the verge of announcing Kuwait's adherence to the Arab League, a move which had British blessing. The Ruler also was contemplating a substantial contribution to the Cairo-dominated Arab Development Bank. Both these actions were presumably motivated by the hope that Nasir would respond by protecting Kuwait against the more menacing nationalism of Iraq. However, all such moves apparently have been shelved for the time being by the Ruler's preoccupation with his internal problem. 25X1

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PART II

NOTES AND COMMENTS

NUCLEAR TEST TALKS

The Soviet Foreign Ministry demand on 7 February for an unequivocal Anglo-American response to Moscow's insistence on a permanent unconditional test-cessation agreement, in combination with recent Soviet moves at Geneva, suggests that Moscow is preparing the record in anticipation of a stalemate which could lead to a suspension of negotiations. Resembling in form the Soviet delegate's over-all position summarized at the conference on 30 January, the statement makes it clear that the USSR will stand on its basic position and now is concentrating on improving its public posture.

The detailed criticisms of the Western position on the key issues of duration of the treaty and voting procedures in the control commission were designed to make the Soviet stand on these issues appear reasonable in contrast with the Western viewpoint.

Moscow probably hopes the statement will help its delegation blur the present sharp focus on the issues of control-commission voting procedures and control-post staffing and shift the emphasis to the refusal of the British and Amer-

icans to answer whether they would agree to cease testing "for all time."

On 6 February Soviet chief delegate Tsarapkin said the conference was deadlocked and warned that the delegates might part "in a few days" without being able to submit a report to their governments because of the failure of the Western powers to present their full position. Tsarapkin criticized the "piecemeal" methods used by the United States and Britain in introducing their draft articles.

The Soviet delegation within the next week may make further adjustments in its position--without altering Moscow's basic stand on voting procedures and duration--in order to underscore its professed desire to conclude an agreement "as soon as possible." Ambassador Wadsworth feels that the British delegation is unhappy over the present sharp clash and may be inclined to interpret almost any Soviet gesture as a real concession. As a final move before a breakoff, the Soviet delegation might propose that the nuclear-test issue be discussed at any future high-level East-West conference. 25X1

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PEIPING TAKING MORE MODERATE LINE IN FOREIGN RELATIONS

Peiping's editorial comment on 8 February, its first on the international situation since the Soviet 21st party congress, is one of several recent indications that the Chinese Communists may be adopting a somewhat more moderate line in foreign policy. The comment follows closely Khrushchev's line of "peaceful competition" with the West and lays heavy stress on growing "demands for peace."

Manifestations of what may be a softer approach by Peiping to some countries had already appeared in January. British diplomats reported greater cordiality after a year of exceedingly cool relations. Peiping, while still attacking Japanese Prime Minister Kishi personally, has not rebuffed Tokyo's suggestions that talks to improve relations between the two

countries be resumed at the ambassadorial level.

The military lull in the Taiwan Strait also fits with Peiping's less bellicose pursuit of its international objectives. The most noticeable change, however, has been in propaganda output--particularly that concerning Taiwan. The "liberation" theme is played down and references to "Chiang bandits" are missing. Instead, the "compatriots on Taiwan" are offered "gestures of compassion" in announcements of periodic cease-fires, and even statements accompanying "punitive" bombardments remind Nationalist defenders that only a "few reactionaries" are obstructing "peaceful negotiations" for reunification with the mainland.

These developments are in sharp contrast with the tough approach Peiping followed last

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year, when bitter and often vindictive attacks were launched against countries considered to be frustrating Peiping's international objectives.

Peiping's earlier diplomatic posture, the Taiwan Strait crisis, and the commune program have damaged Chinese Communist prestige among neutrals, as well as among more liberal elements of the bloc. It is possible this was explained to Communist China's leaders by a group of ambassadors recalled in December from their posts in South and Southeast Asia.

This diplomatic meeting appears to have taken place about the same time as a central committee plenum in Wuhan, and it

is likely that a review of the past year's efforts was made at the plenum. The first indications that a more "peaceful" line might be pursued came in a Red Flag article soon after the mid-December plenum.

Such an assessment may well have revealed a lack of progress under the hard policy and led to recommendations for one of greater moderation and flexibility. A program of this nature, while helping to remove the onus of bloc bully from Peiping, would also provide closer alignment with Soviet pronouncements on the "peaceful competition" between East and West.

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NEW SINO-SOVIET ECONOMIC AGREEMENT

Under an economic agreement signed by Premiers Khrushchev and Chou En-lai on 7 February, the Soviet Union will assist China in the construction of 78 additional heavy industrial enterprises which will be paid for by concurrent Chinese exports. Soviet assistance will amount to approximately \$1.25 billion, spread over the next nine years. The 78 "big" plants, which include metallurgical, chemical, coal, oil, machine-building, electrical machinery, radio-technical, building materials, and electric power plants, will be started between now and 1967.

The USSR by September 1953 had agreed to export machinery and equipment and to provide technical assistance for 141 plants; the following year 15 more projects were added to the list. In April 1956 the total of Soviet "aid" projects was increased to 211, and in August 1958 the Soviet Union agreed to supply technical assistance and a limited amount of equipment for 47 more enterprises. Since a large part of the 211 projects

are finished or under construction, Moscow and Peiping probably agreed that China's economy will soon be ready for another massive injection of Soviet assistance.

The method of repayment by China will apparently be the same as for the more than \$2 billion in equipment and assistance for industrial plants which the Soviet Union has been supplying China under the earlier agreements. This \$2 billion amounts to some 25 percent of the total value of the 211 plants. Moscow has provided Peiping with credits covering the equivalent of only 20 percent of the Soviet share in the cost of these plants. In 1950 the USSR granted a \$300,000,000 economic loan, supplemented by another credit for \$130,000,000 in 1954 when the original loan had been spent.

At the present time, China is not only paying for all its imports from the USSR, but is also making payments on the two economic loans and the military credits received from the USSR.

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These major "aid" projects are in addition to a large number of other Chinese industrialization projects where Soviet technical or material aid play a lesser but still important part--all of which are on a pay-as-you-go basis. The new agreement points out that Chinese technical and material contributions to the new projects will be much greater than heretofore. Soviet assistance to China's industrialization drive is to continue at least through the end of China's Third Five-Year Plan

in 1967, and, while the projects now scheduled probably represent a minimal figure at most, the relative importance of the Soviet role probably will continue to diminish.

The announcement, timed to coincide with the end of the Soviet party congress, is designed to give substance to the many references at the congress of the "inviolability of Sino-Soviet friendship." [REDACTED]
(Prepared by ORR)

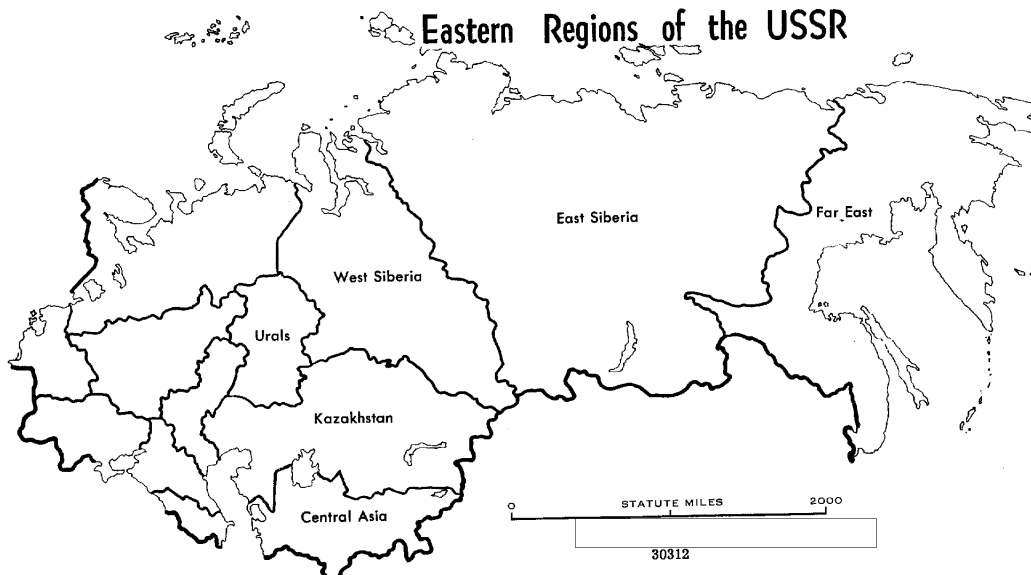
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SOVIET CONCERN WITH MANPOWER FOR EASTERN REGIONS

Soviet Premier Khrushchev has denied that any manpower shortage will cause the USSR's Seven-Year Plan (1959-65) to fail. Speaking at a recent diplomatic gathering, he asserted that there are "several extra people" in Moscow for every job, and that he intends to send about a million of these to the eastern regions to "really work." Khrushchev's evident determination to shift labor

resources to the east may develop into one of his pet campaigns. In any case, his remarks reflect the desire of the regime to expand its exploitation of the resources of this area, despite the relatively great initial investment requirements per unit of return.

The Seven-Year Plan specifies that by 1965 the eastern regions--the Urals, Siberia,



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the Soviet Far East, Kazakhstan, and Central Asia--should be producing 50 percent of the USSR's coal, 46 percent of the electric power, 30 percent of the oil, 43 percent of the pig iron, 47 percent of the steel, and 48 percent of the rolled metal.

However, the share of total capital investment to be allocated to the development of the eastern regions in the plan is described merely as "more than 40 percent"--the same term used in the Sixth Five-Year Plan (1955-1960), which was considerably underfulfilled in the three years before it was superseded. Actual investment in the eastern regions in 1956-1958 was only 32 percent of total capital investment. More initial investment per unit of return is required in the eastern regions because of great distances involved and the inadequate working force.

At present the eastern regions contain about 30 percent of the USSR's population. In order to achieve the projects outlined in the Seven-Year Plan, additional migration into the area must take place, and this in turn will require considerably more housing and other construction.

Past exploitation of the area depended in part on forced labor. This seems to have proved inefficient, however, and has gradually been dropped since Stalin's death. Khrushchev's new education program, which will put a larger proportion of young people to work, will provide a reserve of labor for the eastern regions.

Plans for effecting the transfer of a million workers out of Moscow were not elaborated. Apparently the transfer will not be through the use of special bonuses, since Khrushchev remarked at the congress that "by preserving such allowances we appear to be discrediting a...most rich area of the Soviet Union." As during the industrial reorganization, Khrushchev will probably have a fair degree of success in relocating workers in remote areas.

Khrushchev also said at the recent diplomatic gathering that the Russians had once considered using Chinese labor, but had decided against it, as being unnecessary. He added that the program to receive some 30,000 Bulgarians to take jobs in the USSR "to relieve Bulgarian unemployment" had been a mistake. 25X1 These workers, he said, would be moved from mining to "gardening," in which they excel.

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FLIGHT OF REFUGEES FROM EAST GERMANY

Defections from East Germany although down 22 percent from 1957 continued at a high rate throughout 1958, when over 204,000 persons fled in reaction to the increasingly repressive policies of the Ulbricht regime. The total number of escapees from East Germany to West Berlin and West Germany has reached approximately 2,-

350,000 since 1949; this loss of personnel makes unlikely any rapid increase in economic development. In addition to the loss of skilled workers, technicians, and managers, a very large increase in the defection of doctors, scientists, and teachers has created serious problems.

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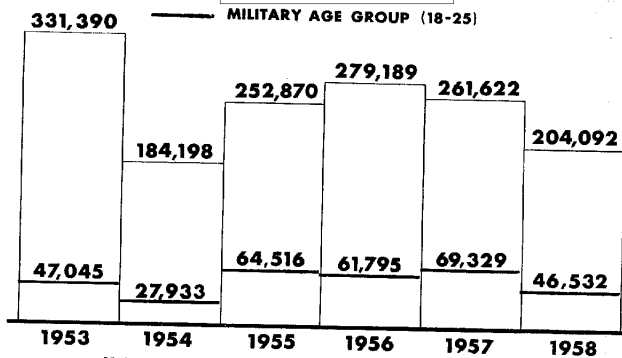
By increasing internal controls, the regime succeeded in early 1958 in reducing the number of refugees. The exodus, nevertheless, rose last summer to a high figure, including a large number of intellectuals, forcing the regime to make certain concessions, notably to doctors and small shopkeepers.

ers and farm workers, 350,000 skilled workers and craftsmen, 32,000 persons in the technical professions, and more than 350,000 children have fled. The majority of the refugees are under 45, a

The authorities in Bonn estimate that there is but one doctor per 1,700 persons in East Germany, compared with one per 750 in West Germany; 1,242 doctors, dentists, and veterinarians fled in 1958, an increase of almost 300 percent over 1957. It is reported that doctors from other satellites may be called in to help staff some East German institutions. To alleviate the shortage of teachers, the call has gone out to

EAST GERMAN REFUGEES TO WEST GERMANY

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Note: Figures include only those entering through normal West German refugee channels.

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high percentage of them of military age (18-25).

References to shortages of agricultural labor have appeared in numerous reports, and East Zone publications are urging women to work a few hours daily on the farm or in the factory. Almost 10,000 farmers fled last year, largely because of the intensification of pressures on the private peasant.

The loss of some 11,000 engineers in the last five years, including 2,345 in 1958, has also had an adverse effect on the regime's ambitious plans. The chairman of the party economic commission, dismayed at the flight of the intelligentsia, expressed anxiety that the loss of technical and scientific personnel would hinder the chemical industry, which is designed to become one of the pillars of the East German economy.

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BREAKDOWN OF EAST GERMAN REFUGEES BY OCCUPATION

Occupation	1957	1958
INDUSTRY & HANDICRAFT	61,594	39,319
TRADE & TRANSPORT	31,476	23,983
UNSKILLED WORKERS	28,688	20,462
HOUSEWIVES	26,283	23,085
AGRICULTURE	15,748	9,287
HOUSEHOLD & HEALTH SERVICES	13,679	11,843
ADMINISTRATION & JURISPRUDENCE	8,583	8,894
TECHNICAL PROFESSIONS	5,568	4,394
ARTS	3,667	5,228
NONWORKERS (PENSIONERS, CHILDREN, & STUDENTS)	66,336	57,597

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young workers and housewives to volunteer for training to replace some of the elementary-school teachers who fled in 1958.

The flight of personnel has also had a deleterious effect on some sectors of the economy. During the 1949-58 period, more than 123,000 farm-

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TITO'S TOUR INTENSIFIES HIS DISPUTE WITH THE BLOC

The Kremlin's mounting concern over the effect of Tito's current visits with Asian and Middle Eastern leaders has been reflected in statements made at the Soviet 21st party congress. Speeches emphasized two main themes as guides for bloc propaganda calculated to tarnish Yugoslavia in neutralist eyes. They charged that Yugoslav economic development has lagged significantly behind that of the bloc, and that Yugoslavia's policy of avoiding alliance with any bloc is fraudulent because Belgrade is a signatory to the Balkan Pact.

In response to attacks voiced at the congress, Tito has stepped up his efforts to strengthen ties with states in South and Southeast Asia and the Middle East--as demonstrated

by the extension of his visit to the UAR and the inclusion of Greece in his itinerary.

Tito undertook his trip in part to demonstrate to the Sino-Soviet bloc Yugoslavia's international respectability, and the cordiality accorded Tito on his tour has caused concern in Moscow lest the sympathetic reception of his views jeopardize Soviet achievements in the area.

Tito reportedly has indicated considerable apprehension over Soviet moves in the uncommitted world and during the remainder of his trip will probably be even more candid. He may seek to strengthen the Balkan Pact. Moscow has already accused Tito of promoting the USSR's present differences with Cairo, and its concern will not

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be lessened by Tito's probable attendance as Nasir's guest at the 21 February anniversary of the founding of the UAR.

Belgrade apparently has abandoned any hope that Khrushchev might act to moderate the dispute and has responded with vigorous personal attacks against him. Both Moscow and Belgrade now clearly consider that there are few remaining areas where they can cooperate. In his closing speech to the congress Khrushchev limited these areas to questions on the state level "on which our positions coincide." On 5 February the Yugoslav ambassador in

Moscow stated that it now is clear the fight with Moscow "had never been ideological but was a question of Yugoslav independence."

Belgrade now may become more sympathetic to the West's international position, but it is unlikely there will be any dramatic reorientation in its position. The Yugoslav reply early in February to the USSR's 10 January note on Berlin and Germany, for example, welcomed the proposals as a basis for a solution of the problem and a means of reducing world tensions.

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VOROSHILOV'S VISIT TO INDIA

Soviet President Voroshilov will pay a formal visit to India starting 24 February. He will be accompanied by some 20 officials, including party presidium member N. A. Mukhitdinov, a leading spokesman on Soviet relations with Afro-Asian countries, as well as the "foreign minister" of the Georgian SSR, and ranking officials of the Soviet Foreign Ministry and State Committee for Foreign Economic Relations.

The visit will be largely ceremonial, but Moscow will use the occasion to express continued Soviet support for India's economic development plans and to smooth over the friction arising from attacks by Soviet ideologists on Prime Minister Nehru and on India's foreign and domestic policies.

Soviet officials seem eager to improve relations, possibly because of recent

recriminations with Cairo over the UAR's anti-Communist campaign and because of concern over the effect of Tito's visit to Asia. Khrushchev, in his concluding speech on 5 February to the 21st party congress, went out of his way to praise Nehru and India's economic development program, and Mukhitdinov praised Nehru's "farsighted policy" in an address to the congress on 30 January.

Soviet spokesmen and propagandists can also be expected to utilize Voroshilov's visit to advance claims concerning Soviet economic aid projects in India such as the Bhilai steel plant, which was formally opened on 4 February amid considerable fanfare. Khrushchev alluded to the Bhilai plant in his 5 February speech, comparing it favorably with the steel plants being built in India by the West Germans and British.

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No mention was made in Moscow's announcement of Voroshilov's trip of the possibility of his going to Nepal to repay King Mahendra's visit of last June. However, a Soviet economic delegation arrived in Katmandu on 12 February to begin talks on Soviet economic and technical assistance.

The Nepalese Government has stalled on inviting Voroshilov despite reported heavy pressure by the USSR during January.

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ELECTIONS IN NEPAL

Nepal's first national elections will begin on 18 February and continue on a staggered schedule through 3 April. It is increasingly doubtful that any one of Nepal's many parties and factions can win a majority in the parliament to be established under a new constitution. The result will probably be an ineffective coalition government, with King Mahendra remaining in a dominant position, and a continuation of the political instability which has plagued Nepal since 1950. The Indian Government has long sought the establishment of a stable and progressive government in Nepal as one means of limiting Chinese Communist influence.

While little information is available on the progress of the election campaign, particularly in the outlying areas of Nepal, it seems likely that neither party

labels nor national issues will determine the outcome of the voting for the new parliament's 109 seats. Most of the politically unsophisticated population will vote on the basis of the candidates' personal popularity or power and their stand on local questions. Many candidates apparently are running as independents, preferring to negotiate their political affiliation after it is clear which party is in the strongest position. The party line-up in parliament is thus likely to be extremely fluid.

The moderate socialist Nepali Congress, the country's largest and best-organized party, is led by B. P. Koirala and probably will win the most seats. This party may be prevented from gaining a majority, however, by the sizable vote likely to go to independents, to the Gurkha Parishad, a rightist party with a strong hold on the rural population, and possibly to former Prime Minister K. I. Singh's United Democratic party. Singh probably retains a considerable personal following, although it is not clear whether this support extends to his party.

Most observers regard the Communist party's prospects as limited, since it does not appear to exert as much influence as Nepal's major parties. The

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strength and activities of the Communists are still largely unknown factors, however, and they could make a surprising showing by relying on united-front tactics and by exploiting local issues.

The Indian Government, which has a major stake in the elec-

tions, appears to be backing the Nepali Congress. New Delhi probably is providing this party with at least some material support. Indian officials apparently regard the Nepali Congress as having the best chance of forming the stable government which they feel is essential to protect India's special interest in Nepal. 25X1

AFRO-ASIAN YOUTH CONFERENCE

The week-long Afro-Asian Youth Conference in Cairo ended on 8 February with a show of unanimity and the adoption of the expected long list of generally anti-imperialist resolutions. Throughout the conference, however, there were numerous indications, despite the censorship imposed by the conference secretariat and the UAR Government, of conflict between Communist and neutralist delegations. Arab delegates and observers, largely Egyptian and Syrian, greeted the remarks of some Soviet and Asian Communist delegates and messages from Khrushchev and Chou En-lai with the chant, "Neither East nor West."

Neutralist resistance to Communist domination apparently is reflected in the wording of the conference's first resolution condemning imperialism "in all its forms" and "foreign interference in the affairs of other countries." Both the Soviet and Chinese Communist delegations aware of neutralist antipathy, were described as behaving with considerable circumspection and restricting much of their activity to "cloak-room" persuasion.

More than 400 delegates representing about 50 nations were at the conference. Several delegations, however, were composed of exiled or refugee nation-

als attending without the approval of their governments. UAR efforts to pass off such "captive" delegates as representing bona fide youth organizations were largely unsuccessful. During the course of the meetings both the Yemeni and South Vietnamese delegations withdrew--Yemen in conflict with the secretariat's decision to seat expatriate Yemenis and delegates from Aden Protectorate, and the South Vietnamese in protest over the presence of delegates from the USSR, which they do not consider an Asian nation. Indonesia, refusing to send a delegation for the same reason which prompted the South Vietnamese withdrawal, was represented by a "fellow traveler" resident in Budapest.

The UAR, as anticipated, used the conference for its own propaganda purposes. There were well-organized youth parades, a military display, and slogan chanting on behalf of President Nasir, with an occasional thrust at Iraqi Premier Qasim. The UAR's favorite targets--Zionism, the "usurpation" of Palestine, King Husayn of Jordan, and foreign military bases--were condemned by conference resolutions.

The Soviet press and radio gave steady but routine publicity to the conference, interpreting it as a further affirmation of the identity of interests between

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bloc countries and the under-developed nations. Pravda on 9 February admitted that "collisions of different points of view" occurred, and Moscow and

Peiping displayed considerable sensitivity to the Vietnamese protest that the USSR is not an Afro-Asian country.

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BRITISH PLANS FOR ADEN

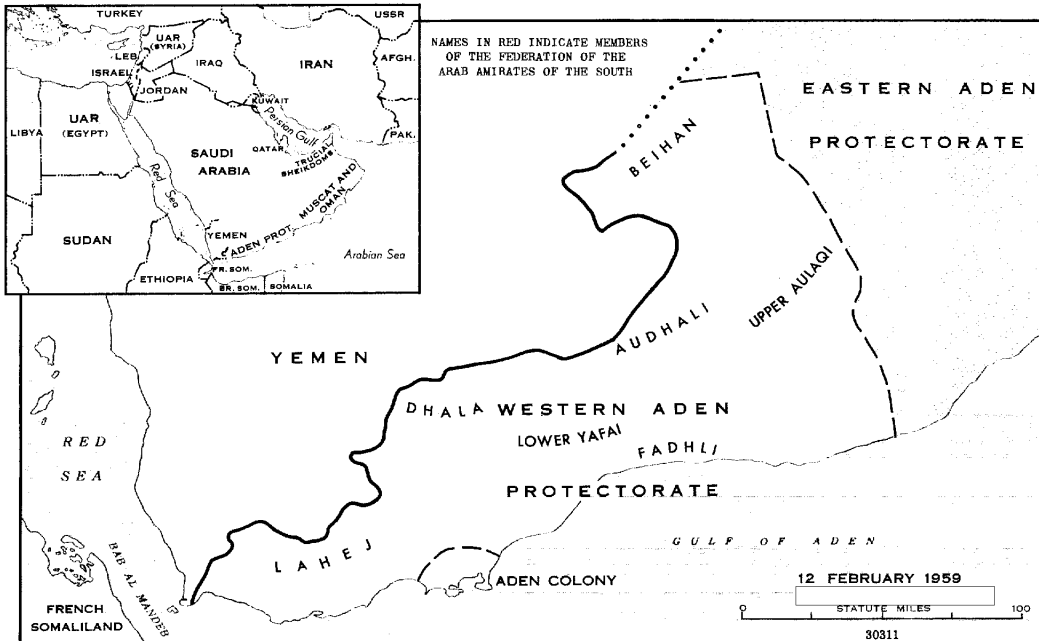
British officials hope the current visit of Colonial Secretary Lennox-Boyd to Aden Colony and Protectorate will lead to development of a timetable for constitutional evolution toward independence. London formally inaugurated the "Federation of Arab Amirates of the South" on 11 February during his visit.

rulers, the British hope the other 12 will join later and count especially on the promise of the large Sultanate of Lahej to do so.

Britain prompted this federation of the 18 nominally independent, British-protected rulers as a more effective means of resisting subversion by Yemen and the UAR. Although the federation now includes only six

Others may be inhibited from joining, however, by the disturbances inspired by Yemen in the six states. In the Aulahi sheikdom, whose ruler had been one of those most anxious to federate, the increasing strength of the Cairo-backed opposition group is worrying the British.

The federation will probably begin as a merely formal



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union with continued British use of military facilities guaranteed in return for small-scale economic and military aid.

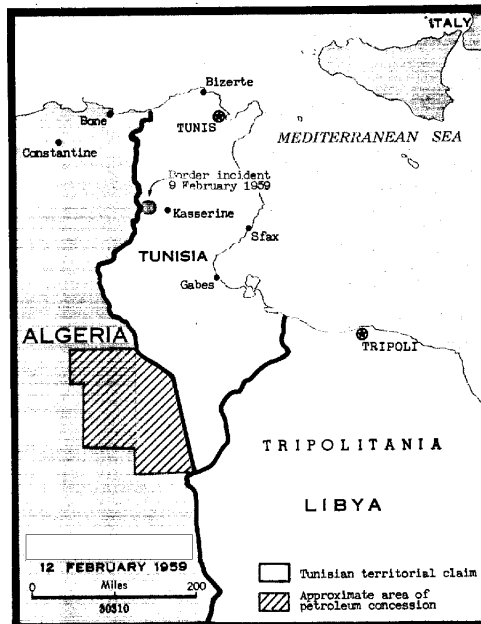
local trouble areas, Aden now is headquarters for the British Forces, Arabian Peninsula. The establishment in April 1958 of this unified command, which reports directly to London without going through Cyprus, underscores the importance Britain attaches to ensuring continued access to Persian Gulf oil. Aden is also a vital transit link with the Far East.

While most of the British troops there are deployed in

TUNISIAN-FRENCH RELATIONS

Tunisia's relations with France are again deteriorating following the recent arrest by Tunisian security agents of several French citizens on espionage charges, President Bourguiba's claim to a portion of the Algerian Sahara, and the shelling of Tunisian territory on 9 February by French Army units in Algeria. Bourguiba may be playing up these issues not only in seeking to reduce further France's favored position in Tunisia but also in diverting attention from the government's lack of progress in dealing with pressing economic problems and his inability to obtain financial concessions from France.

The 13 French citizens recently arrested, as well as an assistant French military attaché who was expelled, are accused of intelligence activities, including the tapping of telephone conversations between Tunisian officials and Algerian rebel leaders. The Tunisian Government, which has abrogated its technical agreement signed last August to modernize its communications system and dis-



missed all French communications employees, almost certainly will demand that France reduce its embassy staff, which now numbers 650 persons.

The territory claimed by Bourguiba amounts to some 6,000 square miles of the Sahara and

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forms the greater part of a petroleum exploration concession tentatively awarded by Paris last month to a French-American firm. The concession apparently parallels a provisional boundary separating Algeria from Tunisia, established years ago by French military officials. This boundary has been challenged several times since Tunisia became independent three years ago. The Tunisians have indicated that they will seek to bring their claim before the International Court of Justice unless they obtain satisfaction from France.

An official Tunisian communiqué charges that 16 mortar shells fired from Algeria into

Tunisian territory west of Kasserine killed one person and caused heavy property damage. This incident is reminiscent of French attacks last year--presumably directed against Algerian rebel installations inside Tunisia--the more serious of which precipitated crises in Tunisian-French relations and resulted in the withdrawal of all French troops from Tunisia except those based at Bizerte. Tunisian fears of a French military reoccupation probably will be reiterated, and Bourguiba

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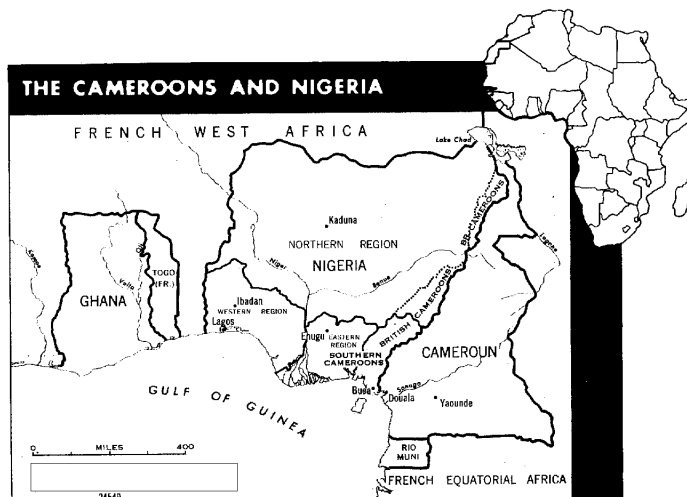
may use this occasion to press for more arms from the West.

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THE CAMEROONS PROBLEM IN THE UN

The UN General Assembly will resume its session on 20 February to decide on the procedure for terminating the French trusteeship over Cameroun and to discuss the related problem of the British Cameroons. These issues could have serious international repercussions if no agreement achieves the required two-thirds majority and settlement is postponed until the next meeting of the General Assembly in the fall. In that case, France, which fears that any delay in independence for Cameroun could provoke disorders there or lead to a fall of Prime Minister Ahidjo, might unilaterally carry out its promise to free Cameroun on 1 January 1960.

While there seems to be no dispute over the timing of Cameroun's independence, many Asian and African nations--influenced



by propaganda from the Communist-inclined Union of the Cameroons People (UPC)--consider the moderate Ahidjo government

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a French stooge. These nations demand a plebiscite on independence and new legislative elections under UN supervision despite the recent report of a UN mission that such a polling would be unnecessary. France and the Cameroun Government fear that the UPC, which instigated violent riots in 1955 and carried on guerrilla warfare for several years, might gain influence through elections and upset the fragile Ahidjo coalition of conservative Moslems and Christian and pagan tribesmen.

To counter the activities of a strong UPC delegation which has Cairo backing and has received support at the All-African Peoples' Conference at Accra, France and Cameroun are concentrating their diplomatic efforts on the UN's uncommitted nations. Paris is seeking the support of the Latin American nations, while the Cameroun Government is contacting the African states. The Cameroun missions to Ethiopia, the Sudan, Tunisia, Liberia, and Guinea are optimistic; the one to Morocco appears to have been rebuffed. Ghana probably remains distrustful of Ahidjo.

The problem is complicated by the situation in the British Cameroons. Although Britain has administered its smaller share of the former German colony of Kamerun as part of Nigeria, in 1958 it recognized the southern portion of its trust territory as a separate region within Nigeria. London has hoped that its trust area would federate with an independent Nigeria after October 1960 despite the attraction of reunification of the Cameroons espoused by the UPC and other Cameroun parties.

British hopes suffered a setback in late January when the Southern Cameroons voters ousted Dr. Endeley, who favored close ties with Nigeria. The voters gave the opposition party of Dr. Foncha 14 out of 26 legislative seats and a small popular majority. Because of the close vote, a plebiscite almost certainly will be required to determine the people's desire regarding independence or reunification. Although Dr. Foncha has not revealed his policies, he is likely to favor independence and then a loose association with Cameroun.

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SPANISH GENERALS UNEASY OVER FRANCO'S SUCCESSION

Top Spanish Army generals, concerned over Spain's deteriorating political and economic situation, seem to be maneuvering to reach an understanding with the non-Communist opposition in order to ensure an orderly succession when Generalissimo Franco departs from the scene, voluntarily or otherwise.

The army enjoys a privileged position in Spain and has been considered the regime's most reliable support. Nevertheless, during the last year a few high generals have increasingly criticized Franco's policies and the government's inefficiency and corruption. Franco retains the personal loyalty of army leaders, but top generals are increasingly concerned over the regime's failure to remedy basic economic ills and check widespread unrest. They are also concerned over the hostility with which

80 to 85 percent of the population are reliably reported to regard the army.

Army leaders probably feel that any system of succession Franco may prepare will lack stability unless supported by opposition elements, which have recently become more outspoken. Some of the most influential generals, including Munoz Grandes, chief of the High General Staff, Army Minister Barroso Sanchez-Guerra, Garcia-Valino, former high commissioner for northern Morocco, and Miguel Rodrigo, captain general of the Madrid military region, are becoming increasingly interested in preparing in advance to meet a situation that might exceed Franco's powers of control.

They have reportedly made contacts with such opposition leaders as ex-Falangist Dionisio Ridruejo, head of the

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Socialist Party of Democratic Action, and Gil Robles and Gimenez Fernandez, leaders of the Christian Democratic right and left wings respectively. They are also said to have been in touch with Socialist leaders, some 58 of whose followers were arrested last November for engaging in clandestine political activity.

These contacts may be aimed at ascertaining how much opposition support the army could expect in the event of a

coup. Active backing for a move by the military to take over would probably be forthcoming from the lower echelons, particularly from reserve, company-grade officers. These are largely anti-Franco university students or recent graduates

[Redacted]

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[Redacted] Ninety percent of the Spanish Army troops are draftees or one-term volunteers with a low esprit de corps.

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PART III

PATTERNS AND PERSPECTIVES

MIKOYAN'S VISIT TO THE UNITED STATES

The Soviet leaders apparently conceived First Deputy Premier Mikoyan's visit to the United States as a major move in their developing political offensive in Europe which opened with Khrushchev's challenge to the Western position in Berlin. Mikoyan's two principal objectives in his talks with American leaders and his tour of the country probably were to sound out official and public opinion on Berlin and the German question and to create a political climate which would facilitate Soviet efforts to bring the Western powers to high-level negotiations on terms favorable to the USSR.

Appraisals of the results of Mikoyan's trip at the 21st party congress suggest that the Soviet leaders believe the visit, supported by recent diplomatic initiatives intended to demonstrate the USSR's desire for high-level talks, succeeded in generating growing expectations of an early East-West conference which will seriously inhibit Western freedom of action in responding to future Soviet moves, such as a withdrawal from East Berlin. Moscow probably considers that these expectations will encourage a desire in Western public opinion to avoid, or at least delay, measures to insure Western access to Berlin which carry a risk of war.

The decision to send Mikoyan to the United States may have been taken following the firm Western response to the Soviet notes of 27 November proposing that the "occupation" of Berlin be ended and that West Berlin be converted into a demilitarized free city. Mikoyan apparently had no thought of such a trip as late as October 1958, when he told [redacted] he did not want to go to America again,

since the United States had grown steadily more reactionary and he did not want to ruin the good impression he had received when here in the 1930s. He said Khrushchev should go, and then qualified his first statement by saying, "I wouldn't want to go to America unless Khrushchev went."

Soviet Objectives

The Soviet leaders may have decided that their efforts to undermine Western unity in meeting the challenge on Berlin required some dramatic initiative. They probably hoped Mikoyan's talks with American leaders would lend greater credibility to rumors of secret Soviet-American negotiations which were circulated by Soviet sources in Western Europe in early December. These rumors, which alleged that the United States had agreed to a Soviet suggestion that neither side should inform its German partners, were obviously aimed at shaking the confidence of the West Germans and the other NATO allies in American policy and intentions.

During the course of Mikoyan's tour of the United States, Soviet correspondents in Paris were seeking to stimulate fears of a private Soviet-American deal to settle world problems. They stressed that the Mikoyan trip marked a "historic turning" in world affairs and that, while the results would emerge only gradually, the United States and the USSR--the only two real world powers--were now considering bilateral arrangements to resolve outstanding issues on the basis of coexistence.

Mikoyan's public assessment of his visit, in his speech of 31 January to the party congress, sought to convey the impression

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of an irresistible drift toward a general accommodation between Moscow and Washington in which the United States would recognize the status quo, especially in Eastern Europe, and seek to avoid a showdown on Berlin. He told the congress he had concluded that American leaders are now inclined "to recognize the principle of peaceful coexistence." He noted that "in contrast to earlier times, the American statesmen expressed a readiness to negotiate" and that they no longer talked of a "policy of containing, repelling, or liberating."

At his press conference on 24 January after his return to Moscow, Mikoyan implied that American policy on Germany had softened and suggested that Washington was moving toward accepting a confederation scheme as the first step toward a German settlement. He remarked that Secretary Dulles' statement that free elections were not the only way to reunification "cannot be disregarded" and said, "this is a very interesting statement."

Khrushchev, in his opening speech to the party congress, contended that the warm reception accorded Mikoyan confirms the fact that there is a "growing number of adherents of friendly, neighborly relations with the Soviet Union" in the United States. He said Mikoyan's visit "gave reason to hope for a further thawing" in Soviet-American relations.

Soviet pronouncements on the visit also attempted to cast doubt on the firmness of American policy on Berlin and Germany by stressing the alleged divergence between the American people's desire for an end to the cold war and the policies of their government. [redacted]

the Kremlin has instructed Communist journalists in Moscow to mount a propaganda offensive charging that the Department

of State is out of tune with the will of the American people, and especially American "capitalists," who desire an end to the cold war and an expansion of trade with the USSR.

Mikoyan Avoids Serious Talks

Mikoyan's failure to take advantage of his private talks with American leaders to put forward new proposals for settlement of such issues as Berlin, Germany, and a cessation of nuclear weapons tests, coupled with the obvious propaganda aims of Soviet public assessments of the visit, suggests that this was primarily an exercise in "diplomatic atmospherics."

The only act which had the character of an official overture was Mikoyan's delivery to Secretary Dulles on 5 January of an aide-memoire on Berlin and a German peace treaty. This message, however, contained no significant changes in Moscow's Berlin proposals. It merely informed the United States that the Soviet Union, "in the very near future," would present the Western powers with a draft German peace treaty and call for a conference within two months to sign a treaty. Mikoyan made no effort in subsequent conversations with high American officials to open serious exchanges on the Soviet notes of 10 January which formally called for a peace treaty conference.

The proposal for a peace treaty conference was mainly a move to create the appearance of a Soviet desire to meet the Western position that Berlin can only be discussed in the wider framework of Germany and European security. Mikoyan took great pains to appear flexible and reasonable on this problem. He denied that the USSR would shorten the six-month period of grace for negotiations on a free-city status for West Berlin and even contended that the Western notes of 31 December had not really rejected the Soviet proposal. "We were delighted," he

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said, "to see that you proposed negotiating the propositions." He repeatedly denied that Moscow's 27 November note was intended as an ultimatum and stressed Soviet willingness to consider Western counterproposals or modifications of its proposals.

At the same time, Mikoyan indicated, but with much less emphasis, the USSR's determination to carry out its announced intention to transfer controls over Allied access to Berlin to the East Germans if no agreement on a free-city status is reached and warned that any Western resort to force to ensure access "would be met with force."

Mikoyan's discussions with American leaders also covered the Middle East, the Far East, disarmament, Soviet-American trade, and the Lend-Lease settlement question. He defended Soviet positions on all these issues vigorously and resourcefully but confined his remarks to familiar lines.

Disarmament

Mikoyan expressed strong doubt as to the United States' desire to reach agreement in the Geneva nuclear-test talks. He repeatedly stressed the USSR's unwillingness to give up the veto power in the control commission and insisted that "unanimity" of the three nuclear powers was indispensable and that decisions made by any other means would be meaningless. He charged that the West exaggerates the importance of a control system since both sides can detect the other's tests. Mikoyan said Communist China should participate in any disarmament agreement and suggested that while the Peiping regime does not have nuclear weapons now, this situation could change in the absence of an agreement among the present nuclear powers.

Trade

While Mikoyan constantly stressed the USSR's desire for expanded trade with the United States in his public remarks, he showed no interest in settling the Lend-Lease account in his private talks with American officials. Instead, he took the position that no significant expansion of trade could be expected without the repeal of American legislation adversely affecting Soviet trade and without the extension of long-term credits. He indicated that the USSR was not interested in any small increase in trade which might be possible under present circumstances. Mikoyan's main interest seemed to be propaganda exploitation of American trade restrictions. In his Moscow press conference, he contended that American business circles favored easing these restrictions, but that the State Department was opposed. "We shall wait for better times," he said.

Communist China

In addition to calling for Chinese participation in any disarmament agreement, Mikoyan repeated the standard Soviet line that the USSR and China understand each other very well and that "we are not worried" about the implications of growing Chinese military power and population. He said the West should not underrate the intelligence and ability of the Peiping leaders. However, he took a rather condescending attitude on the communes issue, observing that the Chinese have not yet abandoned some of the "wrong ideas" which the USSR rejected after experimentation in the early years of the Soviet regime.

Summit Talks

Mikoyan took the position that the present trend of events makes another summit conference inevitable. He said, "I do not think a conference can be eschewed. One can side-step it for

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awhile, but it is bound to take place eventually." After his return to Moscow, he termed his talks with American leaders as "a step forward to meetings at all levels," but parried a question as to whether a summit meeting could be held in the next several months.

Kremlin Politics

In answering questions on Soviet domestic politics, Mikoyan sought to create the impression that Stalinism was a thing of the past. He spoke often of Stalin's "mistakes" and of steps to correct them, but his criticisms were comparatively mild and little different from what Khrushchev has said at Moscow diplomatic receptions.

Mikoyan's comments on more recent events in the Kremlin seemed similarly calculated to convey a picture of political normalcy and stability and to portray the present leaders as rational men not given to the use of purge methods. He denied reports of Malenkov's death and spoke of his respect and affection for Molotov, suggesting that he had been removed from high office simply because he had been out of step with the times. He stated that Molotov might be entrusted with a responsible diplomatic post, but that he would never again hold a position where his conservative outlook could act as a brake on policy.

Mikoyan's remarks on the removal of security chief Serov were not consistent. On one occasion he linked him with Bulganin, Molotov, and Shepilov as examples of individuals dropped from their posts for unsatisfactory work; later he declared that Serov had not been "fired," but had simply been transferred to a military post. In either case, however, his explanation was designed

to remove the taint of purge politics from the Serov case.

Reactions to Mikoyan

Almost without exception those who met Mikoyan at the numerous private gatherings came away impressed by his alertness and resourcefulness. One observer noted that Mikoyan "came out ahead in practically every interchange." Business audiences, especially, were impressed with Mikoyan's grasp of international economics and his wide-ranging interest in practical things.

On the whole, Mikoyan succeeded in maintaining a posture of affability, his self-control was good, and he was frequently skillful in turning an embarrassing situation into a humorous one. One observer remarked that Mikoyan had been well briefed on American public relations techniques.

Mikoyan's Impressions

Mikoyan's party congress pronouncements were apparently dictated by policy considerations and probably do not accurately reflect his real assessment.

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he holds a fairly realistic understanding of American strength and potential. He stated that the 1947 estimates of Soviet economists that the American economy was on the verge of a major depression had proved wrong. He also indicated that he believed those Soviet economists who now forecast that the American capitalist economy would "deteriorate" during the next ten years would also be proved wrong. Mikoyan said he expected the Soviet economy would grow at a faster rate than the American, but that he did not think American production would "deteriorate."

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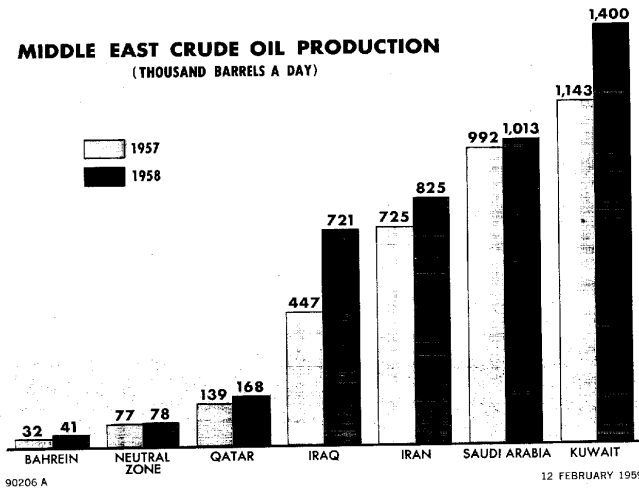
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MIDDLE EAST OIL PRODUCTION 1958-1959

The prospects for Middle East crude oil production in 1959 are for a record year, although output probably will not increase as sharply this year as last. The area produced

Signature by Tehran in 1958 of a 75-25 profit-splitting agreement with the Standard Oil Company (Indiana) effectively ended the 50-50 formula for new Persian Gulf concessions. The departure by this important American firm from the long-established pattern of avoiding joint company-government operations poses even more problems than the break in the 50-50 formula.

MIDDLE EAST CRUDE OIL PRODUCTION
(THOUSAND BARRELS A DAY)



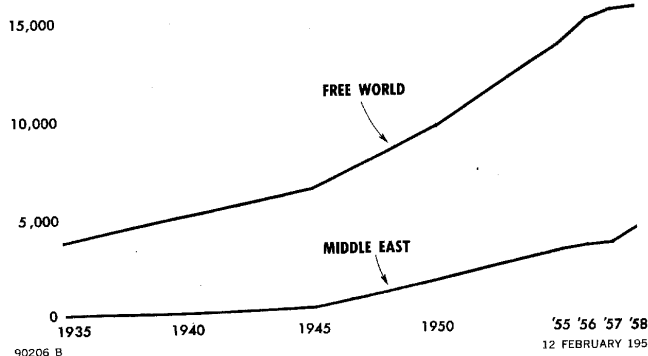
In other concession developments, the Sapphire Petroleum Company of Canada was awarded two small areas totaling about 386.1 square miles under a 75-25 joint participation plan. The joint Iranian-Italian company SIRIP, which in 1957 was the first

4,247,000 barrels a day (b/d) in 1958--up a record 20 percent from 1957--while production declined in the rest of the free world. Iraq had the largest increase--61.3 percent more than 1957--largely as a result of recovery from the effects of the Suez crisis. In terms of volume, Kuwait's production increased the most--up a record 257,000 b/d--remaining the largest crude producer in the Middle East.

to adopt the 75-25 arrangement, will drill an offshore exploratory well this July.

Tehran plans to build pipelines from the 514,000 b/d re-

MIDDLE EAST AND TOTAL FREE WORLD CRUDE OIL PRODUCTION
(THOUSAND BARRELS PER DAY)



Iran

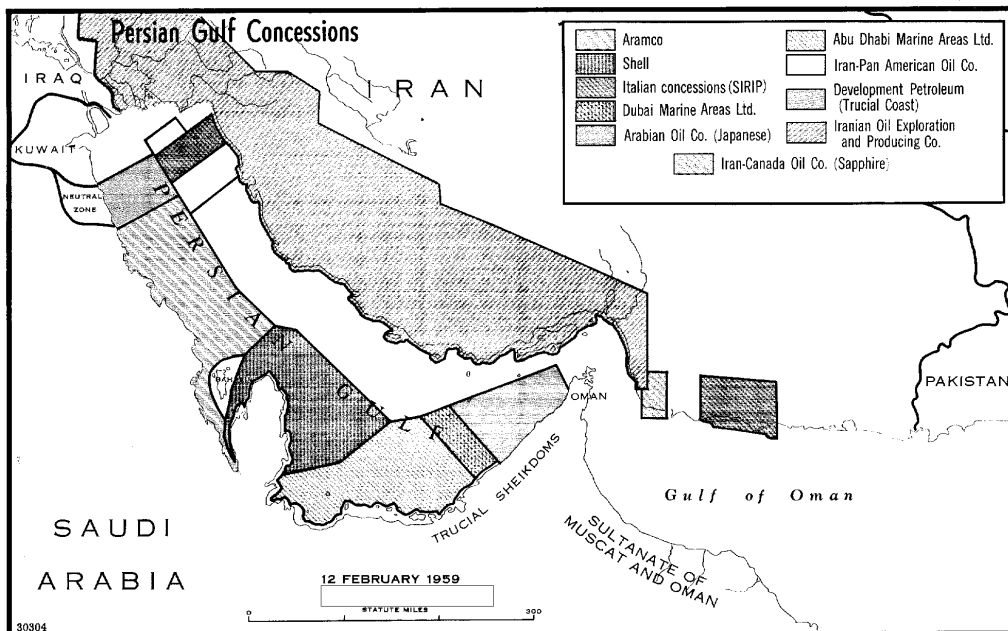
Before Prime Minister Mossadeq nationalized oil in 1951, Iran produced almost as much crude as the rest of the area combined. In 1958, with its production at 825,000 b/d--14 percent more than 1957--Iran's production trailed behind that of Kuwait and Saudi Arabia. In 1959, Iran may edge Saudi Arabia out of second place.

finery at Abadan--the world's largest--to a port on the Persian Gulf, probably Khor Musa about ten miles west of the port of Bandar Shahpour. These pipelines would carry about 350,000 b/d of refined products from

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the Abadan refinery, reducing Abadan's dependence on the Iraqi-controlled Shatt al Arab River, which is now used by tankers carrying some 300,000 b/d. Tehran had feared the tankers might be blocked during the Iraqi revolution. It also considers the charges Iraq levies on ships using the Shatt al Arab excessive. In 1958, these fees totaled nearly \$5,600,000--a sum Tehran asserts is about equal to its share of refinery profits.

While several firms are interested in constructing the new pipelines, estimated to cost between \$250,000,000 and \$300,000,000, Iran may have difficulties financing this project.

The consortium of Western companies operating Iran's "nationalized oil industry" under a 50-50 profit-sharing arrangement is completing the \$53,000,000 26-28 inch pipeline from the Gach Saran field to a terminal at Kharg Island. This field, discovered in 1928, now produces only about 60,000

b/d because of a lack of transport facilities.

Progress on the government-owned and -operated Qom strike has been disappointing. The Qom wildcat, located more than 200 miles from any other Iranian field, was brought in during 1956; it gushed uncontrolled at 80,000 b/d until the well collapsed. Since Iran's plans to build a major pipeline from Qom through Turkey to the Mediterranean depend on developing Qom, these plans are suspended.

Iranian oil revenues rose to \$244,640,000 in 1958 from \$150,954,000 in 1956. Government expenditures, however, have increased even faster, resulting in growing pressure for the consortium to increase voluntarily Iran's share of the profits.

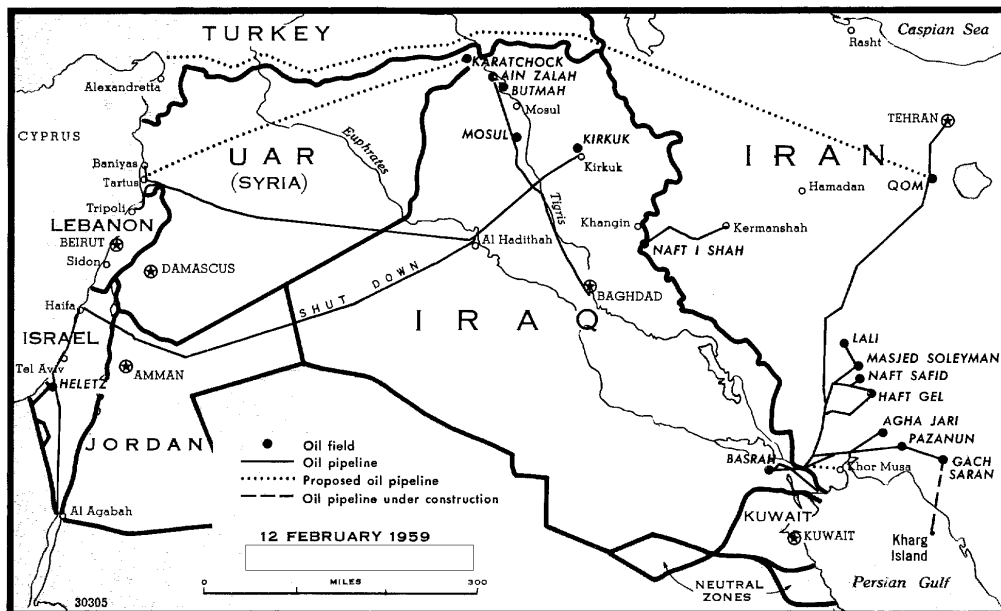
Iraq

Despite the coup in Iraq last July and the political instability, oil production in 1958 was the highest in the country's history--averaging 721,000 b/d.

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The northern field's production reached the 520,000 b/d capacity of the pipeline running to the Mediterranean; further increases will have to await completion--probably this year--of additional pipelines. With completion of these lines, crude capacity will increase 30 percent to 700,000 b/d.

At Iraq's southern fields, production rose to 225,000 b/d in 1958 from 186,000 b/d the previous year. Inadequate facilities at Fao--Iraq's major oil port--limit exports to 240,000 b/d. The Basrah Petroleum Company plans to build a \$45,000,000 deepwater terminal about 20 miles from Fao. When completed in 1960, output from the southern fields could reach 440,000 b/d. Thus total Iraqi production could rise to 1,140,000 b/d by 1961.

Although production is increasing, the Iraq Petroleum Company (IPC) is under constant government pressure to liberalize its concession agreement in line with newer area agreements. It

has already given up its offshore rights beyond three miles, and there are reports that the company has offered to relinquish 50 percent of its concession area--25 percent immediately, the rest over a number of years. The Iraqi Government, however, demands the surrender of 50 percent at once, an additional 20 percent in five years, and, within ten years, all undeveloped areas not needed. The government is said to be considering offering these undeveloped areas on a 70-30 basis, with substantial government participation. Baghdad would then use these agreements as a lever to force IPC to abandon the 50-50 formula.

On regional Arab oil matters, the new Iraqi regime appears to be following the same approach as earlier governments--firm resistance to any efforts by Cairo to assert dominance over oil-producing Arab countries. Iraq has thus far shown no inclination to share any of its oil revenues--a record \$234,674,884 in 1958--with its "have not" neighbors.

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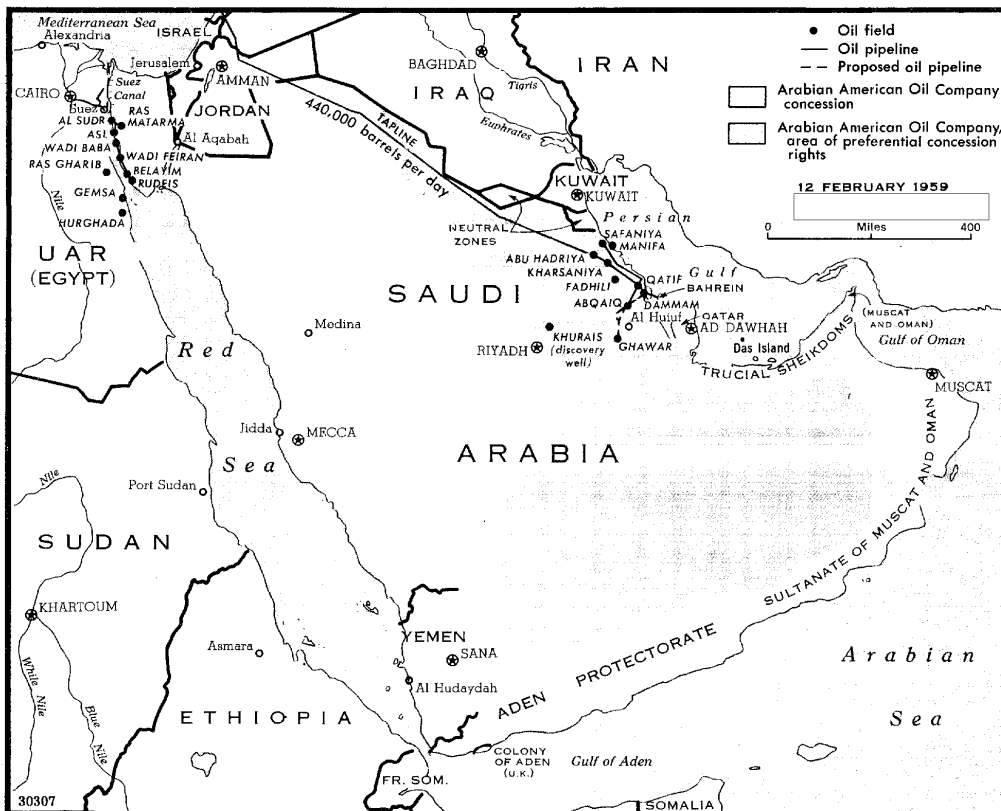
Saudi Arabia

Crude production reached an all-time high in 1958--1,013,000 b/d--but Saudi officials are becoming increasingly critical of the Arabian-American Oil Company (Aramco) for failing to match the sharp production increases of other oil countries in the Middle East. Saudi Arabia's competent but anti-American director of petroleum affairs, Abdullah Tariki, has accused the company of "cutting our throats." Tariki cites the fact that Saudi production increased by only 2.1 percent--about 21,000 b/d--while output in other Middle East areas has increased over 20 percent. Kuwait, Saudi Arabia's closest competitor, increased output in 1958 by 22.5 percent, 257,000 b/d.

A major reason for the rapid increase in Kuwaiti output is the discount given to purchasers. Saudi Arabia forced Aramco to discontinue giving discounts as incentive for companies to purchase large quantities of Saudi crude.

In addition to production problems, the Saudi Government suffered several other reverses in oil matters during 1958. Aramco won the Onassis tanker dispute when the arbitration tribunal agreed that Riyadh had violated the company's concession by giving Onassis shipping rights for Saudi oil. Saudi Arabia's plans to award a 60-40 profit-sharing oil concession in the Preferential Area--where Aramco has only the right to meet any competing bid--failed when the Standard Oil Company (Indiana) announced that the

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Saudi terms were "completely unacceptable." Negotiations have been resumed, however.

In addition, Tariki failed to make progress with his demand that Aramco pay \$165,000,000, which he claims the company owes for overcharges on Saudi crude shipped via Tapline to the Mediterranean. He has stated that Aramco's parent companies are holding down Saudi production, asserting, "If these parents think they can bring us to our knees, they are wrong. We will hold out and we will win."

While production did not increase significantly, Aramco paid royalties amounting to \$337,000,000 and spent \$63,000,000 on projects aimed at raising production.

Neutral Zone

In terms of Middle East oil production, the Neutral Zone between Kuwait and Saudi Arabia was insignificant in 1958; crude production averaged only 78,000 b/d. However, production probably will rise to over 100,000 b/d this year. Moreover, the Saudi-Japanese-Kuwaiti agreement for offshore rights has given the area a new importance.

The onshore areas are under concession to two American firms--the Getty Oil Company and the American Independent Oil Company (Aminoil). Field operations are on a joint basis. Getty received its concession from Saudi Arabia, while Aminoil is exploiting Kuwait's half interest. Each company pays its consignor country roughly 50 percent of the profits; they totaled from \$8,000,000 to \$10,000,000 in 1958.

The agreement assigning Saudi Arabia's--and later Kuwait's--half interest in the offshore Neutral Zone area to

the Japan Petroleum Company, Ltd., was the first to depart specifically from the 50-50 split which prevailed in the area. Saudi Arabia and Kuwait will participate in the management of the company. Profits from the transportation, refining, and marketing, as well as production of oil will be split 56-44 on Saudi Arabia's half-interest and 57-43 on Kuwait's.

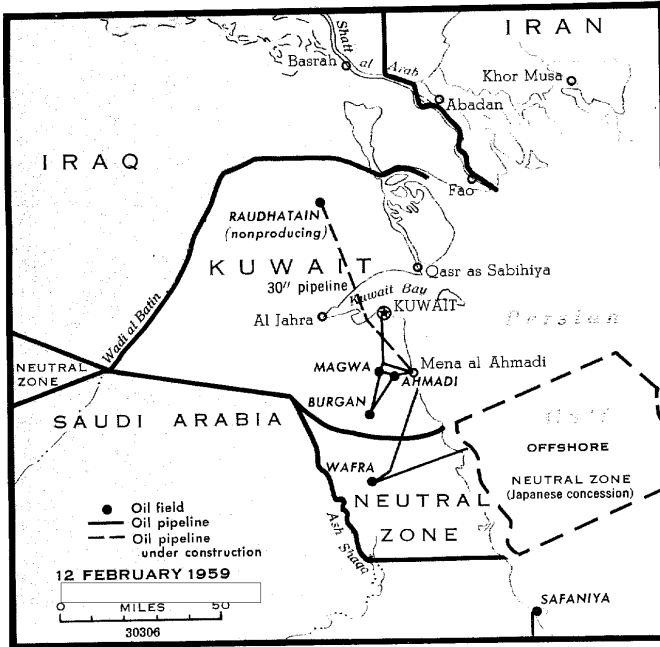
Thus far the Japanese have limited their work to preliminary geophysical studies. There seems little doubt, however, that they may find substantial quantities of oil this year. Saudi Arabia's major offshore field--Safaynia--which borders the Neutral Zone, may extend into the zone proper. Tariki has commented that "all the Japanese need to find oil is a compass and rowboat."

Kuwait

A production increase of 22.5 percent lifted Kuwait's output to an average of 1,400,000 b/d in 1958--the third highest production in the free world. Only the United States with 6,706,000 b/d and Venezuela with 2,600,000 b/d had a higher production. Facilities in Kuwait are inadequate to handle more than 1,500,000 b/d, and two shut-in fields lack pipelines. By mid-1959, however, the 60-mile, 30-inch pipeline connecting the Raudhatain field--discovered in 1955--to the port of Mena al Ahmadi may be completed. Expansion of the port's loading capacity to 2,500,000 b/d is planned to be completed by the year's end.

Kuwait boasts the world's largest crude reserves--conservatively estimated at 60 billion barrels--compared with US reserves estimated at 33 billion barrels and Venezuelan reserves at 16.5 billion barrels. Oil revenues in 1958 probably reached \$375,000,000 and may exceed \$400,000,000 in 1959.

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32,000 b/d in 1957. While not noteworthy for its crude production, Bahrein refines about 186,500 b/d daily; the bulk of this crude is moved by pipelines from Saudi Arabia.

In other developments, offshore drilling by Abu Dhabi Marine Areas, Ltd.--two-thirds British--and one-third French--owned--about 20 miles northeast of Das Island brought in two wells in 1958--the Adma F-one, which tested at 10,000 b/d in May, and Ummshaif-one, which tested at about 2,400 b/d in September. These two wildcats hold

promise of a major commercial discovery.

Algeria

Oil production increased in Algeria to about 11,000 b/d last year from only 346 b/d in 1957. Transportation bottlenecks prevented even more dramatic increases. Hassi Messaoud was the only one of the six oil fields discovered since 1956 that was producing. While Hassi Messaoud's output was limited by a combination of a 6-inch pipeline and rail transportation, plans call for completion late this year of the 420-mile, 24-inch pipeline now under construction from this field to the Algerian port city of Bougie. Late in 1959 or early 1960, the line will carry about 100,000 b/d. Perhaps by 1962 it will carry about 320,000 b/d.

Construction on a 435-mile, 24-inch line from the Edjele area near the Libyan border to the Tunisian port of Cekhira is expected to begin later this year. If plans are realized,

The rapid increases of the Kuwait Oil Company--owned jointly and equally by the Gulf Oil Corporation and by the British Petroleum Company, Ltd.--are even more impressive when it is recalled that no oil was produced in Kuwait before 1946. The recent government action in Venezuela, which in effect increased the costs of producing crude, could lead to even faster than "normal" increases in Middle East production. Because of its very low production costs, Kuwait's output probably would rise proportionally faster than other countries in the area.

Other Persian Gulf Areas

By area standards, production of other oil-producing areas in the Persian Gulf is insignificant. In Qatar, the largest of these producers, output increased about 21 percent--to 168,000 b/d last year from 139,000 b/d in 1957. Bahrein Island crude output also increased--the first increase in several years--to 40,600 b/d last year from

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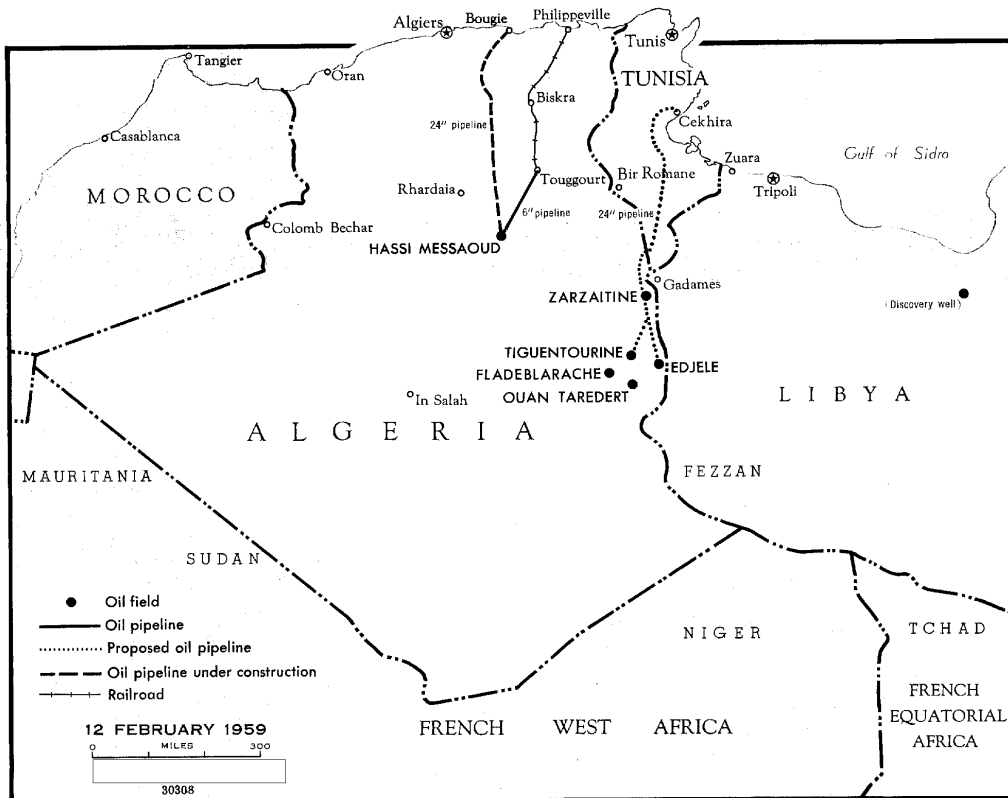
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the line will move 150,000 b/d by late 1960. Capacity later is to be lifted to 275,000 b/d.

The French gamble in Algeria seems to be paying off handsomely. In less than three years, proved reserves have increased from virtually nothing to a very conservative estimate of 3.5 billion barrels. Additions to these reserves are occurring almost monthly.

In an effort to step up oil activity in Algeria, France passed a new Petroleum Law designed to attract the major international oil companies. Under the law, profits are split 50-50, and this year several "majors" are expected to expand their activities to include Algeria. A concession to a firm in which Standard Oil Company (New Jersey) has 50-percent participation was provisionally



French interest in Algerian oil is more than a drive for profits; Paris sees a franc source of oil as necessary for stability and growth. French crude oil production in 1957--crude produced in France or the French Union and purchased for francs rather than hard currencies--amounted to only 29,000 b/d, while consumption of major products amounted to over 434,000 b/d.

granted by the French Government last month. Since the Arab nations are virtually united in their support for the Algerian rebel cause, this sentiment could portend difficulties for major oil companies which have interests in Arab lands and which also operate in Algeria.

Libya

Intensive exploration continues in Libya, and the first

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commercial discovery already may have been made. The Oasis Oil Company (Ohio, Continental, and Amerada companies) brought in two wells only 75 miles south of the Gulf of Sidra. A third was also brought in about 25 miles farther south. These discoveries, however, are still under study.

Earlier hopes that the Standard Oil Company (New Jersey) well near the Algerian border was commercial failed to materialize. Despite the increasing number of dry holes, drilling continues at a high level, and 1959 may determine whether or not Libya will become a major oil province.

Egypt

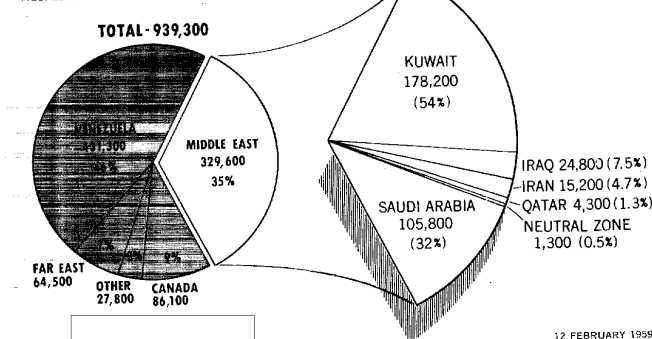
Egypt continues to move toward self-sufficiency in petroleum. The upward trend in crude production which began in 1957 was maintained; production in 1958 reached 61,000 b/d--compared with less than 45,000 b/d the previous year. Most of the increase came from fields on the Sinai Peninsula--the Belayim field discovered in 1955 and the Rudeis field found in 1956.

While production rose to the equivalent of almost 70 percent of total petroleum consumption--about 80,000 b/d--crude imports are high because of the characteristics of Belayim crude. In addition to having a high salt content, making the crude virtually unusable in Egyptian refineries, Belayim

crude yields practically no kerosene or distillates. These are major items in Egypt's petroleum consumption.

Following the establishment of the UAR in 1958 and the extension of Egyptian influence in Syria, Damascus canceled the concession of the American-owned Menhall Company. This company had discovered the Karatchock field in northeast Syria which promises to produce substantial quantities of oil.

SOURCES OF US CRUDE OIL IMPORTS: 1958
FIGURES IN BARRELS PER DAY



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The UAR has a \$206,000,000 five-year petroleum plan--\$76,000,000 for Syria and \$130,000,000 for Egypt. This plan includes construction of a pipeline from Karatchock in Syria to Tartus on the Mediterranean, expansion of Egyptian refineries as well as construction of a local pipeline, and establishment of an Egyptian petrochemical industry. Plans for a large pipeline along the Suez Canal reportedly have been delayed for at least five years.

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PROSPECTS FOR CONTINUED FINNISH NEUTRALITY

The Soviet role in bringing about the fall of the Fagerholm government in Finland has underscored that country's precarious position as a virtually unarmed border state vulnerable to pressure from the East. As such, Finland recognizes that, although free to develop internally along the lines of a Western democracy, it must to

Having witnessed the inability of the West to aid Hungary in 1956, most Finns are convinced that they must manage their relations with the USSR in such a manner that Moscow, in the event of increased world tensions, will not have cause to fear for the security of its northwest frontier. This is both repugnant and humiliating to them, but there is increased acceptance of the basic fact that in the present situation Helsinki's foreign policy cannot run counter to that of Moscow.

The Finns are anxious about the Berlin situation and concerned over increased NATO and West German naval activity in the western Baltic, which they feel may result in Soviet countermoves. The 1948 Treaty of Friendship, Cooperation, and Mutual Assistance between Finland and the USSR obliges Finland to repel an attack on Finland, or on the USSR via Finland, by Germany or a state allied with Germany and to confer with the USSR if such an attack is threatened. Apparently, Finnish

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a large degree tailor its foreign policy to suit Moscow.

Finnish-Soviet Relations

Relations with the Soviet Union remain the key factor in Finland's foreign policy. All Finnish officials pay obeisance to the "Paasikivi line" of gaining the confidence of the USSR, although aware that it seriously limits the freedom of action of any Finnish government.

officials are concerned lest the USSR consequently demand some form of military cooperation to meet the NATO-German menace.

Economic Situation

Approximately 25 percent of Finland's foreign trade is with the Soviet bloc. The Finns believe that for the sake of good political relations a significant portion of their foreign trade must be oriented toward the bloc.

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Furthermore, the area provides a stable market for certain high-cost Finnish exports and furnishes certain vital raw materials such as fuels and grains which would otherwise have to be imported from hard-currency areas.

The Finnish industries most dependent on the USSR are certain metalworking and ship-building complexes created to pay off postwar reparations. These high-cost establishments are noncompetitive in Western markets, and the Finns apparently intend to phase some of them out over a period of years, and to concentrate on the country's more competitive specialties such as the woodworking and paper industries. For this purpose, Helsinki is hoping to obtain loans and economic assistance from the IBRD and the United States.

Moscow, fearing a weakening of Finnish economic ties to the USSR, has indicated its suspicions of Helsinki's moves to obtain Western economic assistance. Hence, the Finns might feel obliged to accept a limited amount of Soviet economic aid to counterbalance loans from the West despite the ruble balances they hold from their exports to the USSR. They would gladly accept Soviet gold or hard-currency loans, which could finance imports from outside the bloc, but the USSR has indicated that only ruble loans for the purchase of bloc goods are available. During Finnish President Kekkonen's visit to Leningrad in January 1959, Khrushchev renewed earlier Soviet offers, which had included one for economic assistance of up to 500,000,000 rubles.

The Finns are unlikely in the near

future to associate themselves with any of the projected European economic cooperation programs, despite the fact that most of their foreign trade is with Western Europe. However, they have not rescinded measures liberalizing trade with the West which went into effect in the fall of 1957, and they now are negotiating the extension through 1959 of multilateral trade and payments arrangements with a number of Western European countries.

Finland also intends to pursue its interest in Nordic economic cooperation, specifically a Nordic customs union, and Khrushchev during Kekkonen's visit to Leningrad in late January reportedly interposed no objections to such an arrangement. The USSR probably hopes that Nordic economic cooperation would weaken Denmark's and Norway's ties with NATO and European cooperation programs and deter Finland from joining such organizations.

Minority Government's Prospects

The minority Agrarian government of Prime Minister Sukselainen, which took office on 13 January, faces difficult domestic problems along with the primary task of restoring good relations with the USSR. Registered unemployment on 23 January reached 91,000--the highest in the postwar period. The Finnish Communists and the Communist-dominated Finnish People's Democratic



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League (SKDL) will seek to capitalize on the economic distress to include the SKDL in a popular-front government, but so far none of the other parties except the Opposition Social Democrats and the left-wing Agrarians have favored SKDL participation.

Certain factors, however, strengthen the position of the Sukselainen government and point to its lasting at least until summer, when new elections may be held. The democratic parties--the regular Social Democrats, the Conservatives, the Swedish People's party, and the Liberals--will probably continue to support Sukselainen to avoid another protracted cabinet crisis which might again strain

Soviet-Finnish relations and frustrate efforts to cope with the economic situation. Another crisis, moreover, would reopen the question of SKDL participation in the government.

The prospects for a popular-front government are also decreased by indications that the breach between the regular Social Democrats and the Opposition Social Democrats may be diminishing. In addition, the resumption of normal trade relations with the USSR and the conclusion of a Soviet-Finnish trade agreement, now under negotiation in Moscow, will have a positive effect on the lagging economy and thus win support for the Agrarian government.
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