

FD

~~CONFIDENTIAL~~
~~SECRET~~

COPY NO. 50
OCI NO. 1800/58
31 July 1958

CURRENT INTELLIGENCE WEEKLY SUMMARY



DOCUMENT NO. 9
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S
NEXT REVIEW DATE: 1989
AUTH: HR 70-2
DATE: 9 Aug 79 REVIEWER: 25X1

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

~~CONFIDENTIAL~~
~~SECRET~~

25X1



State Department review completed

ARCHIVAL RECORDS
Return to Archives & Records Center
Immediately After Use

3137

THIS MATERIAL CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE LAWS, TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMISSION OR REVELATION OF WHICH IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

The Current Intelligence Weekly Summary has been prepared primarily for the internal use of the Central Intelligence Agency. It does not represent a complete coverage of all current situations. Comments and conclusions represent the immediate appraisal of the Office of Current Intelligence.

Page Denied

Next 6 Page(s) In Document Denied

CONFIDENTIAL~~SECRET~~**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

PART I**OF IMMEDIATE INTEREST****MIDDLE EAST DEVELOPMENTS****Lebanon**

General Shihab's election on 31 July as the new president of Lebanon will almost certainly be followed by opposition demands that President Chamoun retire immediately and that the American and UN forces be withdrawn. The opposition clearly anticipates that Shihab will be merely a caretaker president until a new parliament can be elected and another president chosen--possibly in six months' time--who would be even more to the opposition's liking than Shihab. If Chamoun remains in office until the legal expiration of his term on 23 September, and if "loyalist" elements seek to frustrate the opposition's efforts to gain control of the government quickly, there may well be a new crisis. Another critical issue is likely to be the choice of an army commander to succeed Shihab.

While weariness with terrorism and the exhaustion of the politicians may temporarily produce a calm internal situation in Lebanon, the "manifesto" put out by part of the opposition this week is indicative of longer range Moslem demands for a radical revision or abolition of the traditional structure of Lebanese politics. The manifesto, attacking the fiction that the Christian population of the country constitutes a majority, demanded that henceforth half the offices be given Moslems and that parliamentary constituencies be on a geographical rather than confessional basis. The authors of the manifesto originally said they

would insist that Shihab subscribe to the document, but subsequently backed down and indicated the statement was merely to "appease the mob." Such statements nevertheless tend under present conditions to become positions from which radical Arab nationalist leaders dare not retreat.

Iraq

The Baghdad regime, which has succeeded in obtaining general diplomatic recognition, has continued to express itself publicly in moderate terms and to profess friendship for the West while pressing for American recognition. The basic belief in Western antagonism toward the new regime found expression on 30 July, when a fire which broke out in the tank farm of a British-owned oil company in Baghdad was popularly attributed to "imperialist" sabotage. The regime, obviously fearing an outbreak of anti-Western violence, quickly imposed a curfew and asked the populace not to believe rumors regarding the origin of the fire.

Jordan

King Husayn's effort to make Jordan some kind of pro-Western "fortress" has been further undermined by the fatigue of Prime Minister Rifai. Rifai's disability, added to the burden of other problems and to evidence of increasing disaffection, may lead Husayn to capitulate to UAR pressure. At the present time, the King's only secure safeguard is the presence of British troops; if

CONFIDENTIAL~~SECRET~~

25X1

Approved For Release 2007/10/23 : CIA-RDP79-00927A001800090001-4

Page Denied

25X1

Approved For Release 2007/10/23 : CIA-RDP79-00927A001800090001-4

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

31 July 1958

25X1

these leave the country, the King would seem to have little choice but to go with them or bow to Nasir. For the present, the Jordan radio has been instructed to take a "softer" line toward Nasir, and there are some indications that Nasir, besides preparing for Husayn's overthrow, may be making an effort to persuade him to surrender.

he believes the Arab people are behind Nasir, right or wrong, and that, even if Nasir intends eventually to overthrow the Persian Gulf sheikdoms, one cannot resist "Kismet." At present, however, the security situation in Kuwait appears fairly good following a strong stand by the police against demonstrations.

Sudan

Prime Minister Khalil has retained office through the end of the parliamentary session, but his pro-Western policy has been attacked heavily in both houses, which passed unanimous resolutions condemning the American and British use of troops in Lebanon and Jordan. The pro-Egyptian elements which seek Khalil's ouster now have turned to arousing the sentiment of the "street" against him.

Israel

The Israeli military remain alert for possible trouble, especially a deterioration in the Jordanian situation. Most Israeli activity at present is in the diplomatic field, however, and is concentrated on trying to ensure that Israel's interests do not suffer from any high-level international discussions on the Middle East.

While French-Israeli collaboration appears to remain close, the Israelis may have been rebuffed in an attempt to obtain more formal commitments from France. Foreign Minister Meir plans a trip to Paris next week.

The Israelis are also seeking ways and means of avoiding being further identified in

Kuwait

The Ruler of Kuwait returned from Damascus this week in a "defeatist" mood following talks with Nasir.

25X1

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

Afro-Asian circles as handmaidens of imperialism. The immediate problem is their acquiescence in the overflight of British and American aircraft supporting the British forces in Jordan. However, they also face a longer range danger of being completely isolated in an area dominated by Nasir, who in turn would be backed by the USSR. A shift by Israel to a more neutralist position in an effort to diminish Soviet hostility is one of the long-range tactics reported being discussed.

Sino-Soviet Reaction

Moscow on 30 July named G. T. Zaytsev, head of the Near East department of the Soviet Foreign Ministry, as ambassador to Iraq and continues to move rapidly to establish close working relations with the new Iraqi Government.

Soviet leaders apparently believe that the possibility of early Western military action against Iraq, either alone or in cooperation with Middle East allies, has diminished.

Peiping continues to concentrate on Asian states in efforts to gain popular support for the bloc's case against the Western intervention. Peiping, like New Delhi, refers in its statements to the "tense situation in Western Asia" rather than the Middle East. Chinese Communist ambassadors in Karachi and Djakarta have called on Prime Minister Noon and President Sukarno respectively, and the envoy in New Delhi has contacted Nehru.

Peiping has begun accusing the Chinese Nationalists of using the Middle East crisis to "step up war preparations" and

carry out new "harassment." Large numbers of military personnel and civilians in the coastal provinces have participated in mass demonstrations protesting against Chinese Nationalist activity and pledging readiness to "liberate" Taiwan "at any time."

Baghdad Pact Meeting

The Baghdad Pact Ministerial Council meeting in London on 28-29 July focused primarily on the altered situation in the Middle East as a result of the Iraqi coup and resolved to carry out the purposes of the pact despite the probable loss of Iraq as a member. Turkey, Iran, Pakistan, and Britain decided the new Baghdad regime should be recognized this week.

The question of Iraq's membership was left to Baghdad's initiative and it was decided to avoid any action that might drive Iraq from the organization. This policy will permit the members to maintain flexibility until Iraq's intentions are clear. It had been feared that the new Iraqi regime might send delegates, especially to the Military Committee sessions, in an attempt to learn pact intentions. In view of the intense Arab nationalist opposition to the Baghdad Pact, Iraq's continued membership is considered unlikely. Meanwhile the headquarters of the pact is being transferred to Ankara, and plans are being made to counter Egypt's exploitation of alleged pact documents.

The delegations all expressed concern over Iraq's new orientation, and Iranian Prime Minister Eqbal especially noted the added threat to Iran, expressing fear that his country

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

might now become a primary objective of Soviet pressure. Turkey believes Egypt and the USSR now will try to achieve a direct land connection via Iraq between the two countries, possibly through the promotion of a Kurdish republic.

The London conference confirmed the intentions of all remaining members to strength-

en the Baghdad Pact, and the prospect of closer American affiliation appeared to bolster the morale of the delegates. The further consolidation of Arab nationalism and the increased fear of Soviet actions will encourage heavier demands on the United States for military equipment and guarantees.

25X1

SOVIET TACTICS ON SUMMIT MEETING

Khrushchev's latest notes on 28 July calling for an immediate conference of the Big Four heads of government, plus Indian Prime Minister Nehru and UN Secretary General Hammarskjold, reflect Moscow's hope that it can exploit Premier de Gaulle's dislike for a summit conference in New York to force the United States and Britain to accept a meeting substantially on Soviet terms.

Comments of De Gaulle's foreign policy advisers suggest that he actually is not eager for summit talks at this time, particularly in the UN framework, which he feels would offer the Russians too many propaganda advantages. They also believe Khrushchev's proposed inclusion of India would make difficult an agreement on the agenda and a list of other participants. Preoccupied with constitutional reform and Algerian problems, De Gaulle prefers a later, carefully prepared and discreetly conducted conference.

Although on 23 July Khrushchev had ostensibly accepted

American and British suggestions that the meeting be held within the context of the UN Security Council, the latest Soviet notes back away from this position. Alleging the United States and Britain abandoned their earlier proposals for a special session of the Security Council at the heads-of-government level in favor of an "ordinary session" of the Security Council, the Soviet leader, calling this a step backward on the West's part, endorsed Premier de Gaulle's suggestion for a "private" meeting of the major powers in a European city.

Moscow has been careful not to close the door to a compromise formula for a summit meeting within the UN framework.

Khrushchev, in his 28 July letters, adopted a pose of unconcern for procedural details in the face of the overriding importance of an immediate meeting to ease Middle East tension. Moscow continues to insist on the participation of India, but, unlike the 23 July notes, the latest Soviet messages do not mention the "natural" participation of the Arab states.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

31 July 1958

Moscow's charges of Western duplicity and procrastination in the face of the "extraordinarily serious situation" in the Middle East are designed to place the West on the defensive regarding time, place, and composition of the projected conference and, if no conference is held, to place the blame for the failure on the West.

Khrushchev's letters continue Soviet efforts to create a sense of extreme emergency with charges that "preparations for armed interference in Iraq are proceeding at full speed." On 30 July, Moscow protested against the alleged violation of Soviet air space by an American bomber from Iran, stating the USSR attaches "especially serious importance" to this incident because of the tense situation in the Middle East created by American and British armed intervention.

On 30 July, Moscow also issued a sharply worded TASS statement accusing the London meeting of the Baghdad Pact members of "evolving new aggressive measures directed toward further aggravation of the military conflict." On 26 July, Moscow in a note to the Bonn government protested the use of air bases in West Germany for the redeployment of American forces and called on Bonn to take effective measures to halt such operations in accord with the "vital national interests" of West Germany.

A Soviet aide-memoire to Turkey on 24 July reviewed press reports of Turkish troop concentrations on the Syrian and Iraqi borders and warned Ankara of "grave responsibility for possible consequences" of an attack on Iraq.

25X1
25X1

* * *

SECRET

~~CONFIDENTIAL~~

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

31 July 1958

PART II

NOTES AND COMMENTS

SOVIET MIDYEAR ECONOMIC REPORT

The TASS summary of the Soviet economic plan fulfillment report for mid-1958 shows a 10.5-percent increase in industrial production over the first half of 1957, indicating that the economy has not been disrupted by the industrial reorganization. Prospects for a good harvest in 1958 and the large reported increase in investment in light and food industries promise continuing steady improvement in the standard of living for the Soviet consumer.

The report points out that all but one sovnrarkhoz overfulfilled their plans, and stresses that production successes were a result of the reorganization.

Industry

The reported increase in industrial production of 10.5 percent over that for the first half of 1957 maintains approximately the same rate of growth as that achieved in the past two years.

The physical output data included in the report indicated that 1958 production goals for the basic branches of industry will be fulfilled without difficulty. The 1958 goals, however, like those for 1957, represent lower rates of growth than were attained during the early postwar years and than were originally planned for the Sixth Five-Year Plan.

USSR: TRENDS IN INDUSTRIAL PRODUCTION

CONFIDENTIAL	REPORTED PRODUCTION DURING FIRST HALF 1958	PLANNED PRODUCTION FOR FULL YEAR 1958	PLANNED PERCENTAGE INCREASE 1958 OVER 1957	PERCENTAGE ANNUAL RATE OF INCREASE NEEDED 1958-1960 TO REACH ORIGINAL 6TH PLAN GOALS
STEEL MILLION TONS	27.0	53.6	5.0%	10.0%
PIG IRON MILLION TONS	19.3	39.1	5.7%	12.6%
ROLLED METAL MILLION TONS	21.3	41.7	3.7%	9.4%
COAL MILLION TONS	245.0	488.9	5.6%	8.7%
PETROLEUM MILLION TONS	54.0	112.6	14.5%	11.0%
CEMENT MILLION TONS	15.9	33.9	17.3%	24.0%
ELECTRIC POWER BILLION KWH	114.0	231.0	10.3%	15.0%
	REPORTED PERCENTAGE INCREASE FIRST HALF 1958 OVER FIRST HALF 1957			
GROSS INDUSTRIAL OUTPUT	10.5%		7.6%	10.7%
LABOR PRODUCTIVITY IN INDUSTRY	6.0%		5.4%	9.6%

80729-8

31 JULY 1958

~~CONFIDENTIAL~~

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

The reported increase in industrial labor productivity of 6 percent is the same as last year, suggesting that the steady decline in the rate of increase of labor productivity from the 8 percent achieved in 1955 may have been halted.

Investment

The volume of capital investment increased 11 percent. An increase of 28 percent in capital investment in ferrous metallurgy suggests that plans were implemented for expanding production capacity in those critical industrial materials industries which affect the growth of dependent economic sectors. The reported 23-percent increase in investment in the light and food industries is striking compared with the modest increases accorded these industries in past years.

Agriculture

The report states that the plan for sowing spring crops was overfulfilled and that the total area under crops for the 1958 harvest is 3,700,000 acres, or about 1 percent greater than in 1957. This would place the area under crops slightly above that during the record harvest year of 1956. Good growing conditions have prevailed, particularly in the main grain areas, thus enhancing the prospect for a bumper harvest in 1958.

Livestock flocks and herds, at least in the socialized sec-

tor, were considerably larger in mid-1958 than in mid-1957, and the state procurement and purchase plan for the first half of 1958 was reported overfulfilled for meat, wool, and eggs. Milk procurements reportedly increased 9 percent as compared to the first half of 1957, but no mention was made of plan fulfillment. Milk production may have increased only slightly, if any, over last year, when milk output was favored by good pasturage from an early spring and relatively abundant feed supplies from the 1956 harvest.

According to the report, 65 percent of the collective farms by 1 July had purchased machinery, and in June the collective farms conducted 73 percent of the total volume of tractor work performed on all collective farms with their own tractors.

Consumer

Retail trade, which grew more rapidly than planned during 1957, is increasing at a slower pace in 1958, slightly above the 7-percent rate planned for the year in contrast to the 10 percent planned and 14 percent achieved in 1957. Housing goals achieved indicate that the state plan calling for a 19-percent increase for the full year is being fulfilled. [redacted]

(Prepared by [redacted]
ORR)

25X1

25X1

SOVIET WITHDRAWALS FROM EASTERN EUROPE

Three Soviet line divisions have been withdrawn from Hungary and Rumania in accordance with

plans announced at the Warsaw Pact meeting on 27 May. The units involved are believed to

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****31 July 1958**

have been relocated in military districts in the western USSR where they would be readily available for redeployment to the satellites. There are 25 combat divisions totaling about 400,000 men still stationed in East Germany, Poland, and Hungary.

With the possible exception of some headquarters personnel and an advisory group, all Soviet personnel in Rumania have been withdrawn.



an advisory group which existed before the withdrawal will continue to exert influence over the Rumanian armed forces. Two line divisions, an antiaircraft artillery division, and five fighter regiments were involved in this withdrawal.

In Hungary, a division with headquarters at Esztergom was withdrawn from the area north of Budapest. Concurrent with the departure of this unit, there was some relocation and realignment of subordinate units. At least three combat divisions totaling 45,000 men supported by tactical air elements remain in Hungary, almost twice the

strength of Soviet units there before the rebellion.

The USSR has taken pains to demonstrate the fulfillment of its announced withdrawal plans by holding departure ceremonies in each of the major garrison areas. Western military observers, however, were not invited to witness these ceremonies as they had been in East Germany. In addition to these withdrawals, the Warsaw Pact announcement stated that satellite armed forces would be reduced by 119,000 men. There has been no positive evidence that this reduction in force has been carried out.

SECRET

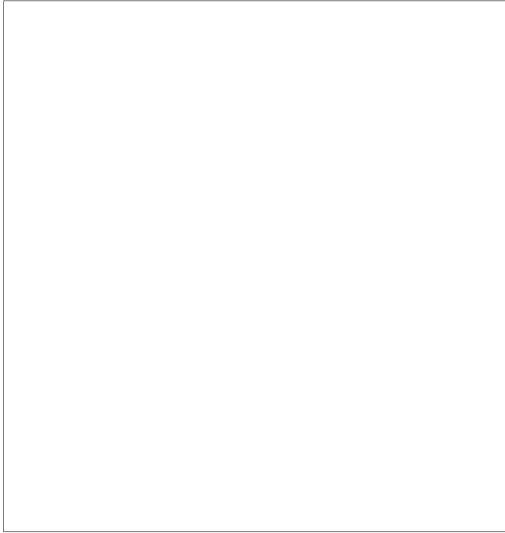
SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

31 July 1958

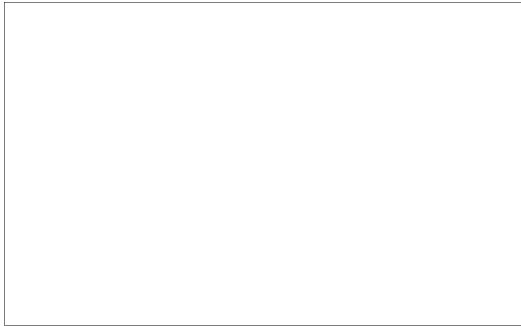
INDONESIA

25X1



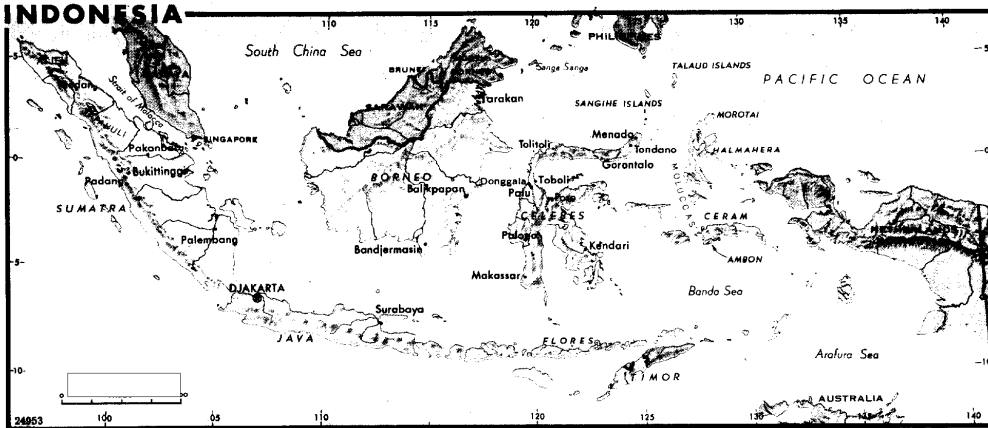
operation yet undertaken. The rebels reportedly reached the center of the city before government forces were sufficiently organized to force their withdrawal. The government has regained the initiative, but Djakarta did not release news of the attack until 27 July. According to the Djakarta announcement, the dissident attacking force totaled 2,000.

25X1



In Sumatra, rebel activity continues at an increasing pace. The dissident attack on Bukittinggi, Central Sumatra, which began on 23 July is the largest dissident offensive

25X1



SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

LAOTIAN CABINET CRISIS

Prospects for a revitalized Laotian Government dominated by young, anti-Communist civil and military leaders appear to have diminished. Premier-designate Souvanna Phouma has offered the "Young Turks" 5 seats in a 14-man cabinet that is otherwise in character with previous ineffectual governments.

The Communist-dominated Neo Lao Hak Zat is reported willing to back this or any other cabinet headed by Souvanna. It apparently regards Souvanna as tractable and fears that opposition would ultimately lead to the closure of the National Assembly and the imposition of

a strong government by Crown Prince Savang or the army.

The young reformists--organized as the Committee for the Defense of the National Interests (CDNI)--have refused Souvanna's offer and are threatening a coup unless giving a majority representation in the new cabinet. The committee, recently formed and without organized popular support, has had to rely on threats of extra constitutional action to give weight to its demands.

Recent police maneuvers and the placing of the army on an alert status demonstrate the fluidity of the situation.

25X1

25X1

CAMBODIA

Cambodian Premier Sihanouk may accept some form of military assistance from Communist China when he visits Peiping about 10 August unless Cambodia's border disputes with South Vietnam have been settled. Most Cambodian officials oppose such a drastic step, but Sihanouk feels sure of broad mass support in view of inflamed public opinion over the border incursion by Vietnamese forces in Stung Treng Province in June. Sihanouk recently has spoken of "dwindling" American military assistance to Cambodia, in contrast to "ample" amounts given the "enemy" Vietnamese, and he has even warned his people that this aid may soon be terminated altogether.

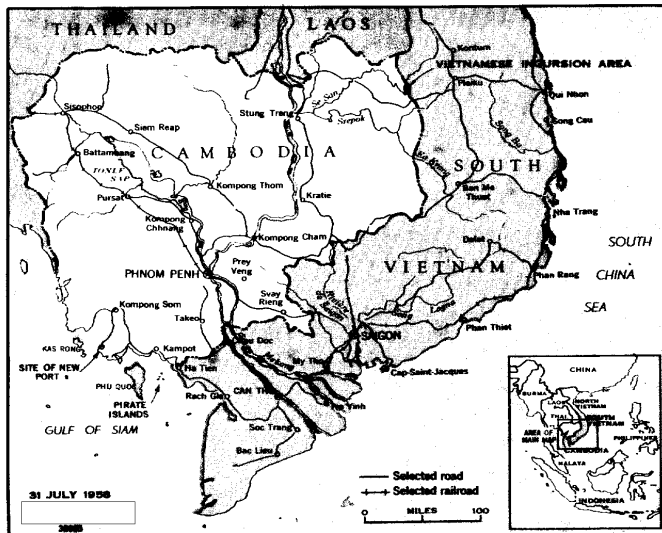
Sihanouk's act of according full diplomatic recognition to Peiping has already aroused some internal opposition. General Dap Chhuon, influential anti-Communist governor of Siem Reap Province, has sent word to Ambassador Strom in Phnom Penh of his "deep distress." The indefinite postponement of the National Congress, scheduled to have opened on 27 July and to have reviewed this policy, indicates that opinion is also divided in Phnom Penh.

In Saigon, Vietnamese President Diem has described Phnom Penh's recognition of Peiping as "a body blow," and he foresees the complete isolation of Vietnam. He regards Laos as

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958



dians are becoming increasingly aware that Sihanouk's domestic and foreign policies are "ruining the country," and seems convinced they will oust him from leadership within a year.

Diem has taken no action as yet to order the removal of the massively constructed and heavily defended concrete border marker erected by Vietnamese troops in June more than a mile inside the old Cambodian frontier.

seriously in danger of being lost to Communism and feels Thailand is politically unstable. Diem still professes an interest in reaching some agreement with Phnom Penh but basically feels the situation in Cambodia cannot be retrieved as long as Sihanouk remains in power. He claims that "thinking" Cambo-

A company of Vietnamese marines has also been sent to the disputed Pirate Islands in the Gulf of Siam. Some of these small islands are already occupied by Cambodian garrisons and, even if an incident does not occur, Phnom Penh will consider this move further evidence of Vietnamese aggression.

25X1

NORTH VIETNAM ACKNOWLEDGES CHINESE MODEL FOR DOMESTIC PROGRAMS

The slogan "We Must Learn From Chinese Experience" is becoming commonplace in North Vietnam as Hanoi begins its much-heralded "transition to socialism." To popularize the programs which form the "new phase" of the revolution, the regime is telling the peasants how much better off they would be in cooperatives like their Chinese colleagues, and the bourgeoisie is being lectured on the merits of Peiping's joint state-private ownership system. The army has promised to "catch up" with the Chinese People's Liberation Army as it carries out its modernization program. Although North Vietnam's new

programs are being advertised as Chinese in origin, the decision to adopt them was probably made on Hanoi's initiative rather than Peiping's.

President Ho Chi Minh urged last month's Congress of Labor Heroes "to study the experience of fraternal countries, particularly China." Practically no strata of society has been immune to this admonition.

In July the increased publicity being given to Peiping's tactics became particularly noticeable when Nhan Dan, the official party paper, began a daily column devoted to Chinese

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

experiences. "Rectification" has received special attention and praise, perhaps because Hanoi has declared its intention to thoroughly house clean the party apparatus this year. "Cooperativization of agriculture" has been given wide play, and Chinese movies illustrating the joys of the peasant's new life were shown to members of the National Assembly at its last session.

The regime hopes the promise of achievements matching China's will offset the traditional distaste bordering on antipathy which Vietnamese feel for their northern neighbors. Although the Lao Dong party statutes enjoin the North Vietnamese Communists to "follow the thinking of Mao Tse-tung," the regime in the past has adopted programs such as land rent reduction, the agricultural tax, and agrarian reform

without acknowledging their Chinese inspiration. The wording of the Vietnamese directives were virtual translations of the Chinese prototypes.

Whether Vietnamese cadres showed less imagination and adaptability or whether conditions in Vietnam are less like those in China than it would appear, these programs were not nearly so successful in the smaller country. Agrarian reform in particular was bungled so badly that the regime had to backtrack on its goals. If Hanoi should prove inept or incompetent in carrying out its present programs, which for the first time are frankly acknowledged to be Chinese in origin, it might weaken the appeal of Peiping's argument that Chinese Communist methods are applicable to other underdeveloped countries.

25X1

LEFTISTS EMERGING AS DOMINANT POLITICAL FORCE IN SINGAPORE

The Communist-influenced People's Action party (PAP) appears likely to become the dominant political party in Singapore when internal self-rule is achieved next year. The PAP victory in the recent city-council by-election in the Kallang district, widely regarded as an important test of strength, is further evidence of the continuing left-wing trend in Singapore. The party is now in a strong position for the elections to rural district councils in September and those to the Legislative Assembly next spring which will precede the institution of self-rule.

The PAP success was achieved despite a major effort by the moderate parties. The Labor Front and the Liberal Socialists combined to support a

single candidate, and Chief Minister Lim Yew Hock campaigned strongly for him. The PAP overcame the further handicap of running a Malay in a predominantly Chinese district. This victory, after the PAP had won 13 of the 14 seats it contested in last December's city-council elections, seems likely to have a bandwagon effect which no moderate coalition can arrest. Chief Minister Lim's embryonic United Socialist Front (USF) seems to have little chance to stem the leftist tide, especially since the USF's primary strength must be drawn from the Labor Front and the Liberal Socialists, which have already failed in their first cooperative efforts.

The poor showing of former Chief Minister David Marshall's

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

25X1

Worker's party appears to have nullified its chances of becoming a political force in Singapore. This performance by the party which won the Kallang district seat only last Decem-

ber tends to confirm reports that the Communists have withdrawn their support from the Worker's party and are now supporting only the PAP. [redacted] 25X1

NEW CHINESE PROGRAM MAY SOLVE BLOC COPPER SHORTAGE

As part of the present policy of bending all efforts to achieve "more, better, faster, and more economical results," Peiping has launched a program to increase China's copper-smelting capacity by 150,000 tons within a year. It intends to get this tenfold increase by setting up some 3,000 small copper-smelting furnaces, each with a capacity of 50 to 100 tons. Built by local capital, the furnaces will be scattered throughout the country, in some instances to take advantage of minor deposits which might otherwise not be workable.

Copper is in short supply throughout the Communist world, which over the past five years has imported an average of 120,000 tons a year from the free world. If the new program is successful, China will be producing about 165,000 tons of copper a year, some four times its annual domestic requirements, and may have around 120,000 tons a year for sale to its bloc partners.

Peiping will doubtless run into administrative problems in getting this program under way. The supply of the necessary raw materials does not appear to present any special dif-

ficulties, and China has had centuries of experience in operating small smelters, which require a minimum of technological know-how for construction and operation. Capital outlay is minimal; Peiping has cited one such smelter built out of local materials at a total cost of only \$60.

On the other hand, wide employment of smelters of this type is wasteful and inefficient. The quality of ore used must in general be a good deal higher than is the case with more modern smelters. Metal losses will run high. The crude copper produced will contain a high percentage of impurities and require further refining prior to use.

Peiping's motive in building such plants doubtless is to get the largest possible increase in output in the least time and at the least cost. It probably looks on the program as a useful stopgap until the larger, more modern facilities now under construction at places such as Paiyinchang in Kansu Province and Tungchuan in Yunnan Province go into production in a few years, and replace the less efficient small plants. (Prepared by ORR) 25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

CYPRUS

Widespread violence between the Greek and Turkish communities on Cyprus continues despite a major security offensive, during which about 1,600 Greek- and 50 Turkish-Cypriots were placed in detention camps and the Turkish Resistance Organization (TMT) proscribed. Over 100 people have been killed and nearly 200 injured in the intercommunal fighting since early June--over half in the past three weeks.

Although Greek- and Turkish-Cypriot leaders, including Archbishop Makarios, have joined Governor Foot in public appeals for an end to the violence, extremists refuse to heed the call. Following the mass arrests, EOKA leader Grivas proclaimed in a new leaflet that he preferred "total destruction" in Cyprus to continued British rule. Foot, while aware that EOKA would probably react to the security drive by all-out attacks on the British police forces, had hoped that the roundup might cause EOKA to cease its assaults on the Turks and thus prevent a continued drift toward civil war.

In Greece, the arrests have been denounced as a further indication that Britain favors the Turkish Cypriots. Athens has protested the recent securi-

ty measures to London and Washington, as well as to the secretaries general of the UN and NATO. Within the next two weeks Greece will probably again ask the UN General Assembly to place the Cyprus issue on the agenda of its forthcoming session.

In Turkey, the press and radio, inspired by pleas for help from Turkish-Cypriot leader Fazil Kuchuk, are reiterating the demand that Turkish troops be sent to Cyprus to protect the Turkish Cypriots, a move which London has been firmly rejecting. Ankara has recently instructed Kuchuk to cooperate with the British, but Turkish Foreign Minister Zorlu has stated that future Turkish action regarding Cyprus will be determined by the success or failure of the British drive against EOKA.

Meanwhile, Prime Minister Macmillan discussed Cyprus with Turkish Premier Menderes following the Baghdad Pact Council meetings in London, and is expected to confer with Greek Premier Karamanlis at some early future date. In Paris, NATO Secretary General Spaak is continuing his efforts to secure some form of compromise agreement regarding the new British plan; among the NATO representatives of Greece, Britain, and Turkey.

25X1

TUNISIA FACES DIFFICULTIES WITH ALGERIAN REBELS

The presence in Tunisia of several thousand well-armed Algerian rebels poses a growing threat to Tunisia's internal stability which the small, ill-

equipped security forces are unprepared to meet. President Bourguiba has granted facilities to the Algerian National Liberation Front (FLN) to carry on

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

its rebellion in Algeria, hoping to influence rebel leaders toward a more moderate and pro-Western policy as well as to limit the extent of Cairo's influence over them.

The FLN has been cautious regarding attempts to control its policies and now assails Bourguiba for having granted a pipeline concession to a French firm. Its leaders complain that this concession violates the principle of Maghreb (North African) unity, which Bourguiba has so assiduously sought, constitutes recognition of French claims to the Sahara and compromises the fight of the Algerian people for independence. Tunisian officials now fear the FLN is "ready to cooperate with the Egyptians and Soviets to throw Bourguiba out."

Danger from the FLN is made more formidable by the growth of anti-Bourguiba sentiment among officials and students as well as by the presumed continued activity of Bourguiba's principal rival, Salah ben Youssef, who has been granted asylum in Cairo. Last March several score of Ben Youssef's fol-

lowers were rounded up when a purported plot to assassinate Bourguiba was uncovered. Last week Bourguiba reiterated demands that the United Arab Republic expel Ben Youssef.

Bourguiba, claiming that the FLN knows his weakness because they loaned him arms in May when French forces in southern Tunisia seemed about to attack the Tunisian Army, has again requested arms from the United States and Britain. French officials in Tunisia claim they have offered him arms from stocks issued to the French forces now leaving the country, but Bourguiba fears acceptance would incite charges by the FLN that he had made some kind of military peace with France against the Algerians.

Bourguiba, still wary of any French attempts to maintain a monopoly over Tunisia's arms sources, prefers alternate Western sources, so that France would be unable to maintain an inventory of Tunisia's materiel. The Tunisians probably are also aware that France seeks to disrupt North African unity. 25X1

 25X1**NEW FRENCH POLITICAL GROUPINGS**

As many as ten new political groupings reportedly have formed in France to participate in the forthcoming constitutional referendum and to take advantage of the changed political framework the revised constitution is expected to provide. Most of these profess support for the stronger executive which Premier de Gaulle's draft constitution calls for,

but at least one is ranged with the Communists in opposition.

Although Premier de Gaulle disappointed many of his followers, particularly in Algeria, by failing to scrap "the old system" of political parties, he sharply curtailed their scope of action by sending Parliament "on vacation." Occasional party conferences have been held,

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

but they have been lethargic and have left the field open to new groupings.

Daniel Mayer's "Union of Democratic Forces," most leftist of the new groupings, includes several left-wing Socialist party (SFIO) leaders in addition to ex-Premier Mendes-France, the Orthodox Radical leader, and Francois Mitterrand, left-wing Democratic Resistance Union (UDSR) leader. A number of long-established splinter movements in the non-Communist left also adhere to this group. Despite the movement's refusal thus far to cooperate with the Communists, its opposition to the revised constitution will play into Communist hands.

It could permanently breach the already badly divided SFIO and may attract left wingers of other parties as uneasiness over rightist influence on De Gaulle mounts. It faces minor competition on the non-Communist left in a new grouping of "leftist Gaullists," mainly a group of Radicals who followed Mendes-France during De Gaulle's long political eclipse and who now hope to "save" De Gaulle from extremists on both sides.

In the center, former Premier George Bidault proposes to build his new Christian Democratic Movement into a broad center and right-center organization, combining elements of his own Popular Republican party (MRP), the Social Republicans (GRS), various Radical groups, and the Independents. Most MRP members, however, now regard

Bidault as too rightist-oriented, and such stalwarts as ex-Premier Robert Schumann are organizing a National Committee of Liaison for Christian Democracy.

A potential rightist threat to De Gaulle's program is the recent appearance of Information Minister Jacques Soustelle's Union for the Renovation of France, stemming from his Union for the Salvation and Renovation of Algeria (USRAF), which played a key role in preparing for the 13 May coup there. Soustelle claims it will be non-political and not compete with his own GRS.

It seems probable, however, that he felt it unwise to form a new political party while still a member of the government, particularly in view of De Gaulle's dislike for a multiplicity of parties, and that he also sees possibilities in tapping the USRAF apparatus of Committees of Public Safety, veterans' organizations, and other "nonpolitical" rightist groups as vehicles both for exercising more influence on De Gaulle's policy and for enhancing his own personal power position later.

Only a few of the new groupings are likely to have much impact on the political scene, but their creation weakens the existing parties, probably facilitates the growth of extremism, and, in any case, will complicate the period of transition to new political institutions.

25X1

 25X1**AUSTRIAN CHANCELLOR RAAB'S NEGOTIATIONS IN MOSCOW**

As a result of Chancellor Raab's negotiations in Moscow from 21 to 28 July, Austria's relations with the Soviet Union may become somewhat closer, par-

ticularly in the economic and cultural fields. Raab said and did things, moreover, not pleasing to the West, but he nevertheless seems to have

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

avoided any dangerous political commitments, and Vienna's pro-Western neutrality is still intact.

Of the various minor concessions won by Raab, the most important--expected ultimately to be worth about \$70,000,000--is the USSR's agreement to supply free of charge quantities of oil equivalent to 50 percent of Austria's annual oil reparations deliveries. This arrangement, rather than a straight reduction, was apparently worked out to preserve established trade routes for Austrian oil, much of which--under Soviet account--is taken by the European satellites.

As a graceful gesture to the Soviet Union, the Austrians on their own initiative declared an intent to adhere to the Eastern Danube Convention. This Soviet-dictated instrument, which regulates Danube traffic east of the Austrian border, has never been recognized by the West, and Vienna has heretofore limited its recognition to the sending of observers to technical meetings. In response to an Austrian suggestion, moreover, Bonn is already considering following Vienna's lead.

Khrushchev claimed on Raab's departure that a "unanimity of views on a wide range of international subjects" had been reached, but from the content of the final communiqué and from comments by both Soviet and Austrian officials, it is clear he did not press the Austrians for pro-Soviet policy statements on principal East-West issues. While it can be expected that on appropriate occasions Moscow will claim Austrian "agreement" with Soviet international policy, Khrushchev's primary efforts were directed rather toward the more realistic objectives of encouraging Austria's neutrality and demonstrating to the smaller neutral nations continuing Soviet interest in their welfare.

Nearly all Austrians have welcomed alleviation of a burden they considered unjust, but it is doubtful that their basic suspicion of the USSR will be greatly affected. Raab's role in the agreement has made him a national hero in some quarters, but his very friendly attitude toward the USSR has also provoked alarm and consternation even among those sympathetic toward him.

25X1

25X1

(Concurred in by ORR)

25X1

ITALY'S ECONOMIC OUTLOOK

The prospect of a further slow decline in the rate of Italy's economic expansion will probably enable both left and right to assail Premier Fanfani's weak Christian Democratic - Democratic Socialist government. Foreign exchange reserves are close to a postwar high, but, after several years of relative prosperity, almost 9 percent of the labor force

is still unemployed. Present government measures to stimulate the economy may be insufficient to prevent a worsening of this chronic problem.

The rapid economic expansion which took place up to November 1957 has now fallen off markedly, and there are no signs that the slowdown will be reversed. Projections for

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

31 July 1958

1958 fix the rate of growth of the GNP at 2-3 percent in contrast to a rise in 1957 of 5.6 percent.

The only marked improvement has been in foreign exchange reserves, which reached a postwar high of \$1.215 billion by March 1958, largely as a result of a 15-percent drop in imports and a 3-percent rise in exports, along with continuing US military expenditures and loans. Slackening world trade, however, has since retarded the expansion of Italian exports, while imports for industrialization have continued at a high level, leading to a foreign payments deficit.

The sharp reduction envisaged in the 1958-59 budgetary deficit and the possibility that foreign demand will continue to decline could reduce economic activity. With this in mind, the government has lowered the discount rate from 4 to 3.5 percent and boosted state expenditures, even though this will make more difficult the reduction in the budget deficit. Even so, a decline in economic activity during the second half of 1958 is now predicted by many prominent Italian industrial, commercial, and banking leaders.

If deteriorating economic conditions in other European countries force large numbers of Italian immigrants to go home, the unemployment problem in Italy could be seriously aggravated. An increase in the 1,700,000 unemployed would increase the Communists' popular appeal and add to the

[Empty grid table]

government's instability. The Democratic Socialists are already divided on continued participation in the Fanfani coalition. At the same time, the right would reiterate recent charges that the government's public spending program will involve economic and financial ruin.

25X1

COMPROMISE UNLIKELY IN ICELANDIC TERRITORIAL WATERS ISSUE

Iceland's unilateral extension of its fish conservation limits to 12 nautical miles becomes effective on 1 September, and it is unlikely that

any compromise will be reached before that date with other nations having fishing interests in Icelandic waters.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

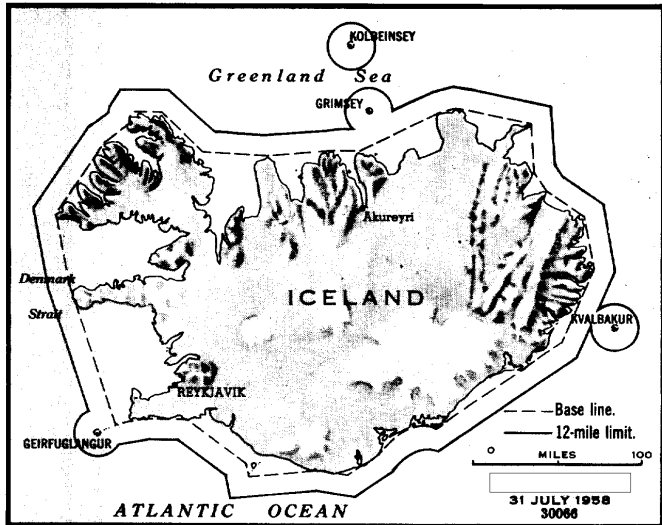
31 July 1958

In late June the Icelandic representative to the North Atlantic Council indicated that his government was willing to negotiate special rights for a limited number of years in the outer zone of the new belt. Late in July, however, he still had not made any specific or practical suggestion, and the British Foreign Office is extremely pessimistic about the prospects of negotiations

West Germany met in the The Hague on 20 July and passed a resolution condemning Iceland's action and stating it would be disregarded. Press reports hint that the group may recommend joint economic action against Iceland if the situation does not improve.

Iceland's leftist coalition government is under strong local Communist pressure to remain adamant. The Communists have intimated that they will withdraw from the government if the Social Democratic foreign minister attempts negotiations permitting foreign trawlers within the 12-mile limit. The Progressives and the Social Democrats will go to any length to avoid an election, which they feel would only benefit the Communists and the Conservatives. The Progressive press opposes any compromise and hints that Iceland will ask the United States for assistance if Britain

25X1



on any basis. In mid-July, the West German Government expressed the hope that Iceland would enter into negotiations to achieve agreement before 1 September.



Representatives of the fishing industries of the United States, Britain, France, Spain, Belgium, Holland, and

gives its trawlers naval protection.

The USSR has reportedly suggested a Soviet naval visit to Iceland around 1 September and is also urging Iceland to request any assistance required to implement the 12-mile limit.

If no compromise is reached, the Communists will have created dissension between Iceland and its NATO allies; if the NATO countries recognize the new limit, the Communists will claim the victory.

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

ARGENTINE PETROLEUM POLICY ANNOUNCED

President Frondizi's outline of his petroleum policy on 24 July emphasizes private participation in Argentine oil development under contract with the State Oil Fields (YPF). He said that foreign private firms had agreed in general terms to invest approximately one billion dollars on this basis and mentioned a last-minute Soviet offer to supply \$100,000,000 worth of oil equipment payable in Argentine products over a long period.

Frondizi declared the main obstacle to Argentina's economic progress was its dependence on fuel and steel imports at a cost which forced Argentina to remain a producer of primary materials. He plans to triple oil production by 1962. Argentina produced only 34,000,000 barrels in 1957--about 37 percent of domestic needs.

Frondizi specifically mentioned eight final or preliminary contracts with private firms, six of which are American, one Argentine, and one Belgian. He made no detailed comment on the offer delivered by the Soviet ambassador shortly before his broadcast. He did refer, however, to the favorable terms of Argentina's purchase last June of 7,266,000 metric tons of Soviet crude.

The principal agreement, "signed in general terms," is with a "US group" which includes one German firm. This calls for an estimated investment of \$700,000,000 to: 1) drill about 4,000 wells; 2) establish a factory to produce oil-field equipment; 3) furnish at least 18,000,000 barrels of crude oil and derivatives on two to three years' credit; 4) construct a new gas line; 5) loan \$30,000,000 to the Central Bank for five years; and 6) supply \$50,000,000 worth of machinery and equipment on credit.

Frondizi plans to submit to Congress a proposed petroleum law affirming national control over oil resources and assuring the provinces of participation in the profits. No new concessions will be granted, but the situation existing prior to 1 May 1958 will be respected. Frondizi's party controls Congress, but the bill will probably be attacked by the minority party as well as by some of his own followers. At the same time, his new policy may serve to offset criticism that he has concentrated on pacifying the Peronistas and has neglected Argentina's pressing economic problems. (Concurred in by ORR)

25X1

VENEZUELAN MILITARY'S ANTILEFTIST MOVE DEFEATED

Venezuela's military leaders appear to have been decisively defeated recently when their ultimatum calling for action against members of the Communist and Democratic Action parties proved ineffective in the face of united civilian resistance to the threatened coup. The

military move seems likely to result in continuing tensions, increased Communist prestige, and possibly more anti-American feeling.

The junta government headed by Admiral Larrazabal is said to have imprisoned about 200

SECRET

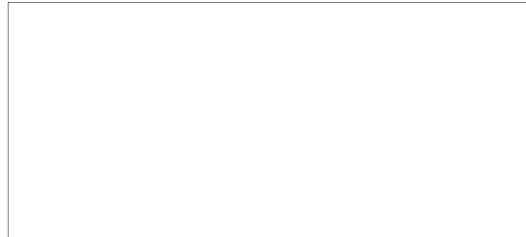
SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

31 July 1958

supporters of Defense Minister General Castro Leon, who spearheaded the movement, and is exiling others. Castro resigned and left the country on a foreign assignment on 24 July. Lt. Colonel Martin Parada, chief of staff of the air force, was also sent into exile. Meanwhile, conservative 33-year-old civilian junta member Arturo Sosa publicly admitted that armed forces officers had offered him the presidency of a new junta some two weeks before the ultimatum. Although Sosa claims he refused the offer, his involvement with the military leaders will probably necessitate his resignation and the politically delicate choice of a new junta member.

Venezuela's civilian-military tensions may lead to increased feeling against the United States.



25X1

Communist leader Machado has called for the departure of foreign military missions, charging that they have been intervening in Venezuelan affairs.

25X1

The military's association of the Democratic Action party-- which is probably supported by about half of the electorate-- with the Communists as a target for repression seems likely to reinforce the "united we stand" feeling which has been prevalent in Venezuelan political groups since the Perez dictatorship was overthrown last January. This feeling has been one of the key factors in the recent growth of Communism in Venezuela.

25X1

* * *

SECRET

~~CONFIDENTIAL~~~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

31 July 1958

PART III

PATTERNS AND PERSPECTIVES

MOSCOW'S POLITICAL PROBLEMS WITH EASTERN EUROPE

Campaign Against Revisionism

Moscow's present campaign to achieve bloc unity, of which the execution of Nagy and the ideological break with Yugoslavia are but parts, began in mid-1956. At that time the Soviet Union was attempting to restore its prestige and authority over the Communist movement, after both were shaken as a result of the de-Stalinization campaign and Moscow's encouragement in 1955 and 1956 of the "separate roads" theme and more local initiative by satellite leaders.

Moscow realized the dangers of this course when the riots occurred at Poznan in June 1956, but its indecisive attempts prior to the Hungarian revolution to close its Pandora's box were ineffectual. Even after

Gomulka returned to power in October, Moscow was reluctant entirely to abandon its "liberal" course, and its admission of past mistakes in handling the satellites in its declaration of 30 October was made even more emphatic by the Chinese statements at the time criticizing "great-power chauvinism."

The uprising in Hungary was the last straw for the Communist leaders, however, and, from November on, the preoccupation was not with the evils caused by past arbitrary practices toward the satellites but with the dangers posed by separatist trends and the practice of ignoring the experience of the Soviet Union in building "socialism." At the same time, bloc leaders began to speak more and more of the "basic principles" of socialist

"REVISIONISM"

Revisionism can be defined as the attempt to revise fundamental Marxist-Leninist principles as accepted by Moscow. The main fundamental principles were listed in the 12-nation Moscow declaration of November 1957 and included:

- a) establishment of a dictatorship of the proletariat by means of a proletarian revolution in one form or another and leadership by a Marxist-Leninist party;
- b) an alliance between the workers and the peasants;
- c) abolition of capitalist ownership and establishment of public ownership of the basic means of production;
- d) the gradual socialist reconstruction of agriculture;
- e) planned development of the national economy aimed at building socialism and communism;
- f) proletarian internationalism (i.e., Soviet leadership);
- g) the defense of achievements of socialism against attacks by external and internal enemies.

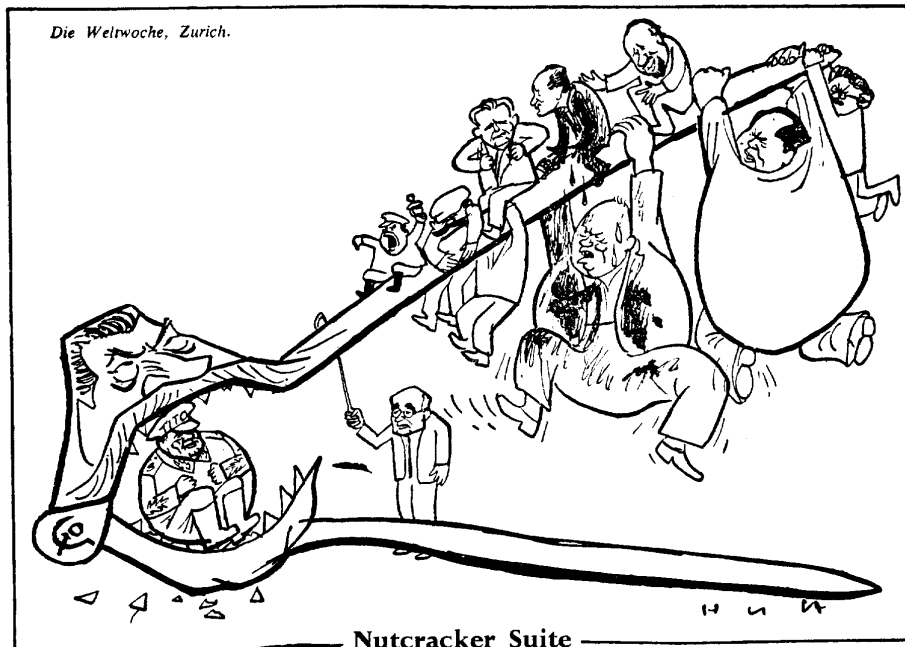
One of these principles, (d), was vaguely worded in the November declaration in deference to Gomulka, to whom gradualism in agriculture is a cardinal element of his "Polish road to Socialism." Many of the other bloc leaders would have preferred to omit the term "gradual." Similarly, although Gomulka subscribed to "proletarian internationalism" in the declaration, his subsequent interpretation of this principle differed considerably from that of, say, the Chinese leaders. In any case revisionism could easily be expanded by Moscow, if it suited the needs of the moment, to cover opposition in various forms--e.g., the "right-nationalist deviation" of Gomulka.

CONFIDENTIAL

~~SECRET~~

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958



construction derived from Soviet experience--an approach which had been de-emphasized after Stalin's death.

Clearly, both Moscow and Peiping were apprehensive after Hungary over the trend toward "national Communism." Only two countries at the time posed any immediate danger--Poland and Yugoslavia--the latter being outside the bloc and thus less accessible to pressure to conform. Therefore, the first goal had to be to ensure that the "national Communism" of Poland would be kept within bounds--that it would be prevented from heading toward another Hungary. Both Chinese and Soviet leaders made statements in November and December 1956 about the "basic principles," and in January 1957 Chou En-lai went to Warsaw and, acting on behalf of Moscow, apparently made some progress selling these principles to Gomulka.

Shortly afterward, Gomulka made a gesture toward accepting the Soviet lead in intrabloc af-

fairs--by altering his position on the Hungarian rebellion and subscribing at the central committee plenum in May to the "basic principles." Gomulka still hedged on the question of recognizing unqualified Soviet leadership of the bloc parties and insisted that the principles which might affect the most important aspects, e.g., agriculture, of his "Polish road to socialism" be vaguely worded. Nevertheless, his agreement provided some assurance to Moscow and Peiping that his "road" would not go in the same direction as Nagy's and thus the immediate danger posed by Poland was removed.

Yugoslav Revisionist Threat

Yugoslavia remained a menace, however, since it continued to exert great influence in all the Communist countries, the more so since it was outside the bloc. The polemics between Moscow and Belgrade between November 1956 and April 1957 clearly reflected Moscow's considered view that Yugoslav influence, which the satellites had been

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

warned about in September 1956, had played a major role in the events leading up to the Hungarian revolution. Relations improved, however, following the purge of Molotov and company in June, and, after some uncertain preliminaries, Khrushchev met Tito in Bucharest at the beginning of August 1957, where some of the former rapport was restored. They agreed that although they had opposing viewpoints, there was no point in stressing them in public.

Turning Point--November 1957

The November meeting of bloc leaders in Moscow had great significance for the subsequent dispute with Belgrade. From Khrushchev's speeches to

Moscow had reason to feel in the fall of 1957 that Tito might re-join the bloc by signing this declaration, it would certainly explain why so much importance was attached to the declaration, as well as to Tito's failure to sign it.

Tito's attitude toward Khrushchev apparently altered suddenly in late October, however, following Marshal Zhukov's visit and subsequent removal, and Belgrade announced on 29 October that Tito would not attend the Moscow meeting in November.

These developments probably led to the decision in Moscow that since Tito could not be enticed into the bloc, other tactics were necessary to counteract the serious influence of

KHRUSHCHEV ON DEVIATIONISTS

The Communist party of the Soviet Union will continue to dress down the attacks of opportunists and revisionists quite decisively. We shall do this not by interfering in the internal affairs of this or that party, but through comradely criticism and influence on the part of the revolutionary world movement and Marxist-Leninist parties on mistaken positions which may appear in one party or another.

We do not want the interference of parties in the internal affairs of other parties, or even the interference of states in the home affairs of other states, but comradely criticism, which also brings comradely aid, of those who make mistakes, but are capable of appreciating them, of understanding how they arose and of correcting them. As for the leadership of this or that party and the leadership of this or that country, they are a matter for the party and the government of the people in question to decide for themselves.

--from speech at East German party congress, 11 July 1958

the Bulgarian and East German party congresses on 3 June and 11 July 1958, it appears that Moscow had hoped to secure Tito's signature to the bloc declaration. Khrushchev argued in Berlin that it was not Moscow but the "other fraternal parties" which made alterations in the draft declaration--which Tito had been shown before November--to include mention of "Soviet leadership of the socialist camp and of the socialist parties."

Tito was apparently willing at the time of the Bucharest meeting in August to associate himself formally with the "socialist camp" provided the commitment would not involve subservience to Moscow. If indeed

Yugoslav ideas within the Communist movement. As Khrushchev said on 11 July in East Berlin, he drew the "necessary conclusions."

"Antirevisionist" Campaign

Accordingly, the November meeting was followed by a full-scale ideological campaign against "revisionism" directed against such well-known Western European "revisionists" as Kolakowski (Polish), Lukacs (Hungarian), Djilas (Yugoslav), and Harich (East German). The similarity between their ideas and those of the Yugoslav party leaders was obvious, but Yugoslavia was not explicitly linked during this period to the revisionist heresy.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

Tito had meanwhile drawn his own conclusions, as seen in the draft Yugoslav party program published on 13 March, which codified his heresies. His defiance, at a time when Moscow and Peiping both attached great importance to re-establishing discipline under Soviet authority, had to be answered and vigorously condemned. With the mid-April Kommunist article on the Yugoslav program, answered by defiant replies at the Yugoslav party congress, the polemical exchange between the bloc and Belgrade was renewed. Moscow's and Peiping's efforts, however, could never be successful if something were not done to negate the influence of the major revisionists, and thus Moscow could not ignore the man who of all others translated revisionism into action--who actually restored a multiparty system and called for the severance of his country from the Communist camp--Imre Nagy.

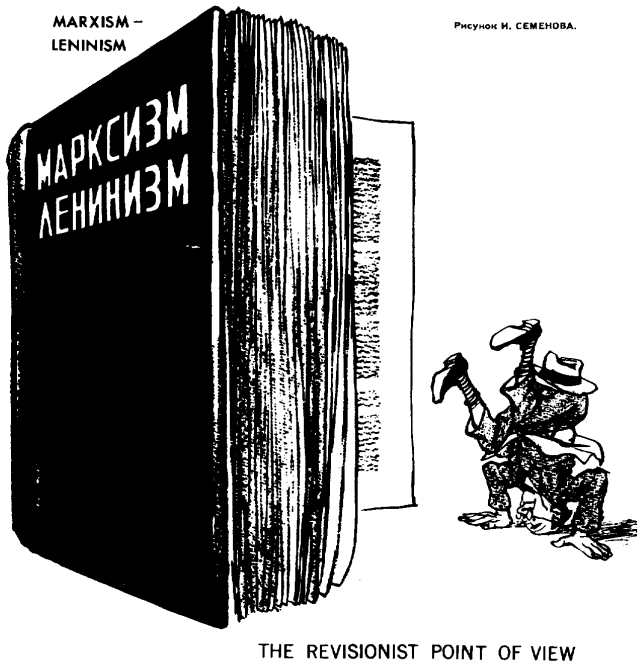
Necessity for Nagy's Execution

Nagy had long ago been declared a traitor and a detailed case built up against him. A severe sentence at some time was to be expected, but there was no pressing internal need to execute him. Externally, the move had many serious disadvantages. Moscow doubtless appreciated that Nagy would become a martyr in the West and that his execution would shock world opinion. Many relatively minor counterrevolutionaries had already been executed in Hungary, but Nagy's secret trial and execution were viewed by many Communists in Eastern Europe to signify a return to methods which had been discredited and disavowed only a year or two before.

Thus it would appear that the Nagy execution was decided on by Moscow as a symbolic step in the antirevisionist campaign, the necessity for which far outweighed the damage it would do abroad. The necessity arose from the fact that the paramount task of neutralizing Yugoslav ideological influence had not been accomplished by the polemics waged against Belgrade up to that point.

The Problem of Gomulka

Gomulka presents a problem to Moscow, not so much because of his internal program, but because of his refusal to accept unconditional Soviet leadership and to associate himself unreservedly with the line set by Moscow. This has obstructed bloc unity and exerts a dangerous influence on the other satellites.



FROM KROKODIL, 20 MARCH 1958

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

31 July 1958

Unlike Tito, however, Gomulka has not been accused of harboring revisionist views himself. Since October 1956, moreover, the Polish leader has demonstrated that by conviction he is strongly opposed to revisionism and has dealt firmly with Polish revisionists. He has committed Poland to the basic principles of socialist development based on Soviet experience, which provides a safeguard for Moscow against revisionist influence in his internal program. Gomulka still refuses, however, to submit to Soviet control over his internal program, and, by doing this, runs the risk of one day being tagged a revisionist who refused to subscribe fully to Moscow's interpretation of the letter and spirit of "proletarian internationalism," i.e., Soviet leadership.

In mid-June, however, Moscow's main concern was with Gomulka's obstruction of the bloc line toward Yugoslavia, and the Nagy execution was doubtless a warning to him, and possibly to Kadar as well, not to cause difficulty for Moscow in this most important sphere.

Moscow's Dilemma

Moscow is caught up in the same dilemma it faced when it first attempted to change its methods of dealing with the satellites--loosening the reins has the effect of undermining basic discipline with disastrous possibilities, while, on the other hand, direct exploitative methods, as practiced under Stalin, only antagonize the satellite peoples and build up anti-Soviet feeling.

The Soviet leaders, by altering their relationships with these countries after the death of Stalin, themselves contributed in large measure to the very undermining of bloc unity and discipline, not to mention the authority and pres-

tige of the USSR, which they now desire so strongly to restore. If they use the necessary measures to restore discipline, then they will be returning to the practices which they discredited in 1955 and 1956, and, moreover, will run the risk of building up the same resentments and animosities which contributed so much to the upheavals of 1956.

One of the most curious aspects of recent developments has been the frequent changes in the Soviet position, first of all during the anti-Tito campaign and later concerning the execution of Nagy. Thus, the original relatively mild language of the Kommunist article was soon followed by increasingly insulting attacks on the Yugoslavs. Later, the emphasis changed to maintaining correct "state" relations, as if the previous articles had gone too far.

There were also variations between the tone of the attacks on Yugoslavia by some of the bloc countries and the less unrelenting line of Moscow. In the case of Nagy, there was the shift in position between the indictment itself, which stressed the connection between "revisionist ideas" and Nagy's fate, and later reassurances from Moscow (as well as from Kadar) that the execution resulted solely from his treason. The threatening attitude of Peiping toward the Yugoslav leaders also contrasted with Moscow's more moderate approach.

These contrasts and inconsistencies suggest indecision, perhaps reflecting disagreement in Moscow on these issues, or at the very least indicate that bloc Communist leaders have not received clear directives on the proper line to follow.

Moscow's Present Policy

Recent speeches by Khrushchev provide some indication

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

of Moscow's present approach to this problem. In his speech in mid-July at the Czech reception in Moscow, Khrushchev referred to a "brotherly commonwealth of states with equal rights," the establishment of which, he said, was the major task at the moment. This same commonwealth was mentioned earlier in the 12-nation Moscow declaration of November 1957, although at the time it was not clear how the various participants would deal with one another.

In his 11 July speech in Berlin, as in an earlier speech in Bulgaria, Khrushchev apparently attempted to reassure Gomulka that his "equality" and "national sovereignty" need not be affected if he were to associate himself fully and unreservedly with such a commonwealth under Moscow's leadership. At the same time, however, Khrushchev made it clear that all satellite leaders, including Gomulka, are expected to consider not just their own country but the interests of the socialist camp as a whole. To do otherwise would "harm the lives and interests of their own people, and the interests of socialism."

The Cominform, it might be recalled, was organized in 1947 ostensibly as a "voluntary" association of countries participating on an equal basis. The present approach is not dissimilar, although the conditions have drastically changed. Khrushchev referred in his 11 July Berlin speech to the socialist camp as a "voluntary alliance of equal sovereign states in which no one aspires to special rights or seeks privileges and advantages."

Moscow is apparently attempting to attain its goal of restoring control and discipline through the medium of this ostensibly free and voluntary "commonwealth." In this way the satellite leaders receive assurances that their positions and internal programs will not

be interfered with by Moscow as long as they subscribe in essentials to Moscow's leadership. This cautious approach is influenced by the necessity of not antagonizing Gomulka, the chief problem child, into taking a hostile stand in the belief that his internal independence is threatened.

Moscow probably hopes that by persuasion and indirect pressures Gomulka can be slowly pushed to a point where his independence and control over internal policy will be different only in degree from that of the other satellites. Moscow, moreover, has apparently already achieved considerable success in talking Gomulka into going along with this scheme. As early as last November, on his return from the 40th anniversary celebrations in Moscow, Gomulka appeared pleased with the prospects for this new commonwealth.

In discussing the proposed "practical ties" between the Communist parties--bilateral and multilateral meetings--he still cautioned that:

...the question of the internal policy of each party cannot be determined by inter-party conferences. We must hold to the principle that each party should decide the best line of policy for itself and its country.

Since that time, however, the Poles have committed themselves to participate in the new international Communist journal, a sign that Gomulka's initial objections to this publication have been overcome. Indeed, Gomulka would seem to present no obstacle at the moment to Moscow's plan for intrabloc relations. Khrushchev, in his Moscow speech on 12 July, even gave Gomulka an "out" on the question of Western aid, although he warned that its acceptance was permissible only if the country concerned "marches in step with all socialist countries."

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

POLITICAL CONDITIONS IN IRAN

The Shah, who has always been unusually suspicious of subordinates, seems to be concerned that ambitious men in his entourage will now associate with dissatisfied groups to force either his removal or a serious limitation of his powers. The recent placing of tanks, antitank weapons, artillery, and additional troops around Saadabad Palace in Tehran is regarded by Iranian mili-



SHAH OF IRAN

tary men as a sign of fear and weakness on the part of the Shah. Indications that he is primarily concerned about his own safety will probably have an adverse effect on the morale of the army, on which he relies heavily to preserve his regime.

Basic Problems

The Shah has consolidated his power until he is a virtual dictator, but has created opposition which, under certain conditions, could overthrow him. Having observed ex-Premier Mos-sadeq arouse nationalism and having witnessed the fates of other Middle Eastern monarchs, he realizes he must push through political and economic reforms or eventually face revolution from urban leftists. At the same time, his reforms must

not antagonize large landowners and other wealthy groups into organizing a rightist coup. In addition, he is trying to hold the loyalty of the peasants, who constitute 80 percent of the population and who could become a decisive political force. He is doing this through the distribution of crown lands.

Although Iran's modernization program and preservation of the delicate political balance demand the most effective use of all available talent, the Shah refuses to delegate authority for fear that persons of ability may usurp power. He wants to surpass the achievements of his father, Reza Shah, but lacks the will and desire to use similar ruthless methods. The Shah, moreover, while sincere in his intention to eliminate corruption in general, has not taken measures to prevent members of the royal family from using their positions to increase their fortunes.



EQBAL

Typical of the Shah's unwillingness to delegate authority is his treatment of Prime Minister Eqbal. Eqbal, a forceful and popular personality when he took office in April 1957, has now become completely subservient to the Shah and thus

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

has lost his political prestige. As the public has become aware that the Shah has taken full responsibility for directing affairs, public criticism of government failures has been increasingly directed at the monarch. Veiled threats by the Shah to ensure prompt passage of desired legislation have increased parliamentary dissatisfaction with his methods.

The Shah's apprehension that his power will be usurped precludes the development of political parties in the Western sense. To ensure that no political groups acquire real strength, the Iranian intelligence agency is charged with overseeing the membership of the two existing "parties."

In an effort to give the impression that Iran is a developing democracy, the Shah has artificially created the Nationalist party and the Mardom (people's) party. The Nationalist party is designed to be "progovernment" and was reluctantly formed by Prime Minister Egbal at the Shah's insistence in February. Egbal has shown little enthusiasm to organize its membership and, as a result, the party has recently lost some important committee chairmanships in the Majlis to the "opposition" Mardom party headed by Assadollah Alam.

Alam formed his party in May 1957 and has moved energetically to enlarge its membership. The Shah may be grooming Alam for the prime ministership; however, if Alam is too successful in enlarging his party, the Shah will probably undermine his position.

Non-Communist Opposition

If political groups were permitted to develop naturally in Iran, nationalists who formerly were followers of Mossadeq would probably be the most nu-

merous opposition members. Although the government uses various repressive tactics on them, they continue to meet and plan. They are plagued by disputes as to the tactics they should adopt to oppose the regime. The arrest of over 70 nationalists last year may have inclined them toward planning extremist measures. The Shah's recent success in gaining favorable oil agreements with American companies temporarily raised his prestige, removing some of the nationalists' appeal.

The Shah apparently has no program to obtain the support of the growing urban middle class, which admired Mossadeq and is either actually or potentially the enemy of the regime. The Shah's hatred of all who were associated with the Mossadeq movement keeps him from utilizing the talents of even the conservative leaders of these groups. The discontent of the middle class is a grave political danger in Iran, and should this group ever seize the government, moderates might soon be replaced by Nasir-type demagogues.

The Tudeh

The Shah still has something to fear from the Communist Tudeh party. Declared illegal in 1949, the party continues to operate, particularly in Tehran and the oil center of Abadan, despite the best efforts of the Iranian security forces to eliminate it. Although Khosrow Ruzbah, the Tudeh leader, was executed in May, his death seems to have had little effect on the organization. The present size of the Tudeh is unknown, but in 1953 it had about 35,000 members before the Iranian Government sought to annihilate it.

The party continues to develop by recruiting Iranian youths and students abroad and receiving assistance from foreign Communist parties. In an

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

effort to ease some of the bitterness left over from the Mos-sadeq period, the Shah in March ordered the release from prison of certain Tudeh members formerly in the army and reduced the sentences of others.

Tribal Loyalties

Many tribal leaders are dissatisfied with the regime's policies, but the tribes are unlikely again to play a large political role in Iran without foreign assistance. Development of the Iranian military forces, rapid communication, higher educational levels, and increasing prosperity among the tribes have reduced tribal inclinations to struggle against the central government.

The powerful Bakhtiari tribe in west-central Iran has been closely allied with the regime, and a number of its members hold important positions in the government. Since Sor-aya, a Bakhtiari, was divorced by the Shah in March, however, there have been rumors that the tribe has been losing influence.

The 500,000-strong Kurdish tribe in northwestern Iran offers a potential threat to Iranian security, since members could, along with some of the 800,000 Kurds in Iraq, 250,000 in Syria, and 1,500,000 in Turkey, agitate for an independent Kurdish state. Kurdish-language broadcasts from the UAR, aimed at arousing Kurdish nationalism, began in June. These, together with the influence of a pro-Nasir government in Iraq, could cause widespread unrest in northwestern Iran. Iran is counterattacking by using propaganda and agents to convince Kurds in Iran and Iraq that they are an Aryan people having nothing in common with Arabs, who are using them to advance Arab imperialism.

Iran is especially sensitive to Kurdish nationalism be-

cause Mullah Mustafa Barzani, former leader of the Barzani Kurdish tribe of Iraq, helped organize a Soviet-sponsored Kurdish republic in Iran in 1945-46. When the incipient republic was overthrown by Iranian troops, Barzani and some of his followers fled to the USSR.

The Army

The Shah relies heavily on his 143,000-man army to preserve his power, and he devotes considerable time to ensure the personal loyalty of its commanders. To prevent conspiracies, he plays one leader against the other. In spite of the Shah's precautions, General Valiollah Gharani, former G-2, was able to form a group, uncovered by the Shah early this year, which had been plotting for almost a year to reduce the Shah to a figurehead. While the army is the most dependable of the Shah's supports, it contains weaknesses which, in a period of severe political pressure on the monarch, might cause elements to support opposing political forces.

A major weakness is the growing rivalry between the old officers and the young. The older commanders are disturbed by the threat to their positions which arises from young officers who are returning from the United States after being exposed to the latest military doctrine and advanced equipment. These young officers in turn, who now see their senior officers in a new light, are dissatisfied with the army's inefficiency and with promotions based on family connections rather than on merit.

The Shah has assured American officials he intends to promote trained officers into high positions. If he does so rapidly, however, the older officers may attempt to limit his powers or remove him. On the other hand, if opportunities for advancement occur too slowly, the

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

impatient younger officers may organize to force their will on the Shah.

These present and potential factors of unrest could bring

about a rapid deterioration of stability in Iran if the right spark were applied. Dissident elements have probably been encouraged by events in Iraq.

25X1

* * *

USSR PUBLISHES NEW DRAFT CRIMINAL STATUTES

After years of delay, draft "basic principles" of both Soviet criminal law and criminal procedure were published in June 1958 to set the guidelines within which the 15 union republics will draw up their own detailed criminal codes. The drafts are still open to discussion and change before they are ratified by the USSR Supreme Soviet, probably toward the end of the year. While major overhauls are unlikely, there have been signs of continuing disagreement among legal experts which might result in minor revisions.

The draft statutes, which to a considerable degree merely update the old codes first formulated in the 1920's and embody recent legislative enactments, contain no surprises and envisage no drastic revision of present legislation. They contain some innovations for protecting the rights of the accused, suggested during a period of public discussion, over the past several years, but fail to incorporate several of the more liberal proposals. This failure and evidence of compromises can be traced not so much to opposition of the leadership to adopting moderate legal reforms, but rather to conflicts of interests among the various branches of the legal profession--jurists, the procuracy, collegia of lawyers--and also the police and security organs.

Most of the changes introduced by the draft statutes are apparently designed to give the Soviet citizen a fuller expectation of a fair trial and, in this, they supplement earlier measures--the abolition in 1953 of the MVD's summary trial boards and the abrogation in 1956 of legislation which prescribed special trial procedures for political crimes. While the draft codes still assign the Soviet legal system the prime political function of preserving the present political and social structure, they also acknowledge for the first time the "personal, political, property, and other rights of citizens."

Thus, without seriously weakening its coercive power, the party leadership has sought to adjust the code to the relatively more stable conditions of Soviet society, and, at the same time, garner whatever popularity is to be gained from a relaxation of criminal penalties.

Many questions about criminal legislation are left unanswered by the draft statutes, and a final appraisal of the criminal law and procedure must await the appearance of the republic codes. This is particularly true in the case of criminal law, as opposed to the code of criminal procedure, because the draft statute provides only a

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

frequently advocated in the public debate. Its literal adoption was opposed by the procuracy and investigative organs on the grounds that it would inhibit the prosecution of a case--the prosecutor must be convinced that the data from the pretrial investigation supports the charge against the defendant or else he must refuse to prosecute.

As a compromise, Article 13 states that "the obligation to prove the guilt of the accused lies with the prosecutor. A verdict of guilty may not be based on assumptions and may only be passed if guilt of the accused for the commission of the crime is proved."

Trial: During the public discussions, it was recommended that the number of "people's assessors" participating in a criminal trial be increased over the present two, and there were even suggestions that the assessors be organized into a kind of jury which would deliberate without participation of the judge. These proposals were categorically rejected as repudiating time-proven Soviet court procedure and as marking a return to Tsarist court practices. Soviet legal authorities would be wary of relying on a group of citizens to make a decision without benefit of a trained jurist.

Trials are to be held in open court except where state secrets or information about the intimate life of the participants are involved or where a minor is concerned. The court is obliged to base its decision on a review of all of the information presented, not just one type of evidence, to preclude, Baranov states, the "overevaluation" of a confession. However, suggestions that a confession be given a secondary status were rejected.

The procuracy is charged with the general responsibility

of ensuring that persons suspected of a crime are apprehended, detained, and charged only in accord with legal procedures. According to Article 17, an arrest may be made only by decision of the court or by sanction of the procurator, and detention of suspects must be duly reported to the procuracy. Until the new republic codes are drafted, it will not be clear what, if any, exceptions to the procuracy's supervisory functions exist. All of these prerogatives were granted in the 1955 Statute on the Procuracy, and, yet, in the 1956 edition of the RSFSR Criminal Code, it was stated in a footnote that the method of sanctioning arrests by the MVD is provided for "in special rules."

Criminal Law

Certain features of the draft statute on criminal law apparently have been operative for some time but have not appeared in the official code until now. According to Article 4, only "the courts, in accordance with the law," may sentence persons for criminal offenses. D. S. Karev, dean of the Law Faculty at Moscow University, indicated in a recent article that this clause was included in the draft statute to acknowledge that the Special Board of the MVD, which was authorized to sentence administratively, had been abolished. The language of the statute confirms that corrective labor camps have been reorganized into corrective labor colonies. Special colonies have been established for juvenile offenders.

According to Article 3, criminal proceedings are not to be brought against anyone except for "crimes provided for in the criminal code." This eliminates the "analogy article" which permitted a court to prosecute an action "constituting a social danger," even if not directly specified by the codes, by means of applying sections of

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

the code "that deal with crimes of the most nearly similar nature." The republic codes could circumvent Article 3 through loose and vague definitions of crimes, particularly Section 58 on counterrevolutionary crimes and sections on economic and administrative crimes.

The severity of the terms of confinement have been tempered. According to the RSFSR Criminal Code now in force, persons may be sentenced for imprisonment up to 25 years for very serious crimes. The upper limit has been reduced in the new draft to 15 years. In addition, the maximum term of exile has been reduced from 10 to 5 years; the terms of parole have been liberalized so that a convict may be released after completing one half of his term instead of two thirds, and the conditions under which an individual can have his criminal record expunged have been eased.

The death penalty has been retained for treason, espionage, sabotage, terrorist acts, premeditated murder under aggravated circumstances, and, in time of war, especially serious military crimes.

Recent Negative Developments

While the revisions in the criminal codes have moved in the general direction of protecting the rights of the individual and removing the more blatantly arbitrary features, the regime does not consider the criminal law sacrosanct or beyond politics. The "parasite laws," approved or under discussion in all of the union republics since 1957, provide for exile and compulsory labor for "antisocial and parasitic elements" in a manner falling outside the normal legal framework. Offenders are sentenced not by the courts but

by groups of citizens, and the decision is reviewed not by the judiciary but by the local soviets.

Several distinguished jurists, including a deputy chairman of the RSFSR Supreme Soviet, have objected to the "parasite laws" on the grounds that they are unconstitutional and usurp the judicial function. It is apparent that the regime, in order to correct what it considers a serious domestic problem, has chosen a rather arbitrary procedure open to manipulation by police and party officials and outside existing criminal codes and the new basic principles.

In addition, the regime has recently taken a step backward from the recent trend toward rescinding criminal sanctions in the economic field. A decree of 24 April provided that economic administrators repeatedly violating contractual obligations for interregional deliveries are to be held "criminally" responsible. In cases involving repeated violations, personal criminal responsibility is to be established rather than mere enterprise responsibility as heretofore.

Thus the regime, faced with what it apparently considers serious problems of "localism" in connection with the industrial reorganization, has not hesitated to use criminal legislation for assistance, and it may draft new laws of a similar nature to cope with other problems of its reorganized industrial management--such as mishandling of investment funds.

All this is to say that criminal codes in the USSR do not have an independent juridical basis but are viewed by the regime as a political instrument for the achievement of its programs. 25X1

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

COLOMBIA'S ECONOMIC PROSPECTS

Colombia--Latin America's fourth most populous country and the world's second largest coffee producer--is faced with serious economic problems. Despite substantial real gains in output, new record highs for commerce and industry, increased employment, and other indications that the domestic economy is operating at a high level. The drop in coffee prices and the poor prospect for any reversal of this trend, inflation, and the burden of a large commercial debt are threats to the stability of the democratic government of Lleras Camargo which takes office on 7 August.

Background

The financial mismanagement of the Rojas dictatorship from 1953 to May 1957 left Colombia with a rapidly growing inflation, a critical deficit in the balance of payments, and an annual budget deficit of 10 percent. The gross national product grew at an average annual rate of 6 percent during this period, but money in circulation rose at a rate of 18 percent. Dollar earnings increased rapidly, but imports expanded at an even faster rate, leaving a foreign commercial debt recently estimated at \$470,000,000. Since the downfall of the Rojas regime, the military junta and civilian cabinet have taken steps to free the exchange rate and settle the backlog of commercial debt. They have also restricted credit and imports, and conducted a limited economic austerity program.

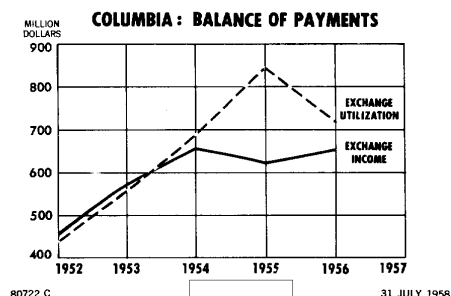
A deepening of the economic crisis could threaten Colombia's attempt to achieve social and political stability after some ten years of autocratic government, bitter political warfare, and rural violence which have resulted

in an estimated 100,000 deaths. While the scheduled inauguration on 7 August of Lleras Camargo as the joint Liberal-Conservative president will give Colombia for the first time in many years a leader elected by a majority of the people, the long-standing political and social conditions which have resulted in instability and violence still remain.

Neither of the parties comprising the government has pressed for a program of basic social or economic reforms to better the position of the lower classes. Both parties represent the landed upper classes and will probably do little to make the needed changes in the agricultural sector of the economy, except to rehabilitate the peasants driven off their farms by partisan guerrilla warfare.

Economic Problems

In spite of credit and import restrictions, the econ-



25X1

omy on the whole continues prosperous under the momentum generated by the inflationary growth of previous years. The reduction in imports of capital goods, however, is likely to have an adverse effect on the long-range productive capacity of Colombian industry.

The present inflation is a source of great bitterness

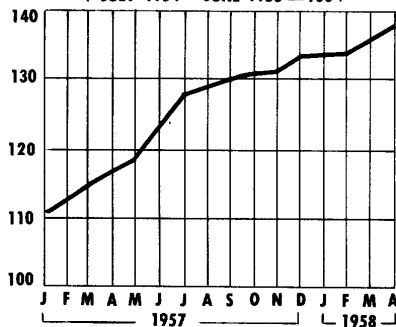
SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

among the lower classes, whose real wages continue to decline. The rising cost of living could lead to social unrest and strikes which would threaten the delicate balance of the bipartisan political accords. Government attempts to control prices have had limited success.

COLUMBIA: COST OF LIVING INDEX
(JULY 1954 - JUNE 1955 = 100)



80722 A

31 JULY 1958

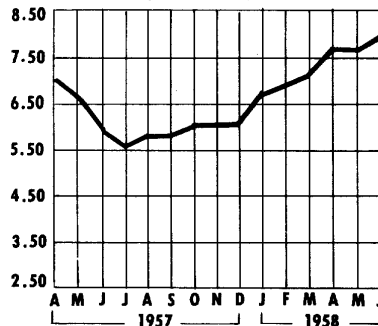
The burden of the huge commercial debt left by the Rojas regime, coupled with the drop in exchange revenues from coffee, is a further obstacle to the government's attempts to restore the country's economic position. The backlog has been settled by drawing on reserves and current income from coffee sales, by funding arrangements with US banks, and by borrowing from the Export-Import Bank and private banks. As a result, Colombia must devote 15 percent of its future dollar income to servicing its foreign governmental and commercial debt, a burden further compounded by falling foreign exchange revenue from coffee sales. The prospect that such revenue would be inadequate to cover minimum essential imports led Colombia to obtain a \$103,000,000 credit line from the Export-Import Bank and private US banks in June.

Coffee Picture

The world overproduction of coffee has forced prices down from 72 to 52 cents per pound in New York during the past year, and has drastically reduced Colombia's dollar exchange earnings, 85 percent of which are obtained from coffee exports. Since last October, when it signed the Mexico City Agreement, in which the members agreed to withhold a percentage of their crops from export, Colombia has accumulated a surplus of over 3,000,000 bags of coffee, and exports have declined steadily during recent months. Unless exports increase substantially in the second half of the year, the annual level will be the lowest since 1942.

The government has been forced to print money to pay producers for coffee held off the market. With the amount

COLUMBIA: FOREIGN EXCHANGE RATE
(IN DOLLARS)



80722 B

31 JULY 1958

of money in circulation at an all-time high, the further issuance of money will accelerate the inflationary spiral if, as it now appears, the retention of surplus coffee stocks has to be continued over an extended period.

A return to free marketing is opposed by the Colombian semi-official National Coffee Federation, which fears that the price

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

31 July 1958

of coffee would drop sharply if the Latin American coffee surplus were put on the market. This drop would not be offset by an increase in sales, since the demand for coffee is fairly constant regardless of price variations. Opponents of Colombia's coffee policy feel the market for Colombian coffee would not drop as much as that for other stronger varieties, such as Brazilian and African.

Nevertheless, the policy of the National Coffee Federation is supported by many influential government officials and is not likely to change in the near future. Meanwhile, the United States may expect continued pressure for an international pact to stabilize coffee prices.

Economic Prospects

The government can be expected to maintain its tight

money policies under the leadership of Lleras Camargo, who has promised to direct major efforts to the solution of the country's economic problems, and this will also have some arresting influence on the present high level of activity.

Inflationary pressures show no signs of abating, and, unless a new coffee arrangement is reached, the government may be forced to print more money to pay for the coffee retention program. The \$103,000,000 loan from the United States will ease the austerity of import restrictions, but will not provide sufficient imports to eliminate the excess demand for imported goods and services. These inflationary pressures and the foreign trade deficit will continue to threaten political stability. [redacted]

[redacted] 25X1

25X1

* * *

SECRET

Page Denied