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CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY
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CURRENT INTELLIGENCE WEEKLY SUMMARY

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

PART I

OF IMMEDIATE INTEREST

**USSR ISSUES FURTHER GUIDELINES
ON DE-STALINIZATION Page 1**

Pravda's editorial follow-up to the 30 June central committee resolution issued in defense of de-Stalinization indicates that the Soviet party has, for the time being at least, closed the debate on the causes and implications of Stalinism. Although reassessment of Stalinist practice, accompanied by a guarded loosening at certain points in the Soviet system, is likely to continue at a deliberate pace, the regime has once again acted to ensure its strict control of the process. Meanwhile, the most important Western Communist parties have commented favorably on the 30 June resolution. [redacted]

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ARAB-ISRAELI SITUATION Page 2

New incidents which have taken place on the Israel-Jordan border may revive the excitement which prevailed in Arab capitals for a few days last week when Jordan's leaders announced they expected imminent Israeli aggression. The Israeli response to the new incidents may be even more bitter than usual, since they follow close on assurances from Jordan that King Hussain and his chief of staff are doing their utmost to control their own forces and avoid what the Israelis would view as provocations. UN secretary general Hammarskjold is scheduled to return to the area next week. [redacted]

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THE TITO-NEHRU-NASR MEETING Page 3

The meeting in Yugoslavia of Tito, Nehru, and Nasr, apparently scheduled to begin on 18 July, will bring together for the first time these three self-appointed champions of the "anti-bloc" nations of the world. Preoccupation of each of these leaders with his own special interests will probably restrict their field of agreement to themes favoring national independence, coexistence, the peaceful settlement of disputes, and the need for disarmament and a ban on atomic warfare. [redacted]

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PART II

NOTES AND COMMENTS

AFTERMATH OF POZNAN RIOTS Page 1

The Polish government has reacted to the Poznan riots with a combination of threats and concessions. The Polish United Workers' (Communist) Party and the government are in a dilemma as a result of differences of opinion among the leaders between the proponents of a more liberal course for Poland and the militant Communists who favor repression as a means of control.

[Redacted]

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THE FRENCH COMMUNISTS AND THE CULT OF PERSONALITY Page 2

On the eve of its 14th congress, scheduled to begin on 18 July at Le Havre, the French Communist Party seems to have accepted the results of the Soviet 20th Party Congress, particularly Khrushchev's attacks on Stalin and the cult of personality. Despite some continuing confusion and indications that Stalinist traditions in the French party may die hard, the present leadership seems to be maintaining control.

[Redacted]

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THE PANAMA MEETING OF PRESIDENTS Page 3

A number of the Latin American presidents who are to meet with President Eisenhower in Panama on 21-22 July apparently have plans for requesting economic or political aid. The most urgent request for an extensive foreign loan is expected to come from Brazilian president Kubitschek in connection with his economic development program.

[Redacted]

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SIGNS OF BURMESE DISCONTENT WITH COMMUNIST TIES Page 4

There are increasing signs in Burma of discontent with the results of the close ties established with Communist countries during former premier U Nu's tenure. The initial momentum of the Sino-Soviet campaign to capture Burma's sympathies appears to be lost, and the bloc can be expected to take some steps aimed at adjusting the differences that have now arisen.

[Redacted]

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CAMBODIA'S RELATIONS WITH THE SINO-SOVIET BLOC Page 5

Cambodian crown prince Sihanouk's policy of closer relations with the Sino-Soviet bloc produced on 7 July, at the conclusion of Sihanouk's visit to Moscow, a Soviet pledge to provide Cambodia "unconditional" economic and technical assistance. While some Cambodian leaders fear the consequences of the influx of numerous Communist technicians into Cambodia, Sihanouk appears confident that he can control Communism internally. For its part, the USSR probably regards the outcome of Sihanouk's visit to Moscow as an important step in the promotion of its aims in Southeast Asia. [redacted]

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JAPANESE SOCIALISTS SCORE GAINS IN UPPER HOUSE ELECTION Page 6

As a result of their gain in the Japanese upper house election on 8 July, the Socialists, supported by other leftist elements, now control one third of the upper house membership, enough to block government plans to revise the constitution in order to legalize Japanese rearmament. The Socialists have attributed their increased popular support to the party's anti-American policy, which emphasized the Okinawan land controversy and opposition to both American bases and rearmament. [redacted]

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CHINESE COMMUNIST PARTY CONGRESS TO CONVENE IN SEPTEMBER Page 7

Peiping has announced that the Chinese Communist Party will convene its eighth congress on 15 September. The last congress met in 1945. Some 1,000 delegates are expected to reaffirm Mao Tse-tung's leading position within the regime and to "elect" a new central committee which will reflect the present power position of Mao's lieutenants. [redacted]

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PEIPING PREPARES NEW MOVE FOR CLOSER TIES WITH NEPAL Page 7

Since Nepal recognized Communist China in August 1955, Peiping has worked steadily to draw the kingdom out of the Indian orbit and expand Chinese influence there. This campaign is apparently about to pay off in a treaty covering commercial and economic matters to be negotiated "in a few months." India, although suspicious of Chinese Communist advances, has thus far taken no decisive action to block them. [redacted]

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THE WEEK IN BRIEF

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AFGHAN-SOVIET DEALS Page 9

The signing of six contract agreements in late June and early July for Soviet projects in Afghanistan is a further indication of the speed with which the USSR is implementing its \$100,000,000 credit agreement of last January. One of the contracts--for the Kabul airport--countered the impact of a \$14,500,000 Afghan-American aviation development agreement signed on 27 June.

[Redacted]

FRENCH NORTH AFRICA Page 10

Algerian rebel activity has slowed in the north, but it has increased in southwestern Algeria along the Moroccan border. In Morocco, a potential threat to the sultan's authority appears reduced by the incorporation of part of the "Army of Liberation" into the new Moroccan army while French-Moroccan tension over defense matters has intensified. The Moroccan government is pressing the American air base issue. Tunisian-French tension has again flared on the issue of Tunisian sympathy for the Algerian nationalists.

[Redacted]

MOLLET'S CONCESSIONS WIN FRENCH ASSEMBLY'S SUPPORT FOR EURATOM Page 12

Premier Mollet has won a 342-183 vote of approval in the National Assembly for French participation in the drafting of a six-power EURATOM treaty. Some of his support, however, was won by concessions to nationalist opponents of European integration who objected in particular to any effective limitation of France's rights to develop nuclear weapons. These concessions leave in doubt the question of whether a treaty acceptable to the other five nations will be ratified by the French assembly.

[Redacted]

FRICION IN WEST GERMAN-YUGOSLAV RELATIONS Page 13

West German-Yugoslav relations suffered a setback on 7 July when the Bundestag, irked at recent Yugoslav statements seeming to imply recognition of East Germany, adjourned without ratifying the West German commercial loan to Yugoslavia or the war claims agreement negotiated in March. Yugoslavia's indignant reaction will probably jeopardize West Germany's economic position there. These incidents typify the kind of difficulties Bonn is likely to encounter in its relations with other states on matters pertaining to East Germany.

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THE WEEK IN BRIEF

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**COLLECTIVIZATION DRIVE
IN THE SATELLITES Page 14**

A drive to speed up the pace of collectivization in the Eastern European Satellites has been in progress since mid-1955. This campaign may seriously increase peasant bitterness and depress future agricultural output, but the Communist leadership has apparently decided that collectivization is the only solution to the bloc's agricultural problems. [redacted] 25X1

RECENT SOVIET AGRICULTURAL DECREE Page 15

The Soviet Union has taken the unusual step of publishing a decree in draft and allowing "public discussion" before governmental approval. The proposed decree, which would eliminate the use of grain and other foodstuffs purchased from state stores for feeding privately owned livestock and would restrict private ownership of livestock in urban areas, has apparently been received unfavorably by the urban population and will undergo major change before formalization. [redacted] 25X1

INDONESIA Page 16

The influence and prestige of the moderate, pro-West Masjumi probably will decrease further as the result of its present isolation within the Indonesian government and its allotment of only a small share of government appointments. [redacted] 25X1

**COMMUNIST YOUTH-FRONT ACTIVITY
IN LATIN AMERICA Page 16**

International Communist youth fronts are making an increased effort in Latin America to extend their network and expand memberships and influence. The campaign, which coincides with the Soviet bloc's program to increase diplomatic and economic relations with Latin America, was ordered in August 1955 when the councils of the World Federation of Democratic Youth and the International Union of Students resolved to correct the "insufficient attention" previously given this area. [redacted] 25X1

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PART III

PATTERNS AND PERSPECTIVES

DEVELOPMENT OF THE SINO-SOVIET ALLIANCE Page 1

The Sino-Soviet alliance, which was firm in Stalin's time, seems to be as firm or firmer under the Khrushchev-Bulganin leadership. In the past two years, the Kremlin has helped Peiping to increase its international prestige, has continued its aid to the Chinese Communist military establishment, and has agreed to enlarge substantially its contribution to China's industrialization. Peiping may have adjusted its policy toward Taiwan to fit the Soviet aims of avoiding a general war and of engaging the West in a long-term competition. The Chinese are also closely co-ordinating with Moscow their programs elsewhere in the Far and Near East.

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LATIN AMERICAN ATTITUDES TOWARD US INVESTMENT Page 8

Latin American dissatisfaction with Washington's emphasis on private rather than government investment has notably abated during the past several months. While this dissatisfaction had become less intense following the Rio conference of November 1954, it could well resume its former intensity if measures taken by the United States and local economic reforms do not substantially increase the flow of private dollar capital.

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PART I**OF IMMEDIATE INTEREST****USSR ISSUES FURTHER GUIDELINES
ON DE-STALINIZATION**

Pravda's editorial follow-up to the 30 June central committee resolution issued in defense of de-Stalinization indicates that the Soviet party has, for the time being at least, closed the debate on the causes and implications of Stalinism.

Clearly suggesting that the party has rested its case on the "vivid and precise Marxian reply" provided by the resolution, Pravda has shifted from defense to reaffirmation of basic political premises and a statement of the limits beyond which "democratization" will not be willingly carried. Although reassessment of Stalinist practices, accompanied by a guarded loosening at certain points in the Soviet system, is likely to continue at a deliberate pace, the regime has once again acted to confine the process to a framework established by itself.

Pravda's editorial of 6 July, like the central committee resolution, stressed that the basic lines of the Soviet system and the party's "Leninist principles" were unaffected by Stalin's errors. "In spite of the great harm done to the party by the cult of the individual of J. V. Stalin," the editorial asserted, "the party created by V. I. Lenin, backed by its local organizations, never ceased to live a creative life."

In Stalin's late years, Pravda continued, in an apparent reference to the present

leadership, there was in the central committee "an able Leninist nucleus of leaders who understood correctly the pressing requirements both in the fields of home and foreign policy." The thread between Lenin and the present, it was implied, therefore is unbroken and the principle of the party's continuity and infallibility remains intact.

There can be no question of freedom of the press in the Western sense or of a multi-party system in the USSR, Pravda emphasized--thus implying that such proposals have cropped up within the country. They are ruled out by the fact that "the Communist Party was, is, and will be the one and only ruler of thoughts, the one to express the ideas and hopes of the people--the leader and organizer throughout the entire struggle for Communism."

Having restated this fundamental principle, Pravda pointed to a proper understanding of "Soviet democracy" with a quotation from Lenin: "It is necessary to learn to merge together the turbulent, mass-meeting-like democratism of the working classes, flowing like a spring flood, with iron discipline in work, with undemurring submission to the will of the individual--the Soviet leader--in work."

Western Reaction to Resolution

Meanwhile, the most important Western Communist parties have commented favorably on the 30 June resolution.

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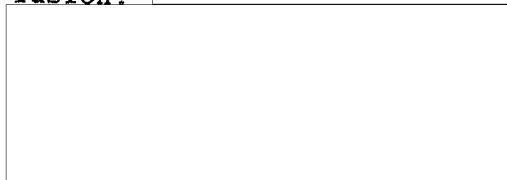
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The French party has praised it extravagantly. Italian and American Communist leaders have also endorsed the statement but have indicated that they have some reservations.

Italian, Belgian, and British Communist Party delegations are now holding talks in Moscow, presumably discussing the de-Stalinization question, and Finnish party leaders are reportedly there also. Leaders of other Western Communist parties can be expected to join the procession to Moscow.

Rank-and-file Communists and the leaders of some of the West European parties, particularly Dutch and Belgian, are reportedly in a state of confusion.



A French Communist central committee statement, issued after the return of a three-man party delegation from talks in Moscow, "warmly approved"

the Soviet resolution and recommended it to all party members for study. (See Part II, p. 2 for details of the French party's position.)

Italian party leader Togliatti continues to express "unreserved approval" of the policy of overcoming the personality cult but has said that "differing opinions are possible" on the significance of Stalin's mistakes and that further "frank discussion" is necessary. He did not retract his charge of "degeneration at various points of the (Soviet) social body," for which he was taken to task in the Soviet resolution.

American party leader Eugene Dennis, whose article on the de-Stalinization question was reprinted in Pravda on 27 June, said the Soviet resolution "goes a long way" in explaining the Stalinist cult. The New York Daily Worker, however, has said that while some Marxists would be fully satisfied by the resolution, others "will feel that the final answers still need to be found and that the discussion must continue."

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ARAB-ISRAELI SITUATION

New incidents which have taken place on the Israel-Jordan border may revive the excitement which prevailed in Arab capitals for a few days last week when Jordan's leaders announced they expected an imminent Israeli attack. The Israeli response to the new incidents may be even more bitter than usual, since they follow close on assurances from

Jordan that King Hussain and his chief of staff are doing their utmost to control their own forces and avoid what the Israelis would view as provocations.

So far, however, the more determined Israeli attitude has been given only verbal expression. During the apparently artificial crisis between 4 and

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8 July, when Jordan insisted that Israeli troops were massing, the Israelis repeatedly asserted Jordan's fears were figments of Arab imagination. They invited foreign attachés to view Israeli maneuvers on 9 and 10 July, probably to reassure these observers that nothing unusual was taking place. Foreign Minister Myerson told American officials she could explain the crisis only in terms of some internal Arab maneuvering from which Arab leaders wished to distract attention.

Developments in the Arab states--the change of army staff chiefs in Syria, uncertainty about future political trends in Jordan, and Iraqi troop movements--probably had much to do with the nervousness exhibited by some of the Arab leaders.

Even though the excitement early in July seems to have been a false alarm, the Jordanian response to UN truce chief Burns' warning and Burns' own views--he told American officials he was "frankly alarmed" at the Israeli attitude--are symptoms of renewed tensions. UN secretary general Hammarskjold, who will again visit Jerusalem on 19-20 July, and go on to Cairo on 21-22 July, will find that much of the effect of his mission last April has been dissipated, and that his fears that he had gained at best a temporary truce have been largely justified.

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THE TITO-NEHRU-NASR MEETING

The meeting in Yugoslavia of President Tito, Prime Minister Nehru, and President Nasr, apparently scheduled to begin on 18 July, will bring together for the first time all three of these self-appointed champions of the "anti-bloc" nations of the world.

The preoccupation of each of these leaders with his own special interests will probably preclude agreement on specific problems of mutual interest and limit any joint communiqué mainly to restatements of such general themes as the "five principles" of peace and coexistence, the need for disarmament and a ban on atomic weapons, and the settlement of disputes by peaceful means.

Regardless of the nature of the communiqué, however, the meeting will be widely interpreted in Asia as further evidence that the neutralist powers are growing in importance in world affairs. Many former colonial countries would probably also be encouraged by another formal association of a European power with the neutralist views of Asia.

One issue on which all three men could probably agree is that there has been a major change in Soviet thinking during the past year in the direction of political "liberalization" and that Soviet actions are genuinely intended to relieve world tension. Tripartite formalization of this agreement,

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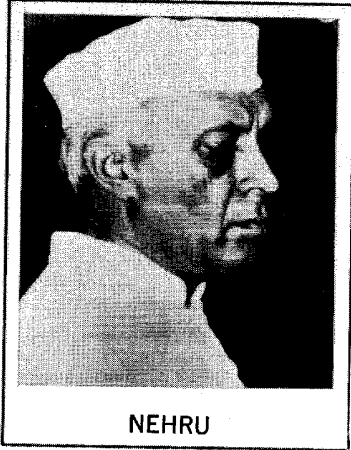
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already individually expressed by Tito and Nehru, would probably lead to wider acceptance of this opinion in the Asian world.

The greatest common interest of the three leaders lies in the Middle East, and discussions will probably be devoted primarily to that area.

Tito, Nehru, and Nasr will probably voice sharp criticism of military blocs, but Tito is unlikely to agree to any specific reference to the Baghdad pact.

Tito and Nehru may hope for a solution to the Israeli problem. Nasr probably cannot officially associate himself with any settlement plan discussed at Brioni without consulting his Arab colleagues.

Nehru and Tito oppose UN discussion of the French-Algerian dispute. Nasr, although belonging to the group of nations which argued for UN consideration of the case, might, if pressed, agree to put out feelers along the lines of the announced Indian plan for a ceasefire and direct negotiations.

If rumored efforts by Tito to assume leadership of a move to bridge the gap between Communism and Socialism under the guise of "progressive unity" should actually develop, they may lead to a rivalry between the three men, each of whom aspires to a prominent position. Nehru, in particular, would react strongly to any action by Tito which he might consider a challenge to his own ambitions.

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PART II**NOTES AND COMMENTS****AFTERMATH OF POZNAN RIOTS**

The Polish government has reacted to the Poznan riots with a combination of threats and concessions. The Polish United Workers' (Communist) Party and the government are in a dilemma as a result of differences of opinion among the leaders between the proponents of a more liberal course for Poland and the militant Communists who favor repression as a means of control.

Party first secretary Ochab and his followers may claim that the Poznan incident is sufficient reason to reinstitute tighter controls, at least temporarily, while the faction led by Premier Cyrankiewicz may propose a continuation of the liberal policies to placate the populace. Some cognizance will have to be taken of the views of the people, who appear to be encouraged by the uprising and may seek redress of their grievances with further demonstrations. So far, the government has acted relatively moderately.

Concessions have been made to the Poznan workers. The first of four payments, which will total 6,500,000 zlotys (\$1,625,000 at the legal rate of exchange) to compensate for overtaxation, has been made. The government claimed that the tax settlement had been

arranged the day before the riots.

Two government officials have been removed from office, either as scapegoats or for actual ineptness in handling the Poznan workers' demands. On 7 July, Machine Industry Minister Fidelski and Automobile Industry Minister Tokarski were relieved of their posts and their ministries combined. The new Ministry of Machine Industries is under former power minister Jaszczuk. Fidelski has been cited several times by Radio Warsaw as having taken part in negotiations with the Poznan workers before the riots.

Of the many persons arrested in Poznan, ten have been publicly identified and will probably be tried and punished for fomenting the riots. Mass punishments, however, are unlikely.

The riots are being investigated by a special commission headed by party secretary Gierek. Since Gierek is said to be a supporter of Premier Cyrankiewicz, who has assumed a leading role in the liberal group, his appointment may indicate the government intends to follow a moderate course in dealing with the rioters.

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THE FRENCH COMMUNISTS AND THE CULT OF PERSONALITY

On the eve of its 14th congress, scheduled to begin on 18 July at Le Havre, the French Communist Party (PCF) seems to have accepted the results of the Soviet 20th Party Congress, particularly Khrushchev's attacks on Stalin and the cult of personality. Despite some continuing confusion and indications that Stalinist traditions in the French party may die hard, the present leadership seems to be maintaining its control.

The French Communists were apparently startled by Khrushchev's exposure of the errors of Stalin, and hesitated initially to make any comment. Following Italian leader Togliatti's sharp attack on the method and meaning of the report, however, the French party echoed some of his points in milder terms. Further indications of PCF acquiescence appeared following the Moscow press announcement of a "complete identity of views" between Soviet party officials and the French Communist delegation that went to Moscow on 26 June for clarification of the new line.

Major changes in leadership appear unlikely in the near future as a result of the new policies. Secretary General Thorez' health has reportedly deteriorated recently, and it is rumored he may be elevated to an honorific post. He is said to have re-established party discipline among the rank and file, and his recent claims of having

tried to avoid personal publicity may be taken as an attempt to conform to the new line of collective leadership. He is said to "continue to believe" that the best chance for future success lies in close, but better-disguised, ties with Moscow.

As long ago as last spring, there were indications of discontent among the second echelon leaders, possibly as a result of Pierre Herve's charges that the party was doctrinally rigid. At that time, secretariat member Servin allegedly proposed that self-criticism not be limited to the USSR, that expelled members be given a second hearing, and that elections to the party's highest bodies be by secret ballot. Inclusion of Servin in the group sent to Moscow in late June may be an attempt to assuage this discontent by broadening the base for policy formation.

In any case, the Stalin issue does not seem to have weakened the Communist Party in France, and it is unlikely to provoke a major wrangle at the party congress, particularly since strong efforts will be made to muffle criticism and questioning. The congress is expected to concentrate on pressing for unity of action with the Socialists, but the Communists may have difficulty in reconciling this policy with its strong stand for immediate negotiations in Algeria.

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THE PANAMA MEETING OF PRESIDENTS

A number of Latin American presidents evidently hope to find an opportunity at the 21-22 July meeting of chief executives of the American republics to press requests for economic or political assistance on President Eisenhower, although the agenda makes no provision for substantive discussions. The unprecedented meeting, which was postponed from 25-26 June to permit President Eisenhower's attendance, is to commemorate the first step in inter-American organization, the Congress of Panama of 1826.

Bilateral Approaches

Brazil: The most urgent request for aid is expected to come from Brazilian president Kubitschek, who did not originally intend to go to the meeting. Kubitschek told American ambassador Dunn on 3 July he planned to take up with President Eisenhower his economic program and to explain the domestic political problems arising from his policies of close collaboration with the United States, opposition to both Communism and extreme nationalism, and insistence on maintaining Brazil's commitment to export atomic minerals to the United States.

Kubitschek may also expect to discuss a US request for military sites on the Brazilian bulge. Since it would require an extensive effort by his administration to get the Brazilian congress to approve such an agreement, Brazil is requesting a small aircraft

carrier as a visible quid pro quo.

Panama: The host government of Panama may seek to discuss its negotiations with the United States for radar sites connected with projected Nike installations in Panama. Panama has consistently obstructed the initiation of surveys for the radar sites, denying that existing treaties authorize leases for these sites. Panama may hope to extract new concessions or at least to accelerate US action on legislation implementing the 1955 treaty.

Chile: Chilean president Ibanez may also plan to discuss his economic problems with President Eisenhower. The editor of a semiofficial Chilean newspaper reportedly stated on 9 June that the Chilean president, who has in recent months adopted economic and financial reforms long advocated by the United States, may request President Eisenhower's intervention in favor of a \$160,000,000 development loan which Chile requested from the US in 1953.

Multilateral Approaches

The Chilean editor also stated that all Latin American presidents going to Panama were doing so in expectation of a US announcement of a substantial increase in economic aid or technical assistance to Latin America. While this does not appear to be a widespread feeling, a general discussion of US-Latin American relations may arise. Brazil's support for a general discussion of US-Latin American economic relations may be indicated by Kubitschek's statement on 6 July that he planned to bring up the problems of foreign investment and the financing of machinery imports.

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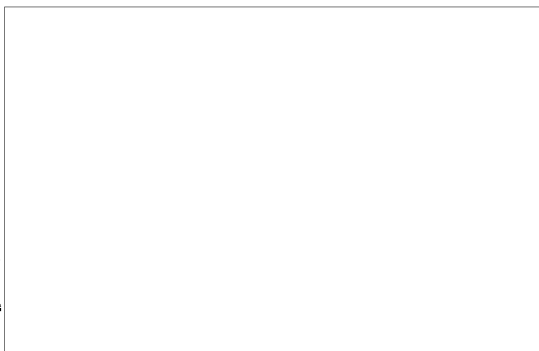
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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****12 July 1956****SIGNS OF BURMESE DISCONTENT
WITH COMMUNIST TIES**

There are increasing signs in Burma of discontent with the results of the close ties with the Communists established during former premier U Nu's tenure. Further development of this friction in Burma, one of the Sino-Soviet bloc's earliest targets among the neutral nations, could impair the Communists' coexistence campaign in South and Southeast Asia.

Past promises of noninterference in Burmese affairs did not prevent the Soviet and Chinese embassies from liberally subsidizing the opposition National United Front in the April elections. This meddling, which resulted in significant gains by the opposition, may have played a large part in U Nu's decision to resign last month.

On the economic side, the Burmese have lately discovered that barter trade with the bloc is by no means the hoped-for panacea for their economic ills. They have complained of red tape in arranging imports of goods, uncertainty of delivery dates, and poor quality of items. U Nu openly criticized barter deals just before his resignation, saying one would have to be "crazy to barter rice when he could sell it for cash."



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An additional indication of a cooling of Burmese relations with the bloc is the fact that a high-level Burmese trade mission that recently departed for Europe deleted, at the last minute, all Communist countries from its itinerary.

The initial momentum of the Sino-Soviet campaign to capture Burma's neutralist sympathies appears to be lost, and the Burmese are likely to show more sophistication in their future dealings with the bloc. The Communists, however, can be expected to take some steps aimed at correcting these points of friction. Promised Soviet construction of several impressive projects in Rangoon--a hospital, a sports center and a technological institute--should help reduce areas of irritation.

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**CAMBODIA'S RELATIONS
WITH THE SINO-SOVIET BLOC**

Cambodian crown prince Sihanouk's foreign policy of closer relations with the Sino-Soviet bloc produced on 7 July a Soviet pledge to provide Cambodia with "unconditional" economic and technical assistance. A joint communiqué issued in Moscow also spoke of strengthening political and cultural ties between the two countries and announced a Soviet gift of a hospital, complete with equipment, for Phnom Penh.

Sihanouk, head of a delegation that included Premier Khim Tit and National Assembly chairman Oum Chheangsun, left little doubt during his seven-day visit to the USSR that, despite his "permanent" resignation from public office last March, he remains the architect of Cambodian policies. The visit was marked by Soviet praise of Cambodia's neutralism and its successful "evasion" of Western military blocs; Sihanouk reciprocated by lauding the USSR's progress, good will and dedication to world peace. A basic reason for Sihanouk's effusiveness--evident in his statement that Cambodia's national interests are dependent on "sincere, close and fraternal relations with the Soviet Union"--apparently lies in his conviction that by obtaining the USSR's public commitment to the "five principles" of peaceful co-existence in its relations with Phnom Penh, Cambodia's security would be guaranteed.

Economic Aid

According to the Moscow communiqué, Soviet and Cambodian

experts will meet soon in Cambodia to develop "practical" ways to implement the economic and cultural ties between the two countries. In this connection, the USSR expressed its readiness to send technicians to train Cambodian personnel and to provide industrial equipment. This agreement follows closely the conclusion of a \$22,400,000 Chinese Communist economic aid agreement with Cambodia, and there is a possibility that assistance may also be forthcoming from Poland.

Sihanouk hopes this Communist aid, in conjunction with Western assistance, will enable Cambodia to fulfill an ambitious two-year economic development plan designed to make the country economically independent by 1957. While some Cambodian leaders fear that Communist technicians will engage in subversive activities in Cambodia, Sihanouk apparently remains confident that he can control Communism within Cambodia's borders.

For its part, the USSR--which recently expressed its readiness to establish diplomatic relations with Laos--probably regards the outcome of Sihanouk's visit as an important step in the promotion of neutralism in South-east Asia. A further opportunity to expand Soviet influence in the area will occur during the as-yet-unscheduled visit to Cambodia, at Sihanouk's invitation, of Bulganin, Khrushchev and Shepilov.

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**JAPANESE SOCIALISTS SCORE GAINS
IN UPPER HOUSE ELECTION**

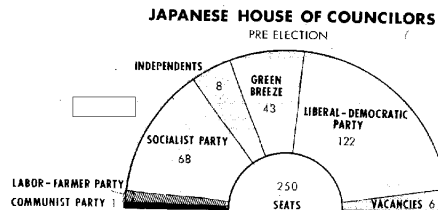
As a result of their gains in the Japanese upper house elections on 8 July, the Socialists, supported by other leftist elements, will control for another three years one third of the upper house membership, enough to block government plans to revise the constitution in order to legalize Japanese rearmament. The governing Liberal-Democratic Party, however, continues to retain control of the chamber by a simple majority with the support of the Ryokufukai ("Green Breeze"). The Socialists have attributed their increased popular support to the party's anti-American policy which emphasized the Okinawan land controversy and opposition to both American bases and rearmament.

The composition of the weak upper chamber does not affect the tenure of the administration, since questions of confidence are the prerogatives of the lower house. The Socialist gains in the House of Councilors, nevertheless, are a serious setback to the government. The Hatoyama administration not only will be unable to undertake a revision of the constitution, but will be further handicapped by its loss of prestige.

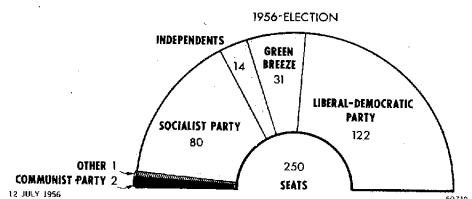
The government party will need to impose stronger discipline on the rank and file than in the past if it hopes to push its legislative program past the strengthened Socialist opposition. The poor conservative showing at the polls may also encourage dissident factions within the party to increase their efforts to wrest the party leadership from the Hatoyama group.

The primary reasons for the Socialist gains, not only in

urban areas but also in the traditionally conservative rural areas, appear to be popular opposition to rearmament, the furor over the Okinawan land dispute, and general dissatisfaction with continued conservative factionalism. The failure of the conservative "Green Breeze" to elect an appreciable number of its candidates and the complete shutout of the pro-Communist Labor-Farmer Party indicate a polarizing of popular strength between the two major parties to the disadvantage of the minor parties.



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Sanzo Nosaka, leading central committee member of the Japan Communist Party, who emerged from underground last summer, and one other Communist won seats in the election, one more than the party previously held.

Although the conservatives failed to win the number of seats necessary to carry out a revision of the constitution, the government is likely to proceed with its preparations to do so, with the hope that it will gain the necessary seats three years hence. Hatoyama and his

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supporters may also seek a quick normalization of relations with the USSR in an effort to recover their lost

prestige with a diplomatic triumph and to consolidate their control of the conservative party. [redacted]

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CHINESE COMMUNIST PARTY CONGRESS TO CONVENE IN SEPTEMBER

Peiping has announced that the Chinese Communist Party will convene its eighth congress on 15 September. The last congress met in 1945. Some 1,000 delegates are expected to reaffirm Mao Tse-tung's leading position within the regime and to "elect" a new central committee which will reflect the present power position of Mao's lieutenants.

The Chinese Communist Party's last congress, meeting in Yen-an before Communist power was consolidated on the Chinese mainland, elected a 77-man central committee, which has been reduced to 68 by the death of five members and the dismissal of two for incompetence and two others for "anti-party" activity. Many of the remaining members apparently have no power in the regime. The new central committee is expected to be more representative of real authority and to be considerably larger because party membership has increased from 1,200,000 to more than 9,000,000 in 11 years.

The agenda of the congress will include (1) a report on the work of the central committee since 1945, (2) a report on the revision of the party constitution, (3) a directive on the Second Five-Year Plan (1958-62), and (4) the "election" of a new central committee. The members of the new committee will of course have been picked previously by the top leadership. In addition, Chou En-lai has reported that opposition to "right-leaning conservatism"--i.e., a more moderate approach to socialism--will be the central question at the congress.

It seems probable that a show of "democracy" will be made at the congress; the People's Daily has said that the party is eager to develop "criticism and self-criticism." A recent press announcement that Italian Communist Party boss Togliatti will be in China in September suggests that he had perhaps other top foreign Communists will attend the congress as observers. [redacted]

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PEIPING PREPARES NEW MOVE FOR CLOSER TIES WITH NEPAL

A treaty between Communist China and Nepal dealing with commercial and economic matters will be negotiated at Katmandu "in a few months." Preliminary arrangements for these negotiations were apparently discussed

in Peiping when the Nepalese ambassador, who is normally stationed in New Delhi, presented his credentials in June. This is the latest result of Communist China's continuing campaign to expand its influence

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in the Sino-Indian border region.

Since August 1955 when the Nepalese government extended recognition to Communist China, Peiping has worked steadily to draw Nepal out of the Indian orbit and expand Chinese influence there. The Chinese have twice offered Nepal economic assistance, once in October 1955 and again in February of this year. In March, Peiping requested permission to open a library and information center in Katmandu and the Nepalese reportedly favor acceptance but have not yet approved it.

Prime Minister Tanka Prasad has accepted an invitation to visit Communist China and reportedly plans to make the trip as soon as Nepal's five-year economic development plan gets under way next month. His visit will probably be exploited by the Chinese to prepare for subsequent treaty negotiations, in

which Peiping can be expected to press for the establishment of a diplomatic mission in Katmandu, conclusion of an economic assistance agreement which would require the presence of Chinese technicians in Nepal, a trade agreement and final approval for the information center in Katmandu.

The Tanka Prasad government, which lifted the ban on the Communist Party in Nepal last April, has been moving steadily toward closer contact with Peiping. In July a Nepalese official at New Delhi told the American embassy there that Nepal was "too dependent" on India and must attempt to balance Indian with Chinese influence. It seems likely, therefore, that the Nepalese will be receptive to Peiping's proposals. At the same time the Nepalese official denied that a military treaty exists between India and Nepal.

The Indian government has been concerned over Chinese influence in the border region ever since the conquest of Tibet in 1950 and has regarded Peiping's efforts to woo Nepal with suspicion. Thus far, however, New Delhi has not taken decisive action to counter the Communist advance. A recent Indian newspaper editorial stated that Nepal's "best security at present is the good-neighborliness of India and China" suggests India may now have abandoned efforts to exclude the Chinese from Nepal and instead has decided to compete with them.

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AFGHAN-SOVIET DEALS

The signing of six contract agreements in late June and early July for Soviet projects in Afghanistan is a further indication of the speed with which the USSR is implementing its \$100,000,000 credit agreement of last January.

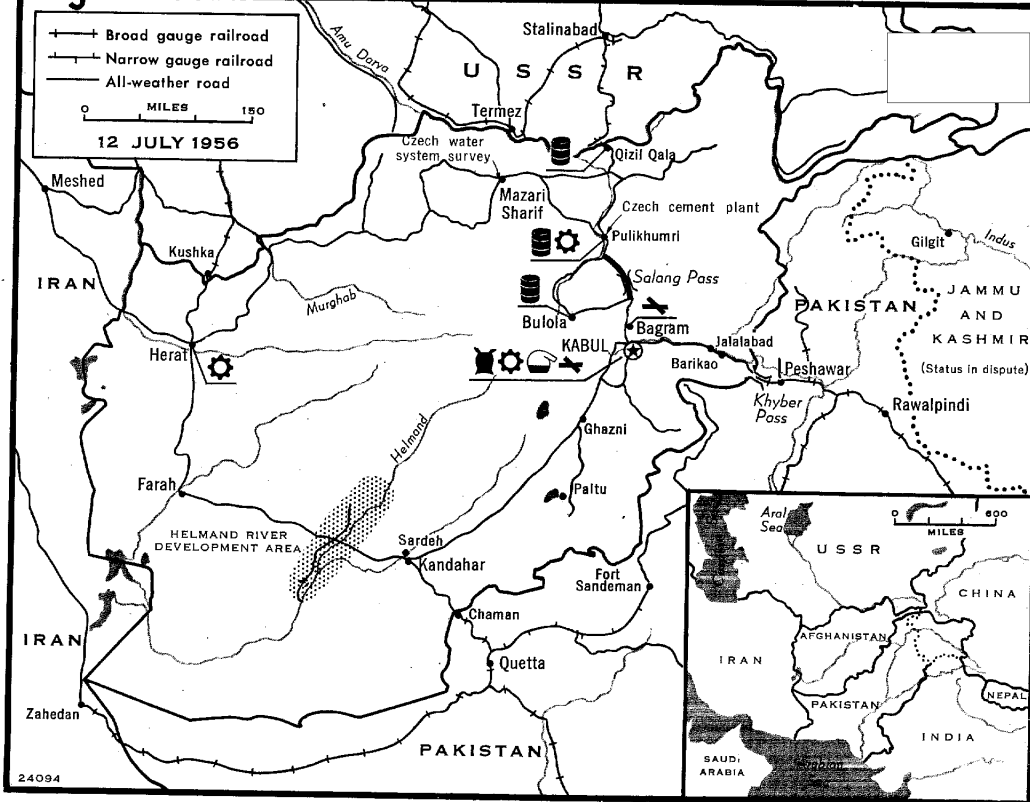
The contracts are for:

- 1) construction of motor vehicle repair shops at Kabul, Pul-i-Khumri, and Herat; 2) a fertilizer plant at Kabul; 3) a materials testing laboratory at Kabul; and 4) a new road through the Salang Pass across the Hindu Kush Mountains to expedite trade

and communications with the USSR. The road, which will shorten by about 80 miles the main route between Kabul and the Soviet border, will reportedly cost \$19,000,000.

The fifth and sixth contracts are for construction of a new airfield at Bagram--reportedly for military use--and reconstruction of the airfield at Kabul. The Kabul project was given to the Russians despite a statement by Prime Minister Daud in May that it would be given neither to the United States nor the USSR.

Afghanistan



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SOVIET PROJECTS CONTRACTED UNDER \$100,000,000 CREDIT AGREEMENT

- Petroleum storage tank
- Testing laboratory
- Motor repair shop
- Fertilizer plant
- Airfield
- Salang Pass road

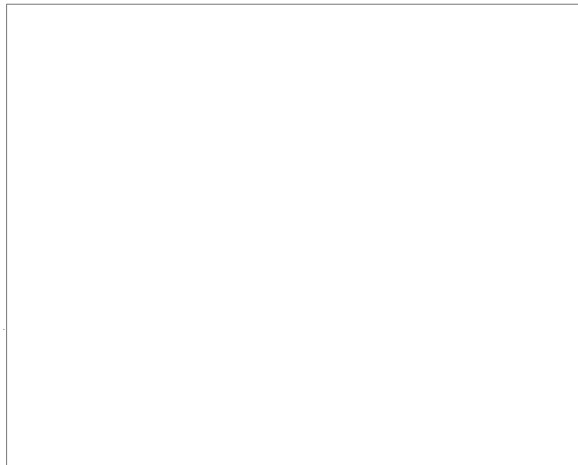
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The Soviet contract for the Kabul airport was reportedly signed by Daud himself almost simultaneously with the signature of the Afghan-American aviation development agreement by low-level Afghan officials. Daud probably intended by this gesture to make it clear that he is unwilling to modify his commitments to the Soviet Union, although he is prepared to accept new American aid.

**FRENCH NORTH AFRICA**Algeria

The tempo of guerrilla activity in rural northern Algeria has slowed considerably since the large-scale sweeps carried out in early June by the greatly strengthened French forces. The rebels, whose losses have been heavy, appear to be more on the defensive than at any time in recent months. Except for occasional hit-and-run forays by small bands, guerrillas generally stay under cover in their mountain hideouts.

The increase in rebel attacks on French desert outposts, particularly along the Moroccan-Algerian border, substantiates reports that some nationalist elements are moving west and south. At the same time, indiscriminate terrorist attacks in the large northern urban centers have increased. As yet, such attacks remain

sporadic and have not reached serious proportions.

Morocco

A potential threat to the sultan's authority appears reduced by the integration into the royal army of important northern elements of the irregular "Army of Liberation." Other former resistance fighters, spurning integration now, are reportedly moving southward toward the ill-defined frontier region of the Sahara, where Moroccan nationalists have announced extensive territorial claims on Algeria.

The increased number and activity of "liberation army" bands in the south and the general Moroccan hostility toward the movement of French troops are seriously exacerbating French-Moroccan relations. France, anxious to retain

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freedom of movement for its 80,000 ground forces, stands on the 2 March agreement, which provided that the status of France's forces in Morocco would remain unchanged until a basic defense relationship between the two countries is negotiated.

Moroccan negotiators now in Paris are seeking to restrict the movement of French troops. Unless an agreement is concluded soon, there may be serious trouble, possibly including large-scale clashes between French troops and the official Moroccan army.

Meanwhile, the Moroccan government is ready to press for the opening of bilateral negotiations with the United States regarding the status of the five American air bases in Morocco. The Moroccan foreign minister has formally requested that the United States furnish his government with the texts of the 1950 French-American agreements, which France had agreed to furnish it some weeks ago. Paris is apparently withholding this information in an attempt to bolster its position during economic and financial negotiations with the Moroccans.

On 6 July the secretary general of the French Foreign Ministry asked for an American commitment not to offer military aid to either Morocco or Tunisia, and implied that the texts of the 1950 agreements

would be withheld until a commitment is received. Such a commitment, which would only be useful to France if "leaked" to the Moroccans, would in the opinion of the American chargé in Rabat adversely affect the American position in Morocco.

Tunisia

The antagonism and suspicion underlying French-Tunisian relations, particularly concerning Tunisian sympathy for the Algerian nationalists, flared this week when the French government strongly protested an Arab-language broadcast of 1 July by Radio Tunis supporting the Algerians. The Tunisian government rejected the protest.

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Negotiations under way in Paris on defense and foreign policy seem to be marking time. French officials' hopes that the issue of a defense agreement will "quietly die" within the next few weeks appear unlikely to be fulfilled. The Tunisians continue to press strongly for complete military evacuation of Tunisia. A commitment to evacuate, even over a long term, does not seem likely in view of the strategic importance to France of its extensive naval facilities at Bizerte and the unresolved Algerian rebellion.

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MOLLET'S CONCESSIONS WIN FRENCH ASSEMBLY'S SUPPORT FOR EURATOM

Premier Mollet has won a 342-183 vote of approval in the National Assembly for French participation in the drafting of a six-power EURATOM treaty. Some of his support, however, was won by extensive concessions to nationalist opponents of European integration, who objected in particular to any effective limitation of France's rights to develop nuclear weapons. These concessions leave in doubt the question of whether a treaty acceptable to the other five nations will be ratified by the French assembly.

From the start of the debate, Mollet was faced with the absolute hostility of the Communists and the Poujadists; opposition from the right-center aimed at the supranational aspects of EURATOM; and with fears, particularly among Mendes-France Radicals, that the six-nation organization would be too small.

While Mollet did not formally demand a vote of confidence, he felt obliged to threaten to resign in the event of an adverse vote in order to overcome Radical and Social Republican opposition within the cabinet. This threat of a government crisis in the face of the Algerian situation restricted the free expression of parliamentary opinion on the EURATOM issue itself which Mollet had desired in order to avoid a repetition of the sequence of events which led to rejection of EDC.

Mollet apparently concluded that the threat of resignation was insufficient to assure success, however, and made additional concessions to center and rightist nationalists. He promised to demand at the current Brussels conference that the EURATOM treaty provide for institutions completely separate from those of the Coal-

Steel Community. Mollet also discriminated against West Germany by promising to insist that France and all other members of the six-nation organization, except West Germany, regain the right to manufacture nuclear weapons at the end of a four-year "moratorium," and retain the right to undertake preliminary weapons research during this period.

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French nationalists maintain that France's future great-power status depends on the possession of atomic weapons, and that this right should not be renounced even temporarily. The paper echoed allegations made by ultra-nationalists during the recent Council of the Republic debate on establishing a military division in the French Atomic Energy Commission that American pressure was behind the proposals for peaceful uses only.

While the assembly vote will permit the negotiations on the EURATOM treaty to continue, the government's position in the negotiations may be considerably weakened. Moreover, the debate virtually ignored the question of the common market, which other prospective members of EURATOM have hoped to see established simultaneously. The prospect that future official French expressions of support of the common market will be regarded as merely lip service will further hamper EURATOM negotiations.

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**FRICITION IN
WEST GERMAN-YUGOSLAV RELATIONS**

West German-Yugoslav relations suffered a setback on 7 July when the Bundestag, irked at recent Yugoslav statements seeming to imply recognition of East Germany, adjourned without ratifying the West German commercial loan to Yugoslavia or the war claims agreement negotiated in March. Yugoslavia's indignant reaction will probably jeopardize West Germany's economic position there. These incidents typify the difficulties Bonn is likely to encounter in its relations with other states on matters pertaining to East Germany.

West German officials had demonstrated a desire early this year for improved relations with Yugoslavia, and negotiations for a \$14,000,000 settlement of Yugoslav war claims were completed on 10 March. Payment of a \$50,000,000 postwar Yugoslav trade indebtedness to West Germany was postponed to 1968, and West Germany granted a \$57,000,000 long-term commercial loan to Yugoslavia at the same time. These commercial agreements indicated West Germany's interest in long-term consolidation of its position in the Yugoslav market.

The trend toward better relations received a sharp setback, however, as a result of Marshal Tito's trip to Moscow. West German leaders objected to the joint Tito-Khrushchev communiqué issued on 20 June which stated that there are two sovereign German states and that German reunification should proceed from East-West German negotiations. This communiqué and other Yugoslav statements on the de facto existence of two German states led many Bonn leaders to fear that Tito might

wait only for ratification of the March agreements before recognizing the East German regime--a move which Bonn has officially said would be "an unfriendly act."

Yugoslav officials were irked when they learned that Bonn intended to make ratification of the March agreements conditional on explicit assurances that Belgrade would not recognize East Germany. Statements by responsible Yugoslav leaders, however, that they had only recognized the de facto existence of two German governments, with no present intention of establishing diplomatic relations with East Germany, left the Bundestag still so suspicious that it refused to ratify the two March agreements before adjourning on 7 July.

The Belgrade press has been extremely indignant, accusing Bonn of having attempted to exploit the economic negotiations to influence Yugoslav policy toward East Germany.

It is still unclear as to what steps Bonn might take in the event of Yugoslav recognition of East Germany. The controversy possibly typifies the difficulties Bonn will encounter by its policy of threatening retaliation against countries recognizing East Germany.

Drastic official Yugoslav counteraction is unlikely before a clear-cut decision is made in Bonn, but the Federal Republic has probably seriously jeopardized its economic privileges affirmed in the commercial agreements, including a provision giving the West Germans equal navigation rights on the Danube with Yugoslavia.

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COLLECTIVIZATION DRIVE IN THE SATELLITES

A drive to speed up the pace of collectivization in the Eastern European Satellites has been in progress since mid-1955. During the first four months of 1956, a total of about 4,000 new collective farms have been formed. This total excludes East German figures, which are not yet available. The campaign follows a period of virtual stagnation in collectivization that began with the inception of the "new course" in mid-1953.

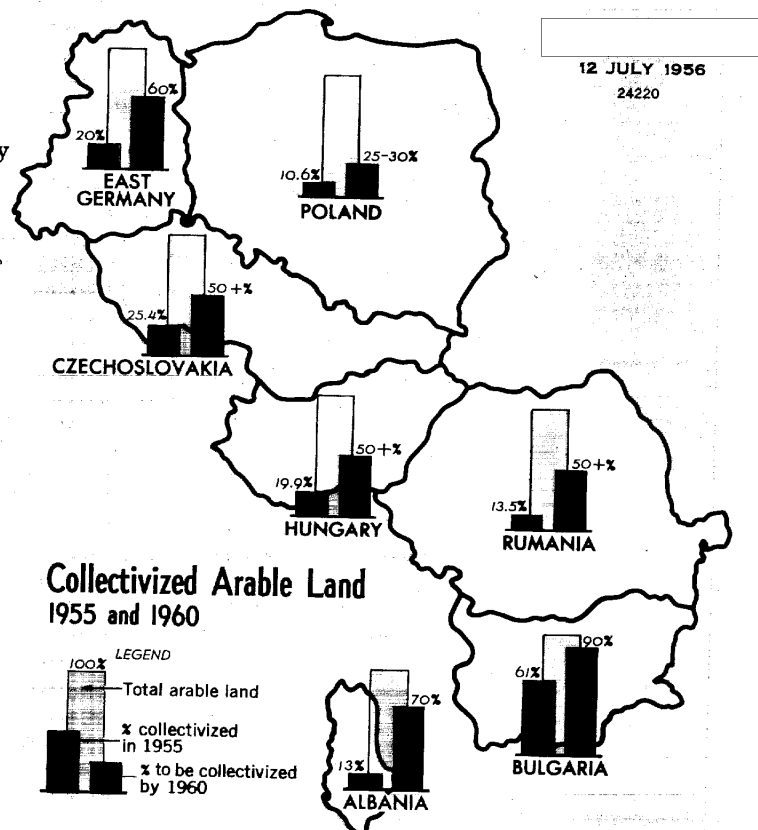
At the end of 1955, the percentage of the arable land collectivized ranged from 10 percent in Poland to about 61 percent in Bulgaria. Under the recently announced Satellite Five-Year Plans (1956-60), the percentage of collectivized arable land in Czechoslovakia, East Germany, Hungary and Rumania is to reach 50-60 percent, an increase of 25 to 40 percent over 1955.

Poland, where collectivization has always proceeded slowly, will probably collectivize no more than 25 to 30 percent of the arable land by 1960, compared with 10 percent in 1955. The sown area of Bulgaria, on the other hand, could well be completely socialized by 1957. The economies of both Bulgaria and Albania are probably intended to remain primarily agricultural under

the long-range plan for economic integration of the bloc.

The peasants now coming under pressure are the middle-class farmers who have held the land for generations and are wedded to it, not the peasants who received the land under postwar land reforms and did not have the capital or know-how to develop it.

A slight lull in the rate of collectivization may be expected during the harvesting season this year, but following that, increasingly vigorous pressures will probably be applied, possibly with some use of intimidation. If continued,

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the campaign will probably cause serious bitterness among the peasantry and could depress future food output. The collectivization drive may seriously reduce the Satellite's prospects for achieving the rise in living standards now

planned for 1960 unless the food deficits are made up by imports. The Communist leadership has apparently decided that collectivization is the only solution to the bloc's agricultural problems. 25X1

(Prepared by ORR)

RECENT SOVIET AGRICULTURAL DECREE

The Soviet Union has taken the unusual step of publishing a decree in draft form and allowing "public discussion" before governmental approval. The proposed decree, issued on 25 June, is designed to eliminate the use of grain products and other foodstuffs purchased from state stores as feed for privately owned livestock. The proposed decree would also restrict the private ownership of livestock in urban areas through the introduction of high monetary taxes and obligatory deliveries of milk and meat.

The removal in 1953 of the restrictions on urban ownership and production of livestock produce has, according to the decree, resulted in a situation which many urban dwellers have exploited "for private gain." Livestock products command high prices on the open markets and are in short supply in state stores, while grain products have been cheap and relatively plentiful. The decree states that townspeople and collective farmers adjacent to towns took advantage of the removal of restrictions by feeding bread and other foodstuffs purchased from state stores to livestock. This practice "disorganizes" the supply of foodstuffs for the population.

These urban holdings of livestock are not large in terms

of total numbers, but probably account for a disproportionately large share of the livestock products available in urban areas. Furthermore, the draft decree indicates that since 1953 large increases have occurred in the production of livestock products in the urban areas--where Soviet officials probably least expected them. The new measures probably would reduce the urban supply of livestock products.

The decree promises that the decline in the supply of urban livestock products which would result from its enactment will be quickly overcome by increased state and collective livestock production. This increase in socialized production, in turn, is to result partly from new measures aimed at persuading urban livestock holders to sell their livestock to the state.

The announcement has reportedly aroused much opposition in Soviet urban areas. About a week after its publication, the Soviet minister of state farms, Benediktov, said it would undergo major changes before promulgation. The Soviet leadership, by issuing the decree in draft for discussion, is apparently trying to convince the people that it is now conducting most of its operations on the basis of popular interest, and is no longer

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arbitrarily forcing unpopular policies upon the people. The government certainly would also wish to avoid a violent

popular reaction which might result in large-scale slaughter of livestock by townspeople.

[redacted] (Prepared by ORR)

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INDONESIA

Friction is increasing among the three largest parties in the Indonesian cabinet, particularly over the matter of patronage. An important contributing factor is concern over the country's economic problems and continuing dissidence.

Although the three principal parties--the Masjumi, the National Party (PNI) and the Nahdlatul Ulama (NU)--hold a nearly equal number of cabinet seats, the moderate, pro-West Masjumi is receiving only a small share of diplomatic and executive appointments.

to supplant the Masjumi as the leading Moslem party, chooses to co-operate with it to restrain the PNI or President Sukarno.

Meanwhile, government parties are increasingly aware of the need for measures to restore the balance of payments and stop the dangerous decline of foreign exchange reserves. Chiefly at the urging of the PNI, the cabinet has made the largely political gesture of withdrawing rubber--Indonesia's principal export--from the list of UN-embargoed products to Communist China.

The problem of dissidence, which continues to be one of the country's major difficulties, has been given little attention, probably because of differences between the PNI and the NU as to how the question should be handled. The PNI favors military suppression whereas the NU prefers negotiations.

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COMMUNIST YOUTH-FRONT ACTIVITY IN LATIN AMERICA

International Communist youth fronts are making an increased effort in Latin America to extend their network and expand memberships and influence. The campaign, which coincides with the Soviet bloc's program to increase diplomatic and economic relations with Latin America, was ordered in August 1955 when the councils

of the World Federation of Democratic Youth (WFDY) and the International Union of Students (IUS) resolved to correct the "insufficient attention" previously given this area.

The Mexican affiliate of both the WFDY and IUS, the National Federation of Technical Students (FNET), has taken

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the lead in organizing national student co-ordinating councils in Mexico City and in Merida, Yucatan. It was primarily responsible for instigating and directing a 66-day student strike in Mexico which ended on 21 June following the intervention of President Ruiz Cortines.

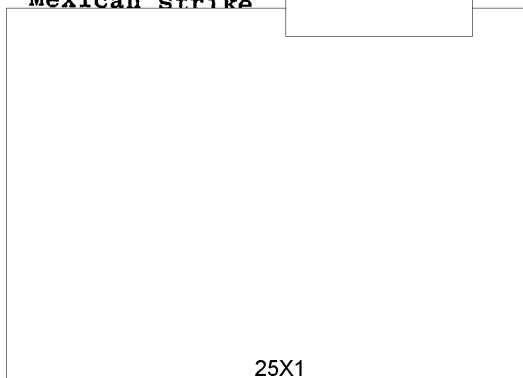
The IUS, which was involved in student strikes in Quito last November, offered medical services in the IUS-supported sanitarium in Czechoslovakia to a number of Cuban students wounded in demonstrations in late 1955. It reportedly plans to sponsor a student co-ordinating council in Santiago, Chile. A new youth group, with objectives identical to those of the WFDY, has reportedly been formed in British Guiana.

Two student leaders visiting in Brazil, an Indian representing the IUS and an Ecuadoran representing the Communist-infiltrated Federation of University Students of Ecuador, were expelled from the country on 11 June, according to the American embassy in Rio de Janeiro. They were reported to be carrying "vast documentation" showing plans to create unrest in Brazil, Uruguay, Argentina, Chile,

Ecuador and Mexico. They also planned to attend the student congress in Santiago beginning 28 July, presumably to encourage attendance at the World Student Congress to be held in Prague in August and at the 1957 Youth Festival in Moscow. Jacques Denis, WFDY secretary general, who was expelled on his arrival in Mexico on 2 June, carried visas for Argentina, Brazil and Chile.

Guatemalan officials allege without citing any impressive evidence that recent student disturbances in Guatemala are part of an international Communist conspiracy, and have pointed out their coincidence with student disturbances elsewhere in Latin America.

WFDY and IUS propaganda to Bolivia and Cuba has increased and an IUS manifesto was distributed during the Mexican strike



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PART III**PATTERNS AND PERSPECTIVES****DEVELOPMENT OF THE SINO-SOVIET ALLIANCE**

The Sino-Soviet alliance, which was firm in Stalin's time, seems to be as firm or firmer under the Khrushchev-Bulganin leadership. In the past two years, the Kremlin has helped Peiping to increase its international prestige, has continued its aid to the Chinese Communist military establishment, and has agreed to enlarge substantially its contribution to China's industrialization. Peiping may have adjusted its policy toward Taiwan to fit the Soviet aims of avoiding a general war and of engaging the West in a long-term competition. The Chinese are also closely co-ordinating with Moscow their programs elsewhere in the Far and Near East.

The Stalin Era

Soviet dictation of Chinese Communist tactics in the 1920's was followed by a series of failures. With Mao Tse-tung's triumph over Soviet-trained internal opposition in 1935, and with Moscow's belated endorsement of Mao's program the same year, Chinese Communist primacy in devising the party's program for China was established. Although the Chinese Communists were quick to adjust to changes in Soviet foreign policy after 1935, the Kremlin apparently did not again interfere in Peiping's domestic planning or in the Chinese Communist Party organization. From that time until now, the principal criterion for advancement in the Chinese party has seemed to be loyalty to Mao Tse-tung rather than to any group of leaders in Moscow.

It is not known whether Stalin at any time considered attempting to transform Soviet influence over the Chinese

Communists into Soviet control of the movement. Any intention along these lines would presumably have been discouraged by the experience in 1948 with Yugoslavia. In any case, after the establishment of the Peiping regime in October 1949, the USSR treated Communist China with much greater deference than it did the Eastern European Satellites and apparently made no effort to reduce Peiping to satellite status.

Sino-Soviet Treaty

The Sino-Soviet treaty of February 1950, concluded during Mao's only known trip outside China, became the rough guide for Soviet treatment of the Peiping regime during the next few years. It provided for consultation on all matters of common concern, and subsequent Soviet and Chinese policies for the most part have seemed well co-ordinated. It gave Peiping a Soviet military commitment in the event of attack by Japan or any ally of Japan, a commitment which, while evasive, has been publicly extolled by Peiping as a deterrent to American action against the China mainland.

The treaty also promised Peiping \$300,000,000 in economic aid and provided for Soviet occupation of Port Arthur, joint control of the main railway in Manchuria, and joint operation of certain other enterprises in Manchuria and Sinkiang.

The Chinese Communist victory over the Nationalists during 1949 may have led Stalin to believe that the Western powers could be forced from the Asian mainland without great risk to the USSR, and, in the case of Korea, without great

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expense. However, with the successful UN intervention in the Korean war, Chinese participation became necessary to prevent a Communist debacle in Korea.

in the Sino-Soviet relationship --although a strain far short of rupture. A Chinese Communist delegation initially headed by Chou was engaged in high-level economic negotiations in Moscow from August 1952 to May 1953. The prolonged talks suggest that there was hard bargaining and possible Chinese disappointment over failure to obtain greatly increased Soviet support of Peiping's industrialization program.

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25X1Korean Settlement

There may also have been a difference of views between Peiping and Moscow on the terms for a Korean cease-fire, negotiations for which were begun as a result of Soviet initiative in 1951. The USSR, having restored Communist control of North Korea by proxy, seemed to fear that any concession to the West would be regarded as a sign of weakness and the negotiations dragged on until after Stalin's death. The Chinese Communists, on the other hand, boasted that they had achieved a stand-off with the West and suggested they would like to get on with China's industrialization.

The Indian formula for a Korean truce in late 1952 was denounced by Soviet UN delegate Vyshinsky after the Indians--perhaps incorrectly--had concluded that their proposal was satisfactory to Chou En-lai. In any case, Chou made his own bid for the Korean settlement shortly after Stalin's death, and Soviet diplomats then endorsed Chou's overtures.

There may have been another strain at this time

Moreover, Mao in early 1953, following Stalin's death, published an article called "The Greatest Friendship" in which he suggested a real sense of loss over the "great teacher" and "most sincere friend" of the Chinese people.

Recent Soviet Policy

In May 1953, the new Soviet leadership apparently moved a considerable way toward meeting Chinese economic demands by agreeing to provide aid for the construction of 141 basic enterprises in China under a program running through 1959. In October 1954 the Kremlin agreed to extend aid to 15 additional basic construction projects and to provide another long-term credit of \$130,000,000. In April this year, First Deputy Premier Mikoyan committed the USSR to assist Peiping in building 55 more industrial enterprises. There seems little doubt that Soviet economic aid of this type is being given the Chinese as rapidly as they can handle it.

Military Aid: The Kremlin is continuing its substantial military aid to Communist China, while helping the Chinese develop their own production capabilities.

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The Russians have also given extensive technical assistance to Peiping's aircraft and shipbuilding industries. Under the supervision of many Soviet advisers, naval shipyards in Shanghai have been greatly expanded in the past year. In launching their first modern destroyer in April 1956, the Chinese apparently matched timetables of Soviet yards for production of this vessel. The Chinese have also succeeded, with much Soviet help, in a "trial" production of jet aircraft engines.

Training: In addition to providing large numbers of Soviet advisers on reasonable terms, the Soviet Union is educating some thousands of Chinese students. There are now about 2,600 Chinese students in the USSR, with nearly 7,000 more scheduled to go to the USSR--and 700 to the Satellites--through 1957. In addition, about 11,300 young Chinese are to be sent to the USSR and the Satellites in the next few years for "practical training."

Political Support: The present Soviet leaders have been making an effort to go even further than Stalin in helping Peiping acquire international prestige. When a high-level Soviet delegation--including Khrushchev, Bulganin, Mikoyan and Shepilov--visited Peiping in the fall of 1954, Moscow agreed to an early transfer to the Chinese of Soviet shares in the four Sino-Soviet joint stock companies and to the early withdrawal of Soviet armed forces from Port Arthur. In thus liquidating Soviet footholds in China--which had often been interpreted by Asians as evidence of European extraterritoriality--the Soviet leaders fulfilled

a commitment given in 1950, for which they took credit.

Public Soviet support for Peiping's policies reached a new high during the Soviet visit in the fall of 1954. Khrushchev declared that the Soviet people sympathized with and supported the Chinese in their determination to "liberate" Taiwan. Although Khrushchev did not mention the type of Soviet support which Peiping could expect, his speech was the first in which any top-level Soviet leader had publicly pledged support for this Chinese Communist goal.

Coleadership

Immediately after taking over in February 1955, the Khrushchev-Bulganin team elevated Peiping to the status of "coleader" of the world Communist camp. Soviet propagandists began to refer to Communist China as a power capable of "taking care of itself." While the use of such descriptions of the Peiping regime made it possible for the USSR to claim that it was not responsible for Peiping's actions, this characterization, in terms of prestige, went far beyond anything ever previously accorded a non-Russian Communist movement.

Soviet leaders subsequently made no effort to force the Chinese Communists to conform to the Soviet line on "collective leadership." Chinese Communist praise of Mao's personal leadership continued, and in July 1955 Mao emphatically asserted that leadership by publicly reversing the policies of all other Chinese Communist leaders who had spoken on the subject of the speed of China's socialization.

"Different Roads"

The new Soviet leadership also turned down the fire under

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some doctrinal points which had been simmering for years between Russian and Chinese theorists. The new Soviet approach was shown by several speakers at the Soviet 20th Party Congress, who affirmed that there may be "different roads to socialism." Shepilov, for example, remarked that the Chinese program, "from the point of view of a (mere) bookman of Marxism, is almost tantamount to trampling under foot the principles of Marxism-Leninism." This view is clearly congenial to Mao, who once observed that dogma is "more useless than cow dung."

Soviet reluctance to attempt to impose a rigid line on Peiping has also been suggested during the devaluation of Stalin during 1956. In what Chou En-lai has described as a "very serious and responsible" editorial of early April--written by protégés of Mao--Peiping took a more moderate line than did the Soviet press. The editorial minimized Stalin's errors on China in the 1920's by attributing them to former Chinese Communist leaders, and did not accuse Stalin of sins against China in even the latter part of his life, when he made "gross errors" in other directions. The Soviet press has not expressed or implied any criticism of Peiping's treatment of Stalin.

Policy on Taiwan

Peiping's propaganda about Taiwan reached an all-time high in belligerency in early 1955, and there seemed at least a marginal possibility of an early attack in the Taiwan area. Then in the spring of 1955, Peiping suddenly switched to a conciliatory line, which has continued ever since. The Russians may have played some role in this change.

After Khrushchev's speech in Peiping in the fall of 1954 had been publicized, Soviet officials in Moscow pointed out to Western correspondents that Khrushchev had not referred to support by the Soviet "government." Khrushchev had, moreover,

avoided any mention of military aid.

Similarly, during the peak of Peiping's "liberate Taiwan" campaign in February 1955, Soviet leaders suggested a wish to convince the West that Moscow was not responsible for Peiping's policy moves. Ambassador Bohlen pointed out that the coleadership formula, while consistent with other Soviet efforts to give new prestige to the Chinese, in one sense tended publicly to disengage the USSR from direct responsibility for rash Chinese actions in the foreign field. The Chinese Communists, who are well aware that the success of an operation against Taiwan would depend on Soviet willingness to assume military obligations under the Sino-Soviet treaty, have never adopted the coleadership formula and continue to refer to the Communist camp as headed by the USSR alone.

In any case, present Chinese Communist policy toward Taiwan fits into the Soviet aims of avoiding a general war and of engaging the West in a long-term competition. Chou En-lai, while reaffirming the regime's determination to annex Taiwan by one means or another, has recently asserted that the possibility of "peaceful liberation...is increasing." Peiping seems to foresee a long period of exploring primarily political forms of action--singly and in combination--such as subversion, negotiations with the United States to effect an American withdrawal, and negotiations with any group of Nationalist leaders willing to talk.

Other Policies

Peiping has publicly "welcomed" the extension of Soviet

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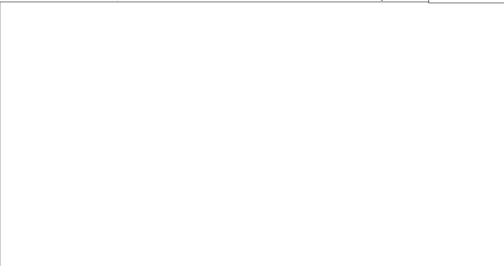
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activity in Asia, and Moscow has actively assisted the Chinese Communist diplomatic effort in the Middle East.

Peiping's silence on foreign policy matters concerning which the USSR has taken a definite stand has sometimes suggested a Sino-Soviet policy disagreement. It is more likely that this silence merely reflects a Chinese desire to avoid irritating a non-Communist state.



On all issues involving Middle and Far Eastern countries, Peiping and Moscow are presenting a united

front and seem to be co-ordinating their tactics.

The Chinese Communist leadership, the composition of which has not changed greatly in recent years, seems to be at least as strongly committed to the Soviet alliance at the present time as it was during Stalin's time. All Chinese Communist leaders have affirmed, on one or another occasion, their support of the new Soviet team. There is not a single Chinese Communist leader who can be reliably identified as anti-Soviet or even cool toward the Russians. The continuation of this Chinese attitude will presumably depend on a continuation of the Soviet policy--pursued by Stalin and improved on by the later Russian leaders--of helping Peiping acquire prestige and providing it with substantial material aid.



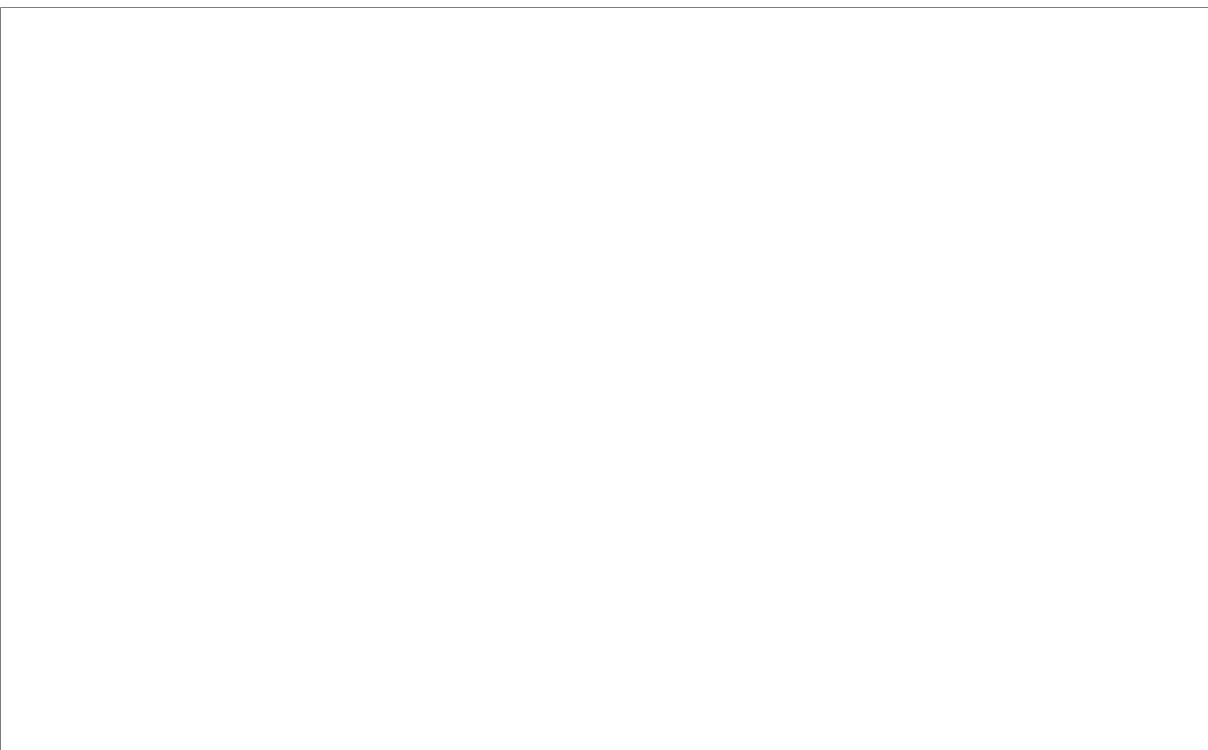
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LATIN AMERICAN ATTITUDES TOWARD US INVESTMENT

Latin American dissatisfaction with Washington's emphasis on private rather than government investment in Latin America has notably abated during the past several months. While this dissatisfaction had become less intense following the Rio conference of November 1954, it could well resume its former intensity if measures taken by the United States and local economic reforms do not substantially increase the flow of private dollar capital.

Latin American Hopes

At the end of World War II, the Latin Americans had expected a large influx of private American capital for the accelerated industrialization of the southern continent. However, recollection of heavy losses on past private investment in Latin American government bonds had a discouraging effect, and more secure opportunities in the

United States and Canada proved too strong a counter-attraction to private investors. Consequently, the Latin Americans increasingly disparaged private capital as a source of funds. Nevertheless, American private investment in these countries amounts to about \$6.5 billion, or 37 percent of total US foreign investment.

Being accustomed to a larger role for government in economic affairs than prevails in the United States, they resented Washington's view that they should themselves create internal conditions attractive to private investment and should use foreign public loans primarily as a further stimulant, not as a substitute.

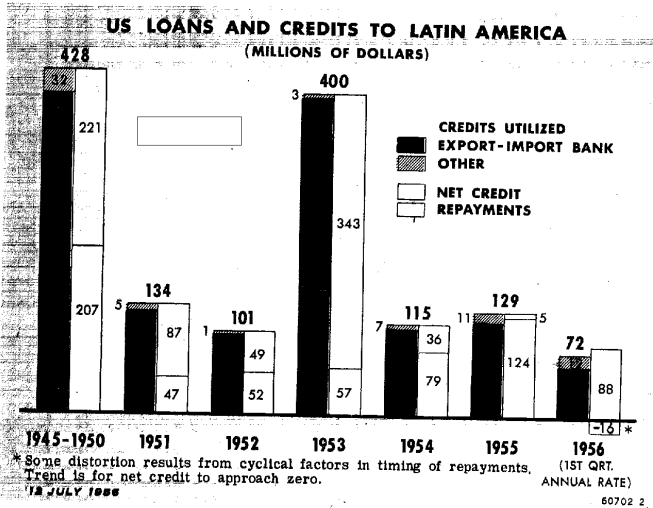
US private investment in Latin America declined from \$580,000,000 in 1952 to \$223,000,000 in 1954, and considerable resentment over US

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and equipment. President Kubitschek of Brazil, who came to power on the campaign slogan of "50 years of progress in five years," is counting primarily on attracting large private funds from abroad.

The provisional government of Argentina has stressed since last October its desire for foreign private capital and seems trying to reorganize the domestic economy in such a way as to regain

the foreign investor's confidence.

In Chile, which before the Rio conference, in a gesture symbolic of opposition to US foreign economic policy, led a widely supported drive for a new inter-American lending agency, the government has radically changed its policy. Acting on the recommendations of US experts, it launched last January a rigorous attack on the country's acute inflationary problems, and with the help of improved export prices, has now achieved considerable economic stability and substantially increased the inflow of foreign private capital.

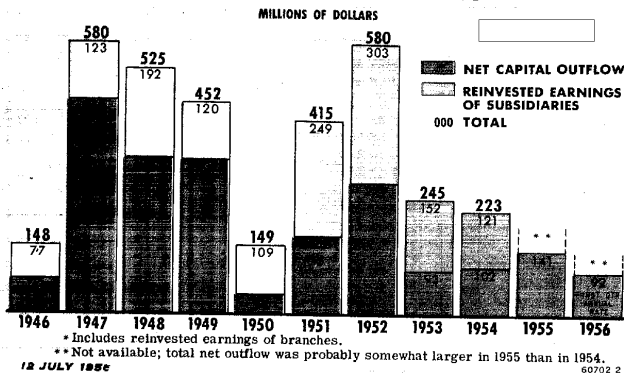
policies was expressed at the inter-American economic conference in Rio de Janeiro in November 1954. A declaration by the United States toward the end of the conference that it would contribute about 35 percent of the capital to a new \$100,000,000 International Finance Corporation (IFC) affiliated with the World Bank started a change in attitude.

Subsequent measures contributing to this change included: (1) loans by the International Co-operation Administration to Latin American firms, (2) credits by Export-Import and private bank consortia to US exporters of capital equipment, (3) reciprocal adjustment of corporate income taxes to promote private foreign investment, and (4) negotiation of investment guarantee agreements.

Private Investments

During recent months several important South American countries have been looking with renewed hope to foreign private capital for development funds

US DIRECT CAPITAL OUTFLOW AND REINVESTED EARNINGS IN LATIN AMERICA



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Peru's success over the past six years in similarly attracting private capital on the basis of economic reforms recommended by the same US experts has had an important psychological impact beyond Peruvian borders.

Political and Economic Problems

It is by no means certain, however, that this improved Latin American attitude toward private investment will endure. There is no evidence of any impressive over-all increase in the flow of private dollar capital to Latin America. The IFC's operations are not scheduled to begin for another few weeks and other measures for expanding private investment have apparently not yet had time to take effect.

The Brazilian and Argentine governments face grave political problems that will restrict their ability to carry out the disinflationary and other economic reform measures needed to create a climate favorable to large-scale foreign investment. The level of savings and domestic

investment in many other Latin American countries also continues to be depressed by pressures for a rising standard of living combined with such basic unsolved problems as vulnerability to fluctuations in world prices of a limited range of exports.

If the ambitious stabilization plans of major Latin American countries should fall conspicuously short of realization during the remainder of this year, or should there be a broad economic downturn, a resurgence of bitter criticism of the United States' "neglect of Latin American financial and development needs" can be expected. This would be particularly conspicuous at the next inter-American economic conference tentatively scheduled in the spring of 1957.

Under such conditions, moreover, Latin American countries might well become vulnerable to Soviet bloc offers of development capital at lower interest rates than those available in the West.

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