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# CURRENT INTELLIGENCE WEEKLY SUMMARY



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~~SECRET~~**CONFIDENTIAL****CURRENT INTELLIGENCE WEEKLY SUMMARY****30 April 1959****PART I****OF IMMEDIATE INTEREST****EAST-WEST NEGOTIATIONS**

In line with the USSR's general posture toward East-West negotiations, the two-day meeting of Warsaw Pact foreign ministers, attended by the Chinese Communist deputy foreign minister, struck a "moderate" tone with the avowed purpose of encouraging Western "flexibility" in the forthcoming talks. The conference communiqué issued on 28 April expressed unanimous approval and support of Moscow's proposals for a German peace treaty and for converting West Berlin into a free city.

The communiqué repeated charges made in the recent Soviet notes to the United States and West Germany that alleged measures to speed up the nuclear rearmament of West German forces are designed to confront the foreign ministers' conference with a fait accompli. It also denounced Bonn's policies as "counteracting" all proposals to ease tensions and achieve a disarmament agreement, including a nuclear-free zone in Central Europe. The communiqué avoided, however, bellicose threats and pledged that bloc governments will do "everything in their power to ensure the success of the negotiations."

Foreign Minister Gromyko's general line of action at Geneva was foreshadowed in the communiqué, which called for "full participation" of Poland and Czechoslovakia in both the foreign ministers' and summit meetings. It asserted that the two German states have the right to "take their due place at the conference table in Geneva," suggesting that the USSR will

not insist on full participation of the East German representative and will accept observer or consultant status for the two German delegations.

The communiqué served notice that one of Gromyko's main tactical aims will be to defeat Western insistence that Berlin and a German treaty must be discussed in the broader context of German reunification and European security. It reiterated that reunification is the exclusive problem of the two Germans, and charged that proposals to "tie those problems up in one knot" would be aimed at "making it difficult to adopt any agreed decisions" on any of them.

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Moscow's confidence that it will enter the foreign ministers' meeting with a strong bargaining position was reflected in Soviet propaganda stressing disunity among the Western powers.

**Nuclear Test Cessation**

In a characteristically bold maneuver to divide his opponents and extricate himself from a difficult position, Khrushchev, in letters to Prime Minister Macmillan and President Eisenhower on 23 April, accepted a suggestion by Macmillan for a predetermined number of annual on-site inspections of suspected nuclear explosions. This shift in the Soviet position was presented as an effort to break the deadlock on the crucial issue of inspection procedures and pave the way for an agreement to halt all nuclear-weapons tests.

Khrushchev rejected the American and British proposal for a phased approach, beginning with suspension of atmospheric tests, as an "unfair deal" designed to mislead public opinion and enable the Western powers to continue their nuclear weapons development programs. The Western proposal, advanced on 13 April, had thrown the USSR on the defensive, and Khrushchev probably believed acceptance of Macmillan's compromise proposal would not only enable him to regain the initiative in the nuclear test talks but also to exploit any Western differences on this issue.

Soviet delegate Tsarapkin at Geneva is resorting to the

time-honored Soviet tactic of demanding that the West must first accept Khrushchev's new proposal in principle before details can be discussed. On 28 April, however, he clarified the Soviet position by stating that the USSR will drop its demand for a veto on the dispatch of inspection teams if the number of inspections of suspected nuclear explosions to be permitted each year is agreed on in advance. He also announced that Moscow would agree to having a "permanent inspection team located somewhere" and to permit automatic inspection when control-system instruments indicate a suspicious event.

Tsarapkin made it clear that the USSR contemplated only a small number of annual inspections, echoing a statement by Khrushchev in his letter to President Eisenhower. Moreover, Tsarapkin insisted that the annual quota must be fixed by a "political decision," not on a technical basis, and that the three nuclear powers must now work out a "political compromise."

The political objectives of dividing the United States and Britain underlying this latest Soviet move were evident in Tsarapkin's remark that he expected the American and British delegates to support Khrushchev's new proposal, in view of the fact that the original suggestion for an inspection quota had been made by Macmillan. Khrushchev also expressed confidence in his letter to the prime minister that the British delegate at Geneva would be instructed to work for a solution on this

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basis, "taking into account the considerations you (Macmillan) expressed in Moscow."

West Germany and West Berlin

A recent public opinion survey revealed that on the question of accepting East German control over Berlin access routes or sending a convoy through at the "risk of war," over 50 percent of the Berliners would prefer a risk of war, while only 21 percent of the West Germans would advocate such a move. Some dealings with East Germans on access would be acceptable to 41 percent in West Germany, while 38 percent were undecided.

A majority of both West Germans and Berliners believed that the Western powers would "stand firm" in insisting on free access to Berlin. Although the chances for unification were considered poor by over 50 percent, a majority of those interviewed expected some worthwhile results from the forthcoming East-West conferences. Eighty percent in Berlin and 59 percent in West Germany expected the Soviet Union to compromise or back down on the Berlin question.

Almost two thirds of the West Germans interviewed favored direct political negotiations between Bonn and the East German Government on unification, indicating that Bonn's policy of rejecting such negotiations is apparently not supported by the majority of the public. West Berlin opinion on the question was almost evenly divided. Free elections, however, are

considered an essential condition for unification by a majority of those questioned.

The poll shows a general indecisiveness over East-West troop withdrawals from Germany prior to unification. While 39 percent of the West Germans felt that such a move would endanger German security, 37 percent believed it would not be dangerous or would make no difference, and 24 percent were undecided.

Britain

Prime Minister Macmillan's decision not to call general elections this spring will tend to increase pressures on his government to promote compromises in coming East-West negotiations. The elections, mandatory by May 1960, now are most likely in October. The holding of elections soon after summit talks would place Macmillan under maximum pressure to secure agreement there, in view of the expected closeness of the electoral contest.

Meanwhile, the government has publicly reiterated its endorsement of a special zone of arms limitation in Central Europe. Despite the toning down of its controversial ideas for the sake of immediate agreement on a united Western position for the Geneva foreign ministers' meeting, Foreign Secretary Lloyd told Parliament on 27 April that he believed tension might be lessened by means of a special zone of arms limitation and inspection. He did not tie this directly to German reunification.

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New appointments to a revamped Iraqi cabinet still have not been announced

because leaders of the National Democratic party (NDP)--the extreme left-wing element which forms the core of the present cabinet and which is collaborating with the Communists in a "national front"--are trying to bargain with the Communists in an effort to limit Communist influence. The Communists, in line with their apparent tactic of avoiding the appearance of an abrupt take-over in Iraq, may agree to limit their participation in the cabinet, but recent articles in the Iraqi Communist press indicate that they are seeking direct, open membership in the government for the first time since the revolution.

The position of the NDP has almost certainly been seriously weakened by the departure last week end of its chief, Kamil Chadirchi, for medical treatment in the USSR.

The Communists meanwhile are further consolidating their position elsewhere in the country. New instances of Communist-inspired terror tactics have occurred in Basra, in southern Iraq, where an army officer was killed by his own troops and where other officers apparently have been murdered following disputes with the Communist-dominated Popular Resistance Force.

Economy Minister Kubba, who spearheads the Soviet economic penetration effort in Iraq, announced on 27 April that he would seek revision of trade agreements with nonbloc states in order to bring Iraq's trade

with the free world in line with the controlled economy he wants to impose on the country.

Iraq's first budget, announced this week, reflects the economic stagnation which now characterizes the country. It shows an estimated deficit of more than \$21,000,000, despite the fact that a higher proportion of oil revenue is to be used for current operations than was the practice under the Nuri government. The deficit is due in large part, however, to a decline in world oil prices rather than to the specific practices of the regime. Budgeted military spending--and there is probably spending not included in the published figures--will account for about \$94,000,000, about a third of the planned total expenditure of \$286,000,000.

The Baghdad government also remains concerned over border problems with the UAR, Turkey, and Iran.

A Turkish Foreign Ministry announcement on 26 April stated that some 700 Kurds have been given asylum in southern Turkey. This group reportedly comprises largely women and children, who have fled Iraq as a result of a dispute between the leader of their tribe and Mulla Mustafa Barzani, the pro-Soviet Kurdish leader. The Kurds repatriated recently from the USSR to Iraq are Barzanis. The UAR apparently is still hopeful that it can use the Shammari tribesmen who have been disturbing the Iraqi-Syrian border area.

Ankara has become increasingly concerned over the Communist threat in Iraq and its implications for Turkish security. Prime Minister Menderes

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has proposed immediate American-Turkish talks on Iraq and the Middle Eastern situation in general and maintains that the adoption of a common US-Turkish policy is a matter of utmost urgency. While Ankara may still hope that Qasim can be persuaded of the Communist danger, Turkey's action in giving asylum to Kurdish refugees from Iraq suggests that it is seeking to exert greater influence over the situation in Iraq even at the risk of jeopardizing its tenuous access to Qasim.

UAR-Soviet Relations

Soviet leaders are continuing their effort to convince Nasir that his long-term interests will be best served by relaxing his anti-Communist campaign.

On 20 April Khrushchev sent Nasir a conciliatory 20-page letter in which he apologized for his remark on 16 March that Nasir was using the "language of imperialism." He flattered the UAR President as "the only leader of the Arab world" and observed that Soviet support of Iraq merely fulfilled Nasir's own request during his Moscow visit last summer. Khrushchev cautioned Nasir not to look to the West for aid, and observed that, despite the "humiliation" to which the USSR had been subjected by Nasir's remarks, Soviet aid would be forthcoming as promised for the Aswan High Dam. The Soviet leader concluded by proposing that Nasir call off the anti-Communist campaign. Khrushchev reportedly added a personal appeal by asserting that Nasir's attacks on him had hurt his position, since the Soviet policy toward the UAR is identified as his own.

Following up Khrushchev's letter, Radio Moscow this week announced that there is "no foundation" for "talk" of a stoppage of Soviet aid to the UAR, and the UAR High Dam Committee has been informed--almost three weeks ahead of schedule--that studies of detailed plans for construction of the dam have been completed. The Egyptian minister of public works, heading an expert committee, is scheduled to fly to Moscow next week for discussions.

Nasir nevertheless reportedly said he intends to continue to attack Communism in the Arab world--although he might not repeat his criticism of conditions in the USSR and Eastern Europe. As a tactic to promote a quarrel between the Iraqi prime minister and the Communists, he has ordered all attacks on Qasim personally to cease. In his recent speeches, Nasir has followed this line, and has also included attacks on Western "imperialism."

The attacks on the West probably are motivated both by a desire to maintain a "neutral" posture and his abiding suspicion that the West will not support him, even in an anti-Communist drive. Nasir is especially suspicious of the British, whom UAR propaganda portrays as collaborating with the Iraqi Communists. London's financial maneuvers against the UAR and the British decision to sell arms to Iraq are likely to confirm Nasir's view. 25X1

Soviet-Iranian Relations 25X1

The USSR has begun a new phase in its propaganda campaign to undermine the Iranian regime by initiating broadcasts

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aimed at fomenting unrest among tribal elements. Radio Moscow on 27 April gave its first specific support to the Iranian Kurds and the traditionally antiregime Qashqai tribes in Persian-language broadcasts to Iran. About the same date, a new clandestine station--"The National Voice of Iran"--which is Soviet inspired if not actually in the USSR, began attacking the Shah's tribal policies.

The principal Qashqai tribal chief, Nasr Khan,

may accept Soviet support. Realizing that Iran is already concerned about the loyalties of its estimated 750,000 Kurds, Nasr Khan may be attempting to obtain prompt settlement of his property claims from the Iranian Government by threatening to cause unrest among the estimated 300,000 Qashqai tribesmen in southern Iran.

**Jordan**

King Husayn returns to Jordan in the midst of intensified political intrigue. Bedouin elements are still seeking to oust the army chief of staff,

General Sadiq Shara, whom they have accused of conspiring against the King. Prime Minister Rifai, however, has defended Shara against the Bedouin elements' demand that he be arrested immediately on his return to Amman from accompanying Husayn on a world tour.

This maneuvering has produced a new spate of rumors that a cabinet change may occur soon. Prospective candidates to replace "strong man" Rifai are seeking popular favor by announcing they would attempt to achieve a reconciliation with Nasir. King Husayn has continued to assert that he regards Nasir as the prime threat to the Arab world, and the King is likely to find himself again strongly at odds with the opposition politicians.

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**TIBET SITUATION**

Chinese Communist troops continue their efforts to clear out the remnants of Tibetan rebellion. Concentrations of rebel forces have been broken up by the Chinese drive into the Khamba-occupied area of southeastern Tibet

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Tibet's rugged terrain, however, will permit survival of small rebel bands.

Simultaneously with the "pacification" operations against hold-out rebels, the Chinese are attempting to seal Tibet's border with Nepal, Bhutan, and India and to prevent a large-scale exodus of refugees. While this action will cut down the number of escapees, possibly as many as 5,000 have already crossed into Bhutan and India.

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Stung by New Delhi's sympathy for the Tibetans and



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by its continuing criticism of Chinese actions, Peiping is stepping up its accusations against India. It is attempting to prove Indian complicity in the revolt by "documenting" charges that Tibetans in Kalimpong "had asked the Indian Government to carry out open interference." The Chinese Communists also hope to keep pressure on New Delhi to curtail its criticism by charging that the Dalai Lama's "abductors" are abetted by Indian "expansionists."

People's Daily on 26 April said Nehru's admission that the Dalai Lama wrote three letters to the Chinese representative in Tibet in an effort to avoid an armed clash in Lhasa "automatically confirms" that the Tibetan leader is "held under duress." The Dalai Lama has claimed the letters were "doctored" by Peiping. This duress line is useful in Peiping's efforts to "prove" that the Dalai Lama supports its policies and to keep the door open for any future negotiations with him.

The Peiping press has maintained its bitter tone toward all detractors. An Indonesian newspaper was accused of "distorting the facts" by suggesting Communist China did not recognize religion as a national way of life. The UAR was charged with "scurrilous attacks" on China. The crown

prince of Sikkim was charged with "slander."

Official Communist protests have been lodged with New Delhi over the defacing of Mao Tse-tung's portrait by a mob of tomato-hurling Indians, and Cambodian Premier Sihanouk's remark, made in France, that he would not have shown Nehru's restraint was reportedly protested by the Chinese Communist ambassador in Phnom Penh last week.

Prime Minister Nehru, reacting to this tougher line, has lashed out at Peiping. Following his 24 April meeting with the Dalai Lama at Mussoorie, Nehru categorically denied charges that the Dalai Lama had been abducted. He then launched his strongest rebuttal of Communist China's charges, accusing Peiping of using language of the cold war and maintaining that its charges against India were made "regardless of truth or propriety." Terming the charges "so fantastic, I find it difficult to deal with them," Nehru added that he had made a formal protest to Peiping.

Nehru, clearly angered by the growing attacks on India despite his efforts to calm the situation, apparently believes that his past efforts to avoid recriminations have been interpreted in Peiping as a sign of weakness. He probably intends to make Communist China aware

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that while he hopes to keep the breach between New Delhi and Peiping from widening, a continuation of such charges could have serious long-term effects on Sino-Indian relations. Pei-

ping, for its part, has kept the way clear for eventual rapport with Nehru by avoiding personal attacks on him.

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**CHINESE COMMUNIST GOVERNMENT CHANGES**

The naming of Liu Shao-chi to the chairmanship of the Peiping regime is another indication that Mao Tse-tung wishes Liu to succeed him eventually as chairman of the Chinese Communist party. The government post, although largely ceremonial, adds to Liu's prestige and will facilitate the task of building up the image of Liu as a benign father-figure like Mao.

No significant change in the Chinese Communist scene

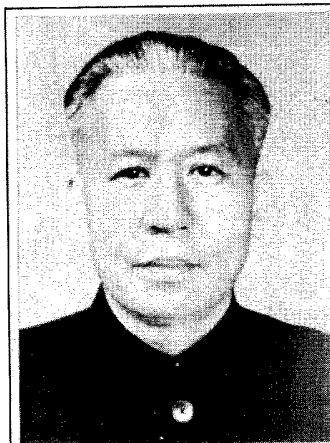


MAO TSE-TUNG

is expected to result. Both Mao and Liu--who has identified himself closely with Mao and his policies--advocated a close

relationship with the USSR while preserving China's freedom from Soviet control.

Mao told the party last December he did not want to be



LIU SHAO-CHI

nominated for the government chairmanship again because he wanted to devote his time to theory and questions of national policy. Shortly thereafter, the regime began to encourage discussion of Vice Chairman Chu Te for the top government post. Chou, as an esteemed party elder with nothing much to do, seemed the right man for the job.

Sometime after January, Mao, apparently changed his

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mind. It may be that Chu contributed to this, contending that he was too old (72) or lacked the ability to deal effectively with foreign visitors. Moreover, Liu himself may have decided he wanted the post and persuaded Mao to give it to him. In any case, it is virtually certain that the appointment is a mark of favor for Liu, not a "kick upstairs."

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SOONG CHING-LING

The most important government post, the premiership, will remain in Chou's hands. His reappointment to this post --which probably is the basis

of his power in the party--appears to ensure his position as the third ranking leader, behind Mao and Liu.



TUNG PI-WU

Chou's new cabinet--approved at the closing session of the National People's Congress--remains essentially the same as the previous one, although four deputy premiers have been added. These include the party's principal spokesmen on agriculture and on propaganda, and the regime's public security officer. In other appointments, Chen Yi remains foreign minister and Peng Te-huai has been renamed minister of defense.

Chu Te replaced Liu Shao-chi as chairman of the standing committee of the congress. The congress named both the Dalai and Panchen Lamas to the largely honorary posts of deputies on Chu's standing committee.

The two new vice chairmen of the government are comparatively unimportant figures. Tung Pi-wu is one of two surviving founders of the Chinese Communist party, Mao being the

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other. Soong Ching-ling, sister of Madame Chiang Kai-shek, is the widow of Sun Yat-sen, Chinese revolutionary leader of the early 20th century. The selection of Soong--a non-Communist--appears to be a gesture to "democratic" personages and Overseas Chinese. Two vice

chairmen apparently were selected--in violation of the constitution--to avoid the ticklish situation of having a non-Communist succeed to the chairmanship in the event of Liu's sudden retirement or death.

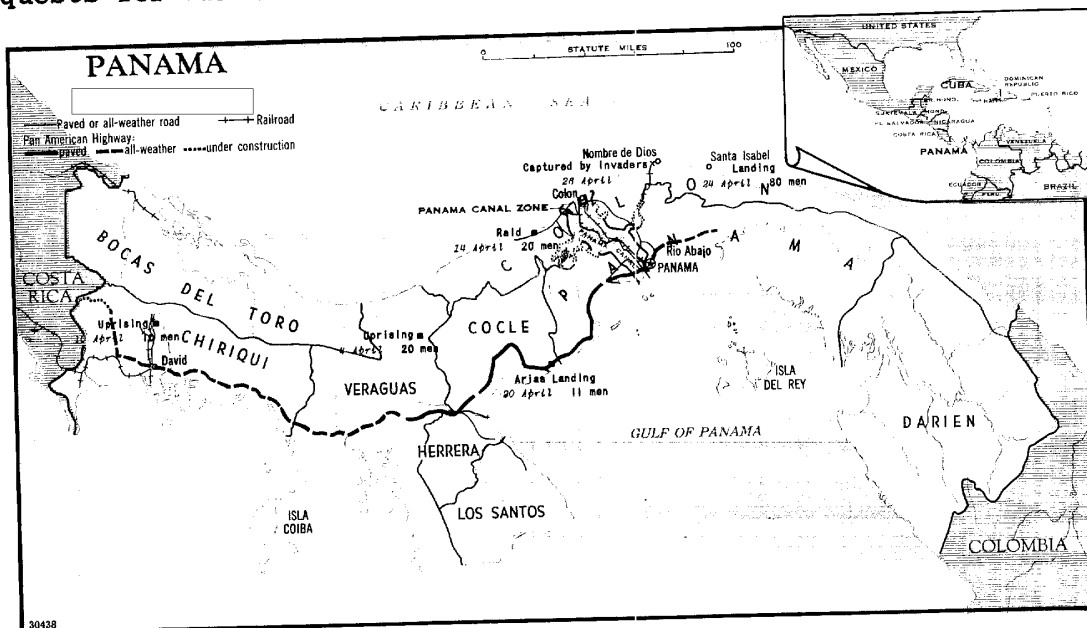
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**THE SITUATION IN PANAMA**

The prompt reaction of other American countries to the recent landing of small invasion forces in Panama has probably strengthened the unstable De la Guardia government and discouraged support for the invaders from other antiadministration groups. The Council of the Organization of American States (OAS), in response to Panamanian appeals for help, sent an investigating committee on 28 April and recommended that member states give favorable consideration to Panamanian requests for arms. Guatemala and

the United States have made arms and other equipment available to the Panamanian National Guard, which is reluctant to engage the revolutionaries. Air and sea patrol facilities are being made available to the investigating committee.

Premier Fidel Castro and other Cuban officials have condemned participation of Cuban citizens--reportedly 80 of a total of 86 attackers--in the invasion and promised stringent action against them. The departure of the expedition from

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Cuba on 19 April may have been tolerated by some Cuban officials

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[Redacted] the revolutionaries apparently have not received the local support they expected. Their leader, Roberto Arias, has taken asylum in the Brazilian Embassy. A radical student group has expressed sympathy with them, however, and may take advantage of the National Guard's preoccupation with the landing to incite scattered disorders commemorating the serious riots between students and the National Guard in May 1958.

These would probably be harassing hit-and-run attacks against the unpopular guard, a politically dominated urban police force which has been disconcerted by the scattered small revolts and landings of the past month.

Guard Commandant Vallarino, whose support has kept De la Guardia in office against numerous attempts to oust him, has appeared nervous and unsure of the guard's willingness or ability to fight the well-armed invaders. He and other members of the ruling clique apparently fear another successful landing might arouse latent resentment and discontent among Panama's poverty-stricken city dwellers, but seem incapable of taking effective action. They apparently intend to let the OAS committee handle the situation.

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PART II

NOTES AND COMMENTS

COMMUNIST CHINA TEMPERS OPTIMISM ON ECONOMIC PLAN

The session of the Chinese Communist National People's Congress just concluded has given its stamp of approval to the regime's highly ambitious 1959 plan and budget. Based on the leadership's belief that the economy can continue to leap ahead in 1959 at rates which compare favorably with those said to have been achieved last year, these plans reflect the general air of economic optimism prevalent at the congress. There was a growing recognition, however, that achievement of these objectives would not be easy.

the leap to date and which the regime is aiming to overcome this year. It will, for example, try to overcome the lack of direction evident in the enthusiastic pursuit of many of the regime's programs by a close insistence on a state-directed system of strict priorities in both construction and production.

In industry the priority system starts with steel, since, as Premier Chou En-lai observed, an insufficient supply has "hampered" the growth of the entire economy. Thus the weight of the

The principal speakers at the congress pointed out that despite the undoubted victories of the regime's policies in general, there was little ground for complacency, since China was still poor and unable to meet all the demands of its huge population and expanding economy. They admitted that shortages of materials, power, and transport would continue to plague the rapid industrialization drive, that the lack of machinery, chemical fertilizer, and adequate protection against calamities would hamper agricultural development, and that the output of daily necessities would continue to lag behind demand.

The speakers enumerated "not a few shortcomings" which have characterized

COMMUNIST CHINA'S PRODUCTION CLAIMS AND TARGETS

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	1957	1958	1959 TARGET
Total Value of Industrial and Agricultural Production (billion dollars)	50.45	83.33	116.66
Total Value of Industrial Production (handicrafts included) (billion dollars)	28.62	47.56	67.07
Steel (million tons)	5.35	11.08	18
Pig iron (million tons)	5.94	13.69	23
Coal (million tons)	130	270	380
Electric power (billion KWH)	19.3	27.5	40
Cement (million tons)	6.86	9.3	12.5
Edible oils (million tons)	1.1	1.25	1.8
Cotton cloth (million meters)	5.05	5.7	7.2
Total Value of Agricultural Production (billion dollars)	21.83	35.77	49.59
Food grains (million tons)	185	375	525
Cotton (million tons)	1.64	3.3	5
Soybeans (million tons)	10.0	12.5	15
Hogs (million head)	145.9	180	280

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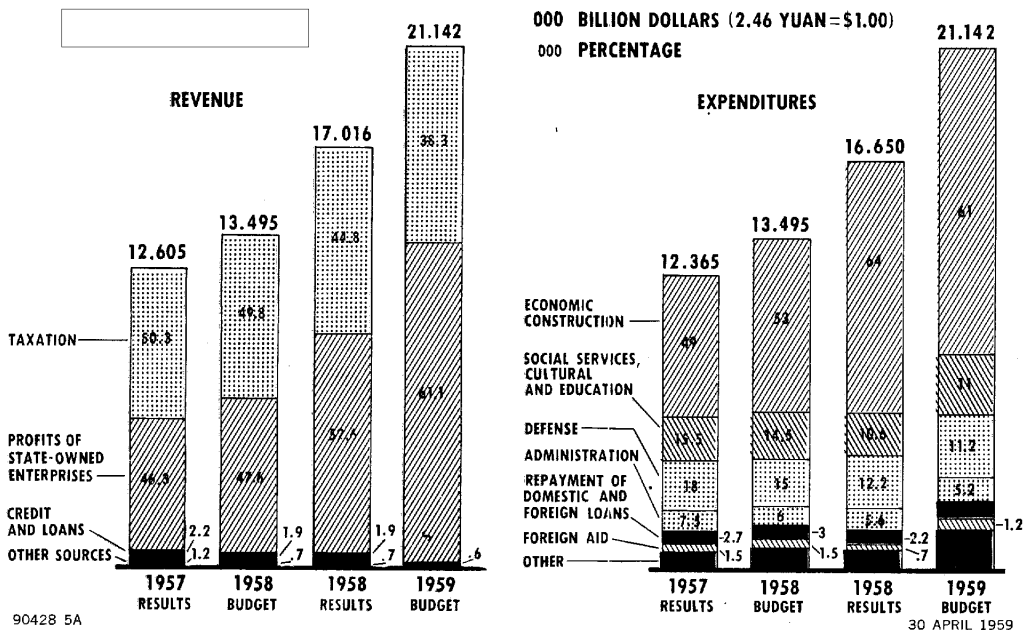


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**COMMUNIST CHINA'S BUDGETS**



industrial production effort this year and a large share of construction funds are to be concentrated on the steel industry and industries serving steel directly.

In agriculture, priority is to be given to ensuring that the regime's seemingly extravagant grain and cotton targets will be reached. To help achieve this, misuses of rural manpower and irrationality in some agricultural practices are to be corrected. Teng Tzu-hui, a leading spokesman on agriculture in earlier days, told the congress that shortages of rural manpower had led to improper gathering and handling of late crops last year, resulting in an anomaly which he described as "high production but not a bumper harvest."

Premier Chou En-lai has directed that at least 80 percent of rural manpower should be assigned to farming and related tasks like forestry, animal husbandry, and fishing. Industrial projects in the com-

munes, he said, should be programmed "with the farming season in mind." Touching on some of the new farming practices popularized during last year's leap, Chou cautioned that they should not be applied "indiscriminately."

Teng Tzu-hui reported that crop failures had been caused in some areas last year by injudicious close planting and recommended that new methods be completely proved in experimental plots before being widely used. He also played down the effectiveness of some water conservancy projects and stressed, as did other speakers, the continued dependence of Chinese agriculture on the weather.

Public recital of difficulties such as these is not new in China, although they were generally played down during the height of the leap. The growing prominence given them at this time suggests that Peiping is beginning to lay the groundwork for a gradual easing of the intensive pace of the giant leap.

(Prepared by ORR)

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INTRAPARTY DIFFERENCES FLARE UP IN EAST GERMANY

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The present drive in East Germany to increase production may well reopen the fundamental conflict between economic realists and doctrinaire party bureaucrats which led last year to the purge of Karl Schirdewan and others opposing party boss Ulbricht's program of accelerated socialization. As a result, those of Ulbricht's critics who still hold office are likely to find their positions increasingly difficult.

The regime's demand for major increases in production will place new strains on the party organization and may further undercut the position of the remaining moderates. The regime is attempting to undercut opposition to its economic policies by the use of incentive plans and wage increases. Nevertheless, East German workers are said to be "testy and assertive" in the face of the regime's demands. One pro-Ulbricht functionary reportedly summed up the situation: "If we don't attain our goal, the masses will laugh at us. If we do reach it, we'll have lost the workers."



Like Schirdewan, Selbmann was dropped from the Socialist Unity (Communist) party (SED) central committee because of his opposition to the economic policies and tactics of Ulbricht. Despite self-criticism at the party congress last summer, Selbmann has remained in a precarious professional and political position. Ulbricht has several times included him in general charges of factionalism and "conservatism" leveled at Schirdewan and in addition has charged him with failing to wage a sufficiently resolute struggle against "enemy agencies." Selbmann, not a Moscow-trained professional bureaucrat like Ulbricht, often came into conflict with Moscow-trained top party officials when he was one of the leading figures in East German industry.

The regime in recent weeks has been conducting a campaign against middle- and low-level party functionaries suspected of sympathies for Schirdewan and opposition to accelerated socialization. The regime's campaign is in line with Ulbricht's demand at the fourth party plenum for elimination of all such elements. and

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some such officials have been removed in various localities.

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**SOVIET-NEPALI TIES EXPANDED**

The USSR and Nepal, which in the past have maintained diplomatic contact through their missions in New Delhi, have agreed to exchange resident diplomatic missions. The USSR, by breaking a "gentlemen's agreement" with India of several years' standing to postpone opening a diplomatic mission in Katmandu, is thus likely to incur some disfavor with the Indian Government--particularly in view of developments in Tibet. New Delhi regards Nepal as within its sphere of influence. Communist China, which has permission to open a consulate in Katmandu, may also press for establishment of an embassy.

The decision was announced by Moscow on 23 April and in Katmandu on 24 April following the signing of two agreements covering Soviet economic assistance in the form of outright grants of about \$7,500,000 to Nepal. These agreements provide for a hospital, construction of power plants, sugar factory, a cigarette factory, and a survey for an east-west road. The Soviet ambassador to New Delhi, Ponomarenko, who is also accredited to Nepal, believes the embassy in Katmandu will be opened by summer, and that the technicians will arrive by July. These specialists are to supervise construction and train Nepali hospital personnel.

Ponomarenko is being replaced in New Delhi by I. A. Benediktov, who served as ambassador there for five months in 1953. It is not known whether Benediktov will also be appointed to head the new mission in Nepal.

The agreements apparently were pushed through by a small Nepali government-palace clique, including disgruntled lame-duck ministers defeated in the recent national elections which resulted in a landslide victory for the Congress party. According to the Katmandu newspaper Kalpana, which reflects Congress party views, the agreement to establish embassies was made without the party's knowledge. This is supported by the fact that General Subarno, chairman of the Council of Ministers and a Congress leader who opposed the agreement, was absent from Katmandu at the time.

Kalpana accused the Nepalese Foreign Ministry of "international adventurism" and said it is involving the country in power blocs. The paper's report suggests that the new government, which is soon to take office, may stall on the opening of the Soviet embassy.

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**CAMBODIA**

The Communist bloc's influence in Cambodia is growing. There is a continuing belief among Cambodian leaders that the United States was involved in some degree in the recent Sam Sary - Dap Chhuon plotting against the Sihanouk govern-

ment. Tape recordings of Premier Sihanouk's demagogic speeches, in which he virtually said that the United States was a co-conspirator with South Vietnam and Thailand, are being broadcast in provincial centers throughout Cambodia.

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In contrast, Sihanouk's critical remarks regarding Chinese Communist repression in Tibet--made in an interview in France, where he is convalescing from a recent operation--have been suppressed in the Cambodian press. This apparently resulted both from pressure by the Chinese Communist and Soviet embassies in Phnom Penh and from the incredulity of Cambodian officials that Sihanouk had been quoted correctly.

Communist influence in the Cambodian Ministry of Information has become increasingly apparent during the past year and the Cambodian press now is oriented toward the left. The growing role of radio as a propaganda medium is indicated by Communist China's supplying of three transmitters to the Sihanouk government; one medium-wave unit already is in operation and two for short-wave broadcasting are to be ready by the end of this year. The Cam-

bodian market has been flooded with low-priced radio receivers made in Communist China, and radio stations in Peiping and Hanoi have stepped up their Cambodian- and Chinese-language broadcasts beamed to Cambodia.

In addition to exploiting radio in Cambodia for internal subversion, the Communist bloc probably hopes to derive propaganda gains from a multilingual international broadcasting program envisaged by Cambodia with its new facilities. Sihanouk has referred to Peiping's "generous" assistance as providing Cambodia with the means to break out of its international isolation and to "answer victoriously the gross calumnies and insults" of certain foreign press and radio sources. Current anti-Sihanouk broadcasting by "Radio Free Cambodia"--a clandestine operation apparently supported by South Vietnam and Thailand--and a threatened renewal of the Phnom Penh - Saigon press war can only serve to perpetuate Cambodia's distrust of free world motives.

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## THAILAND

Prime Minister Sarit returned to Bangkok on 27 April amid reports that Lt. Gen. Krit Punnakan may be plotting a coup against him. Krit, who like most of the other leaders of Thailand's ruling military clique, is pro-Western and anti-Communist, has long been at odds with Sarit. Although Sarit has sought to reduce Krit's power by placing him in an unimportant staff position, Krit is popular among junior officers--who are perennially dissatisfied with their share of the spoils--and is believed to retain substantial support among the armored units which he formerly commanded. Moreover, his brother, Maj. Gen. Pong

Punnakan, holds the lucrative Communications Ministry portfolio in Sarit's cabinet.

Sarit is probably aware of Krit's machinations. While he would probably prefer to avoid an early showdown, Sarit may feel it essential to his continued control to deal decisively with the problem of Krit's disaffection before it assumes more serious proportions. His most likely solution would be to order Krit out of the country on some face-saving diplomatic assignment. Such a course might cause considerable tension within the military group, but Sarit probably has ample power at this point to accomplish it.

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At the governmental level, Sarit and his colleagues have been preoccupied with economic matters. In addition to coping with the chronic problems of sluggish retail trade and "creeping inflation," Sarit is anxious to accelerate the pace of Thailand's economic development by attracting substantial foreign investment. Several proposed ventures now are under consideration, including competing offers by Shell-Stanvac and Standard Oil of Indiana to build a 25,000-barrel-per-day refinery.

There are indications that former Premier Pridi Phanomyong wishes to leave Communist China, where he has been in exile for ten years. However, his implication in the 1946 regicide case remains a serious obstacle to his return to Thailand. Sarit and other Thai leaders are said to regard Pridi as potentially of great use as an economic adviser. It is also open to question, however, that Peiping would permit Pridi to leave China, particularly if he has broken with the Communists as recent reports have claimed.

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**SINGAPORE ELECTION CAMPAIGN**

Recent events in Singapore appear to have enhanced the prospect that the Communist-infiltrated People's Action party (PAP) will form the next government with a clear majority in the island's first legislative assembly to be entirely elected. The elections on 30 May will immediately precede the granting of a large measure of self-government to the new State of Singapore.

Filing of candidacies by the other Singapore parties reflects the nearly complete collapse of Chief Minister Lim Yew Hock's plans for forming an anti-PAP coalition to prevent splitting the vote among moderate and conservative voters. Lim's moderate Singapore People's Alliance nominated 39 candidates and the conservative Liberal Socialists 32. In addition, there are 34 independent candidates as well as numerous nominees representing ten other parties, most of whom will add to the fragmentation of the moderate vote. Even Lim may have trouble retaining an assembly seat in his supposedly "safe" district,

since the non-PAP vote will be split with his bitter enemy, former Chief Minister David Marshall, and with a Liberal Socialist candidate.

The group of well-known PAP candidates was bolstered by the party's nomination of the popular former mayor of Singapore, Ong Eng Guan, and 12 city councilors following the resignation of Ong and the entire city council faction on 18 April. On nomination day, the PAP was the only party to file a complete slate of candidates for all 51 assembly seats. Initial analysis of the candidate lists indicates that the party has averted serious competition from other left-wing parties and independent candidates.

Despite the apparently increased friction between the PAP "moderates" and the pro-Communist left wing, the party is expected to avoid an open split prior to the elections. Indications are growing, however, that a serious fight may develop shortly after the election which could easily result in

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substantially increased extremist influence in the party's central executive committee. The Communists are already deeply entrenched in local organizations.

Chief Minister Lim may be able to force the withdrawal of

some of the moderate candidates. It is doubtful, however, if any action taken by him at this late date, short of instigating disorders to force postponement of the elections, can reverse the trend toward a PAP election victory.

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## JAPANESE CONSERVATIVES WIN ELECTION VICTORIES

The decisive victories of Japan's ruling conservative party over the opposition Socialists in the 23 April elections for key gubernatorial and municipal posts stemmed the pro-Socialist trend of recent years and should provide a favorable climate for the conservatives in the upper-house election in early June. They should also strengthen Prime Minister Kishi's personal position and quell, at least temporarily, dissident elements in the party. The Socialist leadership is certain to come under fire from both the right and left wings, and the party's adverse showing will possibly weaken its unity.

With approximately 80 percent of the electorate voting, conservatives were elected in 18 of the 20 gubernatorial contests, including the key governorships of Tokyo, Osaka, and Hokkaido. Socialists were elected governors only in Fukuoka and Ibaragi prefectures. Conservatives won mayoral races in the important cities of Osaka and Yokohama and, despite some Socialist gains, the conservatives maintained overwhelming control in Japan's 46 prefectural assemblies. Most Japanese commentators tenta-

tively agree that young voters were less inclined than in previous elections to support Socialist candidates.

While local issues and personalities were major factors in the outcome, both parties made foreign policy an issue in the major contests. The conservative party charged the Socialists with "pro-Communism" because of their recent endorsement of the Chinese Communist position on several Asian questions, and the Socialists attacked the US-Japanese security treaty. Conservative victories, at least in the big cities, appear to reflect some popular disillusionment with the Socialists.

Hokkaido had been a Socialist stronghold during most of the postwar period. The new conservative-led administration there may help improve civilian-military relations in a major defense area where there is a relatively large concentration of Japanese forces in some American installations.

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**ISRAEL DEVELOPING PORT OF EILAT**

UAR harassment of Israeli shipping through the Suez Canal again emphasizes the importance of Israel's port of Eilat on the Gulf of Aqaba as a substitute outlet to African and Asian markets. While the Israelis will continue to seek passage rights through the canal, they are planning to expand trade through Eilat, and Prime Minister

Ben-Gurion has reiterated Israel's determination to defend its "freedom of navigation" in the Red Sea against any UAR claims.

Between 1956--when Israel broke Egypt's blockade of the Gulf of Aqaba--and 1958, some 174 ships called at Eilat. Exclusive of oil, Eilat now handles about 3,000 tons of cargo per

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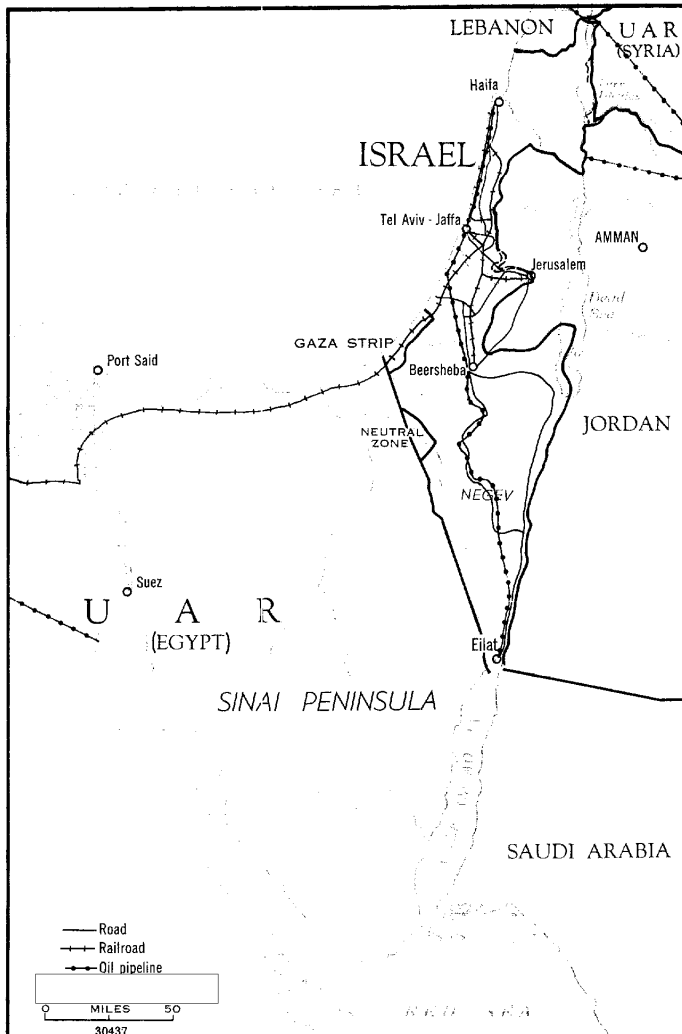
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month--only a fraction of its capacity, even with the port's present limited facilities. On completion of a new pier which has been under construction for almost a year--together with the recent installation of new bulk-loading equipment--Eilat could probably handle annually over 100,000 tons of outbound cargo alone. In addition, approximately 28,000 barrels a day of Iranian oil now are received there for transport by pipeline to the Haifa refinery.

In 1958, Israel shipped from 120,000 to 130,000 tons of cargo through the Suez Canal on ships flying neutral flags. If this route were denied entirely to the Israelis, Eilat's capacity probably would enable Israel to maintain its trade with East and South Africa and Asia for a limited period at nearly its present volume. This would be an expensive stopgap at best, since trucking costs from production centers in the north across 150 miles of Negev wastelands are extremely high. An eventual railway extension from Beersheba to Eilat is contemplated.

The government might subsidize overland shipments be-



cause of the political importance of Israel's African and Asian trade. Economically, this trade is of minor importance, constituting less than 5 percent of Israel's total commerce. Contacts in these markets, however, permit the Israelis to cultivate friendships which aid them in disputes with the Arabs.

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**THE NEW FRENCH SENATE**

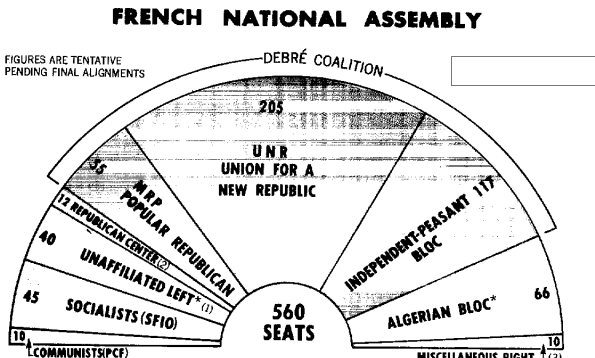
The new French Senate elected on 26 April is similar in political complexion to its Fourth Republic predecessor, the Council for the Republic, and thus possesses a closer balance between right and left than the rightist-dominated National Assembly elected in the tide of Gaullist enthusiasm last November. Since the new constitution gives the Senate a political role almost equal to that of the assembly, it may serve De Gaulle as a counterweight if he decides to press policies--particularly his Algerian policy--which are un-

acceptable to his rightist supporters, and it may become important in the event of conflicts between Premier Debré and the assembly.

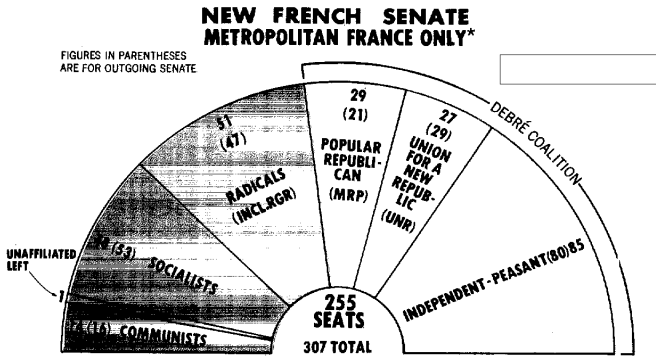
Of the 255 senators elected in metropolitan France, 177 were members of the old council and 30 were former assembly deputies defeated in November. The second-ranking French Communist, Jacques Duclos, and Jeannette Vermeersch, wife of Communist party Secretary General Maurice Thorez, both of whom were defeated in November, were elected to the Senate. This may mean a

shift of the Communists' parliamentary focus from the assembly to the Senate. The proportionately greater number of left and center elements in the Senate would afford the Communists a more favorable propaganda forum on such traditionally divisive questions as the church-school issue, which Debré seems certain to bring up.

The Debré government's parliamentary backing, which is firm in the assembly because of the absolute majority comprised of the Union for a New Republic (UNR) and the Independent party, depends in the Senate on the third member of the coalition, the Popular Republicans. The UNR's loss of two senatorial seats, following only moderate gains in the March municipal elections, may even damage the party's cohesion in the lower



\* "Administrative formations" (for purposes of participation on assembly committees).  
 (1) Mostly Radical-Socialists and Democratic Resistance Union.  
 (2) Mostly conservative Radicals.  
 (3) Includes Georges Bidault (formerly in MRP) and overseas deputies.



\*255 senators elected in Metropolitan France; 34 to be elected later are in Algeria and the Sahara; 7 in Overseas Departments; 5 in Overseas Territories; 6 by Frenchmen living abroad.

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house, particularly as it gets down for the first time to actual policies and legislative programs with the opening of parliament on 28 April.

The 34 senators to be elected on 31 May from Algeria will probably strengthen the government coalition, but the

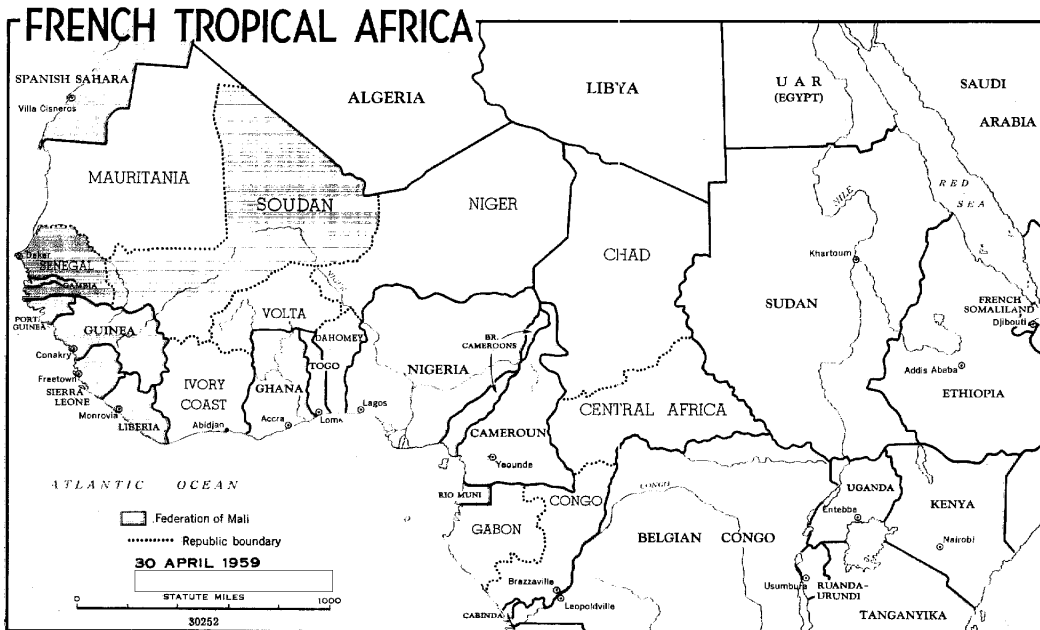
remaining 18 senators--representing overseas departments and territories, and Frenchmen living abroad--will probably be scattered among several parties. No cabinet changes will ensue since the three cabinet ministers who ran and won have decided to remain in the cabinet.

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**WEST AFRICAN DEVELOPMENTS**

Two centers of power potentially hostile to each other are developing among the autonomous republics of the French Community which formerly were included in the Federation of French West Africa. The Mali Federation, which was formed by Senegal and Soudan, in early April, seems headed for early independence. A rival grouping of four republics, headed by the rich Ivory Coast and now associated for economic cooperation, strongly supports the French Community.

The leaders of the Mali Federation--President Modibo Keita and Leopold Senghor, who is president of the federal assembly--have recently stated that Mali should have its own diplomatic missions and representation at the United Nations. Furthermore, they believe each republic within the French Community should be delegated local jurisdiction over powers entrusted to the community--defense, foreign affairs, and finance. Their interpretation of the French constitution as



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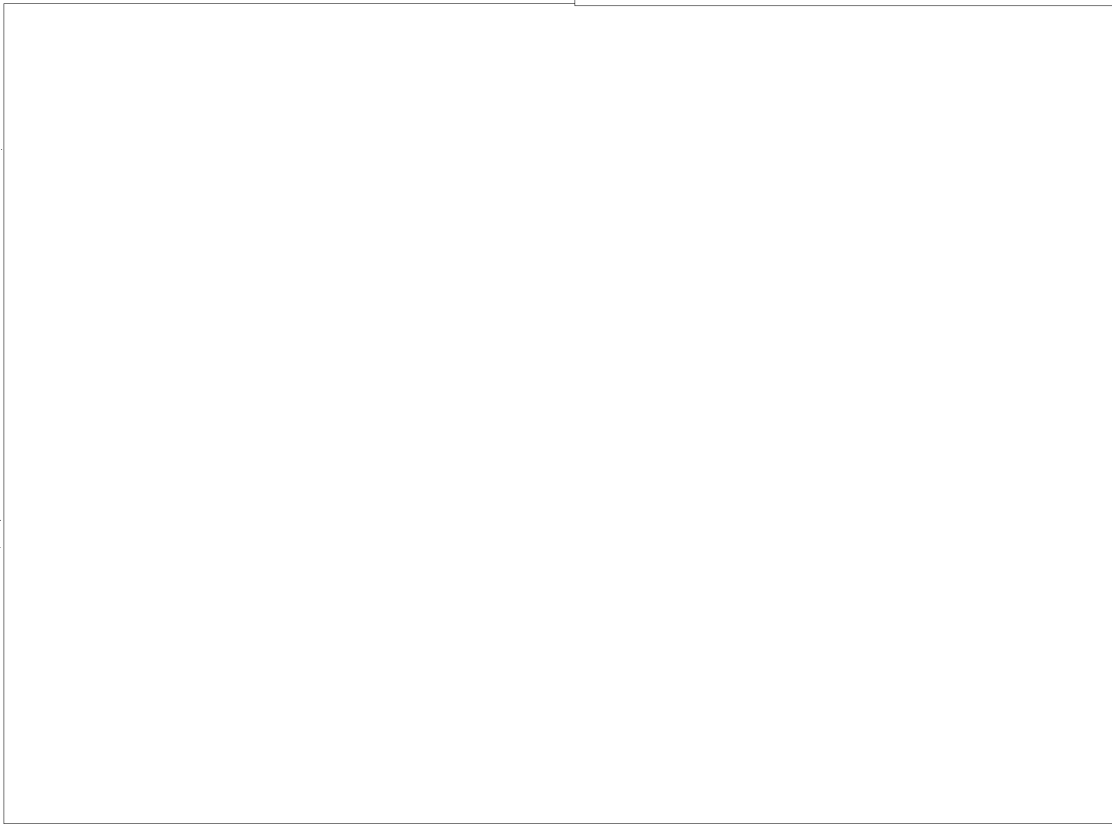
permitting the evolution of autonomous republics into sovereign countries and transformation of the community into a multinational confederation probably goes far beyond anything contemplated by Paris. French representatives at Dakar reportedly are already reconciled to the idea that Mali will soon be independent.

Meanwhile, Felix Houphouet-Boigny, political boss of the Ivory Coast, is developing a pro-French Community grouping based on economic cooperation between his resources-rich public and the underdeveloped republics of Volta, Niger, and Dahomey. The Ivory Coast appears willing to give some financial assistance to the other states, to enter into a customs union, and to share in the control of its modern port of Abidjan and the rail links to the interior.

If economic cooperation should spread beyond the present four republics to embrace the other three states of former French West Africa-- Senegal, Soudan, and Mauritania --it might be possible to reconstruct the economic unity that existed prior to the establishment of the new French Community on 6 April. However, if, as is likely, Ivory Coast economic assistance develops into political influence-- particularly in the case of the Voltaic Republic which has traditionally close contacts with Abidjan--then the cleavage of West Africa into at least two conflicting blocs is a real threat. This danger now has increased because of Houphouet-Boigny's decision on 27 April to accept the Ivory Coast premiership and relinquish his ministerial post in Paris.

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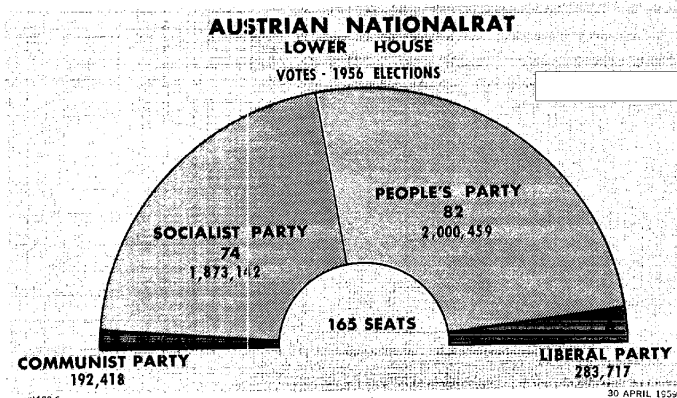
**AUSTRIA'S GENERAL ELECTIONS**

The campaigning for the 10 May parliamentary elections has further stimulated strong pressures for drastic revision of the coalition pact which has given Austria a stable and strongly pro-Western government since 1945. It still seems likely that the People's party and the Socialists will reconstitute the coalition in some form, but a radical shift in party strengths as a result of the elections might make it extremely difficult to achieve a coalition agreement at all.

While both major parties are nominally in favor of the coalition, several developments have combined to make it the only really controversial election issue. During the past two years, interparty relations have progressively deteriorated to the point where government operations have become extremely difficult. Moreover, disclosure during the past year of corruption involving the

upper ranks of both parties has caused many to question the system of allocating public offices on a rigidly proportioned basis.

Ostensibly in an effort to meet these problems, the People's party has declared its intention to revise the coalition agreement so as to deprive either party of a "veto." Under the proposed system, the two parties would be required to concert their views only on foreign policy and financial questions; all other issues would be resolved by parliamentary vote. The Socialists have



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been quick to charge that this is in fact "one-party rule," and to accuse the People's party of hoping to establish a parliamentary majority by allying with the Liberals--a small pan-German, Nazi-tinged party now in the opposition.

Most observers believe it unlikely that either coalition party will achieve an absolute majority by itself. If the People's party holds its own and the Liberals make significant gains, the Socialists could be forced from the government. Although the Liberals--formerly the Union of Independents--have steadily declined in

strength since first appearing on the ballot in 1949, they have recently shown some revival of strength in local elections.

Disappearance of the coalition would unpredictably complicate Austrian politics. While the People's party and the Socialists have reconciled many of the differences which brought their predecessor parties to armed conflict in the 1930s, it is not entirely certain the fundamental antagonisms can be kept within bounds, and the emergence of the Liberals in a "balance-of-power" role would sharpen these antagonisms.

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## SOVIET OVERTURES FOR WESTERN CREDITS

The USSR has renewed its search for credits to finance growing imports from Western industrial countries. Soviet representatives are probing Western European governments, financial institutions, and exporters in an attempt to secure government loans, government-guaranteed credits, and long-term commercial credits. During British Prime Minister Macmillan's recent visit to Moscow, Khrushchev sought five-year credits worth a total of \$700,000,000 to run from 1959 to 1963.

The Soviet Union's demand for Western equipment, particularly for the chemical industry, is greater than its ability to finance purchases in the West through exports, despite efforts to increase sales to the free world. The USSR presumably also wishes to secure credits to permit it to develop a reputation as a reliable long-run trader making consistent purchases of Western equipment--in contrast to the erratic purchases which have marked such Soviet importing in the past.

A Soviet purchasing mission in Italy reportedly has signed \$20,000,000 worth of contracts with private firms,

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The wide range of equipment and goods involved reveals a Soviet attempt to generate pressures from numerous industries for government participation in large credits to sustain sales of goods to the USSR. The Soviet group reportedly also urged Italian producers "not to miss the favorable turning point in Soviet foreign trade" but to procure five-year credits to enable the USSR to purchase a variety of other complete plants; the group alleged it could get the plants elsewhere in Europe if Italian credit is not forthcoming.

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Most officials in Western Europe point out that normal commercial short-term credits are available to all traders, but that long-term official or government-guaranteed credits

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For the USSR are unlikely, except for specific large-scale projects normally handled with special financial terms. The British Government is currently considering the extent to which it may guarantee private credits, and it plans to send a high-level trade mission to Moscow in May--reportedly authorized to approve extension of private credits up to \$140,000,000. The Dutch, now negotiating the sale of ships to the USSR, indicate they may extend some five-year credits

to the Russians for these vessels.

Italy has taken the initiative in NATO for joint measures to avoid official financial commitments. The Italians see a propaganda motive in the Soviet bids timed to anticipate the foreign ministers' conference, and they are apprehensive that favorable response from one or more Western nations would lead to a divisive competitive scramble to increase exports to the bloc on a credit basis.   
(Prepared jointly with ORR)

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**PART III****PATTERNS AND PERSPECTIVES****THE PROBLEM OF WESTERN ACCESS TO BERLIN**

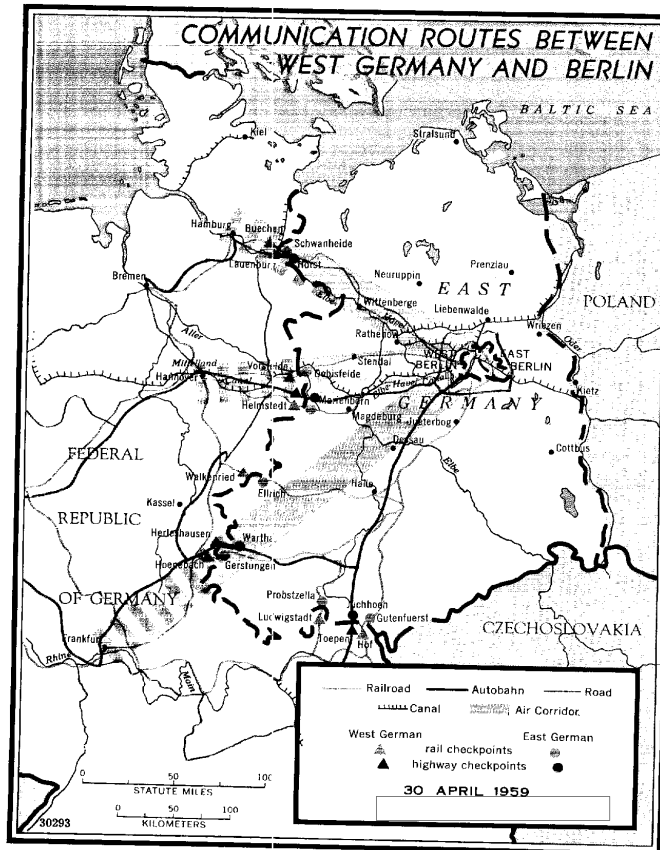
The Western powers' rights of access to Berlin derive from their participation in the defeat of Germany in World War II and the agreements reached with the USSR concerning the postwar occupation. These are embodied in a number of documents including a London agreement of September 1944 and an exchange of letters between President Truman and Stalin, and a verbal agreement between General Clay and Marshal Zhukov during the summer of 1945. The Paris Agreement of 1949 terminating the Berlin blockade is also relevant. There is, however, no single document signed by all four powers providing for unrestricted access to the city by surface and air. Allied rights are based on precedent and usage.

At the time of the Soviet-East German treaty of 1955 which granted "sovereignty" to East Germany, there was an exchange of letters between East German Foreign Minister Bolz and Soviet Deputy Foreign Minister Zorin in which the USSR stated that it would "temporarily" retain control of Allied access to Berlin pending the conclusion of further agreements with the Allies. It is the Soviet contention that the USSR's planned peace treaty with East Germany will invalidate all Allied occupation agreements, including those governing control of access to West Berlin. This control

would then pass to the "sovereign" East German regime.

**Road and Rail Access**

The West's right to ground access to Berlin was established during a June 1945 meeting between General Clay, Marshal Zhukov, and a British representative. The memorandum of conver-



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sation resulting from this meeting was never authenticated, however. The agreement has, in practice, been interpreted to mean that the Allies would submit to Soviet traffic regulations and document checks but not to inspection of vehicles or cargo. Zhukov stated at the

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meeting that he did not deny the right of Allied access, but that the Soviet Union would not "give a corridor." The agreement is vague enough to be open to honest differences of opinion by both sides and has given the USSR manifold opportunities to harass traffic.

All Allied road traffic must travel via the Helmstedt-Berlin autobahn. There are three other routes open to non-Allied nationals, but 80 percent of all road traffic goes via Helmstedt. Some 37 percent of Berlin's imports and 57 percent of its exports by tonnage go by road. Of military interest is the fact that the 105-mile stretch in East Germany includes 47 bridges (the Elbe bridge is over 1,200 yards long, including 160 yards over water) and 91 overpasses. There are Allied, West German, Soviet, and East German barriers or checkpoints at each end.

After passing the Western checkpoints, Allied vehicles come to a barrier manned by East Germans which normally is raised automatically. Then comes the Soviet checkpoint, where the movement order--issued unilaterally by Allied military authorities--is stamped, but the delay is generally longer than would seem necessary. The Allied vehicle driver or convoy commander is given a small white form when he leaves the Soviet checkpoint. This is surrendered at another East German barrier--some 75 yards farther inside East Germany--which normally is raised without question.

The form appears to be no more than permission from the Russians to the East Germans to permit the vehicle to proceed. This procedure for passing through an East German - manned barrier gives the East Germans a foot in the door toward full control of access. When Allied

vehicles leave East Germany going east or west, the East Germans merely raise the barriers and no white form is involved. The Russians do, however, check the travel documents at their checkpoint.

All Allied rail traffic and all rail freight goes via the Marienborn-Berlin rail line, which roughly parallels the Helmstedt autobahn. There are five other interzonal rail lines in use. Some 35 percent of West Berlin's imports and 21 percent of its exports, by tonnage, as well as 98 percent of Allied freight to the Berlin garrisons, are handled by rail. Allied trains while in East Germany are hauled by East German locomotives with East German crews.

The Allies operate 24 regularly scheduled trains per week, with the arrangements being made between West and East German railway officials. There are a considerable number of similar low-level trade and commercial agreements between the two railroad systems. There is only one checkpoint on the rail line, four miles from the zonal border at Marienborn. Allied trains have no contact with East German officials; processing is handled by the Russians.

Air Access

The question of air access is the only one governed by a properly authenticated document. This was approved by the Allied Control Council in 1945 and updated in 1949. There are a number of points, however, which are not entirely clear: one is whether the Allies have exclusive or priority rights to the three air corridors. Thus far the Russians have, in general, appeared to recognize that the Allies have exclusive rights, since they have seldom used the corridors themselves.

The most pressing question is that of minimum and maximum

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altitudes. A maximum altitude of 10,000 feet was mentioned in a draft of the 1945 agreement, but did not appear in the final document. There is a 10,000-foot altitude limit within 20 miles of Berlin.

The air space around Berlin, known as the Berlin Control Zone, is administered by one of the two remaining quadripartite bodies: the Berlin Air Safety Center (BASC). The group administering Spandau Prison is the other such body. The BASC, located in West Berlin, coordinates traffic in and out of the three airfields in West Berlin and the one airfield just outside East Berlin but within the Berlin Control Zone. This does not mean, however, that the Soviet Union normally submits its flight plans to the BASC, as the Allies do; the USSR schedules its flights so as not to conflict with Allied flights.

In addition to military traffic, three civil air lines from the three Allies regularly operate to and from West Berlin. None of the navigational aids, such as beacons or radars, servicing the three corridors are in East Germany.

Air travel to Berlin is the only means of travel which is not subject to Communist control. This freedom made

possible the Berlin airlift; it also enables the Allies to transport East German refugees from West Berlin to West Germany.

The Allied garrisons could be supplied almost indefinitely by airlift if a surface blockade were enforced--even if the Communists jammed Allied air navigational aids, making all but visual flights impossible. An airlift could not, however, sustain the West Berlin civil population if surface access were denied.

Canal Traffic

Barge traffic via the extensive canal and river system is of considerable importance to West Berlin, although not to the Allies. Some 2,600 West German barges are licensed for interzonal movement, and last year they carried some 25 percent of all freight in and out of West Berlin. All canals and locks in East Germany are controlled by the East Germans. As in the case of rail access, arrangements for barge traffic are made at a technical level between West and East German authorities. The canals were closed during the Berlin blockade, and since then the East Germans have from time to time harassed traffic by closing the locks "for repairs."

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**RESUMPTION OF POLITICAL CONTROVERSY ON CYPRUS**

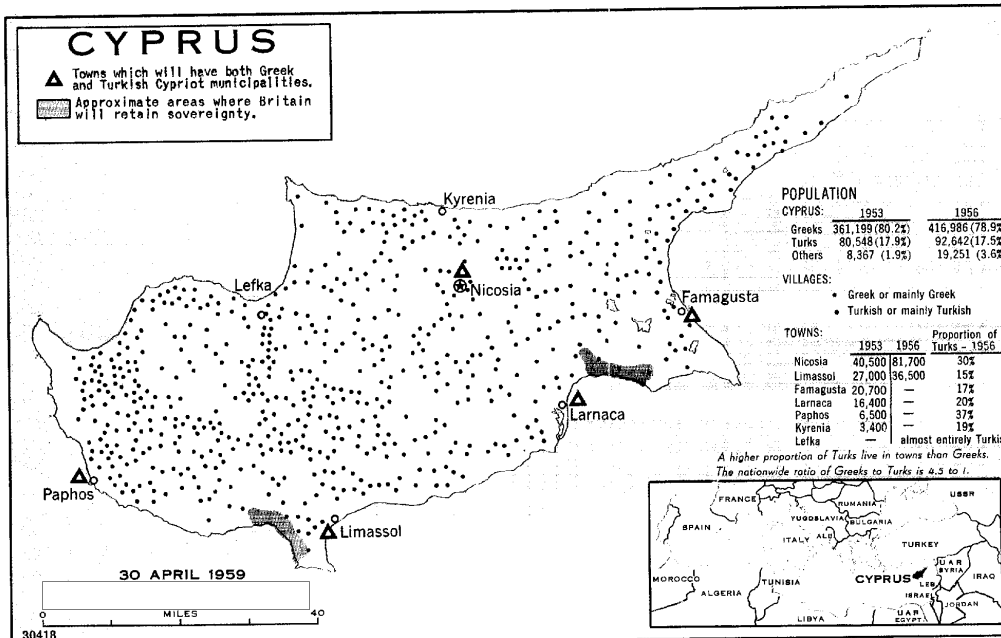
The spirit of conciliation on Cyprus which grew out of the signing of the London agreements in February is being dissipated by acts of violence committed by rightist Greek

Cypriots against leftist Greek Cypriots as well as against the British. In addition, the favoritism shown by Archbishop Makarios toward members or sympathizers of the former EOKA

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terrorist group in selecting his provisional cabinet has aroused the fears of other Greek Cypriot factions and the Turkish Cypriots.

#### Steps Toward Independence

The London agreement established three committees to work out by next February the details for setting up an independent government, and to spell out the international guarantees for the island's independence. A "transitional committee" on Cyprus consists of British Governor Foot, Greek Cypriot leader Archbishop Makarios, Turkish Cypriot leader Fazil Kucuk, and Greek and Turkish Cypriot "provisional ministers." These ministers will gradually take over the functions of government from the British.

A constitutional committee is also meeting on Cyprus, while in London a joint committee is negotiating on such matters as

British base rights and the treaties guaranteeing the independence of Cyprus. The constitutional and joint committees include representatives of the Greek, Turkish, and British governments, in addition to Cypriot leaders. Future steps toward independence will include establishing a British-Greek-Turkish military headquarters on Cyprus and holding parliamentary elections, probably next spring.

#### Greek Cypriots

The youthful leaders of the former terrorist EOKA group announced on 1 April the formation of a new political party, the United Democratic Reform Front (EDMA). It has the approval of Makarios and is likely to be the principal non-Communist political organization among the Greek Cypriots. These leaders are also reportedly being brought into the formerly ineffectual right-wing Cyprus Confederation of Workers

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(SEK) in order to recruit members at the expense of the island's largest trade union, the Communist Pan-Cyprian Federation of Labor (PEO).

Of the seven "provisional ministers" chosen by Makarios, two were high-ranking EOKA leaders and most of the others had cooperated with EOKA. The average age of these Greek Cypriot "provisional ministers" is 32. Few have been prominent in politics or civil affairs on Cyprus.

Since his selections provided no representation for conservative business or left-wing elements, Makarios included representatives of these groups in a widely representative 50-man advisory council. He has also publicly urged Governor Foot to end the ban on the Communist party--the Reform Party of the Working People (AKEL).

#### Turkish and Greek Cypriots

The concern of the Turkish Cypriots over the youth and extremist background of the members of Makarios' provisional cabinet, as well as his appeal to end the ban on AKEL, was probably responsible for the Turkish Cypriots' pressing their political and economic demands more vigorously than previously. The London agreements stipulated that the Greek Cypriots would select seven of the ten "provisional ministers" and that the Turkish Cypriots would select three, including one of the important ministries. When the transitional committee discussed how the posts would be distributed, the hard bargaining engaged in by the Turkish and Greek Cypriots destroyed some of the good will which had prevailed on both sides.

The agreements left for later negotiation the status of separate Turkish and Greek Cypriot municipal authorities in the five major towns on Cyprus.

Makarios' public statement that the London agreement never recognized any Turkish Cypriot right to administer separate zones increased the Turkish Cypriots' suspicions and caused them to press their campaign for economic self-sufficiency more vigorously. However, Makarios now apparently has agreed to a compromise on the Turkish Cypriots' demands to administer their own municipal zones.

Turkish Cypriot leader Dr. Fazil Kucuk visited Ankara last month and sought a \$5,600,000 loan to assist his followers in developing cooperatives and other enterprises. Since his return, other Turkish Cypriot leaders are encouraging Turkish Cypriot landowners living in predominantly Greek Cypriot areas to sell their farms and move to Turkish areas on Cyprus. Such efforts to achieve partition in economic and geographic terms face major obstacles, since Turkish and Greek Cypriot landholdings throughout the island cannot be separated easily and the Greeks are more experienced businessmen and traders.

#### British Bases

Makarios' statement to the press in March that no inhabited areas should be included in the bases to be retained by Britain has added to the difficulty of solving the base problem.

In the declarations published after the London talks, Britain agreed to cede sovereignty over the island with the specific exception of two base areas. The British now are determining the precise limits of the areas they will require. While British Defense Minister Sandys has recently expressed willingness to take Makarios' views into consideration, it seems unlikely that the base areas, located in the populous sections of the island, could entirely exclude inhabited places.

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Future Implications

The former EOKA leaders, now at the peak of their popularity, are publicly committed to cooperate with Makarios. Their acceptance of prominent roles in the provisional cabinet, the major rightist political party, and other right-wing organizations may keep their energies within normal political channels. However, the individuals who now lead EDMA could be an unstable influence. They might resort to their old habits of intimidation and violence, particularly if AKEL resumed activity as a legal party or if the Communist union, PEO, countered rightist efforts to win away its members. Greek Cypriots have already clashed with police, who prevented them from posting EDMA slogans on walls.

The Communists on Cyprus, apparently wanting to avoid open competition for popular support while the right wing is at the peak of its popularity, appear to be limiting their response to EDMA's predominant position. They have only remonstrated that EDMA should adopt policies which would allow all Greek Cypriots to rally behind it. They probably expect their own strength to increase as factional splits occur and individual rivalries for posts in the government develop among the non-Communists.

Andreas Ziartides, the capable leader of PEO, appears willing to support Makarios' candidates for the legislative elections, to be held sometime in 1960. Bargaining appears to be in progress over the legislative seats the Communists should get in return for their

cooperation. Makarios appears desirous of maintaining the support of all Greek Cypriots during the transition to independence.

George Grivas, leader of the EOKA terrorists, has left Cyprus, has renounced any further personal political role, and has urged all Greek Cypriots to unite behind Makarios.

Governor Foot believes Makarios has capitulated to the EOKA elements in the provisional cabinet choices and that they may have exerted pressure on him. EOKA appears to be urging Makarios to have a showdown with the Communists while rightist elements are still stronger than the Communists.

Probably the key factor in Makarios' tactics is his desire to retain personal political power. His remarks to the press on British base rights and Turkish separate municipal zones appear to reflect a desire to retain his support in the face of extremist contenders for leadership, like Bishop Kyprianos of Kyrenia, who still loudly demands union with Greece.

For their part, the Turkish Cypriots can be expected to respond to any further hard bargaining by the Greek Cypriots with extreme demands of their own. Since the Turkish Cypriots are generally subject to close control from Ankara, however, they are unlikely to remain uncooperative in the face of Ankara's desire for a settlement. While Athens' influence over the Greek Cypriots is less direct, Greece is likely to influence Makarios against actions which would seriously endanger the achievement of independence next February.

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**THE STATUS OF THE EUROPEAN ECONOMIC COMMUNITY**

During the past year, the European Economic Community (EEC) or Common Market has come to play an increasingly important role in the economics and politics of the free world. While nonmembers view the six-nation Common Market's future relations with the international trading community with suspicion and concern; the organization seems bound to play an influential role in determining the rules which govern world trade. Whether that influence will be cohesive or divisive will depend largely on the resolution of conflicting tendencies which have already become apparent.

**The "Hallstein Report"**

The reaction in Western Europe to a report prepared



**HALLSTEIN**  
PRESIDENT,  
COMMON MARKET COMMISSION

early in March by President Hallstein of the EEC Commission has disclosed the complexity of the problems posed by the community. Compiled at the request of the EEC Council, which wanted a solution to the deadlocked dispute over the proposed Free Trade Area (FTA), the report instead was an attempt to write a general foreign policy for the community.

The report's central thesis is that since the Common Market has joined the United States and Britain as one of the three major forces in the free world economy, it has assumed worldwide responsibilities. Accordingly, the EEC's priority objectives must be to participate in a program of assistance to the underdeveloped countries and actively support the General Agreement on Tariffs and Trade (GATT). In this larger context, the problems posed by the FTA would themselves be minimized, and interim intra-European trade concessions might pave the way for a broader European economic association.

**Politics and a European Policy**

Since its official release, the Hallstein report has been severely criticized, particularly by those who are reluctant to see the commission establish itself as spokesman for the community. Much of this criticism has reflected the fundamental conflicts within the European movement, the extent of which was indicated in an EEC memorandum of early April.

According to this analysis, there are three fundamental obstacles to any solution to the problem of a larger European economic association: (1) the opposition of the French, who hope by opposing British desires for an FTA to advance De Gaulle's claims to a larger role in Atlantic councils; (2) the persisting view in London--guided by its "balance-of-power" tradition--that early collapse of the European community would pave the way for a European association on British terms; (3) the encouragement of London in this view by elements within the community--particularly in the Netherlands and West Germany--which are anxious to maintain economic and political ties with Britain.

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There are other factors involved in French opposition to the FTA, but these obstacles suggest the divisive impact of the dispute on the EEC. They make it extremely doubtful that, short of a broad political agreement, efforts to write a "European policy" for the community are likely to succeed soon.

Trade Conflict

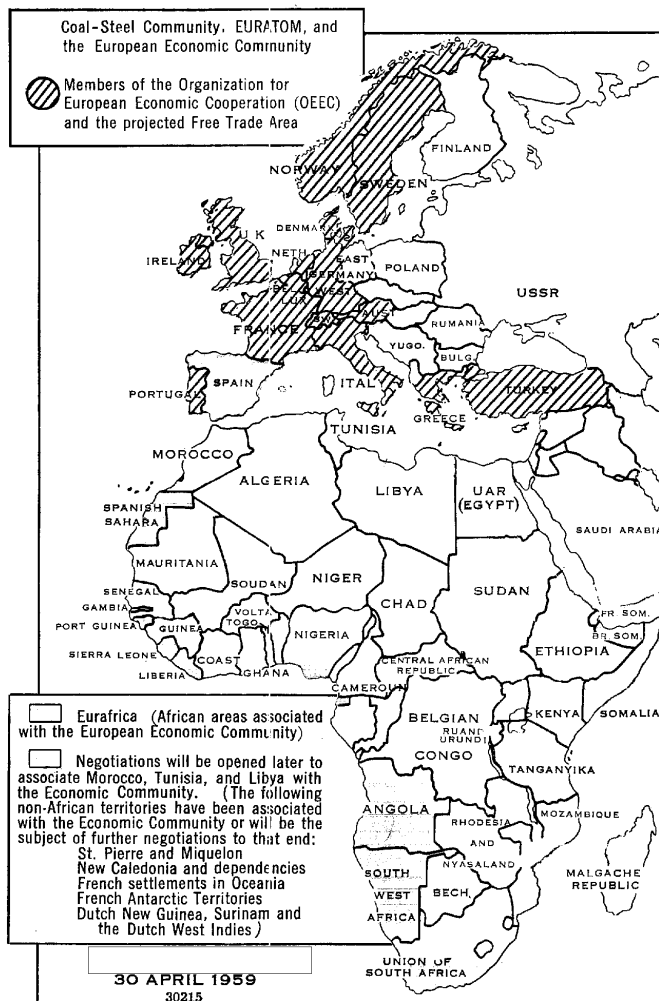
With hope receding for a broader European association like the FTA, several disruptive trends are emerging. The most formidable of these is the increased support for an agreement which would meet the essential needs of the non-EEC countries without regard for mutual obligations to the GATT. Such a preferential agreement might involve tariff and quota concessions on an intra-OEEC basis without guarantees that the resulting association would fulfill GATT requirements either for customs unions or free trade areas.

Benelux officials, who are among the advocates of this approach, note that the United States and Canada since World War II have accepted OEEC discrimination against dollar imports to promote European recovery and consider as a delusion any hope that further discrimination can be prevented within the GATT.

A series of agreements now being negotiated by the French is also encouraging a trend toward bilateralism. Intended as

an interim answer to the charges of preferential treatment leveled at the EEC, such an agreement has been concluded between Paris and London, and the French now are talking with the Scandinavians and Austrians. In principle, these agreements are contrary to the community approach foreseen by the EEC treaty, they undermine the position of the EEC's institutions, and they are in opposition to the multilateral principle implicit in the FTA plan.

It may also prove dangerous in the long run that several countries--Britain, the Scandinavian countries, Austria,



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Switzerland, and Portugal--are surveying the possibility of a customs union to compete with the EEC. Ostensibly intended to improve the bargaining position of its members in future talks on the FTA, such "alternatives" also have as their objective a weakening of the EEC--by threatening West Germany, in particular, with isolation from its other European markets. This promises to deepen the present cleavage and offers little comfort to those underdeveloped countries--such as Greece and Turkey--which would probably be left out of both groups.

An African Policy

The chaotic state of the EEC's relations with the rest of Europe should not, however, obscure a number of more hopeful developments on other fronts--particularly the prospect of closer ties with Africa. In those African areas associated with the community by the EEC treaty, progress is being made toward launching the projects for which a half-billion-dollar development fund has been set aside. The EEC mission to Africa earlier this year and the more recent tour of the community countries by African leaders were intended to establish the Africans' confidence in the EEC as an entity separate from its colonialist members.

The present tense relations between Tunisian President Bourguiba and Paris and his refusal to accept France as intermediary for the community have made contacts between Tunis and the EEC exceedingly delicate. Formal EEC-Tunisian talks, once they are launched,

will be crucial. The EEC Commission feels that Tunisian association might pave the way for ties with other states which become free, and some progress has already been made among the newly independent African states toward establishing ties with Tunisia.

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**EUROPEAN ECONOMIC COMMUNITY (EEC)**

The organization of six Continental countries, also known as the European Common Market, which came into being on 1 January 1958. It has as its major objective the establishment of a complete economic union during a 12- to 15-year transitional period. At the end of this period, all restrictions on the circulation of goods, workers, and capital would be removed, a common external tariff would be enforced by the member countries, and social and economic policies would be concerted.

**ORGANIZATION FOR EUROPEAN ECONOMIC COOPERATION (OEEC)**

The organization of 17 Western European countries formed in 1947 to facilitate cooperation in fulfilling the objectives of the Marshall Plan. Initially concerned with preparation of economic recovery programs, it has since sought to promote cooperation to increase production and trade, modernize industry, stabilize finances, and reduce trade barriers--primarily by removing quota restrictions.

**FREE TRADE AREA (FTA)**

The projected organization initially proposed by the United Kingdom in 1956 as a means of linking the six EEC countries with the other OEEC countries in a broader free trading area. Its major objective would be the removal of restrictions on commerce among its members, but in contrast with the EEC, member countries would retain jurisdiction over the level of their tariffs on imports from non-FTA countries.

**GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)**

The multilateral trade agreement negotiated in 1947 in Geneva and now including 37 contracting parties. The GATT is primarily a code of international conduct on commercial policy, attempting to enforce the general rule of unconditional most-favored-nation treatment on customs matters, to prevent discriminatory and preferential application of tariffs and quotas, and to discourage introduction of other trade restrictions.

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The Hallstein report recommends a coordinated approach to the problem of all underdeveloped areas, and Belgian Foreign Minister Wigny is the author of a plan for a cooperative program of world-wide technical and financial assistance supported by the community, Britain, and the United States.

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The French, despite their authorship of the Eurafrikan concept, are--since the advent of De Gaulle and the French Community--one of the major obstacles to its implementation by the EEC. Ultimate conflict with the French Community seems inevitable. The outcome will largely depend on whether the French realize the extent to which they are dependent on European support and assistance in maintaining their presence in Africa.

A World Policy

The difficulties over the FTA have also tended to cloud the extent to which the EEC--outside the area of its European relations--has apparently accepted the GATT regulations as setting the standard in international trade. In keeping with a compromise agreement of last year, GATT machinery is being utilized by those countries which complain that their trade is being harmed by the Common Market, and consultations on a number of primary products--mostly of tropical origin--have been completed. The results have been disappointing, however. The complaining producing countries showed little disposition to push their cases, and the EEC was unresponsive to claims of damage. Nonetheless, an important precedent has been established.

More hopeful is the apparent disposition of the EEC to accept the Hallstein recommendation that the EEC participate in a round of GATT negotiations beginning in 1960. Initially proposed by Under Secretary Dillon in 1958, the

**SOME STATISTICS ON THE EUROPEAN ECONOMIC COMMUNITY**

COMPARISON WITH THE UNITED STATES	1957		PERCENT INCREASE 1957 OVER 1950	
	USA	EEC	USA	EEC
Population (millions)	171	164	13	6
Gross product (billion dollars)	434	150*	52	100*
Per capita gross product (dollars)	2,537	915*	35	90*
Total exports (billion dollars)	19	22	95	141
Total imports (billion dollars)	13	25	47	121

\*Estimate

IMPORTS (1956)	BILLION DOLLARS	PERCENT OF TOTAL
From each other	6.3	28
From overseas territories	1.9	9
From the United Kingdom	1.2	6
From other OEEC countries	2.5	11
From the United States	3.0	13
From all other countries	7.2	33
TOTAL	22.1	100

ESTIMATED PERCENTAGE OF TOTAL WORLD TRADE	IMPORTS PRIMARY PRODUCTS	EXPORTS INDUSTRIAL PRODUCTS
European Community	31	33
United Kingdom	18	16
United States	16	26
Rest of the world	35	25
	100	100

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GATT talks have been strongly supported by the United States as a means of utilizing the tariff reductions authorized by the US Reciprocal Trade Agreements Renewal Act of 1958, and as the best hope of negotiating a reduction in the EEC's common tariff which begins to take effect in 1962.

Whether this hope is justified will depend on whether protectionist-minded countries--particularly France--are then prepared to lower tariffs, and whether they are willing to utilize the EEC Commission as an instrument of negotiation. The EEC Council is expected to take up this question at its 5 May meeting.

Outlook

The potential of the European Economic Community is enormous--if it survives. That survival remains in question is partly the result of outside pressures from those who have legitimate economic interests to be protected and from those who see the community as a

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political threat. The latter are able to thrive on the internal divisions in the community and on the weakness of the European institutions generally.

Despite the extent to which the EEC has been accepted, differences within it extend even to ultimate objectives--particularly the goal of a federated Europe. The ardent European federalists have accepted this goal and would have the rest of Europe participate in its achievement by accession to the community and ac-

ceptance of its political principles.

The federalists are opposed by those who are more concerned with the retention of political, military, and commercial ties outside the community and would be willing to sacrifice it if necessary for the sake of a broader and looser arrangement. The community's major task is to mediate between these extremes, to preserve itself intact, and to avoid the emergence of solutions which would create chaos in international trade.

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**COMMUNIST CHINA'S FOREIGN AID PROGRAM**

Communist China's foreign aid program continued its expansion in late 1958 and early 1959 with new aid totaling \$275,000,000. Peiping has allocated from \$160 million to \$190 million to carry the drive forward this year. Since 1953, China has extended nearly \$800,000,000 in foreign economic aid, one third of which was made available since the end of 1957. Grants constituted the main form of China's foreign assistance until 1958, when repayable loans, which tend to strengthen economic ties between the parties involved, became the usual practice.

The major portion of Chinese aid--\$630,000,000--has been made to bloc countries, including during the last year long-term loans of \$75,000,000 to North Vietnam, an estimated

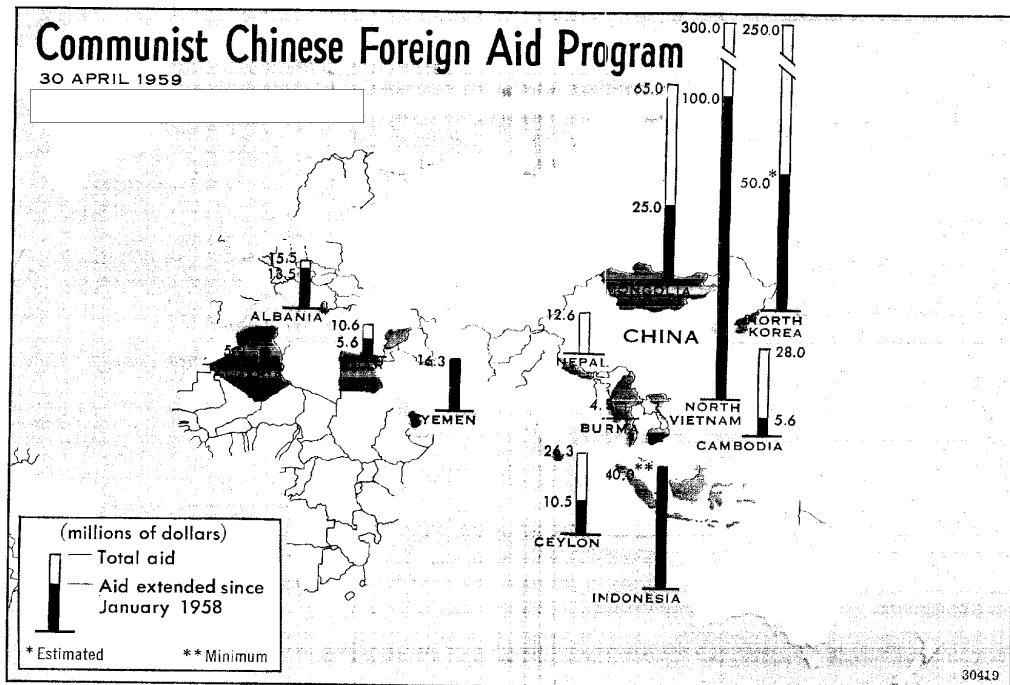
\$50,000,000 to North Korea, \$25,000,000 to Mongolia, and \$13,500,000 to Albania. With the exception of Albania, where these credits will be used chiefly to finance limited Sino-Albanian trade for several years, these agreements specify large deliveries of Chinese equipment and supplies, plus technical assistance, for the industrial and agricultural development of the Far Eastern satellites. In Mongolia, 10,000 Chinese laborers have been employed since 1955 on projects receiving this aid.

While Peiping's economic offensive in the free world has been focused principally on increased trade, marked by an intensive export drive in Asia, it also includes a foreign aid program of increasing importance.

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Total aid extended to nonbloc countries since 1956 amounts to at least \$140,000,000, of which 60 percent has been granted since the beginning of 1958.

Indonesia became the principal free world recipient of Chinese foreign aid last year when a \$40,000,000 loan was accepted to facilitate the purchase of rice and textiles. Thus far, at least \$11,500,000 has been spent, and negotiations are in progress for the utilization of \$20,000,000 in developing Indonesia's textile industry. Communist China has also recently become involved in the bloc's arms transactions with Djakarta, but the value of the credits for this purpose is not known.

Ceylon is now receiving aid under a 1957 grant of \$15,750,000 to be delivered in the form of commodities, the sale of which provides funds for local aid projects. This aid

is being augmented by deliveries of machinery and equipment under a \$10,500,000 loan, concluded last year.

Nepal is to receive machinery for a cement factory this year and other equipment by 1960 to use up the \$8,400,000 balance of the Chinese 1956 \$12,600,000 aid grant. China provided Nepal with \$4,200,000 in cash during the past two years. Last year Peiping also added a \$5,600,000 grant to its 1956 gift of \$22,400,000 to Cambodia. In response to urgent requests from the Chinese, Phnom Penh has stepped up preparatory work for the construction of several small factories, schools, and public buildings. Elsewhere in South Asia a \$4,200,000 Chinese loan to Burma for the construction of a textile factory is expected to be implemented this year.

Yemen continues to be the focal point of China's foreign

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aid activity in the Middle East. Approximately one third of Peiping's \$16,300,000 interest-free loan was allocated in 1958, and increased Chinese activity has been apparent in recent months. At least 300 Chinese specialists and laborers arrived to carry out road construction and factory projects. Egypt is the only other Middle East country to have received Chinese aid. In December of last year Cairo accepted a \$5,600,000 gift to assist in meeting its Suez Canal debts, a grant similar to that provided by China during the 1956 Suez crisis to meet Egypt's foreign exchange needs.

Early this year, Peiping extended its influence into North Africa by granting \$5,-

000,000 to the "Algerian Provisional Government," part of which is to be used for the purchase of arms and military supplies. Presumably this grant is being implemented by an Algerian military mission now visiting China.

Although China's economic aid program is small in comparison to total bloc assistance to underdeveloped areas, it is an important factor in Peiping's drive for recognition as a world power. Through long-term repayment provisions and the introduction of Chinese consumer goods in new markets, Peiping is able to enjoy the prestige associated with economic assistance and at the same time encourage the growth of future economic relations.   
(Prepared by ORR)

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