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28 January 1960

CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY
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

DE GAULLE AND ALGERIA Page 1

The extremist uprising in Algiers--a revolt against French authority having as its immediate goal the repudiation of De Gaulle's self-determination program for Algeria--has reached a standstill, and the political reliability of French Army units in Algeria remains in question. De Gaulle will probably have to demonstrate that he has solid support in France before the army can be induced to restore order. Although the insurgents have been disappointed in their hope for sympathetic demonstrations in France, and most non-FLN Moslems in Algeria continue to support De Gaulle's program, settler leaders probably feel that by continuing to defy French authority they can force concessions from De Gaulle. De Gaulle's intention to maintain a firm stand on his Algerian policy is becoming increasingly clear, however, as he moves to cut off the insurgents' support in France.



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THE CUBAN SITUATION Page 3

The Castro government has continued its pressure on American business interests in Cuba and its verbal attacks on US policies and officials. These moves are accompanied by efforts to gain international stature through the projected conference of underdeveloped nations in Havana this summer. Thus far a number of neutralist countries have responded favorably, but Latin American countries are generally wary and in some cases hostile. Without committing themselves to attend the conference, Nasir, Tito, and Sukarno have agreed to visit Cuba.



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EAST-WEST RELATIONS Page 5

Khrushchev apparently intends to announce reductions of Soviet troops in Eastern Europe as his next move to set the stage for his forthcoming trips to Asia and France and for the East-West disarmament and summit conferences. The Soviet premier probably believes such an announcement would give further momentum to his disarmament plan and strengthen his hand at the summit, particularly in pressing for reciprocal reductions of Western forces in Germany and Berlin.



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Khrushchev has reaffirmed his position on a German peace treaty and Berlin and sought to sharpen his recent public

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PART I (continued)

warnings that the USSR will sign a separate peace treaty with East Germany if the West rejects Soviet proposals for a treaty with both German states. [redacted]

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MIDDLE EAST HIGHLIGHTS Page 8

Charges that Iraqi Chief of State Rubai and military governor General Abdi were privy to the assassination attempt against Prime Minister Qasim last October are being publicly aired in Baghdad. Qasim has given no indication that he will act on these charges, which have some substance in fact. Nasir meanwhile has adopted a still more rigid stand against Israeli use of the Suez Canal. The Libyan Government has formally asked for a new set of "high-level" negotiations on American aid and base rights; its initial bargaining price has been set at \$20,000,000 "without strings" for the next Libyan fiscal year. [redacted]

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PART II

NOTES AND COMMENTS

MILITARY DEVELOPMENTS FOLLOWING KHRUSHCHEV'S SPEECH . . . Page 1

Khrushchev's speech to the Supreme Soviet on 14 January has been followed by several developments which help clarify the USSR's plans for reorganizing its armed forces. Meetings are being held among officers and enlisted men to explain demobilization plans, and a new form of military administration on a territorial basis may be set up with one objective of enabling those demobilized to maintain their military qualifications. Some redistribution of forces may ensue. [redacted]

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SOVIET "GOVERNORS" VISIT THE UNITED STATES Page 2

A Soviet government delegation is scheduled to arrive in New York on 29 January for a 21-day tour of the United States, returning the visit of nine American governors to the USSR last year. The itinerary is limited largely to the states represented by those governors. The premier of the Russian Republic (RSFSR), Dmitry Polyansky, who is also a candidate member of the party presidium, will head the 24-man delegation, which includes the governmental heads of the most important subdivisions of the Soviet Union. [redacted]

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PART II (continued)

SOVIET 1959 ECONOMIC REPORT Page 5

The TASS summary of the report on the USSR's economic performance during the first year of the Seven-Year Plan (1959-65) indicates that, except for grain production, good progress was made toward early fulfillment of the plan, with rates of growth in general exceeding those needed to achieve plan goals. The gross value of industrial production was reported up 11 percent in 1959, compared with an average annual increase of 8.6 percent called for under the Seven-Year Plan. [redacted]

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PEIPING'S ANNUAL ECONOMIC STATEMENT Page 7

Peiping has issued a glowing communiqué on its economy during 1959, slanted to refute domestic and foreign critics who have cast doubt on the correctness of the regime's hurry-up economic programs and its recurring claims of unprecedented successes. Impressive industrial advances were almost certainly made last year, but the extent of the gains claimed by Peiping is exaggerated. Agricultural output, rather than increasing as alleged, probably decreased, in the case of grain by some 5 to 7 percent. [redacted]

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YUGOSLAV REGIME CONCERNED OVER POSSIBLE RESISTANCE Page 8

Two major public trials of persons charged with anti-state activity and reports of arrests and secret trials of Croatian nationalists demonstrate the Yugoslav regime's concern over the existence of resistance elements. The involvement of Roman Catholic priests and church facilities in all the cases reported seems likely to damage recently improved church-state relations, but there is no indication that this is the forerunner of an antireligious campaign. [redacted]

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STATUS OF BLOC ECONOMIC RELATIONS WITH IRAQ Page 10

The Soviet bloc is carrying out its economic, technical, and military aid agreements with Iraq. The USSR has begun preliminary work on about three quarters of the projects called for under its \$137,500,000 line of credit and has continued to make frequent deliveries of military equipment under its \$168,000,000 arms deal. Moscow furthermore has announced that it will build Iraq's first iron and steel mill, a project with little economic justification but one which will be a symbol of status in the minds of the Iraqis. [redacted]

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PART II (continued)

ITALIAN OIL COMBINE MAY BUILD PIPELINE FOR USSR Page 11

Italy's state-controlled gas and oil agency, ENI, has made an agreement with the USSR to construct an oil pipeline from the Urals to East Germany in return for crude oil deliveries spread over five years. This move, promoted by ENI's head, Enrico Mattei, is in accord with a widespread desire in the Italian business community to expand trade relations with the bloc regardless of strategic considerations. It seems likely at present that the government will approve the agreement.

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AFRICAN CONFERENCES Page 12

Three African conferences now being held in Brussels, London, and Paris will probably outline the steps toward independence or self-government for the Belgian Congo, Kenya, and the Mali Federation in West Africa. At each conference, a common front reached by the African factions is likely to gain the maximum in concessions from the colonial powers and to result in significant gains in African political power--in some cases, a timetable for independence, as the 30 June date for the Congo agreed to on 27 January.

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BRITAIN'S PROBLEMS GROWING IN CENTRAL AFRICA Page 14

The growing political and racial problems of the Federation of Rhodesia and Nyasaland have been emphasized by the critical reactions of both African nationalists and right-wing white settlers during British Prime Minister Macmillan's trip. Increasing tension in British-Rhodesian relations may develop in the forthcoming official discussions concerning the situation in Central Africa. Nationalist-inspired disorders in Nyasaland, and perhaps in Northern Rhodesia, may occur in demonstration of African opposition to the continuation of the white-dominated Federation.

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KERALA STATE ELECTIONS Page 15

In the campaign for India's Kerala state elections on 1 February, the united front of non-Communist parties is holding, and perhaps increasing, its lead over the formerly ruling Communist party. The strong drive by Congress and Socialist politicians in the last two weeks is having considerable effect and has put the Communists on the defensive. While the working agreement among Kerala's non-Communist parties forms a basis for a coalition government, it is doubtful that these once bitterly divided groups will cooperate in power as they have in opposition.

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THE WEEK IN BRIEF

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PART II (continued)

BURMESE NATIONAL ELECTIONS Page 16

Burma's third general election since independence will be held on 6 February under the supervision of Premier Ne Win's "interim" military government. [redacted] observers predict that former Premier Nu's followers will win a parliamentary majority, possibly by a large margin. Nu's return to office would probably bring little change in government policy, as the army intends to exert "a restraining influence" on the new government.

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RHEE OPPONENT MAY WITHDRAW FROM SOUTH KOREAN PRESIDENTIAL RACE Page 17

Illness may force President Rhee's opponent, Democratic party leader Cho Pyong-ok, to withdraw from South Korea's presidential election this spring. Cho enjoys wide popularity; his withdrawal would make Rhee's re-election easier and perhaps make the administration less inclined to use repressive and illegal tactics in the election. However, it also would probably further weaken South Korea's repressed opposition and blight the development of a two-party system. [redacted]

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SOUTH TIROL ISSUE PLAGUES ITALY AND AUSTRIA Page 18

The recent exchange of letters between Italian Premier Segni and Austrian Chancellor Raab has apparently averted an immediate crisis in relations between Rome and Vienna over the rights of the German-speaking minority in the South Tirol, but an early solution of the problem is still not in sight. Austria would resume talks on the basis of the Tirolese demand for "full autonomy" for the German linguistic area, but Italy contends that such a status was not provided for in the 1946 agreement between the two governments. [redacted]

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ICELAND'S ECONOMIC REFORM PROGRAM Page 19

The Icelandic parliament is expected to grant early approval to the new Conservative - Social Democratic government's comprehensive economic reform program, which includes devaluating the krona from 16 to about 38 to the dollar and an eventual end to the system of price supports for fish and agricultural exports. The proposed reforms would be the most extensive initiated since World War II, but the Thors government feels it has public opinion strongly behind it as a result of last October's general election. The Communists, through their control of the central trade union federation, are in a position to hinder effective implementation of the program if they wish to risk calling politically inspired strikes. [redacted]

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PART II (continued)

TRUJILLO TIGHTENS CONTROLS IN DOMINICAN REPUBLIC Page 20

Recent arrests involving virtually every important family in the Dominican Republic, as well as members of the Catholic clergy, reflect the widespread nature of the opposition to the Trujillo dictatorship. Trujillo for the present has disrupted the revolutionary organization and has also taken certain economic measures to make his regime more popular, but extreme tension prevails at all levels of Dominican society. Dissidence, already reported in the armed forces, may increase as a result of the large-scale arrests, and exiles may step up their activities.

[Redacted]

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PART III

PATTERNS AND PERSPECTIVES

SOVIET VIEWS OF CATCHING UP WITH THE UNITED STATES Page 1

By Soviet definition, the first and foremost task in "catching up with the United States" is to overtake the United States in per capita output of the major types of production--those "constituting the backbone of industry and whose development determines a country's economic strength." Soviet leaders, pointing to differences between the two countries and their outlook, say they have no intention of trying to match the United States in all types of production, particularly certain consumer goods, thereby justifying a continuation of present priorities favoring heavy industry.

[Redacted]

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MIDDLE EAST OIL DEVELOPMENTS 1959-1960 Page 5

Production of Middle East crude oil in 1959 reached an all-time high of about 4,560,000 barrels a day--up 7 percent from 1958--and prospects for 1960 are for another record year. The annual rate of increase is declining, however, and future yearly increases may average less than 10 percent compared with the 23-percent-per-year average which characterized the decade 1949-59. The anticipated entry of Algeria and Libya into world oil markets as major suppliers will cut heavily into present demand for Persian Gulf crude. Threatened with prospects of substantially lower annual increases in income from oil, present Middle East producing countries will probably apply heavy pressure for more advantageous profit-sharing formulas.

[Redacted]

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PART III (continued)

THE ASIAN COMMUNIST SATELLITES Page 13

While the three Asian Communist satellites--North Korea, Mongolia, and North Vietnam--acknowledge the ideological leadership of the Soviet Union, they have not only geographic and ethnic but long-standing cultural and economic ties with China. Within this framework, they have considerable scope in the management of their own affairs.

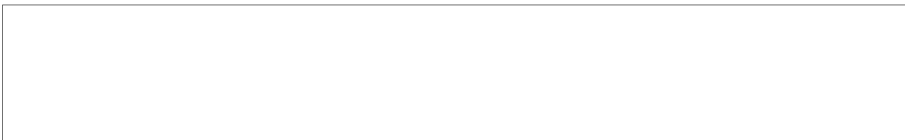
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THE FRENCH NUCLEAR ENERGY PROGRAM Page 18

France's nuclear weapons program has a broad base in research and in reactor construction, but it lacked adequate backing until the Suez crisis in 1956 gave it an impetus which De Gaulle's coming to power accelerated. Plans for large-scale nuclear production of electricity now may get less emphasis, both because of the growing availability of conventional power and because of the heavy stress on nuclear weapons. The first French weapons test--likely to begin in February--is expected to be a series of atmospheric shots.

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PART I**OF IMMEDIATE INTEREST****DE GAULLE AND ALGERIA**

After an initial period of apparent indecision by the De Gaulle government and reluctance of the French Army to open fire on the settler insurgents in Algiers, De Gaulle now appears to be taking steps to reinforce his authority. He shows no signs of yielding on his basic Algerian policy, and his crackdown on rightist extremist leaders in France indicates that he will not tolerate the spread of the dissidence to metropolitan France.

The special cabinet meeting on 27 January ended without an open split or resignations of ministers, previously reported to have been imminent. On the same day, the major afternoon newspapers published assurances of public support, presumably at official request. Public apathy in France--fostered by the censorship in Algeria imposed until 28 January--now is ending, and De Gaulle is receiving messages of support from a wide variety of political, labor, and religious groups.

In addition to the already solid backing of the major left-center and center parties--Socialists, Radicals, and Popular Republicans--De Gaulle on 27 January was given a pledge of cooperation from Union for the New Republic (UNR) parliamentary representatives from the Paris area. The UNR, al-

though nominally pledged to support De Gaulle's policies, includes the Soustelle wing, which favors integration of Algeria.

The police raids on rightist ringleaders may undercut Communist calls for broad cooperation and public manifestations supporting De Gaulle and demanding forcible repression of the settlers which appeared to be making some headway among officials of the Christian Labor Confederation.

The immediate spark for the settler insurrection was the transfer on 22 January of the rightist General Massu, whose interview with a German newsman had resulted in the publication of a magazine article highly critical of De Gaulle. The extremist leaders probably had long sought a suitable opportunity to precipitate a crisis for the De Gaulle regime. Although the extremists continue to maintain that their only object is to guarantee a "French Algeria," many extremists are neofascist in outlook and fundamentally unsympathetic with democratic institutions.

The crisis began on the evening of 24 January when about 1,000 settler militants--the hard core of 20,000 settlers who had demonstrated against the ouster of Massu on 23-24

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January--entrenched themselves behind barricades in downtown Algiers. Many were heavily armed; among the insurgents were members of paramilitary groups who had been equipped by the French as local security forces. When army units attempted to disperse the insurgents, firing broke out which resulted in 24 deaths and over 100 wounded.

French Army units surrounded the barricaded area, but the clashes on 24 January demonstrated the reluctance of the military to use force against compatriots with whose views they were largely in sympathy. Overt fraternization between the military and the insurgents decreased after 25 January; nonetheless, the number of insurgents increased to about 4,000, and they appeared to have no difficulty in obtaining supplies and reinforcements. In Algiers a de facto cease-fire drifted into a stalemate, although in other Algerian cities sporadic rightist demonstrations continued.

There have been repeated statements from various Algerian political figures that they see civil war in cooperation with army elements as their only alternative if De Gaulle persists in his self-determination policy.

If such threats become more serious, De Gaulle may feel obliged to give some public assurances--although without re-

voking his self-determination policy--that the French Government and people will work for a French Algeria. He could present such an assurance as a reiteration of his earlier explanation that the entire military, economic, and social program being carried out in Algeria is designed to ensure the permanence of the French presence there. Other alternatives are available to De Gaulle--such as the assumption of full powers, a special session of parliament to reaffirm self-determination, or a popular referendum to demonstrate his public support--but these would still leave him with the problem of imposing his will on the army.

In Algiers, the insurgents appear confident that their defiance of authority and the threat of civil war will force concessions from Paris. The extremists were probably heartened by an appeal for order on 27 January by General Challe, whose statement that Algeria "will definitely remain French soil" implied the possibility of concessions. They are apparently unaware, however, of the extent of De Gaulle's support in France.

Prior to 27 January, the role of Algeria's Moslem majority was largely passive. On 27 January, however, a pro-De Gaulle demonstration took place in the western town of Mostaganem.

most Algerian Moslems support De Gaulle's policy, and many desire to support the government actively in the present crisis.

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THE CUBAN SITUATION

The Castro government has continued its pressure on American business interests in Cuba and its verbal attacks on United States policies and officials. These moves are accompanied by efforts to gain international stature through the projected conference of underdeveloped nations in Havana this summer.

Ambassador Bonsal's personal popularity among Cubans contrasts with the denunciations by Castro officials and the government-subsidized press and the charges that he "conspires with traitors and assassins." Extensive personal attacks on President Eisenhower and other high officials by government-controlled media increase and decrease in volume in apparent accordance with the political pressures of the Cuban domestic scene.

After eight months of extralegal seizures of large areas of private land, much of it American-owned, the Castro government has actually begun expropriation proceedings, but there is still no indication that proper compensation will ever be made.

According to "Che" Guevara, pro-Communist president of Cuba's National Bank, foreign

banks will no longer be permitted to rediscount with the National Bank their crop loans to either American- or Cuban-owned sugar companies. While this action appears primarily to discriminate against American banks in a move to force them to bring in desperately needed dollars for loans, it could also be a prelude to depriving all private banks of the profitable and traditional short-term loans to sugar companies. It could be a step toward nationalization of the entire banking system, one of Castro's early stated objectives.

The government, in a strong curb on private business, has also issued regulations putting control of all changes of employment under the Labor Ministry.

Foreign Minister Raul Roa, who has been on tour to invite Asian and African countries to the "hungry nations" conference, reports an "enthusiastic response." Nasir, Tito, and Sukarno have indicated that they will visit Cuba, although not necessarily in connection with the conference. Morocco, Tunisia, and the Sudan initially have indicated disinterest.

Roa's plans for the conference appear vague. Roa has

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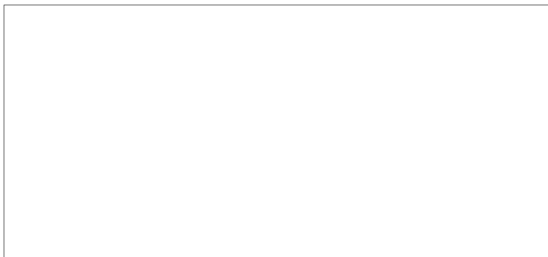
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decided to exclude Israel, European countries, and Communist China or any other non-UN nation. Haiti, the Dominican Republic, Nicaragua, and Paraguay probably will be excluded as dictatorships. The UN secretariat has denied the conference will be held under its auspices, as Roa had implied, and as a matter of principle the UN could not associate itself with a meeting which discriminates against member governments.

In Latin America, where a touring delegation is issuing the invitations, the conference response has been generally wary and the delegates are reportedly discouraged.

A Cuban radio station announced on 27 January that Brazil had definitely refused to attend the conference--an action which will discourage attendance by other Latin American countries.



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In another move toward closer relations with Communist and neutral countries, the Castro-subsidized press service, Prensa Latina, concluded news exchange agreements on 29 January in Havana with representatives of news agencies from the USSR, UAR, Communist China, Poland, Czechoslovakia, Bulgaria, Yugoslavia, East Germany, Indonesia, and Japan. Prensa Latina frequently appends its own date and source line to stories originating from these sources. Its emphasis on Latin American affairs and on world news of interest to the hemisphere, plus its generous free services, have contributed to Prensa Latina's rapid expansion, although there is already suspicion in other countries of Communist influence on its personnel and output.

Prensa Latina's latest move is an attempt to liken President Eisenhower's 26 January press statement of policy on Cuba to official US statements prior to the Guatemalan revolution of June 1954.

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EAST-WEST RELATIONS

Khrushchev apparently intends to announce a reduction of Soviet troops in Eastern Europe as his next move to set the stage for his forthcoming trips to Asia and France and for the East-West disarmament and summit conferences. He told the West German ambassador on 18 January that the recent Soviet decision to cut conventional forces by one third would be followed by "proportionate" reductions in Soviet troops stationed in Poland, Hungary, and East Germany. He added that the USSR was prepared to withdraw all of its forces from these areas if the West accepted the Soviet disarmament plan.

Khrushchev probably believes these moves will give further momentum to his disarmament plan and strengthen his hand at the summit, particularly in pressing for reciprocal reductions of Western forces in Germany and Berlin. Last December in a speech in Budapest Khrushchev dwelt at length on the "utmost absurdity" which could develop if the West agreed to his disarmament plan and at the same time insisted on retaining forces in West Berlin. He asserted that "continuation of the occupation regime completely contradicts the idea of disarmament."

East German party chief Ulbricht is already bringing pressure on Bonn to follow the Soviet lead and "undertake a disarmament initiative" in Germany. In his 26 January letter to Chancellor Adenauer, Ulbricht

warned that if Bonn did not cease its atomic arming and apply a "ban on armaments within a short time," East Germany would be compelled to request its allies to place rocket weapons at its disposal. Ulbricht proposed a referendum in Germany to determine the popular attitude on complete disarmament and the conclusion of a peace treaty and also suggested that the two German states agree on ceilings for their forces and on the "stationing of military forces" in Germany.

Moscow followed a similar pattern in exploiting previous reductions in 1956 and 1958. These moves were given heavy publicity and were accompanied by appeals to Western governments and parliaments to follow the Soviet example. The Supreme Soviet's resolution on 15 January, appealing to the parliaments of all nations to take "practical steps" on disarmament to "create an atmosphere of confidence and facilitate the success of forthcoming negotiations," is almost identical to the December 1957 resolution which foreshadowed the announcement on 6 January 1958 of a 300,000-man reduction, including withdrawals of 41,000 troops from East Germany and 17,000 from Hungary.

Khrushchev can also be expected to follow up his announcement of troop reductions in the satellites with a renewed effort to press previous proposals for a nuclear-free zone in Central Europe and reductions of foreign forces in Germany and other European countries.

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Communist China officially endorsed the Soviet decision but strongly implied that it will make no comparable gesture. Foreign Minister Chen Yi sought to justify this position in a speech on 21 January by charging that the "peace" posture of the United States is simply a "cover for its policy of aggression and war." He claimed, however, that Peiping's sincerity in "safeguarding peace and disarmament" has been repeatedly shown by its past armament reductions.

Chen Yi also warned that Peiping would not regard as binding any disarmament agreement "arrived at without the formal participation of the Chinese People's Republic and the signature of its delegate."

Germany and Berlin

In his conversations with the West German ambassador, Khrushchev reaffirmed the USSR's proposals on Berlin and a German peace treaty and underlined his recent public warnings that the USSR would sign a separate peace treaty with East Germany unless serious consideration were given to the Soviet proposals. He informed the ambassador that he would insist on discussing a German peace treaty and Berlin at the summit but that he would be "content" with a temporary agreement on Berlin, provided the occupation was ended. He emphatically rejected linking the Berlin question with German unification.

Moscow's apparent intention to stand firm on its established positions on Berlin and Germany at the summit meeting was echoed

in East German party leader Ulbricht's recent interview with an Italian paper. He claimed that "the positive results of the Geneva foreign ministers' conference will undoubtedly serve as a basis of discussion" at the summit conference. In his letter to Adenauer, Ulbricht emphasized that the creation of a "free city" in West Berlin would be achieved sooner or later and renewed his proposals to establish an all-German committee, based on equal representation, to "deliberate" the preparation of a peace treaty and the reunification of Germany.

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Khrushchev

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and Ulbricht have evolved a long-range strategy for gaining Western concessions. The Communist leaders feel that they can afford to be patient, believing that the West will eventually grow tired of the Berlin problem.

In the interim, however, physical and propaganda pressure reportedly will be maintained against West Berlin to keep the city in a state of "uncertain suspense."

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During the Geneva

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negotiations, Khrushchev specifically stated, in referring to the Berlin problem, that "not one but several meetings of heads of government will be needed" in order to solve "those questions which now are ripe for settlement and which need to be settled step by step."

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Moscow's aim in passing such a memorandum to the Socialists and Berlin Mayor Brandt is probably to bring pressure on the party to take more decisive action in challenging Adenauer's recent assertions that the Western proposal at the Geneva foreign ministers' conference for an interim Berlin solution should not be the West's starting point at the summit. Moscow may also be seeking to create difficulties between party leaders and Mayor Brandt, who has taken a position similar to Adenauer's in contrast to the more flexible official party attitude toward the negotiations at Geneva.

The Soviet premier has been angling for an invitation to visit West Germany since his 15 October letter to Adenauer, but Bonn has not responded. Such a visit, probably coupled with at least a stopover in East Germany, would serve to accentuate the Soviet contention that two German states are a political reality which should be accepted by the West.

Western Attitudes

Chancellor Adenauer's reply of 14 January to Khrushchev's letter of 15 October was bluntly worded, in the hope of ending the exchange. Adenauer believes further correspondence affords Khrushchev an effective means of exerting pressure on Bonn in the pre-summit period. The chancellor raised no new issues and referred to previous letters in refuting certain charges. He noted that the Berlin question would be settled as soon as Khrushchev permitted the German

people the right of self-determination.

In the course of a visit to Rome on 20-24 January, Adenauer may have been less successful than he had hoped in obtaining from the Italians a firm commitment to support the status quo in Berlin. In the course of conversations, the Italians contested Adenauer's thesis that disarmament should have priority at the summit by noting that in such an event other urgent problems "such as Berlin" might be neglected.

Nuclear Test Ban Talks

The Soviet delegation at Geneva is marking time awaiting the introduction of a new US proposal for a limited test-ban treaty. A Soviet representative at the talks told an American official privately on 21 January that his delegation would have nothing of importance to propose "for the time being," adding, "It is now up to you." On 27 January chief Soviet delegate Tsarapkin told newsmen in Geneva that the USSR would "never accept" any American proposal which did not provide for a "total ban without any conditions."

The conference has continued negotiating the routes for dispatching aircraft in event of a suspected nuclear explosion. Although the Soviet delegate has continued to resist any provision for special flights outside pre-arranged air corridors, he probably may finally accept a formula giving Moscow the right to disapprove any routes which it might believe conflicted with Soviet security requirements.

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MIDDLE EAST HIGHLIGHTSIraq

A further element of tension was added to the Iraqi political scene this week when one of the defendants in the trial by the People's Court of plotters against Qasim stated that Chief of State Rubai and military governor General Abdi, as well as several high security officials, were privy to the assassination attempt against Qasim last October.

Security force leaders accused in the court have [redacted] denied any connection with the plot and are carrying on business as usual. Abdi, at an Indian Embassy reception on 26 January, "appeared relaxed, almost gay." Nevertheless, the renewal of testimony by the court on 30 January may lead to elaboration of the charges against them. Qasim may delay moving against some or all of the accused until after their apprehensions have been lulled by lack of prompt action.

Rubai and Abdi were accused of being prepared to take over the government following Qasim's death, charges apparently having some substance. The charges could create a new political crisis in Baghdad.

During the past week, People's Court President Colonel Mahdawi also leveled accusations that the United States and Britain were involved in the Qasim assassination attempt. Specifically, the American ambassador in Cairo was charged with turning over \$1,120,000 to refugee antiregime plotters, while Les-

lie Marsh, a British citizen of Jamaican extraction accused of working for British intelligence, has been charged with having prior knowledge of the assassination plot. Marsh's case has been referred for further investigation.

In addition to the "orthodox" and splinter Communist groups, it appears that a new Communist-front group will apply for party status. Led by Aziz Sharif, a member of the Iraqi Communist party central committee, and the pro-Communist director of the oil refinery, this group is probably intended to draw support from non-Communist left-wing parties.

UAR-Israel

The recent discussions in Cairo between UN Secretary General Hamarskjold and UAR officials have failed to resolve the dispute over Israeli shipping via the Suez Canal. The UAR's position, as defined to Hamarskjold, has in fact become more rigid and categorical than it was previously.

[redacted] in addition to the previous ban on Israeli-flag vessels and ships chartered by Israel, Cairo will not permit any ship owned wholly or in part by Israeli companies to transit the canal, no matter what flag it carries. The UAR also "reserves the right" to seize any cargo coming from Israel, even if shipped f.o.b. the port of embarkation, on grounds that such a cargo is regarded as "illegal fruit of Palestine's soil which Israel has acquired through aggression." Earlier, the UAR had

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agreed with Hammarskjold to pass cargoes sent f.o.b. from Israel and those sent c.i.f. to Israel, since they would not be legally owned by the Israelis.

Cairo's intransigence probably was inevitable in view of the publicity that has attended recent developments in the dispute. Nasir wants to avoid adverse Arab criticism, particularly from Iraqi Premier Qasim, of any "moderate" attitude toward Israel. The f.o.b.-c.i.f. arrangement was accepted on the premise that there would be no publicity surrounding shipments under its terms.

The Danish vessel Inge Toft, which has been detained for eight months, and the Greek ship As-typalea, stopped in mid-December, are still impounded at Port Said. The UAR will not allow them to proceed through the canal unless they unload their cargoes from Israel. The Israelis, who have awaited the results of Hammarskjold's personal diplomacy, probably now will lodge a formal complaint with the UN Security Council.

Libya

Following the setback the government sustained in the 17 January parliamentary elections, the Libyan Council of Ministers formally requested a new round of high-level negotiations with the United States on the Wheelus base agreement and on economic aid. Prime Minister Kubaar has told the American ambassador in Tripoli

of his government's "keen desire" to present new "positive" US proposals to the new House of Deputies at its first meeting in early February.

Kubaar indicated that a \$20,000,000 aid package--\$14,000,000 with no US controls on expenditure and \$6,000,000 with very limited controls--for the Libyan fiscal year beginning 1 April would meet "the immediate political exigencies imposed by public opinion and the new parliament." Such a package, without subsequent additions, would not increase the total level of American aid compared with the last two years, but would give the Libyan Government much greater latitude in its expenditures.

The powers of the Libyan parliament are very limited under the constitution and have been even more limited in practice. It can, however, serve as a focal point for popular criticism and a sounding board for opposition elements, thus causing major embarrassment to the government. The new House of Deputies will have an augmented minority of vehemently anti-American members, a sizable group of young Arab nationalists, and a considerably reduced number of reliable government supporters. The exact alignment in the new house is not yet clear, however, since many of the candidates who displaced incumbent government-backers are young men without previous experience on the Libyan parliamentary scene.

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PART II**NOTES AND COMMENTS****MILITARY DEVELOPMENTS FOLLOWING KHRUSHCHEV'S SPEECH**

Khrushchev's speech to the Supreme Soviet on 14 January has been followed by several developments which help clarify the USSR's plans for reorganizing its armed forces.

On 19 January, in an address to officers of the Moscow Garrison at a meeting in the Kremlin attended by five presidium members and ten marshals of the Soviet Union, Defense Minister Malinovsky announced that more than 250,000 officers--including "generals and admirals"--would be among the 1,200,000 armed forces personnel to be demobilized by the autumn of 1961. Malinovsky said that a number of units, bases, depots, schools, and administrative organizations would be disbanded.

Similar meetings were held within the next few days in all branches of the services; these included addresses to officers, enlisted men, and even wives. These meetings took place throughout the USSR, Poland, Hungary, and East Germany, indicating an effort to have the reductions carefully explained so as to provoke the least possible resentment.

On 18 January, Khrushchev told the West German ambassador in Moscow that the USSR would reduce the number of Soviet troops in Poland, Hungary, and East Germany. He did not say when or how much, but he added that if his disarmament pro-

posals were accepted, all Soviet troops would be withdrawn from these countries.

The USSR has an estimated 350,000 ground and air troops in East Germany, 70,000 in Hungary, and 40,000 in Poland. Many probably could be withdrawn without jeopardizing the local regimes.

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If Khrushchev does reduce naval strength in the Black Sea, many of these units--particularly the submarines--probably will be deployed to the Northern and Pacific fleets, where their potential could be more fully realized. The difficulty of moving vessels through the Turkish Straits during wartime makes deployment in the Black Sea of marginal military value. There are now 65 submarines, 26 destroyer-type vessels, and 8 cruisers there.

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The emphasis given by Malinovsky in his speech to the Moscow Garrison on the need for demobilized officers to maintain their military qualifications and to be ready to return to service "at the first call of the party" may relate to plans to establish a number of territorial units, as suggested by Khrushchev.

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The territorial system established by Lenin in 1923, which Khrushchev said might be a model, set up units under the control of local military district commanders. These units were led by regular officers and noncommissioned officers and manned by local personnel, who spent about two months a year in training. In 1923 it was planned that only about 25 percent of the entire military establishment was to be made up of regular units. The system was abandoned in 1939.

The re-establishment of a territorial organization might simultaneously accomplish several Soviet objectives: 1) It would fit in well with the already established mobilization and reserve system to expand the reservoir of trained manpower, while permitting the USSR to claim a massive reduction of its armed forces; 2) It could provide jobs for some demobilized officers and non-commissioned officers as training personnel or advisers with territorial units; 3) It would permit demobilized personnel to enter the civilian economy, while providing them

with military training; and 4) It could provide an opportunity for altering the present deployment of forces in view of changes in the world situation.

The present disposition of forces, essentially unchanged for a number of years, is characterized by heavy concentrations in the western USSR, Eastern Europe, and the Far East. An article in Pravda on 20 January by Col. Gen. V. A. Penkovsky, commander of the Far East Military District, which attacked the US-Japanese Defense Treaty, warned that Moscow might not return the Habomai and Shikotan islands to Japan, as had been promised, and implied that the USSR might have to re-evaluate its security situation in the Far East.

A note was sent to Tokyo on 28 January stating that the islands would not be returned unless the treaty with the US was scrapped. This suggests that the USSR may use the signing of the treaty as an excuse not to reduce the heavy concentration in the Far East. 25X1

SOVIET "GOVERNORS" VISIT THE UNITED STATES

A high-ranking Soviet government delegation is scheduled to arrive in New York on 29 January for a 21-day tour of the United States, returning the visit of nine American governors to the USSR last year. Their itinerary is limited largely to the states represented by those governors. The premier of the Russian Republic (RSFSR), Dmitry

Polyansky, will head the 24-man group, which includes the governmental heads of the most important subdivisions of the Soviet Union--the Russian, Ukrainian, and Kazakh republics and Moscow and Leningrad oblasts--and other important administrators.

Although their careers have not followed the same

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POLYANSKY



KUNAYEV



KALCHENKO

pattern, these men have for the most part come to the fore in the post-Stalin era and are representative of the younger, professionally qualified persons whom Khrushchev is promoting to executive positions. Most of the group have received university-level education at technical institutes specializing in agricultural or industrial fields. They have generally impressed observers as competent and knowledgeable administrators.

Polyansky, 42, one of the youngest members in the top party leadership, has been RSFSR premier for almost two years. He has risen rapidly and appears to be in line for further advancement. He was educated as an agricultural specialist but made his career in party work. After the war he attended the Higher Party School in Moscow and then worked for a number of years on the staff of the party central committee, possibly in the agriculture department. He then held party

posts in Crimean and Chkalov oblasts and in Krasnodar Kray. In March 1958 Polyansky succeeded Frol Kozlov as RSFSR premier, and the following June was made a candidate member of the party presidium.

Impressing observers with an air of quiet competence, Polyansky seems willing to talk at length on any subject and displays detailed knowledge of a wide variety of topics. He is well informed about life in the West and appears interested in promoting cultural and agricultural exchanges. He is quite

PRINCIPAL MEMBERS OF SOVIET "GOVERNORS" DELEGATION

<u>Name</u>	<u>Head of Government of:</u>
Dmitry S. Polyansky (head of delegation)	Russian Republic (RSFSR)
Dinmukhamed A. Kunayev	Kazakhstan*
Nikifor T. Kalchenko	Ukraine
Givi D. Dzhavakhishvili	Georgia
Mamed A. Iskenderov	Azerbaijdzhan
Vasily I. Konotop	Moscow Oblast
Nikolay I. Smirnov	Leningrad Oblast

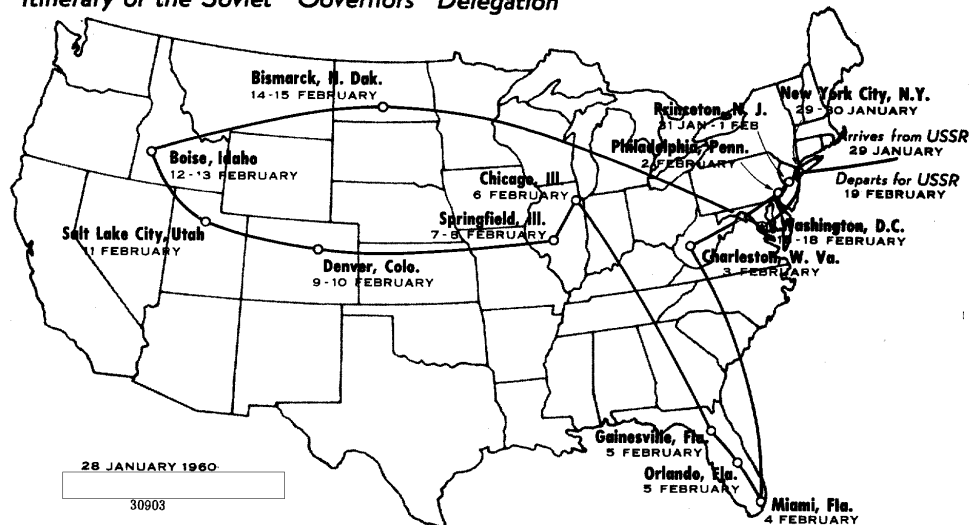
*Was the republic's premier until 19 January, when he became party first secretary in Kazakhstan.

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proud of his training as an agricultural specialist.

Dinmukhamed Kunayev, 48, premier of Kazakhstan for almost five years, was given his first party assignment on 19 January 1960, when he succeeded Nikolay Belyayev as party chief in Kazakhstan. A native Kazakh, Kunayev graduated from the Moscow Nonferrous Metals Institute in 1936 and then worked for several years in mining and metallurgical operations in Kazakhstan and nearby Altay Kray. In May 1942 he became a deputy premier of the Kazakh Republic, a post he held for ten years. He was elected president of the Kazakh Academy of Sciences in 1951, returning to government work in March 1955 as republic premier. He was elected to the party central committee at the 20th party congress in February 1956.

Nikifor Kalchenko, who for the past six years has been premier of the Ukrainian SSR, has, like Kunayev, made

his career in government work. After graduating from the Poltava Agricultural Institute in 1928, he worked in the agricultural field until 1938, when he became head of the provincial government in Odessa. During the war he served on military councils in the Ukraine. From 1946 to 1952, Kalchenko was head of agricultural ministries and then for two years was first deputy premier of the Ukraine. In January 1954 he was appointed premier. He is 53 years old and a member of the party central committee.

Georgian Premier Givi Dzhavakhishvili and Azerbaydzhan Premier Mamed Iskenderov both trained for work in the industrial field and both have alternated government work with party work. Dzhavakhishvili, 47, worked in the Georgian State Planning Committee during the war, then spent eight years in party work in the Georgian central committee in the heavy industry field. In 1952 he became mayor of Tbilisi, capital

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of Georgia, and the following year was appointed premier of the republic.

Iskenderoy, 44, was educated as an oil engineer and held a number of executive posts in the Azerbaydzhani oil industry between 1945 and 1953. In early 1954 he became republic party secretary, primarily responsible for the oil industry. He was promoted to republic premier in July 1959.

Little is known of the early careers of Vasily Konotop, 45, or Nikolay Smirnov, 55, chairmen of the "executive com-

mittees" of Moscow and Leningrad respectively. Konotop apparently is an industrial specialist who prior to June 1956 worked in the party organization in an industrial center not far from Moscow. In June 1956 he became second secretary in Moscow Oblast, succeeding to the post of executive committee chairman in March 1959. Smirnov, an agricultural specialist and drainage engineer, has said he came to Leningrad in 1946. He was appointed first deputy chairman of the Leningrad Executive Committee in February 1954 and became chairman three years later.

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SOVIET 1959 ECONOMIC REPORT

The TASS summary of the report of the USSR's economic performance during the first year of the Seven-Year Plan indicates good progress toward the plan's goals except in agricultural output--notably the grain crop. The gross value of industrial production was reported up 11 percent in 1959, compared with reported growth rates of 10 percent for 1958 and 1957. The Seven-Year Plan calls for an average annual increase of 8.6 percent. The production of producer goods was reported up 12 percent and that of consumer goods up 10.3 percent over last year, as compared with 11 and 7 percent, respectively, in 1958.

The plan was fulfilled by all union republics and economic areas (sovnar-

khozy). Industries overflowing their plan included such basic ones as pig iron, steel, rolled metal, iron ore, machine tools, electricity, coal, and oil.

Raw material shortages responsible for the abandonment

SOVIET PRODUCTION OF SELECTED ITEMS

	1958	1959	1959 over 1958		Annual Rate of Percentage Increase needed to achieve Seven-Year Plan Goals
			% Change		
			Actual	Plan	
MILLION METRIC TONS					
Pig Iron	39.6	43	9	7.8	7.4 - 8.5
Crude Steel	54.9	59.9	9	7.5	8.6 - 7.4
Rolled Steel	42.9	47	9	7.2	8.2 - 7.2
Coal	496	506.5	2	NA	2.8 - 3.0
Petroleum	113	129.5	14	12	10.6 - 11.3
THOUSAND UNITS					
Freight Cars	40.3	38.6	-4	NA	NA
Tractors	220	213.5	-3	NA	-7
Refrigerators	360	426	18	28	23
Washing Machines	538	724	34	41	25
BILLION KWH					
Electric Power	233	264	12	10.7	11.7 - 12.1
BILLION CUBIC METERS					
Natural Gas	29.8	37.2	25	38	25.3
PERCENTAGE CHANGE OVER PRECEDING YEAR					
Industrial Output	10		11	7.7	8.6
Industrial Labor Productivity	6		7.4	5.4	5.6

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of the Sixth Five-Year Plan in 1957 seem to have been largely overcome, and rates of growth in general exceed those needed to achieve Seven-Year Plan goals. Production of natural gas was the only "leading link" to fall short of its target. This was apparently due to continuing shortages of pipe.

The labor plan for 1959 was overfulfilled. The number employed in the state economy rose to 56,300,000--an increase of 1,700,000 as compared with a planned increase of 1,300,000. This overfulfillment may be due, in part, to the regime's special efforts to recruit additional youths and women for the labor force.

Industrial labor productivity reportedly increased 7.4 percent, reversing, at least temporarily, the recent trend toward a diminishing rate of growth. Output per man-hour rose even more because of the continued progress in the reduction-in-hours program, which covered 13,000,000 workers by the end of 1959. The increase in labor productivity in construction--not yet affected by the cut in hours--was 9 percent.

The volume of capital investment increased 12 percent, more than sufficient to meet annual average investment requirements under the Seven-Year Plan. However, production of machinery and equipment showed sharp differences in rates of growth in response to changing priorities. In spite of impressive increases in the production of both chemical and power-generating equipment, there were serious delays in the delivery of the appropriate equipment to construction sites. The fact that output of these items fell short of plan despite large production increases--55 percent in chemical equipment--suggests that yearly goals are being set

to meet the Seven-Year Plan ahead of schedule.

Decreases in production of agricultural machinery and trucks reflect extensive model changes and planned cutbacks for some items. The decline in truck production may also reflect an anticipated transfer of trucks from the military to the civilian economy as ground forces are reduced.

In agriculture, the reported figure of 125,000,000 tons of grain is only 11 or 12 percent below the harvest of 1958, the best crop year in Soviet history. This is inconsistent with an indicated 5-percent reduction in grain acreage and the admitted widespread drought in many major grain areas in 1959. It is likely that the harvest of usable grain was only about 100,000,000 tons.

In December 1958, Khrushchev admitted past deceptions in grain statistics and berated Malenkov for attempting to pass off the "biological yield" for the "barn harvest." However, in spite of Khrushchev's stand on this point, which he reaffirmed at the central committee meeting on agriculture last month, some change in the definition of "grain harvested" apparently has been made.

A record crop of raw cotton--4,700,000 tons-- was produced.

The total volume of state and cooperative retail trade was reported to have increased 8 percent in comparable prices over last year. Completions in planned additions to housing, of 860,800,000 square feet of urban living space together with 850,000 rural homes, the increased availability of food, based in part on the carry-over from the record 1958 crop, and the increasing availability of

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manufactured consumer goods indicate that 1959 was a good year for the consumer.

Soviet leaders seem intent on demonstrating that savings from military cuts will benefit the Soviet consumer. Two decrees by the Council of Ministers during the past week provide in-

creases of 3.6 billion rubles in investment funds during the Seven-Year Plan for medical facilities and for the food-processing industry. These are the first such allocations to be described as a direct consequence of the armed forces reduction.

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PEIPING'S ANNUAL ECONOMIC STATEMENT

The official economic communiqué issued by Peiping on 22 January pictures the Chinese economy in glowing but exaggerated terms, claiming a 31.1-percent increase during the year in the gross value of industrial and agricultural output. The value of industrial output alone is said to have jumped 39.3 percent, and that of agricultural production 16.7 percent. A number of key targets for the Second Five-Year Plan (1958-62) allegedly were fulfilled three years ahead of schedule.

The regime says the "facts" disclosed in the communiqué prove that China's economy has been leaping forward at rates never before achieved, even by the capitalist nations in their "golden days." The same comparison with regard to the best growth records of the Soviet Union could have been made but was not.

The regime clearly intends the statistics as a refutation to its persistent foreign and domestic critics. The official People's Daily says that the "facts" presented will embarrass the "imperialist soothsayers" who, like "blind fortune-tellers disseminating rumors on street corners," say 1959 was a most dismal year in China. The "facts," the daily believes, have "cleared the minds" of rightist elements who have doubted the wisdom of the regime's hurry-up economic policies.

Preliminary appraisal of the figures indicates that they are inflated, but

	1958 'verified' results	1959 Plan		1959 results (January communiqué)	1959 output Five-Year Plan
		original	adjusted		
Gross Value (BILLION YUAN)					
Industry	117.	165.	147.	163.	165.0
Agriculture	67.1	122.	73.8	78.	73.0
Total	184.1	287.	220.8	241.3	238.0
Industrial Production (BILLION TONS)					
Steel	8.	18.	12.	13.35	10.5-12
Pig Iron	13.7	23.	20.	20.5	-
Coal	270.	380.	335.	347.8	190-210
Crude Oil	2.24	-	3.5	3.7	5.0
Electric Power (BILLION KWH)	27.5	40.	39.	41.5	40-43
Cotton Yarn (BILLION BALES)	6.1	8.5	8.2	8.25	8-9
Agricultural Production (BILLION TONS)					
Grain	250.	525.	275.	270.	260
Cotton	2.1	5.	2.3	2.41	2.4
Soybeans	10.5	15.	-	11.5	12.5

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probably not as greatly as those first advanced for the 1958 "leap forward." A major retreat from the present figures may not be necessary, except possibly in agriculture.

Impressive increases were almost certainly scored last year in the industrial field and a groundwork laid for further rapid advances. Investment went up by approximately one quarter, and substantial additions were made to the nation's industrial capacity. While increases in industrial production last year were substantial, they were probably not in all cases as extensive as the communiqué asserts. Production claimed for individual items, which in general falls somewhere between the high original goals for 1959 and the lower adjustments made in August, is in many cases bolstered by output from the numerous medium- and small-size plants set up during the "leap forward."

For example, nearly one third of a claimed total of 13,500,000 tons of steel came out of such plants, as

did over half the claimed 20, - 500,000 tons of pig iron. These are not the "back-yard" furnaces set up during the hectic iron and steel drive in late 1958, but more modern and efficient producers, some of which replaced the "back-yard" furnaces. While the quality of output from these installations has improved in the past year, a portion of this iron and steel is suitable only for simple implements.

Contrary to Peiping's rosy view of China's agriculture during the past year, unfavorable weather is believed to have reduced farm output below the level of 1958, a good year. Grain production probably fell by 5 to 7 percent to around 200,000,000 tons and cotton by some 15-25 percent to some 1,500,000 to 1,750, - 000 tons.

No specific targets have yet been made public for 1960, but the regime plans to push for further rapid advances all through the 1960s, starting with a bigger and more comprehensive leap forward this year.

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YUGOSLAV REGIME CONCERNED OVER POSSIBLE RESISTANCE

Two major public trials in Croatia of persons charged with antistate activity and reports of arrests and secret trials of Croatian nationalists suggest that isolated resistance elements may still be active in Yugoslavia. The publicity given the Zagreb trial--the first of the two--which has antichurch overtones, reveals the regime's fear that separatist, clerical, and other elements may be able to play on

traditional regional and ethnic rivalries and antagonisms.

In the Zagreb trial, the accused are identified as members of a "group of pro-Ustashi elements" who allegedly have been engaged in espionage and terrorist activity since 1956 under orders from Ustashi emigrés in Western Europe. The Ustashi was a Croat nationalist organization which collaborated

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with the Nazis in World War II. Accusations that the chief organizer, a Franciscan priest, "took advantage of his post...and his residence in monasteries" to conduct his activities, including the organization of groups, suggest that the regime is placing guilt on the individual directly and not on the church. A second trial of seven Catholic priests and two theological students, charged with spreading hostile propaganda and propagating religious, national, and racial hatred, started in northeast Croatia on 28 January, according to the press.

The court proceedings in Zagreb and alleged arrests in other areas may be an outgrowth of extensive police investigations following the student riot in Zagreb last May. The regime subsequently voiced alarm over possible externally directed antiregime elements, and the American consul general in Zagreb reported in August that an investigation of the student disturbances had broadened into a probe of what the Yugoslav secret police suspected was a Croat nationalist movement. This probe has included scrutiny of Catholic Church circles, and there are unconfirmed reports of arrests of priests and students at the Djakovo Catholic seminary in Croatia and of persons who used a parish hall at Sara-

jevo in Bosnia-Herzegovina for antiregime meetings.

The involvement of Roman Catholic priests and church facilities in all the cases reported seems likely to lead to a reversal of recent limited improvements in church-state relations. During the past year, the regime has allowed Catholic priests to travel abroad more freely and has refrained from commenting adversely on new bishopric appointments. The conduct of the Zagreb trial suggests that the regime activity is not directed at the Catholic religion.

The possibility of unfavorable consequences for Yugoslav prestige and policies in Catholic countries provide further reason for the regime to play down an attack on the church.

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STATUS OF BLOC ECONOMIC RELATIONS WITH IRAQ

The Soviet bloc, eager to emphasize that it is Iraq's best friend, is steadily carrying out its economic, technical, and military aid agreements. Moscow announced last week that it would build Iraq's first iron and steel mill, a project with little economic justification but one which will be a symbol of status in the minds of the Iraqis.

The Soviet Union has begun work--mainly of a planning and survey nature--on about 70 percent of the projects called for under its \$137,500,000 line of credit to Iraq. While actual construction work on most of these projects probably will not begin for some time, the technique of first agreeing to carry out a project--with a minimum of preliminary study--and then planning and implementing the project affords the USSR the maximum propaganda potential.

The European satellites are for the most part concerned with smaller projects not involving long-term credits. Some of the satellites appear, in addition, to be participating in certain projects the Soviet Union is committed to implement.

Bloc technical aid, exemplified by the more than 300 specialists now in Iraq and by the recent Soviet agreement to establish vocational training centers for some 4,000 Iraqi students, is another important factor in the bloc's economic relations with Baghdad. In addition to the working-level technicians, the bloc continues to make available the services

of economists such as Oscar Lange, a Pole who is to return to Baghdad to assist with economic planning. Last year Lange helped the Iraqi Government set up its Ministry of Planning.

Bloc trade with Iraq--which was negligible in 1958--now accounts for about 6 percent of that country's total foreign trade, excluding oil exports. The bloc is taking a significant share of Iraq's date crop and is providing foodstuffs and manufactured products.

The Soviet Union has continued to make frequent deliveries of military equipment since it began arms shipments to Iraq in the fall of 1958 under its \$168,000,000 arms deal. Iraq is believed to have received 12 IL-28 jet bombers, 42 MIG-17 jet fighters, more than 100 T-54 and T-34 medium tanks, over 40 SU-100 assault guns, and substantial quantities of artillery, mortars, and other weapons. Last month, three motor torpedo boats were delivered to Basra.

The Soviet Union also is providing Iraq with military experts, estimated to number more than 150. At least 200 Iraqi military, naval, and air force personnel have been sent to the bloc for training since early 1959.

Indicative of the USSR's desire to impress the Iraqi armed forces, the Soviet military contingent at the embassy reception in Moscow commemorating Iraqi Army Day on 6 January included more than 60 officers, almost half of whom were at least lieutenant general or equivalent.

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ITALIAN OIL COMBINE MAY BUILD PIPELINE FOR USSR

Italy's state-controlled gas and oil agency, ENI, has made an agreement with the USSR to construct an oil pipeline from the Urals to East Germany in return for crude-oil deliveries spread over five years. This move, promoted by ENI's head, Enrico Mattei, to strike back at Western rivals, is also in accord with a widespread desire in the Italian business community to expand trade relations with the bloc regardless of strategic considerations. Although trade with the bloc is only a small part of Italy's total trade, Italian imports from the bloc during the first half of 1959 were 60 percent higher, and exports 25 percent higher, than for the corresponding period in 1958.

ENI's agreement--signed on 30 November and disclosed by Minister of State Holdings Ferrari-Aggradi to the American Embassy in mid-January--puts the cost of the pipeline at \$128,000,000. This line would presumably be part of the extensive pipeline system recently undertaken by the Soviet Union to bring oil from the Urals to Eastern Europe and Baltic ports. The ENI project reportedly was envisaged in negotiations in 1958 between Mattei and the USSR.

According to Ferrari-Aggradi, Mattei agreed to take payment in Soviet crude petroleum because Moscow offered it at a price substantially below Western prices and also because he wished to retaliate against the large international oil companies' long-standing discrimination against ENI in joint undertakings and bids for foreign oil concessions.

Early last December Mattei announced that ENI had contracted for 1,500,000 tons of Soviet crude to be delivered in 1960 in exchange for 10,000 tons of ENI's synthetic rubber.

This is almost double ENI's 1959 commitment to the USSR. The oil and rubber have been fitted into the commodity quota lists for the Italian-Soviet agreement signed on 22 December 1959, which calls for a 25-percent expansion of trade this year.

Mattei is reported to have reacted to Esso's rejection of



MATTEI

his invitation to join in construction of ENI's projected Genoa-Munich pipeline with a threat to damage the international oil companies' interests in Italy by having the government create a central agency to purchase all imports of crude, with massive amounts coming from the USSR. In the past, ENI spokesmen have repeatedly defended purchases of Soviet crude as a stopgap until sufficient amounts are available from ENI's own sources in Italy, Africa, and the Near East.

Favorable action by the Italian Government on ENI's 30 November agreement, which Ferrari-Aggradi now thinks likely, might pave the way for future deals with the bloc, involving pipeline construction and Italian offers of drilling equipment and technical assistance in return for oil.

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AFRICAN CONFERENCES

The three conferences now being held between African nationalist leaders and colonial officials will probably outline the steps toward independence or self-government for the Belgian Congo, Kenya, and the Mali Federation. Similar discussions for the Malgache Republic (Madagascar) and Sierra Leone are imminent. At each conference, a common front reached by the African factions is likely to gain the maximum in concessions from the colonial powers and to result in significant gains in African political power--in some cases, a timetable for independence.

Belgian Congo

Discussions in Brussels between Belgian officials and representatives of major Congolese factions which began on 20 January are expected to last about four weeks. The basic disagreement between the Belgian and Congolese positions which was evident at the conference's opening has been resolved to some extent by Brussels' conditional agreement to Congo independence on 30 June. This concession may serve to demonstrate Belgian good faith. However, Belgium's apparent concept of "independence" as primarily internal autonomy accompanied by political and economic links with Belgium falls short of the status desired by most Congolese nationalist leaders.

A disagreement still exists over the role of the conference. Belgian officials consider the talks exploratory in nature and plan to present any recommendations to parliament for action and amendment of the governing Colonial Statute. The Congolese, on the other hand, demand that the conference be a constituent congress and binding

on Belgium. Minister for the Congo de Schrijver has promised that the government will support any agreed recommendations and will demand a vote of confidence in the face of any parliamentary opposition.

The political and social differences between urban nationalists and rural tribal chiefs, as well as among the nationalists themselves, make maintenance of an African common front difficult, and complicate the Belgian effort to determine Congolese desires. On 25 January, Joseph Kasavubu of the powerful Abako party walked out following a dispute over the agenda; his action may also reflect personal rivalry with Patrice Lumumba, who had just been released from jail to attend the conference. Kasavubu's boycott suggests that the Abako may not be bound by decisions reached at the conference and might proceed to prepare for early regional independence for the southwestern section of the Congo, including Leopoldville and the lower Congo River area.

Kenya

The discussions in London to advise the Colonial Office on a new Kenya constitution have made little progress since they opened on 18 January. The Africans' boycott of the discussions during the first week because of a dispute over the status of advisers reflects the deep racial distrust prevalent in Kenya since the Mau Mau terrorism of 1952-57.

Reaching agreement on the major problem of African political advance appears very difficult; many observers believe the discussions will not be successful. This would force London reluctantly to impose another constitution on Kenya

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which would satisfy no group, although it would increase African influence. Such a situation could lead to widespread passive resistance on the part of the African nationalists.

The minority but politically powerful white settlers fear that political equality would bring early control for the Africans because of their numerical superiority. Thus the settlers oppose any early date for Kenya self-government or for a universal suffrage without fairly high financial or educational qualifications.

The Africans, who have general support of Kenya's Asian minority, are united under the leadership of Tom Mboya. They demand an African majority in the legislature and almost immediate local self-government, followed in several years by complete independence.

Mali Federation

Following De Gaulle's public endorsement in December of the Mali Federation's request for independence within the French Community, negotiations for the transfer to Senegal and Soudan of common powers now controlled by France began in Paris on 18 January. Top-level representatives of both sides reached speedy agreement on general directives to guide the "technicians" who are soon to begin drafting protocols providing for both the power transfer and for future French-Mali cooperation in such fields as defense, foreign affairs, and economic aid.

Despite this auspicious start and the amicable atmosphere which now surrounds the talks in Paris, serious difficulties could still arise, especially should the French give Mali's sensitive nationalists the impression that the new relationship involves basic limitations on Mali's freedom of action on the international plane. Militant Soudanese elements could be expected in such an eventuality to renew their pressure for immediate independence by means of a referendum which would put Mali completely outside the Community.

The Paris negotiations are being watched closely by other Community members. Many of them will probably follow Mali's lead if the Community tie--and thus their claim to continued French economic aid--is preserved.

Malgache Republic

Similar transfer negotiations between France and the Malgache Republic are scheduled to begin on 10 February in response to a request by President Tsiranana. He is anxious to secure the trappings of sovereignty as soon as possible in order to relieve mounting domestic pressure.

Sierra Leone

Britain has designated 28 March as the date for the start of long-anticipated talks on the constitutional evolution of its West African territory of Sierra Leone. These talks, which are to include African opposition leaders, independents, and representatives of Premier Margai's government, may set a date--perhaps April 1961--for independence.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****28 January 1960****BRITAIN'S GROWING PROBLEMS IN CENTRAL AFRICA**

The critical reactions of both African nationalists and right-wing white settlers to British Prime Minister Macmillan during his visit to the Federation of Rhodesia and Nyasaland emphasize the growing political and racial problems in this self-governing British territory. Macmillan is on an area tour which will have a determining effect on London's reappraisal of African colonial policy. He has been careful not to promise support to any group, but various political factions have interpreted his statements differently.

The British high commissioner to the Federation has indicated his concern over the marked deterioration in the local situation during the past three months. He believes the European electorate fails to realize the force of external pressures and of the poor long-term prospects for minority domination in the face of growing African nationalist pressure. Critical of ineffective European leadership, the commissioner characterizes Rhodesian Prime Minister Welensky as a follower rather than a leader and considers him too susceptible to "undesirable" reactionary influences.

Macmillan has been condemned by right-wing settler elements for promising that Northern Rhodesia and Nyasaland --now administered by the Colonial Office under a regime dedicated to African advancement--would not be transferred from British control to that of the settler-

dominated Federation without African agreement. The rightest settlers--represented by the opposition Dominion party --demand Southern Rhodesia's

RHODESIA AND NYASALAND

secession from the Federation if Britain proceeds to implement such a pro-African policy.

Meanwhile, African nationalists, in protest against Rhodesia's racial discrimination, boycotted several public events in Salisbury held to honor Macmillan. Macmillan's reception in Nyasaland, the scene of bloodshed last March, was stormy: hundreds of nationalist demonstrators demanded African freedom, the end of the Federation, and the release from jail of nationalist leader Dr. Hastings Banda.

Tension in British-Rhodesian relations is likely to grow as preparations are made for the

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constitutional conference on Rhodesia's political evolution to be held in London this autumn. A preparatory British-Rhodesian study group--the Monckton Commission--scheduled to start in mid-February, is already under severe attack. The British Labor party has refused to participate because of the commission's limited

terms of reference. The African nationalists have planned to boycott the commission in protest against Banda's continued imprisonment and the white-dominated Federation. However, Banda probably will be released in early February, and he may be recognized as a spokesman for the Africans in Nyasaland.

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KERALA STATE ELECTIONS

In the campaign for India's Kerala state elections on 1 February, the united front of non-Communist parties is holding, and perhaps increasing, its lead over the formerly ruling Communist party. A strong drive by leaders and field workers of the Congress party, Praja Socialists, and Moslem League during the last two weeks of the campaign is having considerable effect in both urban and rural areas and has put the Communists on the defensive.

Prime Minister Nehru's one-day visit to Kerala on 18 January was devoted primarily to a speech attacking the Indian Communist party as "backward" and alien as well as a disruptive force at a time when national unity is needed most. Nehru's criticism refuted the line plugged by Kerala's Communist leaders that they support him more consistently than do the non-Communist politicians. However, Nehru's warning that international Communism should not be deemed responsible either for Chinese border aggression or for the misdeeds of Indian Communists probably has undercut efforts to use the Sino-Indian dispute against the Kerala party.

A number of top national leaders of both the Congress and Praja Socialist parties have attracted large crowds in their intensive campaigning throughout the state. Paralleling this effort, local non-Communist party workers are concentrating on house-to-house canvassing at the village level in a bid to beat the Communists at their own game.

Communist spokesmen now are being kept busy denying charges against their regime.

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The party also appears to be preparing for defeat by building a case to brand the elections as unfair. A recent outbreak of campaign violence, in which all victims were Communists, probably will be used to good effect in this connection. Party activists are also likely to try to disrupt the polling on election day.

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With the democratic alliance's prospects for winning a combined majority improving, Congress party leaders now are

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claiming there is a good chance their party will gain a majority alone. Some kind of coalition government, however, is the most likely prospect. While the working agreement among the non-Communist

parties since last summer forms a basis for a coalition government, it is doubtful that these once bitterly divided groups will cooperate in power as they have in opposition.

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BURMESE NATIONAL ELECTIONS

Burma's third general election since it gained independence in 1948 will be held on 6 February under the supervision of Premier Ne Win's "interim" government, which is not standing for office. The chief contenders are the "Clean" Anti-Fascist People's Freedom League (AFPFL), headed by former Premier Nu, and the "Stable" AFPFL, led by his former deputies, Ba Swe and Kyaw Nyein.

The AFPFL split in April 1958 and the Nu government's subsequent expedient association with leftist elements led to Ne Win's military takeover in October 1958. Other candidates will come from the Communist-dominated National United Front, which is expected to support Nu informally, from minority parties, and from independents. [redacted] observers predict that Nu and the "Clean" AFPFL will win a parliamentary majority and possibly a landslide victory.

The election is unique in that none of the candidates is in power and the military government is voluntarily relin-

quishing office to civilian politicians. The Burmese Army has had a strong preference for the "Stable" AFPFL. Faced with overwhelming evidence of Nu's popularity as shown in the "Clean" AFPFL's municipal election victories, however, the army leadership has ordered military personnel to refrain from interference in the elections. The government, in a further effort to show complete impartiality on the elections, has transferred jailed leftist and other political leaders who have been convicted of criminal activities to Rangoon and is allowing them to conduct election campaigns from jail.

Although both the "Clean" and "Stable" AFPFL parties are neutralist and anti-Communist, U Nu's charge that Americans have been assisting his opponents might presage more difficult relations with the West, should his faction win. It is unlikely, however, that there will be any marked changes in government policy, as the army intends to exert a restraining influence on the new government. [redacted]

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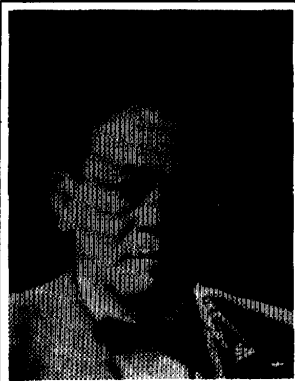
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RHEE OPPONENT MAY WITHDRAW FROM SOUTH KOREAN PRESIDENTIAL RACE

Illness may force President Rhee's opponent, Democratic party leader Cho Pyong-ok, to withdraw from South Korea's presidential election this spring. Cho is one of South Korea's few outstanding



CHO PYONG-OK

political leaders and has a wide popularity transcending his position as a partisan leader. His withdrawal would ease Rhee's re-election and perhaps make the administration less inclined to use repressive and illegal tactics in the election. Within the Democratic party, the necessity of finding a substitute candidate would upset the factional balance of power and could lead to increased defections from the party.

Should Cho withdraw from the presidential race, his running mate, incumbent Vice President Chang Myon, may seek the nomination. Chang, who appears to have less popular support than Cho and lacks his political and personal courage,

might decide that his best chance of succeeding 84-year-old President Rhee is to run again against Rhee's chief political lieutenant, Speaker of the National Assembly Yi Ki-pung, for the vice presidency. Chang defeated Yi in 1956, when the death of the popular opposition presidential candidate on the eve of the election generated widespread sympathy for the Democrats.

President Rhee recently announced that he strongly favored a constitutional amendment specifying that the president and vice president belong to the same political party. Passage of such an amendment prior to the election would have assured the election of



CHANG MYON

the relatively unpopular Yi Ki-pung. Yi also has been in failing health for some time, and it is questionable whether he will be able to campaign actively. Should Chang, however, become the opposition presidential candidate, Rhee

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might decide that the amendment is unnecessary.

Cho's withdrawal also probably would weaken South Korea's repressed opposition and blight the beginnings of a two-party system. The Democratic leadership is shared by Cho and Chang, with all

subordinate party posts about equally divided between their respective followers. With Cho out of the way, the Chang faction might attempt to gain sole control of the party. Under such circumstances many of Cho's followers might leave the party rather than accept Chang's leadership.

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SOUTH TIROL ISSUE PLAGUES ITALY AND AUSTRIA

The recent exchange of letters between Italian Premier Segni and Austrian Chancellor Raab has apparently averted an immediate crisis in relations between Rome and Vienna over the rights of the German-speaking minority in the South Tirol --but an early solution of the problem is still not in sight. Austria would resume talks on the basis of the Tirolese demand for "full autonomy" for the German linguistic area, but Italy contends that such a status was not provided for in the 1946 agreement between the two governments.

Raab's friendly reply to Segni's letter of 11 January agreed that they should give serious consideration to the problem with a view to facilitating negotiations. Raab was firm, however, in his insistence on full regional autonomy for German-speaking residents of the South Tirol, and the Austrian ambassador in Rome accompanied Raab's letter with a strong oral protest against Italy's decision in December forbidding Austrian State Secretary Gschnitzer to cross the border.

Gschnitzer had played a leading role in the negotia-

tions, but his inflammatory remarks on the situation led the Italians to bar him. It is unlikely that Austria will resume talks at an ambassadorial level unless the ban is lifted. A further exchange of correspondence between Raab and Segni, however, will probably avert an immediate crisis.

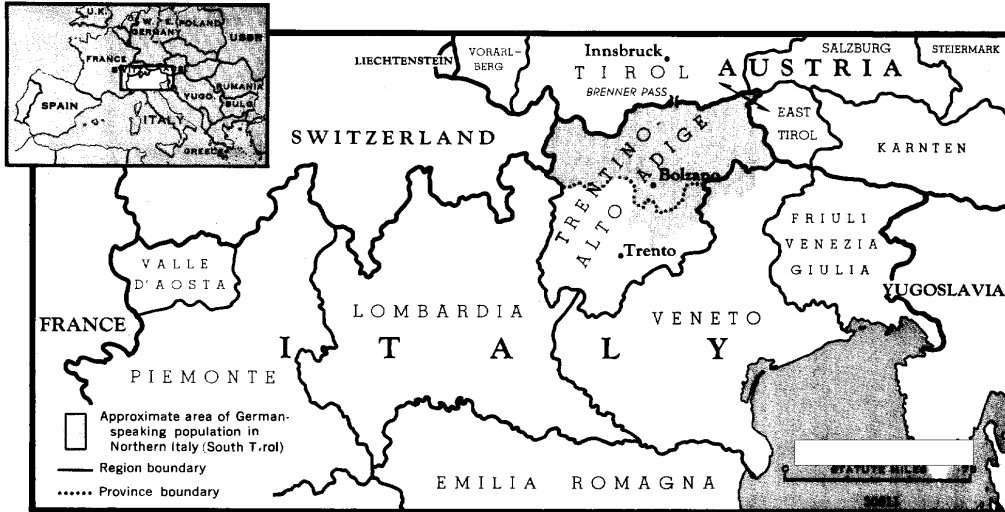
Domestic political pressures in both countries make a compromise difficult. The rightists on whom the present Segni government relies are strongly nationalist, and Segni is particularly anxious not to antagonize them on this issue in view of increasing rightist alienation over the policies of his Christian Democratic party's left wing. At the same time, continued competition between Raab's People's party and the Austrian Socialists for popular support will make it difficult for either to refuse to support the South Tirol's extremist minority.

Austrian Foreign Minister Kreisky believes the South Tirol leaders are divided and confused as to what their demands should be. The Italians claim that the majority in the South Tirol want some kind of understanding within the framework

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of the 1946 De Gasperi-Gruber agreement and that only an extremist minority wants a new agreement. Ambassador Matthews in Vienna points out that the matter is complicated because Premier De Gasperi and For-

eign Minister Gruber were never able to reach an agreement regarding exact delineation of the area inhabited by the South Tyrol's German-speaking population.

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ICELAND'S ECONOMIC REFORM PROGRAM

Iceland's parliament is expected to grant early approval to the Conservative - Social Democratic government's comprehensive economic stabilization program--the most far-reaching initiated since World War II and one requiring drastic changes in the country's cumbersome, inflation-ridden economy. The Thors government feels, however, that last October's general election showed that public opinion is ready for strong measures.

The program, which in large part meets the recommendations made by OEEC and IMF experts, will have as its principal points the devaluation of the krona from 16 to about 38 to the dollar, liberalization

of some 60 percent of Iceland's imports, and an eventual end to the extensive system of price supports for fish and agricultural exports.

The proposed reforms, which parliament is expected to debate in early February, are already being sharply attacked by the opposition Progressive and Communist-front Labor Alliance parties, and both groups will do their utmost to delay passage. The largely rural Progressives fear the reforms will threaten the favored position which the farmers and cooperatives have enjoyed under recent governments.

The Communists, who control Iceland's central trade union

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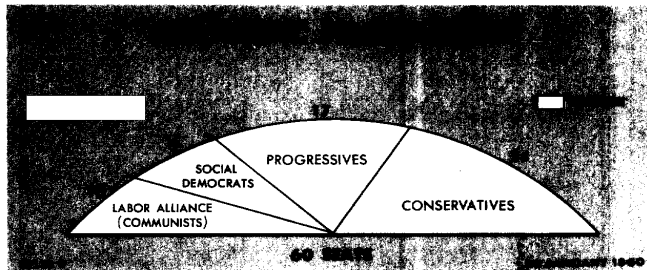
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federation, are in a position to hinder effective implementation of the program even after it is enacted. Labor is likely to resist any cut in real wages which may occur as a result of the reforms, but it is uncertain whether the rank and file would support a politically inspired strike, particularly if business and agricultural interests indicated their willingness to make sacrifices.

The new government apparently does not believe it possible, or desirable, at this time to reduce drastically Iceland's extensive trade with the Soviet bloc. It probably hopes, however, that trade with the free world will increase at the expense of the bloc as a consequence of liberalization, the more favorable competitive position resulting from devaluation, and reduced government controls.



Icelandic economic experts estimate that the stabilization program will require some \$20,000,000 in short-term stand-by credits from the IMF and the European Monetary Authority, in addition to more limited assistance from the United States. The Thors government is particularly concerned about the impact of devaluation on the official expenditures of the American base at Keflavik, since in effect dollar revenue from that source would be halved. Under the existing system, official base expenditures have been subject to a discriminatory exchange rate which in reality has constituted a subsidy paid to the Icelandic Government.

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TRUJILLO TIGHTENS CONTROLS IN DOMINICAN REPUBLIC

Recent arrests involving virtually every important family in the Dominican Republic, as well as members of the Catholic clergy, reflect the widespread nature of the opposition to the Trujillo dictatorship. Trujillo for the present has disrupted the revolutionary organization and has also taken certain economic measures to make his regime more popular, but extreme tension prevails at all levels of Dominican society. Dissidence, already reported in the armed forces, may increase as a re-

sult of the large-scale arrests, and exiles may step up their activities.

About 800 persons--most of them belonging to important professional and business families--have recently been imprisoned for complicity in a plot for an uprising that apparently was to start simultaneously in several towns during January. Also, several priests are reportedly confined in the home of the bishop of Santiago. The US Embassy believes that as many as 2,000

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people may have been arrested or executed since the abortive invasion by insurgents from Cuba last June.

In the weeks immediately preceding the arrests, Trujillo took a number of steps designed to pacify popular irritation against his regime. Most of these were of an economic nature. Rents were reduced for the small farmers and lower class city dwellers who make up most of his political support. Certain austerity measures were removed or canceled before they took effect, while reassurance for the business community was provided by announcement that the International Monetary Fund had made available a stand-by credit of \$11,250,000 to reinforce the economy.

The dictator also sent his son, General Rafael L. ("Ramfis") Trujillo--who as chief of the Combined General Staff was generally detested by the armed forces--to Europe, apparently for a protracted stay.

Felix Bernardino, former Dominican consul general in

New York and long-standing member of the Trujillo clique, is in disfavor and reportedly will be jailed if he survives his recent "cerebral hemorrhage." In recent months Bernardino has become prominent as leader of the "Riders of the East," a paramilitary group of some 5,000 horsemen in the east end of the island. It is not yet clear whether he is suspected of actual involvement in the 15 January plot or is merely feared as a potential rival.

The long-term outlook for the regime is still poor. Although the revolutionary organization has been disrupted, there is extreme tension among all levels of Dominican society, and unemployment is on the rise. The arrests have exposed the full intensity and broad scope of the opposition and may encourage exiles in nearby Cuba, Venezuela, and Puerto Rico, as well as those in the United States, to step up their activities against Trujillo. Dissidence is already reported in the armed forces, and this may increase as a result of the arrests.

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PART III**PATTERNS AND PERSPECTIVES****SOVIET VIEWS OF CATCHING UP WITH THE UNITED STATES**

Catching up with the United States in per capita production is a major goal of the Soviet Union, and the Seven-Year Plan (1959-65) is intended as a decisive step toward its achievement. Khrushchev has expressed confidence that by 1970 "...and possibly even earlier, the Soviet Union will gain first place in the world both as regards the absolute output and the output of goods per capita, which will ensure the population the highest living standard in the world." Although explicit definitions of this objective are constantly being rephrased, this general goal remains a primary aim of Soviet industrial and agricultural programs and is the subject of a constant propaganda barrage designed to mobilize the Soviet population toward achievement of planned goals.

The Soviet prediction of catching up with US industry by 1970 rests on a fairly realistic assumption of an 8- to 9-percent average annual growth rate for Soviet industry, but

also unrealistically assumes that Soviet output is already as much as 50 percent of US output and that US industry is growing at a rate of only 2 percent a year. On the more realistic assumption of a 40-percent current relationship, and provided American industrial growth averages 4.5 percent a year, Soviet industrial production would be about 60 percent of that of the United States by 1970.

Rates of growth in Soviet agriculture are expected to decline; an 18-20 percent net increase in output by 1965 (over 1958) is much more likely than the planned 55-60 percent. The USSR's gross national product is expected by 1970 to be 55 percent of the United States'.

Soviet press reports of progress in catching up often do not distinguish between US consumption and production and tend to emphasize US materials which are in part imported, such as iron ore and sugar, or are of declining importance to the US economy, such as coal and butter. Rather than casting doubt on the seriousness of Soviet intentions, however, such reporting merely illustrates the national interest in what Khrushchev terms a race between the two countries, and the pressure on Soviet statisticians to show even minor favorable results as quickly as possible.

SOVIET INDUSTRIAL PRODUCTION

	US 1957	USSR 1959	USSR 1965 PLAN	USSR 1972 FORECAST*
MILLION TONS				
CRUDE STEEL	102	59.9	86-91	100-120
COAL	470	506.4	600-612	650-750
CRUDE OIL	355	129.5	230-240	350-400
CEMENT	53	38.8	75-81	90-110
BILLION KWH				
ELECTRIC POWER	760	264	500-520	800-900

* These forecasts are to be revised for the 22nd Party Congress in 1961; a new electric power forecast has been given recently by Khrushchev -- 1,500 billion kwh by 1975 -- and judging from recent Soviet studies the steel forecast will be raised sharply.

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Why Catch Up?

According to Soviet propaganda, the main reason for the effort to catch up and the urgency with which it is regarded is to prove the superiority of "socialism" over the "capitalist way of life". Success in the competition to out-produce capitalist countries is expected to impress the underdeveloped countries with the effectiveness of the Communist system.

Societies Differ

The Soviet leaders proclaim that they have no intention of catching up with the United States in "every separate type of production." One cannot establish goals for the Soviet Union, they say, by taking what the US produces per capita and multiplying by the population of the USSR. Various social, geographic, and political factors have created conditions in the two countries which demand widely varying patterns of production. The climates, natural resources, and cultures differ. Transport and trade patterns vary widely.

In addition, Soviet policy implies that production of consumer goods should catch up last. The primacy of heavy industry, which has never been seriously questioned, was restated by Khrushchev in his speech to the Supreme Soviet on 14 January: "The Leninist line directed toward the priority development of heavy industry was, as before, steadily carried out. In accord with this line, investment continues to be largely allocated to heavy industry, which consequently grows more rapidly than does industry which serves the consumer."

In line with this policy, consumer goods goals are mostly for basic necessities with relatively few "luxury" items.

Khrushchev, for instance, denied the abundance of private automobiles in the United States, calling instead for expansion of taxi service in the USSR.

Finally, the different economic systems themselves create different requirements. Private enterprise in agriculture, the regime rationalizes, requires that many more tractors be produced per acre of farmland in the US than is necessary in the Soviet Union, where farm machinery is used communally.

Basic Tasks of Catching Up

Although the Soviet leaders look on some of these factors, such as climatic differences, as handicaps for the USSR in the peaceful competition, they nevertheless view victory in the "most important" fields as quite feasible by 1970. The first and foremost task, by Soviet definition, is "to overtake and then surpass the US... in per capita output of all those major types of production that constitute the backbone of present-day industry and whose level of development determines the country's economic potential." Actually, it is hoped that some of these goals will be achieved by 1965.

The Seven-Year Plan schedules an output of many basic raw materials and industrial products which will approach and in some cases exceed that of the present output of the United States. Sizable increases, for example, are planned in ferrous metallurgical equipment, electric power equipment, crude oil production, machine tools, and basic chemical products such as synthetic fibers, plastics, fertilizers, and synthetic rubber.

Second, according to an article in a recent Soviet economic journal, the USSR wishes to catch up in the kind of production on which technical progress depends. Obvious fields include such basic areas as

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metallurgical and chemical engineering as well as the more specialized cases of nuclear engineering and production of rare metals. Technological achievement in the Soviet Union has been impressive in some fields, but technology has been unevenly developed. Instrument technology, for example, lags badly.

The Soviet Union also hopes to overtake the US in those types of production which are "economically more effective" for the USSR and will provide exports. A good example of this type of output is crude oil, which the USSR is producing in great quantity and evidently planning to export to Western Europe in increasing amounts. A related goal is that of catching up in "those types of production that are linked to the specifics of the Soviet economy," that is, in

production associated with the geographic and economic peculiarities of the country. For example, the USSR will require more railroad equipment than the US because 80 percent of Soviet freight traffic is still carried by railroads.

Scientific Norms

Finally, the USSR hopes to catch up with the US in certain types of consumer goods, but most of the consumer goods discussed in this context by the Soviet leaders and press are manufactured from agricultural raw materials. Even these are limited in number, because heavy industry retains its priority and because the regime allows the population relatively few "luxury" items. Soviet leaders consistently emphasize that the Soviet consumer does not need to achieve, in all areas, the level of consumption found in the US.

USSR: PER CAPITA CONSUMPTION OF SELECTED PRODUCTS

FOOD PRODUCTS	UNITS PER YEAR	U S S R			U S
		1958 ESTIMATED CONSUMPTION	1965 ESTIMATED CONSUMPTION	"SCIENTIFIC" NORM*	1957 CONSUMPTION
MEAT	lb.	51	59	160-200	202
MILK	lb.	488	627	642-1,287	737
EGGS	units	114**	160**	180-365	358
FISH	lb.	21.6	26	15-35	10.1
BREAD and related products in terms of flour.	lb.	425	361	260-352	147
POTATOES	lb.	383	352	121-482	110
SUGAR	lb.	57	75	59-73	90
VEGETABLES	lb.	150	209	242-301	163
VEGETABLE OIL	lb.	12.8	16.1	9-18	24
RATIO OF CALORIES from animal products to total calories consumed	percent	17	21	39	42

* Ranges reflect regional variations within the USSR.

** Production - official data.

TEXTILES, CLOTHING, AND LEATHER FOOTWEAR

	UNITS PER YEAR	U S S R			U S	
		1958 ESTIMATED CONSUMPTION	1965 PRODUCTION	"SCIENTIFIC" NORMS INVENTORY	ANNUAL PURCHASES	1958 ESTIMATED CONSUMPTION
COTTON	sq. yards	25	31	91	44	57
WOOL	sq. yards	2.3	3.2	24	6.2	3.0
SILK, RAYON, AND SYNTHETIC	sq. yards	6.2	9.3	18	12	14
LINEN	sq. yards	3.1	3.5	14	7.1	Neg.
LEATHER FOOTWEAR	pairs	1.8	2.2	N.A.	3.5	3.4
KNIT UNDERWEAR	units	1.9	3.4	N.A.	6.6	N.A.
KNIT OUTERWEAR	units	0.5	0.7	N.A.	1.6	N.A.

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They have, however, established so-called "scientific" norms setting standards of per capita production for some items. These norms have been established for food, textiles, clothing, and leather footwear. As distinct from plan goals, these norms state what the Soviet consumer ought to consume to "completely satisfy his needs," as determined "scientifically," and set no specific date for their attainment. The norms call for levels of consumption per capita about the same as those now current in the US.

Khrushchev contends that by 1970 the USSR will have achieved the "complete" satisfaction of the needs of all the Soviet people in food and clothing as defined by these norms. It seems unlikely that even this limited objective can be attained as early as 1970.

Norms for automobiles and other consumer durable goods are in preparation. Numerous statements by Khrushchev indicate that the norms for automobiles and for at least some major home appliances, such as stoves and washing machines, will be substantially below present American stocks or annual consumption per capita. New apartments of the size now under construction in the USSR are not built to accommodate many major appliances. In addition, the increasing use of

public "housekeeping" facilities such as restaurants is in line with other objectives of the regime--for example, the drive to reduce the amount of work the Soviet housewife does in the home in order to increase her participation in the labor force.

The Problem in Agriculture

The problem of catching up with the US in agriculture is one of increasing the efficiency of the process as well as of increasing output. In the Soviet Union, 45,000,000 people are engaged in agriculture, while in the US less than 10,000,000 persons work in agriculture for a population 80 percent as large.

Soviet articles on the subject recognize the inefficiency of Soviet agriculture and point specifically to the need to raise labor productivity. Ambitious plans are aimed at meeting this need. During the Seven-Year Plan, labor productivity is scheduled to increase 100 percent on the collective farms and 55-60 percent on the state farms, as compared with 45-50 percent in industry. Although the announced goals of agriculture are unrealistically high, achievements will probably be sufficient to make possible noticeable gains in the consumers' living standard.

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MIDDLE EAST OIL DEVELOPMENTS 1959-1960

Production of Middle East crude oil in 1959 reached an all-time high of about 4,560,000 barrels a day (b/d)--up 7 percent from 1958--and prospects for 1960 are for another record year. The annual rate of increase is declining, however, and future yearly increases may average less than

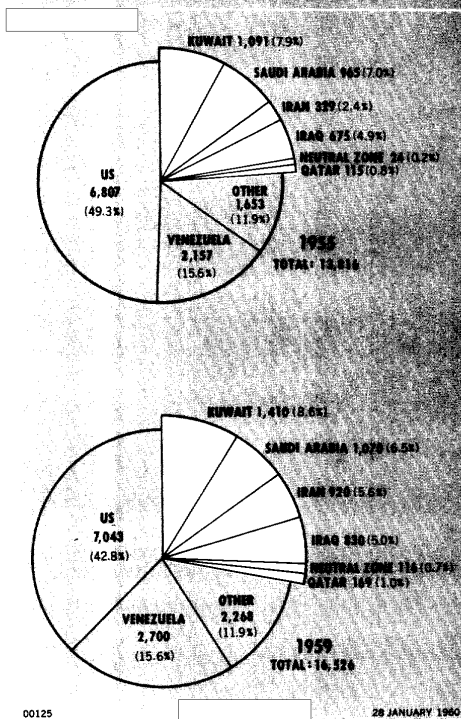
The entry of Algeria and Libya into world oil markets as major suppliers will cut heavily into demand for Persian Gulf crude. Also, many important consuming countries seeking to expand their domestic production are cutting back on oil imports. Threatened with prospects of substantially lower annual increases in income from oil operations, Middle East countries may apply heavy pressure for a greater share of the profits. Concerted Arab action is likely to be somewhat more evident in 1960 than in past years, but the chances of winning major concessions from the oil industry this year are not bright.

The Arabs are alarmed at the likelihood that Algerian crude oil will secure a favored position in the European Common Market. They are also concerned with the recent decline of world oil prices--a tendency they ascribe to unilateral company decisions rather than to market factors.

Saudi Arabia

Deteriorating relations between the Saudi Arabian Government and both the Arabian American Oil Company (Aramco) and the Trans Arabian Pipeline Company (Tapline)--owned by the same American firms--may result in a major crisis this year. Spearheaded by Saudi oil boss Sheik Abdullah Tariki, the campaign against the companies includes major financial claims and constant harassment.

The Saudi Government insists on pressing the so-called Sidon claim, a demand for half the profits of Tapline--amounting to \$200,000,000 in back royalties and charges--and this may be the subject of renewed negotiations in February. A

FREE WORLD OIL PRODUCTION
THOUSAND BARRELS PER DAY

10 percent compared with the 23-percent-per-year average which characterized the decade 1949-59. This decline partly reflects relatively smaller increases in the free world's demand for oil, but more importantly it indicates the depressing effects on the Middle East of increases in crude oil productive capacity elsewhere in the world. This situation will continue for the next three to five years.

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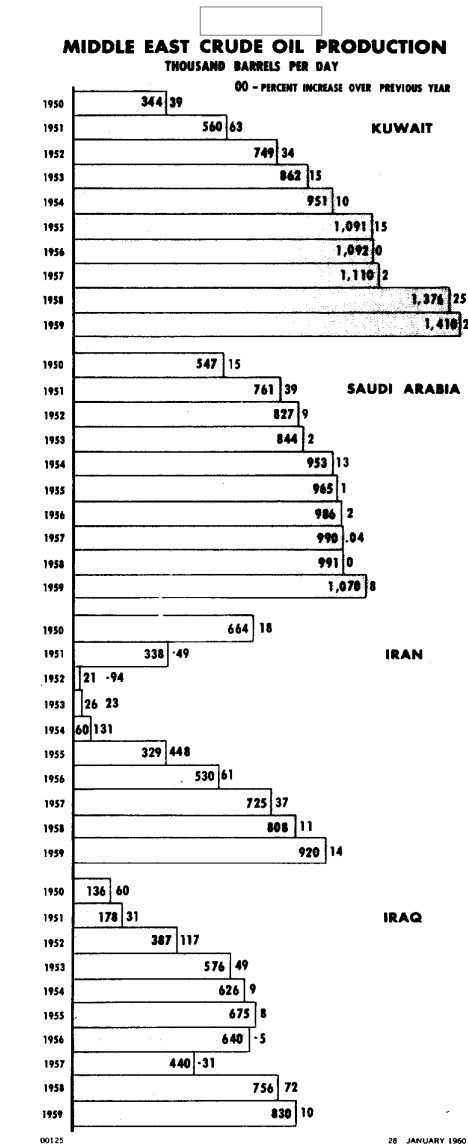
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settlement on Saudi terms seems unlikely, and the claim may require arbitration. Such proceedings have been painful to Saudi pride in the past and are known to be anathema to Prime Minister Crown Prince Faysal.

Saudi tactics are more than a drive for increased income. Tariki, strongly backed by Faysal, is attempting to intrude into the day-to-day operations of Aramco and is pushing his demands for an integrated operation, with the Saudis sharing the profits at all stages of the industry, including shipping, refining, and marketing, down to the gas-pump level.

In recent years Saudi harassment has had a depressing effect on Aramco's production. While output in other Persian Gulf countries increased substantially from 1954 to 1958, Saudi production increased less than 4 percent. Kuwait, by contrast, lifted its output 45 percent during the same five-year period. Nonetheless, Aramco increased output to a record 1,070,000 b/d in 1959--an 8-percent improvement over 1958. The company tentatively plans to raise output 10 percent in 1960 and again in 1961, but envisions a 6-percent decline during 1962--a sharp contrast with plans of other Persian Gulf producers--when it expects to encounter competition from North African oil. France, for example, which now purchases about 80,000 b/d of Saudi oil, will replace this with Algerian crude by 1962.

Tariki is attempting to avoid a shutdown similar to that which accompanied Mos-sadeq's nationalization of the Iranian oil industry. He is seeking unified Arab support



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for asserting more Saudi control over Aramco. Tariki played a dominant role at the First Arab Petroleum Congress held in Cairo last April and in the "experts'" meeting in Jidda in October. He won a measure of verbal support for joint action against the oil companies,

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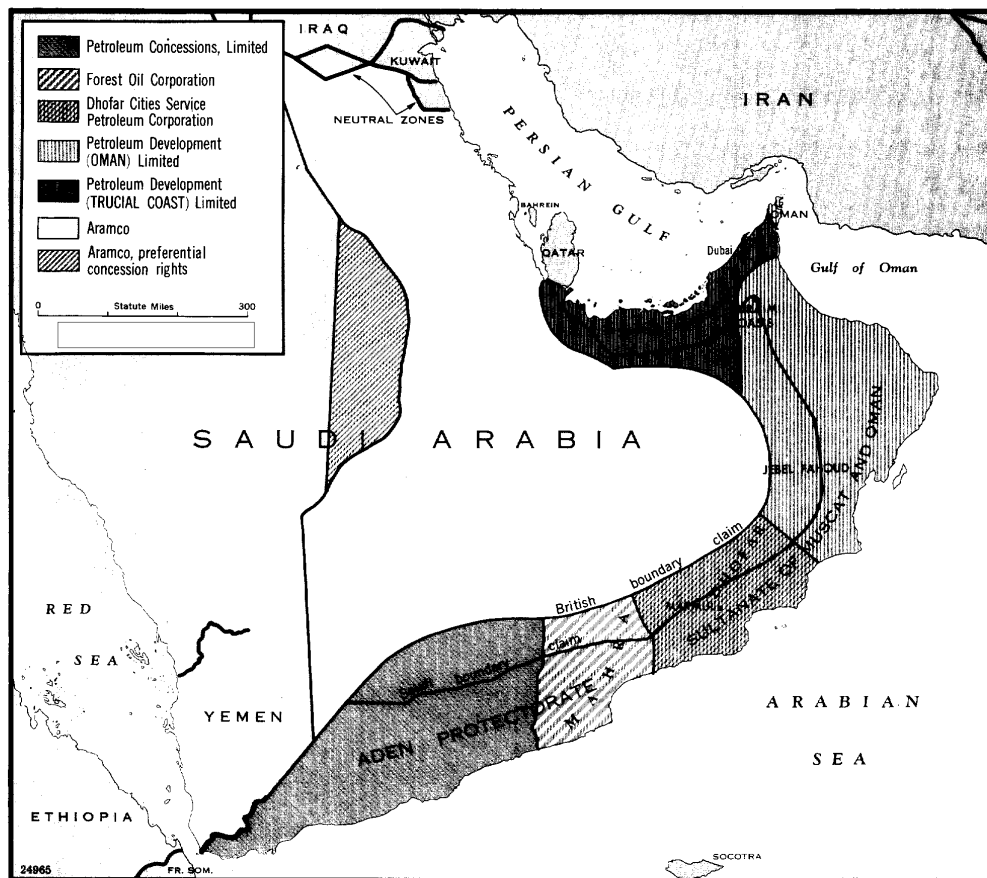
but the Arabs' diverse economic and political interests will most likely continue to militate against effective unified action. As elsewhere, Tariki's efforts are weakened by the world oversupply of crude oil and by non-Arab Iran's willingness to supply any oil lost as the result of a partial Arab shutdown.

The world's first plant for making liquefied petroleum gas (LPG) available for tanker shipment now is under construction at Ras Tanura. LPG, hitherto a waste product, is expected to have a substantial market for petrochemical uses and as a fuel for industrial power and household heating. The plant, scheduled for completion in August, will have a capacity of 4,000 b/d of LPG cooled to minus 25 degrees Fahrenheit. This is equivalent to

214,000,000 cubic feet daily and requires specially built tankers for its transport. Aramco is offering LPG for sale under long-term contract.

Kuwait

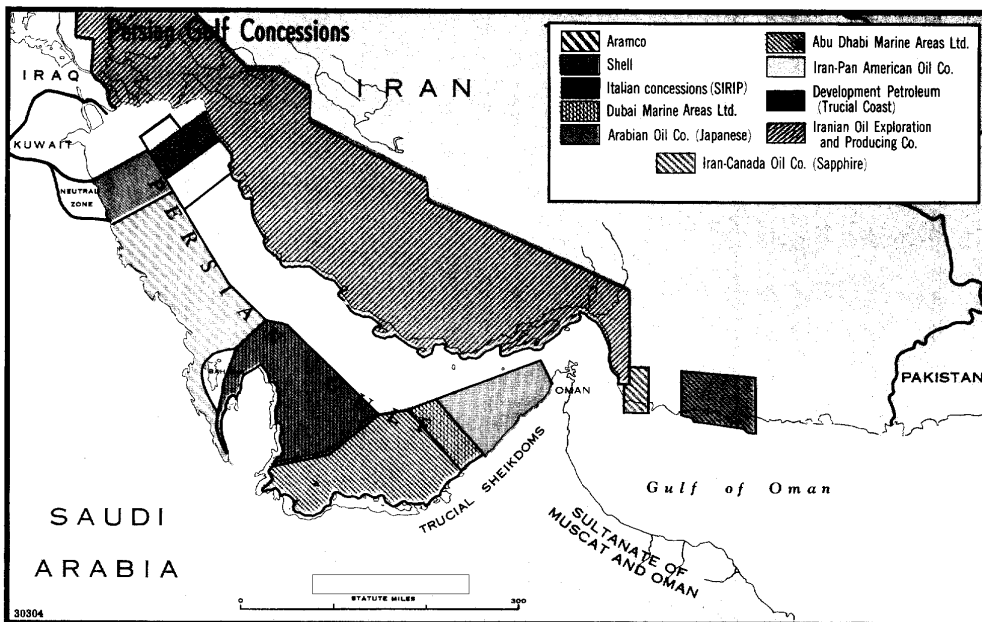
The Kuwait Oil Company (KOC), which has the world's largest oil reserves, has brought in another field, Kuwait now has seven, of which only three are producing--none at capacity. Minigish, the new field discovered in early June, will be put into production soon, not because KOC--owned equally by Gulf Oil Company and British Petroleum Company--needs the field, but chiefly as a public relations measure. The new field may create a political problem because of its location close to the undefined border of Kuwait, Saudi Arabia, and the Neutral



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Zone and because the field may extend into the Neutral Zone.

John Paul Getty, billionaire American owner of the Getty Oil Company, which has a concession covering Saudi Arabia's undivided half-interest in the Neutral Zone, announced last August he intends to force the British Government into a settlement of the boundary dispute by tapping the Minigish field.

Kuwait production has reached a record 1,410,000 b/d, placing it third among free world producers after the United States and Venezuela. Despite this record, production increased only 2 percent in 1959, largely because of the sluggish world market. KOC plans to increase exports to 1,660,000 b/d in 1960 and to 1,910,000 b/d in 1962. Thus Kuwait is assured of Persian Gulf leadership for at least another three years.

The Ruler of Kuwait is ready to receive bids for the Kuwait offshore area, one of the few remaining "sure things" in the Persian Gulf. The price, however, reportedly will be extremely high and probably will call for a sharp break in the 50/50 profit-sharing formula. The offer of the Italian Government - owned National Hydrocarbons Enterprise (ENI) to give the Ruler 75 percent of the profits has already been refused. In 1958 a "big-four" combine comprising Shell, British Petroleum, Gulf, and Standard Oil Company (N.J.) was interested in the concession and is likely to make a new offer. Its bid, however, is not likely to depart from the 50/50 formula but probably will include a substantial bonus offer.

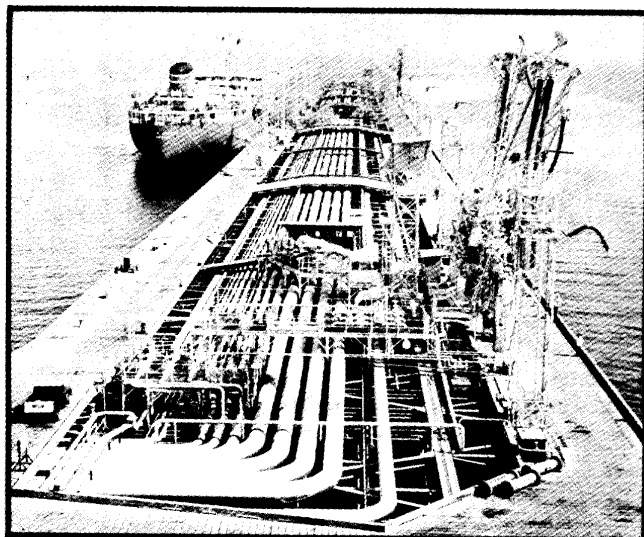
Relations between KOC and the government have been good. Unlike his fellow oil Arabs, the Ruler has been content to accept concessions won from the companies in neighboring states.

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Kuwait's new North Pier, world's largest oil pier.

The great profitability of KOC operations and the relatively heavy character of Kuwaiticrude oil have pushed production to new highs. Revenues for 1959 remained close to the 1958 level of about \$400,000,000 because of the crude oil price cuts made early last year and the relatively small increase in output. Kuwait's present production capacity is about 2,800,000 b/d--slightly more than Venezuela's rate of output last year. This capacity is rising sharply.

Kuwait has been the recipient of blandishments from other Arab states seeking oil policy unity and from Venezuela seeking an agreement to share the market by restricting production growth. The Ruler, however, probably will give lip service to these causes but will continue to be guided almost exclusively by economic principles.

Neutral Zone

Kuwait and Saudi Arabia share half-interests in the Neutral Zone dating back to the Uqair Boundary Convention of 1922. Kuwait assigned its interest in 1948 to the American-owned American Independent Oil Company (Aminoil), and Saudi Arabia gave a concession

in 1949 to the Pacific Western Oil Corp.-- which later became the Getty Oil Company.

American companies increased output 41 percent last year over 1958 for a record 116,000 b/d. Unlike other Persian Gulf crude, most Neutral Zone output is shipped to the United States. It is unlikely that the onshore area of the zone will become a major producer by Persian Gulf standards. The zone is the only Persian Gulf oil area which must pump some of its oil

from the ground. It also requires a large number of wells for a relatively small output; 122 wells--30 of them pumped-- produce an average of only 942 b/d each. By contrast, Kuwait's 301 wells average about 4,700 b/d apiece.

In late 1958 and early 1959, a Japanese firm--the Arabian Oil Company--secured both the Kuwaiti and Saudi interests in the zone's offshore territory. The company suffered a serious setback last August when its first well struck gas at only 1,507 feet and caught fire, which destroyed the drilling rig. The company plans to complete eight offshore tests by the end of 1960. The Japanese are drilling very close to the southern boundary of their concession in an effort to tap Aramco's prolific Safaniya field, since a large portion of the Safaniya structure apparently underlies its concession. All drilling for the Japanese firm is being done by American contractors.

Other Persian Gulf States

The Bahrein and Qatar onshore oil fields are being depleted, and new finds are unlikely. Bahrein Island production now is about 45,000 b/d, and at this level of output

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the fields probably will be depleted within 14 years. The island then will derive oil revenues only from refining operations. Caltex operates the large 186,500 b/d refinery, which is supplied largely by Saudi Arabia through two 12-inch submarine pipelines.

Qatar's reserves are about ten times those of Bahrein, and production last year amounted to about 160,000 b/d. Further production increases are likely to be small, unless additional reserves are discovered. Most activity in Qatar is offshore; the Shell Oil Company is replacing its rig lost in December 1957.

In the waters off Abu Dhabi near Das Island, two successful wells--Umm Shaif I and II testing about 2,400 b/d each--have been drilled by a British-French company. The company is drilling a third well, and production may start in 1963. In onshore operations at Abu Dhabi, another firm, an affiliate of the Iraq Petroleum Company (IPC), has drilled two successful wells which tested 2,000 b/d. These discoveries may have political repercussions since they are within the area claimed by Saudi Arabia. Thus British officials are playing down the discovery.

Iraq

Despite political tension, oil operations in Iraq were carried out smoothly last year. Production increased 14 percent over 1958 to reach a record 830,000 b/d. During the next three years, output is expected to double. Beyond this, further increases are unlikely, barring new discoveries. With the addition of connected parallel sections, the capacity of the pipeline which links the country's northern fields with the Mediterranean will be increased from the present 500,000 b/d to 700,000 b/d by the end of 1960 and to 960,000 by 1962. In the south, an

offshore terminal at Fao for the pipeline from the Rumaylah and Zubayr fields is being built; this will raise export capacity from the present 240,000 b/d to 440,000 b/d.

The lengthy and sometimes acrimonious negotiations between Baghdad and the Iraq Petroleum Company, aimed at the IPC's relinquishment of a substantial portion of its concession area, are likely to be resumed later this year. IPC concessions now cover almost all of Iraq. The government, however, has not challenged the 50/50 profit-sharing formula.

Meanwhile, IPC is being harassed by Basra port authorities, who have increased port dues by 400 percent and the cargo charge on petroleum by 1,300 percent. The company claims this action will add costs of about \$8,400,000 annually on oil exports at a rate of about 400,000 b/d and probably will price this oil out of the world market. Morale of the American workers constructing some of the Fao oil terminal is extremely low. A disgruntled Iraqi former employee recently shot two Americans, killing one.

An agreement signed with Moscow last November calls for Soviet exploration activities, probably including Iraq's offshore area in the Persian Gulf. Eight Soviet technicians are working at the government's refinery in Baghdad.

The Baghdad regime will make a serious effort to market some of its own crude oil this year. Under the concession terms, the government is entitled to receive 12 1/2 percent of IPC crude production either in cash or kind. Heretofore Iraqi governments have been content to accept cash, since it is very difficult to sell crude for as high as IPC prices. Baghdad's 1960 share probably will amount to about

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116,000 b/d. Marketing will be even more difficult in view of the present oversupply of world crude oil. Iraq will also attempt to export refined petroleum. The government's refinery will probably have a surplus of about 25,000 b/d if operated at capacity.

France's reliance on the increasing crude oil production from Algeria may cost Iraq its best customer. In 1958 France bought about 26 percent of Iraq's crude oil exports. In the third and fourth quarter of 1959, however, France cut its imports substantially. The loss of much of the French market could threaten IPC's production goals and cause retaliation. Since the Qasim takeover, there have been demands that the government nationalize the French 23.75-percent share of IPC as an expression of the government's backing of the Algerian rebels.

Iran

In September 1959 Iran became the fifth country in the free world--after the United States, Venezuela, Kuwait, and Saudi Arabia, in that order--to reach a production of 1,000,000 b/d of crude oil. Production for the entire year averaged 920,000 b/d--up 14 percent over 1958. Oil revenues for 1959 probably will amount to about \$260,000,000 compared with \$244,640,000 for 1958. In 1960-61 Iran may exceed Saudi Arabia's output and begin rivaling Kuwait as the Persian Gulf's major producer.

The Consortium--the group of Western companies operating most of the country's oil industry--plans to increase production to 1,600,000 b/d by the end of 1965. Government-Consortium relations have been somewhat strained in recent weeks, with Tehran insisting on major increases in production in coming years. The government continues to be concerned over prospects of revenue losses from probable future price declines.

The Kharg Island oil terminal, scheduled for completion in June, will be a major factor in increasing Iranian output. The 99-mile 31-inch pipeline from the Gach Saran field to Kharg Island, 26 miles offshore, will have an initial capacity of 330,000 b/d. Gach Saran, which was discovered in 1928, is considered by some to be the largest oil field in the world, but production has been limited to about 57,000 b/d chiefly because the field's heavy crude oil was in little demand. With the worldwide switchover from coal to fuel oil, however, Gach Saran has assumed increasing importance.

To bypass the Shatt al Arab, Iran is studying pipeline routes which would transport the products from its huge Abadan refinery--on the river it disputes with Iraq--to a wholly Iranian-controlled port at the head of the Persian Gulf. Iran is considering converting Bandar Mashur, its principal port for exporting crude until Kharg Island becomes operative, into a refined-products port by constructing new pipelines.

In 1958, Iran awarded oil concessions to Italian, American, and Canadian companies, but no new concessions were awarded last year despite the government's efforts to interest Western firms in the country's less accessible south-central provinces. The Canadian-owned Sapphire Petroleum Company nearly lost its concession in a prolonged dispute with Tehran, but a truce was arranged when Sapphire promised to speed up lagging exploratory work. The American-owned Pan American Oil Company is completing its first discovery well in its offshore concession. Sirip, a subsidiary of Italy's ENI, is drilling an offshore well and is planning to drill in its onshore concession also.

The Iran Oil Company (IOC)--the exploration arm of the government-owned National Iranian Oil Company--last year brought in its second discovery well at

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