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15 January 1959

CURRENT INTELLIGENCE WEEKLY SUMMARY

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OFFICE OF CURRENT INTELLIGENCE

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

PART I

OF IMMEDIATE INTEREST

THE BERLIN SITUATION Page 1

Moscow's notes of 10 January calling for a German peace conference are intended to retain the initiative and keep pressure on the West for negotiations. In Western Europe, there was an almost unanimous rejection of the peace treaty proposals. There was, however, a general feeling that eventually there must be negotiations with Moscow.

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MIDDLE EAST DEVELOPMENTS Page 3

Qasim, possibly in response to Iraqi Army pressure, has issued a decree making the Communist-dominated Popular Resistance Front subservient to the army. The UAR is pursuing its internal anti-Communist campaign. Although overshadowed by this campaign and the developments in UAR-Iraqi relations, the UAR's hostility toward pro-Western area leaders like Tunisian President Bourguiba and Jordan's King Husayn appears unabated.

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CAMBODIA Page 4

Premier Sihanouk has been informed of plotting by South Vietnam and Thailand to overthrow his neutralist regime. Rupture of relations with South Vietnam seems an immediate prospect. Sihanouk probably believes Chinese Communist charges of American involvement in this intrigue, but has not decided whether to accept support offered by Peiping to bolster his position. In Thailand, there are indications that because of illness, Marshal Sarit, is not exercising full control over government affairs.

RIGHTIST POWER MOVE SUCCEEDS IN LAOS Page 5

The Laotian National Assembly's grant of full governmental powers to Prime Minister Phoui Sananikone gives him a year in which--unfettered by assembly pressure--he can try to carry out a program to rally public support for a conservative government. Phoui will reorganize his cabinet, presumably to include several military leaders and a greater proportion of young reformers. In gaining his 12-month respite, Phoui used North Vietnam's military pressure in the disputed frontier area to justify his request for full power. Laos has not accepted Hanoi's

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PART I (continued)

bid for negotiations; it has officially informed the United Nations of the border incursion and requested a UN observer. [redacted]

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PART II

NOTES AND COMMENTS

[redacted] 25X6

MOSCOW SEEKS FURTHER RESTRICTIONS ON JAPANESE FISHING . . . Page 1

The adamant attitude of the Soviet negotiators at the annual Soviet-Japanese fishery negotiations which opened in Tokyo on 12 January suggests that the USSR will propose increased restrictions on Japanese fishing next year in the North Pacific treaty area. [redacted]

[redacted] 25X6

[redacted] 25X1

[redacted] 25X1

FOOD SHORTAGES IN COMMUNIST CHINA Page 4

Shortages of some food items in major Chinese Communist cities are tarnishing the regime's claim of huge increases in agricultural output. The shortages, apparently

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PART II (continued)

severe, could become a major source of irritation among the people at a time when the regime is stepping up its demands on their time and energy. A promised increase in the cotton cloth ration will be welcomed by the Chinese consumer, but it does not begin to keep pace with the claim that cotton production doubled in 1958.

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PEIPING PRAISES USSR AS MODEL OF SOCIALISM Page 5

The Chinese Communists are reviving the theme of "learning from the Soviet Union in building socialism"-- a line not prominently mentioned in China during most of 1958. This display of deference to the Soviet example is another step in Peiping's modification of its earlier claims of a rapid advance toward Communism, and suggests China will avoid further public statements implying that its "road" is basically different from the one already traveled by the USSR. The continuation of the commune campaign demonstrates, however, that Peiping to a large degree is still independent on the practical level.

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THE NEW SOVIET VOLUNTEER WORKERS' MILITIA Page 6

Volunteer workers' militia detachments are being formed in the USSR as civilian auxiliaries to the police. Although complete details of their organization have not been worked out, it is known that these detachments are to be an armed, elite group composed of "the best of the best, the most authoritative and proved comrades."

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SOVIET TACTICS AT THE GENEVA TALKS Page 7

The Soviet delegate to the talks in Geneva on a nuclear test-cessation agreement, while agreeing to negotiate treaty articles dealing with relatively noncontroversial points, has not deviated from the basic position taken on 25 December by Gromyko--that alleged "invalid conditions" of the West were blocking agreement. Moscow may believe that ostensible agreement on all matters except those "conditions" will further the Soviet effort to place on the West the onus for any stalemate. The Soviet bid of 10 January to resume negotiations on the adjourned surprise-attack talks is intended to contrast favorably with the Western insistence on first evaluating the results of previous sessions before setting a specific date for reconvening.

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CUBAN COMMUNIST GAINS Page 9

The Cuban Communists, whose party was outlawed by Batista, have been making rapid gains since his fall and

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PART II (continued)

have been exerting a special effort to influence the labor movement. Provisional President Urrutia and the leading members of his cabinet are anti-Communist but seem unlikely to take decisive action against the Communists' Popular Socialist party. Fidel Castro has declared that the party, with a membership estimated at 8,000 to 12,000, now will be permitted legal status. [redacted]

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BLOC ECONOMIC ACTIVITY IN IRAQ Page 9

The Sino-Soviet bloc, which has made substantial arms shipments to Baghdad, is making a concentrated effort to develop economic as well as political relations with the new Iraqi Government. A Soviet delegation arrived in Baghdad early this month to discuss economic and technical cooperation between the two countries, and it is likely that Moscow will soon offer financial aid. [redacted]

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NEW BELGIAN POLICY TOWARD THE CONGO Page 10

Belgium's 13 January announcement of a new policy for the Congo, given special urgency by the recent rioting in Leopoldville, promises limited autonomy in the near future and full independence eventually. The Belgians hope for some federative ties with their African colony. In the Congo the new policy pronouncement will probably be received with suspicion and distrust by increasingly impatient African Nationalists. Among the colony's approximately 23,000 permanent white settlers, it may evoke strong opposition and possibly agitation for the extension of autonomy to defined "European" regions. [redacted]

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NEW FRENCH MOVES ON ALGERIA Page 12

Despite De Gaulle's public position that a political solution for Algeria is to be delayed pending progress toward economic and social development, French propaganda and behind-the-scenes moves appear aimed at early negotiations with the rebels. While rebel leaders remain distrustful of Paris, settler apprehensions over De Gaulle's intentions are becoming more outspoken, and any evidence that rebel desires for independence are actively being discussed will arouse violent reaction. [redacted]

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BERBER DISSIDENCE IN MOROCCO Page 13

Moroccan authorities appear to have made some progress--although not as much as they are claiming--toward re-establishing order in areas of northern Morocco where Berber tribal dissidence recently assumed serious proportions. However, hard-core dissidents remain active in the mountains and will probably continue their resistance at least until Rabat takes measures to alleviate Berber

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economic distress and meet Berber demands for a larger voice in both the central and local administrations. Moroccan leaders close to the King and the dominant Istiqlal party--the principal object of the dissidents' wrath--continue to play up the theme of foreign--principally French and Spanish--subversion. [redacted]

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BAGHDAD PACT MINISTERIAL COUNCIL MEETING Page 14

The Baghdad Pact Ministerial Council, which is to hold its semiannual session in Karachi from 26 to 28 January, will concern itself primarily with the effects of the Iraqi revolution last July. Iraq still has not made clear its official policy toward the pact. Steps are being taken to strengthen the organization through bilateral defense agreements between the United States and Iran, Turkey, and Pakistan. [redacted]

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EFFECTS OF CEYLON'S AGREEMENTS WITH SINO-SOVIET BLOC . . . Page 15

Ceylon's economic and cultural pacts signed with Peiping and Moscow about a year ago have not yet substantially increased Communist influence on the island or adversely affected the neutralist government's attitude toward the free world. Sino-Soviet efforts to expand cultural relations with Ceylon have thus far proved more successful than the bloc's economic activity. [redacted]

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INDIA PREPARING AMBITIOUS THIRD FIVE-YEAR PLAN Page 16

Recent statements by Indian leaders and resolutions passed at the 6-11 January annual meeting of the Congress party indicate that Nehru plans to intensify the pace of India's economic development under the Third Five-Year Plan (1961-66) in an effort to keep up with Communist China's "giant leap forward." New Delhi apparently is planning a goal of nearly \$21 billion for the third plan, compared with a probable expenditure of \$13.5 billion, 80 percent of the original goal, during the second plan. The target is beyond India's financial capacity and would probably have a foreign exchange gap of several billion dollars. [redacted]

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FINLAND'S NEW GOVERNMENT Page 17

The minority Agrarian government finally formed by V. J. Sukselainen on 13 January has as its chief task the normalizing of trade and political relations with the USSR--a problem made more urgent by Finland's growing economic difficulties. The Sukselainen government may be forced to depend on the combined votes of the Communist-front Finnish People's Democratic League and the splinter Opposition Social Democrats. [redacted]

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THE WEEK IN BRIEF

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PART III

PATTERNS AND PERSPECTIVES

PRESIDENT FRONDIZI'S PROBLEMS IN ARGENTINA Page 1

Argentine President Arturo Frondizi, who will visit the United States from 19 January to 1 February, initiated on 1 January a rigorous austerity and monetary stabilization program which will be backed by \$329,000,000 in foreign credits [redacted] Opposition groups, especially the Peronistas, who are trying to regain control of organized labor through elections now under way, have already attacked the program, casting doubt on Frondizi's ability to carry it out. Frondizi is, however, determined to push the program, and the state of siege imposed on 11 November to quell politically motivated labor disturbances will probably be continued during the initial stages of the new program. [redacted]

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THE SOVIET COLLECTIVE FARM -- THEORY AND PRACTICE Page 8

In the face of Chinese Communist claims that the commune is a "more progressive" form of social organization, Moscow has continued to maintain that the collective farm system must be "consolidated," not eliminated, and that the arrival of Communism under the formula of "from each according to his ability, to each according to his needs" must await the achievement of material abundance. The Soviet regime's policy in the countryside calls for the eventual transformation of rural life through evolutionary policies larded with material incentives, rather than through violent changes in organization such as the Chinese have employed. Despite these differences in approach, however, Moscow's final aim, like Peiping's, is to effect a fundamental alteration of the collective farm structure and, in accordance with long-standing Marxist doctrine, to convert the peasant to a political, economic, and social status identical with that of the factory worker. [redacted]

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PART III (continued)

THE STATUS OF SOVIET INDUSTRIAL REORGANIZATION Page 13

Further steps in Khrushchev's evolutionary reshaping of Soviet economic institutions may be revealed in connection with the forthcoming 21st party congress, convening this month to launch the new Seven-Year Plan (1959-1965). Measures affecting Soviet industry which might be taken include a redefinition of administrative regions, clearer assignments of responsibility and authority to republic and regional organs for deciding investment allocations, and possibly the re-establishment of a Supreme Economic Council. Although realignment of relationships within the chain of command between the controlling center and the producing enterprise will continue, there is no indication that the system of directing the economy by command is to be altered.



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PART I**OF IMMEDIATE INTEREST****THE BERLIN SITUATION****Soviet Peace Proposal**

The USSR's notes of 10 January to the Western powers calling for a conference in Warsaw or Prague within two months to conclude a German peace treaty and to discuss the Berlin question are intended to demonstrate Soviet desire to negotiate. The USSR wishes to appear responsive to Western objections to discussing Berlin except within the wider framework of Germany and European security. Soviet leaders apparently expect that the proposal to hold a peace conference will place the Soviet Union in a position to exploit growing pressures within the Western powers

for a general policy review of problems relating to German reunification.

The draft peace treaty appended to the notes elaborates the 11 "basic provisions" for a treaty set forth in the aide-memoire Mikoyan delivered to Secretary Dulles on 5 January. It is essentially a formula for a neutral Germany, with the central theme that Western recognition of two Germanys is necessary to any progress on a German settlement. It provides for participation by both Germanys in the negotiation and signing of a treaty. If a German confederation should then exist, it would also be represented.

The draft also provides for the withdrawal of foreign troops from Germany, a ban on German possession and produc-

tion of nuclear weapons and other instruments of mass destruction as well as bombers and submarines, and a prohibition on German participation in military alliances directed against any of the signatory powers. It would bind "Germany" to suppress any Nazi organizations and activities as well as any organizations, including those of refugees, hostile to any of the Allied powers. A demilitarized "free city" of Berlin would be established pending the reunification of Germany.

The notes warned again that Western refusal to negotiate will not prevent the USSR from "renouncing its functions in Berlin" and transferring control over Allied access to Berlin to the East Germans, but failed to mention again the six-month deadline. Moscow is in a position to be able to hand over its quadripartite functions in Berlin to the East German regime at any time. ^{25X6}

Moscow probably does not expect a conference to take place now on these terms. Soviet leaders apparently hope, however, that constant pressure will eventually produce a break in the Western position on Germany and European security or at least will lead to greater popular acceptance of the Soviet view that rapprochement between the two German states is the only solution to the reunification problem.

West European Reaction

Chancellor Adenauer called for outright rejection of the

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Soviet draft treaty, and the West German press backed up this demand with sharp criticism of the treaty as demanding a "second surrender" of Germans. On the question of future negotiations, there was less unanimity in Bonn than elsewhere. Most papers saw a high-level meeting on Germany taking place within the next few months. The pro-Social Democratic (SPD) press and some independent papers called for negotiations in the hope of inducing the Soviet Union to modify its "maximum demands." SPD Deputy Chairman Wehner warned against flatly rejecting the Soviet proposals.

sponses and discussions of the revised Rapacki plan. The Manchester Guardian observed that "an unconstructive Russian approach is not justification for an unconstructive Western reply."

East Germany - Berlin

Strongly echoing Moscow's claim that East Germany is a fully sovereign state, the Ulbricht regime now appears to be laying the groundwork for an eventual claim that it is the only legitimate German state. Its note of 7 January to Moscow reiterated that West Berlin belongs to East Germany. The note further declared that the East Berlin municipal authorities are the "sole rightful organs" for the whole city. Premier Grotewohl's tour of the Middle East is also designed to underline East German claims to sovereignty. Following Grotewohl's minor successes in Cairo and Baghdad, he saw Nehru, but apparently failed to change India's policy of nonrecognition of East Germany.

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Soviet authorities in Berlin are continuing to insist that American authorities must now deal with East Germany on all questions concerning American military personnel in East Germany and East Berlin.

While the Soviet Kommandatura in East Berlin continues its normal activities at Karlshorst, a Soviet pamphlet, commenting on the Soviet note of 27 November, explicitly stated that the Kommandatura would be closed down and the guard troops attached to it withdrawn from the city as part of the Soviet handover of its functions to East Germans. American officials note that the USSR is reported to be closing down

French Foreign Ministry officials believe the Soviet note is an unacceptable basis for negotiations and is a tougher position than previous Soviet peace treaty proposals. An analysis of Mikoyan's aide-memoire stressed that the 10 January note makes clear the Soviet aim of neutralizing Germany without reunification. Some of the French press, however, noted a more conciliatory language, which was felt to indicate Moscow's desire for negotiations.

The British press with near unanimity continues to argue for "less negative" Western re-

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the important ordinance facility at Berlin/Oberschoeneweide and believe the termination of this facility will probably

occur when other Soviet forces are withdrawn from the city.

MIDDLE EAST DEVELOPMENTS

Although Iraqi Prime Minister Qasim's speech on 6 January implied that students and other elements who have engaged in street demonstrations should get back to work and that the role of the Communist-dominated Popular Resistance Force (PRF) should be limited, his words seem to have had little effect. Street clashes have continued; the pro-UAR "nationalists" have had the better of it in Mosul in northern Iraq but are the underdogs elsewhere in the country. The port of Basra, where a mob besieged the army garrison early in December, remains a hotbed of radical agitation and of demands that the PRF be given arms.

Qasim on 14 January answered this agitation with a decree which declares that the PRF functions only under the command of the army and only in wartime or specified emergency conditions. Members must be in a special uniform and carry documentation when on duty. The Communist press in Baghdad has not printed or referred to this decree, which most probably is a result of army pressure on Qasim.

The newspaper war between Cairo and Baghdad appears to have subsided somewhat, although pro-Communist and UAR-subsidized papers in Beirut are still violently assailing each other.

Nasir's internal anti-Communist campaign reportedly

has now reached the point where some of those arrested in the first roundup have been released because they are not regarded as particularly dangerous. Reports from provincial centers, such as Alexandria and Aleppo, nevertheless continue to indicate a thoroughgoing sweep which has brought in a number of leading Communist intellectuals as well as party activists.

In Syria the campaign has even touched some of Interior Minister Sarraj's own subordinates, and his passports control officer and the secretary general of the Interior Ministry, who was responsible for police and security affairs, have been removed from their posts. The latter official, known for his Communist sympathies, was chief prosecutor during the so-called "American conspiracy" trials in 1957. Sarraj went to Cairo for an interview with Nasir on 11 January.

Although overshadowed by the developments in UAR-Iraqi relations and by the UAR anti-Communist effort, Cairo's hostility toward pro-Western governments in the area appears unabated. Cairo radio continues vitriolic attacks on Tunisian President Bourguiba, promising that the Arab people will eventually deal with him and implying that he will share the fate of Nuri Said.

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CAMBODIA

Cambodian Premier Sihanouk has been apprised of plotting by South Vietnam and Thailand to overthrow his neutralist regime. Charges of American involvement have been made by the Chinese Communist Embassy in Phnom Penh, which sounded the initial warning to Sihanouk of the gathering threat against him. The French ambassador, who also discussed the reported plots with Sihanouk, warned against the Communist allegations and urged caution in taking counter-measures so as to avoid international repercussions. Rupture of relations with South Vietnam seems an immediate prospect.

Sihanouk reportedly is considering an accord with Peiping for the stationing of Chinese Communist troops in Cambodia to forestall efforts to unseat him. Sihanouk has claimed to have received a standing offer of direct support for his regime when he visited

Peiping last August. He is aware, however, that acceptance of even token Communist military aid would jeopardize continued American assistance, and would risk alienating the anti-Communist Cambodian Army.

Unless driven by desperation, Sihanouk will probably stop short of such measures, but might enter into some form of mutual defense pact with Peiping to intimidate his foes. He is likely, however, to denounce the plotting against him as Western-inspired efforts to draw Cambodia into SEATO, and will probably portray it as a threat to destroy the monarchy.

South Vietnam and Thailand strongly feel that Sihanouk's accommodation with the Communist bloc menaces their own security, and they would like to see him removed from leadership in Cambodia. Opponents of Sihanouk, including former Premier Son

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Ngoc Thanh and royal councilor Sam Sary, are meeting increasingly sympathetic response in Bangkok and Saigon in their intrigues against Sihanouk.

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Sarit's juniors in the ruling military group hesitate to fill the leadership vacuum, however, probably fearing that in one of his occasional moments of effectiveness Sarit might suddenly turn on them. The lesson of Sarit's summary execution of a number of suspected Chinese arsonists has doubtless not been lost on them.

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In Thailand, there are growing indications that Marshal Sarit is not exercising full control over governmental affairs.

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RIGHTIST POWER MOVE SUCCEEDS IN LAOS

The Laotian National Assembly on 14 January granted Prime Minister Phoui Sananikone full governmental powers for 12 months to meet what he terms a situation of "national danger" stemming from internal subversion and external pressures from North Vietnam. In essence, the assembly voted approval of Phoui's program and assured him a year to implement it in which he will be unfettered by assembly pressures. He will also be able to reorganize his government as he sees fit. As part of his program, Phoui will ask the crown to appoint a commission to study revision of the constitution, with emphasis presumably on strengthening the powers of the executive at the expense of the legislature.

tantly, with the realization that the alternative to Phoui might have been an outright military coup. Phoui, however, has sweetened the bitter pill by promising a number of government sinecures to idled conservative deputies. Phoui is reportedly thinking in terms of a 12-man cabinet, including four young reformers from the Committee for Defense of National Interests, two senior army officers, and six politicians from conservative ranks.

The conservative Laotian politicians probably voted the special powers to Phoui reluctantly,

The considerable jockeying for position that almost certainly will accompany selection of a cabinet could lead to friction between Phoui and his army supporters, especially if Phoui attempts to pack the cabinet with members of his family. While three ineffectual members of the present cabinet will probably be dropped, there is a possibility that Defense and

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Interior Minister Katay, who has not strongly supported essential reforms, may be retained because of his political strength in southern Laos.

In gaining his 12-month respite, Phoui adeptly turned Hanoi's military pressure to his advantage when he pointed to the occupation of Laotian territory by two companies of North Vietnamese troops as justification for his request for full powers. Laos has not accepted Foreign Minister Pham Van Dong's repeated offers to negotiate; it has officially notified the United Nations of the incident and requested a UN observer.

Laos' Communist-dominated Neo Lao Hak Zat (NLHZ) party has been extremely apprehensive over the prospect of government suppression, and many of its supporters have taken cover on the North Vietnamese border. Phoui's repeated assurances that the legal status of the NLHZ would be recognized appears to have had some effect, since all NLHZ deputies were present in Vientiane for the special assembly session and several NLHZ officials reportedly have returned from the border area. NLHZ supporters will be further heartened by recent Indian moves that may point to a campaign for the reactivation of the International Control Commission in Laos.

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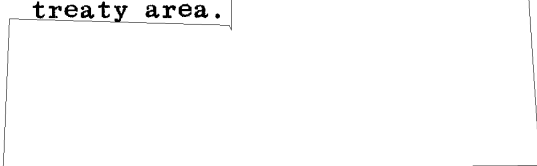
NOTES AND COMMENTS

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MOSCOW SEEKS FURTHER RESTRICTIONS ON JAPANESE FISHING

The adamant attitude of the Soviet negotiators at the annual Soviet-Japanese fishery negotiations which opened in Tokyo on 12 January suggests that the USSR will propose increased restrictions on Japanese fishing next year in the North Pacific treaty area.



Soviet radiobroadcasts to Japan during the past three weeks have charged that extensive depletion of salmon resources has resulted from the large-scale operations of the Japanese fishing industry, which Moscow alleges "ignored the terms of the Japanese-Soviet fishery agreement." The broadcasts specify in detail the

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names of fishermen and boats which Soviet inspectors found guilty of violations. A 30 December broadcast, which stated that uncontrolled fishing was threatening the Kamchatka king crab resources, may mean that the USSR will propose a ban on this type of fishing--the only significant Japanese activity in the Okhotsk Sea.

Moscow hopes to undermine the rationale of Japanese counterproposals by presenting an array of scientific evidence which the chief Soviet delegate implies must be taken into account in this year's agreement. P. A. Moiseyev, acting director of the All-Union Research Institute of Fisheries and Oceanography, heads a Soviet delegation heavily weighted with experts and officials of the Far Eastern fishing industry. The delegation is expected to propose that the area restricted by the treaty be enlarged and that drastic cuts be made in the catch quotas for various species.

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The pattern of previous Soviet tactics has been to manipulate the annual talks for political benefit.

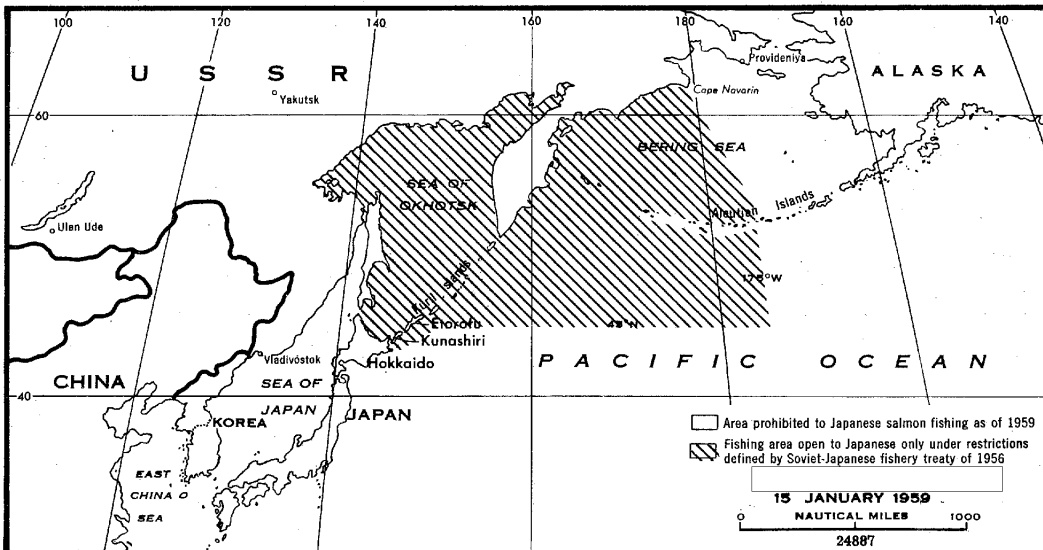
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These attacks have resulted in widespread Japanese resentment toward the bloc, however, and have failed to harm Kishi's position.

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the USSR would settle no "pending issues"--such as the seizures of Japanese fishing boats in

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Soviet waters off the Kurils--
until a formal peace treaty is
signed. Soviet officials, how-
ever, may hint that fishing
concessions would be forthcom-

ing should a Japanese govern-
ment adopt "positive neutrali-
ty" and loosen its ties with
the United States.

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FOOD SHORTAGES IN COMMUNIST CHINA

Shortages of some food items in major cities and a small increase in cotton cloth ration are tarnishing the regime's claim	for huge increases in agricultural output. Although production of secondary food items--such as meat, vegetables, fruit, fish,
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and egg products--usually suffers during Peiping's big campaigns, the shortages appear to be somewhat more severe this year and could become a major source of irritation among the people at a time when the regime is stepping up its demands on their time and energy.

there is a reported shortage of rice and flour in Peiping; sweet potatoes have been substituted to make up the deficit, but is doubtful that the Chinese will regard them as an adequate replacement.

Transportation difficulties have added to the problem. The high priority assigned the iron and steel campaign has disrupted the normal flow of agricultural goods, and there are numerous accounts of farm produce being piled up at transportation terminals.

The shortages may be partly attributable to distribution shortcomings, and Peiping's economic planners would not necessarily feel compelled to increase the consumer's share of food and textiles in direct proportion to claimed gains.

The food shortages are poor advertising, however, for the "leap forward" and the new commune system. So-called secondary foods are important to the Chinese diet, and the shortages, coming as they do after months of very hard work and on the heels of a big propaganda campaign about tremendous production increases, must be exceedingly irritating to the Chinese.

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The recently announced increase of about one third in this year's cotton cloth ration will act as a balm to sooth the consumer, but it should be noted that the measure only restores cuts made in 1957 and that the ration now is back to the approximate level of 1956, when production of raw cotton was only 1,500,000 tons. This year's crop is claimed by the regime to have reached 3,350,000 tons.

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significant production increases in basic foods, grains, and cotton were probably achieved. Despite these successes, imbalances and shortages, whatever their causes, have an important impact on the living standard of the average Chinese.

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PEIPING PRAISES USSR AS MODEL OF SOCIALISM

The Chinese Communists are reviving the theme of "learning from the Soviet Union in building socialism"--a line not prominently mentioned in China during most of 1958. This display of deference to the Soviet example is another step in Peiping's modification of its

earlier claims of a rapid advance toward Communism, and suggests that China will avoid further public statements implying its "road" is basically different from the one already traveled by the USSR. The commune campaign demonstrates, however, that Peiping to a large

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degree is still pursuing an independent course on the practical level.

Peiping's willingness to drop some of its own and reaffirm the USSR's doctrinal criteria for "building socialism" is demonstrated in the party's 18 December resolution on communes. The resolution declares the communes are a form of collective ownership--therefore a stage of socialist development--rather than the complete state ownership of the ultimate Communist stage, as was implied by some Chinese commentators last summer. Thus ownership in China's countryside is similar, in theory at least, to Soviet rural ownership. The 18 December resolution also acknowledges the correctness of Soviet doctrine by stressing that China would be building socialism for a decade or more and could begin the "transition to Communism" only on the basis of highly developed modern industry, agriculture, science, and culture--all prerequisites recently emphasized by the Soviet Union.

Red Flag, the top theoretical journal of the Chinese Communist party, on 16 December called for "conscientious study" of Khrushchev's Seven-Year Plan and the "brilliant example" of Soviet experience in building socialism and Communism. The article characterized the current Soviet program as convincing proof the USSR is the "core" of the bloc and of the interna-

tional Communist movement. On 5 January People's Daily described China's high coal output as a victory attained "after serious study of advanced Soviet experience."

These Chinese gestures of conciliation follow indications of Soviet displeasure in October and November. Peiping evidently feels Soviet good will is too valuable to be risked for an ideological position. Chinese leaders apparently expect Moscow to assert vigorously its claim to doctrinal pre-eminence during the forthcoming Soviet 21st party congress. Peiping's chief delegate to it probably will find occasion to offer further remarks on the need for unity and the value of the Soviet experience.

Peiping's long-standing claim that the translation of Soviet experience to Chinese conditions constantly requires new methods of application probably will continue, however, with such "creative" activity attributed to Mao Tse-tung. Foreign Minister Chen Yi suggested as much last month when he told members of the Peiping diplomatic corps that Mao will concentrate on ideological and policy matters, particularly with respect to underdeveloped areas. In any doctrinal theses Mao publishes in the near future as a result of these studies, he may avoid insisting his generalizations were applicable beyond China, while permitting his audience to draw its own conclusions.

THE NEW SOVIET VOLUNTEER WORKERS' MILITIA

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Volunteer workers' militia detachments are being formed in the USSR as civilian auxiliaries to the regular police (militia). This movement, which began in Leningrad last November, has now spread to Riga, Rostov-on-Don, Yakutsk, and other localities in the USSR. Its primary purpose appears to be the strengthening of the

campaign against drunkards and hooligans, with whom the militia apparently has been unable to cope. Ideological support had been given to this development by describing it as an exercise in preparation for the "withering away of the state," at which time the functions of the state will be performed by the general citizenry.

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The concept of volunteer aides to the regular police is not new in the USSR. Brigades to assist the militia were created in the 1930s to supplement the ranks of the police in providing protection on special occasions--such as parades--or in carrying out special assignments. The chief of the Leningrad Militia Administration, describing the new development, stated that it would not be the same, however. He did not elaborate further, except to say that many details about the organization of the volunteer militia were still unclear. One difference is that the new organization is apparently carrying out regular patrols rather than awaiting calls for duty on special occasions.

The Soviet youth organization Komsomol since the war has also been called on to supply brigades to round up hooligans and drunkards and generally ride herd on the more irrepressible young people. Articles in the press on Komsomol activities, however, reveal that the youth organization has not been altogether successful in carrying out this mission.

The new volunteer militia detachments, with more stable and mature personnel, may be designed to accomplish what the Komsomols have been unable to do. Only "the best of the best, the most authoritative and proved comrades," are to be enrolled in the new detachments.

The members are expected to influence their friends and associates through example and education, thus helping to prevent violations of the law.

Although the original impetus for the formation of the detachments came from Leningrad, it appears that Ryazan, a city about 100 miles south-east of Moscow, with more than 1,000 volunteers, will be the first city to have them in large-scale operation. Tentative plans call for a detachment of 300 to 500 men, subdivided into brigades and groups, for each rayon in Ryazan. Guidance will be given the detachments by councils composed of representatives of the rayon party committee, the executive committee, the trade unions, the Komsomol, and the regular police.

The detachments, commanded by persons elected by the members themselves, are to preserve order on streets and streetcars, in stores and clubs, and to apprehend "anti-social" elements. The regular police, however, will retain the primary responsibility for the investigation and apprehension of criminal elements.

The workers' militiamen will serve in their leisure hours, without pay, and will carry arms. Eventually all will be uniformed or wear badges; for the present, however, red armbands will identify them.

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SOVIET TACTICS AT THE GENEVA TALKS

Test-Cessation Talks

The Soviet delegate to the Geneva talks on a nuclear test-

cessation agreement, while agreeing to negotiate treaty articles dealing with relatively noncontroversial points, has

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not deviated from the basic position taken on 25 December by Soviet Foreign Minister Gromyko--that "invalid conditions" sought by the West were blocking agreement. Moscow may believe that ostensible agreement to all points except those "conditions" would further the Soviet effort to place on the West the onus for any stalemate.

Moscow probably hopes to avoid a breakdown in the negotiations over this issue, at least until it has established a more complete record of its desire for agreement--in the form of conference-approved draft articles on noncontroversial issues. The Western delegations on 13 January rejected a Soviet suggestion, intended to create the false impression of progress, which would transfer to a subsequent portion of the treaty those parts of a Western-proposed article with which Moscow disagreed, thereby stripping the article of any real substance.

The Soviet delegate on 12 January presented a "compromise" draft article which would obligate the parties to allow an agreed number of control posts on their territories and inspection, including overflights, of events suspected of being nuclear explosions. In listing specific elements of the control commission to be allowed in the territories of treaty members, however, the Soviet draft omits components in the Western concept of such a system with which Moscow takes exception. Moscow was apparently trying to commit the

West to the Soviet version of the control-commission composition before the issue is discussed in detail.

Surprise-Attack Talks

The Soviet call of 10 January to reconvene the technical conference in Geneva on measures to prevent surprise attack is intended to underline Moscow's claim that the West is responsible for the stalemate in the pre-Christmas sessions. The note charges that, by rejecting the original Soviet proposal to reconvene on 5 January, the West had delayed the search for a mutually satisfactory solution. Moscow on 13 January published the text of the note, probably believing that its bid to resume negotiations would contrast favorably with Western insistence that the results of previous sessions be evaluated before a specific date is set for reconvening.

The Soviet Union has not changed its views on the scope of these talks. The note reaffirms its determination to introduce political considerations and states specifically that the Soviet "declaration" on 28 November still applies. Reaffirmation of this position--an omnibus plan linking the surprise-attack problem to Soviet--conceived disarmament measures--indicates that Moscow still does not desire serious negotiations on this topic.

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CUBAN COMMUNIST GAINS

The Cuban Communists, whose party was outlawed by Batista in 1953, have been making rapid gains since his fall and have been exerting a special effort to influence the labor movement. Provisional President Urrutia and the leading members of his cabinet are anti-Communist but seem unlikely to take decisive action against the Communists' Popular Socialist party (PSP). Fidel Castro, commander of the armed forces and dominant figure in the new regime, has declared that the PSP now will be permitted legal status, "since freedom of political action is guaranteed by the constitution." "Che" Guevara, a leftist colleague of Castro's who now controls an army fort in Havana, went further than his chief and said he would not oppose Communist participation in the government.

The PSP, with a membership estimated at 8,000 to 12,000, surfaced immediately after Batista's fall and succeeded in naming five representatives to a 22-man "national labor committee" which intends to reorganize the politically important labor movement completely. The party has opened at least two offices in Havana and one in Santiago, has resumed publication of its daily newspaper Hoy, and held a public rally in Havana on 10 January. Exiled Cuban Commu-

nists, including the dynamic labor leader Lazaro Pena, have returned to the island, as have a number of Venezuelan and Dominican Communists.

Active opposition to Communism may be developing in the labor movement, probably the Communists' main target and one in which they already have formidable assets. David Salvador, head of the national committee for reorganizing the labor movement, is believed to be anti-Communist. He is close to Fidel Castro. 25X1

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Pro-Castro labor organizers expect to dominate most unions through elections planned in each union in the near future and claim their objective is to replace all Communists now holding union office.

Meanwhile, professional revolutionaries of all political views in the Caribbean area are looking to the new Cuban Government for support in their aim of ousting area dictatorships. "General" Miguel Angel Ramirez, non-Communist Dominican exile, arrived in Cuba on 5 January. He is chief of the now inactive Caribbean Legion which was involved in revolutionary activity in 1948 and 1949. 25X1

BLOC ECONOMIC ACTIVITY IN IRAQ

A Soviet delegation led by P. A. Maletin, a deputy chairman of the USSR Council of Ministers' State Committee for Foreign Economic Relations, arrived in Baghdad early this month to discuss economic and technical cooperation between

the two countries. Maletin has been received by both Premier Qasim and the Iraqi minister of finance; in his conversation with Qasim he discussed Soviet economic and technical assistance in relation to Baghdad's plan for economic development.

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Maletin and Qasim reportedly considered the problems of developing metallurgical and machine-building enterprises and of establishing light industrial concerns, factories for processing agricultural produce, and mineral fertilizer plants. They also reportedly discussed possible Soviet assistance to Iraq in conducting geological surveys, remodeling Iraqi ports, and organizing river navigation services.

Although there have been no specific references to Soviet offers of credits thus far, it is likely that Moscow will soon offer financial aid to Baghdad. The present Iraqi regime inherited an ambitious but reasonable economic development program from its predecessor, but Qasim is anxious to promote development projects--possibly including a steel mill--which have a more immediate impact on the populace than those of the old government.

The projects called for under the former government's program were essentially organized and managed by Western concerns, but these companies have recently been discouraged from implementing their projects or bidding on new ones. Thus the door is left open for offers of technical and probably financial assistance from the bloc. The Soviet Union may offer Iraq technical aid in searching for oil in areas

recently relinquished by the Iraq Petroleum Company.

Unlike many other underdeveloped countries, Iraq has a steady and abundant earner of hard currencies in its primary export--oil, which accounts for nearly 90 percent of export revenues. In 1958 Iraq earned about \$235,000,000 in royalties from the Western oil companies operating there. Baghdad is thus in a position to pay cash for much of its development program. It is possible, however, that revenues and cash reserves will not be sufficient to cover expanded economic developments. In addition, Iraq must pay for its normal imports--which reached about \$280,000,000 last year--and the \$170,000,000 Soviet arms aid program.

Since the formation of the new Iraqi Government in July, the Sino-Soviet bloc, which has made substantial arms shipments to Baghdad, has also made a concentrated effort to develop economic as well as political relations in order to underscore its endorsement. Practically all the members of the bloc have already concluded trade agreements with Iraq, and Bulgaria is presently negotiating one in Baghdad. Most of these pacts suggest that the bloc countries' exports to Iraq will exceed their imports. In addition, some of the trade agreements include the bloc countries' sale of services in the form of scientific and technical assistance to Iraq.

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NEW BELGIAN POLICY TOWARD THE CONGO

Brussel's new policy toward the Congo, announced by Prime Minister Eyskens on 13 January, reflects Belgian recognition of the growth of nationalism in this African colony. The policy foresees a period of accelerated political tutelage

and, ultimately, establishment of a "democracy capable of deciding its independence." The Belgians, however, still hope the Congolese will opt for some federative ties with the metropole, and there is at least some evidence that Brussels may see

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partition as one way of retaining those parts of the Congo most favorably disposed toward it.

The new policy, based primarily on the recommendations of the study group appointed by Eyskens last summer, calls for full equality between Belgians and Congolese and for local council elections this year by universal male suffrage.

Belgian parties. The Liberals, who reflect the views of the large financial interests, object to essential features of the program, and the opposition Socialists refuse to give it their unequivocal support because of insufficient stress on economic and social reforms.

Despite some early favorable reaction in the Congo, the Belgian plan will probably be received with skepticism by most politically articulate Africans. Among the permanent European settlers--some 20 percent of the 116,000 whites in the Congo--it may evoke vociferous opposition and possibly agitation for the early extension of some type of autonomy to "European" regions in the Eastern Congo.

African nationalism in the Congo--which long seemed immune to the ferment so noticeable in other parts of colonial Africa--first became apparent in mid-1956 manifestos demanding political reforms, then in a spontaneous race riot in Leopoldville in June 1957. Brussels responded by finally implementing

a long-debated program for controlled municipal elections in which African district mayors with circumscribed powers were selected in three urban centers.

During the past 18 months, political activity led by Abako, a tribal cultural movement initially tolerated by Belgium, has spread within the Congo's African middle class, which has been hard hit by an economic recession induced by the sharp



Provincial councils are to be established by March 1960 and ultimately a colonywide parliament will be set up. Economically and socially, the Congolese will be treated on the same basis as the Europeans, with equal access to schools and other public institutions.

The new policy--a radical departure from Belgium's past paternalism--does not have as yet the full support of all

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break in world copper prices in 1957. Some of the African district mayors who have criticized Belgian policies have become political symbols.

Earlier this month serious anti-European rioting, exacerbated by hasty police action against an Abako-sponsored meeting, again erupted in Leopoldville, resulting in casualties officially put at 71 African dead and more than 250 Africans and Europeans injured. In the wake of these disorders the Belgian authorities arrested Abako's leaders, including its president, Joseph Kasavubu, and finally proscribed the organization. They have also arrested two of Leopoldville's African district mayors who are accused of coercing seven of their

colleagues into signing a demand for Kasavubu's release. The nine African leaders were reportedly withholding their cooperation and threatening to resign en masse.

Although Leopoldville now appears outwardly calm, external forces will continue to stimulate Congolese nationalism. These include the condemnation of Belgian policy by Moscow, Cairo, and Accra; the anticolonial blasts which can be expected from future area conferences similar to the ones held in Accra last year; the example of victorious independence movements elsewhere in Africa; and the increased Congolese contacts abroad likely to result from the new, more liberal Belgian policy.

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NEW FRENCH MOVES ON ALGERIA

Despite General de Gaulle's public position that a political solution for Algeria is to be delayed pending progress toward economic and social development, French propaganda and behind-the-scenes moves appear aimed at early negotiations with the rebels. While rebel leaders remain distrustful of Paris, settler apprehensions over De Gaulle's intentions are becoming more outspoken, and any evidence that rebel desires for independence are actively being discussed will arouse violent reaction.

De Gaulle is impelled to try to ease the drain of the Algerian war in order not to jeopardize his austerity program. Italian Premier Fanfani made a quick trip to Paris immediately after returning from Cairo as an intermediary between Paris and Egyptian President Nasir, if not the rebel leaders

themselves. In December, De Gaulle asked Fanfani to sound out Nasir on Algeria, and Finance Minister Pinay made a "flying trip" to Rome the day before the Italian premier took off for Cairo.

A spokesman for the Algerian provisional government said he had reason to believe De Gaulle would follow up the clemency movement for rebels announced on 12 January by quietly launching a new formula for a political solution. He expects this to be a call for round-table talks involving the recently elected Algerian deputies and Messali Hadj's Algerian National Movement as well as the Algerian National Liberation Front. De Gaulle probably would refuse to consider the "government's" representation as such, but the FLN name would not be objectionable to him.

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Paris probably intended the clemency measures to be a show of strength, which would discourage rebel leaders, but there is no indication that the rebels are inclined to abandon their position on negotiations. Despite waning military effectiveness, the rebels seem disposed to step up their attacks --at least in the form of terrorism, which rose sharply last week after a considerable lull. They fear French efforts to divide the Moslem factions, but they maintain that a cease-fire could be quickly arranged if Paris seemed tacitly committed to eventual independence for Algeria.

De Gaulle's failure to name Jacques Soustelle premier and his continued reference to association rather than integration of Algeria with France appear finally to have convinced extremist elements among the settlers that De Gaulle is "unreliable." Veterans' organizations in Algeria have criticized him openly for the first time, and the settlers have formed a new political organization, Movement for French Algeria, in an effort to regroup the fragmented committees of public safety. They are certain to step up efforts again to win military support and to exert pressure on both Delegate General Delouvrier and Premier Debré.

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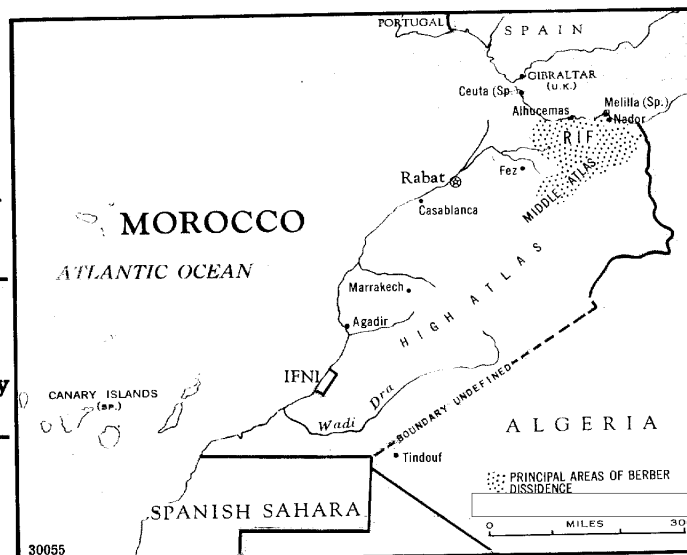
BERBER DISSIDENCE IN MOROCCO

Moroccan authorities appear to have made some progress --although not as much as they are claiming--toward re-establishing order in the Rif and Middle Atlas regions of northern Morocco, where Berber tribal dissidence directed against the dominant Istiqlal party recently assumed serious proportions.

However, significant numbers of hard-core dissidents remain active in the mountains, where they appear to be beyond the reach of the government's security forces.

For the time being at least, the danger of full-scale tribal rebellion--which the Royal Army would probably be unable to suppress--appears to have been averted by King Mohamed V's ultimatum on 5

January to the insubordinate elements and a strong display of military strength. This display involved redeployment



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and reinforcement of troops throughout the affected areas, but especially in the Mediterranean coastal region where armed Berber partisans, in their

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most daring show of strength so far, for five days controlled the land approaches to the port of Alhucemas. As of 13 January the roads leading to this city were still not considered safe, despite assurances in the Moroccan press that all points of agitation had been eliminated.

Whatever the government's gains, they may have been won at the cost of permanently alienating at least some of the important Berber tribes inhabiting the Rif. Concern on this score appears to be reflected in numerous statements by Moroccan authorities--including Crown Prince Moulay Hassan, who personally directed army operations in the Rif--minimizing the significance of the clashes between Berber partisans and security forces and insisting that the Royal Army at no time initiated any exchange of fire and has been carrying out more of an

administrative and educational than a military mission.

In any event, some dissident elements will almost certainly continue their resistance, perhaps through guerrilla tactics, at least until Rabat takes measures to alleviate Berber economic distress and meet Berber demands for a larger voice in both the central and local administrations.

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BAGHDAD PACT MINISTERIAL COUNCIL MEETING

The Baghdad Pact Ministerial Council, which is to hold its semiannual session in Karachi from 26 to 28 January, will concern itself primarily with the effects of the Iraqi revolution last July. Committees will begin preparatory work on 16 January.

Iraq still has not made clear its official policy toward the organization. Although the other members assume that Iraq has informally left, they continue to be reluctant to take

steps which might appear to be forcing that country to declare its withdrawal. Most members agree that the withdrawal of Iraq, the only Arab member, would strengthen the organization. In October, at the risk of Iraqi displeasure, the pact's headquarters was transferred from Baghdad to Ankara.

Steps are being taken to implement the decision made at the last session of the council in London to strengthen the pact through bilateral defense

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agreements between the United States and Iran, Turkey, and Pakistan. Strongly worded counterdrafts, however, have been proposed by Iran, Turkey, and Pakistan, and if the negotiations are not concluded before the council convenes, these proposals could provoke controversy at the meeting. The counterdrafts would require the United States to come to the aid of any of the countries that might become the victim of either direct or indirect aggression--apparently from any source--and to supply additional military and economic aid "to meet the requirements of the joint defense planning."

Iran probably will not make any new proposals at the council meeting but can be expected to bring attention to present Soviet pressures while making its perennial plea for additional American military aid.

Turkey, concerned over its eastern flank, probably will strongly support Iran's arguments on this point.



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Pakistan intends to press for completion of the Karachi-Quetta road, a survey for a microwave communications system along it, and the locating of the pact's nuclear center in Karachi. Pakistan may also advocate the establishment of a pact-command structure similar to that of NATO.

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EFFECTS OF CEYLON'S AGREEMENTS WITH SINO-SOVIET BLOC

Ceylon's contacts with the Sino-Soviet bloc have expanded only slowly since the conclusion of its trade, aid, and cultural pacts with Peiping and Moscow in late 1957 and early 1958. Colombo has lagged in utilizing the Sino-Soviet economic development loans, and efforts to spur trade and cultural exchanges have originated primarily in the USSR and Communist China.

The Ceylonese Government's tardiness does not reflect a significant change in its desire to maintain friendly relations with the bloc and to obtain Communist aid. It is primarily

the result of Ceylonese inexperience in economic planning and the government's preoccupation with serious domestic problems during the past year.

Out of some \$60,000,000 in loans and grants which the bloc has agreed to provide Ceylon, the government has allocated some \$11,000,000 for specific projects. A \$3,500,000 sugar factory is being built by Czechoslovakia, and Ceylon in August 1958 reportedly accepted Peiping's offer to construct a \$3,150,000 textile factory under its \$15,-750,000 five-year aid program. In December, Colombo decided to

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buy a \$4,200,000 wheat-flour mill under the USSR's \$30,000,000 loan.

Colombo's restrictions on private trade with Communist China and the USSR were lifted about a year ago, although the government still handles the substantially reduced rice-rubber trade with Peiping. The bloc subsequently intensified its efforts to attract private Ceylonese traders. In March the Chinese Communists held a relatively successful commodity exhibition with the prime purpose of inducing local importers to buy Chinese goods. The USSR may be planning to hold a trade fair in Colombo within the next several months. Such efforts apparently have not yet resulted in a corresponding increase in Ceylon's total trade with the bloc, however.

The Ceylonese-Soviet cultural agreement thus far has proved a more successful means of increasing Communist contacts with Ceylon than have the aid and trade agreements. Moscow and Peiping have sent a relatively steady flow of cultural delegations and materials to the island. A few Ceylonese groups and individuals visited the bloc in 1958, but the number of Communist invitations and delegations to the island exceeded those sent by Ceylon. The Ceylonese people presumably enjoy such attention, but bloc overtures have not yet significantly lessened the value Ceylon attaches to its relationships with the Commonwealth and the free world.

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INDIA PREPARING AMBITIOUS THIRD FIVE-YEAR PLAN

Recent statements by Indian leaders and resolutions passed at the 6-11 January annual meeting of the Congress party indicate that New Delhi intends to draft a Third Five-Year Plan (1961-66) considerably larger than the second and to place increased emphasis on government as opposed to private investment. The government also plans to step up the pace of land reform and hopes to induce peasants to undertake cooperative farming voluntarily.

Prime Minister Nehru apparently believes India must increase the pace of its economic development program to meet the challenge of China's "giant leap forward" and India's rising rate of population growth. He appears to have reached this decision despite the fact that the second plan is unlikely to be fulfilled by more than 80

percent and despite considerable domestic pressure and foreign advice to concentrate on consolidating past gains rather than attempting further rapid economic expansion.

[redacted] the semiofficial Indian Statistical Institute [redacted]

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[redacted] is working on a tentative third plan calling for the expenditure of \$20.79 billion, of which the public sector would be \$15.12 billion and the private sector \$5.67 billion.

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Such a plan would mean an increase of about 54 percent over the \$13.5 billion that is likely to be expended during the second plan period. To reach the new targets, the public and private sectors would have to raise their outlays by 59 and 42 percent respectively

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over the outlays likely between 1956 and 1961.

A plan of this size is beyond India's financial capacity, particularly in view of the low level of foreign exchange reserves and the large foreign obligations that fall due during 1961-66. The extent of the difficulty the country will face, however, will depend on whether the plan concentrates on agricultural development or calls for sharp increases in industrial as well as agricultural

production. If, as seems likely, New Delhi decides to follow the latter course, it will probably face a foreign exchange gap of several billion dollars. While the Ministry of Finance, which is opposed to such a large plan, may succeed in cutting its goals somewhat, present indications are that Nehru intends to increase economic development outlays substantially, counting on Western and Soviet bloc interest in India to result in sufficient foreign aid to fulfill the plan.

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FINLAND'S NEW GOVERNMENT

The minority Agrarian government, finally formed by V. J. Sukselainen on 13 January ending the cabinet crisis which began with the resignation of the five-party Fagerholm coalition on 4 December, has as its chief task the normalizing of



SUKSELAINEIN

trade and political relations with the USSR--a problem made more urgent by Finland's growing economic difficulties. The Sukselainen government may be forced to depend on the combined votes of the Communist-front

Finnish People's Democratic League (SKDL) and the splinter Opposition Social Democrats.

The USSR, displeased with the "rightist and pro-Western character" of the previous five-party government of Karl August Fagerholm, exerted strong economic pressure on Finland by curtailing trade and payments. This pressure, coupled with the political maneuvering of the Agrarians, resulted in Fagerholm's resignation on 4 December. As late as 7 January Izvestia accused "rightist Social Democrats" of trying to divert Finland from the "Paasikivi - Kekkonen line of friendship with the USSR" and warned against seeking Western trade and credits.

There is no indication as yet that the suspended trade payments have been resumed, and as of 3 January the USSR had still made no moves regarding any intergovernmental negotiations, including a trade agreement for 1959. Finnish officials apparently hope that Moscow will be reluctant to damage permanently the image of Finland as a showpiece of "exemplary" relations

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between the USSR and a small neighbor by continuing or increasing pressure.

The new government consists of nine Agrarian Parliament members, five other Agrarians, and a single member of the Swedish People's party, Ralf Toerngren, who holds the Foreign Ministry portfolio as an individual rather than a party representative. It must cope with serious domestic economic problems. Unemployment totaled almost 80,000 on 27 December compared with about 54,000 at the same time last year.

Commanding only 48 seats of the 200 in Parliament, the Agrarians must rely on floating

majorities. In view of the resentment of the regular Social Democrats and the Conservatives over the political maneuvering of the Agrarians, the latter may come to depend on the combined 63 votes of the SKDL and the Opposition Social Democrats. The Communists will be in a good position to influence the government. In time, the Conservatives and regular Social Democrats can be expected to try to overthrow the Agrarian cabinet in order to force new elections this summer; at the same time the Communists will work to achieve their preference, a coalition of the SKDL, the Opposition Social Democrats, and the Agrarians.

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PART III**PATTERNS AND PERSPECTIVES****PRESIDENT FRONDIZI'S PROBLEMS IN ARGENTINA**

During his seven turbulent months in office, Argentine President Frondizi has taken a number of bold steps to counter a decade of severe economic deterioration and to reduce deep-seated political animosities, although aware that over the short run some of these steps would feed discontent in most sectors, according to the interests affected. Frondizi, who will visit the United States from 19 January to 1 February, warned that two years of "hard times and sacrifice" were ahead for all Argentines when he initiated on 1 January an austerity and monetary stabilization program which will be backed by some \$329,000,000 in foreign credits, mainly from the United States.

Opposition groups have already attacked the program, raising strong doubts regarding Frondizi's ability to carry it out. The Peronistas, whose attention is particularly focused on the present labor union elections, have denounced the plan as "condemning the nation to the yoke of foreign capitalism" and a betrayal of the promises on which they backed Frondizi's election last February.

Economic Problems

Argentina's serious economic situation has its roots in problems which have been intensifying over the past 10 years: accelerating inflation, a declining rate of productivity, a nearly empty treasury, and a large foreign debt. When

World War II ended, Argentina had little foreign debt and \$1.6 billion in gold and foreign exchange reserves; but by last December the external debt had passed a billion dollars and reserves had fallen to only \$148,000,000.

From 1948 to 1957 per capita gross national product declined nearly 1 percent a year, since the rise in GNP was only 14 percent, at 1950 prices, compared with a rise of 22 percent in population. During this period, living costs rose about 600 percent and in 1958 another 48 percent. Reduced domestic capital formation and negligible foreign investment prevented adequate modernization or expansion of capital equipment. Despite severe import restrictions, trade deficits have been chronic, reaching \$340,000,000 in 1957 and an estimated \$250,000,000 in 1958.



FRONDIZI

To counteract this fundamental disequilibrium, Frondizi laid the groundwork for his basic stabilization program by taking steps to resolve a number of problems affecting Argentina's credit standing with European countries. The Frondizi-controlled Congress also ratified actions in this field which had already been taken by the provisional Aramburu regime.

Another preparatory step was Frondizi's oil policy announced on 24 July calling for the participation of foreign companies in the development of Argentina's oil resources on a contract basis. The

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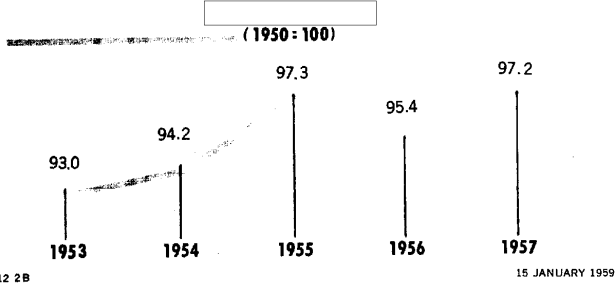
government believes this program will enable it to become self-sufficient within three years and to reduce fuel import costs, which reached

relieved by foreign assistance for Argentina's stabilization plan.

Stabilization Plan

The \$329,000,000 program of foreign support announced on 29 December includes a stand-by arrangement of \$75,000,000 with the International Monetary Fund and approximately \$250,000,000 from United States sources

ARGENTINA: PER CAPITA GROSS NATIONAL PRODUCT



\$317,000,000 in 1957. Contracts for various activities, including services, exploration, and the supply of equipment, total about \$500,000,000--half with American companies--and others are under consideration.

**ARGENTINA
COST OF LIVING AND MEANS OF PAYMENT**

	COST OF LIVING (excluding rent)		MEANS OF PAYMENT IN HANDS OF THE PUBLIC	
	Index (1943=100)	Percent increase over preceding year	Index (1943=100)	Percent increase over preceding year
1946	149.9	25.1	194.6	30.8
1950	329.3	27.0	507.0	25.4
1951	458.5	39.2	615.0	21.3
1952	645.4	41.8	699.5	13.7
1953	672.0	4.1	867.7	24.0
1954	698.3	3.9	1,009.1	16.3
1955	787.8	12.7	1,186.9	17.6
1956	902.8	14.6	1,385.3	16.7
1957	1,132.1	25.4	1,561.1	12.7

The Argentine-Soviet agreement, proposed by the USSR on 24 July and signed in Moscow on 27 October, calls for the USSR to supply some \$100,000,000 worth of petroleum equipment at 2.5 percent over a 10-year period. The agreement was approved by the Argentine Senate on 10 January. Equipment already ordered reportedly totals only some \$30,000,000, and there is considerable doubt whether Argentina will utilize the remainder, despite the Soviet bloc's overtures for increased trade. Trade with the bloc in 1958 more than doubled the \$45,000,000 of 1957 and seems likely to rise in 1959. Pressure for bloc trade may be

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somewhat and reduce the appeal of politically motivated strikes, the government plans to allow moderate wage increases and then to freeze wages for one or two years.

Political Problems

Within the room for maneuver created by political pressures, Frondizi has moved to carry out his campaign promises, which emphasized the need for improved living conditions, economic development with foreign investment, the rule of law, and "national reconciliation," with amnesty for all those Peronistas not charged with serious crimes. The Peronista attack against his program is characteristic of the deep-seated political divisions within the country and the widely varying reactions to most of Frondizi's moves.

These have caused him some loss of popularity and will continue to be an inhibiting factor in carrying out economic and political reforms. The major opposition People's Radical party, which split from Frondizi's Intransigent Radicals before the elections, is following a policy of opposition on all issues and accuses Frondizi of abandoning the nationalistic Radical platform he used to fight Peron. The Communist party, which urged its 80,000 to 90,000 members to vote for Frondizi, has also declared its strong opposition to the government and has organized neighborhood committees to protest high living costs.

Frondizi's principal political concern at present, however, is Peronista pressure through labor, especially in view of strong wage complaints. Frondizi apparently considers it essential to detach Peronista support from Peron if costly extended strikes are to

Argentina's plans for the program include institution of a single fluctuating exchange rate, taxes on both exports and imports, and the cessation of trade discrimination against various trading areas of the world. Priority attention is to be given to the reduction of government deficits--both federal and provincial--which have been the principal cause of inflation. Excess personnel are to be released, procedures streamlined, and subsidies terminated for government-owned industries and services, such as railways and petroleum. Public works not immediately aiding economic improvement are to be postponed. By these measures and modest tax reforms, the government hopes its 1958-59 deficit will be less than a third of the preceding deficit, estimated at about \$800,000,000.

Other measures include strict credit control and temporary price controls on a few essential commodities, but prices for most consumer goods are rising in seeking their own level. In view of widespread complaints over these rises, Frondizi has warned he will prosecute price gougers; and, acting independently, a congressional investigation committee has closed down a number of shops for profiteering. To soften the impact

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be avoided. Therefore, last August he did not veto a new basic labor law which most observers believe will help the Peronistas regain control of the trade union movement. This is a source of major political dissension and concern over Peronista resurgence.

Despite his amnesty and labor measures, however, the Peronistas have increased strike pressure against Frondizi's policies, and their protest strike against his petroleum policies resulted in the declaration of a state of siege on 11 November. Possibly because of dissatisfaction over living conditions, the Peronistas appear to have gained strength during the past several months, although there is still disunity among Peronista leaders.

In accordance with Peron's orders from his exile in the Dominican Republic, the Peronistas will compete in several provincial elections next March but under the Justicialista party label, since the Peronista party remains outlawed. This will be the first test of relative popularity between Frondizi and the Peronista party.

While Frondizi and the military were suspicious of one another last May, the armed forces now appear to have become more closely identified with him--if only temporarily. This probably stems not only from their support of him during the confusion resulting in Vice President Gomez' resignation on 18 November but also from their strong endorsement of his crackdown on Peronista and Communist agitation. Despite adverse popular reaction, Frondizi will probably retain the state of siege during the initial stages of the stabilization program.

Frondizi, anticipating an adverse political reaction, has warned that he will fight any obstacle to his program. Strengthening his stand are his apparently strong military support, his personal determination, and considerable support in informed circles. If successful, the program should strengthen Argentina's trade and friendly relations with the United States and have a favorable impact on its relations with other Latin American countries and Europe.

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THE SOVIET COLLECTIVE FARM--THEORY AND PRACTICE

Renewed discussion about the present and future role of the collective farm has been provoked in the USSR by attempts to provide a theoretical "basis" for the abolition last spring of the machine tractor stations which, with the state farms, were long considered the advanced posts of Communism in the Soviet countryside. The exposition of Soviet thinking on the subject has gone on against the background of developments in Communist China, where the commune has been represented as an advance over the collective farm.

Chinese theorists, in the first flush of enthusiasm, had described the commune as a large step toward the traditional Marxist goals of eliminating the distinction between the peasant and the urban worker and of providing "distribution according to need." Moscow has continued to maintain, however, that full communization must await the achievement of material abundance.

The Kremlin's policy in the countryside calls for the "consolidation" of the collective-farm system rather than its elimination and for the eventual

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transformation of rural life through evolutionary policies larded with material incentives rather than through violent changes in organization such as the Chinese have employed. Although Moscow's policy toward the vestiges of private property in the collective farm--the private plot and privately owned livestock--remains cautious, it is clearly anticipated that the expansion of production and peasant incomes from the communal sector will gradually erode the private holdings.

Economic goals--primarily increased production but also the reduction of costs and the transfer of labor to the factories--will continue to have primacy over purely ideological objectives in Soviet agricultural policy. It is also clear that the Soviet Union, recalling earlier unsuccessful experiments of its own, views the Chinese commune as a utopian venture.

At the same time, Moscow insists that its own agricultural reforms are ideologically progressive. There is little doubt that these reforms, no less than the Chinese policies, are intended to secure fuller state control over peasant activity and output and to transform the collective farm gradually into a "higher form of socialist organization"--an organization which functions very much like a state farm or factory.

Theoretical Argument

The ending of forced deliveries from the peasant's private plot on 1 January 1958, the transfer of machinery to individual collectives under the MTS reorganization enacted last spring, and changes in the system of agricultural procurement introduced by the June plenum of the central committee evidently came as a shock to a good number of theorists steeped in orthodox Marxism-Leninism.

On the surface, each of these measures represented concessions to the collective farmer and ran counter to the direction anticipated by many Soviet theorists. Some theorists had supposed, for example, that the MTS would eventually absorb the collective farm, rather than the reverse; others had foreseen the direct conversion of the cooperatively based collectives into fully state-owned farms. In doctrinaire terms, the MTS reorganization meant the transfer of "means of production" from state to cooperative ownership.

Khrushchev, in his MTS theses issued last February, conceded that "some comrades, chiefly economists, expressed their anxiety lest the sale of technical equipment to collective farms should cause a weakening in national public ownership. The problem was also raised as to which form of socialist agriculture is the more progressive--collective farms or state farms?... Some comrades suggested that perhaps one should transfer collective farms to the state-farm system.

Khrushchev asserted in rebuttal that between the collective and state farm there were differences of degree but not of kind; although the state farm is a "higher" form, both are genuinely socialist forms. Therefore, he stated, the correct course is to "raise gradually the level of socialization of collective-farm ownership and bring it up to the level of national ownership. This can be done only through a further thorough consolidation and development of both state- and collective-farm ownerships." Elaborated in various ways by lesser spokesmen, Khrushchev's remarks appear to provide not only the theoretical rationalization for current agricultural organization but some indication of its future development as well.

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State vs. Collective Farms

The number of state farms and the total size of their holdings have been substantially increased by the development of the "new lands." The proportion of state farms has also risen in other areas, where instances of the conversion of collectives into state farms continue to occur. Moreover, the regime has recently decreed that networks of vegetable- and fruit-producing state farms are to be set up to supply the USSR's major cities. Their operation will inevitably strike directly at the private plot, from which hitherto these commodities principally came.

Whatever the cumulative effect of these developments might be, however, regime spokesmen emphatically insist that the future of the collectives will be determined not by their wholesale conversion into state farms, but by changes in the internal and external structure of the collective, which will eventually render it essentially identical with the state farm.

The Indivisible Fund

The regime's organizational objective with regard to the collectives is to strengthen the communal sector at the expense of the private, primarily through envelopment tactics and economic devices calculated to render private undertakings progressively less attractive. The increased material incentives which Khrushchev frequently mentions refer primarily to communal activity rather than to private, and the "strengthening" of collective-farm economy is to come from the expansion of communally owned capital stock.

Expansion of capital investment in the communal economy is to be effected by increasing the share of collective-farm income devoted to the "indivisible fund"--that part of the collec-

tive farm's resources not subject to distribution among its members. It is these funds, regarded as socially owned property, to which all newly purchased machinery will belong, and it is on their growth that the party theoreticians now rest their claims that the collective farm contains authentic seeds of a future Communist form.

Through the enlargement of these funds, the ideologists argue, the collective farm can be transformed into a form of public property. Khrushchev made this point in his MTS theses, arguing that the improvement of agriculture meant "first of all the strengthening of collective-farm ownership, the consolidation of the indivisible funds.... The greater the indivisible funds, the more machinery there will be on the collective farms, the better the work will be mechanized, the higher labor productivity will be, and the quicker the collective economy will develop. The work of the collective farms, based on a broad application of modern machinery, will approach in its characteristics the work of industrial workers."

The regime has not confined itself to exhortation in this connection. In March 1956 the Collective Farm Statutes were amended to "allow" individual collective farms to establish their own limits for additions to the indivisible funds, previously set at a minimum of 10 percent and a maximum of 20 percent of their annual incomes. The press subsequently reported instances in which collective farm general meetings had "decided" to increase allocations to the indivisible fund to anywhere from 25 to 30 percent.

At the March 1958 session of the USSR Supreme Soviet, Khrushchev signaled a further step, Collective farms should aim, he said, to put 30 or 35 percent

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of their incomes into the fund. He recommended that such a change in the Collective Farm Statutes be adopted at the Collective Farm Congress to be held early this year.

Waning of Labor-Day System

The regime is testing other measures designed to strengthen the purely communal sector of the economy and to effect that which, in Soviet parlance, is called the transition from the kolkhoz-cooperative property stage to the higher form of national property.

One of the most widely discussed and fully tested of these measures relates to the labor-day system, under which collective farmers are paid annually in both money and kind on the basis of accumulated work-day units. Various schemes for modifying or abolishing this system are already in use in selected collective farms. A decree of March 1956 authorized advance monthly cash payments for work-day units earned.

One collective farm, widely publicized recently as a successful pilot model, has replaced the labor-day system altogether with a piece-rate system and monthly payment in cash. In this collective the payment-in-kind has been abolished; peasants have traditionally used this type of payment to trade on the collective-farm market or to feed their private livestock.

Under the new system the difference between collective farmers and state-farm workers is considerably reduced. One aim of the wage system is to show the collective farmers "graphically the direct connection between the level of payment for their labor and the communal economy," and through such a form of "material incentives" to wean the peasant away from his private holdings. A

second objective is to facilitate the introduction into the collective farm of cost-accounting, which, by permitting a calculation of production costs, would result in more effective state and managerial control.

The economic limitations of many collective farms may prevent the immediate, universal introduction of a wage system. Authoritative spokesmen, including Khrushchev, have made it clear, however, that the labor-day system must go. Although the regime has not indicated how and when it will act, formal measures to hasten the conversion apparently are imminent. One party official has indicated that the question will be raised at the 21st party congress later this month.

Amalgamations

Along with these attempts to alter the inner structure of the collective farms, the regime is continuing along an older line aimed at changing its character from without. The amalgamation of collectives is still going on at a rapid pace. Figures given by Khrushchev to the December plenum of the central committee indicate that the number of collective farms was reduced by 10,000 during 1958--the result mainly of amalgamations, presumably.

Reconstruction of farm villages as a means of "bringing the daily life of the collective farmers closer to the conditions of city life" has also recently received renewed emphasis. It has been strongly urged as a profitable way of spending the collective farms' increased communal funds and is being carried out in various areas. An August 1958 article in Izvestia on this theme quoted from one of Khrushchev's 1951 speeches devoted to the controversial "agro-city" scheme, which would consolidate rural villages into larger units resembling urban centers. There

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was no specific reference to the "agro-city," which is not likely to be revived in all its features at this time, but it seems likely that Khrushchev envisions substantial changes in the physical layout of villages and improvement in rural housing over a period of time through careful planning of new construction with collective farms' funds and labor forces.

A newer but complementary approach to the goal of tying individual collective farms closer to one another and of increasing the peasant's dependence on communal undertakings is contained in an effort, now gaining momentum, to expand the scale of interkolkhoz cooperation. As with the indivisible fund, projects of this kind--which include the erection of interkolkhoz power stations, irrigation canals, schools, hospitals, restaurants, and bakeries--are officially portrayed as an expression of the transition of the collective farm into a higher form.

Khrushchev has called for an extension of such interkolkhoz links. Some writers, carrying the idea a significant step further, have proposed the establishment of collective-farm unions with authority to coordinate the production and distribution activities of member collectives and to invest some of the profits of the efficient farms into the backward collectives.

The Private Plot

The peasant's private holdings of land and livestock are regarded as the chief mark of distinction between the collective farm and more "advanced" forms of organization. Because of the important share of farm output derived from this source and the peasants' stubborn attachment to it, however, the private plot remains one of the most delicate political and economic

problems facing the regime.

The decree issued by the December plenum of the central committee ruled that the state-farm workers must surrender their private holdings within the next few years; in speaking of the much larger holdings of the collective farmers, however, the order merely expressed confidence that these farmers would eventually see the economic wisdom of surrendering their holdings voluntarily.

Khrushchev's native village of Kalinovka has been made a test case in this respect. There the collective farm has pledged to move toward abandonment of the private plot, and the peasants have already turned their cows over to the communal herd in return for guaranteed deliveries of milk from the farm for their own consumption. Although this practice has been heavily encouraged by the Soviet press, the regime's hesitancy to push too hard is evident from a February 1958 decree of the Ukrainian central committee condemning officials "who, under the guise of purchases, have forced collective farmers to give their cows to the collective, thereby grossly violating the statutes of the agricultural artel and the laws of the Soviet state."

Regime's General Objectives

The collective farm, long the outstanding exception to the Marxist rule of full state ownership of the means of production, has been a persistent problem for the Soviet theoreticians and the most pragmatic of policy makers alike. From all appearances, the present party leadership is more concerned with meeting the difficult agricultural goals it has set itself than in serving pure theory. However, since from both a practical and theoretical point of view the collective farm is regarded as an imperfect

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and transitory form which eventually must disappear, recent steps aimed at increasing agricultural output also serve as new chapters in the book of "creative Marxism."

The Soviet regime, despite its evident disapproval of the Chinese communes on the grounds of timing and method, has staked

out a course the final aim of which is, similarly, the elimination of the "differences between town and country," which means the conversion of the peasant to a political, economic, and social status identical with that of the factory worker.

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THE STATUS OF SOVIET INDUSTRIAL REORGANIZATION

Further steps in Khrushchev's evolutionary reshaping of Soviet economic institutions may be revealed in connection with the forthcoming 21st party congress which is convening this month to launch the new Seven-Year Plan (1959-1965). Measures affecting Soviet industry which might be taken include a redefinition of administrative regions, clearer assignments of responsibility and authority to republic and regional organs for deciding investment allocations, and the re-establishment of a Supreme Economic Council.

Action in these fields would be consistent with the trends, persistent problems, unresolved questions, and policy tenets noted in the first 18 months since the inauguration of the industrial reorganization. Although realignment of relationships within the chain of command between the controlling center and the producing enterprise will continue, there is no indication that the system of direct-

ing the economy by command is to be altered.

Despite the industrial reorganization's present popularity among Soviet administrators a sober appraisal of its success to date must await the release of more detailed performance data than that usually contained in annual reports of plan fulfillment.

Reorganization Proposals

Khrushchev's program was first proposed in February 1957, when the continued high rates of economic growth necessary to catch up swiftly with the United States were deemed in jeopardy. The program sought to promote industrial expansion both by increasing efficiency of the administration of production and by exploiting hitherto untapped resources. Coming hard on the heels of Pervukhin's modest draft for the 1957 economic plan and of the Hungarian crisis, there were clear political overtones in the proposals whereby Khrushchev personally

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CHRONOLOGY OF SOVIET INDUSTRIAL REORGANIZATION1956

14-25 Feb Twentieth party congress; ratifies Sixth Five-Year Plan.
 23 Oct Hungarian uprising.
 20-24 Dec Party central committee plenum; names Pervukhin and "blue-ribbon" group to draft 1957 economic plan and review 1960 goals of Sixth Five-Year Plan.

1957

5-12 Feb USSR Supreme Soviet session; ratifies 1957 economic plan and budget calling for relatively modest growth.
 13-14 Feb Party central committee plenum; hears Khrushchev report proposing administrative reorganization of industry and construction.
 30 Mar Publication of Khrushchev's "Theses" detailing his proposals for reorganization.
 Apr "Popular discussion" in mass media of Khrushchev's scheme as well as "more than 514,000 meetings."
 8-11 May USSR Supreme Soviet session; ratifies reorganization plan with only minor alterations.
 22-29 June Party central committee plenum; ouster of so-called "antiparty group" (announced 4 July).
 1 July Operations begin formally under territorial system of administrative linkage involving new councils of national economy (sovnarkhozy).
 29 Aug Announcement of abolition of USSR Ministry of State Control and establishment of Commission of Soviet Control of USSR Council of Ministers.
 26 Sept Announcement of intention to supplant Sixth Five-Year Plan with a Seven-Year Plan (1959-65) to be drafted by 1 July 1958.
 15 Dec Announcement of abolition of USSR Ministries of Aviation Industry, Defense Industry, Radiotechnical Industry, and Shipbuilding, and of establishment of new state committees in these fields.
 19-21 Dec USSR Supreme Soviet session; ratifies 1958 economic plan and budget.

1958

25 Jan Khrushchev asserts success for industrial reorganization and proposes abolition of most machine-tractor stations along with revamping of procurement system.
 27 Jan Central Statistical Administration report claims 1957 plan fulfillment "at a much higher level" than before reorganization.
 27 Mar Khrushchev assumes chairmanship of USSR Council of Ministers--i.e., premiership--retaining post as party first secretary.
 19 May Announcement of revamping of material supply system and of 24 April decree setting personal financial and criminal sanctions for officials responsible for repeated failures to deliver goods according to plan.
 10 June Announcement of abolition of USSR Ministry of the Chemical Industry and of establishment of a State Committee on Chemistry of USSR Council of Ministers.
 3 Aug USSR Transport Minister Beshchev reports that "for the first time in many years" the average length of haul was below plan, crediting this to the reorganization.
 14 Nov Publication (some 4 months late) of draft Seven-Year Plan intended to be ratified by the 21st party congress convening 27 January 1959.
 27 Nov Announcement of abolition of USSR Ministries of Trade and Agricultural Procurement and establishment of new state committee in the latter field.
 2 Dec Academician Strumilin proposes greater local coordination between agriculture and industry.
 22-25 Dec USSR Supreme Soviet session; ratifies 1959 budget.

1959

3 Jan Announcement of abolition of USSR Ministry of Electric Power Stations and establishment of new USSR Ministry of Electric Power Station Construction.

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seized the leadership initiative; at the very least his March "theses" on the proposal strongly reaffirmed the party's deciding role in Soviet economic affairs.

It was proposed that industrial ministries in Moscow be replaced by a web of regional councils of national economy (sovnarkhozy), so that the "center of gravity of operational administration" could be shifted closer to production activities to facilitate timely and relevant decisions on day-to-day economic questions.

The proposal added that the central planning apparatus

should be simplified, that the union republics and their gosplans should play a greater role in economic affairs, and that the "initiative" of workers and administrators should be "enlisted" in the drive to improve the efficiency of industrial production. It was also proposed that the authority and responsibility of local organs for detailed industrial supply activities be expanded.

By his emphasis on "democratic centralism," however, Khrushchev served notice that he did not question the fundamental tenets of what has been called the "command economy"--planned operation and central

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control in support of regime-determined goals, such as "catching up with the United States." These limits were clearly implied by the extent of the so-called "popular discussion" which the proposals engendered as a technique of mobilizing the mass support essential to their success.

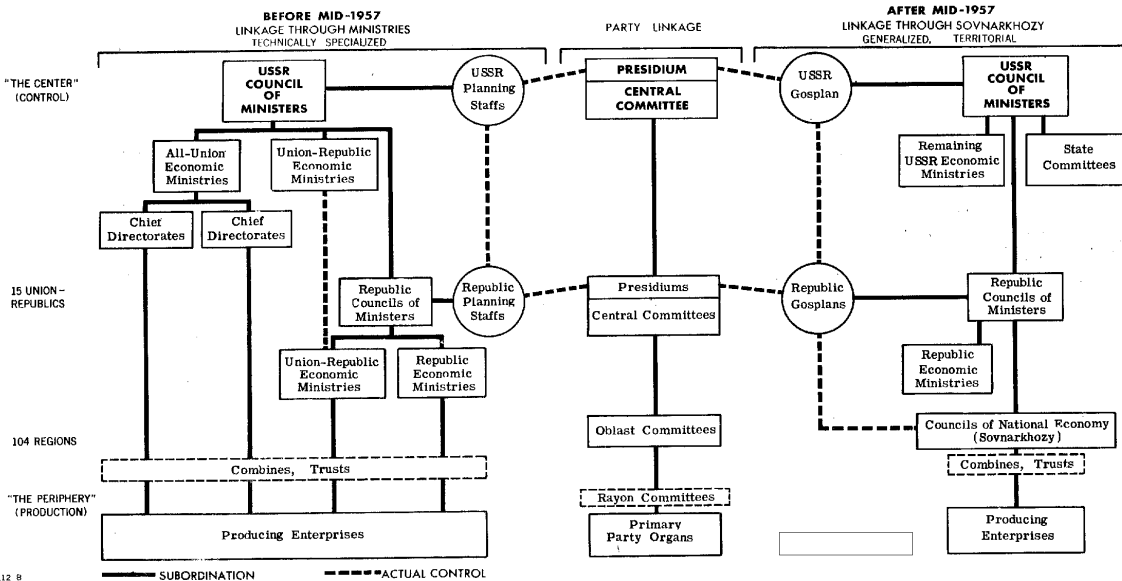
The USSR Supreme Soviet passed Khrushchev's program in May 1957 with only minor modifications. The chain of command through technically specialized ministries between the controlling "center" and the

USSR Gosplan thus became the most important Soviet economic organ. It was charged with long-term and current planning, with operational monitoring of the course of plan fulfillment, and with controlling flows of materials within the economy. In addition, technical industrial research and design organs of economy-wide significance were subordinated to USSR Gosplan.

Control vs. Initiative

The success of the new system depends largely on the Soviet

USSR INDUSTRIAL ADMINISTRATION: A COMPARISON



producing enterprises was replaced by a new linkage along territorial lines. This involved the union republic governments and, through them, over 100 sovnarkhozy, which became responsible for administering enterprises within their areas. At the same time, central planning functions were consolidated into USSR Gosplan from the number of organs which had functioned at the center under the ministerial structure.

ability to preserve effective central control while at the same time providing an environment favorable to the development of personal initiative--so important in the drive to improve efficiency and mobilize unutilized resources. Besides being strengthened by the increase in USSR Gosplan's role, central control was augmented by increased party participation in economic matters at all levels. This increased participation stems from the fact that

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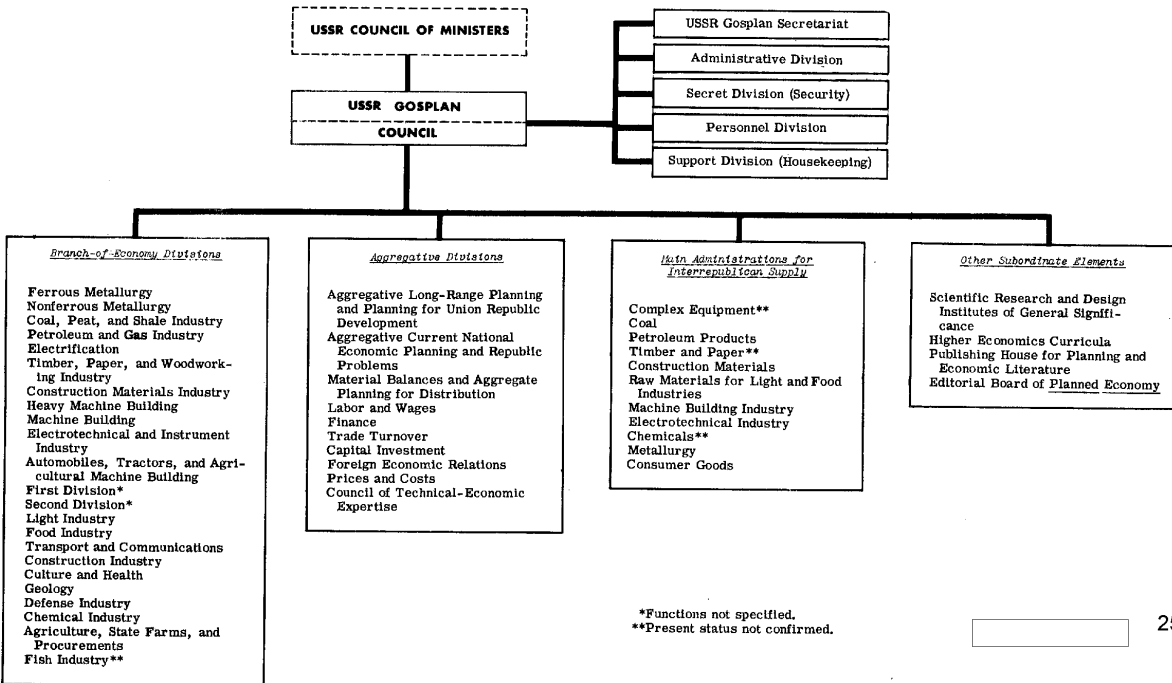
the new territorial administrative linkage parallels the territorial linkages of the party structure.

Local party organs were charged with monitoring local economic operations, and economic officials could no longer effectively counter their intervention by direct recourse through ministerial channels to Moscow. Financial and statistical controls were revamped to conform to the new structure; statistical offices with their own channels with Moscow were established in each economic administrative area to provide the center with independent statistical information, as well as to provide statistical support to the sovnarkhozy. Adaptations in the Gosbank structure were made to facilitate close control of financial flows. Campaigns in mass media

exhorted the populace to be vigilant against actions contrary to "general state interests."

On the other hand, in order to promote initiative, republic and regional economic organs were assigned many responsibilities and functions formerly handled by Moscow ministries and chief directorates. Republic gosplans were expanded in scope. Authority for many routine matters was delegated to sovnarkhoz officials "on the spot"--but always with stress on their expanded responsibility. There was a new emphasis on suggestions from workers and administrators of all levels. Drafts of economic plans were initiated at the operating level, to be passed upward for reconciliation with nationwide state and party requirements and then to be transmitted down in the form of directives. Local initiative was encouraged in

ORGANIZATION OF USSR GOSPLAN



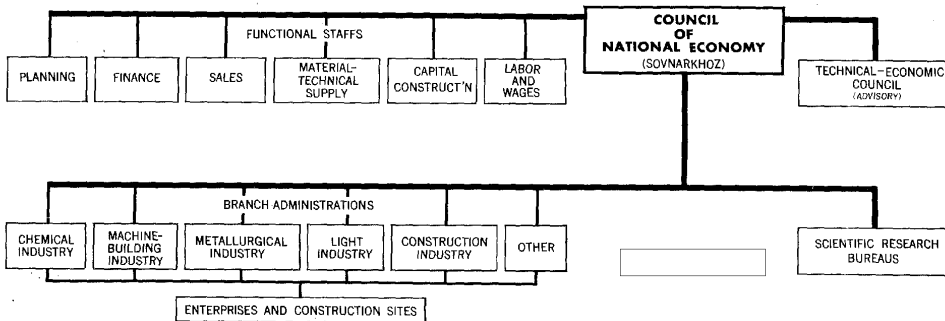
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ORGANIZATION OF A TYPICAL SOVNARKHOZ, 1958

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matters relating to "how" the centrally determined tasks were to be met.

Almost simultaneously with the initiation of the new system, opposition to it and to Khrushchev erupted within the top leadership among the so-called "antiparty group" which, with an assist from a hastily called central committee plenum, Khrushchev promptly ousted. Khrushchev's personal role in promoting the reorganization scheme thus was emphasized.

Initial Policies

The need for avoiding disruption in production operations was the key to policy during the initial phases of the reorganization. The shift took place in the middle of the plan year, thus permitting enterprise operations to continue while adjustments were being made and providing the altered planning organs a breathing spell in which to get under way. To avoid disruption of essential flows of industrial supplies during this period, existing supply relations were temporarily frozen and the sales and supply organs of the industrial ministries temporarily consolidated under USSR Gosplan. This policy of "business as usual during alterations" was a reason for the retention of certain ministries, including those closely connected with the military.

Top appointments in the new sovnarkhozy and the expanded republic gosplans were given to former officials of the abolished ministries in Moscow and to local officials. Partly because of the reluctance of Moscow bureaucrats to move to the hinterland, many minor regional slots had to be filled locally.

Generally speaking, the transition to the new form of administration was accomplished with little loss of momentum. Even before this was confirmed by the plan fulfillment report at the end of 1957, a measure of initial success was suggested by new steps in the reorganization process. Several of the retained ministries were abolished -- Defense Industry, Shipbuilding, Aviation, Industry, Radiotechnical Industry -- and their technical and developmental functions were transferred to newly established state committees of the USSR Council of Ministers. Since midyear their enterprises had gradually been transferred in most part to sovnarkhoz subordination.

Additional Measures

Having torn down the unusable parts of the old structure of industry and set up his temporary walls, Khrushchev now moved on to build the more permanent structure. The campaign against "localism" -- the primacy of local interests -- was maintained by a decree instituting financial and criminal sanctions

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against officials irresponsible in the exercise of on-the-spot authority.

Khrushchev also dealt with the matter of material-technical supply. In 1958 the administrative categories for supply were redefined, and Khrushchev established chief directorates for interrepublic supply to replace the supply-sales directorates which had been merged

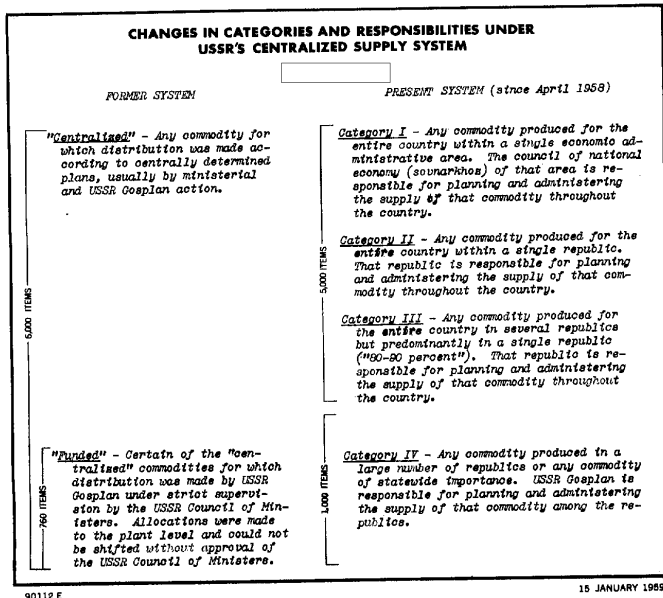
as well as prices for procured agricultural products, although some relatively unimportant commodities were to have their prices set by the republics and local authorities. In the realm of retail trade, however, significant delegations of price-setting authority seem to have been made--about 45 percent of food and industrial commodities marketed at retail are to have their prices set by republic or local organs on the basis of pricing policy determined by the center.

Considerable initiative was encouraged from the localities in the matter of investments, although the center reserved to itself all important decisions. A definite pattern of delegation of authority in this aspect has not yet emerged, however, and discussion of the problem continues.

Possible Future Steps

Informal statements by various Soviet leaders and articles appearing in Soviet journals indicate that active consideration is being given the question of redefining economic areas. The integration of plans for over 100 separate areas poses problems in administration; the problem is especially acute in the sprawling Russian Republic (RSFSR) with its 68 sovnarkhozy.

Proposals have ranged from suggestions for four large self-sufficient regions to suggestions for establishing some 25 to 30 main economic areas. In the former case, the need for subordinate territorial subdivisions is clear; in the latter, perhaps, new larger areas might consolidate some existing regions. In any case, some



temporarily within USSR Gosplan. Although it maintained its tight control over the distribution of critically scarce commodities and its close monitoring of all supply operations, USSR Gosplan was relieved of many functions which formerly had involved detailed routine intervention in supply movements. Republic gosplans and local supply organs were assigned these responsibilities for commodities and supplies used within their territories.

Some modification was also made in the system for establishing prices. The center, principally by USSR Gosplan action, continued to determine all important industrial prices

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intermediate administrative echelons may be interposed between the republic and the sov-narkhozy. It is also possible that agriculture may be integrated into the sov-narkhoz system, as was suggested recently by academician Strumilin and others.

Recent rumors suggest the possible establishment of a new Supreme Economic Council in Moscow, similar to the one which existed in the early Soviet period. The council would probably be subordinate to the USSR Council of Ministers and in turn would receive staff support from USSR Gosplan. Such a council would facilitate making central decisions on economic matters and free USSR

Gosplan from much current operational decision making, thus permitting it to concentrate on technical economic and planning functions.

Khrushchev's programs for revamping Soviet economic institutions continue. Regardless of the particular solutions to the questions above, it is clear that future Soviet policy on economic institutions will be strongly influenced by the regime's need for enforcing compliance with centrally determined objectives, and continuing preventive campaigns against "localism" may be expected.

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