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COPY NO. 19
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5 January 1956

CURRENT INTELLIGENCE WEEKLY SUMMARY



DOCUMENT NO. 8
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CENTRAL INTELLIGENCE AGENCY

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

FRENCH ELECTION. Page 1

The three-way split in the new French national assembly resulting from enlarged Communist representation on the left, the new Poujadist bloc on the extreme right, and a weakened and divided center, leaves little possibility of achieving a stable coalition government. The Algerian problem will probably force the center parties--the Faure-Pinay and Mendes-France groups--to find some compromise on which to base a coalition before the assembly convenes on 19 January. Any new government would probably find itself in the position of having to seek a new majority in the assembly on each major issue.

[Redacted]

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BULGANIN'S AND KHRUSHCHEV'S YEAR-END SPEECHES. Page 3

The confident statements made by the Soviet leaders at year's end reflected the belief that the Bulganin-Khrushchev foreign policies achieved their goals in 1955, and that the USSR is in a favorable position militarily, economically, and in its foreign relations to compete effectively with the West in international power politics. They stressed the importance of the Egyptian-led group of Arab states which they regard as an expanding nucleus of "neutralism," and implied that a de facto alliance of Moscow, Peiping and New Delhi would, as Lenin had suggested, largely determine the fate of mankind.

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ARAB-ISRAELI SITUATION Page 4

Arab-Israeli border activity during the past week was confined mainly to sporadic firing across the frontiers in the Gaza area.

[Redacted]

JORDAN AND THE BAGHDAD PACT. Page 6

Jordan is unlikely to join the Baghdad pact

[Redacted]

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INDONESIA. Page 6

The Indonesian cabinet has only temporarily warded off the danger that it may collapse over the current Dutch-Indonesian talks. Should the discussions show no positive results within the next week, the cabinet will again be subjected to serious criticism both from within its own ranks and from President Sukarno and the opposition parties. The Masjumi party is reported ready to compromise "in every possible way" in order to stay in office until the newly elected parliament is seated in spring, and there is a possibility that the pro-Western foreign minister may be dropped from the cabinet.

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PART II

NOTES AND COMMENTS

Soviet Bloc Relations With Greece: The USSR and its European Satellites in recent months have been making efforts to improve their relations with Greece and encourage it to follow a neutralist policy in foreign affairs. Moscow's immediate aim is to exert enough influence in the Greek elections, scheduled for February, to seat a government in Athens that would agree to closer ties with the Soviet bloc. It has been reported that prior to the election, the USSR plans to offer substantial technical and economic aid to Greece.

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Rumanian Party Congress: The first of the new five-year plans of the Soviet bloc to be spelled out in detail, the Rumanian Second Five-Year Plan (1956-1960), was presented to the second Rumanian party congress in Bucharest 23-28 December. The plan continues the First Five-Year Plan's emphasis on capital goods production and also calls for a sharp increase in farm collectivization. Other Satellite plans, to be announced shortly, will probably follow the same principles. The congress also confirmed the stability of the party leadership but stressed the need for more party discipline.

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Brazilian President-elect's Visit to the US and Europe: Brazilian President-elect Kubitschek's visit to the United States and Western Europe is intended to "call the world's attention to Brazil as an investment market."

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[Redacted]

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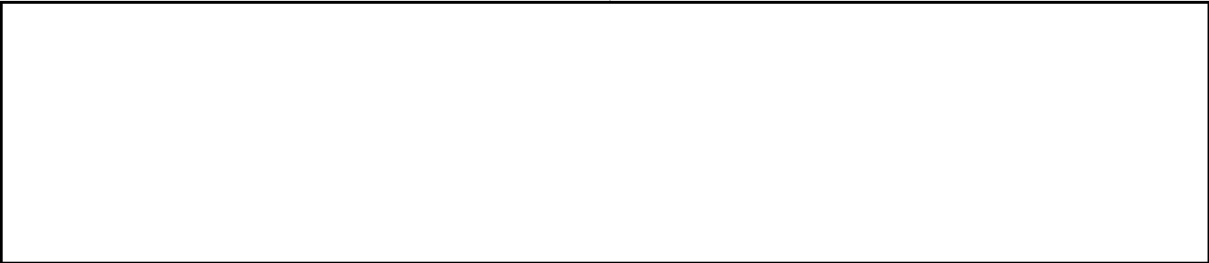
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Berlin Situation: The USSR is continuing to act with caution in restricting Allied access to Berlin. East German authorities have not recently interfered with freight shipments between West Germany and West Berlin, but some new restrictions have been imposed on intersector border crossings. [redacted] Page 4

Austria: If Austria's two coalition parties cannot resolve the current deadlock on economic issues, they may agree to advance the date of the elections which had been tentatively scheduled for October. Neither party can now govern without the other. [redacted] Page 5

North Korea: The North Korean assembly in late December enacted a broad legislative program to counter widespread apathy toward the economic development program of the regime and toward increased formation of farm co-operatives. Principal measures were reduced income taxes for urban workers and reduced grain taxes and production quotas for farmers. [redacted] Page 5

Communist China Challenges Rhee Line: Peiping radio's declaration on 27 December that the Chinese people would protect the rights of all nations' fishermen on the high seas increases the possibility of further incidents between the South Korean coast guard and the Chinese Communists in the Yellow Sea fishing grounds. The declaration amounts to an informal offer to protect Japanese fishermen against South Korean interference on the high seas with the "Rhee line." [redacted] Page 6

Chinese Communist Party Enrollment: The Chinese Communist Party now is estimated to have around 8,000,000 members, as compared with an official membership of 6,500,000 at the end of 1953. Such an enrollment would make the Chinese party about as large as the Soviet Communist Party. [redacted]

South Vietnam: Elections for a national assembly in South Vietnam, originally planned for January or early February, will be postponed at least for a few weeks. The government is still making efforts to ensure the election of an assembly that it will control. Viet Minh propaganda continues to denounce the elections. [redacted] . . . Page 7

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Cambodia: Prince Sihanouk has temporarily given up his post as prime minister, and a struggle for power among his adherents has begun as a result. At the same time, Cambodia is viewing sympathetically a Soviet bid to establish diplomatic relations, and Sihanouk apparently wants to visit Communist China soon. [redacted] Page 8

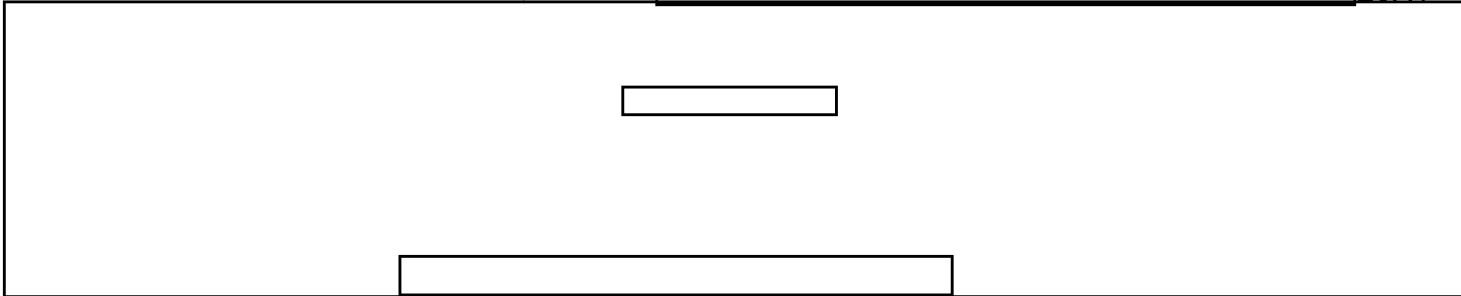
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Laos: Latest returns from the 25 December elections show Prime Minister Katay's Progressive Party considerably strengthened and the Independent Party, the second member in the coalition government, somewhat weakened. Katay may drop the Independents and form a new government with the support of minority parties, including the small National Union Party, headed by the anti-American Bong Souvannouvong. [redacted]

Finnish Presidential Election: Finland goes to the polls on 16 and 17 January to select 300 presidential electors. Since no single political party is expected to win a majority of electors, considerable maneuvering will probably precede the actual selection of the president on 15 February. The chances of any but a candidate sympathetic toward the West being elected are slim, and any new president will probably seek to strengthen the country's ties with the West, while still recognizing the necessity of maintaining good relations with the Soviet Union. [redacted]

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Chile: Chilean labor has called a general strike for 9 January in protest against the Ibanez administration's bill to control wages and freeze prices which was passed by Congress on 4 January. The 15,000 copper workers, who stopped work on 14 December in a separate dispute, have for the most part agreed to return to work. [redacted]

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PART III

PATTERNS AND PERSPECTIVES

THE NEW MILITARY LEADERSHIP IN COMMUNIST CHINA Page 1

Power in the Chinese Communist military structure appears to be passing from China's old revolutionary heroes to a group of somewhat younger and lesser known generals under the aegis of Defense Minister Peng Teh-huai. This group could play a significant or even critical role in any struggle for power following Mao Tse-tung's death or retirement. [redacted]

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COMMUNISTS SEEKING TO RECOUP LABOR LOSSES IN ITALY Page 3

After suffering several serious defeats in the past year, the Communist-controlled Italian General Confederation of Labor (CGIL) is attempting to regain its dominant position among organized labor. Its nonpolitical campaign in support of higher wages has had some success among government employees, nearly all of whom are dissatisfied with the size of pay raises recently announced under the terms of a 1954 law. [redacted]

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BRITAIN ACTIVELY OPPOSES EUROPEAN INTEGRATION PROPOSALS. Page 4

Leaders of the European integration movement are disturbed over Britain's active opposition in recent weeks to the European atomic energy community and to the plans for a customs union which the Intergovernmental Committee on European Integration will propose to the six Coal-Steel Community countries early this year. [redacted]

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INDIAN LINGUISTIC STATES ISSUE Page 6

The failure of India's Congress Party to settle the linguistic states issue damages the prestige of the party's high command. A decision had been anticipated by 24 December, but the party remains divided on the question. Home Minister Pant has stated it will now be impossible to accomplish the tasks necessary to establish the new states on 10 October 1956 as earlier planned. As a result, the Congress may enter the national election campaign late this year with less internal unity and stronger external opposition than had been expected. [redacted]

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PART I

OF IMMEDIATE INTEREST

FRENCH ELECTION

The three-way split in the new French National Assembly resulting from enlarged Communist representation on the left, the new Poujadist bloc on the extreme right, and a weakened and divided center, leaves little possibility of achieving a stable coalition government. The Algerian problem will probably force the divided center parties to find some compromise on which to base a coalition before the assembly convenes on 19 January. Any new government would probably find itself in the position of having to seek a new majority in the assembly on each major issue.

The main unknown factor in the new assembly will be the attitude of the extreme right antitax forces of Pierre Poujade. The nucleus of his strength rests with the small independent shopkeepers whose livelihood has depended on tax evasion. Much of his support in the elections represents a protest against the regime beyond the question of taxes.

Apart from his antitax stand and a call for a convening of States General like that of 1789 to air the complaints of the people, he has offered no positive program.

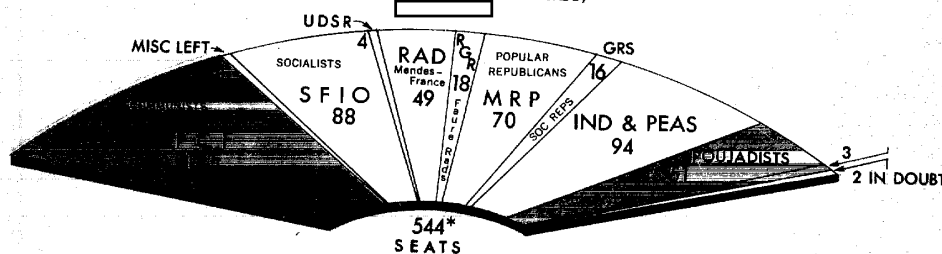
Poujade has hinted, however, that he might be willing to co-operate with other parties to form a government, and his national organization is meeting immediately to decide on its policies. He has reportedly stated his preference for Premier Faure over a government headed by Mendes-France or a Socialist. In the immediate future, at least, he is expected to maintain a tight rein on his deputies, who will probably remain largely in opposition. Any coalition including them might lose even more votes on the left.

The non-Communist parliamentary groups, from the Socialists on the left to the Peasants and ex-Gaullists on the right, cover a wide range of differing views on principal issues which have been accentuated

FRENCH NATIONAL ASSEMBLY ELECTION

UNOFFICIAL RESULTS AS OF NOON: 5 JANUARY 1956

(METROPOLITAN FRANCE ONLY)



*Returns incomplete on 52 overseas seats. Elections for 30 Algerian seats postponed.

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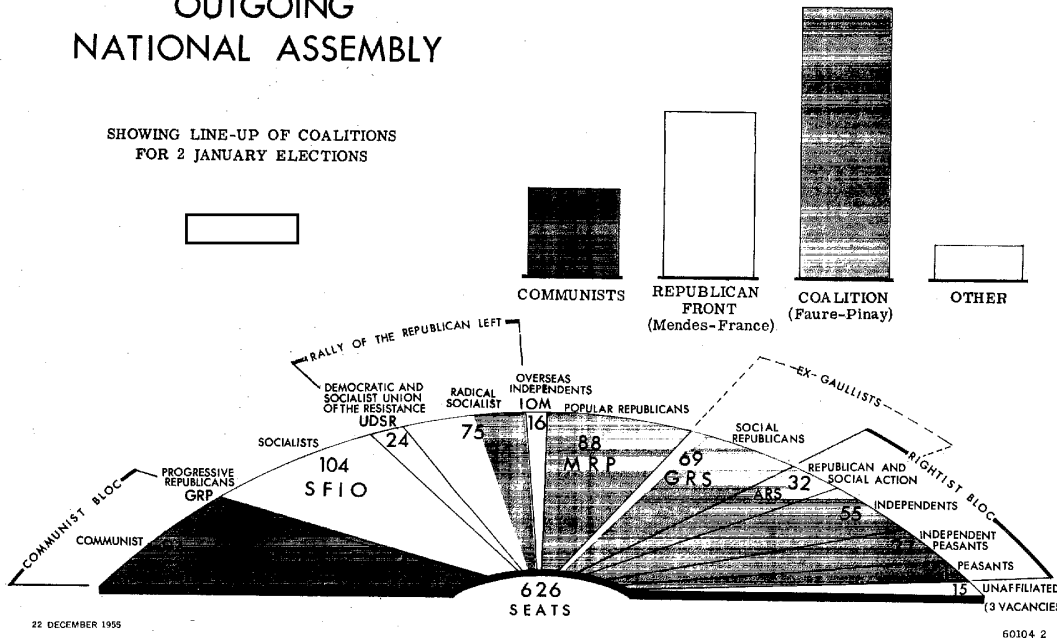
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OUTGOING NATIONAL ASSEMBLY

SHOWING LINE-UP OF COALITIONS FOR 2 JANUARY ELECTIONS



by the animosities of the electoral campaign. The Socialists are in a key position despite the loss of some seats. They increased their popular vote and appear to have picked up enough additional worker support to remove, for the moment, pressure from the rank and file for a move toward a popular front.

The poor showing made by the Faure-Pinay coalition, particularly the losses by Pinay's Independents who had expected to make significant gains, will probably increase the coalition's willingness to reach an understanding with the parties of the Republican Front. Some Independent leaders have already hinted at obtaining Socialist support of, if not participation in, a government coalition to forestall a popular front. Moreover, the Popular Republican leaders, restive in their

affiliation with the right, have reiterated their pre-election plea for broad co-operation among the center parties. Efforts will also be made by the Radical Socialists to patch up their internal disputes.

The Communists are playing up as a great victory the sharply increased parliamentary representation which they won with a slightly smaller proportion of the popular vote. They have renewed their popular front offer to the Socialists, and can be expected, despite continued rebuffs, to keep on pressing for broad co-operation on the left.

The formation of a government depends largely on a compromise between the two main elements of the center--the Faure-Pinay coalition and the Mendes-France forces. The Algerian problem is seen as

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sufficiently pressing by all the center parties to force their respective national councils to make special efforts for agreement between now and 19 January, when President Coty must designate some party leaders to make the first attempt to form a new government.

The center parties remain divided, however, over a number of other key issues from economic reform to the question of state aid to church schools, and any coalition formed quickly to deal with Algeria is almost certain to be inherently unstable.

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BULGANIN'S AND KHRUSHCHEV'S
YEAR-END SPEECHES

The confident statements made by the Soviet leaders at year's end reflected the belief that the Bulganin-Khrushchev foreign policies achieved their goals in 1955 and that the USSR is in a favorable position militarily, economically and in its foreign relations to compete effectively with the West in international power politics.

A conviction on the part of the Soviet leaders that their military position is becoming almost invulnerable is suggested by two unusual references Bulganin and Khrushchev made to significant recent developments in the field of advanced weapons.

Bulganin's discussion of the need to end the arms race by concluding an agreement to prohibit nuclear weapons included a reference to rocket weapons which he described as having undergone particular development over the past few years and "becoming intercontinental weapons." Khrushchev's description of the latest Soviet hydrogen bomb test as the "equivalent of many million tons of conventional explosives" appeared in the context of a warning to the Western powers against the "erroneous assumption" that they

possess "some kind of superiority in strength and hence... it is not to their advantage to disarm."

In this New Year's eve interview, Bulganin also rejected the theory that the possibility of thermonuclear war is automatically excluded by the East-West nuclear stalemate. He did state that "the circles which would like to unleash war" are somewhat deterred by the fact that under present conditions nuclear weapons "cannot be used with impunity," but he accused these circles of spreading "dangerous assertions" that peace can be preserved by continuing the atomic arms race. This competition, he said, is increasing the threat of a new war, and he called for fresh efforts to achieve a disarmament agreement.

Bulganin and Khrushchev defended Moscow's position on all the topics discussed at the Geneva foreign ministers' conference (Germany and European security, disarmament, and expansion of East-West contacts), and gave every indication that they intend to seek their objectives by cultivating the "Geneva spirit."

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Khrushchev's criticism of President Eisenhower's Christmas message to the peoples of Eastern Europe was made in the context of an attack on the "strange understanding" of the Geneva spirit recently displayed by some Western statesmen. He declared that the message violated the Geneva spirit and was "nothing else but rude interference in the domestic affairs of free and sovereign states--members of the United Nations."

This was the first time top Soviet leaders had leveled a public personal criticism at President Eisenhower. Khrushchev, however, protested his regret at having to speak about the President, "whom I especially respect," and hastened to add that he was merely replying to those who interfere in the domestic affairs of the People's Democracies in violation of the Geneva spirit. He also denied that his statements in India and Burma were insulting or offensive to the British government and drew a careful distinction between the British people and British colonialists.

The Soviet leaders' confidence in their policies toward the Afro-Asian states was

apparent in their remarks concerning the Egyptian-led faction of the Arab League, whose neutralism Moscow has long encouraged. Moscow regards this faction as an expanding nucleus of a bloc of "neutralist" states which will agree to closer ties with the Soviet bloc.

The leaders repeatedly asserted that the success of their trip through Soviet Asia had borne out the correctness of the Leninist principle of Soviet foreign policy--"the policy of peaceful coexistence of nations with different social and political systems." They recalled Lenin's prediction that the time would come when the hundreds of millions of people in Asia would play a part in deciding the "destinies of the whole of humanity." According to Bulganin, "this time has now come."

They also attempted to demonstrate that another Leninist prediction was materializing by the emergence of a de facto alliance between Moscow, Peiping and New Delhi, thereby bringing together the three most heavily populated nations of the earth. The clear implication was that the fate of mankind would largely depend on the role of these three states in international affairs.

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ARAB-ISRAELI SITUATION

Arab-Israeli border activity during the past week was confined mainly to sporadic firing across the frontiers in the Gaza area, but two Israeli public works officials were killed and another wounded on the highway between Beersheba and

Eilat. Israel claims these men were ambushed by an Arab suicide squad operating from Jordan.

The confidence vote which Prime Minister Ben-Gurion received on 29 December from the leadership of the Mapai party

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and his subsequent speech to the Knesset suggest that Israel intends to continue a tough policy toward any Arab incursions on its frontiers. American officials in Israel believe Ben-Gurion's hand is still strongly on the helm and that efforts to improve the country's military and defensive position will continue on an urgent basis.

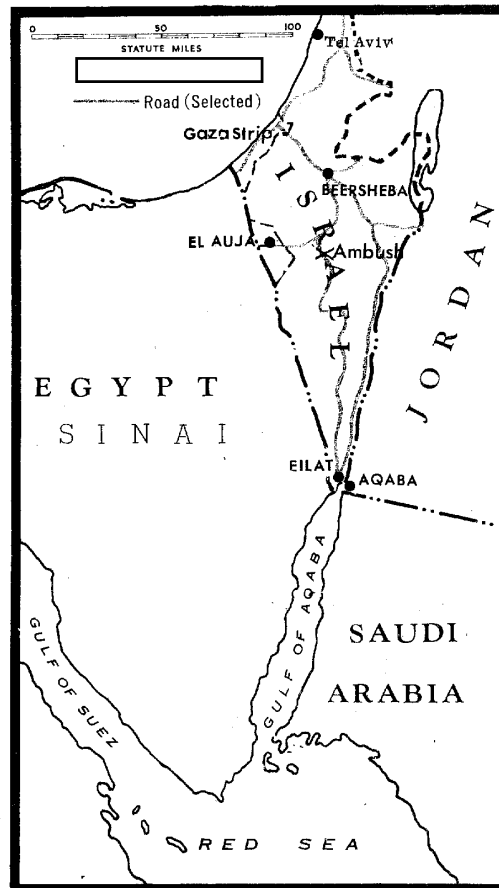
Differences of opinion between Ben-Gurion and Foreign Minister Sharett, as indicated in reports of the Mapai debate, appear to be centered on questions of timing rather than of policy itself. Sharett's failure to obtain definitive support from the Western powers has not yet been openly criticized, and he is pressing very hard for favorable action on outstanding arms requests.

The report that a "committee of three"--consisting of Ben-Gurion, Sharett and Finance Minister Eshkol--has been established to formulate over-all security and foreign policy for Mapai may indicate that future retaliatory attacks against any of the Arab states may be coordinated more closely with over-all foreign policy.

Israel is holding a firm line on any concessions to the Arab states. UN truce chief General Burns is reported to believe that continued negotiations to obtain Israeli and Egyptian agreement to UN proposals for the Gaza and El Auja areas are unlikely to be rewarding.

There is no firm evidence that Israel is planning major military activity. Any new Israeli venture to "protect its territorial integrity" would put Egyptian prime minister Nasr--along with other Arabs--in a position of losing face or of backing up his declarations that a new Israeli attack would bring major retaliation.

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JORDAN AND THE BAGHDAD PACT

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[redacted] Jordan is unlikely to join the Baghdad pact

sentiment an increase in demands for the removal of British officers from the Arab Legion.

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[redacted]

The American embassy in Baghdad reported on 1 January that Iraq is trying to put on "the best face possible" over Jordan's rejection, but ranking Iraqi officials are clearly disappointed and believe now that Jordanian adherence is probably remote.

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[redacted]

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[redacted] The majority of the Jordanians on the west side of the Jordan River remain opposed

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[redacted] Only a settlement of the Palestine problem can remove Jordanian objections to joining. The American embassy in Amman reports in addition to a rising wave of anti-Western

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[redacted]

INDONESIA

The Indonesian cabinet has only temporarily warded off the danger that it may collapse over the current Dutch-Indonesian talks.

where the talks are being held. Should the discussions show no positive results within the next week, the cabinet will again be subjected to serious criticism both from within its own ranks and from President

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Sukarno and the opposition parties.

The Masjumi, which heads the cabinet, is reportedly ready to effect a compromise "in every possible way" in order to stay in office until the newly elected parliament is seated sometime next spring.

The cabinet's "solid" agreement to continue the talks reverses a situation existing a few days before but at best appears to be a temporary arrangement. A small government party, the Indonesian Islamic League (PSII), had demanded suspension of the Dutch talks, and one of its leaders was planning to preside at a left-wing rally which would demand the "return" of Netherlands New Guinea--a major issue between Indonesia and the Netherlands which is being soft-pedaled in the talks. The rally on New Guinea has now been postponed until 7 January.

The Nahdlatul Ulama (NU), a major government party, had also been critical of the government's de-emphasis of the New Guinea question and indicated an intention to withdraw from the cabinet. But apparently it plans to give Prime Minister Harahap another chance.

The Masjumi presumably has made certain concessions to these dissident parties. It possibly offered to withdraw Indonesia's delegation if no progress were made in the talks during the next week, and Prime Minister Harahap may be considering dropping his pro-Western nonparty foreign minister.

The Masjumi is especially eager to stay in office until next spring so that it can influence the naming of the appointive parliament members, 21 or less, who may hold the balance of power in the new legislature.

The Masjumi is trying to form a "Moslem front" with the PSII and the NU in order to strengthen its bargaining position in negotiations for a new cabinet after parliament is installed.

The September elections having failed to give any one party anything like a majority, a coalition government will be necessary, and Masjumi leaders fear that unless they form an alliance with NU, they may be relegated to minor cabinet posts. They fear they might even be excluded from the cabinet.

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PART II

NOTES AND COMMENTSSoviet Bloc Relations With Greece

The USSR and its European Satellites in recent months have been making efforts to improve relations with Greece and encourage it to follow a neutralist policy in foreign affairs. According to a recent report, Moscow plans in the near future to offer substantive technical and economic aid to Greece.

The latest Satellite overture was Bulgaria's announcement on 30 December that it is prepared to resolve the reparations question, but would prefer to make a resolution dependent on the resumption of normal relations. It has agreed to advance a preliminary payment to Greece as a token of good will. Reparations claims against Rumania and Bulgaria arising out of World War II have figured prominently in Orbit-Greek friction.

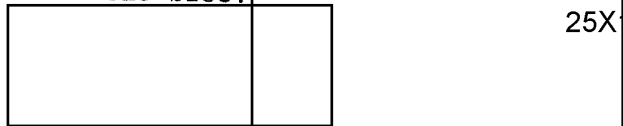
Bulgaria's initiative apparently grew out of Soviet prodding. Soon after the Soviet ambassador to Greece offered last June to use Soviet influence to effect a settlement of Greek financial claims against Bulgaria and Rumania, Rumania agreed to settle outstanding claims.

Albania, Bulgaria and Rumania have all officially expressed the desire to re-establish full diplomatic relations with Greece. Poland

and Greece are expected to exchange ambassadors soon. Bulgaria and Greece last July concluded their first general boundary settlement since the end of the war, but the Albanian-Greek boundary question remains open because of sharply conflicting territorial claims.

In the next few months, Moscow's immediate aim is to exert enough influence in the Greek elections scheduled for February to seat a left-of-center government in Athens that would agree to closer ties with the bloc.

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The Greek foreign minister claims that the USSR is giving financial assistance to leftist candidates. As a result of continuing tensions with the British over the Cyprus issue and the current rift in Greek-Turkish relations, some party leaders--chiefly Venizelos, leader of the Liberal Democratic Union--are under strong pressure from their following to form a popular front with the Communist-dominated EDA party. Such a merger would seriously damage pro-Western Prime Minister Karamanlis' election prospects and make the election of a "neutralist"-oriented government a strong possibility in February.

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Rumanian Party Congress

The second Rumanian party congress, which met in Bucharest from 23 to 28 December after a postponement of 20 months, confirmed the stability of the

party leadership but stressed the need for more party discipline. The Rumanian Second Five-Year Plan (1956-60), the first of the Soviet bloc's new

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five-year plans to be spelled out in detail, was presented at the congress. Like the first plan, it emphasizes capital goods production and also calls for a sharp increase in agricultural collectivization.

Party First Secretary Gheorghiu-Dej announced that the party would resume admissions of new members, primarily from the working class. He revealed that party strength totaled approximately 595,000, a drop of over 100,000 since the 1948 congress.

Party strength in Rumania is smaller in proportion to the population (one to 29) than in the Soviet Union or any other European Satellite except Albania.

The enlarged central committee and politburo maintain the party hierarchy without major alteration. Despite the congress' lip service to "collective leadership," the politburo membership was again listed in order of precedence, with Gheorghiu-Dej maintaining his predominant position, other members following in exact pre-congress order.

In part inspired by the recent release of former non-Communist political leaders, it had been rumored that the party base would be broadened or that puppet minority parties would be established. However, of an estimated 14 Social Democrats who received full or candidate membership on the central committee at the time of the merger of the Socialist

and Communist Parties in February 1948, only seven remain.

Rumania's Second Five-Year Plan directives in general reflect the expected emphasis on expansion of the means of production. The plan calls for a rise from 71 percent in 1955 to 85 percent in 1960 in the percentage of national income derived from the socialist sector; for an over-all increase in industrial output of 60 to 65 percent, including a 70-75 percent increase in capital goods; and for a 50-55 percent increase in consumer goods. Total planned investments will rise sharply in the next five years.

Gheorghiu-Dej asserted that socialization of agriculture was essential for expanded agricultural production, and he called for greater efforts toward political education of the peasant. He maintained that while only 26.5 percent of arable land had been collectivized through 1955, by 1960 the collectivized sector of agriculture must control a predominant amount of farm acreage and produce 60 to 70 percent of total agricultural production.

It is expected that other Satellite plans to be announced shortly will follow the same general principles in economic planning, including emphasis on the expansion of capital goods, particularly in those branches of heavy industry which have an assured source of supply of raw materials.

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Brazilian President-elect's
Visit to the US and Europe

Brazilian president-elect Kubitschek's visit to the United States and Western Europe is intended to "call the world's attention to Brazil as an investment market."

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According to the American embassy, he intends to give less than usual emphasis to the mutual dependence of Brazil and the United States, as apparently confirmed by the inclusion of various Western European countries in his tour.

Despite the severe political crises that have developed in Brazil in prospect of his inauguration, Kubitschek has apparently devoted the past three months principally to studying the country's economic situation and to formulating a program for his administra-

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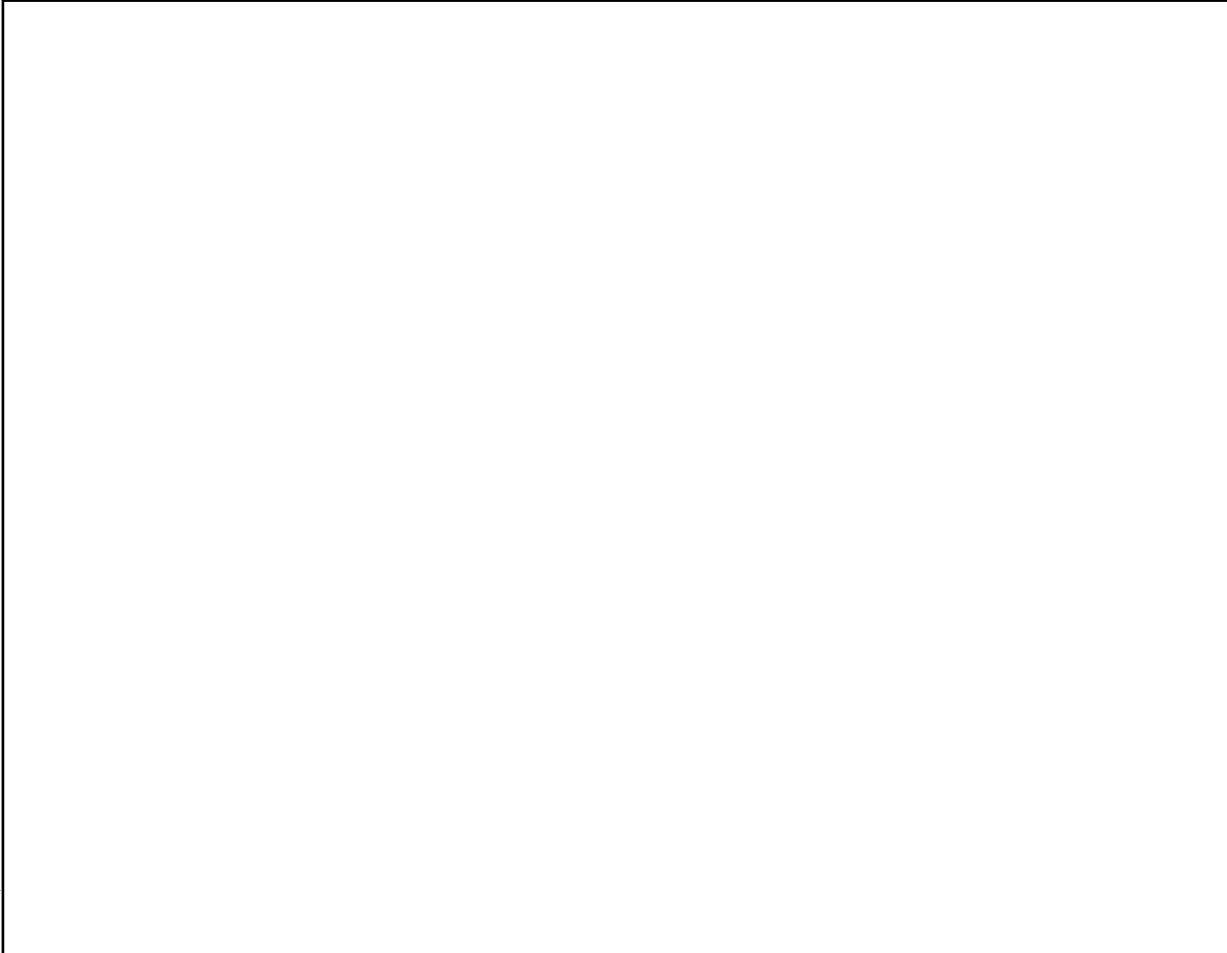
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Berlin Situation

The USSR is continuing to act with caution in restricting Allied access to Berlin. East German authorities have not recently interfered with freight shipments between West Germany and West Berlin, nor have there been any reports of harassment of West German transport personnel. The number of uniformed and civilian guards at intersector crossing points was increased, however, and some new controls have been imposed on residents

taking goods from West to East Berlin.

Soviet authorities have continued to issue documentation to Allied officials for transit through East Germany en route to and from their posts in Eastern Europe, but a Soviet consular official in East Berlin implied on 28 December that this procedure would end if Allied authorities allowed West Germany to issue comparable transit permits to Soviet personnel.

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Austria

If Austria's two coalition parties cannot resolve the current deadlock on economic issues, they may agree to advance the date of the elections which had been tentatively scheduled for October. Neither party can now govern without the other.

The People's Party and the Socialists are deadlocked primarily over the future of industrial assets in Austria formerly held by the USSR. Technically the dispute is over which ministry shall administer these assets but actually it is over whether they are to be nationalized or returned to private ownership.

This basic controversy became acute in October when the USSR tentatively offered to loan \$30,000,000 in Austrian shillings to the Lower Austrian provincial government, which is dominated by the People's Party. Politicians of that party in Vienna, including Chancellor Raab, favored acceptance of the loan in the belief that it would facilitate government investment in the economically depressed areas of the former Soviet zone, of which Lower Austria is a part.

Socialist leaders--who knew nothing of the loan until the Lower Austrian government asked the federal government to approve and guarantee it--bitterly oppose it, partly because of the opportunity the loan affords for Soviet economic penetration. Furthermore, they alleged that the People's Party

would attempt to use the loan to turn over the disputed assets to private interests. The Socialists, who operate much of the country's oil industry through their control of the Ministry of National Industries, favor permanent nationalization of the properties.

Chancellor Raab has been unsuccessful to date in obtaining a federal guarantee of the loan. It is possible, however, as predicted by Minister of Finance Kamitz, that the USSR will offer to proceed without a guarantee, in which case the loan would become a major election issue.

Both People's Party and Socialist leaders probably believe they would stand to gain by advancing the elections. Socialists traditionally favor elections in the spring, when unemployment tends to rise; and the People's Party would like elections held before the prestige it gained for its work on the state treaty is dissipated.

The election will be close in any case. The People's Party holds 74 seats in the 165-seat national parliament to the Socialists' 73. The current split in the small right-wing Union of Independence would favor the People's Party, while the Socialists are expected to pick up votes from the decline in Communist strength since the withdrawal of Soviet troops.

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North Korea

The North Korean assembly from 20-22 December enacted a broad legislative program to counter widespread apathy toward the economic development program of the regime and toward

increased formation of farm cooperatives. Principal measures were reduced income taxes for urban workers and reduced grain taxes and production quotas for farmers.

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The law reducing the grain tax, which permits further cuts in the event of natural disasters, is to be implemented immediately. Although an additional grain tax reduction of five percent is to be offered as an incentive to peasants who join co-operatives, this concession is unlikely to attract many additional farmers as the grain tax has proven difficult to administer and in some cases peasants outside the co-operative movement have been able to avoid payment of the agricultural tax-in-kind.

The goal for grain production in 1956, the final year of the current three-year plan, has been lowered from 3,200,000 tons to a more realistic target of 2,730,000. It is to be met by rehabilitation of fallow land and by expansion of co-operatives through incentives, rather than by increased yield quotas on existing acreage. Minister of Agriculture Kim Il stated during the assembly session that the acceleration of industrial development was dependent on the fulfillment of

agricultural goals, but it is not clear whether the announced increased investment in the agrarian economy will involve a reduction of industrial goals.

The assembly reduced taxes on the income of office and factory workers by 30 percent, and taxes on the incomes of "handicraftsmen, entrepreneurs and merchants" by 20 to 25 percent. These reductions for nonagricultural workers may represent an inexpensive means of improving civilian morale, since statistics released by the Ministry of Finance indicate that only 9.3 percent of North Korea's revenue for 1955 was expected to come from income taxes.

It is probable that Pyongyang will continue to emphasize industrial rehabilitation to the greatest extent practical, and that its eventual role in the bloc economy is envisaged as that of a producer of manufactured goods and electric power.

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Communist China Challenges Rhee Line

Peiping radio's declaration of 27 December that the Chinese people would protect the rights of fishermen of all nations on the high seas increases the possibility of further incidents between the South Korean coast guard and the Chinese Communists in the Yellow Sea fishing grounds. The declaration amounts to an informal offer to protect Japanese fishermen against South Korean interference on the high seas within the "Rhee line."

Further serious incidents could create new difficulties

in South Korea's relations with the UN Command, particularly if Rhee were to try to employ his regular naval and air forces without approval of the UN commander. According to the terms of South Korea's aid agreement with the United States, its military forces, except for the coast guard, are under the operational control of the UN. They therefore are unavailable to enforce Rhee's unilateral claim to exclusive fishing rights in waters extending from 60 to 200 miles offshore.

The present situation was precipitated by a clash on

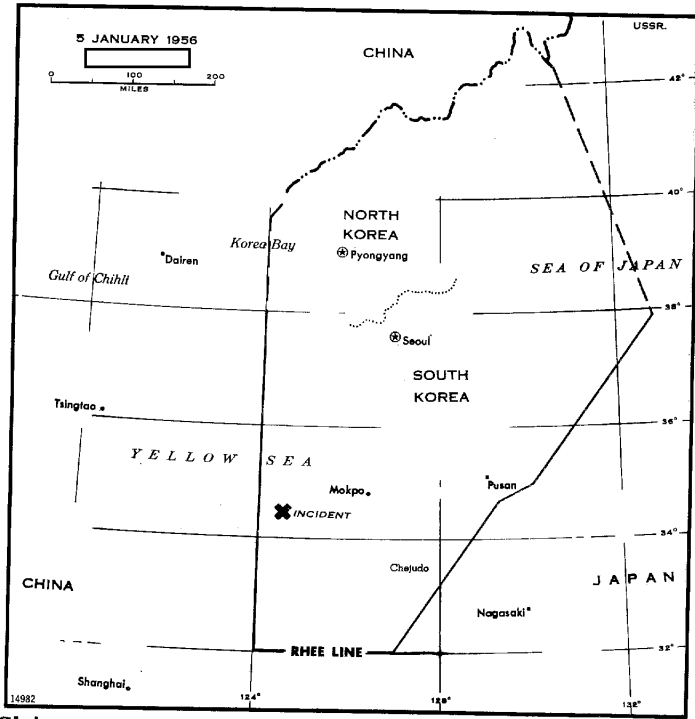
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Christmas Day between a South Korean coast guard ship and a Chinese Communist fishing fleet, approximately 115 miles southwest of the Korean port of Mokpo, within the "Rhee line."

Subsequently, a Korean press release declared that the Defense Ministry had proclaimed an "emergency status" in the Yellow Sea, and a statement released in the name of Defense Minister Sohn declared that naval and air units would be called out if the coast guard were unable to enforce the Rhee line against the Chinese.

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Chinese Communist Party Enrollment

The Chinese Communist Party now is estimated to have around 8,000,000 members, as compared with an official membership of 6,500,000 at the end of 1953. Such an enrollment would make the Chinese party about as large as the Soviet Communist Party.

Most of the new members are peasants, whose support the regime has especially

desired during its drive to increase the number of agricultural co-operatives.

The American consulate general in Hong Kong believes the Chinese party is aiming at a membership of about 3 percent of China's 600,000,000 people, and will have 11 or 12,000,000 members--2 percent of the population--by the end of 1957.

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South Vietnam

Elections for a national assembly in South Vietnam, originally planned for January or early February, will be postponed at least for a few weeks. The government is still making efforts to ensure the election of an assembly that it will control.

Viet Minh propaganda continues its denunciation of the elections. A recent broadcast

called on all persons in the south "irrespective of political party, religious creed, or nationality to unite still more closely" to boycott the elections.

In its election preparations, the Diem government is encountering resistance in its efforts to forge a single government party and a "supervised" loyal opposition group from among the various political

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elements in South Vietnam. Principal opposition stems from the loyal Cao Dai and Hoa Hao political forces, which are reluctant to accept the onus of an "opposition" label. They prefer inclusion on the government ticket, from which position they aspire to gain control of a third of the assembly seats.

The National Revolutionary Movement (NRM), the nucleus of the government's political support, is extending its organizational activities into traditional Cao Dai and Hoa

Hao areas. A senior NRM leader reports considerable success in winning over rank-and-file sect members, especially in the Hoa Hao areas of western Vietnam, where a large number of persons are reported to have recently declared themselves active NRM partisans. Sect leaders who have remained loyal to the government are apparently being deliberately bypassed in this recruitment drive, and there is growing resentment among them over government maneuvers to minimize their political importance. [redacted]

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Cambodia

Prince Sihanouk has temporarily given up his post as prime minister "in order to take a rest from his official duties." He has turned over the office temporarily to Oum Cheang Sun, president of the National Assembly. Sihanouk intends to spend a month in France and may also visit London; he will probably take over again as prime minister after his father's coronation in early March.

A struggle for power broke out among second-echelon leaders of the prince's political movement, the Sangkum, when he announced his impending resignation. Although Oum is apparently Sihanouk's choice, it is probable that the struggle will continue, possibly resulting in serious disunity within the movement.

At the Sangkum congress on 30 December, which voted unanimously to accept continued American military and economic aid, Sihanouk referred to an

overture from the USSR for the opening of diplomatic relations. This follows recent Viet Minh approaches for the exchange of diplomatic representatives, and there are indications that, at least as far as the Soviet overture is concerned, Cambodia is increasingly receptive. A Cambodian radio commentary on 17 December said the Soviet stand on UN admissions would encourage the initiation of diplomatic relations.

Meanwhile, relations between Cambodia and South Vietnam are strained. The Cambodian government recently protested border violations by Vietnamese military units and warned that it would use its armed forces to ensure respect for its territory. [redacted]

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[redacted] the Diem government considers Phnom Penh to be the center of anti-Vietnamese intrigues and that relations with Cambodia are likely to deteriorate further in coming months. [redacted]

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Laos

Latest returns from the 25 December elections show Prime Minister Katay's Progressive Party considerably strengthened and the Independent Party, the second member in the coalition government, somewhat weakened. Katay may drop the Independents and form a new government with the support of minority parties, including the small National Union Party, headed by the anti-American Bong Souvannouvong.

Katay has not yet committed himself, but in a conversation with an American official has pointed out that there are enough Progressive and "friendly" deputies to provide the necessary two-thirds assembly approval for a new cabinet.

Meanwhile, in a gesture which Ambassador Yost describes as "at least curious," the

Viet Minh has sent a message through the International Control Commission congratulating Laos on its admission to the United Nations. This comes at a time when the Viet Minh radio is violently attacking the royal government for carrying out "illegal unilateral" elections.

The congratulatory message may be intended to promote confusion among Laotian leaders as to the government's policy toward the Communists or to underscore Russia's role in the success of the Laotian bid for UN membership. It is possible, however, that the Viet Minh is laying the groundwork for a campaign for the exchange of diplomatic representatives and a deal in which Pathet Lao forces would be disbanded in return for Communist participation in the government.

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Finnish Presidential Election

Finland goes to the polls on 16 and 17 January to select 300 presidential electors. Since no single political party is expected to win a majority of electors, considerable maneuvering will probably precede the actual selection of the president on 15 February. The chances of any but a candidate sympathetic to the West being elected are slim, and any new president will probably seek to strengthen the country's relations with the West while still recognizing the necessity of maintaining good relations with the Soviet Union.

The two strongest candidates at present are Prime Minister Kekkonen of the Agrarian Party and K. A. Fagerholm of Finland's largest party, the

Social Democrats. Kekkonen's attempts to consolidate his position as President Paasikivi's logical successor have been handicapped by the belief of many Finns that he is "too acceptable" to the Soviet Union to be trusted with the presidency, which under the constitution is entrusted with the direction of foreign policy. In actual fact, Kekkonen if elected would be unlikely to change Finland's foreign policy.

Fagerholm, although not the strongest or most popular member of the Social Democratic Party, has considerable support in non-Socialist circles, but two of the three "bourgeois" parties have already announced they will support him in the electoral college balloting if their own

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candidates' chances appear to be slight.

If a deadlock developed in the electoral college between Kekkonen and Fagerholm, the electors would turn to the 85-year-old President Paasikivi or one of the "bourgeois" party nominees for a compromise candidate. Paasikivi has not yet definitely stated whether he would be a candidate, but he reportedly would agree to run again if a majority of the parties favor him. His popularity and prestige remain high, and he would probably receive the support of a large majority of electors if he chose to run for a full or shortened term.

All non-Communist candidates agree that Finland must continue to maintain and develop good relations with the Soviet Union and remain outside great power conflicts.

The election of Paasikivi, Fagerholm or one of the "bourgeois" party candidates, however, would assure the continued development of strong ties between Finland and its Scandinavian neighbors, especially Sweden, and would strengthen the country's general Western orientation.

President Paasikivi rather than Prime Minister Kekkonen appears to have reaped the credit for the Soviet-Finnish agreement last September which returned the Porkkala naval base to Finland. Because actual turnover of the base is scheduled to take place before the end of January, the occasion will serve to remind the electors of further dividends which might accrue from a continuation of the policy consistently followed by Paasikivi, with which Kekkonen has sought to identify himself. 25X1

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Chile

Chilean labor has called a general strike for 9 January in protest against the Ibanez administration's bill to control wages and freeze prices. The 15,000 copper workers, who stopped work on 14 December in a separate dispute, have for the most part agreed to return to work.

Chile's largest labor confederation, CUTCH, had been discussing strike plans for several days. A split within CUTCH over strike tactics had been reported. One group was said to favor a general strike of indefinite duration. Another group, including the Communists, favors only a 48-hour general strike. The Communist leaders fear repressive action by the government and are reported

ready to engage in strike-breaking even at the risk of splitting CUTCH--rather than embark on a strike of indefinite duration.

The administration's wage-price bill, which has been opposed consistently by the leftist political parties as well as CUTCH, was passed by the Senate on 4 January after being approved by the Chamber of Deputies last month.

Even if the wage-price bill should fail to become a law, which seems unlikely, labor unrest could be expected to continue until some means are found to control inflation. The cost of living in Chile has increased about 200 percent in the past two years.

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PART III

PATTERNS AND PERSPECTIVESTHE NEW MILITARY LEADERSHIP IN COMMUNIST CHINA

Power in the Chinese Communist military structure appears to be passing from China's old revolutionary heroes, as exemplified by Chu Teh, to a group of somewhat younger and lesser known generals under the aegis of Defense Minister Peng Teh-huai. This group could play a significant or even



PENG TEH-HUAI

critical role in any struggle for power following Mao Tse-tung's death or retirement.

Army Leaders Named Marshal

Ten army leaders named in 1955 as marshals have been the regime's top commanders for the past 25 years or more. Chu Teh, prior to late 1954, was commander in chief of all Chinese Communist forces and, with Mao, was coleader of the first Chinese Communist armies. His principal lieutenant was Peng Teh-huai, who also commanded the Chinese forces in Korea and was appointed to his present position in September 1954. On a level with Peng within the military hierarchy was Lin Piao, who in recent years has been described as sick by Peiping.

Liu Po-cheng (the One-Eyed Dragon), Ho Lung (a reformed bandit), Chen I, Lo Jung-huan, Hsu Hsiang-chien (also believed sick), Nieh Jung-chen and Yeh Chien-ying held top command posts in the Chinese Communist military.

With the exception of Peng and possibly Chen I, however, none is now believed to hold a key military post. Although their party positions and National Defense Council jobs may enable them to influence some aspects of policy and although several are directors of departments of the general staff, none has been associated since 1954 with an operational command. The title of marshal seems to be little more than recognition for past services.

Almost all of the marshals seem to have been victims of Peiping's efforts since 1952 to subordinate the armed forces more directly to central authority. In 1954 the regime eliminated regional "kingdoms" and transferred the old commanders to Peiping. The new constitution adopted in September 1954 brought the military completely under government organs for the first time and Peng was made the active commander of all Chinese forces and, apparently, the main source of orders to operational commands.

Subsequent legislation establishing a Soviet-type military rank system and a compulsory military service program seems designed in part to destroy any traces of personal loyalty such as existed under the former system, whereby a commander served concurrently as government or party boss and recruited troops from his own military area.

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The stronger central authority in Peiping and the ensuing legislation have also been aimed at modernization of the military establishment--an objective which Peiping has taken pains to emphasize.

Peng Teh-huai Plays Key Role

The new group around Defense Minister Peng, chiefly his deputies in the Ministry of National Defense and its subordinate organ, the General Staff of the People's Liberation Army, are five or six years younger on the average than the marshal group. Some of the younger men can boast, however, of comparable experience, if not rank, in China's revolutionary movements.

Peng appears to have brought military leaders loyal to himself into this group, which could become important either as an independent center contesting for power or as support for a candidate other than Peng.

Chou En-lai, for example, is believed to have close connections with the military, not only because of his formal supervision of the military as head of the government administration but also through personal relationships.

Peng's seven deputies in the National Defense Ministry are all party members and three are members of the Chinese Communist Party's central committee. One served under Peng in Korea as chief of staff of the Chinese People's Volunteers and another was Peng's deputy in Northwest China. Three others were born in Peng's native province of Hunan and may have become associated with Peng long ago.

Su Yu Heads General Staff

The General Staff is headed by General Su Yu, who although outranked by the marshals, probably now stands next to Peng Teh-huai as the most powerful figure in the Chinese Communist military establishment. The chief functions of this staff are to advise the minister and, in his name, to issue orders and to implement directives. The departments under the General Staff--political, training, cadre, supervision, rear services and finance--perform important administrative functions but for the most part do not seem to be power positions.



SU-YU

Su Yu and his four assistants are all Chinese Communist Party members; three are members of the party's central committee. Su and two of his deputies were born in Hunan, and one served as Peng's deputy commander in the 1st Field Army. One of the deputy chiefs of staff, Li Ko-nung, may be head of the secret police apparatus in the armed forces.

Party Concern Over Leadership

An article published in August 1955 by Lo Jung-huan--

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a marshal and the director of the army's political department --highlights the party's continuing concern over maintaining its control of the military and its determination to eliminate any threats to its control. Lo complained of a growing tendency to weaken the "glorious traditions" of the army, particularly the party's leadership of the military, a principle which Mao had established in the first years of the Chinese Communist armies.

The Chinese Communist Party has disclosed that Kao Kang and Jao Shu-shih, Chinese

Communist leaders whose purge was announced in March 1955, had made overtures to high-ranking party members in the army for support in their "antiparty" alliance. The extent to which military leaders became involved with Kao is not known, and the party has not announced any purge of the military. However, the party's admission that a dissident faction wished to conclude an alliance with the military reflects a continuing problem for those who wish to succeed Mao as the head of the Chinese Communist Party and regime.

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COMMUNISTS SEEKING TO RECOUP LABOR LOSSES IN ITALY

After suffering several serious defeats in the past year, the Communist-controlled Italian General Confederation of Labor (CGIL) is attempting to regain its dominant position among organized labor. Its non-political campaign in support of higher wages has had some success among government employees, nearly all of whom are dissatisfied with the size of pay raises recently announced under the terms of a 1954 law.

The CGIL's program for agitation on economic issues was endorsed on 28 November by Italian Communist Party chief Togliatti. It probably will remain in force at least until the confederation's Congress convenes in February. The program may well have some success in reversing the CGIL's recent setbacks and weakening the position of the non-Communist unions.

Election Setbacks

Although the CGIL still has over 3,000,000 members and is larger than all the other unions combined, it has had a number of setbacks in 1955. In shop steward elections, Communist-affiliated unions have suffered losses averaging about 12 percent. In many plants, most notably the Fiat automotive works, they dropped to a minority status, and their majority has been cut in other industries, particularly transportation and shipbuilding.

The losses were the result in part of anti-Communist action by firms seeking to meet American requirements for loans or offshore procurement contracts and hence in some cases may prove to be temporary. However, the losses also reflect stepped-up activity by non-Communist unions, and a greater

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willingness on the part of management to sign separate agreements with these unions.

Strike Record

The CGIL's strike record in 1955 was unimpressive. It called no strikes of a purely political nature, not even on the likely occasions of parliament's approval of the Western European Union and the redeployment to Italy of American troops formerly stationed in Austria. Moreover, support for CGIL-called sympathy strikes fell off markedly. The port strike in Genoa, which lasted from January to May, was the only major strike the Communists conducted alone. It put a heavy strain on the union's resources and won the Communists a decision which only barely concealed the fact that their control over hiring and firing of ship repair workers had been eliminated.

Defections from CGIL, which have occurred intermittently on the local level for several years, have recently assumed greater significance. A part of the Federation of Postal and Telegraph Employees withdrew on 3 December and transferred its allegiance to the Democratic

Socialist-oriented Italian Labor Union. This followed the defection in late summer of two individuals who were prominent in the CGIL-affiliated national organizations of Agricultural Workers and Fishermen.

Outlook for CGIL

A number of factors will probably contribute to the success of CGIL's campaign: continuing feuds among the non-Communist unions, anger over heavy-handed measures taken by management in some localities, and the limited scope of the government's economic reforms.

Although the non-Communist labor organizations are wary of "unity of action" campaigns, they can be maneuvered into co-operating. On occasions when both Communist and non-Communist unions have called their members out on an issue, strike action has been relatively successful. Strikes on salary questions by specific categories of workers--the 90,000 high school teachers, for instance, who walked out several times last year--have been particularly well supported by non-Communist labor.

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BRITAIN ACTIVELY OPPOSES EUROPEAN INTEGRATION PROPOSALS

Leaders of the European integration movement are disturbed over Britain's active opposition in recent weeks to the European atomic energy community and the plans for a customs union which the Intergovernmental Committee on European Integration will present to the six Coal-Steel Community countries early this year.

While they had not hoped for British participation,

integration leaders expected London would refrain from opposing the projects and might even support them during the difficult negotiating period--perhaps ultimately seeking ties along the lines of Britain's association with the CSC.

Britain's Opposition Stand

However, both in bilateral approaches to the CSC countries and in the Organization for

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European Economic Co-operation (OEEC), London has made it clear that (1) it will not extend to the nuclear pool (EURATOM) as such the benefits which its members could derive individually in bilateral agreements with Britain; and (2) it may work against the formation of the six-nation customs union by using its influence in the several CSC countries, and through the OEEC and the General Agreement on Tariffs and Trade (GATT).

Explaining his government's position, the British foreign secretary told Secretary Dulles in mid-December that "tight integration" of the Community of Six implies high tariffs which would be a source of "division rather than strength" on the Continent and that while London otherwise "would not be unsympathetic," Britain desires to "avoid future opprobrium" by announcing its intentions now.

Early in December, another British spokesman said he foresaw the "danger of dividing free Europe into two camps" and the possibility that the OEEC would "collapse" as a result of the "formation of discriminatory groups."

Pro-European Views

Pro-Europeans are both annoyed and alarmed by the British action. Belgian foreign minister Spaak contends that London has launched a "strong offensive" against the common market concept, and is "unfavorable, even aggressively unfavorable" in its attitudes. Dutch co-foreign minister Beyen reportedly believes he has been "led up a garden path" and, with Spaak, suspects the British are opposing the projects now because there is a chance of their being approved. CSC president Mayer speaks of a German "torpedo," and West German foreign minister Von Brentano has told

Secretary Dulles that British opposition had "created real difficulties" in West Germany for European integration prospects.

The emotional tone of these statements is in part a hangover from the EDC crisis. Many pro-Europeans suspect that London was not entirely displeased with the defeat of EDC, and it is still following its historic policy of opposing the emergence of a concentration of power on the Continent. Spaak notes, for instance, the unreasonableness of Britain's objection to the common market on the basis of discrimination in view of Britain's involvement in intra-Commonwealth tariff preferences.

Effect of British Stand

Basically, however, pro-Europeans are alarmed lest the British position spells failure for the integration projects in question.

Integration measures are strongly supported in the Benelux countries but command, at best, an uncertain majority in France and West Germany. Any British doubts in the matter can be expected to reappear as arguments among the opposition. Also, by supporting instead the looser OEEC inter-governmental approach, the British encourage those, too, who are not opposed to integration as such but who dislike the political and economic implications of the more drastic CSC formula.

Some of the potential candidates for membership in the European community, such as Switzerland and Norway, sympathize with Britain. Since the establishment of a European common market would require another waiver from the OEEC and GATT, a practical problem immediately presents itself.

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The anger at Britain being felt, particularly in the Low Countries, reflects the political overtones which have always been implicit in the support these countries have given to the European movement. In his conversations with Secretary Dulles on 17 December, Spaak spoke "feelingly" of the need for "giving the Germans hope," of the overriding importance of tying Bonn to the West, and of the danger that West Germany will turn to the USSR. The British position, Spaak insists, is shortsighted at best "in terms of what the situation

could be in Germany in five years if the present opportunities are missed."

The possibility of a bilateral understanding between France and Germany--which was raised during the tenure of Mendes-France--has also not been entirely discarded. Among the smaller countries there is still a good deal of feeling that the present moment offers a new chance and possibly the last chance for a permanent reconciliation of France and Germany in a framework in which the other European countries would still have a voice. [REDACTED]

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INDIAN LINGUISTIC STATES ISSUE

India's most critical domestic political problem--the linguistic states issue--has again defied efforts by the Congress Party to reach a satisfactory solution. This failure damages the prestige of the governing party's high command, which had hoped to announce a final decision on 24 December. Home Minister Pant has stated it will now be impossible to accomplish the tasks necessary to establish all the new states on 1 October 1956 as earlier planned. It also indicates that the party may enter the national election campaign in late 1956 with less internal unity and stronger external opposition than it previously anticipated.

Recommendations

Some Congress Party and government leaders, including Prime Minister Nehru, have privately opposed the idea of dividing India along linguistic lines. Popular demand, however, forced the government to appoint a States Reorganization Commission to study the problem. The commission last October submitted recommendations which included enlargement of Bombay

state to take in parts of Hyderabad and Saurashtra. It also recommended unification of the Punjab, Himachal Pradesh, and Patiala and East Punjab States Union (PEPSU) into a single state.

The Congress high command subsequently decided that Bombay should be divided into three separate states--Bombay city, a southern Mahratti-speaking state, and a northern Gujrati-speaking state. It also suggested further discussion about the Punjab area, where the Sikhs have long agitated for a state entirely for themselves.

Provincial Reaction

Violent rioting in Bombay during late November, unrest in other parts of the country, and dissension in the Punjab area over the new proposals led to talks between New Delhi representatives and provincial leaders and to debates in parliament, which the Congress Party and the government hoped to conclude satisfactorily by 24 December. On the 24th, however, the party admitted defeat by deciding to remand the matter to a four-man subcommittee, while Prime

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inclusion of Bombay city in a Mahratti-speaking state.

In the Punjab, where the Congress Party leadership is not strong, dissension between Hindu and Sikh elements threatens to result in the ouster of Chief Minister Bhim Sen Sachar, a Hindu. He seems likely to be supplanted by the state's present economic development minister, Pratap Sigh Kairon, a Sikh, who would be chosen as a compromise leader if the Sikhs are not granted their long-standing

dream of an enlarged Punjab state.

Future Prospects

Continued disagreement inside and outside India's Congress Party on the boundaries of the proposed new linguistic states makes it unlikely that the government will be able to create the new states and have them functioning smoothly by the time all political parties become deeply involved in the national election campaign in late 1956.

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