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CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY
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PART I**OF IMMEDIATE INTEREST****CONGO**

By 27 July, UN troops had taken over control in parts of five of the Congo's six provinces. Only in Katanga--which declared itself independent on 11 July and subsequently called in Belgian troops to maintain order--does security remain the responsibility of the Belgians.

The status of Katanga Province and of bases in the Congo has become a major source of friction between UN and Belgian officials. On 26 July, Brussels protested statements purportedly made by the UN commander, General von Horn, "ordering" the Belgians to evacuate Katanga. A later statement by Von Horn that Katanga appeared to be "a part of the Congo problem" as far as the UN was concerned has failed to mollify Brussels.

Belgium's policy appears to be to delay decisions concerning its bases and Katanga. Ambassador Burden in Brussels observes that the Belgians hope to use any time gained to get

negotiations started between Tshombé and the Lumumba government. Tshombé has indicated his willingness to support a loosely joined Congo federation, but not a highly centralized unitary state as espoused by Lumumba. Renewed criticism of Katanga's self-proclaimed independence by Tshombé's parliamentary opposition, however, may have damaged his prestige for any dealings with Lumumba. Brussels probably hopes to delay the UN entry into Katanga lest such a move further weaken Tshombé's bargaining position.

In an unexplained move, the Congo Senate on 22 July voted itself a three-week vacation. The lower house had agreed the previous day to adjourn until 1 September. The action by the Senate--which has been the main center of criticism directed at Lumumba's leftist policies--suggests that his opponents will await the results of his trip before considering further action. Lumumba may feel that his political future depends in part on his ability to obtain large-scale aid for the Congo during his present trip to the United States and Canada. The Congo's desperate need for technical and financial assistance, however, together with Lumumba's pro-Communist bent, makes it likely that he will also solicit aid from the bloc.

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actions, especially in Katanga, as an attempt by "imperialism" to reimpose its control over a former colony. The most extreme anti-Belgian reaction has come from Guinea, whose contingent arrived in Leopoldville this week insisting it wanted to proceed to Katanga "to fight Belgians." Earlier Conakry had "postponed" acceptance of credentials from Belgium's ambassador-designate and urged other African states to sever diplomatic ties with Brussels.

So far, at least, this suggestion has not been adopted anywhere; some of the more moderate African states--notably Libya, Tunisia, and Morocco--have in fact shown some disposition to back away from all-out support of Lumumba, especially when the Congolese leader threatened to seek Soviet troops. The Africans are particularly anxious to keep all intervention within the UN framework and to provide as much as possible themselves of the assistance requested.

Ghana's President Nkrumah, who has cultivated and subsidized Lumumba since the first African People's Conference in Accra in 1958, continues to be more intimately involved in the situation than any other African leader outside the Congo. He has committed over 2,000 troops--the bulk of Ghana's army--to the UN operation and reportedly has said they will remain in the Congo in support of Lumumba until "every Belgian" has left the country. Nkrumah apparently hopes his initiatives in the Congo will enhance his reputation as a pan-African leader

while also strengthening his direct influence among Congolese leaders, to whom he looks for support in promoting his cherished scheme for African political unification.

Bloc Reaction

Moscow's concern over the Congo crisis appears to have lessened following the 21 July UN Security Council resolution, Lumumba's statement that Soviet forces were no longer needed, and the subsequent easing of tension in the area. While the Soviet press and radio continue to devote considerable attention to Congo developments and to assert the USSR's readiness to "undertake decisive action," the note of urgency which characterized earlier Soviet statements now has been replaced by Moscow's claim that it "forced the United States to desist from armed intervention."

There is, however, increased criticism of UN officials for their handling of the situation, particularly for "cooperating" with Belgian forces, and for failing to bring Katanga "under military control." Pravda on 27 July termed the struggle in the Congo "nothing but a war" waged by Belgium, the US, and other NATO countries to enslave the Congolese.

The USSR's decision to support the moderate UN resolution sponsored by Tunisia and Ceylon was probably designed to avoid isolation from the "Afro-Asian position" and damage to its pose as champion of the African peoples against "imperialist aggression."

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A small party of Soviet representatives headed by a Foreign Ministry official arrived in Leopoldville on 21 July aboard a Soviet food plane, apparently to serve as Moscow's direct link with the Congolese Government both for the coordination of further moves and for channeling first-

hand information on future developments to Moscow. Soviet leaders may have become concerned over the exaggerated expectations of the Congolese regarding possible Soviet support and wished to be in a position to influence further Congolese initiatives which would directly involve the USSR. [REDACTED]

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DEVELOPMENTS IN SOVIET FOREIGN RELATIONS

Top-level Soviet officials continue to confirm the validity of the policy of peaceful co-existence, but the tone of their pronouncements on Soviet policy is being brought increasingly into line with Moscow's more aggressive behavior in recent weeks. Speeches by presidium members Suslov, Kuusinen, and Shvernik emphasize the need to remain vigilant, expose the imperialists, and perfect and strengthen the defenses of the Soviet Union.

Moscow's careful maneuvering on the Cuban and Congo situations over the past week indicates, however, that the Kremlin does not intend to go beyond exploitation of these issues as part of its current agitation and propaganda abuse of US motives and policies. Soviet propaganda is continuing to claim that the United States is poised for aggression against Cuba, but Khrushchev's message to Castro and the joint communiqué with Raul Castro retreat considerably from Khrushchev's missile threat of 9 July. Moscow has also dropped the note of urgency reflected in its

earlier statements on the Congo crisis.

UN Security Council

In his opening statement to the UN Security Council on the RB-47 incident, Deputy Foreign Minister Kuznetsov made it clear that the USSR's purpose in the debate was to utilize the public forum as a sounding board for continuing its violent denunciation of American motives and policies. Kuznetsov hammered at the charge that the United States is conducting an aggressive policy which could bring on a new war, and he asserted that the Soviet Government had exercised great patience and self-control in the case of the RB-47. He warned that the USSR reserved the "full right to take more far-reaching measures" and would not have to limit itself to stopping the intruding aircraft. He concluded his statement on 22 July by introducing a resolution calling for a condemnation of the US actions.

When this resolution was defeated the Soviet delegation

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apparently made no effort--as it had done during the Security Council debate on the U-2 incident--to encourage a more moderate resolution which it could attempt to amend or represent as an indirect condemnation of the United States. After dismissing the American motion for an impartial investigation as an effort to "confuse a clear issue," Kuznetsov vetoed it, as he did an Italian resolution requesting permission for the International Red Cross to see the RB-47 survivors.

Disarmament

Khrushchev also used the disarmament issue to abuse the US. In letters and notes of 23 and 25 July to the United States, Britain, and Canada, Khrushchev vigorously denied any responsibility for an increase in international tension and ran through a list of familiar charges against the US Government, beginning with the U-2 incident.

The main purpose of the disarmament letters, however, was to blunt the American initiative in requesting an immediate meeting of the UN Disarmament Commission. The dismissal of the American plan as a "guise for espionage," together with a denial that the USSR broke off the Geneva talks to avoid considering it, suggests that Moscow feels it is presently in a weak tactical position for a UN debate. Moscow probably viewed a detailed criticism of the American proposals as part of the necessary groundwork to strengthen its charge that the Western powers refuse to conduct serious negotiations in accordance with the UN General Assembly resolution of 1959 calling for complete and general disarmament under effective control.

In his letter to Macmillan and note to the United States, Khrushchev distorted the American proposal as rejecting complete disarmament by its "failure" to provide disarmament measures in the first stage, and "reducing any agreement to the first stage only." To support this claim, the letters concentrate on such first-stage "omissions" as the lack of proposals for eliminating foreign bases and troops, liquidating means of delivering nuclear weapons, or prohibiting the weapons themselves, while ignoring the inclusion of provisions for these measures in later stages.

In an effort to make the strongest possible case against the American plan, Khrushchev's letters discounted the proposals to discontinue production of fissionable materials for weapons and transfer agreed amounts to stockpiles for peaceful uses. He claimed that these proposals serve no practical purpose and could easily be evaded.

Moscow also used the notes to reject, in effect, the 82-nation UN Disarmament Commission as the forum for discussing future negotiations. On the other hand, as in his letters of 27 June to the Western heads of government, Khrushchev again implied that the USSR will provoke a dispute over the limited composition of the ten-nation talks in order to forestall any UN action to revive that body as a medium for continuing the talks.

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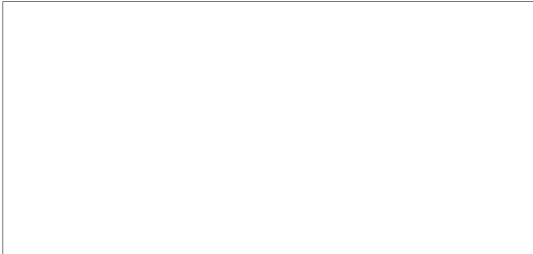
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Nuclear Test Ban Talks

In the conference on banning nuclear tests, Moscow for the first time put forward a proposal for a specific number of inspections which it would allow inside the USSR. According to chief Soviet delegate Tsarapkin's proposal on 26 July, the United States and Britain could make a total of three inspections each year of unidentified events picked up by the detection system and qualified as possible nuclear explosions.

The USSR, in turn, would be allowed three inspections in the United States and three in Britain. At the end of two years, this annual quota would be subject to review and revision. The three inspections in the USSR would apply to detected occurrences both above and below the "threshold" agreed on by the three powers which separates permanently banned tests from the smaller and less detectable explosions. Tsarapkin also rejected the US suggestion for 20 inspections above the threshold.

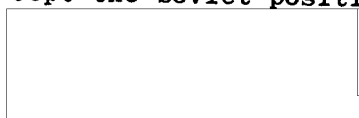

The USSR has consistently claimed since April 1959 that the specific annual quota should be determined by a high-level political decision unrelated to any scientific estimates of the likely number of natural occurrences which could be sus-

pected of being nuclear tests. That they have now dropped this contention and introduced the issue before the conference suggests that the Soviet leaders may have decided to bring about a showdown at Geneva, which would strengthen their propaganda and negotiating position and possibly force a recess of a few months. They are apparently preparing for this by setting out a Soviet stand on all unresolved major issues.

The Soviet delegation's immediate tactical aim, however, probably is to force the United States to commit itself on the duration of a moratorium covering small underground tests, which would not be permanently banned by the projected treaty. In late June the Soviet delegate suggested to the US delegate in private a "gentlemen's agreement" to submit a specific quota figure if the US would state its position on the duration of the moratorium. At the conclusion of his proposal on 26 July, Tsarapkin alluded to this conversation and called for the United States to make a prompt reply on the question of the moratorium.

Sino-Soviet Relations

After a three-week lull in its public dispute with Moscow, Peiping has resumed oblique criticism of Khrushchev's policies with new attacks on "modern revisionism." At the meeting of bloc leaders in Bucharest in late June, Khrushchev was unable to convince the Chinese Communists to accept the Soviet position.

  Peiping

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was evidently persuaded, however, to mute its open criticism of Khrushchev in the interest of maintaining an appearance of bloc unity.

On many occasions subsequent to Bucharest, Moscow has put forth arguments for detente and coexistence which the Chinese find repugnant, and the Chinese leadership probably now feels compelled to restate its views on these issues.

China's decision to reopen the debate may have been reached at a high-level party meeting believed to have been

held this month. As one result, Peiping appears to be mounting a major "cultural" campaign which, while clearly pertinent to the domestic scene in China, is also being used to strike anew at Soviet detente policies. Thus far three major Chinese cultural spokesmen have used a current congress of writers and artists in Peiping to issue the sharpest slaps at the USSR since early July. Peiping's new offensive is not, however, at the extreme level which prevailed prior to the Bucharest meeting. [REDACTED]

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CUBAN SITUATION

In his letter of congratulations to Fidel Castro on the seventh anniversary of the founding of the 26th of July Movement, Khrushchev seemed to be making a further effort to calm the adverse reaction evoked throughout the world by his earlier threat to use missiles against the United States in the event of intervention against Cuba. Although taking the occasion again to accuse "monopolistic circles" in the United States of striving, by an economic blockade and by planning to intervene against Cuba, to destroy the revolution, he declared that the Cuban people are not alone in their struggle, and pledged that the Soviet Union would give "the necessary support" in case of armed intervention.

These less belligerent statements, in no way committing

the Soviet Union to any specific action, follow closely on the joint Cuban-Soviet communiqué issued on 20 July at the close of Raul Castro's four-day visit to Moscow. Khrushchev at that time resorted to the ambiguous phrase "use everything to prevent US armed intervention." He minimized the likelihood of this by saying that the US statement disavowing any intention for such a move was a commitment assumed before the entire world. While the communiqué makes clear that the US statement was issued after Khrushchev's threat, it refrains from claiming credit for it, even by implication.

The communiqué's emphasis on "economic repression" and Soviet readiness to make up for supplies cut off by the West on a trade rather than aid basis tends to divert attention from

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the potential Soviet military role in Cuba.

Economic Agreements With Bloc

Communist China's new economic pact with Cuba marks the first Chinese trade and aid effort in the western hemisphere and probably foreshadows establishment of diplomatic relations. The pact calls for Peiping to take 500,000 tons of Cuban sugar annually during the next five years in exchange for Chinese rice, textiles, and industrial products. As now envisaged, total Sino-Cuban trade will amount to about \$70,000,000 a year--far more than China's past trade with all of Latin America. The Chinese also offer to extend long-term credits for industrial development and to send technicians to Cuba. Details for such a program are to be worked out when a Cuban delegation pays a return visit to Peiping.

By stepping in to absorb the cut in Cuba's US sugar quota, Moscow and Peiping have facilitated the drastic reorientation of Cuba's economy toward the bloc. The bloc now has agreed to purchase about 2,500,000 tons of Cuban sugar this year--worth some \$170,000,000. Bloc purchases may amount to as much as one half of total Cuban sugar sales; they already exceed the amount sold the United States.

Shipments of bloc goods to date have been confined chiefly to Soviet oil and fertilizers, but machinery and equipment from bloc sources will soon begin arriving in quantity.

Under both trade and credit agreements, the bloc is to supply Cuba with some 56 "complete factories," ranging from a steel plant to small workshops turning out light industrial products. The total cost of machinery and equipment for these installations is estimated at over \$50,000,000, not including the steel mill. Bloc technical assistance is to be furnished on a large scale.

Soviet performance to date in exploiting the Cuban situation indicates that a major effort will be made to carry out the new commitments. The promised economic aid, plus mounting bloc sugar purchases, makes Cuba more dependent on expanded economic relations with the bloc.

Latin American Youth Congress

The long-planned Latin American Youth Congress, which began officially on 26 July in the Sierra Maestra, is a major propaganda effort to promote the Castro and Communist goal of "liberating America from US imperialism." Important groups in Venezuela, Bolivia, Chile, Peru, and other countries boycotted the meeting because of its expected Communist domination, but delegates from nearly all Latin American countries are taking part. Most Sino-Soviet bloc nations sent delegations.

Prominent Latin American leftist leaders in Cuba for the celebrations on 26 July included former President Arbenz of Guatemala--who left his Uruguayan exile despite Montevideo's warning that he would not be re-admitted--and Mexican Communist

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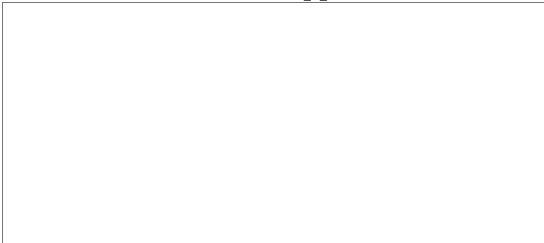
leader Vicente Lombardo Toledano, who flew to Cuba from a 20 July anti-Trujillo labor conference in Caracas.



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Pro-Castro groups in other Latin American countries have been active with demonstrations of support for Cuba timed to coincide roughly with the 26 July anniversary. On 23 July the Venezuelan Chamber of Deputies unanimously passed a resolution supporting "the struggle of the Cuban people for their national liberation"--a move which may strengthen the hand of the pro-Castro foreign minister in his differences with President Betancourt over treatment of the Castro regime. In Mexico City, a leftist-sponsored mass demonstration is planned for 31 July in ostensible support of President Lopez Mateos, but probably with the intent of pressing his government to take a firmer pro-Castro stand.

Despite the lack of organization among anti-Castro elements, the increasing security measures being taken by the government reveal its concern over internal opposition.



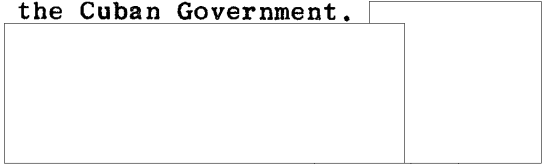
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On the economic front, Enrico Mattei, head of the Italian oil monopoly, has rejected an initial Cuban request for him to assume full responsibility for operating the refineries, but he is considering supplying refinery equipment and technical assistance on a cash basis. Officials of the seized refineries in Cuba say access to replacement parts is likely to be Cuba's biggest problem in running them.

Internal Opposition

Prominent Cubans are continuing to resign their positions, and further defections are likely. Dr. Perez Cisneros, alternate Cuban representative to the OAS Council, resigned over the pro-Soviet trend of the Cuban Government.

West Germany continues to delay concluding a trade agreement with Cuba, and Bonn officials have recently expressed concern that the Castro regime, annoyed at these hesitations, may grant diplomatic recognition to East Germany.



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PART II**NOTES AND COMMENTS****FEDERATION OF RHODESIA AND NYASALAND**

The African townships adjoining Southern Rhodesia's two largest cities, Salisbury and Bulawayo, have been the scene of native rioting and anti-European demonstrations starting on 19 July. Southern Rhodesian authorities, concerned that the unrest in the Congo would stimulate African nationalism in the Federation of Rhodesia and Nyasaland, arrested several officials of the National Democratic party--Southern Rhodesia's leading native movement. This action led to protest demonstrations in the Salisbury African townships --including a general strike which was 70 percent effective --and an attempt by several thousand Africans to march to the center of Salisbury. The government arrested several hundred natives and banned all African political meetings.

The disorders then spread to the Bulawayo area, and rioting continued from 24 to 26 July, as African mobs looted and burned European and government property in the native areas. The police, reinforced with troops, generally contained the rioting within the African sections. The 2,000-man force used tear gas and clubs and resorted to firearms only on 26 July. Nevertheless, 13 Africans were killed, five of them by the police.

The government's tough policy reflects its concern

that rioting against the white settlers' minority control could easily spread throughout the territory. However, it is also an effort by Southern Rhodesian Prime Minister Whitehead, who plans a quick parliamentary election this autumn, to convince the European electorate that his United Federal party will protect European interests as well as the rightist opposition Dominion party would do.

The possibility of widespread violence is becoming more likely as white officials continue to miscalculate the strength of African nationalist aspirations and to antagonize moderate African leaders who might still be able to guide the force of nationalism toward a racial accommodation.

In nearby Nyasaland, there is increased danger of violent nationalist and racial agitation [redacted]

[redacted] regardless of the outcome of constitutional talks begun in London on 25 July between Nyasaland nationalists led by Dr. Hastings Banda and the British Government. Banda's Malawi Congress party has charged that enemies of the party plan civil disturbances to discredit it. If Banda is dissatisfied with the talks, the Malawi Congress party itself may soon begin a campaign against the status quo. [redacted]

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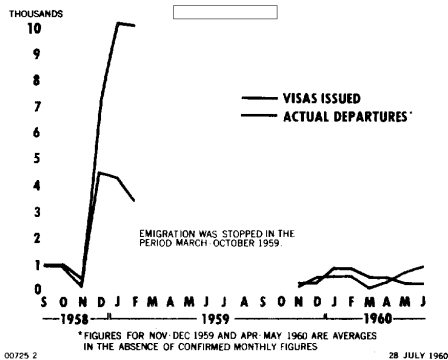
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RUMANIAN-ISRAELI RELATIONS

Diplomatic relations between Rumania and Israel have improved since the low point of May 1959. At that time, the Israeli minister in Bucharest remarked that relations were bad enough to warrant their suspension. In January, Bucharest lifted several of its year-old travel restrictions on Israeli Legation personnel, allowing them to visit Jewish communities outside the capital and to enter local synagogues. Rumanian Jews may visit the Israeli Legation without risking police interrogation. Israeli Minister Shmuel Bendor, who arrived in Bucharest in March 1959, was finally received this spring by Premier Chivu Stoica.

A small number of rabbis from Western countries have received tourist visas for Rumania. In March 1960 the regime commuted to two years the 18-year prison sentence of a Rumanian employee of the Israeli Legation, and two weeks ago the Rumanian Foreign Ministry announced that Israeli tourists would be permitted to visit relatives in Rumania. While the Israelis have welcomed these moves, they doubt that these relaxations will continue for long.

Bucharest, always sensitive to strong world press re-

EMIGRATION FROM RUMANIA TO ISRAEL

actions to its repression of the large Jewish minority in Rumania, still considers this element politically unreliable, and it continues to arrest Jews on political or economic grounds, restrict their worship, and limit the supply of sacramental objects, religious books, and foods. At the same time, however, it has sought to provide some solution to the "problem" of the Jews by sporadically permitting emigration to Israel.

Between 4,000 and 5,000 exit permits have been issued since last November, and approximately 100,000 Rumanian Jews have registered for emigration. The regime probably is not prepared to expand emigration into a large-scale exodus, however, hoping thereby to avoid pressure from the Arab world.

At least two of the four Israeli Legation officials expelled in the past two years were ejected as a sop to the Arabs. One instance followed a formal Arab protest against the large-scale emigration to Israel in February 1959. The other was an effort to placate the UAR, which had been offended by an anti-UAR speech made by Syrian Communist leader Khalid Bakdash at a Rumanian party congress. A contributing factor in the choice of diplomats expelled probably was their Rumanian origin and their intimate knowledge of Rumania's languages, peoples, and customs.

Rumanian leaders probably feel they can take extreme measures against Israeli representatives in order to mollify the Arabs, since Tel Aviv has demonstrated great patience in the face of strong provocations in the past for the sake of keeping alive the prospects for increased emigration.

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MIDDLE EAST DEVELOPMENTS

Iraq

For the first time since he came to power in Iraq two years ago, Prime Minister Qasim has made a major propaganda issue of a disagreement between the government and the Western-owned Iraq Petroleum Company (IPC). Apparently misinformed on many aspects of the problem by Acting Oil Minister Shaybani, Qasim on 21 July publicly charged the company with an arbitrary breach of its agreements with the Iraqi Government at the expense of the "rights of the Iraqi people." His statement has been followed by sharp attacks on the company by Radio Baghdad and almost all Iraqi newspapers.

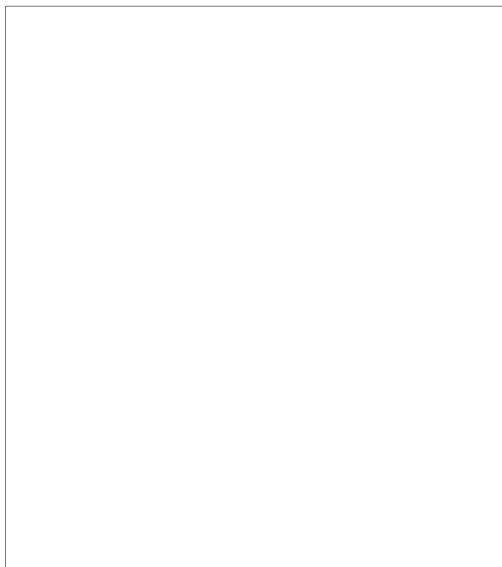
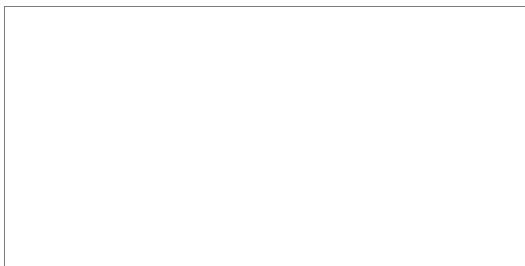
The dispute centers on a unilateral move by the Iraqi Government to raise port dues from 6.5 to 78 cents per ton on oil exports through the Persian Gulf. The company has responded by sharply reducing production in the southern Iraqi oil fields--from which these exports come--to a level which entails a loss to the government of more than \$4,-000,000 per month.

his cabinet. He is expected to increase the already large proportion of military officers and, perhaps, drop two pro-Communist civilians. Muhammad Hadid, the capable conservative former finance minister, may be reappointed to a key ministerial post.

A new sign of gradual progress toward a rapprochement between Iraq and the UAR was the attendance by Military Governor General Abdi and Foreign Minister Jawad at a reception held by the UAR Embassy in Baghdad to celebrate the eighth anniversary of the Egyptian revolution.

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UAR-Israel

There are rumors in Baghdad that Qasim will soon revise

Nasir may be laying the groundwork for new negotiations with the Soviet Union

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for economic and technical assistance, this time in conjunction with the latest ambitious version of his ten-year development scheme. He has gone out of his way recently to make favorable comments about Soviet bloc aid programs, and most of his speeches for many weeks have included pointed criticism of American policies.

Top Israeli officials have been anticipating that the UAR would soon obtain more military equipment from the bloc. Deputy Defense Minister Peres asserted in a speech two weeks ago that the Arabs believe "the critical moment is approaching when their military potential will reach its optimum standard." He implied that trouble could be averted only if nations friendly to Israel assist in redressing the arms balance.

Arab solidarity against Israel was a major theme of the UAR's anniversary celebration of the Egyptian revolution. The "vanguard" of the UAR's new "Palestine Liberation Army" took part in the two-hour parade and exhibition of military forces on 23 July.

A border clash between Israeli and Syrian units occurred the day before, and a spokesman for the Syrian Army accused Israel of trying to take advantage of the diversion of Syrian troops for the revolution celebrations. Further violent border incidents are likely soon, and they may lead to a new crisis

between the Arab states and Israel.

UAR-Iran

On 23 July, a date that made his action particularly irritating to Nasir, the Shah of Iran told the press that his government recognizes Israel, but that this is nothing new. Previously Iran had carefully avoided publicity about its close de facto relations with Israel.

Nasir responded by expressing hope that the Iranian people would overthrow the Shah, by directing the Iranian ambassador to leave the UAR, and by ordering the closing of the UAR Embassy in Tehran. The Shah, not to be outdone, ordered the UAR ambassador out of Iran. The press and radio of Iraq, Jordan, and Lebanon have joined the UAR in condemning the Shah's move, and the matter is to be raised at a foreign ministers' meeting of Arab League members on 22 August in Beirut.

UAR-Jordan

Continuing serious economic conditions in Syria, reflected in a gradual but steady decline in the value of the Syrian pound, have caused growing discontent. Open criticism of Nasir has become prevalent. Nasir has again apparently decided to postpone contemplated measures for nationalization of some private Syrian industries and for unification of Egyptian and Syrian currencies.

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GREECE AND THE COMMON MARKET

The negotiations to associate Greece with the European Economic Community (EEC or Common Market), despite considerable progress earlier, have encountered increasingly difficult obstacles in the last few weeks. Specific Greek demands have conflicted with broader EEC objectives, and there have been sharp recriminations from both sides. Nevertheless, the deep commitment of both to some sort of arrangement makes an eventual compromise likely.

Most of the present problems stem from Athens' efforts to obtain both a maximum of EEC assistance in developing the Greek economy and maximum access for Greek exports to the Common Market. The first objective has led the Greeks to ask for \$250,000,000 in low-interest EEC loans over the next five years--an amount which American Embassy observers in Athens seriously doubt the Greek economy could absorb. Athens' eagerness for market outlets for citrus fruits and vegetables has worried Italy in particular, and Greek representatives have charged that Rome has insisted on reserving the right to take "unilateral" action if Italian exports are hurt.

The EEC's already embarrassing problem with tobacco tariffs has been especially complicated by Greek hopes for favored treatment. The EEC has for some time contemplated an ad valorem common external tariff of 30 percent on imported tobacco--a figure Wash-

ington has warned would jeopardize American support of the Common Market. Greece, however, is urging that the ad valorem rate be linked with a high specific minimum tariff to go into effect when a bilateral agreement is signed. Athens also wants the EEC to agree to double its imports of Greek tobacco in five years.

Broader political considerations on both sides have tended thus far to aggravate these difficulties but may in the end be the basis for compromise. Common Market policy has been strongly influenced, for example, by the fact that Greek association would be a "pilot project." While the member countries have been loath to establish a precedent of excessive generosity, EEC officials have also been eager to prove that bilateral association is a practical possibility which others--notably members of the Outer Seven--may want to explore.

The Greek Government's hard bargaining reflects both an awareness of these EEC hopes for early agreement and a reluctance to accept a "second-class" association which would be politically difficult to defend. It is nevertheless doubtful that the Greeks are prepared to pursue their demands to the point of preventing an agreement, since their foreign minister recognizes that the alternative to closer economic relations with the West is growing trade with the Communist bloc.

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FRENCH NAVAL DEVELOPMENTS

De Gaulle's effort to increase France's national prestige is reflected in the building and training program of the French Navy. New emphasis has been placed on the creation of a sea-borne, nuclear striking force and the increasing use of the fleet for flag-showing visits.

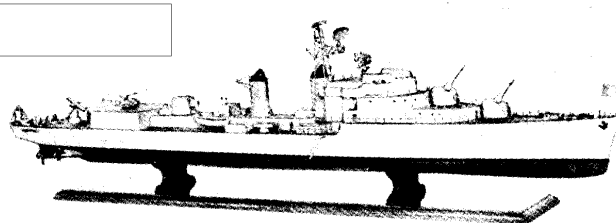
To justify its refusal to yield to Tunisian pressure and evacuate Bizerte, France has urged its allies to proclaim that the French naval base there strengthens

NATO because it strengthens the French Navy. Despite De Gaulle's decision in March 1959 to withdraw the Mediterranean fleet from NATO control, fleet units have continued to participate in NATO training exercises as well as bilateral and national squadron exercises. Since the start of the regular training period last September, however, large-scale training has taken second place to flag-showing visits to African ports--especially those of the French Community. Major combat ships were sent to greet President de Gaulle during his recent visits to Dakar in West Africa and Diego-Suarez on Madagascar.

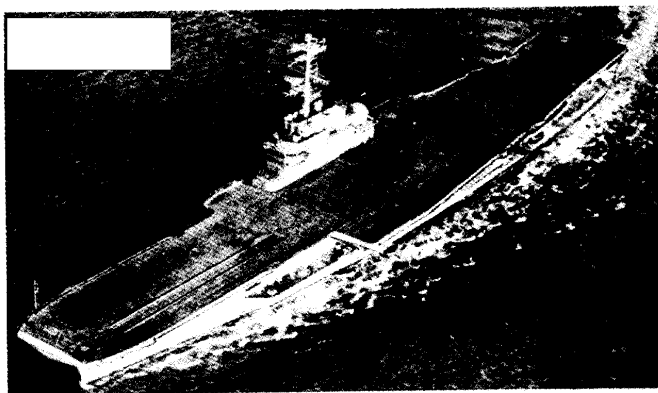
The present French naval building program is geared primarily to the creation of a navy with a purely national mission. Two aircraft carriers--the Clemenceau, now running sea trials, and the Foch, under

construction at Penhoet-Loire--will be equipped with jet Etendard IV fighter-bombers capable of carrying nuclear weapons. When fully operational, they will constitute a major step toward De Gaulle's desire for a national nuclear striking force. Under the proposed naval building program, another carrier and three missile-equipped light cruisers probably will be added to the fleet by 1964.

La Galissonniere, an experimental antisubmarine destroyer will



Official Model of LA GALISSONNIERE.



THE CLEMENCEAU

probably begin operations within a year. The construction of a nuclear-powered submarine equipped for launching guided missiles is again being pressed.

The French Navy is highly effective in conventional

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submarine and antisubmarine warfare. The lack of a missile capability limits antiaircraft defense against modern jets. While a shortage of helicopters still hampers some amphibious operations, techniques and training are excellent, and extensive experience has been gained

in Algeria by helicopter crews and commando units. A weak mobile logistics system is off-set somewhat by the presence of good bases in the eastern Atlantic and Mediterranean, the fleet's normal operating areas. 25X1

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CANADIAN POLITICS AND FOREIGN POLICY

Popular support for Canadian Prime Minister Diefenbaker's Conservative government has shown a sharp decline in recent months. A Gallup poll early in July showed Conservative popularity dropping to 42 percent--barely ahead of Lester Pearson's Liberals. This is a fall of 6 percentage points from last May and of 17 from a year ago. Liberal party upset victories in provincial elections in Quebec and New Brunswick last month also appear to point to the same trend. While a general election is not mandatory until 1963, Diefenbaker may call one before his prestige drops further.



GREEN

One reason for this decline seems to be the government's spotty record in carrying out the nationalistic foreign policy program it advocated during the



DIEFENBAKER

campaign in mid-1957. During the past year, Canadian public attention has centered on foreign issues, and particularly on Canada's joint defense arrangements with the United States. The most hotly argued issue is whether to allow the storage and use of nuclear weapons. The U-2 incident touched off further argument over conditions for permitting continued US operations in Canada.

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External Affairs Secretary Green, who took his post only a year ago with no previous experience in foreign affairs,

is on record as opposing any nuclear tests by any country.

There are indications that the government is drawing away from Diefenbaker's earlier statements that Canada should play an effective role among the big powers. In mid-July, Green questioned whether Canada should remain a member of the ten-power disarmament group and also advocated closer Canadian

alignment with the "middle powers."

The government's greater interest in Latin America could be the beginning of such an alignment. Diefenbaker's official trip to Mexico and Green's more extensive tour of South America last spring were the first such trips by Canadian officials. One result has been that Canada, which has until now declined to join the Organization of American States (OAS), plans to send an observer to the conference in Quito next winter and is actively considering OAS membership. Such a move would not affect its membership in the Commonwealth.

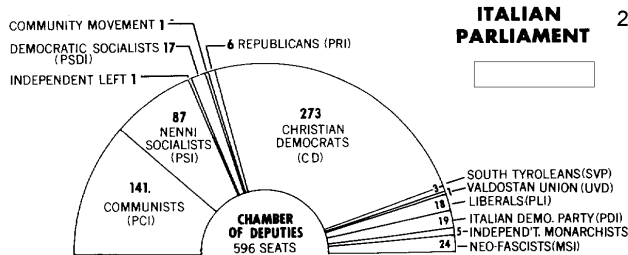
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NEW ITALIAN CABINET

All four center parties supporting Premier Fanfani's Christian Democratic minority government differ on their views of the government's longevity, but they all welcome the time available to try to compose inter- and intraparty differences

before the nationwide local elections, which now again may be postponed from fall until spring. The Liberals and right-wing Christian Democrats see in the renewed collaboration of the four parties a means of avoiding indefinitely a center-left cabinet dependent on the Nenni Socialists. Democratic Socialist, Republicans, and left-wing Christian Democrats, on the other hand, regard it as a transition to such a government.



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Fanfani's government was formed over the objections of a variety of political elements who preferred the Tambroni cabinet and can be expected to

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try to stir up trouble for this one. Both the Communists and the neo-Fascists stood to profit from the polarization of Italian politics which continuance of the Tambroni government tended to promote. Tambroni himself, reluctant to the end to leave the premiership, refused with some acerbity a post in Fanfani's cabinet. Inclusion of former Premier Pella as budget minister is said to have been a means of preventing Pella--an opponent of Fanfani's center-left policies--from joining up with the pro-Tambroni forces.

Although the support of the small center parties is expected to assure a parliamentary vote of confidence--possibly as soon as 6 August--ideological differences within and between the

parties will make it difficult for them to maintain their present truce, particularly if controversial legislative measures such as the proposals for use of the proportional system in local elections should later be raised.

Reports that these elections--now scheduled for October--may be postponed until spring suggest that the Christian Democrats are anxious to let time elapse so that the experiment with neo-Fascist allies will be less vivid in the minds of the electorate, and that all the government parties may seek more time to compose their internal differences before going to the people.

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GUATEMALA CLAMPS DOWN ON OPPOSITION

In an effort to suppress opposition subversive activity in Guatemala, President Ydigoras is adopting stronger measures than at any time in his two and a half years in office. The state of siege declared on 19

July suspends certain constitutional guarantees for 30 days and gives the military wide powers. Army leaders, who had long urged strong measures, are believed loyal and dependable. The President does not appear to be seriously threatened by either his rightist or extreme leftist opponents.

The year-old campaign of terrorist bombings in the capital city, which resulted in the first fatalities on 18 July, has been principally the work of rightist opposition factions. These groups, which lack significant popular backing, apparently hoped thereby to create such a climate of unrest as to prompt the army to seize direct control of the government.

Leftist splinter parties and the underground Communist party sought to capitalize on



YDIGORAS

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the unrest, and engaged in desultory activity against the regime. These groups, using leftist-inclined students, were apparently responsible for the antiregime demonstrations of 19 and 20 July protesting the state of siege. The police, backed by regular troops, suppressed the demonstrations, and their threat to use even stronger measures has apparently discouraged new demonstrations.

The moderate leftist Revolutionary party (PR), the largest single party in Guatemala, has thus far remained generally aloof from the anti-Ydigoras activities of the other opposition groups. Its leaders recognize that the party stands to gain most by peaceful political competition that may well bring it to power in the 1963 national elections. PR leader Mario Mendez Montenegro would probably commit his party to strong however, if he became convinced that Ydigoras had succumbed to rightist pressure for authoritarian government. The PR would

also probably fight to prevent any effort by extreme leftists to seize power.

By dwelling on the danger from the extreme left and publicly ignoring the rightist threat to his regime, Ydigoras has deprived his rightist opponents of their chief issue--his alleged "softness" on the leftists. The chance that these rightists would find support in the army for a coup against the President is, at least for the present, remote.

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INDONESIA

In anticipation of the arrival next month in West New Guinea of Dutch naval units on a flag-showing voyage, Indonesian President Sukarno is reviving official and public interest in his country's claim to that area. He apparently hopes thereby not only to achieve the maximum propaganda effect from the visit, but also to provide a build-up for his traditional independence day speech on 17 August and to divert attention from the Communist party's recent criticism of the cabinet.

A Sukarno-appointed committee has prepared a draft

"action program for the liberation of West New Guinea."

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On the propaganda front, Abdulgani, vice chairman of the Supreme Advisory Council,

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announced in a speech on 19 July that the Dutch still have "hidden designs" to reimpose colonialism. He said Indonesia should not fear international reaction over using force against Dutch force but should be "proud of causing trouble for the imperialist colonialists." Foreign Minister Subandrio reiterated to the press on 21 July that Indonesia would take "equivalent action to counter any provocation by the Dutch in strengthening their military potential in West New Guinea." An encounter between Indonesian and Dutch military units, however, continues to appear unlikely.

The Dutch naval units which have aroused so much resentment in Indonesia include the aircraft carrier Karel Doorman, two destroyers, and a tanker. Aboard the Karel Doorman

are 12 Hawker Hunter jet fighters which are to be stationed in New Guinea. During August the Netherlands is scheduled to send approximately 1,350 men to the area, and additional aircraft and air force personnel are to arrive still later.

The Indonesian Army's interrogation of at least five Communist leaders on that party's 8 July criticism of the cabinet appears unlikely to result in any significant anti-Communist action. Sukarno appears willing to protect the party and to overlook its criticism, and Army Chief of Staff General Nasution has not indicated any intention to press the matter further at this time. Sukarno's attitude is motivated by his belief that he needs the Communist party to balance army strength.

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GOVERNMENT CHANGES IN NORTH VIETNAM

Hanoi has announced sweeping personnel and administrative changes in the North Vietnamese regime. The reorganization, based on a revised constitution promulgated earlier this year, was approved by the newly elected National Assembly on 15 July and closely parallels that of Communist China in recent years.

The establishment of agricultural and industrial boards directly under the premier's office and the subdivision of the Ministry of Industry are part of Hanoi's preparations for implementing its First Five-Year Plan (1961-65), which will stress industrialization.

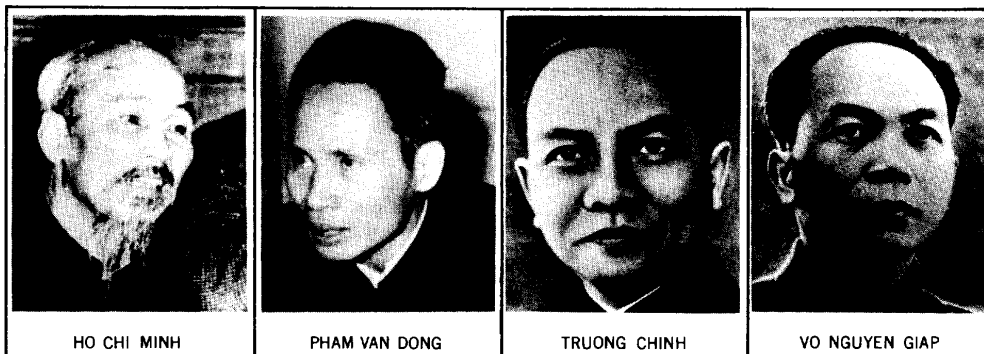
Party chief Ho Chi Minh, who recently celebrated his 70th birthday, was unanimously re-elected President by the assembly. However, the National Assembly's Standing Committee, under the chairmanship of party theoretician Truong Chinh, may increase in influence, and Ho may reserve his voice for decisions of major importance.

The vice presidency, vacant since 1946, has been filled by Ton Duc Thang, who will presumably take over some of the less important ceremonial and honorific jobs from Ho. Thang is an old man with little influence in the regime but, as a native of South Vietnam, will probably be used to symbolize national unity.

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Pham Van Dong retains the posts of premier and foreign minister but, since the vice presidency now has been filled, would no longer become acting chief of state on Ho's death.

Truong Chinh, as chairman of the Standing Committee of the National Assembly, has probably enhanced his chances of eventually succeeding Ho. Liu Shao-chi, after holding the comparable office in Communist China, went on to succeed Mao as chief of state in 1959. In recent weeks Truong Chinh has continued to make important party pronouncements, and unless he suffers a sudden decline at the party congress in September, his election to the post of standing committee chairman should not be viewed as an eclipse of his fortunes.

Defense Minister Vo Nguyen Giap's election to the chairmanship of the important National

Scientific Research Commission and his retention of the vice premiership should dispel reports of his imminent political demise. In recent years Giap has been absent from the public scene for extended periods, and it has been believed that he was being eclipsed by "hard-line" elements. Although factions undoubtedly exist, the composition of the group of top leaders has been remarkably stable over the past 15 years, probably because of Ho Chi Minh's arbitration and the genuine loyalty given him.

The elevation of a National Reunification Commission to cabinet rank underscores Hanoi's growing emphasis on "the struggle" for South Vietnam. The designation of a general to head the commission may presage further increase in subversion and guerrilla activities, although lip service will continue to be paid to "peaceful unification."

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GROWING UNEASINESS IN SOUTH AFRICAN CABINET

The shootings of Africans at Sharpeville last March have led to considerable soul-searching in the South African cabinet. The incident gave whites in the Union their first indi-

cation of the potential power of the country's natives, and the subsequent repercussions confirmed South Africa's international isolation.

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Although all members of the government still support the policy of apartheid, many feel that implementation of the policy should be drastically speeded up. They believe the white community should make considerable sacrifices in order to establish viable political entities for the Africans in designated areas of South Africa. A few cabinet members apparently have begun to wonder whether any economically and socially feasible apartheid measures can head off the rise of African nationalism.

Cracks in the facade of cabinet unity became apparent shortly after Prime Minister Verwoerd was hospitalized, when Lands Minister Paul Sauer publicly raised the question of a change in racial policy and was subsequently rebuked by External Affairs Minister Eric Louw. With Verwoerd's resumption of active leadership, the dissenting voices --in the cabinet and elsewhere in the ruling Nationalist party --were stilled.

A lack of confidence in apartheid apparently remains, however, and crops up repeatedly in the public and private statements of various ministers. In a recent speech, Defense Minister Jim Fouché said the policy of apartheid might lead "the protectors of the future of the white man" either "to victory or to a hero's death." Transport Minister Ben Schoeman, who is occasionally mentioned as a possible successor to Verwoerd, recently told the American ambassador, "We may be swamped,

but we are going to try to make it work."

Although these expressions of doubt reflect growing uneasi-

**VERWOERD**

ness within the Nationalist party, Verwoerd, who retains his firm personal control over the government's policy-making machinery, has made only a few changes in his program. The government reportedly plans to ease some of the more onerous restrictions on urban Africans, and it may give them some voice in the administration of the native areas in the cities. It is also attempting to accelerate the development of the rural native "homelands" and apparently is considering measures to retain the loyalty of other nonwhite groups.

Verwoerd will be able to dictate the pace at which these changes are made, but he may be troubled to an increasing extent by hesitation and confusion in his cabinet.

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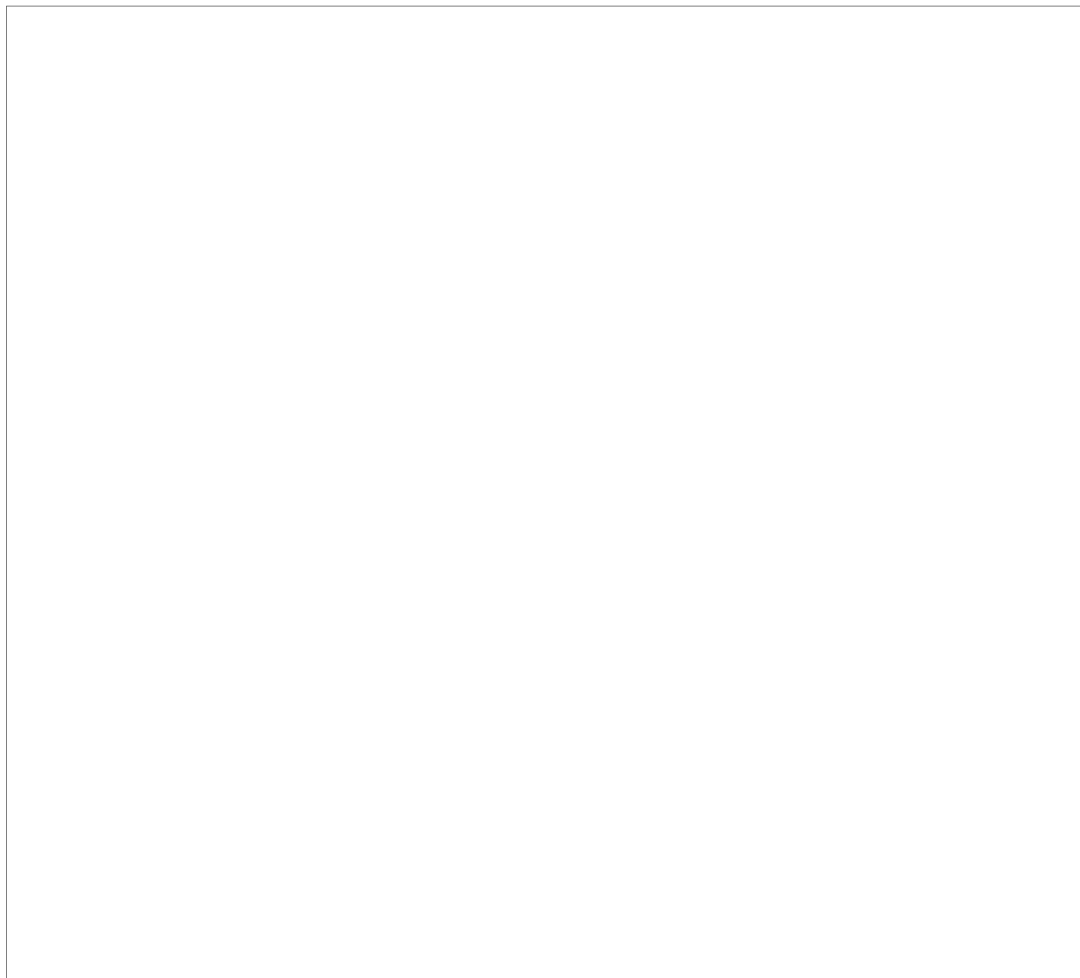
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INDIA'S THIRD FIVE-YEAR PLAN (1961-1966)

Now published in draft form for consultations by the state and central governments, India's Third Five-Year Plan calls for a total outlay of \$23.625 billion between April 1961 and March 1966. This sum is roughly equal to the total

outlay of the previous two five-year plans. Like its two predecessors, the new plan's broad targets remain the problems of poverty, hunger, illiteracy, underemployment, and overpopulation. It aims at an increasing tempo of industrialization,

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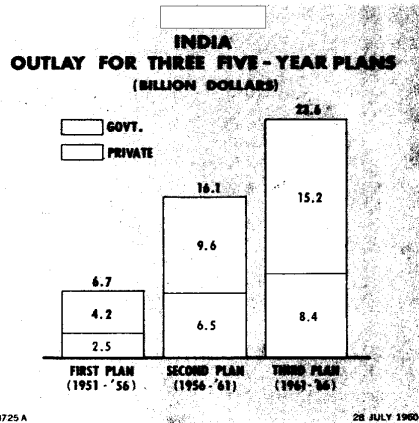
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expanded employment opportunities, and self-sufficiency in food production.

The plan will require substantial amounts of external assistance. It will necessitate continued deficit financing, although not of the same magnitude as during the Second Five-Year Plan, now in its last year. It will require additional taxation and greater profits by state-owned enterprises. In addition, it will demand continued belt-tightening within India, not only to prevent increased per capita consumption from literally eating up the gains in productivity and a fast-growing population from nullifying accretions to national income, but also to prevent inflation from absorbing savings and foreign exchange reserves from falling to the point where vital import programs would be crippled.

Previous Five-Year Plans

The new plan is the third in a series of five national plans designed to modernize and develop the Indian nation



over a period of 25 years. The first was in effect a grouping of programs, some of which were already in existence when it was inaugurated in 1951. It sought to repair the damage and dislocation caused by World War II and partition of the sub-continent. It emphasized the need to expand food production and at the same time to lay the groundwork for future industrialization. As a result of good harvests and substantial foreign exchange reserves, the targets of the plan were largely met or overfulfilled.

Encouraged by this success, New Delhi launched its bold and industrially oriented second plan in April 1956. Nearly three times larger than its predecessor, it sought to increase "the country's productive potential in a way that will make possible accelerated development in succeeding plan periods." In a sense, it was the start of true economic planning in India.

The second plan was barely into its second year when inflationary pressures, poor harvests, and

INDIA THIRD FIVE-YEAR PLAN (MILLION DOLLARS)

ITEM	PUBLIC INVESTMENT	PRIVATE INVESTMENT	TOTAL
AGRICULTURE, MINOR IRRIGATION, AND COMMUNITY DEVELOPMENT	1,418	1,680	3,098
MAJOR AND MEDIUM IRRIGATION	1,344	—	1,344
POWER	1,943	105	2,048
VILLAGE AND SMALL INDUSTRIES	336	578	914
INDUSTRY AND MINERALS	3,150	2,100	5,250
TRANSPORT AND COMMUNICATIONS	3,044	420	3,464
SOCIAL SERVICES	1,365	2,257	3,622
INVENTORIES	420	1,260	1,680
TOTAL INVESTMENT	13,020	8,400	21,420
PUBLIC OUTLAY (SEPARATELY BUDGETED) FOR NONINVESTMENT PURPOSES			2,205
TOTAL PLAN OUTLAY			23,625

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resultant food imports put a squeeze on foreign exchange reserves, forcing the planners to lower their sights. Direct cuts, coupled with the indirect effect of rising prices, resulted in an approximately 12-percent reduction in the scope of the plan.

Second-Plan Shortfalls

The second plan now has a chance of achieving about 80 to 85 percent of its revised goals, although the range of achievement will vary considerably for different targets. Be-

cause of rising costs, total outlay will exceed revised estimates made in 1958 and will probably be larger than the original planned outlay of \$15.1 billion. Included in this total is private investment, which is likely to exceed its target by about \$1.47 billion.

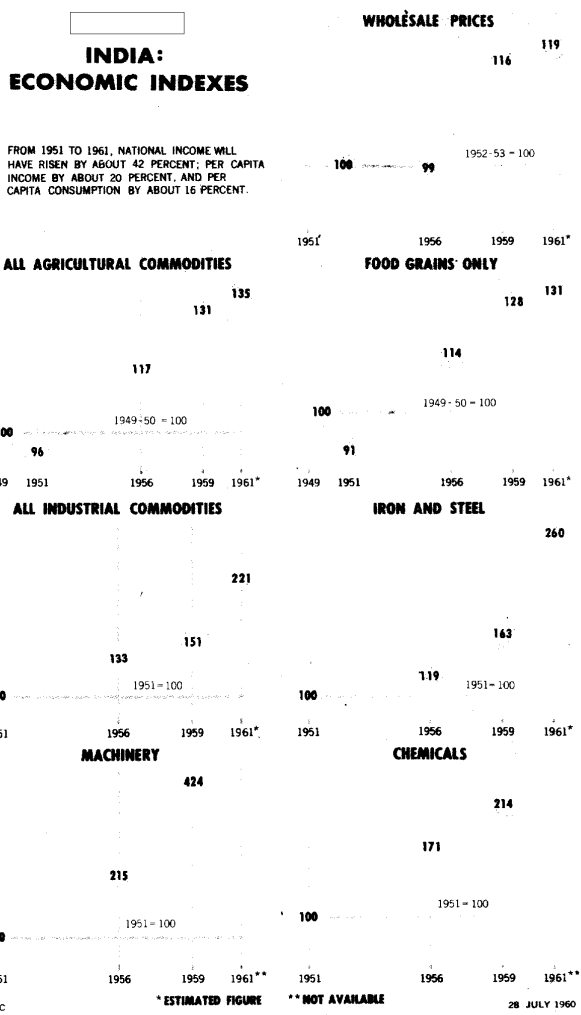
National income will have risen about 20 percent since 1956, 5 percent short of the goal. Population increases in excess of the planners' estimates, however, may diminish much of this gain in per capita terms. Nonetheless, the achieve-

ments of the second plan have been substantial. Food production has been increased considerably; more electricity now is available for industry; oil reserves are being tapped; the new steel mills are in production; more children are in better schools; and the nation's democratic institutions remain strong.

Third-Plan Goals

The Third Five-Year Plan seeks to raise national income by 25 percent, increase savings to 11 percent of national income, and expand the level of investment, government and private, from the current 7 to 14 percent of national income. It foresees the need for \$3.5 billion in additional central government and state taxes and anticipates deficit financing totaling about one billion dollars.

Agriculture will receive renewed emphasis.



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New methods, more irrigation, and massive use of fertilizers are held to be the key to expanding food production by more than 30 percent. A total of about \$5.7 billion will be spent on agriculture, community development, irrigation, and fertilizer production. This emphasis on agriculture reflects New Delhi's recognition that however striking may be the creation of steel mills, the continuance of Congress party rule rests in the plan's success in providing India's burgeoning millions with adequate food supplies and growing sufficient export crops to finance industrial imports.

Industrialization will proceed apace, with total investment to exceed \$6.7 billion. More than half of this amount will be allocated to heavy industry. Priority will be accorded first to the completion of carry-over projects from the second plan, second to continuing investment in heavy capital goods industries, third to major producers' goods such as chemicals, and fourth to "increased production of commodities required to meet essential needs."

The planned construction of a fourth state-owned steel mill and the expansion of the other three government-owned plants are expected to add more than 4,000,000 tons annually to the nation's steel-making capacity, bringing installed capacity to 10,200,000 tons of crude steel. The expansion of the electric power industry, including the construction of the country's first nuclear power station, and the development of other heavy capital goods industries are the other principal items in the allocation to industry.

Among the social services planned are increased teacher-training facilities, more

schools, a higher percentage of children in school, and a widespread effort to improve the quality of the nation's drinking water. A total of \$4.88 billion has been allotted for the development and expansion of such social services.

Prospects for Success

It is unlikely that India will be able to fulfill its third-plan goals in their entirety. The plan probably will be tailored as it progresses to meet the resources available and the problems encountered.

Apart from the second plan's shortfalls, which have the effect of lowering the third plan's starting points, the question of resources poses the principal obstacle to the plan's fulfillment. India's foreign-exchange reserves have declined steadily since the beginning of 1960, and it is doubtful that even a better-than-average fourth quarter upturn in export earnings would rebuild the reserves to the point where they would afford New Delhi much of a cushion with which to start the third plan.

Hence the foreign-exchange requirements of the plan will have to be met with increased external assistance, probably amounting to more than \$5 billion. Excluding the proceeds of US surplus agricultural commodities sales, New Delhi has to date obtained firm promises covering little more than 10 percent of this amount. Over and above this requirement, India must continue making payments on earlier loans and credits. The total of such payments to be made before 1966 exceeds one billion dollars, with the largest portion required during the first year of the plan.

The negotiation of moratoria provides a possible solution,

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but would only serve to push the problem into a future already crowded with debt. Cuts in the scope of the plan offer the only real answer but are likely to intensify other problems, such as inflation and unemployment, and to have unfavorable political repercussions.

The unemployment question is perhaps of greatest significance because of the shadow it casts on the national elections of 1962. The second plan originally set as its goal the creation of 10,000,000 new jobs by 1961, and this, it was acknowledged, would have left a shortfall by even the most optimistic calculations. Retrenchment in 1958 caused the lowering of this goal to 8,000,000. The Indian Government now concedes that the actual number of jobs created during the plan will probably not exceed 6,500,000.

Inasmuch as population growth was underestimated and reliable unemployment figures are unobtainable, it can be assumed that India may finish its second plan in 1961 with a minimum of 7,000,000 unemployed. While there is no reliable estimate of underemployment in agriculture, all authorities agree that it too is large and becoming larger.

In this situation, the third plan's promise of 13,500,000 new jobs does not appear realistic. Moreover, authorities are already predicting the entry into the labor market of 15,000,000 persons between 1961 and 1966. One of the major causes of this growing disparity has been the cutback of the second plan and the unavoidable fact

that the bulk of India's investment during the past two plans has been in capital-intensive rather than labor-intensive industries. Labor-saving devices inherent in the production patterns of modern capital-intensive industries hamper New Delhi's efforts to spur employment.

The new plan only hints at the possible use of labor-intensive public works programs to meet this dilemma. The inauguration of such programs would also cost money, however, and if the plan must ultimately be cut back from its present size in order to correspond with available resources, the labor picture would become even darker.

On the other hand, the outlook for external assistance is improving, and private foreign investment is expanding. The private sector of the economy appears to be making encouraging progress and may, as in the past, make up for shortfalls in the government-owned sector.

India's leaders, aware of the gargantuan proportions of the problem, both in its economic and in its political aspects, are still determined to push the development program. The plan may be criticized as unrealistic with some justification, but in their drafting of such an ambitious plan, India's leaders are spurred by their conviction that their country's economic and social problems demand heroic measures and by the realization that the Congress party, if it is to remain in power, must sponsor an imaginative development program.

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