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25 May 1962

CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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State Dept. review completed

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T H E W E E K I N B R I E F
(Information as of 1200 EDT 24 May)

CHINESE REFUGEE PROBLEM AT HONG KONG Page 1

The Chinese Communists were apparently surprised and embarrassed by the scale of the exodus resulting from their relaxation of emigration restrictions. By 21 May, the daily figure for illegal entrants into Hong Kong had exceeded 5,000 and the British authorities are having increasing difficulties in handling the border crossers. The Chinese Communists have indicated to British officials that they now will attempt to halt the refugee flow. The mass exits, however, began against a background of widespread disaffection and demoralization on the mainland, and Peiping has yet to demonstrate its willingness to take the harsh measures needed to bring the refugee flow under control.

[Redacted]

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LAOS Page 3

Souvanna, en route to Laos to resume coalition talks, has indicated that upon his return he will first seek an audience with King Savang and, subsequently, convene a meeting of the three princes at the Plaine des Jarres. Phoumi, while declaring his readiness to enter negotiations with Souvanna, still appears opposed to the formation of a coalition.

[Redacted]

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FRANCE-ALGERIA Page 5

Europeans in Algiers and Oran appear increasingly aware that OAS excesses are destroying their future in Algeria.

[Redacted]

Meanwhile, the provisional Algerian government, under pressure to halt the slaughter of Moslems, may be forced by the forthcoming meeting of the National Revolutionary Council to adopt a less cooperative attitude toward implementation of the Evian accords.

[Redacted]

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SOVIET FOREIGN POLICY DEVELOPMENTS Page 6

During the past week, Moscow indicated that it would defer any moves to bring the issue of Berlin and Germany to a head, at least until further bilateral talks have been held. In speeches during his Bulgarian visit, Khrushchev warned the West against additional delays in reaching a Berlin settlement and again raised the threat of a separate peace treaty if no agreement with the West was reached. The Soviet-Bulgarian communiqué indicated Moscow's interest in continuing the US-Soviet talks and attempted to leave the impression that West Germany, rather than the US, was the main obstacle complicating the bilateral talks.

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BRIEFS

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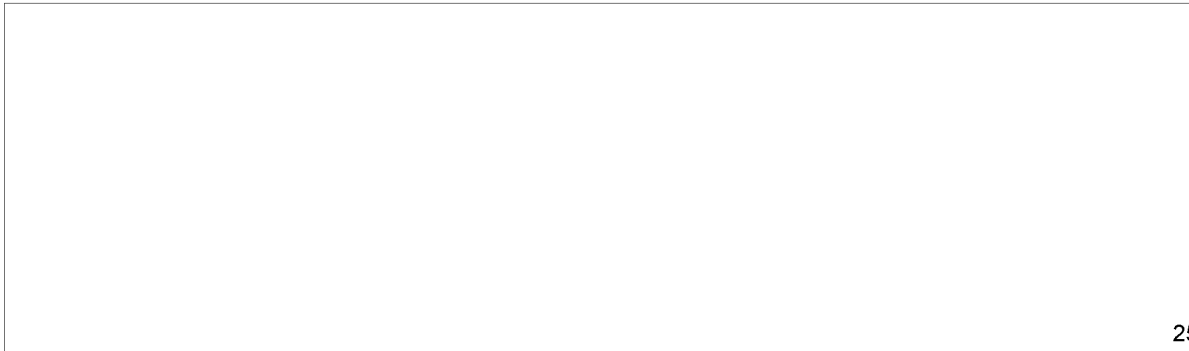
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KHRUSHCHEV'S VISIT TO BULGARIA Page 9

One of the main reasons for Khrushchev's 14-20 May visit to Bulgaria probably was to ensure support for Moscow's decision to improve the Soviet bloc's relations with Yugoslavia. His planned visit to Rumania in late June and rumored later visits to other European satellites may have a similar purpose. Khrushchev's intention to broaden political, economic, and cultural contacts with Belgrade suggests that he is indifferent to the views of Communist China and Albania on this matter. Other important reasons for the Bulgarian visit were to bolster Bulgarian leader Zhivkov's de-Stalinization program and to inspect the Bulgarian economy.

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SOUTH VIETNAM Page 12

The grenade throwings in Saigon on 17 and 19 May are the first terrorist acts directed at Americans since the attempt to kill the ambassador last July.

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Recent propaganda from Hanoi also suggests that Communist agents may try to provoke incidents between American troops and Vietnamese citizens in Saigon. Hanoi is trying to get Indian members of the International Control Commission to modify a forthcoming report which is expected to cite violations of the Geneva accords by both North and South Vietnam.

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CONGO Page 13

Tshombé is back in Leopoldville for a third round of talks with Adoula, but, despite UN representative Gardiner's efforts, there has been no substantial change in the position of either side. Pressure tactics and propaganda by both sides suggest an early breakdown. Adoula appears to be merely going through the motions of negotiation and to be more interested in getting a firmer mandate for the UN command or in obtaining help from the Afro-Asian states to enable him to take new military action against Katanga.

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FURTHER CUBAN POLITICAL CHANGES Page 14

Political changes further consolidating the position of Fidel Castro and his brand of Communists at the expense of veteran Communists have been made in Matanzas and probably other provinces.

[redacted] These developments appear to be a sequel to the denigration of veteran Communist Anibal Escalante last March and his expulsion from leadership in the dominant political machine. [redacted]

ARGENTINA Page 15

In an effort to end the political stalemate, the Guido government on 20 May outlined its plan of action to return the country to full constitutional rule. The plan calls for electing a new Chamber of Deputies on 31 March 1963 and a new president on 27 October 1963; meanwhile the political parties would be reorganized and proportional representation instituted. Guido's decrees recessing congress until 1963 and ordering party reorganization have prompted strong protests. Further political unrest is likely to result from strikes planned to protest economic difficulties. [redacted]

WEST GERMANY Page 16

While recent high-level US-German talks have removed much of Bonn's misunderstanding over US proposals on Berlin, the US Embassy notes that it will take some time for the wounds of the recent controversy to heal. Adenauer was heavily criticized in the Federal Republic for his remarks in Berlin--not so much for what he said as for poor judgment in disrupting US-German relations--but his authority does not appear to have been impaired by the controversy. [redacted]

THE STRIKES IN SPAIN Page 17

The political opposition has increased its efforts to exploit Spain's continuing labor unrest, but there is no immediate threat to the regime. The government has taken a relatively moderate attitude toward the strikes--which are illegal in Spain--but the Labor Ministry and other government bodies concerned have been slow and apparently inept in their efforts to deal with the strikes without violence. Further wage pressure from labor is likely. [redacted]

BRITISH OPINION ON THE COMMON MARKET Page 18

There are signs of some shift in the British public's attitude toward joining the Common Market--until now generally favorable. The Labor party, although still officially uncommitted, has been issuing increasingly critical statements. A small group of Conservative backbenchers is launching a drive designed to harden Commonwealth opposition and so arouse British opinion as to kill the chances of entry. These developments are not giving serious trouble to the government but may stiffen its defense of Commonwealth interests in the Brussels negotiations. [redacted]

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CHINESE COMMUNISTS ENCOURAGING TRADE WITH THE WEST Page 18

Communist China is broadening its economic ties with Western industrial countries and is seeking nonbloc bids on a variety of development projects, including a major hydroelectric project formerly being built with Soviet aid. In addition, the Chinese have increased exchanges of commercial missions with Western European countries and have requested medium-term credits to finance imports of Western industrial goods. China's trade with the USSR and the European satellites has declined sharply in the past two years, primarily because of China's economic dislocations and the disruption of the Sino-Soviet economic alliance.

INDIAN INTEREST IN BLOC AIRCRAFT Page 20

India is negotiating with the USSR to buy high-performance MIG-21 jet fighters, but no firm commitment has yet been made. India's urgent need for supersonic fighters, the failure of its own fighter project, the continued decline in foreign exchange reserves, and the persuasiveness of Krishna Menon may ultimately outweigh concern over political and economic repercussions in the West.

MOROCCO-FRANCE Page 21

The meeting of Morocco's King Hassan with De Gaulle on 10 and 11 May appears to have been the first step toward close relations between the King and the French Government. Negotiations are slated to begin in Paris this week to work out details of an expanded cultural agreement and economic, financial, and military assistance. Moroccan leftists are likely to seize on the visit to renew agitation against the monarch, charging that the French protectorate is being re-established in another form.

NASIR'S CHARTER FOR THE UAR Page 22

Intended as a blueprint for long-term economic and political development of the United Arab Republic, the national charter announced by Nasir this week envisages a socialist state under collective leadership. A gradual extension of public ownership is contemplated, but private economic activity will be retained in some areas, including light industry and retail distribution. Foreign private investment will be severely limited.

AFTERMATH OF JAPANESE-SOVIET FISHERY PACT Page 23

The impact of increased restrictions on Japanese salmon fishing in the northwest Pacific raises the possibility that, rather than face an estimated 20-percent cut in fleet operation, Japan may seek negotiations for expanded operations in the convention area established by the Japan-US-Canada tripartite fisheries agreement.

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PANAMANIAN PRESSURE TO RENEGOTIATE CANAL TREATY Page 23

The acquisition of greater benefits from the Panama Canal has long been the primary issue in Panama's domestic politics and foreign relations, and internal pressures for renegotiation of the treaty have been increasing noticeably in the past three years. President Chiari, in a letter accepting an invitation to visit Washington in mid-June for preliminary discussions of US-Panamanian relations, attempted to make the invitation appear tantamount to US agreement to renegotiate the treaty.

[Redacted]

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BOLIVIAN CONGRESSIONAL ELECTIONS Page 25

The Nationalist Revolutionary Movement (MNR), which has ruled Bolivia since the 1952 revolution, is likely to retain majorities in both houses in congressional elections scheduled for 3 June. Disaffection and apathy have increased, however--in large part because the government-operated sector of the Bolivian economy has failed to live up to the expectations that had been raised by the revolution. The MNR's loss of popularity, particularly in the capital, is such that it may be able to maintain its ascendancy over more conservative groups only by resorting to extensive electoral fraud.

[Redacted]

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ECUADOR Page 26

The congressional elections in Ecuador scheduled for 3 June are expected to result in another rightist majority. The campaigning has been overshadowed in public interest, however, by President Arosemena's various cabinet changes. He has dismissed extremists of both right and left in an effort to increase his freedom to push his social reform program.

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SPECIAL ARTICLES

CZECHOSLOVAKIA: INCREASED DIFFICULTIES IN THE "MODEL SATELLITE" Page 1

Czechoslovakia, long the "model satellite" because of its economic growth and political stability, has been beset with economic difficulties for the past year. The growth rate for industrial production has declined, agriculture is stagnant, quality foods are in short supply, and increased imports reduced the 1961 export surplus and contributed to a shortage of foreign exchange. Although there have been signs of some improvement in the economy, certain 1962 production goals have already been lowered, and the regime will probably have to reduce the planned rate of growth through 1965. Food shortages have led to several small-scale riots, a form of protest rarely resorted to by the Czechoslovaks. The present level of popular discontent does not appear to pose a threat to the regime's stability.

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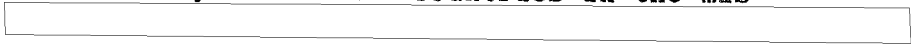
THE WEST BERLIN ECONOMY Page 5

In the nine months since the Communist wall was built, West Berlin's industrial output has generally held firm. Private savings deposits have shown recent gains, and last fall's population outflow has been reversed. Labor shortage is a continuing problem, however, and there has been some decline in investment and in new industrial orders. West Germany has provided emergency grants, but has not made the commitment to long-term assistance which Berliners want.



EUROPEAN SPACE DEVELOPMENTS Page 8

Eleven West European countries, after a year and a half of effort, have agreed to create a European Space Research Organization (ESRO). By pooling talents and funds, ESRO should assist Western Europe in maintaining and developing its scientific stature and in acquiring the technology essential to full-scale participation in the space age. Six of the ESRO countries plus Australia have been members since April of the European Launcher Development Organization (ELDO), which is developing a three-stage launching vehicle utilizing Britain's Blue Streak booster. This vehicle is expected to be used for the latter phases of ESRO's initial space program, although it will be less advanced than existing US vehicles. The ELDO project could also contribute to the development of military capabilities by individual countries in the missile field.



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WEEKLY REVIEW

CHINESE REFUGEE PROBLEM AT HONG KONG

The Hong Kong government has learned [redacted] that the Communist decision to relax restrictions on emigration to Hong Kong was made in Peiping last month as a result of popular pressures inside China and complaints by Overseas Chinese.

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[redacted] the Communist authorities had decided to allow persons to leave for Hong Kong so they could learn for themselves that they were not welcome there. Accordingly the Chinese had freely issued exit permits and directed border guards not to prevent entry into the colony.

This decision apparently represented a miscalculation of the degree of popular dissatisfaction; [redacted]

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[redacted] officials had been surprised at the numbers of persons trying to leave China and at the persistence of the border crossers in the face of British efforts to turn them back.

China's embarrassment over the size of the exodus--some 5,300 were caught by the Hong Kong police on 21 May--probably caused some rethinking of the problem in Peiping; the British state that they now have received assurances that the Chinese Communists will attempt to halt the flow of refugees. [redacted]

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The mass exits, however, began against a background

of widespread disaffection and demoralization on the mainland, and the British are uncertain about Peiping's ability to bring the refugee flow back under control. The dissatisfaction may also have infected the security forces which have observed the mass refugee flights of recent weeks. Hong Kong authorities, however, have denied rumors that any security or army units have entered the colony along with the refugees.

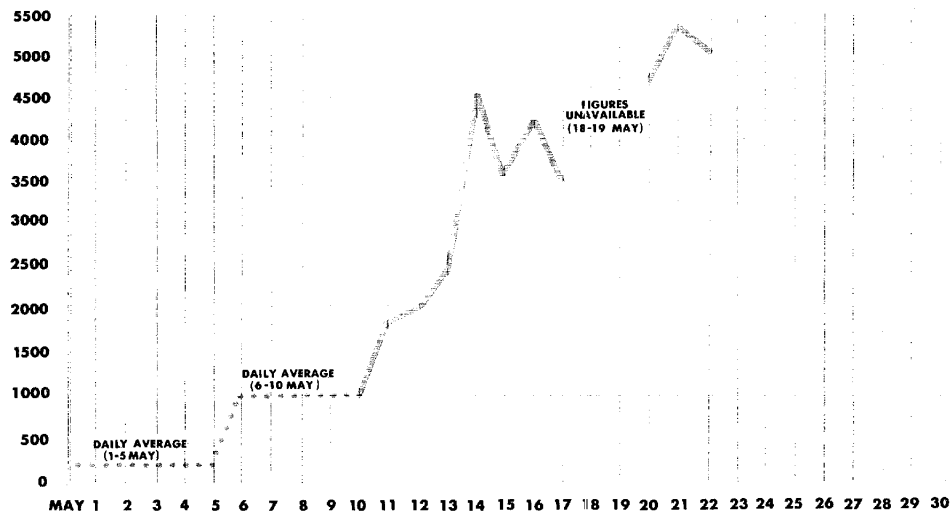
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Meanwhile, the Hong Kong government has reinforced the fences along the 18-mile land border that divides the colony from the mainland and is using helicopters to help locate groups of refugees hiding in the undergrowth on the British side. Despite such efforts, local officials believe that large numbers of border crossers, at least 15 percent, have eluded capture, often with the help of Hong Kong residents.

No major incidents have occurred to date, but the authorities remain apprehensive. The refugees, many of whom have made several attempts to enter the colony, are becoming more difficult to handle; the Hong Kong border guards, reinforced with Gurkhas and some British troops, have had little rest in the last two weeks. Resistance among the refugees may increase sharply as they realize that their return to China could mean arrest.

The principal clashes so far, however, have been between the police and the Hong Kong Chinese, many of whom hope to find relatives among the refugees. Local sympathy for the border crossers could generate a difficult

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****NUMBER OF BORDER CROSSERS ARRESTED BY HONG KONG GOVERNMENT**

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security problem for the British authorities. To minimize the chance of incidents, the escapees now are being sent back in closed trains rather than truck convoys.

Most of the refugees are peasants living within a relatively short radius of Hong Kong, although in the past few days there has been a growing number of Canton residents among the border crossers, including disaffected students. Hunger or the fear of hunger to come remains the principal reason for trying to leave the mainland. Precipitation this spring was below normal, and the harvest prospects in much of Kwangtung are not good.

The American consul general in Hong Kong believes that discipline among local Communist cadres has been badly eroded by mounting public criticism of policy failures. Local officials may have shrunk from attempting to maintain discipline when faced with increasing pressures among the people to flee to Hong Kong--as has been done before in bad times.

The Chinese Nationalist Government is attempting to exploit the refugee problem for political gain. Nationalist officials have criticized the Hong

Kong government for repatriating the refugees to Communist China. Vice President Chen Cheng on 21 May said that the Nationalists would accept all refugees who wished to come to Taiwan. Before admitting any refugees, however, Taipei will probably insist on official negotiations with the British Government, which recognizes Peiping, and will delay acceptance of any large number in order to screen out political un- 25X1 desirables.

There is no indication that Peiping wants to exploit the refugee problem to threaten British control of Hong Kong at this time. Exports to the colony provide one of the principal means by which the Communists can acquire badly needed hard currencies, and Hong Kong's well-developed financial facilities have proved useful to Peiping in its trade with the free world. 25X1

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LAOS

Souvanna Phouma, returning to Laos after a seven-week visit in France, has stopped off in Rangoon to confer with several key aides who flew to the Burmese capital for this purpose. Presumably, they will brief him on the recent take-over of Nam Tha and Muong Sing by Pathet Lao and North Vietnamese forces without the participation of Souvanna's troops--actions he condemned as contrary to his instructions.

Souvanna, who has expressed his concern over the deteriorating political and military situation, will probably seek an early meeting with King Savang, to be followed by tripartite talks at the Plaine des Jarres.

In any negotiations, Souvanna will probably press for a balanced apportionment between the Boun Oum and Souphannouvong factions of technical and political ministries, while reserving for himself the key posts of defense and interior in addition to the premiership. Souvanna has indicated he would agree that "important decisions" concerning defense and interior be concurred in by all three princes.

General Phoumi has returned from a "goodwill" mission to Taipei, where he received considerable encouragement but probably little in the way of materiel commitment. He now has agreed to enter negotiations toward a coalition government

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under Souvanna in which the neutralist leader would hold the defense and interior posts. However, this conciliatory manner is probably designed to ease Western and Thai pressure while Phoumi consolidates his position in the south.

The military situation remains relatively quiet. However, Communist leaders may feel that in view of Phoumi's transfer of troops to the Southern Area Command--a move which threatens Communist supply routes to the Viet Cong--preventive military action may be necessary.

Bloc propaganda last week continued to attack the movement of US troops [redacted] and to make oblique threats that any intervention in Laos by these troops would lead to increased bloodshed. Such statements were combined with claims that all the "neutralist" and Communist forces want coalition negotiations.

In an 18 May speech at Obnova, in Bulgaria, Khrushchev asserted that the decision to land troops [redacted] is unwise and will not lead to peace in that part of the world. He added that the Soviet Government considers the most sensible course in Laos would

be to adhere to the already agreed method of forming a coalition government headed by Souvanna Phouma. This was followed by a 20 May article in Pravda by Observer which warned against SEATO intervention in Laos, since this would be "collective intervention and is bound to evoke retaliatory action on the other side." At the same time, the article reaffirmed the Soviet desire for an "independent, neutral" Laos.

The strongest Chinese reaction to the landing of troops came in a 19 May People's Daily editorial, repeated by TASS, which sharply stepped up the urgency given the situation by a Chinese Communist commentary three days earlier. The editorial charged that "US aggressive moves in Southeast Asia are a serious threat to the security of China. The Chinese people cannot remain indifferent to this..." Although there was no mention in this editorial of a coalition government headed by Souvanna Phouma, Peiping continues to report Pathet Lao and neutralist statements backing the formation of a coalition. Peiping, however, is also publicizing statements suggesting that the Pathet Lao may insist on US withdrawal from Laos as a condition for negotiations.

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FRANCE-ALGERIA

Europeans in Algiers and Oran appear increasingly aware that the excesses of the Secret Army Organization (OAS) are destroying their future in Algeria.

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Meanwhile, the provisional Algerian government (PAG), under pressure to halt the slaughter of Moslems, may be forced by the forthcoming meeting of the National Revolutionary Council (CNRA) to adopt a less cooperative attitude toward implementation of the Evian accords.

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Jacques Chevallier, an ex-mayor of Algiers, told a US Embassy officer in Paris on 15 May that he thought the PAG might be receptive to any proposition that would divert OAS energies from terrorism.

French High Commissioner Fouchet is said to be losing patience with the Europeans, and has given the impression that the government is determined to make them suffer, even though many have given only passive assistance to the OAS. Minister for Algerian Affairs

Joxe's reported arrangement to draft by 1 June 6,000 European 19-year-olds in Algiers and Oran will probably curb most of the young toughs presumably responsible for the bulk of present OAS terrorism.

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The US consul general in Algiers predicts that European departures from Algeria--now increasing sharply despite OAS harassments--will assume fairly massive proportions by mid-June. The presence of these embittered persons in France, coupled with the likelihood of stepped-up OAS activity in the metropole, will create a serious security problem for the government. If many technicians or civil servants are among those leaving Algeria, their departure will increase the difficulties the new Algerian government will face following the referendum in July, when it takes over a virtually paralyzed administration and a disrupted economy.

Recent PAG demands for stepped-up anti-OAS measures, particularly for the employment of greater numbers of Moslem troops and police, probably reflect sensitivity concerning the CNRA meeting reportedly to begin in Tripoli this weekend. Reports from Algiers indicate that there is great pressure from the Moslem masses for an immediate improvement in the situation, and that nationalist leaders in Algeria and the PAG are attempting to adjust their policies to meet this pressure. Although Paris appears to have agreed to at least some of the PAG demands, there are indications that French security forces will retain the major role in combating the OAS.

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SOVIET FOREIGN POLICY DEVELOPMENTS

During the past week, while the USSR bluntly restated its fundamental position on Berlin and Germany, there were continued indications that Moscow would defer any new moves to bring the issue to a head, at least until further bilateral talks have been held. During his visit to Bulgaria, Khrushchev spoke at length on international affairs.

The Soviet-Bulgarian communiqué published on 20 May underscored Moscow's interest in continuing the talks but pointed up the Soviet desire to move the discussions off dead center. The communiqué reiterated the USSR's denunciation of the NATO ministerial meeting in Athens and implied that any nuclear arming of West Germany would lead to disaster. The statement repeated Moscow's basic position that any agreement on an international access authority for West Berlin can be reached only after the "liquidation of the occupation regime" and the withdrawal of Western forces. It maintained that an agreement could be reached whereby small troop contingents of neutral states or the UN could be stationed in West Berlin "for a definite period of time."

The statement pointed out, however, the "benefit of contacts" between the US and the Soviet Union on the German question and attempted to leave the impression that West Germany, rather than the US, was the main obstacle complicating the US-Soviet talks. Khrushchev sought to inject a sense of urgency in the bilateral talks. He warned against further delays in reaching a Berlin settlement and again raised the threat of a separate peace treaty with East Germany if no agreement with the West was reached. He did not, however, set a time limit.

Soviet press commentary on President Kennedy's 17 May news conference also emphasized the point that despite the US-French disagreement on the Berlin issue--which TASS alleges the President tried to play down--and continuing US discussions with West German leaders, the US still intends to continue talks with the USSR on the German problem. A 19 May Pravda commentary on Berlin also maintained that West German circles were the main stumbling block to a "joint agreement" on the liquidation of the foreign occupation of West Berlin. The article repeated the Communist stand that any international access authority for West Berlin could act only as "arbiter" in case misunderstandings arose over the "implementation of an agreement with East Germany on communications with West Berlin."

Walter Ulbricht reiterated this position during his trip to Czechoslovakia last week and, while welcoming the US-Soviet talks as "constructive," maintained that his regime would not relinquish any of its sovereignty in favor of the type of international control authority being proposed by the Western powers.

Berlin

In the first substantive discussion on restoring normal relations between the US and Soviet commandants in Berlin, General Solovyev proposed on 17 May that the impasse could be resolved simply by lifting the bans which had been imposed on their travel across the sector border. He repeatedly stressed that the USSR could not discuss changes in the laws of the "sovereign German Democratic Republic." After the bans were lifted, he said, civilian advisers

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accompanying the US commandant on visits to East Berlin would be required to show their identification, in accordance with East German regulations.

After further emphasizing thier position that East German sovereign control over its borders is not negotiable, the Soviets eventually may permit uncontrolled sector crossings by the US commandant accompanied by civilian aides of his choice. The Soviet political adviser in early April indicated interest in such a formula, first proposed by the British commandant last January.

Continuing Soviet interest in removing this local irritant to Soviet-US relations in Berlin was reflected in a recent remark by an official of the Soviet Embassy in East Berlin that US-Soviet negotiations on the Berlin issue as a whole were progressing slowly but satisfactorily and that this "minor fact" of the Berlin problem should be settled on the military rather than the diplomatic level.

The Soviets and East Germans continue to refrain from harassing US Military Liaison Mission teams in East Germany. However, the Soviets are continuing sporadic interference with Allied military convoys at the Autobahn checkpoints.

Moscow appears to be attempting to establish as a regular procedure the practice of advance notice for Allied convoys using the Autobahn-- an effort to underscore its contention that Allied access depends on Communist sufference. The five-hour "official detention" of a six-vehicle US convoy at Babelsberg on 23 May was the longest such delay in

recent years. After the convoy traveled the Autobahn, it was held up for another hour at the Marienborn checkpoint on the East - West German border. Both delays followed a shorter, unofficial detention of a US convoy at Marienborn on 20 May and the turnback of a French military bus at the Berlin end of the Autobahn on 18 May.

Any sustained and consistent increase in harassment of Allied military convoys on the Autobahn probably would be designed to support recent Soviet political and propaganda efforts to inject a sense of urgency in bilateral talks on Berlin and Germany. There is no indication at present that Moscow is willing to risk jeopardizing these talks by a clear-cut challenge to Western access rights.

Disarmament and Nuclear Issues

Khrushchev used his speeches in Bulgaria to reaffirm in routine terms Soviet interest in an agreement on general and complete disarmament. In a speech of 18 May at Obnova, he sarcastically referred to the current deliberations in Geneva, noting that the conference delegates sit and drink more tea than work. He accused the Western delegates of paying only lip service to disarmament and termed the situation "a sorry state of affairs." The Soviet-Bulgarian communiqué briefly endorsed Soviet disarmament proposals and the recent compromise test ban proposal advanced by the neutralists. The communiqué also said that the Western powers at Geneva show "very little evidence" of a desire to reach agreement on a test ban and expose themselves as "enemies" of general and complete disarmament.

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According to the US delegation at Geneva, Soviet bloc delegates appear to be developing a unified and direct attack on the US disarmament plan and to be embarking on a series of studied, "phony questions which cannot be satisfactorily answered" by the US delegate, particularly with respect to controls. In corridor conversations with other delegation members, bloc delegates seem to be emphasizing the irreconcilability between the US and Soviet positions.

There is no indication, however, of Soviet intent at present to break off the 17-nation conference; chief delegate Zorin's recent expression of willingness to continue the conference without a recess and First Deputy Foreign Minister Kuznetsov's recent statement to a US official that he may soon replace Zorin temporarily suggest that the USSR intends, for the time being at least, to continue to participate. It would be considerably more difficult for the Soviets without prejudice to leave the current conference, in which nonaligned powers are taking part, than in previous negotiations in 1957 and 1960.

After Khrushchev's remark to Western newsmen at Varna, Bulgaria, that the current US tests will "force" the USSR

to renew nuclear testing, a Western correspondent asked Foreign Minister Gromyko about Soviet test plans. Gromyko said, "We shall certainly resume testing," but he refused to say when.

Soviet sensitivity to US statements concerning the ability to wipe out the USSR with a nuclear strike was further reflected by Khrushchev in a speech in Sofia on 19 May. Khrushchev made his first public comments on President Kennedy's statement last March to Stewart Alsop concerning conditions under which the US might use nuclear weapons first against the USSR. The statement had been promptly denounced in the Soviet press.

Khrushchev said that while the President had tried to soften his words, once spoken they could not be called back. He asked if the President's words did not indicate that Kennedy and Khrushchev should engage in competition "as to who will be the first to press the button." The Soviet premier termed this inhuman and unreasonable; he accused President Kennedy of "following the way of his predecessor on the road of threats"; and he warned that the Soviet Union had the means to answer "with a crushing blow." [redacted]

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****KHRUSHCHEV'S VISIT TO BULGARIA**

One of the main reasons for Khrushchev's 14-20 May visit to Bulgaria was probably to ensure support for Moscow's decision to improve the Soviet bloc's relations with Yugoslavia. His planned visit to Rumania in late June and rumored later visits to other European satellites may have a similar purpose. Other important reasons for the Bulgarian visit were to bolster Bulgarian leader Zhivkov's de-Stalinization program and to inspect the Bulgarian economy.

A key to the motivation behind the trip was the inclusion in Khrushchev's ten-man delegation of Foreign Minister Gromyko, who had just returned from a visit to Yugoslavia in late April. The groundwork for the Khrushchev visit to Bulgaria was probably laid by the Soviet party's agitprop spokesman, Leonid Ilichev, who attended an ideological conference in the satellite on 23-24 April. This visit was the starting point for a notable shift in emphasis in Bulgarian propaganda. Previously it had tended to restrict the anti-Stalin campaign to de-personalized strictures against the personality cult and--reflecting Bulgaria's traditional preoccupation with its neighbor, Yugoslavia--had focused on the dangers of revisionism to the virtual minimization of the dangers of dogmatism. After the visit, the propaganda turned strongly against "dogmatism and sectarianism" and pushed the dangers of revisionism to the background.

Khrushchev followed the start made by Ilichev by praising the greatly improved Soviet state relations with Yugoslavia. In his 16 May speech at Varna, he noted with "satisfaction" that present relations are "good" in contrast to the "tense" re-

lations of the past. He stated that the USSR is prepared to expand economic, cultural, and scientific relations with Yugoslavia, and to exchange "delegations." Plans for a visit sometime in June of the first Yugoslav parliamentary delegation to Moscow since 1956 were announced by Belgrade on 23 May. It will be a 12-man group led by Petar Stambolic, chairman of the Federal People's Assembly and member of the Communist party's executive committee.

Khrushchev admitted the persistence of differences on a number of ideological and political problems, but described improved state relations as being in the interests of peace and of helping the Yugoslav people "consolidate themselves regarding socialism." Major concessions which Moscow might grant Belgrade would be observer status on the bloc's economic organization, CEMA, and possibly the extension of bloc economic credits. Khrushchev's reservations on ideological differences would appear to preclude the re-establishment of Communist party contacts at this time.

Satellite leaders are probably wary of improved bloc relations with Yugoslavia because of the unsettling effects on their parties of the last period of rapprochement in 1955-57. They may be pressed by moderate elements in their parties who would interpret a new bloc line toward Yugoslavia as a vindication of Tito's brand of Communism and a signal to pressure on their own behalf for greater independence from Moscow. Satellite leaders are also likely to be pressed by hard-line elements in their parties who believe

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that the Chinese and Albanian statements concerning Khrushchev's pro-revisionist leanings have been proven correct.

In the Bulgarian party, there are also historical difficulties to contend with. Khrushchev's favorable references to Yugoslavia's war record and acknowledgment of its size and importance probably revive the traditional Bulgarian fears of a Yugoslav hegemony among Balkan Communist states. Nevertheless, Zhivkov finally gave grudging approval to Khrushchev's remarks at Varna through which he reportedly sat with a stony expression. Although he did not echo Khrushchev's new line on Yugoslavia until 19 May, he asserted then that "we will continue to do all that is required of us to develop Bulgarian-Yugoslav cooperation..."

The reaction of Communist China and Albania to Khrushchev's Bulgarian visit reflects their recognition of his indifference to their opposition to any improvement in bloc-Yugoslav relations. The day after Khrushchev's Varna speech, the leading Albanian paper commented at length on Tito's 6 May speech candidly spelling out Yugoslavia's economic difficulties. The paper noted that Yugoslav internal and foreign policies merely affirm the correctness of Stalin's anathema of Tito, and stressed the "illusionary" nature of any hopes that Tito will correct his errors. The Chinese threatened the entire Khrushchev visit cursorily, as they have treated the visits of all other Soviet dele-

gations abroad in the last two years. In summarizing the Varna speech, the Chinese press reversed the order of Khrushchev's remarks on Southeast Asia and Yugoslavia--giving the former first place--thus making clear Peiping's views on which is the more important.

Khrushchev went first to Bulgaria to expound his Yugoslav policy because Bulgaria traditionally has played an important role in bloc policy toward Yugoslavia, and because of the many Stalinists in the Bulgarian party. Khrushchev's second most important task in Bulgaria, therefore, was to support the de-Stalinization efforts of his protégé, Zhivkov. Khrushchev went out of his way in the many speeches he made around the Bulgarian countryside to demonstrate his esteem for Zhivkov. He said that the Soviet leadership had welcomed Zhivkov's election as first secretary in 1954, and that since that time he has done much toward eliminating from the regime abuses that had crept in during the Stalin era. Khrushchev found frequent occasion to state that the Soviet party and government maintain the closest relations with Zhivkov and Premier Yugov.

Khrushchev's support should assist Zhivkov in suppressing any challenge from the numerous hard-liners in the Bulgarian party before its next congress, scheduled for late August. Prior to the Khrushchev visit, Zhivkov's efforts to repress the hard-liners appeared to be faltering.

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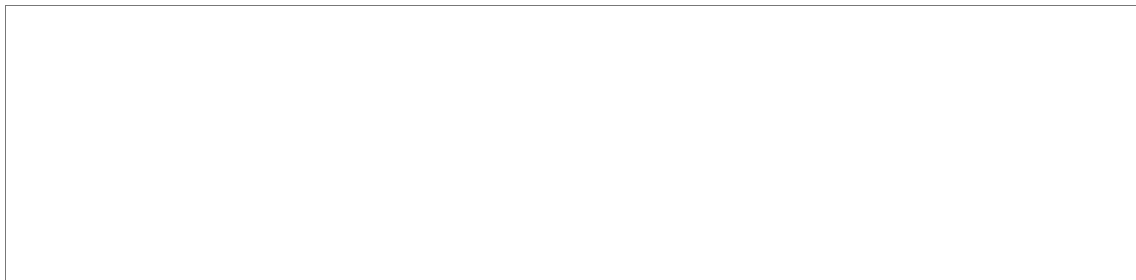
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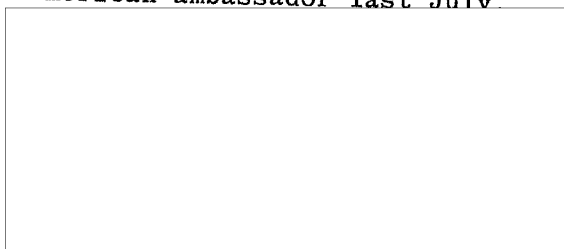
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SOUTH VIETNAM

Grenade throwings in Saigon on 17 and 19 May--in which three Americans, two Germans, and several Vietnamese were injured--are the first acts of terrorism apparently directed at Americans since the attempt to kill the American ambassador last July.



Searches by Saigon police have yielded some 300 pounds of explosives in the past few weeks.

It is also possible that the Viet Cong will try to provoke incidents between Americans and Vietnamese citizens. Recent North Vietnamese propaganda has painted a picture of growing antagonism, claiming that several American soldiers have

been beaten up on the streets of Saigon.

Hanoi, sensitive to exposure of its direction of the Viet Cong, is trying to get Indian members of the International Control Commission (ICC) to block or at least modify a pending commission report which will condemn North Vietnam for subversion in the South, and South Vietnam for violating the Geneva accords' ban on introduction of new weapons and military personnel. North Vietnam's army chief, General Giap, has written Parthasarathi, Indian chairman of the ICC in Vietnam, warning that the proposed report would be a "grave offense" against the Vietnamese people and asking instead for ICC condemnation of US actions in South Vietnam. Hanoi's official party newspaper on 22 May attacked Parthasarathi for turning a blind eye to US aggression while slandering the "patriotic movement" in South Vietnam as Communist subversion.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****CONGO**

UN representative Gardiner, despite strenuous efforts in the month since the second round of the Adoula-Tshombé talks ended in mid-April, has not been able to narrow substantially the differences between the two leaders. Adoula has called Tshombé's latest proposals "totally unacceptable." The Katangan leader --now back in Leopoldville--has asked that a new constitution, to be approved by parliament and submitted to a national referendum, be drawn up providing for "real autonomy" for the provinces; until then, Tshombé states, Katanga will remain separate. Premier Adoula has insisted, however, that Leopoldville will not consider any transitional period for Katanga's reintegration, and that Tshombé must submit completely to the Belgian-drafted constitution, the Loi Fondamentale.

Gardiner, who will continue to mediate but is reported deeply discouraged, aims to get the two to indicate general agreement in a communiqué after the present round of talks and to relegate the specifics of reintegration to a series of joint commissions headed by UN officials. Tshombé has indicated he is willing to proceed in this manner. Adoula at first stated flatly that only his proposal of 16 April providing for strong centralized control can be the basis of the talks, but when the two resumed discussions on 22 May he also agreed to Gardiner's procedural suggestions. The atmosphere surrounding the talks has been one of charge and countercharge and of propaganda gambits and pressure tactics by both sides, suggesting that an early breakdown may occur.

Adoula's attitude and actions suggest that he regards the talks as futile. His appeals

for assistance from Afro-Asian states outside the UN framework have not produced any visible benefits to date, but his apparent lack of concern about a breakdown suggests he may have some commitments. Adoula's stalling may also be connected with his interest in a renewed discussion of the Congo in the Security Council--which he hopes would produce a tougher UN mandate to support Leopoldville. U Thant has indicated that a Security Council meeting on the Congo at the end of May might be required "to seek further guidance." The Soviet chargé in Leopoldville, who has been quiet up to now, visited Gardiner twice in one day last week to complain of the UN's inability to resolve Katanga's secession and to suggest that another Security Council mandate seemed required.

Adoula has previously said that if no agreement is reached with Tshombé, he will have no alternative but to renew hostilities in northern Katanga. Adoula's growing propensity to think in terms of force is indicated by his recent efforts to purchase four A-26 aircraft in the US. He has, moreover, insisted that "Congo national sovereignty" required that negotiations for these aircraft be conducted outside the UN framework.

The chief of the Congolese Army, General Mobutu, has just completed a tour of inspection in eastern Congo and northern Katanga with General Lundula. Mobutu will be in Europe from 25 May until about the second week of June. While his absence may delay any military moves, it also increases the danger of rash action by the military, either in northern Katanga, or in Leopoldville against Tshombé personally. 25X1

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FURTHER CUBAN POLITICAL CHANGES

Political changes further consolidating the position of Fidel Castro and his brand of Communists at the expense of veteran Communists have been made at the provincial levels in Cuba and reportedly will occur at the national level as well. These developments appear to be a sequel to the denigration last March of veteran Communist Anibal Escalante and his expulsion from the National Directorate of the Integrated Revolutionary Organizations (ORI), Cuba's developing single political machine.

In Matanzas, long-time Communist Leonidas Calderio was recently replaced as secretary general of the provincial ORI directorate by Major Jorge Serguera, a "new Communist" long closely associated with the Castro brothers. Calderio is a brother of Blas Roca (born Francisco Calderio), ranking veteran Communist on the ORI National Directorate and director of the party newspaper Hoy. Castro seemed to go out of his way to avoid antagonizing Roca. Calderio's removal was said to be for health reasons, and Castro excused Calderio for party failures in Matanzas by ascribing them to the "sectarianism" fostered by Escalante. Thus, while the removal of his brother from the key provincial post would appear to weaken Roca's position, he does not appear to be immediately threatened with a like fate.

A Havana radiobroadcast of 23 May reports a number of changes in municipal ORI units in Matanzas Province following Calderio's retirement as provincial party leader.

Changes are known to have taken place in the provincial ORI directorates in Camaguey and Havana provinces, but no details are available. Until the recent changes, veteran Communists had been secretaries

general of both the ORI and the JUCEI (governmental organization) in each of Cuba's six provinces.

At the national level, Castro has attacked veteran Communist Lazaro Pena

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Cuban Communist labor boss for nearly 30 years, Pena now is also a member of the ORI National Directorate. Last year he was named a vice president of the Communists' World Federation of Trade Unions. He would be a logical victim if Castro were seeking to undercut the power of other veteran Communists or to use them as scapegoats for the regime's failures. Pena is probably the focus for much of the dissatisfaction among organized workers, especially in the cities, and Castro would probably gain popularity by denouncing Pena for his "errors."

The CTC-R under Pena's direction was given important responsibilities in the assignment of housing under the urban reform law, and Castro reportedly intends to oust him on grounds of unfairness and inefficiency in discharging these responsibilities. Pena is also vulnerable for his close collaboration with Batista during the dictator's 1940-44 term.

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ARGENTINA

In an effort to end Argentina's political stalemate, the Guido government on 20 May outlined its plan of action to return the country to full constitutional rule. The plan calls for electing a new Chamber of Deputies on 31 March 1963 and for presidential, provincial, and municipal elections on 27 October 1963. The latter date may be advanced to 31 May 1963 "if circumstances permit." The plan limits the term of the present government to 30 April 1964, the scheduled end of ex-President Frondizi's term.

Political reforms under the plan are similar to those which leaders of Frondizi's Intransigent Radical party (UCRI) negotiated with the military before Guido took office. They envisage adopting proportional representation, outlawing totalitarian parties, and encouraging the badly split democratic groups to unite. Steps will be taken to ban the use of trade union funds for political purposes, as has been the custom of the Peronistas.

Guido's first steps to implement the political plan were two decrees on 20 May recessing congress until a new Chamber is elected and ordering political parties to reorganize within 120 days after the new law on political parties is published. Guido said the government would observe the constitution insofar as was possible during the "non-functioning" of the congress because of lack of a quorum. He stated that the revision of the statute on political parties would prevent the existence of totalitarian civic groups and facilitate

the formation of strong democratic parties.

Argentine reaction to these decrees has been mixed, even within parties. Although lacking a quorum, some 65 deputies tried on 22 May to hold a minority session, which was marked by fistfights and vituperative oratory. The government's critics have not suggested alternate plans. The independent daily La Nacion commented, "Any plan is better than the state of restlessness which the absence of a plan generates."

Further political unrest is being created by strikes to protest rising living costs, unemployment, and nonpayment of wages. The drop in industrial production to some 10 to 15 percent below the comparable 1961 level has idled about 100,000 workers in recent weeks, and many others are on shortened weeks. Other reductions are planned if business does not improve soon. The railway strike on 21 May was reported effective, and general strikes are planned for 29 May and 18-19 June. Peronista and other opposition groups may try to exploit economic difficulties to promote subversive strikes.

Economy Minister Alsogaray's measures to attack the financial crisis may add to unrest. His postponing payment of salaries of government and military personnel for two months was one of the reasons for the railway workers' strike. Military expenses are also being cut. The government cited the need to promote multi-lateral trade and free enterprise as its reason for denouncing on 18 May its 1953 bilateral trade and payments agreement with the USSR. 25X1

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CURRENT INTELLIGENCE WEEKLY SUMMARY

WEST GERMANY

While recent high-level US-German talks have succeeded in removing much of Bonn's misunderstanding over US Berlin proposals, a restoration of full confidence and agreement on "details" of Berlin policy are still remote. The US Embassy notes that it will take some time for the wounds of the recent controversy to heal. The Bundestag leader of the Bavarian affiliate of Adenauer's Christian Democratic Union (CDU) told US officials on 15 May that "deep-seated mutual irritation" could soon lead to a new flare-up.

Although the opposition Social Democratic party (SPD) and the coalition Free Democratic party (FDP) generally support the US approach to Moscow, a group within the CDU continues to oppose the US plans, chiefly on grounds that they overly enhance East Germany's status.

Adenauer, in taking a public stand in Berlin against specific points in the US position, struck a popular note among most CDU Bundestag members. Even his supporters, however, criticized his use of a public forum for this

purpose. The German press was heavily critical of Adenauer, not so much for the actual position he took as for poor judgment in disrupting US-German relations. SPD leaders attacked him for "petty fault-finding" with Washington and accused him of "losing his perspective." Adenauer's authority does not appear to have been impaired by the controversy, however.

Recently Adenauer has stressed publicly the importance of America to West German security, and rejected rumors of an impending Bonn-Paris alliance by asserting that while Europe's influence in world affairs must be preserved, Europe should not set up a defense community separate from the US. His public assertions that "normal cordial relations" with the US have been restored have probably been motivated in part by a desire to answer his critics and to limit possible SPD exploitation of German-American differences in the impending election campaign in the important state of North Rhine - Westphalia.

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THE STRIKES IN SPAIN

The political opposition has increased its efforts to exploit Spain's continuing labor unrest, but there is no immediate threat to the regime. The relative moderation with which the government has dealt with the strikes--which are illegal in Spain--will probably inspire further labor pressure.

The regime's reluctance to suppress the strikes by force is apparently attributable in part to recognition by some regime officials of the strikes' valid economic basis--at least in the Asturias region, where the principal walkouts occurred. The absence of violence by the workers was an additional factor, as was the government's interest in international prestige--particularly in connection with its application for Common Market association, forthcoming negotiations on the US base agreements, and the growing importance of tourist trade.

The church also exerted a strong influence on the government's attitude, particularly through pastoral letters and an editorial in the Catholic Action Ecclesia giving the strikers moral support. The strikers have thus been able to challenge the concept of illegality--in general without serious personal molestation or economic reprisal, and also with church sanction.

The indecisiveness with which the strikes were handled

points up defects in the government apparatus, particularly the syndicate system, which the regime has played up as a model for labor-management relations. Changes will probably result, leading perhaps to replacement of the labor minister, recognition of economic strikes, and broader worker participation in the election of syndicate officials. Government leaders from Franco down are said to believe that Spain is in "a transitional economic state leading to better times," but the regime is divided on what this means for labor, and a long period of worker restlessness is likely.

Similar stirrings are apparent in the political field. Joint declarations of support for the strikers have been issued by six opposition groups, ranging from the Socialists to the Monarchists, and demonstrations by sympathizers of the strike have been held in both Madrid and Barcelona. The Communists failed in efforts last week to start general strikes in two major cities but they are continuing to call for collaboration by all anti-Franco forces. The clandestine Communist radio, for weeks the only news medium reporting the strikes, has probably enlarged its audience, now that relative prosperity has put thousands more radios into Spanish homes.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****BRITISH OPINION ON THE COMMON MARKET**

The generally favorable British public attitude toward joining the Common Market shows signs of changing as the negotiations with the EEC move into their most critical stage. Opposition focuses on the question of Britain's Commonwealth ties, a potent issue in domestic politics.

Although available polls point to a predominantly favorable opinion in both major parties, public views have not yet crystallized, partly because of the Macmillan government's own cautious position. The Labor party has officially suspended judgment until it learns the conditions of entry, but its statements have become increasingly critical. Party leader Gaitskell recently warned against accepting terms that would mean the end of the Commonwealth, and the party's foreign affairs spokesman called for "permanent safeguards" for the entry of Commonwealth goods to Britain. The small Liberal party supports Britain's entry, but the Common Market issue has not figured significantly in the Liberals' recent dramatic gains in by-elections and local elections.

The only potential source of serious parliamentary trouble lies within the Conservative party, where a group of backbenchers--perhaps one tenth of the Conservative strength but as yet too few to threaten the government--is launching a drive

to kill the chances of Britain's becoming a member. In the House of Commons they seek to convey the impression that the EEC is placing intolerable demands upon the Commonwealth, and by inviting government spokesmen frequently to reiterate the UK's negotiating conditions they hope to exasperate the EEC governments.

One of the Tory backbench leaders has told the US Embassy in London that he plans to travel to eight Commonwealth countries this summer to try to stiffen their views on the EEC prior to the opening of the Commonwealth prime ministers' conference on 10 September. He believes a strong Commonwealth front against Britain's entry would offer a chance of defeating the government's policy at the ensuing Conservative party conference and doom the Common Market in the House of Commons. [REDACTED] 25X1

continuing criticism by the pro-empire Beaverbrook press is already having some success.

These developments are not yet giving serious trouble to the government but may stiffen its dogged defense of Commonwealth interests in the negotiations at Brussels and tend to discourage tendencies toward compromise. On the other hand, British negotiations may find these trends of some use in seeking the best possible terms of entry. [REDACTED] 25X1

CHINESE COMMUNISTS ENCOURAGING TRADE WITH THE WEST

Communist China is broadening its economic contacts with Western industrial countries and is seeking nonbloc bids on a variety of development projects. Continuing Chinese commercial probes are leading to exchanges of delegations and specific offers from Western suppliers. While China's industrial imports

from both the Soviet bloc and the West have been curtailed as a result of Peiping's economic difficulties, eventual recovery of the economy may be accompanied by a shift toward greater imports of machinery and equipment from the West.

Chinese trade with the USSR and European satellites has

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declined sharply during the past two years, primarily because of China's internal economic dislocations and the need for large imports of grain available only in the West. According to a recent Soviet publication, Sino-Soviet trade in 1961 totaled only \$910,000,000--down 45 percent from 1960 and less than half the peak year of 1959. In addition, the withdrawal of Soviet technicians in mid-1960 and the failure to reconcile basic ideological differences with the USSR compounded trade difficulties and disrupted the Sino-Soviet economic alliance. While there is no indication that a complete rupture of Chinese trade with the Soviet Union is imminent, a full return to the former relationship appears unlikely. Similarly, the abrupt decline in Chinese trade with the European satellites in 1961--down by more than half of 1960 trade--will not be easily reversed.

There have been numerous recent indications of a growing Chinese interest in Western equipment and technology. These have included discussion with several nonbloc countries for supplying equipment for a hydroelectric project formerly being built with Soviet assistance; negotiations with British and French aircraft firms and the purchase of six transports from the UK last year; probes for possible acquisition of modern steelmaking facilities from Austria; and increased visits of Chinese trade missions to Western Europe and of Western commercial delegations to China. Other indications include negotiations with the Italian state fuels monopoly (ENI) for the purchase of chemical plants and equipment; travel to China by representatives of Western banks; and some requests for medium-term credits to finance increased industrial imports from the West.

Peiping appears extremely cautious on the crucial question of admitting foreign technicians, and has not yet dropped its traditional opposition to such a practice.

Peiping's willingness to soft-pedal its previous insistence on political concessions from Tokyo as a prerequisite for increased Sino-Japanese trade has led to a gradual expansion of commerce since late 1961. The extent of Japanese optimism over prospects for this trade suggests considerable encouragement from the Chinese in the form of proposed orders of industrial equipment.

Chinese interest in offers of nonbloc equipment to complete the Sanmen Gorge hydroelectric project--one of the most important of the former Soviet aid projects--probably is the most significant indication of the disruption of long-range Sino-Soviet economic relations. The dam structure for the Sanmen Gorge installation was completed with Soviet aid during 1957-60, and by the end of 1960 the first of eight generating units had been delivered. Since then, discussions for the supply of the seven remaining turbines and generators for Sanmen have been held with Japanese and French officials.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****INDIAN INTEREST IN BLOC AIRCRAFT**

Prime Minister Nehru's decision late last month to seek high-performance MIG-21 jet fighters from the Soviet Union has generated considerable heat within the Indian Government and has introduced new strains in New Delhi's relations with Britain and the United States. This is not the first time New Delhi has sought Soviet aircraft; since 1955 the Indians have on several occasions negotiated with Moscow for various types of aircraft during periods when India's relations with its neighbors dictated the need for modernization. Before 1960, however, India always returned to its traditional Western suppliers to meet its new-felt needs.

New demands on India's aging transport fleet brought on by the flare-up in Sino-Indian relations in 1959 brought the aircraft question again to the fore, and in 1960 India satisfied part of its urgent requirements through the purchase of 29 additional C-119s from the United States. However, the need for heavier transports, the decline in foreign exchange reserves, and Defense Minister Krishna Menon's persuasiveness made Moscow's bargaining points--low prices, immediate availability, and rupee financing--even more attractive. India therefore abandoned its exclusive reliance on the West for transport aircraft in 1960 by purchasing Cub (AN-12) transports, Hound (MI-4) helicopters, and Crate (IL-14) light transports from the Soviet Union. The Indians saw particular advantage in emphasizing Soviet "support" for their position through the purchase of aircraft to facilitate the Indian build-up on the border with China.

Additional helicopters were ordered during each of the following two years

A decision in favor of bloc military aircraft was avoided while

Indian Defense Ministry officials debated for more than a year the merits of several high-performance Western aircraft and accelerated their own efforts to develop a supersonic fighter. Pakistan's and China's subsequent acquisition of such modern aircraft made the need for modernization even more urgent. The apparent failure of the Indian fighter project provided Krishna Menon with the added ammunition necessary to convince Nehru in April

that India had no alternative but to seek MIG-21s from Moscow.

INDIAN AIR FORCE INVENTORY

TOTAL AIRCRAFT: 1,396 (885 jet) of which 367 jets and 257 propeller types are tactically assigned to units.

TYPE	TOTAL INVENTORY	IN TACTICAL UNITS
Fighters (all jet)		
VAMPIRE NF-54 (UK)	28	27
VAMPIRE FB-52 (UK)	162	35
OURAGAN (FR.)	96	53
MYSTERE IVA (FR.)	105	48
HUNTER F-56 (UK)	147	80
GNAT I (UK)	36	32
TOTAL	574	275
Bomber/Reconnaissance		
CANBERRA (jet) (UK)	68	53
LIBERATOR B-24 (US)	18	10
TOTAL	86	63
Helicopters		
SIKORSKY S-62B (US)	1	1
MI-4 HOUND* (USSR)	9	9
SIKORSKY S-55 (US)	4	4
BELL 47G2 (US)	8	4
TOTAL	22	18
Transports (propeller)		
SUPER CONSTELLATION (US)	7	7
AN-12 CLUB* (USSR)	7	7
C-119-G (US)	32	46
C-47 (US-UK)	94	67
C-87 (US)	2	2
VISCOUNT (UK)	2	2
IL-14 CRATE (USSR)	23	23
MISC. LIGHT TRANSPORTS	68	60
TOTAL	255	214
Trainers (half jets, all Western)		
	459	54

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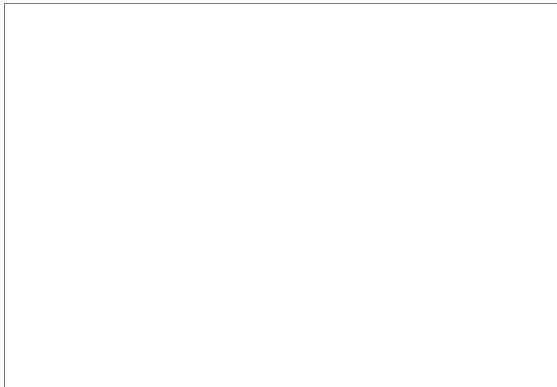
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Indo-Soviet negotiations now are well advanced, although Nehru, in response to Western

pressures and in anticipation of possible counteroffers from the West, has apparently ordered a slowdown; a final Indian decision is not expected until after the middle of June, when the details of the proposed purchase will be presented to the cabinet for final review. Despite divided counsels at home, however, the Indians appear more serious about this matter than during any previous recourse to the bloc. Regardless of the merits of any possible counterproposal from the West, Menon's persuasive ways with the still ailing prime minister may carry the day for MIGs.

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MOROCCO-FRANCE

The visit of Morocco's King Hassan II to Paris on 10 and 11 May, motivated primarily by his need to find additional aid for Morocco's depleted treasury, appears to be the first step toward close relations between the King and the French Government.

transferred it to the Moroccan Army in 1956. Although French planning officials are reluctant to make economic commitments to other North African states until the extent of France's financial responsibilities to Algeria can be ascertained, De Gaulle was sympathetic to Hassan's request, and negotiations are beginning in Paris this week.

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Mohamed V was impelled by such criticism to cancel a projected meeting with De Gaulle in 1959.

A projected technical and cultural agreement will seek to assure continued employment in Morocco of about 9,000 French technicians and professional people and provide for university and professional training in France for some 8,500 Moroccans. France will continue to provide 900 instructors and other military specialists. Preferential commercial arrangements are likely to continue in effect for the present. Apparently, Hassan indicated to De Gaulle that if independent Algeria chooses association with the Common Market, he will feel politically able to follow suit and intends to do so. Meanwhile, a joint commission will look into the possibility of meeting Morocco's budget and franc foreign exchange deficits through credits from the Bank of France.

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the King, in an exceptionally cordial interview, requested a stepped-up technical and cultural cooperation program, expansion of commercial preferences for Moroccan products in the French market, and resumption--in the form of project aid rather than a budget subsidy--of financial assistance which was suspended in 1957. The Moroccans also requested replacement of military equipment which has become worn out since France

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Hassan's bid for improved relations with France has been criticized by his leftist opponents, who may be spurred to greater activity. Their charge that the King is re-establishing the French protectorate may be the keynote of the long-awaited congress of the National Union of Popular Forces, scheduled to open in Casablanca on 25 May.

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NASIR'S CHARTER FOR THE UAR

The national charter promulgated by Nasir in his speech on 21 May to the UAR's recently formed National Congress of Popular Forces is in effect a blueprint of planning goals embracing political principles and policies he has long espoused. The charter was over six months in preparation by Nasir in consultation with his economic planners and close advisers

and he evidently regards it as the definitive statement of the permanent imprint he hopes to leave upon Egypt.

The charter envisages a socialist state under collective leadership during the present period of revolutionary effort. Representatives of farmers and workers will hold 50 percent of the seats in all representative bodies, including the future national legislature. According to the Cairo press, Nasir will shortly issue further plans for eventual election of the legislature, which will draft a permanent constitution guided by the principles set forth in the charter. Since the revolution, the country has been governed under a provisional constitution imposed by the original Revolutionary Command Council.

The charter stresses the eclectic character of "Arab socialism," which neither shrinks from borrowing foreign practices

nor slavishly follows abstract theories. While the tools of production are to be controlled by the people, the charter specifies certain areas of private activity, including light industry and retail distributive trade. All imports, however, and three fourths of export trade will be under public control. Foreign business investment will be limited to areas in which the UAR lacks technical capabilities. The UAR will prefer foreign governmental assistance in the form of unconditional grants, but will accept loans.

The charter indicates a further reduction in the permissible size of individual land holdings to approximately 100 acres per family. Families presently holding more than this will be required to sell the excess for cash within an eight-year period. The charter contemplates no nationalization of land. Control of real estate to prevent private exploitation will be continued by existing tax and rent control laws.

In the trade union field, which despite strict government control is known to have given Nasir concern for some time, agricultural labor unions are to be established and the trade union role generally to be broadened by encouragement of cooperative housing, consumer cooperatives, and production improvement.

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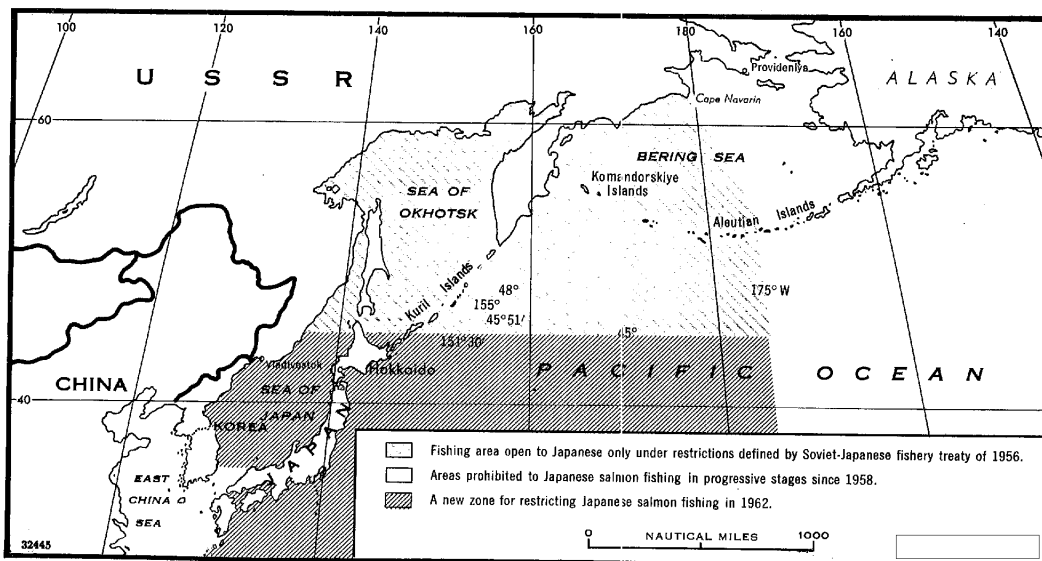
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WEEKLY REVIEW

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****AFTERMATH OF JAPANESE-SOVIET FISHERY PACT**

The Japanese salmon fishing industry, faced with a drastic contraction of operations as a result of the increased restrictions laid down by the 1962 Pacific fisheries agreement with the USSR, is pressing the government to explore avenues of relief. A 20-percent cutback

Japan, has prompted demands for government subsidies. It also raises the possibility the Japanese may seek negotiations for expanded operations east of 175 degrees west longitude, in the convention area established by the Japan-US-Canada tripartite pact of 1952. In the past, Jap-



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in fleet operations, necessitated by a 15-percent reduction in the salmon quota in the northwest Pacific and by the establishment of a new restricted zone in the western Pacific and the Sea of

anese fishing in this area has threatened to deplete salmon resources around Bristol Bay and the Alaskan Peninsula.

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PANAMANIAN PRESSURE TO RENEGOTIATE CANAL TREATY

The acquisition of greater benefits from the Panama Canal has long been the primary issue in Panama's domestic politics and foreign relations. Panamanians contend that the basic 1903 treaty was not negotiated or even signed by one of its own nationals, and that subsequent revisions have not satisfied important national aspira-

tions or recognized that Panama's geographic position, as its greatest national resource, should be its primary source of income. Internal pressures for renegotiation of the treaty have been building up for the past three years, encouraged by the oligarchy for its own political purposes.

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President Chiari requested renegotiation discussions last September, and his letter of a few days ago accepting President Kennedy's invitation to visit Washington in mid-June is a detailed and careful attempt to make the invitation appear tantamount to US agreement to his request. Chiari initially told the US ambassador that he would come to Washington for a preliminary discussion of US-Panamanian relations only if specific topics were agreed upon.

**CHIARI**

A memorandum accompanying Chiari's acceptance lists eight points he will raise and expect to have covered in a declaration following the meeting. These include "exact compliance" with 1903 treaty provisions for US maintenance, operation, security, and protection of the Canal; express recognition of Panamanian sovereignty over the Canal Zone; "re-establishment" of Panamanian jurisdiction over lands and waters of the zone which are not indispensable to specific US treaty rights; replacement of the treaty's perpetuity clause by a fixed date; and a higher income from Canal operations--"past and present"--"proportionate" to Panama's contribution in allowing the construction and operation of the Canal.

Other points are elimination in the zone of all US Government commercial and industrial activities and of wage and hiring practices considered prejudicial to Panamanians, and, finally, the "rehabilitation" of the port facilities of the city of Colon, at the Atlantic terminus of the Canal.

A financial adviser to President Chiari mentioned to the US ambassador on 17 May specific economic and financial guarantees, not involving treaty revisions, which Panama would like to raise. Chiari probably feels that progress on these items would provide immediate and tangible benefits which would help alleviate the strong nationalistic pressures which could threaten his administration's political control.

Chiari has chosen competent advisers from the most important coalition and opposition parties--including former President Ricardo Arias--to accompany him to Washington. The US ambassador believes this tactic, as well as Chiari's efforts to put the responsibility for his visit on the US Government, is intended as a safeguard^{25X1} against domestic criticism should he fail to achieve his major objectives.

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BOLIVIAN CONGRESSIONAL ELECTIONS

The Nationalist Revolutionary Movement (MNR), which has ruled Bolivia since the 1952 revolution, is likely to retain control of both houses in congressional elections scheduled for 3 June. Its principal rivals are a moderately conservative MNR splinter party and the right-wing Bolivian Socialist Falange. The government has also created a party which purports to be in opposition and has made conciliatory gestures to encourage some genuine opposition participation--for example, by eliminating an electoral provision giving extra weight to the majority party.



The major contest for political power in Bolivia for the past ten years has taken place within the MNR. Present MNR electoral slates reflect the success of President Paz and Vice President Juan Lechin in dominating the MNR convention in April. Supporters of an insurgent faction of mixed political orientation were given almost no places, although they have considerable strength in the present congress. Paz is moderately leftist, while Juan Lechin has tended to be more extreme.

The opposition's popularity apparently has increased in the past year or two, partly because the government-operated sector of the economy--including the nationalized tin mines, which provide most of Bolivia's foreign exchange earnings--has failed to show much progress. In the private sector, however, petroleum, agricultural, and mineral production has risen significantly. The peasants are still pro-MNR, but the party has lost ground in the capital city.

In addition to public disaffection, the MNR faces increased apathy among its members. Reregistration of party members, now nearly complete, came to only 85,000--possibly 20 percent of the expected vote--and this figure has apparently been padded. When one MNR member last March brought in only 18 reregistrations from his district, for example, he was reportedly told to return the next day with a manufactured list of 500.

Resort to obvious fraud in the election is likely to encourage opposition activity both in and out of the party. Siles, now ambassador to Uruguay,

has stated that a few months after the election he will return to the country "to rid the party of its gangster element and redirect the national revolution along sane lines."

BOLIVIAN CONGRESSIONAL ELECTIONS, 3 JUNE 1962

UNCLASSIFIED	TOTAL NO. OF SEATS	HELD BY OPPOSITION	OPPOSITION SEATS AT STAKE 3 JUNE	TOTAL NO. AT STAKE
SENATE	27	0	0	15
CHAMBER OF DEPUTIES	68	11	9	38

DISTRIBUTION OF POPULAR VOTE IN 1960 ELECTIONS

	APPROX. SHARE
NATIONALIST REVOLUTIONARY MOVEMENT (MNR)	73%
MNR SPLINTER	16%
BOLIVIAN SOCIALIST FALANGE	10%
BOLIVIAN COMMUNIST PARTY	1%
BOLIVIAN TROTSKYITE PARTY	0.14%

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In the Ecuadorean elections scheduled for 3 June, all 73 seats in the lower house of congress are to be filled, along with many major municipal posts, including those of the mayors of Quito and Guayaquil. The voters have shown little interest in the campaigning, however, and the plethora of "independent" candidates reflects the disorganization of most of the nonrightist parties. The lack of effective competition tends to assure the right wing a comfortable majority in the new congress.

The elections have been overshadowed in public interest by President Arosemena's "creeping cabinet crisis." Since the end of March, six of the nine original cabinet members have left office. Conservatives and Socialists have been successively replaced by middle-of-the-road figures having no strong party affiliation.

The most recent round of cabinet changes started on

17 May with the resignation of the defense minister. Three other ministers resigned two days later, and all were speedily replaced by independent rightists. The new cabinet appointments reflect Arosemena's evident belief that after 3 June he will have to deal with a rightist-dominated congress. His first placating move probably will be the dismissal of the "leftists" on his staff, whose presence has been a source of continuing contention with rightists and military leaders.

By forming his new cabinet of men with no effective party affiliation, Arosemena has given himself considerable freedom of action. The new cabinet, which is not as far right of center as the congress is likely to be, will be more responsive to his direction than its predecessor. He now is in an improved position to resume pushing for tax reform, agrarian reform, and housing development, which have been stalled in the various ministries.

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SPECIAL ARTICLES**CZECHOSLOVAKIA: INCREASED DIFFICULTIES IN THE "MODEL SATELLITE"**

Czechoslovakia, long the "model satellite" because of its economic growth and political stability, has been beset with economic difficulties for the past year. Among the most serious problems are a decline in the growth rate of industrial output, stagnation of agriculture and a widespread shortage of quality foods, increased imports leading to a sharp decline in the export surplus in 1961, and a shortage of foreign exchange. Although the performance of the economy should improve in future months, some 1962 goals have already been lowered, and the regime will probably be forced to reduce the planned rate of growth through 1965. The food shortages have led to several small-scale riots, a form of protest rarely resorted to by the Czechoslovaks. The government nevertheless retains effective control, and the present level of popular discontent does not appear to pose a threat to the regime's stability.

Industry and Investment

The Czechoslovak economy is one of the most industrially advanced in the bloc. Czechoslovakia has supplied large amounts of machinery to the rest of the bloc and is second only to the USSR as a participant in the bloc aid program in underdeveloped countries. In recent years, moreover, Prague has increased its importance as a source of credits to other satellites. Throughout the postwar period, industrial growth has been rapid because of a high rate of investment, a skilled and disciplined labor force, and a high level of technological development.

In 1961, industrial production continued to expand rapidly--by 8.9 percent, nearly

the planned rate. However, the rate of growth generally declined as the year progressed, and was only 6.8 percent for the final quarter. For the year as a whole, moreover, there were substantial production lags in such key sectors as hard coal, building materials, and, most importantly, steel. Steel output rose only 4.1 percent compared with a planned increase of 10 percent.

The shortfall in steel, which was only partly alleviated by increased imports of rolled products, in turn affected machine building. Production of heavy machinery, especially of types for the chemical and construction industries, fell behind plans.

Official reports so far in 1962 reveal continuing strain in industry. The claimed rate of growth for the first quarter was only 6 percent, whereas a growth of 9 percent had been planned for the year as a whole. Steel production continues to be a trouble spot, and output plans were underfulfilled for all major products of the metallurgical industry.

The key factor causing difficulties in industry has been the serious lag in the program for introducing technological improvements. As a result of this lag, plans for increasing labor productivity have not been met, and in 1961, increases in employment were larger than anticipated. Additional problems mentioned in official reports were absenteeism and lax observance of working hours, poor work organization, shortages of skilled workers, and the tendency of regional administrators to give priority to local projects.

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Expenditures for capital investment (including capital repairs) increased 8 percent in 1961, essentially as planned. However, because of ineffective state controls over expenditures, key programs were delayed. Shortages of building materials and steel, increased absenteeism, and lags in productivity of construction workers caused delays in the construction or expansion of industrial plants--especially those engaged in the production of metallurgical machinery, metals, and chemicals. Shortfalls in machinery production and consequent lags in the delivery of machinery disrupted the program for advancing the level of technology in industry. On the other hand, private housing, and possibly other forms of nonproductive investment, grew more rapidly than planned.

Official reports for the first quarter of 1962 indicate that shortfalls in construction plans and in plans for introducing technological improvements have persisted, and may even have worsened.

Agriculture

Agriculture, which represents 13 percent of the gross national product in Czechoslovakia, continues to be a major problem for the economy. Gross output increased only one percent in 1961, a sharp contrast to the planned rise of 7 percent. Net output probably declined and remained below prewar levels. Production was hampered by adverse weather conditions in some areas of the country, but it also suffered from chronic problems of inefficient administration and inadequate incentives for peasants in a system which is 90-percent socialized. Investments in agriculture were at a high level in 1961 but often were wastefully implemented; efforts to recruit young workers to supplement overage farm workers were largely unsuccessful.

Poor results in fodder crops led to premature slaughtering of hogs during the final months of 1961. Livestock production thus far in 1962 has been hampered by the decline in hog numbers and a continued shortage of fodder. Field work this spring has been delayed by unusually cold weather. During the first four months of the year, procurement of slaughter animals, milk, and eggs was considerably behind plans, and probably declined from last year's level in absolute terms.

Foreign Trade

Difficulties in industrial and agricultural production adversely affected foreign trade, and Czechoslovakia's export surplus declined sharply in 1961, whereas a large increase had been planned. The surplus fell from \$114 million in 1960 to \$22 million in 1961, and during the last four months of the year a large import surplus was incurred. Production deficiencies led to imports of steel and agricultural products larger than expected, while coking coal had to be imported for the first time.

Exports of machinery (generally one half of total exports) grew by only 6 percent in 1961, far below the plan for the year and the average annual growth of 16 percent attained during 1958-60. These disappointing results were related to a sharp curtailment of trade with Communist China as well as to lags in production. Models produced for China probably could not easily be used domestically or sold elsewhere.

Czechoslovakia generally runs a deficit with the West in exchange of services (transportation, insurance, etc.), which is paid for by a surplus in commodity exchange. Czechoslovakia's balance on commodity exchange with Western countries, however, shifted from an export surplus of \$2.3 million in 1960

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to an import surplus of \$2.4 million in 1961. The resulting shortage of foreign exchange is believed to be hampering recovery of the economy in 1962. Recent reports indicate that the regime has initiated a series of restrictions on foreign travel and on expenditures by officials abroad in order to conserve hard currency. Czechoslovak consulates in Salzburg and Monterrey recently were closed for reasons of economy; others may be closed in the future.

Plans for 1962

Although the regime has shown considerable concern over unfavorable economic developments, plans for 1962 released early in the year indicate that it is attempting to maintain rapid rates of growth. Nevertheless, certain goals for 1962 as outlined in the Third Five-Year Plan (1961-65) have been abandoned. The planned level of output for machinery has been reduced, and the completion dates for many investment projects--including an electric power plant to be exported to Poland--have been set back.

The 1962 plan for industry calls for a 9-percent increase in output. In order to speed up the introduction of technological improvements, the regime has instituted tighter central controls over capital investment; such a change could help somewhat. On the other hand, the manpower situation may be more stringent in 1962 than in 1961, when in general increases in employment were actually greater than planned. Although the completion of carry-over investment projects may provide a more rapid increase in output of steel than in 1961, the 12.4-percent increase slated for 1962 appears unrealistic.

The 1962 plan for agriculture calls for an increase in output of 5 percent, which also is unrealistic consider-

ing the chronically poor performance of this sector in Czechoslovakia and the unfavorable weather early in the year. The poor results in 1961 probably will delay the implementation of the regime's program--already meeting peasant resistance--for introducing a fixed money wage system for collective farmers while abolishing private plots and income-in-kind. Currently, the regime is promoting the introduction of partial social security benefits for collective farmers. Although the measure is a step in the direction of improving incentives, it is too limited in scope to reduce substantially the problem of peasant lack of interest in production results.

Popular Discontent

The poor performance of the economy has led to increasingly open popular discontent, the primary focus of which is the widespread shortage of quality foods. Retail food sales reportedly increased 6 percent in 1961, probably reflecting the accelerated slaughtering of pigs and larger than anticipated imports, as well as a reduction in domestic stocks. Nevertheless, the demand for quality foods rose more rapidly than the supply, and shortages ensued. The shortages have worsened in 1962 as a result of the decline in procurement of slaughter animals, milk, and eggs.

On May Day, demonstrating students in Prague probably reflected widely held sentiments when they chanted slogans blaming shortages on Czechoslovak economic aid to foreign countries--particularly Cuba--on the Communist economic system, on Soviet economic exploitation, and on the country's leaders.

For the first time in years, prolonged queuing for foods has become a regular practice, with lines in some instances starting in the middle of the night. The food lines have given rise to minor

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riots in at least three cities and have been springboards for criticism of the regime on long-standing grievances as well as for rumors of impending rationing, price increases, and pay cuts. In the past Czechoslovaks were willing to tolerate the repressive economic and social measures of the regime as long as personal consumption was maintained at a relatively high level and fairly steady increases occurred. Consumption of quality foods still is at a fairly high level by nutritional standards, but the disappointment caused by shortages and the inconvenience and annoyance of queueing have apparently angered the population. Moreover, frequent official reports on the ills of the economy have probably added to the anxiety of the population.

A growing lack of public confidence has come at a particularly inopportune time for the regime, already beset with political problems. No one believes the official indictment charging that former politburo member and Interior Minister Barak was guilty of misuse of state funds. The public is more inclined to accept party chief Novotny's earlier statement of 22 February that Barak--who, in contrast to Novotny, is a popular figure--attempted to seize control of the party. Similarly, both the party rank and file and the populace have remained unimpressed and somewhat confused by the party leadership's muddled and unconvincing attempts to throw the blame for past Stalinist practices on deceased party leader Gottwald.

There are indications that the party is seriously split on these issues, with supporters of Barak and supporters of at least a modicum of de-Stalinization at variance with Novotny, who has maintained control of the party but not without some loss of prestige. Two central committee plenums have been held since November, however, without definitive resolution of any of these problems. There apparently is widespread disgust over the leadership's attempts to paint a picture of calm and unity instead of squarely facing such difficulties.

A number of stopgap administrative measures have been taken to relieve the pressure of public dissatisfaction. With the possible exception of a major amnesty for political prisoners which Novotny announced on 9 May, none of these bureaucratic remedies will have much immediate effect. Moreover, these include an extensive series of steps over the past nine months which appear to more than cancel the much-publicized "democratization" and decentralizations of 1959-60.

Prospects for the Economy

The economy has been able to rebound from difficulties in the past, and its performance should improve as the year progresses. Industrial-output growth this March, for example, was reported to be 8.3 percent. However, the difficulties encountered in 1961 and thus far in 1962 are symptomatic of basic problems under the Third Five-Year Plan. In an effort to maintain rapid rates of growth under conditions of a limited reserve of manpower and because of a tendency for capital investment costs to rise per unit of increased output, great stress in planning has been placed on increasing labor productivity through technological and organizational innovations. It seems likely, however, that innovations will not be introduced rapidly enough to enable fulfillment of production plans because of ineffective state controls and inadequate incentives for workers and managers.

A reduction in the high rate of expansion of industry of recent years and continued poor results in agriculture would force adjustments elsewhere in the Five-Year Plan. The regime may be tempted to reduce the plans for the growth of personal consumption, but it is unlikely to risk a decline in personal consumption or a prolonged stagnation under present conditions of open popular discontent. The program for increasing Czechoslovak economic penetration of underdeveloped countries and assistance to other bloc countries also may be affected, although the present level of aid is not likely to be curtailed unless economic and political difficulties become more intense.

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THE WEST BERLIN ECONOMY

In the nine months since the Communist wall was built, West Berlin's industrial output has generally held firm. Private savings deposits have shown recent gains, and last fall's population outflow has been reversed. Labor shortages and a drop in investments and industrial orders are, however, continuing problems. West Germany has provided emergency grants but has not made the commitment to long-term assistance which Berliners want.

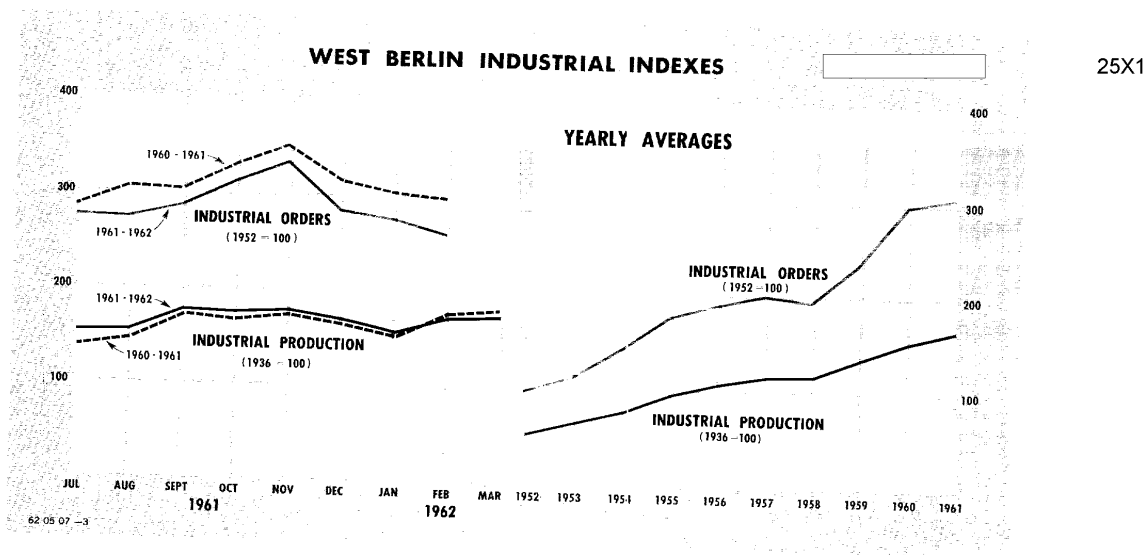
The West Berlin Economy

Despite the handicaps of its isolated position, West Berlin remains West Germany's largest industrial city. Out of a labor force of over 900,000, some 315,000 are employed in industry. Output of electrical products, food, beverages, clothing, and machinery accounts for about 70 percent of total industrial production. Approximately

two thirds of West Berlin's production is sold in the Federal Republic, and the city is heavily dependent on Bonn's financial assistance. Brown coal is the only major necessity procured from East Germany.

Varied dislocations caused by the wall have accentuated difficulties existing even before construction of the wall last August. Overall, industrial production for the period between August 1961 and March 1962 was slightly higher than for the same period a year before. The rate of industrial growth has been substantially slower in recent months than in late 1960 and early 1961, however, with February and March production failing narrowly to meet that of February and March 1961.

West German - West Berlin trade figures have shown gains



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for early 1962, following a drop in late 1961. There has been a decline in new industrial orders since August 1961 which threatens to reduce the large backlogs of orders at many firms. New investment also showed some decline in early 1962. Large firms, which are usually subsidiaries of West German concerns, have tended to be less affected than medium-size and small firms. Some West German parent firms have transferred Berlin operations back to the Federal Republic, and Berlin entrepreneurs have remarked, with some justification, on the cold-bloodedness of some West German customers in canceling orders. In general, however, the early pessimism of the city's business leaders has not been borne out.

West Berlin retailers--particularly those near the sector border--have been the principal economic victims of the wall. Conversely, business has boomed for the West Berlin Transport Authority, which has supplemented its bus network to handle increased traffic resulting from a union-sponsored boycott of the East Berlin - controlled city railway (S-Bahn) system. Recent statistics indicate the boycott continues to be effective.

The purely financial repercussions of the wall have been relatively small. Deposits in savings banks, a sensitive barometer of the Berlin mood, declined moderately until mid-December, when a favorable trend began. For the period January to mid-March 1962, private savings rose almost \$10,000,000, as compared with about \$16,250,000 during

the same period of 1961. Sight and time deposits suffered similar initial losses, but by the end of 1961 were again above mid-August levels. Prices for stocks of purely West Berlin concerns have generally fluctuated less and fared better than have West German stocks.

Population Movements

The wall made perhaps its most serious impact in the form of an increased outflow of people from the city. At its peak in September, the net loss of residents was about 1,100 a week. City officials maintained that this total was not serious, but the exodus, when joined with the natural loss through the excess of deaths over births, added up to an estimated population decline of 15,000 for the last quarter of 1961.

Beginning in the week of 4 February and continuing to the present, a few more people have been arriving than leaving. Lower income taxes and the lack of a military draft are strong attractions. While the average wage is somewhat lower than in West Germany, the cost of living is also lower. Also, Berlin is Berlin--a big, pleasant place, and a city Germans like. The factor of excess mortality, however, still points to a population loss of about 3 percent for 1962.

Labor Problems

A serious aspect of the population outflow has been the high proportion of able-bodied laborers leaving the

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city. This factor was especially serious when considered in conjunction with the loss of 50,000 daily border crossers to the West Berlin labor market after 13 August. More efficient operations, together with overtime work, initially minimized the effects of the labor shortage, and a city-sponsored recruitment program has had modest success in bringing into West Berlin some 4,000 additional workers by March 1962.

A complicating factor in the manpower problem is a level of job absenteeism twice that for West Germany. This is attributed partly to a relatively high age level of Berlin workers and a high proportion of women workers, and also to psychological reactions to the wall.

Assistance From West Germany

On 12 September 1961 the West German Government announced that \$125,000,000 would be made available to West Berlin to combat the adverse effects of the wall. This sum is in addition to the regular Federal Republic contribution, which totaled some \$287,500,000--about one third of the city budget--in 1961 and will reach an estimated \$310,500,000 this year. Bonn has been slow, however, in actually allocating the additional aid. In late December, final federal approval was given to plans for marriage loans and vacation bonuses, and on 1 March a reduction of Berlin air fares made possible by federal subsidy went into effect.

More far-reaching proposals such as a graduated reduction

in income taxes for Berliners and various steps to increase the attraction of West Berlin for capital and investment projects were given preliminary federal approval on 22 March. Berliners have been generally doubtful, however, of Bonn's willingness to provide effective long-term aid. They reportedly have been more forgiving of their own city leaders for slowness in the program of promoting West Berlin as a cultural, educational, and international convention center. City officials now are planning for the establishment in West Berlin of a training center for less developed countries.

Outlook

While the outlook for the months ahead is promising, much remains to be accomplished by Berliners in conjunction with the Federal Republic. The levels of investments and industrial orders from West Germany must be raised to counter the leveling off in the economy. A prominent Berlin official has emphasized the need for further long-range economic assistance, rather than piecemeal measures.

Further measures are also necessary to encourage the flow of population to Berlin, since city authorities estimate that 15,000 new workers per annum are necessary just to replace those lost through death and retirement. In addition, Berliners must remain convinced that their city, by surviving the wall, has acquired a new meaning for the future.

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EUROPEAN SPACE DEVELOPMENTS

After a year and a half of negotiations, an organizational basis has been established for a cooperative Western European program for the exploration of outer space. The convention about to be signed by the 11 participants* sets up a European Space Research Organization (ESRO) to develop scientific satellite experiments and to conduct related research. ESRO is patterned after the highly successful European Center for Nuclear Research (CERN) established ten years ago by virtually the same countries for cooperation in the nuclear field.

In addition, six** of these countries are also members--along with Australia--of the European Launcher Development Organization (ELDO), established a month ago for the development of space-launching vehicles. Its program was inspired in part by Britain's desire to salvage some of its investment in an abandoned military missile. ELDO has the drawback that it would produce a vehicle considerably less advanced than existing US vehicles. It could also contribute to the development of military capabilities by individual countries in the missile field. Nevertheless, ELDO's members consider their cooperative program necessary in view of the high costs involved and to enable Western

*Belgium, Denmark, France, West Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom.

**Belgium, France, West Germany, Italy, the Netherlands, and the United Kingdom.

Europe to participate fully in the evolution of the space age.

Development and
Organization of ESRO

Informal discussion of European space cooperation began in early 1960, but formal negotiations date from an 11-nation conference at CERN headquarters in Geneva that fall. This conference appointed a preparatory committee headed by Britain's Sir Harry Massey and charged it with drafting concrete proposals for an organization, research program, and supporting budget. These proposals were largely complete by last January, but conclusion of the necessary convention has been delayed for several months by difficulties over voting rights, distribution of costs, and location of the various ESRO installations.

The top policy authority of ESRO will be the council composed of two representatives from each of the member countries; a secretariat seated in Paris will provide executive direction in the organization. The major ESRO establishments will be the space technology center (ESTEC) in the Netherlands, at Delft; a space center (ESDAC) at Darmstadt, West Germany; a space laboratory (ESLAB) in Italy; and a launch range (ESRANGE) near Kiruna, Sweden. Additional tracking and telemetry stations will also be constructed to supplement such well-developed facilities as Britain's Jodrell Bank. ESTEC, the most important of the new ESRO installations, will be staffed by an estimated 800 people engaged in applied research

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in space technology and responsible for the development and manufacture of instruments for rockets and satellites.

ESRO Budget and Research Program

ESRO expenditures are expected to total \$78 million in the first three years and \$122 million in the next three, with a ceiling limit of \$306 million for the first eight-year program. As in the case of CERN, financial contributions have been levied in proportion to national income, but no member country is expected to contribute more than 25 percent of the total budget.

ESRO planners expect this relatively modest budget to finance a program of space activities of progressively increasing complexity and sophistication. During the initial three years of operation, in which the various installations, laboratories, and tracking stations would be set up, space experiments would be restricted to investigations of the upper atmosphere utilizing both instruments and biological specimens. These probes--from the Kiruna range--would carry payloads averaging 100 pounds to altitudes of 90 miles. Small satellites in close orbits--100 to 500 pounds to altitudes of 300 miles--would be attempted in the fourth year; space probes and larger satellites up to 5,000 pounds would follow in the sixth year; and a lunar satellite is planned for the seventh.

Purpose and Origin of ELDO

The ESRO convention provides for no specific source of pro-

pulsion equipment for these experiments, and the organization is ostensibly free to choose from whatever equipment is available in Europe or offered by the US or the USSR. The European Launcher Development Organization was founded, however, on the expectation that ESRO would choose to rely on ELDO-developed vehicles, at least for the latter phases of its initial space program.

ELDO is largely the brain-child of Britain's Minister of Aviation Thorneycroft and was conceived in the aftermath of the Macmillan government's decision in April 1960 to abandon its Blue Streak ballistics missile program after an estimated expenditure of \$182,000,000. Thorneycroft proposed that the Blue Streak and the UK's Black Knight become the basis for a "European" space vehicle. This scheme was turned down by the ESRO planners, but the Blue Streak was subsequently accepted after the French were mollified by the substitution of a French rocket for the Black Knight. Paris and London jointly sponsored the conference in early 1961 from which the ELDO convention eventually emerged.

ELDO Organization and Program

The ELDO program as finally agreed to calls for the development by mid-1965 of a three-stage rocket, the first stage of which will be the Blue Streak, the second stage the French Veronique, and the third a new rocket to be developed by West Germany. Italy has been allotted the design, development, and construction of the test satellite; Belgium will supply the guidance system; and the Netherlands will direct the work on a long-range

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telemetry link. Test firings of both the modified Blue Streak and of the completed multistage vehicle will be from the Woomera range in Australia, which was constructed for the Blue Streak and on which little if any further work will be required.

London has had to agree to pay one third of the estimated \$200,000,000 cost of this development program, the remainder being financed by the other participants in proportion to their national incomes. This presumably reflects in part the comparatively limited opportunities for subcontracting in the conversion of the Blue Streak, although the Italians in particular have pressed hard to participate in every phase of the program. Both Italy and West Germany strongly opposed having ELDO bound too firmly to the Blue Streak project and successfully insisted on a review after two years to "take account of the progress made and to consider the possibilities for the future."

Security Considerations

From the beginning, the ELDO project has caused the US concern that it would contribute to the wider dissemination of missile technology and to the development of military capabilities in this field.

As drafted last fall, the ELDO convention provided merely that the organization should not concern itself with military applications of space vehicle launchers and stated specifically that each member should have the right to procure "for any purpose of its own" equipment jointly developed by ELDO.

Largely as a result of US re-monstrances, however, the charter was modified to provide that ELDO will be concerned only with peaceful applications of launching equipment, which may be procured by the members for peaceful purposes only.

The US also sought provision in the ELDO charter against release of information to Communist-oriented countries, but such a "cold war extension" was objected to by a majority of the participants, and the most that could be agreed to was an article providing that information could be released 25X1 to other countries only by unanimous consent of the members.

Nevertheless, ELDO provides no organizational control over the application of ELDO-acquired information to the development of independent missile forces.

The ESRO-ELDO Potential

In assessing the ESRO-ELDO potential, it must be borne in mind that both organizations will complement existing and in some cases well-established national space programs. The value of the cooperative approach will therefore be judged in part by the extent to which it succeeds in discouraging wasteful duplication.

So far as ESRO is concerned, most observers consider it is

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making a promising beginning in this respect. ESRO intends to create a scientific forum to discuss, guide, and coordinate national and joint space efforts; to provide central research, technology, and management facilities to supplement national capability; and to encourage interchange of thought and experience by visiting and research fellowships. Thus, ESRO is geared in considerable part to the creation of a solid, scientific basis for a space program, taking into consideration that the available talent is both dispersed and comparatively inexperienced.

The joint space explorations contemplated by ESRO, although not expected to yield significant scientific data initially, are similarly geared to the development of experience for more sophisticated experiments. ESRO is therefore taking a "do-it-yourself" approach, but it has nevertheless welcomed NASA advice (e.g., concerning cost estimates and tracking stations), and it would like to have some sort of liaison with the USSR. According to the secretary of the preparatory committee, ESRO has no intention of competing with either the US or the USSR but still feels there are many areas in which the Europeans can make a useful contribution.

ELDO Reservations

Since NASA is prepared to sell ESRO the Scout and the Thor, and will cooperate with ESRO in the use of the Atlas for experiments of mutual interest, the decision of the Western Europeans to proceed with the development of an independent European launching system appears largely motivated by political, commercial, and prestige considerations.

The ELDO planners have variously contended that the organization would (1) advance European economic and political integration; (2) provide European technicians and industry with

much-needed experience in missile technology; (3) eventually supply European space programs with a booster less expensive per unit than any comparable American vehicle; and (4) preclude permanent European reliance on American-produced launchers. ELDO's promoters have especially stressed that an independent launching capability is necessary before European countries can enter the communications satellite field.

While most of these arguments have been questioned by ELDO's critics, the organization is in keeping with the trend toward a revived, more self-reliant Europe. Even those Europeans who initially were strongly opposed to ELDO have been impressed by the argument that the Europeans cannot afford to see the space race permanently monopolized by the US and the USSR. American offers of launching equipment have not, for example, convinced the Dutch, who have said that Europe can develop needed technology only if the US goes further and agrees both to European manufacture of American rockets under license and to active European participation in the development of new rockets.

Against these considerations must be balanced the fact that ELDO, in developing a vehicle which may be entirely suitable for European purposes, will be covering ground already passed by the US and the USSR. Cost estimates, moreover, have probably been set too low, and American experts question that the European vehicle will be available, as ELDO anticipates, at half the unit cost of similar American equipment. Finally, given the advance which American and Soviet boosters are expected to be making in the meantime, these experts also question that ELDO's vehicle--with roughly twice the weight-lifting capability of the Thor-Agena B-- 25X1 will have the useful lifetime of five years which ELDO expects.

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