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COPY NO. 69

OCI NO. 0264/61

26 January 1961

CURRENT INTELLIGENCE WEEKLY SUMMARY

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DOCUMENT NO. 11
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C 25X1
NEXT REVIEW DATE: 03/90
AUTH. HR. 2-5-80
DATE REVIEWER:

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

PART I

OF IMMEDIATE INTEREST

WORLD REACTIONS TO THE INAUGURATION Page 1

Reactions to the inauguration of President Kennedy range from enthusiastic approval in most free world countries and guarded optimism in the USSR and European satellites, to criticism and hostility by Peiping and the Asian satellites. Following Pravda's publication of a short version of the President's inaugural address, Khrushchev told Ambassador Thompson that it included several "constructive" points; the next day both Pravda and Izvestia published the full text. Moscow has given fairly extensive coverage to the new administration; the heavily worked theme of its commentaries is the prospect for a "radical" improvement in Soviet-American relations.

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LAOS Page 4

The military situation in Laos continues to develop unfavorably for the Boun Oum government, with the Kong Le - Pathet Lao forces retaining the initiative in widely separated areas. The government's military reverses were probably a prime consideration behind its abrupt request for an on-the-spot SEATO investigation of Soviet and North Vietnamese aid to the antigovernment forces; an appeal to the United Nations has been prepared but has not been formally presented. The Communists show little disposition to accept any proposal that might lead to an early cessation of military activities in Laos.

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CONGO Page 6

The UN force in the Congo faces a reduction of more than 5,000 men as a result of planned or threatened withdrawals of contingents supplied by neutralist nations, and Ghanaian President Nkrumah will be under increasing pressure to maintain neutralist unity by pulling out his 2,000 troops as well. The UAR unit in Equateur Province

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probably will depart by 1 February. Meanwhile, Belgian military aid to Kasavubu and Tshombé appears to be increasing, and France also seems to be allowing its officers to accept requests from Tshombé to serve as military advisers. The conference of Congolese leaders which convened on 25 January in

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PART I (continued)

Leopoldville appears unlikely to accomplish anything except to increase the gulf between opponents and supporters of Lumumba. [redacted]

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CUBA Page 8

Cuba now has long-term trade and payments agreements with all 12 Sino-Soviet bloc countries. Cuban relations with Yugoslavia, which had been friendly early in the Castro regime, have become progressively cool as Soviet influence increased [redacted]

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[redacted] Antigovernment demonstrations were quickly suppressed in Havana, and the major government effort against guerrillas in the Escambray Mountains continues. [redacted]

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EL SALVADOR Page 10

The seizure of the Salvadoran government early on 25 January was carried out by military officers gravely concerned over the deposed junta's failure to take energetic measures against the Communists. Within a few hours of the coup, violence erupted in the capital; further disorders between the military and Communist-led mobs is anticipated. The army, however, is believed capable of restoring order. [redacted]

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PART II

NOTES AND COMMENTS

KHRUSHCHEV SPEECH ON MOSCOW MEETING OF WORLD COMMUNIST LEADERS Page 1

Khrushchev's report on the Moscow conference of world Communist leaders, given on 6 January but not published until 17 January, was designed as a vigorous reaffirmation of Soviet positions in the dispute with Peiping. The main purpose of the speech was to serve notice to the Communist movement that despite the equivocal Moscow declaration of 6 December the conference did not alter the views of the Soviet leaders. In defending his own position, Khrushchev implicitly rebuked the Chinese but avoided the use of sharp language which could provoke the Chinese Communists into a revival of polemics. The original version of the speech, however, is reported to have included a full discussion of the bitter debates with the Chinese representatives in Moscow. In terms of Soviet foreign

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PART II (continued)

policy, Khrushchev provided authoritative confirmation of previous indications that the USSR intends to continue its aggressive anticolonial line, while at the same time pressing a campaign for negotiations with the West.

CHANGES IN SOVIET PRESIDUM EXPECTED Page 3

Changes in the Soviet hierarchy appear likely, primarily as a result of Khrushchev's dissatisfaction with the performance of some of his lieutenants in managing agricultural production. This, together with other factors such as growing competition for Khrushchev's favor and the advanced age and ill health of some presidium members, could lead to several changes among officials immediately under Khrushchev. The 22nd party congress is scheduled for October 1961, but changes in leadership may be made sooner.

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KHRUSHCHEV'S AGRICULTURAL REFORMS Page 5

In his speech to the central committee plenum on agriculture last week, Khrushchev set forth in detail his solution for Soviet agricultural problems. Describing agriculture as "out of step" with industry and the demands of the consumer, he spelled out the regime's intention to improve the standard of living without sacrificing basic industrial goals.

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CHINESE COMMUNIST CENTRAL COMMITTEE PLENUM Page 7

The communiqué of the recent Chinese Communist central committee plenum confirms that economic difficulties have forced Peiping to adopt less ambitious programs for agriculture and industry. Agricultural production will be stressed in 1961, even at the cost of slowing the growth of heavy industry; investment priorities apparently will be revised to give some relief to consumers. Although placing primary blame for the retrenchment on "natural calamities," leaders are seeking scapegoats for their own mismanagement and will probably purge some lower level officials. The central committee plenum also passed a resolution approving the results of the Moscow meeting of world Communist leaders; the language of the resolution implies that the Chinese will continue to advocate a more militant strategy than Moscow favors but, like the Soviets, want to refrain from polemics.

YUGOSLAVIA PAROLES DJILAS Page 10

Milovan Djilas, heretical author of The New Class and one-time confidant of Yugoslav President Tito, was released from prison on 20 January, probably on the condition that

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PART II (continued)

he would not engage in political activity or publish material unfavorable to the regime. Tito, under a variety of domestic and foreign pressures to free Djilas, believes that his release will have few repercussions within Yugoslavia, although there are elements in Yugoslavia which, like Djilas, favor a faster pace of domestic liberalization.

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DISCONTENT WITHIN SEATO Page 11

The failure of SEATO members to agree on joint action on Laos has disappointed the organization's Asian members and led them to believe that the alliance has lost much of its value. Although no other member has yet followed Thailand's lead in calling for a SEATO-supported military effort in Laos, the type of negotiated political settlement on which the British and French are insisting is causing some uneasiness in the Philippines and Pakistan, as well as in Thailand. These countries feel that the Europeans are underrating the strategic threat posed by the Communists in Laos and are deserting their less powerful allies.

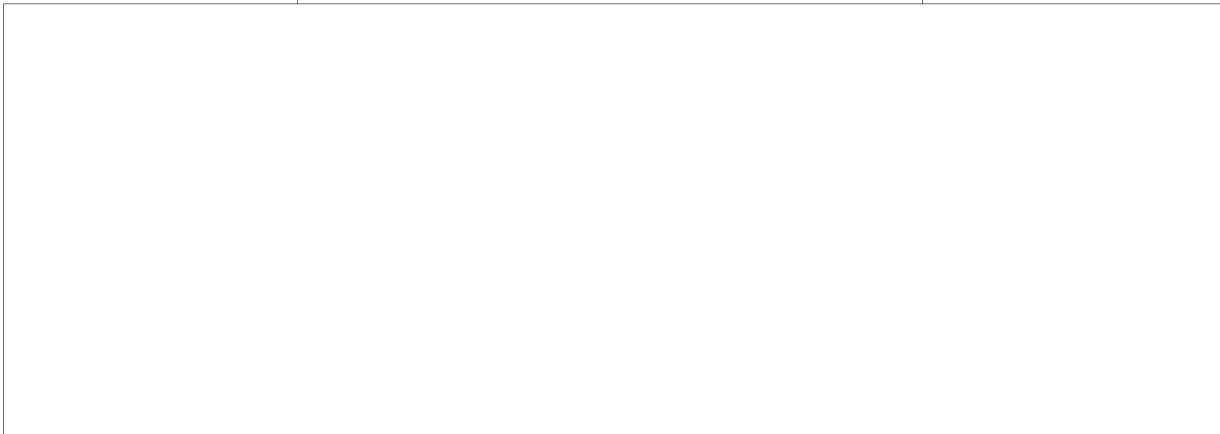
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DAUD REGIME IN AFGHANISTAN Page 12

The gradual weakening of Prime Minister Daud's position may give Moscow new opportunities to extend its inroads in Afghanistan. Daud's strong leadership has been undermined recently by the failure of his health and by disagreement within the royal family over policy toward Pakistan. Any successor regime would probably lack firm leadership and make for instability which the USSR could exploit.

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PART II (continued)

FRANCE-ALGERIA Page 13

[Redacted]

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[Redacted] increased rebel activity has dampened some of the initial enthusiasm in French circles, and claims by each side that the other is responsible for continued terrorism could still jeopardize negotiations. Meanwhile, De Gaulle is continuing with a limited implementation of his plan for creating provisional government institutions in Algeria.

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FRENCH COMMUNITY DEVELOPMENTS Page 15

The rapid evolution of the relationships between France and its former colonial possessions in Africa has outmoded the formal organisms devised in 1958 to implement the French Community. Negotiations now under way with four African states will measure France's success in seeking to maintain its influence in Black Africa without insisting on a rigid framework which the Africans might view as a limit to their sovereignty. Bilateral agreements along the lines of those France has reached with Cameroun--a former trust territory which was never a member of the French Community--may now be the only formal tie Paris can salvage from the original community concept.

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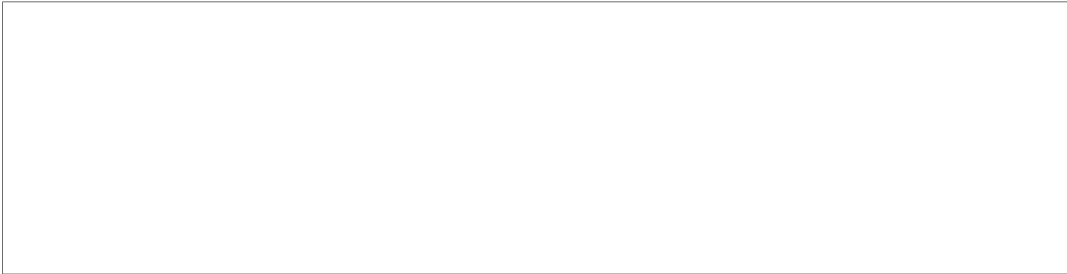
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PART III

PATTERNS AND PERSPECTIVES

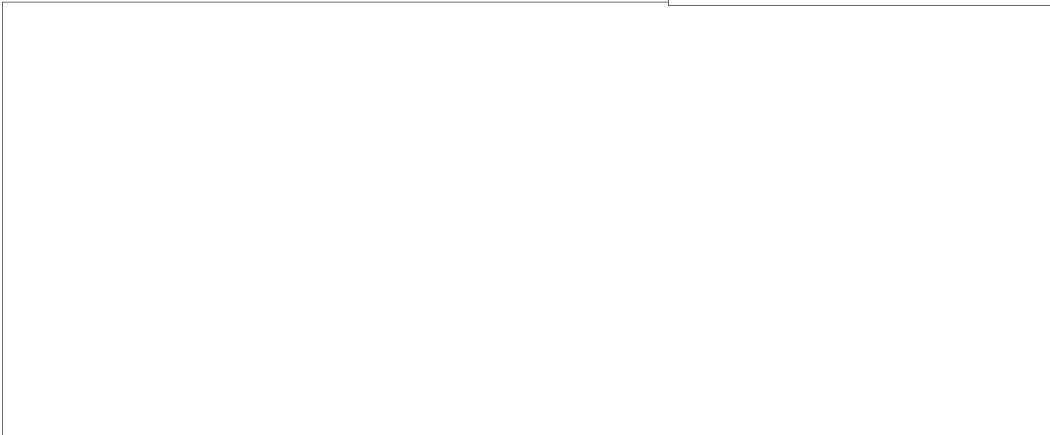
KHRUSHCHEV--THE SOVIET PUBLIC IMAGE Page 1

Although a number of developments in domestic and foreign policy last year--such as the summit collapse last spring, the stresses in Sino-Soviet relations, and agricultural difficulties--provided the material for political controversy among Soviet leaders, Khrushchev's control has emerged apparently undiminished. One sign of his dominance was the great effort by his lieutenants and propagandists to enlarge his public image as the leader singularly endowed to prosecute the aims of the Soviet state. The new version of the leader cult is probably not only a reflection of the actualities of Kremlin politics but a political factor in itself which inhibits any genuine challenge to his authority.

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THE OUTLOOK FOR BRAZIL UNDER QUADROS Page 10

Janio Quadros, who will be inaugurated President of Brazil on 31 January, only ten days after returning from a three-month trip to Western Europe, will be the first chief executive in 30 years to take office as a representative of that country's traditional "out" parties. The problems of transition will be intensified by Quadros' lack of formal ties with any of the parties in his sponsoring coalition and by Brazil's impending

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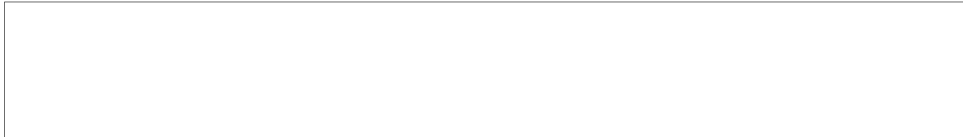
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balance-of-payments crisis, which demands early decision on economic and fiscal policy. In the search for ways to alleviate the financial crisis, Quadros may seek a US loan, but he is likely to be much more aggressive and independent than past Brazilian presidents in dealing with Washington.

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PART I

OF IMMEDIATE INTEREST

WORLD REACTIONS TO THE INAUGURATION

Soviet Bloc

Moscow has given extensive coverage to the President's inauguration and subsequent activities of the new administration, with the main emphasis on prospects for an improvement of Soviet-American relations and the international climate.

The focal point of Soviet reporting has been the exchange of messages between Khrushchev and the President, both of which were given front-page treatment in the Soviet central press. Soviet propagandists asserted that the exchange of telegrams was more than mere courtesy and should be considered as a good omen for future approaches to important international issues. Khrushchev's telegram was interpreted as new proof that the USSR is taking the initiative in improving relations, and the President's reply was described as prompt, friendly, and favorable.

On 21 January Pravda ran a short version of the President's inaugural address, with significant passages omitted. Khrushchev, however, told Ambassador Thompson that morning that he had read the speech, had found many "constructive" points, and would have the press publish the full text. Pravda and Izvestia subsequently did so. Soviet commentaries have singled out passages which are interpreted as signifying a policy of negotiations on disputed issues. The Soviet press has also cited American press reports that the President

and various cabinet members spend two days discussing foreign policy questions and relations with the USSR in particular. TASS published a short account of the President's press conference statements on the release of the RB-47 crew members and on U-2 flights.

Although Soviet treatment of the change in administrations is apparently intended to convey a general impression of optimism, the sparse editorial comment is more cautious in forecasting future policies in any detail. The dominant theme of the commentaries is that the American people expect the new administration to set a new course in its relations with the Soviet Union.

Pravda attributed to the American people a hope that President Kennedy will "cease adventurist" foreign policies, including provocations against the USSR, and fulfill his "promise" to negotiate with the Soviet Union. The article took a wait-and-see attitude on whether these hopes will be justified and cited various and "often contradictory" views among Americans concerning the new administration's future policy. Both Pravda and propaganda commentators have referred to "difficulties" inherited from the outgoing administration and the continued presence of powerful "specters," specifically citing reports that influential circles favor breaking off the nuclear test ban talks.

Pravda and Izvestia, however, summarized American press

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reports and editorials which forecast a period of active diplomacy to establish a basis for future negotiations; a New York Herald Tribune article was quoted to the effect that the new President does not intend to be forced into an unprepared and premature summit conference.

In sharp contrast to Moscow's hopeful outlook, Communist China and the Asian satellites greeted the inauguration with harsh and bitter words, characterizing it as a "poor show stage-managed by the big US monopolies." Using the same line toward the incoming administration they adopted after the election, Peiping, Pyongyang, and Hanoi saw no chance for a change in basic US policy--especially the "aggressive US actions" in Taiwan, South Korea, and South Vietnam.

Except for the Albanian, all of the East European chiefs of state wired congratulations to the new President. The Poles, Czechs, and Rumanians, however, did not release the text locally. All of the satellite news agencies reported the inauguration, drawing heavily on the TASS version, but apparently none carried very extensive excerpts from the President's address. The Rumanians have eschewed editorial comment of any kind.

Most of the satellites have followed Moscow's example in giving the new administration the benefit of the doubt. Their comment appears more austere than that of the Soviets, however, with editorialists venturing bitterly critical post-mortems of the previous administration's foreign policies. East German media have complained that the President failed to mention a

peace treaty "between the two German states" or a settlement of the Berlin question. The Albanian press, like the Chinese, is trumpeting that the President's remarks and the first acts of his administration prove that the nature of American "aggressiveness" has not changed.

Western Europe

Non-Communist comment in Western Europe and Latin America on the inaugural address is universally favorable, much of it highly laudatory. Some caution is expressed that good words must be transformed into good deeds.

West German political leaders and press especially hailed the President's assurances that the United States is prepared to pay any price to preserve liberty--Major Brandt noting that this is the kind of language understood and respected in West Berlin. The US Mission in Berlin reported that West Berliners are highly optimistic over the new administration. Berlin political leaders have expressed great admiration for the new cabinet selections and expect new "vitality and dynamism" in foreign policy.

The left-wing socialist press in Italy hailed the evidence of a "new spirit" in America, and even the Communist press there and in Scandinavia bestowed its cautious approval.

Latin America

Latin American commentary centered on what it takes as evidence that the Kennedy administration will pay more attention to problems of western hemisphere countries, along with underdeveloped countries

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generally. Chilean Foreign Minister Vergara described the inaugural address as "lofty and notable," and Bolivian President Paz Estenssoro observed that it was a speech "of high intellectual content."

In a conversation with an American Embassy official, Venezuelan Foreign Minister Falcon, a former ambassador to Washington, described the address as a great document. The influential Venezuelan minister of mines and hydrocarbons, one of President Betancourt's most trusted advisers, stated that the inauguration heartened the underdeveloped countries and gave the world hope for the rescue of the United States Government from the "interests which have lately been managing it."

Fidel Castro, in his 20 January speech, set the cue for Cuba's reaction by expressing some "hope" that the new administration may correct at least some of "the great errors of the outgoing administration." Castro said the inaugural address had "some positive aspects," but "our attitude will be one of waiting--waiting for events because deeds are always more eloquent than words." Subsequent comment by the controlled press and radio in Cuba has emphasized that the first test of the new administration's intentions will be what it does with respect to the "bands of war criminals and counterrevolutionaries organized by the Central Intelligence Agency to attack Cuba."

The Trujillo dictatorship also sees some hope of a change in past US support of

sanctions imposed by the OAS against the Dominican Republic. A radiobroadcast on 23 January commented that the inauguration of President Kennedy is a cause for some optimism, but warned that "the 35th president of Yankeeland has demonstrated neither tact nor skill in selecting" his foreign policy advisers and he will thus be handicapped in correcting past US "errors."

Asia-Africa

The Indian press welcomed the inaugural address. The Hindustan Times commented that it held promise of "a new touch of toughness as well as resilience in dealing with problems, and of youthful vigor and imaginative insight in exploring solutions."

Public media in Japan have given mass coverage to the inauguration, and editorial and official reaction is highly favorable. Commentators welcomed the President's emphasis on policies to help solve Afro-Asian problems, and see the change in administrations as holding promise of progress, rather than continuation of a "passive" attitude. Japan's largest and most influential paper, Asahi Shimbun, expressed the hope that the President would gradually free Japanese-US relations from military ties.

Reactions throughout non-Communist Southeast Asia have been generally favorable. In Cambodia, press coverage was moderately heavy, and the Philippine press received the inaugural activities with enthusiastic approval.

In Indonesia, both Nationalist party Chairman Ali

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Sastroamidjojo and Communist party Chairman Aidit saw "new hope" for the world as a result of the inaugural address. Sastroamidjojo, however, regretted the lack of a more positive statement against colonialism. Aidit qualified his approval by noting, "It cannot be taken for granted that Kennedy's past actions are a 'sure guarantee' that such hopes will be realized." Aidit found the new cabinet fundamentally no different from the previous one, but added, "We must see what this cabinet does before making an evaluation."

Arab news media in general were reserved about the foreign policies the new administration will adopt, hoping that President Kennedy will eschew the support of Zionism and Israel which they identify with former Presidents Truman and Eisenhower. The Israeli press, in contrast, expressed hope that the President will "keep his promises" of a friendly policy toward Israel and will "safeguard Israel's vital interests" in

moving to establish peace in the Middle East.

The semicontrolled Moroccan and Tunisian news media have supplied one of the few African comments received thus far on the inaugural address. El Amal, daily organ of Tunisia's ruling Neo-Destour party, described the speech as a "source of great satisfaction and an optimistic omen for humanity." It expressed regret, nevertheless, that President Kennedy had not spoken with "greater energy and greater frankness" about aid to peoples fighting for their independence.

In a generally complimentary commentary on the speech, the nationalized Moroccan radio chose to interpret certain passages as implying a belief that the "old imperialism is trying to take on another guise." Referring to the Congo, it urged the President to stop the "complicity of US policy in the crimes being committed in the name of Western solidarity and under the pretext of opposing the Communist danger." [redacted]

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LAOS

The military situation continues to develop unfavorably for the Boun Oum government. In southern Xieng Khouang Province, government troops are maintaining a precarious hold on Tha Thom, with its airstrip, but the position is under heavy attack by the combined forces of Captain Kong Le and the Communist-dominated Pathet Lao.

Since the Plaine des Jarres fell to antigovernment forces on 1 January, government forces have been gradually forced southward toward Tha Thom, now their

only remaining position of any importance in the province. Retention of Tha Thom is essential to block any enemy advance south of Pak Sane. Tha Thom would also be a point of departure for any future drive to retake the Plaine des Jarres.

The other main locus of fighting during the past week has been along the Vientiane - Luang Prabang road (Route 13). A government column has been moving northward from Vang Vieng toward the Pathet Lao stronghold of Muong Kassy, where a

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combined Kong Le - Pathet Lao force had been expected to make a strong defensive stand. Late press reports indicate, however, that the government may have captured Muong Kassy.

North of the Phou Khoun road junction between Route 13 and Route 7, which leads toward Xieng Khouang, government and enemy forces appear to be building up for an important clash. A government force of two infantry battalions is facing a Kong Le - Pathet Lao force estimated at about one battalion supported by artillery. Control of the road junc-

Luang Prabang until Muong Sai is captured.

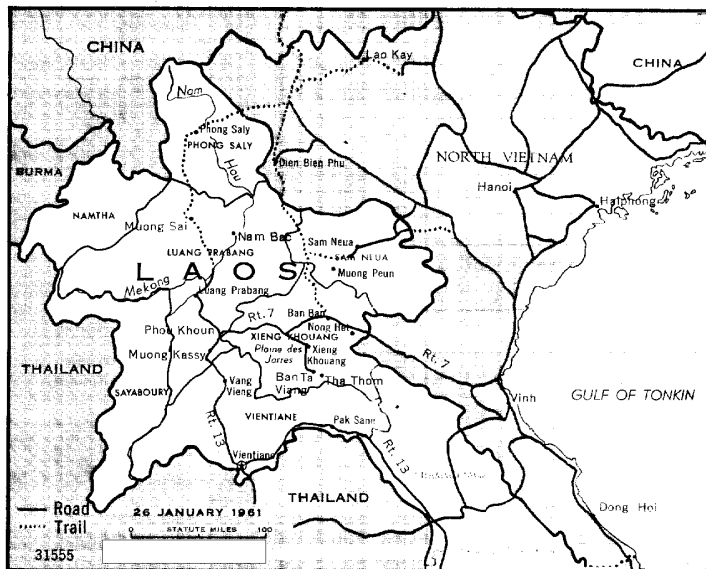
Faced with the deteriorating military situation, the Boun Oum government has requested an on-the-spot SEATO investigation of Soviet and North Vietnamese aid to the Kong Le - Pathet Lao forces. It has also prepared a parallel appeal to the United Nations but has not yet officially approached Hammarskjold. Mindful of the tranquilizing effect a UN Security Council inspection produced in the fighting in 1959, the government probably hopes that the presence of foreign observers would again relieve, if not stop, enemy military pressure, permitting the Laotian Army to regain the initiative.

Vientiane's claim on 21 January that three North Vietnamese regiments had entered southern Laos was apparently intended to underscore the urgency of the situation. The allegation is apparently unfounded.

Quinim Pholsena, the self-styled "acting premier" in Souvanna Phouma's absence of the "lawful govern-

ment" of Laos, may soon be joined at Xieng Khouang Town by other members of the erstwhile Souvanna government. A Soviet IL-14 reportedly was to have left Phnom Penh on 26 January carrying "all other" members of the Souvanna government except Souvanna himself and former Finance Minister Inpeng.

The passengers on this projected flight will probably consist of those cabinet members and other Souvanna followers



tion, now in enemy hands, is essential to the government for any drive eastward on the Plaine des Jarres and to the defense of Luang Prabang against any enemy thrust from the south.

A Pathet Lao attack on Muong Sai, to the north of Luang Prabang, appears to be developing. Government commanders have committed a sizable number of troops to the defense of Muong Sai, apparently believing that the Pathet Lao will not move south on

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who fled to Rangoon last month at the same time Souvanna took refuge in Phnom Penh. The most prominent members of this party are former National Assembly President Peng Phongsavan, who in recent months had gravitated to an extreme leftist position, and former Health Minister Kamsouk Keola. The group recently proceeded from Rangoon to Phnom Penh via Kuning and Hanoi.

Souvanna's role in their apparent decision to return to Laos is unclear, but in any event their presence will tend to give more substance to the hitherto rather shadowy "lawful government" of Laos claimed by the Communists to be operating in areas controlled by the Kong Le - Pathet Lao forces.

The Communists continue to show little disposition to accept any proposal that might lead to an early cessation of military activity in Laos. Despite their call for return of the International Control Commission (ICC), they are backing away from practical application of this concept, and it appears there is little hope that a 21 January British proposal to reactivate the ICC will be accepted.

This proposal was addressed to the USSR, as the USSR and Great Britain are cochairmen of

the 1954 Geneva Conference which ended the eight-year war in Indochina. Under the terms of the Geneva Agreements, separate ICCs were established in Laos, Cambodia, and Vietnam to maintain peace in the area and ensure compliance with the agreements. On 21 January, the British proposed that the ICC for Laos be reactivated--it adjourned in 1958--through the agency of the King of Laos as "head of state" and thereby avoid the question of recognition of competing regimes. Both Boun Oum and Quinim Pholsena have criticized the British proposal.

The USSR has made no formal reply to the British but, during the past week, Soviet Foreign Ministry officials have implied to Western diplomats that any International Control Commission would have to receive new instructions from an international conference. Thus, while the Soviet Union probably will avoid outright rejection of the British proposal, it is likely that Moscow will counter by stressing the need to first convene another conference along the general lines of the 1954 Geneva meeting before any agreement on ICC is reached. Such a conference would provide the Communists with a forum for anti-American invective and with the opportunity to procrastinate on a settlement in Laos. 25X1

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CONGO

The 20,000-man UN force in the Congo faces a reduction of more than 5,000 as a result of planned or threatened withdrawals of contingents supplied by neutralist nations.

Guinea's 700-man unit is scheduled to leave on 2 February, and both Morocco and the UAR have asked the UN to provide facilities for the repatriation of their units--which number

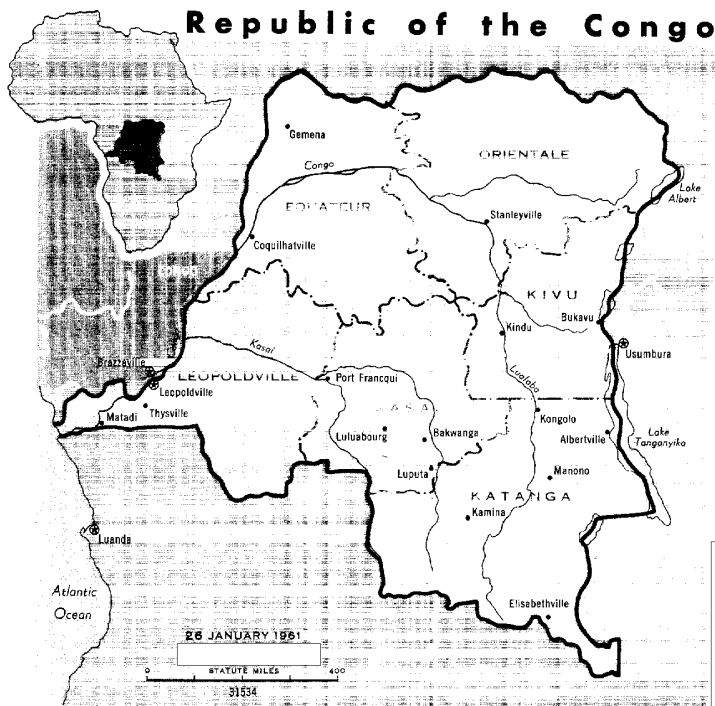
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UN officials have asked US assistance in meeting the 1 February deadline set by Cairo and have stated that the battalion's equipment would be airlifted at the same time in order to give the UAR Government no opportunity to renege. The UN has asked India, Ethiopia, Sudan, and Iran to furnish replacements for the departing units, with little response to date.

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3,000 and 500, respectively--by the end of January. Indonesia has also stated that its battalion of 1,100 men will be withdrawn but has set no date.

The growing disillusionment of other neutralists with the UN Congo operation will place increasing pressure on Ghanaian President Nkrumah, who is the only member of this group who has maintained his commitment to the UN. Nkrumah apparently believes that Ghana and the other supporters of Lumumba could wield greater influence if their forces were to remain in the Congo. However, his allies probably will attempt to persuade him to reverse his stand and pull out his 2,000 troops.

The UN is moving with alacrity to evacuate the UAR unit from Equateur Province

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Pressure on Khartoum is likely to increase as a result of the emergency meeting of the Afro-Asian Solidarity Organization's executive committee on 23 January. The committee urged that governments which have established diplomatic relations with the Congo send their missions to Stanleyville and recommended that Afro-Asian countries with troops in the Congo place them at the disposal of the "lawful government in Stanleyville." A committee was established to coordinate aid to the Congo--comprised of representatives of 13 countries, including the USSR, Communist China, and the UAR.

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Meanwhile, Brussels appears to be stepping up its aid to the governments in Leopoldville and Elisabethville. A Belgian Foreign Ministry official told American representatives that defense personnel had helped to screen a group of Belgian recruits who subsequently were flown to Elisabethville. Tshombé reportedly is also recruiting troops through German veterans' organizations. According to reports in Leopoldville, more than 100 Belgian officers now are serving with Mobutu's forces.

France also seems to be allowing its officers to accept requests from Tshombé to serve as military advisers. According to press reports, a rightist

colonel was granted a long leave of absence recently for this purpose and is scheduled to arrive in Elisabethville late this week with several other officers.

The Leopoldville conference of Congolese leaders which convened on 25 January seems unlikely to accomplish anything except to increase the gulf between opponents and supporters of Lumumba. The conference has been boycotted by Gizenga and his associates; thus, it probably will fail to contribute significantly to a solution of the country's political problems. However, it may produce some greater degree of coordination between Congolese in Leopoldville and Tshombé's regime in Katanga. 25X1

CUBA

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With the conclusion of five-year trade and payments agreements with Albania on 19 January, Cuba now has reached such agreements with all 12 Sino-Soviet bloc countries. Tirana was the last stop of a Cuban mission that had been traveling to all bloc capitals since last October. Seven bloc countries --the USSR, Communist China, Czechoslovakia, East Germany, Hungary, Rumania, and Bulgaria --now have granted Cuba a total of \$245,000,000 in credits. Che Guevara, who headed the mission during the first two months, negotiated the multilateral payments agreements in Moscow under which the bloc coordinates its economic relations with Cuba.

The volume and tenor of Soviet propaganda on Cuba has declined over the past week, but a number of press items have appeared reporting "solidarity-with-Cuba meetings" in various Soviet factories.

Meanwhile, Latin American governments are considering means of dealing with the Cuban problem. Though six of them had

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already broken or suspended diplomatic relations with the Castro regime before the United States took this step on 3 January, most of the others feel that further steps should be the result of a multilateral decision through the Organization of American States (OAS). Nevertheless, Venezuela, Colombia, Panama, and Uruguay have in recent weeks either expelled Cuban ambassadors or announced the withdrawal of their ambassadors from Havana. Several governments have urged an early special meeting of foreign ministers to deal with the Cuban problem.

Panama

sent two cabinet ministers to Costa Rica in mid-January to seek support for such a move. Apparently, however, Costa Rican President Echandi opposed pressing for a meeting now and favored adding the Cuban problem to the agenda of the 11th Inter-American Conference, now scheduled to open in Quito on 24 May.

The resumption of executions of anti-Castro activists in Cuba, including students and labor unionists, has aroused the majority of the diplomatic corps in Havana. A five-nation committee of the diplomatic corps was selected on 23 January to request clemency for the accused.

the Latin American missions remaining in Havana had initiated

the action. While this diplomatic pressure is unlikely to have any notable success, continued violations of human rights by the regime will further harden Latin American opinion against Castro.

On the domestic scene, the Cuban Government and its controlled press and radio continue the "wait-and-see" attitude toward the new administration in Washington adopted in Fidel Castro's 20 January speech. Cuban militiamen, mobilized to resist the "invasion" Cubans had been told to expect momentarily since 31 December, were sent back to their jobs. Cubans are being told that they have won a "bloodless battle" against "imperialism" and must now fight to win the "battles" of production and against illiteracy.

On 21 and 22 January, Fidel Castro met with officers of the National Agrarian Reform Institute (INRA). "Production goals" for 1961 were set, and Castro subsequently announced several plans for agriculture in the coming year, including the establishment of special tracts on each cooperative farm for the training of children. He also announced plans for an exchange program under which 1,000 young Soviet farmers would come to Cuba and Cuban youths would go to the USSR "to increase the knowledge of our farmers."

At least two public anti-Castro demonstrations have occurred in the past several days. On 17 January, a demonstration by about 350 electrical workers who had been fired from their jobs for participating in an anti-Communist demonstration last month quickly snowballed into a protest march by over a thousand workers before it was dispersed by Communist-led goon squads and the

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police [redacted]

[redacted] A second demonstration by some 100 women carrying signs saying "end the executions of our sons" was dispersed by the police in front of the presidential palace on 23 January.

An earlier attempt by students to protest the executions of their fellow students is believed to have resulted in partial student strikes in some cities outside of Havana. Castro, in a 24 January speech, reiterated his vow to subject anti-government activists to "the most implacable persecution imaginable."

The major government effort against guerrillas in the Escambray Mountains continues.

[redacted]

Government forces may well have suffered some local setbacks in the area, and the willingness of the "volunteer" militiamen to fight against odds has been questioned by American service attachés recently returned from Cuba.

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EL SALVADOR

The seizure of the Salvadoran government early on 25 January was carried out by military officers gravely concerned over the deposed junta's failure to take energetic measures against the Communists. Within a few hours of the coup, violence erupted in the capital, and further disorders between the military and Communist-led mobs are anticipated. The army, however, is believed capable of restoring order.

According to the American Embassy, all army garrisons immediately supported the coup. Colonel Anibal Portillo, army chief of staff, and Lt. Col. Julio Rivers, commandant of the command and staff school, were chosen by the officers to head the new regime. These officers selected as the additional junta members three civilians all of whom are identified as political conservatives. They are Dr. Jose Antonio Rodriguez Porth,

a pro-US lawyer and former dean of the University's law school; Dr. Jose Enrique Valiente, a prominent physician and former vice dean of the medical school; and Dr. Feliciano Avelar, also a professional man.

The embassy reported that a roundup of Communist leaders was under way immediately after the coup. Former President Oscar Osorio, who engineered the 26 October coup, and all but one member of the deposed junta were detained early on 25 January. The remaining junta member, Dr. Fabio Castillo, who is believed to have been sympathetic to the extreme leftists, went into hiding.

A challenge to the new authorities arose within a few hours of the coup when a mob estimated at 1,500 gathered in front of the presidential palace shouting in favor of the deposed junta and against the

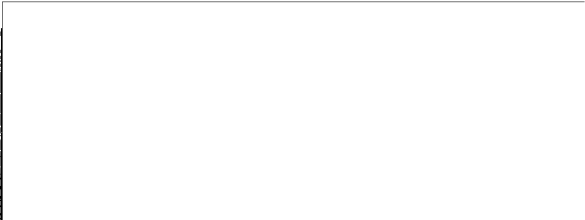
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military and calling for a general strike to protest the coup. The Communists, who had three months of unrestricted freedom to build up mass support, may succeed in instigating grave disorders, and further bloodshed may result.



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There still remains some danger of a split in the army, as Osorio retains some military support. If the new regime should turn to the extreme right and be impelled to resort to strong repressive measures, the Communists could eventually enhance their influence by exploiting the resulting grievances of moderates and non-Communist leftists.

Before the coup, some officers had advocated holding congressional elections as soon as possible, and the new junta issued a statement shortly after taking over that one of the purposes of the coup is to achieve "constitutionality" as soon as possible. The detention of Osorio, however, raises some question as to whether the promised elections are to be free and open to all non-Communist parties. Osorio had been in the process of forming a new political party which appeared to have wide backing

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PART II

NOTES AND COMMENTS

KHRUSHCHEV SPEECH ON MOSCOW MEETING OF WORLD COMMUNIST LEADERS

Khrushchev's report on 6 January, published in the Soviet party journal Kommunist on 17 January, was intended to stand as the definitive Soviet interpretation of last November's Moscow conference of world Communist leaders. Khrushchev vigorously reaffirmed his party's position on the issues in dispute with Peiping and made it clear that the conference did not alter the views of the Soviet leadership.

Probably timed to complement the short and formal 18 January Soviet central committee resolution on the results of the conference, the speech took a more forthright position in dealing with the major questions of doctrine and policy than the often equivocal Moscow declaration of 6 December. The handling of the various issues indicates continuing areas of disagreement with Peiping and suggests that Moscow is determined to make no important concessions to the Chinese.

In effect, Khrushchev defended the validity of his foreign policy and reaffirmed that the only correct and prudent course under conditions of a nuclear stalemate is a policy of limited risks to achieve political gains. As he put it, "We always seek to direct the development of events in a way which ensures that, while defending the interests of the socialist camp, we do not provide the imperialist provocateurs with a chance to unleash a new world war."

Exuding confidence that the trend of international events

continues to run in favor of the socialist camp, Khrushchev stressed that the general strategic line and tactics of world Communism depend on correct evaluation of character of the balance of power. While reiterating the standard proposition that the bloc is the "decisive factor" in world affairs, he warned that imperialism retains "great strength"; under these circumstances, he implied, the bloc cannot undertake the extremely militant, revolutionary program advocated by Peiping. As Khrushchev put it, "To win time in the economic contest with capitalism is now the main thing."

Against this backdrop, Khrushchev went beyond the Moscow declaration in discussing policy toward the West. He stated, "Our party considers the policy of peaceful coexistence, which has been handed down to us by Lenin, to be the general line of our foreign policy." This statement takes on added significance in light of East German party leader Ulbricht's acknowledgment that the term "general line" provoked a dispute at the Moscow conference.

The term did not appear in the final declaration, and Ulbricht indicated that the Soviet party had attempted to extract recognition from Peiping of such a bloc-wide "line" and acceptance of the discipline it would impose on Chinese policies. Thus, in effect, Khrushchev made it clear that the USSR's basic foreign policy would not be adjusted to accommodate the Chinese.

Khrushchev also went further than the declaration in

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restating Moscow's intention to engage the West in further high-level talks. Unlike the declaration, Khrushchev reiterated his previous judgment that some elements in the West understand the danger of war and accept the need for coexistence. Building on this premise, he extended the Moscow statement by reaffirming that "socialist states" strive for "negotiations and agreement" with capitalist countries, and seek to "develop contacts" with capitalist statesmen. Presidium member Suslov, who delivered the formal report on the conference to the Soviet central committee plenum on 18 January, elaborated on Khrushchev's remark and specifically pointed out that these contacts should be between heads of states and governments.

Khrushchev supported the correctness of his approach by going into some detail on the consequences of modern war. After discussing the hundreds of millions who would perish in such a war, he called for a "sober appraisal" of the consequences as a necessary element in mobilizing the struggle to prevent war.

He also reaffirmed that the USSR is ordinarily opposed to local wars because of the danger that they might expand--a risk Peiping minimizes. As for one category of local wars, however, i.e., "liberation" wars such as the Algerian rebellion--Khrushchev stated his view, in apparent agreement with Peiping, that such wars are indeed inevitable as long as imperialism exists. He pledged that the bloc will give aid to such "liberation" forces.

The speech reinforced earlier indications that Moscow will pursue a more aggressive program in all "colonial" areas --among which Khrushchev

specifies Algeria, the Congo, and Laos. However, the speech evaded the question--on which the Chinese have charged Khrushchev with timidity--of whether bloc support to "liberation" forces will go so far as to risk military clashes with the West. Similarly, in distinguishing a fourth category of wars--"national uprisings" such as Castro's--and in stating his expectation of and favor for such uprisings, Khrushchev declared that such wars must not become wars between states, but he evaded the question of what risks the bloc will take. He was particularly careful not to categorize the Laotian situation.

Khrushchev defended at length his policy of wooing the nationalist leaders of underdeveloped countries, even at the cost of sacrificing the local Communist parties there. The Chinese have accused him of exaggerating the importance of the neutralists (e.g., Nehru, Nasir, Sukarno), and have urged less Soviet aid and more of an effort to bring these leaders down. Khrushchev seems willing to move a little faster toward making pro-Soviet "national democracies" (e.g., Cuba) of the neutral nations, but still not as fast as Peiping wishes.

As for the tactics of Communist parties in the West, Khrushchev reaffirmed a gradualist program for these parties, envisaging lengthy preparation--through "democratic" movements--for eventual revolution. The Chinese have argued that "revolutionary situations" exist today in Western Europe and should be exploited.

In the latter part of his speech, Khrushchev discussed the question of the discipline of the world Communist movement, the underlying issue in the

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Sino-Soviet dispute. Khrushchev insisted that the "unity" of the movement is of "foremost importance," and he reiterated that the Soviet party recognizes the "equality" of other parties and does not regard itself as the "center" of the movement.

He followed this, however, by making clear that the Soviet party does indeed wish to be regarded as the principal party and as the spokesman for the bloc, and in effect he advised the other parties to get rid of those who sympathize more with Peiping than with Moscow. Several parties at the November conference had supported the Chinese on some issues, and many other parties were neutral or split.

Khrushchev, in conclusion, addressed himself directly to the Chinese, whom he condemned elsewhere in the speech, without naming them, for persistent "dogmatism and sectarianism." He reminded them that Sino-Soviet "unity" is necessary to "disappoint" and confound com-

mon enemies. Here and elsewhere he indirectly admitted that the Moscow conference did not resolve Sino-Soviet differences and may actually have made them worse.

Although Khrushchev quoted liberally from the Moscow declaration as testimony to the extent of agreement reached, the US Embassy has received reports that the original version of the speech contained sharp criticism of the Chinese. Khrushchev is reported to have bitterly castigated the Chinese leaders and stated that although they were "stupid," it was necessary to reach agreement with them.

He also reportedly presented a full review of the sharp debates between the Soviet representatives and the Chinese. He is said to have read to the meeting of party functionaries in the Kremlin the main parts of Liu Shao Chi's attack on Soviet policy as well as his own reply and concluded with the statement, "This is what happened --you can judge for yourselves."

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CHANGES IN SOVIET PRESIDIIUM EXPECTED

A new shake-up in the Soviet top leadership appears likely, primarily as a result of Khrushchev's dissatisfaction with the performance of some of his lieutenants in managing agricultural production. This, together with other factors such as growing competition for Khrushchev's favor and the advanced age and ill health of some presidium members, could lead to several changes in the Soviet hierarchy immediately under Khrushchev. The 22nd party congress is scheduled for October 1961, but the changes in leadership may be made sooner.

The central committee took the first step toward the impending shake-up by adding two new candidates to the party presidium at the recent plenum on agriculture. Fifty-year-old Gennady Voronov, party chief in Orenburg Oblast--a major grain-producing area--and 46-year-old Viktor Grishin, trade union boss, are the first additions to the presidium since Russian Republic Premier Dmitry Polyansky and Ukrainian party chief Nikolay Podgorny were brought in in June 1958. Since that time four members--Bulganin, Belyayev, Kirichenko, and Voroshilov--have been dropped. The

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VORONOV



GRISHIN

fended" the Ministry of Agriculture; he no doubt now regrets the position he took then in the controversy over the proper role of the ministry. His future may be in the balance.

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new men were probably not added simply to fill existing vacancies, however; they are presumably being groomed to replace full members whose tenures appear insecure.

In particular, Podgorny, who became a full member only last May, now appears to be on probation, if not actually on the way out. Khrushchev several times interrupted Podgorny's speech at the plenum with stinging rebukes and sharp criticism for mistakes in agricultural administration in the Ukraine. During his own speech, Khrushchev again criticized Ukrainian affairs in terms suggesting a severe political estrangement between him and the Ukrainian party organization which he once headed and which was one of his strong political assets in the post-Stalin struggle for power. The Ukrainian leadership, until now one of the most stable in the Soviet Union, thus seems slated for a "time of troubles."

Belorussian party chief Kirill Mazurov, a candidate member of the presidium, escaped sharp barbs at the plenum, but Khrushchev noted deficiencies in Belorussian agricultural production and had very little good to say about the republic. Moreover, Mazurov, in a Pravda article of 11 December, "de-

Grishin, who succeeded Shvernik as head of the Soviet trade unions in 1956 and also became a vice president of the World Federation of Trade Unions, may be slated again to replace Shvernik as trade union "representative" in the party presidium. His appointment to the presidium is probably intended to enhance his stature in international labor circles and may signify Soviet plans for a more active role in that field. Initially, however, Grishin has been given the task of mobilizing the vast trade union organization behind Khrushchev's new program for increasing agricultural production.

Voronov made his career as a professional party official but served as deputy minister of agriculture for two years before assuming party leadership of Orenburg Oblast in the New Lands area of the Russian Republic in 1957. The oblast has made notable agricultural

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achievements during his tenure --a strong factor in his selection for membership on the party presidium. His background and success in this

field make him a likely candidate to be given responsibility, under Khrushchev, for party supervision of agriculture.

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KHRUSHCHEV'S AGRICULTURAL REFORMS

In a speech to the central committee plenum last week, Khrushchev presented detailed remedies for the USSR's agricultural problems. Describing agriculture as "out of step" with industry and the demands of the consumer, Khrushchev made more explicit the regime's intention to improve living standards without sacrificing basic industrial goals. He called for an increase in agricultural investment, introduction of new material incentives for improving quality and quantity of farm production, a comprehensive program to revamp the Ministry of Agriculture; and creation of new agencies for supplying farms with machinery and for regulating purchases of farm products.

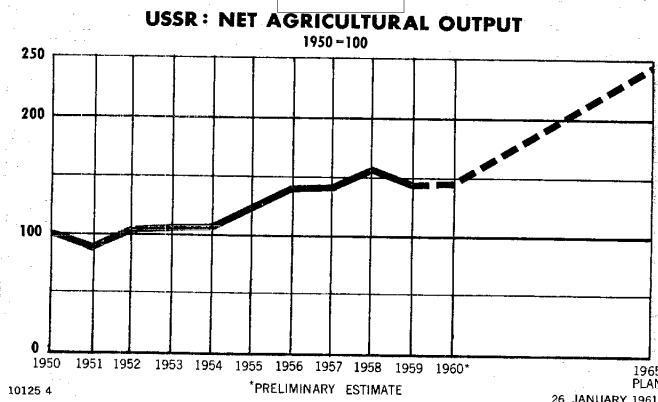
He thus confirmed that Soviet agriculture has made unsatisfactory progress toward achieving the 70-percent increase in gross output called for by the Seven-Year Plan

(1959-65). The USSR claimed that grain production in 1960 was 133,000,000 metric tons. However, an examination of weather and crop conditions suggests that 100,000,000 tons--about the same as in 1959--would be a more realistic figure. In general, agricultural production in 1960, as in 1959, remains at about the level of 1958, the base year of the plan. Industrial production, on the other hand, is well ahead of schedule--Soviet officials claim a 22-percent increase in the past two years.

This disproportion was the basis for Khrushchev's call for increasing investment in agricultural machinery, expanding irrigation, and increasing production of fertilizers and other agricultural chemicals --to be financed by channeling resources from industrial programs which are exceeding planned goals. Financed in this manner, the increased resources for

agriculture will not alter industrial goals, and are intended to cut into industrial output by something less than the total amount by which 1965 industrial goals are expected to be exceeded. As in the past, the total investment program will overwhelmingly favor heavy industry.

Khrushchev made the USSR Ministry

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of Agriculture chiefly responsible for practical research work and the dissemination of results. It is to be responsible for scientific research institutes; seed development and production; veterinary services, including breeding and quarantine; technical agricultural publications. The ministry was told to support specialists and to expose so-called experts whose claims are based on nothing more than having "eaten potatoes at a canteen." This calls to mind party utterances last year which affirmed the key role of party organizations but warned against "petty" interference in the work of specialists.

The full extent to which the ministry is to be divested of administration of state and collective farms is not known. However, the ministry, already weakened by the Machine Tractor Station reform in 1958 and the later loss of its planning and supply functions, now is to lose control over machinery repair and state purchases of agricultural products.

Khrushchev announced the formation of an elaborate national organization--an "all-union association"--to supply equipment, spare parts, fertilizers, and other needs to the collective and state farms. This organization is to coor-

dinate production plans for these items with the State Planning Commission (Gosplan) and the factories, taking requests from farms into account. The association is to be hierarchical in structure, with representatives from the national to the local level.

In addition to supplying farms, the local agencies are to control the repair and testing of farm equipment. The problem of supplying the many enterprises which have been built jointly by collective farms during the past several years was not explicitly covered in Khrushchev's speech; the association may have been given this responsibility.

A second new agency, called State Committee for Procurements, is to be established to control collection of agricultural products through a system of contracts with collective and state farms. It will also check up on individual farm performance and be charged with informing responsible officials of shortcomings. This organization could lead to improved planning and a reduction in statistical falsification--a widespread practice, judging from reports at the plenum.

Khrushchev's call for a "cooperative society" to buy farm goods not sold directly to the state indicates a further decrease in the importance of the collective-farm markets, one of the few vestiges of free enterprise in the USSR.

Khrushchev reaffirmed many of his pet agricultural measures at the plenum. These included programs to increase corn acreage drastically and to



"How is livestock production?" "It's on the rise!" --Krokodil, 10 December 1960.

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cultivate the marginal lands of Kazakhstan and Western Siberia--the New Lands program. He also emphasized material incentives for farmers and the importance to production of widely disseminating the experience of outstanding workers.

Khrushchev's long-standing ambition to change the Soviet Union's farm villages into model agricultural cities with apartments, parks, and modern plumbing is apparently not to be pushed beyond the suggestion stage at this time.

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CHINESE COMMUNIST CENTRAL COMMITTEE PLENUM

Between 14 and 18 January the Chinese Communist party central committee met in plenary session for the first time since August 1959. The plenum's communiqué reveals that economic difficulties have forced Peiping to adopt less ambitious programs for agriculture and industry and to inaugurate a mass campaign to bolster popular morale.

The long hiatus between plenums--party rules call for at least two a year--may have stemmed from Peiping's reluctance to admit that the general lines of its domestic policy had failed to cope with economic problems and from indecision as to what to try next. The 1959 session, although it marked a retreat from the grandiose economic goals set up under the "leap forward" program, had also insisted that a "leap forward" was possible and had set in motion a campaign against the "right opportunists"--conservatives within the government and party who advocate more pragmatic policies.

Consolidation and Readjustment

The decisions taken at the current plenum constitute a much

sharper swing to the right. While the communiqué defensively argues that during the last three years much progress has been made industrially and that the rural communes have proved their effectiveness as economic and political units, consolidation and readjustment are to be the dominant economic themes for 1961. "Natural calamities" on an unprecedented scale are blamed for the retrenchment.

Economic policy pronouncements include an enhanced role for agriculture--now described as the foundation of the economy--and reduced priorities for heavy industry. The two consecutive years of poor harvests have forced the Chinese to strengthen agriculture even at the cost of slowing the hitherto rapid growth of heavy industry.

The scope of capital construction in 1961 is to be reduced and more care paid to raising standards and filling the gaps. Heavy industry, after three years of almost exclusive concentration on quantitative goals, now is expected to raise the quality and variety of production, to economize on raw materials, and to lower costs.

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Peiping claims that 1960, the third year of the leap-forward campaign, maintained the rapid rate of industrial growth of the two previous years. The average given for gross industrial output over 1958-60, however, implies that industrial output grew by about 18 percent in 1960, well below the planned goal of 29 percent.

Rapid growth in industrial production during the leap forward was achieved at the cost of inadequate maintenance of machinery and equipment, disruption of planning and coordination, and excessive demands on the labor force. A period of consolidation would allow the Chinese to redress the balance of the economy and prepare for further rapid growth in the future.

The decision to increase production in light industry indicates concern over the deteriorating standard of living. The use of incentives as a means of raising labor productivity came into disfavor during the creation of the communes, and subsequent efforts to restore them have been handicapped by a short supply of food, clothing, and other consumer goods. It now appears that the Chinese are ready to revise investment priorities to give at least temporary relief to the consumers and to prepare a firmer foundation for long-term growth by strengthening agriculture.

Rectification

The communiqué took note of opposition to the regime's policies from "unreformed landlord and bourgeois elements."

Peiping thus served notice of its hypersensitivity to criticism and its determination to deal harshly with dissenters. The scope of the current crisis, however, is too great to fix the blame entirely on the weather and "evil" elements. Peiping therefore has once again placed a large part of the onus on the long-suffering party cadres which have "misunderstood" the correct line. These cadres were charged with failing to grasp the fine distinctions between socialism and communism and the necessity of paying more to those who work more--concepts first muddled by the top leaders themselves.

The central committee's communiqué announced a major "rectification" campaign to educate the cadres in the correct policies and to "weed out" those "few" corrupt elements which have infiltrated the party and economic organizations. The rectification campaign is a favorite device of the Chinese Communist party to make certain that the cadres continue to toe the line; through study and self- and group-criticism, "mistakes" of the past are brought to light and the "correct" policy drummed home. In a major campaign such as this promises to be, the drive takes precedence over other items of business and is to be conducted in the glare of full publicity.

The number of persons who will actually be disgraced or purged will probably be relatively small. The communiqué spoke of only a "few" unreformed elements, and the references to cadres who have "misunderstood" the regime's intentions were fairly tolerant, acknowledging

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that they had been "good-willed and well-intentioned." There was no indication in the communiqué that the purge would reach into the top leadership. Those who are disgraced on the provincial and lower levels, however, will provide Peiping with badly needed scapegoats, and the fear of being labeled an "unreformed element" will effectively stifle criticism of Peiping's policies.

The plenum communiqué also announced that six regional bureaus of the central committee will be established throughout China to strengthen leadership over local party committees on the provincial and municipal level. The regional bureaus are identical with those dissolved in June 1954, following charges of a conspiracy led by two regional leaders to overthrow the party center.

In the six years since, an attempt has been made to administer policy directly from Peiping to the provincial level. The problems involved in this method, however, are such that the officials in Peiping must either burden themselves with many relatively petty details or delegate to the provincial leaders responsibility which they do not seem capable of handling. Hence the decision to return to the regional bureaus, despite the central leadership's awareness of the risk that regional factionalism could grow once more.

Sino-Soviet Relations

The plenum also passed a resolution approving of the Moscow

meeting of Communist parties held in November 1960. (See also first item in Part II.) At several points the resolution implies that the Chinese party will continue to advocate a more militant strategy than Moscow currently favors. Like the Moscow declaration itself, it leaves Peiping free to challenge the Soviet position. Specifically, Peiping promises in the resolution to "defend" the 1960 Moscow declaration "just as it defended" the 1957 Moscow declaration, which the Chinese actually used in support of their arguments in the dispute. Nevertheless, the emphasis on the importance of Sino-Soviet "unity" --declared to be in the "fundamental interests" of the two countries--suggests that Peiping will refrain, for a time at least, from polemics with Moscow.

A People's Daily editorial of 22 January on the resolution is cast in stronger language than the resolution itself. Urging "unyielding struggle" against imperialism and support for revolutionary forces everywhere, the editorial expresses particular satisfaction that the "fundamental principles and revolutionary spirit of Marxism-Leninism, in which the Chinese Communists and Communists in other countries have for many years persisted, are clearly reflected in the Moscow statement." US officials in Hong Kong regard the editorial as perhaps Peiping's most emphatic affirmation to date of its satisfaction with the successes it scored at the Moscow meeting.

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YUGOSLAVIA PAROLES DJILAS

On 20 January, the Tito regime released from jail Milovan Djilas--once the Yugoslav Communist party's leading ideologist--after he had served four years of a ten-year sentence for writing "hostile propaganda." Djilas was placed on probation, presumably until 1966, and now is living in Belgrade. The regime's action appears to have been timed to attract a minimum of foreign attention, coming as it did almost simultaneously with the US presidential inauguration.

In 1954 and 1955 Djilas, until then a member of the Yugoslav party's inner circle and a favorite of Tito's since partisan days during World War II, publicly attacked the party line and vigorously advocated greater internal freedom and a two-party system for Yugoslavia. Because of Tito's desire to deal with him leniently, Djilas was not jailed at that time, but in December 1956 he was sentenced to three years in prison following his



DJILAS

statement to the American press that the Hungarian revolution was the "beginning of the end of Communism." He was retried in 1957, after the publication of his heretical book, The New Class, and given an additional seven-year sentence.

[REDACTED] 25X1

In exchange for his release, Djilas apparently promised to refrain from political activity or publication of material unfavorable to the regime, but he did not have to denounce his previous attitudes.

[REDACTED] 25X1

Last March, [REDACTED] he was taken to Belgrade for an operation which the regime claimed was a normal appendectomy; sources of the US Embassy in Belgrade, however, say that something more serious, perhaps stomach cancer, was involved. Djilas' rheumatism was also aggravated in prison. The regime's decision to release him at this time may have been motivated in part by a desire to deprive him of the martyrdom he might have achieved had he died in prison.

Despite claims by some Yugoslav leaders in the past year that Djilas could not be freed because his following in the Yugoslav party and public might then pose a threat to the stability of the regime, his release probably will not have immediate internal repercussions. Support within the party for Djilas appears inconsequential; Vladimir Dedijer, the only party leader openly to stand by Djilas, was stripped of his rank and now is out of the country--studying in Great Britain with the regime's permission. Should Djilas outlive Tito, however, he might--in any struggle for

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succession--serve as a rallying point for those elements in Yugoslavia which favor a faster pace of domestic liberalization.

The regime has avoided giving the impression that it was succumbing to Western pressures for Djilas' release, and at the same time it has been reluctant to antagonize the bloc by freeing such an arch "revisionist." It is unlikely, however, that such considerations played a major role in handling the problem. Belgrade's efforts to enhance its prestige in the West and to develop closer ties with European Socialist parties had been hampered but not seriously damaged by Djilas'

imprisonment--many of those parties, for example, sent delegations last spring to the congress of Yugoslavia's mass organizations.

Similarly, the Djilas heresy has been only one of many irritants between Belgrade and the bloc. His release probably will stimulate only limited unfavorable comment from Moscow. On the other hand, the Yugoslav regime's primary opponents, Tirana and Peiping, can be expected to emphasize once again--not entirely to Belgrade's displeasure--that Djilas' release demonstrates Belgrade's accommodation with Western "imperialism." 25X1

DISCONTENT WITHIN SEATO

The Southeast Asia Treaty Organization (SEATO) appears headed for a crisis over the organization's proper role in the Laotian situation. The American ambassador in Bangkok reports that SEATO morale is low and that the organization may be "fatally discredited" unless some action is taken soon in Laos. Assurances that the United States intends to live up to its SEATO commitments have failed to eliminate the fears of Asian members that they are being deserted by their Western allies.

The Thai Government, which has no other defense alliances, has been frustrated in its demand for effective SEATO support to the Boun Oum government and General Phoumi. The Philippines, too, is becoming restive with the inaction of the organization. Although no other member state in SEATO is prepared to follow Thailand in recommending military support to the Laotian Government at this time, the Thais are particularly

bitter against Britain and France and feel these countries are ignoring the strategic threat to Thailand posed by the civil warfare in Laos.

The Thai Government sees as the ultimate outcome of the Laotian crisis the establishment of a Communist regime on its northeast border--an economically depressed area where a North Vietnamese refugee minority threatens to serve as a ready-made fifth column. Bangkok is convinced that any compromise solution--the neutralization of Laos or a coalition government including the Pathet Lao--would merely be a prelude to the total loss of Laos to the Communists. The Thais believe that SEATO could provide effective material support to the Laotian Government. Thailand, Pakistan, and the Philippines are prepared to provide facilities for such support.

The United Kingdom and France, however, have little faith in the effectiveness of

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the Boun Oum - Phoumi forces and consider a coalition government under self-exiled Souvanna Phouma the best solution to the problem. They continue to search for a negotiated political settlement, whether under a reconstituted International Control Commission or an enlarged conference of interested nations such as has been proposed by neutralist Cambodia. They have refused thus

far to consider even a stand-by command structure for a SEATO military force. Australia and New Zealand, although less sanguine regarding a political solution in Laos, have tended to follow the British lead.

Failure to agree on joint action in Laos has disappointed SEATO's Asian members, who believe the organization has lost much of its value. 25X1

DAUD REGIME IN AFGHANISTAN

The gradual weakening of Prime Minister Daud's position is endangering the stability of the royal regime in Afghanistan and may afford Moscow new opportunities to extend its influence there. Should he eventually be forced to step down, the confusion and weakness like-

pendence while pushing ahead with foreign-assisted development programs. The royal family's confidence in Daud's judgment and leadership, however, has been undermined as a result of Afghanistan's defeat last September in the tribal clashes along the Pakistani frontier. Although the family outwardly maintains unity, the conflict between Daud and his brother, Foreign Minister Naim, continues unresolved over policy toward Pakistan. The family is now concerned that new tribal disturbances this spring may provoke strong Pakistani counteraction.



DAUD

ly to characterize any succeeding government would leave the country more vulnerable to subversion by the Soviet advisers and technicians whom Daud himself has introduced in large numbers.

The dominant policy-maker in the Afghan Government, Daud is widely regarded by Afghan officials as the only leader with enough vigor and strength of will to maintain internal stability and national inde-

Many Afghan leaders, more cautious than Daud, also doubt the wisdom of his heavy dependence on Soviet aid for his economic and military development programs. There are now about 1,300 Soviet technicians and advisers in the country, and Daud is apparently counting on even greater Soviet assistance for his Second Five-Year Plan to begin in September.

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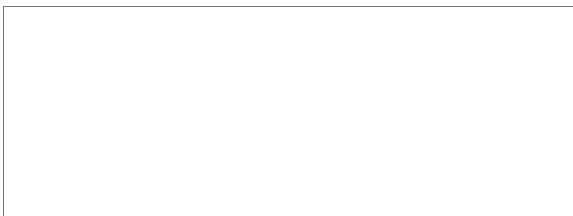
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FRANCE-ALGERIA



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increased rebel military activity has dampened some of the initial enthusiasm

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in French circles, and claims by each side that the other is responsible for continued terrorism could still jeopardize negotiations. Meanwhile, De Gaulle is continuing with a limited implementation of his plan for creating provisional government institutions in Algeria.

[redacted] most papers are speculating that secret contacts have already begun.

In speeches prior to the referendum De Gaulle implied that he would consider a favorable vote a mandate to meet with the rebel leaders. To encourage the PAG to negotiate, De Gaulle may be willing to relax two important preconditions that have heretofore prevented a meeting: he may waive formal agreement to a cease-fire by the rebels and accept a mutual understanding that both sides will try to control terrorism and use military force only in self-defense.

There are also indications that De Gaulle will accept only token representation of other Algerian tendencies at any eventual negotiations. He has already publicly singled out the PAG as a particularly important factor in the political negotiations.

The resignation of Air Force General Maurice Challe, ranking French officer at SHAPE and former French commander in

chief in Algeria, will probably encourage both civilian and military extremists to redouble their efforts to try to sabotage any negotiations De Gaulle undertakes. Challe resigned in protest over the government's Algerian policy,

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In the rebel camp, the 16 January PAG announcement of readiness to begin negotiations has been followed by confirmatory statements on the part of two ministers. "Information minister" Yazid told the US Embassy in Tunis on 17 January that the PAG was ready to meet French representatives without any preconditions or agenda. Yazid particularly asserted that the PAG was considering means of reassuring French residents of Algeria that their interests would be respected in an Algerian republic.

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President Bourguiba of Tunisia, who regards the continuation of the Algerian war as a threat not only to his regime but all North Africa, appears relieved by the reasonableness of recent French and PAG public statements. High Tunisian officials, however, mindful of their own problems with France, expect that negotiations will be lengthy and difficult, with a transitional stage lasting up to four years.

Possibly as a show of confidence in what the rebels believe to be their strong position, Ferhat Abbas left Tunis on 16 January for a two-week trip to Indonesia, Malaya, Ceylon, and North Vietnam. The Indonesian chargé in Tunis--whose government has recognized the PAG--assured the US Embassy on 20 January that Abbas will not receive anti-French advice in Djakarta, and that Abbas is prepared to return at any moment should the French move rapidly toward negotiations.

Nevertheless, terrorism and military activity by both sides have injected a note of pessimism. An incident in which rebel and French military forces fired across the Tunisian border and another in which four French nurses were killed in a rebel ambush have brought forth strong accusations from both camps. Official statements, however, have attributed the acts to extremists and have significantly added the hope that such incidents will not stand in the way of negotiations.

At the same time, De Gaulle is moving ahead with his referendum-approved plan to set up provisional institutions for Algerian self-government. Decrees were published on 21 January setting up regional councils in Algiers, Oran, and Constantine. French officials have carefully pointed out, however, that these institutions are not meant to compromise the future institutions of Algeria, and there appears to be no intent to push rapidly with the establishment of an over-all Algerian executive, which the PAG has strenuously opposed.

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FRENCH COMMUNITY DEVELOPMENTS

France is seeking to maintain its influence in Black Africa without insisting on a rigid framework which the Africans might view as a limit to their sovereignty. Bilateral agreements along the lines of

those France has reached with Cameroun--a former trust territory which was never a member of the French Community--may be the only formal tie Paris can salvage from the original Community concept.

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BACKGROUND

Following the constitutional referendum of September 1958, eleven French African states and the Malagasy Republic became autonomous members of the French Community. In early 1959 Senegal and Soudan established the Mali Federation, whose demand for independence led De Gaulle to acknowledge the right of all Community states to "international sovereignty." Meanwhile, Ivory Coast leader Houphouet-Boigny had organized the Conseil de l'Entente with Dahomey, Niger, and Upper Volta as a loose, essentially economic grouping. In 1960, all the states negotiated their independence. Some of them signified their continued adherence to the Community at the time of independence, but the Entente states and Mauritania opted for full independence with Paris after they were admitted to the UN.

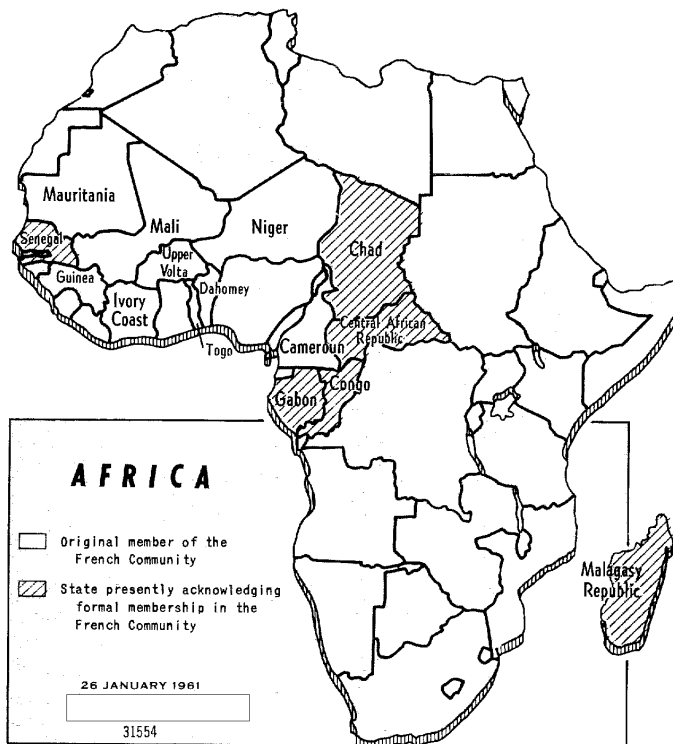
ship in the Community. Houphouet has cited the French-Camerounian relationship as the model for what he seeks; that arrangement covers the economic, military, diplomatic, and cultural fields, but does not include Community membership.

A high French Foreign Ministry official recently acknowledged that there are differences between French and African views on the community relationship and said that Paris was not inclined to force a clear-cut definition. Continued modification is probably to be expected in top-level Community institutions, which originally included an Executive Council made up of the heads of government of the member states and certain French ministers, a 283-member Senate, and a Court of Arbitration. Community relations may soon become a responsibility of the Foreign Ministry, and the Community secretariat may become the personal secretariat of Community President De Gaulle.

A real test of the pragmatic approach Paris has been relying on may occur in the field of economic aid. Ivory Coast President Houphouet-Boigny's recent trip to Paris to consult with De Gaulle on cooperation agreements between France and the four states in the Conseil de l'Entente suggests that, when negotiations are resumed in February, Paris may be willing to continue economic aid without requiring formal member-

This may result in demands for similar status from the five states which confirmed their Community membership when they signed cooperation agreements with France. Senegal also considers itself bound by the agreements signed by France and the now-defunct Mali Federation of Soudan and Senegal.

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France has recognized the advantages it may gain from the generally moderate foreign policy the African states have pursued in recent months. De Gaulle publicly praised African leaders who helped block UN

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General Assembly passage of that section of the Asian-African resolution on Algeria which the French deemed the most obnoxious. Paris was pleased by their acceptance of nuclear testing in the Sahara at a time when other African states are imposing or threatening retaliatory measures.

Even the Mali Republic, which officially repudiated the initial agreements it signed with France and has recently moved toward closer political

ties with Guinea and Ghana, maintains economic and cultural arrangements with France. The extent to which France will try to avoid a situation comparable to the rupture of relations with Guinea in 1958 may become apparent in the manner in which Paris accedes to Mali's recent demand for the withdrawal of all French military forces. 25X1

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PART III

PATTERNS AND PERSPECTIVES

KHRUSHCHEV--THE SOVIET PUBLIC IMAGE

Despite Khrushchev's clear-cut victory over a potent combination of enemies in 1957, when he carried out a sharp reorganization of the Soviet Union's top political command, there have been persistent doubts about the essential strength of his authority. During the past year in particular, there was widespread speculation--touched off by a number of developments in Soviet domestic and external policy--that Khrushchev's power had been weakened or had at least become subject to a collective "restraint" imposed by other leaders. Even exponents of the belief that Khrushchev has taken firm title to first place in the Soviet hierarchy concede, in the words of one of them, that his authority "is not yet independent of continuous, ever-renewed successes."

Certainly, 1960 was not a year of unqualified success for Soviet foreign and domestic policy or of unbroken calm in Kremlin politics. The juggling of the Kremlin hierarchy and the summit collapse last spring, the stresses in Sino-Soviet relations, the Soviet premier's tumultuous behavior at the UN General Assembly, and the ailments of Soviet agriculture may well have provided the material for political controversy within the ruling command. Nevertheless, the sum of the evidence indicates that the question of Khrushchev's ultimate authority is not now at issue within the Soviet Union.

The Khrushchev Cult

One element in this evidence is the public image of Khrushchev as the uniquely gifted and natural leader--an image persistently developed by

his subordinates at all levels and by the hacks of Soviet propaganda. The prestige conferred on Khrushchev is in part an outgrowth of the totalitarian mechanism itself, which inexorably funnels authority to a single point. This imbedded tendency, with its roots in the Russian past, has probably been consciously abetted as a means of furthering the Soviet Union's drive to expand its authority on the international scene and its competition with the Chinese Communists.

Moreover, even in the face of Khrushchev's expressed disapproval of adulation of leaders--possibly genuinely intended--there is probably an irresistible urge on the part of subordinates to ensure themselves a place on the leader's bandwagon.

The end product, a new version of the leader cult replacing the discarded Stalin cult, must not only reflect to a fair degree the actualities of Kremlin politics but also have become by now a political factor in itself. The overwhelming impression that Khrushchev is the focal point of the Soviet state and singularly endowed to prosecute its aims is not likely to encourage attempts to limit his authority or to increase his tolerance of political obstacles.

Shape of the Khrushchev Image

The central committee session just completed provided a new, vivid demonstration for the Soviet audience of the breadth of Khrushchev's authority. The meeting opened with the announcement that a party congress, nominally the Soviet Union's highest tribune,

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had been called for next October and that Khrushchev would present two major reports there, thus guaranteeing not only that he will be the dominant figure at the meeting itself but also that his name will be prominently featured in the massive pre-congress build-up.

Published reports of the proceedings at the central committee plenum were themselves a considerable addition to the leader image. They pictured Khrushchev denouncing with almost Jovian ire the managerial sins of top party figures, brushing aside their excuses but

formulas applied to the Soviet hierarchy and reiteration of the "collective leadership" theme, the vast majority of party and government officials as well as ordinary Soviet citizens cannot but be heavily influenced by the cumulative impact of the Khrushchev cult. They are exposed to a steady daily dosage comprised of the deference paid him publicly by his lieutenants, the precedence given him on public occasions, the attention devoted to him by Soviet communications media, and by the kinds of ritualistic formulas by which he is conventionally described.



Painting of Khrushchev, published in Ogonyok, September 1960.

accepting their fawning compliments, and repeatedly interrupting speakers to give his own detailed prescriptions for agricultural ills. All of this earned Pravda's praise as a model of the "Leninist approach" but scarcely conveyed a picture of "collective leadership" to the Soviet public.

Despite occasional semantic variations in the propaganda

it is difficult to find a speech by an important figure in the regime without sycophantic passages or an editorial in the central press which does not cite Khrushchev as authority for one or another aspect of Soviet policy. On days when such organs as Pravda and Izvestia do not feature the text of a Khrushchev speech, their front pages are weighted down with pictures of the leader at some public function and, more and more, with the texts of mutual exchanges of praise between him and Soviet organizations or individuals who have distinguished themselves in some area of production.

The general outlines of this cult present Khrushchev to the Soviet public in several aspects: as a pre-eminent international statesman whose grasp of the common man's aspirations is either admired or feared by other world leaders, as the true spiritual successor of the revered Lenin, and as the dynamic but flexible architect of party and government policy. Presidium member Dmitry Polyansky

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attempted to span this whole spectrum at the recent central committee meeting:

In the successes of the international Communist movement we must note the leading role of the Leninist central committee of our party, headed by the outstanding fighter for peace, democracy, and socialism--Nikita Sergeyevich



"In the hands of Nikita Sergeyevich Khrushchev is and old Indian peace pipe. It was given to the Soviet premier by Americans in the days of the work of the 15th session of the General Assembly of the UN in New York. This gift is recognition of the services of 'Communist No. 1' in the struggle for peace."

--Ogonyok, No. 51, December 1960.

Khrushchev. (Stormy applause) He has won the respect of working people all over the world by his profound knowledge of life, his bold and keen posing of problems, his ability to orient himself quickly and correctly under difficult circumstances, his wisdom, and his presence of mind.

Outstanding World Figure

The Soviet premier's numerous foreign excursions may not have been unmixed successes and their results have probably been discussed and assessed soberly in the Kremlin's inner councils, but the Soviet propaganda mill has concealed any misgivings and has invariably pictured them as resounding personal triumphs for Khrushchev and his policy of "peaceful coexistence." Only one speech by Khrushchev in the previous four and one-half years was given greater treatment by Radio Moscow than the one he made following his return to Moscow from the summit failure. The US Embassy in Moscow reported for the same period an "extremely high volume of Soviet materials quoting, praising, or otherwise calling positive attention to Khrushchev."

Khrushchev's excursion into the UN last fall was accompanied by an unprecedented outpouring of propaganda support. Before, during, and after the General Assembly session, Soviet media were inundated with reports of nationwide meetings which invariably expressed enthusiasm for Khrushchev's conduct, with the texts of his speeches at the UN, and with TASS dispatches picturing Khrushchev's dominance of the proceedings and the favorable worldwide "echo."

This episode in Soviet diplomacy has, in the aftermath, been unremittingly described, in typical examples, as a further demonstration of "the impassioned and seething activity of N. S. Khrushchev," of "the indefatigable herald of peace, the true Leninist, N. S. Khrushchev," and, more broadly, as proof of "the consistent peaceful policy of the Soviet Government and the purposeful and tireless activity of the outstanding champion of peace and friendship between nations,

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Comrade Nikita Sergeyeovich Khrushchev."

On the Home Front

Although he may feel and act as though the USSR's world position is his primary concern, Khrushchev has at the same time given away no part of his claim to a special grasp of domestic problems. At the January central committee plenum he played to the limit the role of the stern, broadly informed overseer of agricultural affairs, and the Soviet image-makers have labored constantly to portray him as a leader of wide-ranging interests and knowledge, both profound and imaginative, but still humble and solicitous for the public welfare. The phrases "as N. S. Khrushchev has said" and "on the initiative of N. S. Khrushchev" are staples of Soviet propaganda and appear in contexts of all kinds.

The first party conference held in the newly organized virgin lands administrative territory, for example, dispatched a message of greetings to "Nikita Sergeyeovich Khrushchev, the initiator of virgin lands reclamation who daily displays solicitude for the development of the Kazakh virgin land."

Such tributes to Khrushchev for his part in the virgin lands and corn-planting programs, with which he is closely identified, are commonplace, but the gamut is much wider. Among other things, Khrushchev can take credit, according to presidium candidate member Korotchenko, for exercising "an enormous, beneficial influence" on Soviet literature and, according to the chairman of the State Planning Committee, for "indefatigable attention to a fuller satisfaction of the growing demand of the population for consumer goods." Podgorny, a member

of the presidium and head of the Ukrainian party, carried the matter close to its most absurd level at the opening of the Kiev subway last November:

The inhabitants of Kiev know very well that Nikita Sergeyeovich Khrushchev was the initiator of the construction of the Kiev subway, and as its construction proceeded, we always felt his attention and the assistance of the CPSU central committee and the Soviet Government.

Leninist Leadership

Khrushchev's carefully constructed association with the image of Lenin has become imbedded in the formulas of Soviet propaganda. References to Khrushchev as "the faithful Leninist" or as "head of the Leninist central committee" are standard. Placing the Lenin hagiology at the service of the present leadership, Soviet propaganda incessantly reiterates that this leadership exemplifies a genuinely "Leninist style," that the "Leninist norms of party life" and "collective leadership," ignored by Stalin, have been restored, and that the party has overcome the "cult of the leader, alien to Lenin."

The commemoration of Lenin's 90th anniversary in 1960 produced a flood of literature describing both his accomplishments and his personal excellence--his modesty, distaste for sycophancy, and respect for the opinions of others. The adulation heaped on Lenin had, of course, the effect of increasing what he allegedly most detested, the "cult of the leader," and of strengthening, by association, the Khrushchev cult.

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Soviet propagandists seem to feel no embarrassment in affirming the existence of "collective leadership" at the very moment when their output is increasingly focused on one man, Khrushchev, nor in setting criticism of the leader cult side by side with phrases such as "the central committee headed by N. S. Khrushchev," "the Presidium headed by N. S. Khrushchev," or "the central committee, the Council of Ministers, and N. S. Khrushchev personally."

If, however, any of the party faithful should detect a contradiction, they can refer to the "dialectical" reconciliation provided by the authoritative text Fundamentals of Marxism-Leninism. The masses are the levers of history, this document declares, and "the cult of personality contradicts Marxism-Leninism." At the same time, it is pointed out, "the overwhelming majority of the masses of the workers are well aware that the authority and popularity of the outstanding leaders of the working class have nothing in common with the personality cult.... Without leaders who enjoy authority and who are linked up with the masses and are popular among them, there is no organized socialist movement.... The first-rate leaders of the working class, who are intimately linked with the people and who successfully conduct the struggle of the workers for their vital interests and ideals, play an outstanding role in history and deserve the people's love."

Khrushchev no doubt considers that this description fits him very well.

Conclusion

For the past two years, Khrushchev, evidently considering

the domestic front relatively secure, has been deeply immersed in pressing the USSR's international ambitions. Atop an underlying movement of social and ideological change, whose long-term political effects are probably only vaguely sensed in the Kremlin as elsewhere, the regime's internal actions have remained centered mainly on pragmatic, economic objectives.

The failure of Soviet agriculture to measure up to expectations appears to have forced Khrushchev once again to concern himself directly with an area of policy which was once his major interest. In the interim, however, his involvement in foreign affairs and lengthy periods of rest, dictated by the state of his health, have necessarily given many of the other members of the party presidium a good share of the responsibility for the conduct of political and economic affairs at home.

With the question of the succession always in the background, these circumstances have created the ground for conflicts of ambition within the hierarchy and for more or less sudden shifts in the fortunes of key figures. Moreover there is still within the presidium, according to the best available information, some room for "give and take" on important issues and therefore an area in which Khrushchev is, to a degree, subject to influence and restraint. However, the shape of Khrushchev's present public image, while only part of the evidence, provides some measure of his position and suggests that his authority is neither threatened nor diminished.

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THE OUTLOOK FOR BRAZIL UNDER QUADROS

Janio Quadros, who will be inaugurated as President of Brazil on 31 January, only ten days after returning from a three-month trip to Western Europe, will be the first chief executive in 30 years to take office as a representative of that country's traditional "out" parties. The problems of

transition will be intensified by Quadros' lack of formal ties with any of the parties in his sponsoring coalition and by Brazil's impending balance-of-payments crisis, which demands early decisions on economic and fiscal policy. In the search for ways to alleviate the financial crisis, Quadros may seek

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BRAZIL: GOALS OF FIVE-YEAR ECONOMIC DEVELOPMENT PROGRAM

SELECTED CATEGORIES	1955 LEVEL	1960 TARGETS	1960* LEVEL ATTAINED	UNDER CONSTR.
ELECTRIC POWER MILLION KILOWATTS	3.0	5.1	4.5	5.5
PETROLEUM THOUSAND BARRELS PER DAY				
CRUDE	6.8	100.0	78.0	—
REFINING	130.0	330.0	223.0	105
RAILROAD TRACK THOUSAND MILES	23.0	24.7	24.1	NA
HIGHWAYS STATE AND INTERSTATE THOUSAND MILES	2.6	18.2	10.0	3.5
MARITIME SHIPPING THOUSAND TONS IN SERVICE				
FREIGHTERS	747	1,100	960.0	20
TANKERS	217	535	504.0	40
ANNUAL CONSTR. CAPACITY	(VIRTUALLY NIL)	100	49.0	10
AUTOMOTIVE VEHICLES THOUSAND UNITS PRODUCED				
TRUCKS	0	80.0	60.0	
BUSES	0	50.0	44.0	NA
JEEPS & UTILITY	0	40.0	31.0	
PASSENGER	0	170.0	135.0	
TOTAL				
STEEL INGOTS MILLION TONS ANNUALLY	1.2	2.3	2.3	1.9
CEMENT MILLION TONS ANNUALLY	2.7	4.9	4.5	1.0
FERTILIZER THOUSAND TONS ANNUALLY	20	300	(1959) 477	165

* Preliminary estimate

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a US loan, but he is likely to be much more aggressive and independent than past Brazilian presidents in dealing with Washington and the European powers.

Industrial Development

Brazil's financial difficulties stem in large part from its efforts at rapid industrialization and its dependence on the erratic coffee market to finance this development. Public and private investment for new industrial installations and related utilities is a major cause of Brazil's recurring balance-of-payments crisis and an important, although secondary, cause of the country's chronic inflation.

Because foreign exchange crises and inflation have gone hand in hand with industrial growth--which averaged about 10 percent annually during the past decade--many Brazilians, including President Kubitschek, regard them as minor and necessary evils. The gross national product (GNP) has increased about 5 percent per year in "real" terms.

Although Brazil's economic growth attracted nearly a billion dollars in American investment before 1955, the growth rate received fresh impetus from Kubitschek's \$6 billion, five-year development program. This program, based on studies by the now-defunct Brazil-US Economic Commission, was aimed primarily at eliminating bottlenecks in electric power, transportation, steel, and fuel; while some of its goals were unrealistically high, many have been met and the program has been instrumental in bringing industry's contribution to the GNP up to near equality with agriculture.

In 1960, two new industries moved from the planning stage into production--the tractor industry and the shipbuilding industry, which is scheduled to have an annual capacity of some 150,000 tons by 1963.

The past year also saw the completion of clearing and grading on the 1,500-mile jungle highway from Belem to Brasilia--which became the federal capital last April--and the start of work on the equally ambitious highways connecting Brasilia with the northeast and the western territories. These projects--together with the transfer of the capital itself--are all part of Kubitschek's effort to open up the interior of the country.

National pride in these accomplishments is high and has led to the feeling locally that Brazil can at last see hope of fulfilling its "manifest destiny" as a world power.

Inflation

The government's heavy spending to support the price of coffee has become the greatest single factor in the country's chronic inflation. It will place a larger burden than usual

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on the federal budget in the 1961-62 coffee year, when a record crop of 35,000,000 bags is expected. The government-stored surplus has grown markedly in the past few years,

BRAZIL: SCHEDULE OF PAYMENTS DUE ON FOREIGN LOANS

1960	\$364,278,000
1961	337,412,000
1962	318,849,000
1963	269,867,000
1964	215,790,000
1965	159,421,000

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partly as a result of sales quotas imposed by the International Coffee Agreement and partly because production has spurred as new trees, planted after the damaging frosts in 1954, have reached maturity.

In 1959, a bumper coffee year, the cost of living increased by 51 percent, aggravated by food-crop failures and by extraordinary federal outlays for drought relief and for completion of the new federal capital. The rate of increase in the cost of living dropped off sharply in 1960 but apparently was well above the 20-percent average of earlier years. Continued inflationary pressures are expected this year as a result of a recent rise in the minimum wage and of pension increases.

Other new pressures may be created if Quadros follows through on his election promises of expanded credit for small farmers and large-scale public investment in the chronic drought areas of the northeast.

Balance of Payments

The outgoing administration has arranged a brief breathing spell for Quadros on the balance-of-payments

question by negotiating short-term deferrals on a number of foreign debts; the new government, however, will have to come to grips with the problem almost at once in order to meet the next crisis, likely before midyear. Payments of over \$340,000,000 will fall due this year on foreign loans, and only slightly less must be paid next year. These payments will take about a third of anticipated export revenues, and fixed requirements for imports of petroleum and wheat will absorb another third.

Although past attempts to expand local production of wheat and oil have been successful, both efforts now appear to have reached a point of diminishing returns.

Oil imports now cost Brazil about \$200,000,000 per year.

Quadros reportedly sought a sizable British balance-of-payments loan during his recent stay in London and may seek financing in other European capitals as well as in the US.

Economic Reform

In seeking foreign loans to cover the mounting balance-of-payments deficit, the

BRAZIL: OFFICIAL GOLD AND FOREIGN EXCHANGE ASSETS

END OF	(THOUSANDS OF DOLLARS)						TOTAL
	UNPLEGGED GOLD		OTHER CONVERTIBLE		UNUTILIZED LINES OF CREDIT		
	IN BRAZIL	OUTSIDE	US DOLLARS	OTHER	US DOLLARS	OTHER	
December 1959	67,011	55,015	17,243	-	48,750	-	186,019
March 1960	67,375	21,783	19,171	-	17,000	-	125,329
June 1960	67,721	14,158	5,346	-	27,250	-	114,476
September 1960	67,957	14,159	8,866	177	20,780	-	111,909
November 23 1960	67,957	14,169	17,087	-	9,250	-	109,461

Kubitschek government found itself under heavy pressure to adopt an economic reform program similar to the program--backed by the International Monetary Fund (IMF)--put into effect by Argentina in early 1959. Kubitschek in fact took a number of steps to control credit and to promote exports but balked at the political

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and economic implications of a true austerity program. He had the backing of the major industrial associations and of skilled labor in refusing to take drastic measures.

Quadros, who has indicated he will give priority attention to increasing agricultural production, may be less reluctant than Kubitschek to slow industrial growth. He is also likely to feel that the process of simplifying the system of multiple exchange rates should be accelerated. However, he told newsmen shortly after his election that he is opposed to any sudden changes that would jolt the economy, probably mindful of the extraordinary political difficulties encountered by President Frondizi in Argentina.

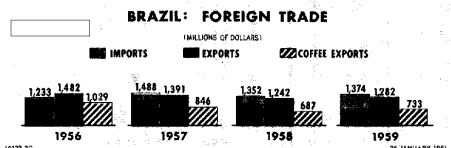
A decision to establish a single fluctuating exchange rate would involve two basic problems initially. Wheat and oil now are imported at preferential rates, and abandonment of this practice would result in skyrocketing prices for bread and gasoline which, on the basis of past experience, might bring about strikes and riots. Establishment of the single rate, moreover, would create an inflationary windfall for coffee exporters, who now are entitled to less than half the free-

producers in free competition, a price war would mean scuttling not only the ICA but also Brazil's pretensions to become a spokesman for the underdeveloped countries.

Trade

Until 1957, Brazil was able to cover a large portion of the foreign costs of economic development through trade surpluses. Since, then, however, an unfavorable trade balance has added to the country's difficulties. One of the chief causes has been a drastic drop in coffee prices and the increasing popularity of soluble coffee which has prompted processors to turn to inferior African grades as a source of supply. Although coffee accounts for only about 5 percent of the GNP, it provides more than half the country's foreign exchange.

To meet this problem, Brazil has engaged in intensive promotion of its second-string exports--cocoa, sugar, iron ore, manganese, and lumber--and in 1959 the government provided additional incentive by permitting exporters of all products except coffee and cocoa to convert their foreign exchange earnings at the most favorable free-market rate. Like coffee, however, these products are encountering glutted markets. Brazil's latest desperate measure is the creation of an export bank to push industrial exports through offering credit to potential buyers.



market value of their product.

This windfall, however, would not permit a competitive reduction in coffee prices so long as Brazil remains committed to the International Coffee Agreement (ICA) and its rigid sales quotas; while it is widely believed that Brazil could undersell even African colonial

Trade With the Soviet Bloc

Brazil's search for new markets and for nondollar sources of capital goods plus wheat and oil has led to plans for more than doubling trade with the Soviet bloc. Since late 1959, Brazil signed long-term trade agreements with the USSR, Poland, and Czechoslovakia that would, if fulfilled, raise Brazil's trade with the bloc to over 10 percent of its total trade--

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compared with about 4 percent in 1959.

The bloc has offered to supply greatly increased amounts of POL, wheat, and industrial goods. Bloc technicians, previously rejected by Brazil on security grounds, last year were permitted to take part in a survey for a natural gas plant, to prepare engineers for operating a caustic-soda factory, and to survey a possible iron-mining site.

Quadros has indicated he will expand these ties if studies reveal that Brazil can profit thereby.

Foreign Policy

Quadros, who has been virtually in hiding since his election on 3 October, has refused to comment on most aspects of his intended policies but has indicated that with respect to foreign policy he plans to pursue a more "independent" course than any previous Brazilian government.

Quadros held only one postelection press conference before leaving for Europe on 27 October, and on his return to Brazil on 20 January refused to make any statement for publication; however, at his 13 October press conference he asserted, "The United States must become convinced that Brazil in the very near future is to become a world power." This theme has been stressed by the Kubitschek government but never so openly or obviously. Quadros' almost messianic view of his role in Brazilian politics has led to speculation that one of his principal goals may be to go down in history as the man who launched Brazil as an important world power.

Brazil may be especially receptive to gestures of "independence" at this time, since most of the press has castigated

the United States repeatedly for failing to consult Latin America before breaking relations with Cuba. Public opinion is also smarting over Brazil's inability to obtain part of the former Cuban sugar quota in the US for the first quarter of 1961.

Quadros has hedged on his election promise to re-establish diplomatic relations with Moscow and to "recognize" Peiping, possibly to give himself freedom on timing and conditions. Pressure for ties with Moscow has been building up for several years, however--especially in professional and intellectual circles, where the lack of such ties is seen as a mark of second-class status in world affairs. Quadros has also hedged on his pre-election words of praise for Fidel Castro but has not expressed any hostility toward the Cuban regime.

Political Problems

While Quadros will face far fewer critical problems than did Kubitschek--who took office in 1956 amid the dislocations and scandals that followed Getulio Vargas' suicide--he will be confronted by a number of immediate difficulties. As a political lone wolf,

he will have to seek congressional support where he can find it. To form a working majority in the lame-duck Congress, which still has two years to run, he may find himself dependent on Kubitschek's Social Democratic party, even though the Social Democrats now are technically in the opposition.

Quadros may also be headed for trouble with Vice President Joao Goulart, the ambitious chairman of the leftist Labor party. Goulart has been sparring with Quadros for control of various government agencies as well as the

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labor movement; shortly after the election, the Labor party, with the third largest representation in Congress, hinted it was prepared to obstruct Quadros to the limit, if necessary. Presumably an accommodation can be reached only if Quadros accedes to Goulart's demands or can split the Labor party enough to threaten Goulart's leadership.

Quadros' attitude toward the illegal but influential Communist party may be shaped to some degree by events in the northeast, where a group of Communist-led Peasant Leagues has recently begun a new wave of assaults on sugar plantations. Brazil's Communist party--which with a membership of 35,000 is

second in size only to Argentina's among Latin America's Communist parties--has for several years been seeking respectability as a means of regaining legal status. It reportedly is awaiting evidence of Quadros' intended policies before deciding on its tactics for the future.

Quadros apparently has sought advice on virtually all aspects of Brazil's problems, but he has been extremely careful to keep his decisions from becoming known. His three-month silence has left the public completely uninformed as to his probable courses of action and somewhat apprehensive about his plans for the transition period.

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