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COPY NO. 53
OCI NO. 4061/59
6 August 1959

CURRENT INTELLIGENCE WEEKLY SUMMARY



DOCUMENT NO. 1
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NEXT REVIEW DATE:
AUTH: HR 70-2
DATE: 16/8/79 REVIEWER:

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CENTRAL INTELLIGENCE AGENCY
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24-228517

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CONFIDENTIAL

CURRENT INTELLIGENCE WEEKLY SUMMARY

4061 6 August 1959

T H E W E E K I N B R I E F

PART I

OF IMMEDIATE INTEREST

EAST-WEST NEGOTIATIONS Page 1

Soviet spokesmen have moved promptly to create a favorable climate for Khrushchev's forthcoming trip to the United States following the announcement on 3 August of the agreement between President Eisenhower and the Soviet premier to exchange visits. Khrushchev adopted a posture of moderation and restraint in his press conference on 5 August, stressing the prospects for establishing a "climate of confidence and mutual understanding." His apparent intention to avoid actions which would jeopardize this favorable atmosphere was evident in his renewed pledge that the status of Berlin would not be changed while negotiations are in progress. Reaction in Western Europe ranged from the enthusiasm in Britain and left-wing circles on the Continent to critical comments from some French and West German circles. Comments in the Afro-Asian area were largely favorable, with the exception of Nationalist China and South Korea, where reaction reflected underlying fears of a shift in American policy.

[REDACTED]

MIDDLE EAST HIGHLIGHTS Page 5

The Iraqi Communist party appears to be shifting to more moderate tactics to forestall repression by Qasim, who has been angered by its persistent agitation and its role in the Kirkuk disorders last month. The regime is taking further steps to try to eliminate Communist control of mass organizations, while the Communist-infiltrated Popular Resistance Force has been rendered temporarily ineffective. The UAR has agreed to release the Israeli-chartered freighter it has been holding since last May, but the fundamental question of Israeli use of the Suez Canal remains unresolved.

[REDACTED] The Iranian Government continues its firm stand against the Soviet propoganda campaign, which last week included new personal attacks on the Shah. [REDACTED]

[REDACTED]

THE OAS FOREIGN MINISTERS' MEETING ON CARIBBEAN TENSIONS . Page 7

At the inter-American meeting of foreign ministers convening in Santiago on 12 August to discuss Caribbean tensions, Dominican dictator Trujillo is likely to face

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

PART I (continued)

a powerful diplomatic onslaught led by Venezuela and Cuba. Leftist circles are trying to mobilize hemisphere public opinion as well as organize demonstrations in Chile to bring pressure for strong condemnation of dictatorships. Meanwhile, the serious tensions which led to the call for the meeting continue to trouble Cuba, the Dominican Republic, Haiti, and Nicaragua. [redacted]

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LAOS Page 10

The government's military position in northern Laos remains weak despite the arrival of some reinforcements. Communist rebel forces control considerable areas of Sam Neua and Phong Saly Provinces, where several army outposts have fallen and others are under threat of attack. Indications are that the insurgency may spread to other parts of the country. There is no doubt that the Communist bloc has instigated the current fighting in Laos, but firm evidence of involvement of North Vietnamese units is lacking. The Communist bloc and India are pressing for the return of the International Control Commission in Laos, and the Communists charge that the United States is responsible for the critical situation there. Hanoi termed the Phoui government's letter to the UN accusing North Vietnam of intervention a "provocative" move which "may render the situation in Laos more serious." [redacted]

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PART II

NOTES AND COMMENTS

USSR STRENGTHENS TIES WITH AFGHANISTAN Page 1

The USSR has strengthened its ties with Afghanistan over the past six months through a number of agreements providing for extension of Soviet activities into southern Afghanistan. Moscow apparently hopes that by such aid--including Soviet advisory personnel--and by political support it can overshadow Western assistance in Afghanistan and induce Afghan leaders to abandon neutral policies in favor of closer alignment with the Communist bloc. [redacted]

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BLOC EXPANDS RELATIONS WITH IRAQ Page 3

The Sino-Soviet bloc is continuing to expand and consolidate its relations with Iraq through projects in such fields as civil aviation, medical aid, and the peaceful use of atomic energy, and by rapidly implementing military,

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

PART II (continued)

economic, and technical aid agreements. Bloc leaders, although undoubtedly concerned over recent setbacks suffered by the Iraqi Communist party, have maintained a posture of "friendship" toward Premier Qasim and his government. [redacted]

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PEIPING'S "SERIOUS WARNINGS" Page 4

Peiping clings tenaciously to its effort to document "US aggression." The "61st serious warning," charging "violation" of Communist-claimed air space over the Paracel Islands, was issued 31 July and continues the long list of alleged grievances. In recording the "intrusions," Peiping also seems intent on emphasizing its territorial claims and has recently focused its attention on the Paracels, in the South China Sea. [redacted]

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CHINESE COMMUNIST PARTY CONDUCTING MAJOR MEMBERSHIP DRIVE Page 5

Concurrent with the "giant leap forward" and commune programs, the Chinese Communist party has been conducting a major recruitment drive aimed at strengthening its organization in rural areas and assuring the effective implementation of its sweeping domestic policies. Already the largest Communist party in the world, it probably will reach a membership of about 15,000,000 by the end of 1959. This would comprise about 2.3 percent of the Chinese population; the Soviet party's membership amounts to about 4 percent of the population. [redacted]

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ILYA EHRENBURG AGAIN EXPRESSING UNORTHODOX VIEWS Page 6

Ilya Ehrenburg, who earned the displeasure of the Soviet regime by going too far during the period of liberalization following Stalin's death, has again begun to express unorthodox views. Ehrenburg's prominence in the "international peace movement" may have contributed to official reluctance thus far to censure him. His continuing disregard for the efforts of the regime to enforce cultural conformity, however, may force the authorities to act against him. [redacted]

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PRESIDENT'S RULE IN KERALA Page 8

New Delhi's take-over of the administration of Kerala State on 31 July climaxed the six-week struggle by combined anti-Communist groups to oust the Communist government. Dismissal of the Communists in Kerala has been a serious setback to Communist prestige throughout India.

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

PART II (continued)

Retaliatory action by the Communists in other key states has been confined to nonviolent demonstrations. In turn, Nehru's Congress party now faces a critical test of its ability to win the new state elections--likely to be held within six months--and provide a more effective and stable state government.

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CEYLON Page 8

Prime Minister Bandaranaike's government--with a one-man majority in the Ceylonese Parliament--remains in a vulnerable position, despite Parliament's approval of the budget in a critical vote on 31 July. Conservative elements probably will continue to try to subvert Bandaranaike's support, even though their efforts during the past two months have failed. The government's uncertain future is likely to inhibit effective action on Ceylon's major problems, and this in turn may stimulate further opposition planning for "direct action" to end Bandaranaike's administration.

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CYPRUS Page 9

The differences between Archbishop Makarios and former EOKA leader George Grivas have caused an open break, and Cyprus is again faced with the possibility of violence. Makarios, who is confident that he enjoys the support of the overwhelming majority of Greek Cypriots, has replied in mild terms to Grivas' action in "dissociating" himself from the Cyprus settlement. Greek Government leaders, recognizing Grivas as a potentially dangerous rival for power, have bluntly denied his charges that he was presented with a fait accompli at the time the accord was reached.

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MOROCCAN GOVERNMENT CRISIS Page 10

A mounting cabinet crisis in Morocco induced Mohamed V to leave Paris abruptly on 2 August without meeting De Gaulle as planned. The Moroccan Government has become increasingly skeptical that any benefits could be derived from a meeting with De Gaulle. It is also beset with serious financial difficulties and popular agitation arising from border incidents involving French troops in Algeria and Moroccan-based Algerian rebels.

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INDONESIA Page 11

The new Indonesian cabinet, still preoccupied with government reorganization under the revised 1945 constitution, has announced the formation of two consultative bodies: the Supreme Advisory Council, headed by President Sukarno, and the National Planning Board under leftist

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

PART II (continued)

minister Mohammed Yamin. Inclusion on the Supreme Advisory Council of two top Communist party leaders, along with representatives of eight other parties, indicates that Sukarno may still hope to maintain a balance among political parties and the armed forces. In addition, Sukarno apparently is backing Defense Minister Nasution's plan to increase the army role in government. However, if Sukarno felt Nasution was becoming a threat to his own power, he would probably move to downgrade or remove him. [redacted]

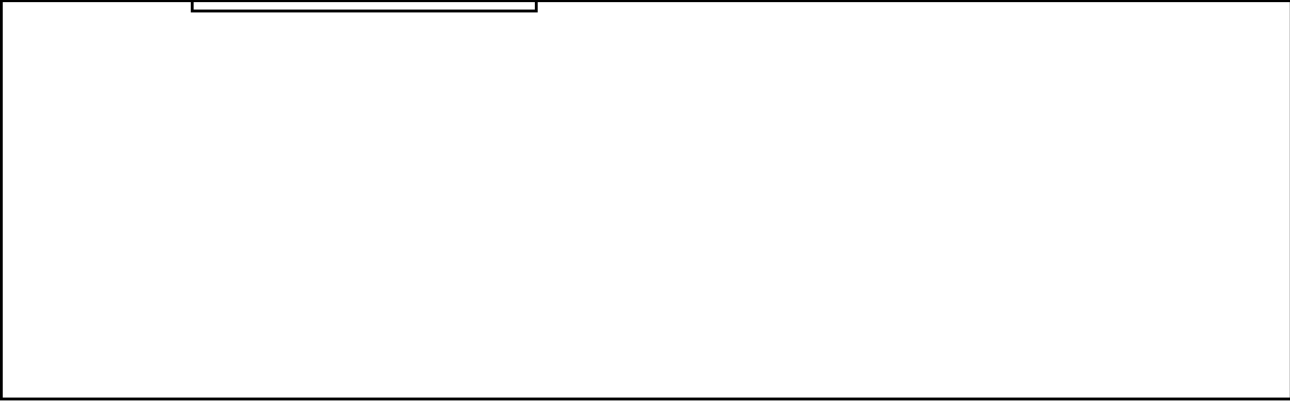
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WEST GERMAN ECONOMIC ACTIVITY IN AFRICA Page 12

The visit of a West German economic delegation to Liberia and Ghana during the week of 3 August highlights West Germany's increasing interest in developing economic relations with independent African states. The negotiations, which are expected to produce agreements for increased trade and technical assistance, follow recent commitments of \$24,000,000 in credits for the Sudan and \$7,000,000 for Ethiopia. West German economic assistance and impending diplomatic recognition are intended to counter East German political and economic inroads in Guinea. [redacted]

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BOLIVIA UNDER PRESSURE TO ACCEPT BLOC ECONOMIC AID Page 14

The Bolivian Government is under increasing political pressure to accept bloc economic overtures as a result of perennial political instability, leftist maneuvers, and growing popular discontent with the deteriorating economy under the US-backed stabilization program. Moderate President Siles, the principal defender of the program, expects Congress, now in session, to challenge the government's failure to act on bloc credit offers to the national oil company, amounting to about \$60,000,000. His power to resist leftist pressure in favor of bloc aid and against some aspects of stabilization appears to be diminishing. [redacted]

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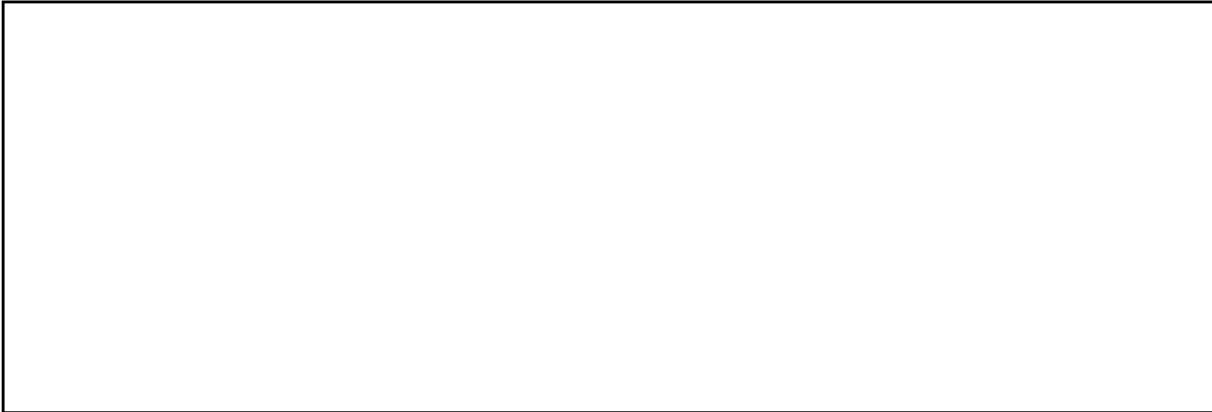
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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

PART III

PATTERNS AND PERSPECTIVES



THE FUTURE OF THE UN EMERGENCY FORCE Page 4

Increasing reluctance of many UN members to supply funds and manpower threatens the existence of the 5,000-man UN Emergency Force (UNEF). A major cut in the size of the force by the General Assembly this fall would result in substantial savings but would reduce UNEF's effectiveness in maintaining order along the UAR-Israeli border. Key factors in determining the future of the force are the continued support of India, whose 1,166 men form the largest single contingent, and the support in principle if not financially of the Latin American bloc. Secretary General Hammarskjold's strong personal advocacy and voluntary contributions from the United States, Britain, and France, in addition to regular pro rata assessments, may suffice to obtain assembly endorsement through 1960. [redacted]

THE INDONESIAN ECONOMY Page 6

President Sukarno's new cabinet has acknowledged the priority need for decisive action to adjust Indonesia's inflated economy. Causes of the economic deterioration are underproduction both for the domestic and the world market, a shortage of consumer goods, and the government's growing deficit, caused chiefly by military expenditures. Other factors are poor internal distribution, illegal barter trade, continued economic dislocation resulting from the December 1957 take-over of Dutch interests, and inefficiency of government-controlled import-export companies. The cabinet apparently envisages some sort of stopgap remedial measures, but a long-term project is needed to provide a solution effective on a national scale. [redacted]

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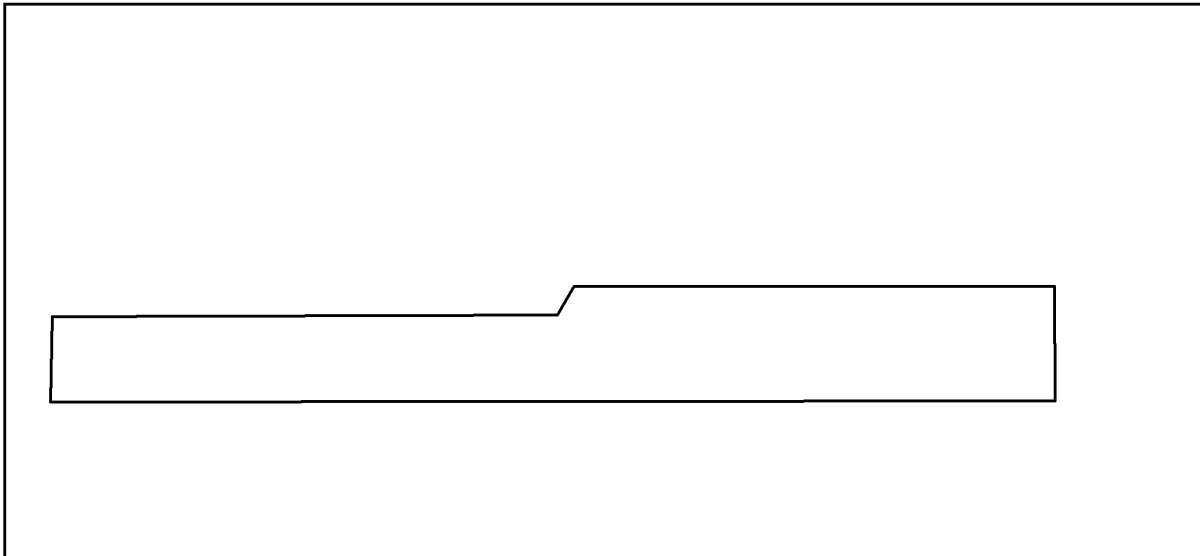
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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959



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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

PART I

OF IMMEDIATE INTEREST

EAST-WEST NEGOTIATIONS

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Visits

Soviet spokesmen have moved promptly to create a favorable atmosphere for Khrushchev's forthcoming trip to the United States following the announcement on 3 August of the agreement between President Eisenhower and the Soviet premier to exchange visits.

Khrushchev used one of his rare press conferences--his third since becoming premier--as a forum to adopt a posture of statesmanlike moderation and restraint. He stressed the prospects for establishing a "climate of confidence and mutual understanding" between the two countries and underscored the "immense importance" of the state of US-Soviet relations for maintaining peace. He contended there are no territorial disputes or "insoluble contradictions" standing in the way of "improved relations."

The Soviet press has greeted the exchange of visits effusively as an event of great historical importance for improving US-Soviet relations and for solving international problems. There has been a sharp drop in Soviet press articles critical of American living standards and the Sokolniki exhibition.

Khrushchev's apparent intention to avoid actions which would jeopardize a favorable atmosphere for the exchange of visits was evident in his renewed pledge during his press conference on 5 August that the status of Berlin would not be changed while negotiations are

in progress.

The great satisfaction among Soviet officials over the exchange of visits was reflected in the jubilant reaction of the Soviet Foreign Ministry press chief

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from the Soviet standpoint the Geneva talks had been a great success, since they had resulted in the long-sought invitation for Khrushchev to visit the United States and hold private talks with President Eisenhower.

The Soviet spokesmen also expressed the belief that the President's invitation to Khrushchev signified a basic change in American foreign policy and greater American receptivity to the Soviet view that a relaxation of tensions could be achieved by US acceptance of the global "status quo." They professed to believe that the United States would make clear its recognition of the USSR's hegemony over the Socialist bloc and said Moscow, in turn, would accept the Western sphere of influence and engage only in "peaceful competition." They stressed the USSR's need for time to consolidate economic and political gains within the bloc and contended that, after this period of consolidation, Moscow would be in a position

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

to resume a dynamic offensive against the West by "peaceful competition" which would ultimately end in a Communist victory.

This professed expectation of a Soviet-American detente based on the status quo probably will receive increasing emphasis in Soviet propaganda. A broadcast to Turkey on 3 August by a clandestine station [redacted] described Vice President Nixon's trip as a "turning point" in East-West relations and advised the Turks to accept Soviet offers of "friendly and neighborly relations" because the United States might soon come to an understanding with the USSR without consulting Turkey.

Geneva Conference

Gromyko's tactics during the final week of the foreign ministers' talks reflected Khrushchev's apparent decision not to force the issue on Berlin and a separate peace treaty at this time and to agree to allow the talks to recess indefinitely in the belief that negotiations will be resumed on a higher level and under conditions more favorable to the USSR following the Soviet-American exchange of visits.

The conference recessed on 5 August without any important modifications in Soviet positions. Gromyko's maneuvers in the final stage of the talks were aimed at probing the West on the possibility of reaching what a TASS correspondent termed a "minimum agreement" confined to a Western commitment to reduce Allied forces in West Berlin in exchange for Soviet procedural concessions.

[redacted] in return for Western agreement in principle on a reduction of forces, the USSR would agree to soften its insistence on a link between an interim Berlin arrangement and an all-German committee.

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[redacted] if Western concessions on troop levels were forthcoming, the USSR would make certain "gestures" concerning all-German talks. [redacted] even a reduction of 1,000 men would satisfy the USSR. A TASS correspondent was even more explicit on 30 July, stating: "If the West will cut its troops, the USSR will drop the all-German committee." The Russians also hinted that Gromyko would be willing to abandon his earlier opposition to a four-power commission to handle access problems under an interim agreement.

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In a private talk with Secretary Herter on 29 July, Gromyko repeatedly pressed for a Western commitment to reduce troops. He implied that if agreement could be reached on this issue, the Soviet demand for an all-German committee could be discussed "separately." When Secretary Herter suggested in the private session on 30 July that the ministers should begin drafting some of the provisions of an interim agreement, Gromyko demurred, saying it would be difficult to draft other clauses in the absence of agreement on force levels.

Gromyko gave the impression he did not regard the question of prohibiting subversive activities in Berlin as a matter of major importance and hinted

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

at the possibility of an "appropriate" declaration by East Germany outside the framework of an interim agreement.

On the basic issue of the status of Western rights after the expiration of an interim agreement, however, Gromyko continued to the end to refuse to commit himself beyond repeating that the USSR would take no unilateral actions regarding Berlin during the interim agreement or the ensuing negotiations. He also said the USSR could not accept a five-year interim agreement, as proposed by the West, stating that this was too long, or to have the agreement continue automatically if talks at the end of the interim period failed.

Gromyko's concluding speech at the 5 August plenary session was designed to establish the main lines of Moscow's position in future negotiations on Berlin and a German treaty. He contended that the conference had agreed that the situation in West Berlin should be changed, that an interim agreement must cover such questions as Western force levels, prevention of subversive activities and hostile propaganda, a ban on nuclear weapons and rockets in West Berlin, a definite time period, and subsequent negotiations.

The remaining differences, according to Gromyko, related to specific Western commitments to reduce forces and the duration of an agreement. He continued to insist on a link between a Berlin arrangement and all-German negotiations, claiming that the Western powers, by "virtually recognizing" the necessity of all-German talks,

had made a "certain advance" toward accepting the role of both German states in discussing a peace treaty, reunification, and contacts.

Gromyko concluded by calling for "fresh efforts" to resolve the remaining differences and said a summit meeting "must examine and settle the issues on which the ministers could not agree." This position appears to foreshadow future Soviet opposition to any Western proposal to resume negotiations at the foreign ministers' level.

Eastern European Reaction

Eastern European news media echoed Moscow's belief that the Khrushchev-Eisenhower exchange offers an opportunity for a "detente" and will enhance the prospects for world peace. East German commentators considered the visit "a most serious blow to Bonn," claiming that Adenauer had made "last-ditch efforts" to prevent the meeting of the two leaders. They also pointed out that the visits are "no substitute for a summit conference." Yugoslav President Tito welcomed the visits as being of "extraordinary significance."

Communist China

Peiping initially reported the exchange invitations factually without comment. On 5 August, leading newspapers carried editorials stating that the Chinese people "unanimously welcome" the announced visits and "warmly support" Soviet efforts to ease international tension. Both Peiping and Pyongyang declared the exchange a victory for the USSR's diplomatic initiative.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

Western Europe

Generally, European reaction has been marked with cautious optimism, and relief that the end of the Geneva foreign ministers' conference did not result in a sharpening of the crisis over Berlin. The more right-wing papers expressed the greatest fear regarding the outcome of the visits--that a Washington-Moscow deal might cause a dismantling of the Western defense system; the left-wing press has been the most enthusiastic.

While approving the visits as offering a possible way out of the Berlin impasse, the West German press with near unanimity viewed the announcement as a Soviet diplomatic success.

In France, government circles were reported cool, and French press approval was tempered with warnings of the possibilities of a "new Yalta." Former Premier Georges Bidault underlined right-wing skepticism with his public charge that the two-power meetings could be "the beginning of the capitulation of the free world."

Dutch Foreign Minister Luns' statement that "better proof of an easing of tension can hardly be imagined" stands out among the generally "correct" official statements from Continental government leaders. Italian Socialist leader Nenni took the exchange as constituting a personal triumph for his own ideas; European Communists have been jubilant.

Special concern about arrangements for Western consultation has appeared in Italy and in some other smaller NATO na-

tions. Italian Foreign Minister Pella privately stated that the exclusion of Italy from the President's consultations later this month was extremely serious. The Italian Government has pressed its proposal for a NATO heads-of-government meeting at the time of the President's visit to Europe. Initial Belgian reaction also showed pique at being excluded from the preliminary consultations.

Enthusiasm in Britain was not mixed. The staunch Conservative Telegraph agreed with some Continental opinion that it might seem that a Soviet victory had emerged from the Berlin ultimatum. The mass circulation papers quickly claimed a success for British diplomacy in bringing about the Eisenhower-Khrushchev meeting, but gave secondary credit to Vice President Nixon. The press unanimously saw the visits as paving the way for a formal four-power summit conference at a later date. Possibly with an eye to the forthcoming election campaign, Prime Minister Macmillan's 3 August press release cultivated the notion of a British triumph by reminding the British public how he had championed the resolving of tensions through more personal contacts.

Non-Communist Asia

Statements expressing official satisfaction have been reported from Baghdad, Tehran, New Delhi, Tokyo, Kabul, Manila, and other capitals. While some papers expressed the opinion that the exchanges were unlikely to result in the immediate solution of international problems, the majority felt that they would create a favorable

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

climate for easing tensions. Many voiced hope that they would offer a way out of the deadlocked Geneva conference. An Israeli paper viewed the Eisenhower invitation as "an important personal victory" for Khrushchev, and the Japanese press generally regarded the move as a major shift in US policy. Philippine public opinion was pessimistic concerning the results of the visits.

The reaction in Nationalist China and South Korea reflected underlying fears of a shift in US policy. Taipei's official statement indicated restraint, warning that the visits will bear fruit only if the USSR can be induced to abandon its policy of "aggression." China News hoped that Mr. Eisenhower "will not be fooled" by Khrushchev. Comment in the South Korean press was along similar lines, recalling that President Roosevelt made "too many mistakes" in World War II "by trusting Soviet Russia too much."

Seoul radio said the proposed exchange is undesirable and "fraught with great danger," and that the Korean "man-in-the-street" is convinced that the United States has been successfully "blackmailed" by the USSR.

Latin America

The only significant Latin American comment has come from Brazil, where the press editorialized that the exchange may presage an easing of the cold war, and President Kubitschek offered his personal "ap-
plause" for "every sincere move to preserve peace in the world." The Brazilian foreign minister's statement that the development requires Latin American nations to re-examine their own attitudes and possibly formulate new policies is seen by the American Embassy as pointing to an imminent review of Brazil's policy of nonrecognition of the USSR.

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MIDDLE EAST HIGHLIGHTS

Iraq

Prime Minister Qasim's obvious anger over the persistent agitation of the Iraqi Communist party and over what he apparently believes was its role in the disorders at Kirkuk and elsewhere last month has led the party to admit mistakes by its own "ill-advised individual leadership."

At a press conference on 29 July Qasim delivered his strongest warning to date that the "anarchist" elements--by which he clearly meant the local Communists--must mend their ways or be "crushed." He has also spoken in increasingly strong terms of the necessity for the students', women's,

peasants', and front organizations to get out of politics and to purge themselves of leaders who would subvert them to the purposes "of a certain party." On 3 August Qasim spoke even more sternly to representatives of the trade-union federation, and showed them pictures of 750 "anarchists" whom they should watch out for. The headquarters of the Communist-dominated federation was closed on 4 August, and its secretary is reported under arrest.

The Communists' first response--which was to blame "imperialist agents" and "irresponsible elements" for the disorders--apparently was felt inadequate to parry Qasim's wrath.

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

The party's subsequent statement attributed its differences with the "highest authority" to faulty appreciation of the nature of that authority and of the capabilities of the "national forces" to defend the Iraqi republic. The party also reasserted its loyalty to Qasim. This statement would seem to be the product of a plenum of the Iraqi Communist party which was reported by TASS, the Soviet news agency, as having been held in an atmosphere of high-principledness, self-criticism, concern for party unity, and awareness of the party's responsibilities before the Iraqi people.

the Popular Resistance Force (PRF), has been in effect deactivated.

UAR-Israel

The dispute between the UAR and Israel over Israeli use of the Suez Canal may enter a new phase as a result of a UAR decision to release the Israeli-chartered Danish freighter Inge Toft with its cargo. Ali Sabri, President Nasir's top aide, stated on 2 August that the ship could return to the Mediterranean at any time. The Israeli cabinet--minus Prime Minister Ben-Gurion, who was ill with a cold--discussed the problem at length on the same day, and Foreign Minister Meir subsequently indicated that the release of the ship would be a test of Nasir's "sincerity" in wishing to reach some quiet modus vivende on the issue.

The UAR's gesture, although it may resolve the immediate diplomatic problem of the fate of the ship, nevertheless does not meet the fundamental Israeli view that the conditions which Nasir wants to impose on Israeli use of the canal are such that Israel's effort to develop trade and influence with East African and Asian countries would be continually at his mercy. Mrs. Meir contends that if Nasir is successful in imposing his will on the canal issue, he may try to bar the Gulf of Aqaba to the Israelis. On this point, the Israelis are extremely sensitive, not only because of the economic potential of their port of Eilat

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the party's apologetics combined with Qasim's irritation deprives the Communists for the time being of what had been their most important asset, the public belief that they were the major power in the government and that they would take over in the not too distant future.

Meanwhile the Communists' potential paramilitary asset,

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

at the head of the gulf but also because the use of the gulf was the one "permanent" gain achieved by the 1956 Suez campaign. Mrs. Meir says that if Nasir threatens Aqaba, Israel's reaction will come in a "matter of minutes."

the Soviet propaganda campaign which last week included new personal attacks on the Shah. Some broadcasts emphasized that the struggle of "patriotic officers" against the "unpatriotic" is daily becoming more violent. The Shah, Prime Minister Eqbal, and members of the Iranian Parliament have made a number of statements against the USSR. Meetings have been held by political groups on ways to counter the propaganda.

Despite the brave front displayed by the government, there are some signs that the broadcasts are having an anti-regime effect

The Iranian Government continues its firm stand against

THE OAS FOREIGN MINISTERS' MEETING ON CARIBBEAN TENSIONS

At the inter-American meeting of foreign ministers convening in Santiago on 12 August to discuss Caribbean tensions, Dominican dictator Trujillo is likely to face a powerful diplomatic onslaught led by Venezuela and Cuba. In the face of the strong Latin American tradition of nonintervention, leftist circles are trying to mobilize hemisphere public opinion as well as organize demonstrations in Chile to bring pressure for strong condemnation of dictatorships.

The Chilean Social-Communist coalition FRAP is reported

organizing a rally of Latin American leftists in honor of the Castro regime in Santiago during the foreign ministers' meeting.

Venezuelan President Betancourt has long favored the establishment of inter-American sanctions on antidemocratic governments, and his representatives in Santiago will strongly urge the creation of machinery that would provide for concerted pressure on dictatorial regimes. Betancourt, an old enemy of Trujillo, told the US ambassador in Caracas on 4 August he could

SECRET

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

not see how he could have his foreign minister sit down at the same table with the Dominican representative at the Santiago meeting. At the same time he said he would not permit any member of the Venezuelan delegation to participate in popular demonstrations for Venezuela in Chile.

Official reactions thus far to the second agenda item--the effective observance of human rights and representative democracy--have been cautious in approach. Several foreign ministers believe that the meeting should issue a declaration and organize a committee to report its results to the 11th Inter-American Meeting in Quito in February 1960.

Meanwhile, the serious political tensions in the Caribbean which led to the calling of the meeting of foreign ministers continue to trouble the area.

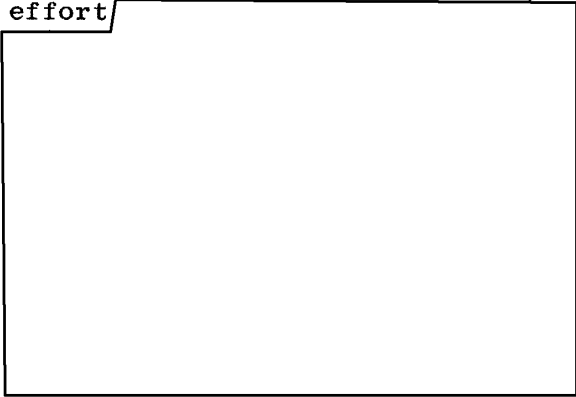
Cuba

The Castro regime, which mounted the abortive rebel incursions into the Dominican Republic in June and assisted Nicaraguan exiles in unsuccessful attempts to oust the Somoza regime, appears still determined to force the overthrow of the Trujillo dictatorship. It may also be continuing to give covert support to the Nicaraguan exiles. There are

preparations in Cuba for new rebel attacks on the Dominican Republic. The Cuban Government adamantly denies, however, that it has intervened against any neighboring government.

Cuban officials are showing increased concern over the threat of a counterrevolutionary effort

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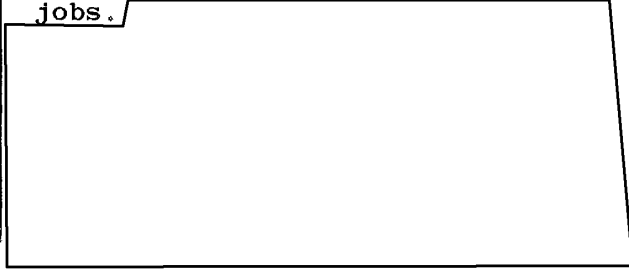


Dominican Republic

The virtually friendless regime of Generalissimo Rafael Trujillo may reconsider taking what it has termed "defensive action" against Cuba if the Santiago meeting fails to produce what Trujillo considers adequate protection against more Cuban-backed rebel incursions into the Dominican Republic. Any benefit obtained by Trujillo at Santiago is likely to be a mere by-product of the nonintervention principle.

Attacks on Trujillo will probably emphasize his employment of "foreign mercenaries," referring to a vigorous recruiting campaign being carried out by Trujillo's agents in Europe to enlist thousands of "immigrants" ostensibly for industrial jobs.

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SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

25X1



The Trujillo regime, suffering from an economic downturn, appears nevertheless to be firmly in control following the crashing of the Cuban-backed incursions of June. Machete-bearing peasants

25X1

are alleged to have supported the Dominican armed forces in liquidating the rebel forces.

Haiti

The weak Duvalier regime in Haiti fears intervention either by Cuban-backed rebels intent on invading the Dominican Republic through Haiti or by Dominicans trying to frustrate such a move. Accordingly, it asked last month for a US naval patrol of its shores.

Nicaragua

The government of Nicaraguan President Luis Somoza--the target of abortive rebel incursions from Costa Rica in early June and subsequent maneuvering by Cuban-supported rebel groups, which were prevented by the Costa Rican and Honduran armed forces from crossing into Nicaragua--is now faced with additional harassing rebel raids from across the Costa Rican border. Another small rebel group may have successfully entered the country from Honduras in the north.

The government is simultaneously being subjected to an unprecedented wave of popular indignation as the result of the 23 July killing of five university students during a demonstration in Leon that provoked a trigger-happy military unit to fire into the student crowd. Subsequent protest demonstrations in Managua and other cities and a mob attack on the home of the Leon police chief appear to have been spontaneous public reactions to the student deaths.

The government appears to realize the delicateness of its position and is trying to mollify public opinion. The absence in June of significant antigovernment feeling and of a clear issue against the regime were prime factors in the failure of the rebel efforts then. The student killings have largely nullified the record of moderation which the regime established by its near bloodless suppression of the June incursions and President Somoza's previous liberalizing moves. The killings have prompted attacks on Somoza elsewhere in the hemisphere and will probably be brought up at the foreign ministers' meeting as evidence of his repressive methods.

Though the rebel raids across the border in early August appear not by themselves seriously to threaten the regime, a more formidable rebel group appears to be organizing under pro-Communist Nicaraguan exile Guillermo Urbina Vasquez. This may be receiving Cuban Government assistance for a new attempt against Somoza later this year.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

LAOS

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The military situation in northern Laos remains fluid. Despite a temporary lull in enemy activity and the issuance of optimistic communiqués by the government designed to allay public concern, further military action is expected.

Communist rebel forces, numbering perhaps 1,500 control considerable areas of Sam Neua and Phong Saly provinces, where several army outposts have been overrun and others are threatened. With the arrival in Sam Neua Province of major components of Laos' two parachute battalions plus some infantry companies, government strength in the area has been raised to about 2,000. Additional troop movements to the fighting area would necessitate leaving vital areas uncovered in the other ten provinces. Under the circumstances, the Laotian Army is recalling chiefs of its own former anti-Communist guerrilla units to assist in organizing guerrilla forces to operate in the north.

Heavy rains, rugged terrain, and extremely limited airlift capabilities are impeding government countermeasures. The pro-Communist orientation of the bulk of the local population, predominantly minority groups, is also a factor.

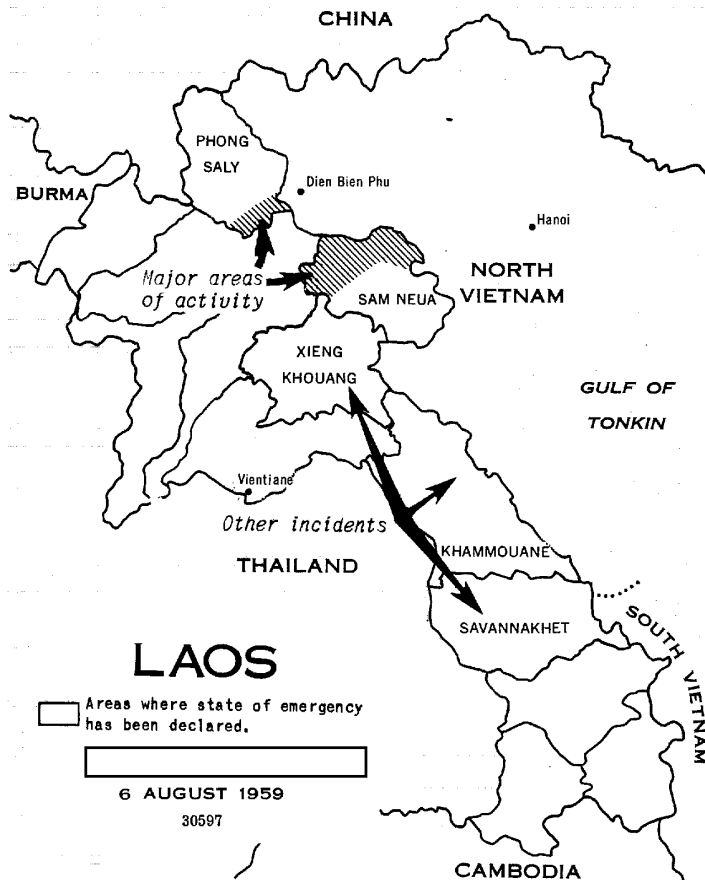
There are indications that the

insurgency may spread to other parts of the country.

Resistance units formed by demobilized Pathet Lao troops who have taken to the bush in recent months to avoid possible repression are especially active in antigovernment propaganda and intimidation among the rural population. Scattered harassing attacks against army detachments have occurred in central Laos,

The government

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

already has declared a state of emergency in five provinces, including Sam Neua and Phong Saly. The poorly trained and understrength Laotian Army of some 22,500 would be unable to cope with a countrywide uprising.

Communist Bloc Involvement

There is no doubt that the present fighting in Laos is inspired by the Communist powers; the current plan of action was probably decided on in Hanoi and Peiping, with concurrence given by Moscow. Although evidence of the intervention of North Vietnamese regular units is lacking, the local Laotian Communist forces are almost certainly directed and supplied by Hanoi. Given the inadequacy of the Laotian Army, it would seem unnecessary for either North Vietnam or Communist China to intervene with regular units. Included among insurgent forces in Laos are tribesmen who inhabit both sides of the Laotian-Vietnamese border, making national identification difficult and providing Hanoi with ready assets to train, equip, and deploy.

The Communist bloc has been motivated to take drastic action in Laos by the fact that the Phoui government has become increasingly pro-Western in its orientation, and is meeting with relative success in undermining the local Communist movement, and in re-establishing

royal authority in formerly Communist-dominated areas. The adjournment in July 1958 of the International Control Commission (ICC), which had been established by the 1954 Geneva agreements to supervise the Indochinese armistice, is another factor.

In Laos, the Polish members of the ICC had acted as intermediaries between the local Communist movement and Hanoi; India, ICC chairman, was interested in promoting strict neutrality. These developments are a setback to bloc hopes for preserving Laos as a "friendly neutralist" buffer state and eventually bringing it into the Communist camp.

The guerrilla attacks in northern Laos are coincidental with the arrival of an American military training mission. This mission, and the Laotian Government's "harassing" of the former Pathet Lao battalion which defeated last May, are being used by North Vietnam as justification for a "civil war" in Laos.

Bloc Propaganda

On 5 August, the Hanoi press termed the "interference of US imperialism both the deep-seated source of and the immediate cause for the serious situation in Laos." Hanoi has also asserted that military developments are a "threat to the security" of North Vietnam to which it cannot remain indifferent.

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

Another accusation which the Communists now are leveling is that Laos, with US connivance, is attempting to bring SEATO into the picture. The North Vietnamese Foreign Ministry on 5 August stated that the Phoui government's letter to the UN, accusing North Vietnam of intervention in Laos, and the consideration of an appeal to SEATO "were dangerous and provocative moves which may render the situation still more serious."

The brunt of the propaganda campaign has been borne by Hanoi, with Peiping largely repeating the former's charges verbatim.

Diplomatic Pressure

The USSR, however, as a cochairman of the 1954 Geneva conference, has been the primary agent in bringing diplomatic pressure to bear on the West for the return of the ICC to Laos. Soviet Foreign Minister Gromyko, who predicted on 9 June to British Foreign Secretary Lloyd--the UK is the other cochairman--that the situation in Laos "would get worse," repeated Moscow's previous charges in another meeting with Lloyd on 2 August. Recent Soviet broadcasts have termed the Laotian situation "extremely dangerous."

The Laotian Government had requested UN Secretary General Hammarskjold on 4 August to inform UN members of the "serious situation in Laos caused by thinly veiled intervention from North Vietnam." Premier Phoui is considering following up with a request for an observer force or other UN action if the situation warrants. Hammarskjold, however, reportedly is unwilling to intercede on his own initiative and favors using the ICC as a "bridge" between Vientiane and Hanoi.

According to the Laotian ambassador in the United States, Hammarskjold has urged Nehru to send Indian Commonwealth Secretary Desai--a former ICC chairman--to Vientiane to persuade the Laotian Government to end its objections to reconvening the ICC. Nehru has taken a "grave" view of the fighting in Laos and is consulting with the two 1954 Geneva cochairmen. While Britain continues to support Laos' stand on the issue, Foreign Secretary Lloyd has urged that the door not be shut on possible return of the ICC since the Indian and Canadian members "might be able to play a constructive role."

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

PART II

NOTES AND COMMENTS

USSR STRENGTHENS TIES WITH AFGHANISTAN

The USSR has strengthened its ties with Afghanistan over the past six months through a number of agreements providing for extension of Soviet activities into southern Afghanistan. Moscow apparently hopes that by such aid--including Soviet advisory personnel--and by political support it can overshadow Western policies and assistance in Afghanistan and induce Afghan leaders to abandon neutral policies in favor of closer alignment with the Communist bloc.

Soviet radiobroadcasts and printed materials distributed by the Soviet Embassy in Kabul are trying to stimulate Afghan apprehensions over US military aid to Pakistan and Iran and the intentions of these countries, especially of the Ayub regime in Pakistan, toward Afghanistan.

Moscow apparently is also encouraging the renewal by Kabul of agitation on the "Pushtoonistan" issue, especially recent charges that the US-Pakistani defense pact is designed to convert the Pushtu region into a US military base area.

In late May, a new aid agreement was concluded under which the USSR will construct a 470-mile "first-call motor road" from the Soviet-Afghan border to Kandahar and build an airfield in western Afghanistan.

viet aid under this agreement will amount to \$80,000,000, but--in deference to Afghanistan's reluctance to add to its foreign debt--will not cost Afghanistan "a single penny." This is the first time Moscow has given large-scale grant aid outside the bloc.

Several smaller agreements concluded earlier this year provided for a gift of 40,000 tons of wheat; expeditious transit of Afghan goods through Soviet territory to European ports at rates lower than those available on free-world routes; and construction, on a grant basis, of port facilities at Qizil Qala on the Amu Darya River, a project originally begun under the \$100,000,000 economic credit extended in 1956.

Meanwhile, the Soviet Union has attained a dominant position in Afghanistan's foreign commerce, accounting by mid-1959 for an estimated 40 percent of total Afghan foreign trade. The USSR provides the bulk of Afghanistan's sugar and petroleum imports and takes virtually all Afghan exports of cotton and wool.

The recent aid agreements will add to the estimated thousand bloc economic specialists already in Afghanistan and will put Soviet personnel in southern Afghanistan--an area from which bloc nationals have hitherto been excluded. By an agreement announced in Kabul on 18 July, Soviet technicians will assist in the construction of three road bridges in sensitive tribal territory near the Pakistani border. Ten Soviet experts are also slated to help work out details of Kabul's second five-year economic plan.

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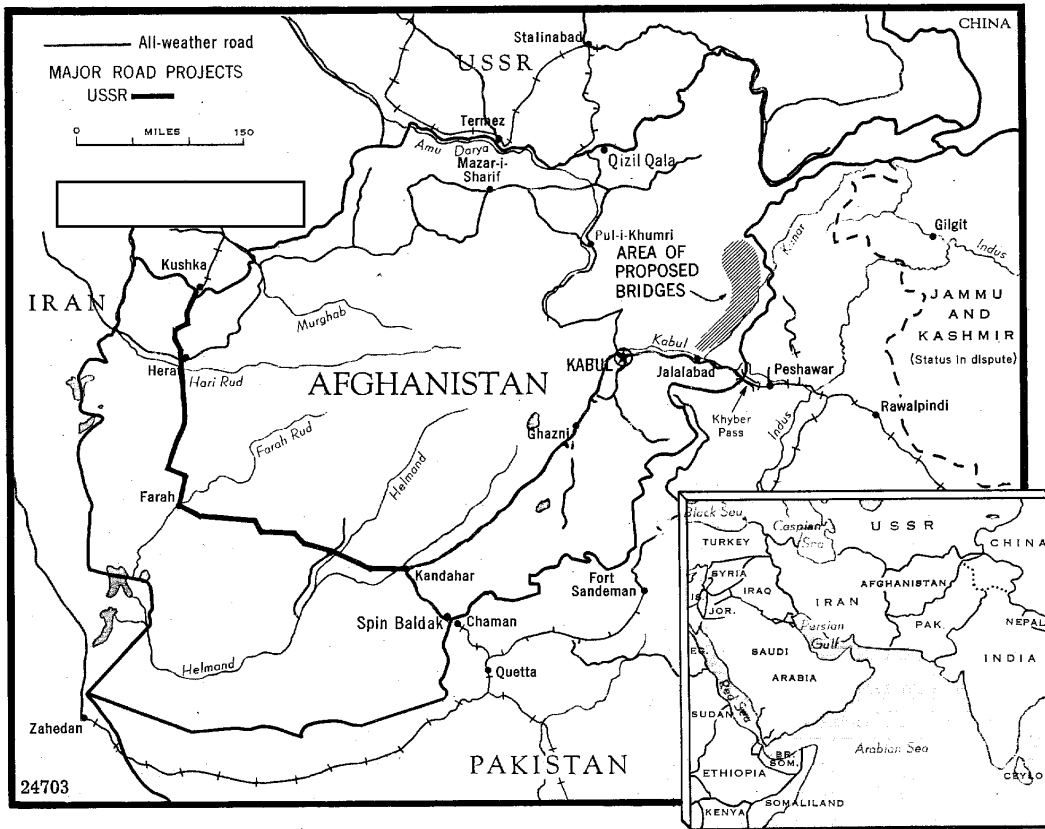
CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

The presence of the Afghan army deputy chief of staff on the delegation which went to Moscow in March suggests that negotiations for additional arms aid have taken place. Since the start of its military aid program in Afghanistan in 1956, the USSR

Kabul's total arms debt may not have increased.

There are other signs of increased Soviet-Afghan military cooperation. The arrival in Kabul in June of a Soviet major general, with the reported title of "director



has provided an estimated \$75,000,000 in arms aid including 60 jet fighters and 12 jet bombers 120 medium tanks, and large amounts of artillery.

general of Soviet military groups in Afghanistan," suggests that Soviet military technical and advisory personnel are being organized into a formal military assistance group. These technicians, now numbering about 150, have hitherto functioned individually in various Afghan training programs.

(Prepared jointly with ORR)

while Soviet military aid to Afghanistan may be increasing,

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

BLOC EXPANDS RELATIONS WITH IRAQ

The Sino-Soviet bloc is continuing to expand and consolidate its relations with Iraq through projects in such fields as civil aviation, medical aid, and the peaceful use of atomic energy, and by rapidly implementing military, economic, and technical aid agreements. Bloc leaders, although undoubtedly concerned over recent setbacks suffered by the Iraqi Communist party, have maintained a posture of "friendship" toward Premier Qasim and his government through favorable propaganda and such demonstrations of "good will" as sending high-level delegations to the recent Iraqi revolutionary day celebration.

The Soviet delegation, headed by Deputy Foreign Minister Kuznetsov and including Khrushchev's son-in-law, carried an invitation from the Soviet leader to Qasim--which he has accepted--to visit the USSR.

Baghdad on 30 July announced its decision--in response to Soviet overtures--to send a delegation to Moscow in August to conclude an agreement for "the peaceful use of atomic energy." Baghdad had previously reported a Soviet offer to supply Iraq with an atomic furnace for nuclear research.

On 28 July the director of the Iraqi civil airline announced that Iraq planned to open a Baghdad-Prague air route on 18 August. Negotiations to establish civil air routes with the Soviet Union and Hungary also are under way. The director also stated that Iraqi Airways had asked the Soviet Union to provide details on an unspecified Soviet passenger plane which would be used on both internal and external routes.

Moscow previously had offered to supply modern aircraft to Iraqi Airways, and may have expressed a willingness to supply pilots and other personnel to aid Iraqi Airways in its current operations.

The bloc--primarily because the only two foreign news agencies now servicing the Iraqi press are TASS and Communist China's NCNA--is attaining a dominant position from which it can exploit, for propaganda value, its dealings with Baghdad. The Iraqi Government itself, however, still has access to Western news sources.

There now are more than 250 bloc technicians in Iraq, and additional specialists are scheduled to arrive shortly. They are engaging in a wide variety of activities, some of which are called for under the Soviet \$137,500,000 economic aid agreement, including the improvement of port facilities at Basra and the surveys for an improved Baghdad-Basra railroad. Other bloc experts--who in some instances have replaced Western technicians--are participating in petroleum operations, medical assistance, civil defense, and municipal improvement projects, such as establishing fire departments, developing sewerage systems, and organizing street-cleaning operations. High-level bloc specialists, in addition, are advising Iraqi ministries.

Under cultural agreements signed with bloc members, the president of Baghdad University visited the Soviet Union and Eastern Europe earlier this year to recruit about 160 teachers for Iraqi educational institutions. Soviet physicians had

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

arrived in Iraq earlier to teach at medical schools. The Iraqi Teachers Union decided this spring, under existing cultural pacts, to send 80 teachers to Poland and Czechoslovakia to acquaint themselves with bloc educational achievements. In addition, the Ministry of Education has announced that 500 Iraqi students will study in bloc countries next school year.

An estimated 150 bloc military specialists are helping Iraqi troops in assembling and familiarizing themselves with Soviet weapons and equipment, which continue to arrive regularly at the port of Basra under the Soviet \$168,000,000 arms deal. Iraq, for its part, reportedly is planning to send additional personnel to the bloc for military training. Previously about 135 Iraqi mili-

tary personnel had been sent to the USSR and Czechoslovakia for training, including flight instruction.

Meanwhile, the bloc has rapidly implemented its trade agreements with Baghdad. Soviet vessels arrive about twice a week with cargoes of wheat, trucks, machinery, construction materials, and other standard trade commodities. In turn the bloc's share of Iraq's limited exports is increasing. Communist China alone has already taken 60,000 tons of surplus dates--Iraq's chief export. Since Iraq's exports, other than petroleum, are comparatively small, the bloc countries are accruing a substantial trade surplus which is resulting in a net gain for them of hard currency, mainly sterling.

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PEIPING'S "SERIOUS WARNINGS"

Peiping is still tenaciously engaged in an effort to "document" its charge that the United States is the aggressor in the Far East. On 31 July, the Chinese Communists issued the "61st serious warning," charging a US naval patrol plane with "violating" Communist-claimed air space over the Paracel Islands in the South China Sea.

Peiping apparently intends the warnings in part to give its territorial claims an air of legality. On 4 September 1958, at the height of the Taiwan Strait crisis, the Chinese Communists extended their territo-

rial limit 12 miles outside the most seaward of the coastal islands. The "first serious warning" followed on 7 September and, until late October, Peiping protested almost daily against "intrusions" by US ships and planes operating near the Nationalist-held islands. When US vessels moved farther offshore, the warnings dropped off sharply.

Only nine warnings were issued between 12 November and 22 June; thereafter, routine US aerial reconnaissance over the Paracel Islands became a source of frequent complaint despite the fact Peiping had not previously

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

taken official notice of these flights. The spate of warnings on the Paracels--eight so far--suggests that Peiping hopes the protests might result in elimination of the flights. Peiping



would view such a response as implied recognition of its claims to the islands.

Within the past six weeks, four warnings also have been made about "intrusions" by US naval vessels into the area of the Matsu-Paichuan islands off the Fukien coast. Chinese Na-

tionalist air and naval activities--considered aspects of "China's civil war"--have never drawn numbered warnings.

The only military action to follow a warning, however, was directed against the Nationalists, when the Communists resumed the bombardment of Chinmen on 20 October some ten hours after the "36th serious warning" charged four US vessels with escorting Nationalist convoys to the island. To date, none of the warnings has threatened direct military action against US fleet or air units.

A recent survey found that the warnings now have little impact among non-Communist Asians, who had expressed alarm when they first appeared. Even Chinese Communist propaganda media provide scant publicity beyond the sterile Foreign Ministry press release.

Peiping probably will use the warnings in a future propaganda campaign summing up "US acts of aggression which threaten peace in Asia." While such a campaign might precede renewed hostility against the Nationalists, it is more likely to be a purely political effort to embarrass the United States.

CHINESE COMMUNIST PARTY CONDUCTING MAJOR MEMBERSHIP DRIVE

Concurrent with the "giant leap forward" and commune programs, the Chinese Communist party (CCP) has been conducting a major recruitment drive aimed at strengthening its organization in rural areas and assuring the effective implementation of its sweeping domestic policies. By the end of 1959 the party probably will have grown by 2,-

000,000 members, bringing its total membership to around 15,000,000.

Although numerically the largest of all Communist parties, the CCP comprises only about 2.3 percent of China's 650,000,000 population. The Soviet Union has 8,700,000 party members, or about 4 percent of its population.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

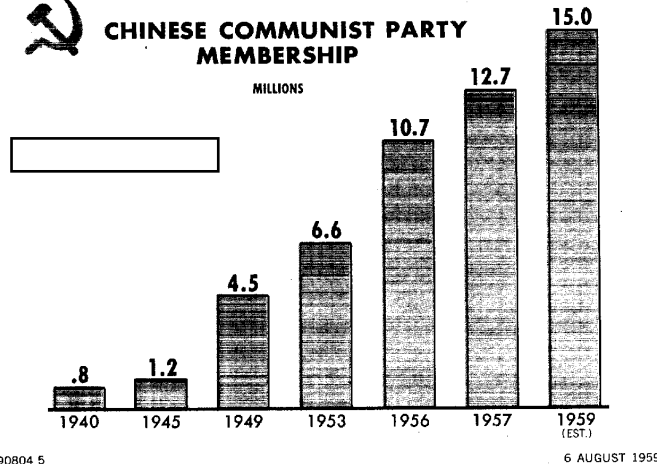
6 August 1959

During the "rectification" and "antirightist" campaigns of 1957 and 1958, the CCP suspended most recruitment except for "reliable" intellectuals. A number of members were dismissed from the party during this period, but expulsions apparently did not affect a substantial percentage of the membership.

About a million members were added to the party in 1958, and projection of the available figures suggests that twice that many will have been admitted by the end of 1959.

The current drive is likely to be followed by another period

The new campaign to recruit members developed during the last four months of 1958, when the communalization drive was at its peak. The party then claimed it had too few members in rural areas, even though 60 percent of its membership was engaged in agriculture. As in the case of the agricultural collectivization drive of 1955-56, when recruitment was also pushed, Peiping evidently looked to expand party membership to help advance its drive for a radical reorganization of the countryside.

**CHINESE COMMUNIST PARTY MEMBERSHIP**

of "rectification" in which the new members will be investigated and those found wanting will be expelled from the party.

ILYA EHRENBURG AGAIN EXPRESSING UNORTHODOX VIEWS

Soviet author Ilya Ehrenburg appears to be developing into a self-appointed conscience of the individual in Soviet society. In two recent articles on Chekhov, Ehrenburg argues that the individual bears moral responsibility for crimes committed by the state.

In these articles, Ehrenburg used the technique he had employed in his June 1957 article on Stendhal. Under the

guise of literary criticism of an "approved" classic, he hammered home his own ideas by means of carefully selected quotations. As in the Stendhal article, he asserted that truth is attainable only in art, not in politics; he again denounced censorship and the stultifying effect of tyranny on the intelligentsia; and he emphasized that "petty reforms" cannot cure an "unjust society."

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

Ehrenburg quoted Chekhov's lament: "I can see from the books which I have read and am reading that we have imprisoned millions of people, without reason, without trial, in a barbaric manner; we have chased the people in irons and in the cold over thousands of versts, contaminated them with syphilis, corrupted them, bred criminals, and blamed this all on the red-nosed prison wardens. Now all of educated Europe knows that not just the wardens are guilty but all of us." From this he argued that "true patriotism" involves not only pain at one's country's shortcomings, but also a sense of personal guilt as a Russian for crimes committed by the state.

Ehrenburg's strong avowal of man's responsibility to his individual fellow man is in sharp contrast to the Communist emphasis on the individual's responsibility to society as a whole. This emphasis on personal guilt must also contrast sharply for Soviet readers with official "explanations" since 1953, blaming similar Soviet crimes and injustices on the "red-nosed prison wardens," Beria and Stalin.

To his implied rejection of Stalin and Beria as scapegoats for past Soviet crimes, Ehrenburg added the argument that even the end used by them to justify their criminal acts may be illusory. He quoted Chekhov's description of a tyrant whose crimes are committed "in the name of the improvement of human race...an illusion, a mirage." Ehrenburg commented that this might have applied to Hitler, but its application to a society currently concerned with the development of "the new Communist man," whose avowed goal is the improvement of the

human race, will certainly not be lost on the Soviet readers.

There has as yet been no official reaction to these articles. Criticism of the 1957 Stendhal article was similarly slow in appearing, and no real attack was made on it for almost a year. The regime is currently attempting to fight writer dissidence with acts of moderation and reconciliation in line with Khrushchev's



EHRENBURG

speech at the Third USSR Writers' Congress in May. Such an approach has the advantage of appealing primarily to literary circles, whereas public criticism would fan popular interest.

Ehrenburg's services in the "international peace movement" may also have contributed to official reluctance to attack him publicly. However, his disregard for the regime's efforts at enforcing cultural conformity among Soviet writers will tend to encourage his colleagues in their literary dissidence and may force the regime to act more strongly against him.

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SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

PRESIDENT'S RULE IN KERALA

New Delhi's take-over of the administration of Kerala State on 31 July brought to a successful conclusion the six-week struggle by combined anti-Communist groups to oust the Communist government. President Prasad's dismissal of the Communists and the scheduling of new elections under President's Rule have been a serious setback to Communist prestige throughout India. In turn, Prime Minister Nehru's Congress party now faces a critical test of its ability to win the elections and provide a more effective and stable government.

With the exception of Defense Minister Krishna Menon, apparently all top leaders of the Congress party and of the government finally endorsed the recommendation that Prasad invoke his emergency powers. Despite some misgivings over the methods employed to force the Communists out of office, New Delhi's move has been generally supported by the Indian press and public opinion. Nehru justified the intervention on grounds that the Communist government in Kerala was no longer able to function constitutionally and that majority opinion in the state had clearly turned against the Communists. Nehru was quoted as describing the state government's performance as an "astonishing failure."

Most Congress leaders, and Nehru in particular, are nonetheless fearful of the outcome of the state elections, which are likely to be held within six months. The Congress party in Kerala still has much work to do in strengthening its leadership, organization, and financial position if it is to defeat the Communists by a safe margin. Even more important will be the need to maintain the present close cooperation with other non-Communist groups in order to avoid splitting the vote and to form an effective coalition government. Experience gained in the recent agitation has increased the prospect for unity among Kerala's traditionally divided factions, but cooperation may deteriorate as the competition for power increases.

The Indian Communist party has been shaken by the course of events in Kerala, and its leaders are at odds over future policy. The minority faction favoring a more aggressive opposition role has been strengthened as a result of the failure of the "Kerala experiment," and advocates of the "peaceful, parliamentary" approach to power are under heavy pressure to adopt a harder line. The moderate leaders apparently have contained this pressure so far, however, and by making minor concessions to the extremists they probably can continue to control party policy.

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CEYLON

Prime Minister Bandaranaike's government--with a one-man majority in the Ceylonese Parliament--remains in a vulnerable position, despite Parliament's approval of the budget in a critical vote on 31 July.

Conservative elements probably will continue to try to subvert Bandaranaike's support, even though their efforts during the past two months have failed. The government's uncertain future is likely to inhibit effective

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

action on Ceylon's major problems, and this in turn may stimulate further opposition planning for "direct action" to end Bandaranaike's administration.



BANDARANAIKE

Both leftist and rightist opposition groups will keep the

government under steady pressure. Their next opportunity for a test of strength will occur soon when the combined opposition presents a motion calling for the establishment of a special commission to investigate the many recent allegations of corruption in official quarters. Widespread public feeling, stimulated by the press, that a thorough investigation is needed may make it difficult for the government to maintain its opposition to any such proposal.

Bandaranaike's success in settling the leftist-led strikes which plagued the government during June and July has eased his problems in this field, but the politically controlled labor organizations retain considerable potential for stirring up trouble when it suits their interests.

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CYPRUS

The differences between Archbishop Makarios and former EOKA leader George Grivas have caused an open break, and Cyprus is faced with the possibility of renewed violence. Grivas has accused Makarios and the Greek Government of presenting him with a fait accompli in the Cyprus settlement. He charges that he was not consulted on the terms prior to the accord negotiated with the Turks and British last February, and that he had no alternative to accepting the agreement and ending his four-year-old terrorist campaign.

Grivas has concentrated his attack, however, on the alleged existence of "oral commitments" to the British entered into by the Greek Government. For this reason, he has "disassociated" himself from the settlement and has threatened to renew underground activity to "smash the dark forces who seek to enslave the island."

Makarios and the Greek Government responded quickly to Grivas' charges, both accepting responsibility for negotiating the settlement. Makarios, while

SECRET

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

denouncing those who "sow dis-sension and seek to create confusion," replied in mild terms to the direct challenge. Reports indicate that the arch-bishop enjoys the overwhelming support of the Greek Cypriot community, including that of many former high-ranking subordinates of Grivas in the EOKA movement. Makarios has the support of the Greek-language press on Cyprus with the exception of the Communist papers, which are unlikely to support the violently anti-Communist Grivas.

There probably does exist, however, a small band of extremists loyal to Grivas who will join him, either directly or indirectly, in acts of violence if he gives the order. A significant supply of weapons and ammunition is believed to be in the hands of former EOKA members, and both Greek and Turkish Cypriots are believed to be smuggling arms. At least one explosion of undetermined origin has already occurred, and isolated acts of violence may increase.

Greek Government leaders responded bluntly to Grivas, whom they recognize as a potentially dangerous rival for power because of his popularity in Greece. Grivas, meanwhile, continues to confer with Greek opposition politicians, and an early announcement of the creation of a new Greek political movement under his leadership is expected.

Turkish Cypriots and the British are watching the developments warily. Turkish Cypriot leaders have strongly backed Makarios in the dispute and have warned that Grivas' activities could lead to disaster. They fear that fanatics, encouraged by the former EOKA leader, will intimidate the moderate majority of Greek Cypriots into adopting a less conciliatory attitude toward the final settlement still being worked out. British security forces, meanwhile, have set up roadblocks for the first time since the end of the emergency in March in an attempt to stop arms smuggling into Cyprus.

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MOROCCAN GOVERNMENT CRISIS

A mounting cabinet crisis in Morocco induced King Mohamed V to leave Paris abruptly on 2 August without either meeting De Gaulle as planned or undergoing minor surgery scheduled for this week. Acting in his usual cautious manner, the King may take no immediate or forthright steps to halt the crisis but instead probably will maneuver toward the installation of the more broadly based government he has long desired. Such a coalition would be difficult to form in the face of the bitter antagonism between rival Istiqlal groups. Rumors that the government of Premier Abdallah Ibrahim has already

resigned are denied by Rabat.

The government has become increasingly skeptical that any advantages could be derived from a meeting with De Gaulle. Serious disagreement apparently has also arisen within the government as to the need for devaluing the Moroccan franc, now considered overvalued at 420 to the dollar. Paris, which devaluated its own currency last December, suspended Morocco's operations accounts at the end of June in an attempt to force realignment of the Moroccan franc with that of France. France demands devaluation as a price

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

for considering financial assistance to Morocco.

The Moroccan Government is also embroiled with both France and the Algerian rebels over an increasingly tense border situation developing from Algerian rebel use of Moroccan soil as a base of operations against French troops in Western Algeria. Moreover, agitation for the total evacuation of foreign troops in Morocco--French, Spanish, and American--has been renewed, and some groups are even calling for rupture of relations with France.

Meanwhile, opponents of the government are seeking to offset the impact of the receipt last week of a \$15,000,000 installment of American aid funds by speculating whether the government had obtained this aid by agreeing to modify Morocco's policy of nonalignment.

The government also is faced with increasing aggressiveness on the part of the Moroccan Labor Union, which draws its members largely from major urban centers, and with opposition from Moroccan irregulars to its efforts to confiscate the numerous small arms dispersed throughout the country.

The return of the King may have been precipitated by the report that an antimonarchical faction within the government, including Premier Ibrahim and Vice Premier Bouabid, was attempting to exploit the worsening situation by ramming through a series of measures reducing the powers of the King. Similar efforts to divest the King of his direct control over military and security forces contributed to the fall of the Balfrej government last year.

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INDONESIA

The Indonesian Government continues to be preoccupied with reorganization under the newly decreed 1945 constitution, while specific programs in many areas remain obscure. On 30 July, a cabinet spokesman announced formation of a 45-member Supreme Advisory Council, formally headed by President Sukarno and with Sukarno's confidant Ruslan Abdulgani as vice chairman, and a 77-man National Planning Council under leftist cabinet minister Mohammed Yamin.

The advisory council, comprising representatives of "functional" groups including the armed forces, geographic regions, and 12 representatives of nine political parties, will, according to Abdulgani, be the

major vehicle for implementing Sukarno's "guided democracy" concept, although its authority to advise and make recommendations to the cabinet does not necessarily envisage a key policy role. The planning board, composed of functional, regional, and religious representatives, appears too unwieldy to undertake effective economic planning.

Appointment to the Supreme Advisory Council of two top Communist party leaders--among a reported total of 21 Communists on both councils--indicates that Sukarno still intends to use the Communists as a balancing factor against other parties and the armed forces. Communist influence, however, can

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

be limited by the much larger non-Communist voting strength. Totally excluded from both bodies is the Masjumi party, which opposed Sukarno's concept and is considered by him sympathetic to rebel forces.

The old Parliament, now in recess until October, has been sworn under the new constitution and, with the appointment of "functional" representatives in the near future, its membership is expected to compose the new provisional People's Consultative Council. The cabinet on 1 August partially lifted the ban on political activity, but ordered all top civil officials to sever party affiliations. It has ordered the creation of a supervisory body to investigate and control government "apparatuses" and decreed

new stiff penalties for economic "saboteurs."

The new defense minister, Lt. Gen. Nasution, has outlined to the American ambassador a plan to increase the military role in the government through the appointment of officers to "assist" key ministries. He admitted that, although democratic forms would be preserved under civilian ministers, the military, already a substantial influence in the cabinet, might acquire a dominant voice in the government. While this plan apparently has Sukarno's support, it offers no guarantee of effective remedies for the nation's complex problems. However, if Sukarno felt Nasution was becoming a threat to his own power, he would probably move to downgrade or remove him.

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WEST GERMAN ECONOMIC ACTIVITY IN AFRICA

The visit of a West German economic delegation to Liberia and Ghana during the week of 3 August highlights West Germany's increasing interest in developing economic relations with independent African states. The negotiations, which are expected to produce agreements for increased trade and technical assistance, follow recent commitments of \$25,000,000 in credits to the Sudan and \$7,000,000 for Ethiopia.

In addition to Bonn's concentration on developing economic relations with the Middle East and Asia, its growing interest in Africa has been indicated in recent years by exchanges of

high-level official visits with the independent states and by West Germany's participation in the European Common Market. Much of Bonn's interest in joining came from the equal access West German firms are granted to the extensive African territories under French and Belgian control. Of the Common Market's \$581,000,000 Development Fund for the combined overseas territories of member countries, \$200,000,000 comes from West Germany.

Apart from finding markets for German industrial goods and sources of certain raw materials and foodstuffs, Bonn is also anxious to combat East German

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

inroads in Africa --especially in Guinea, where the German Communist regime has established a trade mission. West German officials are hoping that by developing significant economic ties with Guinea they can bloc Guinean recognition of East Germany. Although restrained from taking forthright action by fear of offending Paris, Bonn sent an envoy to Conakry on 21 July to discuss arrangements for establishment of a permanent diplomatic mission, and will probably send an ambassador to Guinea this fall on the presumption that Guinea does not plan to recognize the East German regime.

Bonn is also cultivating contacts with African territories expected to become independent in the next year or two. With this end

WEST GERMAN COMMERCIAL AND ECONOMIC AGREEMENTS WITH INDEPENDENT AFRICAN COUNTRIES

SUDAN	Credits totaling about \$25,000,000 consisting of: \$6,000,000 in credits guaranteed by Hermes (West German government-owned export insurance company) for purchase of goods for development purposes; \$12,000,000 in credits provided through private banks for purchase of West German manufactures; \$7,000,000 in special export guarantee for hydroelectric plant.
ETHIOPIA	\$7,000,000 in export credits for delivery of German machinery and other capital goods specifically geared to five-year plan and specific aid for paper mill and oil-seed conservation projects; a \$240,000 grant for public health purposes; a \$280,000 grant for a hospital. Oil explorations rights extended to West German firm.
TUNISIA	\$360,000 in credits for Tunisian development projects for fiscal year 1958-59; only \$7,000 expended by end of 1958. Despite considerable efforts by German businessmen to build up commercial contacts, trade with Tunisia remains limited.
MOROCCO	One-year trade agreement effective 1 January 1959 established trade quotas, automatically extendable for second year.
LIBYA	Germans have indicated willingness to provide technical assistance for constructive projects, but Libyan officials have not put forth a program. A West German firm is seeking an oil concession.
GHANA	Trade and technical assistance negotiations presently under way in Accra. Ghana's finance minister will visit Bonn 13 August to discuss projects for his country's development plan.
LIBERIA	\$4,240,000 in credits for Greenville harbor development. West German - owned African Fruit Company has concession for 600,000-acre banana and rubber plantation. Another German firm has palm-oil production concession. Additional credits up to \$3,000,000 promised. Negotiations presently under way.
GUINEA	Technical assistance agreement concluded March 1959. Negotiations presently under way concerning West German economic assistance (sugar, fertilizer) to Guinea.

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6 AUGUST 1959

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in view, it intends to open consulates soon in Cameroun, Togo, and perhaps Somalia.

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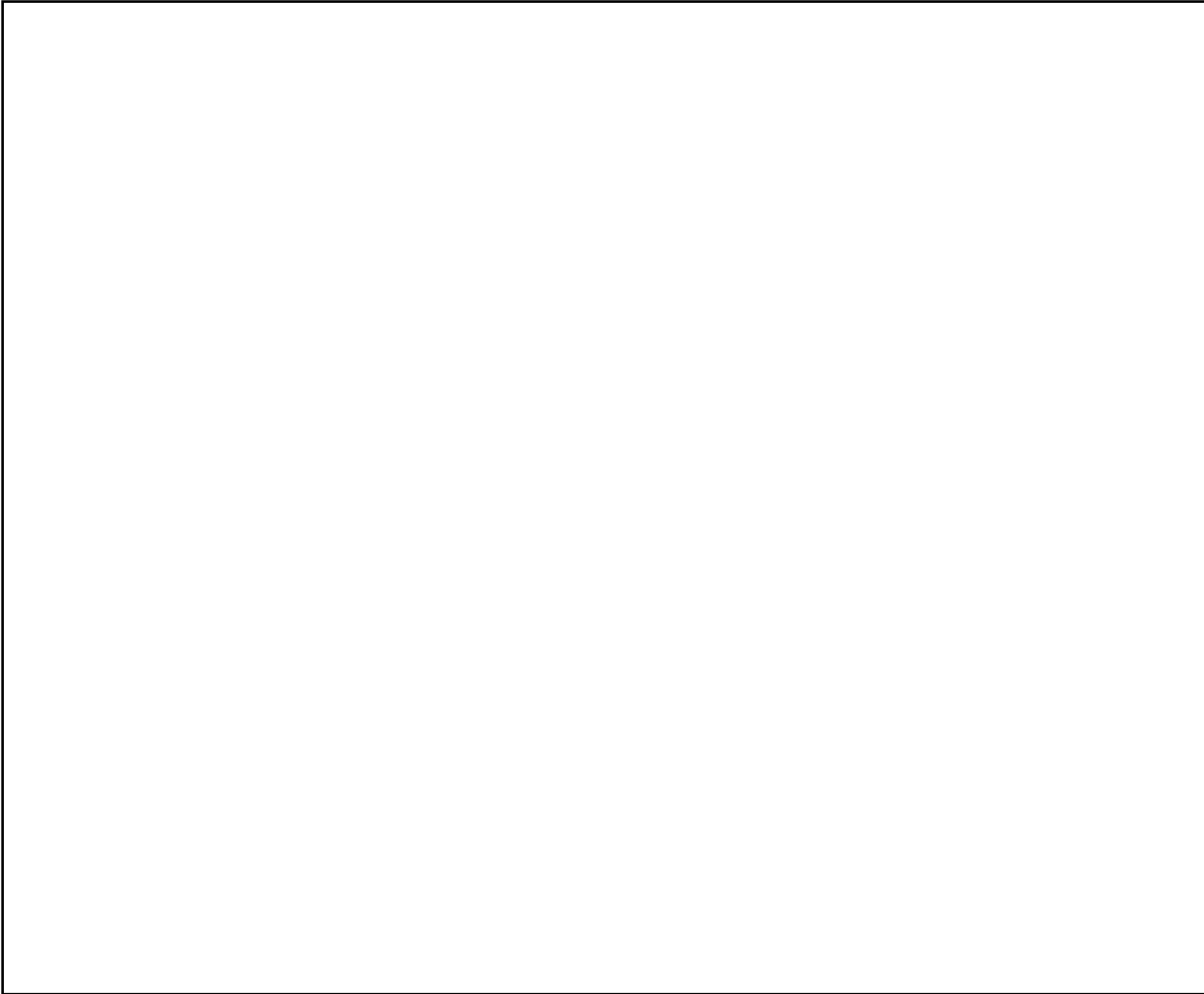
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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959



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BOLIVIA UNDER PRESSURE TO ACCEPT BLOC ECONOMIC AID

The Bolivian Government is under increasing political pressure to accept bloc economic overtures as a result of perennial political instability, leftist maneuvers, and growing popular discontent with the deteriorating economy under the US-backed stabilization program.

Moderate President Siles, the principal defender of the program, expects Congress, now in session, to challenge the government's failure to act on bloc credit offers to the national oil company, YPFB,

amounting to about \$60,000,000. His power to resist leftist pressures in favor of bloc aid and against some aspects of stabilization appears to be diminishing. Siles believes that close economic relations with the USSR would lead to diplomatic relations, which the lower house of Congress proposed last September.

Bolivia's economy, which is largely dependent on mineral production and exports, declined sharply in 1958 and the outlook for 1959 is dim. The oil industry,

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

6 August 1959

which offers one of the few bright spots for long-term recovery, suffered a production decline in 1958, and the trend may continue this year. Moreover, Communists are effectively exploiting the presence of foreign oil companies in Bolivia as a "threat" to YPF, a symbol of national prestige.

In addition to anticipated congressional pressures to seek bloc aid, labor representatives of YPF, which agreed to hire Czech geologists last December, now are advocating a loan from the USSR to solve the company's financial difficulties--primarily a lack of capital for equipment and development. The scheduled trip to Moscow this month of Juan Lechin, key leftist labor leader, senator, and frequent opponent of Siles on stabilization issues, may be primarily for economic purposes. Moreover, the government is considering sending a mission to Moscow to investigate Soviet oil equipment.

Former President Paz, chief of the ruling party who tends to favor Lechin's left-wing faction, may attempt to use bloc offers, including a Czech credit proposal which was made to him during his visit to Prague in June, as a means of obtaining a sizable US loan. Siles, who may be collaborating in this effort, has stated that Soviet offers to YPF have been presented to the Bolivian embassies in Mexico City and Buenos Aires, where the USSR has missions. Siles told the American ambassador, however, that Paz had advised caution in dealings with the Russians. The USSR and Czechoslovakia, which has the only bloc mission in La Paz, reportedly also made a joint offer of \$100,000,000 for agricultural aid to Bolivia recently.

Bloc overtures to Bolivia appear to be effectively coordinated with local Communist propaganda against stabilization and the foreign oil companies.

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Next 2 Page(s) In Document Exempt

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

THE FUTURE OF THE UN EMERGENCY FORCE

Increasing reluctance on the part of many UN members to supply funds and manpower threatens the existence of the 5,000-man UN Emergency Force (UNEF). Reduction of the UNEF's size by the General Assembly this fall would result in substantial savings, but many UN officials fear a major cut would reduce the effectiveness of the force in maintaining relative peace along the UAR-Israeli border. Key factors in determining the future of the UNEF are the continued support of India, which maintains the largest contingent--1,166 men--in the area, and the support of the Latin American bloc in principle if not financially.

As directed by last year's assembly, Secretary General Hammarskjold now is consulting with UN members concerning future financing of the force. His strong personal support and voluntary contributions from such members as the United States, France, and Britain--in addition to their assessed payments--may prove sufficient to persuade the assembly to continue UNEF through 1960.

Establishment of UNEF

The UNEF was established by the General Assembly in November 1956 to patrol the Gaza and Sinai areas after the withdrawal of the British-French-Israeli invasion troops. UN members volunteered troops, and the force was formed from those national contingents acceptable to the host country--Egypt. Thus the precedent was set for large-scale UN police operations manned only by the smaller UN members and those countries not directly involved in the hostilities. Although a police rather than a fighting force, UNEF is run as a military operation and has sufficient weapons to defend itself if attacked.

The contingents of the various participating countries were placed under the direct control of the UN General Assembly and the secretary general. In the field, the UNEF is under the command of Major General E.L.M. Burns of Canada, former chief of staff of the UN Truce Supervision Organization in Palestine.

During the early months Hammarskjold's leadership and negotiating ability saved UNEF from foundering on several occasions. UNEF's relationship with the local population in the areas it patrols has been good, with only the usual minor incidents expected when foreign troops are in an area.

Composition

Of the 25 nations which volunteered to contribute troops, ten were accepted by both Egypt and the United Nations: Brazil, Colombia, Canada, Denmark, Finland, India, Indonesia, Norway, Sweden, and Yugoslavia. Contingents from these nations totaled approximately 6,000 men, including combat and support units. The UN agreed to subsidize these forces to a limited degree both financially and through provision of equipment. Member countries pay their own contingents and provide uniforms.

Peak strength of UNEF was 6,043 men in July 1957. Since that time, the detachments from Colombia, Finland, and Indonesia have been withdrawn for domestic financial reasons. Financial difficulties led Brazil to consider withdrawing early this year, but after the UN agreed to pay the costs of maintaining the Brazilian contingent, Rio de Janeiro decided to continue its participation.

The force now numbers 5,026 men. Retention of "non-Western" forces, such as those from India and Yugoslavia, in

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

25X1

UNEF is important to the international concept of the undertaking.

Deployment

Operations in the field have gone through three stages. The first, roughly from mid-November until the end of December 1956, centered in the vicinity of the Suez Canal, mainly at Port Said and Port Fuad, and was concluded with the withdrawal of the Anglo-French troops. The second stage extended from late December 1956 to early March 1957, during which the activities of the force covered the Sinai Peninsula following the phased withdrawal of Israeli forces.

The third stage began on 8 March 1957, when Israeli forces had fully withdrawn

from the Gaza strip and had begun their withdrawal from the Sharm al Shaikh area. Operations since that time have centered on the Egyptian-Israeli armistice demarcation line and along the international frontier south of the Gaza strip.

Deployment of UNEF at the mouth of the Gulf of Aqaba has resulted in virtually unimpeded passage of Israeli shipping to Eilat by giving Egypt a domestically palatable excuse for not harassing such shipping more actively. The presence of UNEF in the Gaza strip and along the UAR-Israeli border has contributed to the relative quiet in the area and probably has deterred large-scale "incidents." Israel has

refused to allow the stationing of UNEF troops on its side of the demarcation line. The fact that UNEF troops are stationed only on the Egyptian side has been the basis of Tel Aviv's acceptance of the force.

Financing

UNEF's expenses are met by assessing the 82 members of the UN on the same pro rata basis used for assessments toward the regular UN budget. This method differs from financing such other extracurricular UN programs as technical assistance and refugee aid, which depend on voluntary contributions. The Soviet bloc has refused to pay its assessed obligations, maintaining that such financing of

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CURRENT INTELLIGENCE WEEKLY SUMMARY

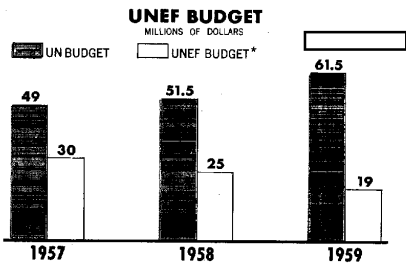
6 August 1959

UNEF is illegal and insisting that the "aggressors"---Britain, France, and Israel---should pay the entire costs. Other UN members, particularly the Latin American bloc, have defaulted in their payments because of

American bloc controls 25 percent of the votes while paying only 5 percent of the budget, its support in principle of the percentage assessment is a key factor in General Assembly continuation of UNEF.

The voluntary contributions by the United States, France, and Britain have made up deficits. The United States, through voluntary contributions and assessments, covered 47 percent of authorized UNEF expenses during 1957 and 1958, and expects to cover about 44 percent in 1959.

UNEF's budget is large in terms of total UN costs but has been declining yearly. This factor may also induce UN members to recommend continuation of UNEF at least through 1960.



domestic financial difficulties. However, because the Latin

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THE INDONESIAN ECONOMY

President Sukarno's new cabinet, installed on 9 July, has acknowledged the priority need for decisive action to adjust Indonesia's inflated economy. Severe inflation has been brought about by underproduction for both the domestic and the world market, a shortage of consumer goods, and the government's growing deficit, resulting mainly from military expenditures. Other factors are poor internal distribution, illegal barter trade, continued economic dislocation resulting

from the December 1957 take-over of Dutch interests, and inefficiency of government-controlled import-export companies.

The cabinet apparently envisages some sort of stopgap remedial measures, but a long-term project is needed to provide a solution effective on a national scale.

Foreign Trade

Indonesia is dependent on an export economy whose principal

SECRET

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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

products are oil, rubber, and tin. In 1958 these respectively accounted for 37, 35, and 5 percent of total export values. Other export products are copra, coffee, tea, kapok, and sugar.

The economy sustained two severe blows in 1958 from which it has not yet recovered. One emanated from the provincial rebellion, which disrupted production in some areas, involved extensive smuggling and illegal barter trade, and denied the government considerable revenues and foreign exchange. The other resulted from the government's take-over of large-scale Dutch economic interests in December 1957 and the subsequent economic dislocation and decrease in both production and quality of produce on many Dutch-owned estates which had previously contributed substantially to Indonesia's export trade.

Between mid-1958 and the end of the year, exports began to recover from the very low levels of early 1958 as a result of the government's recapture of rebel ports and the reduction of illegal trade. Even so, export values for 1958 were 20 percent lower than for 1957, and the trend is expected to be

**INDONESIA
PRINCIPAL EXPORTS**
THOUSAND DOLLARS

	1953	1954	1955	1956	1957	1958
Rubber	270,528	265,441	429,913	303,913	350,423	261,257
POL Products	195,484	226,242	212,329	224,623	322,540	282,508
Tin Ore & Slag	80,780	59,474	59,488	61,987	49,000	35,434
Copra	56,930	50,946	35,328	38,766	37,996	16,425
Foodstuffs	115,614	160,527	117,175	123,655	138,466	103,827
Other	100,287	93,434	77,182	129,046	71,044	55,952
Total	819,633	856,064	931,415	881,990	969,469	755,401

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6 AUGUST 1959

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similar in 1959. The Indonesian Ministry of Finance has estimated that foreign exchange earnings for 1959 will be 30 percent lower than for 1957, owing to continued illegal barter in some districts, reduced production of crops on estates formerly supervised by Dutch technicians, loss of production in insecure areas, difficulties of transport and marketing, and reduced world market prices.

Despite the reduction in exports, the government was successful in bringing trade into a favorable balance by the end of 1958 and has continued the favorable balance of payments to 1959. It has done so, however, by so drastically restricting imports that necessary consumer goods and raw materials for local industry have become increasingly scarce. Reduced quantities of consumer goods and a decline in industrial output of some products ranging from 30 to 50 percent have increased already serious inflationary pressures.

Domestic Finances

In contrast to the improvement in foreign trade balances, domestic finances have markedly deteriorated. The government's deficit is expected to be

**INDONESIA
PRINCIPAL IMPORTS**
THOUSAND DOLLARS

	1953	1954	1955	1956	1957	1958
Foodstuffs	122,800	90,344	56,918	171,100	128,629	
Manufactured Goods	209,398	297,700	319,856	378,560	350,745	
Machinery & Transport Equipment	67,679	113,406	101,072	148,817	138,115	
Other	353,093	127,649	126,341	154,638	179,554	
Total	752,970	629,099	604,187	853,115	797,043	not available

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6 AUGUST 1959

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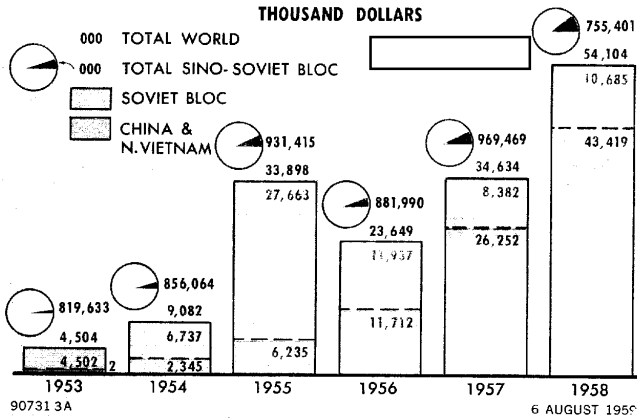
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CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

INDONESIA : TOTAL EXPORTS



taken by the new government.

Only two factors have prevented the economic deterioration from having even more serious political and economic effects. One is that the price of rice, the basic foodstuff, has been held at the 1958 level so far during 1959. This has been achieved by large rice imports, injection of rice into the market in areas of critical shortage,

and a fairly honest supervision of government price controls. The other factor is that the economic crisis has not yet seriously affected the majority of Indonesians engaged in subsistence farming and not substantially dependent on a monetary economy.

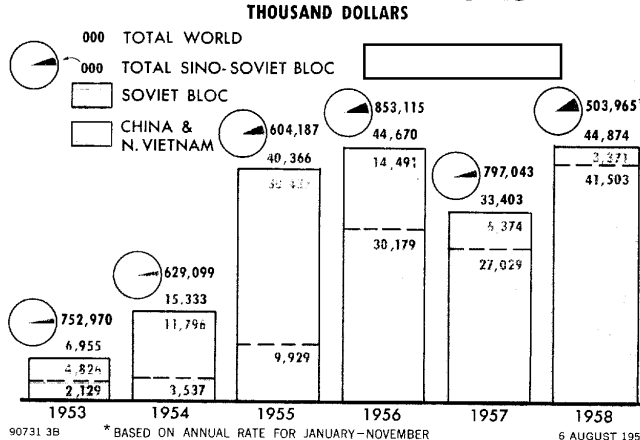
Stabilization Measures

The government has instituted a series of stabilization measures which have undoubtedly had some ameliorating effect but have failed to meet Djakarta's hopes. In an effort to discourage imports and to withdraw money from circulation, it raised the prepayment requirement on imports in April to the unusual

twice as large as planned for the calendar year 1959 and to reach the equivalent of about \$533,000,000. Most of the additional funds will be used for military expenditures. The expected 1959 deficit would be 50 percent greater than that of 1958 and over three times that of 1957. Bank notes in circulation increased in 1958 by nearly 50 percent and have continued to rise in 1959. As a result of these factors and the limited availability of goods, price levels in 1958 increased 46 percent over those of 1957 and another 21 percent during the first quarter of 1959.

Confidence in the rupiah has so dwindled that a growing number of shopkeepers prefer barter to cash transactions. The rupiah, nominally set at 11.4 to the dollar, is officially permitted to be exchanged at 30 to the dollar and in June was selling on the Singapore free market at 175. Formation of President Sukarno's new cabinet in July strengthened the rupiah to 137 to the dollar, but this will be only a temporary respite unless resolute action is

INDONESIA: TOTAL IMPORTS



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SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

6 August 1959

level of 230 percent of the import value. The anti-inflationary effect of this measure, however, will be reduced by the decision to permit at least two large government-owned trading companies to finance this payment with bank credit. The government has also restricted credit ceilings for banks to the August 1958 level, has gradually reduced illegal barter trade, and has improved tax collections.

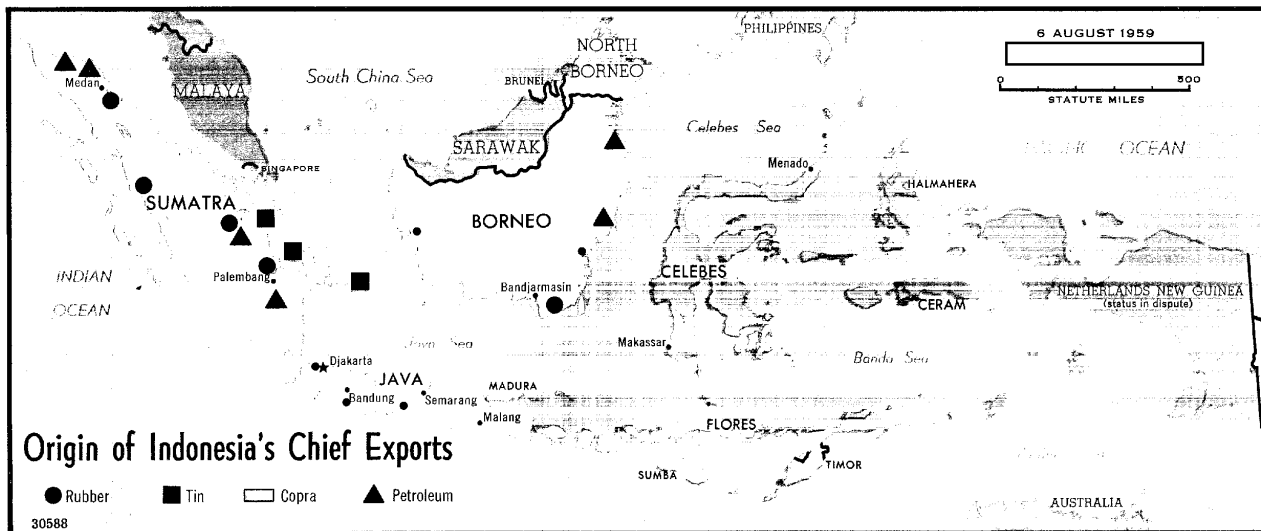
In late April, Djakarta centralized imports of nine major commodities in addition to rice, cloves, cambrics, and fertilizers--import of which is already controlled. It did so by giving sole import privileges to nine government-owned trading companies. The announced purpose of the regulation was to control speculation and facilitate distribution of the limited supply of foreign-exchange imports. Many of the directors of the companies are inexperienced, however, and have actually slowed distribution.

A number of measures have been taken to keep prices at authorized national levels. Rice, however, appears to be the only product with which the government has succeeded in this

respect. In East Java, Indonesia's most populous area, where the local army commander has been particularly effective in holding the line on prices, he found that Djakarta's policy was driving goods out of the market--either under the counter or to other parts of Java where prices were higher. In defiance of the central government, he freed the textile market and may do the same with copra, hoping thereby to "flood" East Java with supplies. Merchants privately state, however, that only an increase in total supplies--which in the case of textiles means more imports--will alleviate the situation.

Efforts toward equitable distribution and price control are severely hampered by deficiencies in interisland shipping brought on in December 1957 when the government lost the services of KPM, the Dutch-owned shipping line which had carried approximately 60 percent of internal trade. The government has bought some ships and chartered others, but still lacks about 50 percent of the tonnage available for interisland shipping before the KPM seizure. By 1962 it hopes to have nearly recovered its 1957 shipping position.

25X1

**SECRET**

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

6 August 1959

Foreign Credits

The government lists foreign credits on the plus side of its stabilization program. These credits, however, generally do not have short-term stabilization effect. Except for consumer-goods loans, they may in fact produce inflationary results until the new projects are completed.

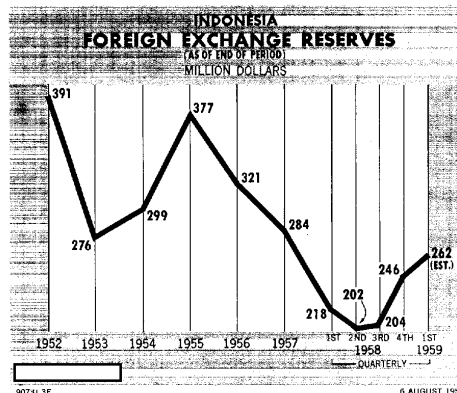
Furthermore, little recognition has been given to the effect of required repayments for the extensive credit which Indonesia has recently accumulated and apparently is still seeking. Military and economic credits negotiated with the Sino-Soviet bloc total \$425,000,000, of which \$288,000,000 has been obligated and \$198,000,000 drawn. In addition, Indonesia has a debt to the West of approximately \$355,000,000, excluding a suspended debt to the Dutch.

The Ministry of Finance has repeatedly cautioned during the past year against further indebtedness.

Indonesia's foreign exchange earning ability probably is reasonable well stabilized for the foreseeable future. Although earnings from agricultural products are likely to continue to drift downward as quality deteriorates, there is no reason to expect a sharp drop. There is a good possibility that the decline in agricultural earnings

will be offset by increased earnings from the petroleum industry. Probably the principal determining factor in the foreign exchange situation will be world prices.

The prospects for improvement of domestic economic conditions--particularly the halting of inflation--are not bright.



To reduce the budgetary deficit--the principal cause of inflation--would require a sharp increase in taxes or a reduction in military expenditures. However, the government probably does not have the political and administrative strength to enact and enforce a major tax increase. In addition, it does not appear to have the military capability to suppress continuing rebellion and is unwilling to offer substantial concessions to the rebels to induce them to stop fighting.

Deficit financing is expected to continue and thus inflation as well. The remedial measures likely to be taken in the near future--such as efforts to improve the internal distribution of goods, more rigid enforcement of price controls, and some easing of the restrictions on imports--will probably have no decisive effect.

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