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economic growth is dependent on a continued expansion of trade with the industrial markets of Western, rather than Eastern, Europe. Its ability to make the planned changes, however, will depend on whether it can negotiate the necessary loans in the West.

Belgrade's willingness to abandon its standard Communist-type state trading practices results from its conviction that these have outlived their usefulness and are impeding economic progress. Central to this judgment is a fear of being unable to compete in the new trading blocs being formed in Western Europe by countries with which Belgrade has in the past few years carried on almost half of its foreign trade.

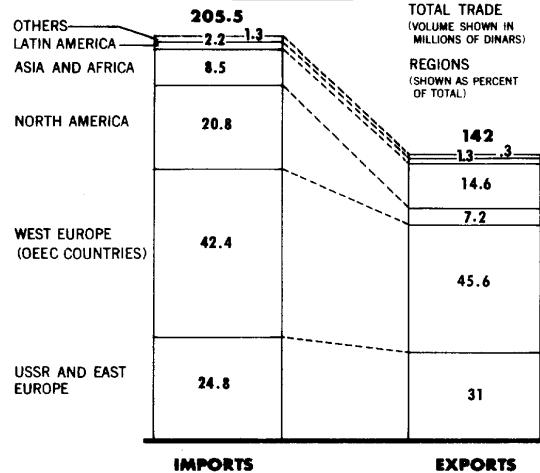
Belgrade has turned to the West for examples of efficient economic practice. The central government plans to play a smaller role in the allocation of foreign exchange, and it will use the standard Communist-type bilateral trade agreements only in dealing with the Soviet bloc and certain Asian countries. While the regime still retains certain trade and financial controls, the reforms will permit far greater freedom for individual trading enterprises than is allowed by any other Communist country.

Belgrade plans to lower the value of the dinar from the current official rate of 300 to around 700 to the dollar. The only different rate will be

that for tourists, which Belgrade feels should be temporarily left at 400 to the dollar, because Yugoslavia's tourist facilities are already overcrowded.

Yugoslavia believes the proposed foreign-exchange reform will help eliminate many of the disproportions in the Yugoslav economy. Janko Smole, head of the Yugoslav National Bank, has admitted the difficulty in planning under the old system of multiple rates; under the single rate, he said, enterprises would respond to market forces alone and this would permit future in-

DISTRIBUTION OF YUGOSLAV FOREIGN TRADE 1959



The official dinar/dollar rate is 300 to the dollar. This is unrealistic, however, because of the use of multiple foreign exchange rates.

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vestments, particularly in industry, to be made on a rational basis. With the liberalization of import restrictions, the regime hopes Yugoslav industry, which has been subsidized in both foreign and domestic markets, will be stimulated by the profit motive to produce more efficiently.

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To make these plans work, Belgrade would need substantial loans to build up greater foreign-exchange reserves and to meet an anticipated increase in the value of imports and a decrease in the value of exports. The regime estimates that it needs immediate pledges of approximately \$340,000,000 in foreign loans to be honored over the next two years. If pledges are not received by September, the plans will be delayed.

Belgrade has turned to the United States, West European nations, and international organizations for support. Officials of the International Monetary Fund (IMF), who have examined the Yugoslav scheme, believe it is well planned and

"has a good chance of being accomplished without great difficulty." The IMF is sending a working group to Yugoslavia in August to discuss details of the plan.

The IMF is expected to provide \$15 million to \$20 million, and Smole expects to get slightly smaller amounts from the European Fund and the Bank for International Settlements. The Yugoslavs are reportedly optimistic about getting assistance from British, French, West German, Italian, and Swiss financial circles. Yugoslav officials discussed the possibilities of extended American aid with US Under Secretary of State Dillon, who arrived in Belgrade on 17 July..

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CZECHOSLOVAKIA'S "VICTORY OF SOCIALISM"

The Czechoslovak Communist party celebrated its "victory of socialism" this month as the first country after the USSR to have achieved this level of Communist development. A new constitution was adopted changing the name of the country to the "Czechoslovak Socialist Republic" to indicate its change from a "people's democracy." While the other satellites are completing the transition stage, the "building of socialism," the Czech party will be "perfecting a mature socialist society." Later all of the satellites are to launch the "construction of Communism" simultaneously.

At a national party conference on 5 July, party leader Novotny revealed that Czechoslovakia's major claim to its advanced status is based on the growth of socialist awareness in

the Czech population as shown by the party's accomplishments over the past two years. Novotny could not refrain from self-congratulation over the successes of the party in pushing through its program--the most ambitious ever undertaken by any European satellite in such a short time --while at the same time surpassing certain goals set by the Five-Year Plan which ends next December. Such accomplishments set the stage for raising a number of the indexes in the new Five-Year Plan (1961-65).

The increase in over-all industrial production is to be 56 instead of 50 percent, and industrial investments are to be higher than those envisaged last September when the plan was first drafted. Although the party is urging that the five-year agricultural plan be

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1958
Reorganization of economic management.



1 JAN 1959 - 31 MAY 1960
Reform of wages and norms.



MARCH 1959 - JULY 1960
Agricultural reforms:

Socialization--86 percent of agricultural land is now in the socialist sector; farming of private plots as part of a collective; farm collectives try experimental industrial wage system.



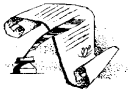
Increasing production--new produce-purchasing system; reduction of machine tractor stations to repair units and sale of tractors to collectives; merger of collective farms.



APRIL 1959 - 1962
Educational Reform: Introduction of 11-year schooling and part-time factory training.



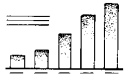
SEPT 1959 - JUNE 1960
Territorial reorganization of government, party, and mass organizations: number of regions reduced from 19 to 10; number of districts reduced from 306 to 108.



SEPT 1959 - JULY 1960
Adoption of socialist constitution.



12 JUNE - 11 JULY 1960
National elections: Election of National Assembly and all local government bodies; new Council of Ministers named, with increased Slovak representation.



SEPT 1959 - JULY 1960
Launching of Third Five-Year Plan (1961-65).

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completed in four years, this objective was not incorporated into the final plan, nor does it appear likely to be fulfilled.

Novotny's administrative reforms, particularly the territorial reorganization, have centralized considerable power in Prague. Control has been simplified by reducing the number of regions and districts, which has enabled Novotny to re-staff them with his most trusted

men. Bratislava--Slovakia's capital--has been downgraded in rank and the whole Slovak area put under more direct control by bringing many Slovak government and party leaders to Prague to serve concurrently in the central administration. At the same time, the Slovak Board of Commissioners, which ran the equivalent of ministries for Slovakia, has been eliminated, and most of the Slovak ministerial apparatus has been dissolved.

With regard to foreign affairs, Novotny's speech at the conference was a strong declaration of support for Khrushchev on all major issues and in effect eliminated the potentially serious ideological differences between Moscow and Prague that were evident in late 1959 and early 1960. His references to issues at dispute between China and the USSR placed the Czech party squarely behind Khrushchev.

Not only did he declare that wars are not inevitable, but he strongly implied that they were unlikely with the present balance of power and in view of the state of mind of the world's masses. Turning to Africa and Asia, Novotny declared that for these countries, "Peaceful coexistence is an active defense against imperialist interference and the basic method of struggle against new forms of colonialism." The

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party leader condemned both revisionism and dogmatism in terms borrowed from the Soviet

20th party congress in 1956 and currently in vogue in Moscow.

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EAST GERMAN POLITICAL AND ECONOMIC DIFFICULTIES

On the eve of the harvest, the Ulbricht regime is taking urgent measures to cope with peasant discontent and maintain its control in the East German countryside. It is also seeking to force local party and government officials, who appear to have become demoralized as a result of widespread purges and rapid shifts in the party line, to comply with its directives.

Discontent among the farmers, evidenced by moves among those newly collectivized to withdraw from collective farms, appears to be spreading. Shortages of potatoes, meat, dairy products, fruit, and vegetables are becoming more evident, and long queues are reappearing in the cities. Many of these circumstances stem from the disorganization resulting from last winter's all-out collectivization campaign. The Ministry of Justice recently admitted in its official publication that "crimes against the state, sabotage, ... and an incitement campaign" had proved a "serious obstacle" to increasing agricultural production; it called for an all-out campaign of repression and "persuasion" to force the farmers into line.

In an attempt to eliminate the serious administrative shortcomings which have contributed to nonfulfillment of plans, the regime announced on 15 July that politburo member Willi Stoph, who is also a deputy premier, had been relieved of his duties as minister of defense and been appointed to oversee "coordination and control of the implementation of the resolutions of the central committee and Council of Ministers in the state apparatus." This suggests that party boss Ulbricht is endeavoring to use Stoph's known administrative talents to ensure that subordinate party and government organs carry out directives.

Giving clear evidence of declining morale among the East German populace, the flow of refugees to West Berlin and West Germany is rising far above last year's figures, despite greatly intensified security precautions. In the week ending 12 July, more than 3,400 persons fled to West Berlin alone--1,600 more than in the same week a year ago; in the first six months, some 88,500 persons fled to West Berlin and West Germany, which is almost 17,000 more than for the first six months of 1959.

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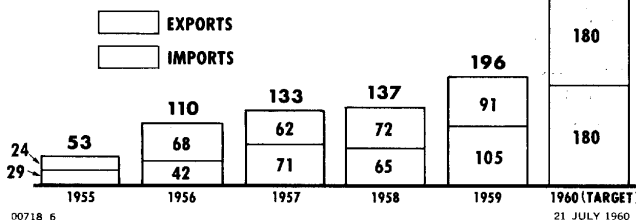
WEST GERMAN - SOVIET TRADE NEGOTIATIONS

Trade officials in West Germany are pessimistic about the West German - Soviet negotiations expected to begin in Bonn in September for a new trade agreement to replace the three-year accord signed in 1958.

Much of the German negotiators' pessimism probably stems from the recognition that they were outmaneuvered in Moscow last February in negotiations on the annual trade protocol provided for under the 1958 agreement. There they agreed to increased exports of producer goods to the USSR, including

result not only to the ineptitude of the West German negotiators, but also to pressure from German industry, which is eager to expand exports to the USSR regardless of whether there is a demand for Soviet commodities on the German market. West German exports to the USSR increased during the first quarter of 1960 over the same period in 1959, totaling \$44,000,000. If this rate of delivery continues, West Germany may come close to fulfilling its share of the 1960 trade protocol, which calls for an exchange of goods totaling approximately \$180,000,000 each way.

WEST GERMAN - USSR TRADE
(MILLION DOLLARS)



In the September negotiations, the USSR is expected to ask again for larger trade quotas and may repeat--at least as an initial bargaining position--its previous demand for West German exports consisting entirely of producer goods. Moscow probably will continue to be interested in

large quantities of steel pipe and other industrial items--such as chemical plant equipment--tailored to the requirements of the Soviet Seven-Year Plan. In return they accepted Soviet goods, including a considerable quantity of petroleum products, which West Germany could acquire more cheaply elsewhere. If filled, the 1960 Soviet petroleum quota would provide West Germany with 9 percent of its crude oil and 25 percent of its gasoline.

The US Embassy in Bonn attributes this unsatisfactory

large-diameter steel pipe and in entire industrial plants, particularly in the chemical field, and insist on buying West German merchant ships.

The Soviet negotiators may raise the subject of Western embargoes on strategic goods and ask that Bonn bring pressure on the other Western powers to relax COCOM restrictions. They may also suggest more liberal West German credit terms on capital goods, as an alternative to Germany's taking unwanted Soviet commodities now. (Concurred in by ORR)

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ITALIAN POLITICAL SITUATION

Difficulties encountered in the negotiations for replacing the Tambroni cabinet suggest that the new government will leave unresolved the right-left stalemate which has almost paralyzed effective government in Italy. The Christian Democrats are principally concerned with removing the stigma of neo-Fascist parliamentary support that was Premier Tambroni's main difficulty and thus improving their prospects in the nationwide local elections scheduled for October. The three small center parties promised their parliamentary support to prevent Communist exploitation of the anti-Fascist issue but only to prevent polarization of the Italian political situation.

Following the widespread anti-Fascist rioting from 28 June to 10 July, most elements in the Christian Democratic party agreed that the Tambroni government had to be replaced. The disturbances also convinced the three small center parties --the Liberals, Democratic Socialists, and Republicans--that they must for the time being provide parliamentary support for an alternative government. They have not overcome, however, the basic ideological differences which kept them from agreeing on a government during the two-month crisis which preceded Tambroni's decision to depend on neo-Fascist support. Tambroni himself had shown reluctance to resign, and President Gronchi had also resisted a change of premier.

The Democratic Socialists and Republicans look with favor on a new all-Christian Democratic cabinet, preferably headed by former Premier Fanfani, and Socialist party leader Nenni has indicated he would not vote against it. Nevertheless, the probability that ex-Premier Scelba would return to his old post as minister of interior was probably displeasing to these parties. Scelba has consistently urged re-establishment of a cabinet made up of all four center parties, although in previous quadripartite cabinets important legislation was impeded by dissension between Democratic Socialists and Liberals.

The conservative Liberal party appears to have consented to support a new Christian Democratic cabinet only after an intraparty struggle. Some of its members object to Fanfani as a leader of the Christian Democratic left wing and to the possibility of Nenni Socialist support. All the center parties seem to favor the continuance of former Premier Segni as foreign affairs minister.

The Communists, anxious to avoid isolation, have promised to support a government which would respect the constitution but are already laying the groundwork for attacking the new regime. Having now lost through Tambroni's resignation the popular issue of resistance to Fascism, they may turn to demonstrating against such targets as NATO bases in Italy.

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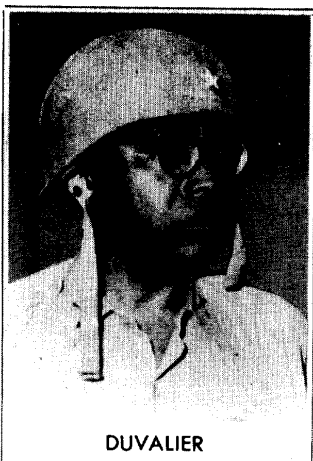
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LEFTWARD DRIFT IN HAITI

The Haitian Government of President Francois Duvalier is drifting steadily to the left as it sinks lower in graft and administrative disorganization. Duvalier appears to be in poor health, not having completely recovered from his May 1959 heart attack. He is delegating much of his authority to a



DUVALIER

clique of leftist advisers, among whom Jules Blanchet, a probable Communist, is one of the most influential.

The influence of these advisers is apparently responsible for the regime's equivocal stand on the Castro regime in Cuba. The American Embassy received a clear implication from the Haitian Foreign Ministry on 8 July that Haitian support of a foreign ministers' meeting under the Organization of American States on the Cuban problem does not mean that Haiti will support any action against the Cuban regime.

Leftist influence is also evident in the extremely bitter attacks by President Duvalier and other high officials on United States economic aid to

Haiti. They maintain that the aid is both inadequate and granted under conditions inconsistent with Haitian sovereignty. Last April, Jules Blanchet castigated the "new imperialism in the guise of technical assistance" before an international gathering in Panama and warned that the democratic order sought by Latin America cannot be attained without revolutionary changes in the social order and a strong fight against "monopoly and capitalists."

Duvalier and his aides have recently promoted a series of public demonstrations against US aid projects and have even made veiled hints that Haiti may seek aid from the Soviet bloc. The President's insistence on using US aid projects for political patronage has already seriously crippled the program.

Clement Barbot, presidential secretary, secret police chief, and long one of Duvalier's closest aides, was arrested on 15 July within a few hours of making a strong bid to the American ambassador for US support against Duvalier. He told the ambassador he had been discussing the political situation with top army officers and they agree that Duvalier's policies are plunging Haiti toward a new period of political chaos and "the situation cannot continue much longer."

The army as presently constituted remains the most cohesive force in Haiti friendly to the US. Army Chief of Staff General Merceron probably shares Barbot's concern, but he and other top army leaders are probably unwilling at this time to act decisively to halt the drift toward administrative disorganization and leftist control.

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SOVIET ECONOMIC RELATIONS WITH INDONESIA

Moscow and Djakarta, noting the "successful fulfillment" of their past economic agreements, have embarked on even more grandiose plans for Soviet participation in Indonesia's economic development. The \$250,000,000 credit extended by Khrushchev in Indonesia last February was formally approved during Indonesian First Minister Djuanda's stay in Moscow. Djuanda now is in Eastern Europe seeking additional bloc commitments to bolster Indonesia's economy during the forthcoming Five-Year Plan. While the wide sweep of the new Soviet-Indonesian agreement raises considerable doubt over the possibilities for early fulfillment, Moscow apparently is determined to push vigorously its economic program in Indonesia.

Of some \$126,000,000 in economic aid extended to Indonesia by the USSR between 1956 and 1959, only about \$30,000,000 worth of goods has been delivered, although most of the total now has been obligated for specific projects. The only major Soviet industrial project contracted for is a steel mill to be built in western Java, but it will not be finished until at least 1965. Other undertakings still in the early stages include road-building projects in Borneo, a fertilizer plant, a school of marine sciences at Ambon, and mechanization of rice farming. The Asian Games stadium in Djakarta is under construction, but chaotic conditions at the building site make completion by the target date of 1962 doubtful.

The new \$250,000,000 credit is earmarked for a wide range of Indonesian industrial and agricultural enterprises. Soviet technicians are to travel

to Djakarta this year to begin survey work for proposed projects. A seven-year cutoff date for drawing up and approving contracts may eliminate some bottlenecks and speed use of the credit. Firm Soviet intentions notwithstanding, Indonesia's low level of technical training, scarcity of rupiah financing for local costs, poor planning and implementation, and constant bureaucratic entanglements are unfavorable for the type of program envisaged in the new agreement.

A new factor in Soviet-Indonesian relations is Moscow's success in persuading Djakarta to conclude a long-term trade agreement for 1961-63. The agreement apparently does not embody Moscow's repeated requests for a long-term rubber commitment, but does provide a framework for a gradual increase in trade commensurate with the planned aid program. Soviet-Indonesian trade last year totaled less than \$20,000,000 and was composed almost entirely of rubber shipments to the USSR. The planned tripling of this total by 1963 is possible if the aid program is carried through promptly and if shipments of Soviet industrial goods are greatly expanded.

In contrast to the slowly implemented economic aid program, shipments of bloc arms have been timely and well received. During Djuanda's visit to Moscow, his delegation may have pursued the USSR's earlier proposal to supply additional naval equipment

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INDONESIA

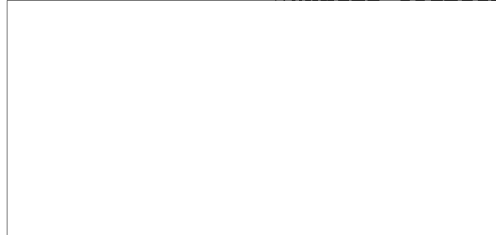
The Indonesian Army, reacting to the local Communist party's bitter criticism of the cabinet during the second week of July, has initiated counteraction which President Sukarno has at least partially opposed.

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politburo who is concurrently a vice chairman of the government's National Planning Council.

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Presumably Sukarno is aware that despite the party's protestations of loyalty to him, several points of its criticism strike at programs he has personally ordered and strongly supported.

The army has also banned the Communist daily, Harian Rakjat. This action, however, appears to have been a countermove to the banning of an anti-Communist paper, Nusantara, on Sukarno's orders during the absence of Army Chief of Staff General Nasution from Djakarta. Nasution also issued an unusually strong anti-Communist statement on 18 July in which he linked the Communists with the various insurgent groups, charging that, as a whole, they constituted that small segment of the population which opposed government policy.

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The party's public challenge to the government consisted of a lengthy statement by Secretary General Aidit and editorial assessments by two Communist dailies on 8 July severely criticizing both internal and external government policies and demanding that the cabinet move further to the left. Both Aidit and the Communist press offered their customary praise of Sukarno's leadership, emphasizing that the blame for present troubles lies with his subordinates. A fourth Communist blast occurred at a labor conference held from 14 to 16 July to discuss the formation of a unified labor movement. The representative of SOBSI, the Communist federation, delivered a blistering attack on both the plan and the labor minister.

Should Sukarno refuse to support anti-Communist action, the army hopes to avoid a head-on conflict with him. Sukarno will undoubtedly attempt to prevent significant anti-Communist action, since he feels he needs the party as a balance against the army. He would probably support some mild form of chastisement, anticipating that the Communists, having run into greater opposition than they had anticipated, would return to a qualified progovernment position.

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Reports conflict as to the extent of the army's somewhat delayed reaction and of Sukarno's opposition to it. It appears, however, that on 16 July the army arrested Sakirman, a member of the Communist party

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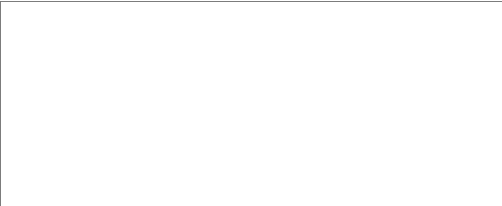
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CAMBODIAN CRITICISM OF AMERICAN MILITARY AID

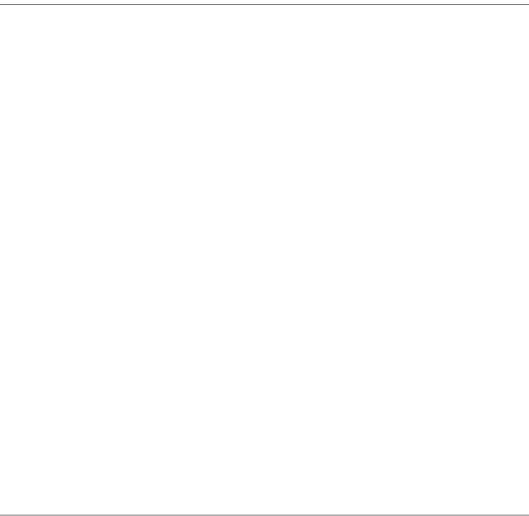
Chief of State Sihanouk's propaganda campaign against alleged shortcomings in American military aid to Cambodia shows no sign of abating. He continues to threaten to accept proffered Communist bloc arms unless the United States meets what he claims to be Cambodia's defense needs against its "over-armed" neighbors--South Vietnam, Thailand, and Laos.

The persistence and intensity of Sihanouk's invective over the past several weeks have led observers in Phnom Penh to speculate that he may already have secretly concluded an arms deal with the bloc, and now is building a case for popular acceptance. Indications are growing that a Cambodian-Czech arms deal of some kind is imminent.



Sihanouk is anxious to strengthen Cambodia's poorly equipped paramilitary forces as a village-level cushion against external intrusions, and possibly as a counterpoise to the regular army. He probably considers that the receipt of Czech arms for these irregulars--in contrast to the acceptance of a major military aid program from the bloc--would not compromise Cambodia's neutrality and would

not jeopardize American support of the regular armed forces.



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Sihanouk's recent decision to send three of his sons to school in Communist China--apparently as a warning to the West.

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Various other Cambodian officials, including Foreign Minister Tep Phan and Education Minister Chea Chinkok, have conveyed their anxiety to American officials that Sihanouk may feel compelled to make good his threat to accept Communist military aid. Despite this undercurrent of concern, Sihanouk probably could count on the continued loyalty of both civil and military subordinates if he moved closer to the bloc.

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JAPAN'S NEW GOVERNMENT

Hayato Ikeda's election as Japanese prime minister on 18 July with the support of 275 of the 286 Liberal-Democratic party (LDP) members of the lower house and his unusually speedy formation of a cabinet indicate that the new government will emphasize an appearance of party harmony in preparation for the general elections expected this fall or winter. The near absence of major party figures in the cabinet inaugurated on 19 July suggests, however, that the government will be an interim one.

The relative youth and inexperience of the new cabinet indicate that Ikeda may use the period before elections to mold a new image of himself and of the conservative party. Ikeda is the only major holdover from the Kishi government, in which he served as minister of international trade and industry, and only six of the 17 new ministers have held cabinet posts previously. The appointment of Japan's first woman minister--US-educated Welfare Minister Mrs. Masa Nakayama--may be an attempt to broaden popular support.

Ikeda is considering the establishment of a new ministry for public information to counter the leftist propaganda offensive. Failure of the LDP's public relations has been one of the party's chronic weaknesses.

The new government draws support from essentially the same elements that backed the Kishi government. Most major

LDP factions are represented in the cabinet, but the reportedly unenthusiastic participation of Mitsujiro Ishii and the lukewarm support of Bamboku Ono, Ikeda's opponents in the race for prime minister, suggest that factional rivalries are being set aside only until after the election. Ikeda has made no move to include in the cabinet those extreme LDP elements who did not cooperate in the ratification of the US-Japanese security treaty, and their exclusion will be another divisive factor.

Ikeda, a bureaucrat like Kishi, has tried to overcome friction between the professional politicians who opposed him and the bureaucratic element of the LDP whom he represents by appointing only five bureaucrats to the new cabinet. Similarly, only one of the top three party posts, which have been divided equally among the pro-Kishi factions, went to a bureaucrat--Etsusaburo Shiina, new chairman of the policy board.

A continued pro-Western policy seems assured by the appointment of Zentaro Kosaka as foreign minister. A former businessman and labor minister in the fifth Yoshida cabinet, he has little experience with international affairs but was active in the drive to ratify the security treaty. Ishii, appointed to the important Ministry of International Trade and Industry, is also known to favor close relations with the US. However, Ikeda said in his inaugural remarks that Japan would seek closer cultural and economic ties with Communist nations.

The new labor minister is Hirohide Ishida, a former journalist who fought Communist

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infiltration of labor unions and is one of the party's rising leaders at 45. When Ishida occupied this post in 1957, he followed a firm but nonrepressive program.

Ishida was faced almost immediately with a crisis caused by top labor, Socialist, Communist, and student leaders who have threatened to use force to bar resumption of operations at the Miike coal mine on Kyushu Island. The mine, where workers

have been on strike since January, has become a focal point in the struggle between management and labor over moves to reduce the labor force and raise efficiency and productivity in key Japanese industries. Ishida in his first public statement as labor minister affirmed his intention to avoid bloodshed by mediation in an effort to forestall leftist moves to use the mine dispute in continuing political tension.

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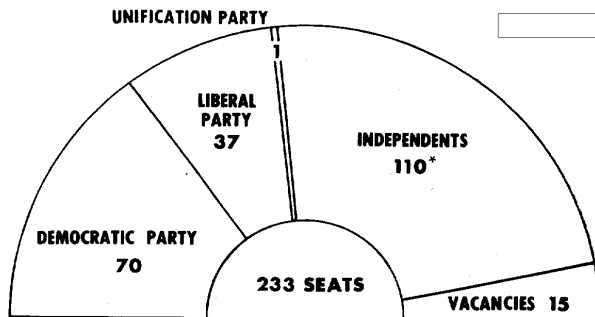
SOUTH KOREAN PARLIAMENTARY ELECTIONS

The South Korean parliamentary elections on 29 July seem likely to result in a multi-party legislature and a period of political instability under a succession of minority and coalition governments. Each seat in the lower house is being contested by an average of seven candidates, and there are signs that former Vice President Chang Myon's front-running conservative Democratic party will split after the elections, particularly if it wins a strong majority. A greater number of foreign observer teams during the election and the political neutralization of the police and the military will encourage the freest if not the most orderly national election in South Korean history.

without party endorsement. Hostile public opinion reportedly has forced over 20 of the 54 candidates of former President Rhee's discredited Liberal party to withdraw; many others are running as independents. The 150 to 200 socialist candidates are handicapped by a lack of funds and organization, although they should be favored by the reduction of voting age from 21 to 20 and may have considerable support in the major urban areas.

Over 1,500 candidates, including some 1,000 independents, are competing for the 233 lower-house seats. About 300 Democrats are running, including many

**SOUTH KOREA : NATIONAL ASSEMBLY
HOUSE OF REPRESENTATIVES (LOWER HOUSE)
(AS OF 8 JUNE 1960)**



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* Includes about 100 former members of the Liberal party who left the party following Rhee's ouster.

House of Councilors not organized.

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Elections for the less powerful upper house are being held concurrently with those for the lower chamber. Unlike their colleagues in the lower house, who are elected for an indefinite term not to exceed four years, half of those elected to the 58-seat upper house will serve three years, and half for a full six-year term. The two houses in joint session will elect



HUH CHUNG



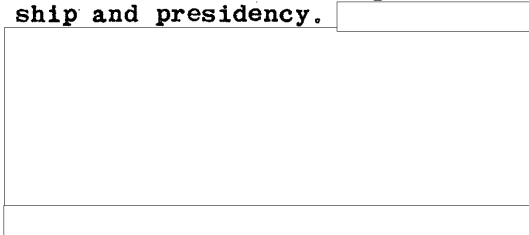
CHANG MYON

the president, a nonpartisan figurehead post under the new constitution. Acting Chief of State Huh Chung recently publicly disclaimed any political ambition, perhaps with the intention of enhancing his prospects for selection as the first president of the second republic.

The government formed following the election is expected to continue South Korea's close ties with the United States and is unlikely to seek relations with the Communist bloc. The Social Masses party, largest of the new reformist groups, has publicly advocated unification of Korea through a compromise with Pyongyang, but

the public response, including that of other socialists, has been adverse. The overriding issue of the campaign is the correction of the abuses of the former Rhee regime, although local issues and loyalties will strongly influence balloting, particularly in the conservative rural areas.

Democratic party leader Chang Myon has been a wavering candidate for both the premiership and presidency.



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INDIAN GOVERNMENT WORKERS' STRIKE

The Indian Government scored only a partial victory against leftist labor leaders in forcing an end to the nationwide strike of government workers from 12 to 16 July. While the socialist- and Communist-

led labor movement suffered a serious blow to its prestige, the government's tough tactics in dealing with the strikers probably will further alienate the ruling Congress party from government and other unions.

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The strike was far less effective than planned, but political and economic repercussions may be felt for some time to come. The walkout began on 12 July in defiance of New Delhi's ban--imposed several days earlier--on strikes in "essential services." Disruption of rail, postal, and telegraph services in many areas was followed by incidents of violence and sympathy strikes, particularly in Bombay and Calcutta. The response among the 2,000,000 workers called out was never complete, however, and most of the essential government services were maintained by nonstrikers and army reservists.

The strike was called off after five days, following conferences between top government officials and Praja Socialist party leader Asoka Mehta, who told the press he expected the government to make "significant concessions" on the issues of raising the minimum wage and relating wages to the rising cost of living. Mehta denied, however, that there had been any conditions to calling off the strike.

The principal losers in the recent developments are the Praja Socialists, who acted as a front for the Communists in leading the workers out. Socialist labor leaders were among the several thousand arrested during the strike, whereas the Communists remained underground, reportedly ready to take over the leadership had the strike appeared to be succeeding. The Communists now are in a position to place the onus of failure on the socialist labor leadership.

Although the government during the walkout adamantly opposed the strikers' demands, Nehru probably will be willing to compromise on some questions now that the situation is under control. It is doubtful, however, that even the "significant concessions" anticipated by Mehta would do much to heal the growing breach between the Congress party and the Indian labor movement. Those top officials in government who advocate a hard line toward labor, moreover, are likely to be encouraged by the failure of the strike to crack down in the future on similar efforts by labor groups to improve working conditions.

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MODERATE SOCIALIST PARTY HEADS NEW GOVERNMENT IN CEYLON

The outcome of Ceylon's national elections on 20 July leaves the prospects for stable parliamentary government still doubtful. As compared with the political fragmentation following previous national elections, however, the present results indicate progress toward a two-party system dominated by moderate and relatively conservative groups.

The Sri Lanka Freedom party (SLFP), committed to the socialist-neutralist policies

of the late Prime Minister Bandaranaike, won 75 of the 151 elected seats. With six appointed members and its leftist supporters, the party commands a comfortable majority. The relatively conservative United National party, winner of a slim plurality in the elections last March, now is the leading opposition party, with 30 seats. The three leftist parties have lost further strength since March, and together now hold only 19 seats.

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Mrs. Bandaranaike, the SLFP's president and leading campaigner, was sworn in as prime minister on 21 July. While she did not contest a



seat in Parliament, as the party's choice for the prime ministership she can hold the position pending a parliamentary by-election.

To assure her party a completely safe parliamentary majority, Mrs. Bandaranaike may invite the support, although probably not the active participation in the government, of the Trotskyite Lanka Sama Samaj party and the smaller orthodox Communist party, both of which entered into an electoral agreement with the SLFP. Since the party's parliamentary group could survive without outside support, however, the extreme leftist minority will not wield the influence it had anticipated, and the new government will probably retain the essentially moderate outlook of the former Bandaranaike regime.

The ideological and personal conflicts among the SLFP politicians and the probable struggle for behind-the-scenes control will weaken the government, however, and limit its ability to deal with the pressing economic and social problems neglected during the past four years of political instability.

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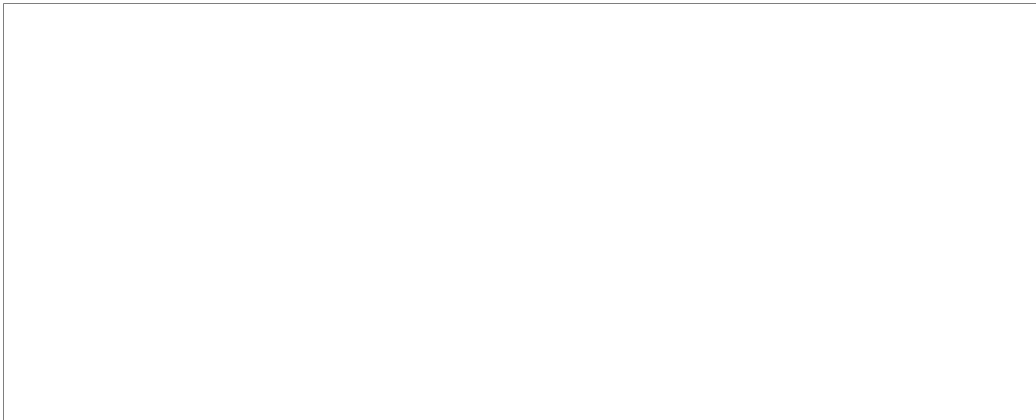
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THE WORLD SURPLUS OF OIL AND THE NEAR EAST

In 1960 consumption of crude oil in the free world is likely to reach 19,000,000 barrels a day (b/d), of which slightly more than half will be consumed in the United States. Despite the record level of consumption, the international oil industry, with present facilities and proved liquid petroleum reserves of about 262 billion barrels, can produce about 26,600,000 b/d. Thus, not including North Africa, which has begun to export oil only recently, surplus capacity amounts to 7,600,000 b/d.*

Productive capacity may be more than 39,000,000 b/d by 1970, and consumption will probably reach 32,000,000 b/d by then--a 60-percent increase over 1960. Surplus productive capacity will continue for at least 15 years to be very large despite the enormous increase in consumption.

Present estimates of liquid petroleum reserves in 1970,

**Surplus capacity is the difference between the actual amount of crude oil produced and the production which could be brought into world trade with existing production and transportation facilities.*

moreover, indicate that it would be possible technically to raise production to more than 70,000,000 b/d by that year. In addition, technological advances may bring to market the vast reserves of non-liquid hydrocarbons present in the shale and tar sands of the United States and Canada.

The US Bureau of Mines has estimated that the oil-shale reserves in Colorado contain 1.5 trillion barrels of oil in beds as much as 2,000 feet thick. This compares with 1960 US crude oil reserves of about 34 billion barrels. Canada is believed to have 300 billion barrels of oil in the Athabasca tar sands of Alberta Province.

Prices Decline

In early 1959, crude oil prices fell from the highs reached following the Suez crisis of July 1956. The average drop in posted prices--the published asking price but not necessarily the selling price--was about 13 percent. Posted prices since that time have remained relatively stable, but actual selling prices have continued to decline as a result of discounts granted by the oil companies.

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Revenues paid to the governments of oil-producing countries under the various profit-sharing formulas are determined on the basis of posted prices, and not actual profit realizations. The host country thus receives a larger share of the profits when companies discount from that price. A fall in posted prices generally follows an extended period of discounting such as has characterized the market for the past few months. Further declines in the posted price are likely, therefore, and these would again cut into the oil countries' expected revenues.

Management of surplus capacity in the future will become more difficult as new and smaller companies enter the international oil industry. In Libya and Algeria, for example, many of the oil companies with successful wells have no established international markets. Some of these firms can expect preferential market treatment because they are either owned or controlled by governments of oil-importing countries. Many, however, are US firms which will be unable to market any significant quantity of their output in the US, since import controls appear likely to continue for some time. In an effort to break into international markets and to compete with established producers, these firms are likely to engage in heavy price cutting. Under such conditions, host governments' profits will decline, and these governments will demand additional revenue.

Communist Oil

In 1959 at least 25 free world countries bought Communist bloc petroleum, totaling about 340,000 b/d. Much of this oil was exported under barter agreements at prices

somewhat lower than market prices. Moscow continues to push oil exports as a major commodity in its foreign trade, and by 1970 Soviet exports to the free world could exceed 1,000,000 b/d. However, the USSR may be called on to supply other bloc countries with more oil in the years after 1965 than

**ESTIMATED SOVIET BLOC OIL EXPORTS
TO FREE WORLD—1959**

BARRELS

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EUROPE	
Austria	6,300,000
Belgium	4,500,000
Denmark	700,000
Finland	13,500,000
France	9,300,000
W. Germany	14,300,000
Greece	4,500,000
Iceland	2,300,000
Italy	23,300,000
Netherlands	500,000
Norway	2,800,000
Sweden	10,800,000
Switzerland	600,000
United Kingdom	800,000
Yugoslavia	3,100,000
NEAR EAST	
Turkey	40,000
UAR	19,100,000
LATIN AMERICA	
Argentina	3,600,000
Brazil	400,000
Uruguay	3,700,000
OTHERS	
Japan	1,000,000
North Africa	900,000
Afghanistan	300,000
TO TAL	126,340,000

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is presently forecast. Thus Moscow might be forced to halt exports of oil to the free world.

While Communist bloc petroleum exports to underdeveloped countries have received wide publicity, Western Europe actually imported about three quarters of the total last year. Moscow has not "dumped" petroleum, but its willingness to undercut world prices has added to the instability of the market.

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The Changing Market

Europe's fear that Arab politics would again deprive the continent of oil, as it did in the Suez crisis, stimulated the search for oil free from Arab control of transit routes.

Other marketing problems threaten to weaken the present position of the large producing countries, especially the Persian Gulf area states and Venezuela, the world's second largest producer. Several countries that now are large importers of crude oil and refined products are developing their own nationally controlled sources of crude.

For example, a private Japanese company has discovered a major oil field in the off-shore area of the Neutral Zone in the Persian Gulf. The Japanese Government is expected to give preferential treatment to the crude oil which may begin to move to markets later this year. Inasmuch as Japan now is a major importer of Persian Gulf crude, this would cost its Western-owned suppliers a market and reduce the payments they make to the local governments.

In other cases, countries have sharply increased crude oil production within their own borders or in territories they control. They too will reduce purchases from their traditional suppliers. This will not be a simple shift from one producing country to another; instead, it will result in a loss to the area as a whole.

In 1959 France, for example, with a refinery capacity of about 708,000 b/d, produced locally less than 30,000 barrels a day. The Persian Gulf states supplied about 90 percent of the balance. France

hopes that oil production in Algeria will average 175,000 b/d this year and reach 400,000 by 1963, displacing much of the 500,000 b/d now imported from the Middle East. Moreover, Paris is seeking favorable treatment within the Common Market for Algerian crude--a move which could place other crudes at a considerable disadvantage in several European countries. If France becomes a significant competitor, its political relationships with oil-producing Arab states will probably be subjected to increasing strains.

Prospects for Persian Gulf Area

The significance of the Middle East in the international oil market is a relatively recent phenomenon. In 1940 the area accounted for less than 5 percent of world production, and Kuwait, now the area's largest producer, had yet to export its first barrel of oil. Last year, however, the Middle East accounted for about 30 percent of world production and provided about 50 percent of all petroleum which moved in international trade.

The low production costs of Persian Gulf oil and its nearness to European markets have accounted for the disproportionate growth of the area's production, which has been increasing at a substantially faster rate than total free world consumption. In the next decade, however, annual production increases in the Persian Gulf as a whole will probably be smaller than the annual growth in world demand, and revenues will increase at a much slower rate than they did in the 1950s.

This slowdown will add to the widespread instability in the area, because the Persian Gulf states have been spending

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their revenues somewhat faster than they have been earned. Until now economic crises have been avoided by sharp increases in oil revenues.

Arab Unity and Oil Economics

The Arab states have never achieved unity of action in the economic sphere, and especially the oil market. Most Arab oil-producing countries are trying to increase their income from oil by increasing production, by altering the profit-sharing formula, and by adding to the number of companies operating in their territory.

The major emphasis in the future will probably be on changing the existing principle of profit sharing. Of the Persian Gulf "big four"--Kuwait, Saudi Arabia, Iran, and Iraq--only Kuwait has failed to press for changes in its concession agreement thus far.

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Venezuela has been urging the Persian Gulf area states to agree to some form of world-wide proration--i.e., production controls aimed at maintaining prices and sharing the market. Thus far, however, most of the countries are individually pressing for increased production.

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Nor is there any basic identity of interest between Iran and the Arab states concerning oil matters. Indeed, Iran is attempting to persuade the oil companies to hold down production in Iraq and Kuwait. Libya, which will ultimately become an important rival of the Persian Gulf, is preoccupied with its need for substantial oil revenues quickly. It also has conflicting interests with the UAR, for large-scale Libyan and Algerian production will mean a relative decline in the profitability of the Suez Canal and to a much lesser degree of the pipelines passing through the UAR, Saudi Arabia, and Jordan. The UAR lacks enthusiasm for Tariki's proposal for an Arab-owned pipeline to carry Persian Gulf oil to the Mediterranean in competition with the Suez Canal.

Prospects

The continued existence of a substantial surplus of oil-producing capacity in the free world will also probably accelerate the trend for more participation by host governments in management of the oil industry. The oil companies' resistance to such measures is certain to result in lengthy negotiations; the threat of shutdowns is strong.

Such frictions will cause new difficulties in the US and British relations with the governments of established oil-producing states. Exports of Communist petroleum will become increasingly important and will tend to weaken the price structure even further. There are, however, no indications that Moscow intends to "dump" oil, although Soviet willingness to undersell Western companies and to barter oil for surplus products is likely to continue.

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PIERRE MENDES-FRANCE AND THE NEW FRENCH LEFT

France's dynamic and controversial Pierre Mendes-France --almost six years after his controversial premiership-- now seeks to promote himself as the leader of a new non-Communist left to oppose and ultimately succeed De Gaulle. The ex-premier, after the failure of his efforts to weld the middle-of-the-road Radical party into a disciplined machine, has embraced socialism and led his followers into the small but vigorous Unified Socialist party (PSU).

Mendes' best chance to build this nucleus into a major force in French politics appears to depend on a continued stalemate in Algeria and increasing public economic and social discontent at home. His calculation that De Gaulle will fail and that his own position as the leading non-Communist opponent of the Fifth Republic leaves him well placed for the future may be too optimistic, inasmuch as he is anathema to French rightists and particularly to the army.

When Mendes was a member of the 1945 De Gaulle cabinet, his economic reform proposals were rejected, and when he was premier himself in 1954, such urgent problems as Indochina and the European Defense Community left him no time to institute the domestic economic and social reforms he felt were needed to "kick France into the 20th century." For a time thereafter he flirted with the idea of a new leftist movement as a vehicle to return to power, but rejected this idea in favor of capturing control of his own Radical Socialist party. After two years, however, he gave up trying to weld the hopelessly individualistic Radicals into a modern political machine.

Unhappy over De Gaulle's return to power and probably

piqued because De Gaulle failed to ask him to join the new government, Mendes joined the futile campaign for a "no" vote against the Fifth Republic Constitution in November 1958 and lost his National Assembly seat in the ensuing elections. Shortly thereafter, the Radical party ousted him, along with 23 of his followers.



PIERRE MENDES - FRANCE

Convert to Socialism

French political observers were startled a few months later by Mendes' adherence to the Autonomous Socialist party (PSA), and his proclamation that this move signaled "the beginning of the regroupment and reconstruction of the French left." He saw the official Socialist party--the SFIO--as not really opposed to De Gaulle and considered that the PSA was the strongest of the "true opposition parties," except for the Communist party (PCF). He openly repudiated gradual reform and called for remaking the entire French political, economic, and social structure, so that "socialism is the natural complement and normal consequence of democracy."

Despite the doctrinal difficulties posed for some Socialists by Mendes' adherence to

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the PSA, the party's "capture" of Mendes-France was a coup. Formed in September 1958 when the SFIO left-wing minority under Edouard Depreux split with the party's secretary general, Guy Mollet, over the latter's support of De Gaulle, the party was from the first described as "very small, but a group with amazing vitality." Its membership in 1959 was estimated at 15,000.

The PSA merged last April with two other splinter leftist groups, the Union of the Socialist Left (UGS) and the Tribune of Communism, to form the Unified Socialist party (PSU). The UGS, itself a merger of three leftist splinter groups, was a small organization led by the perennial neutralist Claude Bourdet and by Gilles Martinet, a fellow-traveling journalist. It claimed a membership of 10,000, more reliably estimated at not more than 5,000. The tiny Tribune of Communism is a "revisionist" offshoot of the French Communist party.

Although neither of the larger groups was enthusiastic about the merger, the recognized need to unite the left in common opposition to De Gaulle overrode PSA qualms over UGS advocacy of cooperation with the PCF and doubts as to the sincerity of Mendes' conversion to socialism. Because of UGS hostility, Mendes has not taken a position on the PSU national committee.

The PSU's strength seems small in comparison to the PCF and SFIO, but its tight organization makes it more effective as a ready political instrument than some of the major parties--e.g., Independents--which are primarily only national coalitions of disparate local groups.

The PSA leaders at their May 1959 congress rejected any

common program with the PCF at the national level except on "precise and limited points." The UGS, however, has favored closer cooperation, and PSU candidates have engaged in several successful local electoral alliances with the PCF this year. Furthermore, last month the PSU Federation in the Haute-Vienne Department issued a joint communiqué with the PCF pledging joint action for a negotiated peace in Algeria and other "democratic" objectives.

The US Embassy in Paris has noted in Mendes' recent speeches an apparent lack of faith in democratic processes to achieve his political and economic goals, and his enemies have repeatedly suggested that he would be willing to establish a formal alliance with the PCF. Even though he is seeking a non-Communist left, he has made it clear that in the event of a rightist coup the left he represents would immediately work closely with the Communists.

Current Views

Mendes' major political dilemma appears to be that despite his public opposition to De Gaulle he personally admires the President and privately agrees with most of his policies. While he has sharply criticized the Fifth Republic constitution as a "temporary crisis document" doomed to go with De Gaulle, his own unhappy experiences in getting the Fourth Republic "system" to approve his programs suggests that if he had possessed the powers De Gaulle now has he would have exercised them to the limit. Mendes and the PSU have difficulty finding many genuine areas of dispute with De Gaulle and, therefore, focus most of their criticism on methods and details.

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In regard to France's most critical problem, Algeria, Mendes admits that De Gaulle's approach is liberal, and therefore centers his criticism primarily on De Gaulle's slow pace in reaching a solution. Before the recent French-Algerian rebel talks, Mendes claimed De Gaulle was a prisoner of the army; that the only key to ending the war was immediate direct political negotiations; that independence was inevitable for Algeria and the sooner negotiations were undertaken, the better chance the French would have to protect their interests there and establish a variety of ties.

When in power, Mendes aimed at many of the same foreign policy objectives as De Gaulle: East-West negotiations to relax tensions, a French-German rapprochement, loose cooperation rather than supranational European integration, a greater French role in NATO, and more French independence of "the Anglo-Saxons." Today he believes that the main area of East-West competition lies in the economic sphere. He sees in controlled disarmament the best chance for even partial East-West agreement, and has apparently dropped his previous interest in a policy of disengagement. In April he was severely criticized by the West German Socialists for his "De Gaulle line" in a foreign policy speech.

Criticizing De Gaulle's optimistic 21 June review of the national economy, Mendes argued that better results would have been achieved if France had not wasted its efforts on colonial wars, and declared that a modern economy should be able to avoid inflation by increased productivity. He admits that the 1958-59 "Pinay experiment" in economic austerity has succeeded in gen-

eral, but charges that workers have not received an equitable division of the increasing national product and that their living standard has actually diminished.

Despite Mendes' sometimes carping criticism of De Gaulle's economic policy, however, that policy is essentially the same Mendes himself has advocated for years. Probably the most specific economic policy difference with De Gaulle stems from Mendes' profound conviction that military expenditures are "unproductive" and should be drastically reduced.

The most clear-cut major issue on which Mendes and De Gaulle differ is increased government aid to church schools. Although the Algerian problem overshadows this historically explosive question at this time, Mendes may find in it his most exploitable issue. The PSU has joined the PCF, the SFIO, and the Radical party, the Communist and Socialist labor unions, and a number of powerful independent teachers' and students' unions to form the National Committee for Laic Action, which claims to have already collected over 10,000,000 signatures--equivalent to half of the French electorate--protesting implementation of the government's program.

Outlook for Mendes' Left

Last March, Mendes asserted to US officials in Paris that the De Gaulle regime was doomed to disappear in the relatively near future--probably over the Algerian problem, but inevitably in any case--and that it was essential that a new leftist movement be ready to take over.

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If the Algerian problem were solved within a reasonable time, De Gaulle's enhanced prestige would seriously undermine the raison d'etre of a small party, thus far identified primarily with discontented intellectuals and disgruntled Socialists. Furthermore, the vindication of Mollet's support of De Gaulle would end the probability of any further defections to the PSU from the SFIO. If a rightist coup against De Gaulle became a serious possibility, not only Mendes and the PSU but the Socialists and the center parties could be expected to unite behind De Gaulle.

On the other hand, the prospects for a popular front capable of seizing power from an authoritarian regime backed by the army would appear to be

slight in the foreseeable future. As the symbol to rightists of the "sellout" in Indochina and "abandonment" of Algeria, Mendes would probably be earmarked for quick liquidation.

The more likely development, and that on which Mendes is apparently basing his political hopes, is the accretion of leftist strength through a continuing stalemate in Algeria and mounting social and economic discontent. These factors have enabled the left, after its initial demoralization following De Gaulle's return to power, to recover some confidence and marshal its strength for large-scale future assaults on De Gaulle at an opportune time. If this trend continues, the 1963 parliamentary elections will almost certainly show a marked shift from the right to the left.

Once again, however, the former premier may have misjudged the situation--this time, on the crucial point of the real if sometimes glossed over political role assumed in May 1958 and subsequently by the French military.

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KADAR STRENGTHENS HIS PARTY COMMAND

During the first six months of 1960, First Secretary Janos Kadar has been able to effect a number of highly significant changes within the Hungarian Communist party's administrative apparatus and the highest levels of government. The immediate result has been a marked strengthening of Kadar's influence over

the implementation of personnel, propaganda, agricultural, and foreign policies--areas in which "hard-line" opponents have contested the first secretary's leadership in the past.

While Kadar has not yet chosen to test his enhanced authority in a major move against his opponents, he now is in a

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stronger position to isolate them within the central committee and to weaken their support within the party as a whole so that they no longer will be able to undercut his influence with middle- and lower-level functionaries.

Pre-Congress Challenge

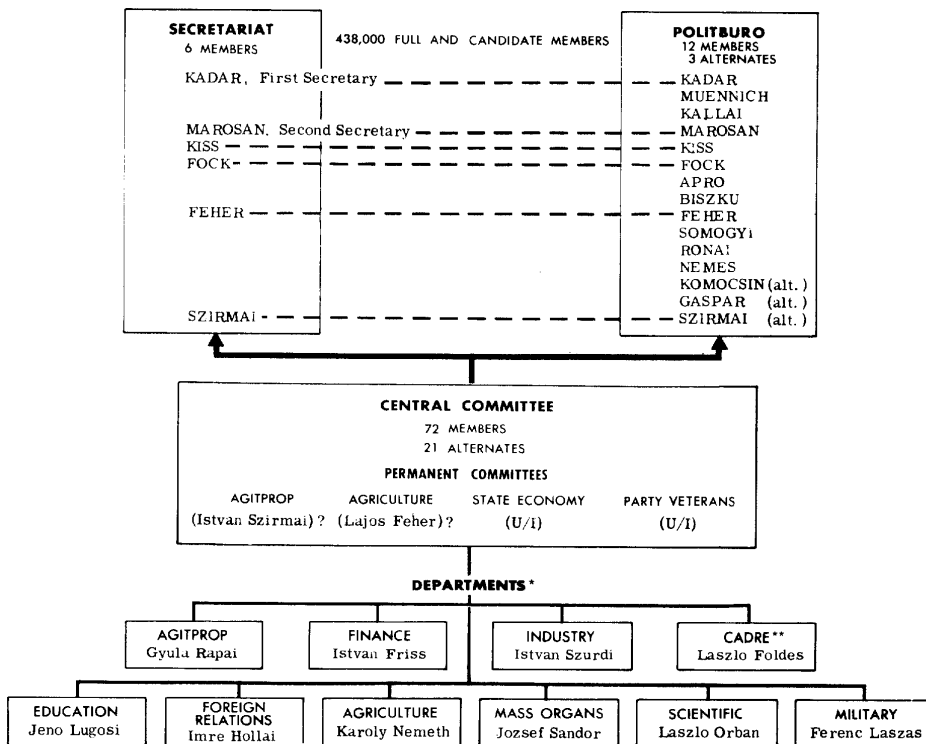
Kadar has been beset by factionalism in his efforts to unite the party after the October 1956 revolution, despite Khrushchev's unwavering personal endorsement. This factionalism has been based on

both policy and personnel issues. Kadar, heading a "centrist" faction, has sought to gain support from the less extreme officials in both the "liberal" wing, identified with former Premier Nagy, and the more doctrinal faction, led before Kadar's rise to power by now-exiled Matyas Rakosi.

The general disintegration of the liberal force after the revolution has meant that this fight has taken place principally between Kadar and the hard-liners, who have maintained grass-roots strength and have pressed for

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ORGANIZATION OF HUNGARIAN SOCIALIST WORKERS (COMMUNIST) PARTY



* Andras Bard has been identified as a Central Committee department head since November 1958; however, it is not clear whether he heads one of the above units or another unidentified department.

** Foldes, a first deputy minister of the interior, has not been identified in his capacity as Cadre Department head since before the party congress and it is suspected that he may have been elevated to the post of chief of the Party Veterans Committee.

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a faster rate of socialization and tightened domestic controls.

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The congress adjourned on 5 December after electing a new central committee. On the basis of the deliberations of the congress and the unprecedented "recommendation" that politburo member Gyula Kallai, Kadar's chief lieutenant, be named first deputy premier, as well as from the composition of the new central committee and its organs, it appeared that Kadar had won a mandate for a "centrist" program.

HUNGARY: PARTY SECRETARIAT



KADAR, FIRST SECRETARY



MAROSAN



KISS



FOCK



FEHER



SZIRMAI

On specific policy matters, particularly those with basic ideological or socio-economic implications, Kadar continued to face factional opposition from long-time careerists who for the present, at least, retain their posts within the party apparatus. Some of these party professionals, however, such as secretary Karoly Kiss, although

harboring reservations over Kadar's centrism, are beginning to give their support to the party chief.

The proportional power of these recalcitrants was lessened somewhat by the enlargement of the central committee from 53 full and 9 candidate members to 71 full and 23 candidate members. Kadar's greatest strength lies in the Budapest municipal party organization, the county secretaries, and the trade unions. It was from these groups that most of the

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newly elected central committee members have come. Kadar still has to depend, however, on the cooperation of a relatively limited number of men within the party central apparatus for the implementation of economic directives, as well as his personnel policies within the party.

Propaganda director Istvan Szirmai and top agricultural specialist Lajos Feher, both Kadar men, were named to a new six-man secretariat and were replaced as central committee department heads by other Kadar supporters. Gyorgy Marosan's appointment as deputy to the first secretary presumably was made to free Kadar from routine administrative burdens.

The Five-Year Plan, as accepted by the congress, did not suggest undue influence by the proponents of rapid heavy industrialization and all-out agricultural collectivization; like other plans advocated by Kadar, the economic directives were relatively moderate and realistic.

January Plenum

At a central committee plenum on 11 January, impetus was given to a reorganization of the party apparatus. Four "permanent committees" of the central committee were established to deal with agriculture, propaganda, state economy, and party veterans' affairs--presumably to strengthen Kadar's control in these key sectors. At approximately the same time, at least three and perhaps four of the ten chiefs of central committee departments were transferred to other work.

In two cases, loyal Kadar supporters were relieved as central committee department chiefs and are believed to have been placed in charge of

two of the new permanent committees. Feher has continued to exercise responsibility for agricultural policies, and Szirmai has remained very active in the direction of cultural and propaganda activity.

Government Changes

Nine days after the plenum, Gyula Kallai was inaugurated as first deputy premier. Kallai, viewed as the heir presumptive to the aging Premier Muenich, apparently has achieved precedence over the other first deputy, the doctrinally rigid Antol Apro. Apro has continued to speak out on problems of local government, however, and exercises considerable influence over Hungary's dealings with the Soviet bloc's Council for Mutual Economic Assistance (CEMA).

In addition, in an effort to inject some new blood into the leadership, three new ministers believed close to Kadar have been named. On 20 January, Reszo Nyers was named to succeed the late Istvan Antos as minister of finance, and Minister of Agriculture Imre Dogei was replaced in June by a little-known specialist on agricultural collectives, 42-year-old Pal Losonczi.

In May a 36-year-old county party secretary, Lajos Czinege, was named minister of defense, replacing Col. Gen. Geza Revesz. Czinege, appointed by Kadar to head the party organization in Szolonok County three years ago, is typical of the group of younger party officials who are being advanced to positions of responsibility under Kadar's patronage.

Dogei, who relinquished the agricultural portfolio, is an unimaginative careerist who had served on the party control commission under the Rakosi leadership from 1954-56 and was reputed to be unsympathetic to

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Kadar. He was appointed ambassador to China and North Vietnam in January, succeeding Sandor Nogradi, who was recalled to Budapest as chairman of the control commission. Dogei evidently demurred in his assignment and never went to China. In mid-June he was formally relieved of his job and has suffered a considerable loss of prestige and authority.

Revesz, who served as minister of defense since February 1957, was appointed ambassador to Moscow. His assignment appears similar to that of the former chief of the central committee's department for relations with foreign parties, Deszo Szilagyi, as ambassador to Poland in early May. Both were founding members of Bela

Kun's Hungarian Communist party in 1919, veterans of the defunct Comintern apparatus, and long-time officials associated with security or personnel functions. While neither of those men is believed to be in trouble politically, the effect of their assignments is to remove two party old-timers--who do not owe their careers to Kadar--from the area of policy-making.

In another move which may be designed to tighten Kadar's security of communications with Moscow, Soviet Ambassador Shtykov was recalled to the USSR in May after only a year in his post. Shtykov was reported to have become persona non grata to Kadar after interfering in Hungarian affairs last fall.

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MOSCOW'S PRESSURE CAMPAIGN AGAINST IRAN

Relations between the USSR and Iran are at an impasse over Tehran's participation in military defense arrangements with Western countries. Soviet leaders, who believe that the US-Iranian defense pact will lead eventually to the establishment of American military bases on Iranian territory, have conducted a campaign of diplomatic and propaganda pressure against the Shah's government since early 1959 in an effort to induce Tehran to loosen its close ties with Western countries. As an alternative, Moscow apparently hopes that propaganda and subversive exploitation of Iranian discontent will contribute to the eventual overthrow of the Shah's

regime and its replacement by a government which, if not pro-Soviet, would at least adopt a policy of neutrality.

Nonaggression Pact

On 31 October 1958, the USSR, reversing its efforts to woo Iran, dispatched a stiff note to Tehran protesting the projected US-Iranian defense agreement. Several days later, Khrushchev publicly warned the Shah against "courting misfortune" by placing Iran's territory at the disposal of an "aggressor group."

In the face of this pressure, the Iranian Government, still concerned over the Iraqi

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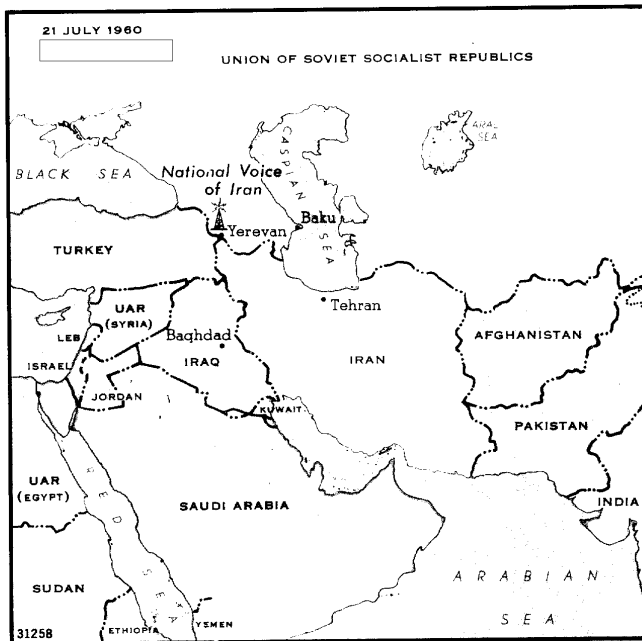
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coup in July and dissatisfied with the level of Western budgetary and military aid, made several hints to Moscow that it would favor an improvement in relations. Tehran announced in December that Abdol Masud-Ansari, widely regarded as a Soviet sympathizer, had been appointed ambassador to the USSR, and in early January informed Moscow it would be willing to conclude a nonaggression pact.

Soviet leaders moved quickly, realizing that conclusion

the basis of a draft prepared by Ansari, who had not yet left for Moscow, the USSR balked at Iran's desire to retain its Baghdad Pact membership. The Soviet negotiators agreed, however, to cancel the disputed clauses of the 1921 and 1927 treaties providing for Soviet intervention in Iran under certain conditions and to stop propaganda attacks on Iran. Ansari's draft also stipulated that Iran would agree not to sign a defense agreement with the United States nor allow foreign military bases on Iranian territory.



During several days of haggling, the Shah's already serious misgivings about the consequences of a nonaggression pact were intensified. Semenov indicated on 5 February that Moscow would agree to the various provisions as drafted by Ansari--including continued participation in the Baghdad Pact--but the Iranian negotiators demanded additional concessions in an effort to extricate themselves from the talks. On 10 February 1959, Semenov, now aware that the Shah had reversed himself and intended to conclude the defense pact with

of such an agreement would strike a heavy psychological blow at CENTO (then the Baghdad Pact) and at Western influence in the Middle East. Khrushchev,

recommended that any negotiations take place in Moscow, sent a delegation to Tehran headed by Deputy Foreign Minister Semenov.

During the negotiations, which began on 29 January on

the United States even if he reached an agreement with the USSR, broke off the talks after a stormy session and returned to Moscow.

Soviet Pressure Tactics

The Soviet press and radio immediately opened a diplomatic and propaganda war of nerves against Iran. Moscow released a detailed statement giving its version of the negotiations, and Khrushchev publicly assailed

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the Shah for his "perfidious" behavior during the talks. As a display of diplomatic displeasure, Soviet Ambassador Pegov left his Tehran post in mid-March for an extended leave in the USSR.

Ever since, except for a lull in September 1959, Moscow's propaganda attacks have sought to stimulate Iranian discontent with the Shah's policies, government corruption, and the presence of US military advisers in Iran. Soviet commentaries have alleged that Iranian poverty is caused by heavy military expenditures occasioned by Tehran's ties with the West and by Western exploitation of Iranian resources. Other broadcasts have tried at times to arouse the Shah's suspicions by implying that key Iranian governmental figures are intriguing against him and by charging that Iran's Western allies are working behind his back for the establishment of a successor regime.

Moscow's propaganda against Iran has been supplemented by that of other bloc countries--especially Communist China and Rumania, which also broadcast to Iranian listeners--and by a radio station in East Germany which acts as mouthpiece for members of Tudeh, the Iranian Communist party, now living in the bloc.

The most virulent propaganda charges against the Shah's regime, however, have been made by a clandestine radio calling itself the "National Voice of Iran." This station, which began broadcasting from the Soviet Caucasus in April 1959, has been particularly active in calling for the overthrow of the Shah by "patriotic" elements and the army, as well as in detailing alleged immoralities and corruption by the Shah, his family, and close associates.

Iranian Protests

Concerned over the Soviet pressure which followed the breakdown of negotiations, Iranian officials immediately requested Western support to counter the impact of the broadcasts, but intercession with the Soviet Government was fruitless. In March 1959, Khrushchev brushed aside Prime Minister Macmillan's protests, as did Gromyko, who declared to UN Secretary General Hammarskjold in May that the fault lay with Tehran and expounded Moscow's conviction that the US-Iranian bilateral defense pact, signed in March 1959, would inevitably lead to the establishment of American bases in Iran.

After taking up his assignment in Moscow in April, Ansari on a number of occasions complained to Khrushchev and to officials in the Foreign Ministry. At a talk in June, the Soviet Premier told Ansari that Moscow desired an improvement in relations, but that it had been "tricked and insulted" by Iran in the negotiations. He demanded that Tehran take the first step in finding a solution. Soviet diplomats in Tehran also encouraged the Iranian Government to take the initiative by hinting at Moscow's willingness to reach agreement.

Efforts to Compromise

Ansari's constant protests over the propaganda attacks and his attempts to promote a detente with Moscow were apparently regarded by Soviet policy-makers as signs that Tehran might be willing to make major concessions in order to restore "normal" relations. In an effort to exploit the Shah's growing concern over Moscow's war of nerves, Radio Moscow on 9 September

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dropped its criticism of the Shah and began instead to stress the USSR's "desire" to improve relations. Ambassador Pegov returned to his Tehran post on 16 September.

The Shah gave Pegov his reply to these "concessions" by offering to provide a written guarantee that Iran would not grant medium- or long-range missile bases on Iranian territory to any foreign country. In exchange, the Soviet Union first would have to halt its propaganda and allow relations to again become "normal."

This proposal, however, did not satisfy the Soviet leaders, who, as during the February negotiations, continued to seek a means of forestalling the possibility that Iran would decide at a later date to grant military bases to the United States. After delaying until early November, Moscow replied to the Shah's offer by demanding that the proposed guarantee be extended to ban foreign military bases of all types from Iran and that Iran promise not to become a "base for aggression" against the USSR. Tehran's acceptance of these conditions would, in effect, have reaffirmed the disputed provisions of the 1921 and 1927 treaties. Meanwhile, the bloc's propaganda attacks on Iran were resumed, and in December Pegov again was recalled to Moscow.

The Dispute Continues

The Iranian Government immediately rejected Moscow's counterproposal, but has since continued its efforts to resolve the impasse without making significant concessions to the USSR. In April 1960, as part of a fresh start to improve relations, Tehran proposed that Foreign Minister Aram pay a

"purely ceremonial" visit to the USSR.

The Soviet Government firmly rejected the suggestion, unless Iran would first agree to Moscow's demand for a guarantee against foreign military bases. In recent diplomatic exchanges, both the USSR and Iran have maintained their respective positions regarding such a guarantee. Since the breakdown of the summit talks, the Shah has seemed less worried over Moscow's propaganda, and in mid-June, as a countermove to the extended absence of Pegov, ordered Ansari home.

Subversive Activities

Soviet leaders, while not abandoning their efforts to gain Tehran's acquiescence to measures which would limit Iranian military cooperation with the West, apparently feel the Shah's pro-Western policy line makes such a development unlikely. Moscow now appears, therefore, to be looking toward the eventual overthrow of the Shah's regime.

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Soviet subversion inside Iran

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include the occasional distribution of subversive leaflets and the reported resumption of activity in April by the Soviet cultural center in Tehran, after a lull since May 1959 resulting from the intensive surveillance and arrests of Iranian visitors to the center by security officials. The center, which previously maintained a reading room and gave Russian-language classes, also has housed the Irano-Soviet Cultural Relations Society--an obvious focal point for subversive activities.

Iranian officials also claim to have proof that Soviet authorities have prodded the Tudeh high command to display greater vigor in developing a subversive apparatus inside Iran. Instructions of the Tudeh central committee broadcast to Iran by the East German station, including orders in June for Tudeh members to concentrate on forming cells rather than mass groupings and appeals for political action by Tudeh personnel, suggest that the Tudeh is implementing Moscow's bidding.

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