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# CURRENT INTELLIGENCE WEEKLY SUMMARY



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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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## PART I

OF IMMEDIATE INTEREST

## EAST-WEST NEGOTIATIONS

In the wake of the Soviet note of 2 March and Khrushchev's speeches in East Germany, Moscow is continuing its efforts to give the appearance of flexibility and reasonableness. Public and private Soviet statements have stressed the USSR's desire for a negotiated settlement of the Berlin issue and criticized as warlike recent speeches by American military and political leaders. None of these Soviet statements, however, indicate any important deviation from established positions.

Khrushchev, in a move designed to retain the initiative on the German question after President Eisenhower's 16 March speech, held a press conference in Moscow on 19 March. He asserted that the Soviet proposals have received wide support and referred to the President's remarks to show the increasing sentiment in favor of negotiations. He further stated that the USSR, although preferring a summit meeting, has accepted the Western proposal for a foreign minister's conference and is now awaiting a reply from the Western powers. He indicated willingness to meet on 11 May if that date is proposed.

Khrushchev again denied that his Berlin proposal was intended as an ultimatum and stated that the 27 May deadline could be postponed. However, he evaded a direct reply when asked if the USSR would refrain from any specific political actions regarding Berlin until the summer, in view of President Eisenhower's qualified agreement to a summit meeting this summer.

The counselor of the Soviet Embassy in Paris told an American official on 16 March that the USSR takes it for granted that a foreign ministers' conference will take place in May in Geneva. Stating that agreement to hold a summit meeting later would not be a precondition for foreign ministers' meeting but merely would follow logically, he seemed to indicate a Soviet conviction that once a foreign ministers' meeting is held, pressure on the Western powers to go on to the summit would be irresistible.

While Soviet official indicated that the question of German reunification should not be included on the agenda, he said the USSR would not object if the West raised the subject. He repeated Khrushchev's 5 March statement that the 27 May deadline would be postponed if a foreign ministers' meeting were in progress that offered a chance for agreement.

On 16 March the chief of the political section of the Soviet Embassy in East Berlin declared that he and his colleagues are "deeply disturbed" by the tenor of speeches in the last few weeks by American leaders. Saying the situation is too dangerous for such talks, he insisted "our objective is negotiation, not tension" and added, "War is out of the question for both of us. We can have disagreements but they must and will be negotiated."

In a talk with a Swiss correspondent a few days earlier, Soviet diplomats in East Berlin suggested, as a "compromise

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solution" of the Berlin issue, that a four-power guarantee of the free-city status could include the stationing of Soviet soldiers at Western checkpoints along with Allied troops. This, they said, would enable Soviet soldiers to ease the way and minimize necessary procedures by East German representatives.

speech was devoted to "extolling American military might." But it quoted in entirety the President's expressions of willingness to negotiate under any circumstances which offer prospects of worthwhile results. Other commentators welcomed the President's "qualified acceptance" of summit talks.

East German Developments

The East Germans are reiterating demands for Western withdrawal from Berlin, but recent high-level statements have soft-pedaled references to signing a separate peace treaty with the USSR. In an effort to demonstrate East German reasonableness, party boss Ulbricht, in an interview with a correspondent of the London Daily Express published on 17 March, repeated the offer of an East German guarantee of the "free city's" unhampered communications and economic and cultural links with the outside world, provided East German sovereignty and laws are respected. He declared, however, that any peace treaty would not permit Bonn to maintain certain offices in West Berlin nor to hold Bundestag meetings in the city.

In response to a question concerning the circumstances under which the East Germans would conclude a separate treaty with the USSR or other Warsaw bloc countries, Ulbricht declared he did not know the words "separate peace."

Soviet propaganda continues to point to US officials' "belligerent" actions and statements and the American public's alleged opposition to them. A TASS commentary on President Eisenhower's 16 March speech was moderate in tone, however. It asserted that the United States Government desires to continue the occupation of Berlin for an indefinite period and stated that the second part of the

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Western Positions

In the four-power discussions in Paris to prepare proposals for the 31 March Western foreign ministers' meeting in Washington, Bonn has introduced a new plan for a phased unification process which would postpone free elections for three years. An all-German committee of East and West Germans would draw up plans for and supervise elections for a German council, which in turn would prepare for elections to a German National Assembly. The draft election law and a law establishing provisional central authority would be submitted to a referendum in both Germanys.

The elections to the National Assembly would be supervised by the four powers and the council. Following these elections a provisional government would negotiate a peace treaty. Bonn's plan, a departure from its previous approach to free elections, is an effort to forestall a separate Soviet peace treaty with East Germany by accepting some elements of the Soviet demand for a German confederation.

Both the French and Germans are reluctant to submit a Western peace treaty draft at an East-West meeting, fearing it would provide Moscow with the opportunity to focus the meeting on negotiation of the military and boundary clauses in a German peace settlement. The British, however, feel that such issues will be raised in any event.

Despite the appearance of complete unanimity in the 12-13 March Macmillan-Adenauer talks, the subject of reducing troops

in Central Europe continues to strain German-British relations. On 16 March, Adenauer rejected outright all such plans and stressed that any military solutions must be accompanied by political solutions.

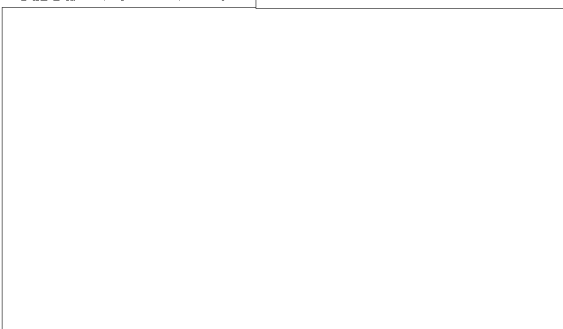


American observers report that although Macmillan's visit to Bonn helped to alleviate German anxiety on British "softness," a deep suspicion persists in Bonn and will continue to play an important role in Adenauer's estimate of reliability of the "Anglo-Saxon" position on Berlin.

On the problem of maintaining land and air access to Berlin, Paris continues to stand by its position that access routes must be kept open at all costs.



The French also oppose any prior Western concessions to Moscow as only encouraging further demands.



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## CAIRO-BAGHDAD DEVELOPMENTS

Iraq

Anti-Qasim elements in Iraq appear thoroughly discouraged. A number of reports confirm that a large-scale purge of antiregime and anti-Communist elements is taking place. Qasim has not, however, acceded to the demands of the Communists that he execute leaders of the former regime, arm the Communist-controlled Popular Resistance Force (PRF), or publicly withdraw from the Baghdad Pact.

Some statements of Iraqi officials suggest that attempts are being made to limit the PRF's activities; arrests in Basra, for example, are reported to have been made by army officers armed with submachine guns, while PRF members, armed only with sticks, acted as guides.

Anyone associated with the UAR is liable to physical attack. While spokesmen of the Qasim regime have said they do not intend to reply officially to the barrage of invective hurled against them by Nasir, the Baghdad press is replying effectively in kind, and the mere possession of a picture of Nasir, once the symbol of Arab nationalist feeling, is now cause for a mob attack.

UAR

Cairo evidently intends to continue propaganda and other types of pressure on Iraq. The UAR has given extensive play to frontier incidents which apparently occurred in the course of the Iraqi Army's effort to pacify the Shammar and other tribesmen along the Syrian-Iraqi border.

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USSR-UAR Relations

Nasir's bitter attacks on Qasim and Arab Communists as "agents of the foreigner," at first ignored by Moscow, led to a reply by Khrushchev on 16 March and a further exchange of radio and press recriminations which have brought relations between Moscow and Cairo to their lowest point since Nasir accepted bloc arms in late 1955.

Khrushchev, [REDACTED]

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[REDACTED] blamed Nasir's "insistence" on unifying Iraq with the UAR "against the will of the Iraqi people" as the cause of the dispute, and upbraided the UAR President for using the "language of imperialists" in attacking Arab Communists.

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Khrushchev's remarks that the USSR is not indifferent to the situation and that Nasir's anti-Communist campaign, if continued, will inevitably fail point to possible Soviet retaliatory moves against the UAR.

Pravda, foreshadowing Soviet efforts to build up Qasim in the radical Arab nationalist movement as a counterweight to Nasir, declared on 13 March

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that Baghdad is more and more becoming an important center of the "liberation movement" in the Near and Middle East. Khrushchev also praised the "progressive" reforms of the Qasim regime--contrasting them to attempts by the UAR to ignore the "interests of the working people"--and asserted that Iraq has a "more progressive system ... than neighboring countries of the Arab world."

Nasir's speedy reply on 16 March to Khrushchev declared that the Soviet premier's statement regarding Nasir's "insistence" on unity was a distortion of facts and that his defense of Arab Communists was "a matter which the Arab people cannot accept."

Israel

Tel Aviv may be taking advantage of both the UAR-Iraq and the Jordanian situations to apply new pressures to secure long-sought objectives. The Israelis have complained that cargoes of Israeli origin on foreign-flag vessels have been seized by Egyptian authorities. This is in effect a revival of an Israeli complaint last voiced in 1957 over Egyptian activity enforcing the Arab League's economic boycott of Israel and Egypt's policy on restricting Israeli use of the Suez Canal. Nasir presumably would not wish to become involved with Israel at a time when he is heavily engaged elsewhere, and the Israelis may be playing on this probability.

The Israelis are reported to have moved some armor--13 or 14 tanks, according to a UN truce team count--into the Jerusalem area in violation of the Israeli-Jordanian armistice agreement. The tanks are said to have been moved in at night over a two-week period. An Israeli official has laughingly denied any intention to "invade Amman," but the tank movement may be part of precautions the Israelis are taking against any upheaval in Jordan,

Israeli officials have long claimed that it is vital to their country's

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security that West Jordan be kept out of UAR hands, although they have also recognized the serious problems involved in taking over the mass Arab refugees there.

Sudan

Thus far the Ansar sect, which formed the principal support of the more pro-Western officers who have already been removed from the Supreme Army Council and from the cabinet, has not seriously resisted the demands of the dissidents. Al-

though a substantial number of Ansar tribesmen were reported to have moved into the Khartoum area in anticipation of forceful action, their leader, Sayyid Abdul Rahman al-Mahdi, sent them back home to avoid bloodshed.

Should Al-Mahdi feel, however, that a new coup threatened the complete eclipse of his influence, he might well call on the tribesmen, and violence would almost certainly ensue.

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PART II

NOTES AND COMMENTS

NEW SOVIET ECONOMIC PACT WITH IRAQ

The Soviet Union granted Iraq a \$137,500,000 credit under an economic and technical cooperation agreement concluded in Moscow on 16 March. The long-term, low-interest credit will be used to finance Soviet participation in about half the 50-odd projects called for under the new Iraqi development program. Moscow will provide technical assistance for constructing a number of industrial enterprises, including heavy engineering, chemical, and food-processing projects. Soviet specialists will conduct surveys designed to lead to an expansion of the Iraqi irrigation systems and development of road networks. They will also engage in geological prospecting for developing Iraq's mineral resources.

The talks in Moscow preceding the announcement of the Soviet credit apparently progressed smoothly and rapidly, suggesting the USSR was extremely willing to accommodate Iraqi requests for aid. Moscow, however, was not acting precipitously, since a Soviet delegation had an opportunity earlier this year to study most of the projects. In an effort to underscore its support of Qasim, Moscow will probably speedily dispatch Soviet technicians to Iraq to conduct surveys which are necessary before work can actually begin on the projects. Work on the projects themselves, however, will probably not begin for some time.

In addition to aid, the bloc continues to exploit other opportunities to develop closer economic relations with Iraq. Talks between Soviet Embassy officials and the Iraqi Ministry of Communications concerning the establishment of air routes were held in Baghdad earlier this month. The discussions may have included a preliminary Soviet offer to re-equip the Iraqi airline with modern Soviet civil aircraft. Iraqi officials reportedly are also studying drafts of proposed civil air agreements submitted by Czechoslovakia and Hungary. The Hungarian minister of transport, who visited Baghdad in January for talks with the Iraqi minister of communications, announced at that time that his business dealt with "the opening of an air service between Iraq and Hungary."

Military support of the Iraqi Government by Moscow also is continuing:

[Redacted]

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[Redacted] Thus far, arms deliveries under the \$170,000,000 agreement have been limited to land armaments and military transport vehicles, but Iraq is scheduled to receive jet fighters and bombers as well as motor torpedo boats from the Soviet Union. [Redacted] (Prepared by ORR)

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**SOVIET-IRANIAN RELATIONS**

Apparently in response to the signing of the US-Iran defense agreement on 5 March, Soviet Ambassador Pegov is leaving Tehran in the near future. This move would be in line with remarks by a Soviet official in Tehran in late February that once the bilateral treaty was signed, every form of political, economic, and propaganda pressure would be used against Iran, including an economic boycott. Iran for its part has postponed the departure of its ambassador-designate to the USSR "until relations improve."

Soviet radiobroadcasts to Iranian listeners have renewed explicit personal attacks on the Shah. A 12 March broadcast, which described the Shah as a "lackey" of the United States, alleged that his "anti-national" economic policy had turned Iran into a market for foreign goods and subjugated the country to foreign monopolies.

Moscow could cause Iran considerable internal difficulties by refusing to trade. Trade with the bloc accounts for about 15 percent of Iran's total, excluding oil; about 25

percent of Iran's exports and 10 percent of its imports involve bloc sources, principally the USSR. Soviet economic reprisals will not seriously disturb Iran's foreign-exchange earnings, however, most of which are derived from oil royalties and oil-consortium purchases of local currencies -- \$245,000,000 and \$75,000,000 respectively in 1958.

The USSR and its satellites account for a large percentage of Iran's foreign sales of wool, cotton, and minerals other than oil, and substitutes for these markets would be difficult to develop elsewhere. Iran's economy could also be disturbed by Soviet failure to deliver a wide variety of construction materials, consumer goods, and light industrial goods which it finds convenient to import from the bloc for use in the northern part of the country. In several cases, more than one third of Iran's imports of such materials comes from the bloc. Tehran, with funds from its oil earnings, can find alternate sources of supply in Western Europe, but Soviet cancellation of deliveries would be disrupting, at least temporarily.

(Prepared jointly with ORR)

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**BRITAIN'S DILEMMA IN EAST AND CENTRAL AFRICA**

The continuing unrest in Nyasaland and potential trouble in Kenya have forced Britain to hasten planning of constitutional evolution of its East and Central African territories, and a new general policy statement is expected shortly. Lord Perth, the government's second in command on colonial affairs, will report to Parliament on his present fact-finding tour.

As the white-settler minority is hardening in its determination to maintain political dominance, London finds its ability to influence this group decreasing. The settler-controlled Federation of Rhodesia and Nyasaland is already partly self-governing and will be considered for full independence in 1960. African nationalism's turn toward violence,

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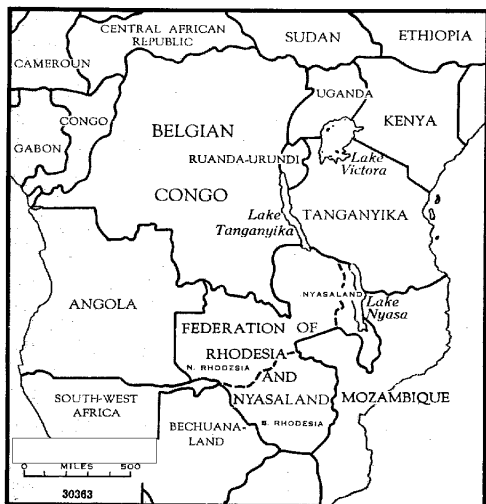
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however, is putting Britain under heavy pressure to provide the Africans a political role commensurate with their numerical majority.

With a British general election likely this year, the Labor party's strong pro-Afri-



can views further complicate the current policy review. Recent events and Labor's stand may force the government to consider separating the Nyasaland protectorate from the federation. Disorders such as

airfield sabotage continue in Nyasaland, and isolated violence has erupted in Northern Rhodesia.

A meeting of the All-African People's Conference secretariat reportedly has been called for April in Accra to plan a campaign of action in Nyasaland. The British hope moderate Nyasa leader Chirwa will discuss the new constitution they have been devising, but even Chirwa wants self-government outside the federation.

In Kenya, [redacted] 25X1

[redacted] 25X1

Britain's [redacted] 25X1  
 new program may not go far enough to prevent the faction favoring violence from gaining control of the African nationalist movement. At the same time, it may provoke European extremists.

In Tanganyika, where there is no large entrenched settler minority, current progress toward a self-governing African state provides a relatively bright spot for London, but does not help mitigate the fundamental conflicts in the surrounding areas. [redacted] 25X1

**BELGIAN CONGO**

Belgium's political reform program for the Congo, announced on 13 January, is winning African support but provoking opposition among conservative elements in Brussels and European settlers in the Congo.

Conservative settler groups have begun to organize political parties and to issue manifestoes against the allegedly pro-African efforts of Minister of the Congo and Ruanda-Urundi van Hemelrijck. They demand recog-

nition of white cultural superiority and call for a division of the Congo into three sectors to permit a coexistence of races on the general principle of South African apartheid. When Van Hemelrijck arrived in Leopoldville on 11 March, the settlers showed their dissatisfaction by staging a hostile demonstration. Several large mining and industrial companies are pressing Premier Eyskens to dismiss Van Hemelrijck.

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Van Hemelrijck has visited the Congo twice since January and has promised to spend four months a year in the area. As part of a policy of decentralizing administrative functions from Brussels, he plans to appoint a deputy minister to act locally. He has already replaced several top officials for their conduct during the January riots. Draft legislation has been prepared to set up legislative and consultative councils, to extend Belgian civil liberties to the Congo, to permit legal parties, and to end racial discrimination. Already 459 Congolese have been admitted to civil service jobs formerly reserved for Europeans.

Among African circles there is an increasingly favorable response to the reform program, and Van Hemelrijck reportedly has won the support of nationalist leader Joseph Kasavubu. Kasavubu, now in Brussels, prob-

ably will not be brought to trial for his part in the January riots, and another jailed leader, Arthur Pinzi, is to be restored as mayor of an African suburb of Leopoldville. However, the National Congolese Movement is demanding that Belgium prove its good will by abolishing restrictions on free political activities, by creating a commission--including Congolese representatives--to oversee the development of political institutions, and by fixing dates for the establishment of government councils.

Belgium's determination to remain in the Congo is shown by its plans to contribute at least \$20,000,000 to the local budget this year and to make expenditures totaling about \$1 billion over a ten-year period from 1960 for the next development plan.

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**FRENCH MUNICIPAL ELECTIONS**

Results of the municipal elections held in France on 8 and 15 March showed a swing back toward Fourth Republic voting patterns, following the pro-Gaullist landslide in the November 1958 National Assembly elections.

Although total figures for the new municipal councils show a slight over-all shift to the right since the last local elections in 1953, the pro-Gaullist Union for the New Republic failed to establish the strong grass-roots position necessary for its long-term development as a major political force. The greatest change was a doubling of the already large number of successful "nonparty" candidates, most of them apparently drawn from the Radicals or other centrist groups.

The Communists regained about half the popular votes they lost in 1958, but these gains were concentrated in the largest cities. Fewer Communists, however, were actually elected to municipal posts than in 1953, because proportional representation has been abolished in all but the very large cities. In Paris, they won two additional seats for a total of 29 on the 90-member municipal council. Despite the working of the new electoral law which awards all the council seats to the party or list winning a plurality in the runoff, the Communists won control over some municipalities, particularly in the southwest, which they had not previously held.

Mayors are elected separately by the new town councils.

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In Le Havre, the only major city which previously had a Communist-dominated administration, violence broke out on 17 March when Mayor Cance was defeated for re-election by one vote in the council. This occurred against a background of rising labor unrest over the government's austerity program. Le Havre port workers affiliated with both Communist and non-Communist labor unions tied up the harbor briefly last week, and may respond to the call for nationwide protest "action" this week.

The new municipal councils, together with the cantonal councils, form the electoral college for the Senate. Reflecting the results of the 8-15 March elections, the new Senate to be chosen on 26 April is expected to be somewhat more center oriented than the predominantly rightist National Assembly chosen by the pro-Gaullist rightist landslide in November. This shift may assist President de Gaulle in keeping the assembly in line, especially since the new constitution accords the Senate a greatly strengthened role.

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## NUCLEAR TEST TALKS

Moscow has attempted this week to keep discussion at Geneva focused primarily on the American draft article on duration. It probably believes that the Soviet position favoring a "permanent" and unconditional cessation of nuclear tests contrasts favorably with Western insistence on an escape clause based on the effectiveness of the control system.

Soviet chief delegate Tsarapkin has charged that the American draft proposal is "absurd," since it would make the entire fate of the treaty dependent on each party's unilateral determination of the effectiveness of controls. He said that one could possibly understand the Western position if withdrawal were made dependent on a nuclear explosion in violation of the treaty, but not where the treaty could be abrogated by a party even if there had been no illegal explosion.

On 19 March Soviet delegate Tsarapkin approved the

Western suggestion made privately on 16 March to adjourn the talks from 20 March until 13 April. The Soviet delegate himself had earlier suggested the meetings be cut down to one or two per week.

Soviet propaganda has also focused on the American draft duration article. Claiming that, if translated into "plain and simple language," the American formula is "an empty declaration intended to deceive public opinion," Moscow has attempted to portray the escape clause as evidence of a Western desire to "guarantee" the legal right to resume testing at any time. A 15 March commentary relates this "attempt to impose on the Geneva conference the adoption of a false declaration" to American interest in preparing a nuclear war. Soviet propagandists earlier called the introduction of the proposal "another maneuver aimed at preventing at any cost a total unconditional and permanent cessation of tests." [Redacted] (Continued in by OSI)

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**MOSCOW REMOVING INEFFECTIVE AND CORRUPT REGIONAL OFFICIALS**

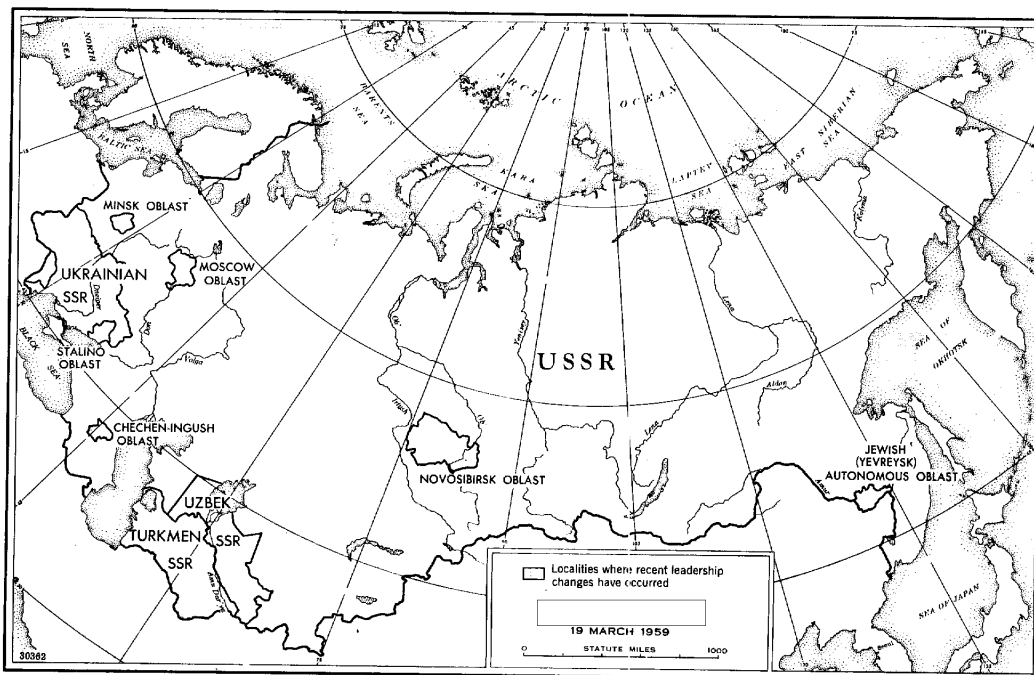
Khrushchev apparently has launched a campaign to strengthen the second-level leadership of the Soviet Union by replacing some of the more corrupt and inefficient party and government officials. Shake-ups have taken place in the Uzbek Republic and Moscow Oblast within the past two weeks, following similar action in Turkmenistan. Party chiefs in a number of other areas, including the Chechen-Ingush Autonomous Republic, Novosibirsk Oblast, and Jewish Autonomous Oblast, have also been removed, and there are some indications that a similar house cleaning may soon extend to other republics.

On 14 March both party First Secretary Sabir Kamalov and Premier Mirza Akhmedov of Uzbekistan were ousted for "serious mistakes" in their work. A similar move had taken place in Moscow Oblast on 2 March,

when First Secretary Ivan Kapitov and oblast government chief Nikolay F. Ignatov were fired at a meeting attended by some of the Kremlin's top personnel specialists, including party presidium members Aristov and Kirichenko. No details have been published on the charges against the two

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The principal victims of the Turkmen affair last December were party First Secretary Sukhan Babayev and another secretary, both of whom were accused of "gross mistakes in their work," including nationalism, nepotism, and malfeasance. These charges were sufficiently



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serious to warrant Babayev's removal from the all-union party central committee and to raise the question of his continued membership in the Communist party.

Further changes in the composition of the party's central organs could result from the current purge. Kapitonov, Ignatov, and former Novosibirsk party chief Boris Kobelev are full members of the central committee; Kamalov and former Chechen-Ingush party chief A. I. Yakovlev are members of the Central Auditing Commission.

The shake-up in Turkmenistan has extended to lower echelons in that republic's leadership, where several officials have been fired for practicing Babayev's methods. A

similar widening of the purge may follow the changes in Moscow Oblast and Uzbekistan, and the leadership in at least two other areas has been warned to improve or suffer the consequences. Inefficiencies in the work of the Minsk Oblast government came under heavy fire at the Belorussian party congress in January, and on 14 March a Pravda editorial called for the elimination of "serious deficiencies" in mass political work being carried out in Stalino Oblast in the Ukraine.

Khrushchev has recently stressed the availability of deserving and qualified younger men capable of providing vigorous leadership for his programs, and he has warned party and government functionaries that shortcomings in their leadership will not be tolerated. 25X1

**FURTHER REORGANIZATION OF SOVIET AGRICULTURAL ADMINISTRATION**

Soviet agriculture may soon undergo further reorganization which could involve the weakening if not the outright abolition of the Ministry of Agriculture.

Just prior to the opening of the 21st party congress, Agriculture Minister Matskevich and his ministry were sharply criticized in an Izvestia editorial for mismanagement of the forestry program. Furthermore, Matskevich did not speak at the congress, although government spokesmen for most of the other priority sectors of the economy were heard. The Third All-Union Collective Farmers' Congress, which had been scheduled for the "beginning of 1959," has apparently been postponed, probably to provide the regime more time to resolve questions of agricultural organization.

In recent months, the Soviet press has carried several articles discussing the advantage of transferring from the ministry its jurisdiction over the Repair and Technical Stations (RTS) and over forestry, and of reducing its role in administering state farms. These articles suggest that "kolkhoz unions" should be established and that the RTS should be absorbed either by them or by interkolkhoz construction organizations. The latter organizations, which have been in existence for several years, are cooperative agencies engaged in rural construction, and are financed by member collective farms.

These articles further suggest that state farm trusts of the ministry be eliminated and rayon executive committees be strengthened as the main link

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in administering both state and collective farms, and that either USSR Gosplan or the USSR Council of Ministers assume responsibility for forest conservation.

The Yerevan Kommunist on 8 December suggested in an article that kolkhoz unions replace the Ministry of Agriculture in administering collective farms. The article called for the abolition of the ministry and proposed that kolkhoz unions be established at the rayon, oblast, and republic levels, with rayon kolkhoz unions as the main administrative link.

In administering state farms, greater agricultural decentralization has been requested in Kazakhstan, the stronghold of the state-farm system. I. Slazhnev, deputy chairman of the Kazakh Council of Ministers, writing in the 25 January issue of Izvestia, called for abolition of state-farm trusts and the transfer of certain planning, financing, and supply functions from the Kazakh Ministry of Agriculture to the rayon and oblast executive committees.

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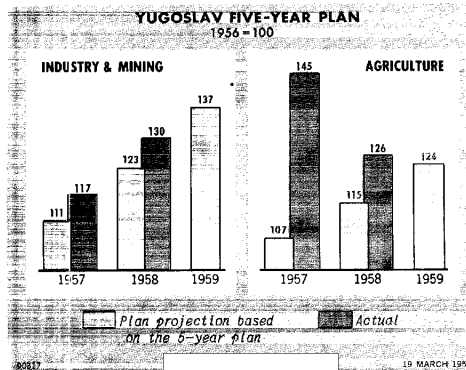
## OUTLOOK FOR YUGOSLAV ECONOMY FAVORABLE

The Yugoslav economy in 1958 exhibited a considerable degree of stability as inflationary pressures particularly evident during the first half of the year were brought under control. Real wages of industrial workers, which had been 13 percent below the 1957 level in the first half of 1958, increased by October to 13 percent above that level. Furthermore, current indications of stability and vigor augur favorably for 1959.

Industrial and mining production rose 11 percent in 1958 over 1957, and production levels stood 7 percent above the level called for in Yugoslavia's Five-Year Plan (1957-61). A drought in the south caused agricultural production to fall 10 percent below the 1958 planned levels, but this was still 11 percent above the original Five-Year Plan goal.

According to Belgrade, trade with the bloc fell 15 to 20 percent short of agreed lev-

els. In addition, planning was further disrupted when the USSR delayed delivery of 200,000 tons of wheat and 800,000 tons of coking coal. The year's export plan fell 6 percent below expectations, but Yugosla-



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via's chronic import surplus was decreased 9.2 percent.

Yugoslavia has signed 1959 trade protocols with all bloc members except Rumania. If the planned levels of these agreements are reached, which is doubtful, trade would be raised

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above the amounts actually exchanged in 1958. Most of the negotiations were lengthy and were accompanied by angry exchanges over who was to blame for the decrease in trade and cancellation of Sino-Soviet bloc credits. Belgrade has further charged that the bloc is unwilling to supply many of the products Yugoslavia wants or to accept some goods for which it has no alternative market. Increases in trade with the West are expected to reduce the bloc share of Yugoslav trade to below 30 percent.

The greatest upset to Yugoslavia's plans was the "post-

ponement" by the USSR and East Germany of \$244,000,000 and by Czechoslovakia of \$57,000,000 in credits. The damage of these measures was offset somewhat by a \$23,500,000 loan from the US Development Loan Fund for the Pancevo fertilizer plant, another \$5,000,000 Development Fund loan for purchase of diesel locomotives, and a \$8,430,000 loan from the United Kingdom for agricultural and other equipment. Nevertheless, the \$175,000,000 Montenegrin aluminum combine project apparently had to be shelved for lack of funds. (Con-  
curred in by ORR)

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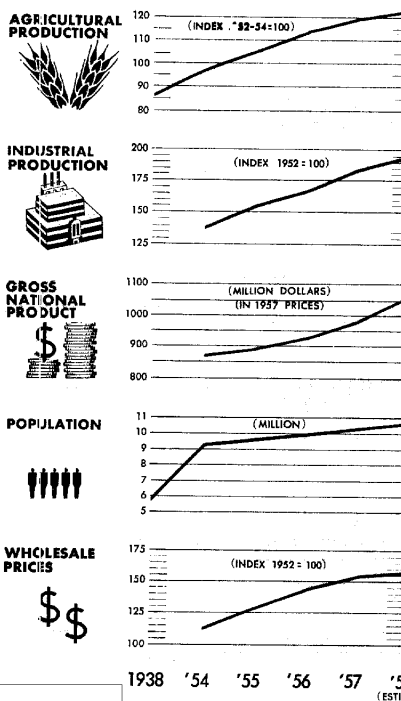
TAIWAN ECONOMY SHOWS CONTINUED SHORT-TERM PROGRESS

A boom in textile production and exports now under way highlighted the year 1958 in which the Taiwan economy in some respects made better progress than had been anticipated, despite the serious military crisis over the offshore islands. Gross national product increased 6 percent in 1958 as compared with 5 percent in 1957, while prices rose only about 4 percent. A record rice crop was produced during 1958. In addition, a \$14,600,000 favorable balance of payments on current account, exclusive of American aid goods, was recorded despite a drop in exports of sugar, the main dollar-earning product.

The Chinese Nationalists' most pressing problem involves a prospective increase of up to \$28,000,000 in proposed spending for fiscal 1960 ending on 1 July 1960; this will seriously unbalance the budget. This prospect, together with a sharp increase in the money supply, raises prospects of serious inflation.

NATIONALIST CHINA  
TABLE OF ECONOMIC INDICATORS

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Unless inflation gets out of hand, the prospects are good

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for a further growth of the Taiwan economy in 1959. The revision of the exchange rate last November should stimulate exports and rationalize the price structure. Exports of sugar, however, are expected to decline further in view of a recent cut of 56,250 tons in Taiwan's 1959 international sugar quota. Total production in 1958 was approximately 930,000 tons, not all of which was marketed.

A number of basic economic problems remain for which no solution is in sight. The population continues to increase at a rate, which, if unimpeded, will approximately double the 10,500,000 inhabitants in a generation. This will provide a serious problem for a predominantly agricultural country, with per-capita arable land already only one fifth of an acre. Investment of about

16 percent of gross national product per year is estimated to be necessary to avert a decline in per-capita gross national product. It is questionable whether adequate capital growth can be maintained in the future.

Maintenance of a large standing army constitutes the second major basic problem. A

Chiang Kai-shek government is not likely to undertake a drastic reduction of the armed forces, now some 670,000 men, since this would virtually necessitate abandonment of the present policy of maintaining large forces in readiness to exploit any "Hungarian-type" uprising on the China mainland.

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## JAPANESE SOCIALISTS MOVE TOWARD LEFTIST EXTREMISM

The Japanese Socialist party is shifting from its "neutralist" policy and moving toward a pro-Communist foreign policy. In the absence of most of the party's right-wing leaders, party executives pushed through a decision to form a joint front with the Communist party, the leftist Sohyo labor federation, and other leftists in an all-out attack on the US-Japan security treaty. Meanwhile, a Socialist mission to Peiping has identified itself with the Communist position on Asian questions and termed the United States the "common enemy" of Japan and China.

The decision to form a joint front with the Communists

was a marked triumph for the Socialist left wing and assured that the campaign against the security treaty will be under pro-Communist leadership. The right wing, however, does not fully share the left wing's desire to abolish the security treaty or its willingness to sever relations with Taiwan. Neither does it fully support the policy of cooperating with the Japanese Communists. Factionalism in the party ranks thus will probably continue, and a reversal of the Socialist decisions is unlikely.

Socialist Secretary General Inejiro Asanuma, who is heading the party mission to Peiping, on 17 March issued a joint

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communiqué with Chinese Communist leaders in which he agreed that Japan must sever relations with Nationalist China and sign a peace treaty with Peiping. He also subscribed to Peiping's denunciation of the Kishi government, its call for a nuclear-free zone in Asia, the "liberation" of Taiwan, and to Peiping's linking of political questions to that of trade with Japan.

Asanuma's actions are an apparent effort to induce Peiping to end its trade embargo against Japan and to give the Socialists credit for an achievement which could be exploited in

the forthcoming local and upper-house elections. However, there have been no indications of any such concession.

The Japanese press has been strongly critical of the Socialist party's new policies and has accused it of "slavish servility" to Peiping. The governing Liberal-Democratic party is seeking to drive a wedge in Socialists ranks by publicly charging Asanuma with irresponsibility. It also apparently intends to fight the forthcoming election campaign on the issue of conservative advocacy of close cooperation with the United States versus Socialist anti-Americanism.

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**NEW STRAINS ON PAKISTAN'S MILITARY GOVERNMENT**

Pakistan's military leaders are encountering new tensions as the regime nears the end of its first six months in power. Their growing impatience with the performance of the civilian administrators, coupled with the first signs of popular dissatisfaction, apparently is forcing President Ayub and the army to assume a firmer and more direct command of the government.

The top military leaders recently have stepped up their pressure on senior officials of the civil service, on whom they have relied heavily since October to provide the specialized knowledge and administrative techniques necessary to carry out the regime's extensive reforms. Ayub and his army colleagues are reported increasingly critical of the effectiveness of some civilian officials. At the same time, there have been growing indications of popular dissatisfaction over the army's reliance on discredited officials to run the government instead of retaining full martial in-law administration.

These reactions among sections of the army and the public apparently were responsible for Ayub's order of 10 March providing for summary dismissal or retirement of civil servants without appeal if they are found to be corrupt or inefficient. Notice has already been served on a number of high-ranking government officers. The morale of the civil service, long one of the most stable and protected career organizations in Pakistan, is reported to be extremely low following Ayub's action.

Since the army is neither desirous nor capable of administering the country solely at all levels, the regime will remain dependent on civil officials. The growing strain between the two groups is likely to make it more difficult for the army leaders to implement their complex political and economic programs.

The martial-law administration in East Pakistan demonstrated its concern over the first serious challenge to its authority by recently imposing

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severe sentences on leaders of a strike by jute mill workers in February. Despite their concern for popular good will, the military leaders apparently felt this first indication of unrest had to be met with a show of government firmness.

The stiff penalties may result, however, in serious disaffection among working groups

in East Pakistan, where there is traditional sensitivity to outside authority. A current unseasonal price rise in East Pakistan towns may promote additional dissatisfaction among the working classes. A conference of all top government leaders will be held in East Pakistan next month to take stock of internal conditions. [redacted]

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**CUBA'S CAMPAIGN AGAINST DICTATORSHIPS**

Fidel Castro's campaign against dictatorships places him in the same camp with such liberal leaders as Venezuelan President Romulo Betancourt and former Costa Rican President José Figueres, but his predilection for revolutionary methods and his recent tendency to deal with Communist-influenced exile groups have prevented concerted efforts by these three leaders.

Although Castro has denied any intention to intervene militarily, he has publicly declared his intention to assist anti-dictator revolutionary groups, and Cuba has become a meeting place for revolutionaries seeking material or financial support. Castro has authorized Ernesto "Che" Guevara, the controversial leftist Argentine revolutionary, who worked closely with Castro during the revolution, to deal with such groups.

Revolutionary plotting in Cuba is directed primarily against the governments of Haiti, the Dominican Republic, and Nicaragua. Activities against Haitian President Duvalier--already weakened by internal difficulties--have progressed the farthest. Haitian exiles have been permitted to broadcast inflammatory propaganda and to operate freely, but there is no firm evidence that a Haitian invasion force is training in Cuba.

Castro's interest in Haiti is primarily as a potential base of operations against Dominican dictator Trujillo. Anti-Trujillo groups have become active in several countries other than Cuba, notably in Venezuela, but so far have failed to achieve unity. Castro's apparent support for the Communist-influenced Dominican Patriotic Union has met with opposition from Betancourt and Figueres. Despite a great deal of Dominican exile activity in Cuba, including radio propaganda and possibly some recruitment, preparations for an attack on Trujillo are not believed to have progressed beyond the planning stage. The Dominican foreign minister has stated that an attack on Haiti would be considered an attack on the Dominican Republic.

Activities against Nicaragua, which is of less immediate interest to Cuba, have also been hampered by lack of unity among the opposition groups involved; Castro is believed to support the pro-Communist Nicaraguan Patriotic Union.

Castro's efforts to exclude "dictatorships" from the Organization of American States--a proposal originally made by Betancourt--will probably be limited by the reluctance of many Latin American countries to intervene in the internal affairs of member nations. [redacted]

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**HONDURAN-NICARAGUAN TENSIONS**

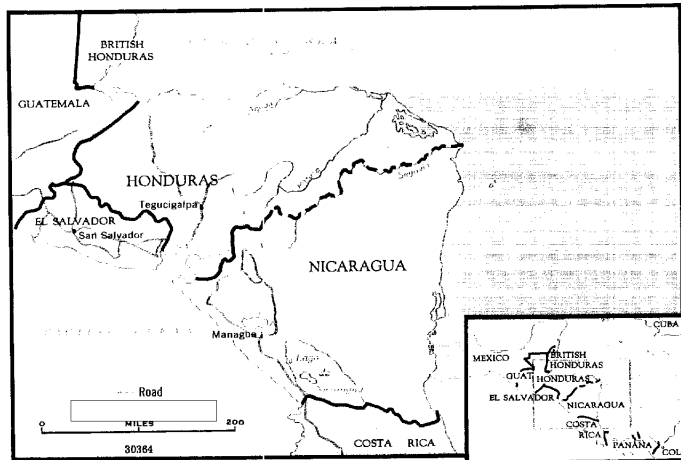
Long-standing tensions between Honduras and Nicaragua have flared again despite the signature in Washington on 26 February of an agreement between the two countries designed to control revolutionary exile activities. Honduras has publicly charged Nicaragua with violating the agreement by arming the rebel band that clashed with a Honduran patrol near the border on 11 March. Nicaraguan officials look with suspicion on the Honduran delay in ratifying the agreement and fear that the exiles now attempting to secure Cuban and Venezuelan support for an invasion of Nicaragua may be permitted to use Honduran territory.

Shortly after signing the 26 February agreement, Nicaragua deported Honduran rebel leader Armando Velasquez to Costa Rica. Velasquez had stimulated several small outbreaks in Honduras by broadcasts over a clandestine radio station announcing an "imminent uprising" in Honduras.

Other immediate effects of the agreement were to be an end to the clandestine radiobroadcasts and the repatriation of the several hundred Hondurans who had taken refuge across the Nicaraguan border. The radio, however, continued sporadic broadcasting at least until 15 March from its as-still-undisclosed location. An attempt to repatriate the refugees

failed on 12 March when, despite official Honduran assurances that they could return peacefully, they were fired on by unidentified civilian groups a few miles inside Honduras. About 600 of them then came back to Nicaragua.

There is some danger of a serious border incident between the armed forces of the two countries. Nicaraguan officials told the US Embassy on 15 March that the presence of a large Honduran Army force near the border caused them to withdraw



Nicaraguan troops to a prudent distance.

Meanwhile, the Nicaraguan Government has called for investigation of the refugee problem by the mixed Honduran-Nicaraguan military commission, a group set up under the auspices of the Organization of American States (OAS) after earlier border troubles. Honduran President Villeda has authorized his ambassador in Washington to take the case to the OAS if other means fail.

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**THE BOLIVIAN CRISIS**

The Bolivian crisis, which caused the US Embassy to start sending American dependents out of the country on 13 March, eased at least temporarily on 16 March when tin miners suspended their strike. The Siles government appeared initially to have won a showdown with dissident government party members headed by the key leftist labor leader Juan Lechin.

Postponement to 1 April of the controversial unfreezing of mine commissary prices, however, suggests that this key issue may not be definitively settled and that a new contest between the Siles and Lechin factions may break out. Siles usually can count on a minority of the miners and of the central labor organization, while the majority tend to back Lechin. Siles increased his support from the militia in the recent crisis by appointing Quechua Indian leader José Rojas to the cabinet. Rojas is widely feared in Bolivia for brutality and wields dictatorial power over a key segment of the rural population.

The Bolivian Government's avowed adherence to the International Monetary Fund's requirement on wage policy permitted the US Government on 16 March to release ICA funds of \$500,000 to

Bolivia, but the Bolivian Central Bank still has a deficit of approximately \$2,000,000. The bank was able to operate at a deficit in part by making use of \$1,400,000 in guarantee deposits of foreign oil companies. The remaining deficit is explained by a time lag between the bank's writing of dollar drafts and their being presented for payment; these dollar drafts may "bounce" whenever the bank's deficit is much over \$1,400,000.

External factors may facilitate the implementation of Bolivia's economic program over the next year. Tin prices are showing unexpected strength and reached \$1.035 per pound on 16 March, while Bolivia's 1959 budget predicated a price of \$0.95. Furthermore, a foreign oil company operating in a field with proved reserves is expected to begin producing shortly, while other foreign oil companies plan to spend \$12,000,000 in Bolivia this year, and the new pipeline to Chile may increase oil exports. Bolivia achieved a 15-percent decrease in the cost-of-living between January 1957 and September 1958, thus suggesting that the Bolivian Government has a fair chance of carrying out its economic stabilization program.

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**OUTLOOK IN THE NETHERLANDS FOLLOWING ELECTIONS**

The indecisive results of the Netherlands' national elections on 12 March will make formation of the next cabinet difficult and may leave the country without an effective government for months.

The slight trend to the right--seen mainly in gains by

the Liberal party--reflects the gradual postwar improvement in the Netherlands' economy and a protest against the "rigidity" of the successive postwar four-party coalition cabinets. The Labor party, which suffered considerable losses in last year's provincial and municipal elections, held its loss to only two

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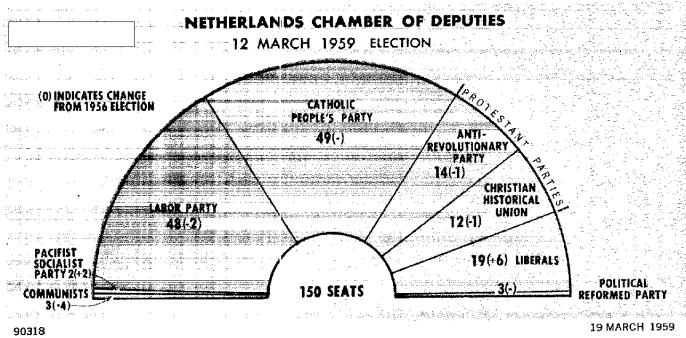
seats, while the conservative Protestant parties suffered just enough losses to eliminate the possibility of Catholic reliance on them for a "denominational majority" alliance. Largely because of a split in the party, Communist representation was cut in half.

As the largest party in the chamber, the Catholics are being asked to make the first effort to form the new government, and they prefer a coalition with the Labor party. Labor, however, may feel it will do better as an opposition party for the next few years. In this case, there will be no alternative to forming a right-wing coalition, but even this would call for protracted negotiations, since the parties seem more conscious than ever of differences in their domestic political objectives.

No fundamental change in Dutch foreign policy is expected, except possibly on the Netherlands New Guinea question, where there has been a deadlock

for years because of inter-party bickering. If the Labor party--which pressed during the campaign for an "international" solution in West New Guinea, possibly under UN auspices--makes an issue of it by going into opposition or making it a necessary compromise to joining the government, the deadlock may be broken. The interim government of Catholic

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Premier Beel, however, is still taking a strong line on West New Guinea and has threatened to divert NATO-committed equipment to its defense if American aid is not forthcoming and if NATO countries continue to sell arms to Indonesia.

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## CONFIDENTIAL

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## PART III

PATTERNS AND PERSPECTIVES

## THE ECONOMY OF WEST BERLIN

Since the end of the blockade in May 1949 West Berlin's economy has expanded steadily but remains vulnerable in its complete dependence on West Germany. The Communists could at any time cut the 110-mile life-line which carries over one billion dollars in goods each way.

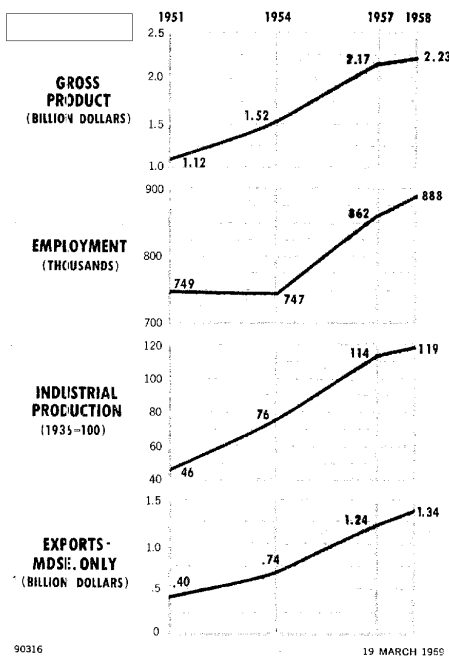
West Berlin is one of Europe's major industrial producers. Including such world-famous firms as Telefunken and Siemens-Halske, Berlin industries produced goods valued at \$1.66 billion in 1958, a 6-percent increase over 1957 production. Of some 880,000 now employed, about 300,000 are industrial workers mainly producing electrical equipment, chemicals, and metal products. The clothing industry has made the city a major fashion center for West Germany.

Berlin's prosperity is also reflected in rising incomes and increased production of consumer goods. Wages and salaries increased by 7 percent in 1958. Per-capita production of consumer goods surpassed the prewar level in 1955 and now is over 38 percent above the prewar level. Prices have remained relatively stable, and the cost of some major items such as clothing has declined gradually.

As the Berlin economy has regained its prewar position, the high level of unemployment--20 percent of the labor force in 1954--has been brought down to only 8 percent in 1958. Unemployment still fluctuates between 60,000 and 100,000 because of seasonal factors. Some 14,000 West Berliners still work in the Soviet sector and almost 40,000 East Berlin residents work in the western part. Average wages have moved up from about \$.30 an hour in 1950 to almost \$.50 in 1957, for an average workweek of 45 hours.

The over-all economy has certain weaknesses, however. Its rate of growth has begun to fall off. Industrial production, in particular, while still expanding, is doing so at a decreasing rate. Large numbers of older persons are withdrawing from the labor force, thereby increasing the city's

## WEST BERLIN'S ECONOMY



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pension payments. Skilled industrial workers, many of whom are refugees from East Germany, are gradually moving the West Germany.

Dependence on the West

The major weakness in the economy is the city's physical isolation from its main markets and sources of supply in West Germany. During 1958 about one billion dollars in goods were shipped to West Germany, almost all of which traveled over surface routes subject to East

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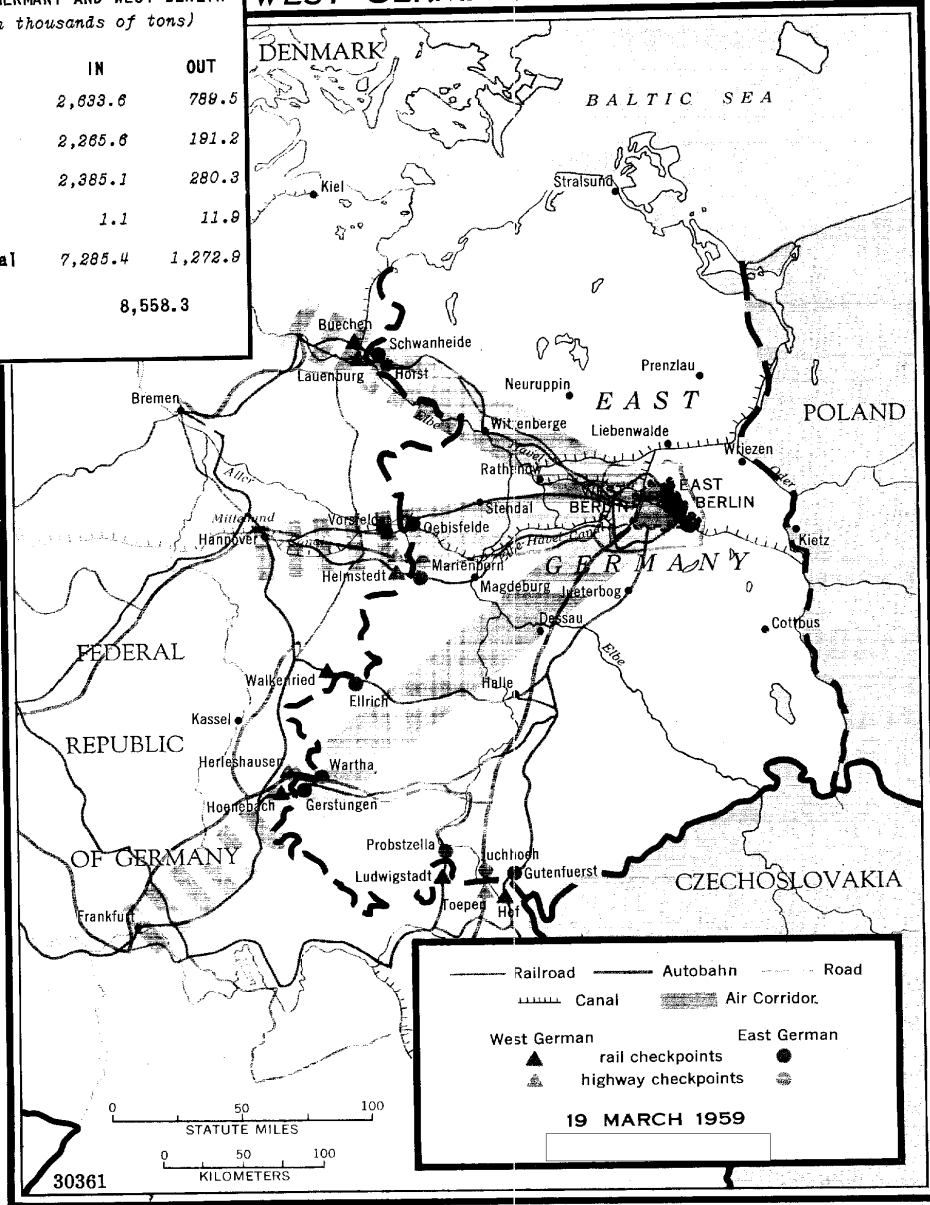
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**COMMUNICATION ROUTES BETWEEN WEST GERMANY AND BERLIN**

TRAFFIC BETWEEN WEST GERMANY AND WEST BERLIN  
(in thousands of tons)

|          | IN      | OUT     |
|----------|---------|---------|
| LAND     | 2,833.6 | 789.5   |
| RAIL     | 2,265.6 | 191.2   |
| WATER    | 2,385.1 | 280.3   |
| AIR      | 1.1     | 11.9    |
| Subtotal | 7,285.4 | 1,272.9 |
| TOTAL    | 8,558.3 |         |



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German control. West Berlin also imported almost \$1.4 billion in goods from West Germany over these same routes. Berlin's complete dependence on the West is reflected by the small amount of trade with East Germany and the other bloc countries, amounting to only about 2 to 3 percent of the total.

Berlin industry exports about 65 percent of its production to West Germany. The electrical equipment industry, Berlin's most important manufacturer, produces almost \$500,000,000 worth of equipment, and exports 73 percent of its output to West Germany. The clothing industry exports

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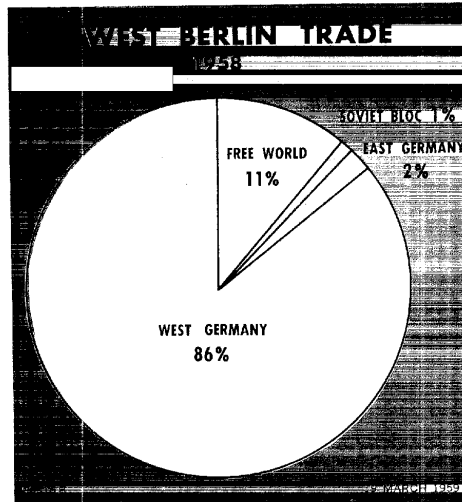
over 70 percent of its output to the West. If deliveries to the West were to decline by 50 percent, it is estimated that 80,000 to 90,000 workers would be added to the 90,000 already unemployed.

Even more important to the city's existence than the West German market is its dependence on the West for vital supplies of raw materials, food, and agricultural products. Although East Germany supplies some fresh food, the total food shipments from West Germany to Berlin are far greater in both volume and value. In 1957 only 17,000 tons of foodstuffs came from East Germany while 600,000 tons of food were imported from West Germany. West Berlin industries import over \$300,000,000 annually in iron, steel, and metal products. West Germany even supplies over 1,000,000 tons of stone and earth, mostly by canal barge, for the construction industry.

East Germany supplies the major proportion--1,300,000 tons--of West Berlin's vital supply of brown coal briquettes, used extensively for heating private dwellings. Technical factors as well as cost rule out any large-scale conversion to other forms of fuels for heating. However, a stockpile of brown coal of about 780,000 tons, or about four to six months' supply, is maintained.

The Federal Republic's financial aid has also been necessary to maintain the economy. Thus far Bonn has extended almost \$600,000,000 in grant aid. In the city's budget for 1958-59, more than one half of the receipts are from Bonn. In addition, American aid, \$5,500,000 in 1958, has amounted to approximately \$600,000,000. Thus, the present prosperity has been achieved with the help of well over a billion dollars of external aid.

Much of this external aid went into creating the early



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momentum for the present industrial prosperity. The city's continuing need for assistance today arises from factors attributable to geographical isolation, such as the cost of supporting refugees until they can be absorbed or resettled, and the high transportation costs of imports and exports. An attempt to recover any significant portion of these costs from Berlin's booming industry would run counter to the need for keeping taxation sufficiently comparable to that in West Germany so that industrial enterprises will not move to the Federal Republic and thus compound Berlin's unemployment.

Present Economic Stability

Mayor Willy Brandt has often stressed that one of Moscow's objectives in the present crisis is to undermine the economy and create conditions of political unrest. In an effort to bolster the economy, both the West Berlin and Bonn governments have taken steps to ensure new orders and investment for Berlin's industrial plants. At a meeting between Brandt and West Germany's leading industrialists in December, German industry pledged all-out support for the Berlin economy. Bonn now allows increased depreciation for tax purposes on new capital goods installed in Berlin, and has

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extended government-guaranteed insurance coverage against non-delivery of Berlin exports because of East German or Soviet interference with access. Special construction projects, such as the rebuilding of the Reichstag, are also being accelerated.

Despite these measures, political uncertainty seems to be slowly producing some economic soft spots. The director of a leading bank believes this uncertainty is holding up new investment. Most large firms are filling orders placed before the present crisis, and new orders have fallen off. One prominent industrialist has complained that West German customers are now placing orders in West Germany rather than in Berlin.

The Berlin stock market remains 18.3 percent below the level prior to Khrushchev's 10 November speech, while West German stocks have declined only 1 percent. Private bank deposits also are slowly drifting downward. Private savings have decreased \$2,000,000 (1 percent), time deposits are down \$14,000,000 (17 percent) and checking accounts have declined \$13,000,000 (6 percent)

since 31 October 1958. A further reflection of the political uncertainty is the increasing value of the Eastmark in terms of the Westmark. The Eastmark is now 21 percent more valuable than in November.

Current Outlook

Despite the signs of apprehension, which some Berlin observers feel is natural, the fear of any major panic has abated at least for the present. Having withstood Soviet occupation in 1945, industrial dismantling, and the blockade, most Berliners remain calm in the face of Khrushchev's threats. Signs of panic in November were only temporary. Mayor Brandt has pointed to his meeting with German industrialists and the NATO meeting, both in December, as the major turning points for the Berlin economy.

As the 27 May deadline approaches, however, increased anxiety may become apparent. Any sign of lack of confidence from Western Europe could lead to reduced orders for Berlin's industry and flights of capital, goods, and persons.

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## THE WORLD OIL-TANKER FLEET

Total tonnage of the world's oil-tanker fleet climbed to a record of 55,716,000 dead-weight tons by the end of 1958 despite a sharp decline in tanker charter rates. Some 5,291,000 tons were added during the year, even though as much as 6,000,000 tons were laid up for lack of business during the year--including 800,000 tons of American-flag tankers. The increase in new

tankers was distributed unevenly among various countries. Liberia, the major flag-of-convenience country, moved substantially ahead of second-place Britain by registering a 21-percent gain.

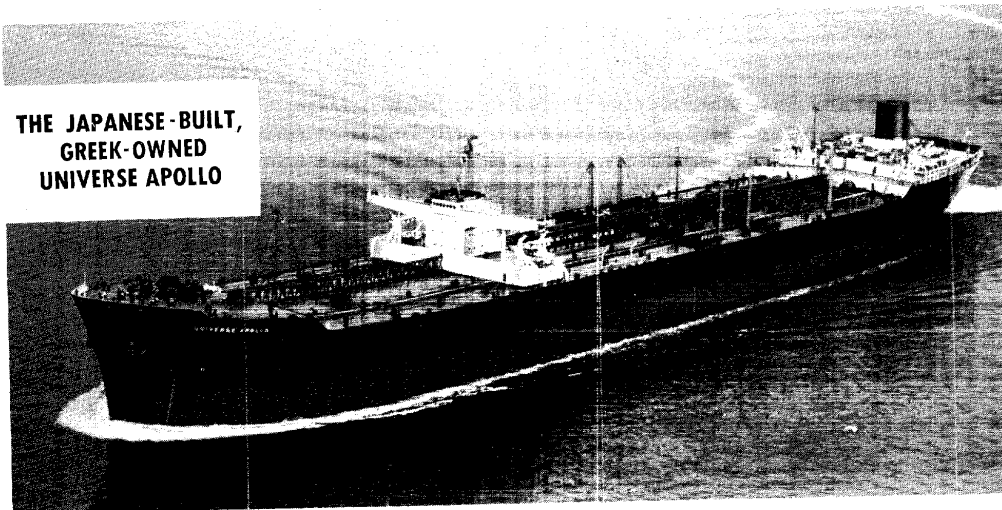
The trend toward construction of supertankers--24,000 dead-weight tons and over--continued, and the world tanker fleet boasted 13,214,000 tons of

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**THE JAPANESE-BUILT,  
GREEK-OWNED  
UNIVERSE APOLLO**



these giants on 1 January 1959. The largest of these--the 104,-500-ton Universe Apollo, built by the Japanese and owned by Greek interests--was launched in December 1958. The Universe Apollo, like most very large supertankers, is unable to transit either the Suez or the Panama canal, and will be used principally to carry Kuwaiti crude oil to Japan. Three more such ships are on order; two are to be built in the United States. Major interest, however, appears to be in supertankers ranging between 45,000 and 50,-000 tons; 154 of the 525 supertankers now on order are in this category.

#### Declining Charter Rates

Tanker charter rates, which have fluctuated widely since the end of World War II, now have dropped to near record lows. Record highs were registered during the Korean war and the Suez crisis in July 1956. At the height of the Suez crisis, rates were more than four times their present level. This year, they should be somewhat higher than last year, but many ships still will be operating at a loss; the loss, however, probably will be less than if they were laid up.

The low charter rates also are seriously affecting the competitive position of various sections of the international petroleum industry. Middle Eastern crude oil now may be sold competitively in areas which normally have purchased Venezuelan oil. With profits of oil operations in Venezuela reduced because of tax rises there and with oil prices cut more sharply in the Middle East than in Venezuela, more Arab oil may be sold in Latin America and Europe. For Middle Eastern oil to be competitive with Venezuelan crude at present prices, charter rates for tankers need be only 7 to 25 percent below the United States Maritime Commission scale; present rates are from 50 to 70 percent below scale.

#### Flag-of-Convenience Dispute

A bitter controversy over the flag-of-convenience issue came into focus at the meeting of the Intergovernmental Maritime Consultative Organization held in London between 6 and 21 January. Most European maritime countries, led by Britain, joined in a successful fight against seating flags-of-convenience countries--chiefly

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Liberia and Panama--on important committees.

European maritime countries for years have opposed the growing practice of registering in Liberia and Panama tankers owned by nationals of other countries. These nations claim these procedures merely create "tax havens" which enable "runaway" vessels to compete unfairly with the traditional maritime powers. More recently these powers have had the active support of the International Transport Workers' Federation, which boycotted a number of "tax-dodging ships" in late 1958. The boycott was successful only in American ports. The USSR has sided with other European countries and has imposed penalties on "convenience" shipping using Soviet ports.

American and Greek owners are the chief targets of this campaign because they own most of the tonnage registered under Liberian and Panamanian flags. The bulk of this tonnage consists of oil tankers, especially supertankers. Liberian-flag tankers on the average are five years old, have a speed of 15.5 knots, and weigh 24,800 tons. By comparison, British-flag tankers on the average are almost

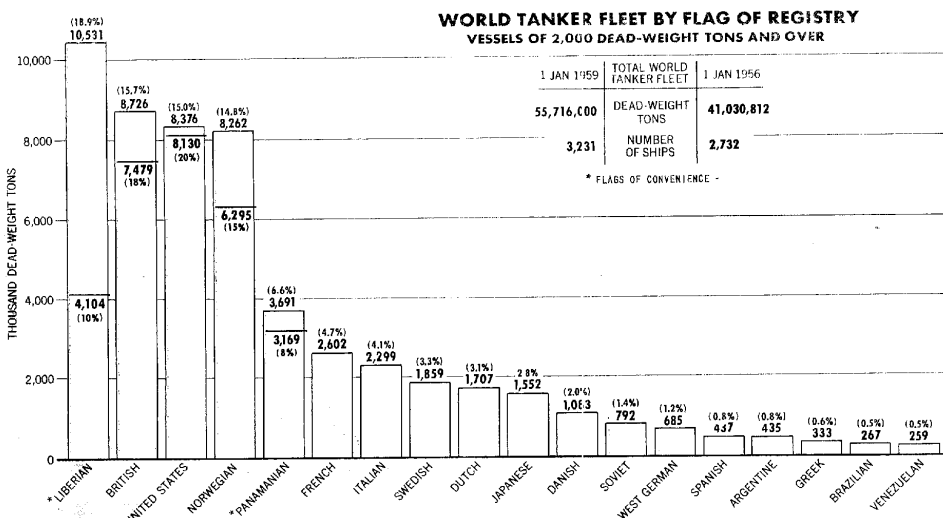
12 years old, have a speed of only 13.5 knots, and weigh only 15,500 tons.

Ownership of Liberian, Panamanian, and Honduran tankers is roughly divided between Americans and Greeks. About 44 percent of Liberian-flag tankers are controlled by American firms, while Greek interests control about 53 percent. In Panama, the percentages are probably reversed.

American oil companies, which own about 10,000,000 tons of the world oil-tanker fleet, have most of their tonnage under traditional flags, although 1,340,000 tons were registered in Liberia and an additional 1,826,000 tons flew the Panamanian flag on 1 January 1958. The great bulk of "convenience flag" shipping--about 70 percent--is controlled by American or Greek "tramp companies"--those which hire out their vessels as opposed to owners who use their ships in their own trade.

Suez Canal Limitations

At present only supertankers up to 40,000 tons can transit the Suez Canal fully loaded, although larger tankers



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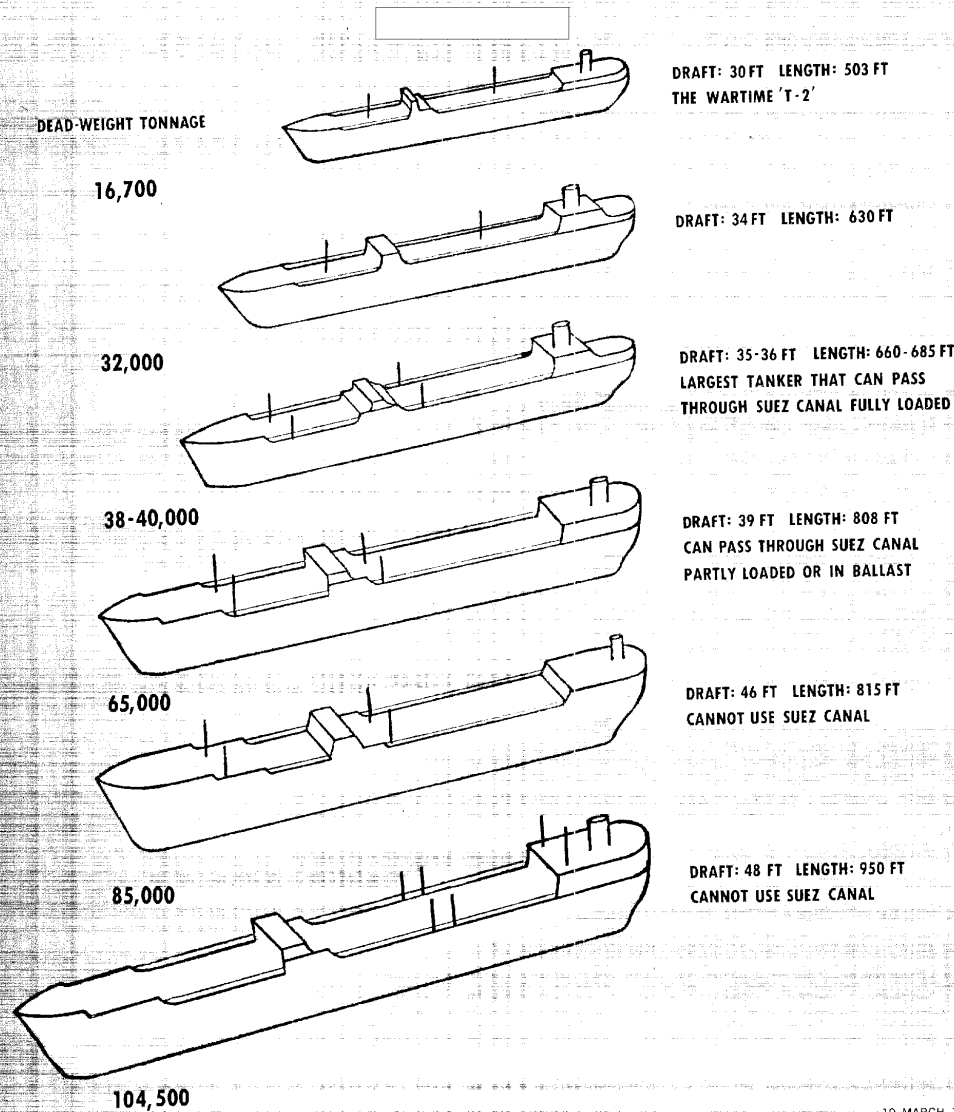
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**COMPARATIVE TANKER SIZES**

perhaps up to 65,000 tons--can transit in ballast or partially loaded. Of the existing super-tanker fleet, over 3,300,000 tons cannot use the canal or can use it only when partially loaded. In coming years, however, the number of ships unable to use the canal will probably rise sharply despite Egypt's efforts to deepen it. Of the 22,-000,000 tons of supertankers now on order, more than 60 percent--13,841,000 tons--will be unable

to transit the canal fully loaded, if at all.

While the increasing size of tankers will lessen the importance of Suez as a major oil transport route, the amount of oil passing through the canal will continue to rise. In the six months before Egypt nationalized the canal in July 1956, about 1,400,000 barrels a day (b/d) passed the canal to the West. This amount had already

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risen to an average of 1,881,000 b/d for the first eight months of 1958, but the actual capacity of the canal at present is over 3,000,000 b/d. Tankers carry through the canal almost 82.6 percent of Middle East oil destined for Western markets.

New Flag Vessels

Despite the surplus of tankers, several major oil-producing states are planning to develop their own tanker fleets. Plans to set up an Arab Navigation Company, largely to operate tankers, may be completed by early spring. The United Arab Republic, hoping to provide the nucleus of the fleet, is seeking a deal with Japan for the construction of two 20,000-ton tankers. The Kuwaiti Government reportedly has approved the tanker plan, and the privately owned Kuwaiti Tanker Company will participate. The rest of the proposed Arab fleet probably will be government-owned.

Non-Arab Iran also plans to carry a part of its oil production in Iranian-flag vessels. The first 33,500-ton supertanker for Iran was commissioned on 21 January; another of the same tonnage is to be commissioned in about six months. Five other supertankers of 50,000 tons are being built in Swedish yards and will be delivered to Iran at the rate of one each year beginning in 1960.

Venezuela also has plans to build a government-owned tanker fleet. On 1 January, 33 tankers totaling 207,146 tons were under Venezuelan registry, one tanker of 46,550 tons flew the Saudi Arabian flag, and four ships totaling 42,560 tons flew the Egyptian flag. Other oil-producing countries had their own flag tankers, but their number and tonnage were relatively insignificant.  25X1  
 (Concurred in by ORR)

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**CEYLON'S DETERIORATING ECONOMIC SITUATION**

Economic conditions in Ceylon have deteriorated steadily since the Bandaranaike government came to power in April 1956. The standard of living has declined, unemployment has increased, and numerous strikes have disrupted the economy. While some of the causes of the economic deterioration are beyond the government's control, Colombo's weak administration and lack of an economic development program to reverse the trend have been major factors in the government's loss of popular support.

When Bandaranaike took office, economic conditions were generally good. The economic policies of the United National party (UNP) government, plus the improvement in export prices, had enabled Ceylon to recover

from the collapse of commodity prices which followed the Korean war. Per-capita gross national product had been rising for several years, the cost of living was relatively stable, and unemployment was not yet too serious a problem. The high foreign-exchange reserves reflected the favorable prices Ceylon was receiving for its principal export crops, tea and rubber.

Bandaranaike's Program

The Sri Lanka Freedom party, led by Bandaranaike, called during its campaign for nationalization of tea, rubber, and coconut plantations and other important businesses, most of which are foreign-owned, and an economic development program providing for higher employment and rising living standards.

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CEYLON: GROSS NATIONAL PRODUCT  
(1952 PRICES)

|      | GNP*                        | POPULATION              | PER CAPITA<br>GNP |
|------|-----------------------------|-------------------------|-------------------|
| 1953 | \$ 928,000,000              | 8,290,000               | \$112             |
| 1954 | 988,000,000                 | 8,520,000               | 116               |
| 1955 | 1,108,000,000               | 8,723,000               | 127               |
| 1956 | 1,049,000,000               | 8,929,000               | 117               |
| 1957 | 1,035,000,000               | 9,179,000<br>(estimate) | 113               |
| 1958 | 1,000,000,000<br>(estimate) | 9,445,000<br>(estimate) | 106               |

\* Valued at Ceylonese prices; estimated GNP at US prices would be about \$ 1.5 billion for 1958.

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On taking office, however, the party soon was faced with declining prices for Ceylon's major export crops and with the realization that the costs involved in nationalization would be considerably greater than anticipated. The government therefore postponed most of its plans for nationalization, but has reiterated its intention to nationalize eventually, thereby discouraging private investment.

Economic Deterioration

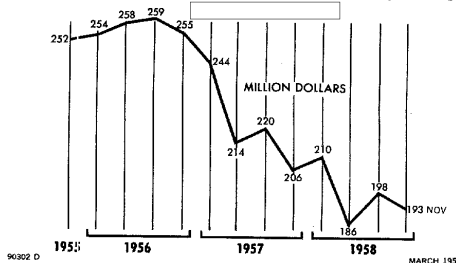
The government's assurances that it would expand economic development as soon as a plan could be formulated apparently satisfied the people until late 1957. At that time, however, Bandaranaike began to lose much of his popular support, largely because of the steady decline in living standards. Per-capita gross national product dropped about 11 percent between 1955 and 1957, and probably fell further during 1958 despite good rice and tea crops. Although the official price index shows only a small increase, there is general agreement that the cost of living has actually risen about 5 percent a year.

Unemployment has increased steadily and Ceylon now is estimated to be adding 70,000 to 80,000 a year to its pool of an estimated 500,000 unemployed out of a labor force of about 3,700,000. Exports have decreased and imports increased, causing Ceylon's holdings of gold and foreign exchange to

decline from \$254,000,000 in April 1956 to \$193,000,000 at the end of November 1958.

The government's prestige has also been severely shaken by its inability to halt the repeated strikes since late 1957. The government, as a self-styled socialist regime, has generally urged employers to yield to the strikers, despite the fact that most strikes have been staged by the politically oriented union leaders to build up their political strength rather than to improve labor conditions. Man-hours lost by strikes in 1958 were over 30 percent greater than in 1957, and the strikes disrupted business activities, raised prices, and antagonized Ceylon's rural population.

The situation in Colombo port has been the most serious problem. Conditions there became so bad during 1958 that even increased use of such minor ports as Jaffna, Galle, and Trincomalee did not eliminate long delays at Colombo. This led some shippers to bypass Colombo and others to raise shipping rates for products originating at or destined for Colombo. The government claims that its port-modernization program, formulated since the port of Colombo was nationalized in August 1958, will eliminate future bottlenecks. This seems unlikely, however, unless labor discipline is enforced. This would require a more forceful policy than the government seems likely to adopt.

CEYLON  
GOLD AND FOREIGN EXCHANGE RESERVES

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While some of the factors causing the economic deterioration, such as the decline of export prices and the severe floods in late 1957, have been beyond the government's control, at least part of the deterioration results from the government's habit of placing political ahead of economic considerations. It has a consistent record of being amenable to the demands of pressure groups. The prime minister as well as the other ministers interfere in all organs of the government at all levels, disregarding the recommendations of the officials involved.

This is particularly true in the labor field, in which the government, to achieve temporary political gains by granting labor demands, has consistently overruled the decisions of the wage boards and industrial courts. In addition, the communal violence which erupted in May 1958 severely disrupted economic activities, and can be attributed at least in part to the government's appeasement of Singhalese extremists.

Lack of Economic Planning

Despite Ceylon's growing economic difficulties and its

often proclaimed belief in a planned economy, the government has failed to formulate an economic development program. When the government took office, it discarded the development program of the former UNP government as too conservative and established the National Planning Council in September 1956 to formulate a socialist plan. This council has sought the advice of foreign economists and is working on a plan, but progress has been slow, chiefly because of Bandaranaike's preoccupation with political maneuvering.

The formulation of a well-conceived economic development plan would be only the first step in dealing with such problems as growing unemployment and diversification of the economy. This would, however, enable the government to focus the people's attention on economic development and hold out

**CEYLON: TOTAL TRADE AND TRADE WITH SINO-SOVIET BLOC**

(THOUSAND DOLLARS)

|                | EUROPEAN SATELLITES |         | USSR    |         | COMMUNIST CHINA |         | TOTAL SINO-SOVIET BLOC |         | TOTAL WORLD |         |
|----------------|---------------------|---------|---------|---------|-----------------|---------|------------------------|---------|-------------|---------|
|                | IMPORTS             | EXPORTS | IMPORTS | EXPORTS | IMPORTS         | EXPORTS | IMPORTS                | EXPORTS | IMPORTS     | EXPORTS |
| 1952           | 883                 | 2,445   | 263     | 501     | 6,896           | 25,950  | 8,042                  | 28,896  | 357,513     | 315,476 |
| 1953           | 1,574               | 665     | 14      | -       | 43,899          | 50,865  | 45,487                 | 51,530  | 337,646     | 329,287 |
| 1954           | 658                 | 349     | 402     | -       | 33,252          | 46,529  | 34,312                 | 46,878  | 293,424     | 379,952 |
| 1955           | 1,484               | 333     | 128     | -       | 16,785          | 25,479  | 18,397                 | 25,812  | 306,546     | 407,424 |
| 1956           | 1,418               | 275     | 184     | -       | 28,102          | 38,270  | 29,704                 | 38,545  | 342,252     | 364,259 |
| 1957           | 1,781               | 1,242   | 296     | 137     | 17,597          | 35,151  | 19,674                 | 36,530  | 378,854     | 353,116 |
| 1958 (JAN-OCT) | 1,342               | 948     | 187     | 2,833   | 26,858          | 11,331  | 38,387                 | 15,112  | 282,440     | 298,042 |

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**CEYLON: EXPORTS AND IMPORTS**

(THOUSAND DOLLARS)

|                | EXPORTS |              |                  |        |         | IMPORTS                 |                    |                               |                                   |         |         |
|----------------|---------|--------------|------------------|--------|---------|-------------------------|--------------------|-------------------------------|-----------------------------------|---------|---------|
|                | TEA     | CRUDE RUBBER | COCONUT PRODUCTS | OTHER  | TOTAL   | TOTAL FOODSTUFFS (RICE) | PETROLEUM PRODUCTS | TEXTILES AND RELATED PRODUCTS | MACHINERY AND TRANSPORT EQUIPMENT | OTHER   | TOTAL   |
| 1953           | 173,269 | 70,892       | 51,781           | 33,345 | 329,287 | 162,714 (67,937)        | 25,151             | 33,919                        | 37,041                            | 78,821  | 337,646 |
| 1954           | 235,788 | 59,913       | 45,143           | 39,108 | 379,952 | 135,555 (57,393)        | 21,585             | 30,862                        | 26,667                            | 78,755  | 293,424 |
| 1955           | 250,788 | 73,573       | 47,929           | 35,134 | 407,424 | 126,861 (46,515)        | 27,716             | 28,356                        | 32,825                            | 90,788  | 306,546 |
| 1956           | 219,208 | 61,436       | 45,328           | 38,287 | 364,259 | 142,921 (55,375)        | 25,208             | 33,684                        | 39,450                            | 100,899 | 342,162 |
| 1957           | 214,483 | 63,063       | 33,390           | 42,180 | 353,116 | 149,569 (53,632)        | 43,113             | 34,396                        | 42,492                            | 109,283 | 378,853 |
| 1958 (JAN-OCT) | 200,935 | 42,386       | 22,582           | 32,139 | 298,042 | 117,667 (37,399)        | 21,362             | 28,808                        | 38,792                            | 75,811  | 282,440 |

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the hope that living conditions would improve in the future.

Government leaders appear confused about what is needed to stimulate Ceylon's economic development. They have increased expenditures for social services, partly to win political support and partly in the belief that such projects constitute economic development. The Soviet and free-world economic aid that is available is being utilized very slowly, for the government has few income-generating projects ready for execution.

While the government may succeed in producing a generalized plan during the coming year, it is unlikely that any plan will be vigorously implemented in view of Bandaranaike's past performance. Under these circumstances it seems likely that economic conditions will continue to deteriorate unless there is a sharp and unexpected rise in the prices of Ceylonese exports. Even such a development, while strengthening the country's financial position, would have little effect on the rapid growth of unemployment.

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