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CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I

OF IMMEDIATE INTEREST

SOVIET SUMMIT TACTICS

The Soviet aide-memoire of 25 June reflects a major shift in Moscow's recent tactics for handling technical test inspection talks at Geneva. It may also mark an abrupt and substantial change in over-all policy toward the West and signal the abandonment of negotiations on inspection and possibly the resumption of Soviet nuclear tests. This is in sharp contrast with recent Soviet propaganda and diplomatic efforts to show that the USSR was still interested in a summit conference.

The aide-memoire is contrary to that of the previous day, which had indicated Soviet agreement to the Geneva talks and had expressed the moderate hope that the conference "should aid in the most rapid cessation" of nuclear tests. The 24 June aide-memoire may have been prepared by the Foreign Ministry as a routine matter without clearance at those levels of government where the decision for a change was being prepared. A factor in the Soviet shift may have been an American memorandum delivered on 24 June, outlining briefly for the first time the scope of issues that should be discussed by the experts.

On the tactical level, the new aide-memoire can be viewed as a bold maneuver to force the United States to agree in principle to a test cessation independent of other aspects of the disarmament problem. The 13 June aide-memoire and subsequent propaganda indicated that the USSR desired such a commitment, although the 24 June aide-mem-

oire appeared to confirm the impression that Moscow would not insist on it.

Now Moscow seems to be seeking American agreement to a definition of the Geneva meeting's purpose that would establish a clear link between technical talks and the "ultimate end" of a test cessation agreement. Moscow now insists it had agreed to talks only on the assumption that the United States accepted this principle, although in fact the American insistence that there was no commitment to suspend tests had been repeatedly made clear in notes to Moscow. The USSR may think that, by following these tactics, it can force Western agreement to a test suspension without any inspection system.

This latest Soviet move may indicate a more fundamental change in Soviet policy and be intended to prepare the ground for an abandonment of all pretense of interest in negotiating a test cessation and may signal eventual resumption of the Soviet nuclear test program. Such a radical turn in the Soviet Union's stand might well spring from a major shift in the balance of forces within the Soviet leadership or at least a fundamental reassessment of over-all Soviet policy in the light of recent Eastern European developments.

If Moscow is abandoning its efforts to gain a general test suspension, perhaps in the belief that it would have to pay too high a price in terms of inspection, then there is much less

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reason for it to seek a summit conference. The primary purpose of a summit meeting, from the Soviet viewpoint, has been the ratification of an agreement on test suspension. In any case, Moscow must realize that its latest move will greatly reduce the prospects for a summit conference because it will be taken by the West as clear proof that the USSR is unwilling to make any substantive compromise to solve outstanding East-West problems.

Nevertheless, Soviet propaganda prior to 25 June emphasized Moscow's continuing desire for a summit meeting and blamed the West for using the Hungarian events as a pretext to bar a conference.



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The demonstrations against the American, West German, and Danish embassies in Moscow, while obviously reflecting Moscow's anger at the strength and violence of reaction in Western countries to the Hungarian executions, appeared to be seriously at odds with the USSR's pose as the champion of peaceful coexistence and negotiations. The nonviolent nature of the demonstrations outside the American Embassy may, however, indicate a desire not to raise unnecessary obstacles to negotiations with the United States.



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LEBANESE SITUATION

UN Secretary General Hammarskjold may have reached an agreement with UAR President Nasir to bring at least a temporary halt to UAR support for the Lebanese rebels. It seems almost certain that he held out some positive inducement to the Egyptian leader. The nature of this inducement is not yet known, but Nasir is said to be waiting "with interest" a further proposal from Hammarskjold.

The Lebanese Government remains very wary. It seems possible that the rebels may make another military effort to impress the government and foreign observers with their strength. Certainly Lebanese army commander Shihab, who recently has become even more reluctant to engage the rebels in decisive action, will regard any agreement as a reason to hold firmly to his policy of taking no real

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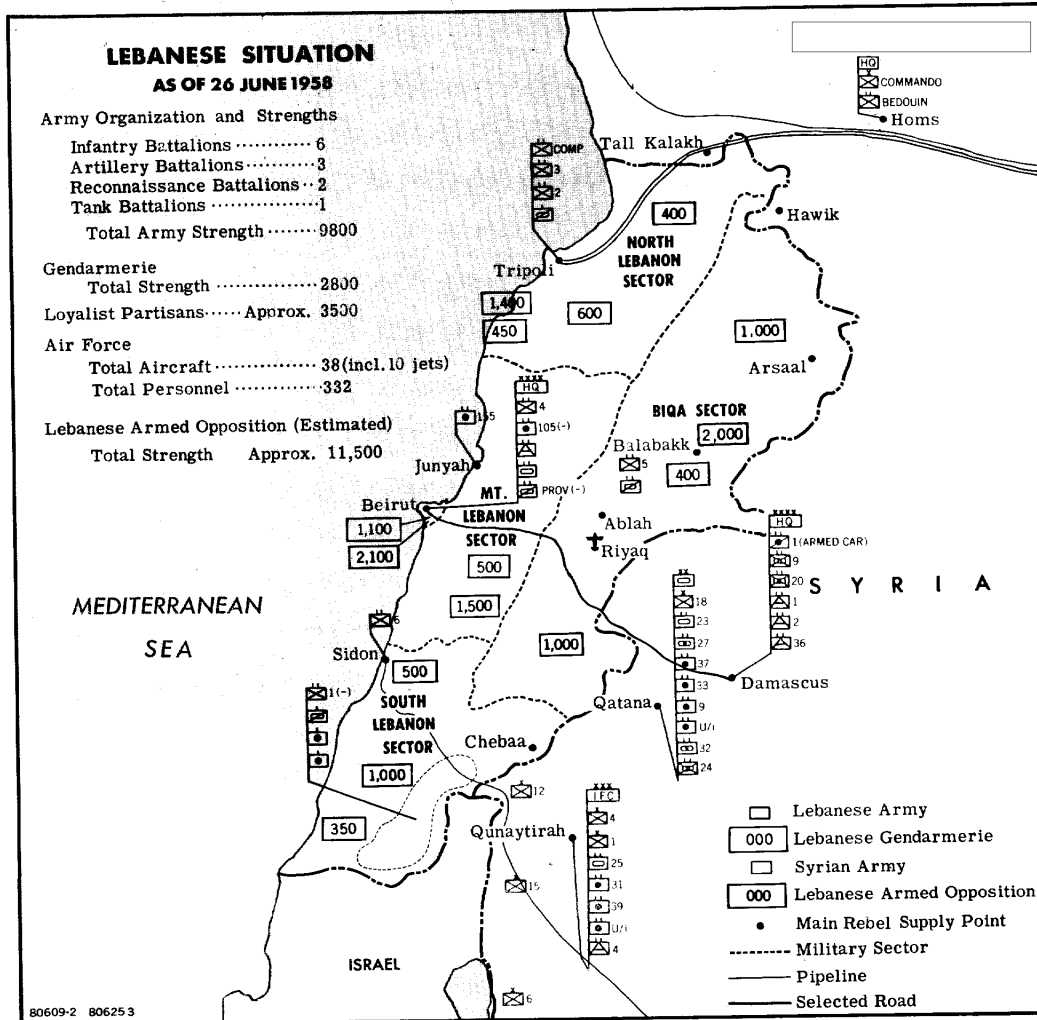
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offensive action against the rebel forces.

Saib Salam, one of the principal rebel leaders in Beirut, has publicly announced the formation of a rebel "central command" in what may be an effort to overcome some of the lack of coordinated effort which seems to have afflicted rebel operations. This move by Salam could also be aimed

at giving the rebels something more closely resembling an organized political body which might carry more weight in future political maneuvering.

The Soviet Union has not undertaken as aggressive a diplomatic and propaganda offensive in the Lebanese situation as it did during the Syrian crisis last year or the 1956 Suez



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clash. This may reflect a Kremlin feeling that events in Lebanon are developing favorably for Soviet interests.

If the Soviet leaders are convinced that the likelihood of Western mili-

tary intervention has passed or diminished, Moscow may step up its diplomatic and propaganda attention to Lebanon, and attempt to claim credit in the Arab world for protecting the Middle East from Western "aggression."

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INCREASED SOVIET PRESSURE ON POLAND LIKELY

The Gomulka experiment in Poland is the major obstacle to restoration of complete Soviet domination over bloc policies, and Moscow will probably now increase its efforts to bring Gomulka into line. Although Moscow can apply economic pressures and military force if Gomulka does not ultimately support the bloc positions on Tito and Nagy, it is more likely to try through political action to unseat Gomulka in favor of more acceptable leaders, possibly a Stalinist-conservative coalition. Former Polish leaders most hated by the population would probably be relegated to behind-the-scenes positions.

The Hungarian executions are a clear warning to all satellites that revisionism will

no longer be tolerated in the bloc. They must be so interpreted by Gomulka, whose brand of Communism embraces many of the principles for which Imre Nagy was killed. Despite this, neither Gomulka nor the Polish press has made any comment on the executions, although the other satellites have been quick to endorse the punishment of Nagy. The Polish central committee apparently sent a letter of guidance to provincial party committees indicating disapproval of the Hungarian executions and stating that they should be treated without comment as a Hungarian internal matter.

Pessimism is mounting in Warsaw as to whether the studied detachment can be maintained, and rumors of the presence in

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the capital of a Soviet emissary are symptomatic of Polish fears of an imminent crisis with the USSR. Nonetheless, Gomulka appears determined to uphold his principles. His independent stand vis-a-vis Moscow on the Yugoslav dispute and other issues is largely responsible for his popularity.

Gomulka cannot, however, count on the undivided backing of his party, which is still badly torn by factionalism. Conservative and opportunistic members of the central committee, if persuaded that Gomulka's control was weakening and that popular uprisings could be avoided, would probably form a coalition with the Polish Stalinists who have consistently opposed the Polish leader. It is the knowledge that Gomulka is the sole Communist acceptable to the masses, and therefore the sole means of maintaining party rule in Poland, that has heretofore ensured him the votes of a considerable section of the central committee.

In the face of obvious Soviet intervention, it is likely that the forces which rallied to his support in October 1956 would do so again, and for the same reasons. The Soviet Union, in deciding how to bring Gomulka into line, must consider the possibility that unrest might develop in Poland if strong pressure is brought to bear on him. Having before it the example of Hungary and an unstable situation in East Germany, Moscow would also have to estimate the extent to which its broader world policies would suffer if armed intervention were used to suppress the popular riots that would occur if Gomulka were summarily ousted.

Under these circumstances, the Soviet Union is likely to regard a policy of gradual subversion of the Polish party, which would lead to a "legitimate" overthrow of Gomulka, as the most feasible course if Gomulka persists in refusing to endorse the bloc line on Tito and Nagy.

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GREEK-TURKISH TENSION OVER CYPRUS

Greek belief that Ankara instigated the recent rioting on Cyprus has intensified deep-rooted antagonisms against Turkey. Greek Air Force officers are openly discussing possible operations against Turkish targets, and Greek Air Force fighters are on a partial alert status. A large cross section of the Greek population, including many junior officers in the armed services, would welcome military action against Turkey for what are regarded as

repeated provocative acts by the Turks. It is doubtful, however, that Greece would initiate hostilities against Turkey, barring large-scale attacks against Greek minorities in Istanbul and Izmir.

Greek Foreign Minister Averoff has recently emphasized Greece's strong ties with Yugoslavia, but has announced that Greek-Turkish cooperation within the Balkan Pact or NATO is no longer possible.

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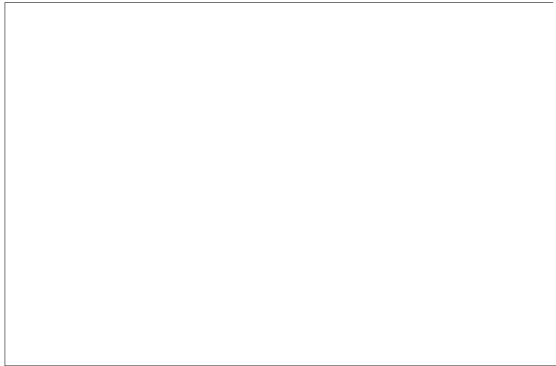
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In Turkey, demonstrations in favor of partitioning Cyprus continue, but tension appears to have lessened. Isolated attacks have occurred against members of the Greek minority in Istanbul and Izmir, but the Turkish Government took forceful action in Izmir on 23 June, apparently to prevent incidents involving Greek, British, or NATO personnel or buildings.

Greece, Turkey, and Cypriot Archbishop Makarios have rejected the British proposals for Cyprus but emphasize that negotiations should continue. The Greek reply to London rejected the plan as favoring partition and giving Turkey a legal right in Cyprus, but it suggested further bilateral negotiations. The Turkish rejec-

tion was based on uneven representation on the Governor's Council and on failure to recognize partition as the final solution. Ankara, however, called for a tripartite conference. Makarios' reply rejected the plan as unworkable and as favoring partition, but called for direct British-Cypriot negotiations.

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PART II

NOTES AND COMMENTS

AFTERMATH OF THE EXECUTION OF NAGY

Hungarian party leader Janos Kadar may now be losing his usefulness to Moscow because of his close association with Imre Nagy during the revolution and his specific endorsement of Nagy policies which are now condemned as treasonous. The fact that the two initial authoritative Hungarian statements on Nagy's execution were made by the reported leaders of the Stalinist opposition to Kadar supports this speculation and suggests that he may be losing control of the party. It is believed in political and journalistic circles in Budapest that Kadar had opposed this drastic solution of the Nagy affair. If so, he will probably be removed. It is also possible, however, that the manifest effort of Kadar to hold aloof from the execution may be a face-saving maneuver. Moscow's action may be governed by the apparent lack of a suitable successor.

In Budapest, although no overt demonstrations have been reported and police precautions are reportedly stringent, government employees are reported to have stopped work in protest. According to the American Legation, "rage and despair at their own helplessness" are the prevailing emotions. In this atmosphere, the Supreme Court has pressed ahead with hearings on political offenders. The regime has not yet revealed the fate of other individuals accused with Nagy.

The Yugoslavs are not making matters any easier for Kadar. In a note delivered to Budapest on 23 June, Belgrade accused the Hungarians of treachery and quoted Kadar's

assurances that Nagy would not be punished.

Most of the bloc has continued to thunder denunciations of Nagy, "revisionism," and Yugoslavia, with Communist China, the USSR, Bulgaria, and Albania taking the lead. Rumania, while headlining the "sentiments of approval and satisfaction" with which the Rumanian people allegedly greeted the news of Nagy's death, has been somewhat less severe in its condemnation of Yugoslavia--perhaps because of its own involvement in the Nagy case. The Rumanian foreign minister had assured the UN General Assembly on 3 December 1956 that his government "would observe the international rules relating to political asylum" in providing refuge for Nagy and his companions.

Moscow's reversion to Stalinist procedures has had a strong impact on neutralist nations, especially India, where Nehru declared Nagy's execution was "most distressing news both in itself and in its possible consequences." In Austria--so closely involved in the 1956 revolt--the executions appear to have had an extraordinary impact on public and official opinion, and probably will kill plans for negotiations for improvement of Austro-Hungarian relations.

In Ceylon, the government reportedly has authorized its UN representative to vote condemnation of the executions in the UN special committee, if he feels it is warranted. The ambassador of the United Arab Republic in Budapest informed American officials confidentially that, although his

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instructions were to preserve neutrality, he and his government were "profoundly shocked" at the executions.

Elsewhere in the free world, the sense of shock has been profound and the Kremlin's action has been branded "needless folly."

Fellow travelers and some left-wing parties have been estranged by Moscow's actions, and some Western Communist parties, notably the British, appear to be undergoing conflicts of loyalty similar to those experienced following the Hungarian revolt in November 1956.

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SOVIET CENTRAL COMMITTEE MEETING

The communiqué issued by the Soviet Communist party central committee after its meeting of 17-18 June represents, on the surface at least, another gain for Khrushchev. He has added two of his protégés as candidate members of the presidium and has pushed through a decree which advances his agricultural policies by abolishing the present system of compulsory deliveries of collective-farm produce to the state.

It is not likely that the committee, and especially its members serving in foreign capitals, would have been called suddenly into session for the second time in six weeks to approve these measures alone. Soviet leaders are faced with a number of pressing problems, and both sessions met in an atmosphere of continuing rumors of opposition to Khrushchev. Both sessions, however, lasted only two days, and allegedly passed only economic resolutions on the chemical industry and agriculture. These resolutions, although important in themselves, may have been part of a political maneuver in which Khrushchev, having achieved agreement on specific issues, turned them into a vote of confidence for himself and his policies.

It is now virtually certain that relations with Yugoslavia were discussed at the May plenum. Similarly, ques-

tions of bloc unity, particularly the implications of Nagy's execution, must have weighed heavily in the decision to convoke the June session. Foreign policy issues dealing with the summit or the Middle East may also have been touched on at the plenum or taken up later in special conferences. This may also have been the case with the new seven-year plan, a draft of which has been scheduled to be ready by 1 July.

The addition of two new candidate members, N. V. Pod-



POLYANSKY

gorny and D. S. Polyansky, to the party presidium--the only personnel changes announced--brings the membership to 15 full and 10 candidate members. Both Polyansky and Podgorny were

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elected full members of the party central committee for the first time at the 20th party congress in 1956, both have had extensive experience in key agricultural areas, and both have come into prominence since Khrushchev became party first secretary in 1953.



PODGORNYY

The decision to establish a single system for procuring agricultural products of the collective farms, hitherto acquired under three different programs, will facilitate planning and profit calculations in Soviet agriculture, and is another important step in reducing the differences between state and collective farms. Beginning with the 1958 crop, the state will have one procurement program for collective farm output, instead of obtaining it partly by compulsory procurement at very low prices, partly as payments in kind for the services of the MTS, and partly by over-quota purchases at prices considerably higher than the compulsory procurement prices. The new state purchase price will vary from region to region depending on the cost of production and from year to year depending on the size of the harvest. The free market apparently will remain as an outlet

for some collective-farm produce.

A change in the agricultural procurement system applicable to collective farms was made necessary by the reorganization of the machine tractor stations (MTS) which virtually eliminated payments in kind for the services of the MTS as an important source of agricultural produce to the state. The abolition of the present system of compulsory deliveries probably does not mean that future sales of agricultural produce by the collective farms to the state will be voluntary. Plans for the procurement of agricultural produce by the state are to be drawn up for republics, krajs, oblasts, collective farms, and state farms. The decision states that the procurement system must guarantee delivery to the state of the necessary amounts of agricultural produce.

The collective farms' monetary income probably will increase inasmuch as they are now able to sell to the government produce which was formerly delivered to the MTS in payment for services. However, this probable increase in income will be partially or wholly offset by increased expenditures entailed in the purchase, maintenance, and operation of the farm machinery acquired from the MTS by the collective farms.

The decision does state that a further increase in the income of collective farms must be based on a sharp increase in the volume of marketable produce and on a reduction in costs. This increase, it is hoped, will permit a lowering of procurement prices, which would in turn enable the state to lower retail prices.

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HARVEST PROSPECTS POOR IN SATELLITES

Bad weather during the past winter and early spring will probably preclude fulfillment in Eastern Europe of 1958 crop goals, especially for small grains, and reduce bread-grain supplies in the southern satellites, which were hit hardest. Government reserves of bread grains will have to be drawn on throughout the satellites for an additional four to six weeks unless strict controls of bread and flour are imposed in urban areas. The Soviet Union will probably again be obliged to deliver additional quantities of grain on credit to Eastern Europe this winter. Barring further bad weather, a near-average crop of corn, sunflower, and root plants is still a possibility, as is an average supply of feed for livestock.

A cold, wet spring retarded growth of autumn-sown grains and delayed spring planting by an estimated three to six weeks in the northern satellites and Hungary, and by about five weeks in Albania, Bulgaria, and Rumania. In the southern satellites and Slovakia, unfavorable weather was followed by subnormal precipitation and as a result, yields of autumn-sown grains are expected to be somewhat below the average for the last five years. In East Germany, Poland, and western Czechoslovakia, yields should exceed this average and may approximate the 1957 level.

Near-drought conditions existed by the first week of June in the southern satellites and Slovakia. At the present time, despite the onset of rain, spring-sown grains in these areas have probably suffered damage sufficient to result in less-than-average yield per acre, and only with ideal distribution and supply of

moisture can the southern satellites now hope for a harvest only slightly below average.

A sizable portion of spring-sown grains in the southern satellites is expected to be cut for hay rather than grain, thus compensating for small yields in nongrain fodder crops, which so far are considerably below the 1957 level. Since pastures suffer earlier and to a greater extent than do most crops, however, continued unfavorable weather could cut still further into the supply of feed for livestock. Production of feed for livestock in the northern satellites may approach the 1957 level.

Because they are in an early stage of growth throughout the satellites, corn, sugar beets, potatoes, and sunflower may suffer less from bad weather, if precipitation in the latter half of June is more nearly normal. Because of the hot, dry weather, however, the danger from insects has increased. Certain regions of Hungary and Rumania already report larger numbers of potato beetles, and insects injurious to other crops as well seem to have multiplied in the southern satellites. In Bulgaria, too, peasants are being exhorted to battle the pest menace.

The food situation for the southern satellites in the 1958-59 consumption year is thus to be less bright than during 1957-58, even though good harvests permitted the governments last year to accumulate large stores. A further rise in per capita intake is unlikely in the southern satellites, since bread remains the main food staple in these countries and supplies of high-quality foods such as meat and dairy products should in no case surpass normal.

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POLAND SEEKS MORE FREE WORLD ECONOMIC TIES

Polish officials are indicating that despite Khrushchev's criticism of free world aid, they want additional assistance from and expanded economic ties with the West. Polish authorities have shown renewed interest in additional US credits, particularly for the purchase of American machinery.

counter Soviet criticism of non-bloc aid, the Polish press has pointed out that Poland's experience with such aid proves it to be of mutual advantage.

Since the establishment of the Gomulka regime, Poland has obtained foreign aid worth \$760,000,000, 40 percent of which is from the free world. Most of this total is for use during the 1957-60 period. About \$250,000,-

that Poland was interested in obtaining credits in order to import West German machinery

POLAND'S FOREIGN TRADE
(MILLION DOLLARS)

	1955		1956		1957	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS
USSR	313	280	344	270	422	258
OTHER BLOC	288	285	324	303	338	301
US	3	27	4	27	73	30
OTHER FREE WORLD	328	318	350	385	418	386
TOTAL	932	910	1022	985	1251	975

The Krupp firm in West Germany has just granted a \$3,000,000 private loan to Poland, and a West German spokesman reported that stiff credit and payment terms on trade with Poland are being eased.

An agreement to supply the USSR with at least one half of its planned machinery exports for the next three years indicates that Poland is aware that it can move from its position of dependence on the USSR only gradually, but with the help of foreign credits Poland has begun to shift a larger share of its trade to the West. Soviet and total Sino-Soviet bloc shares of Poland's trade decreased from a maximum in 1954 of 38 percent and 70 percent respectively to 31 percent and 60 percent in 1957.

In order to prepare the way for new credits and to

000 was used in 1957 and smaller amounts are to be drawn in the next three years. During 1959-60, repayments largely will cancel receipts derived from these loans. Poland's present drive to obtain new aid probably results from a desire to ensure a continued influx of foreign currency and to ensure Western participation in its economic program to raise consumption and establish stockpiles without curtailing industrial growth.

Poland also is planning to rehabilitate its agriculture and coal industry in order to expand exports, but this will take several years even with foreign assistance. To support a growth in foreign trade in the meantime, Polish plans call for an increase in machinery exports. While such exports would

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LOANS AND CREDITS TO POLAND SINCE 1956

(MILLION DOLLARS)

SOURCE	VALUE	PERIOD OF USE
SOVIET BLOC	462.5	
USSR	275.0	1956-59
EAST GERMANY	100.0	1957-65
CZECHOSLOVAKIA	25.0 62.5	1957-60 1957-65
FREE WORLD	297.7	
US	95.0 98.0	1957-58 1958
CANADA	40.1	1956-58
FRANCE	31.6	
OTHER	33.0	

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make the most efficient use of Poland's machine building industry, they would require a corresponding increase in raw material imports, and Poland will meet stiff competition from machinery exporters in the free world who already have well-es-

established marketing facilities.

The Poles claim that they still encounter difficulty trading with the United States. It is possible they will seek to establish commercial agents in the United States as part of "an important plan" in regard to trade with the United States which the Polish deputy minister of foreign trade has said was being prepared. The Poles, in an effort to reduce their almost complete dependence on the USSR for raw materials, are participating widely in trade talks as part of the Soviet bloc economic drive in underdeveloped areas.

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THE CZECHOSLOVAK PARTY CONGRESS

A full-scale campaign against the remnants of "bourgeois ideology" and the "revisionist heresies" that Yugoslavia exemplifies was launched at the 11th Czech party congress which concluded on 21 June. The condemnation of the Yugoslavs by party First Secretary Novotny, only slightly less vitriolic than that of Premier Siroky, promises continued public debate of these issues. The congress endorsed the Soviet line that the 1948 Cominform resolution was essentially correct.

The elimination of "bourgeois ideology" at home was declared to be of "overriding importance" in order to enable

Czechoslovakia to become the second country to "achieve socialism"--a status reached by the Soviet Union in 1936. Security forces are to be strengthened and "legal" measures against "class enemies" are to be stepped up. The Justice Ministry and prosecutor's office are also to be strengthened, and a full-scale vigilance campaign, often a sign of internal insecurity, has been launched.

The Czech party took great pleasure in citing its progress toward full "socialization" in the agricultural, industrial, and governmental fields and set goals for the rapid conclusion of this phase within approximately

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two years. Agriculture is now 71.5 percent socialized.

The present economic reorganization, while ostensibly intended to grant the masses a greater voice in production, is actually designed to reduce costs. Under it some 9,500 functionaries have already been eliminated from central government organs and another 30,000 functionaries in industrial administration will be affected, according to Novotny. Although the regime promised to increase living standards through price cuts, a contemplated wage revision for 1,800,000 industrial workers could have an adverse effect on morale if work norms are raised out of proportion to wage increases.

The USSR, in a 17 June Moscow broadcast, granted its blessing to the "achievement of socialism" by Czechoslovakia ahead of the other satellites. After declaring that only the Soviet Union had thus far achieved a "socialist society,"

the broadcast stated that "all the necessary conditions have already been created in Czechoslovakia...." The Soviet delegate to the Czech congress, Kirichenko, strongly hinted in his congratulatory speech that Czechoslovakia had won this honor over its nearest competitor, Bulgaria, in order to show that Communism can succeed in an industrially advanced country just as well as in a "backward" nation.

The congress ostentatiously spoke of solidarity with the Soviet party, but the apparently smooth relations between this model satellite and the USSR may be marred by Prague's dissatisfaction with its proposed new CEMA assignment. This is reported to call for a reduction in consumer goods production under plans for increased specialization and division of labor among bloc countries. Novotny is reported to have claimed this program would lower living standards and create political difficulties by increasing the dissatisfaction already engendered by the economic reorganization.

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POTENTIAL FOR UNREST IN EAST GERMANY INCREASING

Government action in recent months has increased the dissatisfaction of the East German people with the regime. Growing resentment is evidenced by an outspoken antiregime attitude among workers, farmers, independent craftsmen, businessmen, students, intellectuals, and the Evangelical Church. Increasingly stringent security measures have been put into effect to forestall overt demonstrations, but an eruption of unrest in Poland might spread to East Germany despite these precautions.

Major factors contributing to the growth of discontent have been the pressure on the workers to increase their output for little if any reward and the intensified drive to force private farmers and craftsmen into state-dominated cooperatives. Party officials who are conducting political rallies and urging "socialist competitions" in preparation for the Fifth Socialist Unity (Communist) party (SED) congress in July have met with worker hostility. Workers reportedly are threatening the lives of

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party functionaries, spreading "work slow" mottoes, advocating the liquidation of the Communist dictatorship, and opposing service in the auxiliary factory militia.

Private farmers are especially bitter over the discrimination shown against them in the allocation of seed and fertilizer and the services of the machine tractor stations and over the constant harassment by party and government functionaries. Farmers are using every conceivable pretext to justify their refusal to join the "socialized sector" of agriculture.

The discrimination shown against independent craftsmen has resulted in a steep drop in income for many of them, forcing some into bankruptcy, and leaving them little choice but to join the production co-operatives.

The fixing of higher prices for food following the devaluation decree of 1 May has also contributed to the unrest. The decree itself has been followed by additional travel restrictions, and by rumors of another currency conversion and imminent redocumen-

tation of all East German citizens.

Strictures leveled against the Evangelical Church, the only remaining all-German organization, have given the people additional grounds for resentment. The government's withdrawal of recognition of the church on 19 May may foreshadow an attempt to create a church in East Germany dominated by the Pankow regime. Pressures on pastors and church members to support such a church would be strongly resisted.

A major ideological drive now under way in East German universities has the objective of achieving "the socialist transformation" of institutions of higher learning. Individuals are being singled out and accused of "improper attitudes." Failure to recant and conform to regime directives has resulted in the loss of posts for faculty members, expulsion of students, and even imprisonment for some individuals. As a result of these pressures, there has been a significant increase in the number of scientists, students, and professional people fleeing to West Germany.

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PEIPING'S CAMPAIGN AGAINST DOMESTIC REVISIONISM

Communist China's present "thought-reform" campaign, which is being implemented in conjunction with its attacks on Yugoslav heresies, is giving special attention to Mao Tse-tung as a theorist. The Chinese Communists are attempting, in Mao's recent words, to "write the newest and most beautiful words" of Marxism-Leninism on a "clean sheet of white paper" --his metaphor for the minds of the Chinese populace.

Peiping's need for continuing the steady diet of orthodoxy as part of the "rectification" drive suggests that party leaders are faced with a greater degree of political unreliability among the populace than they had foreseen.

As part of the indoctrination campaign, the party central committee has inaugurated a theoretical organ, Red Flag, and most of the provincial and

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municipal party committees have announced plans to publish theoretical journals. The purpose of these publications is to reflect current "theoretical and practical" problems, combat "revisionism," criticize "bourgeois viewpoints," and play up the regime's cultural achievements.

The regime also plans to train political and theoretical cadres. Hunan Province, with 1,200 full-time theoretical workers, intends to double that number in the next five years. To emphasize the importance Peiping attaches to these efforts, leading party officials --including two politburo members--have been assigned to teaching posts in local universities.

As the key element in Peiping's increased emphasis on orthodoxy, Mao Tse-tung's prestige and works have received special attention this spring. The bolstering of Mao's personal prestige reached a peak at the recent party congress, where he was credited with originating the general guidelines for Chinese development during the "transition to socialism." He was further credited with formulating the guiding principles of the "rectification" campaign, and the economic goal of catching up with Britain in 15 years. This attention to Mao is apparently to restore some of the prestige he lost as a result of the

failure last year of his "hundred flowers" thesis and the criticism of "rightists."

Peiping seems anxious to counter speculation that Mao, who in 1957 tampered with Leninist practices of party control, has any ideological affinity with the Yugoslav leaders. The first two issues of Red Flag in June contained several articles by politburo alternates attacking Yugoslav rejection of the concepts of the Communist party power monopoly, class struggle, and strong state control of all activities. In praising Mao for his "creative development" of the "theory of state," politburo alternate Wang Chia-hsiang was careful to stress that Mao was not deviating from accepted Leninist doctrine.

The Chinese Communist leaders, seeing a long road ahead in their efforts to humble opponents of orthodox doctrine and to indoctrinate lukewarm supporters, are planning periodic "rectification" drives. Anything other than a "hard" line toward deviationists in the bloc would be incompatible with this zealous domestic emphasis on conformity. Chinese Communist propagandists are expected to continue their attacks on Yugoslav heresies and to prod the Poles into an acceptance of Soviet leadership in the political and ideological fields.

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FRENCH POLITICAL OUTLOOK

De Gaulle's first official contacts with NATO leaders have confirmed his support for the West's major defense aims, but there is growing speculation that he may demonstrate a more independent policy on relations with Communist China and other bloc countries. Meanwhile, domestic opposition is coalescing and extremists on both left and right are preparing to attack his Algerian and constitutional reform proposals.

There is wide speculation on De Gaulle's attitude toward various bloc countries. The Foreign Ministry has denied recent press rumors that diplomatic recognition of Peiping is imminent, but admits expanded economic contacts are under consideration. De Gaulle is reported to have left the door open on an offer of credits for raw materials from Soviet Ambassador Vinogradov. A Foreign Ministry spokesman has said the premier is toying with the idea of a European defense plan which would "help the Poles."

Further clarification of his North African program is expected to result from his visit to Algeria on 2-4 July. The Tunisian agreement on troop withdrawals gives him a respite, and he plans to meet Moroccan King Mohamed V

in August. Steps to mollify Moslem opinion will intensify extremist settler reactions, however, and many of the leaders prominent in the disturbances which brought him to power are seeking to organize a strong rightist movement to oppose any moderate solution. Pierre Pujade is supporting the movement General Chassin is trying to organize.

Pierre Mendes-France is reported organizing a "labor rally" to include the Socialist party's left wing and the Mitterrand group with his own Radical elements in a "constructive opposition to De Gaulle." Claude Bourdet, editor of the left-wing France-Observateur, is actively promoting a broad-based Socialist party. The left wing of the Socialist party is trying to build up action groups in each party unit with the objective of disavowing Guy Mollet. All these groups are potential objects of Communist exploitation and run the risk of Communist domination.

Regardless of the policies De Gaulle eventually proposes on Algeria, and on constitutional reform, opposition from both extremes will foment discontent.

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FRANCE'S FINANCIAL SITUATION

The early response to Finance Minister Pinay's mid-June internal gold loan and a sharp reduction in the June European

Payments Union (EPU) deficit mark at least a temporary halt to last month's speculative pressure on the franc. Pinay,

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however, has apparently not yet been able to attract French holdings abroad. More economic adjustments, possibly with further devaluation of the franc, will be required if France is to compete effectively in foreign trade and regain international financial confidence.

During the first four days of the 3.5-percent tax-exempt gold loan, the government took in \$43,000,000 of hoarded gold as compared with total receipts of only \$34,000,000 from Pinay's successful gold loan of 1952. The total of about \$100,000,000 subscribed in the four-day period also represents a higher rate than the 1952 loan. The head of the Treasury has indicated that he would consider the loan a success if it yielded \$250,000,000 by mid-July, when it is expected to be closed.

France's deficit in the EPU is reported at only \$25,000,000 by 21 June, in contrast with one of \$115,000,000 during May, and even this deficit will be largely offset by a surplus with the dollar area this month. Last month's strong pressure on the franc, for which the free market quotation was about 465, was accompanied by speculative transfers of funds out of France, with \$50,000,000 in foreign exchange flowing to West Germany alone. The franc recovered sharply with the accession of De Gaulle and has since been

quoted in the 430's, as compared with the official rate of 420. No further flight of funds is indicated.

The government succeeded in maintaining a surplus of receipts over expenditures through May in contrast with a \$400,000,000 deficit during the same period in 1957. A deficit can be expected to recur in a few months. The 19 June authorization of appropriations for the Algerian campaign far exceeds military expenditures agreed on earlier this year in negotiating the \$655,000,000 emergency loan from the International Monetary Fund, the EPU, and the United States Government. The total budget deficit may be forced above the agreed ceiling.

In addition to the prospective budget deficit, an accumulation of unsatisfied wage demands in the nationalized industries also poses a threat of reinvigorating inflationary pressures. These pressures, which have only very recently shown some tendency to abate, in line with the general recession in the West, have been largely responsible for France's adverse trade-and-payments balance during the past two years. Any major resurgence would cut short the financial breathing spell now available to France for placing its economic affairs in order.

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NORTH AFRICA

Another step toward formation of a Maghrebian (North African) federation was taken at the tripartite conference of Moroccan, Tunisian, and Algerian political leaders in Tunis from 17 to 20 June which

was held concurrently with Moroccan-Tunisian governmental discussions. The conference served to increase the formal ties between the participants and to coordinate more closely their policies toward France.

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As a result, the independent states of Morocco and Tunisia now are committed more clearly than before to support the Algerian National Liberation Front (FLN) in its fight for independence. At the same time, Morocco and Tunisia hope they can hold the FLN in line and serve as intermediaries if France should be willing to negotiate with the FLN.

In a final communiqué, the conferees rejected De Gaulle's policy of integrating Algeria with metropolitan France and again proclaimed the right of the Algerian people to sovereignty and independence. Their decision to proceed with the formation of a 30-member "provisional consultative assembly" for North Africa--implementing a recommendation of the Tangier conference held late in April--promises to enhance the FLN's status. Although the conference side-stepped the inflammatory issue of an Algerian government-in-exile, the FLN's executive committee seems to have reorganized itself as a quasi-governmental body under the nominal

leadership of moderate Algerian spokesman Ferhat Abbas.

The presence of FLN delegates in Tunis seems not to have hindered conclusion on 17 June of an agreement providing for the evacuation of some 9,000 French troops from Tunisia. However, Tunis' outright support for Algerian independence probably will continue to complicate its relations with France, particularly the negotiations scheduled to begin by this fall for a new status for Bizerte.

Morocco's support for Algerian independence may also make more difficult the Moroccan-French negotiations now under way regarding the evacuation of most of the 30,000 French ground troops still in Morocco and the retention of some French training bases. France may reduce its demand for such bases from 18 to six or eight, but seems likely to insist on the retention of the base at Oujda on the Algerian border. This is one of the locations which Morocco on 20 May wanted evacuated immediately. 25X1

COMMUNIST GAINS IN GUATEMALA

The Guatemalan Communists now are more active than at any time since the Arbenz regime was ousted four years ago. President Ydigoras, who has been notably complacent toward the Communists in the nearly four months since he took office, now seems preparing to act against them. The President, however, appears to feel more immediately threatened by rightist plotting, and his moves against the Communists may be made more to satisfy his anti-Communist critics, both at home and abroad, than to cope with the Communist problem.

Communists have been returning from exile at an ever increasing rate since the assassination of President Castillo Armas last July. The political disturbances in October and the markedly increased toleration of leftist political activity that followed have permitted them to operate in an environment of relative freedom. The Communists now strongly influence and perhaps control some leading labor unions, are active in student and intellectual groups, and have infiltrated the leftist Revolutionary party (PR), probably the country's

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strongest political party. Anti-Communist PR leaders have expelled a few Communists, but

[Redacted]

The new PR leadership which emerges from the party convention which began on 25 June could be pro-Communist.

Two recent events are indicative of the current high degree of confidence felt by the Communists. In early June, the party instructed all but the four most prominent members still in exile to return, clandestinely if necessary, by 30 July. In mid-June, a leading Communist gave an arrogant press interview after he had slipped back into the country immediately after having been expelled by the police. He said he regretted being the first Guatemalan deported under Ydigoras and hoped the President would

punish those guilty of this offense.

Disillusionment with the President is mounting among anti-Communist Guatemalans, who had expected him resolutely to curtail the Communists.

[Redacted]

Ydigoras may now realize that he must quickly take some action to restore confidence in his government.

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GROWING LABOR UNREST IN MEXICO

Adolfo Lopez Mateos, certain winner in Mexico's presidential elections on 6 July, may have difficulty in carrying on the moderate policies of the present Ruiz Cortines administration under which Mexico continues to enjoy a political stability and balanced economic development rare in Latin America. Leftist influence in the labor movement, an important component of the governing Party of Revolutionary Institutions (PRI), appears to be exploiting the growing conviction of workers that PRI domination has helped deprive them of a fair share in Mexico's rapid economic growth.

The PRI has run Mexico for 30 years through a highly centralized organization. Its policy of favoring groups consid-

ered most capable of advancing the country's welfare at a given time while managing to placate less favored groups has provided a political unity Mexico sorely needed. At present, however, the workers say their union leaders, who are also party leaders, have gone too far in accepting the government's encouragement of investment while keeping wages low to fight inflation.

Recent widespread strikes by telegraphers' and teachers' groups, which repudiated their union heads to follow leftist dissident leaders, resulted in substantial wage increases and have influenced other unions. Unemployment in farming areas of northern Mexico is high this year as a result of a sharp decrease in US hiring of

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agricultural workers. The pro-Communist Popular party (PP) has organized mobs of squatters to occupy private farmlands to dramatize demands for agrarian reform, and the government again made concessions.

Marxist-led electricians negotiating for higher wages are meeting with very little opposition in efforts to organize a national labor federation in competition with the government-sponsored Labor Unity Bloc. Their traditional demand for nationalization of their industry may have influenced a recent miners' convention recommendation for nationalization of the important mining industry to alleviate the unemploy-

ment caused by the drop in world prices of metals.

About 75 percent of Mexico's trade is with the US and its usual unfavorable trade balance is offset by US tourist spending. If the effects of the US economic recession become more pronounced in Mexico, the pressure will be strong on Lopez Mateos to seek the advice of ex-President Lazaro Cardenas, who remains a strong political force and leads the nationalistic left wing of the PRI. Cardenas is considered the leading proponent of the still respected labor, agrarian, and social reforms of Mexico's 1910 revolution, and his intense nationalism has previously been used to advantage by Communists.

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GOVERNMENT CRISIS IN EAST PAKISTAN

The resignation of two successive governments in East Pakistan Province between 18 and 23 June led President Mirza on 25 June to take over the provincial administration under President's Rule. These developments will facilitate Mirza's efforts to realign the national government coalition so as to increase his control of the government.

The 21-month-old Awami League government in East Pakistan was defeated on 18 June in a vote of confidence, following weeks of opposition effort to undermine the government's majority. A new coalition of all groups opposing the Awami League was toppled on 23 June after only four days in office. The leftist National Awami party (NAP) appears to hold the balance of power in the provincial assembly. After helping to bring about the fall of the Awami League government on 18

June by withdrawing its support, the NAP later reversed its stand and on 23 June voted with the Awami League to defeat the newly installed government.

The defeat of the Awami League weakened the national position of the party's leader, former Prime Minister Suhrawardy. Since he provides the chief support of the present national government coalition led by Prime Minister Noon, the developments in East Pakistan are likely to promote Mirza's efforts to eliminate Suhrawardy's influence by replacing Noon's coalition with one more amenable to his control.

Increased instability would probably force postponement of the national elections scheduled for November and encourage Mirza to carry out his threat to disperse with parliamentary government altogether and impose a dictatorial regime in Pakistan.

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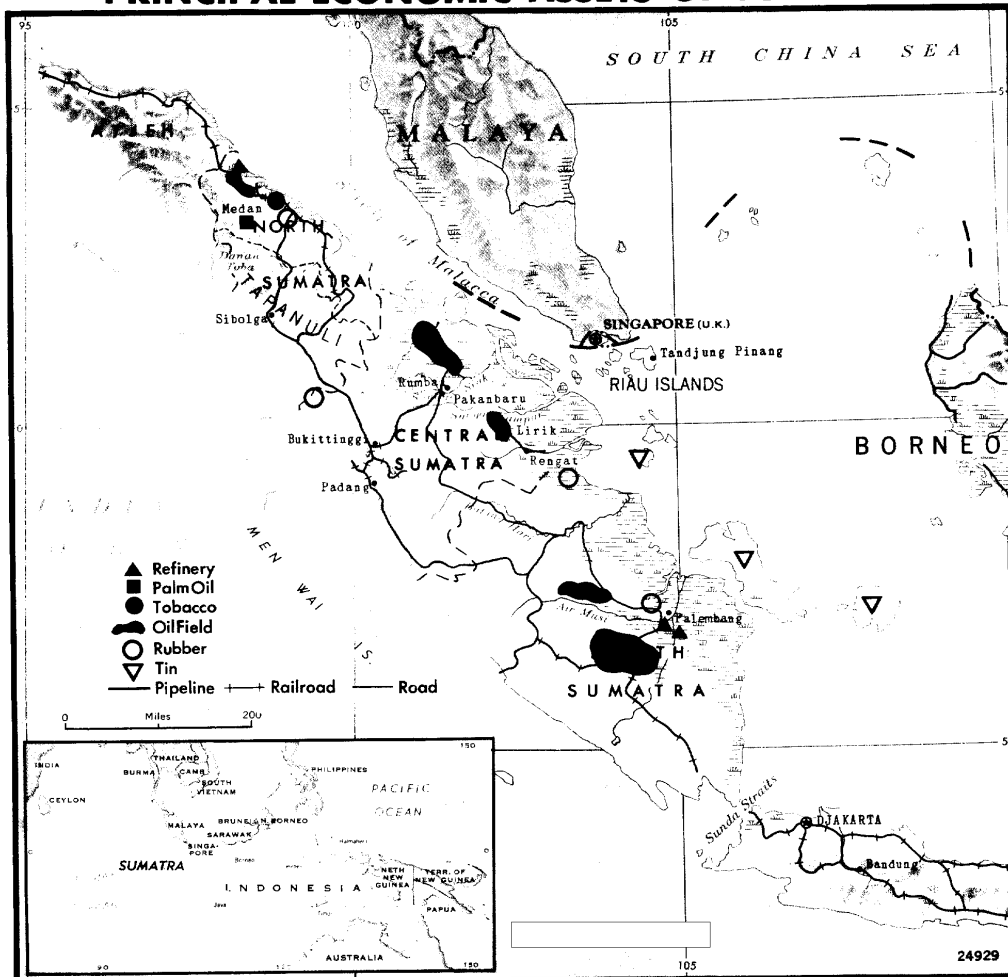
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INDONESIA

The Indonesian cabinet reshuffle announced on 25 June by President Sukarno falls short of the antileftist changes desired by the army and earlier hinted by government officials and Sukarno himself. The pro-Communist A. M. Hanafi appears

to have been demoted, however, from his post as minister for manpower mobilization to minister without portfolio, and the army now has a representative in the cabinet, Colonel Suprajogi, as minister for stabilization of economic affairs.

PRINCIPAL ECONOMIC ASSETS OF SUMATRA



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Cabinet changes involve the abolition of two ministries but the retention of their incumbents in other posts and the addition of three new ministries. Only one man was dropped from the cabinet--Sunardjo of the Nahdlatul Ulama, who had been minister of trade and charged with corruption. The army had demanded his removal.

Four new names have been added. Two are members of the non-Communist Nahdlatul Ulama, an indication that this party's prestige is growing in the eyes of President Sukarno. A third is Mohammed Yamin, who has been appointed minister without portfolio. Yamin is anti-Western, has been in and out of a number of parties including Murba, the "national Communist" party, and has recently joined a small nationalist party. He was probably included to balance the appointment of the fourth newcomer, Colonel Suprajogi. The principal gainer in the shake-up seems to be Sukarno, who appears to have increased his influence

in a cabinet already responsive to his demands.

Sukarno has announced that the first job of the reshuffled cabinet is to establish a national planning board to supervise the nation's economy--a feature of the President's program of "guided democracy." A preparatory committee consisting of five cabinet ministers is to be formed to work on the problem and reportedly will include both Hanafi and Yamin.

The government announced on 26 June that the dissident capital of Menado in North Celebes had fallen. The dissidents there had been reported in a critical situation for several days. In Sumatra

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guerrilla harassment of government forces and attacks on foreign rubber estates are continuing.

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BURMESE POLITICAL FERMENT CONTINUES

Burmese Premier Nu's coalition government, which depends on the Communist-dominated National Unity Front (NUF) for its majority, is so unstable that he is expected to dissolve Parliament and call for new elections by October at the latest. The insurgent Burma Communist party, with which Nu is reported negotiating, has taken advantage of the government's instability to demand legal

status in return for a cessation of hostilities. The NUF is reported seeking three cabinet ministries in Nu's government.

Burmese politicians, certain that the premier will call for elections, have already started intensive campaigning within their districts. To stake firm claim to the party label of the Anti-Fascist People's Freedom League, the Ba

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Swe - Kyaw Nyein faction has unilaterally "dissolved" the AFPFL executive committee, ousting Nu as president, and has elected one of its own members as AFPFL president. [redacted]

In the districts outside Rangoon, Nu's followers are reported attempting to recruit locally respected retired police and civil service officials to stand for Parliament on his ticket.

Both government and army officials are continuing their efforts to avert violence in the political controversy. The Home Ministry has ordered district police officials to provide each member of Parliament with a 24-hour, two-man, armed bodyguard. In addition, police officials are required to take immediate action following any

information of planned violence -- "no matter how unlikely the information may appear to be." The status of the persons involved is not to affect this order, and four members of Parliament have already been briefly detained. Most recently the Home Ministry has started the demobilization of the politically oriented home guard in an effort to limit armed violence between the government and opposition factions.

Army commander Ne Win, determined to maintain the armed services' prestige and reputation for political neutrality, has advanced the date of the annual Burma Armed Forces Commanding Officers' Conference from September to 23 June and has insisted on nonparticipation of officers in politics. Politically inclined officers, such as Colonel Aung Gyi, a Socialist and deputy army chief, will probably be forced to choose between military and political careers. [redacted]

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SOUTH VIETNAMESE - CAMBODIAN BORDER DIFFICULTIES

Phnom Penh's accusation that South Vietnamese troops have invaded Cambodian territory, occupying several villages in the northeast, climaxes a series of increasingly bitter border incidents between the two countries. Cambodian leaders have appealed for American intervention in Saigon to secure the prompt withdrawal of the Vietnamese forces, and may seek Sino-Soviet bloc support if this proves ineffectual. Saigon denies any violation of the poorly defined and disputed common frontier by its army.

Cambodia's charges against South Vietnam were aired in a nationwide radio appeal on 25

June to all Cambodians to "rally to the defense of their nation." The alleged Vietnamese incursion is in the same general region where a border encroachment by Cambodian forces earlier this month had been reported by Saigon. The remoteness of the area, poor communications, and the vaguely defined boundary have given rise to exaggerated reports in Saigon and Phnom Penh which have heightened tension in both capitals.

Cambodians have a strong fear of a Vietnamese invasion, and are unlikely to handle this dispute objectively. Although Cambodia's widely scattered army of roughly 30,000 is

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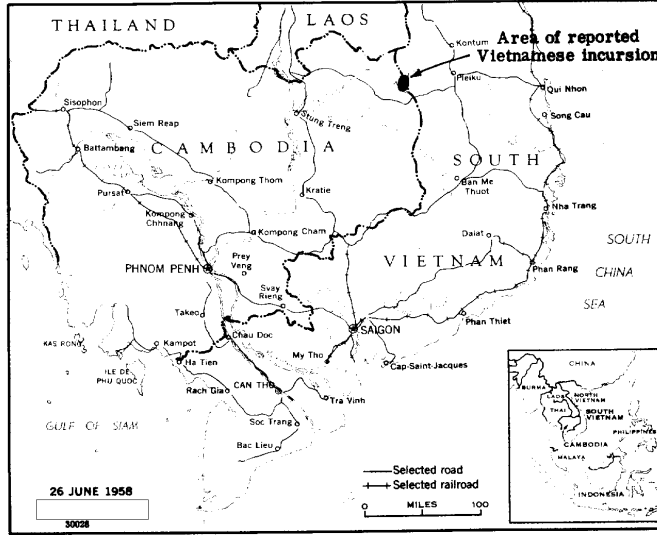
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completely outclassed by South Vietnam's approximately 150,000 well-organized armed forces, the Cambodians are fiercely patriotic. With both parties to the dispute adopting a self-righteous attitude, there is a danger that a series of border affrays may develop.

The major danger in this situation, however, is that Cambodia may enter into diplomatic relations with Communist China in order to secure Peiping's support. Cambodian leaders are inclined to feel that the West will not support neutralist Cambodia in its dispute with anti-Communist Vietnam, and have hinted broadly on recent occasions at such a development. Cambodian Prime Minister Sim Var stated on 25 June that Cambodia will turn to "other friend-



ly powers" if its appeal for American support is unavailing. Peiping, which already has a large economic mission stationed in Phnom Penh, has been anxious to enter into political relations as well, but Cambodia previously has avoided a diplomatic exchange because of fear of increased Communist subversion.

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PART III

PATTERNS AND PERSPECTIVES

ECONOMIC CONDITIONS IN IRAN

Iran has made a relatively good financial recovery since the oil nationalization crisis of 1951-1953 plunged it into near bankruptcy. Over 80 percent of the Iranian people continue to live in extreme poverty and see little prospect of personal benefit from the government's economic plans. The per capita gross national product is estimated to be only slightly over \$100. The living standard of the average Iranian is unlikely to be raised as long as the present feudal landowning system is maintained.

The Oil Industry

Although Iran has considerable resources aside from its oil, the economy depends almost completely on its oil revenues for funds, not only for development but for day-to-day government operations. Until recently, the oil industry was almost a complete monopoly of the Consortium--a group of 17 Western companies formed to extract, process, and market Iran's oil as part of the settlement of the nationalization crisis of 1953. Recently, however, an Italian government-controlled firm secured a choice concession in the Persian Gulf by promising 75 percent of the profit to Tehran. Following the Italian lead, the Pan American Petroleum Corporation, a wholly owned subsidiary of Standard Oil Company (Indiana), signed a similar profit-sharing agreement for an offshore concession opposite the prolific Kuwait fields.

Although oil production did not regain the precrisis level until 1957, the incorporation of the 50/50 profit-sharing principle in the settlement caused a dramatic rise in oil revenues. Crude oil

production averaged 725,000 barrels a day last year, compared with 660,000 barrels a day in 1950, about a 10 percent increase. Oil revenues, however, were markedly higher. In 1950, the last full year before the oil shutdown, Iranian oil revenues amounted to almost \$45,000,000; in 1957 revenues had increased to about \$230,000,000.

Prospects for rapid expansion of Iran's oil production are quite good, despite a general world oversupply of oil, since the Consortium provides a wide marketing base for Iranian crude. Iran's output last year increased at a much sharper rate than in the rest of the Middle East, and will probably do so again in 1958. It will probably be some time, however, before the new companies on the scene begin to make a substantial contribution to Iranian economic progress.

Agriculture and Industry

Aside from the oil industry, agriculture is the mainstay of Iran's economy. Last year the value of agricultural output probably approached \$1 billion, largely as a result of a 9-percent increase in production over 1956. Despite its importance, agriculture is primitive, wasteful, poorly managed, and dominated by absentee landowners. These politically powerful landowners control over 60 percent of the farm land and thus far have avoided undertaking even the relatively mild reform measures suggested by the throne. In addition, investment funds allocated to agriculture by the economic plan authorities have totaled only about 12 percent of plan investments--a disproportionate amount in view of the fact that agriculture provides a livelihood for about 75 percent of the population.

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Except for the Western-owned petroleum industry, which employs about 40 percent of the industrial labor force, industrial enterprises are small and inefficient by Western standards. Iranian industry--which supplies about 60 percent of domestic cement and glass requirements, 25 percent of sugar, and 38 percent of cotton cloth--employs only about 70,000 workers.

Economic Development

Economic development in Iran is dominated by the Plan Organization, which spent about \$153,000,000 last year. The master development plan--the so-called Seven-Year Development Plan which ends in September 1962--scheduled investments of over \$1 billion. This organization has been subjected to continuing criticism both in and out of the government. While some criticism has been deserved, a good deal can be attributed to the organization's poor public relations and the intense dislike for its apparently competent chief, Abdol Hassan Ebtehaj, on the part of most Iranian politicians, who block his plans at every opportunity.

The bulk of the planned investment is in transportation, communications, and irrigation projects. While this type of investment is a prerequisite to further development, construction often takes place far from centers of population and gives rise to the popular belief--in part probably correct--that some development funds find their way into the pockets of officials. Lately, however, public relations have im-

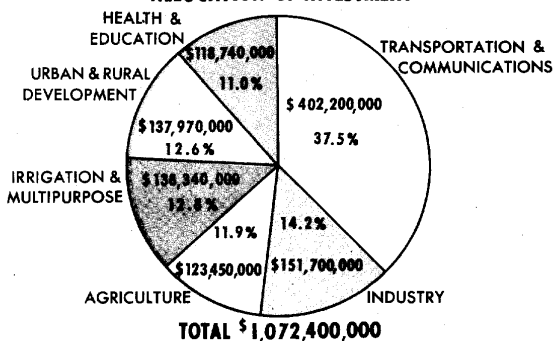
proved with the awarding of construction and planning contracts to American, Italian, and French firms.

As a result of growing central budget deficits, the government recently reduced the share of oil revenues allocated to the Plan Organization. While this caused some concern, it is not likely to result in any serious curtailing of the scheduled projects, since plan authorities are resorting to foreign borrowing.

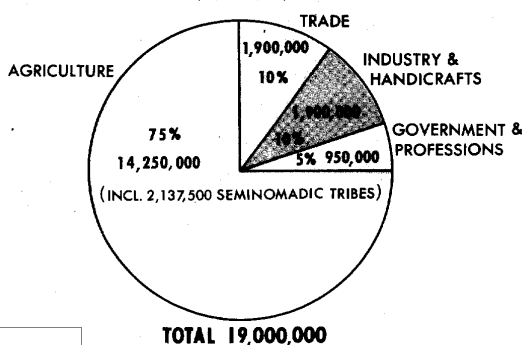
Finance

Iran's over-all financial situation is sound. Foreign exchange reserves reached an all-time high of about \$150,000,000 in April, compared with \$113,000,000 before the crisis and a low

IRAN
SEVEN-YEAR DEVELOPMENT PLAN 1956-1962
ALLOCATION OF INVESTMENT



POPULATION DISTRIBUTION BY ECONOMIC SECTOR
(ESTIMATED)



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of \$58,000,000 in 1952. Total foreign assets of the national bank were about 400 percent higher in April than at the end of 1956. While the money supply continues to increase, gains are modest and in line with other developments.

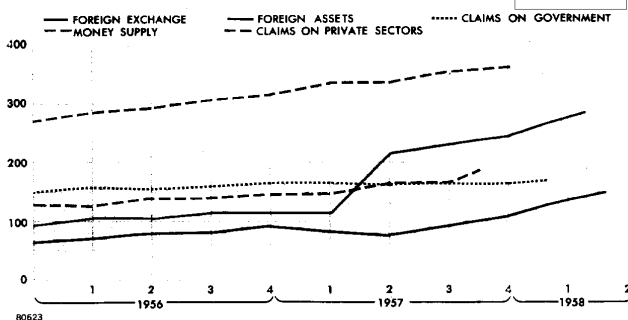
The central budget this year was faced with the possibility of a substantial deficit prior to the reapportioning of oil revenues. The deficit was caused chiefly by the sizable increase voted for government and military salaries and an increase--not including the military pay increases--of 37 percent in the defense budget. Prior to the reallocation of oil revenues, the central budget was to receive 5 percent of "scheduled oil revenues." Under the

oil is moved to markets entirely by way of the Persian Gulf rather than by pipelines, and the Iranians are largely indifferent to Arab causes, especially when money is involved.

Arab appeals on the basis of religion or Arab unity usually leave Tehran's policy unaffected. Iranians have no racial or linguistic affinities with the Arabs. Iran sells oil to Israel despite Arab protests. Proud of their history and the high cultural level reached in ancient times, Iranians consider themselves superior to the Arabs, whom they regard as semicultured tribesmen.

Tehran is also indifferent to the Arab League economic boycott of Western firms dealing with Israel. Iran, for example, is negotiating for the construction of a jeep assembly plant, despite the fact that the Arabs refuse to buy jeeps because some of them are assembled in Israel. Numerous Western vessels which are banned from Arab ports for dealing with Israel ply freely between Iranian and free world ports.

IRAN: MONETARY INDICATORS
(MILLION DOLLARS)



new allocation, and assuming a substantial increase in oil production, the government probably will receive almost \$110,000,000, about a 65-percent increase over the last fiscal year.

Iran is following a mildly inflationary path, a concomitant of almost any development program. As long as the country's liberal import policy prevails, inflation probably will not reach serious proportions.

Iran's Economics and the Arabs

The Iranians actually profited from the economic dislocation in the Middle East caused by the Suez crisis. Iranian

Prospects

Although Iran has made substantial progress in achieving financial stability, it has made little progress in solving its major economic problem--widespread poverty and illiteracy. Even the ambitious development program, if fully and honestly implemented, would not produce a meaningful rise in the standard of living of the bulk of the population. Before any real economic progress could be made in this field the dominant political power of the landed aristocracy would have to be broken.

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DEVELOPMENTS IN SOUTH VIETNAM

South Vietnam, nearing its fourth anniversary as an independent state, has made remarkable strides since the July 1954 armistice, when it was threatened by an early take-over by Hanoi. Today's surface tranquility, however, belies South Vietnam's continuing struggle for long-range survival and for eventual unification of Vietnam under non-Communist rule. The acceleration of Communist terrorism in South Vietnam during the past year, together with a more aggressive and imaginative propaganda offensive on the part of Hanoi, attests to the intensity of this struggle.

Internal Security

Saigon had achieved a high degree of nationwide stability by early 1957, but the security situation in the rural areas of the delta region and in the western provinces bordering on Cambodia has deteriorated. In addition, there was an anti-American terrorist incident in Saigon last October, when Communist bombs wounded 13 American MAAG personnel. Despite tightened security measures, there is a real threat of further violence against Americans in view of the Communist objective of impairing American support of the Diem regime.

The resurgence of Communist terrorism has been marked by the assassination of provincial officials and central government representatives at the village level. This coincides with intensified efforts by the Communist underground to gain the support of entire villages--either by persuasion or by threats. There are indications that these efforts are meeting with some success in the more isolated areas. The renewed security threat has reinforced the Diem government's determination to place primary emphasis on strengthening its military

and paramilitary forces at the expense of basic economic and sociological progress. This low priority for economic matters constitutes the real danger to stability over the long run.

A major breakthrough in Saigon's efforts to improve rural security occurred in May with the rallying to the government of some 1,200 dissidents of the Hoa Hao sect, the last significant force of indigenous rebel groups whose combined private armies once threatened the Saigon regime. The remaining few hundred native dissidents are widely scattered and are considered under Communist control. Actual Communist underground military strength is believed to be 2,100, with a larger number of political agents and sympathizers. Since 1954, the Communists have sought to perpetuate local armed revolt against the Diem government to further their own terrorist activities, which run counter to Hanoi's public espousal of the Geneva armistice.

Relations With Neighbors

The surrender of the Hoa Hao force should also help to improve the chronically poor relations between South Vietnam and Cambodia, as this dissident band formerly had operated on both sides of the frontier. In instances where Vietnamese troops have crossed the border in pursuit of dissident elements seeking refuge in Cambodian territory, armed clashes with Cambodian forces often resulted. South Vietnamese - Cambodian hostility stems from traditional animosity between the two races and from the divergent political policies of the present-day regimes. The recurrent border incidents have frustrated sporadic efforts to achieve a modus vivendi.

Saigon, concerned over growing Communist influence in

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Cambodia, has vacillated between conciliation and toughness in attempting to influence the Phnom Penh regime. The hard approach has been particularly unavailing and risks driving Cambodia closer to North Vietnam and Communist China.

The Diem government is also alarmed at the recent Communist electoral gains in Laos. It fears a leftist-oriented regime will eventually emerge in Vientiane which will facilitate Communist infiltration across Vietnam's remote and hard-to-defend frontier. The contemplation of being isolated as the only militantly anti-Communist state on the Indochina peninsula is disturbing to Saigon. South Vietnam is taking direct action through its diplomatic mission in Vientiane to support the merger of Laotian conservative forces against the Communist political threat. In addition, the two governments recently exchanged preliminary ideas for closer trade relations and improved communications.

Military Strength

South Vietnam's military capability to face the threat of external Communist aggression continues to show steady improvement under MAAG training. The army of some 137,000 men is considered firmly loyal to President Diem and continues to be the government's main pillar of support. Together with less developed air and naval forces numbering about 4,000 and 5,000 men, respectively, South Vietnam's army is capable of initial limited resistance in the event of overt aggression from North Vietnam. Steps are also being taken to streamline and increase the effectiveness of two major paramilitary forces--the Civil Guard and Self-Defense Corps, each with about 50,000 men.

Economic Weaknesses

In contrast to its military strength, South Vietnam's econ-



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omy continues to be precarious. Agriculture, the nation's economic mainstay, is recovering slowly from wartime ravages. A limited start has been made in industrial development, but prerequisite foreign capital remains wary of the Diem government's suspicious attitude toward private investment. The government's predilection toward strict controls and its ultra-conservative financial policies have aggravated deflationary tendencies in the economy. Commercial activity is generally slow at present, and growing unemployment is a problem. In response to heavy pressure from business and labor circles, however, the government recently has taken a few cautious steps toward easing the situation.

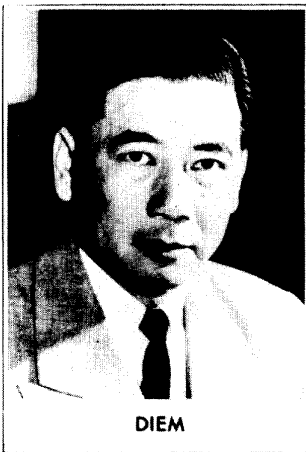
American aid still accounts for about 85 percent of Vietnam's imports and more than two thirds of its budgetary revenues. In 1957, however, a sizable budget surplus was realized by stringent

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budgetary controls and imposition of new taxes. Vietnamese exports last year, moreover, earned nearly \$60,000,000 in foreign exchange, compared with only \$34,000,000 in 1956. Greater economic progress has been hampered by the Vietnamese



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leaders' lack of experience in this field as well as by their primary interest in political and military matters.

Diem's Leadership

In one sense, the principal factor in South Vietnam's early stability--the strong leadership of President Diem--today has become somewhat of an unsettling influence. Diem's continued unwillingness to delegate authority and his reluctance to grant greater individual freedoms at this time are hamstringing government operations and contributing to popu-

lar discontent. Senior Vietnamese officials, including Vice President Nguyen Ngoc Tho and several cabinet members, have expressed serious alarm in recent months over the government's apparent loss of popularity. These officials believe Diem's narrow approach to political affairs is seriously weakening the regime.

Criticism of Diem's authoritarian ways is not new, but has become more insistent now that relative political stability, which would permit more representative government, has been achieved. Diem is undoubtedly aware of this criticism but has given no indication of being dissuaded from his belief that more liberal government, however desirable, cannot be afforded during the present "national emergency." He speaks frequently, however, of having only "two or three years" in which to hammer out a strong political and economic base for the nation before internal pressures threaten to force a modification of the present driving pace. Diem has been shrewd and far-sighted in his leadership; his decisions on several major issues in the past have proven correct.

South Vietnam has made considerable progress since 1954 against great odds, and today is a going concern. There is a good economic potential for continued development toward greater stability and economic viability.

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NORTH VIETNAM BEGINS NEW THREE-YEAR PLAN

Having completed a three-year period of economic rehabilitation following the Indochina war, Hanoi has launched its first three-year plan for economic development (1958-60) aimed at transforming backward, agricultural North Vietnam into an advanced industrial nation organized along "socialist" lines. Hanoi recognizes that it faces tremendous obstacles, and President Ho Chi Minh has estimated that this "intricate and difficult" task will require three or four "long-term plans."

Nearly 11,000,000 of the 13,000,000 inhabitants of North Vietnam are peasants, farming uneconomical holdings which average one third of an acre. In addition to recurring droughts and floods, the agrarian population, which lives at a bare subsistence level, is burdened by high taxes and increasing regimentation. The industrial sector of the economy is underdeveloped and inefficient. The creation of investment capital in such an economy poses great problems, and North Vietnam is forced to rely heavily on the largesse of the rest of the Sino-Soviet bloc. Hanoi draws so heavily on Chinese experience that its economic plans and policies are almost carbon copies of those used by its "fraternal" neighbor to the north.

Socialization of Agriculture

The North Vietnamese authorities have proceeded in a gingerly fashion in socializing agriculture. This caution is a reflection partly of Hanoi's decision to follow the gradual precepts Peiping advocated for socialization and partly of the opposition generated by attempts at land reform in late 1956. By the end of 1957, only 0.05 percent of agriculture was socialized, while 24.4 percent of industry, 27.6 percent of domestic retail trade, and 61 per-

cent of wholesale trade had been socialized. Socialization of foreign trade and the banking, postal, and railroad systems is virtually complete.

The land reform program in North Vietnam, under which land was taken from farmers with relatively extensive holdings and given to the poor and landless, got under way even before the Communist occupation of Hanoi. In 1956 it was described as "basically complete," but violent opposition--too strong for the regime to ignore--forced

NORTH VIETNAM : BUDGETS			
<small>(MILLION DOLLARS AT 3,500 DONG EQUALS ONE DOLLAR)</small>			
REVENUE	1956	1957	1958 (PLAN)
State Enterprise and Taxes	118.3	116.1	159.9
Foreign Aid	55.5	76.0	79.1
Other	5.2	18.9	14.0
TOTAL REVENUE	179.0	211.0	253.0

EXPENDITURES	1956	1957	1958 (PLAN)
Economic Construction	77.7	89.7	118.4
Social, Cultural and Welfare	22.0	25.1	32.4
Defense	37.2	44.3	51.1
Administration	21.1	19.4	26.3
Other	21.0	32.5	24.8
TOTAL EXPENDITURES	179.0	211.0	253.0

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Hanoi to undertake a program of "rectifying" the excesses of the program and to suspend temporarily the formation of mutual-aid teams, the next step up the "socialization" ladder.

Hanoi, which did not renew the drive until late in 1957, now insists that agriculture must be collectivized. Party theoretician Truong Chinh says the mutual-aid system "must gradually be advanced toward low-level cooperatives, and these in turn to high-level cooperatives," exactly duplicating

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early Chinese progression. Hanoi, like Peiping, has sought to take advantage of traditional peasant joint-planting practices in the formulation of mutual-aid teams and, more recently, of temporary agrarian difficulties such as the drought last winter, to impress on the peasants the benefits of cooperative effort. By the end of this year, Hanoi hopes to more than double the number of households in mutual-aid teams.

The controlled press recently complained of the "conservative mentality" of a peasantry "still reluctant to institute collectivization," and Truong Chinh has observed that the par-

In pushing a campaign to socialize agrarian activity at this time, Hanoi probably feels that the peasants will not be able to oppose it effectively. Chinese experience showed that once the blood bath of the land reform movement has broken down established patterns of rural life, the remaining steps toward socialization came relatively quickly and easily. It is questionable just how effective Hanoi has been in breaking down these established patterns, and many observers doubt that the peasantry will willingly join the campaign.

Along with the socialization of agricultural production, the regime is pushing the establishment of other types of rural cooperativization, including credit cooperatives and supply and marketing cooperatives.

Industry and Commerce

The move toward socialization in industry and commerce has proceeded further than in agriculture. In pursuing its campaign against private business, Hanoi probably will continue to use the same restric-

tive trade and financial procedures, including retributive taxation, as were employed in China.

The regime says that it has already "laid hold" of private businessmen by use of the state trade system. Through its control of sources of supply and markets, the state has been able to restrict the "external relationships" of the private businessman and lead him "along the lines of the state plan." In Hanoi's present mood, however, these procedures do not go far enough. The regime feels it

ty must prevent the peasants' indulging their natural inclination to "separate, individual self-development." The peasants, resentful of high tax levies, have persistently frustrated the efforts of the party to collect the full amount of agricultural taxes demanded by Hanoi. They have made it impossible for the cadres to carry out an accurate estimate of taxable land and yields. There is little doubt that the peasants feel exploited, and Hanoi has found it necessary to take special steps to keep the peasantry from migrating to the cities.

NORTH VIETNAM: PRODUCTION						
COMMODITY		1939	1955	1956	1957	1960 (PLAN)
POWER	MILLION K.W.H.	122	94	94	118	227 (est.)
RICE	MILLION METRIC TONS	3.5	3.6	4.1	3.9	
COAL	THOUSAND METRIC TONS	2,615	459	1,215	1,240	2,460
CEMENT	THOUSAND METRIC TONS	305	100	199	165	335
PHOSPHATE	THOUSAND METRIC TONS	35.7	8.7	34.1	34.0	51.8
APATITE	THOUSAND METRIC TONS	98.0	-	-	60	78.8
COTTON YARN	THOUSAND METRIC TONS	8.9	1.3	7.1	9.5	13.0 (est.)

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must increasingly concern itself with the "internal affairs" of private entrepreneurs by investing money in their firms and thus transforming them into semisocialist enterprises similar to the joint public-private enterprises now common in China.

Here again Hanoi faces the obstacle of a resentful, uncooperative group which can scarcely be expected to cheer its own liquidation.

Production and Plans

In 1957 the total value of agricultural and industrial production reached an estimated \$944,000,000. Agriculture contributed about three quarters, roughly \$698,000,000, while industry and handicrafts contributed some \$246,000,000. The 1958 plan envisages an overall increase of approximately 10 percent. The total value of agricultural output is to go up 5.4 percent, while that of industrial and handicraft production is to rise 35 percent. The current three-year plan is a loosely drawn outline of what the regime would like to accomplish in that period rather than a carefully balanced set of targets.

Premier Pham Van Dong has described the increase in rice production as the regime's "biggest success." The output, according to Hanoi's figures, rose from 2,400,000 tons in 1939 to 4,100,000 tons in 1956. In 1957 the rice crop came to only 3,900,000 tons, largely because of a widespread drought during the fall harvest. The regime that year exported an estimated 180,000 tons of rice, mainly

to the European satellites. This has left very little, if any, for domestic stockpiles. Current crop conditions suggest an early rice crop this year somewhat poorer than last year's early crop. Rice exports, which continued through January 1958, subsequently dropped off sharply, perhaps in anticipation of a tight domestic supply situation this summer.

Although the regime puts principal stress on food crops,

SINO - SOVIET BLOC AID TO NORTH VIETNAM					
(THOUSAND DOLLARS)					
COUNTRY	LOANS	GRANTS	MATERIALS	1957 FLOOD RELIEF	TOTAL
ALBANIA			178	13	191
BULGARIA		4,250	903	15	5,168
CHINA		325,000	19,152	123	344,275
CZECHOSLOVAKIA		8,750		55	8,805
EAST GERMANY		18,143	1,028		19,171
HUNGARY		2,000		13	2,013
POLAND		9,625		13	9,638
RUMANIA		3,750			3,750
USSR	19,250	100,000	50,000	250	169,500
TOTALS	19,250	471,518	71,261	482	562,511

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it has consistently urged greater production of industrial crops. In 1957, for example, the authorities programed a 30-percent increase in such crops. The targets for oilseeds, peanuts, and tobacco were probably achieved, while that for cotton, in which the authorities have been especially interested, was not. The 1957 plan to produce 7,500 tons of cotton was not fulfilled, and the crop probably totaled only several hundred tons above the 1956 output of 6,300 tons. The 1958 plan calls for an output of industrial crops amounting to 106.3 percent of last year.

The industrial sector of the economy of North Vietnam is

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weak. It revolves around a few large enterprises such as the Hongay coal mines and the Hai-phong cement plant. Inept management and labor unrest have hampered production. Industrial production targets had to be lowered in September 1957 when it became apparent the original goals were not going to be met. In fact, state enterprises in nine major fields--coal, cement, electric power, phosphates, factory-made cloth, paper, matches, alcohol, and tin--attained only about 55 percent of the production levels of 1939, generally considered the peak year. On the other hand, private industries in 11 fields--bricks, wood, sugar, fish, salt, home-spun cloth, handicraft paper, leather, soap, aluminum, and lead--were outproducing their 1939 level by 27 percent.

Foreign Trade and Aid

Without large amounts of aid from the Sino-Soviet bloc countries, even the marginal economic development of North Vietnam would have been impossible. Hanoi admits that its capital funds have come largely from "friendly countries." This condition is expected to continue.

Total bloc aid in all forms--loans, grants, goods exchanges, and flood relief--will total an estimated \$563,000,000 by 1960. Communist China will contribute over half, with a \$326,000,000 five-year (1955-59) grant, plus another \$20,000,000 in other forms of assistance. During the past three years, Chinese aid has gone chiefly into the restoration and development of transportation, communications, and irrigation.

The Soviet Union provided a \$100,000,000 grant in 1955 and subsequently made available an additional \$70,000,000 in loans and materials. Some 75 percent of this aid has been allocated for industrial devel-

opment and construction, including North Vietnam's first machine tool factory, recently opened in Hanoi. The European satellites have contributed an estimated \$100,000,000, of which East Germany, Poland, and Czechoslovakia gave 60 percent. Satellite aid has consisted largely of equipment and technical knowledge in industry and public health.

The bloc accounts for roughly three quarters of North Vietnam's foreign trade. This percentage has been declining, however, as trade with the free world--chiefly Japan, Hong Kong, Indonesia, India, and France--has been increasing. Coal from Hongay is still the major export item, accounting for about one third of the total value of exports. In 1957, rice was exported in considerable quantities, but prospects for comparable amounts this year appear poor. Other items for export in significant quantity are crushed apatite (a phosphatic fertilizer), cement, and timber, but these and the country's other exports are not available in sufficient bulk to permit North Vietnam to achieve a more balanced trade position in the near future.

Outlook

With the initiation of a period of economic development, the Hanoi regime has begun a crucial test of its ability to survive and, parenthetically, of the applicability of the Chinese model for developing backward Asian economies. Hanoi's success will depend, to a large extent, on the outcome of its attempt to inflict socialism on the economy.

There is discontent in both the cities and the countryside, which is reflected in the government and the party as well. The official press has found it necessary to castigate party cadres for individualism,

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bureaucracy, and the acceptance of democratic ideas such as the "creation of opposition parties." Cadres infected with such tendencies have also refused to execute collective decisions or have been acting contrary to approved policies--sometimes in consonance with persons outside the party. Commercial and financial cadres have been accused of being blinded by

the "glitter of the capitalists."

Discontent will doubtless persist, but in the absence of major natural disasters, it will probably lack focus and remain unorganized, and therefore not interfere with the ultimate enforcement of the regime's policies. (Prepared jointly with ORR)

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TRENDS IN SOVIET SHIPBUILDING

Since the end of World War II, the USSR has developed a highly efficient shipbuilding industry, with the result that it ranks second in world naval power and first in submarine power. The Soviet maritime fleet has expanded considerably during this period, along with the inland waterway and fishing fleets.

To achieve this build-up, large capital outlays were made for the reconstruction of war-damaged shipyards, for the completion of shipyards begun before the war, and for the building of new shipyards. Probably the most important capital investment made during this period was in the industry responsible for the production of ship components. This investment was achieved in part through the appropriation of machines and equipment from countries overrun in the war and through war reparations.

Priority of Naval Construction

About 90 percent of the postwar shipbuilding effort in terms of value has been devoted

to the construction of naval vessels. To meet the immediate postwar needs for merchant vessels, the USSR turned, as it did before World War II, to foreign sources. It exploited shipbuilding industries in the satellites and procured vessels from nonbloc sources through trade agreements.

USSR: NAVAL VESSEL PRODUCTION

	1950-1957 (ESTIMATED)
Cruisers	10
Destroyers	50
Destroyer escorts	50
Submarines	300
Minesweepers	300
Patrol craft	330
Motor torpedo boats and similar craft	470

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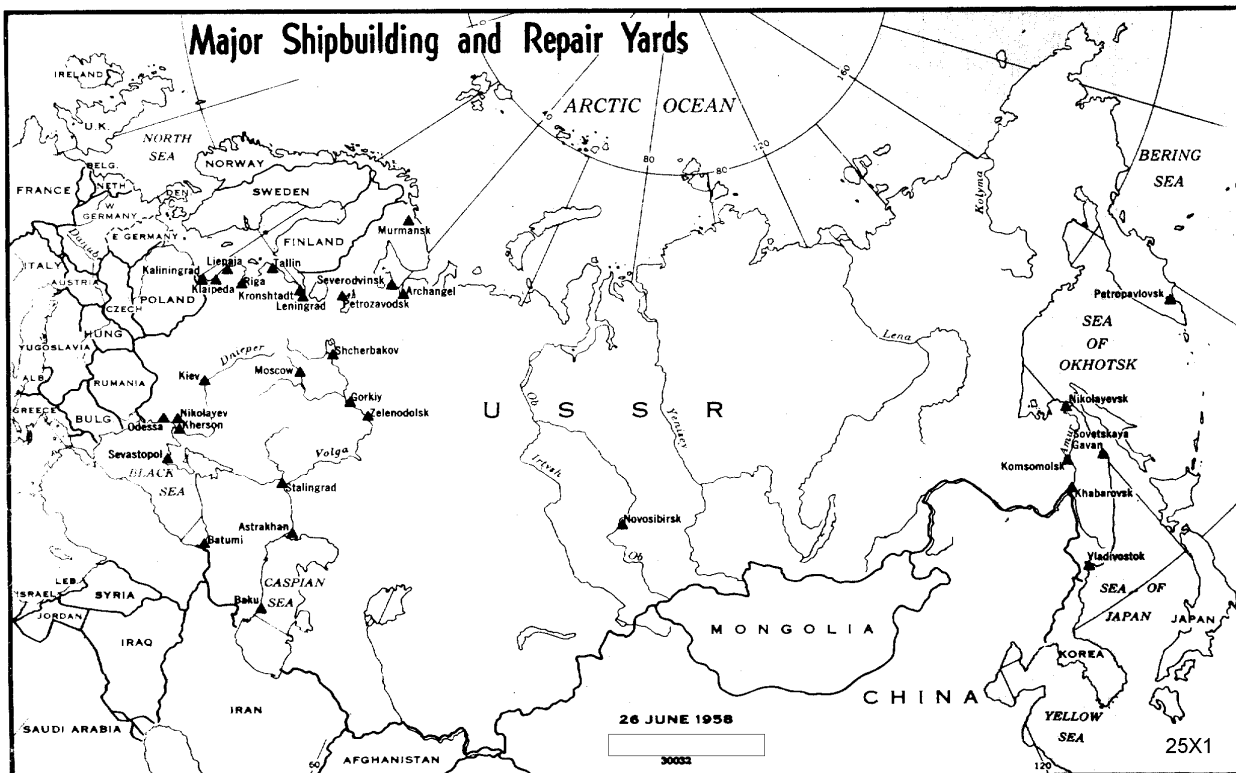
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A sharp reduction in the tonnage output of naval vessels began, however, in 1955. This reduction, most marked in submarine production, apparently resulted from the phasing out of certain conventional-type vessels. In the meantime, Soviet shipbuilders have been using idle facilities for

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the production of merchant ships.

The huge naval fleet created by the end of 1955 was composed principally of vessels using conventional-type propulsion and weapons systems. In response to Western developments in these fields, the USSR probably has undertaken a program to build ships with radically different propulsion, weapons, and electronic systems, and plans for submarines are believed to be in an advanced stage of development. New-type submarines will probably appear during 1958.

1955-57 Construction

Submarines: The construction of long-range W-class submarines began in 1949 and continued to the early part of 1957, when the program appar-

ently was phased out. Four shipyards were engaged in this program, and a total of about 240 submarines of this class were produced.

The construction of medium-range Q-class submarines began in 1954 and possibly is still continuing. These ships are built only at Sudomekh Shipyard 196 at Leningrad, which had produced 43 vessels by the end of 1957. A reduction in output in 1957 from the previous year seems to have resulted from technological difficulties and alterations and does not indicate a phasing out of this model.

The USSR may be preparing to produce new submarines incorporating high-performance conventional propulsion or nuclear propulsion, some of which may be equipped for guided-missile

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launching.

The Kotlin, an improvement over the earlier Skorry and Tallinn, was apparently modified. Separate sightings in 1957, one in the Pacific and one in the Baltic, indicated that the after-gun mount had been replaced by a "catapult" or launching rail, suggesting a possible missile-launching installation.

The construction of the Riga-class destroyer escort began in 1952. About 60 of these ships have been built, but the program appears to have been completely phased out in early 1957.

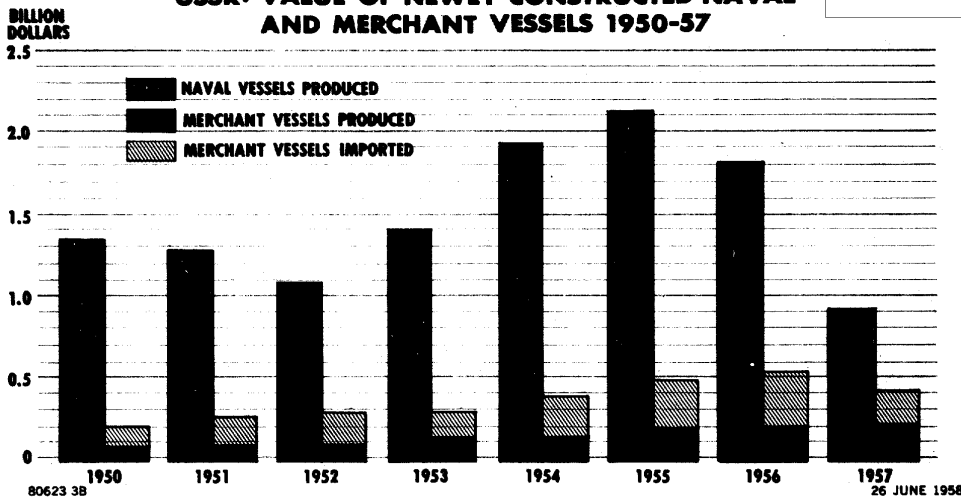
Cruisers: Since 1949 four shipyards have been engaged at least part time in the construction of cruisers. A total of 20 cruisers were laid down, of which only 16 have been completed.

Destroyer and Destroyer Escorts: Construction of the Kotlin-class destroyer began in 1952 and has continued to the present time, with about 30 produced in all. Zhdanov Shipyard 190 in Leningrad, Shipyard 445 in Nikolayev, and Shipyard 199 in Komsomolsk have been engaged in the program. Possibly nine additional vessels now are in varying stages of completion.

Construction of minesweepers, patrol craft, and motor torpedo boats has continued at a fairly consistent rate. Improvement made in these types has been in the area of electronics and in the use of gas-turbine propulsion and hydro-foil hulls.

Merchant Vessel Construction: The characteristics of new merchant vessels proposed and under construction in the USSR suggest a change in policy toward the merchant fleet. Cargo vessels and tankers, which constitute the majority of the maritime fleet, are of low

USSR: VALUE OF NEWLY CONSTRUCTED NAVAL AND MERCHANT VESSELS 1950-57



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tonnage and slow speeds. At present, however, two new major vessels are under construction, one a tanker, one a cargo vessel. These vessels are modern in design and are comparable to the better Western ships of the same type. The tanker, however, is small compared with the "supertankers" of the West.

The most noteworthy non-naval vessel to be produced by the USSR is the nuclear-powered icebreaker Lenin, which was launched on 5 December 1957 in Admiralty Shipyard 194 in Leningrad. This is the first icebreaker to be built in the USSR since the war, and is the first

New Tanker: Only one or two tankers, of an improved design over the Kazbek, are known to be under construction. One was laid down in the Baltic Shipyard in Leningrad about the first of September 1957. Series production of this class will probably begin as soon as the prototype has been satisfactorily tested. The new tanker, the largest ever built in the USSR, has a cargo-carrying capacity of 27,000 metric tons, is about 660 feet long over-all, 87 feet wide, and has a draft of 34 feet. Powered by a steam turbine, the vessel will have a speed of about 18.5 knots.

New Cargo Ship: Four cargo ships are under construction at Kherson Shipyard 102. As in the case of the new tanker under construction, this type ship is a vast improvement over the cargo vessels presently in the maritime fleet, and will be the largest dry-cargo ship ever built in the USSR. The new ship, with a cargo-carrying capacity of 10,000-13,000 metric tons, is designed to haul general and grain

known Soviet ship designed to use nuclear power.

known cargo in relatively ice-free waters and also is turbine-propelled.

Kazbek-class Tanker: The program for the production of the Kazbek-class tanker which began in 1950 or 1951 and has produced 48 ships appears to be nearing an end, although Kherson Shipyard 102 delivered two tankers in 1958. Two other tankers, both scheduled for sale to East Germany, were under construction at the end of 1957 at the Admiralty yard in Leningrad. Shipyards engaged in this program have undertaken construction of other nonnaval vessels, with the result that production of these tankers will be sharply reduced, if not wholly eliminated.

Fishing and Inland Waterway Vessels: Because the fishing fleet is important not only in the economy of the USSR but also as a potential naval auxiliary, the production of improved trawlers, seiners, loggers, and the like continued in 1956 and 1957. The capability of the fishing industry is being improved by the installation of electronic aids on trawlers for the detection of schools of fish, and in the construction of special ships to operate with the fishing fleets for freezing and processing the catch and

USSR: PRODUCTION AND IMPORTS OF NAVAL AND MERCHANT VESSELS 1950-57
(VALUE IN MILLION DOLLARS - 15,171.9)

	MERCHANT VESSELS PRODUCED	MERCHANT VESSELS IMPORTED FROM BLOC COUNTRIES	MERCHANT VESSELS IMPORTED FROM NONBLOC COUNTRIES
MARITIME	387.8	398.3	392.7
FISHING	212.5	547.6	213.9
INLAND	674.0	181.0	54.1
TOTAL	1,274.3	1,126.9	660.7

NAVAL VESSELS PRODUCED 12,110.0

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transporting it between the fleet and the mainland. In addition, a large and improved whale-processing ship is under construction, and a fleet of new and improved whale-catchers is to follow.

Some of the principal shipyards in the USSR once engaged in naval construction are now building vessels for the inland fleet; these include Krasnoye Sormovo Shipyard 112 in Gorkiy, which was the largest builder of submarines in the USSR. In early 1956 this shipyard began building a series of Bolshaya Volga-class self-propelled dry-cargo river vessels.

The inland waterways fleet is being improved for more rapid and economical transportation of freight and passengers. The trend seems to be away from the

use of towed barges to that of pusher-type tugs and barges, similar to those used on the Mississippi River, and of more self-propelled dry- and liquid-cargo vessels.

Foreign Orders

The number of construction contracts placed with Western countries, except for Finland, has been sharply reduced.

As a possible exception to this trend, the USSR may agree to purchase Japanese-built vessels because the cost of shipbuilding in Japan is low compared with that in other Western countries. In addition, the Soviet Union may be able to offer products attractive to Japan in payment.
(Prepared by ORR)

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