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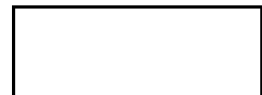
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CURRENT INTELLIGENCE WEEKLY



CENTRAL INTELLIGENCE AGENCY

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THE SOVIET WORLD

The keynote speech given by First Secretary Khrushchev at the Soviet construction conference on 7 December, but not published until 28 December, appeared to emphasize more strongly than usual that the development of heavy industry is the main task of the Soviet economy. This strengthens recent suggestions of differences of opinion among the Soviet leaders over the relative emphasis to be given heavy and light industry during 1955. Such differences could result from efforts to determine the economic policies the USSR should pursue if West Germany is rearmed. They could stem, however, from problems of basic long-range economic doctrine, rather than current developments.

The fact that Khrushchev gave the main address at the construction conference suggests that he may now be assuming top-level responsibility over this vital segment of the economy. From Stalin's death in March 1953 to the spring of 1954, Khrushchev acted primarily as the regime's major spokesman for the new agricultural program. After May 1954, publicity connecting him with agriculture fell to a very low level. Since September, however, attention to Khrushchev's activities has markedly increased: e.g., his trip to China and tour of the Soviet far eastern regions, the issuance over his name of the decree moderating the antireligious campaign, and now his prominence at the construction conference.

Both Khrushchev and Pravda, the party newspaper, have emphasized the vital importance of heavy industry and have pointed to the need for further increases in agriculture and housing. The American embassy in Moscow reports that the recent differences between this line and that of the government newspaper Izvestia, which has seemed to emphasize more heavily a need for expanding manufactured consumers' goods output, continued as late as 31 December.

While these obscure manifestations of policy differences continued, the Soviet leaders were busy formulating their responses to the French assembly vote for ratification of the Paris agreements. Communist propaganda minimized the significance of the French action. The "insignificant majority of votes" obtained by "unprecedented pressure" from Washington, London, and the Vatican, it claimed, had not weakened but strengthened popular opposition. Pursuing the line that the "struggle is not over," the Soviet press referred time and

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again to the assembly's negative note of 24 December, and Izvestia pointed out that the accords must now go to the Council of the Republic, "where resistance is great."

This line was juxtaposed to comment on Soviet successes during 1954, predictions of future victories for the "peace" camp, and reaffirmations of "enough might to defend" its peaceful successes. References to countermeasures continued to be vague. Malenkov, in his answers to questions posed by an American newsreel company, maintained the position that there could be no negotiations with the West on Western European problems as long as it persisted in rearming West Germany. At the same time, he sustained Moscow's coexistence line by offering to negotiate over Far Eastern issues.

The latest Orbit appeal to Japan was made in a Peiping People's Daily editorial of 30 December which attacked the charge that Peiping would require Japan to sever relations with the United States if it wanted to resume normal relations with Communist China and the USSR. The newspaper's praise of the position taken by Japan's two Socialist parties regarding normalizing relations with the USSR and Communist China was apparently intended to influence forthcoming Japanese elections.

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PROBABLE SOVIET POSTRATIFICATION PROGRAM IN EUROPE

The Soviet response to ratification of the Paris agreements is expected to follow closely the courses of action outlined by the recent Orbit security conferences in Moscow and by the series of notes and statements since the London conference in early October. However, Soviet propaganda has emphasized the thin margin by which the French assembly approved West German rearmament and the continuation of the ratification struggle after this vote. It has given no hint that Moscow will take new measures until the completion of the ratification process. The relative success of the worldwide Soviet policy of moderation may dictate continuing caution in carrying out the harsh threats the USSR has already made.

The Orbit security conference which concluded in Moscow on 2 December called for the strengthening and co-operation of Orbit military forces, the details of which would presumably be announced at a later conference after ratification. This would probably reveal the formation of a unified Orbit military command and formally acknowledge the existence of national armed forces in East Germany. Resulting actions, publicly depicted as measures for self-protection, may include the deployment of additional Soviet military forces in the Satellites. Besides being an effort to impress the West, these moves would be designed to assure public opinion in the Orbit that a firm defense was being readied against West German remilitarization.

Ratification will probably be followed by the conclusion of some type of peace treaty and a mutual defense pact between East Germany and the USSR, which would abolish the Soviet high commission and formalize the establishment of East German armed forces and the retention of Soviet troops in East Germany.

most of the rumors of more extreme measures appear planted to influence the ratification debates. If East German military efforts are increased, internal security reasons alone would provide a strong motive for a strict isolation of West Berlin from East Berlin and East Germany. There is less likelihood of any concerted effort to interfere with West German access to Berlin.

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Moscow's official statements and propaganda have made abundantly clear its threat to refuse negotiations on German unification and the Austrian treaty after ratification of the Paris agreements. Moscow will probably maintain this attitude for some time, perhaps insisting on annulment of the Paris agreements as a prerequisite to further talks. In any event, the Soviet Union is likely to avoid negotiations on European issues for a considerable time because it is not prepared to make any significant concessions at another conference, and because it is sensitive to negotiating from a position of apparent weakness. Its attitude might change, however, if serious splits became apparent in the West.

The surprise attack by Soviet authorities on American occupation policies in Austria at the Allied Council meeting on 21 December could possibly foreshadow much stricter controls along the boundary between the Soviet and Western zones. The Soviet representative emphasized that Allied actions could have "serious consequences for the integrity" of the Austrian state. A decision by the USSR to partition Austria following the German pattern would be in contradiction to its strategy of conciliation. However, a short-term increase in border controls--justified as protection against "illegal" Western activity--is a possibility.

Although Moscow has said that disarmament talks are incompatible with the rearmament of West Germany, it has not been so categorical about denying the possibility of negotiations on this issue after ratification. Such a refusal is possible, but it is less likely because of the unfavorable effect on world public opinion.

The Soviet notes to Britain and France have indicated that the USSR will annul its treaties of alliance with these countries when they complete ratification of the Paris agreements.

Although Soviet threats have been rather vague on the question of timing, the implication has been that most of these measures would not be taken until the completion of the ratification process. Some preliminary measures are possible, however, before that, and more explicit threats may be made to sharpen the division of Germany and the isolation of Berlin prior to final West German action on the Paris agreements. While Moscow may actually believe that French assembly action is the decisive step in ratification, it will not miss any chances to exploit further delays arising either in France or Germany.

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PROSPECTS FOR THE MENDES-FRANCE GOVERNMENT

There is increasing likelihood that the Mendes-France government will be overthrown in the first quarter of 1955. The National Assembly's hostility toward the premier has intensified since October, but his continued popularity throughout France and the difficulty expected in agreeing on a successor will probably have a moderating influence on the parliamentary opposition. The premier's next test will probably come after mid-January when he reportedly plans to reshuffle his cabinet and attempt to broaden his parliamentary support.

Mendes-France lacks some 25 votes for a firm majority and faces increasing difficulty in standing off the Popular Republicans and the "classical right" on one side and the Communists on the other. Only the desire not to delay consideration of the Paris accords prevented the center-right grouping from overthrowing him in the fall. The rejection on 23 December of the bill to admit West Germany into the Western European Union marked a low point in Mendes-France's control and illustrated the deputies' willingness to use even an important international issue to vent their hostility against the premier.

Despite the passage of the Paris agreements on 30 December, most of the deputies still hope that an East-West conference can obviate the need of putting them into effect, and the close votes on 27 and 30 December give these deputies an excuse for demanding delays. In any event, the government will be badgered both by deputies opposed to any German rearmament and by those who still hope for an EDC-type solution.

The premier's opposition will renew its attacks when the assembly reconvenes on 11 January. The Popular Republicans' attitude toward the premier has hardened since autumn, and in the 17-20 December debate on Indochina, hostility between Mendes-France and former foreign minister Bidault reached extreme proportions. The recent decree boosting family allowances is not expected to mollify the Popular Republicans, despite their sympathy for the premier's economic objectives.

More important, however, is the disaffection of his parliamentary support. The Socialists' attitude has hardened since last November when they rejected his offer of cabinet positions. Furthermore, his more conservative supporters are less hesitant to oppose him now that the bills on German rearmament have been passed by the assembly.

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The premier will be vulnerable on both domestic and foreign policy problems which must be faced soon, with the budget posing the most serious hurdle. He is exposed on one hand to the charge of presenting basically the same budget as his predecessors, and on the other of cutting too drastically defense and industrial subsidy allotments. Moreover, cutbacks in the nationalized segments of the French economy will be opposed by the Socialists and the left wing of the Popular Republicans.

North African policy will again be debated when the Tunisian negotiations are completed, possibly in February, and rightist deputies in Mendes-France's coalition as well as in the opposition are sure to raise the bugaboo of a lessening French influence in North Africa. The military budget debate will present an opportunity for proponents of a strong defense in Europe to attack the premier. It may also unleash a renewed attack on the Indochina issue, which could be fatal to Mendes-France if the French-American difficulties over Cambodia and Vietnam are publicized.

An additional factor, which will operate both for and against the premier, is the deputies' desire to strengthen electoral alliances for the 1956 parliamentary elections. The recent congress of the National Center of Independents and Peasants was intended to organize the "classical right" to this end. The hesitancy of many Socialists on the Paris accords stemmed from reluctance to face the electorate as supporters of German rearmament -- a reluctance shared by many Gaullists and the premier's own Radical Socialists.

On the other hand, the premier's popularity with the general public continues high, and will probably give his opponents pause when the next crisis develops. The Popular Republicans, who would play an important role in any new coalition, are fearful of rightist encroachments on their electoral support, and their desire to co-operate with the Socialists may prevent any early understanding among the likely members of a successor coalition.

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CHINESE COMMUNIST MILITARY CAPABILITIES AGAINST OFFSHORE ISLANDS INCREASING

Although there has been a several-weeks' lull in Chinese Communist military activity against Nationalist-held offshore islands, the Communists are backing their propaganda threats by increasing their capabilities for launching future assaults on these islands and possibly on Formosa (see map, p. 12).

Air facilities have been expanded in Chekiang Province opposite the Tachen Island group. A base suitable for jets was nearing completion at Chuhsien in mid-November, and construction of a new base was begun recently near Haimen, 40 miles west of the Tachens. Another field, at Taishan in the Choushan Islands, has reportedly been lengthened and improved. Still another air base may be under construction in the southeast, near Swatow.

Minor improvements necessary to ready the five air bases in Fukien Province, opposite Formosa, may be awaiting completion of new transportation facilities in the province. Improvements to the road linking Amoy with the Chekiang-Kiangsi railroad were completed in mid-December. Moreover, two railroad construction divisions have recently moved to Fukien, presumably to build the province's first rail lines. With improved transport facilities, Peiping will be able to mass forces in the area and meet the large logistical requirements of active air bases there.

In line with Peiping's repeated statement that Communist forces must "co-ordinate their training," there have been increasing reports of specialized training. Ground units near Amoy, opposite the Quemoy Islands, have carried out small-scale amphibious exercises, and similar training was reported carried out by Communist forces in Chekiang in December.

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Two fleet destroyers were apparently transferred from the Soviet Union to Peiping's control during 1954, with the aim of assuring Chinese Communist naval superiority over the Nationalists. With five to seven submarines now at Tsingtao, the

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Chinese Communists are considered capable of reconnaissance of and landing agents on offshore islands, minelaying in Formosan waters, and limited attacks on Nationalist shipping.

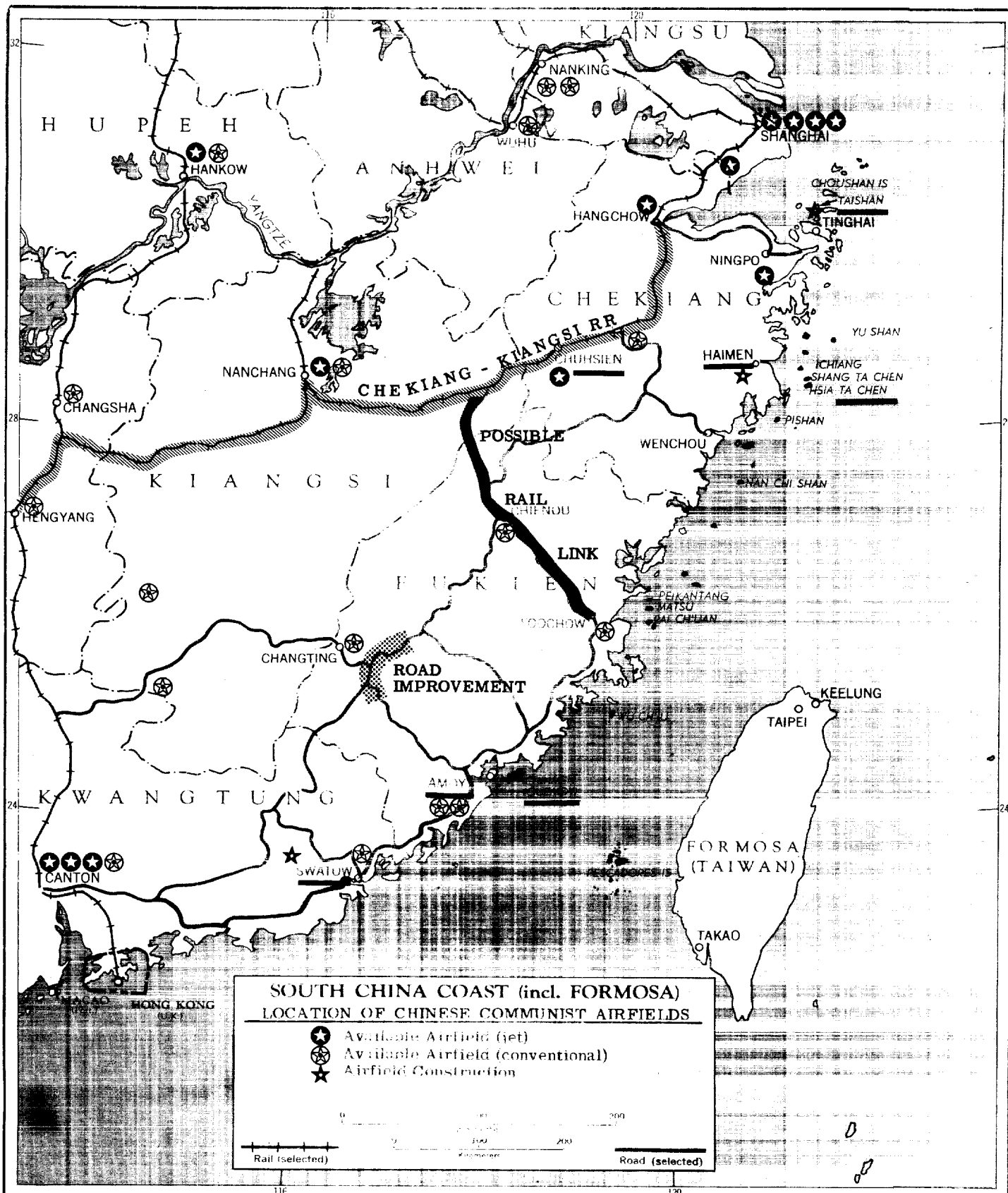
Crews of Communist torpedo boats--used to sink a Nationalist destroyer escort near the Tachens in November--have demonstrated an increased proficiency. This growing Communist naval capability seems certain to have an impact on the Nationalist navy, which is expected to become more cautious in operations far from Formosa.

New Year's statements from Peiping have reaffirmed an intention to "liberate" all Nationalist territory, regardless of American "interference." These statements, like the military preparations themselves, do not commit Peiping to any definite deadline for operations against either the offshore islands or Formosa. While operations against the islands appear possible at any time, Peiping's propaganda continues to suggest that a period of further preparation is necessary before an operation against Formosa.

Meanwhile, the Communists have intensified their efforts to subvert Chinese Nationalist personnel. Peiping's New Year's Day offer to Nationalist armed forces included a promise of cash rewards for weapons, planes and ships delivered by defectors, as well as amnesty, land and jobs.

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NEHRU INTRODUCES PROGRAM FOR SOCIALIZING INDIA'S BASIC INDUSTRIES

Prime Minister Nehru appears to have embarked on a vigorous campaign to increase India's industrial production. The manner in which Nehru is conducting his campaign may lead him into open conflict with the conservative wing of the Congress Party to the detriment of political stability in India.

Nehru was apparently impressed during his visit to China last October with the economic advancement achieved through the use of large masses of people. There have been various signs since his return to New Delhi that he recognizes the imminent danger of Chinese competition and that he intends to fight to keep pace with China's economic development.

Nehru's basic philosophy will not permit him to use American capitalistic methods. Neither can he countenance Communist dictatorial techniques. Rather, he seems to have chosen a third socialistic way to inspire masses of people, increase production, and equal the efforts of both China and the West.

The first overt sign of Nehru's new program was his speech before India's National Development Council on 9 November, in which he said: "The picture I have in mind is definitely and absolutely socialistic... the means of production should be socially owned and controlled for the benefit of society as a whole."

Nehru and the Congress Party's high command have long been committed to the principle of the welfare state, but to date they have been willing to maintain a balance between public and private sectors in economic development programs.

The prime minister's speech of 9 November has been followed by such a rapid succession of events, however, that it is obvious he has a sweeping program in mind which he is prepared to press with unusual vigor. One of Nehru's first moves was to turn the presidency of the Congress Party over to U. N. Dhebar, to bring his old colleague G. V. Pant into the cabinet, and to appoint six new ministers. These men are unlikely to oppose him.

On 26 November, in a heated cabinet session, the government decided that future steel mill production in India would be publicly owned. In a memorandum to parliament on 18 December, the government reiterated its intention to quicken the pace of industrialization, primarily through state efforts. Also, a more active role for the state was envisaged in the second Five-Year Plan, due to commence in 1957.

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On 20 December, Nehru himself introduced a bill, which was passed the next day, to amend the Indian constitution to restrict the right to challenge nationalization measures affecting land ownership and private industry. Also on the same day, Finance Minister Deshmukh announced government plans to nationalize the Imperial Bank of India as the first step in setting up a state-controlled banking institution for the whole country.

These events have seriously worried India's business community, which seems more openly disturbed over its future prospects than in previous years. The stock market has been adversely affected. Calming statements by such highly respected individuals as Finance Minister Deshmukh seem not only to have been fewer in this instance but also to have been less effective.

If Nehru persists in ignoring some of his most capable advisers, he may antagonize Congress Party conservatives and Indian capitalists to the point of an open break. The strong conservative cabinet team of Deshmukh, Krishnamachari, and Home Minister Katju is unlikely to submit passively to a program which seems to it to upset the existing balance between home and heavy industries in India's development scheme. The huge Tata and Birla industrial empires, which are now seeking independently to expand steel production in India, may feel themselves endangered. Smaller Indian businessmen and foreign investors may become even more reluctant than before to risk capital under the second Five-Year Plan despite the fact that the first one got off to a fairly good start.

If Congress Party conservatives combine with large industrial interests controlling a considerable proportion of the party's finances and propaganda media, Nehru could be faced with strong opposition. There was growing evidence during 1954 that conservatives were trying to take over the Congress Party machinery.

Though the conservatives may not attempt to oust Nehru or even to challenge him on matters of foreign policy in the near future, they may become sufficiently aroused by his new economic program to bring a party split into the open. This could materially unsettle the Indian political picture.

Political uncertainty would almost surely lead to economic stagnation, which the men surrounding Nehru would probably be unable to combat effectively. Nehru would then be faced with the necessity of abandoning his economic campaign for lack of support or of ruling by dictate.

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LONG-AWAITED INDONESIAN ELECTIONS MAY BE FURTHER POSTPONED

Indonesia's long-awaited elections, which if held in mid-1955 as planned might be expected to bring to power a government friendlier to the West, may be further postponed. An increasing number of observers, however, doubt they will be held before the end of 1955.

Both the governing National Party and the Communists who support the government need additional time to perfect their organizations. Despite a New Year's statement that elections would be held this year, President Sukarno, who has linked his fortunes with the National Party, would probably support a postponement.

Delay has already worked to the advantage of the National Party and the Communists. During the year and nine months since the election law was promulgated and during which the elections have been progressively postponed, the Communists and Nationalists have expanded their organizations at the expense of the principal opposition party, the Masjumi. That party, however, is still believed to command more popular support than any other group as the result of its identification with the predominant Moslem religion.

Indonesian officials now admit that elections will not be held in April as scheduled a year ago, but suggest they can be held by summer and insist that they will take place "sometime" in 1955. Their principal argument is that the new home minister, unlike his predecessor who resigned in November, is a member of a party which stands to gain by the elections and is thus interested in pushing election plans as rapidly as possible. These officials fail to mention, however, that the Justice Ministry, which exerts influence over election plans equal to that of the Home Ministry, is headed by a man whose party would prefer postponement.

President Sukarno has isolated himself from political factions other than the National Party and some of its government associates. He appears convinced that there is little possibility of the Masjumi's supporting him under any circumstances and that his own political future would be best protected by a National Party victory. Although he made a strong appeal for accelerated election preparations last August, and on New Year's Day said elections would be held this year, he has also stated that he does not want to see elections used to create disunity and chaos.

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The prospect for elections before late 1955 is dim also because of the technical problems involved. The process of setting up machinery for the country's first vote is hampered by the serious lack of security in certain areas, insufficient trained personnel, poor transportation and communications facilities, and inadequate government organization and control in outlying territories.

As election delays continue, the initiative and skill displayed by leaders of the National and Communist Parties stands in marked contrast to the lack of organization or vigorous leadership in the Masjumi. Although possessing great potential strength, the Masjumi has done little to activate it, apparently planning to depend on an eleventh-hour campaign to bring out the vote. The longer the delay, however, the greater are the inroads by the Nationalists and Communists among the Moslem electorate.

The Communists have found it relatively easy to encourage anticlericalism among nominal Moslems and have benefited from the general ignorance of Communism among the more devout, which permits organizers to equate its principles with those of Islam. The Nationalists and Communists are also promoting differences between the Masjumi and other Moslem parties which will splinter the Masjumi Party vote.

Meanwhile, the Indonesian government has achieved a considerable triumph in getting the stage set for the Asian-African conference in late April. This conference has been a pet project of the National Party and was conceived mainly for domestic political purposes. The Indonesian Communist Party's interest in it has increased enormously with the decision to invite Communist China. The government also expects to benefit politically from the dual nationality negotiations which are reported proceeding successfully with Communist China.

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SPECIAL ARTICLE

**POOR 1954 HARVESTS INHIBIT PROGRESS OF
SOVIET ORBIT'S NEW COURSE PROGRAM***

The agricultural phase of the new course program is slowly making progress in the USSR, but has yet to achieve any significant results in the European Satellites. Because of unsatisfactory 1954 harvests, the anticipated marked improvement in the Orbit food supply, which is the keystone of the whole new course program, will be delayed and must depend on 1955 crops.

Agricultural performance during 1954 will permit some increase in food supplies in the Soviet Union, particularly for the urban population. In the Satellites, however, there has been no such improvement, and future prospects are far from bright.

Soviet agricultural production in 1954 was little better than the relatively low level of 1953 (see chart A, p.20), but there is some evidence that the government collected a greater proportion of the crops for distribution through state channels. The government may therefore be able to increase somewhat the food supply to industrial centers.

Grain output in the USSR is estimated to have been 5 percent higher than in 1953 as a result of acreage expansion (see chart B, p. 20). An excellent crop on the "new lands" area of northern Kazakhstan and western Siberia, as well as in the Urals and the Volga region, offset a bad drought in the Ukraine.

In the European Satellites, agricultural output was no better than a year ago, and the failure of the peasants to fulfill compulsory delivery quotas is further reducing the amounts entering government channels. The governments will be hard pressed to maintain the present level of food supply for the urban population. The diet will be starchy and monotonous; meat, fats, dairy products and possibly wheat bread will be in short supply.

Adverse weather was the primary cause of the poor grain harvest, but the apathy of the peasants toward the governments' agricultural program and insufficient farm machinery and fertilizers were also important factors. Only in Poland and Bulgaria was the total grain crop about the same as in 1953 or the average of the last few years. Elsewhere in Eastern Europe the grain harvests, except for corn, were probably 10 to 15 percent below the preceding year.

*Prepared jointly with the Office of Research and Reports.

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The small grain harvests in both 1953 and 1954 have forced a marked shift in the Orbit's pattern of trade with the West. The USSR has sharply curtailed its commitments to export grain to the West, and its deliveries on remaining commitments have lagged badly in recent months. The Satellites, traditionally exporters of grain, have contracted to import more than 400,000 tons of bread grains since the 1954 harvests and have participated in negotiations which probably will result in further large imports from the West. These amounts are in addition to several hundred thousand tons imported earlier in 1954, much of it from Argentina. Poland and Hungary appear to be the largest current purchasers, but East Germany and Rumania have also been seeking Western grain.

The USSR, and to a lesser extent the Satellites, have increased imports from the West of "quality foodstuffs" such as meat, butter and fish. These imports have not been large enough to improve appreciably the quality of the average diet in the Orbit. Nor has domestic production of these items increased enough to bring about any significant changes in the diet for the consumption year ending in July 1955.

The agricultural outlook for the next two years is much better in the Soviet Union than in the Satellites. The Soviet acreage expansion program on the climatically marginal lands of the eastern and central region is to be increased four times in 1955 and more than eight times in 1956 over the modest achievement in 1954 which brought 8,900,000 new acres under cultivation. This project alone would by 1956 add 28 percent to the Soviet 1953 grain acreage.

The scheduled acreage for 1955 has been ploughed. Although this "new land" may produce adequate yields for several years under favorable weather conditions, prospects are highly dubious after the basic soil moisture reserves are depleted. The amount of progress achieved through other parts of the agricultural program, such as incentives to induce the peasants to produce more and the supply to agriculture of more fertilizer and machinery, cannot be estimated.

In the Satellites, continued passive resistance of the peasants will probably prevent achievement of present longer-run agricultural production goals. While offering increased material incentives, the Satellite governments are maintaining that total collectivization of agriculture is still their ultimate goal. As long as this threat hangs over the heads of the peasants, their efforts will be halfhearted.

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The Satellites will have to have favorable weather in the next three or four years if they are to increase agricultural output at a rate higher than that required by the growth in population. Without such weather conditions, a substantial increase in imports of foodstuffs may be necessary, in order to maintain the food supply at the present levels, to say nothing of improving the quality and variety of the diet.

The unsatisfactory 1954 crops will have an adverse effect on the rate of growth of labor productivity in the Orbit. By failing so far to achieve a significant increase in food availabilities, the Orbit governments have failed as well to provide the key new course incentive to the labor force to work harder and produce more.

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CHART-A INDEX OF SOVIET AGRICULTURAL OUTPUT *

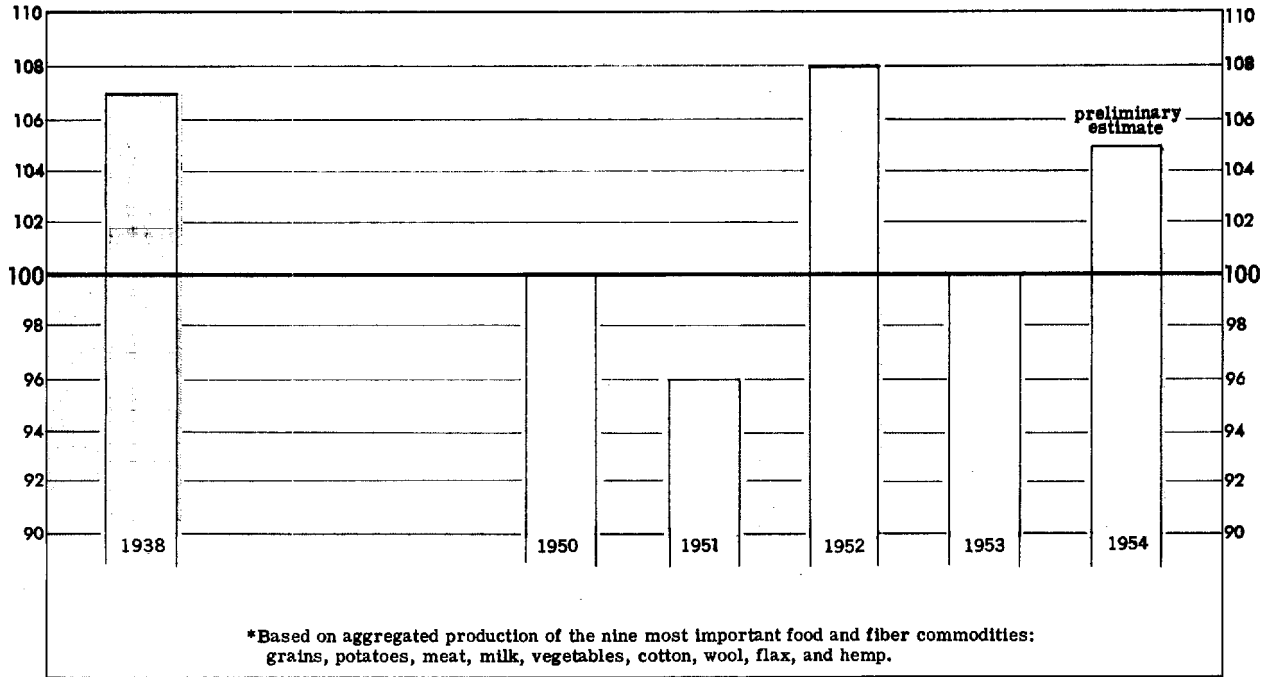
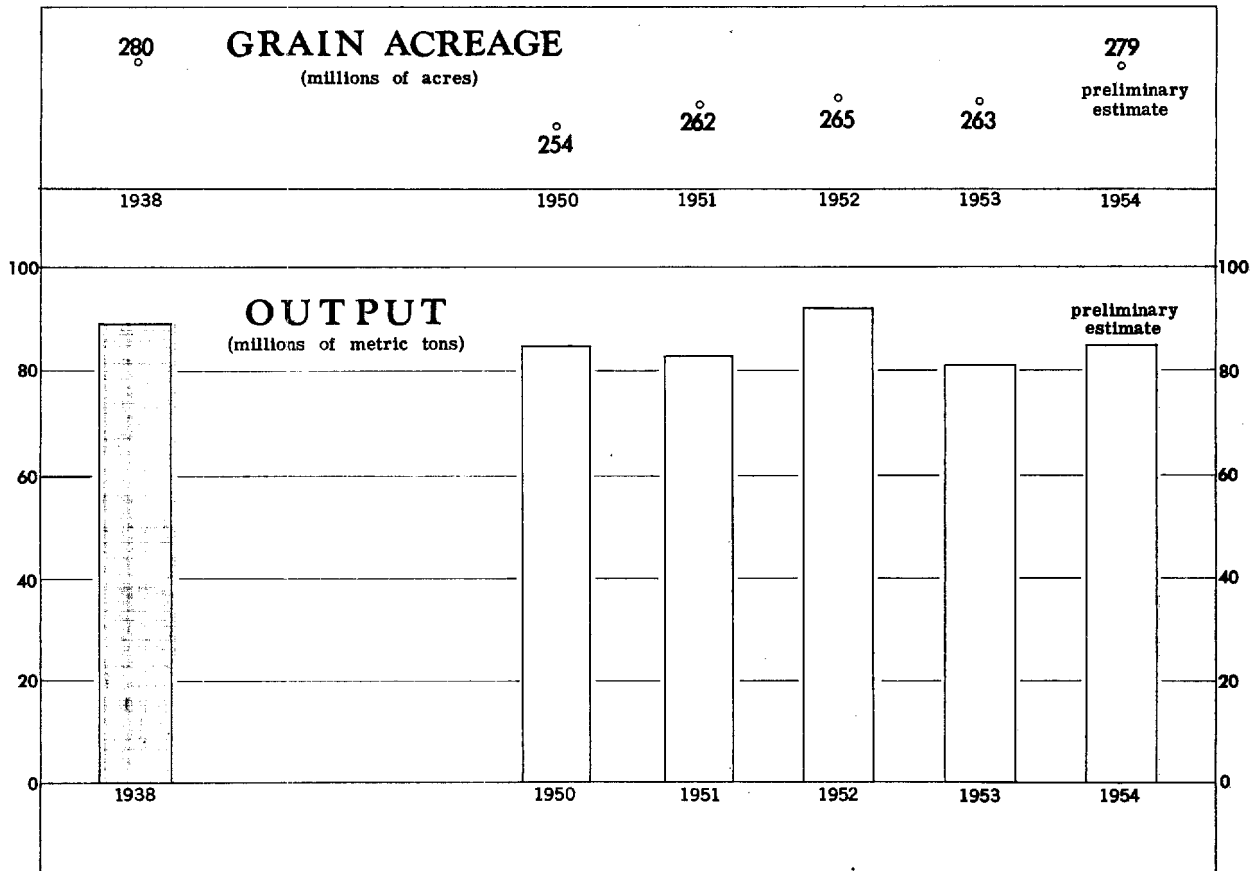


CHART-B SOVIET GRAIN PRODUCTION



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