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30 August 1956

CURRENT INTELLIGENCE WEEKLY SUMMARY



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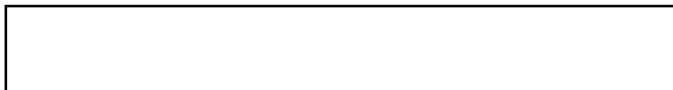
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CURRENT INTELLIGENCE WEEKLY SUMMARY

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

SUEZ DEVELOPMENTS Page 1

Nasr's Reaction: Egyptian president Nasr has agreed to meet the five-power committee appointed by the London conference majority. There are indications he fears the effects economic sanctions might have on Egypt. He is continuing military preparations--but these seem mainly for psychological effect--and he seems willing to seek a compromise formula. He is also continuing his efforts to recruit canal pilots to prevent a breakdown of canal operations, which might give an excuse for intervention.

Soviet Role: On 28 August the Soviet ambassador in Cairo stated, after a conference with Nasr, that the Indian resolution offered the best way to bolster peace in the Middle East.

Anglo-French Preparations: The British and French governments continue their "precautionary" military measures. French troops have reportedly arrived in Cyprus. London is also studying possibilities of further economic sanctions if present diplomatic approaches fail. The British press has become more restrained, while French agitation has returned to its earlier high pitch. [redacted]

CYPRUS Page 4

An 11-day truce called by the Cypriot guerrilla organization EOKA has ended and terrorist operations have been resumed. The apparent British determination to destroy EOKA before making further moves toward a political settlement on Cyprus and the equally adamant nationalist determination to force London to negotiate promise a continuation of the stalemate and of violence on the island. [redacted]

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PART II

NOTES AND COMMENTS

**GRAIN HARVESTING PROBLEMS
IN THE SOVIET UNION**

Page 1

Although the USSR may suffer losses in harvesting its bumper grain crop this year because of heavy rainfall and poor organization of agricultural work, the total of harvested grain will be greater than in 1955, the highest postwar year. [redacted]

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**ADDITIONAL SOVIET AIR UNITS
LEAVE EAST GERMANY**

Page 2

With the departure of a jet light bomber division and a ground attack division on 26 and 27 August, a total of three Soviet air force divisions have now been withdrawn from East Germany. Because of the high degree of mobility of jet light bomber units and the ground attack capability of jet fighter units, immediate Soviet air capabilities in eastern Europe will not be substantially reduced by these withdrawals. [redacted]

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**CHINESE COMMUNISTS EXPAND
CONTACTS IN LATIN AMERICA**

Page 3

The arrival of a Chinese Communist opera group in Chile on 16 August marked the latest of a series of efforts by Peiping to establish rapport with the people of Latin America. While contacts of this sort may increase prospects for general acceptance of China in certain parts of Latin America, no Latin American state appears to be contemplating recognizing Peiping at this time. [redacted]

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**JAPANESE LEADERS DIFFER
OVER NEGOTIATIONS WITH USSR**

Page 4

A conflict has arisen within the Japanese government and ruling Liberal-Democratic Party over the action Japan should take in the deadlocked negotiations with the USSR. The Japanese have made no move to break off the talks and apparently still hope to reach a compromise which will maintain their territorial claims. The present dissension centers on a proposal to send Prime Minister Hatoyama to Moscow in an attempt to salvage the situation. [redacted]

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LAOS RECEIVES OFFER OF CHINESE COMMUNIST AID Page 5

Concluding his Peiping visit, Laotian premier Souvanna Phouma declared that he was "deeply moved" by a Chinese offer of aid and has requested the Communists to send representatives to Laos to make firsthand observations for future planning. Peiping will probably follow the lines of its agreement with Cambodia and offer a grant in aid. In Hanoi, on its return to Vientiane, the delegation issued a joint statement with the Viet Minh calling for the establishment of economic and cultural relations and paving the way for an eventual exchange of diplomatic representatives.

[Redacted]

CAMBODIA Page 6

Prince Sihanouk, recently returned from a three-month trip to Europe, is having difficulty lining up a new Cambodian government and may resume the premiership himself. He seems satisfied that Cambodia's neutralist foreign policy will protect the country from external aggression but warns that "Communism will come to Cambodia" unless internal social and economic inequalities are reduced. His recent moderate statements and concern for internal reform suggest that a more responsible administration may be in the offing.

[Redacted]

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SOVIET BLOC OIL DELIVERIES TO EGYPT Page 7

Deliveries of petroleum products from the Soviet bloc to Egypt have increased in August, but not necessarily because of the Suez crisis. In past years, the bloc has increased its oil shipments to Egypt in the second half of the year, apparently to offset lagging first-half deliveries. Despite increased deliveries, Egyptian stocks of oil products have remained low.

[Redacted]

ARAB-ISRAELI SITUATION Page 8

No serious clash has been reported on the Arab-Israeli frontiers since 24 August.

[Redacted]

Israel continues to hold to a "wait-and-see" policy pending the outcome of the Suez dispute.

[Redacted]

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RIVAL ITALIAN SOCIALIST PARTIES
WORK TOWARD REUNIFICATION Page 9

Public statements by Italian Socialist Party chief Nenni and Democratic Socialist Party chief Saragat, following their meeting in Savoy on 25 August, imply that a basis of agreement has been reached for reunification of their parties. A stronger and more doctrinaire Socialist party would eventually pull the Italian government further toward the left. [redacted]

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PART III

PATTERNS AND PERSPECTIVES

FRICION IN SPAIN'S RELATIONS WITH THE UNITED STATES Page 1

Friction has arisen in Spain's relations with the United States over issues connected with American bases in the country, labor unrest, and the increased cost of living. Madrid is reluctant to counter the popular belief that the presence of Americans in Spain is responsible for many of the country's difficulties. [redacted]

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PHILIPPINE-AMERICAN RELATIONS Page 4

Expressions of anti-American sentiment in the Philippines, sparked by Senator Claro Recto, are increasing among politicians and sections of the press. Although no drastic reorientation of Philippine foreign policy is likely in the near future, increasing numbers of influential Filipinos are beginning to voice the belief that their country deserves better treatment from the United States. [redacted]

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PROGRESS IN THE TAIWAN ECONOMY Page 6

The Taiwan economy is continuing to make gains this year. Industrial production now stands 66 percent above the prewar high of 1941 and is continuing to expand at a steady pace. Agricultural production equals its prewar high, although a rapidly increasing population has sharply reduced per capita output. Despite these gains, however, the Taiwan economy cannot support the existing military establishment and has other basic weaknesses which will keep the island dependent on external aid. [redacted]

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THE WEEK IN BRIEF

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PART I

OF IMMEDIATE INTEREST

SUEZ DEVELOPMENTS

Nasr's Reaction

Egyptian president Nasr has agreed to meet the five-power committee appointed by the London conference majority. Nasr seems to be willing to seek a compromise formula, and has been impressed by the fact that no country attending the London meetings was willing to support Egypt's position in full.

Nasr, or at least his advisers, have also been impressed by the effects Western economic sanctions might have on Egypt. He is reported interested in finding a formula which will express the international interest in the operations of the canal--an interest he has not denied--but which will at the same time leave Egypt's "sovereign rights" intact.

Egyptian Moves

The Egyptian army has concentrated armor of various kinds--T-34, JS-3 and Centurion tanks, self-propelled guns and other vehicles--a short distance west and south of Cairo, in a position to defend the city against an enemy advancing from the coast around Alexandria. Along the coast itself, machine gun emplacements have been dug and armor deployed behind a ridge paralleling the coast.

These activities still seem to be mainly for psychological effect.

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While Cairo's estimate of the possibility of Western military action has waxed and waned with reports of French and British troop and naval movements, the Egyptians basically feel that they are not likely to be attacked directly.

Canal Pilots

Nasr reportedly recognizes that one of Egypt's most immediate problems is to maintain a sufficient number of Suez Canal pilots, since a halt or an abnormal delay in the passage of ships through the canal might provide the British and French with an internationally acceptable excuse for intervening.

Soviet propaganda has indicated Moscow's sensitivity to the effect on international opinion of a breakdown in canal operations. The Egyptian ambassador in Moscow on 29 August said publicly that a "number of Soviet pilots" had volunteered for service on the Suez Canal, and that, together with those from other nations, these would be sufficient for Egyptian operation of the canal.

Soviet Role

The Soviet role in the Suez controversy continues to be opportunistic. The USSR seeks to identify itself with Arab nationalistic aspirations. At the same time, it continues to denounce the use of force and insists that a peaceful solution can be found.

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The USSR apparently feels confident the West will find it increasingly difficult to take military action against Egypt. Moscow probably aims at prolonging negotiations between Egypt and the West.

Soviet spokesmen continue to profess concern that the Suez crisis might yet explode into a conflict which would spread beyond the Middle East. The army newspaper, Red Star, repeated Shepilov's statement in London that the use of force by the West would be a threat to peace and that the conflict might spread to other areas.

There are no indications thus far that the USSR has made a commitment of direct military support of Egypt against the West. Khrushchev revived the idea of Soviet volunteers--which has been a recurrent rumor in the Middle East--but avoided directly linking the USSR with the defense of Egypt. At a reception on 23 August he said the Arab world "would not be alone" if there were war over Suez, and said he would give his approval if his son volunteered for service in Egypt.

Soviet propaganda has encouraged Nasr to reject the proposal presented by the five-nation committee, which was established by "colonial powers ... to bring pressure to bear on Cairo." It has also attempted to line up Afro-Asian nations behind the Indian resolution. On 28 August, after a conference with Nasr, the Soviet ambassador in Cairo stated that the Indian resolution offered the best way to bolster peace in the Middle East.

Anglo-French Preparations

Since the end of the conference both Britain and France have continued "precautionary" military measures.

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A recent news report from The Hague stated that the Netherlands government had granted Britain permission to use Rotterdam as an embarkation port for the transfer of troops to the Middle East, and that space was being prepared for the reception of a British division now stationed in Germany. Press items in early August had mentioned the 2nd Infantry Division, one of the four NATO-committed British divisions now in Germany, as being slated for possible use in the Mediterranean. No confirmation of these reports has been received. If a division were withdrawn from Germany, it might only be sent to Britain to replenish the home garrison.

The naval build-up has continued, according to the British press, with the dispatch to the Mediterranean of a destroyer depot ship, a light cruiser carrying a royal marine battalion, a tank landing ship carrying vehicles, tanks and landing craft, and a flotilla of seven inshore mine sweepers with a base ship. The amphibious warfare squadron based on Malta has been increased by

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vessels from the operational reserve to give it a capability of lifting more than 2,000 troops.

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Somewhat more publicity has accompanied French military moves since the conference. A Mediterranean Forces Headquarters was reportedly created last week to command the armored and paratroop units reported being assembled in Algeria.

On 29 August a joint statement announced that a contingent of French troops will be stationed on Cyprus. According to a French Press Agency report, the first elements arrived by air on 30 August. Paris newspapers stated that paratroops and Foreign Legionnaires had embarked from North Africa, apparently as the advance guard of two divisions to be under a joint French-British staff. One paper said a large naval force left Toulon on 28 August. Numerous liners, freighters and tankers are reportedly being requisitioned.

On 24 August the American army attaché reported that the French air force was activating a Middle East Command, consisting initially of a fighter group of approximately 50 planes and two transport units, and that ships at Marseilles have been loaded with materiel for them. Some other fighter groups are on a combat alert status.

Public Attitudes

With the conference over, public discussion in Britain has increasingly stressed the difficulties of using military measures. In keeping with the conciliatory trend, several influential papers have echoed Labor Party leader Gaitskell's call for the government to encourage the canal pilots to remain at work. A few independent and Labor papers have even urged the government to call off its present economic sanctions.

On the other hand, French agitation over Suez has returned to its earlier high pitch. France's participation in the conference is widely viewed as sufficient demonstration of France's willingness to be conciliatory. Since Nasr is expected to reject the conference proposals, the search for means to protect French interests, especially in Algeria, continues to take into account the possibility of eventually using force. Robert Lacoste, minister residing in Algeria, has hinted he might resign if attention is not paid to his warning that failure to check Nasr would make the French position in Africa impossible.

Those circles in both countries seeking forcible intervention look to a possible transit breakdown to arouse world opinion for such intervention. The Suez Canal Company announcement on 26 August that it could no longer be responsible for its staff members in Egypt appeared likely to precipitate a breakdown.

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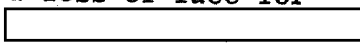
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The French Foreign Ministry has anticipated that withdrawal of foreign personnel could cause a transit breakdown within two weeks. In this event, the ministry believes a favorable majority could be found in the UN General Assembly for an interim international administration of the canal, which would place Nasr in an "impossible dilemma." The principal goal--shared by London--is to destroy Nasr's prestige in Egypt and the Arab world.

For the present, the British government is actively exploring the possibilities of imposing further economic sanctions on Egypt in case diplomatic approaches fail. London is also considering curtailing exports to Egypt, making further efforts to gain other nations' support for economic sanctions, and, in company with the United States and France, embargoing Egyptian cotton. At the same time, Foreign Secretary Lloyd is hoping that a settlement can be worked out allowing Egypt to take on certain operations that would not result in a loss of face for the West.



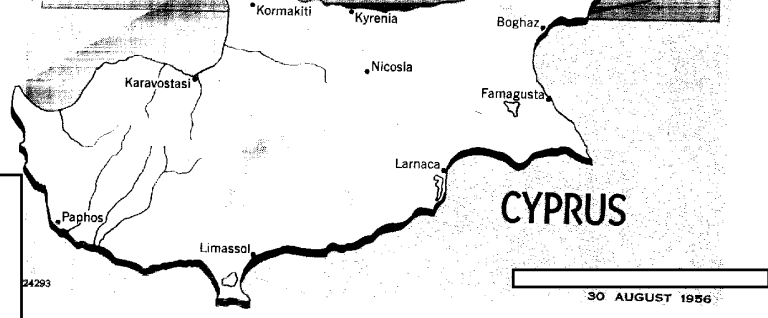
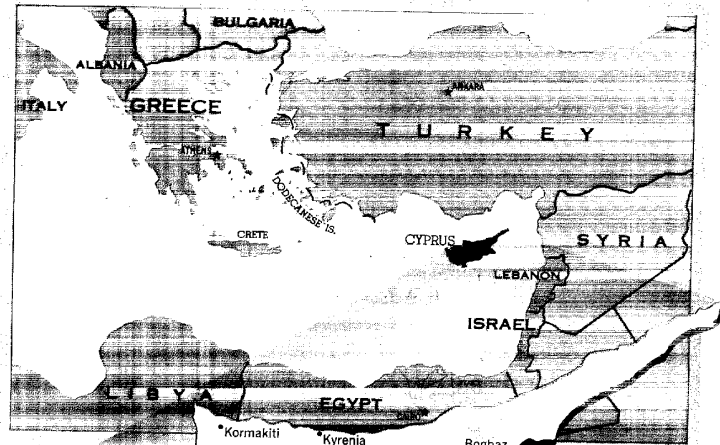
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CYPRUS

An 11-day truce on Cyprus called by the Cypriot guerrilla organization EOKA has ended and terrorist operations have been resumed. London apparently intends to take no significant steps toward giving the island self-government until the EOKA organization is destroyed.

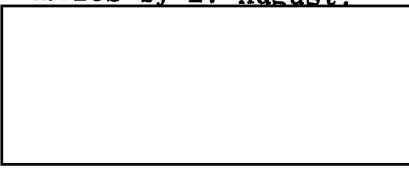


The British response to EOKA's truce call on 16 August, ordering EOKA members to surrender for trial or for deportation to Greece, was rejected by the nationalists. EOKA then threatened to resume its operations if the British did not reopen talks with exiled Archbishop Makarios by 27 August.



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PART II

NOTES AND COMMENTSGRAIN HARVESTING PROBLEMS
IN THE SOVIET UNION

The USSR in 1956 will reportedly harvest the largest grain crop in its history, perhaps as much as 124,000,000* metric tons. The 1955 harvest, a postwar high, totaled 103,000,000 tons, while the prewar high, on a considerably smaller acreage, was about 105,000,000 tons in 1937. Recent information reveals, however, that the USSR may suffer considerable losses in harvesting, both because of delays in starting the harvest and because above-normal rainfall may damage the crop.

On the basis of weather data for the period through July 1956, a harvest of 124,000,000 tons is a reasonable expectation. In 1954, weather in the New Lands was excellent, but poor weather reduced yields in the Ukraine. This situation was reversed in 1955, when the Ukraine had an above-average harvest and the New Lands, a poor harvest. In 1956, the Ukraine has had reasonably good weather and the New Lands, excellent weather. This, together with the almost completed expansion of corn acreage and of the New Lands, has produced large increases in crops in the field and created the potential for an abundant harvest.

The actual amount of grain obtained will depend on the ability of the USSR to harvest the crop promptly and to store

*The figures in this article are based on "barn yield"--the grain remaining after harvesting loss--rather than on "field" or "harvest" yields.

it properly. Harvesting losses during the gathering of unusually good grain crops in the past have been abnormally large. Such losses this year may be further increased by the inadequacy of storage and transportation facilities in the New Lands.

Heavy Rainfall

This year's harvest is being adversely affected by an excess of rainfall in the month of August, and particularly in the last two weeks. This rainfall has delayed the beginning of operations, and has wet the standing grain and the cut grain awaiting threshing. Unless the wet grain can be dried after threshing, it is subject to spoilage. Grain in the New Lands must normally be dried, and the bumper crop will probably overtax available drying facilities.

Although wheat harvesting in the Ukraine has virtually been completed, the bulk of the New Lands harvesting remains to be done. The harvesting of corn, concentrated principally in the Ukraine and North Caucasus, will not be in full swing until September. If harvesting losses are not much greater than usual, a bumper crop on the order of 120,000,000 tons is assured. If the rains continue and harvesting is still further delayed, losses could become serious, but in spite of this, the total of harvested grain will be greater than in 1955.

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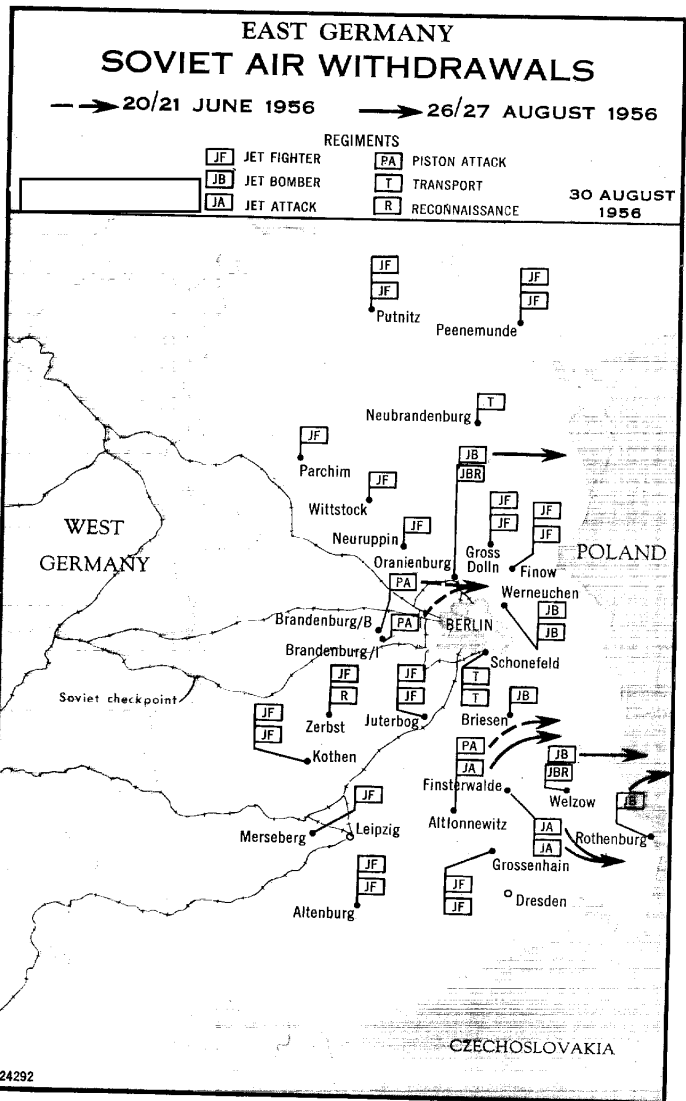
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ADDITIONAL SOVIET AIR UNITS
LEAVE EAST GERMANY

Two additional divisions of the Soviet 24th Air Army have left East Germany in line with the Soviet announcement on 14 May that a total of three Soviet air force divisions would be withdrawn. A jet light bomber division left Oranienburg on 26 August and a MIG-15-equipped ground attack division left Finsterwalde and Alt Lonnewitz airfields on the following day. The other ground attack division of the 24th Air Army, which was equipped with obsolescent IL-10 aircraft, had left Brandenburg on 20 and 21 June.

bomber division from Oranienburg was marked by formal ceremonies attended by Marshal Grechko, Soviet commander in East Germany, and other high-ranking officers and civilians. The East German foreign minister used the occasion to commend the Soviet action, suggesting that it should prompt the Western powers to withdraw all their occupation



The departure of these units leaves one jet light bomber division and two IL-28 reconnaissance regiments in East Germany. It is estimated that immediate Soviet air capabilities in eastern Europe will not be substantially reduced by the withdrawal in view of the demonstrated high mobility of Soviet jet light bomber units and the ground attack capability of Soviet jet fighter units.

The August withdrawals were announced in a Soviet note inviting Western military representatives to witness the departure of these units.

The departure of the jet light

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troops. The East German press reported that more than 70 IL-28's were involved in the withdrawal.

Farewell ceremonies were also held at Finsterwalde air-

field on the following day. Approximately 90 MIG-15's and U-MIG-15 trainers were counted leaving the airfield.

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CHINESE COMMUNISTS EXPAND CONTACTS IN LATIN AMERICA

The arrival of a Chinese Communist opera group in Chile on 16 August marked the latest of a series of efforts by Peiping to establish rapport with the people of Latin America. During the past year, there have been several significant trade, propaganda and travel contacts made between Latin American countries and Communist China. While cultural contacts may increase prospects for general acceptance of China in certain parts of Latin America, no Latin American state appears to be contemplating recognizing Peiping at this time.

The opera troupe is reportedly slated to visit Uruguay after Chile. Most Latin American governments are probably quite reluctant to receive the group, and officials in several countries are opposed to granting visas. The presence of Chilean president Ibanez and his cabinet at a performance in Santiago, however, may influence other governments to accept the troupe--particularly if it receives an enthusiastic public reception.

Latin American contacts with Communist China have been

limited. Chinese officials, including Premier Chou En-lai, have stated in interviews with Mexican correspondents this summer that Peiping wishes to expand relations of "all kinds" with Latin America. In addition, the Chinese have expressed interest in buying Chilean copper, Peruvian sugar, Brazilian coffee and Mexican cotton.

Trade--mainly Argentine and Brazilian commodities--was valued at less than \$11,000,000 in 1954 and fell to nearly \$8,000,000 in 1955. A Chinese Communist delegation which visited Argentina in 1955 failed to increase trade with private Argentine businessmen. Uruguay a few months later appointed a commercial agent to China without diplomatic status, and the two governments reportedly are considering a banking agreement.

A rise in foreign visits to China may have persuaded Peiping to launch its present cultural offensive. Latin American visitors to Communist China in recent months have included a group of Argentine physicians and a Brazilian parliamentary delegation, in addition to the

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usual Communists and fellow travelers.

Chinese Communist cultural groups have scored several successes in free world tours. A 75-member contingent junketed through the Middle East and Africa last spring leaving a string of well-wishers and cultural exchange agreements behind. Another group was well received in Western Europe last winter.

Programs put on by these troupes are a potpourri of traditional Chinese theater art interspersed with acts and commentary with propaganda themes. Performances are skillfully tailored to the

level of audience sophistication and include a few numbers in the local language. Both on and off stage the activities of the troupes show a well-organized effort to win friends for Communist China.

Two senior cultural officials are leaders of the troupe in Latin America, evidence of the importance Peiping attaches to the tour. These men are probably empowered to conclude cultural exchange agreements on the spot and can be expected to invite leading Latin American intellectuals and government officials for visits to the "New China."
[redacted] (Concurred in by ORR)

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JAPANESE LEADERS DIFFER OVER NEGOTIATIONS WITH USSR

A conflict has arisen within the Japanese government and among ruling Liberal-Democratic Party members over the action Japan should take in the deadlocked negotiations with the USSR. The Japanese have made no move to break off the talks and apparently still hope to reach a compromise which will maintain their territorial claims. The present dissension centers on a proposal to send Prime Minister Hatoyama to Moscow in an attempt to salvage the situation.

Tokyo apparently is not as convinced as Foreign Minister Shigemitsu, who has been conducting the negotiations, that Moscow's proposed treaty terms are final.

Japanese government leaders initially favored sending Hatoyama and Minister of Agriculture and Forestry Kono to Moscow to present Japan's minimum terms on the disposition of the southern Kurils and to determine Soviet intentions. They believed that if the USSR still refused to modify its demands, the Japanese people would be convinced of the futility of further negotiations and the government could either break off the talks or accept the Soviet terms without serious criticism.

Shigemitsu's agreement with Soviet foreign minister Shepilov to suspend negotiations during

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September set back plans for the Hatoyama trip. Kono, who strongly supported the visit, was also put on the defensive by Soviet allegations that he had admitted Soviet sovereignty over the southern Kurils in his conference with Bulganin in May.

Opponents of the Hatoyama faction within the government Liberal-Democratic Party, aware that the prime minister hoped to obtain concessions which would strengthen his domestic political position, have become increasingly distrustful of the proposed trip. There have also been increasing rumors that when Shigemitsu returns to Japan there will be a major political showdown involving both Japan's future course in the treaty negotiations and rivalries for

control of the government. The situation probably will be further complicated by the report that an authoritative Soviet government source had stated on 27 August that Moscow hoped Tokyo would determine its position toward continuing the negotiations within two weeks.

The Japanese cabinet has decided to send an emissary, whose advice Shigemitsu values, to meet the foreign minister at San Francisco and brief him on the political situation. This apparently is an effort to prevent Shigemitsu from taking a stand against further talks which might precipitate a split in the Liberal-Democratic Party.

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LAOS RECEIVES OFFER OF CHINESE COMMUNIST AID

Laotian premier Souvanna Phouma has apparently endorsed a Chinese Communist offer of economic aid, despite prior statements that he planned to make no commitments during his "courtesy" visit to Peiping. At the close of his visit, the premier declared he was "deeply moved" by a Chinese offer of aid and said he had requested the Communists to send representatives to his country to make firsthand observations for future planning, and draw up proposals to help Laos with its five-year plan.

Chinese Offer

Details of the Chinese Communist offer have not been publicized, and the Laotian government may withhold formal approval of an aid agreement until negotiations with the Pathet Lao have been concluded. Peiping

has very likely offered a grant in aid. The Chinese may request that a mission be permitted in Vientiane to oversee the aid program. Following the Cambodian pattern, most of the aid will probably be concentrated on programs with a popular appeal, such as educational institutions, small industries and rural development.

Acceptance of Communist aid may evoke significant opposition in Vientiane. The president of the National Assembly told the American ambassador on 20 August that the assembly would overthrow Souvanna if he accepted any aid from the Chinese.

Sino-Laotian Communiqué

Both the Chinese and Laotians endorsed the five principles of peaceful coexistence in the joint communiqué of 25 August.

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The Laotian prime minister re-affirmed previous assurances given the Pathet Lao that Laos would adopt a foreign policy of "peace and neutrality," allow no new foreign bases on its territory, and join no military alliances "as long as its security is not menaced." Commenting on the communiqué, Souvanna specifically stated, "We cannot subscribe to SEATO," indicating SEATO was the chief target of the "no alliance" provision in the communiqué.

Hanoi Statement

The joint Lao-Viet Minh statement on 29 August during the delegation's 48-hour stop-over in Hanoi marks a further step in the evolution of Souvanna's neutralist policy. Paving the way for an eventual diplomatic exchange, both parties agreed on the "necessity" of

establishing economic and cultural relations, as well as the exchange of "friendly delegations." The statement further provides that the Geneva agreement "be strictly implemented in Laos and Vietnam," thereby adding support to the Viet Minh position on elections to unify Vietnam.

The Hanoi visit is apparently part of an over-all settlement with the Pathet Lao. In return for his concessions, Souvanna probably was offered private "assurances" that the Viet Minh would no longer intervene in Laos' internal affairs through its control of the Pathet Lao. Such a deal was alluded to in the joint statement, which expressed mutual joy over the "settlement" between the Laotian government and Pathet Lao, and called on Vietnamese and Laotians living in each other's countries to respect local laws and customs.

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CAMBODIA

Crown Prince Sihanouk, recently returned from a three-month trip to Europe, is having difficulty lining up a new government to replace the Khim Tit regime which resigned in July, and may resume the premiership himself. He appears distressed by official corruption, and has expressed an intention to attempt to improve the economic and social lot of his people in order to counteract the appeal of Communism. On the other hand, Sihanouk seems well satisfied that his recent visits to the USSR and European Satellite countries have resulted in a general recognition of Cambodia's strict neutralism between the two opposing world blocs.

Sihanouk's immediate choice for premier appears to be Penn Nouth, capable senior adviser to the crown. There is, however, strong opposition to Penn Nouth in the National Assembly, and Cambodian political leaders generally feel that only Sihanouk can run the government at this time. Under these circumstances, Sihanouk has indicated there may be no alternative but to become premier again. This possibility is supported by Sihanouk's recent statement that "without me, Cambodia would cease to exist." In any event, Sihanouk feels that a new cabinet will not be formed for at least two weeks, allowing the Sangkum Congress time to "ventilate" the corruption of the Khim Tit administration and to

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settle political differences in government circles.

Sihanouk's popularity seems to have been enhanced by his trip abroad, which he claims has reinforced Cambodia's sovereignty and security by winning universal recognition of its neutrality. He has cautioned, however, that Cambodia's political victories will be lost unless corruption is curbed and the people's living standard raised by increased domestic production. In this connection, he has again stressed preference for capital goods assistance from the West in lieu of "luxury" imports, which he says spawn venality. In the social field, Sihanouk's recent remarks foreshadow intensified application of his socialist reform program, which is

aimed largely at "equalizing" Cambodian society.

In general, the tone of Sihanouk's statements since his return has been comparatively moderate. He has for the first time in many months expressed appreciation for Western aid. He has also promised that American military advisers will be permitted in the future to participate in planning operations of the Cambodian armed forces, which should have a salutary effect on the over-all efficiency of the nation's military establishment. In any event, Sihanouk as premier would provide Cambodia with a more active administration than those which have operated during his frequent absences abroad this year.

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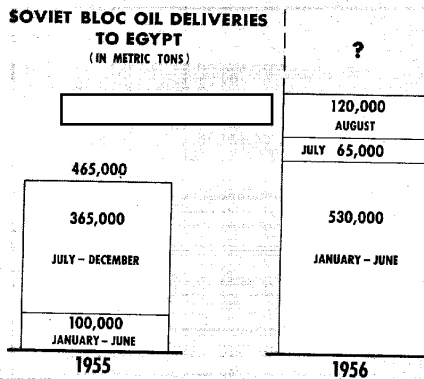
SOVIET BLOC
OIL DELIVERIES TO EGYPT

Deliveries of petroleum products from the Soviet bloc to Egypt in the first three weeks of August were about double the 65,000 tons delivered in July. This does not necessarily mean, however, that deliveries have stepped up because of the Suez crisis. In past years, the bloc has increased its oil shipments to Egypt in the second half of the year, apparently to offset lagging first-half deliveries.

In 1955 the bloc furnished less than 20 percent of Egypt's total refined petroleum imports of around 1,200,000 metric tons. In the first quarter of 1956, however, Egypt received about 30 percent of its refined petroleum imports from the bloc, and the percentage will probably continue to increase through 1956. Imports of bloc crude oil, mainly from the

USSR, also will probably be larger in 1956 than in 1955.

Foreign exchange difficulties resulting from Western-imposed sanctions following the Suez nationalization could force Egypt to displace some of its Western oil suppliers in favor of the bloc, which



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apparently will continue to accept barter goods in payment.

Increased deliveries of oil products from the USSR and Rumania to Egypt throughout the first half of 1956 reflected commitments made in 1955 and early 1956. From January to June, deliveries were around 530,000 tons, over five times as much as during the same period in 1955 and one and one third times the estimated bloc deliveries for all of 1955.

Barter agreements signed in 1955 with Rumania and the USSR assured Egypt of increased supplies of kerosene and crude oil for its expanded refinery capacity. Egypt's consumption

of all refined oil products is expected to increase from 3,700,000 metric tons in 1955 to 4,200,000 metric tons in 1956, assuming no outbreak of hostilities.

Even with increased deliveries from the bloc, Egyptian stocks of oil products have remained low. As of 31 May total stocks, including aviation gasoline, reportedly came to around 390,000 metric tons, only a slight improvement over the estimated level at the end of March. Stocks of kerosene remained at the precariously low level of 55,000 tons, even though deliveries from Rumania and the USSR were well over 300,000 tons in the first six months of 1956. [redacted] (Prepared by ORR)

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ARAB-ISRAELI SITUATION

The flare-up of incidents on the Arab-Israeli frontier in mid-August has died down; no serious clash has been reported since 24 August

Equipment problems appear to have been the major reason for Jordanian king Hussain's visit to Damascus last week. Jordan has been trying, with only partial success, to obtain additional equipment and ammunition

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RIVAL ITALIAN SOCIALIST PARTIES
WORK TOWARD REUNIFICATION

Public statements by Italian Socialist Party chief Nenni and Democratic Socialist Party chief Saragat, following their meeting in Savoy on 25 August, imply that a basis of agreement has been reached for reunification of their parties. A stronger and more doctrinaire Socialist Party would eventually pull the Italian government further toward the left.

Nenni has reportedly agreed that Italy's foreign policy must be carried out within the framework established by the Western democratic powers and that a united Socialist party would never seek to constitute a popular-front government including the Communists. He added on 28 August, however, that reunification need not prejudice relations with the Communists.

The meeting seems to have resulted from the initiative of the French Socialist Party, the British Labor Party, and the Socialist International. Socialist unity was disrupted in 1947 when Saragat quit Nenni to form an anti-Communist party. Nenni's unity-of-action pact with the Communists has since been a bar to a rapprochement. Saragat has wavered between distrust of Nenni and desire for a strong Socialist party. Talks immediately after the local elections in May, when both parties made substantial gains, seemingly bogged down on the issue of Nenni's ties with the Communists.

Communist leaders, however, have shown increasing public irritation over Nenni's recent criticisms. Luigi Longo, one of Communist secretary general Togliatti's leading

lieutenants, wrote in the party daily on 27 August belittling the possibility of a Socialist merger and saying it is not within Nenni's power to make decisions of that sort.

If Nenni is sincerely trying to break the Communists' hold over him, he must find other financial backing and, more important, convince a large element of his following that a break is necessary. Recently there have been indications he is seeking means of becoming independent of Communist financial support, and his party's newspaper Avanti! is now appearing in a new and less expensive format.

A complete break with the Communists will not come overnight, and Nenni reportedly said the process of merging the two Socialist parties would "take some time." He envisages three phases: an "immediate drawing together," a common platform for the next political elections now scheduled for 1958, and then a merger.

A real rapprochement between Nenni and Saragat could be the final blow to Togliatti's leadership of the Communist Party. He has insisted, against the wishes of Longo and other hard-core activists, that the pact with Nenni was a profitable one. Already harassed by criticisms from various levels of his party as a result of the ferment over the Soviet 20th Party Congress, Togliatti faces his own party's fall congress in a weakened position.

Whether or not Saragat quits the cabinet, if reunification is achieved, changes would certainly follow because the Nenni Socialists and the

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Liberals refuse to participate in the same cabinet.

Nenni and Saragat have announced that on the instructions of the president of the Socialist International, French Socialist International, French Social-

ist Party secretary general Pierre Commin will return to Rome for further conferences between 31 August and 5 September, and will report to the executive committee of the Socialist International in London on 20 September.

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PART III

PATTERNS AND PERSPECTIVES

FRICTION IN SPAIN'S RELATIONS WITH UNITED STATES

In recent months Spain's relations with the United States have become noticeably less cordial. The Spanish government has been un-co-operative on various issues and has done little to correct a spreading popular belief that the presence of Americans in Spain is responsible for many of the country's difficulties.

The aims of the regime's principal supporters often clash with American objectives, internal reverses since late 1955 have impaired domestic prestige, and recent international developments tend to make the regime increasingly wary of granting concessions which might be interpreted as infringements of the nation's sovereignty.

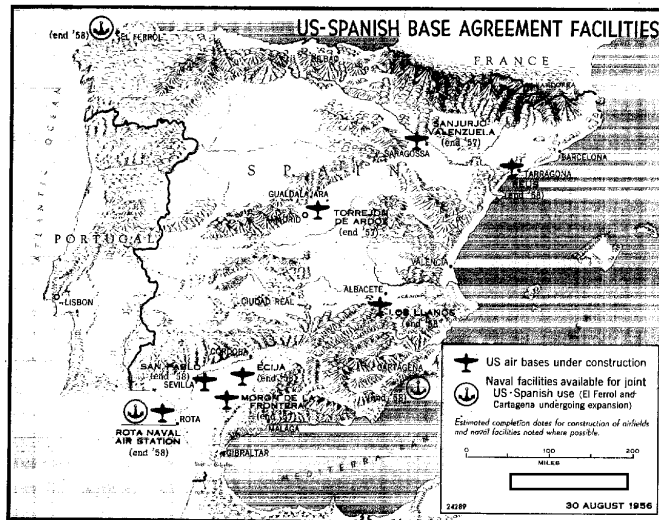
Bases Issue

A major issue is American control and operation of facilities at the naval bases of Rota, El Ferrol and Cartagena. For many months the Spaniards have been dragging their feet on various aspects of the problem. Negotiation of a procedural agreement on Rota after protracted efforts has been followed by Spanish reluctance to make concessions on the other bases. In large part, opposition has been centered in the navy, which fears that concessions would create "little Gibaltars" in Spain.

The Spanish disagree with the American interpretation of those terms of the 1953 base agreements defining the areas

within which the United States has sole responsibility for operations, including the maintenance of internal security. The Spanish are reluctant, for example, to make concessions on the extent to which American security personnel could replace Spanish naval security forces and on the type of arms American sentries could carry.

Other unresolved issues are the Spanish government's treatment of American Protestant groups and its apparent failure to punish the Falangist hoodlums who attacked American



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citizens at the International Institute of Education during the student riots in February.

Anti-American Feeling

Recently there has been a noticeable increase in anti-American sentiment among the Spanish public. Many political and intellectual groups have translated their long-standing opposition to Franco into dislike for the United States on

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the grounds that American aid has enabled him to remain in power. In addition, a considerable number of Spaniards have resented the influx of Americans into Spain during the last two years and blame the sharp rise in living costs and attendant shortages on this influx.

A large part of the resentment, however, probably stems from xenophobia and a feeling that the Americans are going to "take over" Spain. Anti-American feeling is also evident in the unfriendly and biased tone adopted on several occasions by Spanish newspaper correspondents in the United States.

Other indications that there may be considerable feeling in Spain against American armed forces personnel assigned to the air bases are to be found in recent articles in the Monarchist and Catholic Action press suggesting that the resentment in various countries, such as Iceland, against the American bases could be overcome by replacing American forces, where possible, by forces of the country concerned.

Pressure of Vested Interests

The army, the church, industrialists, financiers and landowners--the principal supporters of the regime--are primarily concerned with maintaining their own interests in the face of widespread public dissatisfaction over the restrictive nature of governmental controls. In foreign affairs these forces tend to take an extremely nationalist point of view, with the more reactionary elements insisting that Spain withdraw from its association with the West.

Latent hostility to democratic concepts is perhaps the outstanding feature of the environment in which the regime functions. This is clear from

Franco's often-proclaimed rejection of Western democratic institutions as a method of government for Spain. The regime and its supporters will co-operate as long as American assistance contributes to strengthening or continuing their position. Issues emphasizing the conflict between democratic and authoritarian ideologies are bound to weaken this co-operation.

This was apparent in the strong punitive measures with which the government reacted to the February riots of Madrid University students and the strikes in April and May of industrial workers in northern Spain.

These outbreaks, arising from the regime's restrictions on freedom of thought and expression and public resentment of the high cost of living, showed an awakening unrest in large segments of the population. Since pronouncements by Franco himself and, more recently, by the labor minister on the subject of further benefits for the workers would seem to be merely stalling tactics to pacify labor, it is likely that the government will soon be confronted with intensified unrest.

The loss of Spanish Morocco is another development which has adversely affected the regime's prestige and made it more reluctant to make concessions to the United States, fearing they might be interpreted as infringements of the nation's sovereignty. The army in particular has resented the loss of this area as a source of various emoluments and privileges that went with assignments there.

No change can be expected in the regime's attitude toward freedom of the press and the right of foreign correspondents to criticize the government

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under the present information minister, who holds that public opinion has no place in determining governmental policy.

Probably the greatest pressure on the regime is exercised by the Catholic Church, one of whose lay arms, Opus Dei, is successfully expanding its influence in the field of education from the Education Ministry down. One of its top leaders is director general of information in the Ministry of Information. Foreign Minister Martin Artajo has indicated to the American embassy that he faces strong opposition from this organization in his efforts to secure concessions for Protestant groups in Spain. For its part, Opus Dei would like Artajo removed from office on the grounds that he, a leader of the moderate wing of Catholic Action, is too liberal and international-minded.

The potential of Opus Dei as an anti-American force in Spain has been emphasized by the American embassy in Madrid, which warned last month that a further ascendancy of this organization and of its mentality would have a damaging effect on US-Spanish relations.

International Issues

Franco's efforts to exploit two recent international developments are posing further difficulties for US-Spanish relations.

Since April there have been indications that Madrid intends to use what it regards as a weakening of NATO's defense system, resulting from growing neutralism in Western Europe and opposition to American bases in Iceland, to drive a stronger bargain with the United States over base facilities. In a speech last April, the Spanish foreign minister termed American aid to Spain

insufficient and asked for more economic assistance and more modern weapons for the Spanish army. He argued that Soviet advances in atomic weapons and guided missiles increased Spain's risk in participating in the defense of Europe and necessitated further military aid.

The Madrid press echoed the foreign minister's views, quoting him as saying, "We must not overlook the fact that our accords with the United States are aging and do not conform adequately to new European realities." The Falangist Arriba went so far as to state that the United States recognized this situation and the need for renegotiating the 1953 base agreements within a more ample framework.

On the Suez Canal issue, the Spanish government has maneuvered to reconcile its desire for strengthened ties with the Arab world with a policy of support for the American position. Insisting that a solution must respect Egypt's sovereignty over the canal, the Spanish delegation at the London conference agreed to the Dulles plan, but with a condition: that if Egypt rejects the American proposal, the proposed Spanish amendment calling for Egyptian operation of the canal with the participation of other nations on the administration board would be presented to Egypt as a basis for negotiations.

By taking this position, Madrid was able to plead Egypt's cause at the conference, and at the same time demonstrate solidarity with the other Western conferees. Even more important to Franco's prestige, the impression seems to have been created in Spain that the government--through astute diplomacy and conciliatory efforts--may well have saved the day for the West.

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PHILIPPINE-AMERICAN RELATIONS

Expressions of anti-American sentiment in the Philippines, sparked by Senator Claro Recto, are increasing among politicians and sections of the press. Although no drastic re-orientation of the Philippine foreign policy is likely in the near future, increasing numbers of influential Filipinos are beginning to voice the belief their country deserves better treatment from the United States.

Bases Negotiations

The present negotiations concerning American military bases in the Philippines have

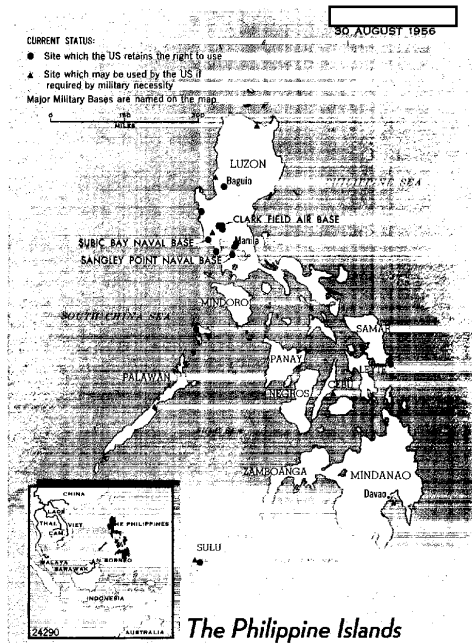
insist on a revision of the bases agreement. The panel's position has been so well publicized that it will be extremely difficult for it to retreat, particularly in the face of Recto's constant proddings.

The paramount issue in the eyes of the negotiators is that of Philippine sovereignty over the base areas; they feel various provisions infringe on that sovereignty and must be changed. They are insisting that the basic agreement be revised to conform with base agreements which the United States has concluded with Japan, the NATO nations, and even Spain. They also want a joint committee to oversee the operations of the base agreement, and are anxious to have greater jurisdiction over such matters as law enforcement within the bases.

In addition to the sovereignty issue, the Philippine panel has raised a number of other points. These include the surrender of bases which are either inactive or are being used by Philippine forces, customs and tax regulations, the exploitation of mining and forest resources on the bases, and the return of the military port of Manila to commercial use.

Critics

A variety of motives and special interests have prompted the deliberate attacks on American policies. Behind many of them has been a desire by some powerful political and economic interests to undermine the social reforms proposed by President Magsaysay. They feel this can be accomplished, in part, by discrediting him as being excessively pro-American. This indirect campaign against



produced the clearest evidence of the Filipinos' dissatisfaction with their relations with the United States. From the very outset, it was clear that the Philippine negotiating panel, which includes a number of supporters of Senator Recto's nationalistic viewpoint, would

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the president is also being conducted with an eye on 1957 presidential and congressional elections, but more hopefully toward those in 1961.

The motives of Senator Recto derive from extreme economic and political nationalism, personal animosity toward Magsaysay, and a conviction of the wisdom of neutralism. Recto's attacks, typified by his speech on 18 August aimed at preventing Philippine concessions in the base talks, reveal a belief that present US-Philippine relations are not equally beneficial to the two countries. His attitude is to get the most out of the situation in terms of economic and material aid, automatic guarantees of defense, favorable trade arrangements, and maximum respect for Philippine sovereignty.

Anti-Americanism

Although anti-American sentiment is not a new phenomenon in the Philippines, it has always been overshadowed by the friendly response of most Filipinos to the tangible benefits of close relations with the United States. Increasing criticism of the United States is in part an expression of growing Philippine nationalism and has been influenced by the "actively independent" policies of other new Asian nations. Philippine dependence on American guidance and support often results in the United States being blamed for a wide variety of local dissatisfactions, regardless of where the fault may lie.

The majority of rural Filipinos still appear to be apathetic toward any campaign to stimulate anti-American sentiment, although responsive chords have been struck at times. Philippine tobacco and sugar interests have objected to American trade policies, and labor spokesmen have claimed wage discrimination against Filipino workers on Guam. Repeated attacks on "meddling" American experts have aroused, at least among more politically sophisticated groups in Manila, resentment over the restrictions accompanying American aid to the Philippines. Uneasiness has been expressed that the presence of American bases on Philippine soil may invite a nuclear attack, or that the United States' strongly anti-Communist policies may leave the Philippines badly exposed should American power withdraw from Asia.

Magsaysay's Position

As long as his own position is stable, Magsaysay will undoubtedly continue his efforts to curb anti-American influences and stress Philippine dependence on the United States. His administration's program of "dynamic nationalism" is an effort to channel the growing nationalism into a constructive path. American officials, however, report that "neither Magsaysay nor the United States can win here in the long pull if the politicos are against the US." They also state that some influential politicians, in addition to Recto, are "beginning to turn now."

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PROGRESS IN THE TAIWAN ECONOMY

The Taiwan economy is continuing to make gains this year. Industrial production now stands 66 percent above the prewar high of 1941 and is continuing to expand at a steady pace. Agricultural production equals its prewar high, although a rapidly increasing population has sharply reduced per capita output. The Taiwan economy, however, cannot support the existing military establishment and has other basic weaknesses which will keep the island dependent on external aid.

Agriculture

Record crop yields during the past six months may push this year's agricultural production somewhat higher than the prewar 1935-1939 annual average. Per capita production, however, is well below prewar because of population increases. Ninety percent of exports are agricultural products, principally sugar and rice.

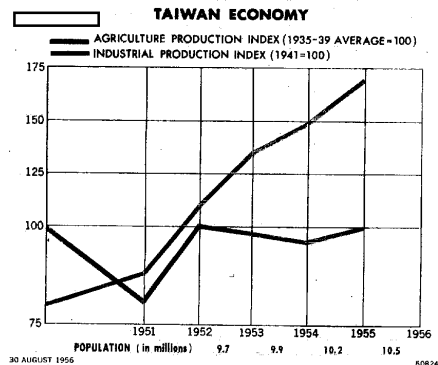
In the future, somewhat higher crop yields should be attainable through use of fertilizers and improved methods of farming, and completion in two or three years of a \$9,000,000 highway across the island will open up additional arable land in the rugged mountain valleys in the interior. Most observers agree, however, that agricultural production has nearly reached its optimum. Fishing is the only food industry which can be significantly expanded, and a program of trawler construction is under way.

Industrial Growth

Industrial growth since the end of World War II has been steady if not sharp, and the industrial production index has risen 66 percent over the prewar high of 1941, a considerable achievement. Key production commodities are coal, cement, textiles, chemicals, and nonferrous metals produced primarily by government trusts.

A major effort has been made to increase electric power output and establish a base for new industry. Both hydroelectric and thermal power plants have been built, the most ambitious project being a dam at Shihmen, some 35 miles south of Taipei. Power output is now approximately triple its 1938 figure.

A number of new industries have come into operation during the past year, notably a high-octane gasoline refining unit and a window glass factory. Planning is under way for several more industries, including a steel plant, a plastics plant, and a coke oven. In addition, an American shipbuilding company has proposed leasing the Taiwan Shipbuilding Corporation to con-



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struct large tankers and other vessels. In contrast to its earlier stress on the import of consumer goods, Taiwan has lately begun to stress development of basic industry, possibly in tacit recognition of the improbability of an early return to the mainland.

In the past, the Nationalist government has not encouraged private industry or foreign investments. Private businessmen have found it difficult to obtain working capital in part because of government bank regulations. Banks with funds have kept them hidden to avoid high income tax rates. Nevertheless, private industry is active in the light

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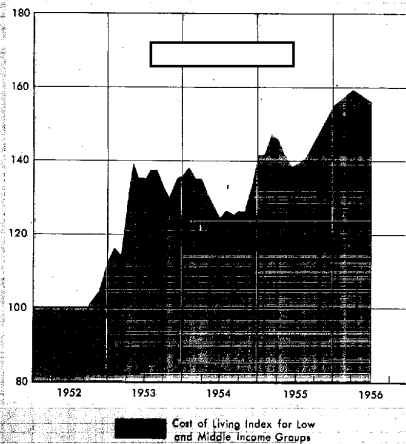
consumer goods field, and American business firms have recently shown interest in loans to Chinese industry. The Nationalist government has proclaimed its intention to promote Overseas Chinese investment on Taiwan, but it has yet to demonstrate a genuine willingness to implement such a policy.

Basic Weaknesses

Whether Taiwan will maintain its standard of living, which is relatively high, by Asian standards, depends principally on the success of the industrialization program, which must expand and supplement agriculture as a source of income.

The increase in food production has been paralleled by a corresponding and much greater

TAIWAN COST OF LIVING
1952=100



increase in population. Some 2,000,000 refugees poured in from China's mainland in 1949 to escape Communist rule. This influx, combined with one of the highest birth rates in the world, has resulted in a 55-percent increase in population since 1946. Food production has not kept pace with population growth. Per capita output has fallen to about 53 percent of prewar.

Despite undeniable gains, a number of other inherent

weaknesses leave Taiwan heavily dependent on American aid. First, import requirements are still running far ahead of exports, although the balance-of-payments deficit, made up indirectly by American aid, decreased from \$116,000,000 in 1954 to \$65,000,000 in 1955. The Nationalists have remained more interested in increasing consumer goods imports than in promoting exports, and differential rates of exchange tend to favor imports. Export shipments have often been hampered by administrative delays. Over the long run, the high birth rate will cut down exportable food surpluses.

Second, creeping inflation is still a threat, despite the fact that wholesale prices have declined somewhat since last December. Prices have risen some 40 percent since February 1953. The money supply continues to expand and a government policy of deficit spending adds to the inflationary pressure.

The most serious weakness in the economy is Taiwan's inability to support the present 640,000-man military establishment. Approximately one third of the military budget must be met by American aid. This is in addition to the cost of new equipment, which is supplied by the United States through the MDAP program. Without American aid, military expenditures would consume approximately 70 percent of the government's revenue. Unaided, the Taiwan economy could support only nominal military forces.

The basic economic problem for the Nationalist government is how to increase agricultural and industrial output sufficiently to keep pace with a rapidly expanding population, and at the same time maintain its military establishment. Considerable progress has been made, but there is little prospect for the establishment of a self-supporting economy under present circumstances.

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