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CURRENT INTELLIGENCE WEEKLY SUMMARY



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CURRENT INTELLIGENCE WEEKLY SUMMARY

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

PART I

OF IMMEDIATE INTEREST

LEBANESE SITUATION Page 1

Rebel forces continue to harass the Lebanese Government in their effort to wear down President Chamoun's resistance to opposition demands that he abandon any effective political role. One group of opposition leaders has announced it will try to discourage Parliament members from meeting on 24 July to elect a new president, since it fears the present Parliament is too favorable to Chamoun. The President himself is still pursuing a waiting game. [redacted]

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SOVIET MOVES IN GENEVA TALKS Page 1

The USSR is continuing its efforts to force the West to agree in principle to a cessation of nuclear tests or, failing this, to prepare the ground for future allegations that Western refusal to cease tests is responsible for any failure of the Geneva talks. The claim in Moscow's aide-memoire of 9 July that it is already clear an effective control system is "entirely possible" suggests the bloc experts will seek to create the impression that the Geneva talks are developing a wide area of agreement on control measures and that only the West's unwillingness to halt tests stands in the way of a final agreement. [redacted]

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INDONESIA Page 3

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[redacted]

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[redacted] Rebel guerrilla activity in Sumatra is increasingly effective. Although President Sukarno is unlikely to support them, army leaders in Djakarta are formulating plans to delay the scheduled 1959 general elections as a means of obstructing the growth of Communist influence. [redacted]

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PART II

NOTES AND COMMENTS

STATUS OF PRESIDIIUM MEMBER SUSLOV Page 1

Although Mikhail Suslov, a member of the Soviet party presidium, has not been formally demoted, his present standing is equivocal and may not long remain publicly unchanged. [redacted]

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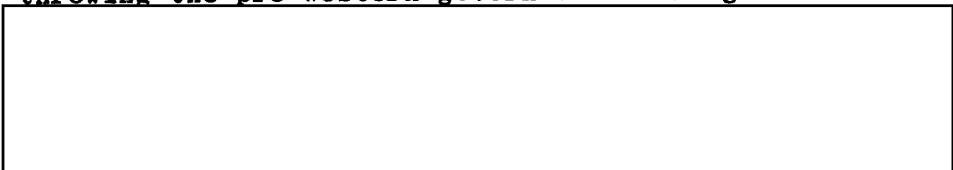
USSR ESTABLISHES PRICES FOR AGRICULTURAL PROCUREMENT . . . Page 2

A USSR Council of Ministers resolution, published in the Soviet press on 1 July 1958, lists charges which are to be used in establishing regional prices at which the state will purchase agricultural products from collective farms. Many fall somewhere between the low obligatory delivery prices and the higher ones for above-quota produce previously in effect. The total cost to the government will remain approximately the same as last year. The new livestock charges are generally higher than the old above-quota purchase prices--a move to spur Khrushchev's program for "catching-up" with the United States in the per capita production of meat. [redacted]

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EGYPTIAN SUBVERSIVE ACTIVITY IN LIBYA Page 3

The widespread Egyptian campaign of propaganda and subversion in Libya is apparently well organized, and plans may already be in preparation for overthrowing the pro-Western government of King Idriss.



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RELIGIOUS ISSUE DISRUPTS ISRAELI GOVERNMENT Page 4

Israeli Prime Minister Ben-Gurion's government is engaged in a dispute with the Orthodox Jewish community involving the over-all relationship between church and state. Two cabinet ministers have resigned over the problem. The controversy, which began over whether the state or the synagogue is to determine who is Jewish, has become a conflict between progressive, secular-minded elements and conservative religious groups. [redacted]

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CURRENT INTELLIGENCE WEEKLY SUMMARY

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PART II (continued)

KASHMIR Page 5

Attempts by Kashmiri refugees to cross the cease-fire line into Indian-held Kashmir have provided the first occasion since the cease-fire went into effect in 1949 to observe Indian and Pakistani government reaction to a politically inspired breach of the peace. Their reaction suggests that in the event of future unarmed or armed incursions by relatively small groups, both India and Pakistan would try to localize the incidents. [redacted]

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CAMBODIAN CROWN PRINCE THREATENS CLOSER TIES WITH COMMUNIST BLOC Page 6

Phnom Penh's political instability and strained relations with South Vietnam and Thailand are creating an atmosphere conducive to greater Communist influence in Cambodia. Convinced of "Western bias" against Cambodia, Crown Prince Sihanouk appears to be setting the stage for closer ties with the Communist bloc, particularly Communist China. The bloc has been quick to express support for Cambodia's position, and its propaganda is reiterating Cambodian charges of a Vietnamese "invasion." [redacted]

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INDIA, JAPAN WORRIED BY RISING CHINESE EXPORTS TO SOUTH-EAST ASIA Page 7

India and Japan are becoming increasingly concerned over Communist China's rapidly expanding exports to Southeast Asia. While Japan's total exports to the area have continued to increase in recent years, China has displaced Japan as the supplier of certain goods in several countries. India's exports to Southeast Asia, formerly considerably larger than China's, have been surpassed by Chinese exports in the last two years. [redacted]

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RECALL OF PEIPING'S ENVOYS SUGGESTS NEW FOREIGN POLICY LINE . . Page 8

A number of Communist China's senior diplomats, including those in the USSR, Yugoslavia, India, Indonesia, and Pakistan, have returned to Peiping since April, apparently to participate in the party congress from 5-23 May. None is known to have left, and they may be coordinating new foreign policy approaches. Failure since 1955 to win wider international recognition with a conciliatory policy may have prompted Peiping to adopt a harsher line. [redacted]

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PART II (continued)

PEIPING EXPLOITING NEW SZECHWAN OIL FIELD Page 9

Communist China is moving urgently to exploit the petroleum deposits recently discovered in central Szechwan Province, and it is apparent that Peiping feels development of this field could go a long way toward solving its petroleum supply problem. Prospecting and drilling have been greatly accelerated, refineries are being constructed, and transportation facilities are being improved.

[Redacted]

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[Redacted]

FRENCH GOVERNMENT PROBLEMS Page 11

Premier de Gaulle's appointment of Jacques Soustelle to the cabinet is designed partly to appease extremists in Algeria but also to utilize Soustelle's past experience as minister of information in preparing public opinion for the constitutional changes which his government is now engaged in drafting and on which its hopes of stability depend. After the October referendum on constitutional reforms, De Gaulle may make public his ideas on the Algerian question.

[Redacted]

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~~THE WEEK IN BRIEF~~

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PART II (continued)

THE POLITICAL OUTLOOK IN FINLAND Page 14

Finland faces a period of political uncertainty as a result of the 6-7 July parliamentary elections. The Communist-front Finnish People's Democratic League, which increased its seats from 43 to 50 in the 200-member Diet, is certain to demand participation in the new cabinet, but the democratic parties will almost certainly balk at this. The most likely eventual outcome appears to be a renewal of Social Democratic - Agrarian cooperation, which has been the basis for most of Finland's post-war governments. For the past year, however, the two parties have been in basic disagreement over economic policies. [redacted]

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THE SITUATION IN CUBA Page 15

The Cuban Army's renewed all-out offensive against the rebels in Oriente Province may elicit new charges of US aid to Batista and further rebel retaliations against American personnel and property. Rebel forces of Fidel and Raul Castro are evidently effectively separated but will be hard to defeat in the mountainous terrain. [redacted]

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ARGENTINE MILITARY DISCONTENT Page 16

Discontent in Argentine military circles over President Frondizi's appointments and policies concerning Peronism and over his failure to make key decisions on economic problems has grown in the last week. Military dissension precipitated cancellation of the annual armed forces' banquet on 7 July, and anti-Peronista feeling has been heightened by the dismissal of several judges. The scale of unrest is not sufficient at the moment to upset the administration, but these expanding controversies probably increase the opportunities for a coup by disaffected military elements. [redacted]

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PART III

PATTERNS AND PERSPECTIVES

MAO TSE-TUNG AND HIS LIEUTENANTS Page 1

Reports that Mao Tse-tung is being "displaced" by Liu Shao-chi as the dominant figure in Communist China seem misleading. Mao does appear to be more vulnerable than he was two years ago, owing to declin-

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PART III (continued)

ing energy, the failure of some of his personal poli-
cies, and the increasing strength of Liu and his close
associates. However, Mao has apparently taken the
initiative in the past year to correct or conceal his
earlier mistakes, and Liu and Teng Hsiao-ping have
played the major roles in helping him do so. The
Liu-Teng group is so emphatically associated with
Mao's present policies, particularly with the hazard-
ous campaign for a "giant leap forward," that it will
not be in a good position to force Mao to retire if
the program fails. [redacted]

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BLOC ECONOMIC ACTIVITY IN AFRICA Page 5

The bloc economic penetration effort in Afri-
ca is primarily focused on Egypt and the independent
nations of North and East Africa, particularly Libya,
Tunisia, Algeria, Ethiopia, and the Sudan. Substan-
tial economic and military aid is being extended to
Egypt, but elsewhere this activity is restricted to
attempts at increasing trade relations. There has
been a gradual rise in bloc trade with Africa since
1955; in 1957 the bloc accounted for about 5 percent
of the continent's total world trade. [redacted]

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THE FIRST SIX MONTHS OF EURATOM AND THE COMMON MARKET . . Page 8

Six months after the EURATOM and Common Market
treaties came into effect, substantial organization-
al progress has been made, and the community's in-
stitutions are increasingly influential in the intern-
al and external policies of the member states. How-
ever, the political and economic problems De Gaulle
faces in France have cast a shadow on these otherwise
encouraging developments. [redacted]

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PANAMA AND THE CANAL ZONE Page 12

Recurrent agitation among Panamanians for recog-
nition of their country's sovereignty in the Canal
Zone and for a larger share in canal income and opera-
tion has intensified since the seizure of the Suez
Canal by Egypt in 1956. Severe domestic economic and
political difficulties have aggravated this issue.
Pro-US President de la Guardia's position is not se-
cure and he may be forced from office before his term
ends in 1960. The Soviet press and radio have recent-
ly given considerable attention to Panamanian com-
plaints against the United States. [redacted]

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PART I

OF IMMEDIATE INTEREST

LEBANESE SITUATION

Lebanese rebel military operations, while not as vigorous as in the earlier weeks of the disorders, maintained pressure on government forces in the Tripoli and Beirut areas during the past week. Army commander Shihab, who had an opportunity to pursue rebel Druze forces into the mountains southeast of the capital, refrained from doing so and demonstrated again his determination to remain on the defensive until some political compromise has been reached. A new rebel effort around Balabakk in the Biqa Valley may materialize; meetings to plan such a move are reported to have been held last week.

The Syrian region of the UAR, meanwhile, apparently remains open to Lebanese rebels as a safe haven where wounded may be brought and arms acquired, although there have been no firm reports of new mass infiltrations from Syria.

Talk of a political compromise has increased consid-

erably, but there has been little in the way of serious proposals and no signs that leaders of either side are getting together. In a manifesto issued after a meeting on 6 July, a group of rebel leaders announced they oppose a meeting of Parliament on 24 July to elect a new president, ostensibly on the ground that the present Parliament is controlled by Chamoun.

This group insists that Chamoun resign before an election; they offer as candidates to succeed him two individuals, neither of whom would be acceptable to the pro-Chamoun camp. One of them, former President Bishara al-Khuri, was himself overthrown in 1952. Chamoun, although he has at last let it be understood publicly that he does not intend to run again, shows no signs that he is willing to meet the opposition anywhere near halfway and may yet hope to succeed himself. [redacted]

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SOVIET MOVES IN GENEVA TALKS

The USSR is continuing its efforts to force the West to agree in principle to a cessation of nuclear tests or, failing this, to prepare the ground for future allegations that Western refusal to cease tests is responsible for any failure of the Geneva talks. The Soviet aide-memoire of 9 July again calls on the West for an "un-

equivocal statement" that the conference of experts "must be subordinated to the solution of the main task--an immediate and universal termination of nuclear tests."

Moscow, reluctant to risk an early break-off of the talks, has discontinued attempts to gain prior commitment from the

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Western experts that the talks must "pave the way" for an agreement on test cessation, but has not abandoned its basic political objective of forcing the West to stop tests.

Y. K. Fedorov, chairman of the bloc delegation, after "regretting" the "inability" of his Western colleagues to give a satisfactory definition of the purpose of the talks, stated that although "positions as to the basic aim of the conference do differ," there exists "general ground sufficient for our work."

The USSR is attempting to give the impression that the talks are progressing satisfactorily by keeping them on a purely technical level while at the same time pressing the US through diplomatic channels to agree to test suspension. Foreign Minister Gromyko, when handing the latest Soviet note to Ambassador Thompson, stated that the experts were continuing their "fruitful work." The note contains no implied threat to break up the meeting, and Moscow apparently feels a facade of serious negotiation at Geneva, coupled with more indirect pressures at the official level, is the most effective tactic for the present.

The aide-memoire claims that it is already quite clear that an effective control system is "entirely possible," which suggests that the bloc experts will seek to create the impression that the talks are developing a wide area of agreement on control measures, and that only the West's unwillingness to halt tests stands in the way of a final agreement.

At Geneva, the Soviet delegation presented an agenda calling for discussions concerning a control system and final reports by the delegates to their respective governments covering "conclusions and suggestions concerning the control system to observe an agreement on nuclear test cessation." The fact that this agenda was adopted will probably be used by Moscow to claim Western acceptance of the Soviet thesis linking the conference results to a future agreement on test suspension.

In the discussions, the Soviet experts have concentrated on the exposition of known theoretical material with little reference to actual recorded data on nuclear tests. After each discussion they have presented a draft "conclusion concerning the suitability" of the various methods of possible detection. This attempt to reach a final decision after superficial exploration, together with Fedorov's statement that he wanted the conference to end as soon as possible, suggests that the USSR will push toward an early conclusion urging the governments to effect an agreement banning nuclear tests.

The Soviet delegates are also attempting to use the presence of experts from other bloc nations to reinforce the USSR's position on parity of representation between East and West. They regard their side as being composed of four separate national delegations and rotate their chairmanship in turn among the bloc nationalities.

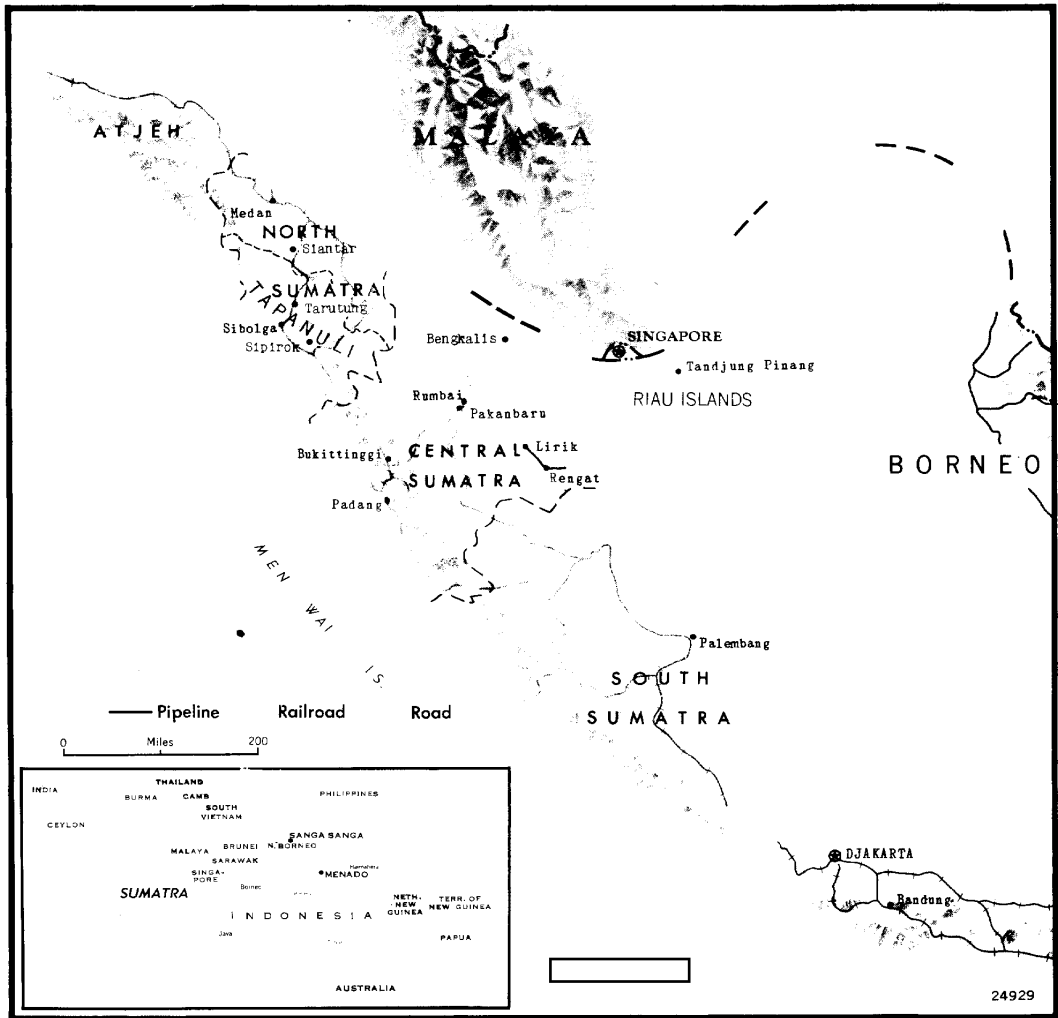
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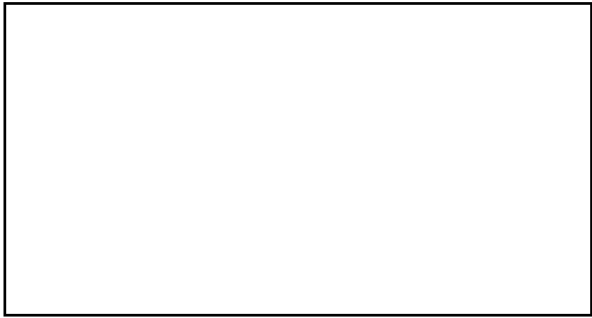
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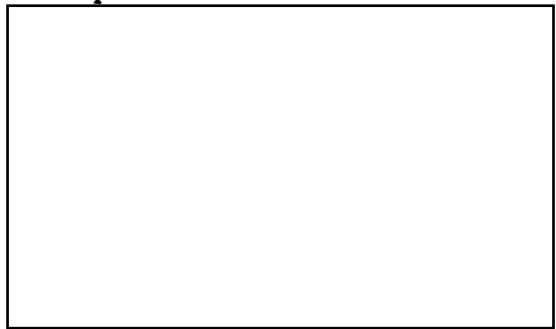
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INDONESIA



identified foreign aircraft on 15, 18, and 28 June on government positions in North Celebes.

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General Nasution has publicly announced attacks by un-

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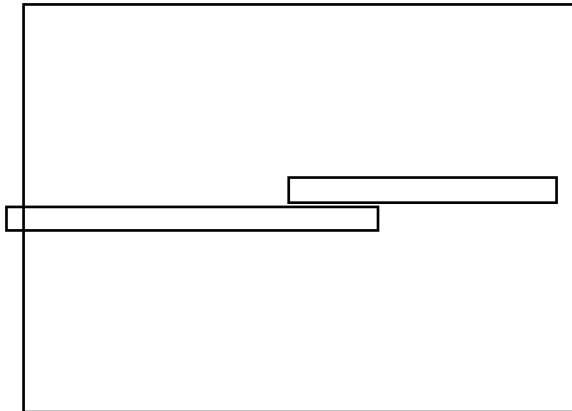
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Elections are scheduled for 29 September 1959. The information minister announced in late May that the government had no intention of postponing them if the domestic situation "remains unchanged."

The Communists are already planning their campaign and intend to concentrate on non-Javanese areas. Non-Communist parties do not appear to be making any specific election plans and are engaged in little activity to strengthen their position.

In the 1955 general elections, the Communists won 16 percent of the popular vote and 24 percent of the vote in Java, where 60 percent of Indonesia's population is concentrated. In the 1957 local elections in Java, they jumped from the third largest to the largest party, winning 30 percent of the popular vote. [redacted]

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Although President Sukarno is unlikely to support them, army leaders in Djakarta are formulating plans to delay the 1959 general elections as a means of obstructing the growth of Communist influence. The Communists have sent telegrams to the prime minister and other officials urging that no one be allowed "deliberately to sabotage" election preparations.

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PART II

NOTES AND COMMENTS

STATUS OF PRESIDIUUM MEMBER SUSLOV

Although Mikhail Suslov, a member of the Soviet party presidium, has not been formally demoted, his present standing is highly equivocal and may not long remain publicly unchanged. Suslov apparently left Moscow around 17 May and was not present at the top-level meeting of bloc leaders in Moscow toward the end of the month. On 10 June Aleksei Kirichenko, Otto Kuusinen, and Boris Ponomarev conferred with a visiting Austrian Communist party delegation. This is the first time Kirichenko has participated in talks of this nature. In the past year, the Soviet side has been represented, almost without exception, by Suslov and/or Pyotr Pospelov, Ponomarev, and sometimes Kuusinen.

On 12 June Premier Khrushchev, in answer to reporters' questions, stated that Suslov was vacationing on the Black Sea and would be back in Moscow in a few days. Khrushchev added that Suslov had accumulated considerable annual leave and therefore would be in Moscow only a short time before taking off again.

On 17 June the central committee convened--for the second time in six weeks--ostensibly to decide on agricultural price reforms. There were no collective public appearances of top Soviet leaders at that time which would have indicated who attended the plenum, but, on the basis of Khrushchev's earlier remarks about Suslov's activities, it was assumed he was there. However, [redacted]

Suslov

had not returned to Moscow to attend the plenum.

Suslov was back in Moscow in time to attend a central committee dinner in honor of visiting Czech leader Antonin Novotny on 2 July. He attended a lunch given by Novotny on the following day, but did not participate



MIKHAIL SUSLOV

in the official talks. The Soviet side was represented by Klementi Voroshilov, Anastas Mikoyan, Khrushchev, Pospelov, Iosif Kuzmin, and Andrei Gromyko. On 8 July Suslov was on hand, along with Mikoyan and Nikolai Shvernik, at the airport to see Khrushchev off to East Germany. These factors suggest that Suslov is gradually being divested of some of his responsibilities for bloc and foreign Communist party affairs.

Another bit of speculation concerning Suslov is the view

[redacted] that the 28 May central committee decree on music was issued on short notice, possibly to take advantage of Suslov's absence. Suslov might

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have protested against the decree's criticism of the earlier 1948 music decree with which he was associated.

Finally the US Embassy in Moscow reports that continued opposition to the February central committee plenum decision to abolish the machine tractor stations is suggested by the continued appearance of articles arguing against "misguided" views of "some economists" and

occasionally "some comrades" as well. The embassy points out that refutation of these "misguided" views is expressed in gentle and nonpolemical terms, perhaps because of a lack of confidence by supporters of the reorganization in the strength of their theoretical position. Suslov has been associated with this opposition because of his long delay in joining all other top Soviet leaders in praising the scheme.

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USSR ESTABLISHES PRICES FOR AGRICULTURAL PROCUREMENT

A USSR Council of Ministers' resolution, published in the Soviet press on 1 July 1958, lists charges which are to be used in establishing regional prices at which the state will purchase agricultural products from collective farms. The prices actually paid are to vary from year to year, depending on the size of the harvest. A preliminary perusal of the

with prices established in September 1953, and apparently still in effect at least through 1956, the new livestock charges are generally higher than the old above-quota purchase prices. These new prices are evidently intended to provide an incentive for Khrushchev's program for "catching up" with the United States in the per capita production of meat.

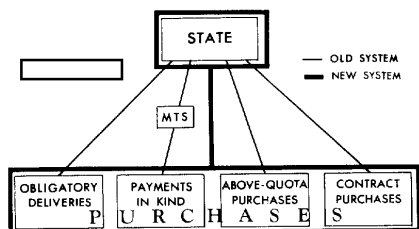
In commenting on the general level of the new prices, N. S. Khrushchev in his speech before the June 1958 meeting of the Soviet party central committee stated that state expenditures for collective farm produce were to remain unchanged from 1957 expenditures, or the expenditures planned for 1958 under the old system. He went on to tie in the amounts to be paid to the collective farms under the new procurement system with funds previously paid to collective farms and allocated by the state to the machine tractor stations (MTS's).

published charges indicates that many fall between the old obligatory delivery prices which were very low and the higher ones for above-quota produce.

The most notable exceptions to this rule are those for livestock. As compared

The resolution stipulates that lists of standard wholesale prices for agricultural machinery and spare parts are to be established. New machinery is to be sold at cost

USSR: PROCUREMENT OF COLLECTIVE - FARM PRODUCTS



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plus 3 percent. Buyers are expected to pay for the transportation and sales expenses of the supply organizations. Norms of these sales expenses are to be drawn up and approved by Gosplan within four weeks. Tractor fuel is to be sold to the farms at wholesale prices. All agricultural enterprises are apparently to pay the same price for supplies and equipment.

The USSR Council of Ministers has the responsibility for determining the procurement plans for most agricultural products and distributing the planned quotas to the republics, according to the resolution. The Councils of Ministers of the union republics have responsibility for formulating procurement plans for some minor agricultural products.

The resolution recommends that the collective farms organize the collection and transportation of surplus produce which the individual collective farmers have for sale in order to avoid the excessive waste of time incurred by individuals each selling their own produce. The prices paid for such produce by the state or cooperative organizations are to be the same as the new state purchase prices, and the procurement organizations are obligated to pay the collective farms for the transportation costs.

The resolution directs that proposals be submitted for increasing the 1958 plan for the procurement of "cereals, sugar beets, and other agricultural produce," in view of the present favorable prospects for this year's harvest. [redacted]

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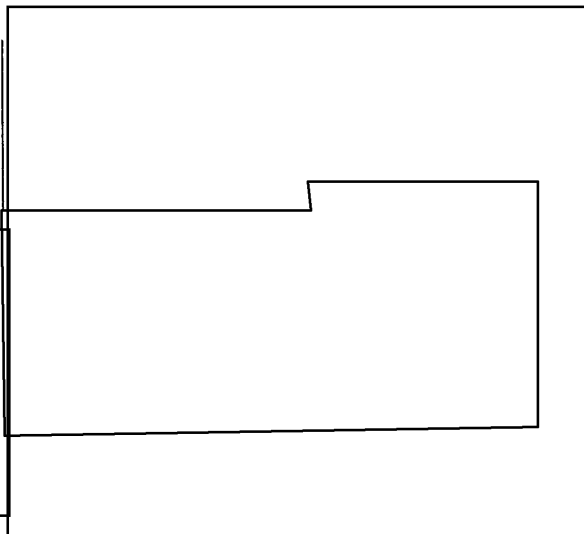
[redacted] (Prepared by ORR)

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EGYPTIAN SUBVERSIVE ACTIVITY IN LIBYA

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The widespread Egyptian campaign of propaganda and subversion in Libya is apparently well organized, and plans may already be in preparation for overthrowing the pro-Western government of King Idriss.



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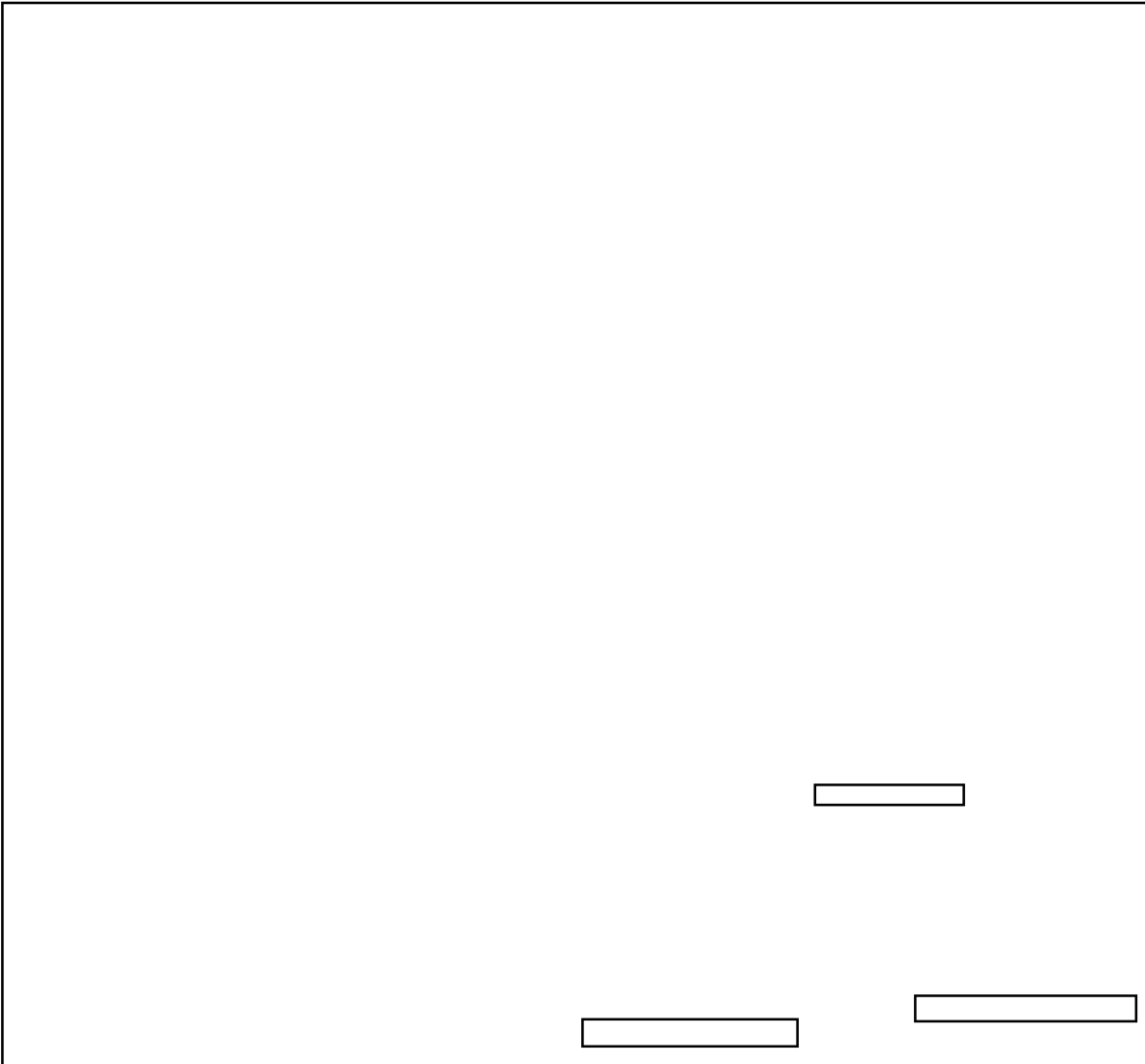
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RELIGIOUS ISSUE DISRUPTS ISRAELI GOVERNMENT

Israeli Prime Minister Ben-Gurion's government is engaged in a dispute with the Orthodox Jewish community involving the over-all relationship between religion and the state. The controversy, which began over whether the state or the synagogue shall determine who is Jewish, has become a conflict between progressive secular-minded elements and conservative religious groups. Ben-

Gurion is said to believe he has reached the limit of concessions he can make to the Orthodox Jewish community without altering the state's basic secular character. He declared publicly on 2 July that Israel is not a theocracy and will not be ruled by rabbis.

The dispute concerns the identification of individuals as Jews on Israeli personal

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identity cards--a question of importance because of the jurisdiction exercised by religious courts in Israel over matters affecting personal status. According to Jewish religious law, to be a Jew a child must be born of a Jewish mother. Last week the National Religious party (NRP) offered a compromise solution, suggesting that children of non-Jewish mothers be required to undergo a conversion ceremony after which they would be listed as Jews on identity cards. In reply, however, the cabinet reaffirmed its decision of 22 June that a person who declares he is a Jew, or whose parents declare he is, even though one parent may not be Jewish, will be so listed if he does not profess another faith. The NRP rejected this decision and has withdrawn from the governing coalition; its two cabinet ministers have resigned.

The NRP may stand firm on the question in hopes of exploiting the controversy

before elections to the Israeli Knesset scheduled for 1959. The NRP probably feels it can more readily attract support from Israel's large proportion of strongly Orthodox Jewish immigrants from North Africa and the Middle East by emphasizing the party's independence.

Ben-Gurion maintains that the government of Israel "does not consider itself authorized to decide who is a religious Jew. The question it has to consider is: Who is a Jew by nationality?" The prime minister's adamant position may be a tactical maneuver since he probably could not win a prolonged dispute against religious sentiment. His recent remarks, however, suggest that he, too, may have decided to make a determined stand on the issue. As a result of the NRP's withdrawal, the parliamentary majority controlled by the government has been reduced to 64 out of 120 seats, giving the balance of power to the radical left-wing Mapam party, which holds nine seats.

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KASHMIR

Efforts by unarmed Kashmiri refugees since 28 June to march from the Pakistani to the Indian side of the cease-fire line in Kashmir have provided the first occasion since the cease-fire went into effect on 1 January 1949 to observe the reaction of the Indian and Pakistani governments to politically inspired breach of the peace in this area. Their reaction suggests that in the event of future armed or unarmed incursions by relatively small groups, both India and Pakistan would try to localize the incident. Popular reaction to the present marches also indicates that the Pakistani public now

has less interest in Kashmir than in the past.

The refugees under Choudhri Ghulam Abbas, leader of the "Kashmir Liberation Movement," have made several attempts to cross the cease-fire line in small groups of 50 or less. Although most of them have been arrested and subsequently released in rear areas, some 100 persons are reported to have reached Indian-held territory and to have been arrested by civil authorities there. No marcher has been fired on.

As in the past when tribal incursions were threatened,

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Pakistani civil and police officials took strong action to prevent any marcher from reaching the cease-fire line. Karachi also notified New Delhi of its intentions. The Pakistani Army has not intervened, but is prepared to do so if necessary. Spontaneous public reaction in Pakistan to the arrests--even those made in Indian territory--has been minimal, although small, peaceful demonstrations in support of the marchers' movement took place in various parts of West Pakistan. In previous years, Pakistani propaganda has said that the populace of West Pakistan would rise en masse against any Karachi government--no matter how strong--that tried to prevent any effort to regain Kashmir.

Opposition politicians are now apparently trying to exploit the situation to embarrass the Karachi government. There is some danger that they will eventually create an incident involving police firing. Prime Minister Noon's cabinet, however, has authorized President Mirza to take over direct administration of West Pakistan if events get out of hand. This should discourage the opposition politicians, who have little desire to be deprived of their legislative position. They may also recognize that Mirza could use their agitation as an excuse for assuming dictatorial powers throughout Pakistan for an indefinite period.

Indian reaction, both military and civilian, has been calm, and the Indian press has made no effort to inflame the situation. New Delhi will have noted the firm action of the Pakistani Government and the lack of spontaneous popular enthusiasm for Abbas' movement, however, and may be even less inclined than before to offer any concessions on Kashmir. Future Pakistani propaganda and statements to the UN regarding the intensity of popular feeling in Pakistan may also carry less weight.

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CAMBODIAN CROWN PRINCE THREATENS CLOSER TIES WITH COMMUNIST BLOC

Phnom Penh's domestic political troubles and its feuds with neighboring South Vietnam and Thailand are creating a situation favorable to increas-

ed Communist influence in Cambodia. Crown Prince Sihanouk, confronted by a rebellious National Assembly which last month overthrew the Sim Var government

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against his wishes, has resumed the premiership on a temporary basis. Sihanouk's demagogic inclinations and his resentment at what he considers Western bias against Cambodia raise the danger that he may lead Cambodia into closer ties with Peiping.

There are serious obstacles to an early improvement in the strained relations between Cambodia and South Vietnam--essential for restoring a sense of balance to Cambodia's international outlook. Sihanouk has canceled plans to visit Saigon for negotiations, citing "insulting" Vietnamese press articles. In Saigon, President Diem seems convinced that no effective settlement can be reached with the "untrustworthy" Sihanouk.

Sihanouk, capitalizing on Phnom Penh's charges of 25 June of a Vietnamese "invasion" and subsequent appeals for foreign support, is picturing Cambodia as a friendless country in danger of being "nibbled to death" by its Western-supported neighbors. In recent public statements he

has cited the necessity for Cambodia to end its "isolation" by establishing "indispensable outside contacts," although retaining a neutral policy. His references to a forthcoming visit to Communist China and to the possible need for Cambodia to find a "new ally" have contributed to the rise of widespread rumors in Phnom Penh that Cambodia will shortly enter into diplomatic relations with Peiping. [REDACTED]

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the Cambodian Government has already decided to grant at least quasi-diplomatic recognition to Peiping. At present Communist China has only an economic mission in Phnom Penh.

Expressions of support for Cambodia have been quickly forthcoming from the Sino-Soviet bloc, which is denouncing South Vietnam as an "aggressive base of the imperialists." The head of the Chinese Communist economic mission stationed in Phnom Penh is also reported to have assured King Suramarit of Peiping's full support in Cambodia's dispute with Vietnam. [REDACTED]

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INDIA, JAPAN WORRIED BY RISING CHINESE EXPORTS TO SOUTHEAST ASIA

India and Japan are becoming increasingly concerned over Communist China's rapidly expanding exports to Southeast Asia. While Japan's total exports to the area have continued to increase in recent years--partly because of reparations payments--China has displaced Japan as the supplier of certain goods in several countries. India's exports to Southeast Asia, formerly considerably larger than those of Communist China, have been surpassed by Chinese exports in the last two years.

In value, Japan's exports are divided approximately equally among most of the countries in the Southeast Asian area and are composed of a variety of industrial and consumer goods. These facts make Japan less vulnerable to China's trade offensive than India, whose less diversified exports go chiefly to Burmese and Malayan-Singapore markets.

Japan and India are particularly concerned over Chinese textile sales in view of the depressed state of their own textile industries. According to

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Japanese estimates, Chinese textile sales in four countries in the area increased from approximately 15,000,000 yards in 1954 to about 300,-000,000 yards in 1957, with Indonesia the leading buyer. Indian sales to Malaya and Singapore dropped from 52,000,000 yards in 1956 to 32,000,000 in 1957.

Both India and Japan are particularly worried about China's ability to offer goods below cost in order to establish its products in new markets. While such tactics probably have not taken place on a large scale, their unsettling effect on trade may cause Indian and Japanese businessmen to place more emphasis on expanding domestic sales than on exports. In addition, Peiping's willingness to balance its exports with imports makes its offers attractive to countries having difficulty disposing of their normal export commodities.

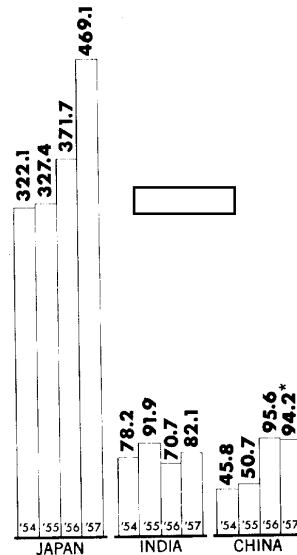
China's new aid programs in Southeast Asia, which usu-

EXPORTS FROM JAPAN, INDIA AND CHINA TO SOUTHEAST ASIA

(MILLION DOLLARS)

| | | JAPAN | INDIA | CHINA |
|--------------------------|------|-------|-------|-------|
| BURMA | 1954 | 45.6 | 34.9 | 1.0 |
| | 1955 | 38.3 | 28.5 | 2.3 |
| | 1956 | 36.3 | 21.3 | 22.2 |
| | 1957 | 75.9 | 27.9 | 12.5 |
| CAMBODIA, LAOS & VIETNAM | 1954 | 12.9 | 2.6 | 8.9 |
| | 1955 | 36.8 | 2.7 | — |
| | 1956 | 65.3 | 1.3 | 0.1 |
| | 1957 | 73.5 | 4.0 | *2.4 |
| INDONESIA | 1954 | 119.7 | 11.3 | 3.5 |
| | 1955 | 64.7 | 23.7 | 10.1 |
| | 1956 | 75.8 | 16.4 | 30.2 |
| | 1957 | 66.8 | 12.0 | 27.0 |
| MALAYA AND SINGAPORE | 1954 | 47.6 | 22.3 | 28.5 |
| | 1955 | 72.8 | 25.9 | 37.8 |
| | 1956 | 77.9 | 24.6 | 43.1 |
| | 1957 | 82.3 | 27.8 | 52.2 |
| PHILIPPINES | 1954 | 31.2 | 1.9 | 1.0 |
| | 1955 | 51.8 | 4.0 | 0.4 |
| | 1956 | 55.5 | 2.1 | — |
| | 1957 | 89.1 | 2.8 | * |
| THAILAND | 1954 | 65.1 | 5.2 | 2.9 |
| | 1955 | 63.0 | 7.1 | 0.1 |
| | 1956 | 60.9 | 5.0 | — |
| | 1957 | 81.5 | 7.6 | 0.1 |

TOTAL EXPORTS



* FIGURES INCOMPLETE OR NOT AVAILABLE

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ally include the delivery of Chinese goods to be sold locally to generate counterpart funds for economic development, are establishing additional markets for China's light industrial goods and textiles in Indonesia, Cambodia, and Ceylon.

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RECALL OF PEIPING'S ENVOYS SUGGESTS NEW FOREIGN POLICY LINE

The return of some senior Chinese Communist diplomats to Peiping suggests that new Chinese Communist foreign policy approaches have been devised. Nine of Peiping's most important envoys--ambassadors to the USSR, Rumania, Yugoslavia, Outer Mongolia, North Korea, North Vietnam, India, Indonesia, and Pakistan--arrived in the Chinese capital in April and

May. In late June and early July, the Chinese Communist ambassador to Norway and the chargé at the legation in The Hague left for home, and there is reason to suspect that the chargé in London is also in China.

Some of the nine top diplomats probably returned to

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participate in the Chinese Communist party congress between 5 and 23 May, but their prolonged stay in Peiping indicates this was not the sole purpose for their return. None is known to have left, and the gathering suggests strongly that discussions and coordination of new foreign policy lines were planned. All signs point to a harsher line in the future.

Peiping's unequivocal stand with the USSR against "revisionism," as exemplified by Tito, reflects the hardening Sino-Soviet line in bloc affairs, and the Chinese Communists are turning a sterner face to the free world also. Peiping's embargo on commercial and cultural exchanges with Japan has continued unabated since May, and the regime has recently

issued a peremptory statement demanding that the US agree by 14 July to the resumption of Sino-American talks at the ambassadorial level.

Peiping's conciliatory foreign policy practiced since the Bandung conference in 1955 has done little to win wider international recognition. Moreover, the Chinese Communists have shown increasing concern that their moderate policies are taken as indications of weakness. They can probably be expected to assume a more unyielding pose in the conduct of their foreign relations. A policy of greater firmness would fit well with Peiping's intense efforts to whip up popular fervor for the quick attainment of economic goals.

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PEIPING EXPLOITING NEW SZECHWAN OIL FIELD

The Chinese Communists are moving with energy and speed to exploit the newly discovered oil deposits in central Szechwan Province, and it is apparent that they believe the new field could go a long way toward solving China's petroleum supply problem. The petroleum industry registered the only significant industrial shortfall during the First Five-Year Plan (1953-57). Development of a major source of supply in Szechwan--which is better situated with respect to transportation, important consuming areas, and existing refining facilities than other oil fields now under development--would give a large boost to China's chances of reaching the goal of

5,000,000-6,000,000 tons of crude petroleum annually by 1962 set up in the original Second Five-Year Plan.

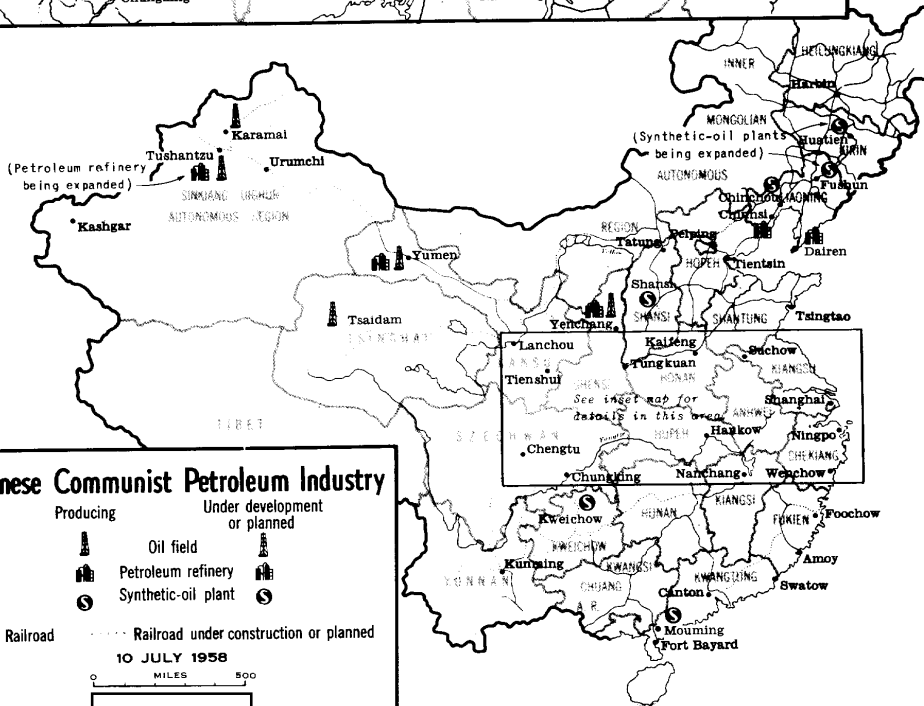
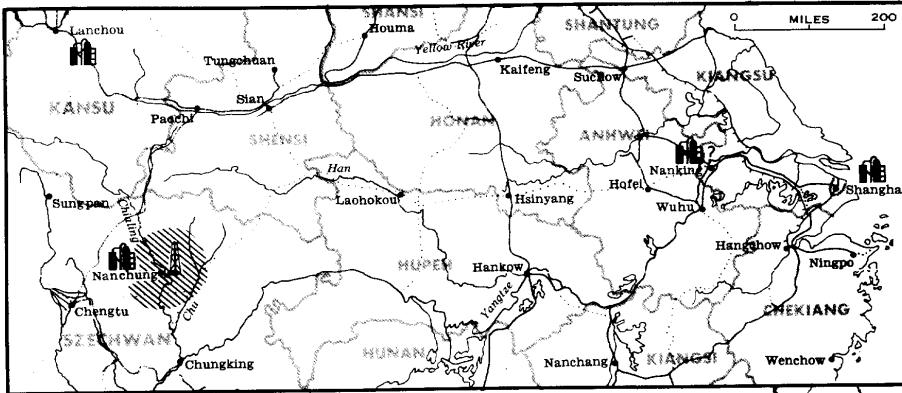
Prospecting in central Szechwan has been greatly accelerated since the discovery in March of three oil deposits in the Nanchung area. Some 120 wells are to be drilled this year--ten times as many as originally planned--and workers have been transferred to Szechwan from other oil fields. Construction is under way on several small refineries in the area. A larger one, capable of handling 200,000-300,000 tons a year, has been started near Nanchung. A recent press report from Hong Hong spoke of a 3,000,000-ton

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Chinese Communist Petroleum Industry

| | |
|-----------|--|
| Producing | Under development or planned |
| | |
| | |
| Railroad | Railroad under construction or planned |

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refinery--three times the size of the largest refinery previously planned by Peiping--to be built at Nanking to process crude from the Szechwan field. No confirmation of this report has come from Chinese Communist sources, and it is unlikely that Peiping would rush construction of a refinery of such size without being sure that the Szechwan field can keep it sup-

plied. In any case, completion by the reported target date of 1960 is highly improbable.

Peiping is pushing a program of improving land, water, and air connections between the Szechwan field and the rest of China. A highway network is being constructed to facilitate movement of equipment and materials to the field. Efforts

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are being made to improve the navigability of rivers connecting the area with the Yangtze.

Rail lines--part of a larger program for rail construction in this part of China--are now planned to connect the central Szechwan field with Chengtu and Chungking. The

Chengtu-Nanchung link is being rushed to completion, and a rail bridge at Nanchung has already been finished. This stretch of line will eventually be extended via Hsinyang on the Peiping-Hankow line all the way to Pukow, opposite Nanking.

[REDACTED] (Prepared by

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FRENCH GOVERNMENT PROBLEMS

Premier de Gaulle's appointment of Jacques Soustelle to the cabinet is designed partly to appease extremists in Algeria but also to utilize Soustelle's past experience as minister of information in preparing public opinion for the constitutional changes which his government is now engaged in drafting and on which its hopes of stability depend. After the October referendum on constitutional reforms, De Gaulle may make public his ideas on the Algerian question.

De Gaulle's 1-3 July visit to Algeria probably reduced somewhat the influence of settler extremists over the army, and the appointment of Jacques Soustelle to the cabinet has mollified much settler discontent. There is, nevertheless, considerable suspicion among both settler and army elements regarding De Gaulle's ultimate aims for Algeria, and he may yet be obliged to replace some military commanders and clamp down on civilian malcontents.

In the meantime, he can be expected to step up military actions against the rebels and broaden his appeal to the Moslem population. He may attempt some spectacular move, such as

adding a Moslem to the French cabinet or releasing the five rebel chiefs seized in October 1956. The adverse effect the release of rebel leaders would have on the settlers and army elements may, however, deter him from the latter move.

Although the Soustelle appointment was partly designed to appease extremists in Algeria, De Gaulle will probably depend on Soustelle's 1945 experience as minister of information to help him prepare the campaign for constitutional reform. If a referendum is to be held on the revisions on 5 October, much preparatory work must be telescoped. The assembly committee draft is to be completed by the end of July. A consultative committee of deputies, senators, and jurists must then consider it on a "crash" basis in order to give the government time for final changes before De Gaulle opens the referendum campaign on 4 September. Socialist party sources say the voters will be given a choice in the referendum on whether they believe the present constitution needs changing.

The Communists are already taking a position against a referendum and trying to develop

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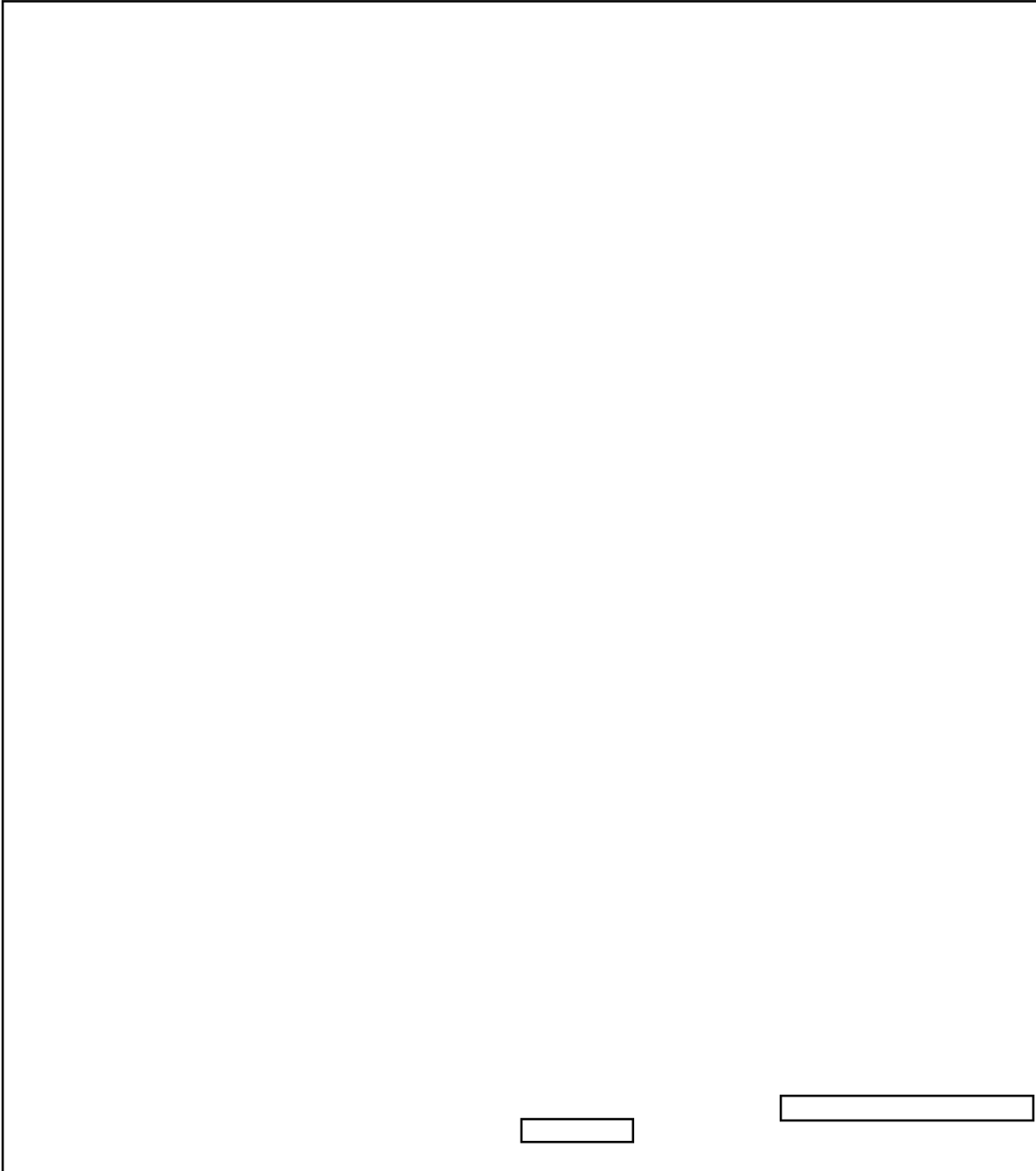
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to De Gaulle's anticipated proposals for strengthening the executive and reducing the role of party maneuvering in Parliament. Most observers believe,

however, that De Gaulle will have no significant opposition to the reforms he advocates.

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THE POLITICAL OUTLOOK IN FINLAND

Finland faces a period of political uncertainty as a result of the sharp Communist gains in the 6-7 July parliamentary elections. While the Communist-front Finnish People's Democratic League (SKDL) will demand to be included in any new government, some kind of center coalition, involving the Agrarians and the Social Democrats, will in the end probably form a government. Its main task will be to formulate an effective program to deal with Finland's pressing economic problems.

Nearly complete returns indicate that the SKDL increased its seats from 43 to 50 out of 200 and became the largest party in Parliament. The Social Democrats and the Agrarians lost seats, while the conservative National Coalition party made gains. The Communists benefited from the small turnout of voters, the apparent dissatisfaction of farmers with the economic policies of the Agrarians, and the two-year-long factional struggle--largely personality clashes--between the Social Democratic party organization and the Socialist trade union leadership. Economic questions such as unemployment, prices and wages, and farm subsidies were the primary issues, which the Communists appear to have successfully exploited. Foreign policy questions had little effect on the election. President Kekkonen's recent visit to the Soviet Union and the various last-minute Soviet offers of economic assistance

apparently had little effect on the voters.

Negotiations for the formation of a new government will be protracted, and the nonpolitical government of Reino Kuuskoski, which took office in April, may remain in office until late in the summer. The SKDL, which has not had cabinet representation since 1948, is certain to

demand participation on the basis of its increased parliamentary representation. These Communist efforts are unlikely, however, to be successful in view of the strong stand taken by all the non-Communist parties against cabinet cooperation with the SKDL.

The most likely outcome is a renewal of the Social Democratic-Agrarian cooperation which has been the basis of most of Finland's postwar governments. Before this can be achieved, however, the two parties must reach agreement on the deep-seated economic issues which have kept them at political swords' points for over a year--particularly the level of subsidies on farm products and the relation of agricultural income to industrial wages.

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THE SITUATION IN CUBA

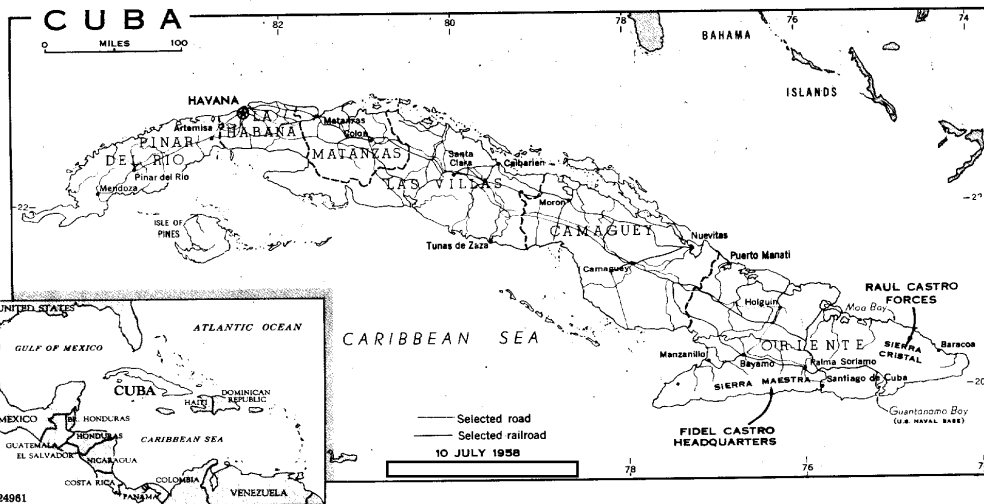
New fighting between Cuban rebels and the army of President Batista in Oriente Province may further involve US personnel and interests in Cuba. The recent rebel kidnaping of 50 Americans and Canadians highlighted the interruption of plantation and mining activities that has been occurring for some time. The US consul who negotiated with the insurgents for the men's release fears a renewed Cuban army offensive will elicit new charges of US aid to Batista and result in rebel retaliations against US citizens. The strong government land and air offensive launched in June was suspended east of Santiago at US request during the release negotiations, but Batista continued to reinforce military units, installing some of them on American-owned properties.



Castro's brother Raul dominates the area east of Santiago and is seeking recognition of his own strength. He flaunted orders from Fidel to release the captives and, insisting that the United States is giving military aid to Batista, has demanded official assurances that such aid will cease. Raul's forces, which may be Communist infiltrated, are isolated from effective contact with the "26th of July" movement headquarters in the Sierra Maestra, and his civilian supporters have been intimidated by army bombings and terroristic attacks. However, it appears improbable that Batista's forces can rout both rebel groups from their scattered mountain bases.

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Batista remains determined to wipe out rebel leader Fidel Castro and complete his presidential term--ending in February 1959. His inability thus far to defeat the rebels, despite a year and a half of fighting and stringent restrictions of constitutional guarantees, has damaged Batista's prestige.



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ARGENTINE MILITARY DISCONTENT

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Increasing discontent in Argentine military circles regarding President Frondizi's policies concern mainly the generous amnesty for Peronistas, official appointments, and slow action on economic problems. Frondizi has appointed Peronistas to important subcabinet positions, and antigovernment sources charge that pro-Communists have also received official posts.

The forced retirement or change in posts of a number of military commanders appointed by the former Aramburu regime has also contributed to discontent. Unconfirmed rumors that "many" former supporters of Peron have received key army posts were reportedly one cause for the cancellation of the annual armed forces "comradeship banquet" scheduled for 7 July.

The immediate reason for the cancellation was the navy's announcement on 4 July of plans to purchase the British aircraft carrier Warrior, which would increase the navy's power relative to the other services. The army and air force secretaries protested to Frondizi and refused to attend the banquet. Later Frondizi also refused to attend after reading the draft of a toast to be given by Admiral Arturo Rial, a principal navy spokesman and a powerful opponent of Peron. Rial was subsequently put under eight days' arrest.

Both Aramburu and Rial believe that Frondizi--in office only since 1 May--should be given a chance to prove himself and that public opinion would oppose a coup. Anti-Peronista sentiment, however, appears gradually hardening. A Supreme Court decision on 4 July denying an appeal for reinstatement by a lower civil court judge--who was one of several recently dismissed--prompted riots and the sympathetic resignations of numerous judges throughout the country. Subsequently, the president of the Supreme Court resigned. These developments could help undermine confidence in the Frondizi regime and provide political issues for dissident military elements to exploit.

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PART III

PATTERNS AND PERSPECTIVES

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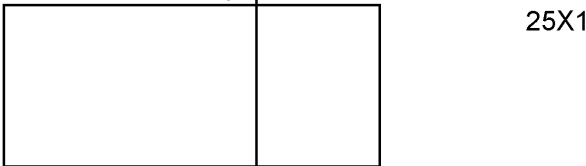
MAO TSE-TUNG AND HIS LIEUTENANTS

Reports that Mao Tse-tung is being "displaced" by Liu Shao-chi as the dominant figure in Communist China seem misleading. Mao does appear to be more vulnerable than he was two years ago, owing to declining energy, the failure of some of his personal policies, and the increasing strength of Liu and his close associates. However, Mao has apparently taken the initiative in the past year to correct or conceal his earlier mistakes, and Liu and Teng Hsiao-ping have played the major roles in helping him do so. The Liu-Teng "organizational" group is so emphatically associated with Mao's present policies, particularly with the hazardous campaign for a "giant leap forward," that it will not be in a good position to force Mao to retire if the program fails.



While the Chinese press emphatically insisted during Mao's four months of travel following his return to China that he looked and felt fine, photographs gave a different impression, and the press itself admitted that Mao was still unable to walk easily.

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Intervention in Planning

In July 1955, Mao personally imposed the decision to socialize agriculture as rapidly as possible. In so doing, he reversed the line of the party central committee and of every party leader who had spoken on this subject, including Liu Shao-chi. Mao's decision was at least temporarily vindicated, however, in that the peasants were herded into cooperatives and then collectives without much bloodshed and without serious damage to agricultural production.

In December 1955, after a good harvest, Mao announced that the outstanding problem was "rightist conservatism" with respect to production and construction. Mao is said to have introduced at that time the slogan--resurrected in the fall of 1957--of achieving "greater, faster, better, and more economical results" simultaneously. In the early months of 1956, Mao incited the party to drive ahead in all spheres of activity as rapidly as possible. By June 1956, it



MAO TSE-TUNG



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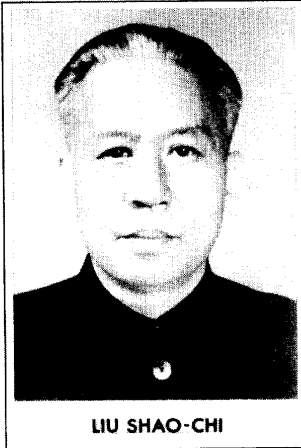
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was apparent that the program was out of balance. In August and September, the party in effect declared that Mao had been wrong. It admitted that its



LIU SHAO-CHI

construction plans would have to be cut back, and it affirmed a determination to steer a course henceforth between "rightist conservatism" and "leftist adventurism."

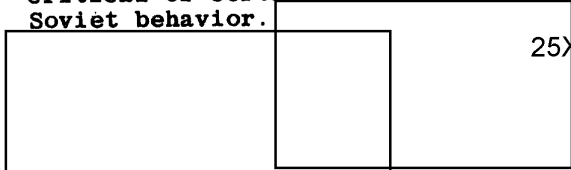
The party congress of September 1956 somewhat reduced Mao's supremacy over his lieutenants. Liu Shao-chi, rather than Mao as at the previous congress, gave the principal report. Mao remained chairman of the politburo, but four vice chairmen were added. Mao, those four, and Secretary General Teng Hsiao-ping became the new standing committee of the politburo. Teng, who since 1952 had become closely associated with Liu in party work, was named the senior member of the party secretariat, and thus became the only person concurrently a member of the three most important party organs.

Mao's "Liberal" Line

[redacted] Mao and Chou En-lai reportedly expressed sympathy. [redacted] [redacted] aspirations to greater

independence from Moscow. Liu Shao-chi, who had led the Chinese party's attack on Tito in 1948, apparently took no part in these talks. Throughout the autumn of 1956 and winter of 1956-57, Peiping was publicly critical of certain features of Soviet behavior.

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Although Peiping had repeatedly made clear its agreement with Moscow on the "basic laws" of Communist states, Chinese reservations about Soviet policies were seized on and greatly exaggerated by Eastern European deviants. This trend was accelerated by Mao in February 1957, in a speech in which he declared himself in favor of a liberal policy for handling China's domestic problems and made some derisive remarks about Soviet inflexibility. Mao did not turn again to Eastern European affairs until his domestic experiment had failed.



TENG HSIAO-PING

Back in January 1956, Mao had taken the first step toward domestic "liberalization" by proposing, through Chou En-lai, better treatment of intellectuals. In May 1956, Mao took another

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step with his "hundred flowers" concept. The program began to catch hold after February 1957, when Mao reaffirmed his line and reportedly declared he had insisted on it despite opposition from most of the party. During May and June 1957, after another urging by Mao, many intellectuals spoke out boldly, assailing the Communist party's monopoly of power and all of its major policies. Mao had clearly miscalculated the extent of his regime's popular support.

Mao's Counteroffensive

By June 1957, Mao's prestige among at least some of his lieutenants had probably declined. To them, he had been proved wrong in inciting a headlong course in construction and production, wrong again in encouraging a soft policy in intrabloc relations, and wrong again in insisting on "liberalization" in China. Of his principal lieutenants, Chou En-lai had been the most closely associated with him in all three policies, but perhaps not altogether willingly. Liu Shao-chi and Teng Hsiao-ping had not been so associated, had apparently opposed the "hundred flowers" policy, and may well have opposed Mao's line on intrabloc relations. After Mao took the lead to repair the damage, Liu and Teng played the major roles in helping him.

Mao moved first against "liberalization." He published in June 1957 a much-revised official version of his February speech which strongly reaffirmed orthodox positions--for the benefit of his Eastern European as well as Chinese audience--and cut off all fundamental criticism. In July, Mao called together the central committee and laid down lines for a nationwide "rectification" campaign. Teng Hsiao-ping was chosen in September to state publicly and in detail the party's plans for indoctrinat-

ing the Chinese populace in dogmas henceforth not to be questioned.

The party leadership turned next to economic planning, which had been comparatively conservative since the summer of 1956. With the assurance of a good harvest and the rebuilding of inventories, the party chose to return to the anticconservative line of late 1955 and early 1956. Although Mao's initiative is not certain, Liu in May 1958 declared that Mao in September 1957 personally issued the call to overtake Britain within 15 years. "Organizational" figures made most of the major statements in the developing anticconservative campaign during the fall of 1957. Teng Hsiao-ping and his deputy Tan Chen-lin attacked in particular conservative thinking in agriculture, and Liu Shao-chi attacked conservatism of every kind.

Mao then turned to intrabloc relations. At the meetings in Moscow of Communist parties in November, Mao, who was accompanied by Teng Hsiao-ping, stated Peiping's hardest line on intrabloc relations since Liu's denunciation of Tito nine years earlier. He publicly asserted that the "urgent" task was to oppose "revisionist deviation," that maintenance of bloc unity was the "sacred obligation" of all Communist states, and that the Soviet party must act as the leader of other parties. Mao took the same line in private talks, particularly with Gomulka. After Mao's return and the failure of Soviet efforts to revise the Yugoslav party program, the Chinese in May commenced their continuing attack on Tito and, indirectly, Gomulka.

Current Relationships

The party congress of May 1958 well illustrated the state of relations between Mao and the most influential group of his lieutenants. Mao, as in

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September 1956, limited his role to a brief speech. The three major reports were given by three "organizational" figures whom Mao regards highly: Liu, Teng, and Tan Chen-lin. The congress named to the politburo three party leaders--Tan and two regional secretaries--who are friends of Mao and also close to Liu and Teng. Teng's secretariat was augmented. These various developments did not strengthen Mao's existing opposition, but they did enhance the capability of the "organizational" group for offering effective opposition if its leaders should so choose.

Liu Shao-chi's long report to the congress illustrates how strongly he and his associates are committed at this time to a policy of supporting Mao, rather than exploiting Mao's mistakes and their own growing prestige and strength in an effort to dislodge him. For example, Liu praised Mao's role in Moscow, without reference to Mao's 1956-57 line which made so much trouble for Moscow. Similarly, Liu hailed the results of the "antirightist" campaign, without mentioning that the "hundred flowers" made it necessary. Again, Liu denied that the economic planning of 1955-56 was significantly in error, blamed the regime's troubles in that period on the conservatives--a demonstrable falsehood--and named Mao as the initiator of the current "leap forward." Liu cited Mao as the source of every main point of the present "general line" which Liu's report set forth.

Prospects

The prestige of Mao and his "organizational" lieutenants

seems more dependent now on the course of the "giant leap forward" than on any other issue. Liu Shao-chi said as much in his May report, in declaring that the tempo of economic progress has all along been the "most important question" facing the party, and in pleading for great achievements in 1958, because "everybody is watching." Among those watching, as Liu and Tan said, are certain Chinese Communist leaders who believe that Mao and those now closest to him have again set themselves objectives which in important respects cannot be achieved, and who are waiting for the autumn harvest to "settle accounts."

Even if there proves to be a disastrous shortfall in the "leap forward," Mao himself will probably be safe. The strong "organizational" leaders, by associating themselves so emphatically with Mao's line on this issue, have undercut any effort on their own part to unseat him for its failure. There may, however, be action by Mao and Liu to dispose of their opponents by alleging that they sabotaged the "leap," or an effort by other groups to induce Mao to make "organizational" leaders the scapegoats for failure, or action by the latter to head off such an attempt. In sum, assuming that Mao is not forced to retire for physical reasons, Liu and Teng are expected during 1958 to try to consolidate their position as those most likely to succeed Mao, and others are expected also to be bidding for Mao's favor.

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BLOC ECONOMIC ACTIVITY IN AFRICA

The bloc economic penetration effort in Africa is primarily focused on Egypt and the independent nations in North and East Africa. Substantial economic and military aid is being extended to Egypt, but elsewhere this activity is restricted to attempts at increasing trade relations. There has been a gradual rise in bloc trade with Africa since 1955; in 1957 the bloc accounted for about 5 percent of the continent's total world trade.

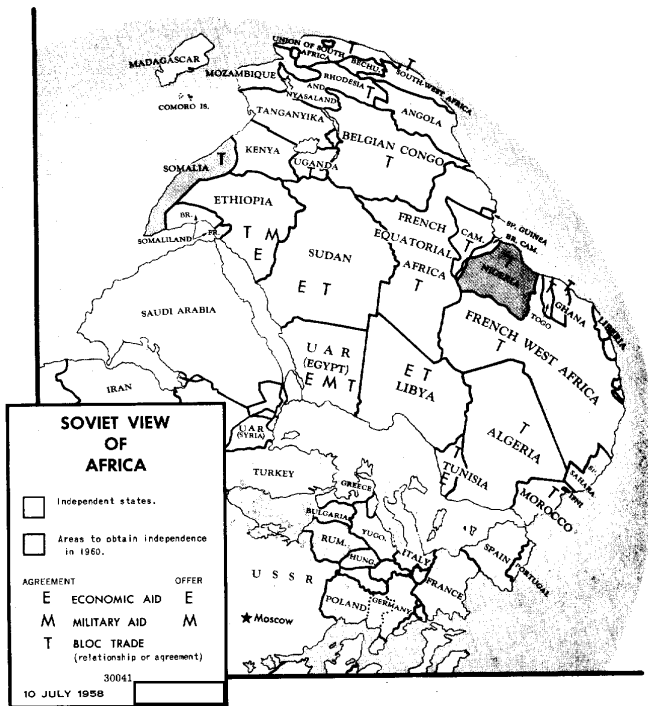
Egypt

Since the beginning of its economic offensive in 1955, the bloc has concentrated heavily on Egypt. Beginning its penetration effort with spectacular "arms deals," the bloc quickly exploited its advantage by greatly expanding trade relations with Cairo. In late 1957 and early 1958, the bloc concluded economic aid agreements which will serve to draw Cairo even closer to Moscow.

The bloc has granted Egypt more than \$250,000,000 in economic aid, including a \$175,000,000 line of credit from the USSR. Although Cairo has not yet drawn on its Czechoslovak or East German credits, worth about \$75,000,000, projects called for under the Soviet economic agreement are being implemented. The Soviet loan program is heavily concentrated in the fields of mining, petroleum, and metallurgy. Egyptian officials estimate that the Soviet credit will ac-

count for at least 20 percent of the Egyptian Five-Year Industrialization Plan. Among other things, the Soviet loan provides for extensive vocational training in Egypt, a program already begun.

The USSR also is continuing to grant Egyptian requests for military equipment to supplement the \$250,000,000 worth of arms contracted for in 1955 and 1956. The amount of the additional requests is not known, but probably is substantial since Moscow agreed in January



1957 to meet all of Egypt's military requirements. Agreements have been negotiated in Moscow for delivery of such items as fuel, aircraft spare parts, ammunition, and military vehicles for the Egyptian Army, Navy, and Air Force. In addition, large numbers of Egyptian military personnel continue to train in bloc countries.

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The bloc plays a dominant role in the Egyptian cotton market, the primary source of income and foreign exchange for Cairo, and about 57 percent of Egyptian sales were with the bloc in 1957. About 25 percent of the proceeds from these exports were used to pay for bloc arms purchased since 1955.

North Africa

In Libya the bloc is apparently making progress through direct economic activities, including promises of trade on favorable terms and the availability of Soviet aid. The USSR offered the Libyan Government a \$28,000,000 low-interest, long-term loan early in 1958. Khrushchev reiterated this offer in a letter to the Libyan prime minister early in April, and serious consideration is being given the offer.

The Libyan Government already appears to have accepted a Soviet offer to build, equip, and staff two hospitals and to train Libyan personnel in their operation. No official announcement has been made, but recent press reports that agreement has been reached and suggests that the delay in acceptance resulted from the government's desire to avoid damaging its position in financial discussions which were being held with Britain and the United States.

The USSR appears to have achieved initial success in its efforts to trade with Libya. According to a government official, Libya has agreed to permit imports from the USSR, thereby opening the way for trade exchanges between the two countries for the first time. Cotton goods are being obtained at good prices, and the government looks with favor on Soviet promises to retail gasoline at

cut-rate prices. The government has also permitted the import of Soviet printing machinery at a low price by a pro-Soviet Libyan publisher. These moves are aimed at increasing Soviet respectability in the eyes of the Libyans and are another phase in the long-term campaign to induce Libya to turn to neutralism.

Soviet bloc economic relations with Tunisia are gradually increasing. Since Tunisia's independence in March 1956, the Tunisian Government has signed trade agreements with the USSR, Czechoslovakia, and Bulgaria, and in 1958 with Poland and Hungary. The Polish and Hungarian agreements are expected to increase bloc trade with Tunisia by more than 100 percent in 1958 to a total of about \$10,000,000.

Bloc economic activity in Algeria has been limited to trade, which in 1957 almost doubled, increasing to about \$12,000,000. The bloc has been rather cautious in its dealings with Algeria, particularly with regard to the sale of arms to dissident forces.

In Morocco there has also been a gradual increase in bloc economic activity in the past few years. Missions from the USSR, Poland, and Czechoslovakia already have been established in Casablanca. Economic activity has been limited to trade, despite reports of a Czechoslovak offer of an ammunition factory. Morocco's trade with the bloc probably will not account for much more than 5 percent of its total trade in 1958.

West Africa

Bloc economic activity in West Africa is less pronounced than that in the African countries bordering the Mediterranean, although several countries for which independence is in

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the offering provide an attractive target for the bloc economic penetration effort. These new and embryonic nations rely on agriculture and mining for income but require capital for economic development and manufactured products in order to improve the standard of living.

Ghana has limited trade relations with several of the European satellites, and East Germany is reported planning to send a delegation to Accra with offers for \$3,000,000 worth of industrial credits to encourage Ghana's industrialization schemes. The new nation's preoccupying concern with financing its proposed

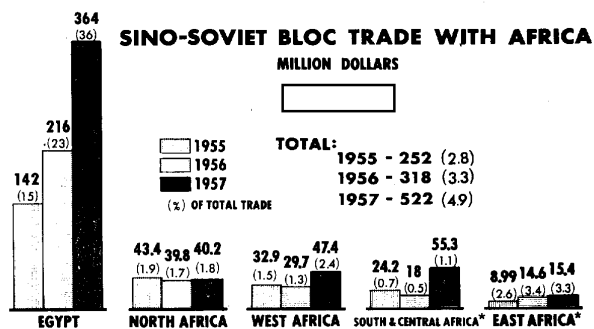
\$850,000,000 Volta River hydroelectric project offers the bloc a particularly good opportunity to gain stature through legitimate offers of credits or hints of offers.

Central and South Africa

The only independent state in Central and South Africa --the Union of South Africa--is closely tied to the West both

economically and culturally. The nonindependent areas, whose economies are essentially based on agriculture and expanding extractive industries, are fairly well insulated against bloc economic penetration efforts because of their political relations with Western European mother countries. Nevertheless, trade relations with the bloc do exist and are continually being developed in accordance with the growing need for markets. Czechoslovakia has been responsible for 50 percent of the bloc's exports--primarily textiles--to the Union of South Africa. In 1957 the USSR was the chief bloc importer of South African products, with purchases --mostly of wool--amounting to \$31,000,000.

Communist China this year also is displaying an interest in developing trade relations in the area. An order for 10,000 tons of corn, with hints of additional purchases up to 100,000 tons, was placed with the Union of South Africa, and a Chinese trade delegation



Liberia, Nigeria, and the French colonies of this area have not yet been recipients of special bloc attention, but their trade with the bloc has gradually increased during the past few years.

The bloc has concentrated its limited economic activity in this area on Ghana, the latest of the former colonial territories to receive independence. During the 1956-57 season, the Soviet Union purchased almost \$6,000,000 worth of cacao beans, Ghana's major export, more than four times its normal annual imports from Ghana. Although Moscow was possibly prompted by a desire to develop its own chocolate industry, these purchases were also calculated to present the USSR to Ghana as a helpful friend. However, there are no indications that the USSR will enter the cacao market on as large a scale this year. Ghana has been considering sending a trade mission to the USSR and Communist China in addition to those scheduled to cover the free world.

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is being sent to Southern Rhodesia to negotiate tobacco purchases.

East Africa

The bloc is following up its successes in Egypt and the Middle East with efforts to expand its economic relations with adjacent East Africa. It is showing the most interest in Ethiopia, the Sudan, and most recently Somalia, which is to attain independent status in 1960. Moscow reportedly has informally indicated it would be willing to entertain applications from Somalia for long-term, low-interest credits. At the present time, however, its efforts are concentrated on the Sudan and Ethiopia.

Czechoslovakia has offered to supply air force equipment to Ethiopia, as well as to sell other arms at bargain prices. More recently, Moscow has offered to supply Ethiopia with 34 jet fighters and to train Ethiopian pilots in the USSR.

The USSR, Czechoslovakia, and Bulgaria have also made offers of economic assistance--including expansion of hospital facilities and construction of a cement factory and a meat-packing plant--but practically no results beyond the granting of concessions have been achieved to date.

Ethiopia's trade with the bloc has increased each year since 1955. In terms of total trade turnover, however, this commerce with the bloc is negligible, accounting for less than

1 percent of Ethiopian foreign trade. Coffee sales to the USSR are a major export to the bloc. In 1956 Ethiopia concluded its only bloc trade agreement, with Czechoslovakia, which supplies the bulk of Ethiopia's imports from the bloc, including cotton goods, metal products, and other consumer goods. Recently an Ethiopian commercial delegation was organized for visits to Belgrade, Prague, and Moscow.

In the summer of 1957, when the Sudan encountered difficulty in selling its cotton crop at prices above the world market, the USSR offered a package trade-aid deal. The offer, while not spelled out, involved Soviet acceptance of Sudanese cotton in payment for manufactured goods and for long-term loans to aid development of the Sudanese economy. The Khalil government rejected the offer; subsequent reductions in the price of cotton by the government sharply increased sales to the West and eased the economic situation.

The Sudan continued to refuse renewals of the Soviet offer until May, when the government stated it was willing to accept a Soviet loan offer if there were no strings attached. Although the Sudan's trade with the bloc rose slightly in 1957, the volume continues to be negligible. Sales to the bloc--mostly of cotton--totaled less than \$5,000,000, or only 3.5 percent of total exports, while purchases totaled \$4,500,000, or 2.5 percent of total Sudanese imports.

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THE FIRST SIX MONTHS OF EURATOM AND THE COMMON MARKET

Six months after EURATOM and the European Economic Community (EEC) treaties came into effect, the future of the two projects--on which the fate of the European unity movement largely depends--is still in doubt. Both have made substan-

tial progress and are an increasingly important factor in the internal and external policies of their member states. However, the political and economic difficulties of France have cast a shadow over these hopeful developments, and the future course

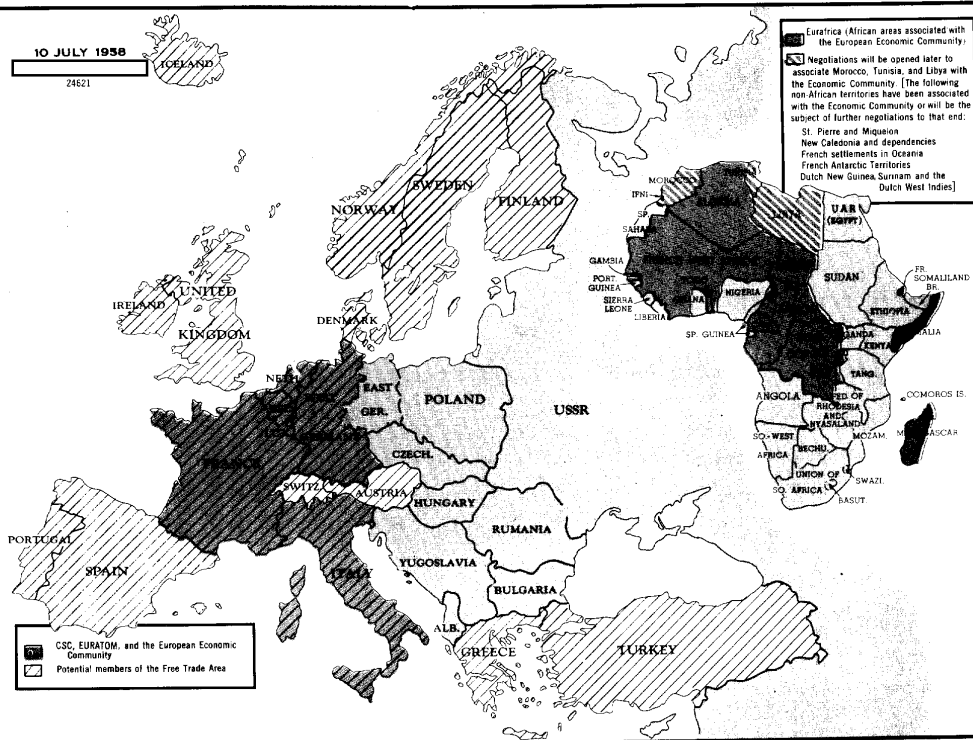
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of Europe still hangs to a large extent on the intentions and capabilities of whatever government is in power in Paris.

Institutional Developments

Organizationally, the development of the new communities has been impressive, and all the important institutions have been functioning for some time. Advisory agencies, such as the Economic and Social Committees and the Monetary Committee, have been named, and the two most important operating agencies--the European Investment Bank and EURATOM's supply agency--are being set up. The European Parliamentary Assembly--which also functions for the Coal-Steel Community (CSC)--has shown exceptional vitality, and observers are encouraged by its organization on party, rather than national, lines. It may also be of considerable importance to the gradual emergence of a "European government" that the three communities are sharing certain service agencies--

for example, in the informational field.

The major obstacle to more rapid organizational development has been the continued lack of decision on the site for the "European capital." This indecision has caused physical inconvenience and encouraged national rivalries. Despite agreement that all major community institutions should be concentrated in one place, the six governments again declined on 1 July to make a choice among the leading contenders--Brussels, Strasbourg, and Milan. A de facto solution to this problem may, however, be in prospect: many EURATOM and Common Market installations are now in Brussels, and American Ambassador Butterworth doubts they will be moved from there in the foreseeable future.

Foreign Relations: EURATOM

Pressing problems of an external nature have encouraged the rapid development of the EURATOM and Common Market

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Commissions which, to a considerable extent, embody the supra-national features of both communities. At a time when it had little or no technical staff and was further handicapped by the illness of President Armand, the EURATOM Commission, for example, launched the negotiations on the US-EURATOM joint program of nuclear power development which now awaits approval by the US Congress.

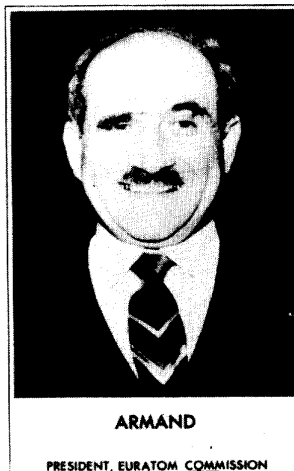
The advantages of this agreement to EURATOM and to the integration movement as a whole are increasingly evident. It has greatly enhanced EURATOM's prestige and, according to President Armand, gained it increased support from hitherto unenthusiastic quarters such as the French atomic energy commissariat. It should provide a major stimulus to the launching of EURATOM's research program, and, in view of the responsibilities which EURATOM has assumed for the enforcement of safeguards, to the rapid development of a security system in keeping with American standards.

Other advantages have also been evident in the increasingly friendly attitude toward EURATOM in London, which along with the



United States has not accredited its CSC mission to EURATOM as well. Moreover, Britain apparently intends to abandon pending bilateral agreements with West Germany and the Netherlands in favor of one with

EURATOM. Although the negotiations are not expected to result in a joint program at this time, the proposed agreement will facilitate commerce in nuclear materials and reactors and constitutes an important recognition of EURATOM's jurisdiction.

**Common Market and GATT**

The rapid evolution of Common Market institutions has likewise been encouraged by problems in the "foreign" field. Both the Common Market Council and the commission, as well as the member states, were represented, for example, at the April meeting of the contracting parties to the General Agreement on Tariffs and Trade. It is anticipated that future negotiations of this type will be handled by the commission, subject to subsequent approval by the council.

The importance of this development is evident in the influential role played by the Common Market representative at the April meeting in gaining acceptance of a compromise arrangement which averted a showdown on the compatibility of the Common Market treaty with GATT, avoided the establishment of GATT supervisory machinery, and made it possible to use existing machinery for consulting on future trade problems. Should the commission carry out its intention to seek separate GATT representation, some of the

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difficulties which have characterized GATT-EEC relations to date might be eased.

EEC and Free Trade Area

The increasing influence of the commission is even more apparent in the difficult negotiations on a mechanism to link the Common Market with the other member countries of the OEEC. Although other agencies and individuals have also been working toward a compromise, the commission has gradually emerged as the spokesman for "the six" and the only real hope for a reconciliation of British and French views.

At the same time, the commission's efforts to maintain the essential integrity of the Common Market are apparent in the resolution on the free trade area adopted by the European Parliamentary Assembly on 27 June. Suggesting the formation of a "European Economic Association," the assembly proposes that the necessary agreements be concluded "between the European Communities and the other 11 countries of the OEEC." To allow time for negotiations, interim tariff and quota adjustments would be made next January by all OEEC countries.

An arrangement such as this, if approved by the Common Market Council later this month, would tend to invest the commission with major responsibility for the future conduct of negotiations on the free trade area and, as representative of the Common Market "entity," give it a leading role in any resulting association. For negotiations, such a key role for the commission would have distinct advantages over the situation of the past few months in which the increasing isolation of the French has threatened the unity of "the six" and precluded any major progress. Substantively, however, it is unclear whether the De Gaulle government is prepared to make any commitments regarding a free trade area, and there may also be reservations from countries other than

the six about a proposal which would further change the character of the free trade area and fortify the Common Market as its center.

Internal Problems

On balance, the EEC's institutions can claim less progress in facing up to essentially internal problems on which the future of the project will greatly depend. The treaty, for example, left purposely vague the future organization of the market for agricultural products, and a conference to elaborate agricultural policy was to have been called with the coming into effect of the treaty. This conference is only now taking place, and it is unlikely to reach major decisions on this delicate issue.

There is reason for concern as well over the absence of any detailed policy toward restrictive business practices. The EEC treaty contains blanket prohibitions against restrictive agreements and the abuse of monopoly positions, but there are important exceptions. Pending the development of implementative policy, moreover, the member states are obliged to enforce both the treaty and their own legislation. So far as is known, the commission has made little if any progress toward devising enforcement machinery, and, in the meantime, reports of business consultations across national borders suggest an intent to prevent the competition which the Common Market was designed to encourage.

France's Economic Problems

These urgent problems, however, have been more than overshadowed by the accentuation of France's economic difficulties since last May and by the developing prospect that France might be unable to afford the 10-percent tariff reduction and 20-percent quota enlargement scheduled for next January. These difficulties were first considered by the Common Market Commission and council at a special

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session on 23 May. At this meeting, the exchange restrictions imposed by the Pflimlin government were approved, the possibility of "mutual assistance" to France was endorsed, and the launching of a study of France's longer range problems was announced.

This study is believed now in abeyance, and there is evident hesitancy both in Paris and in Common Market headquarters to make decisions on measures to cope with a crisis which everyone hopes will not occur. A French default next January would be a serious blow to the entire integration movement, and, in the meantime, there is only small encouragement in the recent improvement in France's foreign exchange position and speculation that, in a crisis, Bonn may be willing to provide some financial assistance.

Reactions to De Gaulle

There will be little disposition in any case to face these decisions until the political future of France is clearer. On balance, the initial pessimism over the accession of De

Gaulle has given way to increased confidence, and officials of the three communities tend to take at face value De Gaulle's assertion that he will abide by existing treaty commitments. The French bureaucracy is expected to be difficult to deal with, as it has in the past, and there is concern over the impact on it of such well-known "anti-Europeans" as Minister of Justice Michel Debre.

A frontal assault on the European treaties is thus not foreseen, but those officials who favor the European concept are fully aware that the governments of France after De Gaulle will largely determine the shape of the European Community. The Coal-Steel Community, however, is well-established, all three European treaties are highly favorable to France, and, in contrast with the situation which prevailed a few years ago, the extent to which their procedures and principles have been accepted in Paris is impressive.

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PANAMA AND THE CANAL ZONE

Recurrent agitation among Panamanians for recognition of their country's sovereignty in the Canal Zone and for a larger share in canal income and operation has intensified since the seizure of the Suez Canal by Egypt in 1956. Severe domestic economic and political difficulties have aggravated this issue. Pro-US President de la Guardia's position is not secure and he may be forced from office before his term ends in 1960. World opinion is often critical of the United States' role on the isthmus and

the Soviet press and radio have recently given considerable attention to Panamanian complaints against the United States.

The 1903 Treaty

The treaty signed with the United States soon after Panama declared itself independent of Colombia in 1903 made the new republic a virtual protectorate of the US. Panama granted "in perpetuity the use, occupation, and control" of a ten-mile-wide zone bisecting the republic and such other lands and waters as

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were deemed necessary by the US for the "construction, maintenance, operation, sanitation, and protection" of an inter-oceanic canal. Within these areas, Panama also granted in perpetuity to the US "all the rights, power, and authority" it would possess "if it were sovereign...to the entire exclusion of the exercise by the Republic of Panama of any such sovereign rights, power, and authority." Subsequent contractual agreements on the zone have not substantially altered the basic grant. Panama was paid \$10,000,000 plus an annuity of \$250,000, and the United States guaranteed the republic's independence and internal stability, reserving the right to intervene to maintain either.

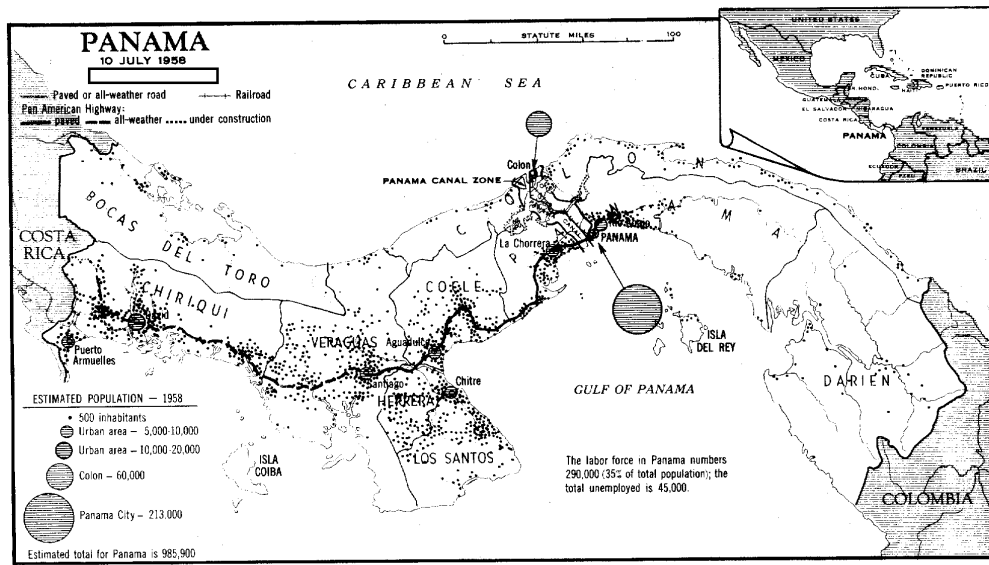
Treaty Revisions

Differing interpretations of the 1903 treaty and frequent allegations of US injustices led in 1936 to a revised treaty in which the US terminated its protector status, renounced further land acquisitions, agreed to restrict some commercial activities of the zone commissaries which the Panamanians consider competitive with

their own businesses, and raised the annuity to \$430,000.

New misunderstandings arose after World War II, however, when the United States did not immediately return military bases leased in the republic and asked for long-term lease renewals. The chronic nationalist and anti-US feelings aroused by the canal issue were exploited, particularly among student groups, by various political factions, and in 1947 the Panamanian National Assembly rejected a base agreement already reached between the two governments. The United States abandoned the bases abruptly and Panama suffered serious economic dislocations.

A subsequent treaty, signed in 1955, raised the annuity to \$1,930,000 and further restricted US commercial activities in the zone. Additional long-sought provisions establishing a single wage scale for Panamanian and US workers in the zone, appropriating funds for a high-level bridge spanning the canal to connect Panama's divided sections, and returning to Panama certain lands previously held by the United States, have

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recently been or are about to be approved by the US Congress.

Economic Factors

Population and economic activity are disproportionately concentrated in the two terminal cities of the canal--Panama City and Colon. Development of agriculture, industry, and transportation in the interior has been virtually ignored and the republic's entire economy is geared to the Canal Zone, which provides an estimated 40 percent of Panama's national income. A small clique representing about 5 percent of Panama's million people controls the sources of economic and political power. This group invests its funds in commercial, real estate, shipping registry, and other nonproductive but highly profitable businesses. Profits are used speculatively and not invested in job-producing industries. Thus Panama ranks high in Latin America in per capita income while most of its people contribute little to the economy and live in poverty.

Large and potentially valuable agricultural areas are either inaccessible or left idle by large landholders. About half of the country's population ekes out a subsistence as squatters living on inadequate plots of land. Thus Panama is forced to import considerable agricultural produce and is faced with a resulting highly unfavorable trade balance when it could, with effective agricultural techniques and organization, produce enough for its own needs and for export as well.

Labor

Chronically high and increasing urban unemployment has become a potentially explosive socio-economic problem, posing a constant threat to political stability. Inertia, disease, and lack of education or skills

characterize the labor force and are used by the wealthy oligarchy as arguments against investment in productive economic development. About 20 percent of the population are Negroes, descendants of West Indians who came to build the canal. Racial antagonisms have developed in the cities, where competition for the shrinking number of jobs in the zone--at wages about twice as high as for similar jobs in Panama--is fierce.

The corruption pervading the government makes reforms difficult. President de la Guardia has found it almost impossible to implement the reforms envisaged when he created the economic development council and a housing institute and tried to reorganize the Labor Ministry. Powerful leaders of the oligarchy look on reform as a threat to their considerable economic interests.

New Panamanian Demands

Panama's present claims against the United States include demands for 50 percent of gross canal revenues, which would make its share about \$20,000,000 annually. The present annuity is about one half of net profits. US defense costs of \$50,000,000 are figured separately. In 1957, Panama received around \$54,000,000 in wages to nationals, purchases, and other canal-related income. Its 1957 budget was \$52,000,000.

There is also strong nationalistic support for demands to fly the Panamanian flag in the zone in recognition of Panama's alleged "residual" sovereignty there. Nationalistic students crossed into the zone last May and raised numerous Panamanian flags to dramatize this demand. Thus far, demands for outright nationalization of the canal have been infrequent. Most Panamanians probably feel that while eventual

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nationalization is desirable, their country is not now equipped to handle the complex management and operation of the canal.

International Aspects

Student groups have suggested that Panama present its case for greater benefits from the canal to the United Nations Security Council, of which Panama is a member until January 1960. Panama could expect wide support in the UN from both the Arab-Asian and Soviet blocs. During the Suez crisis in 1956, the Panamanian Government aggressively promoted at home and abroad the view that there are important similarities in the two cases and that the status of the Panama Canal is also subject to change. Panama will renew these tactics whenever it wants to launch a campaign to wrest major concessions from the US.

Sympathy for Panama's claims would also be widespread among nationalistic and anti-US groups in the rest of the western hemisphere and might influence some governments to support Panamanian demands. In addition, many Colombians still blame the US for the loss of Panama. Suggestions that the canal be internation-

ized, or "inter-Americanized," which have been made periodically in Latin America, would probably not be approved by Panama unless it were guaranteed a predominant role. If the US should make further concessions, Panama would not want to share the benefits with others.

Domestic Politics

The canal issue is an important one in Panama's present unstable political situation. Charges that moderate, pro-US President Ernesto de la Guardia has not defended Panama's "rights" in dealing with the US are part of a virulent campaign to oust him now being waged by his powerful opponents. Political tension and student unrest are again building up following the lifting of the state of siege imposed after the serious rioting last May. Many influential politicians, including some cabinet members, now feel that De la Guardia cannot last out his term, which ends in 1960. Further serious outbreaks could occur at any time and might involve anti-US incidents. It is unlikely that any government resulting from a successful coup in the near future would be more friendly to the United States than the present one, and a new government might well be controlled by extreme nationalists

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