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4 February 1960

# CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY  
OFFICE OF CURRENT INTELLIGENCE

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**CURRENT INTELLIGENCE WEEKLY SUMMARY**

**4 February 1960**

**T H E   W E E K   I N   B R I E F**

**PART I**

**OF IMMEDIATE INTEREST**

**MOSCOW MEETING OF BLOC LEADERS . . . . . Page 1**

Moscow moved last week to demonstrate unqualified bloc solidarity and support for the Soviet Union's pre-summit policies on the major East-West issues. The meeting of the Warsaw Pact countries on 4 February in Moscow will provide a forum for new "peaceful initiatives" by the bloc, possibly in the form of an endorsement of the one-third cut in Soviet armed forces, approval of further reductions in the Soviet troops stationed in Poland, Hungary, and East Germany, and an announcement of some reduction in satellite forces. The bloc leaders will probably also use this opportunity to underline their readiness to take appropriate military countermeasures in Eastern Europe to offset Bonn's alleged policy of nuclear armament.

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**FRANCE AND ALGERIA . . . . . Page 4**

The French Parliament on 3 February by an overwhelming vote granted decree powers to the government for 12 months. This will greatly strengthen De Gaulle's hand for taking measures against opponents--including several cabinet members--of his policy of self-determination for Algeria.

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Despite De Gaulle's personal support of Algerian self-determination, the Algerian rebels continue to demand guarantees more binding on the French Government. They appear concerned regarding a possible upsurge of De Gaulle's popularity among Algerian Moslems, and are probably reluctant to begin negotiations when De Gaulle's prestige is so high.

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**MIDDLE EAST HIGHLIGHTS . . . . . Page 7**

Clashes along part of the Israeli-Syrian border have distracted Arab attention from developments in Iraq. Further Israeli-UAR incidents seem likely despite the efforts of UN officials on the spot to maintain a ceasefire, and a UN Security Council meeting may be called on the issue. No change has been apparent in the situation in Iraq; four political parties, including two Communist, will be able to operate legally next week unless the Ministry of Interior objects, and two new parties have

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**PART I (continued)**

applied for official sanction. Qasim has brushed aside, at least ostensibly, the charges that some of his top officials plotted against him. A meeting of Arab League foreign ministers, primarily to discuss the Palestine problem, is scheduled to convene on 8 February.

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**CARIBBEAN DEVELOPMENTS . . . . . Page 9**

Mikoyan's presence in Havana to inaugurate the Soviet exhibition on 6 February will reportedly open the way for resumption of diplomatic relations between Cuba and the USSR, and a formal agreement for a Soviet credit may be concluded. Raul Castro and Che Guevara are using "peoples' militias" and new powers of the Ministry of Labor to extend their control. Meanwhile, the Trujillo regime in the neighboring Dominican Republic faces increasing difficulties from church criticism at home and from hostility abroad, especially from Venezuela.

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**PART II**

**NOTES AND COMMENTS**

**PEIPING'S BORDER PROBLEMS WITH RANGOON AND NEW DELHI . . . Page 1**

The signing of the Sino-Burmese border agreement and a friendship and nonaggression treaty in Peiping on 28 January is being played up by both countries as a major diplomatic achievement and is being used by the Chinese to refurbish their badly damaged prestige. General Ne Win is expressing gratification over having brought home a formal Chinese commitment, in a signed document, to the traditional boundary. Negotiations over the two small areas still in dispute, however, may drag on. Prime Minister Nehru, who reportedly is planning to invite Chou En-lai to visit New Delhi in mid-March, may interpret the agreement with Burma as indicating a greater willingness on Peiping's part to make some concession toward a settlement with New Delhi.

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**SOVIET REACTION TO US-JAPANESE SECURITY TREATY . . . . . Page 3**

The USSR, reacting to the signing of the new US-Japanese security treaty, has withdrawn its pledge to return the Habomai and Shikotan islands to Japan when a Soviet-Japanese peace treaty is concluded. The Soviet leaders probably do not expect to prevent Japanese ratification of the security treaty, but apparently felt impelled to follow up their prolonged propaganda warnings with some retaliatory action. In Japan, the Soviet note has aroused

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**PART II (continued)**

strong indignation and has probably strengthened support for ratification. The USSR will probably underline its displeasure with Tokyo by additional pressures during the annual Japanese-Soviet fishing negotiations, which opened in Moscow on 2 February. [redacted]

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**COMMUNIST TERRORISM IN SOUTH VIETNAM . . . . . Page 4**

South Vietnam may be facing an upsurge of the persistent Vietnamese Communist guerrilla activity. The Diem government is alarmed by the unprecedented scope of a raid last week by several hundred Communist guerrillas on a regimental headquarters near the Cambodian frontier and by signs of stepped-up Communist infiltration and subversion. While increased Communist terrorism alone does not pose an immediate threat to government stability, erosion of public confidence and disruption of the economy would have serious long-range implications. [redacted]

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**THE SITUATION IN LAOS . . . . . Page 6**

The Laotian Government has set 24 April as the date for national elections, thus leaving itself little time to prepare for them. The main problem will be the selection of a single slate of non-Communist candidates by 24 February. Laotian officials appear to assume that the pro-Communist Neo Lao Hak Zat will have its own candidates; however, the Communists, fearful that the army intends to rig the elections, may boycott them and intensify guerrilla operations. Meanwhile, the UN economic aid program for Laos is gradually taking shape. [redacted]

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**ANTI-COMMUNIST COALITION WINS KERALA STATE ASSEMBLY ELECTION. Page 7**

The decisive majority won by the anti-Communist coalition in the Kerala assembly election on 1 February is a serious setback to Communist prestige throughout India. Despite its loss of many assembly seats, however, the Communist party retained a sizable share of the popular vote, indicating that it still has a firm hold on the lower classes in Kerala and can effectively exploit any shortcomings of its successors. The new government, likely to be formed jointly by the Congress and Praja Socialist parties, probably will also be troubled by internal disension and by Kerala's increasingly difficult economic problems. [redacted]

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**THE SECOND ALL-AFRICAN PEOPLE'S CONFERENCE . . . . . Page 8**

The second plenary meeting of the All-African People's Conference, held in Tunis from 25 to 31 January, was largely characterized by regional divergencies among African nationalists and clashes between relatively moderate and

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**PART II (continued)**

radical factions. At the same time, the leaders of African nationalism displayed increased confidence since the organization's first meeting in December 1958 and demonstrated a growing determination to come to grips with problems arising after independence.

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**UN MISSION TO VISIT RUANDA-URUNDI . . . . . Page 9**

The Belgian Government appears concerned over the forthcoming UN mission to its central African trust territory of Ruanda-Urundi, where more than 300 persons died in tribal warfare last November. Belgian officials are reportedly briefing local chiefs in an attempt to ensure favorable testimony concerning Brussels' handling of the November disorders. Refugees from the Watutsi tribe have charged the Belgians with being slow in responding to the initial outbreaks, and even with complicity in attacks against the Watutsis. In Ruanda the fighting appears to have made for a continuing state of tension between the tribes, and to have shaken the political dominance of the Watutsis.

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**TUNISIA OPENS CAMPAIGN FOR BIZERTE . . . . . Page 10**

Tunisian pressure for the evacuation of the remaining 7,000 French military forces from Bizerte reached a new high last week when President Bourguiba announced that the "battle for evacuation" would begin on 8 February. Unless the French indicate before Bourguiba's deadline that they are at least willing to discuss the Bizerte issue, the Tunisians will resort to tactics likely to create a new crisis in French-Tunisian relations. These may include a complaint to the UN Security Council.

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**LAND REFORM IN IRAN . . . . . Page 11**

The Shah, concerned over the possible impact of recurring foreign criticism of Iranian landownership, recently introduced legislation in the Majlis designed to break up large private landholdings. These proposals would affect the landlords with the largest holdings, who would be forced to sell a major portion of their land at prices established by the government. While the legislation is almost certain to be enacted, considerable difficulty will be encountered in enforcing it.

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**SINO-SOVIET BLOC FOOD SUPPLIES . . . . . Page 12**

Food supplies in the Sino-Soviet bloc should be adequate to meet domestic needs this winter and spring despite the reduced 1959 harvests. The decline in comparison with 1958 crops will be felt mainly in livestock feed supplies and in the bloc's ability to export agricultural

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**PART II (continued)**

products. In Communist China, reduced harvests will affect food supplies more directly, but critical shortages will probably be avoided. The per capita food supply may also be somewhat lower than last year in Poland and East Germany. [redacted]

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**YUGOSLAV TRADE WITH THE SOVIET BLOC . . . . . Page 14**

With the signing on 30 January of a trade agreement with the USSR, Yugoslavia has completed trade protocols for 1960 with the USSR and all the East European satellites. However, despite the improvement in state relations with the bloc during the past few months--manifested by a warmer atmosphere in the trade talks--no major expansion in trade is likely in view of Belgrade's unwillingness to become overly dependent on such exchanges. Belgrade's relations with China remain cool. Trade during 1959 fell to an insignificant level, and no agreement has been announced for 1960. [redacted]

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**SOVIET-ETHIOPIAN AID TALKS INCONCLUSIVE . . . . . Page 15**

The Soviet economic aid delegation which visited Addis Ababa from early November until mid-January apparently made little progress in determining the projects to be undertaken under the USSR's \$100,000,000 line of credit. The head of the delegation has remained in Addis Ababa, however, presumably to assist in drawing up a formal version of Moscow's economic and technical aid agreement. [redacted]

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**BRITISH LABOR PARTY TROUBLES . . . . . Page 16**

Hugh Gaitskell's controversial proposal to soften the British Labor party's doctrinaire attachment to nationalization is encountering increasingly vocal opposition. During the illness of Aneurin Bevan, who as deputy leader has often played a stabilizing role, Gaitskell has been attacked by many moderates as well as left-wingers. Since Bevan remains the only alternative leader on the horizon, his retirement from active politics probably would enable Gaitskell gradually to recast the party's policies. [redacted]

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**ITALIAN GOVERNMENT FACES INCREASING STRAIN . . . . . Page 17**

Italy's minority Christian Democratic government faces intensified attacks from political elements both within and outside the party when President Gronchi returns from his 6-11 February visit to the USSR. The meetings this month of the governing bodies of the Christian Democratic, Nenni Socialist, Liberal, and Communist parties will put the government under heavy pressure to

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realign its parliamentary support. What happens at these meetings may decide whether or not the Segni government will stay in power until after the spring local elections.

[Redacted]

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**POLITICAL DEVELOPMENTS IN THE SIX-NATION EUROPEAN COMMUNITY**

**Page 18**

The foreign ministers of the six European Community countries held the first of a series of quarterly "political consultations" in Rome in late January. The new procedure, set up last fall as a means of increasing political cooperation among the member countries, may lend itself to French efforts to create a "Continental political bloc." It may also weaken the existing Community institutions, since these meetings will not regularly include the top officers of the Community itself. In contrast to this trend against supranational institutions, however, the Council of the Coal-Steel Community (CSC) has just approved by majority vote an important extension of the powers of the CSC's High Authority.

[Redacted]

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**VENEZUELAN STATE ENTERPRISES CONTRIBUTE TO FINANCIAL PROBLEMS**

**Page 19**

Venezuela's present financial difficulties, marked by a decline in foreign exchange holdings since last September and attempts to borrow abroad to meet government expenses, are due in large part to the investments and subsidies necessary for several major government corporations, a number of them inherited from the Perez dictatorship. The ventures, which are largely designed to diversify the country's economy and free it from dependence on the oil industry, now have become symbols of national prestige and will probably continue to be a drain on government revenues for several years.

[Redacted]

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**COMMUNIST-LED VIOLENCE IN BOLIVIA**

**Page 20**

Communist-led units of miners' militia recently profited from right- and left-wing rivalry within the Bolivian government party to seize the key mining town of Huanuni. The seizure opens the way for Communist-led forces to attack the major city of Oruro, 40 miles away on the railroad, and raises the possibility of civil war. President Siles--strongly averse to bloodshed--is unlikely to order the army to dislodge the Communists from Huanuni, but will probably seek the support of former President Victor Paz Estenssoro, who has considerable influence with leftist elements.

[Redacted]

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**PART III**

**PATTERNS AND PERSPECTIVES**

**FRONZIZI'S STABILIZATION PROGRAM AND THE ARGENTINE ELECTIONS . . . . . Page 1**

Argentine President Frondizi's US-backed stabilization program faces its first national electoral test in the voting on 27 March for 97 of the 187 seats in the Chamber of Deputies. The year-old program has greatly improved Argentina's long-term economic prospects, but has not had time to produce dramatic results that would help administration campaigners. Its austerity aspects, which have resulted in a 100-percent increase in the cost of living, have prompted virulent opposition, including politically motivated strikes by the Peronistas and Communists. Peronista and Communist candidates may be barred from participating in the elections. [redacted]

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**CHILE UNDER PRESIDENT ALESSANDRI . . . . . Page 4**

President Jorge Alessandri--inaugurated in November 1958 as Chile's first conservative president in 20 years--has succeeded in improving general business confidence and the foreign investment climate, but has not reversed the declining trend of real wages which has contributed to leftist strength in recent years. Elected by less than a third of the total vote, Alessandri has had to move warily in lining up the necessary political support for his economic program. He has sought to appease the leftists by a liberal policy on visas for Communist visitors. Despite Chile's lack of diplomatic relations with any of the bloc countries, this has led to a sharp rise in Communist-affiliated conventions held in Chile during the past year. [redacted]

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**HAMMARSKJOLD PLAN FOR WORLD-WIDE UNITED NATIONS DIPLOMATIC CORPS . . . . . Page 7**

UN Secretary General Hammarskjold is reported proceeding with plans to station senior officials on "permanent" duty throughout the world, particularly in trouble spots, to deal with localized political problems. The secretary general would by this means train a corps of UN professionals, available for assignment as crises arise. Hammarskjold apparently hopes these professionals would gradually replace the somewhat unsatisfactory ad hoc investigative commissions, composed of representatives of UN member states, which the United Nations has employed in the past. The increasing tendency of UN members of turn to Hammarskjold is facilitating his program. [redacted]

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**PART III (continued)**

**EASTERN EUROPE'S ATTITUDE TOWARD COMMUNIST CHINA . . . . . Page 10**

Communist China exercises greater influence in the Eastern European satellites today than during the Stalin era and there are signs it hopes to expand this influence. "Hard-line" elements in satellite party circles have shown considerable interest in Chinese practices and ideology. As Communist China increases its material strength and takes a greater role in bloc affairs--particularly as an independent center of Communist theory--the tendency of Eastern Europe to find precedents in Peiping's policies could become a matter of increasing concern to Moscow.

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**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****4 February 1960****PART I****OF IMMEDIATE INTEREST****MOSCOW MEETING OF BLOC LEADERS**

Moscow moved last week to demonstrate unqualified bloc solidarity and support for the Soviet Union's policy on major East-West issues. As in previous years, the meeting of the Warsaw Pact's Political Consultative Committee on 4 February in Moscow will provide the forum for a number of high-level pronouncements on topics listed by Khrushchev for discussion at the summit--disarmament, Berlin and a German peace treaty, East-West relations, and a nuclear test ban.

Bloc leaders will probably use this opportunity to combine an endorsement of the USSR's one-third cut in its armed forces with approval of further reductions in Soviet forces stationed in Poland, Hungary, and East Germany. A similar meeting in May 1958 was used to announce the withdrawal of all Soviet forces from Rumania and one Soviet division from Hungary as well as major troop reductions by the satellites. As at the 1958 meeting, the present session will probably call on the Western powers to follow suit and thus "prove by deeds" their professed desire for peace through disarmament.

The 4 February meeting may also renew such earlier proposals as a NATO - Warsaw Pact nonaggression pact. Such "peaceful initiatives" probably will be accompanied by a strong warning that the bloc will be compelled to take appropriate military countermeasures if West Germany pursues its alleged policy of nu-

clear rearmament and refuses to join East Germany in an arms-limitation agreement for Germany.

A warning along these lines was foreshadowed in East German party chief Ulbricht's letter of 23 January to Adenauer, which stated that unless Bonn discontinued its atomic armaments "within a short time," East Germany would be forced to "request its allies to place rocket weapons at its disposal." Khrushchev's letter to Adenauer on 28 January, focusing on the "aggressive" intention of Bonn to revise German borders with Czechoslovakia and Poland, was also part of a bloc effort to set the stage for a renewed high-level threat to take "protective measures."

The last previous explicit warning that NATO policy might oblige the Warsaw Pact members to station missiles in East Germany as well as Poland and Czechoslovakia was made by Khrushchev in his speech to the Political Consultative Committee session in May 1958. He added then that this move would "inevitably increase the danger of an outbreak of war" since the area between rocket installations would thereby become "smaller and smaller."

**Bloc Consultations**

The meeting of the Warsaw Pact countries was preceded by a conference on bloc agricultural problems held on 2 and 3 February. At the meeting, attended by Khrushchev

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and all the East European leaders, views on agricultural problems were exchanged. The sessions dealt especially with the possibilities of sharply increasing living standards in order to implement Communist promises of surpassing Western standards. The immediacy of this problem may be underlined by the food situation in East Germany and, to a lesser extent, in Poland.

While such increases are to be achieved on the basis of raising production and labor productivity, the official communiqué called on CEMA to consider plans for "further specialization in agricultural production, taking into consideration the interests and possibilities of each country," and for an increase in farm machinery production. Such a conference was probably necessary to deal with the basic agricultural problems which have constantly hindered the bloc's economic growth and led to a failure to meet planned increases in agriculture in the USSR and all East European countries except Rumania and Hungary.

In addition to basic shortcomings in mechanization and internal distribution, East European satellites have been hampered by shortages of fertilizer and livestock, resistance to collectivization, and inept rural organization and administration of land.

Khrushchev probably discussed the significance and implications of a number of recent foreign policy develop-

ments for bloc countries. The Hungarian news service pointed out that the fact that the party first secretaries were present for the agricultural conference offered the opportunity for an exchange of views on "party work and international problems."

In reviewing international affairs with all the bloc leadership, Khrushchev probably stressed that the present phase of coexistence diplomacy does not imply any concessions on matters of ideology--a theme which has appeared consistently in his major foreign policy statements--or any relaxation of internal controls in Communist countries. In this connection, Stalinist elements in certain of the satellites have quietly made it known that they were apprehensive about the detente and its effects on internal stability.

Public announcements listing participants in the agricultural talks noted that high-level delegations from North Korea and Outer Mongolia had attended "by invitation" because of their "expressed desire" to be present. The presence of these Asian satellites made more conspicuous the absence of any representatives from Communist China for this conference and for the private discussions Khrushchev held with some bloc leaders earlier in the week.

Peiping, however, although not a member, sent observers to attend the session of the Warsaw Pact, a procedure followed

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by the Chinese at previous pact meetings. The relatively low level of the delegation--led by Kang Sheng, an alternate politburo member of little importance in the leadership--suggests that the Chinese were present primarily to nod agreement rather than actively participate in matters largely of European significance.

In contrast with the present meeting, which was an official pact conference, one called for similar purposes on the eve of the Geneva foreign ministers' conference in April 1959 was billed as a "conference of the foreign ministers of the Warsaw Pact organization and the Chinese People's Republic"--a formula which enabled Peiping to participate fully in the proceedings.

Germany and Berlin

Since Premier Khrushchev's lengthy and intemperate attack on Chancellor Adenauer in his Supreme Soviet speech on 14 January, the bloc has intensified its campaign to discredit and isolate the West German Government and stimulate old antagonisms and distrust of Bonn in Western Europe. Capitalizing on recent anti-Semitic incidents in West Germany, Khrushchev's 28 January letter to Adenauer charged that Adenauer has assisted in creating conditions in West Germany which encouraged the re-emergence of fascism.

Khrushchev described Adenauer's internal policies as "essentially those which Hitler held," and accused the chancellor of conjuring up the "bogey of the Communist menace" to justify a policy of revanchism, thereby evoking "memories of the most sinister aspects of Germany's recent past."

The general sharpening of the bloc campaign against Adenauer has been accompanied by increasingly frequent statements by Khrushchev combining a repetition of the Soviet proposal for making Berlin a "free city" with warnings of the consequences of a separate peace treaty with East Germany. This line of approach was contained again in Khrushchev's letter, along with the now standard denial of any direct West German interest in the solution of the Berlin problem.

In an apparent move to underline the practical effects of these "consequences," Soviet authorities have issued to Allied military liaison personnel new documents implying a degree of East German control over mission personnel. This move may be designed to test Western willingness to acquiesce in the implications of East German control rather than apply a self-imposed ban on the missions' activities or withdraw completely.

Soviet officials in Berlin also attempted to gain some

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Western acceptance of East German control over Berlin access routes by prefacing a guarantee of flight safety for an SAS-commercial plane with a statement that permission had been granted by "governmental authorities of the German Democratic Republic" (East Germany).

Western Attitudes

While the bitterness of Khrushchev's attacks on Adenauer has provoked criticism in West Germany, Chancellor Adenauer views the letter as presenting nothing new. He told the Christian Democratic national committee on 1 February that if Khrushchev wins Western concessions in Berlin, he will have a tremendous psychological victory resulting in a loss of confidence in the United States.

In a public announcement on 30 January, West Berlin Mayor Willy Brandt stated that he and Chancellor Adenauer had reached agreement on a basic assessment of the Berlin situation which emphasized insistence on the maintenance of existing West Berlin - West German ties. Brandt, added, however, that this relationship does not in any way prejudice the basic four-power responsibility for Berlin.

The German press reports that unanimous approval is expected for a Bundestag joint resolution supporting the preservation of the present status of Berlin. The recent furious attacks from the USSR and East Germany are reportedly responsible for the uncommon show of unity among the parties on foreign policy issues.

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**FRANCE AND ALGERIA**

De Gaulle, following his firm stand against rightist pressure to modify his offer of self-determination to Algeria during the European settler insurrection, seems to feel obliged to press swiftly for a thorough clean-up and reorganization of his civil and military administration. Despite overwhelming public support in France and the spe-

cial decree powers voted on 3 February by Parliament, he is likely to face rough going from an apparently well-entrenched network of plotters who have numerous political and military sympathizers.

Despite De Gaulle's firm personal support for Algerian self-determination, the FLN

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rebels continue to demand guarantees more binding on this and possible future French Governments concerning implementation of self-determination. They appear concerned regarding a possible upsurge of De Gaulle's popularity among Algerian Moslems, and are probably reluctant to begin negotiations with the French when De Gaulle's prestige is so strong.

The special powers to govern by decree for one year voted overwhelmingly by both houses of Parliament on 3 February will enable De Gaulle to move swiftly and drastically to try to rout suspected plotters from the military and civil administration. Although critics question the need for such special powers, the government now has a freer hand to investigate and detain suspects than it had. On the other hand, reliance on Article 38, rather than on the constitutional provisions providing for extreme emergency powers, will permit enough continuation of normal political activity to help undercut the expected leftist argument that a dictatorship has been established.

The decree powers adopted on 3 February relate solely to the "maintenance of order, safeguarding the state, and pacification and administration of Algeria," and require subsequent ratification by Parliament for any permanent measures taken under them. Parliament will continue to meet according to its regular schedule--next on 26 April--to handle routine legislation, French Community relations, the budget, and economic and social matters.

De Gaulle began a cabinet clean-up on 4 February by dropping Deputy Premier Jacques Soustelle, who openly backed integration of Algeria with France, and reportedly opposed forceful measures to deal with the insurrectionists. Minister of the Armies Guillaumat, primarily a "technician" and atomic energy expert, may be given another post. A tough, loyal Gaullist, Pierre Messmer, former high commissioner in French West Africa, has replaced Guillaumat. There is also speculation that Delegate General Paul Delouvrier may be given a minor cabinet post and his Algerian responsibilities taken over by a "tougher" Gaullist.

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Both military and civilian rightist elements have indicated that their next public line of attack on De Gaulle--already foreshadowed in their clandestine propaganda--will be to charge him with preparing to "sell out" both France and NATO when Soviet Premier Khrushchev makes his scheduled visit to France in late March.

Europeans in Algeria continue apprehensive concerning the possible prosecution of individual insurgents. Most of the insurgents, however, have had second thoughts regarding service with the Foreign Legion in Algeria and have returned to their homes. While organized resistance to De Gaulle disintegrated with the surrender of the insurgents, widespread opposition to his Algerian policy remains. Rumors in Algiers that insurgent leader Pierre Lagaille was promised immunity from prosecution in return for his surrender could presage a move to make him a martyr.

Recent events in Algiers have probably reassured the Moslem rebel National Liberation Front (FLN) concerning De Gaulle's good faith with respect to Algerian self-determination. There are no indications, however, that the rebels desire cease-fire negotiations at a time when De Gaulle's prestige has been newly reinforced. The rebels appear concerned that De Gaulle's firm support of his self-determination program may undercut support for the FLN among Algerian Moslems. Rebel leaders probably hope to begin new military actions in Algeria which could serve as a show of strength prior to negotiations should they and the French agree on conditions for talks.

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Military spokesmen in Algeria have already seized on De Gaulle's 29 January promise that the army would remain in Algeria to supervise the referendum as a face-saving device under which they can continue reaffirming their loyalty to the government while pushing for integration.

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**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****4 February 1960****MIDDLE EAST HIGHLIGHTS****Israeli-Syrian Border**

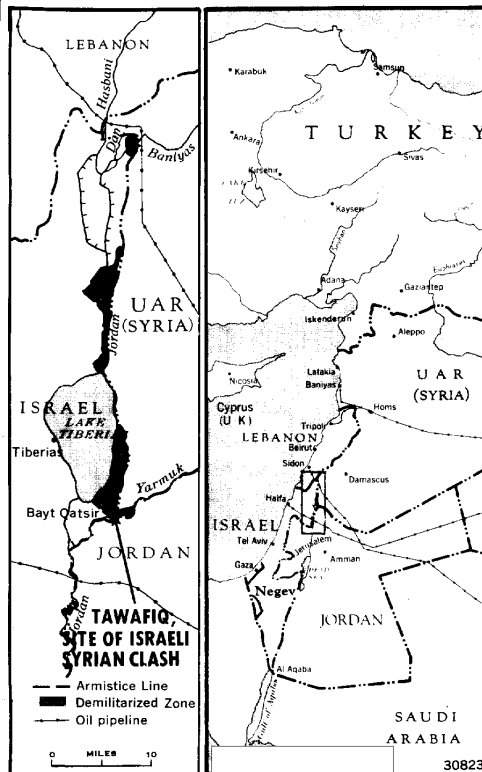
Sporadic outbreaks of firing continued this week along the Israeli-Syrian border, where the largest Arab-Israeli clash since the 1956 Sinai campaign was spread over a four-day period beginning on 29 January. The fight involved infantry, heavy mortar, and artillery fire, and an air battle in which the Syrians claim two Israeli jet fighters were hit, one of them allegedly crashing in Israeli territory.

On 1 February, an uneasy cease-fire was arranged by the UN Truce Supervision Organization (UNTSO), which also ordered troops on both sides to evacuate the southernmost of the three demilitarized zones along this border. UN Secretary General Hammarskjold has said he will call a UN Security Council meeting if the two sides fail to comply.

The fight evolved out of the long-standing dispute over the political status of the demilitarized zones. Contrary to the UNTSO's interpretation of the 1949 armistice agreement, Israel claims sovereignty over the southern zone, which was part of the Jewish sector of partitioned Palestine occupied by Syrian forces at the close of the Palestine war.

The presently disputed area is land of mixed Arab and

Jewish ownership within the zone. In 1958 the Israelis complicated the situation by digging a drainage ditch, which they contend is the eastern boundary of the Jewish cultivated land.



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Neither the UNTSO nor the local Arabs, however, recognize it as a boundary, and the UNTSO had authorized the Arabs to work on certain fields west of the ditch.

When Arab farmers tried to do so on 29 January, the

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Israelis attempted to drive them back, and a fight ensued. On the night of 31 January - 1 February the Israelis demolished Tawafiq, a then-abandoned Arab village in the zone, which Israel claims was a Syrian military base. The Syrians subsequently reoccupied the town.

Israeli Foreign Minister Meir, who says "the United Nations is more to blame than the Syrians" for the lengthy history of trouble in the demilitarized zone, claims the Arab "farmers" are in fact Syrian soldiers. Israeli Prime Minister Ben-Gurion announced that if the UNTSO should fail to "expel" Syrian soldiers who enter the zone, the Israelis themselves would be "compelled" to drive them out. Ben-Gurion told the American ambassador, however, that he did not think the recent clash was serious and that he regards it as "a local affair by local Syrians." He added, "Higher authorities in Egypt don't want trouble."

Meanwhile, an Israeli force, estimated to be a reinforced infantry brigade of about 3,500 men, has been observed moving into the border area with some armor and heavy artillery. The deployment of this force appears defensive, however. There is a general military alert in the Syrian region of the UAR, and some civilian mobilization, possibly of civil defense units, appears to have been ordered in Damascus. Approximately one brigade of UAR troops has moved into the Sinai Peninsula toward

the Israeli-Egyptian border, but the publicity attending this movement suggests that the deployment is largely for propaganda purposes. Neither the UAR nor Israel seems to be preparing to extend the conflict beyond the present limited scope, but recurrent trouble in the disputed zone seems likely.

Arab League Meeting

The over-all problem of Palestine is to be the subject of an Arab League foreign ministers' meeting scheduled for 8 February. The league, largely dominated by the UAR, will attempt to formulate a unified Arab policy on Palestine, including Israel's plans to divert water from the Jordan River valley for irrigation of its Negev wastelands. The Iraqis have refused to attend the meeting, since it is to be held in Cairo, although they have said they would come if it were held elsewhere. Tunisia reportedly has also refused to attend, because of Bourguiba's differences with Nasir.

All the countries immediately surrounding Israel will be represented, however, and they will discuss joint plans for countering the Israeli water scheme by diverting tributaries of the Jordan River within Arab territory before they reach the Jordan. Lebanon claims it will proceed with a project for exploiting the Hasbani tributary, and the UAR intends to divert the Baniyas tributary, which rises in Syria.

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Iraq

There has been little change in the Iraqi internal situation. Six groups now have applied for status as political parties under the new law regulating parties--the moderate-leftist National Democratic party (NDP), the United Democratic party of Kurdistan (UPDK), two Communist factions, a "Liberation" party, and a group calling itself the Iraqi Islamic party.

Pro-Communist People's Court President Mahdawi has declared his intention of forming a party "if Qasim approves." Should he do so, he would have to resign his court position under the terms of the law on parties. The formation of several Communist-front groups is likely to work to the Communists' advantage, since they could wean away support from anti-Communist groups and eventually form a Communist-dominated united front.

The charges leveled last week in Colonel Mahdawi's court by a defendant who alleged that Chief of State Rubai and military governor General Abdi had been involved in the plot to

assassinate Prime Minister Qasim have been laid aside, at least for the present. In a conversation with the American ambassador last week, Qasim brushed aside the charges, as well as accusations that the American ambassador in Cairo had furnished funds to antiregime plotters. On 30 January, Mahdawi felt constrained to declare that these charges were meant to "create confusion in the country and make the leader suspicious...of those whose loyalty could not be questioned."

Regardless of what Qasim may believe, it now appears that he intends no immediate shake-up in the top level of his government, possibly because of uncertainty over its repercussions.

A shake-up in Communist-dominated Radio Baghdad appears under way with the dismissal of two Communist script writers and the warning to others to refrain from writing with a "red pencil." The station's pro-Communist director has been shifted to another job. Radio and editorial comments no longer quote the Communist party paper Ittihad al-Shaab.

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**CARIBBEAN DEVELOPMENTS**Cuba

Mikoyan's presence in Havana to inaugurate the USSR's technical, scientific, and cultural exhibition on 6 February will give impetus to increased Cuban-Soviet relations in several fields. He and the various Russian technicians and artists

who will visit Cuba during the exhibition will probably be more enthusiastically received than they were in Mexico, since many Cubans support Castro's campaign--one gesture of defiance of the United States--to strengthen relations with neutral and bloc countries.

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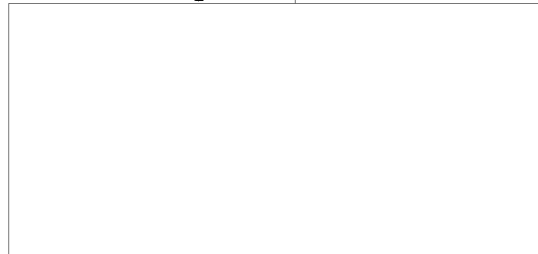
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TASS has recently given some play to Foreign Minister Raul Roa's statement that Cuba plans "to establish diplomatic relations with all countries, including the Soviet Union," and a permanent TASS correspondent has just been accredited by the Cuban Government.

The heavy representation of trade specialists in Mikoyan's party suggests that he will also press for expanding economic contacts. He will probably conclude a formal agreement for Soviet credits. One projected credit of \$5,000,000-\$6,000,000 to finance purchases of Soviet agricultural machinery has already been reported. Soviet purchases of Cuban sugar in 1959 amounted to 500,000 tons, approximating the peak purchases from the Batista regime.

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Inside Cuba, the numerous militias formed among labor, student, and other groups--on Castro's exhortation but at the original suggestion of the Cuban Communist party--have been more tightly organized under control of Minister of the Armed Forces Raul Castro and of Che Guevara, who remains head of instruction for the armed forces. Raul Castro also exercises increasingly decisive authority over Cuban economic

life through Minister of Labor Martinez, who controls employment and is empowered to intervene in business management almost at will.

Several leaders in other Latin American countries, including Argentina, Peru, Chile, and Costa Rica have indicated their approval of the US attitude toward Castro expressed in President Eisenhower's speech of 26 January. Growing official Latin American coolness toward Castro may intensify his overtures toward Asian, African, and Communist bloc countries.

Dominican Republic

There are indications of increasing pressure against the Trujillo regime in the Dominican Republic. The arrests last month of hundreds of alleged plotters have strained Trujillo's relations with the Roman Catholic hierarchy, whose good will the dictator has previously considered necessary for the stability of his regime. Six bishops have issued a pastoral letter criticizing the arrests, and the papal nuncio has hinted that a church-state rupture is imminent unless some clemency is shown those imprisoned.

In Venezuela, the government headed by Romulo Betancourt, Trujillo's long-standing enemy, is preparing to ask the Organization of American States to take action to terminate Dominican interference in Venezuelan internal affairs. Venezuela will also issue a white paper detailing its charges of hostile Dominican activity. Both moves will further encourage the Dominican plotters against Trujillo, and Betancourt probably stands ready to give them more substantial support clandestinely.

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**PART II****NOTES AND COMMENTS****PEIPING'S BORDER PROBLEMS WITH RANGOON AND NEW DELHI**

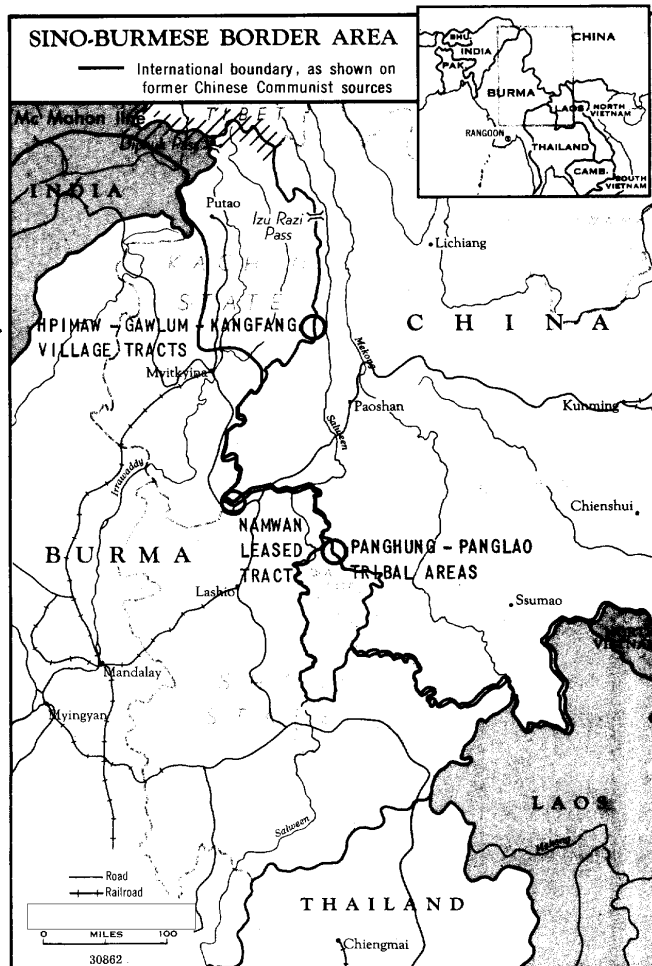
The signing of the Sino-Burmese border agreement and friendship and nonaggression treaty in Peiping on 28 January is regarded by both countries as a major diplomatic achievement. The agreement--in effect a protocol preliminary to a final settlement--and the treaty are being used by the Chinese to refurbish their prestige, which was at an all-time low in Asia. For his part, General Ne Win got formal Chinese commitment, in a signed document, to the traditional boundary with minor adjustments, and Burma can cite this in the event of future Chinese incursions. Apparently only two small areas remain to be defined.

The border agreement indicates that the territorial extent of the Hpimaw-Gawlum-Kangfang village tracts and Panglung-Panglao tribal areas, conceded to China, continues unresolved. There may be prolonged negotiations on this subject in the joint border committee which is to be formed to "work out solutions for the existing issues" and to draft a "final" border treaty.

Premier Chou En-lai stated on 28 January that the agreement covered matters

of "principle," and paves the way for a final settlement. The Chinese position has not been changed since Chou En-lai's speech to the National People's Congress in July 1957, and the same differences continue as stumbling blocks to an over-all settlement. The Burmese are likely, however, to lean over backward to obtain a treaty.

The friendship and nonaggression treaty is Peiping's

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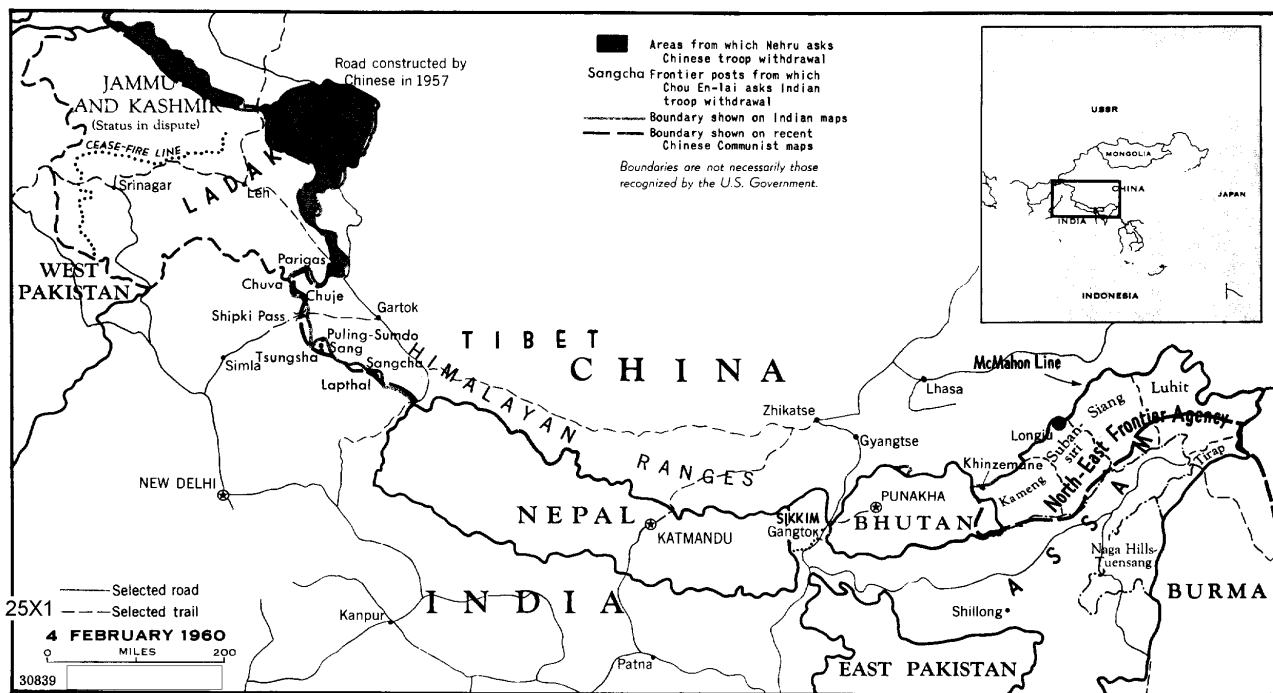
first with a non-Communist Asian country. By agreeing with the Chinese not to participate in military alliances directed against each other, the Burmese apparently went beyond their original intentions. Otherwise, the document is a restatement of the 1954 five principles of peaceful coexistence and, even including the clause on military alliances, conforms to established Burmese foreign policy.

**Sino-Indian Border Dispute**

The Sino-Burmese talks are reported to have proceeded smoothly after the Burmese reached Peiping. The relative speed with which the border

lai to discuss the Sino-Indian border problems. An editorial in the Peiping People's Daily on 1 February stated that the "agreement provides a good example for Asian countries seeking reasonable settlement of their boundary disputes." Although the editorial did not mention India by name, it was obviously written with an eye to the Sino-Indian dispute.

The editorial added that the reason for China's willingness to cede the Namwan tract was that the highway running through it and linking the Kachin and Shan states "makes this area more important to Burma." The Chinese almost certainly were hinting that



agreement was drawn up suggests that the Chinese are anxious to use it as an example for inducing Nehru to meet personally with Chou En-

their highway connecting Sinkiang with Tibet should be viewed by New Delhi as a parallel case.

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Nehru is not likely to regard the Sino-Burmese border dispute as comparable to his country's case, as Chinese "aggression" and forcible occupation of considerable Indian-claimed territory are involved. Peiping's agreement with Rangoon does establish a precedent for defining the border between Assam and Tibet--on the basis of the McMahon line, since Peiping has accepted the eastern end of this line as the "traditional" Sino-Burmese border. There is no agreement on any "traditional" border in the Ladakh area of Kashmir, however, and any agreement based on the status quo would require New Delhi to surrender its claim to several thousand square miles of Ladakh occupied by Chinese forces.

Some Indian officials believe that in order to reach a settlement, they may eventually have to give up portions of Ladakh in return for firm guarantees from Peiping on the remainder of the border. Nehru may interpret the Sino-Burmese agreement as indicating a greater willingness on Peiping's part to make some concession

toward a settlement with New Delhi.

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Leaders of India's conservative Swatantra party and of the moderate Praja Socialist party intend to make any shift in Nehru's public position on the border dispute as difficult as possible. They plan to issue statements opposing any sell-out of Indian territory, and they hope to debate this subject in Parliament in the session opening 3 February.

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**SOVIET REACTION TO US-JAPANESE SECURITY TREATY**

The recent improvement in Soviet-Japanese relations, notably in trade and cultural matters, has been reversed by the USSR's reaction to the signing of the new US-Japanese security treaty. Following a 19 January Pravda hint of reprisal, the USSR in a 27 January note to Japan formally repudiated its pledge to return the Habomai and Shikotan islands when a Soviet-Japanese peace treaty is concluded, arguing that the new security treaty is directed against the USSR and Communist China and "undermines the foundations of peace in the Far East." The note stated that the islands will be returned only on condition that all "foreign"

troops are withdrawn from Japan.

The Soviet leaders probably do not expect this action to prevent ratification of the treaty by the Japanese Diet. However, they apparently felt impelled to follow up their prolonged propaganda warnings about the dangerous consequences of the treaty with some retaliatory measure and to warn that there is no prospect for an improvement in Soviet-Japanese relations as long as Kishi retains power.

Japan regards these islands as relatively insignificant and has refused to resume

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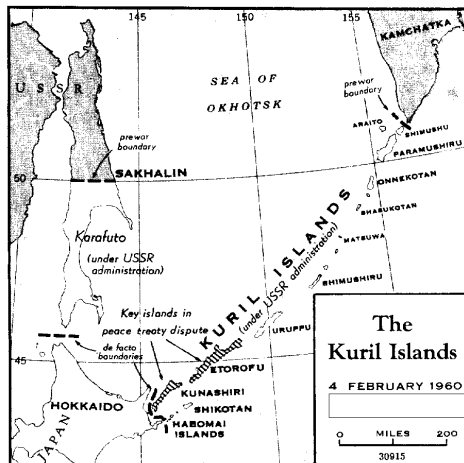
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peace treaty negotiations unless the USSR first recognized Japanese claims to the southern islands of the more important Kuril chain.

The USSR will probably underline its displeasure with Tokyo by additional pressures during the annual Japanese-Soviet fishing negotiations which opened in Moscow on 2 February. There are indications that Moscow intends to pare down the Japanese catch quota, extend the area of restricted fishing southward, and prohibit all salmon fishing off Kamchatka. The USSR has consistently refused to grant Japan "safe fishing" rights within 12 miles of Soviet-held Sakhalin and the Southern Kurils until the conclusion of a peace treaty.

In Japan, the Soviet note has aroused strong indignation and probably has strengthened support for ratification of the treaty. Major Japanese newspapers have denounced the Soviet tactic and, with one exception, have rallied to the government's defense. Foreign Minister Fujiyama has remarked that for the first time since he assumed office in July 1957 Japanese press editorials reflect his own thinking exactly.

Japanese diplomats in Tokyo and Moscow believe that the USSR has overestimated Japanese opposition to the new security treaty and that the note will prove to be a blunder. It may



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also work to Prime Minister Kishi's advantage in the event he calls an election on the ratification issue.

The Japanese Government, well aware of possible additional Soviet pressures in the fishery negotiations, is preparing a strongly worded rejection of the Soviet note, emphasizing that it constitutes unwarranted interference in the domestic affairs of another country. Government spokesmen and the press have commented that Moscow's withdrawal of its pledge regarding Shikotan and Habomai constitutes a breach of international trust and gives good cause to doubt the USSR's sincerity in its appeals for peaceful coexistence and repeated protestations of nonintervention in the affairs of other countries.

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**COMMUNIST TERRORISM IN SOUTH VIETNAM**

The recent bold attack by several hundred Communists on a regimental headquarters near Tay Ninh, about 50 miles northwest of Saigon, points to a possible upsurge in guerrilla activity in South Vietnam. While South Vietnam has long

had a security problem, this attack was of unprecedented scope; over 30 Vietnamese troops were killed and considerable materiel was captured. The Diem government is particularly disturbed by reports that the attackers,

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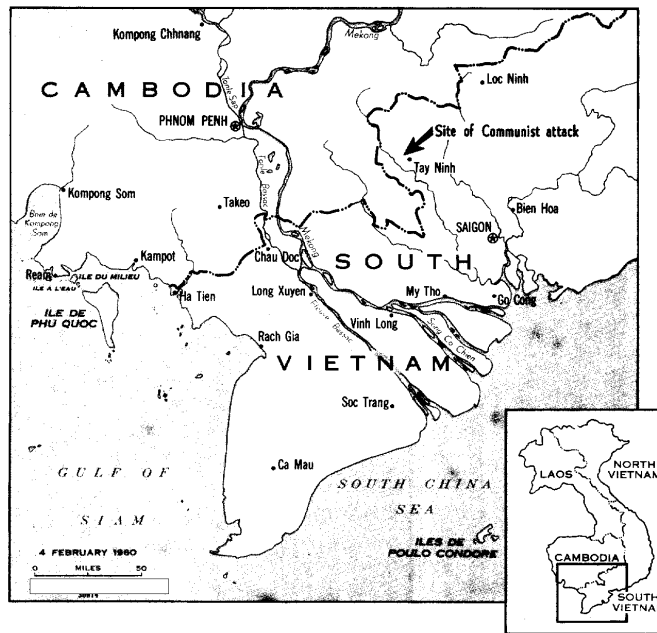
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who fled toward the nearby Cambodian border, were aided by Communist penetration of the regimental headquarters and, possibly by the local populace. Relaxed security at the headquarters during the Chinese New Year festivals abetted the raiders.

There are other indications that the Communist underground activity in South Vietnam may be becoming more aggressive, shifting from assassinations of local officials--averaging 15 a month--and other isolated acts of terrorism that have been the pattern for the past several years to larger scale guerrilla warfare. Communist armed strength in South Vietnam, long estimated at between 2,100 and 2,500 men, reportedly has been augmented in recent months by armed personnel infiltrated from North Vietnam via Cambodia.

An increase in Communist terrorism in South Vietnam would not alone pose a serious threat to the Diem government with its increasingly well-trained armed forces numbering some 140,000 men and additional paramilitary forces. However, erosion of public confidence in the Diem government and dislocation of the economy by Communist activity would have serious implications for long-range stability.



President Diem feels the Tay Ninh attack has seriously hurt the prestige of the Vietnamese Army. His concern over this event will probably be translated into stepped-up antidissident activity and changes in the field military command structure. The army has already been ordered on a stand-by alert and all leaves have been canceled.

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**THE SITUATION IN LAOS**

The provisional government of Khou Abhay, after a month of inaction, has finally set 24 April as the date for elections for a new Laotian National Assembly. This leaves the government little time for preparations. A new electoral ordinance is still to be promulgated, and no provision has yet been made for voter registration. The government reportedly plans to issue identity cards to voters, in an apparent effort to disfranchise known Communists. It seems highly problematical that these cards can be printed and issued in time.

Even more urgent is selection of the single slate which all non-Communists agree is necessary. Since candidates must file 60 days before elections, only about three weeks remain in which to agree on the non-Communist candidate for each of the 59 assembly seats at stake.

The main source of friction in hammering out a unified slate will be the competition between the reformist Committee for the Defense of National Interests (CDNI), which has not been represented as a party in the assembly, and former Premier Phoui's Rally of the Lao People (RLP). The CDNI may try to name as many as 30 of the candidates, which would mean that several RLP incumbents from the previous assembly would be dropped. The divisions and personal feuds resulting from the CDNI-RLP split which led to Phoui's resignation in late December will make selection of a single slate difficult.

The government apparently assumes that the pro-Communist Neo Lao Hak Zat (NLHZ) will

have its own candidates; however, the Communists, fearful that the army intends to rig the elections, may boycott them and intensify guerrilla operations.

The dissidents, avoiding major clashes with government forces, presumably so as not to strengthen sentiment for controlled elections, are continuing subversive efforts through propaganda and intimidation. Isolated kidnappings, ambushes, and road mining have been reported in various sections of the country. The dissidents are recruiting personnel, organizing villagers, and requisitioning supplies.

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UN Secretary General Hammarskjold's personally appointed "coordinator for UN activities in Laos"--Edward Zellweger, a Swiss who was UN economic adviser to the government of Libya--is scheduled to arrive in Vientiane about 15 March. He will be in charge of implementing a UN program based on recommendations made in a report drawn up by a team of UN officials headed by Sakari Tuomioja of Finland--the executive secretary of the Economic Commission for Europe on temporary assignment to Laos.

The Tuomioja report recommends UN aid in development of natural resources; creation of a comprehensive transport and communications network and improvement of communications between Laos and the outside world; improvement of health conditions; development of an educational system and the rural communities; and improvement of the entire public administration system.

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**ANTI-COMMUNIST COALITION WINS KERALA STATE ASSEMBLY ELECTION**

The decisive majority won by the anti-Communist coalition in the Kerala State assembly election on 1 February is a serious setback to Communist prestige throughout India. Despite the loss of half their seats, however, the Communists retained a sizable share of the popular vote, indicating they still have a firm hold on the lower classes in Kerala and will provide potent opposition to the new government.

Final returns gave the anti-Communist front three quarters of the 127-member state assembly. Of these 94 seats, the Congress party won 63, the Praja Socialist party (PSP) 20, and the Moslem League 11. The Communists' strength was reduced from 65 to 29 seats, including those of three independents they supported. Seven ministers in the former Communist cabinet were defeated.

The Congress party, with almost a majority on its own, is in a strong position to control the coalition government likely to be formed with the PSP. Although it had been generally anticipated that the leadership of any Congress-PSP government would go to PSP leader Pattom Thanu Pillai, a prominent former chief minister, the Congress party now may insist that its own leader be named to head the government. Whatever agreement is worked out, these two leading anti-Communist

parties probably will be unable to maintain the same degree of cooperation while in power as they did during last summer's agitation and the recent election campaign.

Their task also will be complicated by Kerala's deteriorating economic situation. The Communist regime was able to do little to relieve the state's chronic problems of unemployment, lagging food production, and lack of resources, and it is unlikely that any new government can improve on the record of past regimes without greatly increased funds for development projects from the national government. New Delhi has indicated it intends to step up its normal financial assistance once the Congress party is returned to power, although there is no assurance that an adequate effort will be made.

The Communist party, moreover, retains considerable potential in Kerala to exploit any shortcomings of the new government. Party leaders will make full use of the mass support indicated by the apparent increased percentage of the popular vote over 1957 to keep the Congress-PSP coalition under steady pressure. This factor also will be helpful in minimizing the damage to Communist prestige in such other key states as West Bengal and Andhra Pradesh.

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The second plenary meeting of the nongovernmental All-African People's Conference (AAPC), held in Tunis from 25 to 31 January, was largely characterized by regional divergencies among African nationalists and clashes between relatively moderate and radical factions--despite the public emphasis on the need for continent-wide unity. At the same time, the leaders of African nationalism displayed increased confidence since the organization's inaugural meeting in Accra in December 1958 and demonstrated a growing determination to come to grips with the common problems likely to arise after independence.

Approximately 150 delegates from political parties and trade unions in 30 African states and dependent territories reportedly attended this broadly representative gathering of African nationalists. Nevertheless, important elements stayed away--notably spokesmen for the generally moderate dominant groups in French Community states and newly independent Cameroun.

Numerous observers and journalists from the Sino-Soviet bloc were again present but, unlike their counterparts at the 1958 meeting, apparently made little effort to influence delegates. Nevertheless, an active group of Communists from Angola, who are well financed and presently operate from East Berlin, had full delegate status and obtained representation on the new 22-member steering committee elected to supervise AAPC activities until the next plenary meeting a year from now in Cairo.

While the usual agreed resolutions were adopted at the meeting, the basic divergencies in problems and interests separating northern and sub-Saharan--and to some extent also eastern and western--Africa appear to have manifested themselves more clearly than heretofore. Moreover, a clash developed, as expected, between impatient militants--led by delegates from Guinea and Ghana--and more moderately nationalist elements--led by delegates from British East and Central Africa, Nigeria, and Tunisia.

The outcome of this rivalry, which was reflected in both the tactics and programs advocated by the adherents of the respective factions, was inconclusive. It demonstrated that the African nationalist movement now is far from being a monolithic organism ready to accept the direction of any country or personality. The Guineans, in particular, appear to have lost stature by pushing their approach too hard.

Meanwhile, the now rapid evolution of most of the continent toward formal independence was reflected in a shift in emphasis from the Accra meeting's preoccupation with political "liberation." Instead, greater attention was focused on the attainment of "economic independence" and on the creation of the new "African personality" as well as the development of suitable institutions--such as an eventual African "common market"--for its expression. By contrast, no sympathy was expressed for the broader "Eurafrican" concept advocated in some European, especially French, quarters.

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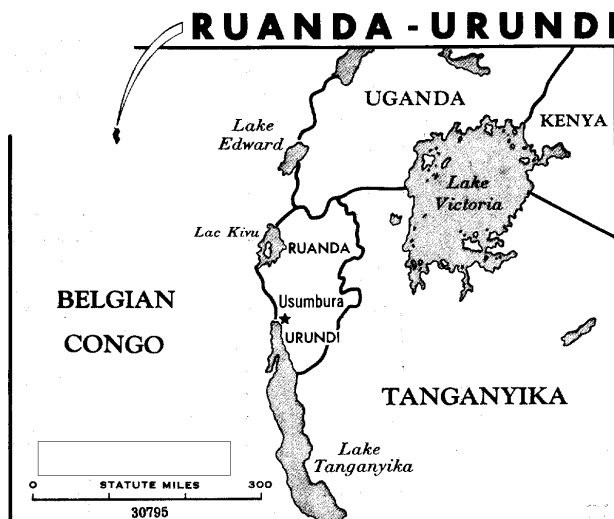
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**UN MISSION TO VISIT RUANDA-URUNDI**

The Belgian Government appears concerned over the forthcoming UN mission to its central African trust territory of Ruanda-Urundi, where more than 300 persons died in tribal warfare last November. Belgian officials are reportedly briefing local chiefs in an attempt

ing rivalry between the Bahutus, who make up about 85 percent of Ruanda-Urundi's population of 4,500,000, and the politically dominant Watutsi minority. Watutsi refugees, however, whose testimony has been confirmed in part by Western observers, have charged the

Belgians with being slow in responding to the initial outbreaks of violence and even with complicity in Bahutu attacks against the Watutsis. In testimony before the Trusteeship Council, the Watutsi spokesmen alleged that Brussels had opposed Watutsi demands for political reforms and for independence by 1962.



to ensure favorable testimony concerning Brussels' handling of the November disorders.

UN Secretary General Hammarskjold, who visited the area in mid-January, expressed concern over conditions there together with the hope that "experienced senior officials" could be found to serve on the UN Trusteeship Council's visiting mission scheduled to arrive in Ruanda in later February or early March. The visiting mission subsequently named comprises representatives of the United States, the UAR, New Zealand, and Paraguay.

The Belgian press has characterized the recent fighting as stemming from the long-stand-

ing rivalry between the Bahutus, who make up about 85 percent of Ruanda-Urundi's population of 4,500,000, and the politically dominant Watutsi minority. Watutsi refugees, however, whose testimony has been confirmed in part by Western observers, have charged the Belgians with being slow in responding to the initial outbreaks of violence and even with complicity in Bahutu attacks against the Watutsis. In testimony before the Trusteeship Council, the Watutsi spokesmen alleged that Brussels had opposed Watutsi demands for political reforms and for independence by 1962.

Belgian authorities have emphasized Brussels' intention of abiding by the trusteeship agreement, which requires that the final status of the territory be decided by negotiations within the UN framework. The fact that Brussels is committed to early independence for the Belgian Congo renders implausible the charge that it is attempting to block independence from Ruanda-Urundi. It is possible, however, that the opposition of local Belgian authorities to Watutsi agitation for early self-government led to tacit support of Bahutu groups dedicated to the forceful elimination of the Watutsis as a political force. The American Consulate in Tanganyika characterizes the Belgians as having "purposely and systematically" distorted the facts of the Ruanda situation.

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Although order appears to have been restored in Ruanda during December, Watutsi refugees in neighboring Uganda have only reluctantly bowed to British pressure to return to their homes. The fighting appears to

have made for a state of continuing tension between the Watutsis and Bahutus, and to have shaken the political prominence of the Watutsis without totally destroying "the old order."

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**TUNISIA OPENS CAMPAIGN FOR BIZERTE**

Tunisian pressure for the evacuation of the remaining French military forces from Bizerte reached a new high on 25 January when President Habib Bourguiba announced that the "battle for evacuation" would begin on 8 February. Bourguiba earlier had asked the French ambassador in Tunis to seek instructions from Paris to negotiate the evacuation of these troops, now estimated to total 7,000 army, air force, and navy personnel.

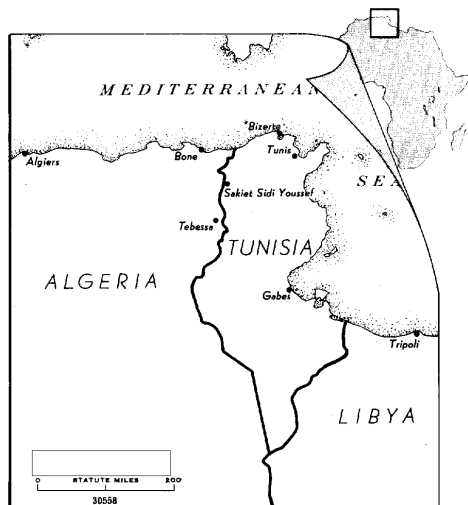
Paris had replied, however, that France's "right" to the Bizerte base was not negotiable. It appears prepared to rely on Tunis' agreement to the provisional occupation of the base contained in the exchange of notes of 17 June 1958, when

France agreed to withdraw all other troops from Tunisian soil.

Bourguiba launched his campaign to obtain control over Bizerte at an open-air rally convoked to protest forthcoming French atomic tests in the Sahara and coincident with the opening of the All-African People's Conference in Tunis. Evidently he hoped to impress conference delegates--some of whom have criticized him for collaborating with the West--with his devotion to African nationalist causes.

Tunisian officials apparently were encouraged to press for a French withdrawal from Bizerte by the US-Moroccan agreement in December for the evacuation by the end of 1963 of the American air bases in Morocco. Tunis and Rabat, however, apparently have not yet seriously considered coordinating their tactics in seeking the recall of French forces from their territories.

For maximum propaganda effect both at home and abroad, Bourguiba selected 8 February--second anniversary of the French aerial bombardment of the village of Sakiet Sidi Youssef near the Algerian border--as the deadline for France's agreement to negotiate the issue. His comments to newspaper correspondents on 30 January indicate he probably will be moderate and flexible within his declared terms of reference. An adviser



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believes he would accept a phased withdrawal of troops over a six- to ten-month period.

Unless the French indicate before Bourguiba's deadline that they are at least willing to open talks, the Tunisians probably will resort to tactics certain to create a new crisis in relations with France. Such tactics are likely to include

attempts to seal off the base, carefully contained mass demonstrations, and strikes of base workers. Tunisia may also attempt to lodge a complaint with the UN Security Council, and might seek to have the United States again play a good-offices role as it did in conjunction with Britain at the height of the French-Tunisian crisis in the spring of 1958.

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**LAND REFORM IN IRAN**

The Shah is taking steps to break up large private landholdings in Iran at a time when he is facing widespread dissatisfaction with his regime. The landholders and even the peasants prefer to continue the feudal system. The landowners oppose and the peasants are mostly indifferent to the land-reform program. The Shah probably has a genuine interest in land reform, but he apparently is undertaking the program at this time primarily to counter Soviet propaganda attacks on Iranian landownership and unfavorable articles appearing in the American press.

A land-reform bill recently introduced in the Majlis would affect about 800 of the largest landholders, who would be forced to sell, at government-established prices, all land in excess of about 1,480 acres if unirrigated or about 500 if irrigated. Landholders who distribute 60 percent of their holdings free to peasants would be allowed to retain the remaining 40 percent. Land accruing to the government as a consequence of the law would be sold to peasants, farm laborers, and graduates of agricultural schools.

Although the bill is almost certain to be enacted into law--because the Shah can prevent the re-election of uncooperative deputies during the Majlis elections in March--it is moving very slowly through the Majlis committee created for it. Failure of the government to enforce the conflict-of-interest laws passed last January, however, may encourage landowners to believe that implementation of any radical land-reform law would likewise be delayed.

In preparation for breaking up large private holdings, the Shah since 1951 has been distributing crown land to peasants and recently began to distribute public lands. So far the distributed land totals about one percent of the cultivated acreage. Crown and public lands amount to 20 percent of the total land in Iran. By 1970 about 4,800 villages on crown and public lands are to be subdivided and a minimum of 240,000 villagers are to become private landowners. While this program has increased the Shah's popularity with some peasants, most Iranians probably discount the move as only a return to the people of land

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which the Shah's father had taken from them.

There apparently is little popular pressure for land reform. The pressure which does exist comes primarily from the foreign-influenced, urban intellectual class and from propaganda, usually Soviet inspired.

Merchants and businessmen do not favor land reform. They fear that the planned changes would reduce profits and thus endanger their newly acquired investments in farm land. Nevertheless, members of this class have no sympathy for the traditional landowning families; they would probably favor seeing them humbled if the process had no repercussions on them-

selves. Iranian labor probably favors land reform, but this group is too busy with its own problems to give the matter much thought.

The peasants, who make up 75 percent of Iran's 20,000,000 population, live at a bare subsistence level and have shown little interest in land distribution. A few peasants, however, regard the projected land reform as a means to become landlords themselves. While the peasants have many grievances against their landlords, at present most of them apparently prefer that government action be limited to protecting their rights and acting on their behalf within the present system.

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**SINO-SOVIET BLOC FOOD SUPPLIES**

Food supplies in the Sino-Soviet bloc should be adequate to meet domestic needs until mid-year despite the reduced 1959 harvests. The decline in comparison with 1958 crops--resulting generally from poor weather throughout much of Communist China, the USSR, and the northern European satellites--will be felt mainly in livestock feed supplies and in the bloc's ability to export agricultural products. In Communist China, reduced harvests will affect food supplies more directly, but critical food shortages will probably be avoided.

Per capita food supply may also be somewhat lower than last year's in Poland and East Germany.

In the Soviet Union, a grain crop of 100,000,000 tons is estimated--considerably below last year's bumper harvest. The potato crop also will probably be somewhat less than last year's. Although these items form a major part of the Soviet diet, only 40-50 percent of the total output is used for direct human consumption. Food use in the USSR tends to remain constant, with fluctuation in supply largely affecting the amounts used as livestock feed and in industry and, in the case of grain, the amounts exported and stockpiled.

China's grain harvest is not likely to exceed 200,000,000

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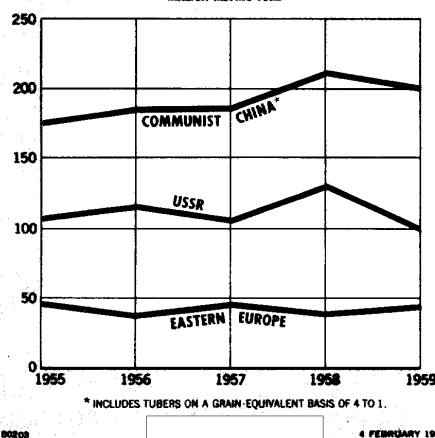
tons, or 5 to 7 percent less than last year's outstanding harvest, but much of this decline was probably in coarse grains and sweet potatoes, which the Chinese include in "grain" figures. Furthermore, Peiping has taken steps to stretch grain stocks by urging a more careful handling of all available food stocks.

Grain output in the satellites over-all was up 11 percent over last year, although adverse weather in Czechoslovakia, Poland, and East Germany caused a decline in feed grain and fodder crops. Potatoes may be in short supply in the latter two countries. Domestic supplies of meat and other livestock products may be generally better than last year in the bloc, with the exception of East Germany and Poland, where the unfavorable food situation during the last half of 1959, involving shortages of meat, butter, and milk, has already shaken the morale of the urban worker and caused unrest. Further shortages of such products are expected through June 1960.

Somewhat less sugar and vegetable oil are expected to be available in the bloc up to mid-year. The Soviet and Chinese 1959 crops of fruits and vegetables, however, were apparently somewhat better than in 1958.

The change in the food supply situation between 1958-59 and 1958-60 is not expected to have a large effect on intrabloc trade in agricultural products. The need to pay for imports in connection with industrialization will tend to keep Chinese

agricultural exports to the USSR at a reasonably stable level. Also, although the northern satellites, particularly Poland and East Germany, need more feed grains, the USSR is not in as good a position this year as last to supply them. Food supplies per capita are thus not expected to be altered appreciably by intrabloc trade.

**PRODUCTION OF GRAIN IN THE SINO-SOVIET BLOC**

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Export capability of the Communist bloc to the free world may be restricted, but this trade represents a very small percentage of total production. During 1958 and 1959, the European satellites were net importers of grain from the free world, and there has been some effort among the northern satellites to increase imports during 1960. Poland and Hungary account for about 70 percent of total bloc exports of meat, but domestic shortages in Poland may compel a reduction in these exports during 1960.

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## YUGOSLAV TRADE WITH THE SOVIET BLOC

With the signing on 30 January of a trade agreement with the USSR, Yugoslavia has completed trade protocols for 1960 with the USSR and all the European satellites. However, despite the improvement in state relations during the past few months--manifested in this case by a warmer atmosphere in the trade talks--no major expansion in trade is likely, in view of Belgrade's unwillingness to become overly dependent on such exchanges. Belgrade's relationship with China remains cool. Trade during 1959 fell to an insignificant level, and no agreement has been announced for 1960.

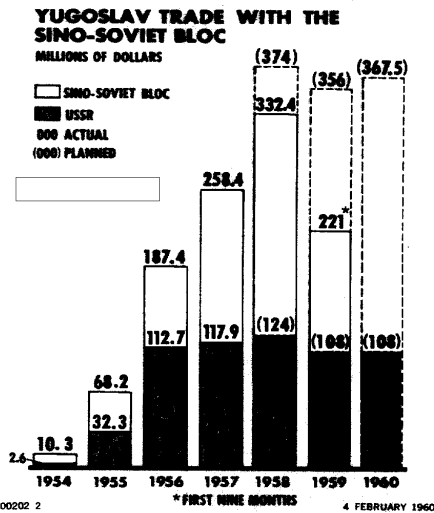
Although bloc-Yugoslav trade in the first nine months of 1959 was more than 15 percent below planned levels and slightly less than the actual amounts traded in an equivalent period in 1958, Yugoslavia is probably content with the volume exchanged. From January through September, bloc countries took 30 percent of Belgrade's exports and provided 23 percent of its imports, thus keeping bloc-Yugoslav trade totals at roughly the 25-percent figure of the past few years. These patterns suggest that the increases called for under the 1960 protocols are unrealistic. Fulfillment of trade agreements, furthermore, is not uniform throughout the bloc. The USSR has, in the main, met its commitments, but the satellites have fallen substantially short.

Belgrade apparently was able in 1959 to reduce its unfavorable balance of trade with the bloc; from a \$66,000,000 difference for the first nine months of 1958 to an \$18,-

000,000 difference for the same period in 1959.

The pattern of trade in the first nine months of 1959 suggests Yugoslavia is still dissatisfied over specific commodity exchanges with bloc countries and its inability to get favored treatment from them.

In the past, Belgrade has not been able to obtain desired quantities of crude oil from Rumania, and Yugoslav-Rumanian trade had not reached half its planned level in the first nine months of 1959; the 1960 agreement, nevertheless, calls



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for a \$2,000,000 increase over 1959 goals.

Similarly, Poland has apparently been unable to export agreed quantities of coking coal because of its commitments to the bloc's Council for Mutual Economic Assistance (CEMA). Accordingly, Polish exports to Yugoslavia reached only one third of 1959 goals in the first

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nine months of that year, but a \$6,000,000 increase in trade over 1959 goals has been scheduled for this year. Belgrade apparently feels it could improve its trading position with the bloc by reacquiring observer status on CEMA, but as late as 8 January Yugoslav overtures had been ignored.

Despite Belgrade's displeasure at not being given special treatment, the bloc

appears to be living up to its public position of maintaining normal trade relations with Belgrade on the basis of "mutual profit." The bloc has been less amiable in other economic areas, however, as is indicated by its continued unwillingness to reinstate canceled developmental credits or to negotiate outstanding claims issues satisfactorily.

(Concurred in by ORR)

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**SOVIET-ETHIOPIAN AID TALKS INCONCLUSIVE**

The Soviet economic aid delegation which visited Addis Ababa from early November until mid-January apparently made little progress in determining the projects to be undertaken under the USSR's \$100,000,000 line of credit. The head of the delegation has remained in Addis Ababa, however, presumably to assist in drawing up a formal version of Moscow's economic and technical aid agreement.

The delegation apparently refused to agree to undertake several obviously impractical or uneconomic projects suggested by Addis Ababa, and Moscow made only a few specific offers of assistance. These reportedly included proposals to participate in the Emperor's nascent land-reform program. In addition, Moscow apparently offered to assist in developing highways and agreed to build several relatively small light industrial projects.

A Soviet Embassy official in Addis Ababa indicated that the delegation had encountered substantial difficulties in the negotiations, and stated that agreement had been reached on only a few of the less impor-

tant projects. Because of Ethiopian intransigence, he claimed, Soviet technicians will be delayed for almost a year from beginning work on the projects. Ethiopian officials were irritated by Soviet insistence that Ethiopia produce economic data on the projects under consideration.

Ethiopia did agree to purchase--under the credit--a quantity of refined petroleum products approximately sufficient to meet the country's needs for one year. The four Western petroleum distributors--the only such firms in the country--have, however, refused to handle Soviet deliveries, and Ethiopian officials now are considering a review of the petroleum commitment.

The 21-man Czechoslovak economic delegation which spent more than a month in Addis Ababa late last year experienced similar difficulties in dealing with Ethiopian officials. An agreement calling for a \$10,000,000 Czechoslovak credit for economic and technical aid was signed on 11 December, but the Czechoslovak negotiators complained that the Ethiopians were frustrating and indecisive during the talks.

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The Ethiopian attitude probably stems in part from Addis Ababa's dissatisfaction with Prague's performance under an earlier credit arrangement. This culminated in the recall of Czechoslovakia's commercial attaché last December. The Czechoslovak delegation apparently had been prepared to discuss a wide variety of projects, but it reportedly also made only a few specific commitments.

Despite the Communist bloc's apparent lack of success in achieving early implementation of credits, both Moscow and Prague have actively sought to increase commercial and cultural relations with Ethiopia. The USSR recently began a heavy advertising campaign in the local press, emphasizing Soviet consumer goods, heavy machinery, and publications--presumably in preparation for a commercial exhibit reportedly planned for May in Addis Ababa. Meanwhile,

three Czechoslovak scientists are reportedly conducting a six-month study of Ethiopia's thermal springs at the request of the Emperor, who is eager to develop the country's tourist potential.

Although the Emperor is reported to have serious misgivings about admitting large numbers of Communist bloc technicians into Ethiopia, he apparently hopes to accept moderate amounts of assistance from the bloc in an effort to speed the country's economic development and alleviate its serious financial situation, while retaining the friendship and continued support of the West. The Ethiopian Government, hampered by second-level officials unable or unwilling to make decisions, can be expected to procrastinate in its dealings with bloc technicians, and thus add to the bloc's difficulties in carrying out aid programs.

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**BRITISH LABOR PARTY TROUBLES**

Hugh Gaitskell's controversial proposal to soften his Labor party's doctrinaire approach to nationalization is encountering increasingly vocal opposition. Deputy leader Aneurin Bevan's serious illness has removed a possible stabilizing influence. Should Bevan retire, however, the absence of an alternative leader would strengthen Gaitskell's position.

Gaitskell wants to remove "public ownership" as a constitutionally directed party goal. Some moderate trade union officials have joined the party's left wing in insisting that

Gaitskell's views constitute a repudiation of British socialism which, they contend, remains a valid guide for political action. Trade unionists are primarily giving vent to their long-standing complaint that the influential position of intellectuals like Gaitskell and his advisers impedes the Labor party's advancement. The trade unionists' alignment with left-wing intellectuals such as writer Michael Foot who have already been rejected by the electorate, however, points up the weakness of their challenge to Gaitskell.

A definite solution to the party's problems will probably

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have to wait until next fall, because all major policy and organizational changes must be approved at the annual conference. Bevan's illness, however, has caused the party's executive committee to delay its formal start on revamping party policy.

Since no other Labor leader has Bevan's ability to pacify dissident party views on policy issues, his absence from Parliament may also pose an immediate threat to Gaitskell's authority. The anti-Semitic incidents in West Germany have led an increasing number of backbench

Laborites to demand that the party reverse itself and oppose German rearmament under any circumstances. They have warned Gaitskell that they intend to press this view during the present session of Parliament.

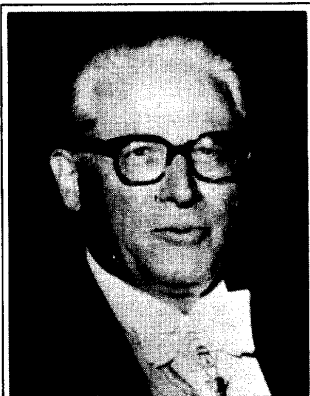
In balance, however, Bevan's absence should help Gaitskell win the fight to free the party from socialist dogma. If Bevan retires, Gaitskell will emerge for the first time as unchallenged leader of the Labor movement, and he can then proceed to broaden the base of Labor's electoral appeal. 25X1

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**ITALIAN GOVERNMENT FACES INCREASING STRAIN**

Italy's minority Christian Democratic government faces intensified attacks from political elements both within and outside the party when President Gronchi returns from his 6-11 February visit to the USSR. The meetings this month of the governing

bodies of the Christian Democratic (CD), Nenni Socialist, Liberal, and Communist parties will put the government under heavy pressure to realign its parliamentary support. What happens at these meetings may decide whether or not the Segni government will stay in power until after the spring local elections.



GRONCHI

The Christian Democratic party parliamentary group last month elected an executive committee which gave the center-left Fanfani group inadequate representation in comparison with the strength this group showed at the national congress in November. Party Secretary Moro reportedly feared that the Fanfani group would pull its four members out of the cabinet and dump the Segni government; he offered his own resignation.

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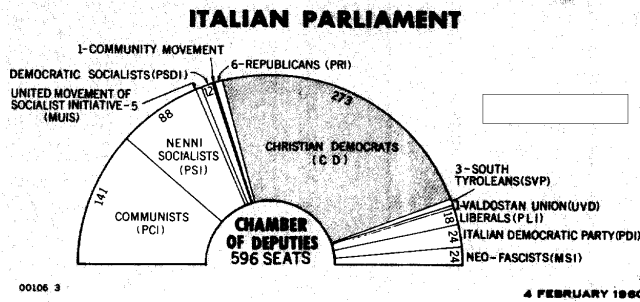
This rift has been patched up, but the Christian Democratic national council meeting on 13-14 February may reopen the issue, in view of a recent statement by Moro that the Christian Democrats would be willing to replace the present government if a viable alternative were available.

in three Italian cities, and Nenni apparently intends to exert his own pressures for an understanding with the Christian Democrats at his party's 8-10 February central committee meeting. He has said that his party

This statement may precipitate a reaction from the Liberal party, which has threatened to withdraw support from the Segni government unless the Christian Democrats' intentions with regard to an "opening" to Nenni are clarified. The Liberal national council meeting on 20-21 February has been scheduled to follow the Christian Democrats' meeting so that action can be taken in the light of the CD decision.

Christian Democratic - Nenni Socialist governments have in the past few months been formed

should support any Christian Democratic government that breaks with the economic and political right. Meanwhile, the Communists, at their national congress opening on 30 January, showed concern over the possibility of their own isolation as a result of a rapprochement between Nenni and the Christian Democrats.



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**POLITICAL DEVELOPMENTS IN THE SIX-NATION EUROPEAN COMMUNITY**

The foreign ministers of France, Italy, West Germany, and the three Benelux countries met in Rome on 25 and 26 January in the first of a series of quarterly "political consultations" agreed on last fall. The meeting was regarded by all six participants as "informative and constructive."

In several respects, however, the meeting supports suspicions that the new forum com-

petes with existing European Economic Community (EEC or Common Market) institutions. President Hallstein of the Common Market was not invited. Attendance of European executives at future sessions will evidently depend on a unanimous invitation of the ministers. The Rome session was also marked by strong concern that the series of consultations will lend itself to French efforts to develop a "Continental

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bloc." French proposals that the consultations be "binding" on the member governments were strongly opposed by the other countries, and it was decided to rotate future meetings among the six Community capitals and not to set up a permanent political secretariat.

Although the ministerial meetings are intended as a forum for the discussion of Community political problems, the Rome talks explored matters of wider concern. At Italian request, the ministers discussed the impact on Community countries of the "relaxation in East-West tensions," and West Germany's Von Brentano reviewed the Berlin - East German situation. Participants in the meeting have since minimized these detours as "harmless" and have promised that NATO and the Western European Union (the six plus Britain) will be kept informed. In practice, however, the discussion of broad free world issues seems likely to continue since there are no procedural restraints on what matters may be raised.

On balance, the tendency to treat Community and other problems in a purely diplomatic framework appears to be a retreat from the objective of creating a fully integrated Community under "European" institutions. Nevertheless, while the foreign ministers met in Rome, the Council of Ministers of the Coal-Steel Community (CSC) met in Luxembourg and voted five to one to permit the CSC High Authority to continue to subsidize the retraining and re-employment of workers for the duration of the CSC treaty, or 42 years.

This is an important "supranational" success: the treaty revision was achieved under a procedure not requiring ratification by the six parliaments, and it may have reversed a year-long trend toward curtailing the High Authority, the most supranational of the three European executives. Moreover, on 1 February, the member countries authorized the CSC, EURATOM, and the Common Market to open a combined diplomatic mission in Washington--a recognition of status long sought by the Communities' executives.

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**VENEZUELAN STATE ENTERPRISES CONTRIBUTE TO FINANCIAL PROBLEMS**

Venezuela's present financial difficulties, marked by a decline in foreign exchange holdings since last September and attempts to borrow abroad to meet government expenses, are due in large part to the investments and subsidies necessary for several major government corporations, a number of them inherited from the Perez dictatorship. These ventures, which are largely designed to diversify the country's economy and free it from dependence on the oil industry,

now have become symbols of national prestige and will probably continue to be a drain on government revenues for several years.

Two of the heaviest expenditures have been for the Petrochemical Institute and the national steel mill, both of which are of questionable economic soundness. The institute, which is not expected to be self-supporting for another four or five years, will reportedly require--including funds already

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invested--a total outlay of more than \$500,000,000 by 1963. The steel mill had incurred about \$340,000,000 in government obligations by 1957. It is expected to begin operations sometime this year, and its production, at capacity, will probably be 35 percent above Venezuelan steel consumption, even including all the fabricated steel products now imported by the key oil industry.

To a lesser degree, the government-owned airline, LAV, has been another drain on government funds. LAV is still an important symbol of national prestige, but its accident record has largely destroyed the traveling public's confidence, and there appears to be no early prospect of ending the heavy subsidies necessary to keep it operating. Other government economic enterprises which have proved to be inefficient and expensive include the National Hotel Corporation, the railroad and telephone systems, and various agricultural

projects. A possible exception is the National Merchant Marine. Administrative waste and graft have added to direct investment costs.

A new enterprise projected by the Betancourt administration itself and endorsed by the three parties in the coalition is a national oil company which will engage in all phases of the oil business and have its own tanker fleet. This may eventually be the most grandiose and costly project undertaken. Delay in proceeding with it, however, reflects a degree of official caution derived from experience with other government white-elephant agencies as well as the present lack of treasury reserves.

Betancourt has recently expressed his strong support of private investment and the need for foreign capital in Venezuela. However, nationalistic interest in the steel mill and the Petrochemical Institute is so pronounced that he is apparently unable to revise these projects substantially

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**COMMUNIST-LED VIOLENCE IN BOLIVIA**

Communist-led units of miners' militia from Catavi, taking advantage of right- and left-wing rivalry within Bolivia's governing Nationalist Revolutionary Movement (MNR), seized the key mining town of Huanuni on 23 January. The seizure opens the way for Communist-led forces to attack the major city of Oruro, 40 miles away on the railroad, and raises the possibility of civil war. Huanuni had been a progovernment barrier on the railroad linking Catavi with Oruro and the capital, La Paz.

The leader of the right-wing miners at Huanuni was shot

and then hanged, 11 others were killed, and 32 were wounded. The incident destroyed the barrier, deprived the government of an armed unit which it had called to La Paz on critical occasions both as a political and a police force, and intimidated other moderate labor leaders.

Right- and left-wing units of peasant militia in the Cochabamba valley mobilized in response to the Huanuni episode, and intermittent fighting began on 27 January. Cochabamba leaders of both MNR factions are pessimistic about pacification. Ammunition is limited,

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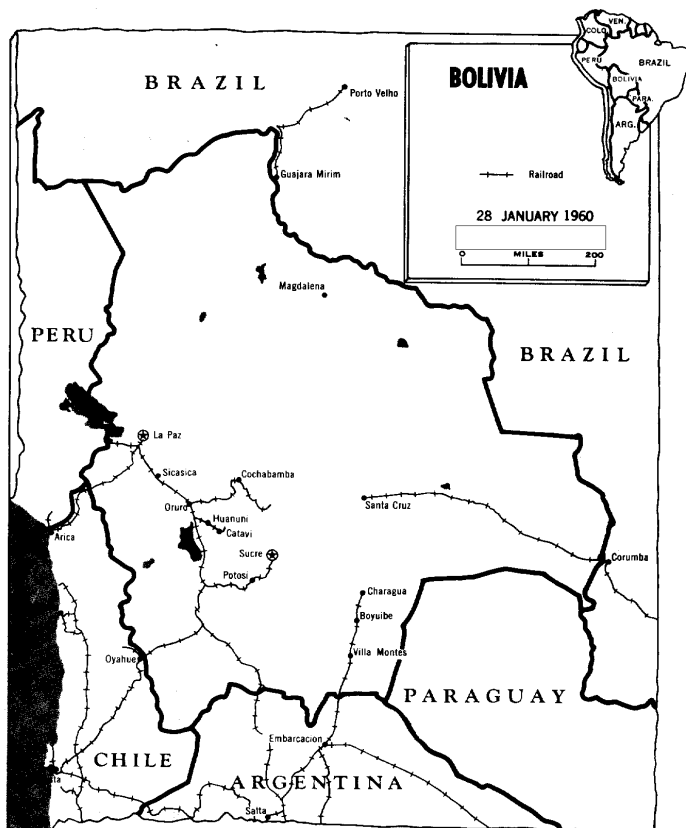
but both sides have practically unlimited supplies of improvised dynamite bombs.

The degree of anarchy prevailing is suggested by the detention on 27 January of former President Victor Paz Estenssoro--in the Cochabamba area to calm his left-wing followers--by a right-wing unit while a member of his party was beaten. Paz was arrested a second time on the same day and was released only through the personal intervention of Walter Guevara, the national right-wing leader who resigned as foreign minister on 1 February.

Siles is unlikely to commit the armed forces as such to action because he intensely dislikes responsibility for bloodshed, he fears precipitating civil war, and because the MNR--which he helped found--came to power in 1952 by defeating the military with civilian militia. Siles apparently is attempting to combine city militia with small police and army elements in an armed group based in Oruro for use against Catavi. Siles' most important potential weapon, however, is an aroused

public and party opinion. For this he needs the support of Paz, Bolivia's most powerful political leader and the left wing's favored candidate for the presidential election next May or June.

In order to gain Paz' support, Siles will probably be forced to act against right-wing leader Guevara--perhaps by curtailing the number of right-wing congressional nominees at the forthcoming MNR convention.



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**PART III****PATTERNS AND PERSPECTIVES****FRONDIZI'S STABILIZATION PROGRAM AND THE ARGENTINE ELECTIONS**

Argentine President Frondizi's US-backed stabilization program faces its first national electoral test in the voting on 27 March to renew half of the Chamber of Deputies. The program, started a year ago to reverse a decade of economic



FRONDIZI

decline, already has significantly improved Argentina's long-range economic prospects, but has not had time to produce results that are politically impressive. The wage-price squeeze resulting from the program's austerity measures have prompted bitter complaints even within Frondizi's party, as well as politically motivated strikes led by Peronistas and Communists, who helped support his election in 1958.

The principal difficulties handicapping Frondizi both in the forthcoming elections and in his determined stabilization efforts are the fundamental economic and political problems which he inherited when he took office on 1 May 1958. These problems will continue for some time in varying degree. Following a decade of Peron's dictatorship, Frondizi took over,

from a provisional government which had given the peaceful transfer to constitutional government priority over economic matters, a country on the verge of bankruptcy and a body politic deeply and bitterly divided. Frondizi hopes that economic improvement will soften such divisions and strengthen the bases for genuinely democratic government.

**Stabilization Program**

The stabilization agreement just renewed with the International Monetary Fund (IMF) is supported by \$300,000,000 in credit arrangements from various international sources: a \$100,000,000 stand-by credit with the IMF, \$75,000,000 from American commercial banks, \$75,000,000 from European commercial banks, and \$50,000,000 from the US Treasury for peso stabilization purposes. These arrangements represent funds available for use as needed, in contrast to loans contracted for immediate and specific use.

As in the original agreement, the new program emphasizes a reduction in the government deficit, estimated at \$325,000,000

**FOREIGN CREDIT ARRANGEMENTS FOR ARGENTINE STABILIZATION PROGRAM (MILLION DOLLARS)**

	1958 PROGRAM	1960 PROGRAM*
INTERNATIONAL MONETARY FUND	75	100
US TREASURY	50	50
US DEVELOPMENT LOAN FUND	25	
US EXPORT-IMPORT BANK	125	
US COMMERCIAL BANKS	54	75
EUROPEAN COMMERCIAL BANKS		75
		DE 17.0 WEST GERMANY 10.0 FRANCE 10.0 ITALY 10.0 SWITZERLAND 6.0 SPAIN 5.0 NETHERLANDS 5.0 BELGIUM 4.0
<b>TOTAL</b>	<b>329</b>	<b>300</b>

\*1960 CREDITS, WHICH INCLUDE GENERAL OF IMF AND US TREASURY CREDITS, ARE MAINLY FOR PESO STABILIZATION.

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in the 1959/1960 budget; strict control over credit and wage increases; and elimination of price controls to restore a balance with external price levels. A freely fluctuating exchange rate for all transactions was established in January 1959 when the program began.

One immediate result of these policies and the earlier removal of consumer subsidies was soaring prices; principal food items, for example, tripled in cost. In line with a reduction of the fiscal deficit, the major source of inflation, the government raised charges for government-owned services. The cost of living doubled during 1959, in contrast with only a 22-percent depreciation in the peso with respect to the dollar.

Since 88 percent of 1959's rise in living costs occurred during the first eight months, the government has hopes that the worst of the price adjustment difficulties are over. Government economies have included a reduction of personnel, one half of the target of 80,000 reportedly having been reached during 1959, but progress toward this goal is slowed by the scarcity of alternate employment.



ALSOGARAY

The driving force behind the austerity and stabilization program is Alvaro Alsogaray, minister of economy and acting minister of labor. He has succeeded in negotiating a considerable reduction in wage demands by strikers in a number of instances, but labor resistance is growing with the continuing decline in real wages, which dropped another 20 percent in 1959. Labor generally feels it is having to bear the brunt of the austerity program. Since he is not a member of the administration party, the appointment of Alsogaray on 24 June added to discontent within Frondizi's Intransigent Radical Civic Union (UCRI) over the unfavorable aspects of the stabilization program.

#### Complaints Over Austerity

UCRI leaders not only fear labor's reaction at the polls but are concerned over the lag in economic development. The strict credit controls, the fall in consumer purchasing power, and strikes have contributed to a mild recession. Constructive opposition voices have echoed this concern, commenting that the recovery program is not proceeding rapidly enough and that economic pressure on labor is too severe. Other opposition groups, such as the Peronistas, Socialists, Communists, and the People's Radical Civic Union (UCRP)--the only important minority party in Congress--term stabilization a program of hunger imposed by the United States.

Frondizi, whose party monopolizes the Senate and controls the Chamber of Deputies, has managed to maintain party discipline in voting but not without criticism. The stabilization program, with its explicit emphasis on free enterprise, is a bitter pill for the UCRI, whose traditional platform has favored considerable state control over the economy, protection of the social rights of labor, and proscription of foreign investment in petroleum production. Despite Congress' nationalization of the

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petroleum industry in May 1958, Frondizi's invitation two months later to foreign firms to help develop the industry on a contract basis prompted nationalist and Communist charges of a "sellout to American imperialism."

Gains

Among the most favorable results of Frondizi's policies, however, is the 30-percent increase in production of crude petroleum during 1959, reaching 136,600 barrels per day in December. This amounts to slightly more than half the present national demand for petroleum and a considerable saving in oil import costs--which in 1958, for example, cost \$270,000,000.

Argentine gold and hard-currency holdings rose from \$97,000,000, in December 1958 to \$295,800,000 a year later. Because of reduced imports, there was a small trade surplus, in contrast with the trade deficit of \$239,000,000 in 1958. Argentine indebtedness abroad, however, will require an estimated \$300,000,000 in amortization and interest payments during 1960.

New foreign investment has helped increase foreign exchange holdings and will have a greater impact later. The government approved contracts for some \$162,000,000 worth of foreign investments in industry during 1959, but most of these contracts have yet to be implemented. This is in addition to some \$331,000,000 actual or intended investment by Americans in connection with the petroleum contracts since July 1958.

These improvements, however, are not the type which political campaigners can effectively exploit in seeking votes.

Congressional Elections

The voting in March will renew 93 of the 187 seats in the Chamber of Deputies, and fill four vacancies. The UCRI needs at least 31 of the 97 to assure a legal quorum in the face of frequent boycotts by the minority UCRP, and 35 to 45 seats to maintain an effective majority. Of the 97 seats, 68 were originally held by the UCRI, 28 by the UCRP, and one by the Liberal party of Corrientes Province. The Liberals, who also hold one seat not at stake in this election, recently joined the Federation of Center Parties, a loose association of parties ranging from center to conservative whose hopes have risen recently. Under the voting system, in each province the party winning a plurality receives two thirds of the seats, while the runner-up receives the other third.

The fortunes of the UCRI will be most strongly affected by the distribution of the Peronista vote, which now is estimated at about 25 percent, in contrast with more than 60 percent under the Peron regime. While the old Peronista party has been outlawed since November 1955, its successor, the Justicialista party, is recognized in 15 of the 23 electoral districts.

The Peronistas remain split over leadership and tactics in both labor and political circles. The Peronista Coordinating Council has called for a blank protest vote, a plan endorsed by Peron from Spain, his new place of asylum. Other leaders have threatened to vote for the Communist party, as many Peronistas did in the provincial elections last year in Mendoza and Santa Fe, if the Justicialista party is barred. Cooperation between the Peronistas and the Communists in labor was formalized

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in their August agreement organizing the United Workers Movement to fight against the stabilization program.

Fronidizi has requested the electoral courts of the provinces, which control the inscription of parties within their areas, to bar candidates of both the Justicialista and the Communist parties. Thus far two courts have already refused to outlaw the Communists, despite Fronidizi's strong plea backed up by his 27 April decree outlawing Communist political activities.

Fronidizi may not want to gamble that the Peronistas will indeed cast blank ballots, and instead may issue an executive decree banning both Peronista and Communist candidates, citing special powers under the state of siege which has been in effect since 11 November 1958. This action would probably please the military elements, which in mid-1959 renewed pressure on Fronidizi for stronger action against Peronista and Communist influence. Although some plotting continues, the top military leaders in New Year's statements reasserted their strong defense of constitutional government.

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**CHILI UNDER PRESIDENT ALESSANDRI**

President Jorge Alessandri --inaugurated in November 1958 as Chile's first conservative president in 20 years--has succeeded in improving general business confidence and the foreign investment climate, but



ALESSANDRI

has not yet reversed the declining trend of real wages which has contributed to leftist strength in recent years.

Son of a famous president but without firm party ties himself, Alessandri won election

with only 31 percent of the popular vote, and his administration initially faced an opposition congress. However, in the by-election for the Santiago Province senatorial seat vacated by Alessandri, administration leaders gave what proved to be decisive support to the Radical party candidate against a leftist-backed candidate, thereby helping the government attain a working majority in Congress.

Economic Achievements

The government last April was able to secure passage of an omnibus economic bill, with the grant of emergency power for a year. Simultaneously the administration sought and obtained dollar credits--amounting to \$132,000,000--from the International Monetary Fund and US lending agencies. The minister of finance has arranged preliminary terms for further credits from Germany and France.

Imports have been freed from many restrictions and a start has been made on administrative reform and on both public and private housing. An expansion

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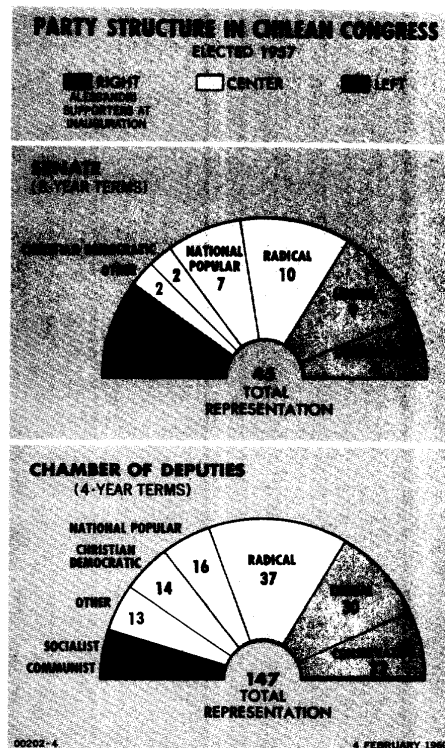
in public utilities was stimulated by a decree in effect providing higher rates. A feeling of confidence in the government's purposefulness has been created and bolstered by the credits obtained abroad, which are interpreted as an endorsement by the outside business and financial world. Interest in private investment, particularly by foreign investors, has increased sharply, although no substantial new investments have been made thus far.

The immediate balance of payments situation has improved, owing in part to the foreign credits and in part to improved prices for copper--Chile's key source of foreign exchange and tax revenue. Production of copper has also risen; complete figures for 1959 will probably set a new record.

Cost-of-Living Problems

Despite rising confidence in the economic situation, real wages have continued to shrink under the impact of a persistent inflation which has been one of the factors behind the political strength of the left in Chile. Cost-of-living figures show a 33-percent increase for 1959, approximately equal to the rise in 1958. A cost-of-living decline in November and December 1959 was attributed to seasonal factors, but continuation of the decline in January has raised hopes that the regime's anti-inflation policies may be effective.

Unemployment has dropped but may still approximate 7 percent of the labor force. Nevertheless, the estimated 5-percent increase in Chile's gross national product during 1959 reverses a five-year downward trend and would appear to give



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Alessandri a period of relative safety in which to seek basic reforms in the long-stagnant economy and thereby strengthen the conservative anti-Communist groups he represents.

In holding his congressional political support in line under conditions of continuing cost-of-living difficulties, Alessandri has tried to avert leftist attacks by a liberal policy on visas for Communist visitors. This has led to a sharp rise in international Communist activity in Chile during the past year.

Foreign Communist Activity

The rise in foreign Communist activity began in November

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1958 with the attendance by delegates from six other Latin American countries at the Chilean Communist party's 11th National Congress. In mid-August 1959, leaders of five Latin American Communist parties met secretly in Santiago and agreed to cooperate against dictatorship and to call a later conference of all Latin American Communist party leaders in that city.

In November, delegates from at least 13 Latin American countries, France, the USSR, and Bulgaria attended a Communist-front women's congress in Chile. In the same month a strongly Communist-influenced youth conference with delegates from 12 Latin American countries was held preparatory to a similar congress in Havana in July 1960. In December a national labor congress was attended by representatives from the USSR, Communist China, Czechoslovakia, and the Communist-controlled World Federation of Trade Unions.

Although Chile still has no diplomatic relations with Sino-Soviet countries, there have been some indications of increased economic and cultural relations. An exploratory trade mission led by conservative former business associates of Alessandri went to the USSR and several of the satellite countries last month. A cultural group from Communist China paid Chile a three-month visit in early 1959.

Chilean Communist Activity

In labor, the Communists last December gained 12 of 20 seats on the directive council

of the labor federation, the Single Center of Chilean Workers (CUTCH), as a result of their extensive financing of delegate travel. Domination of the council is expected to help the Communists to create a public impression of considerable strength. Obvious domination of the council by the Communists, who control only about 10 percent of member unions, seems likely to diminish the council's influence in union affairs, however.

The Chilean Communist party --with 20,000-25,000 members and 9,000 in its affiliated youth organization--remains one of the largest and best organized Communist parties in Latin America. In political matters, the Communists act with the Socialists in the Popular Action Front, whose presidential candidate polled 29 percent of the vote in the 1958 election, a close second to Alessandri.

The party does not seem, however, to have profited markedly thus far from the increase in foreign Communist visitors under the Alessandri regime, and its record in organizing popular demonstrations has recently been poor. The demonstration in favor of Cuba and Venezuela prior to the conference of American foreign ministers last August marked the third time in 1959 that the Chilean Communists tried but failed to utilize a popular issue to demonstrate their strength. Moreover, in the University of Chile's Federation of Students, which is a training ground for future politicians and was once a leftist stronghold, the Communists were badly defeated recently.

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**HAMMARSKJOLD PLAN FOR WORLD-WIDE UNITED NATIONS DIPLOMATIC CORPS**

UN Secretary General Dag Hammarskjold is reported proceeding with plans to station high-ranking UN officials on permanent duty throughout the world, particularly in trouble spots, to deal with localized political problems. These officials would be responsible only to the secretary general, would be of ambassadorial rank or higher, and would be hand-picked by Hammarskjold. Creation of such a network would also provide a corps of trained UN professionals available for assignment as crises arise. All appointees would assume their duties subject to the consent of the host country.

Perhaps Hammarskjold's major purpose is to assure UN access to impartial and "neutral" information before and during a crisis. He also hopes that having a UN official on the spot would increase the likelihood of averting a crisis or at least of preventing it from reaching proportions that would require formal UN action.

Hammarskjold is also said to be seeking a means of exerting a calming influence on the newly arrived leaders of the underdeveloped and politically immature countries, particularly in Africa. He believes that stationing UN political agents in these countries would help prevent their sometimes volatile leaders from rushing to the UN Security Council with so many relatively minor issues. UN officials with a realistic view of what the United Nations can and cannot do would be in a position to educate those government leaders who tend to regard the UN as a panacea for all their ills.

**UN Investigative Commissions**

Another advantage to Hammarskjold would be that his personal appointees would report

to him directly and privately. The United Nations' experience in the past with investigative commissions composed of representatives appointed from UN member states has not been satisfactory. Most of these commissions--which usually represent all factions in the UN--produce public reports bearing little or no relation to the



HAMMARSKJOLD

facts because there have to be so many compromises to meet the views of the governments represented.

According to one UN official, these commissions have been staffed with "hopeless people--the Eastern representative just looked out for the interests of the bloc, the same for the Western, the Latin Americans were lazy and did nothing, the ex-colonials pounded the table, some of the others were just interested in whatever night life the locality offered, the Scandinavians said both sides of the issue had equal merit, and the result was a meaningless report."

The increasing tendency of UN members to "leave it to Dag" to negotiate settlements and mediate has aided Hammarskjold in his plans. While he and

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Under Secretary Bunche have traveled to various areas to resolve problems, Hammarskjold now is more inclined to appoint others for these tasks. To date he seems to have relied on his personal knowledge of individuals' abilities--knowledge acquired during his many years with international and regional European economic bodies.

Nationals of Finland, Sweden, Italy, Switzerland, and the Netherlands are among those who have been assigned by Hammarskjold to carry out specific functions. All these appointees have been of ambassadorial rank, well-known in their specific fields, closely connected with UN or other international activities, and, above all, men dedicated to the principle of "quiet diplomacy."

Hammarskjold now has personal representatives stationed in Jordan and Laos. Despite strong objections from the Ethiopian Government, the secretary general intends to appoint an ambassador to Somalia when it becomes independent in July 1960. An official who mediated a dispute between Thailand and Cambodia may return to that area soon. The large corps of UN employees engaged in various economic and observer functions throughout the world provides Hammarskjold with a reserve for future assignments.

Spinelli Mission in Jordan

Hammarskjold's first experiment of using a UN diplomatic mission staffed by UN civil servants was the "UN presence" in Jordan, headed by the Italian diplomat, Pier P. Spinelli. This experiment encouraged the secretary general to apply the principle in other areas.

On 21 August 1958 the General Assembly asked the secretary general to make practical arrangements for buttressing the pledge given by the Arab states to end subversive interference with each other. Hammarskjold appointed Spinelli, then



SPINELLI

in charge of the Geneva office of the United Nations, as his special representative in Jordan to assist in the implementation of the General Assembly's resolution. The mission functioned primarily as a clearinghouse for complaints of subversive activity against Jordan by the United Arab Republic.

By September 1959 the situation in the area had so improved that the mission was virtually phased out, but Ambassador Spinelli maintains his post in Amman. At the request of the Jordanian Government, Spinelli has on occasion served as a general political adviser.

Special Representative in Laos

Hammarskjold's appointment of a special representative in Laos without a specific mandate from the United Nations and

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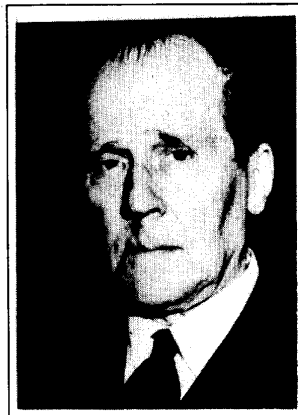
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ZELLWEGER



TUOMIOJA



BECK-FRIIS

despite strong Soviet objections is his boldest initiative to date. The UN mission now is functioning and making plans for a broad economic development program, and a permanent coordinator of UN activities in Laos has been appointed.

In September 1959 Laos appealed to the UN Security Council, accusing North Vietnam of overt aggression and requesting UN intervention. To avoid a Soviet veto, the West on 8 September resorted to a procedural maneuver in the council by establishing a four-nation subcommittee to "study the Laotian situation." The subcommittee subsequently went to Laos for a month and submitted a report to the council on 5 November 1959. This report has never been acted on by the Security Council.

Hammarskjold, meanwhile, searched for some legal way to establish a personal representative in Laos over the objections of the USSR, which maintained that the problem was within the purview of the International Control Commission established by the Geneva accords. Hammarskjold went to Laos and on 15 November appointed Sakari Tuomioja of Finland--the executive secretary of the UN Economic Commission for Europe--as his "personal representative in Laos" until he

could find a permanent replacement. Several UN officials were borrowed from the UN Economic Commission for Asia and the Far East to assist Tuomioja.

Hammarskjold now has appointed as the permanent "coordinator for UN activities in Laos" Eduard Zellweger, a Swiss who was UN economic adviser to the government of Libya. Zellweger is scheduled to arrive in Vientiane about 15 March.

Although the Soviet press severely attacked Hammarskjold for his action in Laos, the UN mission was established and will be useful as a precedent.

#### Beck-Friis Mission

In December 1958 the serious deterioration in relations between Thailand and Cambodia led Hammarskjold to appoint Baron Beck-Friis, former secretary general of the Swedish Foreign Ministry, as a special mediator. In January 1959 Beck-Friis succeeded in restoring some measure of calm. Since Thai-Cambodian relations are once again worsening, Hammarskjold is considering sending Beck-Friis back to the area and may appoint a permanent representative there.

#### Outlook

Over the next few years Hammarskjold can be expected to

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