

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

The announcement on 7 June of the transfer of G-2, the Cuban secret police organization --henceforth to be known as the Department of State Security--to a new Ministry of the Interior, headed by G-2 chief Ramiro Valdes, may presage a further expansion of the Castro regime's efficient security apparatus.

The part of the Cuban goodwill mission to Latin America led by special envoy Ramon Aja Castro is apparently about to conclude its talks with leaders of other hemisphere governments. That portion of the mission led by Under Secretary of Foreign

Affairs Carlos Olivares returned to Cuba on 2 June after talking with high government officials in Mexico, Brazil, and Ecuador. The chief purpose of the mission appears to have been to convince Latin American governments with which Cuba still maintains diplomatic relations that the Castro regime poses no threat to the inter-American system. Details of the discussions, described as "successful" in the Cuban press, remain unclear, but the emissaries reportedly were received coldly by some governments, including those of Panama, Costa Rica, and Uruguay.

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FRANCE-ALGERIA

Continuing incidents of Algerian terrorism during the Evian talks may lead Paris to declare an end to its unilateral one-month cease-fire announced on 20 May. The rebels, who denounced the French cease-fire as a psychological trick and stated that it was a matter for negotiation following political guarantees, has shown no inclination to call off terrorism or to disavow it publicly. The French delegation at Evian may formally demand that the Provisional Algerian Government

(PAG) do so as a condition for continuing the talks.

Paris is particularly concerned about the reliability of Moslems in the French Army following a sharp increase in Moslem desertions during the cease-fire period. Some deserters joined rebel terrorists in a recent attack on a French army post in Algeria, and others were involved in a five-hour battle between Moslems and police in downtown Paris on 5 June.

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Police are reported screening Moslems in metropolitan France, including those in army units, in an attempt to weed out Algerian nationalists.

The PAG may be willing to break off the Evian talks over the Sahara issue. Paris set up a separate administration in 1958 for the Sahara, and France maintains that De Gaulle's self-determination offer applies only to the Algerian departments. The PAG has consistently maintained that Algerian sovereignty over the Sahara must be recognized as a first step in reaching any agreed solution. On 2 June the spokesman for the PAG delegation declared: "The Algerian people have not fought for seven years to agree today to the amputation of four fifths of Algeria's territory."

The PAG appears to have strong backing from all its factions on this point. By standing firm, it may seek to avoid internal dissension over the concessions it is willing to consider on other issues.

The PAG showed a degree of conciliation in the 6 June session dealing with guarantees for the European minority in Algeria. It reportedly promised a choice of citizenship--ruling out the French concept of dual citizen-

ship--and pledged "respect for the culture, religion, language, and personal status" of Europeans who elect to become citizens of an independent Algeria and "a place for Europeans who choose to be foreigners."

Direct talks between De Gaulle and PAG premier Ferhat Abbas are being rumored as a step to prevent a breakdown of the contact between the two sides. De Gaulle, however, has previously insisted that a personal meeting could only follow an Algerian agreement to stop the fighting.

The French Government on 7 June announced a change of personnel in the four major military commands in Algeria and named Lt. Gen. Charles Ailleret to replace Gen. Fernand Gambiez as commander in chief. Ailleret has been shifted in quick succession since the April generals' revolt from his division command at Boné to the command of the Constantine Corps and then to the post of assistant to Gambiez.

Although the outgoing generals were loyal to De Gaulle during the insurrection, most of them were held prisoner by the insurrectionists, and the government probably feels their inability to take firm action at the time has cost them the respect of the forces in Algeria. 25X1

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SOVIET-UAR RELATIONS

The current propaganda exchange between the USSR and the UAR appears to have had its origin in Khrushchev's criticism of Nasir expressed to a visiting UAR delegation in early May. The Soviet premier attacked the UAR for claiming to be a socialist state but at the same time jailing Communists, and asserted that Nasir did not understand "anything about socialism or Communism."

A few oblique criticisms of the Communist bloc appeared in the Cairo press soon after Khrushchev's reported remarks. The UAR also publicized the official protest made to Soviet Ambassador Yerofeyev in Cairo on 22 May regarding claims by Moscow's Arabic radiobroadcasts that the UAR is mistreating local Communists. Moscow responded with a Pravda article on 31 May attacking two UAR government-controlled newspapers for "slandorous statements" against the Soviet Union and socialism and, in an implicit threat of economic reprisals, warned Cairo not to "cut down the tree which gives you shade."

The present full-scale radio and press campaign from Cairo and Damascus began on 4 June, following repeated Soviet propaganda attacks against the UAR's handling of local Communists. A second protest was presented to the director of Moscow radio's Arabic service by the UAR press attaché on 5 June.

Cairo has flatly denied Moscow's persistent charges that Lebanese Communist Al-Hilu was arrested several months ago and subsequently died in a UAR prison. Another Arab Communist

--Riyad al-Turk--alleged by Moscow to have died in prison, was paraded before a press conference in Damascus on 5 June, and the Cairo press--which calls him the "Lazarus of Communism"--commented he had received better treatment than the "inmates of Siberia." The Cairo newspaper Al-Ahram reportedly has sent a radiophoto of Al-Turk to Pravda and challenged Moscow to print it.

Al-Jumhuriya, Cairo's official newspaper, has set the tone of the UAR anti-Soviet campaign, claiming that the USSR is "pushing its nose into our affairs" and adding that if Soviet leaders believe they can impose their views on the UAR because of the UAR-USSR trade agreements, "they feed on delusions."

The UAR propaganda campaign will probably be given another boost by the report from Syria on 7 June that security authorities have discovered a large Communist cell in Damascus and have confiscated a printing press, typewriters, and publications. According to the Damascus press, the documents found will "expose Communism to the ugliest scandal since the establishment of the Communist regime in Russia in 1917."

Nasir's treatment of local Communists has been an irritant to Moscow since his suppression of the Syrian Communist party following the UAR merger in 1958. The dispute reached a peak during 1959 when Khrushchev and Nasir engaged in a public exchange of recriminations over Arab Communism, and the close political cooperation which had previously existed between

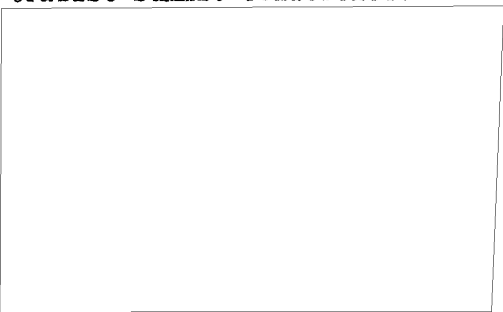
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the two was never fully restored.

Soviet leaders apparently are also displeased by Cairo's recent moves toward improving relations with the West, particularly the US, and by Nasir's initiative--together with Tito--in arranging a neutralist summit conference.



Soviet news media have not commented on the projected neutralist heads-of-government meeting or on the preparatory confer-

ence which opened in Cairo on 5 June.

The US Embassy in Cairo believes that the Nasir-Tito cooperation not only may have produced genuine irritation on the part of Khrushchev but may also be subjecting him to criticism from Communist theoreticians--particularly in China and the Arab world--who have never accepted his thesis that the bloc should collaborate with bourgeois nationalists and non-Communist revolutions.

The revival of Soviet-UAR polemics during the past month does not appear to have affected economic and military collaboration between the two countries. Major new arms agreements have included T-54 tanks, artillery, military vehicles, and MIG-19 supersonic jet fighters.

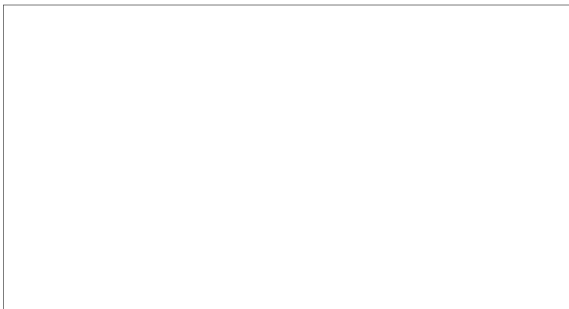
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ANGOLA

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Rebel activity in northern Angola shows no sign of abating. Although the Portuguese press continues to claim that Lisbon's forces have inflicted heavy losses on the terrorists, Portuguese control seems restricted to the major towns. The 16,000 troops in the province seems to have made no progress in regaining control of rural areas. The rebels continue to sabotage the few transportation routes.



Holden Roberto and other leaders of the Angolan People's Union (UPA) claim that the

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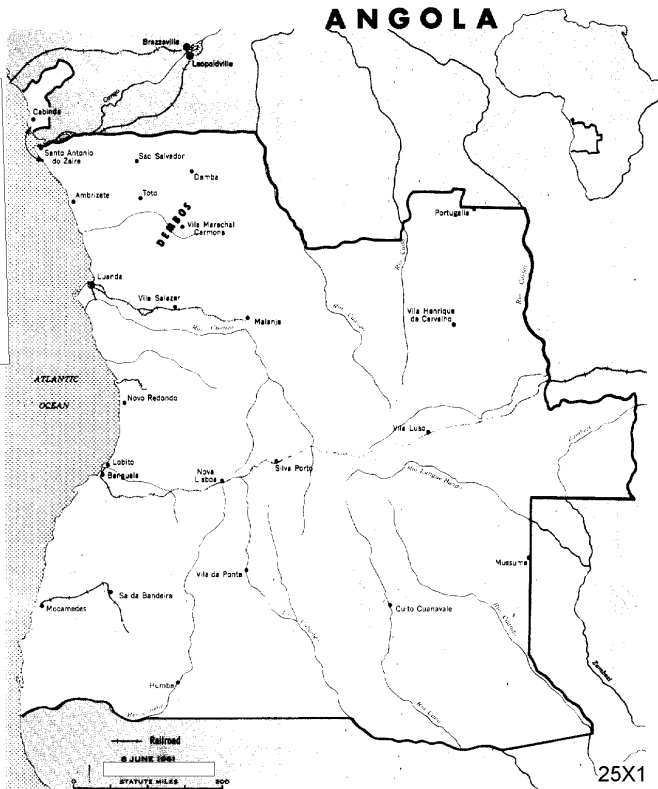
Portuguese base at Toto is in rebel hands; this assertion has not been confirmed by any other source, however.

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The UPA does not have tight control over the nationalist bands, and members frequently participate in attacks for only a short time before dropping out of sight or fleeing to the Congo. Most of the 10,000-odd Angolan refugees in the Congo seem motivated more by anti-Portuguese sentiment than by allegiance to the UPA or its rival, the Communist-influenced Popular Movement for the Liberation of Angola (MPLA)--based at Conakry (Guinea).

Tension apparently continues between these organizations, although there have been reports of increasing cooperation. UPA leaders have been under pressure to cooperate with the MPLA, and an MPLA official recently claimed that an accord had been reached.

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ZANZIBAR

The emergence of the Communist-infiltrated Zanzibar Nationalist party (ZNP) as the most important single political element in Zanzibar following legislative elections on 1 June has been accompanied by large-scale rioting between Arabs and Africans. The prestige and power of the Arab Sultan of this British protectorate is swiftly declining, and Britain itself is being increasingly criticized by both Arabs and Africans.

The elections were a rerun of balloting last January which had resulted in a virtual stalemate between the ZNP--which represents the ruling Arab minority--and the Afro-Shirazi party, spokesman for newly articulate elements among the 80 percent of the island's population which is of African descent. The balance of power was held by the Zanzibar and Pemba People's party (ZPPP), which split its support after its leader sold out to the

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ZNP. The ZPPP cooperated in the elections with the ZNP, although their platforms differed; the two parties now control 13 seats in the 23 member legislature. As a result, Sheik Muhamed Shamte, leader of the ZPPP, has been named chief minister of the coalition government, but ZNP president Ali Muhsin, named minister of education, will dominate it.

Chinese Communists have given money to the ZNP and have arranged a large number of free trips to Peiping for party officials. Soviet infiltration efforts reportedly have been less direct and apparently aimed primarily at youth organizations, with offers of scholarships in the USSR.

The victory of the Arab ZNP, despite the rapidly growing political awareness and strength of the Africans, was due in large measure to the ZNP's superior organization. Underlying racial hostility between the two groups, sharpened by political frictions, seems likely to affect the protectorate's political situation more seriously as time goes on. The Arab

minority--some 50,000 in Zanzibar's population of 300,000--fears that its dominant position will soon disappear; the new Arab Sultan, a man who lacks his predecessor's prestige, has already been subjected to African ridicule.

Ali Muhsin, who has publicly supported Communism, is not likely to cooperate more than a bare minimum with the British or to support moves toward formation of a federation of East African territories. Prior to the elections, Ali Muhsin strongly criticized the placing of an American space-vehicle tracking station on Zanzibar and the establishment of an American consulate. He recently asserted his determination to oppose the tracking station "unless America can convince Russia and China of the innocence of the project." He has condemned alleged pro-African interference by Kenya and Tanganyika politicians in the election and stated that Zanzibar would become an independent republic before he would discuss any possible federation with the East African states. He has also announced that he would not recommend Zanzibar's remaining in the Commonwealth. 25X1

CHINESE COMMUNIST TRADE DEVELOPMENTS

Political considerations continue to have a strong influence on Communist China's policies, but domestic economic difficulties are such as to overshadow other factors in determining the direction and magnitude of its foreign trade. The agricultural failures of the past two years have led to unprecedented grain imports from the West and to a severe reduction of China's export potential. The resultant cutback in imports of industrial goods and services, together with internal problems and the continued absence of Soviet technicians, has forced a slowdown of industrialization.

Although imports from both bloc and nonbloc sources have been cut to the minimum, Peiping is being forced to use its holdings of precious metals and foreign exchange. The over-all level of imports this year depends primarily on the availability of export products, but also on the possibilities for securing foreign credits.

About two thirds of China's trade has been with bloc countries in recent years, and the impact of current adjustments necessarily falls most heavily on the bloc. Trade negotiations with bloc countries have dragged on since early 1961, and agreements

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still have not been reached with Czechoslovakia, Poland, Hungary, and Rumania.

The crucial Sino-Soviet talks on economic and technical cooperation have been in progress since February, first in Peiping and now in Moscow; there are recent indications that they may be nearing completion. Agreements already concluded with the bloc seem to be largely interim arrangements devised to keep goods moving while both sides assess long-term positions.

The Sino-Soviet agreement to extend over five years the repayment of Peiping's short-term trade debt to the USSR removed a major obstacle to this year's trade, but unless Moscow is also willing to grant new credits, the Chinese must depend even more than before on the country's uncertain harvests to finance imports of industrial equipment.

The bloc apparently has made some effort to accommodate to Chinese economic difficulties, but, despite protestations to the contrary, the relationship continues to be more businesslike than fraternal. In all probability Peiping will continue to rely on bloc trade as the mainstay of its foreign economic relations, but basic strains in the Sino-Soviet re-

lationship probably will limit the role of Soviet aid.

Outside the bloc, Chinese trade has dropped abruptly from the high level maintained during the first half of 1960. In response to its agricultural crisis, Peiping's purchasing in the West has centered on food grains, plus such essential commodities as fertilizer and cotton. Current Chinese trade probes in Latin America and Japan are largely politically inspired, but they also reflect China's search for new markets and sources of badly needed foodstuffs and raw materials throughout the world.

The Chinese are employing a variety of means to cope with the payments problem arising from their purchases in the West. Credit facilities granted by Hong Kong banks and Canadian and Australian grain suppliers have eased the task of paying for food purchases.

In addition, the Chinese have sold increasing quantities of silver in West European markets, and probably have sold gold as well. These efforts have been offset in part by the reduction in foreign currency earnings caused by a sharp drop in exports to Hong Kong and Malaya.

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SOVIET COMMUNIST PARTY MEMBERSHIP

Khrushchev recently cited figures on the expected attendance at the 22nd party congress this October which corroborate earlier indications that party membership has increased from 8,708,000 in 1959 to an all-time high of about 9,500,000. The party is becoming somewhat more of a mass organization, despite Lenin's concept of the revolutionary party as a professional elite. Party membership has increased from 3.2 percent of the total population in 1959 to 4.4 percent--the highest ever.

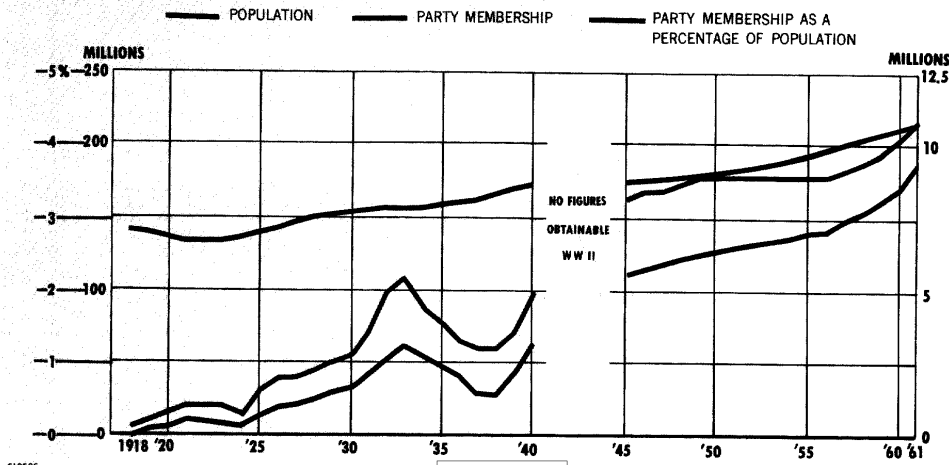
The marked increase in membership, which began in 1956, is probably the result of Khrushchev's style of leadership: his upgrading of the party as the major instrument of control and his cultivation of mass support by drawing more people into active participation in the regime's programs.

However, it would not be surprising if the congress stressed higher standards of admission in the new party rules and took steps to replace older cadres with candidate members of the party. Comparable periods of rapid expansion in party membership in the past have been followed by a stricter admissions policy and often by a purge of members whose ideological, political, technical, or

personal qualifications were deemed inadequate. Since 1958, Khrushchev has been stressing the need for young, technically trained cadres, and the increase in the number of nonvoting delegates expected at the 22nd congress indicates that the candidate members number about two million--three times the number at the time of congress in 1959. Following his revelations of incompetence and corruption within the party at the January central committee plenum on agriculture, Khrushchev has spearheaded another drive to improve the quality of the country's agricultural leadership.

In a recent conversation with Ambassador Thompson, Khrushchev said the 22nd party congress would be attended by 4,000 voting and 1,000 nonvoting delegates as well as 1,000 visitors. The number of voting delegates expected is more than double that at any of the three preceding congresses, and the number of nonvoting delegates has increased tenfold. Whereas previously one voting delegate was elected for every 5,000 or 6,000 full party members, now he will represent 2,000 party members, with the same ratio of nonvoting delegates to candidate members. A new conference hall with a seating capacity of over 6,000 is scheduled to be completed in time for the meeting.

EXPANSION OF SOVIET COMMUNIST PARTY



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The unprecedented size of this congress will ensure that it, like the expanded central committee plenums in recent years, will be more than ever a sounding board for proclamations by Khrushchev and his lieutenants, rather than the top policy-making body described in the party rules. By increasing the representation at the congress and the number of guests--who, as in the past, will include foreign Communist leaders--Khrushchev may hope to spur flagging ideological fervor at the grass-roots level and mag-

nify his own image as the ideological arbiter of the Communist movement.

In accord with this trend toward increased participation, the congress will probably enlarge the size of the new central committee which it is to elect. As a result of current shake-ups and earlier attrition, less than 50 percent of the central committee members elected in 1956 are expected to retain their positions.

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SOVIET GOOD-WILL MISSION TO LATIN AMERICA

A Soviet delegation is scheduled to visit a number of Latin American countries in late June or early July.

Moscow began in late April to organize the mission and inspired reports in the Western press that First Deputy premier Kosygin would head it. Subsequently, however, it was revealed that the mission would be headed by Supreme Soviet Presidium Secretary Mikhail Georgadze, a minor official who has no standing in the top leadership.

The eight-man mission, which will include trade, cultural, and scientific representatives, probably will visit Bolivia, Brazil, Chile, and Ecuador and possibly Mexico, Uruguay, and Cuba. They will concentrate on exploring the possibilities of increasing Soviet trade and cultural relations with these countries but will also probably discuss prospects for establishing diplomatic relations, particularly with Brazil and Ecuador.

Khrushchev told the head of the Brazilian trade delegation in Moscow in early May that the USSR and Brazil should restore diplomatic relations and that such a move would provide a strong stimulus to the expansion of trade. During an "un-

official" trip to Ecuador and Venezuela last March, Soviet Ambassador to Mexico Bazykin sought to establish diplomatic relations with both countries; he told the press that the USSR considered that relations with Ecuador already existed, lacking only an exchange of ambassadors. Since that time pro-US Ecuadorean Foreign Minister Chiriboga has resigned, and the USSR may feel that this clears the way for President Velasco to establish diplomatic ties.

Moscow is apparently having more success in obtaining visas this time than in March; Bazykin managed to visit only two of the six countries of his original itinerary. As of late May, Colombia and apparently Venezuela had rejected the mission; Brazil had accepted; Bolivia was apparently willing to accept reluctantly; and Ecuador was waiting to see what the others would do. Chile agreed to permit the entry of the mission but stipulated that it would not be received officially.

Among the other Latin American nations, Cuba and possibly Mexico, Uruguay, and Argentina--the only Latin American countries with resident Soviet diplomats--would be responsive to a Soviet request for visas.

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Western newsmen in Moscow told the American Embassy in early May that Mexico had already agreed and Uruguay was likely to accept, but there has been no confirmation of these reports. A high official of the Peruvian Foreign Ministry stated recently that his government had not been approached by the Soviets but would reject the visit.

The Soviet press has been paying increasing attention to Latin America and has been

featuring material supporting the Soviet thesis that the Latin American populations are becoming increasingly impatient with "exploitation by US monopolists." Soviet propaganda has recently contended that there has been a surge of anti-US feeling in Latin America which proves the correctness of the assertion in last December's Moscow Declaration that "a front of active struggle against imperialism has opened in Latin America."

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****TAIWAN'S PROSPECTS FOR A SELF-SUSTAINING ECONOMY**

The Chinese Nationalist Government initiated a series of economic reforms during the past year to strengthen the nation's economic base. The reforms fulfill some of the provisions of the 19-point Accelerated Economic Growth Program adopted about a year and a half ago. While performance on the "19 Points" falls short in certain important respects, actions taken to encourage investment and achieve self-sustaining economic growth within a decade are not likely to be reversed as long as they do not conflict with the defense effort.

Economic growth over the past ten years has proceeded at a faster pace in Taiwan than in most underdeveloped countries. Progress has been made possible by American economic aid, averaging 10 percent of Taiwan's annual gross national product (GNP). Furthermore, extensive US military assistance has enabled the Nationalists to modernize their 600,000-man armed forces.

Agriculture

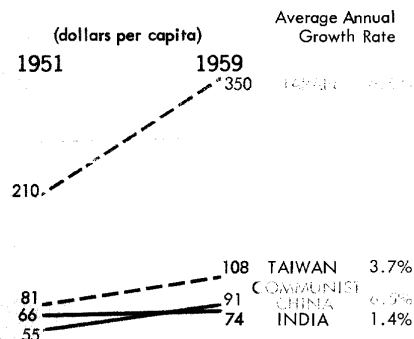
A large share of the economic growth has occurred in agriculture, which accounts for about 30 percent of GNP, and in related processing industries. Since practically all arable land is cultivated, there is little room for expanding crop acreage. Agricultural production rose only 1.5 percent in each of the past two years. Future growth will require larger yields through greater irrigation and improved techniques, more productive seed strains, and more intensive application of fertilizers. Up to four crops a year can be grown on the same land if optimum practices are employed.

While agriculture's future contribution to the economy will decline in relative terms, Taipei hopes that at least for several more years, increases in output will offset rising food consumption. Taiwan's population is growing at a rate of 3.5 percent per year--faster than that of any other Asian state except Singapore.

Industrial Production

Industrial production rose in 1960 to some 3.5 times the 1950 level. The industrial sector, including mining, manufacturing, and electric power, now accounts for about 30 percent of GNP.

Because of a paucity of natural resources other than coal, limestone, and water power, Taiwan's attractiveness to investors, like Hong Kong's, depends on its utilization of an abundant supply of cheap and capable local labor. Approximately 25 percent of the labor

COMPARISON OF GROSS NATIONAL PRODUCT

Note: Dollar figures for Communist China were obtained by applying official exchange rates. If comparative price levels of the United States and Communist China were taken into account, per capita GNP in the latter in 1959 would be roughly \$120.

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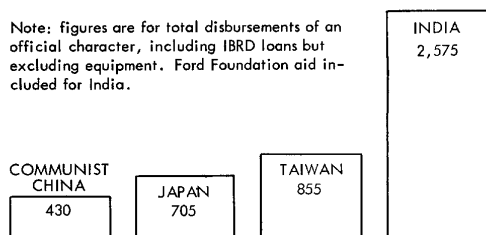
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FOREIGN ECONOMIC AID, 1951-1959
(millions of dollars)

Note: figures are for total disbursements of an official character, including IBRD loans but excluding equipment. Ford Foundation aid included for India.



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force is considered skilled, with wages lower than Hong Kong's and considerably less than Japan's. In addition, there is a relatively large reservoir of technical and managerial skills.

From 1953 to 1960, total income on Taiwan increased at an average rate of 6 to 8 percent per year, or about half that amount on a per capita basis. Gross investment rose to 21 percent of GNP in 1960, a high figure compared with the rest of non-Communist Asia.

Trade

Taiwan's exports have made slower progress than national income, and the trade gap has actually widened since the early 1950s. Last year, exports of \$162,000,000 paid for only 60 percent of imports; US aid accounted for the remaining \$113,000,000.

The less favorable trade picture obscures the significant gains last year in exports of industrial goods. The value of textiles alone increased from \$3,000,000 in 1959 to \$21,000,000 in 1960. Exports as a whole failed to make greater headway because rice declined as a major export item. Unfavorable weather--a typhoon in late 1959 and a severe drought last year--was the most immediate cause, but population growth has become an important factor and will assume increasing importance in

future years. Taiwan in 1960 became a rice-deficit rather than a rice-surplus area.

Sugar will probably remain Taiwan's chief export for some time to come, but there must be wide-scale industrialization accompanied by large increases of industrial exports if the Nationalists are to balance their trade, much less achieve a self-sustaining economic growth. Rapid population growth makes the problem particularly acute, since food will have to become a major import item.

Financial Stabilization

The greatest single obstacle to industrialization, apart from the military threat, is the government's persistent budgetary deficit. It is estimated that the central government's overall budget deficit this year will be \$20,000,000, not a particularly large amount compared with other countries but large enough to retard the economic development program.

The biggest problem is defense spending, which currently consumes about 13 percent of GNP and 50 percent of central and provincial government expenditures. In the "19 Points," the Chinese Nationalists pledged to keep defense spending at the fiscal 1959-60 level in real terms, but some observers question whether this limit has been maintained. In any case, future military actions such as occurred during the Taiwan Strait crisis in 1958 would bring on a fresh round of inflationary military spending.

The willingness of investors to put their money in production enterprises and the incentive for individual saving rest in large part on the government's willingness to maintain reasonably stable prices--something the Chiang government has not done. In 1960

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the government did act to check soaring prices by tightening credit, but the ensuing squeeze on private businessmen resulted in stabilization at the cost of economic growth.

Toward the end of 1960 and in the early months of 1961, there were signs of a lag in new investment which aroused fears of a slowdown in economic growth in 1961. Imports of capital goods tapered off and a large portion of US credits available for industrial development in 1960 went unutilized. Credit controls moreover would have lost much of their effectiveness, had not the United States allowed the proceeds of economic aid to accumulate in the banks instead of being spent.

Most of the 19-percent rise in the cost of living last year resulted from the decline in rice production, due partly to the government's unrealistically low prices to the farmers. If the government had drawn on its ample foreign exchange reserves to import rice and other grains, there probably would have been no food shortages. Inasmuch as the authorities plan to stabilize the price of rice through increased imports in 1961, a selective relaxation of credit controls would serve to revive interest in new investment.

Other Problems

Apart from budgetary problems, the Chinese Nationalists have yet to deal seriously with problems of rapid population growth; of changing consumption habits to permit imports of cheaper grains in exchange for higher priced rice; of providing more adequate banking facilities; and of cutting red tape for investors. Most observers feel that government enterprises, which account for about 40 percent of all industrial activity on Taiwan, should for the most part be turned

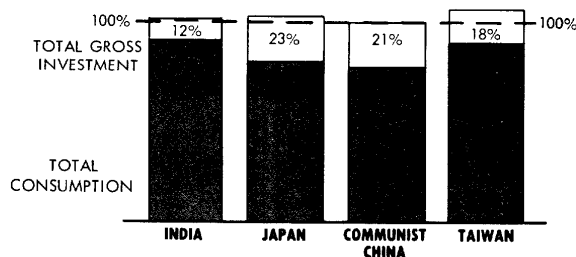
over to provide investors who could put them on a more profitable basis.

Progress

A number of Nationalist leaders know what must be done and have cooperated enthusiastically with American officials to provide a healthier investment climate. Foremost among these is Premier Chen Cheng, who has worked hard to hold down military spending and emphasize economic development, often over strong opposition.

Chen recently hit hard at stodgy bureaucratic attitudes, declaring, "If there are more people who still believe in the saying 'the more I do, the more mistakes I make; the less I do, the less mistakes I make; and if I do nothing, I make no mistakes,' then I want to state emphatically that unless we change our concepts radically, we cannot even maintain our present economic status. We might as well forget about accelerated economic growth."

Chen failed last year to prevent the Legislative Yuan

CONSUMPTION AND INVESTMENT RATES AS PERCENTAGE OF GROSS NATIONAL PRODUCT 1951 - 1959

Aggregate of consumption and investment exceeded 100 percent where there was a net inflow of resources. Consumption and investment rates were fairly stable over the period except in Communist China, where annual consumption declined from 90% in 1951 to 68% in 1959 and investment rates rose from 11% in 1951 to 31% in 1959.

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from approving what he considered an excessively high pay increase for civil servants, but he recently denied the customary one-month bonus at the lunar New Year.

Other leaders who recognize the need for a bold attack on Taiwan's economic problems are Minister of Finance C. K. Yen; K. Y. Yin, vice chairman of the Council for US Aid, chairman of the Foreign Exchange and Trade Control Commission, and chairman of the board of the Bank of Taiwan; and K. T. Li, secretary general of the Council of US Aid and head of the Industrial development and Investment Committee.

This committee already has achieved many things: (1) revision of the Investment Law in 1959 and enactment of the Investment Incentive Act in 1960, which among other things provides for tax holidays for new productive enterprises, reduction of corporate income taxes from 33 percent to 18 percent, and reduction of personal income taxes to a maximum of 40 percent; (2) simplification of entry and exit procedures and post-entry security checks; (3) passage of regulations permitting the orderly discharge of surplus employees; (4) simplification of land acquisition procedures for plant sites; and (5) streamlining of licensing and administrative procedures.

Outlook

So far, investor response has been discouraging; the only significant investment since the inception of the program has been by an American firm for the manufacture of antibiotics. Another American firm recently decided to produce pharmaceuticals on Taiwan, however, and

PER CAPITA PRODUCTION OF SELECTED ITEMS IN 1959

	INDIA	TAIWAN	COMMUNIST CHINA	JAPAN	UNITED STATES
Crude Steel (lbs.)	12	33	44	396	1,062
Coal (lbs.)	245	73	1,135	1,126	4,790
Crude Oil (barrels)	.08	Neg	.42	.03	15
Electric Power (KWH)	42	296	61	1,030	4,800
Cement (lbs.)	36	218	40	411	757
Paper, machine-made (lbs.)	1.5	18	5.6	52	169
Chemical Fertilizers (lbs.)	.6	11	1.3	31	89
Cotton Cloth (linear yards)	16	16	12	33	54
Grain, incl. tubers (lbs.)	463	549	621	524	2,317

Note: The relatively favorable figure for Communist China in the last category is offset by the fact that grains and tubers account for a much larger part of the people's diet than in the other countries. Moreover, there were probably large net exports.

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many inquiries are being received from abroad.

Self-sustaining growth within a decade is not an impossibility for Taiwan, even at the present level of defense expenditures. In practice, performance is likely to fall below this mark. The process of obtaining large-scale investment will be a lengthy one, in view of the military situation and the government's past failures.

The key to success is probably Chiang's attitude toward fiscal responsibility. While he embraces the idea of economic development, he does not follow fiscal problems closely, nor has he always backed his premier in holding down expenditures. More important than balancing the budget, in Chiang's mind, is returning to the mainland and looking after his troops, including thousands of ineffective soldiers.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****MISSILES IN SURFACE FORCES OF THE SOVIET NAVY**

Despite a relatively late start, the surface forces of the Soviet Navy have made considerable progress in missile development, particularly with surface-to-surface weapons. Apparently presaging the development of missile ships, Soviet naval doctrine underwent broad changes in 1955 which were soon reflected in official and semi-official pronouncements on the role of naval ships and in a re-direction of naval construction programs. The Soviet press in 1956 began giving considerable publicity to the role of missiles in naval warfare, and the first Soviet guided-missile ship was commissioned in 1958.

Destroyers

This first missile ship, a Kildin-class destroyer, was built in the Black Sea. Four such ships are believed operational: two in the Black Sea, one in the Baltic, and one in the Pacific.

This class has the hull of a Kotlin-class destroyer and other similar characteristics: a length of 415 feet, a maximum speed of about 38 knots, and an endurance of about 5,500 miles at 18 knots. It differs from the Kotlin mainly in having a single large launcher mounted on the stern, a missile-handling deckhouse just forward of the launchers, and missile-associated electronic equipment. It is estimated to carry eight surface-to-surface cruise-type guided missiles with maximum effective ranges of about 110 miles.

Concurrent with construction of the Kildin-class destroyer, Soviet engineers and shipbuilders designed and started construction on larger

destroyers, designated the Krupnyy class. The first of these were completed at the Black Sea port of Nikolaev in 1958. Six are probably operational: two in the Northern Sea Fleet, three in the Baltic, and one in the Pacific. Two--possibly four--are under construction.

This destroyer is 454 feet long and displaces 4,130 tons. It has two Kildin-type launchers, one forward and one aft, and is believed to carry 18 short-range missiles of the surface-to-surface cruise type. The Krupnyy, generally a ship of advanced design, is the first destroyer in any navy with a main battery consisting solely of missiles.

The Krupnyy may be succeeded by yet another class of missile-equipped destroyer. A new class of ships, designated Kynda, is under construction at the Zhdanov shipyard in Leningrad. Two units observed have characteristics of a destroyer, but may be larger than the Krupnyy.

Soviet destroyers equipped with guided missiles differ from those of the West in that they are designed to provide a surface-to-surface missile-attack capability rather than serve as anti-aircraft screening units. Their primary mission probably is to oppose carrier strike forces, but their relatively weak shipboard anti-aircraft defense suggests that most such



KILDIN-25X1
GUIDED-MISSILE
DESTROYER

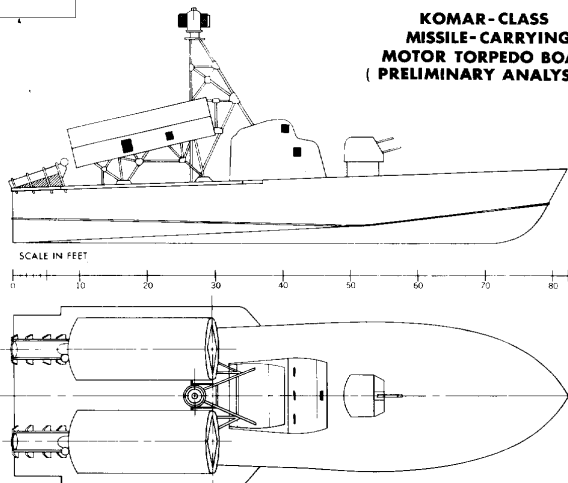
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CURRENT INTELLIGENCE WEEKLY SUMMARY

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KOMAR-CLASS
MISSILE-CARRYING
MOTOR TORPEDO BOAT
(PRELIMINARY ANALYSIS)



and Komar-class motor patrol boats, were first sighted in Leningrad in 1959. Units of the larger, the Osa, have four large, above-deck, missile-carrying structures, all of them probably launchers. Osa-class boats displace about 200 tons, are about 140 feet long, and have a maximum speed of about 32 knots. Komar-class units, a later development, are "P-6" torpedo boats with torpedo tubes removed and two launchers added. They displace about 60 tons, are 83 feet long, and have a top speed of about 45 knots.

At least 20 guided-missile motorboats are deployed in the Baltic, with others probably in the Black Sea and Pacific fleets. Little is known about the missile systems used on these boats.

operations would be conducted close to the mainland, where they could be supported by land-based aviation. Secondary missions may include shore bombardment, support for ground forces, and deep support for amphibious landings.

Cruisers

Despite speculation that operational cruisers of the Soviet fleet are being or soon will be equipped with missile systems, there is little evidence of this. The one exception is a Black Sea cruiser which reportedly has a missile-launching installation, possibly for test purposes.

If the USSR adds other missile cruisers to its navy, it is more likely to convert existing cruisers than to build new ones. Cruiser construction was halted in 1956, and at least four partially completed Sverdlov cruiser hulls were scrapped in 1960.

Motorboats

Two unusual, small, missile-carrying units, the Osa-

Missiles

The USSR currently has a number of types of sea-borne surface-to-surface missiles and may have one surface-to-air type in development; most, if not all, of these missiles are radar guided. The known surface-to-surface missiles are cruise types and appear to have been developed specifically for naval use. There is no evidence that ballistic types are carried on any naval surface unit, although adaptations of some ground-force weapons could probably be installed easily. Cruise-type missiles are primarily intended for use against mobile targets, although they could also be used for short bombardment.

The range of destroyer-launched missiles frequently can be extended beyond the radar horizon of the destroyer --about 30 miles--through the use of airplane or helicopter radar tracking. 25X1

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