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CURRENT INTELLIGENCE WEEKLY SUMMARY



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In light of Pushkin's proposal, the Chinese Communists appear to be seeking as graceful a retreat as possible from the position taken by Foreign Minister Chen Yi on 3 July.

Just before he left the conference to return to Peiping, Chen Yi tabled a statement calling for a discussion of Laotian neutrality. "We are not against discussing the question of control," Chen Yi said, "but we hold that an explicit international agreement should first be reached...on the neutrality of Laos." This insistence on a prior neutrality agreement was repeated by Pushkin himself on 10 July. Then, two days later, he proposed his compromise.

On 14 July, Vice Foreign Minister Chang Han-fu, acting chief of the Chinese delegation, introduced a statement before the conference that, in net effect, was an attempt to back away gracefully from the adamant stand expressed by Chen Yi. Pointing out that "under certain circumstances, compromise is necessary," Chang assured the conference that his delegation was prepared to discuss the controls issue. He did not, however, completely abandon the idea that some agreement on neutrality should be reached first. Chang deprecated the concern of "some people" that the conference would not go on to discuss controls "once the question of Laotian neutrality is discussed and an agreement reached."

In Laos, political developments continue to evolve slowly. Premier Boun Oum has accepted a proposal by Souvanna Phouma to meet in Phnom Penh for follow-up talks to last month's meeting at Zurich at which agreement in principle was reached to form a coalition government. No date has been set pending word from Pathet Lao leader Souphannouvong, who has been insisting that such talks be held at Namone. The apparent lack of coordination between Souvanna and Souphannouvong on this matter may be a further indication of differing viewpoints which have been detected in the intermittent and unproductive proceedings at the Namone truce site.

Various reports continue to be received of friction in the field between Souvanna supporters and the Pathet Lao, and in time, this could take on significance at the national level. For these reasons, and because of the generally quiescent military situation, General Phoumi lately has exhibited a more buoyant attitude.

There are some signs that the Pathet Lao is growing restive under the existing impasse, and is becoming increasingly suspicious that Phoumi's forces intend to redress the military situation. Pathet propaganda is accusing the government of violations of the cease-fire, and is again belaboring alleged employment of Chinese Nationalist irregulars in the government's ranks.

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EUROPEAN SPACE RESEARCH PROGRAM

After several months of hesitation, 11 Western European nations are apparently preparing to move ahead with a cooperative effort to develop a vehicle capable of placing a satellite in orbit about 1965. Critics have alleged that the project is designed to permit Britain to salvage something of its investment in the Blue Streak missile, now abandoned as a military project; that it will duplicate scientific feats accomplished some time ago by the US; and that it may involve a potentially risky "spreading" of missile technology.

However, London and Paris, the sponsors of the plan, have evidently dispelled some of their partners' reservations, and now that Bonn in particular has been won over, the necessary convention is expected to be drafted in the next few months. Other interested nations are Italy, Belgium, the Netherlands, Norway, Sweden, Denmark, Spain, and Switzerland.

The program is essentially that drafted at a conference in Strasbourg last January. It calls for an expenditure of about \$196,000,000 over the next five years--over 70 percent to be provided by the UK, France, and West Germany. A converted Blue Streak would be used as the first stage of the launcher, the French Veronique as the second, and the third stage would be developed by the participants. The resulting vehicle is expected to have the capability of placing a 2,000-pound payload in low orbit, or of undertaking a 100-pound lunar probe. Initial tests, at least, would be from the Woomera Range in Australia, but other sites--some of them in Europe--are under consideration.

European scientists, believing that the Blue Streak may be already obsolescent and that final costs will greatly exceed expectations, have been less than enthusiastic about the project. However, prestige considerations have been advanced for proceeding with it, and London is known to have been anxious to initiate a program which would include members of both the Common Market and the Outer Seven. Despite US offers to cooperate with the European nations in lifting satellites into space, it has been contended by those favoring an independent effort that Europe should not count on American support in fields of space technology--such as communications--with important commercial applications.

The space-launcher program is distinct from but will be closely coordinated with the European Space Research Organization (ESRO), which is charged with the development and instrumentation of the actual satellites. European scientists themselves took the initiative in launching this cooperative effort last year. ESRO has made considerable organizational and planning progress since then and could begin functioning in about 18 months. Draft plans call for ESRO to undertake 20 rocket probes of the outer atmosphere in the first year of operation and 50 in the second. By the third year a small satellite would be put in orbit, with a larger satellite following in the sixth year. Sources have stressed that these satellites would be "highly sophisticated" and that some 300 scientists would be working on their preparation at a technical center.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SOVIET MIDYEAR PLAN REPORT**

Preliminary analysis of the report on the operations of the Soviet economy in the first half of 1961 clearly indicates some modification of planned goals for 1961 and difficulties in achieving economic objectives. However, the extent of these two developments is as yet uncertain, and in production of specific basic commodities--such as steel, oil, and electric power--high rates of expansion were maintained. Aggregate industrial output is claimed to have grown 8.4 percent compared with the first six months of 1960, a rate slightly less than in the past several years, but sufficient to keep industrial production well on the way toward achieving the 1965 targets.

Investment, on the other hand, is not growing at the scheduled rate, and for some industries, particularly chemical and machine building, there are clear departures from the 1961 goals. A continuation of the first half year's investment performance could jeopardize a continuation of the rapid rate of economic growth. This poor performance in terms of Soviet plans to catch up quickly with the US economy could have resulted from numerous interrelated factors, including the organizational changes of the past year and the confusion resulting from strenuous efforts to raise drastically the average level of Soviet industrial technology.

On the other hand, investment performance might also reflect the transition of the economy as it begins to implement Khrushchev's promises for a significant increase in

allocation of resources for the consumer. The decline in state housing construction from 17,000,000 square meters in the first half of 1960 to 15,000,000 in the first half of 1961 does not offer much support to this theory, however.

Increased orientation of the economy toward meeting military requirements is also a possible but unlikely explanation of the investment anomalies. There is little or no direct evidence of such a development, other than Khrushchev's announcement on 8 July that military spending in the last half of 1961 would increase by 3.1 billion rubles.

There is no evidence that public denunciations of inadequate agricultural production or inflated agricultural statistics have had the desired remedial effect. However, the report reflects a more normal situation in agriculture than prevailed in 1960. Although the total sown area claimed in 1961 remained at about the 1960 level, the acreage of wheat has

USSR
STATE CAPITAL INVESTMENT IN INDUSTRY
(PERCENTAGE INCREASE)

	1959 OVER 1958	MID 1960 OVER MID 1959	1960 OVER 1959	MID 1961 OVER MID 1960	1961 PLAN
Chemicals	59	41	33	12	42
Metallurgy	22	18	12	10	NA
Oil & Gas	14	8	10	11	16
Engineering	39	29	23	15	40
Wood & Paper	17	10	6	NA	NA
Construction Materials	15	8	16	9	NA
Light & Food Industries	34	21	15	16	54
Machine Building	39	29	23	15	40

STATE CENTRALIZED CAPITAL INVESTMENT
(BILLION RUBLES)

	Mid 1960	Mid 1961
1960	11.3	1961 Plan
	25.5	29.0

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increased. Communal livestock herds are somewhat larger than a year ago, but the size of private herds failed to increase. Meat output during the first six months of 1961 was probably less than during the same period in 1960.

Capital investment--apparently only investment by the state--in agriculture increased 19 percent. Because the sown area in the state agricultural sector increased 25 percent in 1960, primarily as a result of the conversion of collective

farms to state farms, this increase is unimpressive. The rapid pace of these conversions has continued during 1961; as of 1 July there were one million more workers and technicians in the state farm system than a year earlier.

The machine-building and metalworking industry as a whole performed creditably during the first half of 1961, with claimed gross output increasing 15 percent over the first half of 1960. Production of chemical equipment, however, which

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SOVIET PRODUCTION OF SELECTED ITEMS

(MILLION METRIC TONS UNLESS OTHERWISE SPECIFIED)	PRODUCTION FIRST HALF 1960	PRODUCTION FIRST HALF 1961	PERCENTAGE INCREASE FIRST HALF 1961 OVER FIRST HALF 1960	PLAN 1961	ANNUAL PERCENTAGE INCREASE NEEDED TO ACHIEVE SEVEN-YEAR PLAN GOALS
CRUDE STEEL	32	34.9	9	71.3	6.6 - 7.4
PIG IRON	22.9	25	9	51.2	7.4 - 8.5
ROLLED STEEL	25.2	27.2	8	55.3	6.2 - 7.2
COAL	257	255.	-1	511.7	2.7
PETROLEUM	70.6	79.7	13	164	11.1
CEMENT	21.7	24.3	12	51	12.3-13.5
ELECTRIC POWER (BILLION KWH)	144	157	9	327	11.7-12.1
GAS (BILLION CUBIC METERS)	22.5	28.8	28	61.3	25.3
CHEMICAL EQUIPMENT (MILLION RUBLES)	103	118	13	NA	18
HOUSING (STATE PLAN) (MILLION SQUARE METERS)	17	15 +	-10	56.5	4.4
	PERCENTAGE INCREASE FIRST HALF 1960 OVER FIRST HALF 1959	PERCENTAGE INCREASE PLANNED 1961 OVER 1960			
GROSS INDUSTRIAL PRODUCTION	10	8.8	8.4*		8.6 - 8.8
LABOR PRODUCTIVITY IN INDUSTRY	6.4	6	3.5*		5.5 - 6
LABOR PRODUCTIVITY IN CONSTRUCTION	9	7.4	5		6.9 - 7.4
VOLUME OF CAPITAL INVESTMENT	13	12.6	8		8.5

*Said to exceed plan.

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had increased spectacularly in the first two years of the Seven-Year Plan, showed a considerable decline in rate of growth. Some threat to the construction of thermal power stations was posed by the inability to master serial production of large-size turbines and generators. Most types of agricultural machinery showed substantial increases except for a sharp absolute decrease in production of grain-cleaning machines.

Were it not for a shortfall in housing construction, the performance in state construction-installation work in the first half of 1961 relative to plan would compare favorably with similar periods of recent years. The acquisition of machinery and equipment apparently continues to lag more seriously than construction-installation work. While the growth of building-materials production is ahead of 1959-60 rates, the volume of construction has increased even more rapidly, suggesting possible future problems.

The state plan for housing construction was underfulfilled by an estimated 15 to 20 percent in the first half of 1961, reflecting a priority significantly lower than that accorded housing from 1957 through the first half of 1960. Housing plans will be significantly underfulfilled for the year unless urgent steps are taken immediately. This lag is mainly the result of the failure during the past several years to set up the facilities to produce large concrete panels which are scheduled to be used in a rapidly increasing share of state-plan housing. Resources, however, could still be made available for overful-

fillment of the Seven-Year Plan for housing.

The reported rise of 3,200,000 in state nonagricultural employment was larger than the average gain registered during 1959-60 (2,500,000), which in turn was considerably above the annual increase called for by the Seven-Year Plan (1,700,000). The continuing rapid growth of employment, despite the retarding effect of World War II birth rates on the growth of the working-age population, may be attributed to larger percentages of housewives, teen-agers, and servicemen demobilized in 1960 now in the labor force.

The more rapid growth in employment over the past year, compared with that in the preceding two years, was probably also related to the reduction in the workweek from 48 to 41 hours. Employment, moreover, will have to continue to grow rapidly if shortfalls in productivity are not to affect output goals. The claimed increase in labor productivity is considerably less than originally planned. The report states, however, that first-half productivity was fulfilled, suggesting that plans have been revised downward.

Soviet foreign trade in 1961 will fall short of the planned increase of 6.5 percent for the year, as an increase of only 2 percent was achieved over midyear 1960. This lag is attributable to curtailment of Sino-Soviet trade in the first three months of the year, prior to the signing of the trade agreement in April. If trade with China is accelerated during the second half of 1961, over-all Soviet foreign trade may come closer to attainment of the planned goal. (Prepared by ORR) 25X1

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POPULAR DISCONTENT IN EAST GERMANY

While an uprising does not appear imminent, reliable Western observers comment that the temper of the East German populace is such that a relatively sudden and acute intensification of antiregime feeling could occur--with an increasing possibility of spontaneous outbreaks. The US ambassador in Bonn believes that any attempt by East German authorities to seal off escape through West Berlin, coupled with a resort to harsher economic measures, could lead to a "real possibility of explosion." The refugee flow into West Berlin continues at a high level.

As of 18 July, no anti-regime incidents or cases of "underground" plotting had been reported [redacted] although a number of refugees had made statements which Western newsmen interpreted as indicative of an incipient revolt. Such news reports have not been confirmed.

The East German populace remains alarmed over the prospect of war over Berlin and the realization that Soviet proposals for a peace conference are intended to perpetuate the status quo--which is generally taken to mean a continual deterioration of living conditions. Efforts by regime officials to reassure the people seemingly have met with little success, probably because the people, on the basis of conflicting speeches by the leaders, expect the regime to resort to harsh steps to stabilize the situation.

In a speech on 6 July to the Peoples' Chamber, the East German legislature, party boss Ulbricht denied that Moscow's threat to sign a separate peace treaty, if carried out, would lead to East-West conflict. "There will be no shooting, but negotiations... everything will proceed carefully, nothing else has been proposed. We shall never resort to nonpeaceful means unless we are attacked."

Ulbricht's attempt at calming popular fears was undercut, however, by party secretary and politburo member Erich Honecker's warning to the central committee that East Germany must adjust its economic plans "even though this will burden our economy for some time." Honecker hinted at hard-line measures to counter shortages of quality foods, inadequate supplies of industrial raw materials, and a further lag in the growth rate of industrial production. He implied that it might prove necessary for the rest of the bloc to underwrite the East German economy for the foreseeable future if a separate peace treaty resulted in Western restrictions on trade.

The portent of Honecker's remarks, and statements by other regime leaders, has not been lost on the East German populace. The refugee toll continues to mount, with 14,279 arriving in West Berlin between 1 and 17 July, compared with 19,198 for the whole month of June. Nearly 4,000 refugees were registered by the US element at Marienfelde in West Berlin during the three-day week-end period from 15 through 17 July, with daily figures of 1,284, 1,240 and 1,334. During the week end of 8-10 July--the first following the conclusion of the regular school year in East Germany and the central committee plenum at which Honecker spoke--3,644 refugees were registered.

The refugees apparently are taking advantage of the summer week ends to pose as sight-seers and vacationers in order to escape detection by security authorities. They do not advance personal grievances as a reason for flight; rather, they credit "rumors" or cite a series of seemingly minor irritations. Except for young men of military age, no particular age groups or professional categories predominate in the flow.

Dissatisfaction has spread from the industrialized urban centers to the countryside, which

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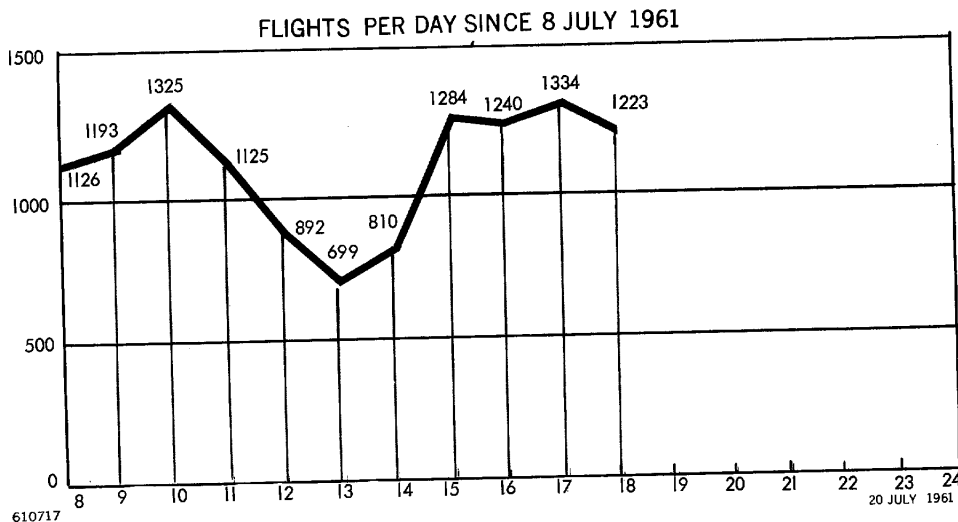
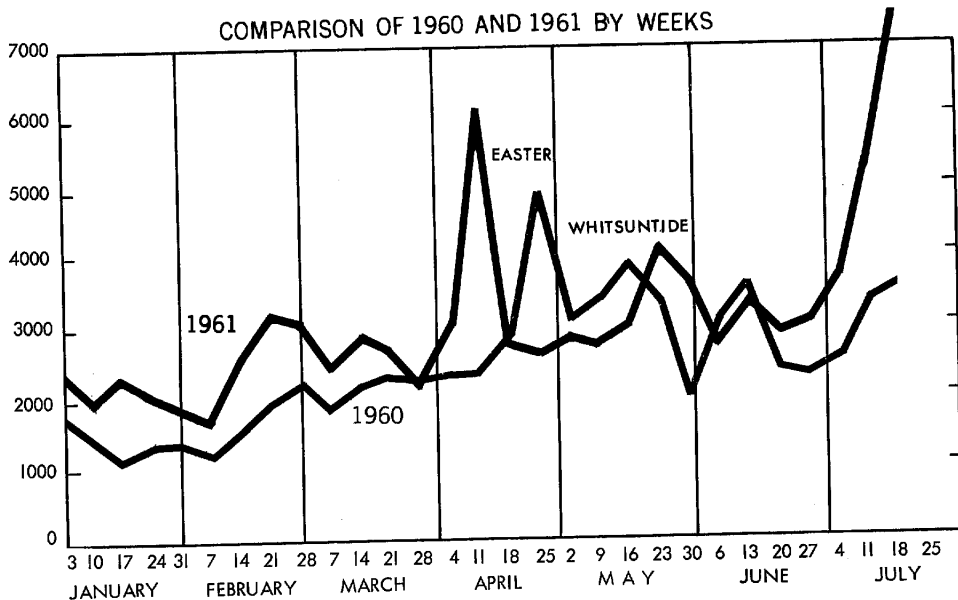
was the scene of last year's collectivization drive. Gerhard Grueneberg, the hard-line party secretary with overall responsibility for agriculture, declared on 14 July

that "no peasant must consider leaving" a collective farm and ordered party functionaries out into the countryside to "discuss" what he called "complications and troubles."

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BERLIN REFUGEE FLIGHTS

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NEW ANTICHURCH MEASURES IN POLAND

The Polish regime is taking a series of steps intended to weaken the ability of the Roman Catholic Church in Poland to function effectively. In the process, it has rescinded many of the privileges and tacitly granted "rights" of the church which were based on the modus vivendi reached in 1957 between the government and the episcopate.

On 14 July the Sejm (parliament) passed a bill making the state the legal possessor of all properties formerly owned by Germans. This makes the church a tenant--subject to eviction--in 3,000 churches and parish buildings which it has used since 1945-46 when they were abandoned by the German Evangelical Church. On 15 July the Sejm adopted a law banning religious education in public schools and declaring that schools must have a "scientific world view"--in other words, a Marxist orientation.

A draft law on public collections, which could severely restrict and closely regulate church solicitation of funds from the public, is pending before the Sejm. The Catholic university at Lublin, the only such church institution in Eastern Europe, depends on income from such a public collection for survival.

During the debates on 14 July it was revealed that the five-man "Znak" group of Catholic deputies has not yet been recognized as an official legislative grouping in the newly elected Sejm convened on 15 May--as have the deputies' "clubs" of the Polish United Workers' (Communist) party and its satellite parties. This is another slap at the church's prestige and is a marked departure from previous practice; from 1957 to 1960 the Sejm leadership actively sought the participation and cooperation of

the then nine-man Znak group. Znak deputies abstained from voting on the education bill and voted against the property law.

The law on educational reform legalized what in effect had already been accomplished. As a result of regime "persuasion," over 80 percent of the public schools in Poland do not offer religious instruction. Although the regime had promised to aid the church in its efforts to set up alternate places for such instruction, this promise for the most part has not been kept.

Nevertheless, the promise was repeated to church authorities on 11 July during the first meeting in 14 months of the church-state mixed commission, created in 1957 to arbitrate problems of relations between the government and the hierarchy. At the meeting, which was held "informally" at the initiative of the regime, Bishops Choromanski and Klepacz were told by party representatives Kliszko and Sztachelski that the new laws were designed only to "regularize" the existing situation and that the regime had no intention of aggravating current problems. A formal meeting of the commission has been set for September.

Since March the militant attitude adopted by the primate of the Roman Catholic Church in Poland, Cardinal Wyszynski, has caused the regime to open a heavy propaganda campaign against him; recently he was publicly attacked for trying to "reverse state policy." Wyszynski has stiffened his formerly more flexible posture in order to draw the attention of the somewhat apathetic Polish populace to what he considers a very serious situation.

The primate's militancy probably was a factor behind

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several recent isolated acts of defiance of the regime by the faithful. Included among these are a riot which developed when the regime tried to tear down a half-built church near Kielce, and the organization during June of religious

pilgrimages by university students despite an official ban on such activities. Implementation of the new laws and other regime administrative harass- 25X1 ments could lead to further local disturbances. [redacted]

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INDONESIAN POLICY ON NETHERLANDS NEW GUINEA

The Indonesian Government is following a dual course on its claim to Netherlands New Guinea--maintaining on the one hand a relatively calm atmosphere in which it believes either American or private Dutch initiatives toward a settlement of the New Guinea dispute can go forward, but on the other hand threatening the use of force in order to bring about negotiations. The official positions of the Indonesian and Dutch governments remain unchanged: Djakarta insists that the only settlement possible is one based on the transfer of the area to Indonesia, while The Hague maintains that it is committed to a policy of self-determination for the inhabitants of New Guinea.

Various Indonesian cabinet officials stated in early July that their government would consider all possibilities which could lead to a negotiated conclusion of the dispute, that Indonesia's military purchases were "not exclusively directed" to the struggle for New Guinea, and that Indonesia would not take the New Guinea issue to the UN at its next session. Two Australian correspondents inferred from a private interview with Foreign Minister Subandrio on 5 July that Indonesia would play the issue in low key during the next few months. Subandrio re-emphasized on 14 July that Indonesia is ready to open negotiations "at any level," provided they are conducted on the basis of a transfer of New Guinea to Indonesian authority.

Air Force Chief of Staff Marshal Suryadarma announced on 2 July, however, that with the acquisition of the two TU-16 jet medium bombers from the Soviet Union, "our position in the framework of the West New Guinea confrontation" has been further reinforced. He also stated, according to the press, that the nation, "if necessary, may use the bombers to end colonialism in West New Guinea."

Deputy Army Chief of Staff General Jani told press correspondents that the question of New Guinea has moved from the "heads to the hearts" of Indonesians, and that although the government does not plan an armed attack, there is a definite limit to the "teasing" Indonesia will take on the issue. Foreign Minister Subandrio recently warned the Australian Government that it "should not lag behind other nations such as the US and Britain" in its "understanding" of the New Guinea dispute.

Unofficial efforts by several Dutch businessmen--the "Rijkens group"--toward resolution of the dispute have been fruitless. Members of the group are trying to promote the re-establishment of diplomatic relations between the two capitals as a first step toward official talks and a solution favorable to Indonesia, and President Sukarno apparently met the group three times during his world tour. The Dutch Government, although in contact with Rijkens and his colleagues, publicly dissociates itself from the group's activities. [redacted] 25X1

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SINO-INDIAN RELATIONS**

Prime Minister Nehru has recently reaffirmed publicly his hard line on the Sino-Indian border dispute and continues to strengthen his position on the frontier through vigorous military measures [redacted]

[redacted] At the same time, however, Nehru has again evinced a desire to ensure that top-level channels remain open between Peiping and New Delhi by permitting a high-ranking Indian delegation to stop over in Peiping on its way home from Outer Mongolia.

The delegation, which represented India at independence observances in Ulan Bator, was led by R. K. Nehru, a former ambassador to Peiping who now is the top civil servant in the Ministry of External Affairs. The party had traveled to Outer Mongolia via Moscow.

Conscious of the domestic political impact--in an election year--of any real or imagined weakening in its position on the border question, New Delhi carefully denied in

advance that there would be any border negotiations with the Chinese during the visit. The decision to return to India via Peiping was ascribed to the former ambassador's desire to "renew old friendships" in the Chinese capital. New Delhi, which has had personal, high-level contact with the Chinese at Geneva, nevertheless obviously used the "routine" five-day stopover to see if top Chinese leaders had adopted any new attitude or had anything new to say on the border question. Before leaving China on 18 July, the party held meetings with chairman Liu Shao-chi and Premier Chou En-lai.

There is, in fact, no evidence that the Chinese Communists intend to moderate their stand.

Conversely, R. K. Nehru's visit to China afforded Peiping an opportunity to take a reading of top-level Indian opinion and to determine whether there has been any shift in New Delhi's attitude toward the border question since the conclusion of talks between Chinese and Indian Foreign Ministry experts last December.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****THE SITUATION IN BOLIVIA**

Bolivia is facing a short-term economic and political crisis which has been intensified by the government's anti-Communist campaign, including the arrest and continued detention of several key Communist labor leaders. The US Embassy, which sees civil war or Castroism as the likely alternatives to President Paz, estimates that the next few weeks will be critical.

Ambassador Stephansky comments that Bolivia will require emergency financial assistance for the next six months at least, and that Paz' determination to continue the government's first major crackdown on the extreme left in recent years apparently depends on immediate financial support. If this crackdown fails, the President is likely to resign or become the puppet of a strengthened coalition of Communists and extreme leftists.

A reduction in the excessive work force at state enterprises seems politically impossible at this time, and the prospects for labor peace in Bolivia's mines are dim--primarily because the government is unable to fulfill its pledge to keep the mine commissaries supplied and to meet the payrolls.

Paz appears to be striving to reorganize the ruling

Nationalist Revolutionary Movement (MNR) party and, at the same time, to eliminate labor excesses and gain control of the anarchic labor movement. His efforts to assert government authority may be facilitated considerably by an extended absence from the country reportedly planned by leftist Vice President Lechin, Bolivia's chief labor leader. However, the President said recently that Lechin was helpful last month in getting strikers who were protesting the arrest of their Communist leaders to return to work.

The recent strike was probably only the first of a series of conflicts which can be expected to arise between Paz and the extreme leftist opposition as the President attempts to re-establish the dominance he held over the country's politics and government during his 1952-56 term in office.

Last year, when Paz was trying as president-elect to obtain US financial aid, he implied that without it he would be unable to apply politically unpopular economic reforms to the COMIBOL--the government mining corporation. Paz, like the predecessor Siles regime, has appeared to use bloc aid overtures as a means of obtaining US financial assistance. The US Embassy reports that Bolivia's long-projected economic mission to Moscow has again been postponed.

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GUATEMALA

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The arrest of numerous anti-government plotters and the imposition of a 30-day state of siege--modified martial law--on 12 July have apparently stifled the most recent plot against the government of Guatemalan President Ydigoras. Plotting has been endemic in Guatemala for a number of years and will probably resume after government controls are relaxed and the plotters regroup.

Those involved in the most recent conspiracy range from rightists to leftists and include military and civilian figures. There is an element of truth, however, in the comment of a presidential aide who, when asked whether the latest plot was motivated by the extreme right or extreme left, replied: "Neither--extreme ambition."

Among the most prominent figures arrested on 12 July was Luis David Eskenassy, a leader of the National Liberation Movement (MLN), the antigovernment faction of the splintered political machine of the late President Castillo Armas. The MLN, apparently the chief civilian component in the plot, shares the views of a few active and retired army officers who accuse the President of fostering widespread graft within the government and believe he is not taking sufficiently strong action to halt recently heightened Communist activity. These "rightist" plotters include Col. Francisco Ardon, recently removed chief of police, and retired colonels Niederheitmann and Yurrita. The latter two were among the several retired officers arrested last week.

Also plotting against the President is a "leftist" faction which includes retired officers who had served under the pro-Communist Arbenz regime as well as some of those involved in the abortive army revolt of last November. Although at least one prominent officer of this faction was included among those arrested recently, it is not clear to what extent, if any, this group was involved with Ardon's. Nevertheless, the bulk of those arrested has been of the "rightist" faction.

While the participants in the unsuccessful revolt last November are not believed to have been linked at that time with any civilian group, they have in their subsequent months in exile and in hiding been in contact with civilian leftist elements.

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agitation that would accompany and follow any uprising.

There is no significant popular support for any of the plotting factions, and recent events indicate that while there is a core of dissatisfaction within the National Police, the major garrisons of the army as well as the air force are loyal to the President. Ydigoras, who has been confronted with almost constant plotting since his inauguration in early 1958, has followed a middle-of-the-road political course and maintained democratic forms. He has avoided harsh measures and relied on deft political manipulation of his opponents one against another.

Now that Ydigoras has passed the midpoint of his six-year term--and it is unlikely that the 66-year-old President will attempt to succeed himself--there is increasing speculation as to his successor. A continuation of his policies of divide and rule against all opponents would significantly reduce the prospects for his being succeeded by a responsible leader with popular backing and an even moderately strong po-

litical organization. Ydigoras himself has failed in his efforts thus far to create an effective political machine of his own.

One of the leading figures still offstage who is likely to play an important role in the coming political competition is ex-President Juan Jose Arevalo. Arevalo, whose bitter hatred of the US inhibits him from expressing his recent disillusionment with the Castro regime, has been in exile since 1954 but is reported planning a triumphal return to Guatemala from Venezuela in September. Arevalo launched a series of popular political, social, and economic reforms during his 1945-51 presidential term, which coincided with Guatemala's postwar economic boom, and he is looked upon by many Guatemalans as the only president who has 25X1 given the country effective progress.

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INCREASING OPPOSITION TO SALVADORAN DIRECTORATE

The government Directorate which the Salvadoran Army installed in January has evidently decided to fulfill its promise to hold elections before the end of 1961. Minister of Defense Rodriguez Simo told reporters on 15 July that the army wanted free elections this year which would include all legally inscribed parties, with no official party. On 19 July,

however, the Directorate issued an official communiqué stating that the draft electoral bill was still being studied and that certain groups were demanding its immediate approval and questioning government assurances of genuinely democratic elections merely for political gain. There was no mention of an election date.

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The Directorate has been hesitant to commit itself to an early election before getting its widespread reform program sufficiently under way to prevent curtailment by any successor government. Army elements behind the reform program will probably try to ensure their continued strong influence in an elected government.

The Directorate's recent move to gain control of the complex coffee company which runs Salvador's chief industry has aroused strong opposition and is regarded by wealthy coffee interests as a first step toward destroying private enterprise. The move has aroused doubts among previous supporters of the Directorate as to the real motivations of some of the government's economic planners. The coffee company manager told the US Embassy that he had broken his formerly close ties with the government's economic team over the issue of official control. Rumored resignations of top officials of the Central Bank are regarded by the embassy as further evidence of the Salvadoran business community's desire to have no responsibility for the Directorate's present economic policies.

The government apparently believes its move to control the coffee industry is justified by the fact that large coffee exporters are trying to arouse agitation against the Directorate, blaming current official credit restrictions for curtailed loans to small growers and for restricted operations. The credit restrictions actually stem from conditions required by the International Monetary Fund in its program to assist El Salvador in solv-

ing its financial crisis. Wealthy Salvadorans may have hoped to guide the reforms effected by the Directorate, but they now feel that the rapid progress of the reform program is beyond their influence and has become a threat to their economic power.

The Salvadoran G-2 recently told the US army attaché that in other efforts to discredit the government, the rich have willfully been causing unemployment, creating alarming tensions which could easily lead to violence requiring force to control. The embassy believes that both the government and wealthy factions are receiving support from suspect political factions. It points out that a government-subsidized newspaper has stepped up dangerous xenophobic and hate-the-rich campaigns, and that it has allowed a growing number of exiled prominent Communists to return home.

The Directorate announced on 19 July that it had uncovered and frustrated an international Communist plot designed to culminate in the overthrow of the government on 26 July and accused Salvadoran capitalists of collaborating with the Communists.

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THE NATIONALIST OPPOSITION IN IRAN

Developments during the last year in Iran have once more brought into prominence the National Front, a radical reformist combination of opposition groups which dominated the political scene from 1950 to 1953, when Mohammad Mossadeq was prime minister. Taking advantage of the widespread dissatisfaction caused by the rigged elections of 1960 and 1961, the National Front has moved to re-establish itself as the rallying point and public spokesman for the nationalist opposition. Last May the Front's first public demonstration in eight years drew a crowd estimated at 30,000 to 40,000 people; its potential for creating trouble is suggested in Prime Minister Amini's decision to ban any further meetings of the party.

Background

The nationalist and constitutionalist movement in Iran, now over fifty years old, was produced both by events in the West and by a reawakening of Iranian patriotism. An increasing number of Iranians studying in Europe near the turn of the century brought back a host of new ideas and concepts.

The influence of the Russian Revolution of 1905 and the victory of the Japanese in the Russo-Japanese War had a great effect in demonstrating the potential power of the Asian nations, and both events were commented on widely in the newly prominent political press of Iran. The imposition of a constitution over the opposition of the Shah at that time was the first victory for the liberal nationalists. However, the program followed by Reza Shah, Iran's Ataturk, when he

came to power in 1921 was a complete dedication to nationalist statism, with the liberal elements eliminated.

Reza Shah was not the leader of an organized ideological revolutionary movement, and his nature and the circumstances of his rise to power did not make him sympathetic to liberal theorizing. His objectives were simply to modernize the country and arouse its pride. The political turmoil which followed his deposition in 1941, the occupation by the Allies during World War II, and the postwar contest for political and economic spoils by an elite released after more than 20 years of subordination to Reza Shah brought back some of the worst features of old Persia.

Rise of the National Front

The National Front had its beginnings in 1949 when Mossadeq, then a deputy in the lower house (the Majlis), joined eight other deputies in promoting a vague but popular program calling for neutralism, independence from foreign domination, a fight against corruption, and a reduction in the powers of the Shah. The Iranian Parliament has rarely demonstrated devotion to its constitutional duties, and most deputies spent their time in 1949, as they do today, in petty intrigues to further local or personal interests.

The National Front, by its atypical unity, acquired an importance far beyond its actual strength. Its nine members commanded personal followings in a broad spectrum of Iranian society, including the bazaar, the clergy, the intellectuals, and the left liberals, and by bringing their forces to bear

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collectively on the National Front's goals they were able to overcome their numerically larger opposition. The original nine were shortly joined by other nationalist-minded groups and individuals.

Appeal of the Front

The National Front did not create the program it advocated, but rather gave voice and direction to feelings that were, and still are, widespread throughout Iranian society. The actual operation of the government of the Qajar Shahs, who ruled until 1925, was based on a system known as madakhel--indirect income--an officially condoned form of graft and bribery. Every civil servant considered it his right to be bribed for carrying out his normal duties. Bribes were the necessary lubricant for the wheels of government, and for any unusual favor additional payments were necessary. Every post was put up to auction, and no questions were asked as long as revenue and presents were duly paid to the Shah.

As government institutions were modernized, especially under Reza Shah, graft fell officially into disfavor, penalties were set for corrupt practices, and laws provided for the dismissal of incompetents. At the same time, the princes and nobility of the Qajar period gave way in the civil service to educated men of middle-class origin. Although, as a result of deliberate glorification of the state, civil servants enjoyed high social prestige, their salaries were always held to a minimum. This fact, together with the force of age-old practice, has made inevitable a modified continuation of the madakhel system. One

result has been a deeply ingrained fear and suspicion of government among the masses, who, because they have the least available for bribes, have benefited least from government services.

Moreover, while the peasant or laborer is no worse off in Iran than he was 100 years ago, today the traditional apathy and resignation are giving way to a feeling that improvement might somehow be achieved. The penetration of new ideas and Communist propaganda is bringing change and discontent. Hence the appeal of those such as Mossadeq and the National Front who promise improvement.

Similarly, the appeal of the Front's "policy" in foreign affairs derives from long consciousness of the weakness of Iran's government. This weakness, together with the country's strategic location, has made Iran the target of whatever great powers have been active in the Middle East in the last century. The 1907 agreement between Russia and Great Britain which divided Iran into zones of influence produced an indelible effect on the attitude of the Iranian toward the great powers.

The operation of the "hidden hand," the omnipotent force which rules Iran and is beyond control of the Iranians, is a pervasive and persistent piece of Iranian mythology. Great Britain traditionally has been considered the main manipulator of Iranian destinies, with Russia second. In recent years the United States has come to be considered by many as a rival for dominance of the country. Many Persians honestly believed that Great Britain engineered

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the nationalization of the oil industry in 1951 so that it would be able in the resulting chaos to impose even greater controls over the country. There has also been a widespread belief that the British controlled the Tudeh party, or that control of the party was shared by the USSR and Britain, just as the country had been divided into spheres of influence earlier.

This same attitude was reflected in the insistence by a Western-educated and -oriented Iranian agriculturalist that Iran's agricultural problems would be solved in six months if British influence were eliminated; he charged that Britain deliberately prevented agricultural development in order to sell its own products to Iran. This popular state of mind gave Mossadeq and the National Front freedom to undertake any policy they saw fit, with the opportunity to have the blame for failure fall not on the government but on the "hidden hand."

Mossadeq and the National Front showed a keen awareness of the fears and prejudices of the Iranian people; their appeal was always to the emotions. The National Front at the time of Mossadeq had only one clear specific goal: to nationalize the oil industry and drive out the British. With this accomplished, the *raison d'etre* of the National Front appeared to vanish and disagreements arose among its leaders. Most of the National Front leaders did not hold government positions, but as "advisers" guided many government decisions. Some of them went earnestly to work to obtain their share of the spoils. The little guidance they provided to the government was mostly unconstructive, and there

was little evidence of the concern for reform which bulked so large in the speeches of Mossadeq and other National Front leaders.

At the time of Mossadeq's overthrow by supporters of the Shah in August 1953, his popularity even among the middle class, the core of his support, was at a low ebb. Many nationalists had come to understand that Mossadeq was hopelessly negativistic and incapable of producing the reforms the country needed, and many were genuinely frightened by his casual attitude toward the Communist Tudeh. The disillusionment would probably have gone even further had it not been for the pro-Mossadeq press, which propagated the idea that lack of material achievements by Mossadeq was due to British efforts to strangle Iran economically and that the austerity of the Mossadeq period was a by-product of the country's war against imperialism.

Immediately after Mossadeq's removal, many of his former supporters were ready to support the Shah's new government. However, to retain support of this group and to win over those who were hostile to the new regime of Prime Minister Zahedi, the government needed to demonstrate that there had been no return to the status quo ante, in which the old ruling class predominated, and that it was not under foreign control. Zahedi failed in both respects. The old ruling group returned to power, rumors of widespread corruption were current, and the belief that the "hidden foreign hand" was everywhere dominated nationalist thinking. The Iranian public still generally credits the

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United States and Great Britain with the overthrow of Mossadeq.

As a result, even those who had been disaffected by Mossadeq's negative policies began returning to the National Front's fold. Mossadeq's personal honesty and patriotism were held in marked contrast to the dishonesty and subservience to foreigners of the subsequent regimes. The appearance of large quantities of luxury goods at a time when the cost of living was rapidly rising for the average man was in sharp contrast to the austerity of the Mossadeq period. Many nationalists came to believe that they had been deceived by anti-National Front propaganda about the danger from the Tudeh party and that Mossadeq, rather than being soft on the Communists, had been attempting to bring them to his side by removing the bases for their attraction to Communism.

Initially many National Front partisans appeared to feel that the conservative victory was only temporary. Gradually, however, they began to realize that Mossadeq was unlikely ever to assume active leadership again, and a struggle for control broke out in the National Resistance Movement (NRM), a loose alliance of nationalist political groups and personalities which now replaced the National Front. The basic conflict in the NRM appears to have been between the professional white-collar workers on the one hand and the bazaari and religious spokesmen on the other. Within each of these groups, too, there was a divergence between the moderates and the radicals.

Allahyar Saleh was the leader of the NRM, and his Iran party was its largest component. He had the support of moderate intellectuals and nonparty nationalists who were predominantly in the second echelon of the movement's leadership. An equally influential group of nonparty members, including men from the bazaar, considered Saleh ineffectual, indecisive, and hampered by his idealism. The arrest and exile by the government of three of Saleh's supporters in 1955 gave his opponents an opportunity to make their strength known. A new leader of the nonparty members, Mullah Zanjani, stepped forward to fill the vacuum left by the arrests and succeeded in forcing Saleh out of the NRM central committee.

The struggle then became one in which the Iran party dominated one faction and the NRM central committee the other. The NRM was at the peak of its power between 1955 and 1957, but after the arrests of many nationalist leaders in the fall of 1957 it went into a decline and, except for occasional pronouncements, was relatively quiet.

In 1958 the name National Resistance Movement was adopted by a group of about 50 energetic young men under the leadership of Rahim Atai. None was well known to the public. This group had a highly effective clandestine section and tight discipline and apparently was anxious to undertake an action program. Attempts at combining with other nationalists were not successful; although the goals could be agreed upon--anti-Communism, political freedom, reforms, and

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a figurehead role for the Shah--the method of attaining them could not. The Iran party in particular was reluctant to risk a program which would almost certainly result in strong government suppression.

Present Status

As a result of public statements of the Shah and the prime minister that the 1960 parliamentary elections would be free, the various nationalist groups took steps to revive the National Front in order to exploit whatever prospects the elections might present. The moderate nationalists saw a chance to reassert their leadership. The new National Front was organized on 21 July 1960 under the leadership of Allahyar Saleh. Constituent groups included the Iran party, the Pan-Iran party, the People's party, the NRM, and a part of the Third Force. Individual nationalists also joined.

The Front had little direct effect on the elections. It appeared to be weak, lacking in unity, and apathetic, and it was another group--a temporary coalition of conservative independent politicians led by Ali Amini--which highlighted the rigging of the elections and helped secure their cancellation. Nevertheless, one of the immediate results of the cancellation was a strengthening of the Front.

The Front was further strengthened by public reaction to the rigging of the second elections in January 1961, in which, however, the government permitted Saleh to be elected as "proof" of their freedom. The nationalists were

also apparently heartened by the belief that a change in American policy toward Iran would favor their rise to power.

Divisions again arose between the right and left wing of the Front, and the NRM

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In May 1961, the cleavage deepened and the NRM changed its name to the Freedom Movement of Iran and took as its primary objective the return of Mos-sadeq to power.

The collapse of the Sharif-Emami government following riots by teachers demanding higher pay gave the Front a new chance to make its influence felt. Although it did not instigate or participate directly in the demonstrations, the fall of the government was generally regarded as a victory for the nationalists. The Front gained in stature, and on 17 May 1961 held a public rally for which it was able to muster a crowd numbering 30,000 to 40,000. Amini, the new prime minister, aware of the potential of the National Front, has sought both to cripple its activities and to deprive it of issues.

One well-educated Iranian who is active in nationalist circles described the National Front as an association of persons with many different political views but without a sophisticated ideology. He described the Front's present primary objectives as "to re-establish the existence of constitutional freedom, adequately and equally applied to people of all political

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stripes, to clean up graft and corruption, and to restore dignity and prestige to the institutions that are established under the constitution and to have them function properly with proper regard for governmental responsibility to the people.

The statutes of the National Front describe the party's objectives as being "to secure all rights and freedoms recognized for the nation of Iran by the Fundamental Laws of Iran and the World Declaration of Human Rights." Membership is described as open to those who "in the course of campaigns launched by the sacred National Movement of Iran proved themselves as servants, loyal, honorable, and persistent...who have never been active against the sacred National Movement."

The stated objectives of the National Front could probably be subscribed to by most non-National Front opposition politicians, and Prime Minister Amini has described his program in a similar vein. Basic to the National Front approach, however, is the assumption that only the Front is capable of carrying out the program and that anyone else would fail, even with an identical program. Consistent with this belief is the Front's refusal to cooperate with Amini. The moderate nationalists, as represented by Saleh, generally favor a peaceful solution to the country's problems, retention of the Shah, although with greatly reduced influence, and a neutralist but anti-Communist position in domestic and international affairs.

Communist Influence

There is little direct evidence of Communist activity in the National Front. Its leaders are well known and their political orientation appears well established. Whatever Communist influence there is probably

is on the lower level of the membership. The Tudeh party through its broadcasts from Leipzig has proclaimed its support for the National Front and its goals. On 9 June, however, a Tudeh broadcast took the Front to task for temporarily abandoning demonstrations and strikes. The party declared the Front had made a mistake in trusting Amini and it appealed for the formation of a united front of all national forces and the legalization of the Tudeh.

Tudeh members in Tehran have been reported to be cooperating with the Front without question in order to "strengthen the National Movement against the present government," and to have stated that this cooperation would continue even without any sort of formal agreement. 25X1

The failure of the National Front to make the gains desired by its followers could lead to a drift of the rank-and-file membership away from the moderates toward the more extreme leaders and even to the Communists. If the Tudeh party succeeded in achieving a united front, it probably would be able to regain its strength and become the most powerful political influence in Iran. 25X1

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