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27 October 1955

CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY
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T H E W E E K I N B R I E F

PART I

OF IMMEDIATE INTEREST

FOREIGN MINISTERS' CONFERENCE. Page 1

The USSR will probably attempt at Geneva to obtain support for a nonaggression agreement between the NATO and Warsaw pact powers as a preliminary to the dissolution of both defense pacts and will try to bring about a modification of present Western demands that agreement on German reunification precede a European security arrangement. Molotov apparently expects a good portion of the Geneva conference to be devoted to the question of East-West contacts, the third item on the agenda. The USSR is still pressing for a statement of American views on the disarmament question as a whole rather than on the inspection problem alone.

[Redacted]

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NEAR EAST SITUATION. Page 3

Egypt is continuing efforts to strengthen its position in the Arab world. Within the past week, Cairo has announced a bilateral military alliance with Syria and a military agreement with Saudi Arabia. Israel has reacted to these events by intensifying its efforts to obtain arms and by dispatching Prime Minister Sharett to Paris and Geneva to call Israel's concern to the attention of the Big Four foreign ministers.

[Redacted]

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PREMIER FAURE ASKS FOR EARLY ELECTIONS. Page 4

Premier Faure's proposal to hold National Assembly elections in December was precipitated by pressure from conservative leaders in his cabinet, who see an early date as favoring their parties. The opposition is determined to block this move and has maneuvered Faure into calling a vote of confidence for 28 October.

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PART II

NOTES AND COMMENTS

Chinese Communist Activities in Middle East: Peiping, like Moscow, apparently sees in the present situation in the Near East an opportunity to establish closer contacts between the Arab nations and the Sino-Soviet bloc. The Chinese are using recent trade pacts with Syria and Egypt to forward this aim. [redacted] Page 1 25X1

French North Africa: The turnabout of El Glaoui, Moroccan pasha largely responsible for the deposition of ex-sultan Ben Youssef in 1953, in demanding Ben Youssef's return to Morocco, has strengthened Moroccan unity. The nationalist Istiqlal organization and the main settlers' organization both have refused to participate in a government being organized by Ben Slimane. [redacted] Page 2 25X1

New Saar Negotiations Likely Soon: The Referendum Commission of the Western European Union probably will continue to supervise administration of the Saar territory pending agreement on a substitute for the European statute rejected by the Saarlanders on 23 October. Both France and Germany seem eager to undertake new negotiations, and opinion in the Saar territory will probably be given considerable weight in any decision that is made. [redacted] Page 3 25X1

South Vietnam: Former premier, now president, Diem has interpreted his impressive victory in the 23 October referendum as signifying popular approval for his refusal to agree to the Geneva schedule for unification. The fact that the Viet Minh, who in advance denounced the referendum as farcical, did not interfere with its conduct suggests that the Communists preferred not to put their strength to the test in a vote in which Diem's victory was assured. They may regard forthcoming elections for provincial councils and for a South Vietnam national assembly as presenting more attractive opportunities. [redacted] Page 4

Laos: The Laotian government is preparing to hold elections on 25 December in the 10 provinces under its control. Unless the government reaches an agreement with the Pathet Lao prior to the elections, the two provinces under the Pathet Lao will not be permitted to participate in the elections. [redacted] Page 5

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New Indonesian Elections: Election campaigning is again under way in Indonesia, this time for 520 members of a constituent assembly to be elected on 15 December. The constituent assembly will draft a permanent constitution for Indonesia. The Masjumi, which heads the present cabinet and now appears to have a good chance for a slim plurality in the new parliament, hopes to poll a larger vote in December than it did in the recent parliamentary elections by virtue of closer control over the election machinery and more thorough campaigning at the village level. Prime Minister Harahap, a Masjumi member, reportedly has the support of Indonesia's third largest party, the Nahdlatul Ulama, in his effort to remain in office until a new government can be formed early next year. [redacted]

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Largest Soviet Steel Mill Being Constructed in Khazakhstan:

What may eventually be the world's largest steel mill is under construction near Karaganda, in the Khazakh SSR. The first blast furnace of the mill is due to be in operation in 1958, but the plant will probably not be in full production before 1965. Construction of this plant is part of the announced Soviet program to develop a heavy industrial base in Khazakhstan. [redacted]

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Soviet Maneuvers in Germany: The annual fall maneuvers of the Group of Soviet Forces in Germany ended about 12 October, bringing to a close the 1955 field training program begun in mid-May. Most of the participating divisions have returned to their usual winter stations in East Germany, and the annual rotation of troops to and from the USSR is under way. [redacted]

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The New Soviet Heavy Tank: The Soviet Union has apparently developed a new heavy tank which is being received by Soviet forces in East Germany, according to recent reports. [redacted]

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Tourism Encouraged Within Soviet Bloc: In recent months several Communist countries have modified documentation requirements to permit their people to travel more freely within the Soviet bloc. These changes probably reflect Moscow's confidence in its control over the Satellite populations and suggest that Soviet leaders believe that increased movement of people will foster a greater sense of solidarity in the Communist world. [redacted]

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New North Korean Bid for Relations With Japan: North Korea is making new overtures toward Japan aimed at obtaining diplomatic recognition and at further undermining the already difficult relations between Japan and South Korea. The Hatoyama government has indicated that improved relations with North Korea are not possible in the absence of recognition of the Pyongyang regime by other non-Communist countries. [redacted]

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Japanese Conservative Merger May Be Near: Japan's conservative Democratic and Liberal Parties are making progress toward unification, and top Democratic leaders have confidently stated to American officials that the merger will take place in early November. A successful unification would assure the conservatives a working majority in the Diet. [redacted] Page 12

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Afghan-Pakistani Dispute: Pakistani spokesmen in Karachi and Lahore are insisting to American officials that Afghanistan is inciting violence along the Afghan-Pakistani frontier. Afghan foreign minister Naim denies these allegations. Pakistan's announced intention to retaliate has increased tension on the border. [redacted] . . Page 12 25X1

PART III

PATTERNS AND PERSPECTIVES

THE WESTERN COMMUNIST LINE SINCE THE SUMMIT CONFERENCE . . Page 1

Western Communist parties are trying to cash in on the appearance of international relaxation to increase their influence at home. Their line on foreign affairs is characterized by optimistic generalizations. [redacted]

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BRAZIL'S ECONOMIC SITUATION Page 2

Brazil's serious inflation and foreign exchange shortages, which were largely overshadowed by the political maneuvering in connection with the 3 October election, are now regaining public attention. President-elect Kubitschek has announced his intention to attack these problems through a broad program of expanding the nation's production and distribution capacity, for which he hopes to obtain American financial assistance.



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COMMUNIST CHINA'S UNEMPLOYMENT PROBLEM Page 13

One of the problems facing the Chinese Communist regime is the shortage of employment opportunities both for rural labor, which has been increasingly attracted to the cities, and for the unskilled urban labor force. Although many visitors to China have gained the impression that there is virtually full employment, indications are that unemployment is as serious as ever.

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PART I

OF IMMEDIATE INTEREST

FOREIGN MINISTERS' CONFERENCE

Germany and European Security

Foreign Minister Molotov told French ambassador Joxe in Moscow on 21 October that while he believed the European security question could not be solved at the Big Four foreign ministers' conference in Geneva, he felt progress was possible there. In talking to some Austrian journalists the same day, Molotov also expressed much more optimism about a solution of the European security problem than of the German question.

Soviet propaganda has continued to hold out the prospect of at least limited agreement on the question of European security at Geneva. A Pravda article on 20 October gave new attention to the Soviet plan for an agreement between the NATO and Warsaw pact powers not to use force and to settle disputes peacefully. This would be a preliminary step to the dissolution of both defense pacts.

On the other hand, propaganda references to the German issue have been pessimistic and have criticized the West for trying to link the European security issue to German reunification. On 15 October, party first secretary Khrushchev bluntly told Italian Socialist leader Nenni that progress on both items was impossible because the West insisted on linking European security to German reunification.

The USSR's strategy at Geneva will probably be to seek support for a preliminary non-aggression agreement and try to

bring about a modification of present Western demands that agreement on German reunification precede a European security arrangement.

East-West Contacts

Molotov gave Joxe the impression on 21 October that he expected a good portion of the Geneva conference to be devoted to the question of East-West contacts, which he described as important not only for their own value but as a contribution to the reduction of tension.

Soviet propaganda has been very optimistic about the possibilities of increasing East-West contacts, with one Moscow radio commentator saying the foreign ministers "have only to catch up with events and help their speedier and more fruitful development." Pravda, meanwhile, has charged that some elements in the West are trying to retard the expansion of East West contacts.

Pravda editor Shepilov recently told a British official that he had been studying BBC broadcasts in Russian to the USSR and had found nothing to criticize in them.

[redacted] Soviet divisive tactic at Geneva might be to voice approval of the BBC while criticizing Voice of America and Radio Free Europe broadcasts.

Regarding international trade, the Soviet ambassador to France recently said that there would probably be little profit

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in spending much time at Geneva in discussing strategic controls, but that there were many other trade items to discuss. This may indicate that the Soviet delegation will not press the trade control question strongly.

Disarmament

Premier Bulganin's brief reply of 20 October to President Eisenhower's letter of 12 October was apparently designed to create the impression that the USSR holds the initiative on disarmament, and that the next step on this issue should be a full statement of American views on Bulganin's original letter of 19 September. Bulganin expressed satisfaction with the President's "favorable attitude" toward Moscow's proposals for control posts to guard against sudden attacks, but made no reference to the President's proposals on aerial inspection and the exchange of military information.

The Soviet UN delegate's efforts on 21 October to open a general debate in the UN Disarmament Commission and the General Assembly were also calculated to strengthen the Soviet position on disarmament on the eve of the Geneva conference. He insisted that a General Assembly debate would assist the foreign ministers in reaching agreement and championed the right of all states to express their views on disarmament. Soviet chairmanship of the Disarmament Commission in November will give the USSR another opportunity to propose UN discussion.

Soviet propaganda has continued to argue that the USSR's acceptance of certain key elements in the West's disarmament

plan has opened the way for an immediate agreement on the basic principles of a disarmament convention.

Molotov echoed this line in his 21 October interview with Austrian journalists when he declared that various details on disarmament must be subordinated to the chief aim of ending the arms race. An indication of the USSR's probable line of attack on the President's aerial inspection proposals appeared in the Soviet press statement that the American proposals cannot be effective in ending the arms race because they do not include concrete measures for the reduction of conventional forces and the prohibition of nuclear weapons.

Soviet Delegation

The inclusion of Sokolovsky, chief of the General Staff, in the Soviet delegation shows the importance Soviet leaders attach to the disarmament question. Sokolovsky is probably the Soviet military figure best qualified to consider and give technical advice on the various disarmament plans that may be presented at the conference.

Recent events leave Molotov's role at the conference uncertain. Twice in the past month Molotov has been referred to in Soviet media as a deputy chairman of the USSR Council of Ministers and not, as usual, by his full title of first deputy chairman. Pravda on 1 October and Moscow Radio's Home Service on 22 October delivered this calculated insult, apparently taunting Molotov as a second-rater in much the same vein as Khrushchev and Bulganin taunted him at the summit conference and during the negotiations with Adenauer.

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NEAR EAST SITUATION

Egypt is continuing efforts to strengthen its position in the Arab world. Within the past week, Egypt has announced a bilateral military alliance with Syria and a military agreement with Saudi Arabia. Israel has reacted to these events by intensifying its efforts to obtain arms and by dispatching Prime Minister Sharett to Paris and Geneva to call Israel's concern to the attention of the Big Four foreign ministers.

Pact With Syria

The initialing on 20 October of a draft military pact between Egypt and Syria was enthusiastically received in Syria and was approved by Saudi Arabia. According to the American embassy in Damascus, the pact has an excellent chance of being promptly approved by the Syrian Chamber of Deputies.

The Egyptian-Syrian pact is formally aimed at Israel but also blocks any Iraqi attempts for union with Syria. Apparently in an effort to mollify Iraq and possibly to balance Egyptian influence, Syria's chief of staff on 24 October informally suggested a Syrian-Iraqi pact to the Iraqi foreign minister.

Rumors that Syria is considering bilateral pacts with Lebanon and Jordan may be a reflection of Syria's desire to lessen its dependence on Egypt.

The military capabilities of Egypt and Syria would not increase immediately as a result of the pact, though greater coordination of activities against Israel would be likely.

Israeli Reaction

Israel's concern over Soviet arms reaching Egypt is heightened by the military pact Egypt has negotiated with Syria. Tel Aviv, pressing for new security guarantees, is making a major bid for big-power attention by sending Prime Minister Sharett to Paris and Geneva. The Western powers have been approached repeatedly during the past weeks on the subject of arms aid and security guarantees.

While pursuing its campaign for Western guarantees, Israel is also engaged in a large effort to build up its war machine. An international loan drive for arms is reportedly being launched throughout world Zionist circles. In Israel, the government's appeal for contributions for arms purchases is meeting an enthusiastic response.

Israeli public opinion is being prepared for a period of great tension and sacrifice. Chief of Staff Dayan has been recalled from a European holiday to participate in drawing up a new arms purchasing program, while the cabinet is engaged in trimming other budget allocations. Dayan's return may also be followed by a review of Israeli military tactics.



New incidents are inevitable as border forces are augmented. The Israeli army's raid into Syria on 22 October was retaliatory, but it

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evidently also had the objective of highlighting the threat of war as Sharett arrived in Paris to promote international consideration of the Middle

East problem. A minor Syrian raid into Israel on 24 October was followed by two Egyptian attacks on Israeli police posts in the El Auja area on 26 October.

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PREMIER FAURE
ASKS FOR EARLY ELECTIONS

Premier Faure's proposal to hold National Assembly elections in December was precipitated by pressure from conservative leaders in his cabinet, who see an early date as favoring their parties. The opposition is determined to block this move and has maneuvered Faure into calling for a vote of confidence for 28 October.

Elections must in any case be held by June 1956. Faure maintains that a new mandate is necessary now to assure continuity in making vital decisions on foreign policy, but his opponents charge him with wanting to evade responsibility for unpopular decisions on increased taxes, additional call-ups of reservists, and renewed unrest in North Africa.

Most of Faure's supporters believe that time favors Mendes-France's effort to organize a left-center majority. They are also apprehensive lest new rightist movements such as the Poujade antitax revolt and renascent ex-Vichyite combinations seriously cut into the support of the traditional right-wing parties.

There is general fear, moreover, of an upsurge in Communist electoral strength, aided by an increase in labor unrest and Socialist-Communist co-opera-

tion on the local level. The Popular Republicans believe that early elections would give them their optimum chance of profiting from the disintegration of the Gaullist political organization and also of preventing Mendes-France from excluding them from his projected left-center alliance.

On the other hand, while few deputies dare oppose early elections publicly because of the low public esteem in which parliament is held, many are not eager to shorten their terms in office. They point out that more time is needed to permit adequate revision of the electoral law in order to achieve a more coherent majority.

The public in general is skeptical that elections now could improve the unstable government situation, or that constitutional reform could be accomplished in time to affect the next election. Moreover, Mendes-France--not Faure--controls the Radical Socialist political machine and has succeeded in putting the party on record as opposing elections before the electoral law is changed.

Faure demanded priority for his bill to permit early elections, and is reported to have cabinet approval to pose a vote

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of confidence if the suffrage committee demurs. The Popular Republicans have already threatened to provoke dissolution of parliament if the bill is defeated. This would be possible because a government has already been overthrown within the 18-month period called for by the constitutional provision on this point. Elections must be held between 20 and 30 days after dissolution, with the new parliament convening on the third Thursday thereafter.

The 26 October assembly debate on a Socialist interpellation on Faure's budget requirements for North Africa

indicated that the opposition is determined to prevent early elections even at the risk of a prolonged government crisis during the Geneva meeting.

If Faure--in the 28 October or any subsequent vote of confidence--is intent on forcing an early dissolution, he could bring into effect the 18-month provision by getting enough of his supporters to side with the opposition to ensure his overthrow by an absolute majority. Dissolution under these conditions, however, would clearly preclude the electoral law revision which he says he desires.

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PART II

NOTES AND COMMENTS

Chinese Communist Activities
In the Middle East

Peiping, like Moscow, apparently sees in the present situation in the Near East an opportunity for a co-ordinated effort to establish closer contacts between the Arab nations and the Sino-Soviet bloc.

Although less spectacular than the shipment of Czech arms, the Chinese policy of concluding trade pacts and pushing for recognition is meeting with encouraging response from the Near East countries. Trade and cultural agreements with Egypt have recently been concluded, a trade pact with Syria is pending, and some progress seems to have been made in winning recognition from these and other Near East states.

If Chou En-lai's reportedly planned visit to Egypt should materialize in the near future, it would be the strongest indication thus far of Peiping's interest in winning Arab sympathies.

The Sino-Egyptian trade pact is the first Peiping has concluded with a country which does not recognize Communist China. In previous cases, Peiping has had to conclude such agreements with private businessmen or other groups acting unofficially.

Opportunity for expanding Sino-Egyptian contacts, paving the way perhaps for full diplomatic relations, is provided in the exchange of trade mis-

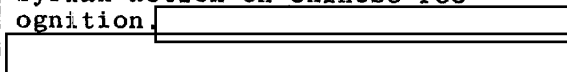
sions under the terms of the agreement. The exchange of other personnel, under the terms of a cultural agreement, is also under way.



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Aside from Egypt, Chinese Communist activities are being directed mainly at Syria. Trade negotiations between the two countries were recently concluded and an agreement reportedly now awaits signature by Damascus. It is probable that Chinese Communist trade representatives visiting Syria this month have been in communication with Syrian officials and members of parliament on the question of recognition.

In conversation with the American ambassador on 8 October, the acting prime minister of Syria observed that the current of opinion was running in favor of the Communists and that it would be difficult to oppose those pressing for recognition. The opinions of other Arab League members will probably influence Syrian action on Chinese recognition.



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French North Africa

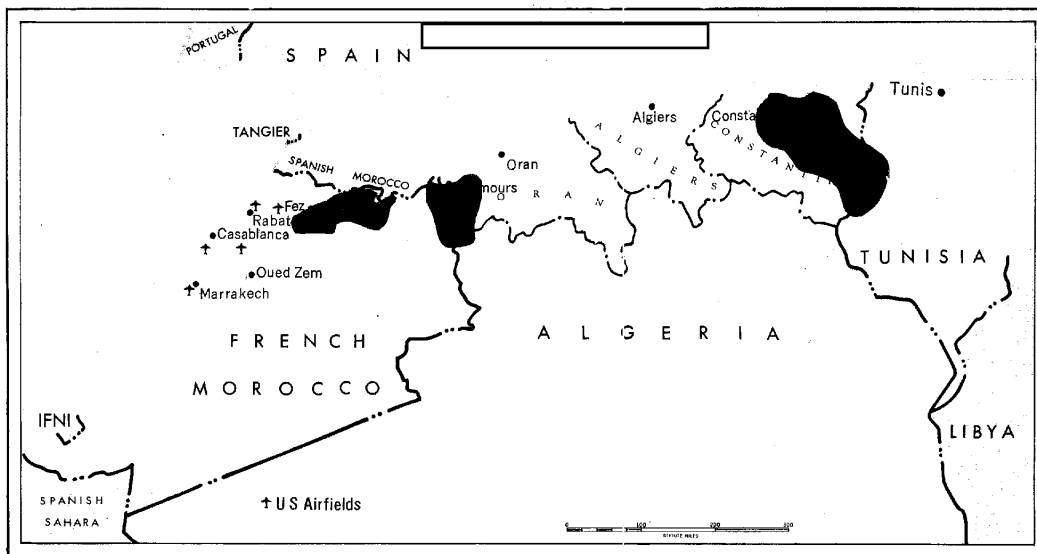
The turnabout of El Glaoui, Moroccan pasha who was largely responsible for the deposition of ex-sultan Ben Youssef in 1953, and who is now demanding Ben Youssef's return to Morocco, indicates the futility of the present French timetable for that protectorate in the face of a new Moroccan unity. Both the nationalist Istiqlal organization and the main settlers' organization, the Presence Francaise, have refused to participate in the Moroccan government being organized by Premier-designate Ben Slimane.

El Glaoui's action suggests he believes the French will eventually accede to nationalist demands for the restoration of Ben Youssef. The improved chances of Ben Youssef's restoration are likely to encourage the Presence Francaise to greater violence, and this in turn may lead to new nationalist terrorism.

Istiqlal's refusal to cooperate with Ben Slimane has won increasing Moroccan support and French efforts to separate the organization from the people have failed. The agreement of the small nationalist Democratic Party of Independence to participate in the government is based on Ben Youssef's alleged approval of the Council of the Throne.

A split within the Istiqlal is reported developing, however, and a moderate faction of the organization may later agree to participate in the government, especially if Paris carries out its plans to bring Ben Youssef to France on 29 October.

The nationalist ranks in North Africa are increasingly divided over whether to pursue a political, moderate policy or a revolutionary one. Moderates are still generally pre-eminent



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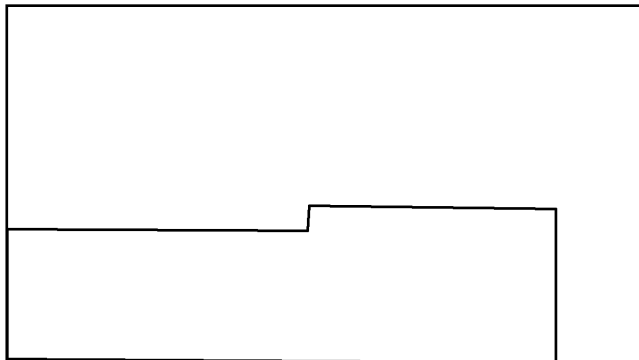
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in Morocco and Tunisia, but extremists are in control in a few areas.

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French-Spanish tensions remain high over charges of Spanish aid to the rebels.



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New Saar Negotiations
Likely Soon

The Referendum Commission of the Western European Union probably will continue to supervise the Saar territory pending agreement on a substitute for the European statute rejected by the Saarlanders on 23 October. Both France and West Germany seem inclined to undertake new negotiations, and opinion in the Saar territory will probably be given considerable weight in any decision that is made.

French foreign minister Pinay took a highly conciliatory line in discussions with the other WEU representatives on 24 October. While the French press contained some caustic comment

on West Germany's role in the referendum, several papers recognized the need for a more objective reappraisal of the Saar problem, particularly in view of the large margin by which the statute was defeated. This relatively restrained reaction suggests that only a few extreme nationalists in the French assembly will maintain an intransigent attitude. In West Germany, the Bundestag is adopting an equally restrained attitude toward the plebiscite's results.

American embassy officials in Paris have found the Quai d'Orsay outlook "relaxed," although Premier Faure's personal

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diplomatic adviser, Armand Bernard, referred privately to the referendum result as the "worst blow to French-German relations in a long time." One official commented that the referendum may be a "blessing in disguise" since "it cures by a drastic surgical operation a sore which would have otherwise continued to trouble French-German relations for a long time."

The Saarlanders themselves have accepted the referendum results in matter-of-fact fashion. Saar premier Johannes Hoffmann's formal resignation is expected to be accepted by a special Landtag session on 28 October.

The American consul at Strasbourg suggests that elections will not be held until mid-January as a result of the "universal desire" to allow things to settle down. The absence of violence during and since the referendum and the apparent French restraint may, however, permit the holding of elections early in December.

Some of the many pro-German parties which were organized

during the referendum campaign are already reported to be disintegrating now that their goal has been reached. There are hints that the rival pro- and anti-statute Catholic parties and similar rival Socialist units are already negotiating to coalesce their groups in preparation for the electoral campaign.

Prospects for the peaceable working out of Saar internal politics under the new conditions of freedom for pro-German groups will depend primarily on whether moderate pro-German leaders can wrest control from extremists such as Dr. Heinrich Schneider, the ex-Nazi head of the Democratic Party of the Saar. His claim of "victory for Germany" has already been rebuked publicly by a prominent West German opponent of the Saar statute. The West German foreign minister is privately concerned lest new Saar elections lead to a "pan-German" Landtag and formation of a government which would embarrass Chancellor Adenauer by demanding prompt reunion with Germany.

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South Vietnam

In the Bao Dai-Diem popularity contest on 23 October, Diem won approximately 98 percent of the votes. Of the 2 percent, a little more than half were for Bao Dai and the rest were invalid. On 26 October Diem proclaimed Vietnam a republic and designated the chief of state, himself, as president.

In view of Bao Dai's unpopularity and the government's complete control of the pre-referendum campaign, the significance of Diem's triumph lies more in the voter turnout

(over 90 percent of those registered) and the orderliness of the voting than in the overwhelming plurality he won. Bao Dai's poor showing seems to destroy his value for any future role in Vietnam either on his own initiative or as a tool of the Viet Minh.

In an interview on 25 October, Diem interpreted his victory as a popular mandate not to proceed with unification elections until "true liberty" is established in the north. The referendum results set the stage for

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the adoption of a South Vietnam constitution and the establishment of a representative assembly which will enable Diem to speak from a more solid political base.

The Viet Minh denounced the referendum in the strongest terms from the time plans for it were first announced. It charged that Diem was imitating Hitler and Mussolini and asserted the Vietnamese would not be present at the polls and the results would be made in Washington.

The fact that the turnout was impressive and that invalid ballots numbered less than one percent of the total suggest that the Viet Minh did not desire to reveal its strength in a contest in which Diem's

victory was assured, possibly preferring to keep it secret until the forthcoming elections for provincial councils and for a South Vietnam national assembly.

The Communists may have abandoned any hope of getting early South Vietnam participation in a conference on all-Vietnam elections as called for in the 1954 Geneva agreement. Some support is given to this possibility by a conversation Molotov had with the British foreign secretary in New York late in September. Molotov implied that Diem's insistence on the establishment of a representative assembly as a precondition to entering election consultations with the Viet Minh was a legitimate position.

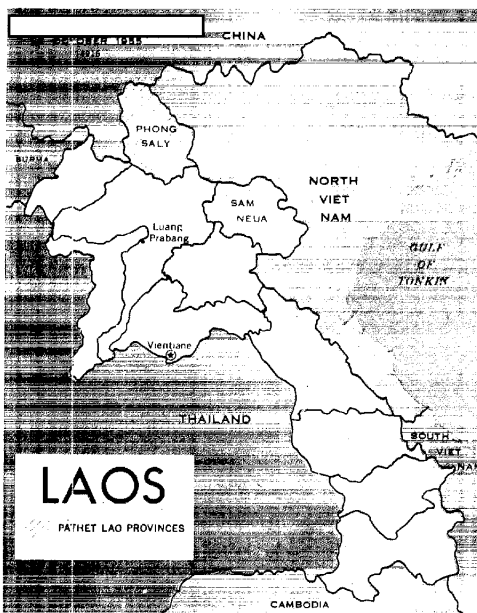
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Laos

The Laotian government is preparing to hold elections on 25 December in the ten provinces under its control. Unless the government reaches an agreement with the Pathet Lao prior to the elections, the two northern provinces under Pathet Lao control will be excluded from the elections.

A total of 235 candidates have filed for 39 parliamentary seats. Laotian officials maintain that few if any of the candidates are Pathet sympathizers. The two largest political parties have an agreement to work jointly to bring about the defeat of any candidate suspected of such leanings.

The deadline for candidates to file for the election



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was 10 October. The Pathets insist, however, that if a settlement of differences with the government is reached by 12 November, it must provide them the opportunity to enter candidates in all 12 provinces. Premier Katay has indicated a willingness to continue seeking a political settlement only until 31 October.

There is as yet no indication that a settlement can be achieved. The cease-fire agreed to in Rangoon by Premier Katay and Prince Souphannouvong went into effect on 21 October, but the Pathets have already charged the government with violating it and with retaining a plan for gradual occupation of the two northern provinces. [REDACTED]

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New Indonesian Elections

Election campaigning is again under way in Indonesia, this time for 520 members of a constituent assembly to be elected on 15 December. The assembly will draft a permanent constitution to replace the present provisional instrument under which the government has been operating since Indonesia became independent in 1949.

The new constitution will probably fix the term of the parliament that has just been elected as well as prescribe its powers. Similarly, it will specify whether the president will be popularly elected or be chosen by parliament, as is now the case.

The Masjumi, which heads the present cabinet and now appears to have a good chance of attaining a slim plurality in the new parliament, hopes to poll a larger number of votes in December by virtue of closer control over election machinery and more thorough campaigning at the village level.

The unofficial count of votes cast in the 29 September parliamentary elections is almost complete, and parliamentary elections are under way in bypassed areas. The official result will not be known for

several weeks at least. According to unofficial returns accounting for over 30,000,000 votes, the National Party still retains a slight numerical lead. Its share of the total vote amounts to 25.4 percent and that of the Masjumi is 25.3. The conservative Moslem Nahdlatul Ulama follows with 21.1 percent and the Communist Party with 19.6.

In the face of renewed National and Communist Party demands for his resignation, Prime Minister Harahap told parliament on 25 October that he planned to stay in office until a new government could be formed early next year on the basis of the September elections. [REDACTED]

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[REDACTED] the Nahdlatul Ulama has firmly agreed to support retention of the Harahap cabinet until the new parliament convenes. Unless the Nationalists can induce the numerous small parties in the present provisional parliament to join the demand for Harahap's resignation, the cabinet should be secure at least until after the December elections.

Interparty discussions dealing with the composition of the next cabinet appear largely to have halted as party leaders have turned their energies toward the constituent assembly

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elections. Since the constituent assembly will draft the nation's permanent constitution, many Indonesian leaders consider the December vote of far greater importance than the parliamentary elections. The Communist Party announced last year that it hoped to expend its greatest

energies in electing members of the constituent assembly.

The Masjumi reportedly hopes to reach an agreement with the Nahdlatul Ulama that the two parties will attack the Communists and not each other during the new campaign.

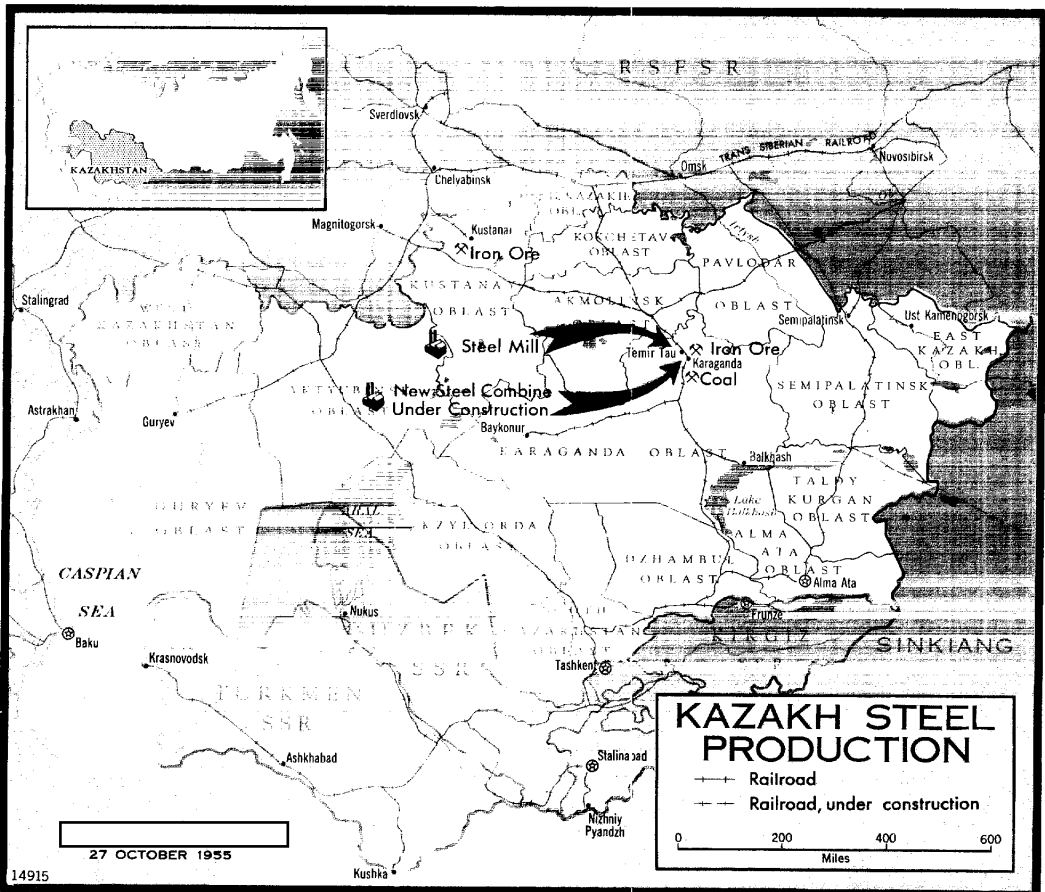


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Largest Soviet Steel Mill Being Constructed in Kazakhstan

What may eventually be the world's largest steel mill is under construction near Karaganda, in the Kazakh SSR.

According to a Soviet announcement of 15 October, the mill will have an ingot capacity 1.5 times that of Magnitogorsk,



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presently the largest producer in the USSR. On this basis the plant will probably produce at least 6,750,000 metric tons a year, or 300,000 metric tons more than the Gary Works of U.S. Steel, now the world's largest. Production on this scale would be equal to about 15 percent of current Soviet steel production and probably would be 6 to 9 percent of total Soviet capacity in 1965.

The steel mill was first planned in 1951, but very little progress has been made to date. According to the 15 October announcement, however, work has been accelerated and the first blast furnace of the mill is due to be in operation in 1958. The plant will probably not be in full production before 1965.

This new construction represents the first known re-activation of a major extensive industrial development project in the USSR since the review of investment projects undertaken immediately after Stalin's death in 1953. This review had resulted in a general curtailment of large-scale projects

from which immediate returns could not be expected.

Construction of the plant is part of the announced Soviet program to develop a heavy industrial base in the Khazakh republic. This program probably will be incorporated in the sixth Five-Year Plan (1956-1960) and would complement the tremendous agricultural activity along the northern border of the Khazakh republic in connection with the "new lands" agricultural program.

The location for the new plant was probably based on new discoveries of iron-ore deposits in the Kustanai region as well as the professed desire to provide for "balanced proportional development" of the Asiatic USSR. The large Kustanai deposits, together with ample supplies of coking coals nearby, seem to assure adequate raw materials for the new steel plant. The planned Alma Ata-Peiping rail line through Sinkiang, which is scheduled to be completed in 1960, would provide a direct link from this new industrial base to potential consumers in China.

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Soviet Maneuvers in Germany

The annual fall maneuvers of the Group of Soviet forces in Germany ended about 12 October, bringing to a close the 1955 field training program begun in mid-May. Most of the

participating divisions have now returned to their usual winter stations in East Germany, and the annual rotation of troops to and from the USSR is under way.

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In general, the maneuvers were much like those of previous years. Five of the six Soviet ground armies in East Germany participated, as was the case last year. Most of the exercises were by reinforced divisions and consisted mainly of tactical cross-country marches and river crossings. There were at least one interdivision and two inter-corps maneuvers. The use of signs marking imaginary radioactive areas indicates that there was some nuclear warfare training. In marked contrast to the 1954 maneuvers, there was considerable air participation this year, including parachute drops.

New Soviet equipment used included T-54 medium tanks,

mortars estimated to be 240mm's, 150mm rocket launchers, and mechanical bucket-type diggers. This mortar, first seen in a Moscow parade in 1953 and not previously observed in the field, is estimated to have a range of 12,000 yards. The rocket launcher is the 16-tube, truck-mounted type first observed in Moscow in November 1954.

Use of the mechanized digging equipment during maneuvers may indicate experimentation with techniques for faster preparation of earthworks, which assume particular importance in nuclear warfare.

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The New Soviet Heavy Tank

The Soviet Union has apparently developed a new heavy tank which is being received by Soviet forces in East Germany, according to recent reports. A new medium tank, the T-54, was

also first observed in East Germany.

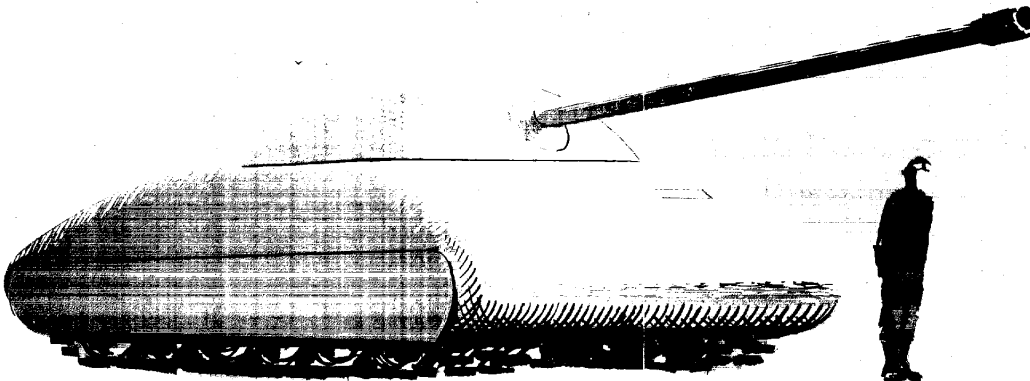
Several persons over the past year have sighted a tank of extremely low silhouette and

NEW SOVIET HEAVY TANK

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very smooth lines, often described as resembling a turtle.

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[redacted]

[redacted] this tank is believed to be a successor of the JS-3 heavy tank of World War II. Among the many designations for such a tank which have been mentioned, JS-4 and T-10 appear the most credible. It is not known whether these are two designations for the same vehicle or whether they refer to two distinct vehicles.

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Cumulative production of the tank through December 1955 is estimated at 3,700.

Since the JS-3 was considered underpowered and difficult to maneuver, the new model is presumed to have an improved engine and steering mechanism. It probably mounts the same caliber gun as the JS-3, but probably uses the new 122mm field and antiaircraft gun, since it is Soviet practice to standardize weapons for various uses.

[redacted]

[redacted]

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Tourism Encouraged
Within Soviet Bloc

In recent months several Soviet bloc countries have modified documentation requirements to permit their people to travel more freely within the Soviet bloc. These changes probably reflect Moscow's confidence in its control over the Satellite populations and suggest that Soviet leaders believe that increased movement of people will foster a greater sense of solidarity in the Communist world.

These developments parallel the recent relaxation of bloc restrictions on East-West travel and contacts. There has been no announced change, however, in regulations covering travel to restricted areas in the Soviet bloc.

In order to foster tourism, various Eastern European countries have established travel agencies which have concluded

agreements for the exchange of tours with Intourist, the Soviet agency in charge of foreign travelers in the USSR. For the first time since before World War II, groups of Eastern European tourists, who have been carefully selected, are being permitted to enter the USSR and Soviet citizens are traveling to the Satellites in tourist groups. These tourist groups differ from the cultural, educational, and youth groups which in the past have frequently made official trips within the Soviet bloc.

Several Rumanian groups have already traveled to the USSR this year, and the number of persons taking part in the tourist-exchange program between Czechoslovakia and the Soviet Union is scheduled to reach 1,200 by the end of the year.

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Inter-Satellite tourist travel is also being encouraged. For example, in order to ease the documentation requirements for such travel, Czechoslovakia and Poland agreed in September to relax regulations covering tourist traffic in the Tatra resort area and to allow travel there by "special frontier permits." The Hungarian tourist office recently listed the Eastern European countries with which negotiations for tourist-exchange agreements would start shortly.

The list included all the Satellites except Albania.

The USSR has signed a series of bilateral civil air agreements with the Satellites and the Communist countries of the Far East this year, enabling their civil air lines to fly to Moscow for the first time. This unprecedented policy of permitting non-Soviet planes to fly into the USSR on a scheduled basis has recently been extended to Yugoslavia and Finland.

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New North Korean Bid for Relations with Japan

North Korea is making new overtures toward Japan aimed at obtaining diplomatic recognition and at further undermining the already difficult relations between Japan and South Korea.

The most recent development was a statement on 20 October by Premier Kim Il-sung calling for normalized relations between Japan and North Korea, including diplomatic relations, increased trade, negotiation of a fisheries agreement, and the repatriation of resident aliens.

In their attempt to inflame Japanese-South Korean relations, the North Koreans have contrasted their own "reasonableness" with the South Korean attitude, have publicly repudiated the "Rhee line" fisheries boundary, and have indicated they are prepared to recognize Japan's claim to the Liancourt Rocks, long in dispute between Japan and South Korea.

A recent protest by North Korea concerning the treatment of Koreans in Japan, which emphasizes that Pyongyang regards them as North Korean citizens, reflects the continued Communist interest in the 600,000 Koreans residing in Japan. Even a partial repatriation of this predominantly leftist group would ease North Korea's critical labor shortage. Since completion of the post-World War II repatriation program, however, few Koreans have returned to either North or South Korea.

While the Japanese have been receptive to trade overtures from Communist China, the Hatoyama government has indicated that improved relations with North Korea are not possible in the absence of recognition of the Pyongyang regime by other non-Communist countries.

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Japanese Conservative Merger
May Be Near

Japan's conservative Democratic and Liberal Parties are making progress toward unification, and top Democratic leaders have confidently told American officials that the merger will take place in early November.

The formation on 27 October of a New Party Preparatory Committee may in effect have accomplished the merger "at least in form" as suggested by Prime Minister Hatoyama, since Democratic and Liberal policy-makers will jointly compile the government budget and formulate government policies.

The desire of large numbers of rank-and-file members of both parties for a unified conservative party, as well as pressure from influential business interests, are strong forces for unification. The unity sponsors appear to be using the strategy of agreeing on noncontroversial issues to accomplish a de facto merger, thus making it difficult for any opponents to refuse to go along. In addition, Democratic leaders may hope to use their "commitment" to US officials that the merger is virtually assumed as further pressure on the Liberals to come to terms.

Policy differences in respect to the negotiations with the Soviet Union and reparations to the Philippines are being left for the new party or a preparatory organization to resolve.



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The success of the merger will be primarily contingent on the settlement of the question of the head of the new party. Prior to agreeing to participate in the New Party Preparatory Committee, the Liberals strongly insisted on a dissolution of both parties and an open election of the new party head. If, as the Democrats have implied, the Liberals have tacitly agreed to accept Hatoyama as the new party chief, they probably insisted at the same time on a commitment for his eventual retirement and replacement by Liberal Party president Ogata.

A successful unification would assure the conservatives a working majority in the Diet. Should the sponsors of the merger be unable to make good on their promises with respect to the head of the new party, however, sizable defections might cause any unity program to founder. The Democrats probably hope that even if the merger plans collapse, their maneuvers will gain them their minimum objective of compelling the Liberals to support the Hatoyama cabinet outside the government in the forthcoming Diet.

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Afghan-Pakistani Dispute

Pakistani spokesmen in Karachi and Lahore are insisting to American officials that Afghanistan is inciting violence along the Afghan-Pakistani

frontier. Afghan foreign minister Naim denies these allegations. Pakistan's announced intention to retaliate has increased tension on the border.

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Pakistani officials say that Afghan troops in civilian clothes are moving into the tribal border area, that troops in southeastern Afghanistan have been reinforced, and that arms and ammunition from India have reached Kabul via the Black Sea and the USSR.

American officials in Kabul, however, report no evidence of any Afghan activities of this kind. Naim on 25 October assured the American embassy that these reports were not true.

The Afghans, embittered by their defeat in the earlier quarrel with Pakistan, may incite an incident in the always volatile tribal area. Pakistan

also is unsatisfied with its failure to force Afghanistan to abandon demands for independence for the Pushtoon areas of West Pakistan. Governor General Mirza, who has gone to northwestern Pakistan to take personal charge, says he intends to "give a lesson" to the Afghans if an outbreak occurs. Pakistan may be deliberately exaggerating reports of pending trouble to justify in advance a strong counteraction.

The increase of tension may result in a localized tribal outburst. Neither side is apt to launch a major attack against the other, however, because of the international complications which would follow.

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PART III

PATTERNS AND PERSPECTIVESTHE WESTERN COMMUNIST LINE SINCE THE SUMMIT CONFERENCE

Western Communist parties are adhering to a line of optimistic generality toward the international situation. Rather than criticize, they avoid commenting on Western policies which do not directly affect their respective countries. With few exceptions, Communist spokesmen have not credited the United States, Great Britain, or France, but have repeatedly praised the USSR and the World Peace Movement for bringing about the relaxation of tensions. They have left the way open to renew attacks on the West through repeated warnings that "certain circles" there wish to continue the cold war.

Western Communists are trying to cash in on the appearance of international good will in the hope of breaking out of domestic political isolation and extending their influence at home. They are urging the governments in their countries to shift to an "independent" foreign policy, generally involving troop withdrawals, arms reductions, and withdrawal from NATO--arguing that such a program is feasible as a result of Geneva. They point out that consequent reductions of defense budgets would lead, in turn, to alleviation of local economic stresses. American officials in Greece, France, Italy, and Brazil report that this campaign has a potential for attracting non-Communist support.

Stress National Self-Interest

Softened criticism of the policies of Western governments is now largely phrased in terms of national self-interest, while

anti-Western agitation in most cases has been confined to appropriate local situations--for example, the Italian Communist campaign against stationing of American troops in Italy.

Communist parties in the western hemisphere continue to attack United States economic imperialism within their respective areas, while repeating the general line on Geneva. The secretary general of the Brazilian party pointed out to his followers that a positive gain for Latin American Communists might result from renewed diplomatic and commercial relations with Orbit countries.

The Communists' emphasis on domestic and nationalistic considerations as reasons for foreign policy changes, together with Soviet efforts to convince the West that the USSR constitutes no military threat, represents an attempt to strengthen the Communist Party's appeal and encourage division among the Western allies.

American Communist leader W.Z. Foster made the clearest statement of what Communists expect to happen following an end of the cold war. He predicted the breakup of internal and external unity among capitalist states and a "freer and sharper expression to the natural competition among the capitalist powers." An end to the cold war "with its hysteria and attacks on civil liberties," Foster added, "would also result in a more active defense of their class interests by the workers."

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Emphasize "Peace Movement"

The World Peace Movement has gained a new significance in Communist tactics as a result of Geneva. It must prevent, according to Foster, "atom war crises." Leading Western Communists assert that unique conditions now exist to influence Western peoples and governments through regimented mass opinion, for which the World Peace Movement is the main vehicle. This belief was pithily expressed by French Communist Pierre Courtade, who observed, "A hundred million Americans have seen Ike smile at Bulganin. They can no longer hear with the same ear the prophets of destruction who announce the 'red invasion' every day."

Peace activity is also being directed at specific international negotiations, such as those of the foreign ministers and the UN Disarmament Subcommittee.

Communist Cautions

Communist ideology sets a limit on how far party members may go in practicing the spirit

of Geneva. Authoritative party leaders in France and the United States--Marcel Servin and W. Z. Foster--have reminded Communists that the differences between capitalism and socialism remain. Servin warned on 30 August that "the capitalist regime, which is a reality in the United States, England, France, and elsewhere, represents by its very nature a perpetual danger of war."

In addition, Communist spokesmen have insisted on freedom of action for non-Orbit Communists and have refused to admit that their activities are subject to international diplomatic bargaining in a forum such as the foreign ministers' conference. Courtade, the French Communist foreign affairs authority, argued in L'Humanité on 30 September that "the action of Communists in capitalist countries for the defense and emancipation of the working class, and the support Communists give to the movement of liberation of colonial peoples, has no connection with the problems posed by peaceful coexistence, that is to say, with establishment of peaceful relations between states, whatever their regime." 25X1

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BRAZIL'S ECONOMIC SITUATION

Brazil's critical economic problems, largely overshadowed in the last six months by political maneuvering in connection with the 3 October presidential election, have again come to prominence.

President Café Filho's refusal to accept the responsibility for immediately carrying out Finance Minister Whitaker's sweeping reform of Brazil's tangled foreign exchange regulations led to Whitaker's

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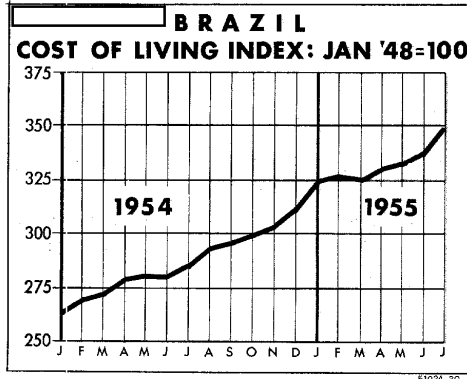
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resignation on 10 October. This was the fourth resignation of a competent financial expert from that post in the past two and one half years. The new finance minister, again a competent economist, is expected to propose no major reforms for the remaining three months of the current administration.

Since Brazil's twin problems of foreign exchange shortages and rising inflation are acute, the preparations president-elect Juscelino Kubitschek is making for action after he is inaugurated on 31 January 1956 are being given prominent play. Kubitschek's program apparently will contrast sharply with the austerity measures suggested by the finance ministers of his predecessor. Kubitschek has repeatedly indicated his belief that the stimulation of economic development will be his chief line of approach.

He clearly hopes and apparently believes that his program, which will require considerable quantities of capital equipment, can be financed in large part through financial aid from the United States, perhaps amounting to as much as half a billion dollars. In a confidential interview with Ambassador Dunn on 20 October,



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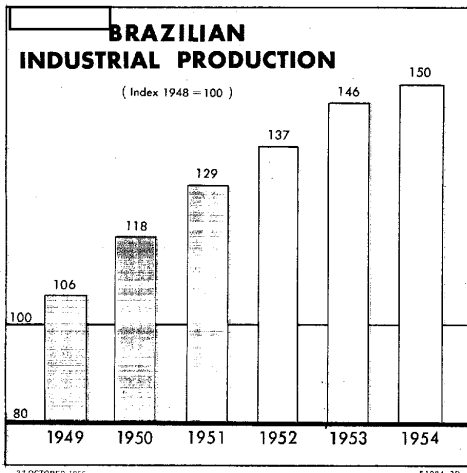
Kubitschek stated that the United States was the only country which could be of assistance to him in furthering his economic plans.

Background of the Crisis

The present inflationary trend began just prior to World War II and has accompanied Brazil's rapid economic expansion since that time. During the war period the trend was stimulated by the accumulation of substantial foreign exchange surpluses, which Brazil was unable to convert into consumer goods. After 1947, domestic factors such as government deficits and the expansion of credit fostered inflation. Illustrative of this continuing inflation is the rise in the cost-of-living index, which has more than trebled since 1948.

The late president Vargas tried to offset this situation by decreeing the doubling of the minimum wage scale in July 1954. This led to a redistribution of income, which helped create additional demand. The continuing rise in living costs has, in some occupations, more than wiped out the gain, however, and strikes are now reported looming throughout Brazil unless wages are again raised.

With Brazil's population increasing by over one million a year, an expansion of production



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is clearly necessary if even present standards of living are to be maintained. The considerable expansion achieved since the war has been insufficient to keep pace with growing needs.

Since foreign loans and voluntary savings at home did not cover the capital requirements of the country, the Vargas government undertook to finance investment by credit expansion and paper currency issues. The government also sought to encourage a trend toward self-sufficiency by entering the field of public investment. As a result, the government's share of total investment rose from 8.2 percent in 1948 to 25.6 percent in 1953.

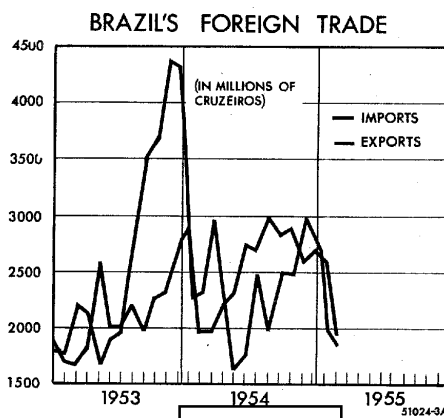
Although Brazil can produce nearly all its present food needs except wheat, scarcities and high prices are still the rule in most large Brazilian cities because of woefully inadequate storage, transportation and distribution facilities. Better soil management and improved agricultural techniques would also help reduce the cost of foodstuffs and help supply keep pace with demand.

The Café Filho government attempted to stem the tide of inflation by imposing economic austerity measures when it assumed power after Vargas' suicide in August 1954. During the eight-month term of office of Café's first finance minister Eugenio Gudin, a strong effort to restrict credit was partially successful. Gudin's successor, José Whitaker, loosened credit restrictions to some extent but maintained severe import restrictions and abandoned the inflationary price support program for coffee which had been instituted under Vargas.

Foreign Exchange Difficulties

Brazil's economy is to a great extent conditioned by its capacity to import necessary

capital goods and raw materials. This capacity is limited by the volume of exports, which has not expanded in proportion to the increase in population. Domestic industry is therefore turning to the manufacture of many goods which are now imported.



Brazil's effort to maintain its rate of industrial expansion, even at the cost of severe inflation, is reflected in the fall of the cruzeiro on the free market and in recurrent foreign exchange shortages. In order to permit domestic industry to purchase its needed imports cheaply, the official rate for the cruzeiro has been maintained at an artificially high level. This overvaluation of the cruzeiro weakened the competitive position of Brazilian exports and contributed to a concurrent loss of foreign exchange.

The net deficit on investments has also added to Brazil's foreign exchange problem. New capital entering the country in 1954 totaled \$69,000,000 and capital withdrawals \$76,000,000, according to the Bank of Brazil. In addition, remittances of income on investments were \$141,000,000 while income remittances to Brazil were somewhat over \$6,000,000. The total deficit on investment account, therefore,

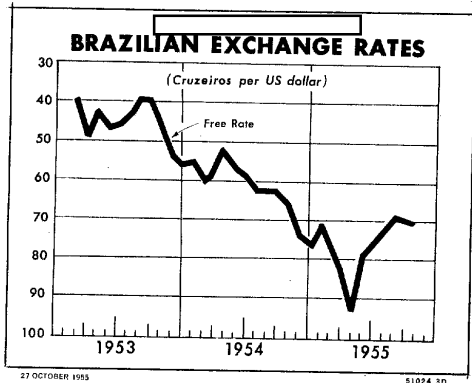
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was about \$141,000,000. This fact has served as the basis of charges by xenophobic editors and congressmen that foreign investors bleed more out of the Brazilian economy than they transfuse into it.

The exchange deficit is further aggravated by the demand of existing industries for imported equipment and supplies, particularly fuels. The outstanding example of this is the petroleum problem.

The Petroleum Problem

The ever-increasing demand for petroleum is one of Brazil's major economic problems. Consumption in 1954 averaged nearly 160,000 barrels a day, an 84-percent rise over 1950. Domestic output, however, met less than 2 percent of demand. Brazil therefore had to spend around a quarter of a billion dollars for oil imports in 1954, or about one third of its dollar exchange earnings.

It is estimated that at least \$1 billion would be needed to develop Brazil's potential petroleum resources to meet present demands. Of this, over \$700,000,000 would have to be spent abroad. Brazil alone cannot afford such an expense, and even if foreign investment capital participated, volume output would probably not be reached for another five to ten years.

At present, however, foreign petroleum companies are restricted to distribution and marketing operations. Petroleum exploration and development are by law the monopoly of a mixed government-private capital corporation known as Petrobras, in which native Brazilians alone--not even Brazilians married to foreigners--may invest as minority stockholders. Statements by Kubitschek have implied that he will resort to other means to develop Brazil's petroleum if Petrobras has not proved itself in another year's time.

Some of Kubitschek's supporters, however, are nationalists and Communists violently opposed to any foreign participation in Brazilian petroleum development. This view is shared by an important segment of the military. It is thus believed that Kubitschek would have great difficulty in pushing any such measures through Congress, and that he would be running the grave risk of providing the military with a popular pretext for ousting him.

To a considerable degree because of Brazil's unrealistic petroleum policy, total exchange obligations rose to about \$2 billion dollars by the end of 1954. Dollar loans, particularly those from the US Export-Import Bank in 1953 and 1955, coupled with a program by the Cafe administration to raise exports and reduce imports, have averted further crises for the present. Service of these obligations, however, adds yet another burden to Brazil's strained economy.

Kubitschek's Economic Approach

Kubitschek's long-range solution to the problem of inflation is likely to be a stepped-up expansion of production rather than any program of economic austerity. His tenure as governor of Minas Gerais from 1951-1954 was marked by extensive construction of power facilities

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COMMUNIST CHINA'S UNEMPLOYMENT PROBLEM

One of the problems facing the Chinese Communist regime is the shortage of employment opportunities, both for rural labor, which has been increasingly attracted to the cities, and for the unskilled urban labor force.

Although many visitors to China return with the impression that there is virtually full employment--the absence of beggars is commonly cited as evidence--Communist population and labor policies indicate that unemployment is nearly as serious as ever.

Reduction of Urban Population

Since 1952, Peiping has periodically issued directives that the millions of unemployed peasants in the cities return to their farms. These directives have been relatively ineffective, however, and the regime recently began taking coercive measures to accomplish this objective.

Figures released by Peiping disclose that from April through August 1955 more than 425,000 peasants were forced to leave Shanghai, where the unemployment

problem is exceptionally acute because of the depressed industrial and commercial activity there. In addition, "thousands" of skilled workers are being sent to inland areas such as Sinkiang. The present population of Shanghai is over 6,000,000 and the regime plans "gradually" to move out of the city the 1,000,000 persons, 80 percent of them peasants, said to have moved in since the beginning of 1950, according to a Shanghai newspaper.

Nevertheless, the tendency of destitute farmers to migrate to the cities will grow as the comparative standard of living of state workers rises following official efforts to improve their morale and efficiency. This tendency is apparently to be combated not only by forcible movements but also by the new food rationing system which will go into effect in all cities by the end of November.

Rural Unemployment

Some unemployed farm workers have found work in large government projects such as those for water conservation and

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road and railroad construction, and a small number have been resettled in new agricultural areas. The forced return from the cities of refugees and of the large number of recently demobilized veterans to their rural homes, however, helps to create a surplus of farm labor well in excess of rural employment opportunities, particularly following serious shortfalls in agricultural production, as in 1954.

Urban Unemployment

Meanwhile, employment opportunities in the cities are limited as a result of the regime's attacks against over-staffing in government and its

efforts to increase labor productivity and limit expansion of consumer goods industries, which employ more than half of China's industrial workers.

According to Five-Year Plan estimates prepared last February China's "workers and clerical staff"--apparently all wage and salary earners--are to increase only 4,220,000 during the plan period (1953 to 1957). The available urban labor force probably will rise by at least this much. The Five-Year Plan report admitted that it will be impossible by 1957 to eliminate unemployment, a problem it is claimed will be solved in the second and third Five-Year Plans.

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