

SECRET

COPY NO. 75
OCI NO. 0443/62
16 Nov 1962

CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

SECRET

25X1

State Dept.
review completed

NAVY review
completed.

GROUP 1
Excluded from automatic
downgrading and
declassification

38- 250524

Page Denied

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 November 1962

T H E W E E K I N B R I E F
(Information as of 1200 EST 15 Nov)

CUBAN DEVELOPMENTS Page 1

While 42 Soviet offensive missiles and some related equipment and personnel have already been withdrawn from Cuba, there is still no sign that other military equipment, including IL-28 jet light bombers, is being prepared for removal. Cuba's nearly complete silence on the status of the Castro-Mikoyan talks is continuing amidst speculation by foreign observers on the scene that every effort will be made to prevent a breakdown in negotiations or any hint of sharp disagreements from becoming publicized. Some of the five Latin American governments maintaining relations with Cuba are showing increasing unwillingness to sanction further moves against the Castro regime.

25X1

BLOC DEVELOPMENTS IN THE AFTERMATH OF THE CUBAN CRISIS . . Page 3

Moscow is developing its postcrisis line which stresses that a final Cuban settlement will open the way for progress in resolving more important questions such as Berlin and a nuclear test ban. In both private conversations and propaganda, the USSR is claiming that Khrushchev's commitments to President Kennedy have been fulfilled but that the US is seeking to avoid implementing the president's offer of assurances against a US invasion of Cuba.

Soviet spokesmen have begun to indicate interest in a Berlin conference next January or February.

There are indications that Mikoyan's talks with the Cuban leaders will end shortly. Meanwhile, the Chinese Communists are continuing their thinly veiled attacks on Khrushchev's handling of the Cuban crisis.

25X1

DE-STALINIZATION AND RELATED PROBLEMS IN EAST GERMANY . . Page 6

The East German party is undergoing new strains resulting from the bloc-wide de-Stalinization campaign and from plans for reorganization to cope with the country's persistent economic problems. Shake-ups are probable in the lower and intermediate levels of party and government. Party cadres, already demoralized by what they regard as Soviet weakness on the Cuban and Berlin issues, appear frustrated and apathetic, while the population continues outspoken in its complaints about economic hardships.

25X1

CZECHOSLOVAKIA ABOLISHES AGRICULTURAL FREE MARKET Page 8

Protracted public discontent over food supplies has led the Czechoslovak Government to forbid the private sale of agricultural products. This is the latest in a series of measures to improve control over state procurement and distribution of agricultural products. However, it will not increase the supply of food, and it may even reduce it

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 November 1962

by depressing the peasant's incentive to produce food on his private plot. The outlook for improved supplies of quality foods in the near future is not bright. [redacted] 25X1

INDIA - COMMUNIST CHINA Page 9

With the battle front essentially static, developments have centered in the political and propaganda fields. Although both sides ritually profess their interest in a negotiated settlement, they are further apart--and nearer a break in relations--than ever before. India is seeking to keep open and improve its lines of communications with Pakistan, the USSR, and Nepal. On the home front, the country is approaching a war footing. [redacted] 25X1

DEVELOPMENTS IN LAOS Page 11

Premier Souvanna Phouma once again has threatened to resign, claiming that his efforts have been hamstrung by the intransigence of both the right- and left-wing factions. The coalition commission set up to oversee the implementation of the Geneva agreements has bogged down in factional wrangling [redacted]

[redacted] Souvanna appears to have fashioned at least a surface compromise in the dispute between rival neutralist groups in Phong Saly Province. [redacted] 25X1

THE YEMENI SITUATION Page 11

Saudi Arabia, Jordan, and the UAR remain deeply involved in the Yemeni conflict. Growing resistance from royalist tribes in northern and eastern Yemen has caused the UAR to raise the total of its troops in Yemen to some 10,000. [redacted]

[redacted] However, the defection to the UAR of the commander of the Jordanian Air Force and two pilots has come as a serious blow to King Husayn, and may lead him to reconsider his policy of aiding the Yemeni royalists. The Yemeni revolutionary regime, meanwhile, has stepped up its propaganda attacks against the Saudi and Jordanian monarchies and the British government in Aden. [redacted]

CONGO DEVELOPMENTS Page 14

The Congolese army attack on Kongolo in North Katanga appears to be faltering in the face of Katangan air attacks, and Adoula is desperately trying to develop some air capability there. UN military forces have been authorized to take action against "the attackers" in the air or on the ground. UN officials evidently believe that attempts to achieve Katanga's reintegration with the Congo through conciliation have failed, and that greater pressures now must be exerted against Tshombé. They are especially seeking ways to deprive Tshombé of his mining revenues. [redacted]

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 November 1962

FRENCH-ALGERIAN RELATIONS Page 15

French officials have shown increasing irritation with Algeria's foreign policy and its attitudes toward French property and interests. Paris' disenchantment is the greater because of the scale of French economic aid, which includes coverage of Algerian treasury debts expected to reach \$400 million by the end of 1962 and continuation through 1963 of \$200 million a year in direct economic aid. A further accumulation of minor points of friction, particularly if the Algerian Government should demand precipitate withdrawal from the French nuclear test sites, could cause De Gaulle to adopt a tough attitude toward continuing aid and toward a renegotiation of the Evian accords.

[Redacted]

25X1

STATUS OF US-PORTUGUESE AGREEMENT ON THE AZORES BASES . . Page 17

Talks between the US and Portugal on an extension of the Azores bases agreement which expires on 31 December have not yet begun. The delay is due in part to Portuguese insistence that certain outstanding issues be discussed first. Instead of granting another five-year extension of this agreement, Portugal will probably agree only to a temporary arrangement allowing US access to the bases next year. It would hope thereby to use the issue as a lever for extracting more American support for its African policy.

[Redacted]

25X1

COMMUNISTS CONTINUE TO CONTROL ICELANDIC LABOR FEDERATION. Page 18

A new effort will be made to oust the Communists from control of Iceland's central labor federation at its biennial congress from 19 to 23 November, but prospects for success are not bright. Through their control of much of organized labor, the Communists apparently are confident that they will be able to weaken and eventually topple Prime Minister Thors' pro-Western government by fomenting strikes aimed at undercutting its economic reform program. In anticipation of the June 1963 parliamentary elections, they are also seeking to revive flagging public interest in the once-emotional question of US military bases in Iceland.

[Redacted]

25X1

BRITISH GUIANA FOLLOWING COLLAPSE OF INDEPENDENCE TALKS . Page 19

Guianese political leaders, whose disagreements caused the collapse of the recent London conference on independence for British Guiana, are planning to step up political action. Their activities may lead to public disorders before the end of the year, particularly in view of the possibility of new strikes and at least one legislative by-election.

[Redacted]

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 November 1962

OPPOSITION TO COLOMBIA'S AUSTERITY PROGRAM Page 20

The Colombian Government's new austerity program has aroused widespread opposition which may have serious political repercussions. President Valencia already is being criticized for his failure to exercise effective leadership during his three months in office. The new crisis is likely to further weaken public confidence in the National Front government.

25X1

SPECIAL ARTICLES

SOVIET INDUSTRIAL MANAGEMENT Page 1

Soviet leaders are once again making a major effort to find a solution for problems of waste and inefficiency in their industrial organization. The need is especially acute at this time because the industrial machine is straining to meet commitments to the rapidly expanding space and military programs, to the growth of industry itself, and to the consumer. The solutions that have been suggested are, as usual, mainly organizational in character. The regime's plan of action is to be aired at the party central committee plenum scheduled to begin on 19 November.

25X1

STATUS OF THE ITALIAN COMMUNIST PARTY Page 6

The tenth congress of the Italian Communist Party (PCI), which convenes in Rome next month, must cope with the serious and widespread disorientation the party has faced in the postwar period. Many party leaders are dissatisfied with the ambivalent attitude the PCI has taken toward the government since the Fanfani coalition accepted the support of the Communists' erstwhile Socialist Party allies. The threat of parliamentary isolation and the need to maintain its political vitality have increased pressures for changes in the party's structure and ideology.

25X1

PROSPECTS FOR INCREASED BLOC-MALAGASY RELATIONS Page 11

The Malagasy Republic's moderate government, which has maintained a strongly anti-Communist position since the island became independent in 1960, appears to be shifting toward a cautious receptivity to bloc overtures. Although this tendency has so far produced only an increased number of quasi-official contacts, it could be accelerated by highly placed members of the opposition party and the examples of African states. Since the present level of Western support has not produced the prosperity and higher living standards popularly expected to follow independence, Tsiranana may accept bloc aid and diplomatic relations.

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

WEEKLY REVIEW

CUBAN DEVELOPMENTS

Continuing photographic reconnaissance flights over Cuba by US military aircraft have revealed no evidence that the Soviet IL-28 (Beagle) jet light bombers or other Soviet military equipment unrelated to offensive missile systems are being prepared for withdrawal. Assembly work on the bombers and their trainer equivalents is continuing at San Julian airfield in westernmost Pinar del Rio Province, where 33 of the 42 aircraft of this type known to be in Cuba are located. [redacted]

seven of these aircraft were completely assembled or nearly so, while another six were in lesser stages of completion. The nine IL-28 fuselage crates at Holguin airfield in Oriente Province remain unopened. Extensive improvement of this airfield, including the construction of covered aircraft revetments, is continuing.

Soviet military equipment remaining in Cuba includes the 24 surface-to-air missile (SAM) sites, several cruise-missile sites, SAM assembly and checkout facilities, and, in the four Soviet armored groups, such weapons as Frog artillery rockets, Snapper antitank missiles, and considerable quantities of conventional land armaments.

At least 11 Soviet ships have left Cuba with ballistic missiles and associated equipment. Alongside and overhead

inspection by US naval units showed that eight of these ships are carrying a total of 42 MRBMs as deck cargo.

Soviet personnel--probably members of ballistic missile units--also are leaving Cuba. Photographs of several of the outbound Soviet ships show large numbers of personnel and improvised mess facilities on deck. In addition, a Soviet passenger ship has left Cuba recently, apparently carrying military personnel.

Aerial photography indicates that large quantities of ballistic missile equipment remain in Cuba at several locations--including the ports of Mariel and Casilda, where the missiles themselves were put aboard ships--as well as at several of the dismantled missile sites. Much of this presumably will be loaded on Soviet ships now in Cuban waters or en route to Cuba from the USSR.

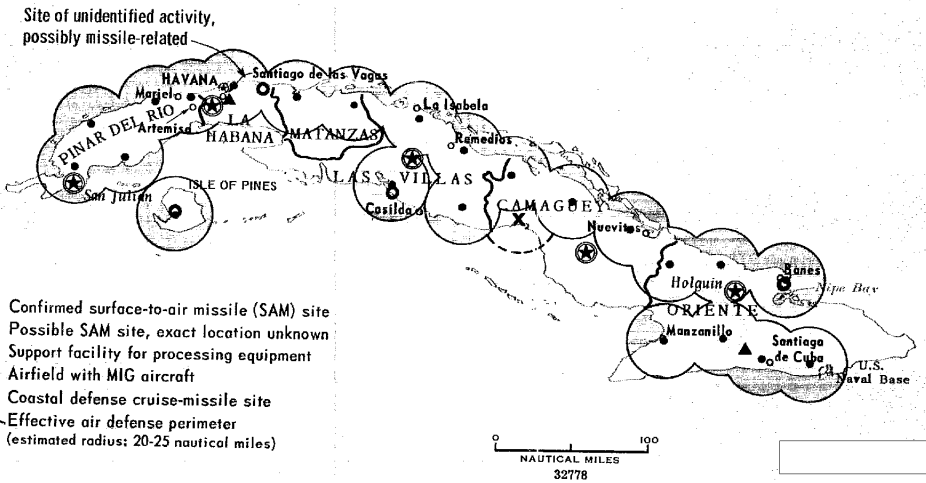
Photography [redacted] confirmed that at least 11 of the 29 MIG-21C (Fishbed) jet fighters then located at the Camilo Cienfuegos airfield near Santa Clara, Las Villas Province, were armed with air-to-air missiles. Of another 8 MIG-21Cs at San Antonio de los Banos airfield in Havana Province, one was observed to be equipped with missile launchers, but it could not be determined whether missiles were in place.

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY



25X1

A fifth possible cruise-missile installation was observed near Mariel in photography [redacted]. The site consisted of two small clearings atop heavily wooded hills; the two clearings were connected by roads with partially concealed storage areas and a headquarters area.

The Cuban armed forces are further relaxing the state of alert which has been in force since 22 October. [redacted]

25X1

demands for "peace with dignity" and his styling of the Cuban demands as "a program for peace in the Caribbean" were dutifully reported in the Cuban press.

[redacted] while serious differences do exist between Castro's position and that of the Soviets, both sides seem equally determined to avoid a breakdown in their talks and will make every effort to prevent word of their disagreements from becoming public.

25X1

The Castro regime has maintained a tight veil of secrecy over the status of the extended Castro-Mikoyan talks. During the 10-12 November period, Cuban press and radio information did not even refer to Mikoyan's presence in Cuba. The silence was broken with publication of the Soviet deputy premier's visit to the University of Havana on 12 November. Mikoyan's repetition of earlier Soviet statements of "support" for Castro's five

The apparent easing of the Cuban crisis has produced a growing disinclination among at least three of the five Latin American governments maintaining diplomatic relations with Castro to sanction stronger action against him at this time. Chile evidently intends to maintain relations with Cuba, apparently in order to avoid a split in the governing coalition and to be in a position to assert Chilean influence in negotiations with Cuba. [redacted]

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

BLOC DEVELOPMENTS IN THE AFTERMATH OF THE CUBAN CRISIS

Moscow's developing line in the postcrisis period stresses that a final Cuban settlement will open the way for progress in resolving more important questions such as Berlin and a nuclear test ban.

[redacted] the USSR is claiming that Khrushchev's commitments to President Kennedy have been fulfilled but that the US is seeking to avoid implementing its offer of assurances against an invasion of Cuba.

The USSR concentrated on maneuvers last week to block US demands for UN on-site inspection and verification of the removal of the missiles from Cuba. Moscow radio charged on 14 November that US insistence on the removal of "Soviet-made military planes which are the property of the Cuban armed forces" shows that Washington is more interested in maintaining tension than settling the conflict. According to an unconfirmed press report, Khrushchev also sought to undercut US demands that the IL-28 (Beagle) jet light bombers be removed by promising in a new letter to President Kennedy that these aircraft will eventually be withdrawn and that, in the meantime, they will be kept under Soviet control.

Moscow continues to maintain silence on Mikoyan's talks with Castro, except for noting that their tour of Matanzas Province on 9 and 10 November "was marked by an exceptionally friendly atmosphere." The Soviet press has contained no hints of the disagreements which apparently obliged Mikoyan to prolong his stay in Cuba. There were indications, however, that the talks will end shortly and that Mikoyan would stop in New York for further talks with UN and US officials on his way back to Moscow.

Future Soviet Tactics

Moscow's apparent intention to make a serious effort in the next half-year to resolve the Berlin problem was evident in the remarks of a Soviet official in Geneva [redacted]

[redacted] that the USSR would not demand that the West abandon its rights in Berlin. He said Western forces can stay in the city but some form of international control over West Berlin must be established. He said Moscow is ready to enter serious negotiations and suggested a conference on Berlin might be held about the end of January or in February at Geneva.

The Soviet official also indicated that the USSR would refrain from any unilateral action regarding Berlin as long as reasonable prospects for a negotiated settlement exist. [redacted]

Intrabloc Developments

Moscow has avoided any further pronouncements on the

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

Sino-Indian border conflict and the question of the sale of MIG-21 jet fighters to India. However, the USSR is continuing to deliver goods to India, and the 14 November agreement to supply India with equipment for oil exploration work and the announcement of the opening of a new Indian consulate in Odessa suggest that Moscow hopes to prevent the border dispute from causing any serious disruption of its political and economic relations with New Delhi.

Peiping has continued its thinly veiled attacks on Khrushchev's handling of the Cuban crisis. The Chinese press indicated support for Castro's resistance to the "US-USSR accord" and characterized on-site verification and the removal of the IL-28 jet bombers as infringements of Cuban sovereignty.

In addition to trying to complicate Mikoyan's talks with Castro, Peiping sought to undermine Khrushchev's position in the world Communist movement by broadcasting a statement by the chairman of the Indonesian Communist Party lamenting the "regrettable sacrifice" entailed by the removal of the missiles. The Indonesian Communist leader was quoted as saying that "sovereign Cuba was forced to do things against its will."

The Chinese delegate to the Bulgarian party congress also indirectly attacked Khrushchev's Cuban retreat by describing the Cubans as a people who "dare to fight and dare to win." He also deplored the fact that the Bulgarian congress had been used as a forum for new assaults on the Albanians. Such attacks, he said, did not reflect a serious Marxist-Leninist attitude. The Burmese and North Korean representatives at the congress echoed the Chinese line.

The Soviet bloc's rapprochement with Yugoslavia does not appear to have been affected by Khrushchev's handling of the Cuban situation or the bloc's dispute with China over the matter. On 7 November, the Soviet ambassador in Belgrade publicly reiterated that Tito will visit the USSR as scheduled in December. Belgrade and Moscow also will apparently soon sign an agreement for expanded technical cooperation, a form of economic assistance.

25X1

Although obviously pleased at these developments, Belgrade displayed some anxiety on 14 and 15 November when its propaganda media vigorously complained over anti-Yugoslav passages in a recently published history of the Soviet Communist Party and the resolution of the just-concluded Bulgarian congress. Tito probably regarded these statements as violations of his agreement with the bloc not to attack each other. In an interview with the Soviet ambassador on 14 November, Tito probably sought assurances that these statements were aberrations and did not represent a shift in bloc policy.

Developments in the USSR

Moscow made a concerted effort during the past week to focus attention on internal affairs. Following six weeks of preparations, the party

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

announced on 9 November that its central committee will convene on 19 November. The improvement of party management of industry, construction, and agriculture is the only item on the agenda, and Khrushchev is scheduled to be the principal speaker.

There have been numerous indications that Khrushchev intends to initiate a new industrial-administrative reorganization at the plenum. While most of the details are still unclear, there is ample evidence that a major change is anticipated, and this could require an admission that the 1957 reorganization of industrial management has failed.

There also have been recent suggestions that Khrushchev may be preparing to proceed further with de-Stalinization at the plenum, raising the possibility that he will blame past failures and the need for a new reorganization on old-line bureaucrats and Stalinist methods of administration. The announcement of the resignation of A. F. Zasyadko as chief of long-range planning on the same date as the announcement calling the central committee into session

could be an indication that Khrushchev is bent on producing scapegoats.

Most of the internal developments, however, seemed intended to give the impression of business as usual. The government announced that the Supreme Soviet will convene on 10 December. [REDACTED] 25X1

Khrushchev's leadership of agriculture has received considerable attention in the press. On 11 November, Pravda devoted one fourth of its space to an article extolling the publication of a multivolume collection of his articles and speeches on this subject. On 13 November, the press printed his lengthy memorandum to the party presidium on the harvest. As has been the case since 1958, his estimate seemed to be highly exaggerated. 25X1 The grain forecast for this year may have been inflated by over 30 million tons. [REDACTED]

* * *

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

DE-STALINIZATION AND RELATED PROBLEMS IN EAST GERMANY

The renewed bloc-wide de-Stalinization effort appears to be placing serious strains on East Germany's Socialist Unity Party (SED) leadership. These strains are in addition to those imposed by the regime's failure to overcome long-standing economic problems and to gain Soviet agreement to sign a separate German peace treaty.

Party boss Ulbricht is adhering to his public position that "collective leadership" prevails at all levels of party and government even as he prepares to act on apparent Soviet demands that the regime improve its public image by purging unpopular and inept officials.

Regime leaders are faced with the dilemma of how to make these changes prior to the sixth party congress in mid-January without encouraging open criticism of Ulbricht and his party's Stalinist methods and background. Regime leaders probably are also fearful of the effect of a lower level purge on a party already shaken by Cuban developments.

The regime's dilemma was apparent in the keynote address by Hermann Axen on the anniversary of the Bolshevik revolution. He said the SED owes its "victories" to its collective leadership, but he attacked "revisionists and dogmatists in the party who have not yet found the strength to overcome the personality cult in their ranks and who fail to grasp the conditions in the struggle for peaceful co-existence...." Obviously aligning the SED with the Soviet party against the Chinese and Albanian heresies, Axen is also criticizing those hard-line East German Communists who do not accept Khrushchev's recent actions on Cuba and Berlin as correct.

Recent statements in Neues Deutschland suggest that

party leaders are concerned over the loss of confidence among party cadres. A 27 October editorial urging "iron discipline" on the party implied that some party elements had succumbed to the manipulations of "opponents" and that some had failed to adhere to "Leninist norms of party conduct." A shake-up may be coming, at least in intermediate party and government levels.

The regime is taking tentative steps to de-Stalinize its judicial system. A directive of the supreme court, published in the legal gazette on 29 October, criticized violations of the civil rights of arrestees and demanded that lower courts use greater discretion in confirming arrest warrants. The directive, however, expressly left wide latitude to authorities in cases concerning "grave offences against our socialist system." The regime, moreover, has not removed from their positions such obvious Stalinists as Justice Minister Hilde Benjamin.

In economic affairs the leadership is struggling with two continuing major problems -- food shortages and the lack of a clear authority for making final economic decisions. With apparent Soviet guidance, East German policy has been fixed on production goals and the allocation of resources--aspects which were a source of serious disagreement a year ago. East German spokesman and the press have practically ceased discussing the campaign to make the economy invulnerable to "Western disturbances," and foreign trade organizations are showing renewed interest in interzonal trade.

The food shortages, more serious this year than in 1961, have made the party cautious in dealing with the population. The people openly complain that the shortages are inexcusable

SECRET

SECRET

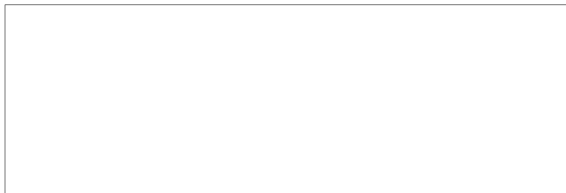
CURRENT INTELLIGENCE WEEKLY SUMMARY

25X1

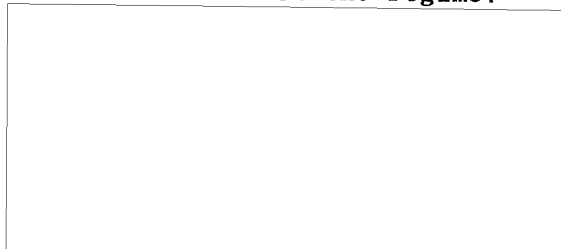
and feel that they have been worsened by the regime's refusal to reintroduce formal rationing instead of relying on "customer lists"--a system which has resulted in haphazard, inequitable distribution. There is no indication, moreover, that the Soviet Government intends to do much to ease the food shortages.

Nevertheless, general discontent over irregular supplies and queues has not prevented a 9.5-percent increase over last year in industrial labor productivity through August 1962, while wages rose by only one percent. The regime is persevering in its decision to carry out norm increases and wage reforms, although this is likely to intensify public dissatisfaction and may even lead to sporadic slowdowns and strikes in some plants.

Changes in economic organization since 1958--notably the creation of the People's Economic Council in July 1961--have made the economic apparatus less effective, in this case by creating a body in competition with the already existing State Planning Commission. The diffusion of responsibility seriously hampers economic growth, for which East Germany depends heavily on improved management and increased efficiency. Ulbricht has hinted that a further reorganization is in prospect.



The lack of clear authority in economic affairs has encouraged rivalry among the more ambitious members of the regime. 25X1



These rivalries to date, however, have not reached the point of factionalism, and the overriding need of answering to Moscow probably will keep them dampened to an acceptable level.

In the long run, the regime's greatest problem remains the lack of party or public enthusiasm for the leadership. Although flight to the West is now extremely dangerous, the people continue their efforts to escape and are increasingly apathetic to regime pressures. Against this background, unless the party leadership succeeds in overcoming the growing demoralization in the party itself, prospects remain dim that it will be able to meet Soviet demands for an improvement in the regime's political image.

25X1

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

CZECHOSLOVAKIA ABOLISHES AGRICULTURAL FREE MARKET

Protracted public discontent over the food supply situation led the Czechoslovak Government on 31 October to forbid the private sale of agricultural products. This is the latest in a series of measures to improve control over state procurement and distribution of agricultural products. Although the government admits that supplies of quality food such as meat and dairy products are unsatisfactory, it has failed to increase producer incentives or step up imports. As a result, the outlook for an early improvement in the availability of such foods is not bright.

According to the recent decree, all agricultural products--even those from private plots--now must be marketed through state procurement agencies. The government's aims are to eliminate speculation and to improve food distribution. However, the food supply will not be increased--and could actually be reduced, since the loss of income from his private plot will further depress the peasant's incentive to increase food production.

In the past two years dissatisfaction over food supplies and prices has been growing among urban consumers. Many factors have contributed to these shortages. A stagnation of agricultural output occurred at the same time food imports were reduced in 1961 and 1962. Increased consumer demand for quality foods has resulted in part from a faster rise in purchasing power than in the supply of foods and other consumer goods. Moreover, the number of people who grow their own food has declined because of increased urbanization and because peasants are buying more of their food in retail

outlets. Consequently, when supplies of food leveled off, as they did last spring, queues became longer in many food stores, and some riots occurred.

In response to consumer complaints of shortages the government claims that more meat has been placed on the market this year than in the past, that shortages have been intensified by the increased demand resulting from higher wages, and that too large a share of farm produce is sold outside of state distribution channels. It was to prohibit such sales that the government decided to abolish the free markets. Officials meanwhile continue to urge producers to increase production and deliveries, and to rebuke consumers for demanding ever-increasing supplies when they are among the best fed in the Sino-Soviet bloc.

Despite regime insistence that food shortages must be overcome by increased domestic production, agricultural policies to date have restricted private initiative and thus do not promise much success in stimulating production. The output, as well as procurements, of meat, milk, eggs, grain, potatoes, and fodder supplies this year will continue to be short of established goals, and will fail to meet consumer demands.

Price increases similar to those in the USSR--affecting both procurement prices and retail sales prices for livestock products--may be introduced in order to stimulate producer incentives and to curb consumer demands. Rumors of impending food price increases are widespread. The regime also could decide to restrict wage increases in order to help reduce demand for quality foods.

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

INDIA - COMMUNIST CHINA

Nearly a month after Peiping opened its offensive against Indian border positions, armed conflict has abated considerably. Both sides remain essentially where they were at the end of the first week's fighting (see map next page), and clashes are limited to routine patrol actions.

In the political and propaganda fields, both sides ritually profess their interest in a negotiated settlement; but through the welter of statement and restatement, it is evident that they are further apart--and nearer a diplomatic break--than ever. Nehru resists any effort--such as China's mutual withdrawal proposals--which discounts Chinese "aggression" and serves to equate the Indian and Chinese positions. Peiping, after its successful military effort, seems more determined than ever that any border arrangements be on Chinese terms only.

These were restated by Premier Chou En-lai and Foreign Minister Chen Yi in recent conversations with rcving British diplomat Malcolm MacDonald. They insisted that Peiping's 23 October proposals for a cease-fire and a withdrawal from the de facto line which existed in November 1959 are firm and will never be withdrawn.

Obviously hoping for some measure of British support for such a solution, Chou gave the impression the Chinese would agree to the McMahon Line in return for India's acknowledgment of China's claim in Ladakh and might make a further concession in the McMahon Line area. He said, however, Peiping would respond in kind to any new military initiative. Chen Yi commented that the border conflict is localized and said a major war with India is "inconceivable." He indicated that while Peiping hopes for a "perpetual" settlement, something temporary

would be better than nothing.

India's public response to the Chinese challenge continues to be highly charged. Defense expenditures for the current fiscal year have been boosted 25 percent to nearly one billion dollars to defray the cost of new equipment, roads, more troops, and stepped-up military operations.

Nehru's appointment of Y. B. Chavan as his new defense minister brings to the cabinet a vigorous 48-year-old, long regarded as one of India's ablest leaders at the state level. The prime minister now can direct his attention to the task of channeling along productive lines the country's new surge of energy and unity aroused by the frontier attacks. The appointment of T.T. Krishnamachari to the newly created post of minister of economic and defense coordination will also contribute to this end.

Diplomatically, New Delhi has moved to put its affairs in some semblance of order in respect to Nepal and Pakistan. This was easily done with regard to Katmandu by calling off Nepali exile raids. The problem with Pakistan, however, is compounded by centuries of communal suspicion and 15 years of national antagonism. Some small progress is being made in preventing differences from spilling over into public acrimony.

Nehru has again raised the issue of acquiring MIG-21 (Fishbed) jet fighters from the USSR, apparently for political reasons. He has been variously quoted and misquoted on the subject on recent occasions, in which he has seemed almost purposefully inconsistent. However, it would appear that he was using the issue as a reassertion of his nonalignment, hoping to counterbalance publicity about Western arms aid while encouraging 25X1 Moscow to deliver more transports and helicopters as well as the MIGs.

SECRET

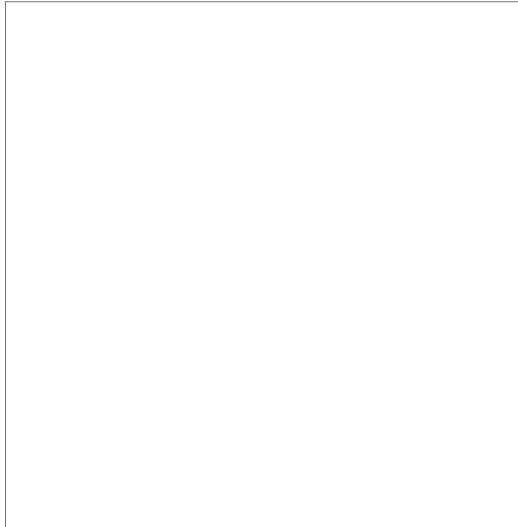
SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

DEVELOPMENTS IN LAOS

Laotian Premier Souvanna Phouma has again threatened to resign. He claims that his efforts have been hamstrung by the intransigence of both the right- and left-wing factions in the government. He apparently hopes that his threat will encourage more forthcoming attitudes on both sides.

While the right-wing elements in the coalition have not lent full support to Souvanna, his present discouragement stems primarily from the persistent obstructionism of the Pathet Lao. He has been especially annoyed by the tactics of Minister of Information Phoumi Vongvichit, who was the spokesman for the left-wingers during Vice Premier Souphannouvong's recent absence for medical treatment in the bloc. Souvanna probably hopes that Souphannouvong--who has just returned to Laos after visiting Moscow, Peiping, and Hanoi--will restrain Phoumi Vongvichit and give assurances that the Pathet Lao will adopt a more cooperative attitude.



25X1

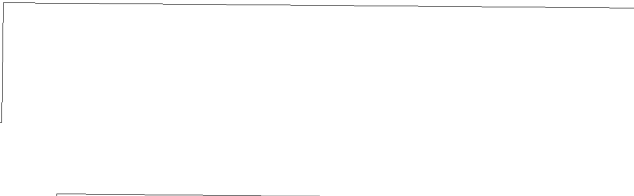
Souvanna apparently has fashioned at least a surface compromise in the dispute between rival neutralist factions in Phong Saly Province. Following a recent meeting in the provincial capital with the leaders of the opposing factions, Souvanna claimed that the difficulties had been "all resolved."

25X1

25X1

THE YEMENI SITUATION

Saudi Arabia, Jordan, and the UAR are becoming further involved in the conflict in Yemen.



This involvement in the Yemeni conflict has produced serious strains within Jordan. The defection to the UAR on 12 November of the Jordanian Air Force commander and of two pilots the following day is evidence of the dissatisfaction

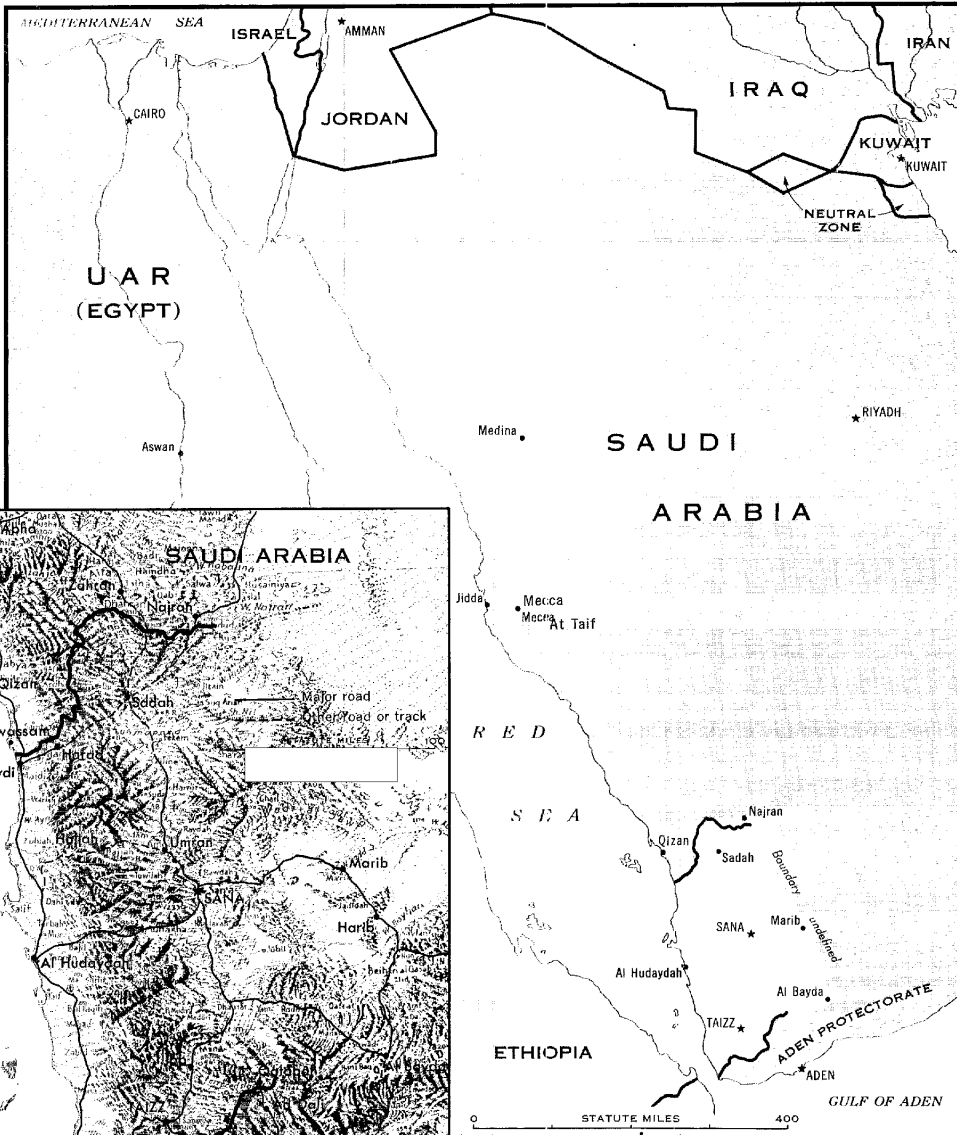
SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

within the military over the government's policy of aiding the Yemeni royalists, and is a serious blow both to the prestige of King Husayn and to the government of Prime Minister Wasfi Tal. In a conversation with the US am-

bassador, Husayn--apparently discouraged and saddened by the defections--indicated that his policy toward Yemen would be re-examined. The King also told the ambassador that he had ordered the grounding of all Jordanian Air Force planes in



اليمن
YEMEN

32787

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

Jordan. He reportedly has reversed an earlier decision to recall the planes sent to Saudi Arabia, but has restricted them to flights over Saudi territory.

Growing resistance from royalist tribes in northern and eastern Yemen has led the UAR to commit another brigade to Yemen, raising the total of UAR troops there to 9,000-10,000. On 9 November the UAR and the Yemeni revolutionary government announced the signing of a defense pact, apparently designed to deter direct Jordanian and Saudi intervention in Yemen.

This pact has been followed by repeated threats from Yemeni revolutionary leaders that they will respond to any "further Saudi aggression" by carrying the war into Saudi territory and that they will counter any air attacks by bombing Saudi airfields.

There is additional evidence, meanwhile, of friction developing between the Yemeni revolutionary leaders and Egyptians sent to advise them. The revolutionary government itself has already undergone one drastic reorganization

25X1

Leaders of the Yemeni revolutionary government, evidently with some coaching from Cairo, are continuing their sharp propaganda attacks against the Saudi and Jordanian monarchies and the British government in Aden. Sana radio announced that President Sallal has ordered that a republican government-in-exile for the Arabian Peninsula be created in Yemen. It is to be organized by Nasir al-Said, a pro-Communist extremist

25X1

* * *

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

CONGO DEVELOPMENTS

Attempts by the Congolese central government to exert military pressure on Tshombé appear to be failing, but there is growing evidence that UN forces are planning early moves to press him to reintegrate tanga with the rest of the ountry.

Troops of the Congo National Army (ANC) attacking Katangan forces at Kongolo in North Katanga seem to be suffering reverses, despite the fact that ANC forces there--some 5,500--outnumber the Katangans by more than three to one. Katangan air strikes and bombings have scattered and demoralized the attackers.

Premier Adoula is desperately trying to find ways of countering the air attacks, but he has almost no effective air strength in that area. Adoula has asked the US to supply aircraft rockets

Adoula may have obtained UN military support in North Katanga. UN chief representative Gardiner told Ambassador Gullion on 13 November that UN officials in New York had authorized UN forces to engage the "attackers" either in the air or on the ground in the event of any renewed action.

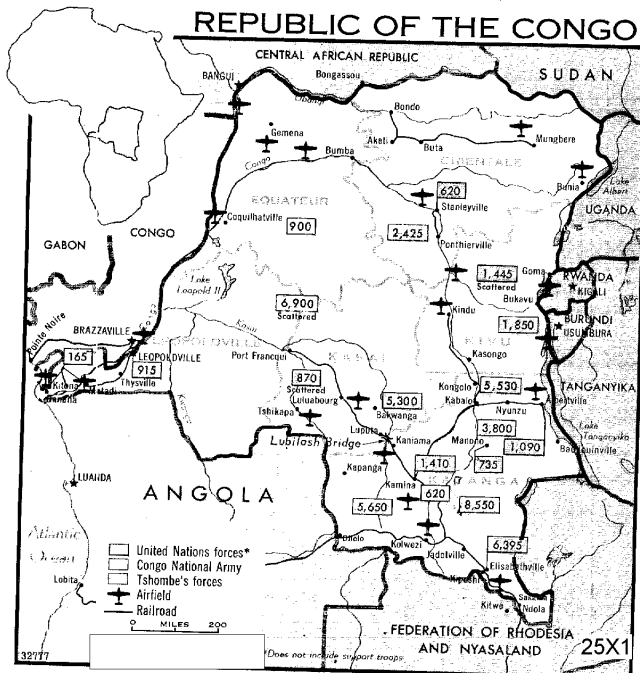
UN officials in New York and the Congo evidently are leaning increasingly toward adopting measures to exert pressure on Tshombé.

The weight of evidence suggests that the UN is planning some means of depriving Tshombé of his mining revenues probably by occupying principal mining towns. A military move to seize control of the railroad exit points at Difofa and

Sakania would probably meet with less Katangan military resistance.

Both Acting Secretary General Thant and Under Secretary Bunche privately stated on 9 November that if Tshombé gave an unsatisfactory response to Thant's request for a statement of intentions, they would consult the US, UK, and Belgium on "abandonment of the plan and new courses of action." They deny that the 15 November date Thant had mentioned to the Congo Advisory Commission had any significance other than as a deadline for Tshombé's reply.

Tshombé has replied to Thant with renewed assurances of his support for the implementation of the UN integration plan. In his reply Tshombé complained of Adoula's handling of the new constitution, of his failure to abide by the spirit of the plan, and of the ANC attacks in North Katanga. Bunche's preliminary reaction to Tshombé's reply was negative, and UN officials will probably take the complaints as confirming their



view that Tshombé is the principal culprit and that all-out support should be given Adoula.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

FRENCH-ALGERIAN RELATIONS

French officials have shown increasing irritation with Algeria's foreign policy and its attitudes toward French property and interests. Paris' disenchantment is the greater because of the scale of French economic aid, which includes coverage of Algerian treasury debts expected to reach \$400 million by the end of 1962 and continuation through 1963 of \$200 million a year in direct economic aid. A further accumulation of minor points of friction, particularly if the Algerian Government should demand precipitate withdrawal from the French nuclear test sites, could cause De Gaulle to adopt a tough attitude toward continuing aid and toward a renegotiation of the French-Algerian agreement signed at Evian last March.

The \$400 million "advance" to the Algerian treasury

is enabling the Algerian Government to continue operations. How long Paris will continue such support is questionable, but its immediate and far-reaching effect on Algerian stability--especially with a greatly diminished Algerian tax base--will give France a strong bargaining weapon if Algerian Premier Ben Bella demands a drastic revision of the Evian accords.

French officials feel that the \$200 million economic aid

level planned for 1963 satisfies the obligations France assumed at Evian. According to the chief economic adviser to Minister of Algerian Affairs Louis Joxe, 80 percent of the 1963 funds will be obligated to finance projects now under way, and only some \$40 million will be available to finance projects requested by the Algerian Government. The projects, already under way, collectively known as the Constantine plan, are directed primarily toward industrial construction and improved public infrastructure such as ports, roads, hospitals, and schools. The plan's concentration on urban centers and the lack of direct benefits for the hard-pressed Algerian rural population could cause friction between the two governments.

Algerian conduct since the formation of the Ben Bella government has done little to convince Paris that cooperation between France and Algeria is going to be a two-way street. Ben Bella has, on several occasions, stated his desire for "sincere cooperation" with France but he has also spoken in sweeping terms of the need for revision of the Evian accords. French officials appreciate that some of these statements were intended to bolster his domestic position or to establish a bargaining position, but the statements may have lessened French public willingness to continue aid to Algeria. Algerian acts

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

against French property and the remaining Europeans, including sequestrations of French farms, have also worsened relations between the two countries.

In a newspaper interview on 23 October, Ben Bella said there was no question of altering French base rights by armed force. Subsequently, however, he said there could be no further French nuclear tests in the Sahara, although the Evian accords include five-year French leases on Saharan nuclear and missile test sites.

France is already making preparations to move its missile and nuclear test program out of Algeria, and plans may also be under way to leave the large Mers-el-Kebir naval base before the expiration of its separate 15-year lease. However, withdrawal before other arrangements are made would hamper French naval operations in the Mediterranean and could

delay France's nuclear weapons development program.

The gross effect of these irritants has not, thus far, been sufficient to cause France to basically revise its Algerian policy. French officials continue to hope that French aid will strengthen the position of those Algerian leaders who see the need of French economic aid, technical personnel, and markets, or at least prevent their replacement by more extremist leadership. De Gaulle's personal prestige is closely tied up with his claim to have solved the Algerian problem, and he will be reluctant to see cooperation between the two countries ended.

However, French policy will in the end depend on his assessment of whether the benefits remaining for France justify a continued financial outlay. As far back as April 1961 he said that France would abandon an independent Algeria hostile to France, and that if the Soviet Union or the US wanted to replace France, he wished them well.

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

STATUS OF US-PORTUGUESE AGREEMENT ON THE AZORES BASES

Talks between the US and Portugal on an extension of the Azores bases agreement which expires on 31 December 1962 have not yet begun. The delay is due in part to Portuguese insistence that certain outstanding issues be discussed first. Instead of granting another five-year extension of this agreement, Portugal will probably agree only to a temporary arrangement allowing US access to the bases next year. It would hope thereby to use the issue as a lever for extracting more American support for its African policy --most immediately in the forthcoming UN debate on Angola.

Last August the Portuguese presented the US with a "bill of complaints" listing a number of issues on which, they stated, an understanding was necessary before they were prepared to discuss the bases. Some of the issues in which the Portuguese are most interested involve, in one way or another, the question of US support in the UN for Portugal's African policy. However, there have been to date only limited exchanges between the two governments on these issues.

In a 5 November demarche to Portuguese Foreign Minister Franco Nogueira, Ambassador Elbrick pointed out that any talks designed to reach an accommodation regarding the bases would be unlikely to be completed before the end of the year. He proposed that the present agreement be extended for two years. Franco Nogueira rejected the proposal and said he felt negotiations could be completed by 31 December. He added that if it appeared later that the deadline could not be met, appropriate arrangements could be made for continued use of the bases temporarily.

The present Portuguese position is similar to that taken in the course of the last negotiations for an extension of the agreement, then due to expire at the end of 1956. Increasing suspicion of US foreign policy, including the American attitude toward Portugal's overseas provinces, was the main factor behind Prime Minister Salazar's suggestion that the agreement be allowed to continue in effect only during 1957. However, it was negotiated without great difficulty before the end of that year for a five-year period. Salazar at the time hinted that Portugal might eventually take over operation of the bases; otherwise, he said, "You Americans will be in the Azores forever."

Portugal's African policy is scheduled for debate in the UN very soon, and Lisbon may be expected to watch closely for signs of support from the US. If the Portuguese believe their case is receiving adequate consideration, they may well agree to extend the present agreement on the Azores--their only ace--through 1963. Continued US support of the kind desired during next year might result in a five-year extension through 1968.

On the other hand, if the Portuguese feel they are not receiving sufficient support from Washington, they would probably insist that any extension be limited to a period of a few months and would undoubtedly indicate that further renewal depended on a change in US policy. Only in the event of what they regarded as extreme provocation by the US would they be likely to insist that the bases be evacuated.

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

COMMUNISTS CONTINUE TO CONTROL ICELANDIC LABOR FEDERATION

Labor elements associated with Iceland's pro-Western coalition government will attempt to wrest control of the 30,000-member Central Labor Federation (IFL) from the Communists at the federation's biennial convention from 19 to 23 November. Prospects for their success, however, are not bright because of the continued collaboration of the opposition Progressives (agrarians) with the Communists in trade union as well as in political matters.

The Communists, despite their control of the IFL for the past eight years and their ability to muster the support of up to a fifth of the electorate in recent elections, have failed in their immediate objective of toppling Prime Minister Thors' Conservative - Social Democratic cabinet. However, they have used their control of organized labor to impede implementation of the sweeping economic reform program Thors was committed to when he took office in November, 1959.

The recent action by several large Communist-controlled unions renouncing wage contracts which would not expire until spring and demanding 10-15-percent wage hikes is expected to set a pattern for other unions. The government therefore will probably confront a direct

challenge to its leadership--and possibly its survival--this winter. Thors faced a similar situation in June 1961 when the Communists called a near-general strike which was settled by acceding to their wage demands and resorting to a devaluation of the krona to maintain economic stability.

If the same problem arises again this winter, Thors' attitude would probably be affected by the approach of parliamentary elections next June. The government cannot afford to appear to be unsympathetic to what many workers regard as justified demands.

The impending elections also threaten to revive the currently tranquil but potentially disruptive issue of NATO bases in Iceland. In the 1950s, the Communists and isolationist groups in Iceland were able to focus considerable public attention on this question. The Thors government, determined to deny anti-Western elements a propaganda weapon, has requested that a NATO infrastructure agreement on the building of petroleum storage and mooring facilities in Iceland be deferred until after the June elections. It probably fears the effect of the current Soviet propaganda offensive for complete disarmament and elimination of foreign bases. 25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

BRITISH GUIANA FOLLOWING COLLAPSE OF INDEPENDENCE TALKS

Guianese political leaders, whose disagreements caused the collapse of the recent London conference on independence for British Guiana, are planning to step up political action. Their activities may lead to public disorders before the end of the year, particularly in view of the possibility of new strikes and at least one legislative by-election.

The conference, called to discuss a new constitution and set a date for independence, was adjourned on 6 November because the Guianese were unwilling either to compromise their differences on the electoral system or to accept British arbitration. Both opposition parties--the Negro socialist People's National Congress (PNC) and the small, ultraconservative United Force (UF)--remained adamant in their demands for proportional representation, new elections before independence, and retention of the present voting age of 21--none of which Premier Jagan was prepared to concede.

The British are considering a referendum in the colony to settle the impasse on proportional representation, but may delay taking action for several months. A British decision is also pending on the colony's future security arrangements.

[redacted] The Guianese public could easily be aroused to violence by provocative tactics. Two clashes--one on 21 November injuring 29 persons--have already occurred between militant supporters of Jagan's Progressive Youth Organization and the UF's Guiana United Youth Society.

25X1

There are several other potential sources of trouble in the near future. A new round of strikes appears to be in prospect in the sugar industry, and in view of the depressed economic situation, there may be strikes in other areas as well. Jagan's efforts to cut into the following of unions that support the opposition may contribute to the strike threat.

Jagan's precarious legislative majority of two is likely to tempt the PNC and the UF to press for a long-deferred by-election in the Houston constituency, which they would stand a chance of winning if they worked together. Also, Attorney General Ramsahoge has indicated his intention of resigning both his ministerial and legislative posts before the end of the year. A by-election to fill the legislative vacancy would subject Jagan's government to further electoral hazard.

The Jagan government's attitude toward the US appears to be worsening. Minister of Natural Resources Benn on 10 November accused both London and the opposition leaders of being tools of "powerful elements" in the US.

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

OPPOSITION TO COLOMBIA'S AUSTERITY PROGRAM

The announcement on 8 November by Finance Minister Sanz of Colombia's new economic stabilization plan touched off a wave of protest that may have serious political repercussions and further weaken public confidence in the National Front government. The new crisis is likely to open the gap dividing the factions in both the Conservative and Liberal parties--the two parties comprising the National Front government.

Official statements from the two major labor federations and many business groups have been critical and have urged the government to reconsider the plan. The main objections apparently arise out of a fear that the new measures will generate sharp price increases.

The main features of the economic plan include new consumer taxes and higher import tariffs. A tax on all imports has resulted in effect in a devaluation of the peso. Sanz thereby avoided outright devaluation, which would have been politically less acceptable. The program is intended to ease Colombia's severe balance of payments deficit--estimated at \$100 million in 1962--and to help finance the country's ten-year development plan.

The US Embassy--while praising the program--reports that

it is uncertain that the administration will be able to gather sufficient congressional support to put it into effect. President Valencia has been under continuing criticism from all sides for his failure to exert effective leadership. There have been several cabinet crises since he assumed office in August, and two cabinet ministers have resigned. A major Liberal Party faction--the Liberal Revolutionary Movement--withdrew its support of the administration in protest against Valencia's political appointments.

A further hindrance to the government's efforts to gather support for the plan is the continued confusion regarding the leadership of the Liberal Party. The Liberals have been virtually leaderless since Carlos Lleras announced his resignation as party chief in August. Still hoping to persuade Lleras to return, the party has not elected a successor.

Colombia has generally been regarded as a potential showcase of the Alliance for Progress, but the political uncertainty and the economic crisis are likely to hamper the country's ability to participate in the program.

25X1

* * *

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**SPECIAL ARTICLES**SOVIET INDUSTRIAL MANAGEMENT**

Waste and inefficiency in Soviet industrial organization are matters of considerable concern to Moscow. Concurrent industrial commitments to the rapidly expanding space and military programs, to the growth of industry itself, and to the consumer have pointed up deficiencies in management. Proposals for remedying defects in the system have ranged from tightening centralized control of the economy to permitting local leaders wider latitude in making decisions. The regime's plan of action is to be aired at the party central committee plenum scheduled to begin on 19 November.

Inadequacy of Sovnarkhoz Innovation

It has been over five years since Khrushchev launched the last major industrial reorganization, which replaced the centralized industrial ministries with over 100 regional councils of national economy (sovnarkhozes). The system thus created was intended to inspire greater initiative in local managers, who were presumed better able to judge day-to-day requirements than Moscow-based administrators responsible for a particular branch of industry throughout the country.

In five years the sovnarkhoz system has not added appreciably to Soviet industrial progress, and numerous changes have not overcome its defects. While there is little to indicate that Khrushchev would abolish the system, he is undoubtedly concerned over its defects. He told a conference of railway workers in Moscow last July: "It is easy to abolish ministries, but it is more difficult to re-organize the economy and better distribute production...it is necessary to overcome...conservatism...."

Current Problems

Present concern appears to stem from the recent moderate declines in industrial and investment growth rates. Many resources contributing to more rapid growth of earlier years have been dissipated, and technological changes in Soviet industry are not keeping pace with the regime's policy requirements.

The space and weapons programs in recent years have been taking an increasingly large share of the output of the machine-building industries, with a parallel drain on top-quality scientific, engineering, and technical manpower. Many of these same resources are needed for the key economic investment programs--modernization and technological improvement in industry, and more equipment and chemical products for agriculture. This competition for resources has compounded planning and supply problems, as have efforts to gain quick boosts in vital output--for example, stepping up the number of work shifts in some machine-building plants this year.

Excesses of Bureaucracy

The Soviet press in recent months has presented a detailed picture of problems hampering the operation of the economy. None of these is new; most were of concern prior to the industrial reorganization of 1957 and some have been aggravated by it. Khrushchev's approach to economic management--flexible implementation at local levels of objectives set at the center--has proved to be administratively infeasible because of the tendency at those levels to give precedence to local over national considerations. In an effort to remedy "localism" and other problems, the central leadership has

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

issued a series of patchwork decrees, steadily reducing freedom of action of local authorities.

Management complains of excessive "tutelage" from the planners on the working-level problems of industry or, at the other extreme, of failure of planners to provide sufficient and timely direction when needed. One sovnrarkhoz chairman noted that the State Planning Commission (USSR Gosplan) concerns itself with his area's plan for waste paper and glass scraps while another chairman complained that the annual plan may not arrive until the year's activities are well under way. Apparently the 1962 plan did not reach some sovnrarkhozes until March or April.

Industrial managers say that plans for supply fail to support plans for technological improvements and new construction. The results are construction bottlenecks and missed production deadlines. The claim is frequently made that Gosplan schedules the shipment of manufactured articles from plants which are not yet in existence.

Agencies at the intermediate and central level of administration are subject to similar rebukes for excessive bureaucracy, parallel administration, and poor channels of communication to the local levels. One sovnrarkhoz chairman claimed that to obtain authorization for the 1962 plan for technology for his area he had to approach over 100 separate Moscow-based agencies. Presumably similar coordination was required at the republic level. Many factory managers spend a number of weeks each year in Moscow and not a few have deputies in full-time residence there.

Defects at the Local Level

From the viewpoint of the central authorities, much is remiss at the local level.

Hoarding of industrial materials--in reaction to frequent supply disruptions--is apparently increasing. Some local managers seek to establish their own supply channels, thus introducing further dislocations.

Much current discussion concerns inadequacies in the incentive system. Traditionally success in Soviet industry has been measured by the level of output, and the quality has been secondary. Such factors as cost reduction, labor productivity, and efficient use of capital have received relatively little consideration. This "gross" approach to the economy has encouraged the wasteful use of resources and hampered the introduction of advanced methods. Recently an outspoken critic of this system, the aircraft designer O.K. Antonov, pointed to the ludicrous situation at one factory where high-grade ore is regularly adulterated to bring it into conformity with the established output standards.

The present system discourages risk-taking. A factory manager strives to avoid technological improvements--which often initially lower production and raise costs. Planners themselves take a short-term view of this, according to Antonov, who notes that a new machine which will make ball bearings twice as costly but with fourfold increase in wearability has little hope of acceptance. Production bonuses and wage payments predicated on plan overfulfillment encourage plant managers to "hide" resources and strive for a "calm" plan, while planners, aware of this tendency, boost output goals beyond a reasonable level. As a consequence, many plants are forced to shift to production for which they have no real capability in order to meet their assignments.

Remedies Proposed by Earlier Plenums

The first major attack on these problems since the

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

1957 reorganization came at the central committee plenum of June 1959. At this plenum 36 separate tasks--mainly staff studies--were outlined and assigned to the appropriate governmental agencies. These were aimed at boosting the overall industrial program but emphasized particularly increasing automation and mechanization--keys to the important productivity goals of the Seven-Year Plan. This plenum, however, like the technological plenum the following year, was mainly a forum for reciting symptoms rather than for devising remedies for the underlying causes of the difficulties. Of the tasks enumerated, none has been completed on time and only two have resulted in major decrees.

As of 1 January 1960, bonuses for managers and technical personnel in many major industries were made dependent upon the fulfillment of the cost-reduction plan, provided that plans for quality improvement, production, and delivery were met. Later that year a bonus system was established for persons introducing new technology. Neither of these bonus systems is working well. The first is so complex that evaluators, lacking information, are often forced to ignore all but output totals. It is inequitably applied and, in practice, actually encourages shortcuts on quality. The second, which was made dependent on the economic results of innovations adopted, fails because of the difficulty of measuring such results, and does not offer adequate rewards.

Another direct result of the plenums was a decision to revise wholesale prices. The purpose of the revision, scheduled to be completed in 1963, is to stimulate more efficient use of resources. Judging from Soviet statements, however, the approach is little different from earlier revisions, which have not been very effective.

Counterproductive Changes

Some of the organizational changes introduced since 1957 have aggravated perennial problems instead of solving them. In mid-1960 the responsibility for long-term planning was taken away from Gosplan and transferred to a new agency, Gosekonomsovet. Gosplan retained the short-term planning function. This division was apparently made in order to bring about greater concentration on the two major aspects of state economic control. In December 1961, however, Khrushchev announced the implementation of a planning procedure in which both long- and short-term plans are closely coordinated and given greater continuity. There are indications that there is overlapping and duplication of the functions of the two agencies. The release of Gosekonomsovet chief Aleksandr Zasyadko on 9 November for reasons of "health" may be tied to this and other related difficulties and is one of several portents of significant changes in planning procedures.

In mid-1960 each of the major republics established republic-level economic councils to coordinate economic activities of the subordinate sovmarkhozes. This move, intended among other things to improve interregional deliveries, has actually only increased the bureaucratic pressure on the producing level.

In another attempt to solve the supply problem, centralized control over a wide range of commodities has gradually been introduced. This has, however, apparently not remedied a situation that was endemic in the pre-1957 economic ministries, whose supply lines stretched throughout the country, often in parallel. Khrushchev deplored this at the Railroad Workers Conference last May when he pointed to the "clever minds who ship the same goods from Odessa to Vladivostok and in reverse."

The most recent organizational innovation was the

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

creation last year of 16 regional Planning and Coordination Councils. These now are only advisory bodies concerned with developmental problems, but they are chaired by top regional officials and may be given a larger role in the future.

In recent years the volume of data needed to administer and control the economy has increased greatly. One authority indicated that to provide sound plant-by-plant working descriptions of material requirements for introducing the new technology presently planned for the economy would necessitate many times the present planning force (estimated at around 700,000). To cope with this problem new statistical methods are being tested, and planners are exhibiting a keen interest in computer technology and programming. Gozekonomsovet is reported to be using a computer system in its planning activities.

Current Proposals

At the 22nd Party Congress in the fall of 1961 Khrushchev called for broad discussion of economic planning and administration. The recent public discussion of industrial management is obviously an offshoot of considerable official work on the subject at the highest levels.

One category of proposal concerns means of reducing administrative complexities and improving communication and supply channels. Most of these have only local application--for example, placing local industry still under city authorities under the regional councils.

Of more importance are proposals for increasing industrial specialization through the broad introduction of the "firm" concept of management. The so-called firms were first established earlier this year in Lvov Oblast. A firm is

comprised of several industrial enterprises which manufacture similar products and which are amalgamated under one management with a certain degree of product specialization at each unit. This concept, it is claimed, has enabled the units involved to reduce administrative personnel, make more efficient use of manpower, materials and equipment, and be more responsive to the introduction of specialized technology.

Firms manufacturing light industrial products have been formed in many parts of the country, and the chief of the Ukrainian Gosplan has indicated that they may be adopted as the standard form of industrial organization in his republic. In some areas where the firms prevail, it has been possible to eliminate the regional branch-of-industry administrations.

Amalgamation also reduces the practice of "double-counting"--in which an enterprise counts into its own production the value of goods received from other enterprises. Unless the system is universally applied, a sovnarkhoz which adopts the firm system will appear at a disadvantage to those that do not.

Thus far, there has been no major amalgamation of heavy industrial plants along firm lines.

Opposition to the firm concept has apparently come mainly from factory managers who fear a loss of their plants' identity and from some regional officials who see in it a threat to the intermediate administrations under their command.

Proposals for improving planning and control have evoked the sharpest public debates, and it is likely that the most radical reforms will be in the planning and control areas.

The Liberman Proposal

None of their proposals made thus far would alter the

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

basic premises of the Soviet system: centralized control through the state plan and state-controlled prices. However, at least one proposal, introduced by a professor at the Kharkov Economic-Engineering Institute, Ye. G. Liberman, would give local factory managers much broader authority encroaching on prerogatives now exercised by state administrations. The Liberman proposal was apparently first introduced at a planners' conference held in Moscow last year. It was presented to the public in Pravda on 9 September 1962 and recently Liberman was permitted to broadcast his views. At that time he said that his system would soon be tried out experimentally at various factories, suggesting that his ideas have regime backing. Other management systems are also in the experimental stage.

Basically the Liberman proposal, as with other related ones, attempts to solve the problem of creating acceptable local initiative in a state-controlled system. In his view the present system of state-imposed production indexes hems in the local manager, prevents him from responding to innovations, and in general instills conservatism throughout the system.

Liberman would have plant managers responsible for virtually all control functions at the plant level. These would include determination of wage payments, costs of products, investment, new technology, and capital repair. The manager would be obliged to meet only three state-determined goals: physical volume, assortment of production, and a time-limit for supplying consumers. Plant progress would be measured and a sliding-scale bonus paid on

the basis of profitability: gross profit divided by total working and fixed capital.

According to Liberman, this scheme would cause managers to use capital and other resources more efficiently, produce goods of higher quality, and be more willing to introduce new products and technology. Central authorities would retain control over large-scale investment and overall levels of industrial and defense production. Liberman would also have prices continue to be set by the state but he emphasized the need for improvement in this area.

This statement was recently seconded by a prominent member of the Soviet Academy of Sciences, Aksel Berg. Berg, going far beyond the Liberman criticism of prices, revived a 1959 proposal by L.V. Kantorovich for the introduction of a system from which prices closer to those obtained in a competitive market system could be calculated. Berg's proposal, however, would represent a gigantic and highly complex task for the planners and accountants.

Other Proposals

In contrast to the decentralization aspects of Liberman's proposals, other suggestions have concentrated on refining planning and control techniques along present lines. None of the proposals have gone so far as to suggest establishment of free-market conditions in any major area of the economy. The most recent statements in official planning journals reiterate the continued importance of central control, and the trend over the last several years has been toward placing greater restrictions on the local levels.

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

STATUS OF THE ITALIAN COMMUNIST PARTY

The tenth congress of the Italian Communist Party (PCI), which convenes in Rome next month, must cope with the most serious and widespread disorientation the party has faced in the postwar period. Many party leaders are dissatisfied with the ambivalent attitude the PCI has taken toward the government since the Fanfani coalition accepted the support of the Communists' erstwhile Socialist Party (PSI) allies. The threat of parliamentary isolation and the need to maintain its political vitality has increased pressure for changes in the party's structure and ideology.

National Congress

UNCODED The PCI congress will together on 2 December more than 1,000 delegates elected by the 114 local congresses held throughout Italy. The national congress can be expected to give "unanimous" endorsement to theses which were drafted in early August UNCODED a special committee of party leaders and published in mid-September.

Soviet line. On the potentially most divisive issue--the PCI's relations with the various other national Communist parties and with Moscow--Togliatti has effected a compromise both between elements of the PCI and with Moscow.

Probably a majority in the Italian party wants increased autonomy from Moscow. This reflects a widespread conviction that there are serious incompatibilities between the interests of the Soviet Union and those of a party operating in Western Europe. Many of the party's leaders have held the view, at least since 1956, that the world Communist movement is many-centered and no longer monolithic. They accordingly advocate "national roads to socialism"--a position which implies not only the use by national parties of different means of reaching power but also different means of exercising it.

This attitude has brought severe criticism from some of the other European parties who charge that the Italian party seeks leadership over the European Communist movement and that its "revisionist" attitude divides the movement and hampers its advance.

25X1

25X1

Although
Togliatti himself formulated the "national roads" concept, he has been circumscribed by the necessity of avoiding a possible rupture with Moscow--which has in the past handled the Italian party cautiously on this issue--and by the need to keep intraparty forces in balance.

Relations With Moscow

On international political issues and on the broad discussion of such concepts as the nature of imperialism, the PCI theses adhere firmly to the

PCI leaders went to the Soviet Union several times for consultation on the theses,

SECRET

SECRET

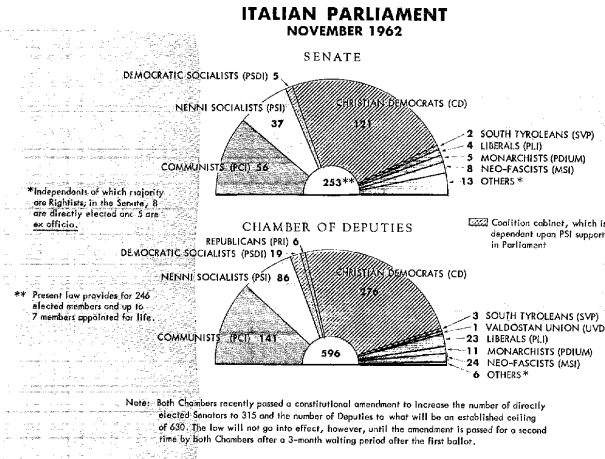
CURRENT INTELLIGENCE WEEKLY SUMMARY

and Moscow's press comment on the document has been uncritical. This appears to indicate that Moscow and the PCI managed to reach over-all agreement regarding the wording. However, the Russians could be expected to take issue with the PCI if the party should attempt to lay an ideological foundation for the strategy to achieve socialism in Western European capitalist societies.

The establishment of a Socialist-backed Italian Government has considerably increased pressure within the PCI for a comprehensive examination of the party's ideological premises. Amendola, last March, publicly discussed capitalism in terms scarcely different in some respects from the reformist Marxism of many PSI members.

Increased autonomy from Moscow and some doctrinal modifications would give the PCI a firmer basis for tactical maneuvers designed to make the party appear more "democratic" and help it in its present efforts to avoid political isolation. It would also give the party more maneuverability in its response to Soviet policy moves--such as Khrushchev's decision to put missiles in Cuba--and therefore make it less subject to harmful repercussions.

Aside from tactical considerations, however, it is significant that some party members--particularly in the Communist Youth Federation--profess what appears to be a sincere desire to bring ideology more nearly into a genuine accord with socio-economic reality.



25X1

Policy Toward EEC

The party theses diverge somewhat from the public Soviet position regarding policy toward the European Economic Community (EEC). As the Communist-dominated World Federation of Trade Unions (WFTU) and the other European Communist parties continue outright condemnation of the EEC, this issue could well become the most important source of controversy the theses pose.

As stated by Khrushchev in early September, the Soviet position, while still extremely critical of the EEC, appears to be evolving. The Soviet party recognizes the Common Market as a fact of life and may hope to achieve some kind of cooperation between it and the bloc's economic grouping (CEMA).

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

Both the Communist-controlled Italian General Confederation of Labor (CGIL)--Italy's largest labor union--and the PCI now take a somewhat ambivalent attitude toward the EEC. They publicly accept it as a "political and economic reality" which has favored economic development, but they charge that it has also strengthened the power of European monopolists at the expense of labor. The CGIL proposes that the WFTU open an office at Brussels for the purpose of monitoring EEC actions and bringing Labor views to the organization. While the CGIL is partly motivated by worker interests, the PCI's aim is to disrupt the EEC's political evolution.

The PCI and the Center-Left

Socialist support for Italy's present center-left government is potentially the most serious threat that the PCI has had to face in the postwar period. Those who favor the experiment see in it two closely interrelated major objectives: they hope to weaken the PCI, reduce PSI collaboration with it in city and provincial administrations, and eventually isolate it politically; and they hope to achieve this aim by implementation of an ambitious reform program aimed at solving the basic economic problems which the PCI has traditionally exploited as its main source of electoral appeal.

This is serious disagreement in the PCI regarding the formation of a political strategy which would permit it to avoid political isolation while it attempts to bring down the government. The party characterizes itself as the "constitutional opposition" which opposes the government in general but supports specific measures toward social reform. The party's public position is to view the

center-left government, in Togliatti's words, as "a step in the right direction but too timid and too obscure."

At the same time, the PCI uses every available opportunity to undermine the government by exacerbating differences between the coalition parties and the PSI, by attempting to delay legislation, and by placing emphasis on the "inadequacies" of the government's program. It can no longer vote against legislation without showing that it is isolated on the left and is being bypassed by the government's achievements. When it supports government bills the party claims credit for social reforms and presents itself to the electorate as the force which pressures the government to meet its promises.

This strategy is indecisive, and sometimes ambiguous. Togliatti adopted it only after serious intraparty dissension. Heated debate over aspects of the strategy continues at all party levels.

One party faction--the "hard liners" or "old guard"--consistently advocates forthright opposition to the government and calls for "explicit condemnation" of the "opening to the left" and a broad attack against the PSI. The currently prevailing line, however, is that of the "innovators" or "revisionists," who believe that a strategy of ostensible support is an absolute necessity in view of the dangers of political isolation. They claim that "internal contradictions" within the government majority are bound to lead to its demise. The fall of the government or its failure to carry out its promises would put the PCI in a position where it can increase its strength by attracting those disillusioned with the government and also to claim that no real "turn to the

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

left" is possible without the PCI. Togliatti has endorsed this strategy, and there is some indication that individual "hard liners" may be downgraded at the congress.

Relations With the PSI
And the Labor Front

Relations between the PCI and the PSI--which were committed to "unity of action" until 1957--have steadily deteriorated, and their respective publications have engaged in progressively sharper polemics as PSI cooperation with the government parties increased. Nevertheless, the two parties remain linked in the CGIL, in cooperatives, and in city and provincial administrations. The PCI is accusing the Socialists of displaying in their relations with the coalition parties a "fundamental weakness which could lead to the adoption of "centralist policies" detrimental to the working class.

The PCI is acutely aware of the dangers to it of the PSI's plans to enter a post-election government on a five-year contract, and an all-out attack to prevent this can be expected. Attempts to undermine the center-left government can be expected to be greatly accelerated during the spring electoral campaign, and Communists will inspire demonstrations and strikes to discredit the government and embarrass the Socialists--through their membership in CGIL--when ever a suitable issue can be found. PSI participation in the CGIL is likely to be the issue most difficult of solution in the context of future center-left relations.

The PCI's main weapon is its control over the CGIL. The "hard liners" want to use the CGIL openly to bring down

the government through massive strikes and by provoking clashes with the police in the hope of casting doubt on the ability of the government to maintain order. The official party position is to use the union selectively and press hard only on specific commitments made by the government.

The PCI's ability to use the union is somewhat restricted by pressures within the CGIL for greater tactical autonomy from the party in order to pursue strictly economic goals. The relative failure of the 4 November general strike, called on the Cuban crisis issue, illustrates labor's increasing reluctance to engage in political strikes.

Other Problems

The party is worried over membership losses [redacted]

[redacted] The PCI's caution in avoiding any controversy with Moscow over the content of the theses may be partly motivated by the need to secure Soviet funds for the 1963 national elections.

At the end of 1961 the party claimed 1,728,000 members --a 3.6-percent decrease since 1960 and a continuation of a pattern of decline since 1954. Paradoxically, PCI voting strength had regularly increased until this year's June municipal elections--involving approximately 10 percent of the electorate--in which the party suffered a small decline, the first in a major electoral contest since the war.

The bulk of these elections were in the South, where the party is relatively weak, and cannot be used to predict future voting patterns. However, they gave rise to considerable concern in the party, because it

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

needed a clear advance to reaffirm the correctness of its leadership line and in order to check internal disunity. The PCI has made strenuous efforts to halt the membership decline, but rising prosperity, a general and growing indifference to politics, and increased PSI collaboration with the Christian Democrats render its task increasingly difficult.

On the basis of incomplete returns, the PCI has also suffered losses in the 11 November municipal elections, which involved an electorate of about 1,250,000.

Since the 22nd Soviet party congress, some Italian party leaders--and the Youth Federation in particular--have increasingly questioned the principle of "democratic centralism" in party life and have called for a "liberalization" of internal deliberations. Some leaders have gone so far as to advocate recognition of "minority" opinions, and Amendola has stated that the need for "fictitious unanimity" in past. Freer discussions would help the PCI in projecting a more credible image of the party's "democratic" character, but Togliatti has supported the "old guard" in blocking these pressures.

Prospects

Despite the party's disorientation and incipient political isolation, it remains a strong, mass party. It has the largest and best-organized membership of all Italian parties and the basis of its appeal--popular discontent arising from social, economic, and regional disequilibria--is still exploitable. One out of every four Italians still votes Communist.

There are other formidable opponents of the center-left government formula--the right

wing of the Christian Democrats, the Liberal Party, and the left wing of the PSI--and should these succeed in their efforts to undermine the Fanfani cabinet, the PCI is alert to exploit the resultant instability. Severe economic difficulties or a period of international political crisis would also provide the party with opportunities to create political unrest. Firm control over the CGIL is an ever-available and potent weapon despite the growing disinclination of both union leadership and rank and file to engage in political strikes.

On the other hand, implementation of the national socio-economic reform program and an expansion of the center-left formula to more city, provincial, and regional governments would have a severe adverse effect on the PCI. The government hopes to undercut the party's appeal by alleviating economic discontent and thereby gradually diminish the size of its popular support. This would increasingly accentuate the party's isolation. The 1963 national elections will afford some inkling of the impact of the "opening" on the PCI.

Perhaps the most significant factor which is now evident is the increasingly strong pressure within the party for revision of its ideology and for introducing more intraparty "democracy." Moscow is unlikely to allow the PCI to initiate such changes, and the party's leadership is placed in a difficult position because of growing intraparty pressure for them. While Togliatti can be expected to maintain the PCI's formal loyalty to Moscow, he may, as he has done in the past, take some independent initiatives in order to protect his personal position and to advance the party's prestige in the national and European arena. Although other European Communist parties are also faced with these demands, the problem is especially acute within the PCI, and Italian party attempts to cope with them can be expected to provide a continuing source of controversy within the international movement.

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****PROSPECTS FOR INCREASED BLOC-MALAGASY RELATIONS**

President Tsiranana's moderate government, which has maintained a strongly anti-Communist position since Madagascar became independent as the Malagasy Republic in 1960, appears to be shifting toward a cautious receptivity to bloc overtures. Although this tendency has so far produced only an increased number of quasi-official contacts, it could be accelerated by highly placed members of the opposition party and the examples of African states. Since the present level of Western support has not produced the prosperity and higher living standards popularly expected to follow independence, Tsiranana may accept bloc aid and diplomatic relations.

Initial Bloc Overtures

For almost two years the Malagasy Government gave no encouragement to bloc efforts to establish an influence on the island. Soviet, Bulgarian, and Czech delegations attended the independence celebrations in July 1960. The Soviet group came prepared to sign a trade agreement. It urged the Malagasy to exchange diplomatic missions

These proposals met a cold shoulder.

About a year later, a three-man Soviet trade mission arrived in Tananarive. Government officials claimed that the Paris embassy had informed Tananarive of the impending visit only after the plane carrying the Russians was in the air. The mission was allowed to stay for three weeks. It made vague offers to buy agricultural and mineral products, and sought agreement to set up a permanent trade mission.

These gestures also received a chilly reception. Tsiranana

pointed out to the Soviets that Madagascar was poor and underdeveloped, and could not possibly buy anything from the USSR. 25X1

Growth of Contacts

During the year that followed, the Malagasy began to change their attitude toward contacts with the bloc. In April 1962 a two-man Bulgarian trade team--with one-month visas given by the Paris embassy on its own authority--arrived in Tananarive. The team subsequently succeeded in getting their visas extended for one year.

Other contacts with the bloc followed rapidly. In June the Polish Government offered five scholarships for Malagasy students to study economic planning in Poland. The offer was not rejected, but one minister rather lamely told the US Embassy that the government hoped no suitable candidates would appear. 25X1

Last summer, numerous important people from Madagascar found their way to the Soviet Union. A 12-man Malagasy Chamber of Commerce delegation spent two weeks in the USSR and a day in Prague. Two National Assembly deputies represented the Malagasy Republic at the Moscow World Peace Congress. Four members of the Malagasy Academy had a month's visit as guests of the Soviet Academy of Science. Government-designated Malagasy representatives attended Moscow seminars on fishing technology and on rural health administration.

These delegations were at best quasi-official, and the

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

chief objective, the AKFM has concentrated on destroying residual French influence and on fomenting suspicion toward all forms of Western presence. Tsiranana appears to be realizing that he is vulnerable to many of its changes; there are, for instance, at least 2,000 French "advisers" in his government. Repeated AKFM charges that he has made a "concentration camp" of Madagascar by refusing to permit travel to bloc countries may also have begun to sink in.

The AKFM hold on the Merinas is particularly significant. This proud ethnic group ruled Madagascar before the French colonization and represents, according to a local saying, "one fifth of the population but four fifths of the elite." The Merinas aspire to capture power from the Tsiranana government, almost all of whose members are from coastal tribes long held in contempt, if not actual bondage, by the Merinas.

In the meantime, because of the superior qualities of the Merinas, the government is virtually forced to employ a disproportionate number of them in the civil service--many just below cabinet level. The influence of the AKFM among such highly placed Merinas may have helped to generate the government's change of attitude toward contacts with the bloc.

Example of African States

Although the people of Madagascar do not consider the island part of Africa, the country is not immune to political developments on the continent. Its people share a common colonial past with the now independent countries of Africa, and have linguistic and cultural ties with the ex-French colonies.

The government is linked with the continent, at first through the French Community, and now in the African-Malagasy Union (UAM) and the Monrovia grouping of moderate African states.

The Malagasy Government initially regarded Guinea and Mali with detached pity as these "radical" ex-French colonies outside the Community became entangled with the Soviet bloc and increasingly oriented toward Ghana and the "radical" North African states. This year, however, several of the Malagasy Republic's UAM partners have shown themselves willing to consort with the bloc. The premier of Senegal visited Moscow in June, and in October a Soviet Embassy was established in Dakar. The vice president of Dahomey led a good-will mission to Moscow and most of the European satellites during the summer, and announced his country's intention to exchange diplomatic missions with the USSR. Since last November Niger has concluded trade agreements with Poland, Czechoslovakia, and the USSR, and last month signed a "cultural" agreement with the USSR which appears to give the Soviets ample opportunity to flood the country with "experts."

This establishment of official relations with the bloc by friendly African countries has generated much criticism of the Malagasy Government for being out of step with its African brothers. Tsiranana's visits this year to Taiwan and West Germany have been seized upon by the AKFM as discriminatory and pro-Western. His party apparently feels this pressure; at its annual conference in September, the PSD adopted a resolution calling for diplomatic relations with all countries.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**Economic Pressures

Tsirananana and his government could resist this pressure if they could point to significant economic and social progress. Unfortunately, the miracle the Malagasy people expected to follow the end of colonial rule is not likely to be realized in the near future, even though Madagascar has several advantages over many other underdeveloped countries. It is not overpopulated, with only about 5.5 million people living on an island over four times as large as that occupied by Java's 60 million. The island's 18 tribes speak the same language, and despite the Merinas' aspirations to regain their past hegemony, there is a sense of national unity.

The economy, however, is almost entirely agricultural, frequently on the level of subsistence farming. There are fewer than 300,000 wage earners out of a labor force of 2.5 million. Farming methods are primitive, yields extremely low, and barely 2 percent of the land is cultivated. The typhoons which frequently sweep the island have at times reduced the east coast harvests by as much as 40 percent. The main export crops-- coffee, vanilla, and cocoa-- suffer from world oversupply and fluctuating prices. An inadequate road system prevents efficient marketing.

Industry contributes less than 3 percent of the national income and consists mostly of the processing of agricultural products, often on a level more

akin to handicraft than industry. The exploitable mineral deposits, principally graphite, account for only a small fraction of Madagascar's exports. French trading companies dominate foreign commerce and repatriate their profits, while the Indian and Chinese communities have a near monopoly on retail trade. There are almost no Malagasy entrepreneurs.

Because of the complexity of Franco-Malagasy relations, the exact amount of French aid is obscure, although it seems to have been at least \$80 million in 1960. A relatively small amount of this money, however, went into investments which contribute to building Malagasy economic strength. According to the government's own estimates, an investment rate of \$120 million a year is necessary merely to maintain the present standard of living in the face of an extremely high population growth rate. In practice, since independence the rate of annual investment has been less than \$50 million.

The Tsiranana Government lacks the means to improve upon this bleak picture quickly enough to silence its critics. If, for political reasons, it hastens the replacement of the French advisers or adopts restrictive measures toward French commercial interests, economic prospects will be even worse. Consequently, the pressures which appear to have already eroded the government's once unequivocally anti-Communist position may soon create a climate 25X1 favorable for the establishment of a significant bloc influence in Madagascar.

SECRET

Page Denied