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23 February 1956

CURRENT INTELLIGENCE WEEKLY SUMMARY



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23 February 1956

THE WEEK IN BRIEF

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PART I

OF IMMEDIATE INTEREST

THE SOVIET PARTY CONGRESS Page 1

The formal presentation of "debate speeches" at the 20th Soviet Party Congress ended on 20 February when the congress voted "unanimously" to approve "the political line and practical activity of the CPSU central committee." The speeches generally reinforced the line set by Khrushchev on the successes of the Communist world, prophesying greater achievements in the future, and extolling the virtues of collective leadership.

In announcing that war is no longer "fatalistically inevitable," Khrushchev repudiated a dogma laid down by Lenin and confirmed in a revised form by Stalin. The present regime has thereby, in effect, established its right to create binding ideological precepts and has declared its refusal to be burdened in the execution of policy by its Stalinist inheritance.

Under the heading of party affairs, Khrushchev called for the establishment of a bureau under the central committee of the Soviet Communist Party to deal with matters concerning the Russian Socialist Federated Soviet Republic in order to lighten the administrative load on the top leaders in the party presidium. Khrushchev also recommended the writing of a new party history to replace Stalin's 1938 version, changes in the party rules, and an increase in the size of the party with stress on quality. He also adjured the party to transfer more party members to work directly connected with industrial and agricultural production.

Premier Bulganin's presentation of the Sixth Five-Year Plan and remarks on economic affairs by other leaders, while generally only restatements of familiar themes, pointed up the most pressing economic problems faced by the regime in maintaining a rapid rate of growth of Soviet economic strength.

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ARAB-ISRAELI SITUATION Page 8

Public utterances of Arab and Israeli leaders continue to be keyed to the possibility of hostilities this spring, despite some relaxation of tension following Israeli prime minister Ben-Gurion's statement last week that plans for the Banat Yacov canal have been "shelved" in the expectation that Ambassador Johnston would again visit the area. [redacted]

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PART II

NOTES AND COMMENTS

Soviet Campaign Against US Balloons Continues: The USSR has rejected the United States' contention that balloon flights do not endanger air transport and has offered to organize exhibitions of captured American balloons and equipment in Western countries to prove the validity of Soviet protests. Moscow is also exploiting the balloon issue to discredit President Eisenhower's mutual aerial inspection plan. [redacted] Page 1

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East Germans May Tighten Border Controls to Cut Refugee Flow: [redacted] the East German regime has been making plans to seal off its territory from West Berlin and West Germany, allegedly in order to improve currency controls. The real purpose would probably be to stem the escape of military-age refugees which continues at a high rate. The proposed date for the initiation of these measures reportedly is 1 May. [redacted] Page 1

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Struggle Developing Over Successor to Hatoyama: Japanese Liberal-Democratic Party leaders have agreed to the election of Prime Minister Hatoyama to the party presidency in April and to his remaining in office for three to six months thereafter. The decision has focused the factional struggle within the party on the choice of its vice president, who probably will succeed the prime minister to both the top party and government posts. Liberal Party Secretary General Shinsuke Kishi is the leading contender. [redacted] Page 3

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Japan Considering Expanded Relations With Communist China:

The Hatoyama government's intention to place greater emphasis on relations with Communist China, as reported in the Japanese press, suggests a bid for popular support of this course. [redacted]

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Communist China to Adopt Latin Alphabet: The Chinese

Communists' proposal to introduce the use of a Latin alphabet contrasts with the measures taken by the USSR to replace Latin by Cyrillic scripts in Central Asia. Peiping justifies the new alphabet on the "long historical tradition" of Latin letters in China. The USSR may have exerted no strong pressures on the Chinese in favor of Cyrillic, thereby avoiding any charges of "cultural imperialism." [redacted]

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South Vietnam: As the 4 March date for national assembly

elections in South Vietnam approaches, Viet Minh propaganda is assuming a more threatening tone. Current indications are that the Viet Minh will attempt to disrupt the elections by covert means. Scattered incidents of violence are a possibility. The Viet Minh may also give support to ex-premier Tran Van Huu, leader of the anti-Diem politicians in Paris [redacted]

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Afghanistan: Soviet personnel are said to be moving into Afghanistan to begin work under the \$100,000,000 Soviet credit announced by Bulganin and Khrushchev during their December visit to Kabul. Primary attention at the moment is apparently being given to development of transportation facilities, but Moscow reportedly has also approved an irrigation project and offered an additional loan of \$12,000,000 to an Afghan government-controlled textile company. [redacted]

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Greek Election Results: The parliamentary majority which Greek prime minister Karamanlis won in the 19 February elections is sizable enough to permit him some freedom in carrying out the "progressive" program that he has promised. Popular support for his government depends on his ability to satisfy popular demands for economic progress and to settle outstanding international issues in a way satisfactory to public opinion. [redacted]

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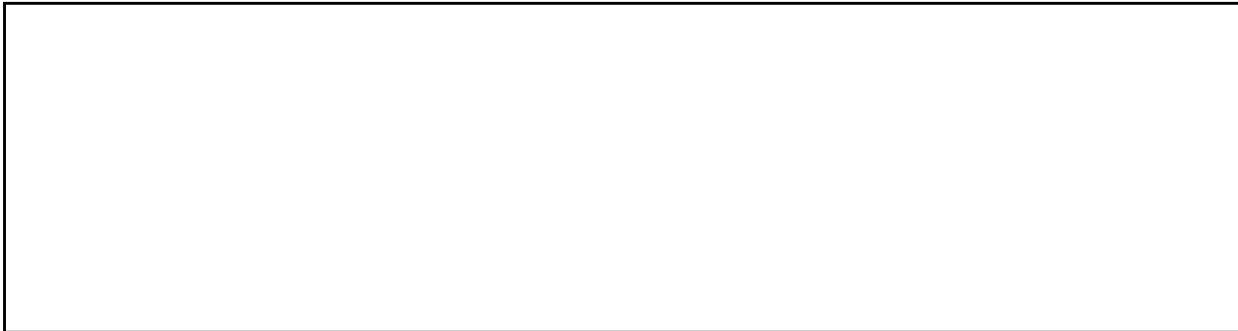
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French Negotiations in North Africa: The new French minister residing in Algeria is confronted with the task of defining a policy in the face of settler hostility and Algerian Moslem pressure. Rebel activity remains at a high level, and the first large-scale desertion of native troops took place between 19 and 20 February. Negotiations between France and the Moroccan nationalists to work out a new treaty relationship were formally opened on 15 February. New Tunisian negotiations for further concessions will open soon in Paris. [redacted]

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The Peruvian Revolt: The regime of General Odria in Peru appears to be permanently weakened as a result of its failure to act decisively against the Iquitos rebels. Odria's repressive measures against conservative opposition elements have alienated large segments of the population. [redacted]

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Salvadoran Presidential Election: El Salvador is nearing the climax of a long and bitter election campaign. The presidential election is scheduled for 4 March and there is danger that violence or a military coup may occur before or shortly after that time. [redacted]

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PART III

PATTERNS AND PERSPECTIVES

SOVIET VIEWS ON THE POSSIBILITY OF A WESTERN ECONOMIC CRISIS

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Khrushchev's statement at the 20th Party Congress on the possibility of an economic crisis in the West reflects the belief that the USSR can capitalize on any Western economic difficulties to increase its international influence. The Soviet leaders may believe that continued pressure for general disarmament can succeed in reducing the level of Western arms production and thus remove what Communist spokesmen have frequently described as an artificial stimulant forestalling a capitalist depression. Khrushchev's diagnosis reflects a belief that the West will inevitably face substantial economic difficulties and that these may occur soon. He did not commit himself to any specific timing for such a depression, however, and the speech of First Deputy Premier Mikoyan later at the congress suggests even more strongly that the leaders are uncertain concerning the timing of the crisis they expect in the West.

[Redacted]

WEST GERMAN POLICY TOWARD EAST GERMANY AND THE USSR

Page 5

West Germany is faced with strong inducements for dealing with the Soviet Union and East Germany: the desire for national unification or, failing this, for contacts with the East German population; the necessity to cope with East German demands respecting Berlin access; and a moderate desire for trade with the East. It has been apparent for some time that a large proportion of West Germans would accept neutrality in return for unity, and there is a growing disposition to deal with the East Germans. Nevertheless, the Bonn government does not presently appear inclined to enter unilateral negotiations with Moscow or to recognize East Germany.

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CHINESE COMMUNIST MILITARY DEVELOPMENTS IN 1955 Page 10

Peiping's program for the modernization of its armed forces made considerable progress in 1955. Now in possession of a ground force equal in size to that of the Soviet Union and the world's fourth largest air force, the Chinese Communists, with continuing and substantial Soviet assistance, are growing steadily in military power. Peiping's greatest military priorities have been devoted to the preparation of offensive and defensive facilities in the coastal area opposite Taiwan and the offshore islands.

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PART I**OF IMMEDIATE INTEREST****THE SOVIET PARTY CONGRESS**

The formal presentation of "debate speeches" at the 20th Party Congress ended on 20 February when the congress voted unanimously to approve "the political line and practical activity of the CPSU Central Committee."

The speeches generally reinforced the line set by Khrushchev in his 14 February speech on the successes of the Communist world, prophesying greater achievements in the future, and extolling the virtues of collective leadership.

Foreign Policy

Foreign Minister Molotov's speech was largely devoted to a faithful repetition of the foreign policy and doctrinal themes laid down by Khrushchev. His most notable statement was an admission that the Foreign Affairs Ministry had been guilty of "underestimating the new possibilities" of the post-war period and had been criticized for this by the central committee.

Molotov stressed particularly the need for flexibility in foreign policy, the importance of friendship with non-Socialist countries which oppose military blocs, and the importance of working-class unity between Socialist and Communist parties, suggesting that he was blamed for dragging his feet in developing these tactics.

Military Affairs

Defense Minister Marshal Zhukov asserted that the USSR is "protected by diverse atomic and thermonuclear weapons, powerful rocket-propelled and jet-propelled armaments of various types, including long-range missiles." Mikoyan stressed that Soviet military strength is an effective deterrent to Western initiation of war against the Soviet Union. Stating that there were atomic and hydrogen bombs in the USSR as well as in America and that these could be carried to "any point of the earth by aircraft or rockets," Mikoyan warned that "in the event of American aggression, hydrogen bombs can in return fall on American cities too...." Zhukov also noted that Soviet retaliatory atomic blows would "destroy millions of lives and immense wealth in countries which are America's allies."

Other speakers at the congress lauded Soviet military strength while stressing that it was maintained solely for defense purposes.

Economic Matters

Mikoyan said in his speech that a serious discrepancy exists between the supply of goods and the population's financial resources, thus admitting the existence of inflationary

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pressures in the Soviet economy. His remedy for the situation is to make further price reductions only when warranted by an increase in supply relative to the purchasing power of the population.

Kaganovich discussed revision of wages and norms, which he said had been basically unchanged since 1932. The revision, which is apparently proceeding very slowly, will be aimed at decreasing the proportion of take-home pay received as bonuses--which now comprises 40 to 60 percent of the total--by raising basic wages and output norms.

Premier Bulganin's presentation of the Sixth Five-Year Plan directives was largely a restatement of well-known economic themes. He gave new investment data, however, which, compared with the 1956 budget, show that a shift of funds from agriculture to consumer goods industries is planned to occur in the late 1950's, presumably when higher agricultural output will require larger processing capacity in light industry.

Bulganin discarded the traditional Soviet maxim that obsolescence of equipment is peculiar to capitalism and impossible under Socialism. His attack on economists holding to this Marxist view clears the way for a more realistic policy of replacing outmoded machinery which, under previous policy, would have remained in use until it was beyond repair.

Surpassing the United States in per capita production remains the "main economic task" of the USSR, according to all the speakers who have dealt with economic affairs.

Ideology

In announcing that war is no longer "fatalistically inevitable," Khrushchev repudiated a dogma laid down by Lenin and confirmed in a revised form by Stalin. The present regime has thereby, in effect, established its right to create binding ideological precepts and declared its refusal to be burdened in the execution of policy by its Stalinist inheritance.

Since the end of World War II, there have been many signs that Communist theoreticians have been uncomfortable with Lenin's assertion that war is inevitable as long as capitalism survives. On the eve of the last party congress in 1952, however, Stalin emphatically refused to abandon the doctrine entirely. He stated: "It is said that Lenin's thesis that imperialism inevitably gives birth to wars should be considered obsolete since powerful peoples' forces have now grown up which are taking a stand in defense of peace, against a new world war. This is not correct....In order to eliminate the inevitability of wars, imperialism must be destroyed."

In denying this view, Khrushchev has accomplished two things. He has reoriented Communist ideology to square it with a more realistic appraisal of the strategic situation, acknowledging the disastrous consequences that would result from general war in the nuclear age. He has, furthermore, cleared the decks for a more vigorous pursuit of the policy of "competitive peaceful coexistence."

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The denial of "inevitable war" is probably linked with another doctrinal revision by Khrushchev--the assertion that Communists may win political power in capitalist countries through nonviolent means. Both revisions seem designed to give Soviet policy the stamp of respectability and to remove the suspicion that professions of peaceful intent are merely a screen for conspiratorial activity.

A follow-up speech delivered to the party congress by presidium member Mikoyan betrays Soviet embarrassment on this last point. He posed the question of how long peaceful co-existence will last, and stated, "Our enemies interpret it to mean that we are...allegedly in favor of spreading Communism to the whole world by means of war, but that we are supposed not to be ready this year and want peaceful coexistence until such time as we are well prepared and can attack....This is slander of our policy."

Mikoyan also questioned other Stalinist pronouncements. In speaking of Stalin's Economic Problems of Socialism as it pertains to the economy of contemporary capitalism, Mikoyan said, "It is doubtful that we can be helped by it and it is doubtful whether it is correct."

Mikoyan was one of the most vigorous in decrying the cult of Stalin and praising the benefits of collective leadership. His remarks suggest that the rehabilitation of some of the Old Bolsheviks eliminated by Stalin in the great purges of the 1930's might be undertaken in the new volume.

Besides the historians, the philosophers and economists were also accused of being "insolvent before the party."

Again Stalinist distortions and restrictions were blamed and a new era of creative ideological thinking and objective economic analysis was called for.

The congress showed that ideology is now being tailored to fit policy as much as at anytime in the past. The regime has demonstrated that for the moment it is more interested in creating a supple, pragmatic policy than in preserving traditional dogmas which hamper its execution.

Party Affairs

Khrushchev on 14 February called for the establishment of a bureau under the central committee of the Soviet Communist Party (CPSU) to deal with matters concerning the Russian Soviet Federated Socialist Republic (RSFSR), the writing of a new party history, changes in the party rules, and an increase in the size of the party with the stress on quality. He also adjured the party to transfer more party members to work directly connected with production.

The organization of a "Bureau of the CPSU Central Committee for the RSFSR" is a logical extension of the organizational principle first employed some time ago when Departments of Agriculture and of Party Organs were created "for the RSFSR" in the central committee apparatus. The new bureau, according to Khrushchev, is needed to provide "more concrete and efficient leadership" in the RSFSR, the only Soviet republic which does not have a republic party organization.

The new bureau presumably will correspond to the party bureaus already existing in the other 15 republics, but will differ in the method of its

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selection, i.e., it will be "elected" by the all-union central committee instead of a republic central committee. Members will probably be chosen from among leading oblast party leaders and ministers of the RSFSR. Likely choices include RSFSR premier Yasnov, Moscow Oblast party boss Kapitonov, Leningrad Oblast party boss Kozlov, and Moscow city party chief Furtseva.

The new bureau presumably is being formed to lighten the administrative load on the all-union party presidium, which heretofore has had the task of dealing directly with each of the RSFSR's 78 oblasts, krajs and autonomous republics as well as with the other 15 republics.

Success of the two departments "for the RSFSR" in handling agricultural and party organizational matters in the Russian republic may have been instrumental in the decision to create the RSFSR bureau. Soviet leaders apparently prefer this method of providing leadership for the RSFSR to the organization of a Russian republic party because the latter would completely overshadow the other republics' parties and adversely affect Soviet nationality policy.

Khrushchev also called for amendments to the party statutes as rewritten in 1952 to accommodate this and other organizational changes and rules of procedure "dictated by life." One amendment has already been made necessary by the expansion of the secretariats of oblast and republic party committees beginning in 1954.

Other amendments will permit the republics divided into oblasts (the Ukraine, Belorussia, Kazakhstan and Uzbekistan) to hold party congresses once every four years rather than every two years, modify the time limits for holding plenary sessions of party committees, and abolish local representatives of the party control committee.

The Kommunist editorial in September 1955 which criticized Molotov's ideological error called for the writing of a party history covering the years since the Short Course History was written (1938). Khrushchev, however, demanded a completely new textbook "based on historical facts" and bringing the history of the party up to date.

The lengthy theses on the 50th anniversary of Bolshevism in 1953 went a long way in revising the party history as contained in the Short Course History. The theses were too brief, however, to serve as a party textbook. A new textbook is apparently needed to "rewrite" history to change Stalin's role in the light of current emphasis of the virtues of collective leadership and the new line on peaceful coexistence and the nonviolent path to Communism.

These principles will probably also be emphasized in the new party program yet to be written. The present party program was written in 1919. The 18th Party Congress in 1939 scheduled its revision and so did the 19th congress in 1952. The war was undoubtedly instrumental in the failure of the 1939 program revision committee

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to perform its function, and Stalin's death and the resulting political reconstruction probably account for the absence of a draft program at this congress. Khrushchev considers it necessary to coordinate the draft program with a long-range plan for future cultural and economic development, so it is problematical whether a new party program will be developed by the time the next congress meets.

An increase in the size of the party was demanded, to be achieved by admitting into party ranks leading workers, particularly from the "main professions, leading collective farmers and the best portion of the Soviet intelligentsia." Such a selective increase in the party's size would probably reduce still further the percentage of party members drawn from the industrial proletariat and reinforce the elite character of the party.

Khrushchev, however, at the same time castigated party leaders for considering "party work one thing and economic and state work another." He insisted that party officials should study technology, agronomy, and production. Furthermore, more Communists should work directly at production. Over 3,000,000 party members live in rural areas, but less than half of these, Khrushchev complained, work directly on collective farms, machine-tractor stations and state farms.

Chronology of the Congress

Tuesday - 14 February

1. Welcoming speech by N.S. Khrushchev

2. Election of party congress officials.
3. Report of the central committee by N. S. Khrushchev.

Wednesday - 15 February

Morning session:

1. Report on party affairs by P. G. Moskatov, chairman of the central auditing commission.
2. Discussion on both the Khrushchev and Moskatov speeches by various regional party secretaries, including A. I. Kirichenko, party presidium member and first secretary of Ukraine.

Evening session:

1. Further discussion of Khrushchev and Moskatov speeches by various party secretaries, including central committee secretary and Pravda editor D. T. Shepilov.
2. Chinese Communist greetings to the congress delivered by Marshal Chu Te, including a message from Mao Tse-tung.

Thursday - 16 February

Morning session:

1. Further discussion of the Khrushchev and Moskatov reports, including participation by party presidium member and central committee secretary M. A. Suslov.
2. Report of the congress credentials committee by its chairman, A. B. Aristov.

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3. Greetings from foreign Communist parties presented by Boleslaw Beirut and Anton Novotny on behalf of the Polish and Czech Communists respectively.

Evening session:

1. Further discussion of the reports, including a speech by presidium member A. I. Mikoyan.
2. Greetings from the East German Communist Party by Walter Ulbricht.

Friday - 17 February

Morning session:

1. Further discussion of reports as on previous day.
2. Greetings to the congress from Maurice Thorez on behalf of French Communist Party and Palmiro Togliatti for the Italian Communist Party.

Evening session:

1. Discussion of the reports, including a speech by G. M. Malenkov which was primarily a report on the electric power industry.
2. Greetings to the congress delivered by Matyas Rakosi on behalf of the Hungarian Workers Party and Vulko Chervenkov for the Bulgarian Workers Party.

Saturday - 18 February

Morning session:

1. Further discussion by various provincial

party secretaries and also speeches by V. M. Molotov, who discussed Soviet foreign policy on standard lines, and Marshal Zhukov, who lauded Soviet military progress.

2. Greetings by Choe Yongkun and Enver Hoxha for the North Korean and Albanian Communists respectively.

Evening session:

1. More discussion of the reports, including a speech by party presidium member L. M. Kaganovich dealing mainly with transportation, labor and wages.
2. Greetings presented by Truong Chin for the Vietnamese and Harry Pollitt for the British Communists. A letter of greetings from Tito was also read to the congress.

Sunday - 19 February

The congress recessed for the day. A Kremlin reception was held for the delegates, and at night most of the leaders either attended the ballet or the theater.

Monday - 20 February

Morning session:

1. Provincial party leaders continued to discuss the reports. Party presidium member K. E. Voroshilov also spoke.
2. Greetings from the Indonesian, Mongolian, and Finnish Communists

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read by Aidit, Tsendenbal, and Aaltonen, respectively.

Afternoon session:

1. The "debate" continued and finally ended. "The congress unanimously voted to approve wholly and entirely the political line and practical activity of the CPSU central committee."
2. The congress set up a commission under Khrushchev to draw up the congress resolution of the central committee report. The report of the central auditing commission was also adopted.
3. Greetings on behalf of the Spanish and Argentine Communists were read by D. Ibarrurri and V. Codovilla.

Tuesday - 21 February

Morning session:

1. Premier Bulganin delivered a four-hour report on the directives of the Sixth Five-Year Plan.

Evening session:

1. Discussion of Bulganin's report, including a speech by party secretary Bulyayev.
2. Greetings read on behalf of the West German Communists by Max

Reimann; for the Austrian Communists by Koplénig, and for the National Committee of the Communist Party of the United States by Madame Ekaterina Furtseva, party boss of the city of Moscow.

Wednesday - 22 February

Morning session:

1. More discussion on the Five-Year Plan report. Speeches delivered by party presidium member M. G. Pervukhin and Trade Union boss N. M. Shvernik.
2. Greetings delivered on behalf of the Syrian and Lebanese Communists.

Afternoon session:

1. Debate continued on Bulganin's report, including a speech by party presidium member M. Z. Saburov.
2. Greetings were read from the Swedish, Cuban and Chilean Communists.

Thursday - 23 February

1. Five-Year Plan report still debated. Speech by Deputy Premier A. N. Kosygin.

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ARAB-ISRAELI SITUATION

Public utterances of Arab and Israeli leaders continue to be keyed to the possibility of hostilities this spring, despite some relaxation of tension following Israeli prime minister Ben-Gurion's statement last week that plans for the Banat Yacov canal have been "shelved" in the expectation that Ambassador Johnston would again visit the area. The Israeli Foreign Ministry has interpreted Ben-Gurion's statement, which apparently was not coordinated with his cabinet, to mean that Israel's policy on Banat Yacov has not changed and that work on the canal will begin when weather permits--presumably in April--unless progress toward a water settlement is made.

"War fever" seems particularly acute in Syria. Syrians reportedly fired on Israeli fishermen on Lake Tiberias on 23 February. Syria's air force is in its best condition yet, with 11 jets and four conventional fighters reported ready for combat.

While all reports agree that Egyptian premier Nasr has

warned the Syrians to go slow, he has made clear that Egypt will come to Syria's aid if necessary. Syrian prime minister Ghazzi has indicated that he recognizes the dangers of the present state of mind in Syria and has said that public opinion must be calmed. Ghazzi's political position is so weak, however, that he probably cannot afford to be less bellicose than the army officers on whom his government is dependent.

Meanwhile, the Egyptian initiative to resume discussions of the Johnston plan for development of the Jordan River seems to have died a-borning. The Lebanese prime minister has said no Arab government could accept the plan under present conditions, and Nasr reportedly did not raise the issue during his recent talks with the Jordanian prime minister. Nasr later stated that the current atmosphere is not auspicious for new talks on the water problem.

Israel's drive for arms has been stepped up still further. Ben-Gurion admitted in a speech on 16 February that he did not know whether "friendly countries" would supply the materiel Israel needs.

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PART II

NOTES AND COMMENTSSoviet Campaign Against
US Balloons Continues

The USSR followed up its display of captured American balloons and equipment at a press conference in Moscow with a second note to the United States on 18 February. The note repeated earlier charges that the "real purpose" of the balloon operations is aerial photography of Soviet territory, and rejected the US contention that the balloons do not endanger air transport.

Moscow took note of the statement in the United States' note of 8 February that the American government "will seek to avoid the launching of additional balloons which...might transit the USSR," but, in an apparent attempt to interpret this as a stronger commitment, stated that the United States had promised to take the "necessary measures to prevent the further release" of these balloons.

Moscow also offered to organize exhibitions of captured balloons in New York, Washington, London, Paris and elsewhere to demonstrate the "soundness of the assertions made by the Soviet government."

The USSR has also begun to exploit the balloon issue in a manner designed to discredit President Eisenhower's proposal for mutual aerial inspection. Pravda and Izvestia last week accused the United States of unilaterally implementing the "open skies" plan to obtain information about the USSR, Communist China, and the Satellites. The Soviet delegate to the UN Disarmament Subcommittee discussions, scheduled to be resumed next month, will probably elaborate on this theme in an effort to strengthen his case against the President's plan.

Soviet propaganda has given more play to the balloon issue than to any previous charges of hostile action against Soviet territory in recent years. However, the fact that no mention of the balloons has yet been made at the party congress suggests that the Soviet leaders are proceeding cautiously on the issue, and tends to confirm a remark recently made by a Soviet official to a Western diplomat in Moscow that the USSR did not intend to build up this matter excessively. [redacted] 25X1

East Germans May Tighten Border
Controls to Cut Refugee Flow

[redacted] the East German regime has been making plans to seal off its territory from West Berlin and West Germany, allegedly in order to improve currency controls. The real purpose would probably be to stem the escape of military-age refugees, which continues at a high rate. The proposed date for the initiation of the

border control measures reportedly is 1 May.

Planned currency controls, which are to include the regulation of monetary traffic between East Germany (including East Berlin) and West Berlin and the German Federal Republic, will, [redacted] involve sealing the intersector border in Berlin. In addition,

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[redacted] the canals between the German Democratic Republic (GDR) and West Berlin will be closed, East German employment in West Berlin will be banned, and a crackdown will be made on illegal monetary practices in East Berlin.

If increased restrictive measures are imposed, there is little likelihood that there will be any serious interference by the Communists with Allied access to Berlin through East Germany or Allied rights of access to East Berlin.

Any closure of the Berlin border would probably be undertaken because an intensification of recruitment is in prospect.

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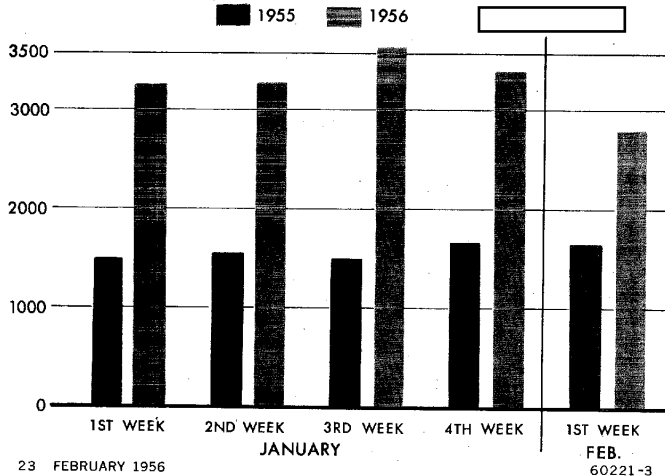
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While the East Germans may prefer not to institute conscription until a full-scale draft has been started by West Germany, they will probably step up their recruitment for the recently formalized armed forces in the near future.

The flow of refugees from East Germany to the West has continued at an unusually high rate since the temporary slackening off at Christmas time, despite the abnormally cold weather and the increase in security measures designed to stem this exodus. During the week of 3-9 February the number of refugees entering West Berlin was 2,793. During the whole month of January, an average of 3,500 refugees per week, including 800 to 900 of military age, entered West Berlin. This is more

REFUGEES ENTERING WEST BERLIN



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than double the figure for the corresponding month of 1955.

Berlin border controls have been supplemented by increasing psychological pressures, such as the recent show trials of persons accused of assisting people to escape from East Germany. Two of the accused were sentenced to death. These sentences, however, were subsequently commuted to life imprisonment in the face of vigorous Western denunciations of the court's action. Such backtracking by the East German government will give a lift to popular morale.

The regime will no doubt continue, however, to exert every psychological and physical pressure to attempt to prevent military-age refugees from leaving the country. Since East Germany, already faced with a manpower shortage, can hardly afford to lose approximately 250,000 persons in 1956, as it did in 1955, it will probably be obliged to intensify controls over the western borders, especially if recruitment for the armed forces is stepped up.

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Struggle Developing Over
Successor to Hatoyama

Japanese Liberal-Democratic Party leaders have agreed to the election of Prime Minister Hatoyama to the party presidency in April and to his remaining in office for three to six months thereafter. The decision has focused the factional struggle within the party on the choice of its vice president, who probably will succeed the prime minister in the top party and government posts.

Party secretary general Shinsuke Kishi, an influential promoter of the recent conservative merger, appears to have the best chance to succeed Hatoyama, but he does not have his party's unanimous support. He has long planned that the party's old guard, as personified by Hatoyama and former Liberal Party president Ogata, would forsake active politics to become senior advisers and that the young political leaders would take over the reins of conservative leadership. Ogata's death and Hatoyama's unwillingness to step aside have thwarted these plans. However, present information suggests that Kishi still plans to succeed Hatoyama.

Conservative old-guard politicians, fully cognizant

of Kishi's political aspirations, have recently combined forces in an attempt to preserve their authority in the party and head off his drive for the party leadership. Led by Tsuruhei Matsuno, a member of the Diet upper house, the group has constituted itself a senior board to be consulted on all questions of importance to the party, including the selection of the party vice president. It is doubtful, however, that they will be able to select from among their own ranks a candidate of sufficient stature to win the party presidency.

The Liberal-Democratic merger has provided a basis for stabilizing conservative politics in Japan, but must still overcome the handicaps which have chronically beset the conservative forces: personal ambition, the inability of any faction to dominate the party, and the unwillingness of all the factions to compromise. Whether the younger party leaders will be able to name Hatoyama's successor probably will depend on their ability to reconcile these conflicts and to agree upon an order of precedence for their succession to the top posts.

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Japan Considering Expanded
Relations With Communist China

The Hatoyama government's intention to place greater emphasis on relations with Com-

munist China, as reported in the Japanese press, suggests a bid for popular support of this

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course, and an attempt to establish Japan's position in future talks with the United States.

A 500-page study by the Foreign Ministry states that Communist China can no longer be ignored and that the people have the utmost trust in Mao Tse-tung. It also notes that Japanese talks with Peiping will almost inevitably follow the conclusion of the Soviet-Japanese talks in London.

In concluding that the Chiang government on Taiwan is faced with a problem of deteriorating morale, Japan may have been influenced by Peiping's recently stepped-up campaign to induce defections, even though there is no available evidence that high-level Chinese Nationalist officials have seriously considered the offers.

Japan's long-standing desire for closer relations with Peiping has been intensified in recent months by the expectation of a relaxation of the China embargo and by the desire to move quickly to establish a foothold in the China market before Western European and other nations capture it. The Japanese discount the effectiveness of trade sanctions against Communist

China and are reportedly fearful of losing the China market permanently unless controls are relaxed.

Last fall the Hatoyama government approached the United States for support of a proposal that items of particular importance to Sino-Japanese trade be released from the embargo against Communist China. Japanese leaders feel that some such concession is necessary to relieve domestic business pressure.

The Japanese government is considering approval of the exhibition of embargoed goods at Japanese trade fairs scheduled to be held in Communist China next fall. It points to the division of opinion in CHINCOM on this subject as evidence that other nations may plan to do likewise to beat their competitors to the China market.

When unofficial Sino-Japanese talks are held this spring to renew last year's unofficial trade and fisheries agreement, the Hatoyama government will have an opportunity to expand official relations. Communist China has proposed government-to-government agreements. [redacted] (Concurred in by ORR)

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Communist China to Adopt
Latin Alphabet

The Chinese Communists' proposal to introduce the use of a Latin alphabet contrasts with the measures taken by the USSR to replace Latin by Cyrillic scripts in Central Asia.

The Latin alphabet has no special advantages over Cyrillic for rendering Chinese sounds. A Chinese Communist predisposition against Latin seemed indicated in August 1955, when Peiping authorized the use of Outer Mongolia's Cyrillic script by the Mongols in China. Peiping justified its eventual determination on Latin letters for the Chinese language in large part on the basis of the "long historical tradition" of Latin letters in China--a rationalization which must have carried little weight with Soviet linguists who had successfully effected the transition from Latin to Cyrillic in Soviet Asia during World War II.

Throughout the 1920's and most of the 1930's, the USSR favored the adoption of Latin rather than Cyrillic script by its Central Asian minorities. After 1939, however, the Latin alphabets of the Tajik, Kirghiz, Kazakh, and other minority

nationalities in the USSR were abandoned for Cyrillic scripts in the course of a general trend to Russification. In rationalizing the shift from Latin to Cyrillic in 1941, Outer Mongolia deferred to the USSR by observing that "the future development of the country's culture can progress only through a strengthening of fraternal relations with the peoples of the Soviet Union and through a mastering of their culture."

Soviet linguists themselves played a leading role in the "long historical tradition" by helping develop a Latin script which the Chinese Communists employed to a limited extent in the 1930's. In at least one of their border regions, it was given equal status with Chinese ideographs as authorized script for official documents. However, sometime in the 1940's, soon after the Soviet Union came to favor Cyrillic in the Asiatic USSR, the Chinese Communists dropped their campaign to promote the Latin alphabet.

Previous proposals in China to introduce an alphabet have aroused resentment among many intellectuals, who maintained

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<p>中華 人民 共和國 是 工人 階級 領導的， 中華 人民 共和國 是 工人 階級 領導的， Zhunghua Renmin Gunghewo sh gungren giegi lingdau de,</p>

Excerpt from Communist China's constitution in traditional characters, in simplified characters, and in Latinized script. English translation: "The People's Republic of China is led by the working class."

that Chinese culture itself was endangered by such reforms in the language. The Communists this time are endeavoring to allay these fears by assurances that the new letters "no longer hold their identity as letters of Old Latin, English, or French. To put it correctly, their name is 'Chinese letters.'" In the meantime, a continuing campaign to simplify many of the ideographs indicates that the traditional script will continue in use for many years while the new alphabet is being popularized.

There is no strong evidence to support the speculation that the Chinese Communists, in proposing a Latin alphabet, deliberately acted contrary to expressed Soviet wishes. In view of the strong emotions aroused by past Chinese debates on language reform, the USSR may have exerted no strong pressures in favor of Cyrillic, hereby avoiding charges of "cultural imperialism." In any event, Peiping did not, like Soviet-dominated Outer Mongolia, feel compelled to demonstrate affinities with Soviet culture in choosing a new script.

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South Vietnam

As the 4 March date for national assembly elections in South Vietnam approaches, Viet Minh propaganda attacks against them are assuming a more threatening tone. Hanoi radio, while conceding that Diem undoubtedly will win, has called for a "massive boycott" and stated that the Vietnamese people will turn the elections into "a bloody reply to the Americans and their lackeys." Current indications are that the Viet Minh will attempt to disrupt the elections by covert means. Scattered incidents of violence are a possibility.

Many anti-Communist opposition groups may abstain from voting because they consider the electoral regulations too restrictive. These groups,

which include the Cao Dai political organization, charge that the amount of power vested in the presidency will result in a "powerless" assembly which will seriously jeopardize the republic. Although these opposition groups, in protest, have decided against formally running candidates, it appears that some of them have entered little-known party members as independent candidates.

Considerable confusion still surrounds the candidate lists, with late changes apparently reflecting the government's desire to meet any challenge from the surprisingly many independent candidates. Government-supported candidates, who include several cabinet members and other high government

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officials, appear assured of winning a comfortable majority of the assembly's 123 seats. Diem considers it imperative that a reliable assembly be elected, for the new legislature's first task will be to adopt his draft constitution and thus complete the reorganization program that began with the referendum last October displacing Bao Dai as chief of state.

The still unpublished draft constitution reportedly grants overriding authority to the president, including the power to dissolve the assembly "in cases of serious conflict with the government." Diem has also announced that an advisory economic and social council, composed of farm, labor, business and professional representatives, will soon be created to "supplement" the national assembly. He is said to feel the creation of such a council is more important than a political assembly and will provide a more realistic approach to Vietnamese problems.

Meanwhile, the Vietnamese army has consolidated its posi-

tion in the Cao Dai area north of Saigon and thereby lessened the possibility of any effective antigovernment action by Cao Dai forces not yet integrated into the army. At the same time, the Vietnamese army claims negotiations for the surrender of the 3,200 Hoa Hao troops under Tran Van Soai have resulted thus far in the defection of 2,900, with more surrenders expected. Although the army's figure is probably considerably exaggerated, the surrenders are a psychological victory for the government. There has been no interference in this army operation by Ba Cut--a more fanatical Hoa Hao dissident who controls a force of 2,000--or by the 600 Viet Minh advisers with the Hoa Hao rebels.

A potential threat to the government lies in the intrigues of ex-premier Tran Van Huu, leader of a group of anti-Diem politicians in Paris.

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Afghanistan

Soviet personnel are said to be moving into Afghanistan to begin work under the \$100,000,000 Soviet credit announced by Bulganin and Khrushchev during their December visit to Kabul. Primary attention at the moment is apparently being given to development of transportation facilities, but Moscow reportedly has also approved an irrigation project and offered an additional loan

of \$12,000,000 to an Afghan government-controlled textile company.

A commission of engineers --two Afghans, two Afghan-employed West Germans, and three Russians--surveyed all dam and irrigation sites in the Jalalabad area during the first week in February, [redacted]

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[redacted] This commission has

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now supposedly agreed that the USSR will undertake development of an irrigation project at Barikao, about 30 miles from the Khyber Pass, an area into which the Russians have not in the past been allowed. The chief Soviet engineer, described as "obviously a military man in civilian clothing," showed interest in bridge capacities, road specifications, and the number of soldiers in block-houses along the roads.

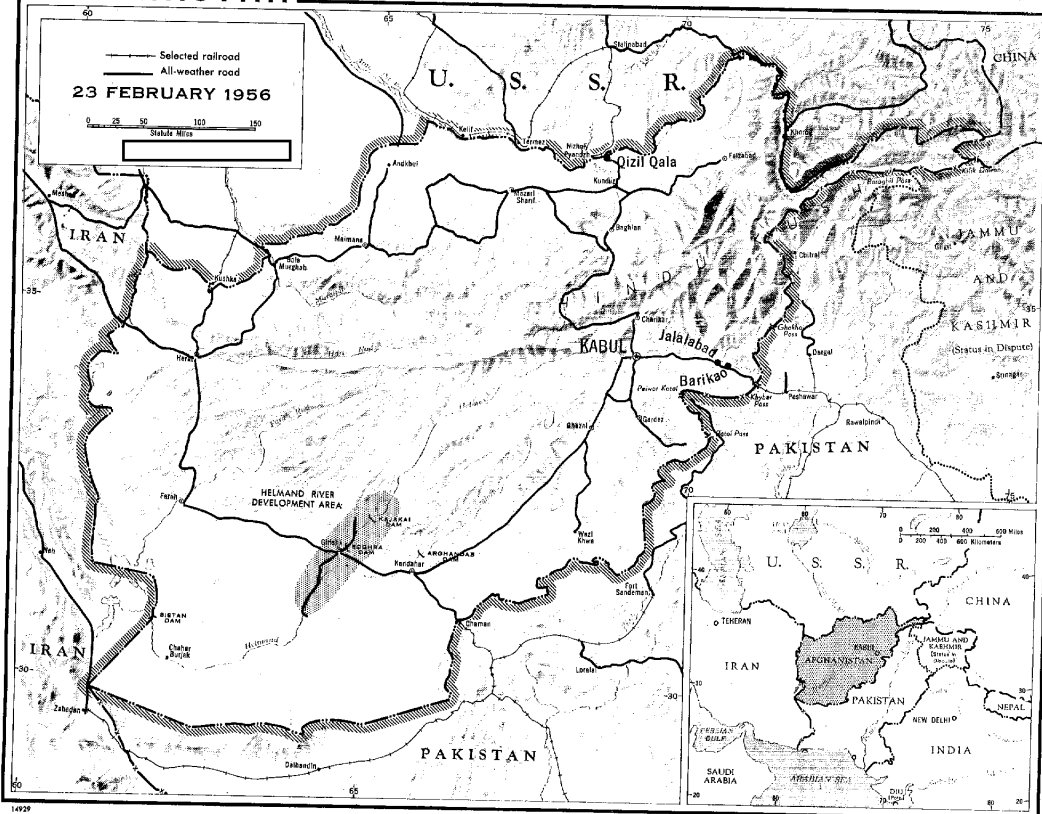
Improvement of the primitive Afghan-Soviet transportation connections apparently has priority in the developmental timetable. All road and bridge blueprints in the Public Works Ministry are reported to have been turned over to the Russians who are to reconstruct roads and develop gasoline storage and motor repair facilities in northern Afghanistan. The Russians reportedly are to commence work soon on a military airport 40 miles north of Kabul and on port facilities on the Afghan side of the Oxus River at Qizil Qala, the port of entry which was opened last year.

Czechoslovakia may be making further progress on the \$5,000,000 loan it extended to Afghanistan in 1954, of which only \$1,500,000 is known to have been allocated to date. The

[redacted] two new Czech engineers have been employed by the Ministry of Public Works, that offices in the ministry are being prepared for Soviet engineers, and that at least 15 Russians arrived in Kabul on 15 February. This suggests that planning on new projects is getting under way promptly.

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AFGHANISTAN



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Czechs are said to be preparing to begin work on a dried fruit plant in Kabul.

The USSR seems to be exploring new possibilities of economic penetration through a reported offer of a \$12,000,000 loan to an Afghan textile company. This apparently is not a direct government-to-government deal, as was the \$100,000,000 credit, although the Afghan government owns 51 percent of the textile company stock.

The presence of Soviet personnel in Afghan government offices suggests that the caution observed by both Afghans and Russians in their past relations is breaking down. Public opinion in Kabul reportedly supports the government's apparent willingness to accept most Soviet offers. However, overly aggressive Soviet activity could provoke a slowdown in official Afghan co-operation.

[redacted] (Concurred in by ORR)

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Greek Election Results

The parliamentary majority which Greek prime minister Karamanlis won in the 19 February elections is sizable enough to permit him some freedom in carrying out the "progressive" program that he has promised. Popular support for his government depends on his ability to satisfy popular demands for economic progress and to settle outstanding international issues in a way satisfactory to public opinion.

Nearly complete returns indicate that Karamanlis' National Radical Union (ERE) will control at least 161 out of the 300 seats in the new parliament, compared to the 200 it had in the final days of the last parliament. There is some chance that the prime minister may pick up one or two additional seats when the soldier vote is completed.

Press reports indicate that three center leaders of the Popular Front have already broken away from their alliance with the Communist-front EDA. Liberal Party chief Papandreou, Liberal Democratic Union head Venizelos, and Populist Party leader Tsaldaris have announced that they will support Karamanlis on foreign policy matters.

This will involve the addition of about 75 seats to Karamanlis' parliamentary strength and should enable him to resist successfully EDA's demands for a neutral Greece.

The left-wing parties won about 45 seats in the new parliament, compared to five in the previous one. EDA won about 18 seats and the fellow-traveling Democratic Party (DKEL) about 20, apparently the largest bloc of Communist-controlled deputies in Greek history. This delegation can probably do little to obstruct the functioning of parliament but it does give the Communists the respectability they have been seeking and provides a forum for their propaganda.

The political future of Karamanlis probably now depends on his ability to win popular confidence--he polled fewer votes than the Popular Front--by carrying on a vigorous campaign for economic improvement. Likewise, he will have to cater to popular feeling in such emotionally charged issues as the Cyprus dispute with Britain and Greek-Turkish relations, although support of the center leaders will allow him some latitude.

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French Negotiations
In North Africa

ALGERIA

Robert Lacoste, the new French minister residing in Algeria, appears to be confronted with the practically impossible task of achieving an Algerian settlement. Lacoste indicated to the American consul general on 16 February that his principal job is to see that "Algeria remains French." Lacoste's attitude together with the confidence of French settler extremists that they have overawed Premier Mollet suggest that all the essential political decisions will not be made.

Leaders among the moderate Algerian Moslems remain quiet and are enjoying the spectacle of internecine French strife. Having warned that a government could expect a reaction within 30 days of its formation if their minimum aspirations were not met, these leaders appear to be biding their time until 2 March. Meanwhile, rebel activity remains at a high level, and the first large-scale desertion of native troops in Algeria took place between 19 and 20 February.

FRENCH MOROCCO

Negotiations to define a new treaty relationship between France and Morocco were formally opened in Paris on 15 February by the sultan and President Coty. Because French negotiators had not yet been selected, working-level discussions were postponed until 22 February. In contrast with French unpreparedness and confusion, the Moroccan delegation with a mandate from the Moroccan people was ready to press for very hard terms on national defense, foreign affairs

and economic matters. In his formal remarks on 15 February, the sultan stated that Morocco must first be granted actual independence before negotiation of a new treaty which would define its status of "interdependence" with France.

Meanwhile, French farmers in northern Morocco have declared in telegrams to the French government that they will abandon their farms because of the worsening security situation. Simultaneously, French authorities evacuated about 100 forestry guards in isolated areas as well as some 600 French residents in western Algeria in the face of renewed rebel activities by Berber tribesmen.

TUNISIA

French-Tunisian negotiations are to reopen on 27 February, according to French officials in Tunis and Paris. Conscious of the fact that Morocco has been promised independence while Tunisia was granted limited autonomy last June, the Tunisian government on the eve of the general election scheduled for 25 March is pressing for additional concessions.

In preparatory discussions earlier this month, Habib Bourghiba, president of the moderate nationalist Neo-Destour party, which is the dominant force in the present government, indicated that Tunisia would be satisfied with a token national army and some diplomatic representation abroad. At that time, France seemed disposed to make such concessions.

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The Peruvian Revolt

The regime of General Odria in Peru appears to be permanently weakened as a result of its failure to act decisively against the Iquitos rebels. Odria's repressive measures against conservative opposition elements have alienated large segments of the population.

25X1 Though the military situation remains outwardly quiet,

25X1 [redacted] there is a good deal of wavering among the military with regard to what action should be taken. The military, as always, holds the key to future developments, and until the position of various generals is ascertained, it will not be known whether the government will be supported.

The government itself has shown an unusual indecisiveness on what action to take to put



down the Iquitos rebellion. The superior jungle warfare training of rebel General Merino's troops, the limited rations of both the military and the civilian populace at Iquitos, and strong distaste for bombing the city have been reported as deterrents to active hostilities.

The government finally dispatched troops on 21 February and, according to American service attachés, the rebels in Iquitos and the forces sent against them to date are evenly matched and only a bloody battle could decide the outcome.

Meanwhile, Odria has been using the revolt as a pretext to crack down on all opposition forces. By summary arrest of many prominent conservative leaders, he apparently has alienated virtually all rightist support. Prominent business elements which were never enthusiastic about the regime, though they have fared well under it, will now probably be solidly hostile. Should Odria attempt to gain mass support by turning to the outlawed leftist but non-Communist APRA party for support, the army would probably move against him immediately.

Should Odria succeed in keeping most of his military leaders in line, he may override this latest attempt to unseat him. However, in order to maintain the upper hand, he will probably be forced to rule openly as a military dictator. His position, however, had already been weakened by his mishandling of the Arequipa disturbance last December and by a growing general belief that he intends to manipulate the 3 June elections. [redacted]

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Salvadoran Presidential Election

El Salvador is nearing the climax of a long and bitter election campaign. The presidential election is scheduled for 4 March, and there is danger that violence or a military coup may occur before or shortly after that time.

The opposition, which doubts it can win the election, has consistently attempted to provoke the government into taking repressive and unpopular measures, apparently in the hope of providing discontented army officers with justification for seizing the government.

President Osorio, whose term ends in September, is confident that the administration has sufficient popular support to assure the election of his hand-picked successor, the moderate and capable Lt. Col. José Maria Lemus, who favors close co-operation with the United States. Osorio wants to go down in history as one of the very few Salvadoran presidents to complete his term and turn the office over to a constitutionally elected successor. The administration has thus far shown considerable restraint in reacting to opposition provocations. Civil liberties have not been restricted.

Three of the five opposition presidential candidates were disqualified by the government on technical grounds on 14 and 15 February. The leading remaining opposition candidate, Lt. Col. Rafael Carranza Amaya, has been described as nationalistic and a potential rightist dictator. Though he is not known to have had close relations with Communists, he may now be receiving the support of Communists who were active in the political organizations built up by the three disqualified candidates.

The army is the ultimate locus of political power in El Salvador. Though key army posts are held by officers loyal to Osorio, there is political division within the army. Carranza Amaya, a career officer, enjoys wide backing among the military, and those officers now backing Lemus may be doing so out of loyalty to Osorio rather than because they like Lemus.

If Osorio should feel he were losing army support, he might try to reach an agreement with Carranza Amaya and discard Lemus. As a last resort, the president is believed prepared to stage a "preventive coup," leaving an interim government in the control of officers whom he trusts. 25X1

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PART III

PATTERNS AND PERSPECTIVES

SOVIET VIEWS ON THE POSSIBILITY OF A WESTERN ECONOMIC CRISIS

Khrushchev's remarks at the 20th Party Congress about an approaching economic crisis in the West reflect the belief that the USSR can capitalize on any Western economic difficulties to increase its international influence. The Soviet leaders may believe that continued pressure for general disarmament can succeed in reducing the level of Western arms production and thus remove what Communist spokesmen have frequently described as an artificial stimulant forestalling a capitalist depression.

Khrushchev's diagnosis reflects a belief that the West will inevitably face substantial economic difficulties and that these may occur soon. He did not commit himself, however, to any specific timing for such a depression.

Khrushchev's Speech

Khrushchev stated that "today the capitalist world is approaching the point at which the stimulating action of many of the temporary factors is becoming exhausted." With regard to US industry specifically, he said, "There is no prospect for a further substantial increase in production." He asserted that the stability of the capitalist economies would in the future be determined largely by the situation in the capitalist world, where "substantial changes have taken place in recent years."

Khrushchev's diagnosis of the world capitalist economy, which follows that of Soviet economic specialists, suggests

that Moscow is calculating that a depression in the major capitalist nations would give the underdeveloped countries serious difficulties in selling their raw materials. The Soviet Union would doubtless step into the breach with attractive trade offers.

First Deputy Premier Mikoyan, speaking to the party congress shortly after Khrushchev, praised the latter's analysis of contemporary capitalism, but emphasized the continuing growth of major Western economies. His lengthy description of the weaknesses in Soviet analyses of world capitalism and his call for more accurate research shows that the present leadership is dissatisfied with current analyses of this subject. Mikoyan's statements suggests that he is even less certain than Khrushchev as to the timing of the crisis the Soviet leaders expect in the West.

The remarks of Khrushchev and Mikoyan should be viewed against the background of Soviet thought on world capitalism throughout the postwar period. In particular, Khrushchev's references to Western rearmament as both a stimulant and a poison reflect the uncertainty and confusion among Soviet economists since Stalin's death about the precise economic implications of a high level of arms production.

Background: 1946-1953

In the early postwar years, the length and frequent bitterness of discussion among

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Soviet economists on the analysis of industrial cycles in capitalist countries strongly suggested that this was a subject of debate among the top leaders themselves, in their efforts to estimate the future relative strength of the Soviet Union and the United States.

The publication in 1946 of a book on capitalist economies by Eugene Varga, the foremost Soviet economist, touched off an ideological controversy which lasted more than two years. Although Varga's prediction that at least ten years would elapse before a major economic depression erupted in the West was perhaps unpalatable to the regime, the criticism against him was aimed primarily at his belief that World War II had brought about changes in the essential structure of capitalism.

Varga took the position that wartime exigencies had taught capitalist states the benefits of government planning and intervention in the economy, that capitalist states were becoming more sensitive to the interests of the working class and consumers, and that the war had altered relationships between colonial powers and their colonies.

This analysis raised a strong possibility, despite Varga's own prediction of a forthcoming Western depression, that capitalism might escape a final collapse entirely by making certain modifications

in its basic structure. Varga's critics, both professional and party, were quick to seize on these heretical propositions, and he was finally forced to recant publicly in early 1949.

In October 1952, Stalin authoritatively set forth the Soviet view of the capitalist world economy in his Economic Problems of Socialism in the USSR. The major premise of this analysis was that the tide of Communist territorial expansion was ebbing temporarily as a result of the partial stabilization and consolidation of capitalism. Stalin's emphasis on the internal and external "contradictions" in the capitalist world system placed the development and aggravation of a capitalist economic crisis in the indeterminate future. The tone of the article was essentially one of "ultimate" events and of situations in the contemporary world which would not continue "forever and ever."

View Since 1953

The main stream of Soviet thought since 1953 on the capitalist world economy had continued to follow the course established during Stalin's last years. Although the majority of economists followed the dictates of orthodoxy, some, particularly those of high standing, skirted along heretical grounds in their efforts to report accurately and honestly the realities of capitalist economies. Despite criticism by their colleagues, these men

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did not back down, nor were they silenced officially.

The book by Varga on capitalist economies, published in August 1953 and acclaimed as an "outstanding comprehensive work," reflected these trends particularly well since it was mainly written prior to Stalin's death, but undoubtedly revised thereafter. While parroting most of the stereotyped themes of post-war official dogma on capitalism, Varga raised an issue which has since become the subject of lively debate and the central problem of current Soviet thought on capitalism--the question of the effects of rearmament on capitalist economies.

Varga challenged the Stalinist propositions that rearmament in capitalist states--as in the USSR where full employment of resources is planned--leads directly and immediately to a reduction of nonmilitary production and personal consumption. He declared that military production under capitalism, particularly in the United States, supplements rather than competes with other industrial sectors. While other contemporary Soviet economists accept the thesis that rearmament leads to a temporary upswing in the business cycle, they denied Varga's view that military production supplemented industrial production.

Despite Varga's obvious heresy, which would negate the theory of the destructive

consequences of rearmament on capitalism, he has not yet been officially criticized. An open debate, the first real one in many years, continues to rage among Soviet economists.

Possible Change in Views

The only recent exception to the failure of Soviet economists to fix a firm date for the onset of a new Western crisis was a prediction in September 1955 by the economist A. Bechin that a depression might begin in the United States "in a few months."

Writing in the journal Problems of Economics, Bechin argued that three basic factors had stimulated production and postponed the beginning of a major depression in America since World War II: the maintenance of a high level of military output, particularly since 1950; the large overseas markets available to the United States after 1945 as a result of wartime devastation in Europe; and the large investment needs of American industry which had accumulated during the war years of maximum emphasis on production and minimum attention to replacement of worn-out equipment and facilities.

Bechin concluded that these special conditions were coming to apply less and less to the American economy, and a depression might begin, even

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"in a few months." While drawing his predictions in fairly sharp terms, however, he ended his article by calling for further serious investigation of the subject.

Although Bechin made a general denial of Varga's theoretical point that military production supplements rather than reduces total industrial output, he pursued the same course in treating militarization as the primary source of postwar American industrial modernization and capital expansion.

While he argued that there was little prospect for expanding American exports and capital investment in the near future, he failed to mention the future outlook for military production. Hence, it is reasonable to infer from Bechin's healthy regard for the stimulating economic effects of US military production that he predicated his estimate of an approaching economic crisis on the assumption that defense expenditures would soon decline.

Importance of Foreign Trade

In addition, the heavy stress placed by Bechin on the importance of foreign trade to Western economies indicates a belief that the capitalist world market may in the future become a critical arena conditioning the development of a Western economic crisis. The tour of Khrushchev and Bulganin through Asia highlights recent

events which suggest that Stalin's successors are convinced economic policy can be used to reduce the areas of Western influence and even to exacerbate the internal difficulties in capitalist economies.

Even though Bechin's views have not been reiterated in Soviet propaganda, they appear to reflect the thinking of influential elements in the Soviet hierarchy.

Two previous works by this author have acted as harbingers of shifts in Soviet domestic policies and propaganda. In April 1953, Bechin intimated that Marxist theory permitted a narrowing of the gap between the growth rate for consumer industry and heavy industry in the USSR, four months before Malenkov's public announcement of the "new course." In July 1954, six months before the return to unopposed priority for heavy industry, he harshly criticized those economists who were arguing that the growth of consumer industry should exceed that of heavy industry during the "transition to Communism."

Although Khrushchev, at the party congress, failed to adopt Bechin's specific prediction of the outbreak of the expected capitalist crisis, his analysis followed the same lines as Bechin's. He probably felt it both unnecessary and risky to associate himself publicly with such a speculative pronouncement.

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WEST GERMAN POLICY TOWARD EAST GERMANY AND THE USSR

West Germany is faced with strong inducements for dealing with the Soviet Union and East Germany: the desire for national unification or, failing this, for contacts with the East German population; the necessity to cope with East German demands respecting access to Berlin; and a moderate desire for trade with the East. It has been apparent for some time that a large proportion of West Germans would accept neutrality in return for unity, and there is a growing disposition to deal with the East Germans. Nevertheless, the Bonn government does not presently appear inclined to enter unilateral negotiations with Moscow or to recognize East Germany.

Unification

It is the consensus of all West German political parties and all sections of the press that German unification is the first order of public business. The persistence of this theme is apparent despite the impression left by the Geneva foreign ministers' conference last fall that Moscow will not permit unification on any terms in the foreseeable future.

Chancellor Adenauer warned the Bundestag in December that repeated German cries for unification were apt to weary the Allies, who had other problems. Nevertheless, on the occasion of Prime Minister Eden's trip to Washington, the Bonn government was moved to ask once more that the German problem be kept at the top of diplomatic priorities.

There is no doubt, either, but that Adenauer intends for Ambassador Haas, when he reaches Moscow, to explore the unification question with Soviet officials. Adenauer, however,

makes a clear distinction between exploratory conversations--which are acceptable under the terms of the Paris treaties--and a bilateral "deal" with the USSR--which is not.

Relations With Moscow

The two men most likely to succeed Adenauer, if he should depart from the scene before the national elections in the summer of 1957, are Foreign Minister Heinrich von Brentano and Finance Minister Fritz Schaeffer. Both are strongly pro-Western, are closely associated with Adenauer's policies, and would probably head a government very similar to Adenauer's. There is no doubt, however, that lacking the enormous prestige which Adenauer enjoys, they would have more difficulty coping with superficial offers from Moscow.

Political rather than economic considerations are likely to be controlling in Bonn's relations with Moscow. The prospect of unification is far more compelling than that of commercial benefits. There are, to be sure, some vociferous businessmen who see a future in Eastern trade, and business and industry generally are always on the lookout for profitable contracts with the East. Most West German businessmen, however, do not anticipate big markets in the East, chiefly because the Orbit record on exports and payments is poor and is not expected to improve materially.

The Bonn coalition dispute of the past two months was touched off when Thomas Dehler, chairman of the coalition Free Democrats, remarked that Bonn should negotiate on unification with Moscow. Although Dehler later explained that he assumed, of course, the fullest

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consultation with the Western powers, who retain authority in unification matters, Adenauer was sufficiently disturbed to demand, and receive, a renewed statement of the Free Democrats' loyalty to the Paris treaties. The difficulties which the Free Democrats are giving Adenauer in North Rhine-Westphalia do not arise from a dispute over foreign policy.

Neutrality

While the West Germans are not likely to negotiate behind the backs of the Western powers, they might be willing to accept neutrality if agreed on in Western councils. The opposition Social Democratic Party (SPD) has consistently advocated West German withdrawal from NATO, and public opinion polls in 1955 showed a rising percentage, in fact a plurality, in favor of withdrawal if unification could be achieved in that way.

Nevertheless, neutrality is not now a burning issue in the Federal Republic, since even SPD leaders acknowledge privately that Moscow would not consent to German unity on any terms, because of the effect it would have on the Satellites.

While patriotic considerations make it impossible for any speaker in West Germany today to oppose unification, there is considerable private awareness of the economic burden that would be placed on West Germany's prosperity by amalgamating with the economy of East Germany.

Relations With East Germany

Though the diplomacy of 1955 closed the door on German unification, it also intensified West German interest in East Germany. Bonn has three main policies toward East

Germany. First is the policy of nonrecognition, on the grounds that the regime of the German Democratic Republic (GDR) has no foundation in popular consent. Second is the policy of maintaining contact with the East German people to bolster morale, preserve cultural unity, and render aid. Third is the policy of maintaining interzonal trade because it is profitable.

If unity is impossible, many West Germans think relations with the East German population will have to be stepped up, otherwise a whole generation of Germans will be lost to the West. Moreover, there is growing sentiment, not as yet exploited by the political parties, that unification itself might be discussed with East Germany. The All-German Affairs Ministry in Bonn would like to promote a free interzonal exchange of books, magazines, motion pictures, and radio programs, but the chances of East German co-operation are slim. The exchange of trade union delegations and youth groups has not been satisfactory to the West Germans and will probably be approached more cautiously in the future.

Last November the Federal Republic and the GDR agreed on an all-German team for the 1956 Olympics. The American embassy commented that the arrangement appeared in microcosm to be just the type of rapprochement advocated by East German leaders.

Bonn's best hope of preserving contact, however, lies in the literally millions of unorganized interzonal travelers. To increase the visits of East Germans, Bonn is considering a plan to subsidize railway travel.

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"Technical" Contacts

Apart from cultural contacts, employees of the East and West German governments have for many years met to deal with mutual problems of interzonal trade, rail and water traffic, and postal service. They usually operate, however, not as governmental officials, but as "technicians." A Social Democratic demand during the Geneva conference for a large-scale expansion of technical contacts was voted down by all other Bonn parties, and Foreign Minister Von Brentano has since taken the position that such contacts should be enlarged only where a need for them is shown.

The minor German Party, the Refugee Party, and some elements of the SPD found Molotov's Geneva proposal of an all-German council attractive, although they would modify it to make quite a different instrument from that intended by the Soviet foreign minister. Molotov suggested a council of an equal number of West and East Germans, appointed by their governments, to deal with all mutual affairs, including the preparation of unification. The West Germans, however, would prefer an elected council with representation according to the population of the two Germanies (nearly 3 to 1 in favor of the West).

East German Pressure

Bonn's policy of diplomatic aloofness from the East German government has seemed to be in increasing peril over the past ten months, particularly since Moscow granted the East Germans a treaty of sovereignty in September. The reason for this is not any popular pressure in West Germany to recognize the East German regime, but the political leverage which the latter has through its capability of harassing West Berlin's lifelines. The East German

government has already tried to lure Bonn into ministerial discussions to protect first truck and then barge traffic from West Germany to Berlin. Neither attempt has been successful, but Bonn fully expects further efforts.

Meetings of East and West German cabinet ministers would not necessarily be followed by an exchange of ambassadors, but Bonn is nevertheless anxious to avoid ministerial contacts or any action that would add to the political prestige of the East German government. It has, in fact, threatened political retaliation against any non-Orbit country which might recognize East Germany.

At the same time, the Bonn government knows it may be in a fairly desperate situation over Berlin access problems unless it gets the fullest possible support from its Western Allies. For this reason, a joint West German, American, British, and French group has been set up in Bonn to meet regularly and consider the problems of dealing with East German pressure. Bonn is unlikely to take any important action that has not been approved by this group.

The Bonn government recognizes, too, that resistance to the East German maneuvers may entail economic sacrifice, since the stoppage or curtailment of interzonal trade is the most obvious form of counterpressure. Bonn, however, will resort to trade curtailment only if hard pressed, since this countermeasure, used halfheartedly last summer in the Berlin truck tolls case, was ineffective and caused much dissatisfaction in business circles.

Despite the complexity of relations with East Germany and the desire for unification, there are no indications that Bonn is contemplating a special deal with Moscow, or that it will recognize the East German regime.

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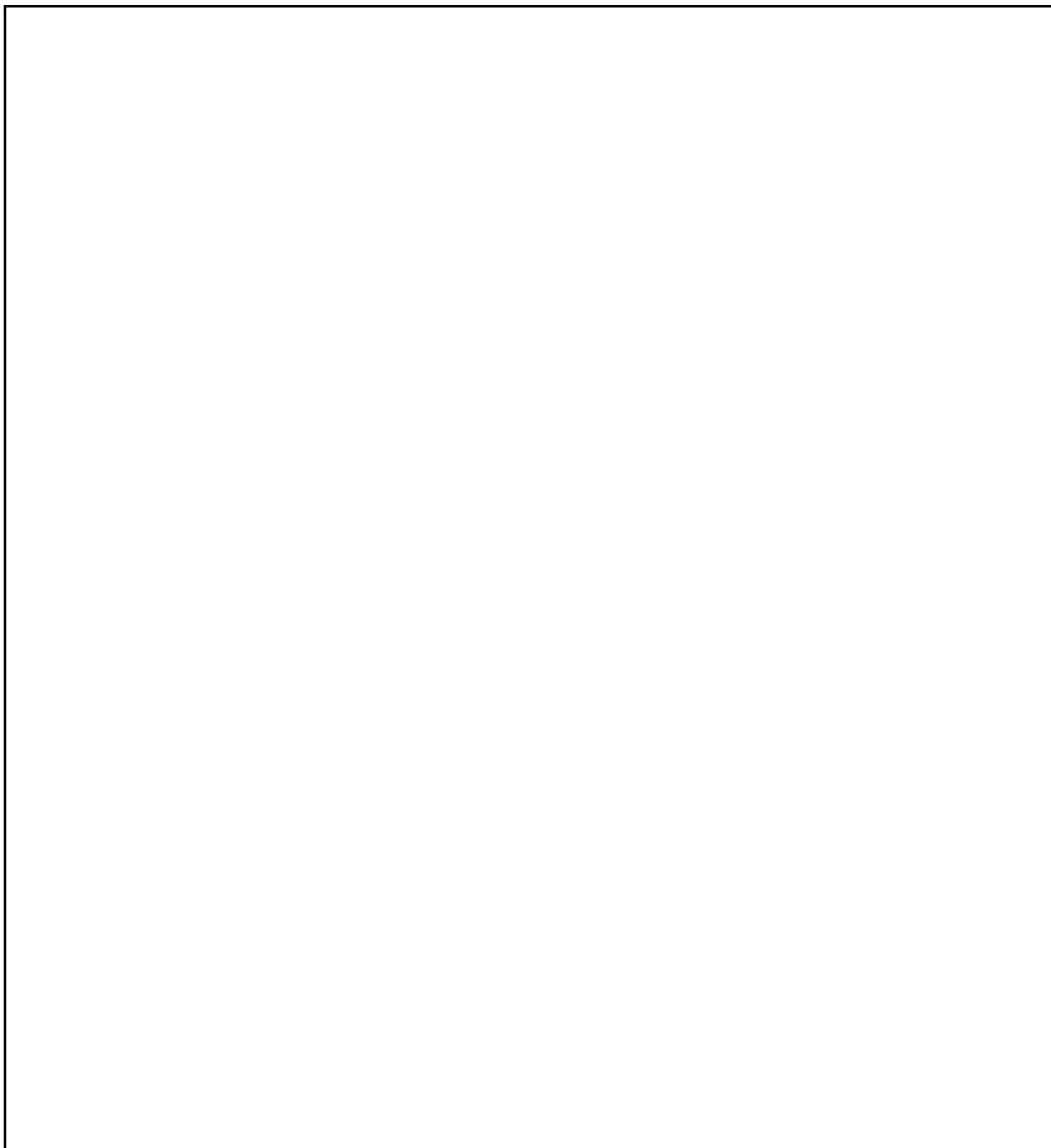
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CHINESE COMMUNIST MILITARY DEVELOPMENTS IN 1955

Peiping's program for the modernization of its armed forces made considerable progress in 1955. Now in possession of a ground force equal in size to that of the Soviet Union

and the world's fourth largest air force, the Chinese Communists, with continuing and substantial Soviet assistance, are growing in military power. Peiping's greatest military

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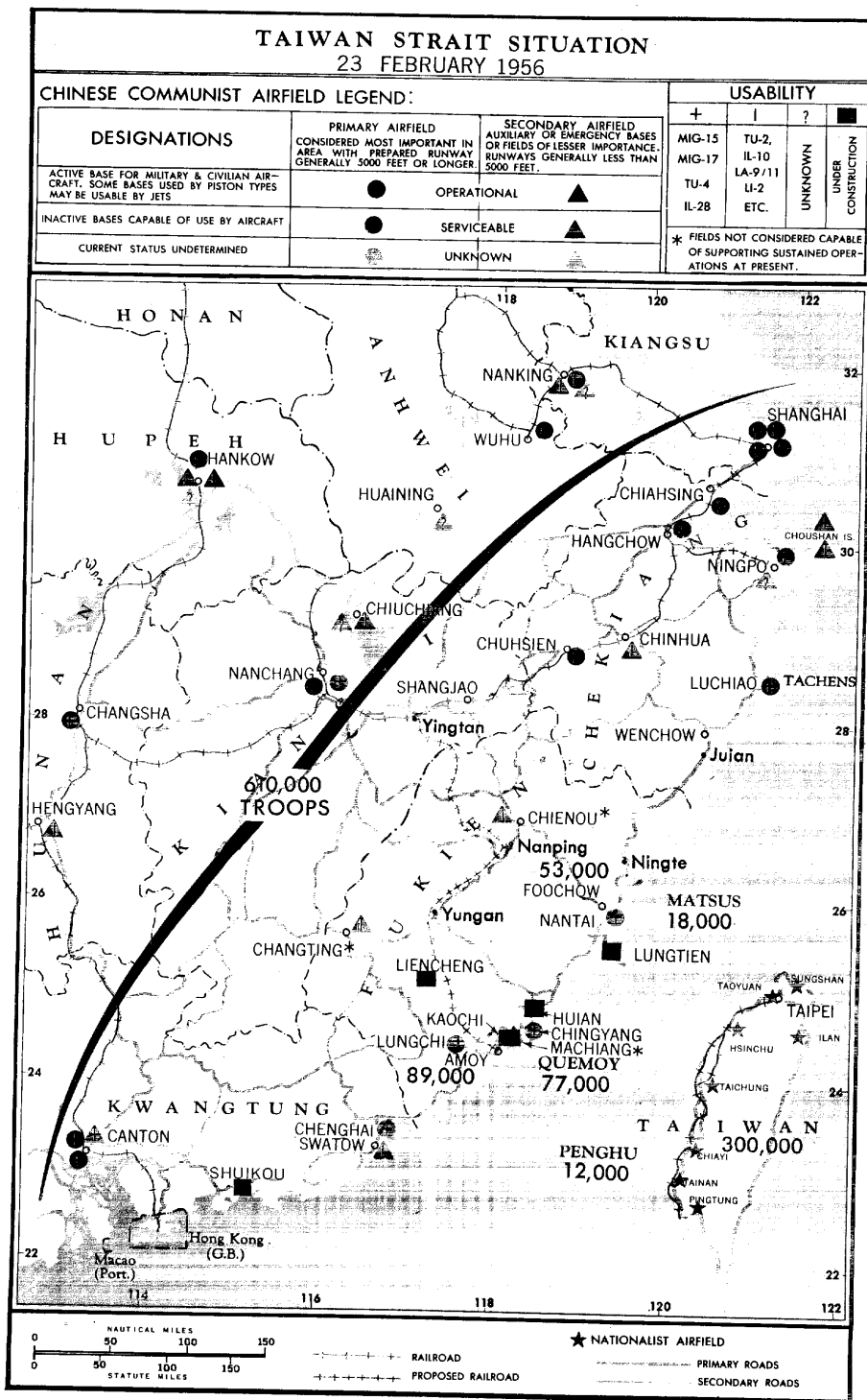
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priorities have been devoted to the preparation of offensive and defensive facilities in the coastal area opposite Taiwan and the offshore islands.

Growth of Power

The greatest single factor in the growth of the air force from an estimated 1,600 planes



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at the outset of 1955 to about 2,150 by the end of the year derived from the USSR's evacuation of its military forces from the Port Arthur Naval Base in May. Some 240 jet fighters and close to 100 jet light bombers were transferred to the Chinese at that time.

It is believed that the Chinese also received at that time four submarines, a submarine tender, and about 50 torpedo boats, together with a few other miscellaneous vessels which had been based at Port Arthur. Other transfers of Soviet equipment to the Chinese in 1955 include jet light bombers, four submarines, two destroyers and 12 subchasers.

Large supplies of aviation fuel and equipment arrived in China throughout the year. Moreover, the first appearance of MIG-17 (FRESKO) jet fighters at Chinese bases and the conversion of piston fighter units to jets during 1955 show that jet fighter shipments to China have not stopped.

Navy

In line with the navy's primary mission of coastal defense, the Chinese Communists seem intent on increasing the number of their patrol and escort vessels and submarines. Since 1952, Chinese shipyards in Shanghai and Dairen have been turning out numbers of small, steel-hulled patrol craft and landing craft types, and, [redacted]

[redacted] frigate-type vessels may be under construction in Shanghai.

Ground Forces

Information is scant on the extent of Soviet aid to Chinese ground forces, but the continued modernization and reorganization of ground units clearly indicates that such aid has not been lacking.

Chinese Communist ground forces, currently estimated at about 2,500,000, remained at about the same level in 1955, but reorganization and modernization has resulted in greater combat efficiency. Widespread construction and improvement of road and rail networks in all areas of China is gradually helping to overcome the logistical shortcomings and lack of mobility of Chinese troops.

Peiping during 1955 continued to move to centralize authority over its troops in the field. Previously subordinate to powerful area commanders, armies and divisions are now under increasing control from Peiping itself, and there seems less chance of any significant army dissidence in local areas.

A conscription law, first formulated in late 1954, was put in full operation in 1955, and the military forces are no longer dependent on the old "volunteer" system. The new draft program is also aimed at the establishment of a trained reserve and an eventual cut in the size of the standing army. In the fall of 1955, Peiping announced a new system of ranks for the armed forces. Based on the Soviet system, the rank program replaced the old concept of an army of coequal "revolutionary comrades." Discipline and control will almost certainly be enhanced.

Disposition of Power

Ground Forces: The only known major changes in the disposition of Chinese army units in 1955 involved the withdrawal from North Korea of four armies and other, smaller units totaling about 215,000 troops. Ground force strength in Korea now amounts to about 345,000 as compared to almost 900,000 at the peak of the war. One of the four armies withdrawn last year is now located in

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Manchuria; the locations of the other three have not yet been determined.

Infantry strength in the coastal areas between Canton and Shanghai, the coastal belt from which any assaults against the Nationalists would be mounted, remained substantially the same. However, the movement of support and service units to this area in 1955 has greatly increased Communist capability for moves against the Nationalists. There are an estimated 610,000 troops in this region, and [redacted]

[redacted] this strength may have been augmented in recent months.

The Chinese continue to maintain close to 600,000 troops in North China and Manchuria. These forces are in positions for a quick return to Korea in the event of a renewal of hostilities there.

Approximately 300,000 troops based in the vast and remote regions of the Southwest and northwest China areas are used chiefly for agricultural and construction tasks.

There are about 190,000 troops in units whose locations are not known.

Naval Forces: Despite the transfers of submarines and destroyers from the USSR to the Chinese, the strength of the navy remains relatively insignificant in terms of modern naval power. Of considerable importance, however, is the fact that during 1955, Chinese Communist naval strength surpassed that of the Nationalists.

Their four destroyers and all 13 of their submarines remain at the major naval bases at Tsingtao and Dairen or Port Arthur, well to the north of the Taiwan Strait. The 20-odd frigates, larger gunboats, and larger conventional landing craft are located in the Port

Arthur area, Tsingtao, Shanghai and Canton. Only small coastal vessels with extremely limited firepower are based at ports in the Taiwan Strait.

The Chinese Communist navy's employment of its limited force has been cautious during the past year. The submarines have been training in waters in the immediate vicinity of Tsingtao, and most destroyer training has been reported in the same area. Recently, however, two of the destroyers have made interarea voyages to Dairen and Shanghai.

Operations north from Canton and south from Shanghai have increased gradually, but Communist ships have refrained from challenging the Nationalist navy, and there have been no exchanges of naval strength between northern and southern bases.

With the acquisition of more modern ships and trained crews, and with continued development of better ports and base facilities in the Taiwan Strait area, the navy is likely to assume a more aggressive role. It will probably take time to develop these capabilities, however. In the immediate future, offensive action against the Nationalist navy in the Taiwan Strait will probably involve the use of torpedo boats, which the Communists used with surprising success a year ago during action around the Tachen Islands.

Air Force: In possession of close to 1,100 jet fighters--about half the total strength of the air and naval air forces--Peiping has concentrated chiefly on developing capabilities for a strong defense of the mainland. Improved radars are being placed in use at strategic coastal points, and various intercept tactics have been tried by fighter units. The Chinese, despite gradual improvement, still exhibit a lack of proficiency in air defense, however.

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The Chinese have about 300 jet light bombers, which form the nucleus of a strong tactical bombardment force. This bomber force is backed by about 250 obsolescent piston light bombers and 10 TU-4 (BULL) B-29 type, long-range bombers.

The strongest concentration of air units is in the area between Shanghai and Canton, where there are now about 870 planes, including 655 jet fighters, 100 piston fighters, 65 jet light bombers, and 50 piston light bombers. Of the 870, 605 are based in a quadrangle of bases, which includes Shanghai, Wuhu, Chuhsien, and Luchiao. The jet bombers arrived in this area for the first time in April 1955, and there was a gradual increase in jet fighter strength during the year.

MIG's operate from Luchiao for combat patrols of the Southeast China coast as far south as Matsu. For defense of the Swatow area, the Communists depend on jet fighter units from Canton. The region between Swatow and Foochow is not currently defended by Communist aircraft, and Nationalist reconnaissance flights in this area are made regularly. Should the Communists decide to occupy new airfields which have been completed in the Taiwan Strait area, however, they will be in position to cover the last gap in coastal air defenses.

Other significant concentrations of Communist air units are in Manchuria, where there are some 360 jet fighters and about 175 jet light bombers. A lesser grouping of air units, including jet fighters, is located in areas near Peiping.

Preparations Opposite Taiwan

Having forced the Chinese Nationalists to evacuate their forces from the Tachen and Nanchishan Islands in February 1955, the Communists had eliminated the last Nationalist strongholds from the Chekiang coast; and they began emphasizing improvement of facilities in

Fukien Province, directly opposite Taiwan and the offshore islands of Matsu and Quemoy.

The most important single development was the beginning of construction of some nine airfields along the coast, all of them suitable for jet aircraft operations. Four are ready for use now, but none is occupied. Two others in Chekiang Province--Chuhsien and Luchiao--were completed and occupied by air units.

Another major project is the construction of Fukien's first rail-line--from the Shanghai-Canton line to Amoy. Eight of the 11 known Chinese military railway construction divisions are working on the line, and it may be completed this year. Peiping may regard completion of this line as essential for major military operations in the area. Essential improvements to the road network were completed in 1955, and supply problems have been eased. More roads are scheduled for construction in Fukien this year.

New and better radars emplaced at critical points along the east coast were noted during the summer, and MIG's from Luchiao have recently begun making patrol sweeps to the Matsu area in defense against Nationalist overflights.

There has been a continuous increase in the number of artillery positions, artillery weapons, and antiaircraft guns along the coast, and there has been considerable effort to build defensive strongpoints along the coastal beaches and on small offshore islands held by the Communists.

There are no indications that attacks against the Nationalist-held offshore islands are imminent.

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