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29 May 1958

CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I

OF IMMEDIATE INTEREST

FRANCE AND NORTH AFRICA

De Gaulle's Position

Although at midday on 29 May, the question of De Gaulle's accession to power was not settled, it was already evident that, once in office, he would have to deal immediately with critical problems of internal security and North Africa. He might subsequently be expected to concentrate on internal political reforms and on increasing France's influence in the Western alliance.

Elements of both the Socialist and Communist parties have indicated an intention to go underground if a De Gaulle government comes to power, and it is possible that new anti-Gaullist demonstrations similar to the one of 28 May might provoke police intervention and precipitate violence.

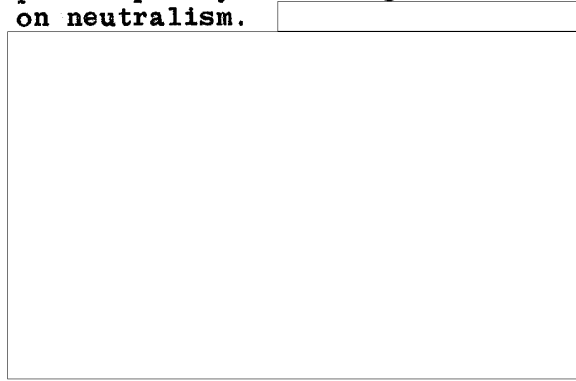
De Gaulle's long-range plans for Algeria will probably be too liberal to find easy acceptance by right-wing extremists. As far as is known, he still favors an autonomous Algerian state which, along with Tunisia and Morocco, would be federally associated with France. Although he has said it is too late for any Algerian policy based on assimilation or integration, the recent claims of success along this line by the Algerian Committee of Public Safety may lead him to revise his position on this issue.

De Gaulle's reported demand that Parliament be suspended for one year while he oversees the drafting of a new constitution to strengthen the

executive will run afoul of the present constitution. Any formula devised to give De Gaulle the premiership in a "legal" framework must involve some form of investiture vote by the National Assembly and probably also the inclusion of a few prominent party leaders in his cabinet. This, however, would involve his backing down somewhat from his original position that his resumption of power must be unconditional. Moreover, it would give legal status to a parliamentary opposition to his regime and would permit the machinery of the political parties to continue to operate. Constitutional provisions also stipulate that the National Assembly must convene in October and that the parliamentary vacation cannot exceed five months per year.

France under De Gaulle would probably remain a member of NATO and possibly of the existing institutions for European integration. However, under a De Gaulle regime, Paris would put its greatest emphasis on building up French national strength and using it to push a policy bordering at times on neutralism.

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De Gaulle would not necessarily be hostile to Moscow and may even consider the possibility of a French-Soviet "deal" to give Europe time to "rebuild strength." He believes the USSR is not interested in making war, and he may seek to repair friendly relations with the Soviet Union. De Gaulle also may be influenced by reported assurances of Soviet Ambassador Vinogradov that Moscow prefers having France rather than the United States in North Africa.

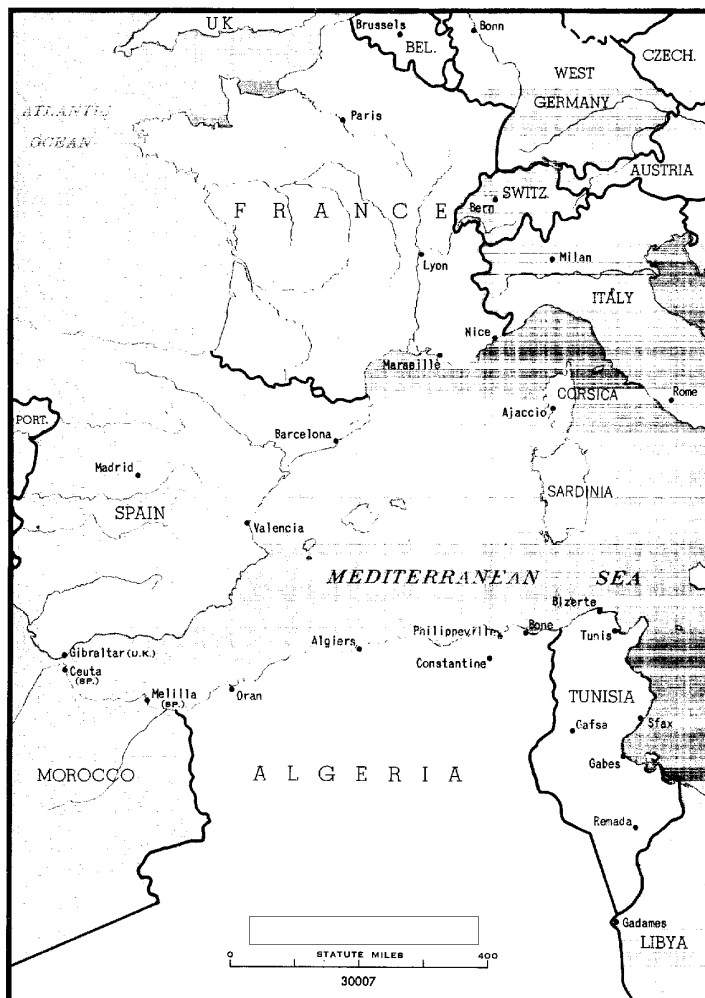
Algeria

Premier Pflimlin's resignation on 28 May was hailed as an

important victory by leaders of the ruling junta in Algeria. The extralegal all-Algeria Committee of Public Safety indicated the following day, however, that only the return to power of De Gaulle would be ultimately acceptable, and the army, which gives the impression of being in full control of local developments, seems to be in full accord with this position. Indications are that plans for some sort of direct action, probably coordinated with military elements in the metropole, are in readiness, and the chances for their early implementation will increase if De Gaulle is not actually installed in power soon on terms acceptable to the junta.

The new Algerian leaders are continuing to promote displays of what is heralded as a "miraculous" reconciliation between Moslems and Europeans in Algeria and to claim that the 42-month-old guerrilla war has been steadily diminishing since the events of 13 May. This line is aimed primarily at convincing the metropole that support of the new regime in Algeria is the surest means of ending the war, but many local leaders profess to believe that the recent show of strength and unity by the French has had a genuine "beneficial" influence on Algerian Moslems.

In an effort to maximize this influence, virtually all public speakers have been emphasizing the theme that racial and

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religious differences have been wiped out and that there now are only "Frenchmen" in Algeria. Led by Jacques Soustelle, who accepted membership on the three-man "coordinating council" created to "advise" General Salan, these speakers have gone on to demand full integration of Algeria with metropolitan France, and for the time being at least this program has gained complete ascendancy.

Such a "solution" faces major obstacles, however, including the hostility its practical implications are bound to arouse in the Metropole and, almost certainly, the eventual opposition of European extremists in Algeria, who are for the moment either going along with the tide or remaining silent. In addition, the program's advocates are confronted with De Gaulle's own apparent inclination toward some type of federal relationship for Algeria. Nevertheless, the American consul general in Algiers doubts that even De Gaulle could at present overcome the local pressures favoring an ambitious French Algerian policy.

It is still most unlikely that participation by Moslems in rallies hailing the "new French Algeria" really reflects their desire to be "Frenchmen." In any event, the junta's attempt to woo Moslems has made no perceptible dent in the determination of the Algerian National Liberation Front (FLN) to fight on for independence. A high-level FLN spokesman in Tunis recently insisted there has been no "rallying" to the

French by rebel fighters, and this was confirmed by a 27 May statement by Salan in which he reiterated his earlier offer of a "pardon" to rebels who would surrender with their weapons.

Rebel spokesmen have also stated categorically that the rebels would have nothing to do with the Salan junta but would deal only with a French government having "real authority" and one willing to accept Algerian independence. At least some elements within the FLN are apparently hopeful that a De Gaulle - led regime will make the adjustments necessary for an accommodation acceptable to the FLN, but these hopes are undoubtedly tempered by distrust of many of the forces and personalities who are bringing the general to power.

Tunisia

In Tunisia, where clashes between Tunisian and French military units occurred at Gafsa on 22 May and at Remada on 24-25 May, the government, assisted by the Neo-Destour party, is taking precautions against a feared French military attempt to reoccupy the country, but is faced with an acute shortage of ammunition. Armed civilians under the direction of the Tunisian Army and police, reportedly assisted by Algerian rebel units, have taken up defensive positions at roadblocks, particularly surrounding French bases in the central and southern parts of the country. All Tunisians who have served with the French Army are being recalled.

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The Neo-Destour is channeling popular anti-French agitation into well-policed and generally orderly popular demonstrations. The most serious incident has been the desecration of a French flag which was torn from French gendarmerie headquarters in Tunis.

The Tunisian Government on 26 May rejected an offer of the French Government for a partial evacuation of French troops from Tunisia, and demanded instead that a firm timetable be drawn up for the evacuation of all 9,000 French troops outside the base at Bizerte when a timetable is agreed to. This offer, in the opinion of American Ambassador Jones, is a favorable new development in French-Tunisian relations.

President Bourguiba announced on 26 May his decision to return to the Security Council, and his delegation at the UN may soon ask for a Security Council meeting to present Tunisia's complaints against France. The delegation is being reinforced by Ahmed Mestiri, Bourguiba's tough-minded secretary of state for justice, and Ahmed Tlili, leader of the most important labor union, who has good contacts in Western

Europe and the United States. For the time being, however, Tunis is still trying to avoid a showdown in order not to embarrass the United States and Britain.

Bouguiba, however, is embittered by the refusal of the United States and Britain to fulfill his request for immediate shipment of arms. He is reported to believe that the United States is overly concerned about the dangers of provoking the regime in Algiers and is not giving him the public backing he needs and deserves. On 27 May when he addressed a crowd of 100,000 clamoring for arms, he pointedly refrained from calling for support from the United States or the free world and expressed confidence that Tunisia would "win, if necessary, alone."

Morocco

The Moroccan Government is also fearful of French aggression and is rushing military and civilian reinforcements to the Algerian border. The government has committed itself to "complete and total solidarity" with Tunisia and on 26 May reiterated its earlier demands for the complete evacuation of French troops from eastern Morocco.

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LEBANESE SITUATION

Efforts to find a political basis for settling the fighting in Lebanon have failed. Even Prime Minister Suhl's public declaration on 27 May that the cabinet would not try to change the constitution to enable President Chamoun to seek a second term has apparently not

moved opposition leaders toward compromise. Earlier in the week, some moderate opposition leaders abandoned attempts to seek a compromise, under which Chamoun would have been permitted to serve until the end of his term in September, and joined the extreme opposition in demanding Chamoun's

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immediate resignation. The political maneuvering, therefore, has resulted in a major setback to the government in that Chamoun has been virtually compelled to renounce his ambition to succeed himself as president. The opposition, with growing UAR support, stands firm.

The UN Security Council has decided to postpone consideration of the Lebanese complaint against UAR interference until 3 June, in order to permit the Arab League, meeting in Tripoli, Libya, on 21 May, to attempt to reach a solution.

Lebanese government leaders, meanwhile, are increasingly pessimistic over the ability of the security forces of 13,000 to 14,000 men to maintain order against an estimated 8,000 armed rebels, assisted by the UAR. The rebels now virtually control the countryside. A major factor in the deterioration in the government's position is the apparent unwillingness of army commander General Shihab to risk alienating rebellious opposition leaders by attempting vigorous action against rebel forces. Despite the third week of violence, the government had not, as of 28 May, proclaimed a state of emergency. Army reluctance to move forcefully reflects the contention of General Shihab that such a move might cause the conflict to degenerate into a Moslem-Christian struggle.

UAR assistance to the rebels con-

tinues in the form of major logistical and propaganda support and some personnel reinforcements. A Cairo press report heralding formation of a "popular government" in southern Lebanon, whence forces would march on Beirut, may indicate that Cairo is attempting to unite antigovernment elements for more intensive attacks against the government. Severe attacks against the Chamoun government in the Cairo and Damascus press have also blasted the United States.

Syrian press reports that "volunteers" had petitioned Interior Minister Sarraj for permission to "fight alongside the Lebanese people" against the Chamoun government and outside intervention could prepare the ground for more open UAR participation in Lebanon's civil war, or be used in the UN Security Council to refute Lebanon's charges of official UAR intervention.



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The manifest UAR intervention in Lebanon has raised fear in other pro-Western Arab states as to who will be next. Sudanese officials have expressed concern that UAR success in Lebanon would be followed by new

moves against the Khalil government. Leaders of Jordan, which is now beset by a new UAR-supported ultranationalist conspiracy among army and political officials, are deeply worried.

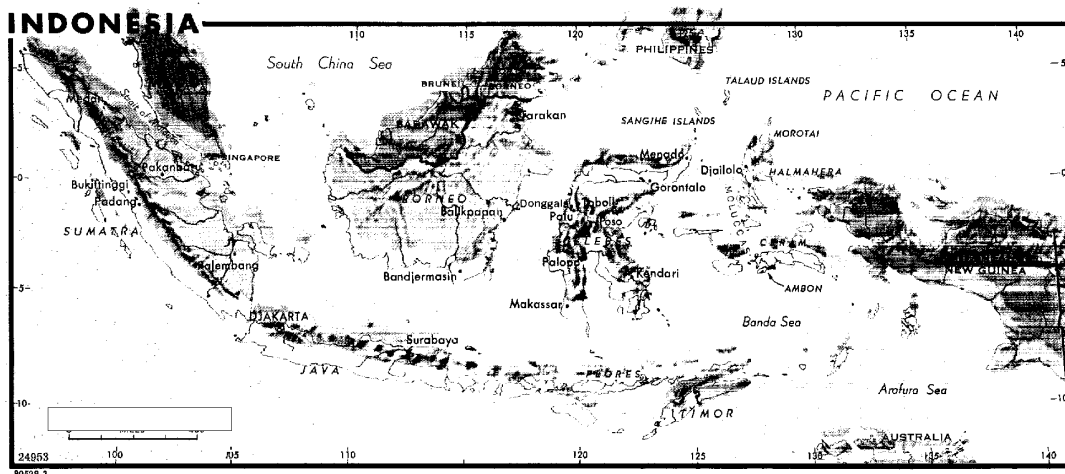
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INDONESIA

Djakarta's military campaign against the North Celebes dissidents continues with operations to isolate the dissident capital of Menado. Lt. Col. Jusuf, tactical commander for the Menado assault, states that both paratroops and amphibious forces will be used and that small marine detachments and intelligence agents have already infiltrated the area to prepare for the landings. Djakarta forces occupied the Sangihe and Talaud island groups north of Celebes on 25 May, and the government claims all dissident forces on the is-

land of Morotai have surrendered. The dissidents apparently are continuing to resist, however, in the Djailolo, Palu, and Gorontalo areas.

In Central Sumatra, Djakarta administrators are encountering the problems of occupation and reconstruction. Principal problems are passive resistance to central government officials and a lack of school-teachers and civil servants, who either fled or were intimidated by the dissidents. Colonel

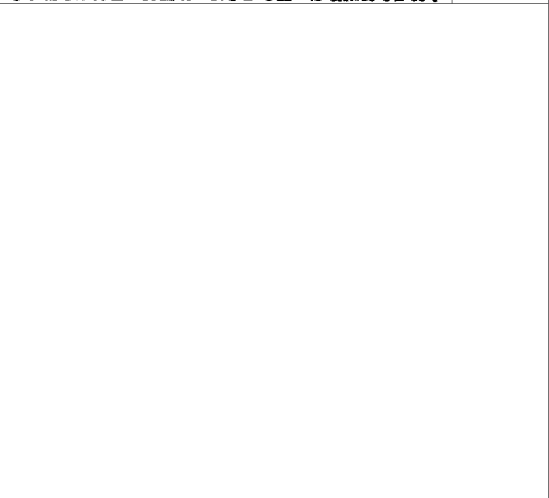
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Jani, the military administrator for the area, told the American assistant army attaché trouble can be expected if the government "does not move and quit talking." Presumably he was referring to the possibility of increased guerrilla warfare by the approximately 3,000 armed dissidents estimated still in Central and North Sumatra.



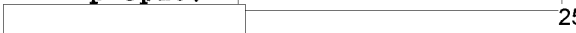
Sukarno will probably choose to reshuffle the Djuanda cabinet, ousting the leftists, since this choice would evoke less opposition than the more drastic changes advocated by the army.

The National party on 27 May issued a statement in Djakarta which, although not naming the Communists, amounted to an attack on them, and is the first public anti-Communist move by the National party leadership. A member of the Masjumi recently warned, however, that the non-Communist parties must do more than wage a propaganda war against the Communists. He said the Communist party is building its popularity soundly on a basis of actual service to the people.

The minister of information has announced that the government has no intention of postponing the 1959 general elections if the domestic situation "remains unchanged." The army has been pressing for a postponement



Communist party Secretary General Aidit has publicly stated that postponement of general elections would be a "sin against the people."



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PART II

NOTES AND COMMENTS

THE CHINESE COMMUNIST PARTY CONGRESS

The second session of the Chinese Communist party's eighth congress, meeting from 5 to 23 May, reaffirmed hard lines in domestic and foreign policy which have been developing since last fall. Mao Tse-tung apparently continues to dominate the party. Liu Shao-chi and Teng Hsiao-ping seem to have improved their chances to capture control of the party when Mao dies or retires. They are regarded as the leading figures of an "organizational" group among Mao's lieutenants, so named because of its members' roles in directing the key organs of the party, as distinguished from the state.

Major Speeches

The most important report, summarizing the party's situation, general line, and tasks, was made by Liu Shao-chi. The other two major reports were given by Teng Hsiao-ping, on intrabloc relations, and by Teng's deputy, Tan Chen-lin, on agricultural development. Mao himself did not make a major report, apparently limiting his role to setting the tone for the congress. However, the speakers credited Mao personally with originating the main policies which are to guide the regime for the next year, policies with which "organizational" figures have been particularly closely identified.

In reviewing the international situation, Liu and Teng emphasized Peiping's close ties with Moscow. The congress reiterated the Chinese condemnation of the Yugoslav party program, and its resolution exceeded in harshness Peiping's

5 May blast at Tito. It charged Belgrade with the role of "provocateur and interventionist" in Hungary. In language reminiscent of the 1948 Cominform resolution expelling Yugoslavia, Peiping declared that Yugoslav leaders have "alienated themselves" from the international Communist movement.

In summing up domestic accomplishments, Liu expressed satisfaction with party work since the last congress, especially the party's major effort of the past year to cleanse its ranks through "rectification." He warned that the party must be prepared to wage prolonged and repeated struggles against "rightists" throughout the period of "transition to socialism." The congress rebuked as "rightists," and may drop, three alternate members of the central committee.

Industry and Agriculture

The congress reaffirmed the leadership's forced-draft program for economic development. Various party policies are consolidated in a "general line for socialist construction," under the slogan of "utmost effort" to achieve "greater, faster, better, and more economical" results. The line urges the "simultaneous development of industry and agriculture while giving priority to heavy industry," and, within certain limits, the "simultaneous development of national and local industries, and of large, medium, and small enterprises." Liu Shao-chi's vigorous defense of the program and the congress' appeal to close ranks and work for it with "one mind and one heart" suggest the existence

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of continuing opposition in the party.

Tan Chen-lin, who in the past year has displaced Teng Tzu-hui as the party's leading spokesman on agriculture, explained to the congress the second revised draft--as yet unpublished--of the national program for agricultural development. The congress approved the revised program "in principle," instructing the central committee to make any necessary changes. The new revision takes into consideration the greatly increased emphasis given agriculture and industries supporting agriculture since last fall. The revised program remains an ambitious one. Tan did introduce

a cautious note, however, in warning of the dangers of working only for "flashy results."

Personnel Changes

Like the other proceedings of the congress, new appointments to the party politburo show the increasing strength of the "organizational" group. Ko Ching-shih, the party boss in East China, has been close to both Liu Shao-chi and Teng Hsiao-ping in recent years. Tan Chen-lin of the secretariat has been closely associated with Teng for at least the past three years. Li Ching-chuan, who made an unprecedented jump directly to the politburo from a provincial party post, was one of Teng's top lieutenants when Teng was party boss of the Southwest before 1952.

KEY ORGANS OF CHINESE COMMUNIST PARTY

POLITBURO	POLITBURO STANDING COMMITTEE	SECRETARIAT
MAO TSE-TUNG, Chairman	MAO TSE-TUNG	TENG HSIAO-PING
LIU SHAO-CHI, Vice Chairman	LIU SHAO-CHI	PENG CHEN
CHOU EN-LAI, Vice Chairman	CHOU EN-LAI	<u>LI FU-CHUN</u> } Politburo Members
CHU TE, Vice Chairman	CHU TE	<u>LI HSIEN-NIEN</u> }
CHEN YUN, Vice Chairman	CHEN YUN	TAN CHEN-LIN
LIN PIAO, Vice Chairman	TENG HSIAO-PING	WANG CHIA-HSIANG
TENG HSIAO-PING	<u>LIN PIAO</u>	TAN CHENG
LIN PO-CHU		HUANG KO-CHENG
TUNG PI-WU		LI HSUEH-FENG
PENG CHEN		LIU LAN-TAO, Alternate
* LO JUNG-HUAN		YANG SHANG-KUN, Alternate
CHEN YI		HU CHIAO-MO, Alternate
LI FU-CHUN		
PENG TE-HUAI		
* LIU PO-CHENG		
HO LUNG		
LI HSIEN-NIEN		
<u>KO CHING-SHIH</u>		
<u>LI CHING-CHUAN</u>		
<u>TAN CHEN-LIN</u>		
ULANFU		
CHANG WEN-TIEN		
LU TING-I		
CHEN PO-TA		
KANG SHENG		
PO I-PO		

The politburo as a voting body will probably continue to be responsive to Mao, even if "organizational" figures should choose to stand together in opposition to Mao on an important issue. However, the "organizational" group seems now markedly stronger in the politburo than another group which has been regarded as responsive to Chou En-lai.

The one other change in the politburo was the designation of Lin Piao as a new vice chairman of the central committee and politburo and as a new member of the politburo's standing committee. Lin was once Mao's favorite military leader, but for the past six years has been seriously ill.

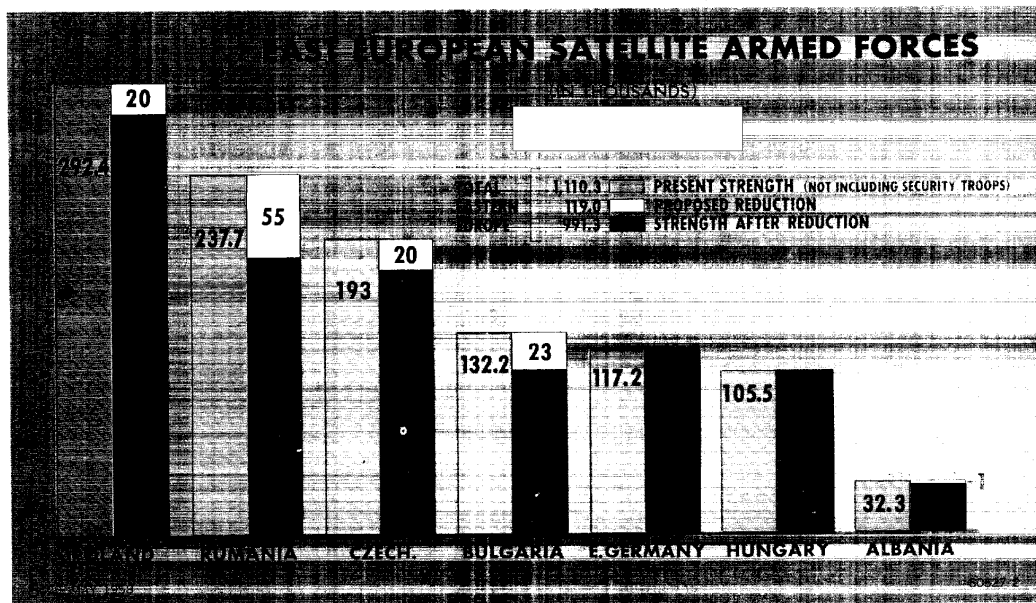
"Organizational" figures
Underlining indicates new members of party organ.
* Apparently inactive.

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at least three line divisions, or about 50,000 Soviet troops, twice the number stationed there before the uprising. There are still 35,000 Soviet troops in Poland and over 350,000 in East Germany. The Warsaw Pact Committee also announced that the forces of all Eastern European satellite countries except Hungary and East Germany would be cut. The total reduction would be 119,000, which would leave the over-all strength of the Eastern European satellite forces at about one million men.

The announced withdrawals and reductions, together with the renewal of a nonaggression treaty offer to the NATO countries, seem intended to make the Soviet stand on the entire range of disarmament issues appear more credible during presummit talks, as well as to reinforce the USSR's refusal to discuss the satellites at a summit conference. Another purpose is to make NATO defense measures appear less urgent. These steps were accompanied, however, by Khrushchev's warning in a speech to the meeting

that, should missile sites be established in Western Europe, the Warsaw Pact countries "would be forced...to examine the question" of establishing missile bases in East Germany, Poland, and Czechoslovakia.

The USSR took the occasion to reiterate its demand for parity at the summit and to attempt to enhance the satellites' claims for participation. Corresponding to the Western powers' suggestion that Italy be included in the talks, the Warsaw Pact countries proposed that, in addition to the USSR, two or three Communist states--Poland, Czechoslovakia, and possibly Rumania--be represented.

Yugoslavia

The Soviet decision to "postpone" for five years about \$278,000,000 in industrial expansion credits for Yugoslavia was undoubtedly discussed during the Moscow CEMA meetings. Moscow's hint that some compensation might be arranged through goods exchanges suggests that the imposition of a total

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economic boycott, however, is not contemplated for the immediate future. As yet no decision regarding \$90,000,000 in Polish and Czech credit--Belgrade's other bloc creditors--has been announced. Unofficial reports from Belgrade suggest that the Yugoslavs are not

optimistic regarding their future bloc economic ties.

Any other decisions on Yugoslavia reached probably will be mirrored in more propaganda attacks and other coordinated bloc actions concerning Belgrade.

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WARSAW PACT ARMED FORCES

While some of the East European satellite armed forces have greatly improved their combat capability in the three years since the inception of the Warsaw Pact, there has apparently been no concerted effort to make them an integrated and vital adjunct to the Soviet forces, with the possible exception of air defense. The recent meeting of the Political Consultative Committee of the Warsaw Pact probably discussed this question.

There have been some large-scale combined maneuvers and command-post exercises involving both satellite and Soviet forces in the past two years, but these have been infrequent and have never involved all the satellites. A Soviet-Polish exercise was held recently in Poland. Soviet, Czech, and East German units reportedly are planning to conduct a large-scale joint maneuver in East Germany, or possibly Czechoslovakia. These same countries have engaged in joint training previously.

In the satellite ground forces, alone, which are in general well equipped and organized, there are nearly a million men and 63 line divisions. These forces have remained relatively stable in the past few years with the exception of those in Hungary, which were completely disorganized in

1956, and the East German forces, which have been vastly improved.

Since its organization in January 1956, the East German Army has undergone reorganization and greatly modernized its weapons and equipment. In several major equipment categories, the army now has a decided advantage over those of the other satellites. Two mechanized divisions have been converted into tank divisions and an anti-aircraft artillery division has been formed. In addition, the rifle divisions have been converted to "motorized rifle divisions" by increasing the divisional armored support.

Other satellites also have received new equipment from the USSR. A significant number of T-54 medium tanks, which have been replacing the T-34's in Soviet units since 1954, were issued to Polish units in 1957. The East German, Czech, and probably Bulgarian forces also have these tanks. Major items of heavy equipment believed to have been stored during the 1956 uprisings have been observed recently in the hands of Hungarian troops. Judging by the type of equipment involved, it appears that efforts are being made to re-establish an effective army in Hungary which will probably consist of from six to nine line divisions but without a significant combat capability until at least the fall of 1959.

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In general, the satellite armies are adequately trained to conduct combined arms combat operations with large units. With the exception of Albania and Hungary, all the satellites have conducted at least division-level army training. The quality of training, however, cannot be favorably compared with the world's modern armies--largely because of the relative lack of communications equipment and modern transportation.

The satellite air forces have a combined strength of

more than 3,500 aircraft of all types, of which about 2,000 are jet fighters. Since the formation of the Warsaw Pact, the satellite air forces have concentrated on a mission of air defense. The integration of later model interceptors in the areas in which only satellite air forces are operating--Bulgaria and Czechoslovakia--further indicate the extent to which the USSR is using the Warsaw Pact as the legal instrument to expand its air defense system. [REDACTED]

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RECENT PUBLIC ACTIVITIES OF SOVIET PRESIDUM MEMBERS

The absence of party presidium member and central committee secretary Mikhail Suslov during the recent Moscow conferences of bloc leaders and the visit of Finnish President Kekkonen raises some question about Suslov's present role in the Soviet leadership. He was last identified on 16 May.

Suslov has long held special responsibility for Soviet-satellite relations, as was demonstrated by his prominence at the meetings of bloc leaders last November in Moscow and by the fact that he reported on the results of the meetings to the December plenum of the Soviet Communist party. His failure to appear at the recent conferences, which involved not only economic specialists of CEMA and military experts of the Warsaw Pact but also high party officials, has caused the Polish Communists to conjecture that he has been removed from the Soviet party presidium.

It is possible, however, that Suslov is either occupied with other pressing matters or is on vacation--he was away

from Moscow during late May and early June in both 1956 and 1957. Nevertheless, he has shown signs from time to time of resisting Khrushchev's leadership, and this plus his usual conspicuousness in Soviet-satellite party negotiations lend weight to the Polish speculation.

Presidium member Bulganin, who was demoted from premier to head of the State Bank on 27 March, has been out of the public eye since the May Day festivities. [REDACTED]

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[REDACTED] it is quite obvious that he has been relegated to the wings of the current leadership scene. [REDACTED]

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Mikhail Pervukhin, whose appointment as ambassador to East Germany in mid-February

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aroused speculation that he had been dropped as a candidate member of the party presidium, apparently retains his top party post. In mid-April, when the Komsomol congress elected the entire party presidium as honorary delegates to the congress, Pervukhin was included on the list. He was also listed along with party presidium members attending dinners given on 22 May in honor of Finnish President Kek-

konen and on 24 May in honor of bloc delegates to the CEMA and Warsaw Pact conferences.

In addition to Khrushchev, party presidium members who have been in the forefront lately are A. I. Mikoyan, F. R. Kozlov, and A. I. Kirichenko. These four were the party presidium members on the Soviet delegation to the conference of CEMA representatives.

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SOVIET ATTITUDE TOWARD DE GAULLE

The caution in the recent Soviet propaganda treatment of De Gaulle suggests that Moscow does not want to handicap any future relations with him and believes it can benefit from some of his nationalistic policies. The remarks of Soviet diplomats in Paris before the present crisis began suggested that the USSR expected that a De Gaulle government would be a disruptive force in NATO and might seek closer relations with the USSR. On the other hand, Moscow may foresee a greater possibility under a De Gaulle government for the type of settlement in Algeria that would weaken the chances for expanding Communist influence in North Africa.

While Moscow may consider that a De Gaulle government would be a net gain to the USSR in the foreign policy area, it is also alert to the possibility that united action by the Communist and Socialist parties against De Gaulle might lead to a popular front government. The USSR probably does not anticipate violent revolutionary activity leading to a Communist seizure of power but rather united political action

by the parties of the left that would eventually give the Communists an influence on French foreign policy. Since present Soviet tactics for world Communism place a high premium on Communist cooperation with other leftist parties, the prolonged isolation of the French Communist party has been a source of concern to the Soviet leadership. The USSR is probably uncertain, however, about whether De Gaulle would seek to establish a dictatorship and would suppress the Communist party.

Soviet propaganda has endorsed French Communist efforts to unite the parties of the left and has publicized the Communist criticisms of De Gaulle. While French Communist attacks on De Gaulle have intensified and have included the claim that the USSR opposes him, Moscow has restrained its own commentary on De Gaulle and has centered its criticism on the military leadership in Algeria. Both Soviet and French Communist propaganda launched attacks on the Pflimlin government for its "compromises" and "capitulation."

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ECONOMIC DECENTRALIZATION IN THE NORTHERN SATELLITES

Economic administrations are being rapidly decentralized in Czechoslovakia, East Germany, and Poland, the most highly industrialized satellites. The reorganization is designed to increase industrial production and decrease costs by establishing more efficient operating procedures, while eliminating many administrative posts and assigning most of the incumbents to production tasks. Another aim of the program is to curtail the power of the economic ministries, which, much reduced in size, are to be concerned mainly with long-range planning and bloc coordination.

The recent elimination of the Polish central boards--transmission belts of authority from the ministries to the basic enterprises--means that now in all three countries, associations of enterprises will have the operational authority. These associations, grouped according to a particular type of production, will have responsibility for short-term planning, approval of investments, and settlement of accounts that were formerly the responsibility of the ministries. Other powers formerly exercised by economic ministries are to be vested in the local government councils and in the managers of enterprises, who are to have more authority over the disposition of investments and profits.

As economic structures are being reshaped, the solution of concomitant personnel problems is proving difficult. Large numbers of administrative personnel are being shifted from the capitals to work in district administrations or in industry. In Czechoslovakia, the number of persons so affected ranges from 40,000 to 100,000. Many of these workers refuse to seek manual labor and the result is a considerable group of

unemployed, discontented people in Prague.

East Germany seems to be having the most trouble with its decentralization, partly because it is being pushed too fast and partly because here, unlike Czechoslovakia and Poland, the economic ministries are being entirely eliminated and replaced by a state planning commission. Further, the vagueness of operational directives is confounding district officials. As in Prague, many party members slated to leave Berlin for assignments in the districts are resisting the move.

While Poland's actual administrative reorganization is similar to that of Czechoslovakia and East Germany, it is part of a larger program to put Polish industry on a basis of "profitability," exemplified by a campaign to last until 1960 which has eliminated 150,000 industrial and administrative workers to date. Next year, as a part of this wider economic program, the Polish price structure is to be revised as called for by the "new economic model."

The success of the economic decentralization is far from assured. Power may have a tendency to shift back to top levels--the ministries or the equivalent state planning commission--with a consequent growth of red tape to encumber the procedures of procurement, accounting, planning, and marketing. The additional authority of the plant managers over plans, profits, and investments may lead to conflicts with the party representatives, since these latter are rarely able to deal with economic problems from a standpoint that is solely economic. Workers stand to benefit only if they work harder to increase plant profits. (Prepared by ORR)

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THE BULGARIAN PARTY ON THE EVE OF ITS SEVENTH PARTY CONGRESS

The Bulgarian Communist party will convene its seventh congress on 2 June in an atmosphere of success and self-assurance. The doctrinaire ruling triumvirate of party First Secretary Zhivkov, Premier Yugov, and politburo member Vulko Chervenkov--Bulgaria's "little Stalin"--is no longer under pressure to liberalize, and its undeviating "Stalinist" approach can be shown to have paid off in almost complete collectivization and undisputed control of the country.

concerned. Since Bulgaria did not establish close relations with Yugoslavia during the period when reconciliation with Belgrade was in vogue and did not set out on its own "road to socialism," it will be well equipped at its party's congress to denounce the Yugoslav "revi-



YUGOV

sionist heresies" and present the Moscow-approved line on satellite behavior. Zhivkov, who will report at the congress on the activities of the party since its sixth congress in 1954, will probably deliver the authoritative statement on this question.

The current Soviet-Yugoslav split and Moscow's renewed approval of more "orthodox" lines of internal policy for the satellites make unlikely any significant changes in the Bulgarian leadership at the congress. Although Chervenkov was demoted during Bulgaria's limited thaw, he was replaced by like-minded "hard-liners" and managed to remain in the highest leadership circles. Zhivkov, his former lieutenant, has apparently received Moscow's blessing and has risen to the number-one



ZHIVKOV

The Bulgarian regime also finds itself in a strong position as far as the renewed Soviet-Yugoslav dispute is

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position in Sofia without antagonizing Chervenkov, who reportedly is more able and has a big following in the local party organizations.

Yugov, while still the second most important figure in the regime, is said to have slipped somewhat because of his half-hearted support of the Bulgarian party shake-up last July. What little party factionalism exists appears to stem from dissatisfaction with relative power positions rather than policy differences, and even this has reportedly been minimal since the July ouster of politburo member Georgi Chankov.

Another member of the Bulgarian party, party secretary and politburo member Dimiter Ganev, also appears to have risen to top leadership stature in the past year, supposedly with Chervenkov's backing. Although there are rumors in Sofia that Ganev is attempting to



CHERVENKOV

replace Zhivkov, evidence does not support these rumors at this time.

As a precautionary measure, before the congress the Bulgarian party at Zhivkov's

instigation reportedly expelled from its ranks last month up to 30 Kostovites--the group ousted for Titoism in 1949-50. These individuals, who were rehabilitated in the spring of 1956 but not readmitted to the top party leadership, reportedly



GANEV

have been dissatisfied with both their positions and the compensation paid for their years in prison. Although ousted from the party, the 30 Kostovites have not as yet been removed from their jobs or arrested.

The Bulgarian Army also is a cause of some concern to the regime. Some of its leaders were readmitted to the central committee at the party's sixth congress in 1954 after removal or arrest in connection with the Kostov affair in 1949-50. If any of these rehabilitated officers have exhibited reluctance to go along with the current line, which has turned away from "liberalization," they may be again removed from their jobs. Such a process may already have begun in the reshuffle of the party leadership in July 1957, with the removal of central committee members Dobri Terpeshev and Yonko Panov.

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BRAZILIAN - SOVIET BLOC TRADE

Brazil's three-year barter agreement with Poland, involving the exchange of coffee and other bulk commodities for 14 merchant ships worth about \$25,000,000, reflects its continuing dollar crisis, its growing coffee surplus, and its desire to offset the almost inevitable cutbacks in dollar and sterling expenditures for the government's economic development plan. The Polish deal and a reported Czech deal involving \$12,000,000 worth of coffee for agricultural equipment probably foreshadow other barter deals with the Soviet bloc, even though they do not point to any fundamental change in Brazil's preference for trading within Western multilateral arrangements.

In early May, Brazil's dollar balances reached the zero mark and continued imports were possible only through emergency loans from private banks in the United States. Brazil has been negotiating with the International Monetary Fund (IMF) for a second drawing but has insisted that the reforms asked by the IMF will be politically infeasible without substantial additional US loans and credits.

Coffee, which normally provides up to 80 percent of Brazil's dollars and 70 percent of total foreign exchange--between \$800,000,000 and \$1 billion annually--has dropped about 15 percent in price since last May,

and Brazil's sales were off about one half in the first quarter of 1958. World-wide overproduction, resulting from increased plantings in 1954, is expected to continue for several years. A continued weakness in the market would almost certainly stimulate the already serious nationalist campaign against the United States, whose commodity markets determine world coffee prices.

Brazil has trade agreements with Poland, Hungary, and Czechoslovakia, its principal trading partners in the bloc. Trade with the bloc declined some 10 percent in 1957 to a level of \$76,400,000, but is likely to increase in the next few years, partly as a result of Polish credits already advanced during 1957.

Most Brazilian officials see the possibilities of bloc trade, however, as limited not only by the rigid bilateralism of bloc commercial arrangements but also by the lack of a broad market there for coffee. They fear that large sales of coffee to any bloc country would result in resales in Brazil's usual Western markets. While there has been considerable interest in bloc offers of heavy equipment, most top officials are also fearful of large-scale transactions that would involve the presence of bloc technicians. 25X1
(Concurred in by ORR)

SUDANESE POLITICAL SITUATION

Prime Minister Khalil's recently installed coalition government in the Sudan faces the same difficulties encountered by the almost identical coalition he headed in mid-1956. The opposition continues to attack the government on its generally pro-Western alignment and its refusal to grant greater

local autonomy to the non-Arab southern Sudan. The Egyptian subversive effort to bribe or otherwise influence various wavering elements, in many instances paralleling Communist efforts, now is threatening Khalil's slim parliamentary majority.

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Government officials have lately expressed growing anxiety over Egypt's intentions, and fear that if Nasir's venture in Lebanon is successful, he will make a similar attempt in the Sudan.

Antigovernment forces in the Sudan are sponsoring demonstrations and heavy propaganda attacks against Khalil's acceptance of an American aid program. Last week's parliamentary vote on the new government's first policy statement was won by the coalition membership in the all-important House of Representatives by a vote of 98 to 70. Actual parliamentary approval of an aid agreement, however, will not be attempted until the end of June. Meanwhile, a combination of pro-Egyptians, Communists, and the opposition National Unionist party (NUP) will be working vigorously to win away the numerous independent southern and other half-hearted supporters of the coalition.

The government may face further embarrassment as a re-

sult of its public statements favoring a "positive neutralist" policy in foreign affairs. Foreign Minister Mahjoub, in line with this policy, recently stated that the government would welcome a Soviet technical and economic aid offer with "no strings attached."

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Southern delegates walked out of last week's meeting of Parliament in protest against the new constitution now being written, apparently dissatisfied with its concentration of power in the central government. These delegates' allegiance to the coalition is tenuous, and a combination of Egyptian money and promises of greater local autonomy under an NUP government might bring about enough defections to be fatal to Khalil's coalition.

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MIRZA HOPES TO REGAIN CONTROL OVER PAKISTANI COALITION

Pakistan's President Mirza has made it clear he intends to exploit the latest outbreak of political instability to assure his future control over the government. He may either try to force the formation of a national government more amenable to his control or resort to dictatorial rule. Two factors in his favor are Prime Minister Noon's implication in a widely publicized defamation-of-character case and the possibility that the East Pakistan provincial government will collapse early in June.

Noon has been seriously embarrassed by a recent court

judgment casting reflections on his role in the defamation of M. A. Gurmani, one of Pakistan's leading politicians. The Supreme Court granted Noon's request for a hearing, however, and his petition to have the reference to him in the judgment stricken will be heard on 23 June. If Noon is unsuccessful in clearing his name, he will have little choice but to resign.

Mirza claims to be ready to seize the initiative following court action on Noon's petition and to bring down the present Republican party government, which was installed in the face of Mirza's opposition last

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December. Mirza hopes to eliminate the influence of former Prime Minister Suhrawardy, who is the chief support of the present government and Mirza's one real rival for political supremacy. The President, aware that his political and popular support has diminished during the past year, apparently intends to ensure his continuance in office after the elections now scheduled for November by maneuvering at this time for a new amenable coalition or, failing this, using the current instability as an excuse for assuming dictatorial rule.

The forces which support the present government, and want to prevent any development which might delay the elections,

are working strenuously to avert a realignment of the coalition. These politicians, helped by the court's agreement to hear Noon's petition, could make it difficult, if not impossible, for Mirza to line up a workable majority. Their hand would be weakened, however, if the East Pakistan provincial government, headed by Suhrawardy's Awami League, fails to win the provincial assembly's confidence in crucial sessions early in June and makes it necessary for the central government to step in. Both these circumstances could increase the prospects of a take-over by Mirza.

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THE BURMESE POLITICAL CRISIS

On 5 June the Burmese Parliament will choose between the leadership of Premier Nu and Deputy Premier Ba Swe. This showdown vote will also mark the end of the Anti-Fascist People's Freedom League (AFPFL), which has led Burma since independence in 1948. The new government, whether based on a single party with a slender parliamentary majority or on a coalition of minority parties, will probably be short-lived and unstable.

U Nu is expected to call for new general elections immediately following the parliamentary vote regardless of its outcome. The Communists and rightist extremists would be the major beneficiaries in such elections because former AFPFL voters will be divided.

Civil strife, common to Burma in the past, has so far

been contained. All top political contenders have signed pledges to refrain from violence. The army, still politically neutral, appears in firm control of the situation in Rangoon. Violence in rural districts, however, is already reported increasing.

Deputy Premier Ba Swe, counting on two thirds of the current AFPFL parliamentary votes, claims he will obtain a clear majority in the 250-seat Chamber of Deputies. However, his confidence appears to be decreasing as Nu's faction reports success in converting deputies previously pledged to Ba Swe. In addition, the premier has the support of the 46 to 49 votes of the Communist-dominated National Unity Front party. There have been public charges in Rangoon that both sides are offering up to \$1,000,000 kyats (\$210) for each uncommitted

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parliamentary vote, and no firm estimate of the outcome will be possible prior to the balloting.

Both the U Nu and Ba Swe factions are committed to democratic ideals. The prospects for the emergence of a responsible two-party system from the present crisis are dimmed, however, by the strength of the

National Unity Front in Parliament. Because of the split in the AFPFL, Communist parliamentary influence for the first time cannot be ignored, whether in support of one side of the other. In the national elections, which must be held by 1960 at the latest, the leftists are almost certain to increase their representation--perhaps even win a majority--because of the split of the non-Communist vote. [redacted]

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JAPAN CONCERNED OVER CHINESE COMPETITION IN SOUTHEAST ASIA

Japanese government officials and businessmen are becoming seriously concerned over Chinese Communist competition in Southeast Asian markets and are seeking means to counter this trend. Representatives of the generally depressed Japanese textile industry, which is hardest hit by competition from Peiping, have suggested that the United States, in order to block Communist penetration of the area, assist the Japanese with long-term, low-interest credits toward purchases of American cotton, which would improve Japan's competitive position. The representatives believe that if they can obtain five-year credits on low-grade cotton at 2 percent interest, Japan could regain a considerable portion of those Southeast Asian markets which have been lost to Communist China.

Many Japanese who have believed the China mainland could become the lucrative market of the prewar period are apparently undergoing a gradual change in attitude. They are begin-

ning to realize that the Chinese economy may be a competing rather than a complementary one.

There is particular concern about Chinese textile exports. According to Japanese estimates, Peiping's textile sales in four Southeast Asian countries increased from approximately 15,000,000 square yards in 1954 to about 300,000,000 in 1957, with Indonesia the leading buyer. The major portion of this increase has been at the expense of Japanese industry.

Early in 1958, the Chinese Communists were reported selling Japanese steel in Singapore at a price lower than Japan itself could offer. While it is doubtful that Peiping can significantly increase its present small-scale sales of heavy industrial materials in Southeast Asia, the Japanese regard this as an example of Communist willingness to allow political considerations to outweigh economic factors. [redacted]

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JAPANESE ELECTION STRENGTHENS PRIME MINISTER KISHI

The return to power of Prime Minister Kishi's Liberal-Democratic party in the 22 May election for the lower house of the Japanese Diet should strengthen his control of the government and encourage him to continue cooperating with the United States. Because of antipathy aroused in Japan by Sino-Soviet efforts to influence the election, Kishi now may also be in a better position to resist pressures for political concessions to Communist China for the sake of trade.

As a result of the party's and his own good showing, Kishi is in a stronger position to cope with Liberal-Democratic factionalism, despite the fact that factional strengths are relatively unchanged. If Kishi is successful in bringing Hayato Ikeda, leader of the adherents of former Prime Minister Yoshida, into a cabinet or party post following convocation of the Diet on 10 June, the prospects for political stability will be enhanced.

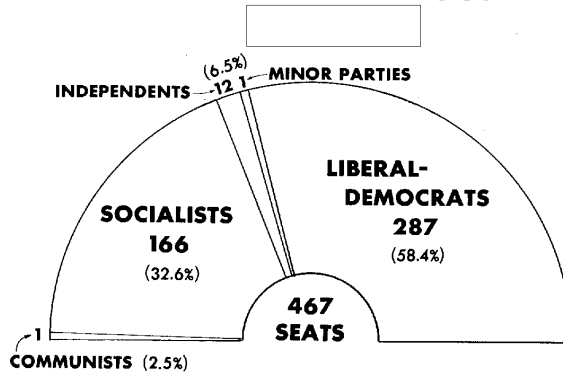
The expected addition of independent conservatives to the ruling party will not give it the two-thirds majority necessary for a constitutional amendment, but Kishi will be in a position to continue the build-up and modernization of Japan's defense forces. He also probably will believe he has a popular mandate to take a stronger stand in outstanding problems of Japanese-American relations, such as Okinawa, the Bonin Islands, and nuclear weapons.

The eight-seat gain made by the Socialists is the smallest

in any election since 1949. This could cause the party's right wing to demand that the party seek support from elements other than labor, which has been its mainstay to date. The party's failure to win more seats has aggravated the cleavage between its right and left wings and increased criticism of party leaders.

Communist China is probably disappointed in the election results, but shows no inclination to alter the strategy it adopted in hopes of influencing the election. Peiping apparently plans to continue its economic boycott and insistence on flying its national flag over a projected trade mission in Japan. The Chinese claim Kishi must make the next move by abandoning his "hostile" attitude toward Peiping.

JAPANESE LOWER HOUSE



29 MAY 1958 PERCENTAGE OF POPULAR VOTE IN 22 MAY 1958 ELECTIONS SHOWN IN PARENTHESES 80527

Following the election, Kishi told the press he would not recognize Communist China but would seek to expand trade. Further disillusionment in dealing with Peiping may cause Tokyo to press more strongly for economic expansion in South-east Asia.

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IMPLICATIONS OF THE ITALIAN ELECTIONS

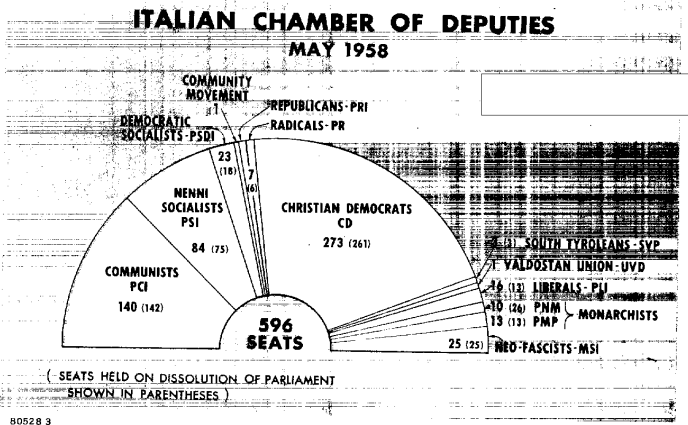
The center of gravity of Italian politics has shifted somewhat to the left as a result of gains made by the non-Communist left and center parties and the sharp losses suffered by the right in the 25-26 May national elections. Two interrelated problems now face Italian politicians--the formation of a government coalition led by the Christian Democrats, and renewed efforts toward reunification of the Nenni and the Saragat Socialists.

The Christian Democrats, although increasing their seats in both houses, do not have a majority by themselves, and campaign developments are likely to make their former center coalition partners reluctant to join a Christian Democratic-led coalition. With the Social Democrats committed to attempt reunification with the Nenni Socialists, and the Liberals and Republican-Radicals still

popular all-Christian Democratic minority government with supporting votes from the now greatly reduced National and Popular Monarchist parties or, alternatively, a Christian Democratic - Liberal - Monarchist coalition with only minor cabinet posts going to the small partners. Another possibility is an all-Christian Democratic government supported by nonparticipating former coalition allies of the center--perhaps with benevolent abstention from the Nenni Socialists.

The Christian Democratic electoral gains strengthen the position of Party Secretary Amintore Fanfani, who also leads his party's left-center faction. Fanfani can claim that much of the party's success at the polls resulted from his efforts to organize a modern party machine since the 1953 elections.

The over-all shift to the left has not benefited the Communists. The Communists were able to retain their past strength --one fifth of the popular vote--but their prestige has been diminished by the gains made by the Nenni Socialists in both houses after the latter refused to give in to Communist campaign threats to "renew the unity-of-action pact or face an open break."



smarting from the revived clerical issue, the Christian Democrats may have to look to the right for allies.

This might mean a continuation of the past year's un-

Prospects for Socialist reunification have improved as a result of two developments. One is the increase in parliamentary strength registered by the Democratic Socialist party

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following Secretary General Saragat's repeated campaign calls for postelection efforts toward reunification. The other is the way Nenni's successful conduct of the campaign has in-

creased his prestige vis-a-vis the pro-Communists in his party. Serious points of difference between the two Socialist parties nevertheless remain.

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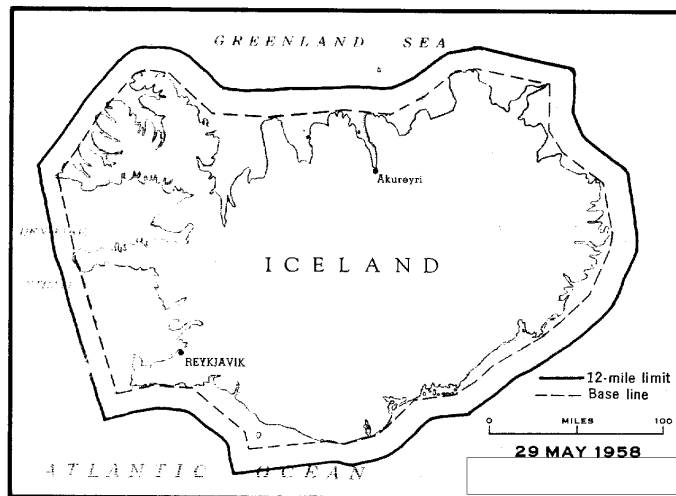
ICELAND AND THE TERRITORIAL WATERS ISSUE

After a prolonged dispute between the Social Democratic and Communist-front Labor Alliance members of the cabinet, Iceland's tripartite coalition government has decided to delay until 30 June the issuance of regulations extending the "fisheries conservation limits" to 12 miles. The decree will become effective 1 September.

The Icelandic Communist newspaper *Thjodviljinn* carried on 28 May the alleged text of the agreement reached by the government parties. The conservation area is to be extended to 12 nautical miles with no change in the base lines.

The Communists had demanded an immediate and unqualified extension from the present four-mile limit, but the Social Democrats had insisted that the announcement and the effective date should allow a period for Iceland to adjust differences with its NATO allies, particularly Britain. The Communists threatened to resign on 19 May but apparently neither they nor the other parties want general elections at this time, fearing these would only strengthen the already powerful opposition Conservative party.

There are still points of disagreement within the coalition whether any negotiations will be undertaken. It is unlikely, however, that the ruling leftist coalition will break up in the near future.



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Foreign vessels will be banned from the area, while Icelandic trawlers will be permitted to operate in the outer eight miles subject to special provisions. The period from now until 1 September will be used to "gain recognition for and understanding of the legality and necessity for an extension."

The British, however, challenge Iceland's right to resort to unilateral action and would be reluctant to accept some

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aspects of the proposal. London has emphasized it will not agree to any fish conservation which would reduce the total catch British trawlers now get

from these waters. On the other hand, the practically universal popular support for the measure in Iceland restricts the government's latitude in negotiating a compromise.

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PART III

PATTERNS AND PERSPECTIVES

FRANCE AND ALGERIAN OIL

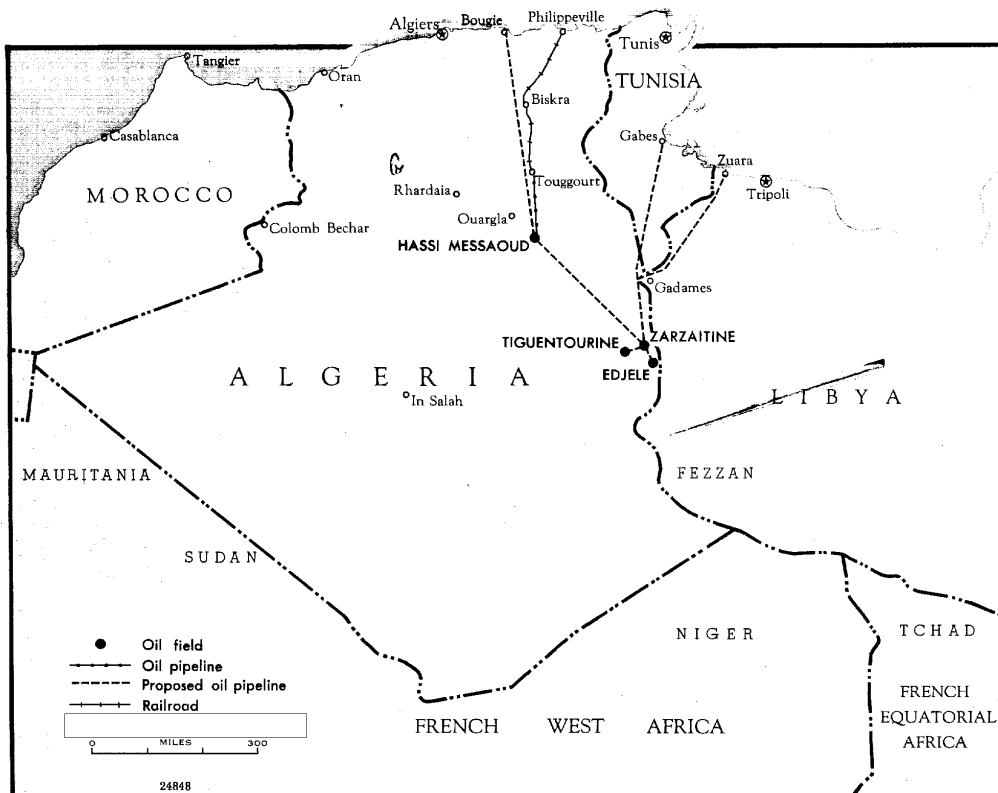
The opening up of petroleum resources in the Sahara in recent years has enhanced the economic value of Algeria to France and encouraged ardent nationalists in the belief that Algerian oil can assure France great-power status. Explorations to date indicate very extensive deposits, but their exploitation is both costly and difficult. Successive governments have pushed an ambitious oil development program in Algeria despite the financial strain on France's economy, and small investors have responded enthusiastically.

Algeria's Economic Value

In the postwar period, a growing number of Frenchmen have seen Algeria as an economic

liability, because its present agricultural and industrial resources are grossly inadequate to support its rapidly increasing population, while new industrial development would require outside capital, tariff protection, and probably outright French subsidies. Algeria and metropolitan France are each other's best customers, but only 50 to 60 percent of Algerian imports from France are covered by exports.

The recent discovery of oil and other minerals in sparsely settled southern Algeria has raised French hopes that the present economic relationship can be reversed. There have been a number of very optimistic official estimates regarding the



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future of the Saharan oil development program in particular-- estimates that tend to underplay the cost of developing and protecting these resources.

Oil and French Nationalism

For many Frenchmen, the oil of southern Algeria has had greater political than economic importance, generating a new confidence in France's place in the world. The shutting off of Middle Eastern oil during the Suez crisis was a political humiliation to French nationalists because it emphasized the extent to which the postwar economy had become dependent on day-to-day supplies from countries over which France could exercise little control. The experience stimulated a determination to make France as independent as possible of foreign sources of basic energy and provided a sympathetic audience for such predictions as the statement that Saharan oil could make the French Union self-sufficient in petroleum by 1972.

The best expressions of the new attitude occurred at the 13 January ceremony celebrating the arrival of the first oil train at Philippeville on the Algerian coast when Max Lejeune, then minister for the Sahara, said: "In a few years France...will have her own independent fuel supply. France will become, after the United States and the Soviet Union, the third greatest world power in terms of energy. We plan to attain the goal and nothing will keep us from it." More recently, General de Gaulle, in his 19 May press conference, referred to the oil discoveries as "a card in France's hand."

The New Oil Fields

Although it is still too early to estimate the total probable Algerian oil reserves, there is little doubt that the

area is a major oil province. In only two years, French companies have brought in four major fields.

The first major Algerian discovery was at Hassi Messaoud in late 1956. The field was producing a token 6,300 barrels a day during March 1958. The field, which is not yet fully defined, has proved reserves of about 800,000,000 barrels, but this figure may reach into the billions when exploratory work is completed. Even with this conservative reserve estimate, Hassi Messaoud has about five times the crude reserves of France itself.

As is the case with other Algerian fields, the major problem is transportation. Presently, the Hassi Messaoud oil moves through 100 miles of 6-inch pipe to a railhead at Tougourt, from where it is moved about 275 miles to the coast by tank car. Work has started on a 24-inch line from Hassi Messaoud to the coastal town of Bougie, a project which it is estimated will cost more than \$100,000,000 and be finished probably by the end of next year. The completed line is designed to carry initially about 100,000 barrels daily, although its ultimate capacity will be over 300,000 barrels a day.

The other three Algerian fields are located in the eastern Sahara near the Libyan border. Together these three may exceed Hassi Messaoud's present proved reserves by a considerable margin. The Edjele field, which has been fairly well defined, is about 18 miles long and 2.5 miles wide. Its recoverable reserves are conservatively estimated at about 375,000,000 barrels.

Tiguentourine and Zarzaitine have not been sufficiently exploited to determine their ultimate size, although the French claim that Zarzaitine could very

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well exceed Edjele. These fields have crude of excellent quality, but extensive and costly pipelines will be needed before any of the three is brought into production.

Marketing Algerian crude is more of a political than a technical problem. Ideally, a pipeline should be constructed linking Hassi Messaoud, Tiguentourine, Zarzaitine, and Edjele to the Mediterranean by way of Tunisia or Libya. This route has several advantages, not the least of which is that it is about 200 miles shorter than a route confined to Algerian territory. For political reasons, however, the French have apparently considered linking the eastern Saharan fields by a 375-mile pipeline to Hassi Messaoud in order to bypass any foreign territory.

France's Financing Problems

The cost of the Saharan oil development program puts a severe strain on France, which has for some time been overcommitted financially. In 1957 alone, over \$50,000,000 was spent on exploration and drilling in the Algerian Sahara, and total expenditures since the first rights were granted in 1952 amount to \$127,200,000. Expenditures planned for 1958 amount to \$176,000,000, roughly half for exploration and half for pipeline construction and other transportation facilities. Under these circumstances, Paris has shown a willingness to bring in both foreign and private French investors to help carry the burden.

Funds for exploration and development of the Saharan oil fields have come largely from public sources--about 65 percent in 1957 and 70 percent in 1956. These funds have been supervised by the Bureau of Petroleum Research (BRP), a special branch under the Ministry of Interior. The BRP ini-

tially licensed seven companies --in most of which the French Government holds important interests--to undertake explorations. Subsequently, concession areas have been opened to bids by other companies. Government contributions were required not only to improve transportation and other facilities in the Sahara, but also to provide the partially government-owned operating companies with additional capital for development purposes.

Foreign participation has been subject to certain restrictions, such as insistence on at least a 51-percent French interest, incorporation of a subsidiary company with headquarters in France, and priority in marketing for supply of the franc area. Several American independent oil companies have accepted these terms and gone into Saharan operations, although the major international companies have remained aloof.

The government also turned to the French nation for financing. Beginning in October 1957, the BRP conducted public sales of certificates against its holdings in a number of oil companies with remarkable success. By the end of 1957, an estimated \$350,000,000 had been raised by public subscription from numerous small investors who can be counted on to back the government's Saharan program to the limit.

Much emphasis has been given to the theory that the program will mean a major saving in the long run, since over 90 percent of present French oil requirements are paid for in foreign exchange. Optimistic French estimates have claimed that by 1960 proper exploitation of the Saharan fields could save France over \$500,000,000 per year, a figure exceeding France's recent unfavorable balance of trade. [redacted]

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ALGERIAN REBEL LEADERSHIP

Leadership of the Algerian rebellion, which erupted on 1 November 1954, is shared by about a dozen Algerian Moslems of varying political views. Unlike the Tunisian or Moroccan nationalist movements, in which Habib Bourguiba and King Mohamed V were the dominant figures, the Algerian drive for independence has no single, undisputed spokesman. While the Moroccan and Tunisian independence struggles were the effort largely of single parties, the Algerian struggle is being carried on by the Algerian National Liberation Front (FLN), a coalition of political groups, including religious scholars banded together in the Society for the Algerian Ulema, the bourgeoisie of the moderate Democratic Union for the Algerian Manifesto, and splinter groups from the workers' Triumphant Movement of Democratic Liberties.

The FLN is governed by a 54-member National Council of the Revolution. However, the executive body--the so-called Committee for Coordination and Execution--is composed of nine members, six of whom are primarily military leaders and the remaining three political figures. Its headquarters was transferred from Cairo to Tunis last fall.

The six military leaders, in their early and middle thirties, are practically unknown. Of these, Krim Belkacem is thought to be the ablest and to have outmaneuvered Abane Ramdane, who was reported on 27 May to have died from battle wounds, in a struggle for paramount military control. Of the other four, Amar Ouamrane is known to have worked closely

with the Tunisians, probably in arranging for the transit of arms to Algeria, while Abdelhafiz Boussouf, rebel commander in



BELKACEM

western Algeria, is said to fear Egypt's influence and to be favorably disposed toward the Moroccans. All six served with the French Army during wartime and one, Mahmoud Cherif, was awarded the Legion of Honor for his performance as a first lieutenant during World War II and also served in Indochina.

Probably best known among the three political leaders is 58-year-old Ferhat Abbas, a moderate who has been prominent in Algerian politics for nearly three decades. Abbas has long sought more autonomy for an Algeria closely aligned with France. After vainly attempting to obtain commitments from Paris for broad, progressive reforms for Algeria, he finally fled from France to Cairo in April 1956, when he announced his support of the FLN. Valued mainly for his prestige and personal ties, Abbas has given a tone of respectability to the FLN and

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is a possible president of an Algerian government.

Abbas is more likely to be foreign minister in a government headed by Mohamed ben Bella, who is not one of the nine committeemen but is an honorary member of the group. Ben Bella, a former noncommissioned officer in the French Army, is an original instigator of the rebellion. At the time of his abduction by the French in October 1956, he was thought to be the rebels' chief of staff. Although at present he is imprisoned in Paris with the de facto status of a political prisoner, he maintains a limited contact with the FLN. Some French officials, who consider him a moderate and believe his incarceration to have been a major error, would like to see the terms of his imprisonment relaxed in order to permit him to exercise a moderating influence on other FLN leaders.

Other political leaders of the FLN are Abdelhamid Mehri,



BEN BELLA

the FLN's representative to Syria,

and Dr. Mohamed Lamine Debaghine, a 41-year-old lawyer, who headed an FLN delegation to the latest congress of the Yugoslav Communist party. Mehri was the FLN's spokesman during



ABBAS

the conference of North African political parties held in Tangier late in April and probably was in large part responsible for the adamant position maintained by its delegation.

Although the formation of an Algerian government after consultation with the Moroccan and Tunisian governments was approved in principle by the conference, details on its formation, composition, and probable headquarters are uncertain.

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KHRUSHCHEV'S STATUS AND THE YUGOSLAV DISPUTE

Warsaw reports contend that Khrushchev did not lead the present anti-Tito offensive and that his dominance as a policy maker may have been qualified over this issue. Khrushchev has in fact failed to associate himself publicly and emphatically with the present Soviet position on Yugoslavia, but his part in the development of the controversy with Tito remains unclear. It is possible that he had to yield to pressures for a harder line in Eastern Europe. Continuing problems in the satellites, combined with domestic economic issues, could provoke a new round of political controversy within the party hierarchy.

Speculation that there has been a division of opinion within the Kremlin on the Yugoslav question has been prompted mainly by a hardening in the Soviet attitude between 18 April and 9 May, when Pravda's reformulation of the official line threatened to place the dispute on the governmental as well as the ideological level.

Conceivably, the shift may have resulted from a policy debate in the presidium. If such an issue arose, however, it apparently was resolved by 6 May, when Moscow, before the central committee met, published in full Peiping's People's Daily editorial of 5 May, the most scathing attack on the Yugoslavs yet to appear. Therefore, while the plenum of 6-7 May seems to have heard a statement on Soviet-Yugoslav relations, there is no reason to believe that policy conflicts were carried there from the presidium, nor that any action affecting Khrushchev's authority was taken. The most that can be conjectured with respect to Khrushchev's behavior in the

Yugoslav affair is that, rather than allow the issue to degenerate into an internal political controversy, he gave way under pressure within the presidium for a stiffer Soviet attitude.

The Yugoslavs, who have long interpreted the shifting currents in Soviet policy toward themselves as expressions of factionalism in the Soviet leadership, have identified Khrushchev as the chief culprit in the latest episode. The Yugoslav ambassador in Moscow has told diplomatic colleagues he does not believe there has been conflict within the Soviet hierarchy over policy toward Yugoslavia. In his opinion, this policy was inaugurated by Khrushchev personally and has been fully backed by the party presidium. He rejected the idea that Khrushchev is subject to pressure either from within the Soviet leadership or "from without," apparently referring to Communist China.

Ambassador Thompson supports this appraisal, with the reservation that he thinks the Chinese Communist position may have influenced Khrushchev's Yugoslav policy to some extent. Possibly to suppress speculation that the Chinese were backing Stalinist opponents of Khrushchev on the issue of Yugoslav revisionism, Peiping has pointedly endorsed the role of Khrushchev personally. In its summary of the proceedings of the Chinese Communist party congress held between 5 and 23 May, Peiping approved as "necessary and correct" the steps taken toward Yugoslavia since 1954 by the Soviet party central committee "headed by N. S. Khrushchev."

Khrushchev's Strengths

The power, prestige, and organizational strength Khrushchev

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has accumulated since Stalin's death has put him in a position in which a successful challenge to his leadership would be extremely difficult.

On the plus side is Khrushchev's organizational strength and maneuvering ability. The interlocking directorate which he has built to connect the party secretariat to the presidium would appear to be the best kind of insurance for preserving his dominance over both formulation and execution of policy. At the same time, the directorate does not contain a rising star around which a second force might coalesce. There are dangers, however, in assuming that the five-year round of disputes in the presidium has suddenly ended, or in trying to evaluate these individuals, either for leadership potential or for allegiance to a particular leader.

The central committee is a somewhat different story. Its composition has apparently remained relatively unaltered during the past two years and it has demonstrated consistent support for its first secretary, Khrushchev. In return, Khrushchev continually gives the impression of going out of his way to keep the central committee with him. His continued control of the central committee is not a foregone conclusion, although the odds are probably well on his side. The principal factor now is that many of Khrushchev's policies are reaching the point where they are finally getting the full test. If one of his major economic policies were to fail or his control of the satellites slip, a considerably different evaluation would be in order.

Possible Difficulties

The aftermath of the Tito feud: If, as some observers suggest, the present feud with Tito was prompted primarily by

Soviet anxiety over continued restlessness in Eastern Europe, particularly Poland, and a determination to restore Soviet control emphatically, then the present course marks not only the collapse of the attempt at reconciliation with Tito but, more importantly, a further retreat from the post-Stalin policy of relaxing satellite bonds. The "liberalization" policy culminated in October 1956 with Gomulka's rise in Poland and the Hungarian revolution. It is possible that Khrushchev is responsible for the hardening of the Soviet line since then.

The November 1957 meeting of Communist parties in Moscow, which touched off a bloc-wide campaign against "revisionists," the Khrushchev-Gomulka meeting in January 1958, and the April article in Kommunist, which seemed to demand an increased tempo of collectivization in the satellites, may have been steps along the way to the break with Tito. Moreover, the political situation within the Soviet leadership has changed considerably as a result of the series of purges of Khrushchev rivals.

On the other hand, since this would mean he was totally relinquishing an Eastern European policy which he had pursued fairly consistently since at least 1955, the hardened position may have resulted from a shift in the balance of opinion in the presidium. Even after the shock of Hungary, Khrushchev seemed intent on saving something of his satellite policy; for example, his meeting with Tito in Rumania last August.

The problem of Poland: In any case, a harder line toward the satellites has apparently emerged. The question of how it will be applied to Poland could become a source of political conflict in the Kremlin. Moscow clearly wishes to obtain the maximum in bloc unity against Yugoslavia and may

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make a mistake in believing that Gomulka can be forced to adopt the bloc line. Yet the Soviet leaders must realize the dangers inherent in demanding that Gomulka make statements against Yugoslavia which would in effect deny his own ideological base for the Polish "road to socialism."

Gomulka's own domestic strength rests on his insistence, in the name of autonomy, that the Kremlin and the bloc generally must not interfere in the internal affairs of any individual bloc nation. If he were now to join Moscow in what is essentially an attempt to dictate to Belgrade on internal affairs, such a statement would deprive him of the basis for his own control of internal policy, encourage his opposition, and possibly even lead to a Polish national uprising.

Divisive Economic Issues

Khrushchev's speech to the recent party plenum indicates that at least a tentative decision has been made on the question of economic priorities, i.e., the stress on a maximum expansion of heavy industry has been modified to permit greater emphasis than before on the consumer sector. This decision would result in a better balanced economy, but in political terms, Khrushchev may have some trouble with "traditionalist" elements who feel that catching up with the West in heavy industrial production should have first priority. A similar, essentially ideological-political problem is created by the policy of soliciting Western technical assistance. The question might arise, "Is it wise to do anything which eases the economic crisis of capitalism?"

Khrushchev seems to be raising new issues at a time when he is trying to put his economic house in order. Granted that he will probably gain ground with the Soviet people by adopting a Malenkov-like line on consumer goods, at the same time, he is continuing to complicate his political problems, and these are the ones more likely to cause him trouble. As for some of the other innovations, the machine tractor station reorganization still carries the threat of at least a temporary weakening of control in the countryside. Then, too, there is the new lands program which has not yet proved itself over the long run and might still be used to discredit its author.

Khrushchev's economic innovations could jeopardize the capability of the Soviet leadership to keep a strong and uncontested hand on the throttle of Soviet economic development. For example, by whetting the appetite of the Soviet consumer, Khrushchev, to a minor degree thus far, has had to restrict the availability of Soviet resources for other important national objectives, i.e., foreign economic programs, the continued rapid increase of producer goods, and production of military hardware.

In an attempt to promote efficiency and release local initiative, the regime is beginning to shift some of the economic decision making outside Moscow. Moreover, to enable local officials to make better economic decisions as to the means to be used to achieve prescribed ends, the regime is giving consideration to the possibility of adopting a pricing policy which would better reflect the real cost and relative scarcity of various goods and services. The

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"traditionalists" could well fear these developments and feel that they would lead all too easily to review and criticism by local officials of the basic economic decisions of the central regime.

In essence, many of the potentially divisive issues in

the Soviet Union derive from the fact that on the one side there is Khrushchev, "the innovator in a hurry," and on the other people around him and under him, not necessarily Stalinists or dogmatists but hardheaded "conservative" Communists who feel safer doing things in the old way.

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SOVIET-SATELLITE ECONOMIC RELATIONS SINCE 1956

The Eastern European satellites have gained important economic concessions from the USSR since 1956, and Moscow is now attempting to nationalize intra-bloc exchanges through the CEMA program, rather than draining their individual national economies. The growth of the bloc toward an integrated economy, however, which began in earnest two years ago, has had only limited success, and several difficult problems will continue to hinder it for the next few years.

Increasing coordination and integration of bloc economic activity is designed to assure the most effective use of total resources, and efforts are under way to improve satellite economic well-being to forestall popular unrest.

The five-day meeting in Moscow of the bloc's Council for Mutual Economic Assistance (CEMA) issued a communiqué on 24 May stating that CEMA had the responsibility of taking "practical measures" to assure the implementation of Soviet bloc economic integration. Khrushchev, during a visit to Hungary in April, had criticized the failure of the satellites to cooperate with one another in the economic field and stated that the next CEMA meeting would be attended by high-level Soviet and satellite party and government chiefs.

This lack of cooperation had led Bulgarian leaders to request a special meeting with Khrushchev in February to air their complaints. In Hungary he pointed out that increased economic cooperation and industrial specialization within the bloc rather than national self-sufficiency was required to overtake the West. The USSR intends to convince satellite leaders that Communism's successful competition with the West in the raising of living standards depends ultimately on a division of labor within the bloc and the resulting lowering of unit production costs. The USSR presumably also is eager to counter the growing economic unity of Western Europe.

While the USSR probably is willing to continue economic and financial assistance to Eastern Europe, which during the past two years totaled \$4 billion, it probably will indicate that such aid should support economic growth through integration rather than serve as relief payments to imbalanced national economies.

An important manifestation of its status vis-a-vis Moscow is Eastern Europe's trade and credit relations with the West, growth of which apparently has met with no serious Soviet objections. The USSR in fact has assisted the satellites in

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extending trade with the West during the past two years through gold and foreign exchange loans.

The USSR has argued in justification that, as the bloc does not have to rely on free world sources, non-Communist countries can no longer impose one-sided conditions in their economic relations with the bloc. Furthermore, such trade is an important element in the present Soviet theme of competitive coexistence.

While on the one hand the USSR has permitted an extension of relations outside the bloc, it has also called for increased economic collaboration within the bloc through a more rational use of economic resources and production capabilities. This is to be accomplished by the coordination of national economic plans, production specialization, and exchange of industrial and technical experience.

Economic Integration

Although the satellites have moved slowly on integration, 12 permanent functional committees of CEMA have been established to promote industrial specialization and the use of common standards, and the members have agreed to coordinate long-term economic planning. As a result, direct ties between producing enterprises in satellite countries are growing, and working-level CEMA conferences have already engaged in developing coordinated economic plans to run through 1965, the terminal date of the yet-to-be announced Soviet Seven-Year Plan. Other forms of cooperation also have begun recently. Czechoslovakia and Poland have agreed to cooperate in the modernization of Polish coal mines, and Prague has granted a loan. On 17 May

the two countries signed another protocol concerning cooperation in the engineering, metallurgical, and chemical industries.

To assist further in trade coordination, CEMA members have drawn up a multilateral commercial clearing system for intra-bloc trade, although the over-

SOVIET-SATELLITE TRADE
(MILLION DOLLARS)

	1955	PERCENT OF COUNTRY'S TOTAL TRADE	1957	PERCENT OF COUNTRY'S TOTAL TRADE
ALBANIA	21	40	37	-
BULGARIA	249	46	387	55
CZECHOSLOVAKIA	743	35	932	33
EAST GERMANY	985	38	1,525	45
HUNGARY	262	22	343	36
POLAND	719	32	675	31
RUMANIA	478	49	-	-

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whelming bulk of this trade will continue for some time to be conducted on a bilateral basis. The new system will make intra-bloc trade more attractive, however, inasmuch as it will not require that a country accept goods which have only marginal use in the settlement of trade imbalances.

The more difficult problem in economic integration--the reluctance to relinquish inefficient production--continues to delay the achievement of major gains in the field of specialization. Unreliability of deliveries from other satellites in the past has encouraged each country to develop its own supplier industries despite frequently higher costs and inefficiency. During the next few years, nationalistic desires for economic independence and technical disagreements on basic proposals for specialization also will continue to hinder the growth of bloc economic unity.

Trade

Trade is the most important form of Soviet-satellite cooperation. The European

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satellites account for almost 50 percent of total Soviet trade. The satellites are heavily dependent on the USSR and, in the case of many basic industrial raw materials, are receiving 60 to 90 percent of their requirements from the Soviet Union. Since the East European uprisings of 1956, the USSR provides larger quantities of industrial raw materials and foodstuffs in short supply in the satellites, often on credit. Prior to 1956 the USSR frequently declined to raise such exports above the level of required Soviet imports from each satellite.

Soviet imports also have registered changes during the

now concluded a new series of three-year trade agreements with most of the satellites. These agreements, and repayment obligations for Soviet loans granted in the last two years, will keep the European satellites closely bound to the Soviet economy for several years.

Aid

Soviet credits and loans to some extent have always alleviated economic crises and abated popular discontent in the satellites. Credits and loans in 1956-57 were equal in volume to the total of similar aid granted in the previous 11 years and were made with more favorable repayment terms. The Soviet goal during the past two years--to prevent further disaffection by restoring stability within the satellites --has required that the USSR renounce its former privileged status in Eastern Europe. Through war booty and reparations, privileges held in the joint Soviet-satellite companies, and agreements formalizing Soviet economic exploitation, the USSR previously obtained a vast quantity of unrequited imports. Having renounced such ar-

rangements and stepped up its program of economic aid to the satellites, the USSR has become a net exporter of goods and services to the bloc.

In addition to credits and loans in 1956-57, the USSR canceled satellite debts of \$1 billion for previous loans and credits extended before 1956 and for the repurchase of the Soviet share in the joint stock companies. The USSR also renegotiated--to the advantage of the

SOVIET ECONOMIC ASSISTANCE TO THE SATELLITES
(MILLION DOLLARS)

	CREDITS AND LOANS EXTENDED		DEBT CANCELLATIONS AND OTHER FINANCIAL CONCESSIONS
	1945-55	1956-57	1957
ALBANIA	106	48	105
BULGARIA	70	148	-
CZECHOSLOVAKIA	48	-	-
EAST GERMANY	363	280	1615
HUNGARY	40	294	210
POLAND	614	300	600
RUMANIA	33	103	715
TOTAL	1274	1173	3245

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past year. There is a noticeable increase in Soviet receipts of finished consumer goods to create jobs in satellite industries. Engineering products, however, continue to occupy a major place in exports from the industrial satellites to the USSR.

By early 1958 the economic conditions, which remained unsettled since the 1956 uprisings, became sufficiently stable to permit a return to long-term trade planning. The USSR has

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satellites--previous agreements concerning prices for commercial and noncommercial services, costs of Soviet troop maintenance, and transfers of Soviet property worth over \$2 billion.

Foreign exchange credits since the 1956 uprisings have been about twice as large as those granted previously and have been important aids to increased satellite trade with the West. The recently granted credits also have included sizable loans for agricultural development in the less-devel-

oped satellites, although prior to this period credits had been largely limited to the development of the industrial satellites.

The USSR also has agreed to aid those satellites suffering from unemployment by placing supplemental orders in depressed areas. In many cases, agreements have been concluded assuring long-term sales of the major output of satellite industries.

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THE INDONESIAN COMMUNIST PARTY

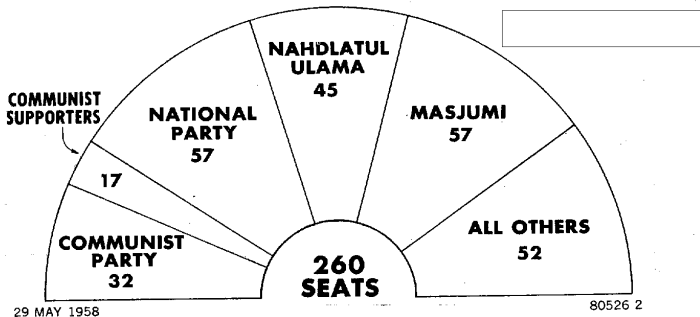
The Indonesian Communist party (PKI) has become more powerful than ever before and its influence is growing. With an estimated membership of about 750,000 and the support of a fifth of the electorate, the PKI is the largest political party in Java--where five eighths of Indonesia's population is concentrated--and is the second largest in the country. It is the most disciplined, most active party in Indonesia, and its leadership is able and dedicated.

With more than 6,000,000 votes--16 percent--in the 1955 elections, the PKI has only 32 seats of the 260 in Parliament, but is usually supported by 17 members of other left-wing political parties. The party is in a position to influence government policies more directly through four cabinet

members, who are at least fellow travelers, and through 18 of 45 members of the National Council established in June 1957 as part of President Sukarno's "guided democracy" concept to "advise" the cabinet.

INDONESIAN PARLIAMENT

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Outside the government, the Communists wield great economic power through SOBSI, Indonesia's largest labor federation, claiming 2,500,000 members. SOBSI affiliates control vital oil,

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plantation, and transportation workers' unions and have at times threatened to use their power against American economic interests in Indonesia. These unions constitute the nucleus of PKI strength outside Java, and are concentrated in such important places as the estates area in North Sumatra and the oil centers of Borneo and Central and South Sumatra. The Communists also operate a wide variety of front organizations and maintain a paramilitary veterans' organization known as PERBEPSI. Through these groups, the PKI has been steadily developing its now extensive "grass-roots" support.

The Communists have exploited the central government's preoccupation with the dissidents in the past three months to strengthen their position in several respects. During the anti-Dutch campaign late last year, the PKI not only took the lead in seizing Dutch firms and property but also tried to establish its control over the management of these enterprises. Although the army is technically in charge of these operations, the PKI probably wields considerable influence. With fighting going on in Sumatra and East Indonesia, the army has not been inclined to interfere with the Communists' efforts to consolidate and expand their influence in Indonesia's economy.

The Communists derive even greater strength from their unwavering support of Sukarno's "guided democracy" concept and, more recently, of the central government's campaigns against the Dutch and the revolutionary movement. Presumably they have influenced the President through promises of continued political support.

Finally, the Communists can be expected to benefit from the propaganda and material support the bloc has been extending to Indonesia. This aid

probably appears to many Indonesians as a fulfillment of PKI promises and assertions that only the Communist world is prepared unconditionally to back the Indonesians in the "defense" of their independence.

The Communists' strategy in Indonesia has paid off in two important respects. First, their party has achieved increased stature as a loyal, nationalistic group. Second, this new stature diminishes the prospects that Sukarno could repudiate his most ardent supporters, even if he wanted to, or that the army might suppress them.

Any effective anti-Communist action in the foreseeable future would have to depend almost exclusively on the initiative of the army, which remains essentially non-Communist despite PKI efforts at infiltration. Indonesia's most outspoken anti-Communist political leaders have been discredited as dissidents. The non-Javanese wing of the anti-Communist Masjumi party has suffered because of its sympathetic attitude toward the dissidents. The leaders of other political parties, notably the Nationalist (PNI) and the Moslem Nahdlatul Ulama (NU), have for some time professed awareness of the growing Communist threat and have repeatedly said they intend to devise measures to counteract it. However, no such countermeasures have yet emerged, nor have the non-Communist parties shown any serious inclination to submerge differences among themselves or to work harder at "mending their fences."

Army spokesmen have indicated that in the absence of provocation, there would be no outright suppression of the Communists. The army, however, has recently taken steps to curb Communist activity, issuing detailed regulations for the conduct of May Day celebrations and canceling an "anti-intervention"

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rally scheduled for 16 May. In addition, several Indonesian officials, both military and civilian, have hinted that a new government will be formed after the dissident movement has been defeated and that this government, on army insistence, would move against the Communists.



The recent favorable turn of political and military events, from Djakarta's point of view, may nevertheless encourage the government seriously

to consider some measures to prevent a Communist take-over from within.

The PKI's strategy for the present appears to be to maintain its present momentum, without resorting to force, in the hope of winning the national elections scheduled for 1959. The party has taken pains to avoid giving provocation which might precipitate an army crack-down and has, in fact, praised Nasution and the army for their successful campaign against the dissidents.

There is a possibility that the Communists will overplay their hand by taking military action against the government as they did at Madiun in 1948. It is more likely, however, that any switch in strategy and tactics will be dictated by growing resistance to their advances or suppression of their activities. The PKI is probably disturbed by recent army restrictions and by the recent suggestion by the commander in North Sumatra that elections be postponed for five years. The army presently appears to have both the will and ability to resist an overt Communist effort to take over the government, but a showdown struggle at any time in the near future would probably be a touch-and-go affair.

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ANNEX**SINO-SOVIET BLOC ACTIVITIES IN FINLAND**

1. **General Bloc Policy:** Sino-Soviet bloc activity in Finland is aimed at weakening Finland's policy of "friendly" neutrality in favor of closer relations with the bloc and at advancing Soviet foreign policy objectives toward other countries of northern Europe. The USSR can put considerable political and economic pressure on Finland; however, Kremlin leaders realize that such measures might move Finland closer to the West, as well as cause adverse reactions by the Scandinavian countries. Moscow has also found it profitable to point to Soviet-Finnish relations as an example of peaceful coexistence between a small and a large country having opposing social systems. Finland has thus been able generally to conduct its external and internal affairs without overt bloc interference.

2. During the past year, the Soviet Union has continued its efforts to use Finland to encourage the Scandinavian countries to pursue policies which would weaken their political ties with the West and to lessen the effectiveness of Denmark's and Norway's participation in NATO. The USSR, Poland, and East Germany have periodically urged Finland to support the establishment of a Baltic "sea of peace" with the objective of excluding Western naval and air forces from the area. Moscow is also attempting to strengthen its economic and cultural relations with Finland.

3. **Diplomatic Activity:** Finland maintains diplomatic relations with the USSR, Communist China, and all the Eastern European countries except East Germany. The bloc missions in

Helsinki are staffed by approximately 195 officials, of whom over two thirds are attached to the Soviet Embassy and commercial mission.

4. **Economic Activity:** Finland's over-all trade with bloc countries increased from \$430,000,000 in 1956 to approximately \$518,000,000 in 1957, accounting for 29 percent of Finnish exports--a slight increase--and 31 percent of imports--a rise from 25 percent in 1956. In the first quarter of 1958, Finnish purchases from the USSR declined sharply; it cannot be determined whether this trend will continue, particularly inasmuch as Finnish officials are taking corrective measures to restore the level of trade. The Soviet Union supplanted Great Britain last year as Finland's principal trading partner, and substantial increases in trade were registered with Poland and Czechoslovakia. Transactions with Rumania fell off, however, as the Finns shifted from imports of refined petroleum to purchases of crude oil from the USSR in order to take advantage of their expanded refinery facilities.

5. Last year's growth in Finnish commerce with the bloc resulted from a number of factors. Imports rose as delayed deliveries of Soviet goods were made and the Finns tried to liquidate a large credit balance with the USSR. The slight rise in exports resulted in part from expanded sales to Poland. Finnish inflation also tended to stimulate trade with the bloc: the Finnish Government increased its purchases from the bloc and held down Western imports during most of 1957 in order to conserve foreign exchange, while some Finnish goods which were priced too high for Western markets found bloc buyers.

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6. On several occasions during the past year the Soviet Union has offered credits and loans to the Finnish Government for industrial expansion. Despite considerable agitation by Finnish Communists to accept Soviet assistance in order to industrialize the northernmost provinces, the Finnish Government has not responded to these overtures.

7. Cultural and Propaganda Activity: Finland is the primary target in northern Europe for Soviet cultural and propaganda activities and has the largest program of cultural exchanges with the bloc of any free world country. Exchange visits between Finland and the bloc rose sharply in 1957 to a total of 180 delegations; Finland sent 106 delegations--including a group of 1,600 to 2,000 to the Moscow Youth Festival--and was visited by 74 bloc delegations. Artist groups and sports teams accounted for two fifths of the exchange visits, with the balance representing labor unions, the professions, industry, government, and acknowledged Communist or front organizations.

8. The bloc supports a total of seven friendship and cultural societies and centers in Finland. The "Finland-Soviet Union Society," with 18 branches scattered throughout Finland and an estimated membership of some 230,000, is the largest and most active such organization. While its members include many non-Communist Finns--including the President of Finland, who is the honorary president--Communists hold positions of control and the society functions as a major outlet for Soviet propaganda.

9. Sino-Soviet bloc radio broadcasts in Finnish at present total 41.5 hours per week, a slight increase since early 1957. Some of the bloc's broadcasts of about 42 hours

per week in Swedish probably are also intended for listeners in Finland. In addition to a TASS representative, three major Soviet newspapers have correspondents in Helsinki, and the Soviet Information Bureau--a news disseminating agency--is represented by a sizable staff.

10. Subversive Activity: The Finnish Communist party (SKP) has a membership of approximately 25,000, a drop of about 5,000 over the past year. Interest in party activity is currently low; only a small percentage of members are participating in meetings and a mood of passivity prevails among the rank and file, particularly in the countryside. The aftermath of the crises in Eastern Europe during 1956 and their continuing impact on the international Communist movement apparently are the cause of these difficulties. SKP leaders are also somewhat disquieted over the USSR's official policy toward Finland, on the grounds that it strengthens anti-Communist elements to the detriment of the Communists. The Soviet leadership is reported to consider the SKP's operations as inadequate despite heavy financial support.

11. The SKP is participating in regional coordination of Communist party activities in northern Europe. In October and again in February, representatives of the Danish, Norwegian, and Swedish Communist parties met in Helsinki with SKP leaders.

12. The Finnish People's Democratic League (SKDL), the political-parliamentary front of the Finnish Communists, is Finland's third largest political party and has consistently secured about one fifth of the electoral vote. The SKDL, like other Communist fronts and mass organizations, is currently suffering somewhat from lack of interest. The most important target of Communist penetration

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in Finland is the Confederation of Finnish Trade Unions (SAK). Communists and their sympathizers account for about 40 percent of SAK's membership and hold three positions on the 17-man SAK executive committee. Seven of the 36 affiliated national unions are dominated by Communists, including the key construction workers' union. In the metalworkers' union--Finland's largest--Communist strength is close to one half.

13. The Communists control four fairly important daily newspapers. Circulation of Kansan Uutiset--official organ of both the SKP and SKDL--has fallen from almost 58,000 in 1956 to about 45,000.

14. The Communists still constitute a substantial threat to Finland's internal security and political stability. The SKP hard core which forms the basis of the Communist capability for sabotage has not been notably affected by recent difficulties; through their position in the trade union movement, the Communists are able to stimulate labor unrest and inhibit government efforts to achieve economic stability.

15. Finnish Reaction to Bloc Activities: Informed Finns and governmental figures are well aware of the USSR's potential for political and economic sanctions against Finland, as well as the ultimate threat of Soviet military action. The Finnish Government is therefore careful to calculate the impact of its foreign policy actions on Soviet-Finnish relations. On the other hand, Helsinki has yielded only a limited extent to pressure from Moscow to further bloc objectives among the Scandinavian countries.

16. Trade with the bloc is vital to the Finnish economy. The USSR is the main foreign outlet for the exports of the metal-

working and shipbuilding industries, which are noncompetitive in Western markets, and the USSR supplies the bulk of Finland's coal, oil, wheat, and fertilizer. Nevertheless, the economic and political implications of the progressive increase in Finnish trade with the bloc are viewed with serious misgivings by many Finns, and Helsinki has taken steps to maintain the Western orientation of the economy. Finland has concluded multilateral payments agreements with Western European countries, and, in September 1957, devaluated the finmark and liberalized import licenses. The currency devaluation has thus far enabled Finland to hold its Western markets in spite of a weakening demand for major Finnish products. The Finns have also shown some interest in joining OEEC, but are hesitating because they are concerned over possible disruption of trade with the bloc; Soviet inquiries in April regarding the economic consequences of Finnish membership in OEEC have contributed to Finland's caution.

17. The Finnish Communists are scorned by the majority of the population as subservient to foreign control. Despite extensive cultural exchange and propaganda programs, Moscow has not been successful in overcoming the inherent distrust and dislike of Russia by most Finns.

18. The Outlook: Finland's relations with the USSR will remain potentially dangerous to Helsinki, and the Soviet Union would probably not hesitate to undertake drastic measures if Finnish actions were felt to warrant such a step. Moscow appears content, however, to continue its policy of "calculated tolerance," at least for the near future. Helsinki's ability to maintain a balance in its economic relationships with the West and with the bloc is also an important factor: increased economic dependence on

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bloc countries could be exploited by Moscow for political purposes, while drastic changes in Finland's economic relationships in favor of the West might result in an adverse reaction from Moscow.

19. Within Finland, the bitter fights now taking place in the

Social Democratic party and in the SAK are of potential benefit to the Communists, particularly in the Finnish labor movement. A split in the SAK would probably enable Communist elements to gain control of several of the national labor federations and possibly of the SAK itself.

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