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CURRENT INTELLIGENCE WEEKLY SUMMARY



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OFFICE OF CURRENT INTELLIGENCE

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T H E W E E K I N B R I E F

PART I

OF IMMEDIATE INTEREST

COMMUNISTS PREPARE FOR FUTURE ISLAND ATTACKS Page 1

The Chinese Communists are reported to have redeployed air units and readied new air bases which menace Nationalist-held islands along the coast. [redacted]

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FRENCH COUNCIL MAY AMEND PARIS AGREEMENTS Page 2

French premier Edgar Faure will have difficulty consolidating his parliamentary support. He is committed to press for early approval of the Paris agreements by the Council of the Republic. The large Gaullist element in his cabinet, however, and the mounting pressure for delay may influence the senators--half of whom face re-election in June--to amend the bills. This would require sending the bills back to the assembly. [redacted]

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CONSERVATIVE VICTORY SEEN IN JAPANESE ELECTION Page 3

The leading Japanese newspaper, Asahi, predicts Hatoyama's Japan Democrats will win 180 seats, the Ogata-Yoshida Liberals 134, and the Left and Right Socialists 71 and 64, respectively, in the 27 February election. [redacted]

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PART II

NOTES AND COMMENTS

The Situation in the Associated States: Laos: The crown prince has indicated a strong desire that his country adhere to the Manila pact. Cambodia: The king is proposing sweeping constitutional changes to ensure his position. Vietnam: Factionalism among the sects continues to cause unrest in South Vietnam. [redacted]

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Bundestag Will Probably Ratify Paris Treaties This Week:

The West German Bundestag will probably ratify the Paris treaties in the second and third readings on 25 and 26 February. The Saar part of the accords, however, will probably just squeak by. The upper house is expected to act favorably on the treaties, probably in mid-March. (Confidential) Page 2

Satellite Reaction to Developments in the USSR: Satellite propaganda media have reacted cautiously to the recent changes in the USSR; the people are reported to fear that domestic policies will harden. [redacted] Page 2 25X1

Orbit Propaganda Emphasizes "Vigilance": The recent seizure of the Rumanian legation in Bern may be used by the Orbit to give new impetus to the "vigilance" theme which has been increasingly stressed recently. [redacted] Page 3

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Afro-Asian Conference: Statements by Chou En-lai and Ho Chi Minh clearly indicate that the Communists intend to stress the theme of coexistence at the Afro-Asian conference. India and Burma hope that "controversial issues" will be avoided. [redacted] Page 4 25X1

Japan-Orbit Relations: Japan is requesting that negotiations with the USSR be held at the UN in New York. Japanese officials hope to start the talks soon after the 27 February election. The USSR has said it will meet with the Japanese any place Tokyo wishes. [redacted] Page 5

Communist China's Food Situation: Crop losses in areas affected by the floods of 1954 were sufficiently offset by bumper crops in other areas of China so that the net food situation is probably no worse than it was from 1949 through early 1952. The effect of the situation on Peiping's military plans will probably not be great. The regime faced worse food problems in 1950; it nevertheless prepared to invade Formosa and later intervened in Korea. [redacted] Page 5

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Middle East Defense: Turkish prime minister Menderes is in Baghdad for the signing of the Iraqi-Turkish defense pact. [redacted] Page 6

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Incidents on Arab-Israeli Frontiers Increasing: Rising tensions on Arab-Israeli frontiers may result in serious clashes. [redacted] Page 6

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The Syrian Crisis: The situation in Syria remains unsettled and the threat of violence continues. The Iraqi ambassador in Lebanon has indicated to the American chargé that a swing to the left in Syria might "require" Iraq to "march in." [redacted]. Page 7 25X1

The Andhra Elections: The Communists will probably be defeated in the Andhra elections, but the outcome is still uncertain. [redacted] Page 7 25X1

Communist Strikes in Italy: Communist-inspired strikes have increased in the port and industrial area of Genoa in recent weeks. The Communists have also scheduled work stoppages in Rome in an effort to prevent Senate ratification of the Paris accords. This effort is almost certain to fail. [redacted] Page 8 25X1

Crucial Presidential Campaign Begins in Brazil: What is likely to be a bitterly contested campaign for the presidential elections in October is now beginning in Brazil. The stresses of the campaign, added to the government's already serious economic problems, will pose a threat to political stability, but is not likely to result in a takeover by the military. [redacted] Page 9

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Strikes Threaten in Iceland: Twenty-four Icelandic labor unions are threatening to strike beginning on 1 March. Prolonged strikes, especially if they include the dock workers, could paralyze the economic life of the country and force the American-manned airbase at Keflavik to rely, at least temporarily, on air-borne supplies. [redacted] Page 10

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PART III

PATTERNS AND PERSPECTIVES

SATELLITE ECONOMIC PERFORMANCE IN 1954 AND PLANS FOR 1955. Page 1

Despite claims of overfulfillment of 1954 industrial production goals, economic performance in the East European Satellites during the past year has been generally unsatisfactory. Available Satellite plan goals for 1955 reflect an intention substantially to continue the new course program. [redacted]

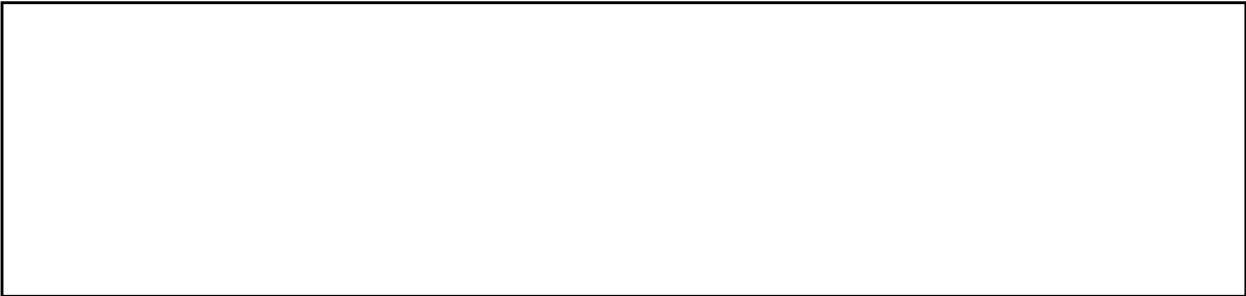
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IMPROVED AFGHAN-PAKISTANI RELATIONS NOW SEEM POSSIBLE. . . . Page 3

Both Afghanistan and Pakistan appear increasingly interested in settling the Pushtoonistan dispute over Afghanistan's campaign calling for an autonomous region of Pushto-speaking tribes in northwestern Pakistan. Though there are serious obstacles to a complete solution of this issue, preliminary negotiations and the granting of minor concessions on each side suggest that some progress toward rapprochement may now be made. [redacted]

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CURRENT STRENGTH OF THE ITALIAN COMMUNIST PARTY Page 7

The Italian Communist Party is clearly having internal difficulties, but no split in party leadership and no drop in the party's electoral strength seem indicated at this time. The recent shift in leadership and policies in Moscow has not been reflected in the adoption of a more militant political line by the Italian Communists. [redacted]

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PART I
OF IMMEDIATE INTEREST

COMMUNISTS PREPARE FOR FUTURE ISLAND ATTACKS

The Chinese Communists continue to improve their capability for further attacks on Nationalist-held islands.



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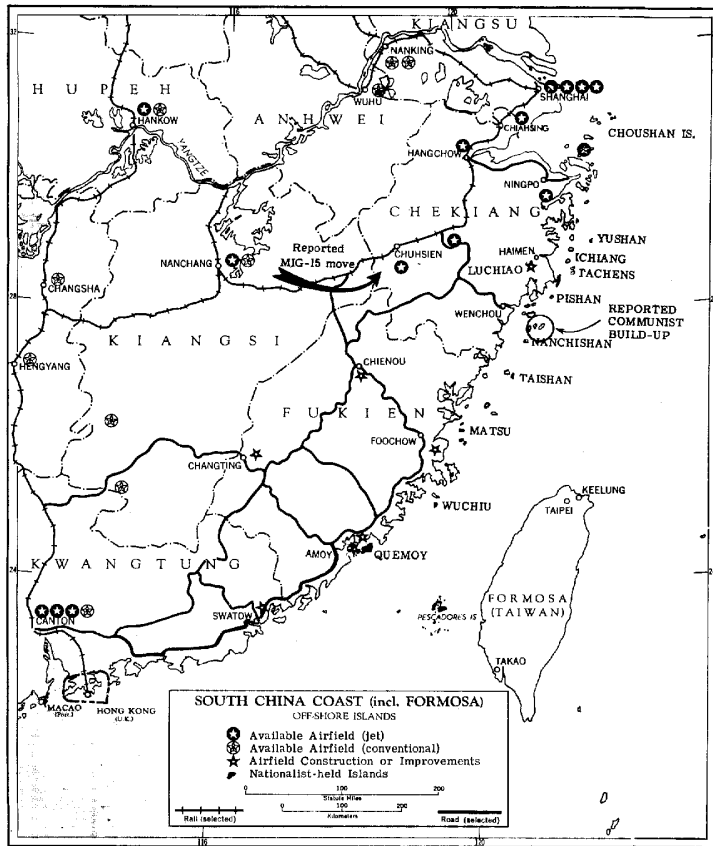
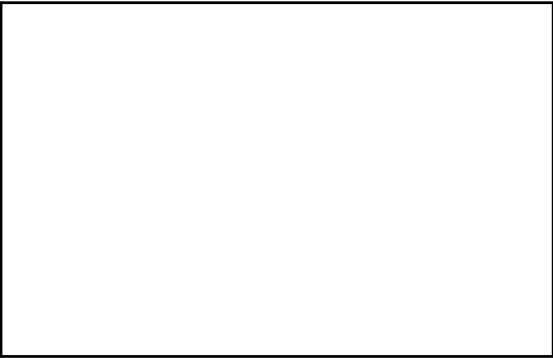
Meanwhile, there are other indications of an increasing Communist threat to Nanchishan where the 2,800 Nationalist regulars on the island are in the process of withdrawing to Formosa.

The Communists have recently occupied several islands north and south of Nanchishan. One group of three or four of these islands is about 12 miles north. Another--Taishan--is about 40 miles south.

Construction of fortifications and installation of artillery on the islands to the north is already under way. Taishan could be used as a base for naval operations against Nationalist shipping to Nanchishan and the Matsus.

Three Communist fighter planes bombed and strafed Nanchishan on 22 February in the first attack on the island, and air raids on Nanchishan will probably be intensified.

Some Communist vessels have been reported operating in waters near Nanchishan for several days.



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The withdrawal of the Nationalist regulars on Nanchi-shan, scheduled to be carried out on the night of 24-25 February, is to be covered by a destroyer and four destroyer-escorts, together with Nationalist planes. With these Nationalist forces operating alone close to the mainland, there is some possibility that the Communists will attempt to interfere with the withdrawal.

The situation has been quiet in the Matsu and Quemoy areas. Communist activity

there could increase at any time, however.

Communist forces can be redeployed quickly to forward areas opposite the Nationalist-held islands, and final preparations for an assault will be hard to spot.

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FRENCH COUNCIL MAY AMEND PARIS AGREEMENTS

Although all the non-Communist parties except the Socialists voted for Radical Socialist Edgar Faure's investiture on 23 February, the new premier will have difficulty in consolidating his assembly support.

Faure faces rightist opposition to additional domestic reforms and to a forthright policy on North Africa. His most difficult problem, however, may be the attitude of Mendes-France's followers, who fear the effect of a successful right-center government on a prospective new political grouping led by Mendes-France.

The new premier is pledged to press for approval of the Paris agreements by the Council of the Republic, but he is expected to devote much of

his energy to domestic economic problems.

His cabinet is about evenly divided between supporters and opponents of European integration. His efforts for quick ratification of the Paris accords will probably be coupled with an attempt to bring about East-West talks.

Foreign Minister Pinay is well thought of in the upper house, which may win new support for the Paris agreements. Moreover, Faure is reported eager to overcome American suspicion that he may follow a "soft" line toward the USSR if this should seem politically profitable.

The council's deadline for a decision on the accords is now 1 April, but action is

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likely before mid-March. If the government presses vigorously, it stands a good chance of overcoming mounting pressure for amendments which would entail reconsideration by the assembly. The large Gaullist element in Faure's cabinet, however, and the mounting pressure for delay may influence the senators--half of whom face re-election in June--to amend the bill.

While Faure has promised to continue the negotiations with the Tunisian government initiated by Mendes-France, his cabinet may be less liberal. Pierre July, the new minister for Tunisia and Morocco, is a member of the dissident Gaullist

party which supports a firm policy toward North Africa.

The new premier is expected to continue Mendes-France's policy of economic and cultural coexistence with North Vietnam.

In the Laniel and Mendes-France governments, Faure's forte was economic affairs. He will press for a boost in living standards through wage increases and price cuts as part of the long-term economic revival program he instituted under Laniel. The appointment of Popular Republican leader Pflimlin as finance and economics minister indicates, however, a more lenient approach to agricultural problems. [redacted]

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CONSERVATIVE VICTORY SEEN IN JAPANESE ELECTION

The leading Japanese newspaper, Asahi, predicts Hatoyama's Japan Democrats will win 180 seats, the Ogata-Yoshida Liberals 134, and the Left and Right Socialists 71 and 64 respectively, in the 27 February elections.

The conservative-leftist ratio will probably thus remain essentially the same--two thirds for the conservatives and one third for the leftists. It is open to question, however, whether the conservatives can win the two-thirds majority of the 467 seats which is required for the passing of any constitutional amendments. [redacted]

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PART II

NOTES AND COMMENTS

The Situation in the Associated States

Laos: Despite the strongly neutralist tone of the king's recent speech before the national assembly, Crown Prince Savang has indicated a strong desire that his country join the Manila pact.

Prince Savang told the American, British and Thai ministers in Vientiane on 17 February that his country's survival in the event of Communist aggression requires its adherence to the Manila pact. He maintained that the Viet Minh, utilizing the Pathet Lao, was more likely to create a crisis in Laos than in Vietnam this year. He thought aggression was unlikely in Vietnam before the 1956 elections.

The prince had previously explained the neutralist tenor of his father's speech as being wholly the responsibility of Premier Katay, whom he criticized for his failure to deal firmly with the Communist-backed Pathet Lao. The prince's failure to prevent the delivery of such a speech by his father suggests, however, a certain tolerance of an official policy of neutralism.

Cambodia: The king has announced a plan, to be submitted to a popular referendum in April, for a sweeping revision of the constitution. The new system would feature a cabinet appointed by the king and the elimination of political parties.

Under the king's plan, members of the national assem-

bly would be elected by provincial councilors rather than directly. The cabinet would not be collectively responsible to the assembly, though individual members could be removed by assembly vote. The king's action evidently stems from his growing fear of an opposition movement centering around the Democratic Party. He has not yet made clear how political party activity would be eliminated by his proposal.

Vietnam: Factionalism among the sects continues to cause unrest in South Vietnam. Spokesmen of the Cao Dai and Hoa Hao have been urging the American embassy in Saigon to intercede with Premier Diem in order to check what they represent as oppressive government tactics toward themselves. The embassy, however, suggests that Hoa Hao leader General Soai may be in a less bellicose mood than in the past, and that Cao Dai leader, General Phoung, appears to be primarily going through the motions of protesting.

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Bundestag Probably Will Ratify
Treaties This Week

Recent developments in France and the Soviet Union have not altered the Bonn government's decision to proceed with the second and third Bundestag readings of the Paris treaties on 25 and 26 February. Ratification of the treaties appears assured.

The Saar bill will probably just squeak by, however. The Bundestag's Foreign Affairs Committee approved the Saar accord on 20 February, but "with grave misgivings" and solely with the votes of Adenauer's Christian Democratic Party (CDU). Only scattered support for the Saar bill is expected from the coalition Free Democratic and Refugee Parties.

Action by the Bundesrat (upper house) is expected by mid-March and will probably be favorable.

Adenauer has had to fight sentiment within the coalition to postpone final reading of the treaties until France has a new government and the French Council of the Republic has acted.

Although the Soviet Union and East Germany have insisted that ratification of the treaties would preclude German unification, the dominant opinion in the Federal Republic is that four-power negotiations will probably be most fruitful after ratification. (CONFIDENTIAL)

Satellite Reaction to Developments in the USSR

Satellite propaganda reaction to the recent personnel changes and policy statements in the USSR has been cautious and has generally consisted of straight reporting of developments in the Soviet Union. Any editorializing has been primarily on Soviet economic and defense policies.

The personnel shifts have been barely mentioned in the press, but the speeches of Molotov, Khrushchev and Bulganin have received wide coverage. Molotov's speech, particularly the sections emphasizing the strength of the Soviet Orbit in the face of alleged Western aggressive preparations, was prominently reprinted and was the subject of approving commentary in Satellite newspapers.

Popular reaction, as reported by Western observers, is one of apprehension. The people fear that domestic policies will harden and that the new course liberalism will end.

Hungary is the only Satellite, however, where there has been any indication so far that such a change might occur. Party spokesmen have severely reprimanded Hungarian writers and newspapers for promoting "excessive liberalism" during the past 18 months. Premier Nagy, who has been most closely identified with the new course, has not appeared in public since late January, and his absence has given plausibility to widespread rumors that he is about to be deposed.

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On 19 February, the regime belatedly tried to stem these rumors by explaining that Nagy has been seriously ill from coronary thrombosis and will be unable to resume his duties at least until April.

Events in Hungary do not indicate that there will be any marked shift in economic policy, although there probably will be a step-up in internal propaganda emphasizing the need to develop heavy industry. [redacted] 25X1

Orbit Propaganda
Emphasizes "Vigilance"

The vehemence of the Rumanian and Soviet reaction to the seizure on 15 February of the Rumanian legation in Bern by a group of anti-Communist Rumanian emigrés suggests that the incident may be used to invigorate the "vigilance" theme of Communist propaganda in Eastern Europe.

Orbit propaganda has attacked the Swiss government for allegedly fostering and even directing the invasion. These charges of complicity have been expanded to include the United States and have been cited as proof of the persistent Communist claim that the United States is directing the action of Western European governments in aggression against the "peace-loving" states.

Neither the Swiss charge nor American legation officials in Bucharest believe, however, that the Rumanians will go so far as to break diplomatic relations with Switzerland.

The "vigilance" theme has never been completely discarded in the Orbit since Stalin's death, but it has generally been soft-pedaled, with only occasional brief periods of emphasis. In the past few weeks, stress on the need for "vigilance" has been increased, probably to back up propaganda assertions that the West's "aggressive" intentions

require an improvement in Orbit defenses through a greater effort to develop heavy industry and increase production.

Hungary and Czechoslovakia have recently published the results of trials of members of alleged antistate organizations. Hungary issued a new decree last week on the protection of state secrets which considerably broadens the existing law and provides a basis for enforcing tighter security.

East German propaganda has been featuring charges that the American Military Liaison Mission to the Soviet Forces in Germany has been harboring smugglers--the first propaganda attack on the mission since the June 1953 uprisings.

The American embassy in Moscow has noted a number of recent items in the Soviet press dealing with the need for increased vigilance on the part of the population and for improving "mass-defense" work in the quasi-military training organization, DOSAAF. More specifically the Soviet army newspaper, Red Star, reported on 16 February the arrest of an "important spy" sent into the Soviet Union by a "foreign power." Such reports are a usual feature of vigilance campaigns. [redacted] 25X1

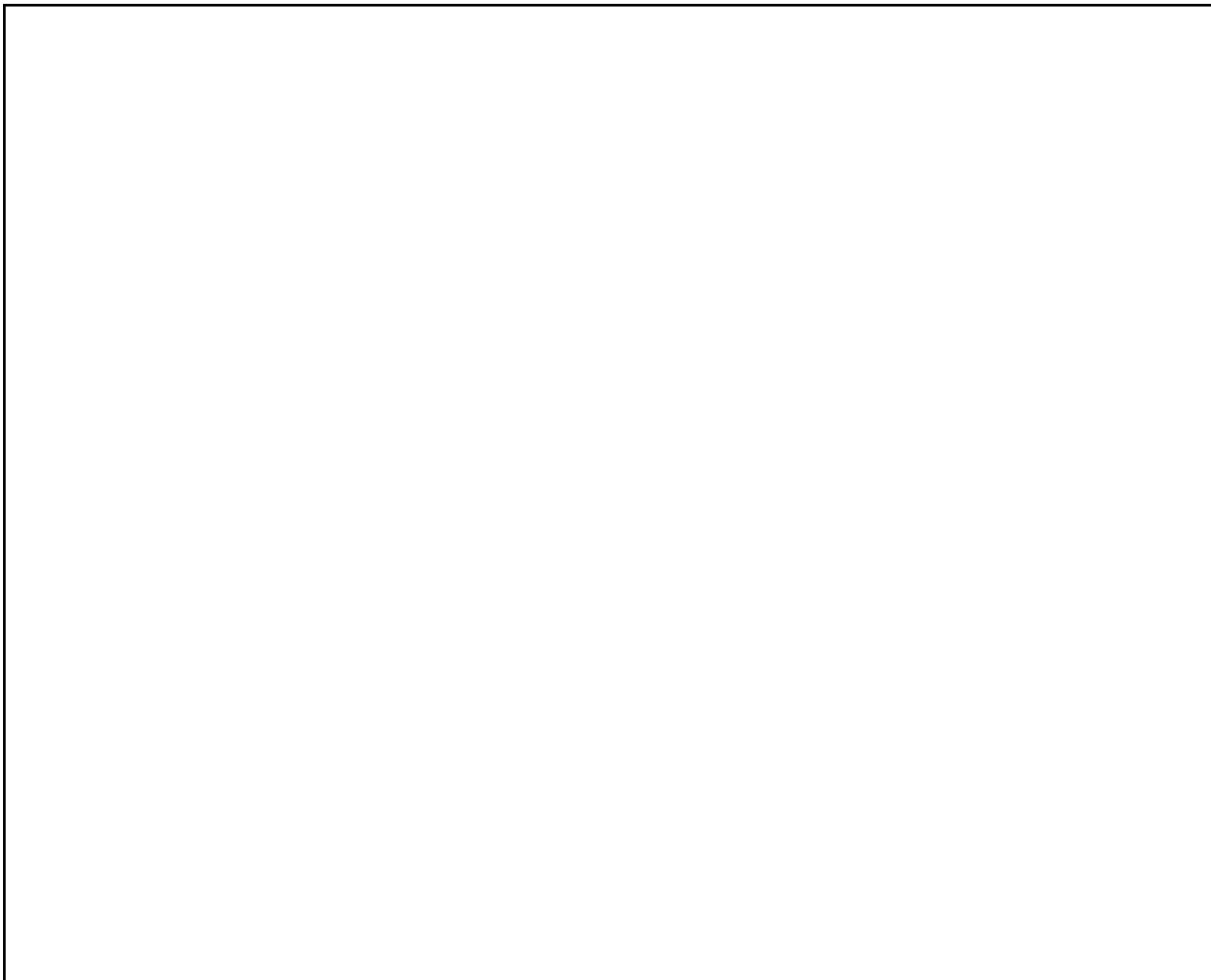
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Afro-Asian Conference

Chou En-lai and Ho Chi Minh have officially accepted, on behalf of their respective regimes, the invitation to the Bandung meeting, and their statements clearly indicate that the Communists intend to stress the theme of coexistence.

Chou praised the conference as the first of its kind and declared that it offered a good opportunity to make it possible for countries with different social and governmental systems to "coexist

in peace." Ho similarly acclaimed the conference on the grounds that it would help develop friendly relations among the participants on the basis of the "five principles" of coexistence.

India and Burma, on the other hand, are reported to be giving priority to cultural and economic matters and to be hopeful that "controversial issues" can be avoided. Indonesia has indicated similar sentiments.

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India, however, can be expected to take up any international political issue in which it happens to be interested.

A high Burmese official has stated that the Formosa problem will certainly be discussed in connection with the general subject of "easing international tensions." 25X1

Japan-Orbit Relations

The Japanese cabinet has decided to propose that the negotiations for a settlement with the USSR be held at the United Nations in New York



The USSR has said it will meet with the Japanese any

place Tokyo wishes.

Foreign Ministry adviser Masayuki Tani has indicated that it will be impossible to open the talks before the 27 February election, but that the Japanese hope to begin the discussions shortly thereafter.

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Communist China's Food Situation

Crop losses in areas affected by the floods of 1954 were sufficiently offset by bumper crops in other areas of China so that the net food situation is probably no worse than it was from 1949 through early 1952.

Famine conditions in the large areas of central China flooded by the Yangtze last summer are probably already serious and will grow worse until May or June, when the first crops of the year in that region are harvested.

Extensive reconstruction and dike repairs have been undertaken, but may not have received the government's all-out attention, for official reports disclose that large areas of farmland remain undrained and dike repair work is lagging in many localities.

The government has been moving food into the area, which in normal years ships out large rice surpluses. These food shipments are probably insufficient to do more than relieve the worst famine localities.

In other areas of China, where bumper crops were harvested, the government should be able to collect enough food for its needs through the new forced purchase program and effective taxation.

In addition to meeting military and urban needs, Peiping wants to maintain exports of foodstuffs, including soybeans, at last year's level of more than 3,000,000 metric tons in grain-equivalent terms.

China's total food output last year is estimated at

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132,000,000 metric tons in grain-equivalent terms, only five percent below the 1952 and 1953 crops, which were regarded as favorable, and equal to the 1950 and 1951 crops.

The nation's food supply now is considerably larger than in the spring of 1950, which had been preceded by a 1949 crop estimated at only 123,000,000 tons. Moreover, by now the regime has probably made at least a small beginning on a strategic grain stockpile.

While last year's crop disasters were a major economic setback to the regime, their effect on Peiping's military plans will probably not be great. The regime faced worse food problems in 1950; nevertheless it was prepared to invade Formosa and later intervened in Korea. It faced similar food problems in 1951 and early 1952, when it committed and supplied some 700,000 Chinese troops in the Korean war.
(Concurred in by ORR)

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Middle East Defense

Turkish prime minister Menderes is in Baghdad for the signing of the Iraqi-Turkish defense pact. Ankara has indicated that it hopes to have staff talks on implementing the treaty within a month.

Iraq is also engaged in staff talks with British officials with a view to replacing the Anglo-Iraqi treaty of 1930 with new arrangements to meet British military requirements in Iraq. These arrangements are to be concluded within the framework of the Iraqi-Turkish pact.

So far no significant formal move has been made by either Iraq or Turkey to bring any other Arab state or Iran into the pact. At present no other Arab state appears ready to join, and an effort to secure adherence would probably intensify Egyptian and Saudi maneuvers against the pact.

Cairo may be expected to continue threatening to organize its own Arab defense alignment, though it is unlikely to come up with any significant proposal.

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Incidents on Arab-Israeli Frontier Increasing

During the past weeks isolated incidents and killings have again been on the increase on the Israeli-Arab frontiers. Small Israeli military maneuvers on the borders and fishing rights disputes regarding Lake Tiberias have added to the tension. Repeated, on-the-spot meetings and decisions by the

United Nations truce teams have failed to reduce the tension.

The Israeli press is taking an inflammatory line, and local military and public opinion is quick to accept a show of force as the only means to achieve border stability.

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tion and a serious clash. Although Israeli frustration over Middle East defense developments is high, the Tel Aviv government, still seeking negotiated settlements, is unlikely to lose control of the situation. 25X1

The present tension may lead to strong Arab retalia-

The Syrian Crisis

The Iraqi ambassador to Lebanon has indicated to the American chargé that a swing to the left in Syria might require Iraq to "march in."

Iraq's former prime minister Jamali has been openly preaching the need for Iraqi-Syrian union. Lebanese president Chamoun believes that Syria ought to be united with Iraq if the situation continues to deteriorate.

The British embassy in Beirut is doing little to hide its favorable disposition to the idea.

Meanwhile, the situation in Syria remains unsettled and the threat of violence continues. Newly appointed Premier Asali apparently is attempting to neutralize the army commanders who are reported to have threatened

military action if his government is not soon replaced.

Influential elements in the army are still basically opposed to union with Iraq, and this may be a major factor in the situation.

The premier, in preparing for a vote of confidence, has returned to the old formula of insisting that the Arabs concern themselves with their primary problem--Israel. He has proclaimed his determination not to join Turkey and Iraq in a defense pact.

Pro-Western president Atasi continues deeply concerned over the leftist elements in the cabinet and over extensive Saudi Arabian, Egyptian and French intrigue inside Syria. He has asked Iraq to help counter this activity.

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The Andhra Elections

the Congress-led coali-

tion will defeat Communist attempts to gain a majority of the 196 seats in the legislative elections which began on 11 February.

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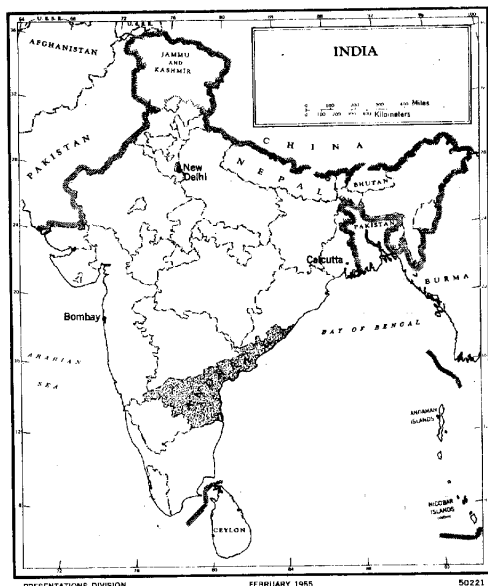
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The Congress forces are credited with 100 safe seats and the Communists with 80. The American consul general in Madras feels, on the other hand, that the outcome is still doubtful.

Each party continues to insist that it will win a majority.

The final results of the elections, which will not be known until after 1 March, have national importance, since a victory by the strong Andhra Communists would, for the first time, give their party a clearly legitimate claim to govern an Indian state. 25X1

Communist Strikes in Italy

Communist-inspired strikes in the port and industrial area of Genoa have increased in recent weeks as a protest against new regulations that would weaken the Communists' hold on the port workers. The Communists have also scheduled work stoppages and demonstrations in and around Rome in an effort to prevent Senate ratification of the Paris accords. This effort is almost certain to fail.

The Communist port workers in Genoa have been on strike for over a month, and there have been short sympathy strikes by the stevedores union and by workers in various plants in the surrounding industrial area. Non-Communist union leaders in the port consider the police protection granted their workers insufficient.

To date the Rome government has taken no action but is prepared, if the agitation

continues, to appoint a commissioner to enforce the new, controversial ordinance permitting private steamship companies to select ship repair workers rather than having to accept them from the Communist-dominated port labor company. Meanwhile, Genoa authorities and industrialists appear resolved to hold firm, realizing that any concessions would result in a great Communist victory.

Labor unrest elsewhere in Italy is being aggravated by substantial layoffs and the threat of further dismissals in various key defense plants. These layoffs, caused mainly by cancellation and delays in letting offshore procurement contracts, will enhance Communist prospects for gaining greater public support.

Communist and non-Communist unions have joined in calling a 24-hour nation-wide strike for wage increases for ceramic

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workers on 24 February, the date set for the opening of the Senate debate on the Paris accords.

While this joint strike effort may be successful and

Communist-engineered walkouts in the Rome area may succeed in tying up local transportation services, any effort to stir up violence will be effectively blocked by the police.

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Crucial Presidential Campaign Begins in Brazil

Brazil is now beginning what is likely to be a bitterly contested campaign for the presidential elections in October. The stresses of this campaign, added to the government's already serious economic problems will pose a threat to political stability, but are not likely to result in a takeover by the military.

President Café Filho and his conservative military and civilian backers would like to avoid any threat to peace and stability by having the major political parties agree on a single candidate. The Social Democratic Party, Brazil's largest, has nominated Juscelino Kubitschek, governor of the state of Minas Gerais, and is seeking support from other political parties.

The military and conservatives assert, however, that a victory by Kubitschek would mean a return to the corruption and inefficiency of the Vargas regime. A bitter campaign thus seems inevitable unless the military choose to intervene.

Meanwhile, Brazil is beset by staggering economic difficulties. These are largely a legacy from the maladministra-

tion of the Vargas regime. Although the present administration has taken some measures to curb domestic inflation and to restore Brazil's balance of trade, it has not pressed reforms energetically and consistently.

Many Brazilians assert that if the United States had shown more sympathy toward Brazil's economic problems, the country might not be faced with its present economic difficulties. Brazil's traditional friendship for the United States has cooled considerably since World War II. This was demonstrated in Brazil's recent rejection of a US-proposed treaty for a combined defense board.

Oswaldo Aranha, former key official under Vargas, told the American embassy on 8 February that relations with the United States would be an important issue in the presidential campaign and that no party would stand up for the United States.

The Communists have announced their intention of entering the coming campaign and of supporting any "patriotic forces" willing to fight against "North American imperialism" and for "peace."

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Strikes Threaten in Iceland

Twenty-four unions representing over 9,000 members of the 26,000-member Icelandic Federation of Labor (IFL) have threatened to walk out around 1 March.

A prolonged strike by the Communist-dominated dockworkers in Reykjavik could paralyze the economic life of the country and force the American-manned airbase at Keflavik to rely, at least temporarily, on air-borne supplies. The non-Communist unions at the airbase itself are not involved in the labor dispute.

The Icelandic government has belatedly taken measures to avert the threatened strikes by proposing subsidies to lower the cost of living. This tactic averted a

threatened general strike in 1952. Although the president of the Communist-controlled IFL has publicly rejected such a proposal, the government's further threat of monetary devaluation may deter the trade union leaders.

The aggressive wage policy of the Communists, who are spearheading the strike movement, is designed to consolidate their control of the trade union movement and to advance their primary objective of obtaining political control of all labor elements under the aegis of the IFL. The growing disintegration of the badly divided Social Democratic Party also encourages labor to turn to a more aggressive "worker" party.

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PART III

PATTERNS AND PERSPECTIVES

SATELLITE ECONOMIC PERFORMANCE IN 1954 AND PLANS FOR 1955*

All the Eastern European Satellites except Albania have claimed overfulfillment of their 1954 industrial production plans, but in several cases these claims were made possible only because the original 1954 goals were revised downward during the year.

Industrial production increased by amounts ranging from 3.1 percent in Hungary to 11 percent in Poland. The growth rates, however, were below the amount called for in the original 1954 plans in East Germany, Czechoslovakia, and Hungary. In spite of its claims of overfulfillment, Poland's growth rate was just equal to its original plan.

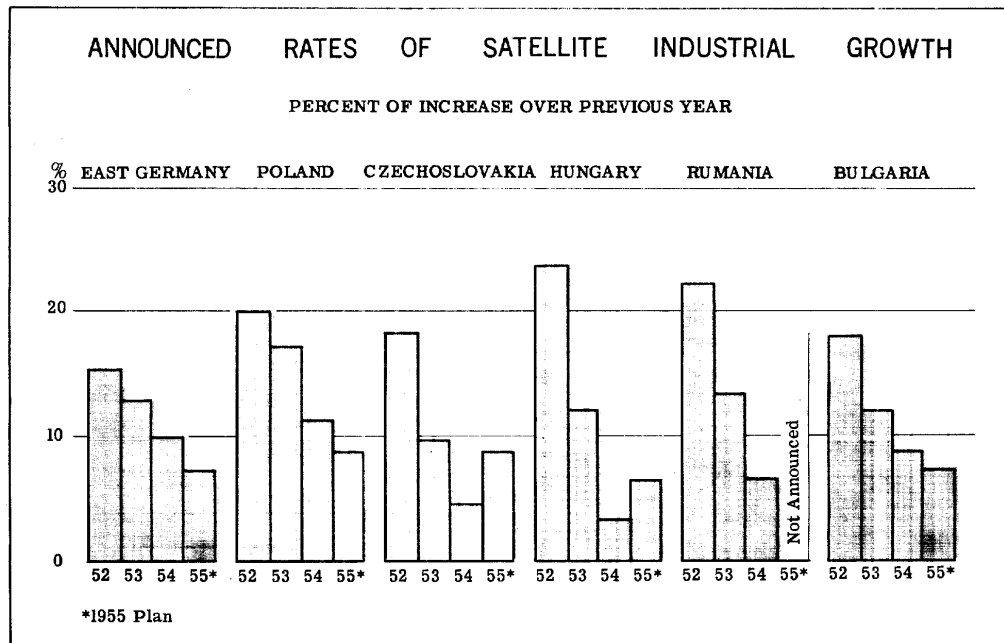
A basic reason for the Satellites' inability to reach their original targets was the failure of the program to obtain greater productivity through incentives and a more efficient organization of

labor. Moreover, the regimes failed to shift resources from heavy industry to light industry and agriculture as rapidly as called for by the plans.

In spite of increased efforts, most of the Satellites experienced continuing difficulties in meeting their plans in the key fuel and power sectors, and these difficulties will continue to limit their economic growth.

In most East European countries, the output of consumers' goods increased by substantial, if unspectacular, amounts--generally 10 to 15 percent--and all of the countries which reported on the subject stated that the output of consumers' goods expanded as fast or faster than the output of heavy industry.

*Concurred in by ORR.



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The failure of agriculture to reach its goals was a major setback for the new course, however, and prevented a noticeable improvement in the average diet. Chiefly because of poor weather, the bread grain harvests in the area as a whole were even below the unsatisfactory 1953 level.

This failure forced the regimes to import several hundred thousand tons of bread grains from the West for the first time since the war, thereby further depleting sparse foreign currency holdings and upsetting trade plans.

Plan goals for 1955 are available to some extent for all the Satellites except Rumania. They reveal two distinct trends.

In East Germany, Poland, and Bulgaria, the rates of industrial growth are scheduled to continue their steady declines.

Albania, Czechoslovakia, and Hungary, on the other hand, are to increase their rates of industrial growth above the 1954 levels, although industrial production will not grow as fast as it did in earlier years.

A significant feature of several of the 1955 plans is that most of the increase in industrial output is to be achieved through the growth of labor productivity, with heavy reliance on greater effort on the part of the workers. Agriculture will require most, if not all, of the increment in the labor force.

In view of the lack of progress of the regimes' efforts to increase labor productivity thus far during the new course, it is questionable whether the 1955 production goals will be reached.

So far, the Satellites apparently do not intend to reverse their new course programs to return to a policy of rapidly building up heavy industry, although some modifications may be made.

Both Poland and Bulgaria are continuing to stress agriculture and light industry. Bulgaria has also paid considerable propaganda attention to concessions being granted to the peasants.

East Germany plans to increase production of manufactured consumer goods at about the same rate as in 1954--16 percent as compared to a planned 70 percent increase in total industrial output for 1955.

Hungarian heavy industrial output, which declined by over 3 percent during 1954, is to increase by 6 percent this year; and the food and light industries of Hungary, which increased respectively by 12 and 9.5 percent in 1954, are to grow by only 7 percent in 1955.

Rather than portending a return to a policy of forced draft industrialization, however, this adjustment probably indicates that Hungary is unwilling to pay for a rapid growth of light industry by foregoing heavy industrial expansion.

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IMPROVED AFGHAN-PAKISTANI RELATIONS NOW SEEM POSSIBLE

Both Afghanistan and Pakistan appear increasingly interested in settling the Pushtoonistan dispute over Afghanistan's campaign calling for an autonomous region of Pushto-speaking tribes in northwestern Pakistan. Though there are serious obstacles to complete solution of this problem, preliminary negotiations and the granting of minor concessions on each side suggest that some progress toward a rapprochement may now be made.

The Pushtoonistan dispute has been the major point of friction between the two nations for several years.

Shortly after Pakistan was formed in 1947, Afghanistan began a propaganda campaign for the formation of an autonomous "Pushtoonistan" state. This is to include mainly the Northwest Frontier Province of Pakistan, which is inhabited by Pushto-speaking tribes over whom neither the British nor the Pakistanis have ever exercised much direct control.

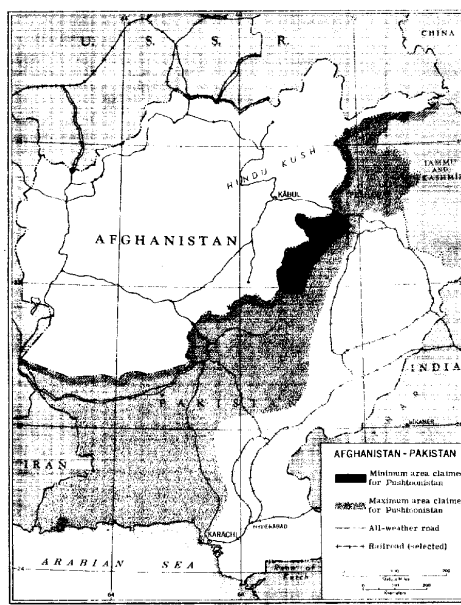
The motivation for the campaign is political and psychological, rather than economic. Apparently, the Afghan government has been concerned mainly with keeping restive Afghan tribes occupied with occasional armed forays into Pakistani territory and with maintaining their loyalty toward the Afghan royal family by propaganda support as well as by monetary subsidies. Kabul has never suggested that its own considerable Pushto population be included in the proposed new state.

Pakistan, which held a plebiscite in its tribal areas in 1947 and won declarations of loyalty from tribal chieftains, has consistently maintained that there is no dissatisfaction within its boundaries.

Growing sensitivity to the views of the outside world, direct criticism leveled at Afghanistan, and steadily deteriorating economic conditions inside the country apparently led gradually to a realization in Kabul during 1954 that something had to be done to improve relations with Pakistan.

Afghanistan has been gradually emerging from its traditional isolationism. It is participating more actively in United Nations affairs. It is expanding its diplomatic relations with both the West and the Orbit.

Kabul has watched with increasing concern the formulation of the Turkish-Pakistani pact and subsequent efforts to improve Middle Eastern defense mechanisms. All during 1954, Afghan leaders expressed desires to participate in some way in the Middle Eastern defense pattern and to obtain military or economic aid to enable them to do so effectively.

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Kabul has been told over a period of years by the United States, Britain, Turkey, and some Arab countries that its Pushtoonistan propaganda was serving no useful purpose and that it stood in the way of improved diplomatic relations with other states and of the receipt of economic aid. Only India, and possibly the USSR, have supported the campaign.

Certain high government leaders in both Afghanistan and Pakistan tentatively discussed the radical idea of confederation during 1954, but no visible progress was made. Toward the end of the year, however, diplomatic exchanges on the Pushtoonistan issue increased.

Late in 1954, Afghan foreign minister Naim held conferences in Karachi, which for the first time seemed to produce some hope for an improvement in the situation. Publicity given the talks in Karachi caused the Afghan prime minister to return to a more bellicose attitude, apparently to prevent Pakistan from interpreting Naim's reasonableness as a sign of weakness.

More recently, however, there have been indications that senior members of the Afghan royal family are dissatisfied with the prime minister's continued encouragement of Pushtoonistan propaganda, and there are signs that Kabul is actively seeking a basis on which to continue talks with Pakistan.

Among the concessions being considered by Afghanistan seem to be a willingness to state publicly that Afghanistan has no territorial claims on Pakistan and to attend a conference with Pakistan without stipulating in advance that the Pushtoonistan issue must be discussed.

Karachi, too, is apparently in an unusually favorable mood toward negotiation. Government leaders, intensely concerned with internal political problems, displayed in late January a firm desire to clear away major disputes with India. The recent addition to the Pakistani cabinet of two men intimately acquainted with Afghan frontier problems may indicate a similar aim in regard to Afghanistan.

Pakistan's pact with Turkey and its receipt of military aid from the United States have also sharpened Karachi's awareness that its natural defense line against the Orbit lies in the Hindu Kush mountains of central Afghanistan. Given any real concession from Afghanistan, therefore, Pakistan might be willing to concede a point or two which it actually is under no obligation, moral or otherwise, to concede.

Both countries face problems in attempting to resolve their differences, however. The Afghan government--whose greatest fear is of a tribal uprising against the royal family--will have to find a substitute to the Pushtoonistan propaganda to direct tribal intrigue away from Kabul.

Prime Minister Daud, who has identified himself with this issue, will be reluctant to see the campaign end. Moreover, Kabul is constantly beset by the knowledge that Karachi can dominate it by using its control of Afghanistan's outlet to the sea to exact political and economic concessions.

Karachi has been unwilling to negotiate the Pushtoonistan question as such since the tribal plebiscite it held in 1947 resulted in a favorable vote for Pakistan. Karachi also refuses to admit that Kabul has any right to intervene on behalf of tribes dwelling in Pakistan.

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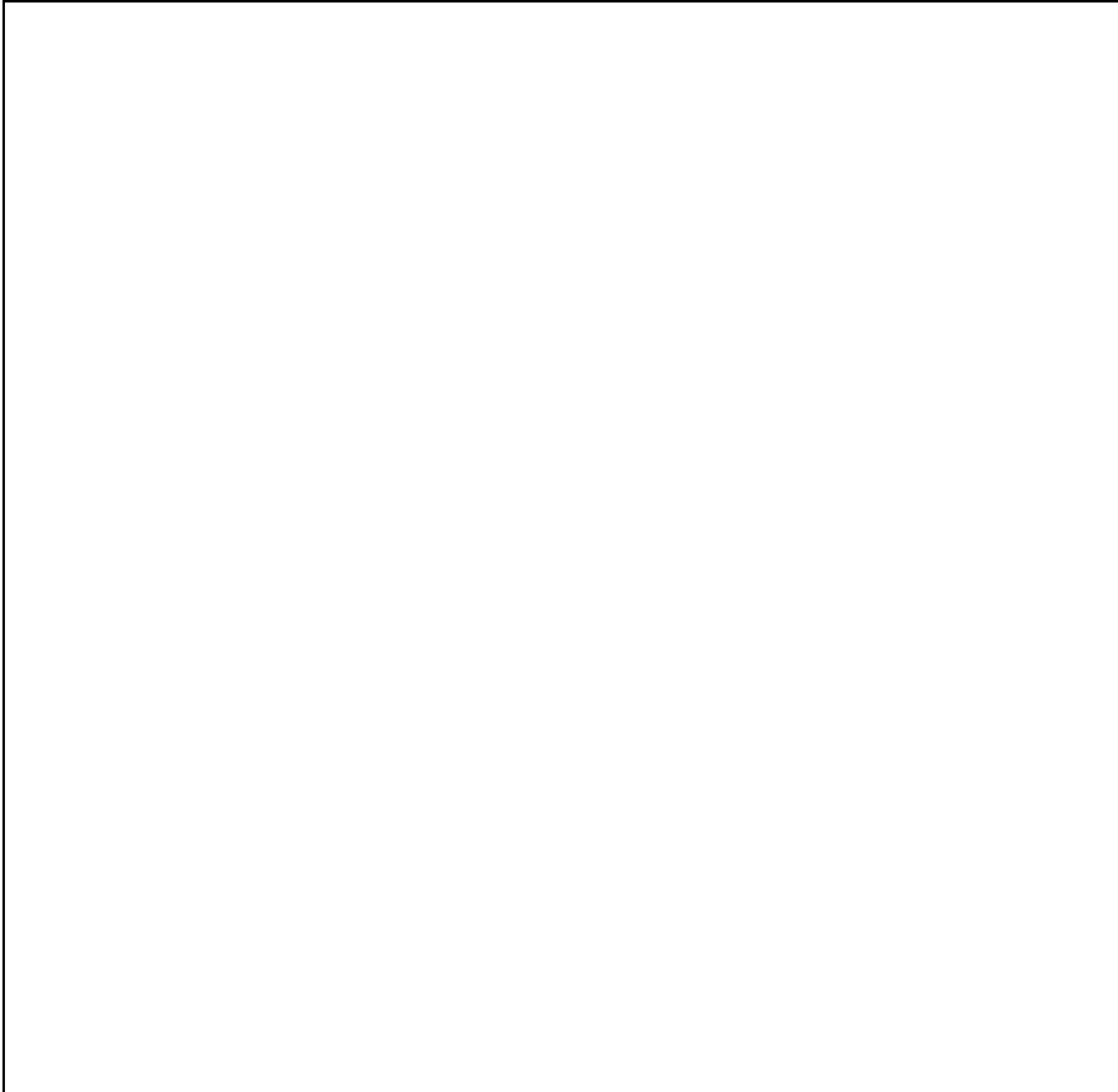
However, the apparently growing desire for a rapprochement in both countries may lead to a further relaxation of tension and additional efforts to develop closer relations. Progress probably will be slow because of practical problems and the concern of both parties not to lose face during negotiations. This concern will be particularly acute in Afghanistan, which is likely to make occasional strong statements

to maintain its bargaining position.

Nevertheless, it appears that through small beginnings, such as joint projects for economic developments, which do not involve national prestige, the way may gradually be cleared for successful diplomatic efforts to eliminate the Pushtoonistan problem. [redacted] 25X1

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CURRENT STRENGTH OF THE ITALIAN COMMUNIST PARTY

The Italian Communist Party (PCI) is clearly having internal difficulties, but no split in the party leadership and no drop in electoral strength seem indicated at this time.

Party chief Palmiro Togliatti was openly criticized at the PCI national conference of 9-14 January, yet he appears to remain in full control and to be ready to continue the "soft" policies of the past seven years.

The recent shift in leadership and policies in Moscow has not been reflected in the adoption of a more militant political line by the Italian Communists.

There has always been some discontent in the PCI among the advocates of a "hard" line. These elements accuse the present leadership of having too little energy and of weakening the party by taking in too many "bourgeois elements."

Pietro Secchia, who has long been the chief spokesman for a "hard" line, was demoted on 14 January from the PCI secretariat to the position of regional secretary for the Milan area. Secchia remains a member of the PCI directorate, however, and could be the party's next leader should a change in tactics be ordered.



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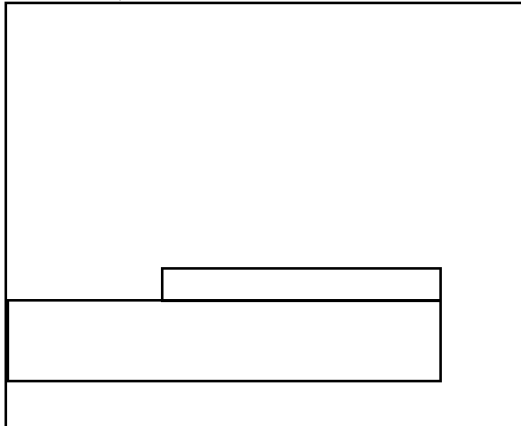
At least some of the recent increase in the party's difficulties can be attributed to the Scelba government's anti-Communist campaign. The scandal involving the head of the party's Rome organization which aroused suspicions of moral laxity among Communist top leaders seems to have had a particularly strong impact. Threats of government action against other Communists for trade and financial irregularities, subversive propaganda activities, or wartime crimes have not yet had measurable effects.

The Communists also appear to have suffered setbacks in some recent labor union elections. The Communist controlled General Labor Confederation (CGIL) has lost heavily in the past few months in shop steward elections in a number of important plants. Typical cases are the elections at the Piaggio plant in Turin, where non-Communist unions increased their strength from 34 to 53 percent, and at the Taranto shipyard, where the free unions scored an 11-percent gain, reducing Communist strength to 55 percent.

Many observers believe that the trend evident in these labor elections may not reflect a political shift, but rather a fear among the workers that their plants may fail to meet the requirements for obtaining American offshore procurement contracts.

In any case, the PCI does not yet appear to be losing its political influence over the masses. The

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party, together with its Nenni-Socialist allies, polled 35 percent of the vote in the 1953 national elections, and has won at least this high a proportion of the votes cast in local elections since then.

The next major electoral test will be the regional balloting in Sicily on 5 June. The campaign for these elections is expected to

focus on the issues of lagging land reform and protective oil legislation. Since there is already widespread dissatisfaction with the Christian Democrats' failure to carry out adequate social reforms and to break the hold of the old vested interests, the election results may show an increase in the PCI's strength. [redacted]

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