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CURRENT INTELLIGENCE WEEKLY SUMMARY



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CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

THE WEEK IN BRIEF

PART I

~~CONFIDENTIAL~~

OF IMMEDIATE INTEREST

SINO-SOVIET CONTROVERSY DEEPENS Page 1

The continuing Sino-Soviet dispute over tactics toward the United States has led to Moscow's most sweeping and explicit condemnation to date of Chinese internal and foreign policies. The Chinese, dropping all pretense of disguising their criticism with quotations from Lenin, have publicly condemned policies with which Khrushchev personally is associated. Pravda's strongly worded reaffirmation of Khrushchev's pre-summit policies on 12 and 13 June confronts Peiping with a choice between intensified condemnation by Moscow and adjustment to Soviet positions. Publication of these authoritative statements is the best recent evidence that Khrushchev is firmly in control in Moscow and serves notice to any critics at home or in the satellites that support for the more aggressive Chinese line will not be tolerated. [redacted]

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EAST-WEST RELATIONS Page 3

Soviet propaganda is maintaining a drumfire of criticism of American policy as aggressive and provocative. Personal attacks on President Eisenhower, however, have declined. Moscow contends that the "negative reception" the President has received on his current Far Eastern tour, in contrast to the warm reception during his Asian tour last year, reflects the adverse Asian reaction to the U-2 incident and the "sabotage" of the summit meeting by the US. Peiping's propaganda is, typically, more virulent than Moscow's in personally attacking the President. [redacted]

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CUBA Page 6

Czechoslovakia has extended to the Castro government a \$20,000,000 long-term, low-interest credit, as well as technical assistance and trade agreements. [redacted]

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SITUATION IN JAPAN Page 7

The ineffectiveness of the Kishi government in coping with the political crisis over ratification of the US-Japanese security treaty and its inability to control [redacted]

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CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

PART I (continued)

public disorders provoked by an extremist left-wing minority have forced Tokyo to request President Eisenhower to postpone his visit to Japan. The domestic political situation now appears to have deteriorated to a point at which it probably cannot be resolved until Kishi steps down.

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[Redacted]

PART II

NOTES AND COMMENTS

TURKEY Page 1

The interim constitution approved by the National Unity Committee (NUC) on 12 June legalizes this officer group as the supreme authority in Turkey. There are indications, however, that factionalism is developing within the committee. There are also hints that the new regime may be reappraising Turkey's foreign relations.

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[Redacted]

[Redacted]

FRANCE-ALGERIA Page 2

De Gaulle made no new proposals to the Algerian rebels in his 14 June speech, but in repeating his earlier offers on cease-fire talks and self-determination he appeared to retreat from his more recent "hard line" stressing military pacification. The rebel provisional government will probably express qualified approval of De Gaulle's remarks, while reiterating its opposition to any surrender of rebel arms in a cease-fire or to any solution which might involve partition of Algeria. De Gaulle's speech may also have been an attempt to answer mounting criticism of his government's domestic policies.

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[Redacted]

BELGIAN CONGO Page 3

Brussels' designation of Patrice Lumumba to attempt to form a Congo government is unlikely to halt the political disintegration in the colony. Europeans are likely to be disillusioned by Brussels' seeming capitulation to Lumumba, who had threatened violence if he were not invested as premier. In Leopoldville and Katanga provinces, separatist sentiment continues strong. The Abako party in Leopoldville has proposed the establishment of a new province in the lower Congo as its special preserve, while threats of secession by the Conakat party in Katanga have prompted Belgian authorities to declare a state of emergency there.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

PART II (continued)

FRENCH COMMUNITY DEVELOPMENTS Page 4

The French Community, recently revamped to accommodate independent African member states, may be about to undergo a further evolution toward a loose, Commonwealth-type institution. De Gaulle has largely acceded to the request of the Ivory Coast and three other West African Community states for immediate independence within the Community without prior negotiation of future ties with France--the procedure followed by Mali and the Malagasy Republic. Should this tactic appear to result in the four states' achieving preferred treatment when new bilateral ties with France are finally negotiated, other Community states which have settled for less are likely to press for a revision of their own arrangements with Paris. [redacted]

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BLOC ECONOMIC ACTIVITY IN WEST AFRICA Page 6

Bloc economic activity in West Africa has thus far centered in Guinea, where offers of aid and trade have been readily accepted. Although efforts to develop economic ties with Ghana have been mostly unsuccessful, recent indications suggest Accra may expand its minimal contacts with the bloc. The bloc now is moving quickly to establish close economic relations with the Mali Federation, which becomes independent on 20 June. [redacted]

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BLOC BIDS FOR NEW ECONOMIC TIES WITH BURMA Page 7

Since U Nu returned to power in Burma, the Sino-Soviet bloc has been pressing to revitalize its unsuccessful trade and aid program there. Both Peiping and Moscow have offered new economic assistance, and there have been general bloc offers for expanded trade. The success of this effort will depend chiefly on the bloc's willingness to agree to terms which would overcome some of Rangoon's objections to past programs, and both sides probably will proceed cautiously under any new agreements. [redacted]

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SOVIET LEADERS' ACTIVITIES Page 8

Khrushchev and several other presidium members are absent from Moscow, and political activities in the Soviet capital for the last week and a half have been at a minimum. Top-level discussions within the Soviet leadership following the collapse of the summit conference appear to have been suspended. Mikoyan reappeared in Moscow on 11 June for the first time in a month. [redacted]

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SECRET
iii

THE WEEK IN BRIEF

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

PART II (continued)

SHAKEUP IN EAST GERMAN PARTY AT LOCAL LEVEL Page 9

Dismissals and reassignments in East German district party organizations reflect what is probably Ulbricht's most serious political problem since the 1958 Schirdewan conspiracy. He now is attempting to enforce discipline among party functionaries who are either disillusioned by his failure to achieve a better international status for East Germany or who are unconvinced that his harsh internal policies are correct. While it is not likely that he will be deposed, either by his own party or the Kremlin, Ulbricht is acting vigorously to root out all traces of opposition.

[Redacted]

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CONSEQUENCES OF EAST GERMANY'S COLLECTIVIZATION DRIVE . . Page 10

The recent mass collectivization drive in East Germany is beginning to affect the food supply and has compounded fiscal problems of the Ulbricht regime. Food shortages and higher costs of agricultural subsidies will probably make necessary a request for bloc aid before the end of the year.

[Redacted]

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MIDDLE EAST DEVELOPMENTS Page 11

No significant disturbances accompanied the Lebanese parliamentary elections which took place on 12 June in the first of four voting areas. The mixture of candidates elected includes prominent politicians of every stripe and appears to be very nearly what President Shihab was hoping for. In Iraq, rumors of trouble, or even a coup, on 14 July--the second anniversary of the revolution--are circulating much as they did a year ago. While party rivalries are intense and the Communists are complaining about government discrimination against them, Qasim's military support appears to be strong.

[Redacted]

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[Redacted]

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SOMALI SITUATION WORSENING Page 13

On the eve of Somalia's independence on 1 July, tension with Ethiopia has heightened and the moderate pro-Western regime of Prime Minister Abdullahi Issa is jeopardized by growing opposition in the local parliament. Critical economic negotiations aimed at helping the new nation stay on its feet may be further complicated by these developments.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

PART II (continued)

SINO-INDIAN BORDER PROBLEMS Page 14

India's leaders appear increasingly concerned over the Chinese Communists' consolidation of their hold on the disputed border areas.

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INDONESIA Page 16

Indonesian President Sukarno has promised to appoint additional members to his rubber-stamp Parliament of 261 members before he installs it sometime this month.

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the additions will amount to about 25 representatives of Moslem groups. Such a change, although a concession to the army and the political opposition, would reduce Communist strength in Parliament only from 24 to 22 percent, and Sukarno will probably continue to permit substantial Communist participation in government councils.

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NEW SOUTH KOREAN CONSTITUTION Page 17

The South Koreans probably will have trouble in maintaining an orderly government as they have had little experience with the type of parliamentary system their new constitution provides. The new government will have a cabinet and prime minister responsible to the lower house of a bicameral legislature. A president with greatly reduced powers will be elected for a five-year term by a joint session of the legislature. Elections for the lower house of the National Assembly are expected to be held in late July or early August; those for the new upper house may be held on the same date or later.

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SITUATION IN THE DOMINICAN REPUBLIC Page 18

Dissidents inside the Dominican Republic have been encouraged by the charges of "flagrant and widespread violations of human rights" made against the Trujillo dictatorship on 8 June by the Inter-American Peace Committee (IAPC), a subsidiary of the Organization of American States. Both the dissidents and the Trujillo regime evidently attribute the five-nation committee's report largely to its US chairman. There are persistent reports that some officers of the armed forces are plotting with the dissidents; such tendencies are likely to be increased by the IAPC report and by the growing bitterness between Trujillo and the church.

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SECRET

v

THE WEEK IN BRIEF

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

PART II (continued)

ARGENTINE POLITICAL PRESSURES Page 19

President Frondizi's departure on 13 June on a month-long state visit to eight Western European countries reflects a temporary lessening in Argentine tensions. The brief and localized military rebellion quashed in San Luis Province earlier in the day was an expression of the conflicting pressures which continue to plague Argentina's political and economic recovery. Most military elements distrust Frondizi but feel compelled to back him as they favor constitutional government and support many of his policies. [redacted]

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COMMON MARKET DEVELOPMENTS Page 20

The meeting in Paris on 9-10 June of the European Economic Community (EEC or Common Market) and the European Free Trade Association (EFTA) and other interested powers may have eased frictions between the rival groups. Both sides have recognized, however, that no new basis for an eventual amalgamation has been established. EEC members remain basically suspicious of London's European policies and are developing plans to consolidate the Community approach by creating a single executive body for the EEC, EURATOM, and the Coal-Steel Community. [redacted]

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PART III

PATTERNS AND PERSPECTIVES

NEW DEVELOPMENTS IN PARTY CONTROL OF THE SOVIET ARMED FORCES Page 1

Proposals and accomplished reforms approved in Moscow in May by a conference of secretaries of party units within the armed forces add up to one of the most significant developments in the relationship of the Soviet military and the Communist party since the ouster of Marshal Zhukov in October 1957. The reforms expand the party structure in the military establishment, and appear to have the ultimate goal of replacing the military officers now responsible for party work with professional party functionaries. Such moves would probably facilitate the exercise of party authority and might reduce the areas of conflict between the party and the military. [redacted]

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CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

PART III (continued)

AUSTRIA'S ECONOMIC RELATIONS WITH THE BLOC Page 3

Premier Khrushchev, who will visit Austria from 30 June to 8 July, will find Vienna preoccupied with the political and economic aspects of East-West trade. Vienna's reparations deliveries to the USSR will be essentially completed early next year, and for the first time in two decades trade relations with the bloc will be on a purely commercial basis. The gradual increase in bloc trade in the past four years has encouraged many government and business leaders to hope that Austria's trade pattern can be restored to what it was before World War II. The increase in bloc trade to 20-25 percent of total trade--the generally accepted objective of these leaders--could expose Austria to bloc pressures, although Vienna now discounts such a possibility. [redacted]

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ECONOMIC DECLINE IN SOUTH AFRICA Page 6

Continuing racial tension in the Union of South Africa has impaired foreign confidence in the country's economy; the market value of Johannesburg stocks has dropped by about 23 percent--some \$1.72 billion--and the country's gold and foreign exchange reserves have been reduced by 21 percent in nine weeks. The internal economic structure has not yet been seriously affected, but few South African firms are making long-term commitments. The reluctance of many local businessmen to disturb the economy further by supporting a program of political reform weakens the effectiveness of the parliamentary opposition, which derives most of its support from the business community. [redacted]

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vii

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

PART I

OF IMMEDIATE INTEREST

SINO-SOVIET CONTROVERSY DEEPENS

The continuing Sino-Soviet controversy over the proper tactics to be pursued toward the West, particularly the United States, has led to Moscow's most sweeping and explicit condemnation to date of Chinese internal and foreign policies. The vehicle was a 12 July Pravda article, ostensibly a review of Lenin's book "Left-Wing Communism, an Infantile Disorder" on the 40th anniversary of its publication. While asserting that "revisionism" is the main enemy of Communism, the article makes it clear that Moscow regards "leftist sectarians"--in context a thinly veiled epithet for the Chinese leaders--as its most dangerous present opposition in the Communist world.

This and other recent articles and editorials in the Soviet party press seem designed to dispel any idea that the U-2 incident and the summit collapse might necessitate a reassessment of Khrushchev's pre-summit policies. The Soviet premier's speeches since the summit breakup appear to be defensive statements calculated to demonstrate the consistency of his policies, while anticipating and deflecting further criticism.

The Soviet Union seems to have been forced to state its position in more fundamental and open terms than before by the renewed attack being carried on by the Chinese in People's Daily and in virulent speeches before the recently concluded meeting of the World Federation of Trade Unions (WFTU) in Peiping. Failure by Moscow to express its po-

sition in unambiguous terms would tend to create confusion in the bloc and the international Communist movement and undermine Soviet prestige and standing.

Chinese Position

The Chinese have presumably watched post-summit developments with increasing bitterness. They did not comment on Khrushchev's 20 May or 28 May speeches, which left the door ajar for future summit meetings, and they have given no more than cursory notice to other statements about the possibility of a future heads-of-government meeting. The revised Soviet disarmament proposal of 2 June apparently was interpreted in Peiping as a clear indication that Khrushchev intends to resume his detente tactics after a period of tension. Following the proposal, the Chinese dropped all pretense of disguising their criticism with quotations from Lenin and have publicly condemned policies with which Khrushchev personally is associated.

A People's Daily editorial of 6 June nodded briefly in support of the Soviet disarmament proposal and then attempted to demolish the premise that war can be eliminated by destroying arms. This, People's Daily claims, is an unpractical illusion about peace. Peiping followed this with a broader attack by two Chinese central committee members, who used the WFTU meeting as a forum to assail Moscow's ideas on negotiations and general disarmament.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

Liu Chang-sheng, speaking on 8 June, said it is inconceivable that there could be general disarmament until the socialist revolution is victorious throughout the world. Another Chinese official, Liu Ning-i, was equally critical when he told the meeting on 7 June that any implication that peaceful coexistence could be stretched to include general cooperation is a lie to deceive the people.

A current Red Flag article, broadcast on 15 June, demonstrates Peiping's strong aversion to those East-West negotiations from which the Chinese are excluded. "To place hope on diplomatic negotiations is nothing but an illusion deviating from class reality," the article stated.

Moscow's Reply.

Pravda, in a 13 June editorial, addressed itself specifically to Moscow's disarmament proposals and rebutted Peiping's strong reservations on this question by reiterating as the basis of Soviet foreign policy Khrushchev's formulation that war is no longer inevitable. It went on to assert that only shortsighted people who have lost all sense of reality can fail to believe in the possibility of realizing total disarmament.

Pravda's more comprehensive 12 June article had reaffirmed in authoritative language Khrushchev's policies of peaceful coexistence, summit meetings, and tactical compromises with the West. It characterized opponents to these policies as dogmatists and sectarians, strong imprecations in Moscow's lexicon. The article also at-

tacked Chinese Communist internal policies and insisted that the USSR's Communist party and Soviet policies are the examples Communist parties of other countries should follow.

The article labeled as naive, erroneous, and incorrect the statements of "leftists in the international Communist movement" that Communism can be introduced immediately, bypassing historical stages in the process. To try to anticipate the result of fully developed Communism in this way, it said, quoting Lenin, "amounts to the same thing as to try to teach higher mathematics to a four-year-old child."

Earlier Debate

The current round of exchanges is a continuation of the debate that was joined when Soviet presidium member Otto Kuusinen, in his speech on the anniversary of Lenin's birth in April, replied to the criticism of Soviet ideological positions contained in two editions of Red Flag, the Chinese theoretical journal, earlier that month. By virtue of the comprehensiveness and openness of the criticism, however, the conflict has advanced to a new and deeper phase, making compromise more difficult for both sides.

Although the Chinese now are putting relatively more stress on the prospects for avoiding war than they had in April, their criticism continues to be centered on Moscow's failure to emphasize the inherent threat of US imperialism. This failure directly undercuts Peiping's justification of its "struggle" to be recognized as the only Chinese government, eventually regain Taiwan, and reduce US

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

influence, which prevents attainment of these goals. One Chinese spokesman recently summed up this position, stating, "If we only talk about the possibility of stopping the imperialists from launching a world war, but not about the danger of imperialism's launching a world war, we will only lull ourselves and the people."

Satellites Support Moscow

Peiping's willingness to engage in more open dispute with Moscow is possibly based on an assessment that, since the U-2 incident and summit collapse, Khrushchev may find it difficult to ignore those elements in the bloc which oppose a return to his detente policies. However, satellite spokesmen have rallied to Moscow's position, and the wording of the fir-

nal WFTU resolution reflected the Soviet stand more than the Chinese. A high Polish official has indicated his dismay over Chinese tactics to the US ambassador.

Khrushchev Secure

The publication of authoritative statements fully supporting Khrushchev's policies is the best recent evidence that he is firmly in control in Moscow. The articles themselves are probably also intended as an implicit warning to any critics at home and in the satellites that support for the more aggressive Chinese line will not be tolerated. It now has been made clear to the Chinese leaders that they must choose between intensified condemnation from Moscow and adjustment to the Soviet position.

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EAST-WEST RELATIONS

Soviet propaganda is maintaining a drumfire of criticism of American policy as aggressive and provocative. Personal attacks on President Eisenhower, however, have declined. Moscow contends that the "negative reception" the President has received on his current Far Eastern tour, in contrast to the warm reception during his Asian tour last year, reflects the adverse Asian reaction to the U-2 incident and the "sabotage" of the summit meeting by the US. Peiping's propaganda is, typically, more virulent than Moscow's in personally attacking the President.

The President's planned visit to Japan has occasioned critical comment from Moscow and has been used as a point of departure for attacks on the US

policy of maintaining military bases overseas. It was pictured as an effort by the President to secure enforcement of the military alliance with the US, to bolster the unpopular Kishi government, and "to plunge Japan more deeply into the whirlpool of the cold war."

The demonstrations which accompanied Press Secretary Hagerty's arrival in Tokyo were termed a "dress rehearsal" for the President's reception--vigorous demonstrations were predicted--and the security precautions which were to have been taken for the President's safety were greatly emphasized and termed a mark of the visit's unpopularity.

In a note to the Japanese Government on 15 June, Moscow

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

reiterated the warning contained in its note of 20 May on the danger of the continued presence of American military forces in Japan. The following day the initial Soviet reaction to the postponement of the President's trip referred to the "bankruptcy" of the Kishi administration and described in detail the demonstrations approving the decision. This latest note, together with the tenor of Moscow's propaganda, suggests that the USSR desires to maintain pressure on Kishi to resign as well as to sustain the momentum of demonstrations against the security treaty.

Chinese Communist commentaries have called President Eisenhower "chieftain of the US imperialist brigands," and charged that his tour is aimed at intensifying US war preparations in the Far East against the USSR, Communist China, and other Asian countries. They have asserted that Communist China could be accused of inciting Asians against the US and that any hostile demonstrations could be attributed to US actions alone. Peiping is encouraging demonstrations against the visit by publicizing Japanese broadcasts appealing for such displays of opposition.

In Moscow a Soviet lecturer on the international situation stated on 14 June that Soviet propaganda is attacking the President because "to strike at the head" is the most effective technique to maximize the loss of prestige by the US as a whole over the U-2 and the summit incidents.

Other issues have been seized on for similar attacks on US policy. At the disarmament negotiations in Geneva, the

chief Soviet delegate, in the harshest language he has used since the talks resumed on 7 June, denounced American aggressive designs in maintaining military bases abroad, in rearming West Germany with nuclear weapons, and in stalling on the disarmament issue. The recent accidental explosion of a Bomarc missile in New Jersey has been greatly exaggerated by Soviet commentators, who have pointed to the incident as "fresh evidence of the danger involved in the US armament policy." The State Department's note to Cuba on 4 June taking exception to Castro's charges against the US was termed "another aggressive act against the people and government of Cuba."

Moscow may intend to expand its propaganda exploitation of the U-2 incident and the summit collapse into a more generalized anti-US campaign. The Soviet party central committee on 11 June published a 60-page booklet for propagandists which is entirely devoted to disparagement of the United States. Articles are featured contrasting the alleged evil practices and conditions in America with such proud accomplishments of the USSR as its industrial production and growth, agriculture, technology, education, human rights, culture, medical care, race relations, and foreign policy. The American Embassy in Moscow reports that there seems to be an increase in Soviet TV programs, broadcasts, and lectures critical of the United States.

At the same time, the USSR's efforts to justify its peaceful coexistence policy and to indicate its continuance have been

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

noticeable. The appearance of two articles in Pravda, on 12 and 13 June, seems designed to dispel any idea that the U-2 incident and the summit collapse might necessitate a reassessment of the premises of Khrushchev's pre-summit policy.

The optimistic line of anticipating an improvement in US-Soviet relations was set by Khrushchev at his 3 June press conference and has been followed by bloc diplomats in official and social contacts with their American counterparts. Western diplomats have reported that the attitude of Soviet and satellite officials with whom they have spoken has been warm and unexpectedly cordial in some cases. One of the most overt demonstrations of friendliness occurred in Prague on 4 June when Czech President and party First Secretary Novotny gave a reception for all chiefs of diplomatic missions. This was the first reception of this type in 12 years, and the Czech leaders went out of their way to display cordiality toward Western officials who were present.

Apparently, too, there has been a decision to proceed without change with the Soviet and satellite exchange programs with the United States. Yuri Zhukov, chairman of the Soviet State Committee for Cultural Relations with Foreign Countries, told American officials on 9 June that the USSR was anxious to carry on with its program and emphasized the "necessity" of cultural exchanges, particularly in the light of "well-known events." Most satellite regimes also have privately assured American representatives in their countries that despite

recent events, the limited cultural exchange programs now in progress will continue.

Disarmament Conference

Bloc delegates at the 10-nation disarmament talks concentrated last week on pressing the West to respond constructively to the USSR's revised proposals of 2 June on general and complete disarmament. Soviet delegate Zorin stressed that the Western delegates had acknowledged Soviet movement toward the Western position, but complained that the West had not shown any willingness to make reciprocal concessions. He strongly pressed French delegate Moch for an adequate reply to the new Soviet proposal to prohibit and destroy all means for the delivery of nuclear weapons in the first stage of a disarmament program--a move designed to appear responsive to French views.

Bloc delegates also continue to hammer on the West's alleged unwillingness to discuss general and complete disarmament, which they insist is the task assigned the conference by the UN General Assembly. Zorin emphasized that if the United States is not prepared to discuss general disarmament, it should say so forthrightly. He warned, however, that in this event there would be no basis for further discussions.

These tactics strengthen the impression that the main aim of bloc delegates is to build the strongest possible record for presenting their general and complete disarmament program to the United Nations next fall or, possibly, to a session of the 82-nation UN Disarmament

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

Commission prior to the regular meeting of the General Assembly.

Nuclear Test Talks

Soviet delegate Tsarapkin at the nuclear test talks maintained his adamant position on the terms of Soviet participation in a joint research program to perfect means of detecting small underground nuclear tests. He repeated that the USSR will not conduct any explosions, nuclear or chemical, and again demanded full Soviet participa-

tion in the United States research program. He contended that if the United States and Britain want Soviet cooperation, they have only to accept Soviet views on the number, yield, sites, and safeguards for proposed Western nuclear explosions.

Tsarapkin also underscored previous warnings that if the US proceeds with nuclear explosions without Soviet agreement, Moscow will consider itself free to resume nuclear weapons tests. [redacted] (Concurred in by OSI)

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CUBA

Czechoslovakia on 10 June signed several agreements designed to further bloc economic interests in Cuba. A five-year trade pact underscores Prague's active role, but no specific volume of trade was disclosed, partly because Czechoslovakia--an exporter of sugar--probably is unwilling to purchase large quantities of Cuban sugar. Earlier, however, the Czechs expressed interest in importing Cuban iron ore and possibly some manganese and nickel. A deal concluded last year calls for the exchange of Czech trucks for Cuban tobacco.

Other agreements provide for a long-term \$20,000,000 Czech credit to supply industrial machinery and equipment and technical assistance for Cuban industrial projects. A subsequent announcement states that contracts have been concluded for Czech equipment

valued at nearly \$4,000,000 to set up eight small factories producing household goods and tools. A group of Czech technicians is already in Cuba for sales promotion and presumably to plan for more important development projects.

There is no firm evidence that arms agreements were concluded during the Czech-Cuban negotiations. However, the possibility remains that the bloc has agreed to supply military equipment to the Castro government.

In a television interview on 10 June, Castro praised Czech equipment and hailed bloc economic agreements as facilitating an industrialization program under which machinery was already being purchased and installed in "70 factories." Castro claimed that Cuba now has almost \$200,000,000 in foreign exchange

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

reserves; he ignored the fact that half or more of this amount is owed--chiefly to US suppliers.

25X1

There have been further examples this month of the increasingly close relationship between the Castro regime and the Communist bloc. A group of Bulgarians headed by the under secretary for foreign affairs arrived in Havana almost simultaneously with the Czech group, supposedly to discuss trade. Soviet technicians continue to be received warmly by the Cuban Government, and the Peiping Opera Company now is touring the island under government auspices. Castro has expressed gratification over the attentiveness shown to the Cuban com-

mercial mission now in Moscow, including an honorary academic degree awarded to mission chief Nunez Jimenez, director of the Cuban National Agrarian Reform Institute.

Communist strength within the Cuban Government is growing. Known Communists, including at least two from other Latin American countries, have been appointed to key positions by Castro.

The Western refineries which refused to process Soviet crude oil have not yet been taken over. Castro may wait until he is assured of assistance from other sources in maintaining Cuba's POL requirements. Arrangements are probably under way for shipment of Soviet petroleum and products in larger quantities than present levels. Castro attacked the companies' refusal as economic and political aggression by Washington. Touring Cuban President Dorticos echoed Castro's charges in Mexico on 14 June and added that the Cuban Government "is prepared to take appropriate measures." (Prepared jointly with ORR)

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SITUATION IN JAPAN

The ineffectiveness of the Kishi government in coping with the political crisis over ratification of the US-Japanese security treaty and its inability to control public disorders provoked by an extremist left-wing minority forced Tokyo to request President Eisenhower to postpone his visit to Japan. The

domestic political situation now appears to have deteriorated to a point where it probably cannot be resolved until Prime Minister Kishi steps down.

Efforts of the Japanese Government to obtain the full agreement of the opposition Socialist parties for a political

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

truce during the President's stay in Japan, including a proposal to recess the Diet during the visit, proved unsuccessful. The Socialists, possibly heeding to some extent press clamor and widespread pressures for extending an enthusiastic welcome to the President, adopted an official position opposing violence during the visit. The large, leftist Sohyo labor federation, while vacillating on its plans to mobilize some 300,000 orderly demonstrators at the airport on 19 June, was expected to organize demonstrations at the Diet, Kishi's residence, and at a park near central Tokyo.

Radical left-wing elements, however, have not been influenced by these developments. There are strong indications that the Japanese Communists, aided by propaganda and funds from the Communist bloc, in many instances have taken over leadership of the demonstrations. The violent riot by the radical student organization Zengakuren at the Diet building on 15 June in which three persons reportedly were killed bore the earmarks of trained and efficient Communist leadership. Subsequent demonstrations and disorders suggest that the Communists plan to continue inciting students and labor unionists to acts of violence.

On 16 June unofficial reports of the postponement of the President's visit circulating among demonstrators near the Diet prompted a jubilant reaction, and the feeling of confidence engendered by the success of their tactics probably will encourage the extremists to continue public disorders.

Immediate actions which the Kishi government will take, including ratification of the security treaty, are almost certain to depend on the resoluteness of the prime minister and his party in facing up to the leftist threat, and also on the determination of the extremist elements to cause the downfall of the government.

Kishi's tenure as prime minister has become even more precarious, and it is doubtful that he will be able to resist pressures for his resignation much longer. Whatever chance he has of remaining in office appears to rest on an early dissolution of the Diet and a convincing conservative victory in the subsequent elections. Informed observers believe, however, that Kishi will be forced to resign shortly and that he may be replaced by an interim prime minister, an elder party leader such as Mitsujiro Ishii or former Prime Minister Shigeru Yoshida, pending attempts by Liberal-Democratic factional leaders to agree on a longer term successor.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

PART II

NOTES AND COMMENTS

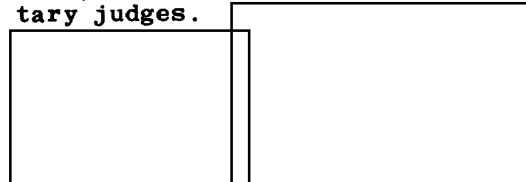
TURKEY

The National Unity Committee (NUC)--38 military officers from all services--on 12 June legalized its position as the supreme political power in Turkey by approving an interim constitution giving it the powers of the old Grand National Assembly. This constitutional law, declared to be in force since 27 May, confirmed a condition that has existed since the military coup. According to Col. Ahlatli, spokesman for the NUC, a new permanent constitution will be submitted to a national referendum in the near future. However, a referendum in a country where over half the population is illiterate would be little more than a gesture on the part of the regime. The new regime has thus consolidated its position as the governing authority and is unlikely to relinquish its power soon.



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The NUC on 12 June confirmed that a "High Investigation" Committee has been created to determine who in the former regime was responsible for crimes against the state during the ten-year rule of the Democratic party (DP). This committee has power only to make charges where there is evidence of guilt. The accused will then be tried before a "High Justice" court composed of judicial, administrative, and military judges.



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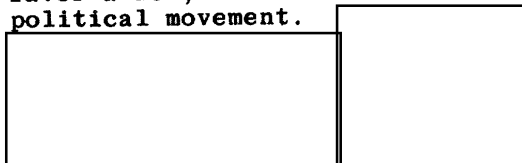
General Gursel, who heads the Turkish Government, appears to be setting the stage for clearing "low-level government officials" and focusing blame on "stupid and unconscientious administration." In a speech broadcast throughout Turkey on 13 June, Gursel appealed specifically for public good will toward those members of the national police who had been cleared by the government and were resuming normal police functions. The national police bore the brunt of popular criticism, as they had fired on student demonstrators.

There are suggestions that the United States may lose the preferential status it has had

The 38 signatures on the interim constitution probably do not give an accurate listing of NUC members, although some who are known to be active are included. Who constitutes the real power within the committee is not known, and a struggle for power may be brewing behind the scenes. A division in the committee is reported between those who favor the return to power of soldier-statesman Ismet Inonu and the Republican People's party, and those who favor a new, more nationalistic political movement.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

in recent years. Although the provisional government has stated it will honor all international commitments made by the former government, reappraisal of Turkey's relations with the United States is suggested by a conversation between Ambassa-

dor Warren and Turkish Foreign Minister Sarper. Somewhat cryptically, Sarper noted his and Warren's responsibility to "remove any obstacles arising between our two peoples" and commented, "You have a hard job ahead of you."

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FRANCE-ALGERIA

De Gaulle made no new proposals to the Algerian rebels in his speech of 14 June, but in repeating his earlier offers on cease-fire talks and self-determination he appeared to retreat from his emphasis in early March on military pacification. The rebel provisional government will probably express qualified approval of De Gaulle's remarks, while reiterating its opposition to any surrender of rebel arms in a cease-fire or to any solution which might involve partition of Algeria.

De Gaulle virtually returned to his October 1958 "peace of the brave" offer, although he strengthened his appeal this time by directly addressing the "leaders of the insurrection" and by spelling out that cease-fire talks would "settle the destination of arms" and "assure the fate of the combatants." In regard to an eventual referendum, he slightly amplified his November 1959 statements concerning rebel participation in the arrangements and the campaign. His 14 June speech may thus reassure important sectors of French opinion which feared that he was giving up the attempt to seek an early end to the fighting.

The Algerian rebels, meeting in Tunis, are likely to criticize De Gaulle's failure to spell out the specifics of

a cease-fire, or to withdraw his earlier threat to partition Algeria should it opt for independence. In February the rebels were reported to favor a cease-fire based on a withdrawal of rebel forces to areas near the Tunisian and Moroccan borders. Within a year of the cease-fire, a referendum to determine Algeria's future relationship with France would be held, supervised by the French, the Algerians, and a third party.

Although rebel leaders recognize that they are incapable of defeating the French Army in the field, they have repeatedly demonstrated their reluctance to negotiate with the French under any conditions suggesting a capitulation. Moderate rebel leaders recognize that military reverses in Algeria have weakened their bargaining position, and that the emergence of a Gaullist "Third Force" in Algeria could threaten their popular support. More intransigent spokesmen, however, may link De Gaulle's conciliatory tone with recent rebel overtures to Peiping, and may argue that he can be pressured into substantive concessions.

If the rebels respond favorably, there is some danger of a violent reaction from rightist extremists in France and Algiers. 25X1

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

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De Gaulle's speech may also reflect concern over mounting criticism of the government's domestic policies. The unrest generated in the past six months over legislation providing increased state

aid to church schools and new standards for farm prices has probably given momentum to labor action. This is seen most recently in a wave of short strikes by workers in nationalized industries and services protesting the size of wage increases provided in the new budget now under parliamentary consideration. The glowing prospects for social and economic gains De Gaulle held out for France may not be sufficient to restrain special-interest groups with long-standing grievances who are beginning to feel the strength of their numbers.

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BELGIAN CONGO

Brussels' action in asking National Congo Movement leader Patrice Lumumba to form a government is unlikely to halt the political disintegration in the Congo. Although Lumumba claims to have the support of a majority of the 137-seat legislature, groups opposing him are numerous and vocal. His investiture would probably increase the separatist sentiment in four of the colony's six provinces.

The choice of Lumumba to head a government--made in the face of his threats of "drastic" action if his various demands were not met--may lower still further the morale of Europeans in the Congo. Resident Congo Minister van der Meersch, however, indicated to American officials in early June that he believed it safer to give the premiership to Lumumba than to turn to a loose coalition of moderates which would be open to the charge of being Belgian puppets.

Although Belgian authorities are probably discouraging anti-

Lumumba groups from opposing Lumumba's initial efforts, they are hoping that his government will shortly give way to a coalition of moderates. Lumumba, who gained a plurality in the legislative elections, had predicted that any government opposed to his party "would not last two months."

The investiture of Lumumba, however, in combination with partisan maneuvering for control of the provincial assemblies, may increase sentiment against the type of strong central government espoused by him. In Leopoldville Province, demands for local autonomy have led the Abako party to request King Baudouin to permit it to form a new semiautonomous province in the lower Congo area. The Abako petition did not threaten outright secession, however, and appears to have been prompted in part by chagrin that a rival party gained a slim majority in the present provincial assembly.

In mineral-rich Katanga Province, sentiment for a dissolution

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960



on 15 June to the Conakat's demand that the two-thirds rule be amended to a simple majority, secessionist sentiment remains strong. Belgian authorities declared a state of emergency in Katanga on 14 June.

Meanwhile, a worsening financial situation may prompt the Congolese government, when it is formed, to take drastic remedial action. The American Consulate General at Leopoldville speculates that, confronted with Belgian-incurred deficits, the Congo may repudiate its debts, which amount to at least \$80,000,000, and resort to large-scale

of all ties with a Congo government appears stronger than in Leopoldville. A boycott of the Katanga assembly by the minority Balubakat party has kept attendance below the two-thirds quorum necessary before the majority Conakat party can organize the assembly. Although the Belgian parliament acceded

dismissals of Belgian civil servants. Debt repudiation could disqualify the Congo for loans from such international organizations as the International Bank and increase its vulnerability to economic overtures from the Soviet bloc. [REDACTED]

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25X1**FRENCH COMMUNITY DEVELOPMENTS**

President de Gaulle's French Community, recently revamped to accommodate independent African member-states, may be about to undergo a further evolution toward a loose, Commonwealth-type institution. As launched 15 months ago, it was a close-knit association linking 12 autonomous Black African republics to France under one sovereignty.

The constitutional revision--sanctioned by De Gaulle last December and completed this month--permits the African states to retain their Community status after becoming independent through a negotiated transfer of "competences" originally reserved to the Community and exercised by France. In return, Paris had insisted on the concurrent negotiation of bilateral

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

cooperation accords preserving close diplomatic, military, economic, and other ties.

Mali and the Malagasy Republic (Madagascar)--the first two Community states to invoke the new option--initiated such accords in early April and are expected to complete action on them immediately after becoming sovereign later this month.

This procedure now has been challenged by four West African Community states which follow the leadership of Premier Houphouet-Boigny of the Ivory Coast and are loosely grouped in the "Conseil de l'Entente." These four--Ivory Coast, Upper Volta, Niger, and Dahomey--recently requested their immediate inde-



HOUPHOUET-BOIGNY

pendence and proclaimed their determination to discuss future ties with France only after they have actually obtained their sovereignty and gained admittance, separately, into the UN. They even threatened, should this arrangement be denied them, to become independent outside the French orbit, as Guinea did in 1958, by resorting to the referendum procedure provided for in the Community's constitution. The four states plan to proclaim their independence on separate dates during the first week in August.

[redacted] the Entente's move was motivated largely by a restrictive French interpretation of the legal competence of the Community's independent African members to enter into direct economic relationships with other countries. [redacted] a further reason a desire on Houphouet's part to facilitate Guinea's reassociation with the other states of the old federation of French West Africa.

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The American Embassy in Paris, however, believes the move was essentially an angry reaction to Houphouet's failure to secure assurances from De Gaulle that the four states--which have been the most loyal to France--would have a preferred status in the "new" Community.

De Gaulle has apparently forestalled a serious crisis over the Entente leaders' tactic by approving their request as being consonant with the spirit of the "evolving" Community. For his part, Houphouet appears willing to accept the principle of future cooperation with France--the only condition De Gaulle seems to have posed.

This victory for the Entente should offset in part the prestige gained by Mali and the Malagasy Republic as the pioneers of independence within the Community. It should thus help to refurbish Houphouet's reputation as an area leader.

Should the Entente's approach also appear to result in the four states' achieving especially advantageous terms when new ties with France are finally negotiated, other Community states which have settled for less can probably be expected to press for a revision of their own arrangements with Paris. As of now, the Community states of Equatorial Africa, which are about to claim their "international sovereignty," have indicated they will follow the Mali-Malagasy precedent. [redacted]

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CURRENT INTELLIGENCE WEEKLY SUMMARY

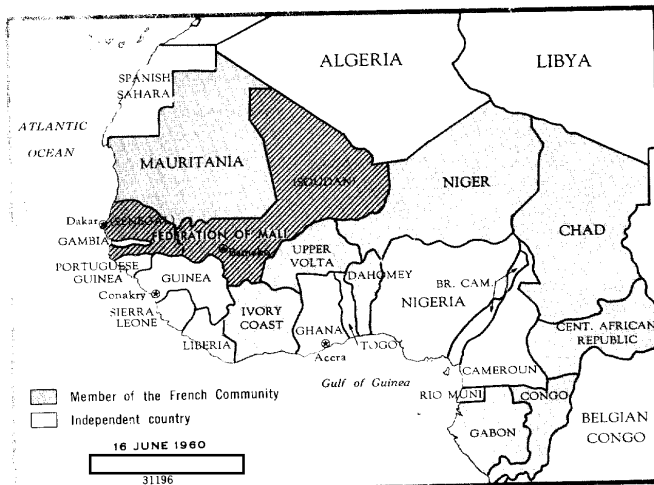
16 June 1960

BLOC ECONOMIC ACTIVITY IN WEST AFRICA

Bloc economic activity in West Africa has thus far centered in Guinea, where offers of aid and trade have been readily accepted. Although the Soviet \$35,000,000 line of credit to Conakry calls for assistance in agricultural, transportation, and industrial development, many of the projects are designed basically as symbols of national prestige. Moscow announced earlier this month, for instance, completion of draft plans for a 25,000-seat sports stadium and a "polytechnical institute" for 1,500 students. In addition, Soviet technicians are to supervise construction of offices for the national assembly and

medical aid teams. Early in June a group of 40 "abled-bodied" Chinese "agriculturists" arrived to work on rice and livestock farms to be established in the hinterland.

Bloc economic activity in Ghana, conversely, has thus far been limited essentially to trade. Nevertheless, the bloc countries have persisted in their efforts to tempt Accra with the advantages of closer cooperation. An interview with Ghana's minister of economic affairs and leader of the national assembly --published recently in Moscow-- suggests that Accra now may be reconsidering its policy of minimal economic contacts with the bloc. The minister stated that Ghana was placing great hopes on the development of economic cooperation with the bloc, and he expressed a desire for technical aid, machinery, equipment, and factories from the USSR.



Recent Czech trade and technical assistance overtures to officials of the Mali Federation probably presage a bloc drive to establish close economic ties

the government ministries as well as two hotels in Conakry.

Emphasis is also given to technical assistance. Bloc specialists hold posts in the local government agencies, and others are supervising operations at Conakry's seaport and airport. Czechoslovakia recently concluded a technical cooperation agreement formalizing its already extensive technical assistance program in Guinea which also provides for Czech

with Dakar after the federation gains independence on 20 June. This initial probe, which entailed offers to send Czech technicians to the new country and to provide free technical training for Mali students in Czechoslovakia, also seemed to hint at the prospect of economic aid credits. If the Czech move is successful, other bloc countries would probably follow suit with similar offers--probably including credit proposals.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

BLOC BIDS FOR NEW ECONOMIC TIES WITH BURMA

Since U Nu returned to power in Burma, the Sino-Soviet countries have been pressing to revitalize their unsuccessful trade and aid program there. Burma was one of the first targets of the bloc's economic offensive and has had ample experience with the difficulties as well as the benefits of economic relations with the bloc. During the 18 months of military rule under Ne Win, Burma terminated most of its original commitments to the bloc. The success of a new bloc effort will depend largely on its willingness to agree to terms which would overcome some of Rangoon's objections to the past relationship. Both sides will probably proceed cautiously under any new agreement to avoid earlier mistakes.

The USSR, China, Czechoslovakia, East Germany, and Poland have made bids for expanded trade, raising the possibility of new bilateral barter agreements of the type eight bloc countries signed with Burma between 1954 and 1956. All of these agreements have been terminated, and it is unlikely they will be renewed in their old form. Burma's difficulties in using the credits it built up through rice exports to the bloc were a major cause of dissatisfaction with the past relationship, and Rangoon's desire to put its trade on a cash basis probably will preclude immediate barter commitments.

The situation may change, however, if Burma once again finds itself with large stocks of surplus rice, especially if it feels US surplus rice sales

are affecting traditional Burmese markets.

Rangoon has not yet responded to recent offers by the USSR to construct roads in Burma and to provide a medical staff and train personnel for the Soviet-built hospital. The hospital, termed a "white elephant" by many Burmese, is one of nine Soviet "gift" projects originally to be built in Burma under a \$30,000,000 credit. All of the projects were to be repaid with "gift" rice. Six of these low-priority projects were dropped last year because the USSR refused to provide aid on a grant basis.

A technical institute and a hotel are in the final stages of construction, bringing the total cost of the program to about \$12,500,000. Soviet implementation of the program has been generally praised, but continuing difficulties and delays have been a constant source of irritation to the Burmese.

Burma apparently has accepted a \$10,500,000 credit offer to finance imports of Czech industrial equipment. Although Czechoslovakia has long been a satisfactory source of Burma's capital equipment imports, trade under a barter agreement has faltered, reportedly because the Czechs consistently refuse to provide consumer goods in addition to machinery.

Communist China has been Burma's chief source of bloc goods in recent years, having established a market for its

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

consumer goods and light industrial products before its barter agreement was canceled in 1957. During Chou En-lai's visit in April the Chinese asked for increased trade and proposed economic aid for the construction

of light industrial projects. Peiping already has furnished equipment and technical assistance for the expansion of one Burmese textile mill, apparently with satisfactory results.

[Redacted] (Prepared by ORR)

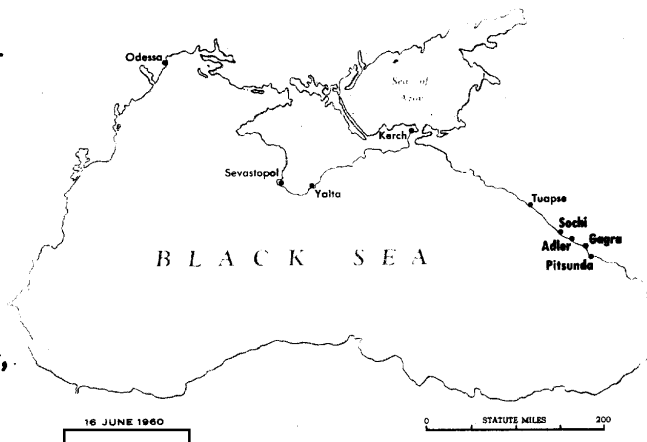
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SOVIET LEADERS' ACTIVITIES

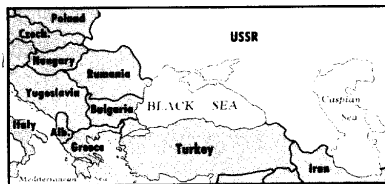
With the absence of Khrushchev and several other presidium members from Moscow, political activities in the Soviet capital for the last week and a half have been at a minimum. Top-level discussions within the Soviet leadership following the collapse of the summit conference appear to have been suspended. Khrushchev, Suslov, and Voroshilov are in the Black Sea area. Mikoyan, whose month-long vacation took place amid signs of a serious political falling out with Khrushchev, reappeared in Moscow on 11 June.

apparently been on vacation since 15 and 29 May, respectively.

On the same day as the festivities in Pitsunda, Mikoyan



Khrushchev appeared at a Moscow press conference on 3 June and probably flew from Moscow to Adler, the main airport for the Sochi resort area on the Black Sea, the following day. On 10 June he entertained the leader of the Greek Liberal party at his estate in Gagra. On 12 June Pravda carried a banner-headline story entitled "Happy Day for Tourists at Pitsunda" describing a "festive" evening at a tourist camp in a town near Gagra attended by Khrushchev, Suslov, and Voroshilov. Voroshilov and Suslov have



was reported in Moscow with other members of the party presidium. Mikoyan's reappearance probably indicates that whatever the nature of his political difficulties, he has not been slated for abrupt, drastic demotion. Khrushchev in his 28 May speech at a workers' conference scoffed at Western speculation about Mikoyan, remarking that the latter

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

was vacationing in Pitsunda. However, although the two leaders were subsequently near each other in the Sochi area for several days, Khrushchev passed up the opportunity for a display of political "togetherness" with Mikoyan.

Thus far this year Khrushchev has taken three short vacations, totaling about a month. These, together with domestic and foreign trips, have kept Khrushchev away from Moscow almost three months since the first of this year. There has been no announcement as to when Khrushchev plans to return to Moscow. A Western news agency reports that he is expected to address the all-Union conference

of agricultural specialists which opened on 14 June, so he may be back by 18 June.

Khrushchev has a number of foreign visits scheduled for this summer. The Soviet ambassador in Bucharest has indicated that Khrushchev will put in an appearance at the Rumanian party congress which opens on 20 June before making his state visit to Austria, scheduled to start on 30 June. Khrushchev has also accepted an invitation to visit Cuba, probably late this year or early 1961. He is also scheduled to visit Africa this year. Khrushchev is expected to be in Moscow for the party central committee plenum scheduled to convene 14 July.

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SHAKEUP IN EAST GERMAN PARTY AT LOCAL LEVEL

The East German Socialist Unity (Communist) party's (SED) district-level apparatus is undergoing what appears to be an extensive purge. Ulbricht is removing functionaries who fail to implement his policies and who have shown tendencies toward "liberalism," "social democratism," or various "revisionist" sins. Some are also being accused of excessive zeal in carrying out party directives.

These changes are taking place during a time of confusion brought on by Khrushchev's statement at Berlin that he plans no action for six to eight months toward a separate peace treaty and its con-

comitant greater authority for East Germany.

The SED's humiliating let-down by Khrushchev after the Paris conference, the deteriorating food supply following the rush to achieve "100-percent" collectivization, and the persistent social democratic idealism in traditionally socialist East Germany add up to what is probably Ulbricht's greatest political problem since the Schirdewan affair in 1958. There is probably no danger that he will be deposed, either by his fellow Germans or the Kremlin, but he now must try to re-establish discipline among functionaries who are either demoralized by his failure to achieve a better international status

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

for East Germany or who remain unconvinced that his internal policies are correct.

Local party functionaries are in the position of being forced to consolidate the collectivization drive and to reconcile it somehow with the fact that the food supply is deteriorating. In several districts, particularly in the south, party leaders apparently have been unwilling or unable to implement fully the regime's collectivization, as well as other policies. Party functionaries in Dresden District were the greatest offenders, judging from the extensive shakeup there. Premier Grotewohl has singled out this district for particular criticism, stating publicly that the party first secretary there had tolerated "social democratic" ideas and had not "corrected or overcome old prej-

udices against our policies."

Similar, although less serious, confusion has evidently prevailed even in such major industrial districts as Leipzig, Magdeburg, and Halle, Ulbricht's remarks at the conference of Leipzig party delegates on 28 May indicate that some officials failed to carry out regime directives, while others applied excessive pressure to force collectivization, thereby accelerating the refugee flow. Still others attempted to merge newly collectivized farms into large-scale enterprises. Even the regime's favorite institutions, the "socialist labor brigades," were accused by Ulbricht of being too zealous and trying to assume managerial functions. [redacted] (in by ORR)

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CONSEQUENCES OF EAST GERMANY'S COLLECTIVIZATION DRIVE

The recent mass collectivization drive in East Germany is beginning to affect food supplies. At a series of recent meetings between high East German officials, much attention was given to the prospect of "alarming shortages of food and the necessity of using state reserves of fats and meats."

New collective farms are being blamed for the decline in livestock production. On being forced into a cooperative, the peasant has kept his livestock for himself when possible, or generally slaughtered rather than surrender it. This reduction in livestock--coming after the feed shortages of last year and the abnormally heavy slaughter during the winter--

could cause severe shortages in meat supplies during the coming months. A reduced output of spring grains, potatoes, sugar beets, and vegetables has also resulted from the campaign. Winter grains, furthermore, were damaged by the weather.

East Germany normally must import almost 2,000,000 tons of grain and a large part of its meat requirements each year from the USSR. The bloc, moreover, would find it difficult to increase exports of food to East Germany.

The collectivization campaign also has created new long-range problems of budgeting, pricing, and investment allocation. The privately owned farms

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

have cost the state little; investment costs were borne by the farmer and produce was acquired by the state below cost. By contrast, state farms and collectives must be subsidized. In 1958, subsidies for farm work payments totaled \$225,000,-000 and a considerably higher subsidy was planned for 1959--a year of severe drought. With expansion of collectivized agriculture these costs will now have to be increased greatly.

Also pressing is the need to revise the pricing system for agricultural products in order to give the collectives an opportunity to earn profits and thus an incentive to increase output.

More agricultural machinery, fertilizers, and construction materials must be supplied to the new cooperatives, lest many of the advantages of large-scale farming be vitiated. This requirement could lessen the capital goods available for some key industries. Lastly, any effort to increase productivity will be hampered by the flight of skilled agricultural labor to West Germany or to the cities.

The political gains of rapid collectivization may prove to have been dearly bought by the regime, since the food shortages and higher costs of agricultural subsidies will probably make necessary an East German request for bloc aid before the end of the year.

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MIDDLE EAST DEVELOPMENTSLebanon

The first round of the parliamentary elections, held in Mount Lebanon on 12 June, was characterized by a light vote and by a large number of voters splitting their ballots for candidates on opposing lists. Prominent politicians of nearly every faction won parliamentary seats. It appears that President Shihab will emerge with very nearly the parliament that he had hoped for--one that will differ from the 1957 parliament by including almost all of Lebanon's more important politicians.

The biggest surprise in Lebanon's first election under a secret ballot system was the election of candidates listed on competing ballots. In the past the Lebanese had no option but to a straight party ticket. This split voting resulted in the election of rivals in the same district. A significant example of this was the election



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SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

of both former President Chamoun and the brother of his rival, Phalangist leader Pierre Jumayyil, in the Metn district. Chamoun, who ran against a government-backed list, was third among the Maronites campaigning for the three Maronite seats in his constituency. Although he won personally, he lost face by failing to secure the election of his entire list.

In other constituencies most Chamoun-backed candidates were defeated, largely by army interference. All candidates of the anti-Nasir Social National party lost, although President Shihab is said to have promised them at least two seats in parliament. They may gain these in the next three weeks' balloting in other areas.

Iraq

Military support for the Qasim regime appears to be strong. The situation among the political parties is still confused, however, with party rivalries and dissensions within parties increasing. The Iraqi Communist party continues to be split between the orthodox faction, which apparently has Moscow's support, and the small, Qasim-backed, splinter group led by Daud Sayigh.

The split in the National Democratic party (NDP) has widened, and the party's effectiveness as a political force has sharply declined. The anti-government faction led by Kamil Chadirchi has obtained official recognition as a legal party, but it has suffered a considerable loss of membership to the proregime faction headed by former Finance Minister Muhammad

Hadid. Hadid is rumored planning to form a new party which would have Qasim's blessing.

The Communist press is complaining about discrimination and suppression by authorities in the provinces. It has appealed to Qasim to overrule an order by the military commander in southern Iraq banning distribution of the party's paper in his command until after 14 July.

The bulk of the army officer corps is anti-Communist. Anti-Communist influence in the air force is increasing, and Communist unit commanders have been replaced by nationalist officers. While there is apparently some contingency planning by anti-Communist army officers in the event of Qasim's death, there are no reliable indications that these officers plan to undertake an anti-Qasim coup. Rumors circulating in Baghdad of a coup attempt to be made on 14 July--the second anniversary of the revolution--appear to be based more on the hopes of antiregime elements than on any realistic plans to overthrow or assassinate Qasim. Similar rumors circulated prior to last year's anniversary celebration.

The governments of the UAR and other states bordering Iraq probably feel less urgency in attempting to displace Qasim than they did six months or a year ago. The moves undertaken by the Qasim regime have considerably reduced Communist influence in Iraq, and there has been some slight improvement in relations with the UAR, Jordan, and Iran.

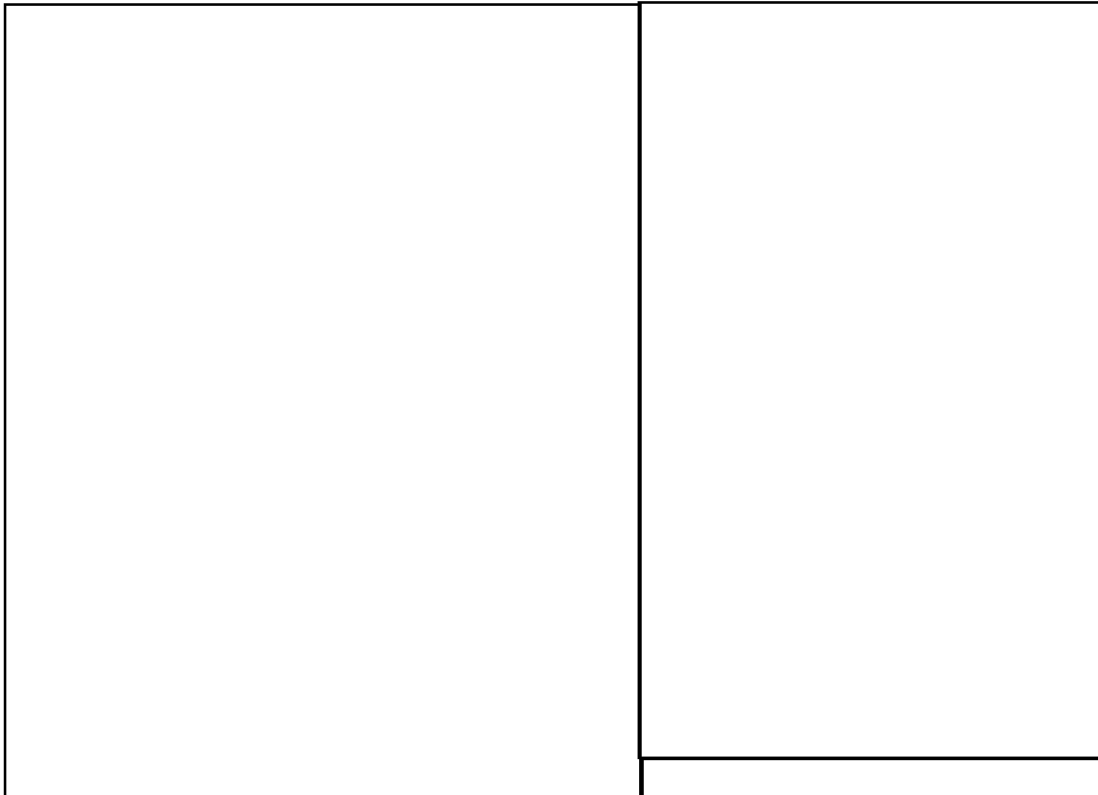
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CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

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SOMALI SITUATION WORSENING

One the eve of Somali independence, tension with Ethiopia has heightened and the moderate regime in Somalia is jeopardized by growing local parliamentary opposition.

The imminence of Somali independence--26 June for the British Somaliland protectorate and 1 July for the Italian-administered trust territory of Somalia--and unification of the

two areas has increased Ethiopia's fears of Somali nationalist agitation. Addis Ababa--particularly concerned over the threat to its Ogaden region, which contains about half a million Moslem, largely nomadic, Somali tribesmen--has reinforced its army units there.

Having failed in bilateral negotiations to obtain Somali agreement to present boundaries

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CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

and grazing rights, Ethiopia is strengthening its ties with France, because both nations are strongly opposed to Somali efforts to incorporate all Somali-inhabited areas into a Greater Somalia state.

Ethiopia may also raise the question of frontier guarantees in the United Nations when Somalia is considered for membership.

Meanwhile, opposition attacks in Somalia on the pro-Western government of Prime Minister Abdullahi Issa are becoming more telling. Political factions--most of them from within the governing Somali Youth League but hostile to the prime minister for tribal and personal reasons--have exploited the government's unpopular action in inviting Israel to the independence celebrations, thus raising the threat of an Arab boycott.

The opposition showed its strength on 10 June, when it established age qualifications for the present of the new Somali republic which eliminated the youthful Abdullahi Issa from consideration. The government had already been weakened by an apparent withdrawal of Italian support and a rumored falling out between the prime minister and a delegation from British Somaliland--an area previously considered a source of strength for Abdullahi Issa.

Overturn of the relatively experienced Abdullahi Issa government and its replacement, possibly by Abdirasid Ali Scermache, who is also pro-Western, would complicate the West's problems in concluding critical economic and financial negotiations. Such a development could aid representatives from the Communist bloc who will be attending the independence celebrations and who may probe the possibilities of establishing economic relations. [redacted]

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SINO-INDIAN BORDER PROBLEM

Indian leaders appear increasingly concerned over the Sino-Indian border, in the wake of recent reports from military outposts of Chinese Communist activities in the disputed areas.

[redacted]

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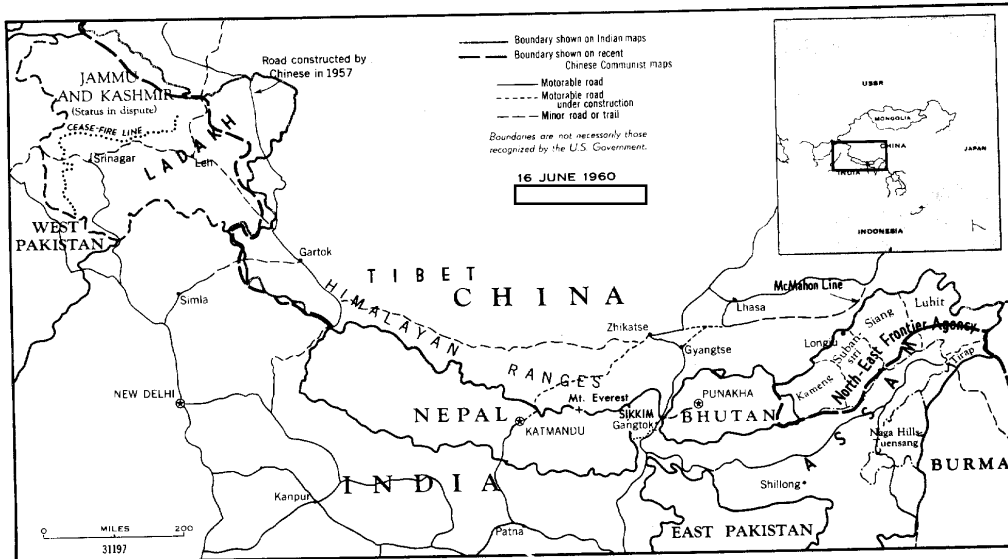
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CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960



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further development at the diplomatic level. A team of five Indian officials arrived in Peiping on 13 June with more than 500 documents to begin a thorough study of the historical evidence on both sides of the case. Chinese officials will go to India in July for the same purpose, and a factual report detailing "agreements and disagreements" is scheduled for September.

It is doubtful that Nehru, despite domestic pressures, would approve the adoption of a more aggressive policy while there is hope of even limited progress at the diplomatic level. Peiping apparently is consolidating its "status quo" in Ladakh and intends to remain in occupation, but Chou En-lai has declared publicly that the

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

Chinese will refrain from forward patrolling in order to avoid the bitterness which would attend a military clash. Nevertheless, Chinese troops would be unlikely to permit aggressive patrolling by the Indians

without attempting to turn back or capture those Indian patrols found on Chinese-claimed territory. Nehru probably fears Peiping would gain a propaganda advantage from any ensuing clash.

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INDONESIA

The rubber-stamp Indonesian Parliament, whose appointment by President Sukarno provoked considerable criticism from military and political elements during his April-May absence on a world tour, apparently will be installed sometime before 26 June. Sukarno has promised publicly, however, that prior to the installation, additional members will be added to the 261 appointed in late March.

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ditions will total approximately 25 and will represent Moslem groups.

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Sukarno insisted, when announcing his plans to increase parliamentary membership, that his decision did not stem from pressure but from his realization that he had made errors in the initial composition. Despite his insistence, the change is obviously the result of criticism of the composition of Parliament, which was 24-percent Communist. The anticipated additions would have little significance, however, since they would reduce Communist participation only to 22 percent.

The political future of non-Communist political parties re-

mains uncertain. Internal discord over the parliamentary issue has weakened both the National party and the Nahdatul Ulama, the orthodox Moslem party, although the top leaders of both support Sukarno. The largest Moslem party, the liberal Masjumi, has lost nearly all influence at the national level because of Sukarno's disfavor. It had hoped to use the Democratic League, a coalition of several parties which led the unprecedentedly critical campaign in April and May against the President and his Parliament, as an effective political vehicle.

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Sukarno plans to hold political discussions with selected party leaders this month before he announces the additions to parliament. The identities of

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

these leaders, the nature of the discussions, and the orientation of the subsequent appointments will indicate to some extent Sukarno's political emphasis. [redacted]

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about half the new seats will be allocated to the Nahdatul Ulama and the remainder possibly to "Masjumi-oriented" individuals who would sit as members of "functional groups" and not

as members of the Masjumi party.

Regardless of the outcome, however, Sukarno can be expected to continue to permit increased Communist participation in government councils in the belief that he can control the Communist party and that its popular strength deserves national representation [redacted]

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NEW SOUTH KOREAN CONSTITUTION

The South Koreans probably will have trouble maintaining an orderly government as they have little experience with the type of parliamentary system their new constitution provides. The new government will have a cabinet and prime minister responsible to the lower house of a bicameral legislature. A president with greatly reduced powers will be elected for a five-year term by a joint session of the legislature. Elections for the lower house of the National Assembly are expected to be held in late July or early August; those for the new upper house may be held on the same date or later.

Huh Chung reportedly will act as prime minister as well as acting president until the new lower house is convened. Huh, an independent conservative, might emerge either as prime minister or as president following the elections. However, should the conservative Democratic party

win a strong majority in the new legislature, former Vice President Chang Myon could become the first prime minister. Chang is well known for his opposition to ex-President Rhee, but he is not believed to have a widespread following, nor is he regarded as a dynamic leader.

Of the nonconservative groups to emerge since the fall of the Rhee regime, the Social Mass party (SMP) appears to have the most promising future. The SMP is a coalition of left-of-center minor party leaders and does not appear to include extreme radicals. The party advocates a "mixed" economy combining public control and private ownership. Such a grouping, if it remains cohesive, might control the balance of power between warring conservative elements in the new legislature.

Disregard of the law is still widespread, and the

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

National Police as yet have failed to demonstrate a capability of maintaining order. The army remains the main sta-

bilizing factor in the country, but there have been indications of increasing factional strife among senior military leaders.

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SITUATION IN THE DOMINICAN REPUBLIC

Dissidents inside the Dominican Republic have been greatly encouraged by the charges of "flagrant and widespread violations of human rights" made against the Trujillo dictatorship on 8 June by the Inter-American Peace Committee (IAPC), a subsidiary of the Organization of American States (OAS). Colombia, El Salvador, Mexico, and Uruguay were represented on the committee along with the United States, but both the regime and the dissidents evidently attribute the tone of the report largely to US Ambassador to the OAS, John Dreier, who served as chairman.

tion and are evidently cheered by the outside sanction they feel it has given their efforts. Before it appeared, dissident leaders claimed only to be waiting for some favorable sign from the US Government before taking "direct action" to get rid of Trujillo, and one leader has since told an American Embassy officer that the IAPC statement constitutes "a firm basis for practical action" against Trujillo.

Government officials reacted by snubbing US personnel, and on 10 June the US Embassy was picketed by a small group with a sign insulting Ambassador Dreier. Picketing in the Dominican Republic is allowed only on specific government permit. The controlled press was slow in reacting editorially, however, thus suggesting that Generalissimo Trujillo was unprepared for an attack directed specifically against his government. In the past, the IAPC has avoided naming offending countries out of respect for the inter-American principle on nonintervention.

The generalissimo's conduct of government has become progressively more clumsy and erratic since he became aware last January of the widespread plotting against his regime. He has shown an increasingly stronger anti-US bias in his policy and there has been growing bitterness in his relations with the church hierarchy.

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There are persistent reports that the predominantly middle-class opposition is attracting some officers of the armed forces to the dissident movement. This tendency is likely to be increased by the impact of the IAPC report and of Trujillo's acrimonious relations with the church.

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The dissidents have managed to give the report wide circula-

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SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

ARGENTINE POLITICAL PRESSURES

President Frondizi's departure on 13 June on a month-long state visit to eight Western European countries reflects a temporary lessening in Argentine tensions. The brief and limited military rebellion in San Luis Province which was quelled on the same day was an expression of the conflicting pressures which have plagued Argentina's political and economic recovery since Peron's ouster in 1955.

The major opposition groups, especially the large People's Radical party (UCRP) and the outlawed Peronistas, continue to make irresponsible attacks on Frondizi's policies, and the Peronistas resort to frequent bombings and other terrorist tactics. Most military elements mistrust Frondizi but feel compelled to back him as they favor constitutional government and support many of Frondizi's policies.

The conflicts and complications in these many political pressures also inhibit revolutionary action. For example, the military favored the People's Radical party in the February 1958 elections and still have many close contacts in this party. Some leaders of the armed forces even argued strongly against permitting Frondizi to take office on 1 May 1958, because they disliked his past advocacy of economic nationalism and had strong misgivings about his receiving electoral support from the Peronistas and Communists. Nevertheless, the strongest military elements--headed by former President Aramburu--insisted on returning Argentina to constitutional government.

Since July 1958 when Frondizi adopted the policy that Argentina's near bankruptcy demanded the assistance of foreign capital in the development of petroleum and other resources, the UCRP, espousing the economic nationalism which the military had expected from Frondizi, has maintained an all-out attack on the government. The adoption of the US-backed stabilization and austerity program in January 1959 received the same treatment, with threats to renounce all such agreements if the UCRP comes to power. These attacks have not been tempered by economic gains under the programs and are as severe as those of the Peronistas and Communists, who have reinforced their attacks with strikes.

The UCRP has also played politics on the issue of curbing Peronista terrorism in Cordoba Province. When Frondizi, under pressure from the army, asked the national congress to approve federal control over Cordoba Province, the UCRP minority walked out. Approval of the bill on 11 June probably averted a coup by army officers more powerful than the retired general who led the abortive rebellion in San Luis.

On his long-scheduled European tour, Frondizi will probably seek to encourage increased investment in Argentina. He is concerned over the impact of European economic integration on Latin America, believing a reduced market for Argentine exports could threaten the stabilization program and political stability.

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SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

COMMON MARKET DEVELOPMENTS

Developments of the last few weeks have made it even less likely that there will be an early merger of the European Economic Community (EEC or Common Market) and the European Free Trade Association (EFTA). The 9-10 June meeting in Paris at which the rival organizations were represented failed to find any new basis for amalgamation. Both sides have recognized this, and for the next few months the six EEC members will be preoccupied with strengthening their own approach to European unity.

The decision to establish a "contact committee"--which may ease frictions between the two groups--is in fact a victory for the EEC's determination to carry out its plans for economic union. Proposed by EEC President Hallstein in September 1959, the committee will survey EEC-EFTA trade and identify especially important trading items on which reciprocal tariff concessions might be negotiated. Any such concessions would be extended on a most-favored-nation basis--an approach strongly endorsed by the United States but not likely to lead to an all-European trading association.

More indicative of the gap between the two groups is the generally cool reception accorded London's offer at a recent meeting of the assembly of the Western European Union--of which Britain is a member--to "consider" membership in EURATOM and the Coal-Steel Community (CSC). It was quickly

pointed out that this would leave unsolved the basic problem--Britain's relationship to the Common Market.

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Even current speculation that Britain may be working toward a full customs union between the EEC and EFTA has provoked skepticism. A responsible Italian official has already declared it impossible to "create simultaneously a customs union of thirteen and an economic union of six."

London's overture to the CSC and EURATOM appears to have been especially ill-timed in view of the emerging plans to complete the institutional amalgamation of the three six-nation communities. Already sharing a common assembly and court, the EEC, EURATOM, and the CSC now propose to create a single executive of 14 or 15 members. Such plans reflect a belief that both EURATOM and the CSC are increasingly overshadowed by the Common Market, and also a growing optimism that the three could be merged without risk of jeopardizing their separate supranational powers, which have not yet been fully accepted in some quarters. Successful steps toward such a single community would confront the EFTA with a Continental bloc even more formidable--politically and economically--than the present one.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

PART III

PATTERNS AND PERSPECTIVES

NEW DEVELOPMENTS IN PARTY CONTROL OF THE SOVIET ARMED FORCES

The All-Army Conference of Secretaries of Primary Party Organizations, held in Moscow from 11 to 14 May, reflected one of the most significant developments in party-military relationships since the ouster of Marshal Zhukov in October 1957. The meeting turned out to be a mammoth assembly of political officers and military commanders at all levels, as well as party and government officials. The importance of the conference was underscored by the presence of three top party leaders: chairman of the USSR Supreme Soviet Presidium Leonid Brezhnev, who delivered a speech; Deputy Premier Nikolay Ignatov; and party secretary Mikhail Suslov, who participated in the work of the conference.

The conference, which was convoked by the party central committee, reaffirmed the decisions of the October 1957 party central committee plenum on strengthening the role of the party in military affairs and approved, with reservations, the implementation of those decisions thus far. It also took a major step toward expanding the regular party structure in the military establishment, with the apparent aim of eventually replacing deputy military commanders for political affairs. The political deputy ordinarily has been a military officer especially trained for political work. He probably runs the party organization in his unit in most cases but is not a party professional in the usual sense of the word. For administrative purposes he is a part of the unit to which he is assigned, but he receives orders through an independent channel from the Chief Political Directorate of the Army and Navy.

This directorate, administratively a part of the Ministry of Defense, functions as a staff department of the party secretariat and has been one of the principal means for exercising party authority in the armed forces.

The changes called for by the conference would bring the structure of party control in the armed forces into line with its structure in other elements of the state, and would probably facilitate the exercise of party authority and might reduce the areas of conflict between the party and the military. The clash of interests between military commanders and political representatives, however, is deeply rooted and will not be easily overcome. Various systems have been tried in the past to solve this problem. Political commissars were introduced and then abolished; deputy commanders for political affairs were created at all levels of the armed forces, then removed from the company level and below. None of these measures proved wholly satisfactory.

Since Zhukov's ouster, growing attention has been paid to the role of the regular party organizations in the military establishment. The recent conference, which heard reports by Defense Minister Marshal Malinovsky and the head of the Army and Navy's Political Administration, Army General Golikov, called for an expansion of the number of basic party units by establishing them at the battalion level instead of the regimental level as heretofore. In addition, party "groups"--somewhat comparable to shop subdivisions of a factory party organization--are to be set up "wherever possible" at lower units.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

The conference also called for the replacement of the political departments in the headquarters of military districts, groups of forces, fleets, and military schools by "elective" party organs. A proposal in somewhat the same vein, but for a lower level in the military hierarchy, had been advanced earlier in the military newspaper Red Star. The authors, discussing structural changes similar to those called for by the conference, pointed out that with such changes, "it would be reasonable" to have a full-time party secretary--that is, a professional party functionary--at the battalion level instead of a deputy commander for political affairs.

They also noted that "some comrades" thought it desirable to abolish the political deputy's post at the regimental level, but argued that this should not be done "at present," since the regimental political officer had duties of an administrative nature as well as party-political work.

The published accounts of the conference do not discuss the question of the battalion or regimental deputy for political affairs, probably indicating that a more gradual execution of this part of the reform is contemplated in order to avoid the disruptions of too sharp a transition.

One of the most significant developments in the Soviet armed forces since Zhukov's ouster has been the program to rotate military personnel between political and command posts. A report at the conference on this program stated that "thousands" of commanders, engineers, and technicians had been "promoted" to political work and over 1,500 polit-

ical workers had been appointed to command posts. This program, heartily approved at the conference, seems designed to create an "all-purpose" officer cadre as one means of overcoming the antagonism which has always existed in one form or another between the military commanders and the political officers.

The conference reaffirmed the principle of "one-man command," but participants described this as "unity in the performance of military service by commanding and political officers" and as command "on a party basis."

The conference had been scheduled to consider problems connected with Khrushchev's troop reduction plan, which was approved by the USSR Supreme Soviet in January. There is no indication, however, that the plan as such was discussed, although the implications of the reduction probably permeated the thinking of all participants.

Marshal Malinovsky probably had the troop reduction in mind and also Khrushchev's suggestion for eventually changing over to a territorial militia defense system when he cautioned that "as long as agreement on complete and universal disarmament has not been reached, we are obliged to display the greatest vigilance and to maintain the country's defense potential at a high level, keeping the indispensable armed forces." At another point he asserted, "No matter how powerful and effective military technology might be, without man it is nothing. Technology is applied by man." He concluded that the task, therefore, is to achieve "the correct combination" of political, combat, and technological training of military personnel. [REDACTED]

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CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

AUSTRIA'S ECONOMIC RELATIONS WITH THE BLOC

With its reparations deliveries to the Soviet Union approaching an end, Austria will be increasingly preoccupied in the next few months with the economic and political aspects of East-West trade. In accordance with the state treaty settlement of 1955, Austria must continue to deliver gratis to the USSR a million tons of crude oil annually until 1965--an obligation alleviated somewhat by Moscow's agreement in 1958 to "give" Austria a half million tons of Soviet crude per year. By early 1961, however, the last of the \$150,000,000 in "compensation deliveries" will have been completed, and, except for the oil deal, Austria's trade relations with the bloc will be on a purely commercial basis for the first time in two decades.

Vienna's government and business leaders are greeting the prospective return to normalcy with a mixture of relief, trepidation, and exaggerated optimism. While some believe that major problems are ahead for those industries which, because of reparations, have become accustomed to the Soviet market, others profess to see an opportunity to restore Austrian trade to something like the proportions between East and West which prevailed before World War II. To explore the prospects along these lines will be one of Vienna's major objectives during Khrushchev's tour to Austria from 30 June to 8 July and during the regular trade negotiations opening later this year.

Recent Trade Trends

Austria's hopes derive in part from the gradual increase in its trade with the Sino-Soviet bloc in the four years since the occupation ended. Bloc trade last year constituted about 11.5 percent of total Austrian imports and 14.8 percent of total exports--exclusive of reparations, which were equivalent to 4.8 percent of total exports. Nearly 16 percent of Austria's exports went to the bloc in the last half of

AUSTRIA'S TRADE WITH THE SINO-SOVIET BLOC
(MILLION DOLLARS)

	1956		1957		1958		1959	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS
USSR	7.2	14.0	21.4	27.4	21.9	20.3	29.6	33.6
POLAND	25.8	27.5	33.0	32.0	29.7	31.3	28.1	20.0
HUNGARY	19.1	19.5	15.0	23.6	20.4	19.6	23.8	26.0
CZECHOSLOVAKIA	17.7	19.1	18.9	22.6	18.2	18.7	21.0	18.3
EAST GERMANY	12.1	17.4	15.2	17.1	15.0	15.2	15.6	15.5
RUMANIA	6.2	6.8	6.4	5.6	6.1	4.5	4.7	5.1
BULGARIA	5.0	6.1	5.2	7.0	4.4	4.3	6.3	10.0
CHINA	2.1	7.4	2.3	7.8	2.5	14.3	3.2	14.4
TOTAL TRADE WITH BLOC	95.2	117.8	117.4	143.1	118.2	128.2	132.3	142.0
TOTAL FOREIGN TRADE	850.3	849.1	1,128.4	978.5	1,072.1	917.8	1,145.0	964.2
BLOC SHARE OF FOREIGN TRADE	11.0%	13.8%	10.4%	14.0%	11.0%	14.0%	11.5%	14.8%
AUSTRIA'S REPARATION DELIVERIES TO THE USSR*		52.3		42.1		45.0		47.2

*Commodities average about 25-26 million dollars per annum and petroleum deliveries account for the remainder.

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16 JUNE 1960

1959. The rate of growth of Austria's trade to the entire bloc is slightly higher than that of its total trade, gaining roughly a percentage point since 1955. Exports to the USSR alone in 1959 were considerably more than double the 1956 figure.

Some Austrian industries lean heavily on bloc markets. In 1959, over 30 percent of Austria's exports of chemicals, electrical equipment, and machinery went to the bloc. If reparations deliveries are taken into account,

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

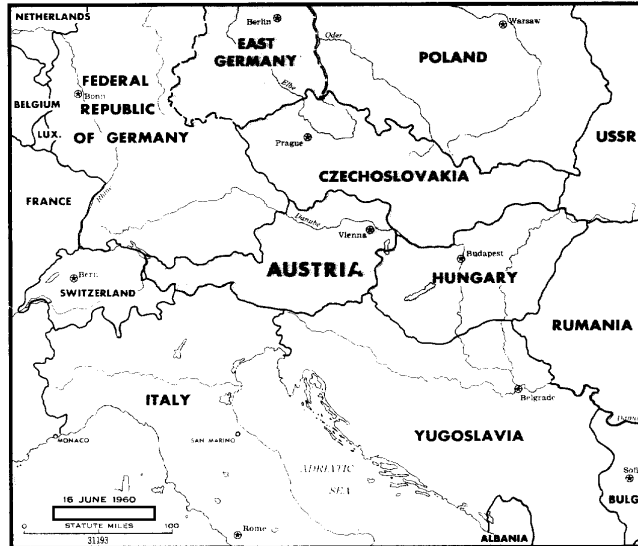
16 June 1960

this percentage is considerably higher--42 percent in the case of machinery. Grain, other foodstuffs, and fuels are the major import items--the last accounting for nearly half of Austria's 1959 imports from the USSR.

The USSR is Austria's leading bloc trading partner, followed by Hungary, Poland, Czechoslovakia, East Germany, and Communist China. Since shortly after the occupation period, trade with China has increased sharply, largely because of Chinese willingness to incur a deficit and pay for Austrian products in British pounds. Peiping has seemed increasingly reluctant to continue doing this, however, and Austrian exports to China in 1959 remained at slightly more than \$14,000,000, the figure for 1958.

Attitudes Toward Bloc Trade

More significant for the future than the gradual growth in trade with the bloc is the strong desire of many responsible Austrians to increase that trade. Indicative of this is the widespread acceptance within the business community and at the highest levels of government of the theory that bloc trade could be increased to 20-25 percent of total trade without "rendering Austria subject to economic pressure or seriously endangering its independence." This arbitrary figure, as interpreted by American Embassy officials in Vienna, is exclusive of trade with Communist China, and its achievement would require the conversion of all reparations payments into commercial deliveries plus a slight amount more.



There are historical and political reasons, as well as economic, for the attractiveness to Vienna of this dubious formula. Despite the Communist take-over of Eastern Europe, many Austrians cling to the belief that their "natural" market is the Danubian basin of the old Hapsburg empire. These traditionalists are allied to a degree with the cautious, who feel that a small, neutral country heavily dependent on exports is politically wise to distribute its trade and to take precautions against recessions in the West.

Despite Austria's remarkable postwar recovery, many of its industrialists are still doubtful they would survive in more competitive Western markets. In the opinion of embassy observers, however, the Austrians have grossly exaggerated the problems of those firms whose production now is geared to reparations deliveries.

Perhaps a more important factor than any of these is the persisting notion of many Austrians that geography and neutrality can be exploited to the advantage of their country.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

Vienna's accession to the bloc-dominated Eastern Danube Commission, formally completed in January, was motivated in part by belief that it would end bloc discrimination against Austrian shipping and pave the way for a thriving river trade. Similar hopes are involved to some extent in the construction of Vienna's new international airport, and the increase in air traffic to and from the bloc in the past year has been enough to keep these hopes alive.

Even more ambitious Austrian schemes, usually involving re-exports of bloc products, have been rumored from time to time. Early this year, for example, a consortium of Austria's leading nationalized banks was reportedly working on an elaborate plan by which it hoped to persuade the USSR not only to take substantially greater quantities of Austrian goods but also to use Austria as an entrepot for exports of certain Soviet ores and metals.

Political Pressures

The widespread conviction that Austria could be "chosen" to play such a profitable role without paying a price ignores the example of the Finns, whose current proportion of trade with the bloc is about that which many Austrians apparently hope to achieve but whose governments have been increasingly subjected to Moscow's pressures. It also ignores several recent instances in which considerations of economic ties with the bloc have posed disagreeable political problems for Vienna.

Having whetted Austrian appetites with a sample of the "vast China market," Chinese Communist negotiators have become increasingly insistent in recent months that diplomatic recognition of the Peiping

regime is a prerequisite for a further expansion of trade. Influential Austrian industrialists have in turn exerted strong pressures on Foreign Minister Kreisky--first to authorize an unofficial trade mission and, when that fell through, to accord full recognition.

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The recent Austrian decision to place grain imports under a "state trading system" was allegedly motivated, to some extent at least, by Vienna's belief that grain is one of the few products it needs which the bloc can supply. Moreover, fear of Soviet disfavor and retaliation was almost certainly one of the reasons for Austria's decision to join the Outer Seven rather than the Common Market.

The forthcoming trade negotiations may disclose more clearly whether Moscow is in a mood to step up economic pressures on Austria. There have been rumors for several years of the USSR's desire to expand the charter of its existing trade insurance firm in Vienna and also to open a Soviet-controlled bank. The trade talks would provide an opportunity to press these demands. Austrians have also expressed concern that at some point Moscow may wish to make an issue of Vienna's past cooperation with COCOM, perhaps by ordering an embargoed rolling mill as a test case.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

The Outlook

None of these episodes would justify the conclusion that Austria is in imminent danger of coming under severe political and economic pressure from the Soviet Union. They do suggest that at present the major deterrent to Austria's exposing itself to that danger is not Vienna, but Moscow. As long as the Soviet Union is basically concerned with bloc self-sufficiency, considers the un-

derdeveloped countries more fruitful targets for exploitation, and is unwilling to put its trade on a multilateral basis, there will be limits to the growth of Austrian trade ties with the bloc. In view of the present Austrian eagerness to increase these ties, however, Vienna's initial resistance at least would probably be slight if Moscow should decide to make an attractive offer.
 (Concurred in by ORR)

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ECONOMIC DECLINE IN SOUTH AFRICA

Continuing racial tension in the Union of South Africa has impaired foreign confidence in the country's economy. The internal economic structure has not yet been seriously affected, but few South African firms are making long-term commitments. The reluctance of many local businessmen to disturb the economy further by supporting a far-reaching program of political reform weakens the effectiveness of the parliamentary opposition, which derives most of its support from the business community.

At the beginning of 1960, most observers believed that South Africa was on the way to a complete recovery from the recession which began in 1958 and lasted through most of 1959. A decline in imports, a rise in the volume of exports, a record level of gold production, and a steady inflow of foreign capital had erased the 1958 balance-of-payments deficit of \$207,000,000; the favorable payments position in turn had led to an

easing of the money market. Although retail sales had not improved appreciably, unemployment had declined somewhat from its mid-1959 high, and the construction industry was expanding steadily.

Economic Effect of Riots

This optimistic trend was sharply reversed as a result of the racial disturbances in March and April. A wave of overseas selling reduced the value of stocks on the Johannesburg exchange by more than \$1.72 billion--23 percent--and informed observers believe an even more serious decline was prevented only by heavy institutional buying within the Union. The Union's foreign exchange and gold reserves fell from \$429,000,000 to \$340,000,000 in nine weeks--a drop of 21 percent.

The international consumer boycott of South African products--which the International Confederation of Free Trade Unions (ICFTU) had been promoting

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

16 June 1960

since the beginning of the year--was extended through May. Some of ICFTU's European members are continuing the boycott through the summer. Ghanaian Prime Minister Nkrumah has called for a total boycott--political as well as economic.

Despite these external pressures, commercial and industrial activity within the union has continued at a fairly high level. Retail trade and the machine tool and construction industries, which were hardest hit by the disturbances and the economic disruption which followed, have generally resumed normal operations. Nevertheless, most firms are concerned over their long-term prospects, and many expansion programs have been curtailed or postponed. With investment capital diverted, much of the economic activity at present is short-term speculation.

Political Repercussions

As a result of South Africa's uncertain economic position, there has been an increasing demand from leaders of the business community for reform of the government's racial policies. Federations of commerce and industry in most of the major economic centers have urged that the 3,000,000 urban Africans be given a greater stake in the political and economic life of the cities. The interests of this group, despite its importance as the labor force for South Africa's industrial economy, have largely been ignored by the government; the urban African bears the brunt of the restrictive aspects of apartheid.

Most business groups have proposed a reduction of restrictions on urban Africans and a concomitant increase in wage scales. Many have advocated consultations between government officials and spokesmen

for the politically conscious natives. A few have suggested that Africans be permitted to organize unions and purchase land near the cities.

However, the effectiveness of these appeals is weakened by the apparent unwillingness of the business community to support the recommendations of its spokesmen. Businessmen, motivated either by a desire to keep out of politics or by a reluctance to disturb the Union's favorable short-term economic prospects, hesitate to give public support to any far-reaching reforms. In addition, few of them are willing to underwrite the expense which a program of native political and economic reform would entail. Some establishments--notably a large percentage of the gold mines--would be driven out of business by an increase in African wages.

The business community's reluctance to come to grips with the racial question is reflected in the inability of the opposition United party (UP) to formulate an alternative to apartheid. As spokesman for South Africa's financial interests, the UP is perennially torn between the dependence of its supporters on cheap African labor and their desire for economic stability. The party is strong in its opposition to the Nationalist government's efforts at separate development of the white and black races, but it has been unable to devise a positive alternative program of multiracial development. It has supported many of the Verwoerd government's emergency measures, while simultaneously directing a stream of acrimonious and largely ineffective criticism at the government's basic policies.

The opposition's ineffectiveness will probably be increased as a result of the reforms proposed by Prime Minister

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

16 June 1960

Verwoerd late last month. While reaffirming his intent to speed up the development of native areas, Verwoerd also proposed the easing of some of the immediate sources of discontent among urban Africans--notably an easing of the pass laws and the creation of "authorities" which would give the Africans some voice in the supervision of the urban native areas.

Many businessmen, their attention focused on the Union's short-term economic outlook, are likely to consider these measures an adequate concession to African unrest. Opposition pressure for change would thus be lessened, and the government would have greater freedom to push for the completion of its apartheid program. [REDACTED]

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