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10 August 196

CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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

EAST-WEST RELATIONS Page 1

Khrushchev's speech of 7 August on Germany and Berlin climaxed a series of Soviet pronouncements last week which illustrate the Kremlin's effort to maintain a careful balance between appeals for negotiations on the one hand, and threats and moves to strengthen Moscow's position on the other. Khrushchev has urged the West to begin negotiations and to take the initiative with a specific proposal. At the same time, he has sought to sharpen the impression that, in the absence of a negotiated settlement, Western countermeasures cannot deter the USSR from concluding a separate peace treaty and transferring Berlin access controls to East Germany this year. The immediate Soviet aim of this combined tactic is to generate pressure for early negotiations and to shift the blame to the West for heightening tensions over Berlin.

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BERLIN Page 4

The flow of East German refugees to West Berlin has continued to register a steady over-all increase. Thus far, attempts to reduce the flow have relied for the most part on an intensification of existing police measures. Steps are being taken to strengthen the Security Alert Police in and around Berlin, and there is an urgent recruiting drive under way to bring the border police up to full strength by 1 September. At the same time, the regime is continuing efforts to reduce imports from West Germany--chiefly by finding alternative sources in the West--in a move to offset a possible West German treaty. The deterioration of the domestic food supply appears to have been checked temporarily.

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BIZERTE Page 6

The special General Assembly session on Bizerte sought by the Afro-Asian bloc is to begin on 21 August. Meanwhile, Tunis and Paris are each waiting for the other to take the initiative to open discussions in Bizerte. The Tunisians are strengthening their positions in the area, and have complained of an increasing number of French over-flights. The Tunisian press is contrasting the "failure" of Bourguiba's special envoy to Washington with the "success" of a mission to Moscow which reports it has been assured of Soviet support if new fighting should break out.

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FRANCE-ALGERIA Page 7

PAG leaders have reiterated their readiness to resume negotiations provided the French offer some new formulation on the Sahara. They presumably are also waiting to see whether the National Council of the Algerian Revolution, scheduled to meet soon, endorses the PAG position. De Gaulle has probably not abandoned hope for successful negotiations, but has his government working on possible unilateral solutions of the Algerian problem. [redacted]

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[redacted]

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CONGO Page 10

The near-unanimous acceptance of Premier Adoula by a previously divided parliament appears to have convinced both Gizenga and Tshombé that they must reach some accommodation with the new central government. Although Gizenga continues to receive support from the UAR, [redacted]

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[redacted] his followers appear willing to participate in the Adoula government. Adoula has stated that his government will follow a policy of "non-alignment" in international affairs and accept aid from any quarter. The Elisabethville government appears shaken by events in Leopoldville and by Adoula's warnings that Katanga must reunite with the Congo. [redacted]

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LAOS Page 11

The talks between Souvanna Phouma and Prince Boun Oum resulted in only slight progress toward formation of a coalition government. Souvanna has returned to Xieng Khouang Province to confer with Souphannouvong as well as to bolster the morale of his neutralist supporters. There have been small-scale military actions in several areas in the past week, and there are indications that fighting between the Meos and Kong Le - Pathet Lao forces in Xieng Khouang Province will be intensified. [redacted]

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CUBA Page 12

The recent currency changeover is to a degree a forced loan from the public and will considerably enhance the regime's financial position in the short run. During the changeover the regime suspended nearly all international traffic in order to prevent the conversion of Cuban currency held abroad. A Brazilian-Cuban trade agreement, which would primarily serve political purposes in view of the rather limited possibilities of trade between the two countries, reportedly is being considered.

[Redacted]

DOMINICAN REPUBLIC Page 13

President Balaguer's program for liberalizing the Dominican Republic's political system has suffered a severe setback from excessive police measures against impromptu opposition demonstrations on 4 August. Opposition resentment is high, and there may be further outbreaks. Moderate dissident leaders still maintain they intend to follow a course of nonviolence, but they are faced with increased pressure for revolutionary action. The largest opposition group is seeking US intervention, claiming that unless the US acts promptly it will encounter great bitterness and disillusionment.

[Redacted]

BRITISH GUIANA ELECTIONS Page 14

The Communist inclinations of Cheddi Jagan and other leaders of the ruling People's Progressive party (PPP) have been the principal issue in the increasingly acrimonious campaign for the British Guiana legislative elections on 21 August. Observers expect the elections to be close, with Jagan slightly favored to win. In any case, the PPP's well-disciplined organization will probably win enough seats to prevent either of the two main opposition parties from forming a stable government.

[Redacted]

SOVIET PARTY RULES REVISED Page 15

The new Soviet Communist Party Statutes call for the replacement of at least six members of the presidium at the 22nd party congress in October but do not appear to have altered the basic principles of party operations. The statutes, which govern the organization and activities of the party, have been completely rewritten to incorporate much of the language of the recently published party program. The requirement for a specified minimum in the turnover of the membership of party committees and bureaus at each level in the hierarchy will create the impression of safeguards against a return to one-man rule. It will also give more Communists the prestige of party office.

[Redacted]

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PEIPING STEPS UP ANTI-AMERICAN PROPAGANDA Page 16

There has been a sharp upsurge of anti-American venom in Peiping's public commentary following the recent announcement of new US military measures. In contrast to the recent affable approaches by Chinese Communist diplomats to US representatives in Europe, the Chinese now charge that the Kennedy administration has exceeded the "brinkmanship" of its predecessor and is trying to gain its ends through "limited war." They call on the bloc to concentrate on an unceasing "head-on struggle" against the US--language which echoes the line Peiping took during the Sino-Soviet dispute last year.

INDUSTRIAL PROBLEMS IN COMMUNIST CHINA Page 17

Recent reports of production declines, stoppages, and related problems in China's industry reflect the cumulative effects of economic difficulties brought on by the excesses of the "leap forward," two successive years of poor crops, widespread food shortages, the withdrawal of Soviet technicians, and generally inept planning and leadership. The "leap forward" effort strained both men and machines, and reports suggest that over the past six months malnutrition and lowered caloric intake have affected not only the morale of the workers but also their physical ability to carry a full work load. Reduced working efficiency is believed to be a contributing factor in current shortages of coal and iron ore, which are in turn causing local stoppages in heavy industry.

MIKOYAN'S FORTHCOMING TRIP TO JAPAN Page 19

First Deputy Premier Mikoyan's trip to Japan to open a Soviet trade fair on 15 August--the first visit to that country by a top Soviet leader--reflects Moscow's desire to offset Japan's continuing strong suspicion and mistrust of the USSR. Mikoyan's visit will be the high point of a prolonged Soviet effort to stimulate Japanese interest in trade with the USSR. He undoubtedly will use the occasion to offer even greater prospects for increases in Soviet-Japanese trade, which more than doubled in 1960. The visit is certain to focus Japanese attention on this marked growth in trade and on the possibilities of further expansion in the immediate future.

NORTH KOREA AND JAPAN RENEW REPATRIATION AGREEMENT Page 21

North Korea and Japan have agreed to a one-year extension of the 1959 Calcutta Accord, under which nearly 70,000 Koreans in Japan have been repatriated to North Korea. Pyongyang values the program as an irritant to Japanese - South Korean relations and has consistently maneuvered

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to prolong it. Initial press commentary in Seoul has been adverse

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INDIAN DEFENSES ON NORTHEASTERN FRONTIER Page 22

The Indian Army is continuing its efforts to improve its defensive position in the northeastern frontier area opposite Tibet, despite differing views in New Delhi on the immediacy of the Chinese Communist threat. Indian leaders feel that in view of the continuing Sino-Indian impasse they must be prepared for further Chinese encroachments in this area, where they feel most vulnerable.

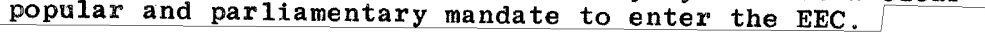
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BRITAIN AND THE COMMON MARKET Page 23

Britain's application for membership in the Common Market (EEC), formally submitted on 10 August, has been widely hailed as a milestone in the European movement. Negotiations on accession, however, are likely to be difficult. The Common Market is already a going concern in which national, bureaucratic, and commercial interests are deeply entrenched, and its members are loath to make major changes in the EEC treaty. Macmillan for his part will be limited in his maneuverability by lack of a clear popular and parliamentary mandate to enter the EEC.

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ITALY Page 24

Premier Fanfani's trip to Moscow last week seems to have been aimed primarily at further strengthening his government's domestic position following the vote of confidence the Chamber of Deputies gave him in mid-July. He reportedly took a "very firm" line with Khrushchev and now may be encouraged to push harder for Italian participation in big-power meetings.

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SPECIAL ARTICLES

THE USSR'S ROLE IN THE CONGO Page 1

Soviet influence in the Congo reached its high-water mark during the ascendancy of Patrice Lumumba, and then declined on his overthrow and arrest last September. A year ago, when Soviet leaders saw an excellent opportunity in the Congo to advance their goals for the entire African continent, Moscow's objective of unifying the country under Lumumba coincided with the aim of many independent African states. Soviet leaders, however, underestimating

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the extent of Afro-Asian support for the UN organization, overplayed their hand, and bloc aims suffered a severe setback as a result of Moscow's inability to exert decisive influence on Congolese developments. Today, nevertheless, with political forces and structures still in flux, the Congo remains a potentially fertile ground for bloc activity.

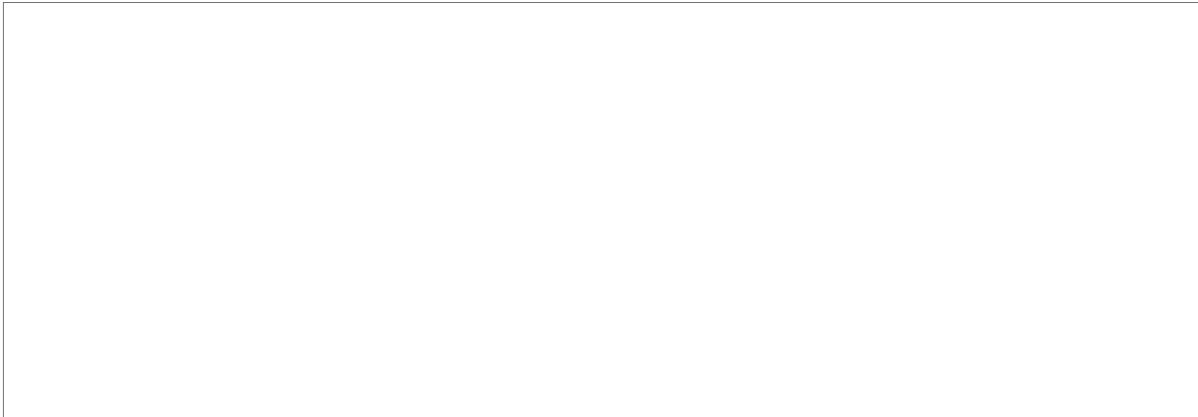
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COMPARISON OF SOVIET AND US INDUSTRIAL PRODUCTION Page 7

Moscow's economic statistics for the first half of 1961 indicate that in production of most basic commodities--such as steel, oil, and electric power--the USSR continued to narrow the US lead. Some consumer-oriented industries, however, remained much at a standstill for a variety of reasons, including an insufficient supply of agricultural raw material and the changeover in light industry to the seven-hour day. The Soviet goal is to match US production of major industrial items by 1965 and to reach the present level of total US production on a per capita basis by 1970.

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WEEKLY REVIEW

EAST-WEST RELATIONS

Khrushchev's speech of 7 August climaxed a series of Soviet and bloc pronouncements last week on Germany and Berlin. This speech--as well as the Soviet notes of 3 August, Khrushchev's remarks during Italian Premier Fanfani's visit, and the Warsaw Pact meeting--illustrate the Soviet leaders' attempts to maintain a careful balance between appeals for negotiations on the one hand, and threats and moves to strengthen their position on the other.

Khrushchev has urged the Western powers to begin negotiations and has made it clear that specific proposals are up to the West. At the same time, he has sought to sharpen the impression that, in the absence of a negotiated settlement, the USSR cannot be deterred from concluding a peace treaty and transferring access controls this year. The over-all aim of these statements is to shift the blame to the West for heightening tension by resorting to a military build-up and failing to respond to Soviet overtures for negotiations.

Khrushchev's Speech

In his radio-television address, Khrushchev adopted a general line on Berlin which suggests that he feels obliged to emphasize in increasingly stronger terms that the USSR will not be deflected from its declared intentions on Berlin by any measures the Western powers may take. Khrushchev adamantly asserted that the Soviet Union could not renounce its policy on a peace treaty or agree to a delay of several years. Such a course, he contended, would be taken by the

West as a "strategic" breakthrough and a Soviet retreat "under pressure."

Khrushchev accused the President of using threats against the USSR and presenting a "kind of ultimatum." He also went to some lengths to portray the current situation as precarious, and "frankly admitted" that it was not possible to exclude the threat of a military attack by the West. He warned that a war over Berlin could not be limited to a conventional conflict in Europe and that the Soviet Union would be prepared to retaliate against American bases "throughout the world."

Khrushchev used these allegations that the West was pushing toward the brink of war to justify possible Soviet countermeasures. He stated that a partial mobilization of reserves might be necessary to prepare Soviet forces for any eventuality. He also foresaw a possible transfer of Soviet divisions inside the USSR to the western frontier.

He stressed, however, that these moves were only precautionary steps and "reciprocal" in character, since the US had announced measures of a "mobilization nature." Khrushchev was also careful to play down the necessity of a full-scale industrial mobilization. He cited the "preliminary opinion" of the party central committee and the government that further increases in the defense budget would not be necessary. He explained this on the grounds that circumstances did not warrant imposing additional hardships on the Soviet people.

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The general intent of Khrushchev's presentation on military steps appears designed more to impress the West with his determination than to alarm the Soviet public. He invoked the authority of the central committee and the Soviet Government to back up his repeated assurances that the USSR was seeking a negotiated solution. He appealed to the Western powers to display reason and join the USSR at the conference table, and he reassured his Soviet audience that the USSR had passed through similar "acute situations" in the past without war.

On the substance of the Berlin and German issues, however, Khrushchev held to his unyielding position. He reiterated that a separate peace treaty would be signed with East Germany and would invalidate all existing agreements on Berlin access. While he again asserted that there would be no blockade of Berlin or infringement of the "legal interests" of the Western powers, he added that the West would have to deal with the Ulbricht regime after a separate treaty. Finally, Khrushchev offered to accept in the context of a peace treaty settlement the "most effective guarantees" for Berlin.

Warsaw Pact Meeting

On the eve of Khrushchev's speech, the Warsaw Pact countries published a communiqué intended to demonstrate bloc solidarity behind the USSR and East Germany. The communiqué stressed the bloc's "inflexible determination" to conclude a peace settlement this year and sought to create the impression

that plans for a separate treaty were being stepped up, but made no reference to bloc-wide military preparations.

A negotiated solution was also highlighted as the preferred course. A clear distinction was drawn between the situation in West Berlin if the Western powers agreed to a treaty and the city's situation if they refused. The pact members asserted that "reliable and effective guarantees" for Berlin and access to it would be included in a peace treaty with the two German states. In the case of a separate treaty, however, communications with the outside world would be dependent on "agreements which will be concluded with the GDR."

The timing of the Warsaw Pact meeting to coincide with Western consultations in Paris was a further example of Moscow's intention to duplicate Western moves. This was also the general approach adopted by the Soviet notes of 3 August answering the notes of the Western powers and Bonn. Having characterized the Western notes as essentially confined to "old positions," the Soviet leaders concentrated on recapitulating their position and refuting Western charges in a relatively moderate but lengthy polemic on the necessity of a German peace treaty.

The note to the US warned that the Soviet Union would not be dissuaded from its policy by the affirmation in the American note that a treaty with East Germany "would have no validity in international law." The note claimed that by refusing to negotiate a treaty, the US would place itself in position of having the West Berlin problem

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decided without it, "with all the consequences flowing from this for the rights of the Western powers based on the capitulation of Germany."

The notes attempted to demonstrate some flexibility on negotiations. They stated that the USSR is ready "once again" to begin negotiations and would proceed with a separate peace treaty with reluctance.

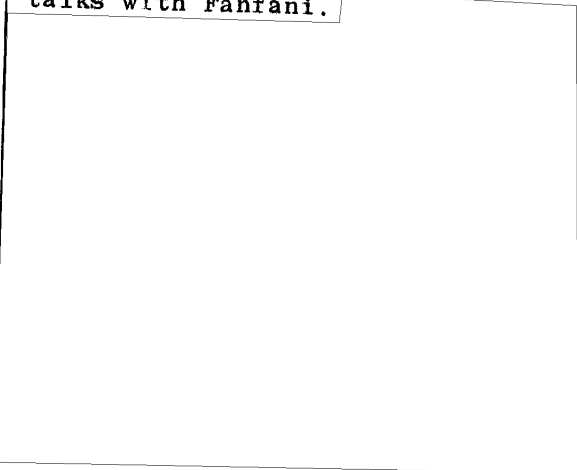
The note to the US refers to the abortive Paris summit meeting and points out that while the USSR took into consideration the change in the US Government, "the idea of discussing the problem of a peaceful settlement with Germany" was never considered "buried." In an apparent reminder of the Soviet offer shortly before the Paris conference for a two-year interim agreement on Berlin, the Soviet note stated that Khrushchev did not go to Paris "empty-handed." This statement was apparently intended to reconfirm the offer of an interim solution contained in the aide-memoire given President Kennedy in Vienna on 4 June.

All three notes to the Western powers invite them to make proposals. The free city proposal is described as showing the Soviet Union's readiness to settle the status of West Berlin after a peace treaty. No deadlines for a peace treaty are given, but the note to Bonn states that "one way or another" a peace treaty will be concluded this year.

Fanfani's Visit to Moscow

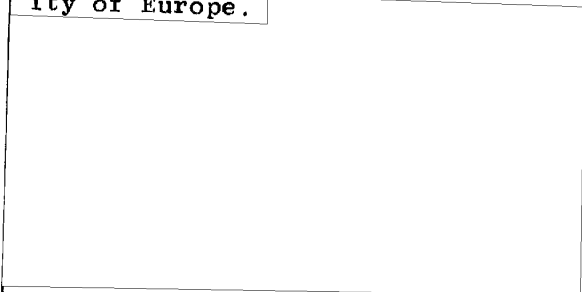
Khrushchev's offer to open negotiations and his expressed determination to reach a settlement by the end of the year

were also highlighted in his talks with Fanfani.



As in his 7 August speech, Khrushchev dwelt at some length on the military consequences for Europe of a war over Berlin and stressed Soviet military superiority and the vulnerability of Europe.

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In the only notable public statement during Fanfani's visit, Khrushchev provided a brief summary of the essence of his current policies. He emphasized that the USSR would continue to make "every effort" to convince the West to reach an agreed settlement on a peace treaty "before the end of the year"; but if there were no agreement, Khrushchev added, the bloc would be faced with the necessity of signing a separate treaty.

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BERLIN

Under the impact of the bloc's announced determination to sign a separate treaty with East Germany in the event negotiations with the West fail, escapes to West Berlin have continued to increase. A total of 13,349 refugees registered at the Marienfelde reception center between 1 and 9 August, and the flow appears to have been stimulated by Khrushchev's threatening television speech on 7 August.

The Ulbricht regime has been relying to date on scare propaganda and an intensification of existing police controls in an attempt to reduce the flow. Regime leaders are faced with the dilemma that the actions necessary to halt it would intensify existing popular discontent in East Germany.

The regime is using open coercion to pressure "border crossers"--East Germans and East Berliners who work in West Berlin--to give up their jobs. In the latest phase of this campaign, East Berlin city officials are forcing border crossers to register with authorities and to pay their rent and utility bills in West marks at the legal rate of one West mark to one East mark. Failure to do so could mean heavy penalties, including three-year prison terms. West Berlin officials have countered this tactic by increasing the proportion of West marks paid to border crossers.

The regime is trying to increase the capabilities of its Security Alert Police (SAP) and Border Guard (BAP) units.

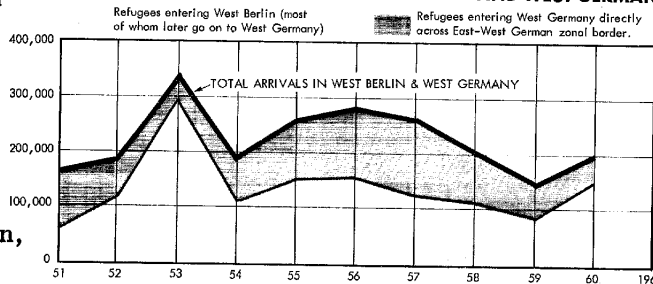
a major reorganization, which also involved the movement of significant SAP forces into East Berlin, was in progress, with a 1 September deadline. A recruiting campaign also is in progress for the armed forces.

Concurrently, the regime is moving to improve its position in the event West Germany

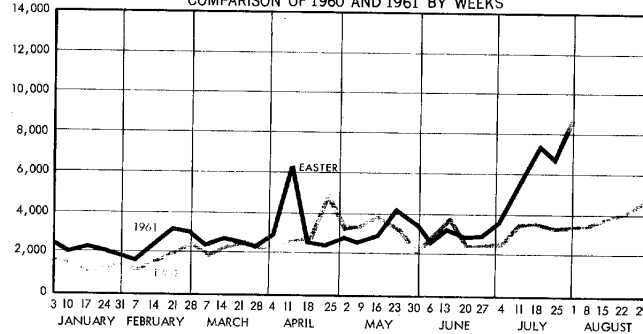
resorts to economic countermeasures if and when a separate treaty is signed. Some planned long-term investment projects requiring imports from West Germany are to be delayed until other sources of supply are found. Projects well under way and those of high priority presumably are excepted from these plans. The regime is seeking to replace imports from West Germany with goods from other West European and NATO countries, particularly the UK, France, and Switzerland, either by importing directly or by using other bloc nations as middlemen.

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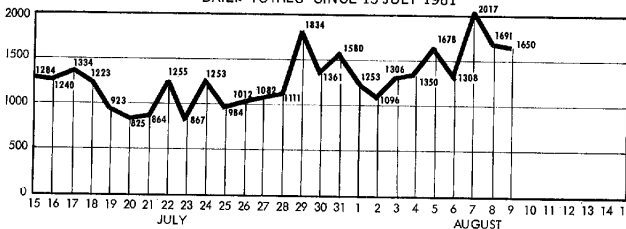
TOTAL ANNUAL REFUGEE FLOW INTO WEST BERLIN AND WEST GERMANY



WEST BERLIN REFUGEE TOTALS
COMPARISON OF 1960 AND 1961 BY WEEKS



DAILY TOTALS SINCE 15 JULY 1961



A significant reduction of East Germany's current dependence on imports from West Germany--especially of steel--would require East Germany and other bloc countries to make costly

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economic adjustments. The decision to delay some of the less important long-term investment projects requiring imports from West Germany will affect only a very minor portion of current interzonal trade.

East Germany this year has increased its efforts to shift to other West European countries as sources of needed imports. Although West Germany continues to provide by far the major portion of East German imports from West Europe, the relative importance of trade with other NATO countries has greatly increased.

The deterioration of the food supply situation in East Germany appears to have been checked during the last two weeks, and there is little immediate danger of a further deterioration. Supplies of bread, vegetables, and potato substitutes--such as macaroni--appear to be satisfactory, although [redacted] butter rationing and sporadic shortages of meat continue. The spring harvest has helped, and government pressure is still being applied to maintain an orderly market supply of foods. Continued references by the regime to a high mortality rate among livestock, coupled with feed shortages, portend a decline in the domestic production of meat, milk, and butter during the remainder of 1961. Although the regime claims it will not increase food imports above the 1961 level, those already planned will tend to offset the anticipated decline in food supplies.

In West Berlin, although the "stanchness" of the city's leaders remains ostensibly unimpaired, the US Mission believes that their outward optimism appears to shield greater doubt regarding the future of the city than at any time since the Soviet ultimatum of November 1958. The morale of political and public leaders is subject to "more fluctuations" than previously as new East-West negotiations draw near. Berlin's leaders still believe that the USSR does not want war and remain convinced that the West

will not yield on the question of West Berlin's freedom.

The US Mission reports that the Berliners are, however, apprehensive that what they consider to be vital elements of Berlin's present status may be "bargained away." They base their fears on what they refer to as the willingness of certain "political and opinion-forming groups" in the United States to make "damaging compromises" and on their belief that the British eagerness to negotiate reflects a readiness to make unilateral concessions.

Khrushchev's attacks on West Germany have evoked bitterness and resentment in Bonn government and political circles. The deputy chairman of the Social Democratic party expressed deep gloom over the situation in general and thought that Soviet space achievements had perhaps blinded Khrushchev to realities of the world situation. He stated that he thought Khrushchev's speech was well written, ably delivered, and likely to have "maximum effect everywhere." American officials in Bonn sum up current West German political and public opinion as an unconscious blending of fear of nuclear war, fear of a Western surrender to the Soviet demands, and an almost "pathetic" reliance upon the Western powers and especially the United States to find a solution avoiding both war and significant concessions.

On 4 August, Defense Minister Strauss stated that plans were being made to complete the build-up of West Germany's eight divisions assigned to NATO, which are now at 70 to 80 percent of authorized strength. Strauss also announced new commitments totaling \$550,000,000 for the purchase of military equipment in the United States and Great Britain. Economics Minister Erhard and Finance Minister Etzel told a Christian Democratic campaign rally on 4 August that the German people must be willing to make sacrifices for the defense of liberty. [redacted]

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****BIZERTE**

The special General Assembly session on Bizerte sought by the Afro-Asian bloc has been set to begin on 21 August. Bourguiba late last week authorized his representatives in New York to hold back on an emergency session in the hope that the Western foreign ministers' meeting in Paris might persuade De Gaulle to make some conciliatory gesture to break the diplomatic deadlock on Bizerte.

Tunis and Paris, meanwhile, are each waiting for the other to take the initiative to open discussions in Bizerte. Tunisian Defense Secretary Ladgham confirmed to the American ambassador on 7 August that the governor of Bizerte had instructions to "welcome any constructive move" such as a telephone call from the French consul general in Bizerte saying he had instructions about "normal (intrabase) communications." The consul general affirmed the same day that he had no instructions regarding substantive discussions and indicated that he saw his role as the performance of routine consular functions.

Foreign Minister Couve de Murville had stipulated that Paris' minimum requirements call for a bilateral meeting at Bizerte, although not necessarily with the French base commander--who remains anathema to the Tunisians. Couve said that when such a meeting occurred, the French would specify the hour when French troops would withdraw from positions held outside the Bizerte base complex and the Tunisians would indicate that they would not inter-

fere with normal intrabase communications. A joint communiqué would outline the points agreed on. When normal conditions had been restored, France would agree to enter into negotiations on Bizerte's future on the basis of De Gaulle's statement that France did not intend to remain in Bizerte forever.

The US Embassy in Paris believes that the Foreign Ministry is operating within boundaries fixed by De Gaulle which do not permit any consideration of third-party or UN intervention. Paris has been suggesting that diplomatic channels are the proper means for solving the entire Bizerte problem.

The Tunisians have frequently reiterated their willingness to guarantee intrabase communications, but apparently continue to insist that they can take no initiative in breaking the deadlock until France complies with the Security Council's resolution of 22 July recommending the pulling back of forces to positions held before the outbreak of fighting on 19 July.

Meanwhile, on 8 August, Ladgham called Ambassador Walmsley's attention to the increasing number of violations of Tunisian air space by French military aircraft. He claimed that planes frequently fly at treetop level and that flights--formerly conducted mostly at night--now are "around the clock." Another Tunisian official has warned that if these provocations continue, Tunisia may retaliate and inform the

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Security Council it had acted under Article 51 of the UN Charter, which guarantees the right of self-defense in the event of an attack.

The Tunisian press and radio are contrasting the "failure" of Bourguiba's defense minister in Washington with the success of the foreign minister's visit to Moscow. The \$27,500,000 ten-year credit announced in a joint communiqué following the visit appears to have been under discussion since January, when it was announced that the USSR would assist in the construction of three small dams and a school for engineering. En route home from Moscow, the minister had visited Prague and Warsaw, and is expected also to stop in Belgrade.

The Tunisian Arabic-language press claims that a military agreement with the UAR was signed in

Cairo on 7 August and that supplies are "to begin arriving this week." Any forces which arrive are expected to be small in size and not significant to the over-all situation. Tunisia's greatest need is for material, not personnel, and Tunisian officials apparently continue to want equipment without technicians.

The proffered medical mission and supplies from the UAR, as well as a mission from Kuwait, arrived early this month. The UAR mission has visited Bizerte and the hospitals where the wounded are being treated, and some Tunisian officials have

voiced their concern that this unit is "so completely military." Tunisian embassies abroad continue to inscribe the names of volunteers; Bourguiba, who has twice solicited token forces from "friendly nations" to support him in his struggle, probably is still unwilling to admit foreign forces at this juncture.

FRANCE-ALGERIA

PAG leaders are reiterating their readiness to resume negotiations and appear hopeful that international pressures and the prospect of another UN debate will prompt a Paris initiative. The PAG has requested that discussion of the Algerian problem be scheduled late in the UN General Assembly session "in order to give more time for successful completion of negotiations." In any event the PAG probably would like to bolster its position by ob-

taining UN endorsement of its position that the Sahara must be an integral part of any Algerian settlement.

The National Council of the Algerian Revolution (CNRA) is scheduled to convene this month, probably in Libya. The CNRA, the 62-member "supreme governing body," which combines military and political representatives of the Algerian rebel movement, has not met since January 1960. During the Evian

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and Lugin talks, the PAG sought to use the threat of a CNRA meeting--as top PAG negotiator Belkacem Krim put it--"to bring the French to their senses," since the CNRA would, according to the PAG, inevitably install an even tougher PAG line-up.

Present PAG leaders appear to feel that it is only a matter of time before France will capitulate. Ultimate PAG strategy depends on which way De Gaulle decides to go--toward meeting PAG demands on the Sahara, or toward regroupment or the establishment of a "third force" in Algeria without the FLN. Until Paris' course is set, the PAG will probably contain its internal struggles, present a public position of unity, and hold to its course, although some concessions may have to be made to mollify the "hard-line" military types. These may include allusions to future acceptance of substantial Sino-Soviet aid--and the addition of some "hard-liners" to the PAG. A PAG delegation is scheduled to attend the 1 September meeting of "nonaligned states" in Belgrade, where it will endeavor to obtain further support.

French officials stress their belief that the Bizerte problem rather than the issue of Saharan sovereignty caused the breakoff of negotiations. Although this belief would seem to hold out some hope that talks could be resumed if France and Tunisia reached an agreement, French comment regarding future negotiations has been pessimistic, and Paris may be trying to play

down the effect of the French refusal to treat the Sahara as part of Algeria. In a conversation with the American consul general at Algiers on 5 August, Minister for Algerian Affairs Louis Joxe and his chief assistant said the prospect of negotiating anything with the present PAG team was not good.

In reviewing other methods of easing the Algerian burden on France, Paris may again be considering the establishment of a Moslem-European government not formally under PAG control. Joxe's deputy recently pointed out that the referendum of 8 January 1961 provided for the establishment of executive and legislative bodies and the assignment of government responsibilities to Algerians. He said that another referendum could determine areas of Algeria in which a majority wished to remain with France. He thought regroupment of populations within those areas would provide an internationally acceptable method of transferring sovereignty, presumably both in areas the PAG controlled and in those which voted to retain ties with France.

[redacted] the government may again be examining the possibility of finding a Moslem "third force" to which power might be transferred. The US Embassy in Paris reports extensive regroupment planning under way, however, and it is not clear whether Paris intends an independent third-force government to have control of all or just the French-sponsored part of Algeria. [redacted]

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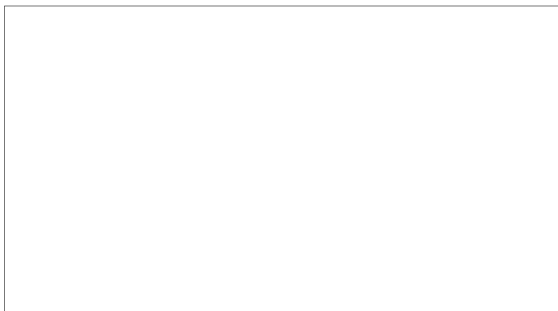
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CONGO

The government which emerged from the week-long session of the Congo parliament on 3 August represents a coalition of moderate splinter parties together with a considerable number of at least nominal Gizenga adherents. In the absence of delegates from Katanga, one vice premiership went to anti-Tshombé leader Jason Sendwe and the other to Gizenga. About half of the cabinet and lesser posts were filled with persons associated in various degrees with Gizenga, although such persons will not necessarily prove responsive to him in their new posts.

Cyrille Adoula's accession to the premiership--by near-unanimous approval--represents at least a temporary setback to Gizenga, whose spokesmen had claimed they controlled sufficient votes in parliament to install him as premier. Although his followers appear prepared to participate in the Adoula government, Gizenga has not said whether he will go to Leopoldville.

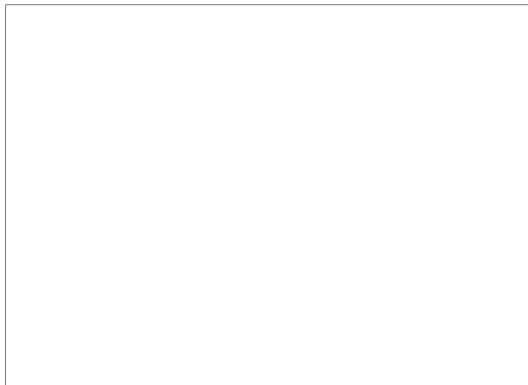


Gizenga seems to have to choose between taking up his vice premiership under Adoula under the best terms he is able to obtain, or remaining in Stanleyville with the risk that his followers will gradually desert him to form new alliances in the fluid political arena in Leopoldville. On 7 August, [redacted]

[redacted] Gizenga informed the bloc and neutralist diplomats

in Stanleyville that the Adoula government is the only legal Congolese regime. He did not, however, commit himself to participate in the government.

Adoula has stated that his government will follow a policy of "nonalignment" in international affairs and will accept aid from any quarter provided no political strings are attached. He emphasized his desire to establish a truly national government, to reunify the Congo army, and to resolve the tribal conflicts which have continued to plague the country. Foreign Minister Bomboko was noncommittal when queried by US Embassy officials as to whether Leopoldville would accept the Peiping mission accredited to Stanleyville. 25X1



Adoula's statements since his assumption of the premiership have emphasized his intention to make Katanga an integral part of the Congo again. His warnings of possible military action against the Tshombé regime have been implicitly supported by UN officials, who have reaffirmed that moves by the central government to re-integrate Katanga with the Congo would not be opposed by the UN.

The American Consulate in Elisabethville reports that Adoula's warnings have made a strong impression on Tshombé

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and his followers, and that Tshombé appears to be searching desperately for means of preserving stability in Katanga.

Tshombé apparently is also attempting to improve his relations with Leopoldville and has sent 16 legislators to parliament. Elisabethville insists, however, that its participation in the legislature will not prejudice its claim to a substantial degree of autonomy when the constitution is revised.

Belgian Foreign Minister Spaak has stated that he is "deeply worried" over the possibility that the UN and the Leopoldville government may use force to integrate Katanga into the Congo. Spaak fears that should Belgium support action against Katanga, the Katanga government might confiscate Belgian economic installations and molest Belgian nationals. While Spaak has thus far had the support of most Belgians for his policy of cooperation with the UN in the Congo, new violence directed against Belgians there would undermine his position and could bring about the fall of the Lefevre-Spaak government.

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LAOS

The talks at Phnom Penh between Souvanna Phouma and Boun Oum resulted in only slight progress toward formation of a coalition government. The principal point of agreement was a decision to seek an entirely new basis for formation of a government, rather than to expand either the Boun Oum government or the Souvanna "government" recognized by the Communist bloc.

According to the communiqué issued by the two princes on 4 August, negotiations on the composition of the government are to be conducted by delegations representing them and Prince Souphannouvong--at Ban Namone or "any other place in Laos." Souvanna and Boun Oum will then meet in Luang Prabang--accompanied, they hope, by Souphannouvong--to present to the King "all necessary elements for the appointment of a national coalition government." Souvanna is apparently convinced that both Boun Oum and Phoumi have tacitly

accepted him as the new premier, a supposition which may be premature.

Souvanna has flown back to Xieng Khouang Province, seat of his shadow "government," to confer with Souphannouvong on his conversations with Boun Oum and Phoumi. Nothing was achieved at Phnom Penh that is likely to meet with Souphannouvong's objections, but difficulties may arise over the site of the projected talks. The Pathet Lao has insisted that these negotiations be held at Namone, while the Boun Oum government has sought an alternate site.

There have been small-scale military actions in several areas during the past week. In Xieng Khouang Province, government Meo units have become more aggressive in their harassment of Kong Le and Pathet Lao positions.

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CUBA

The recent currency "reform"--which permitted Cubans to exchange a maximum of 200 pesos of the old currency, required that all in excess of that amount be deposited in the Central Bank and imposed rigid controls on future withdrawals from such accounts--presents the Castro regime with what amounts to a forced loan from the public. It also gives the regime another effective instrument of control.

Announced by the government as a security measure to "prevent the employment of counterrevolutionary resources abroad" against the regime, the currency changeover seems also aimed at halting inflation, providing a census of cash assets, and forcing an increased public savings program. The measure will considerably enhance the regime's financial position in the short run. Those Cubans most drastically affected are already largely disaffected from the regime, but there may be some increased opposition from urban workers whose savings are threatened.

Castro's 8 August comments on the decree setting a 10,000-peso ceiling on bank accounts established under the new currency law betrayed some concern over the difficulty of "not hurting some innocent persons" by such a law. He claimed, however, that "only some 3,000 persons have over 10,000 pesos," and that "the middle classes have been respected; their savings accounts have been respected completely."

To prevent the conversion of Cuban currency held abroad, the regime barred virtually all international traffic for the period of the changeover. Traffic to and from the US naval base at Guantanamo was stopped, and some Cuban employees were turned back as they attempted to return home after work on 4 August.

Che Guevara's speech to the conference combined a bitter attack on US policy in Latin America and alleged plots against the Castro regime with a calculated appeal for Latin American support, including conciliatory references to Cuba's desire to "coexist with the rest of Latin America." According to the Prensa Latina account of the speech, Guevara also said that bloc credits to Cuba now amounted to \$357,000,000, with another \$100,000,000 now being negotiated, and he defined the Cuban revolution as "socialist," whose representative "sits down at a conference of socialist countries and is considered a brother."

A Brazilian study of the possibilities of expanding Cuban-Brazilian trade begun in June has been completed, according to a Prensa Latina report of 2 August, and a Brazilian delegation is to come to Havana to negotiate a formal agreement. The US Embassy in Rio de Janeiro reported that the Brazilian delegation will leave for Havana on 13 August.

A trade agreement between the two countries would be primarily a political gesture, since the principal exports of both countries are competitive and their past exchange has been limited on each side to less than 1 percent of total trade.

The Colombian Government's sharp note to the Cuban Foreign Ministry demanding the immediate release of Colombian Foreign Minister Turbay Ayala and his

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party, who were aboard the US commercial airliner diverted to Cuba on 9 August, may have been instrumental in bringing about the prompt release of the plane and its passengers. The note warned that failure to release Turbay would be considered by

Colombia an "act of hostility." The Mexican Government, which had just played host to the Turbay party, also sent a note to Havana expressing its "confidence" that the plane and its passengers would be allowed to proceed.

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DOMINICAN REPUBLIC

President Balaguer's program for liberalizing the Dominican Republic's political system was dealt a major blow by the excessive measures used by the police on 4 August against impromptu opposition demonstrations and by the overnight jailing of numerous dissidents. These events illustrate the basic difficulties the program faces: the inability of important segments of the public to believe that liberalization is possible as long as General Ramfis Trujillo is in power; the ineptness of opposition leaders and the inclination, especially of younger elements, to take provocative action; and the tendency of the police toward overly severe measures against the opposition.

Opposition elements affected by the police action belong to two groups: the politically moderate National Civic Union (UCN), which has extensive middle-class support, and the 14th of June group, which includes some UCN members but also contains extremely vengeful and uncompromising anti-Trujillo elements. The police found lead pipes and similar weapons in the 14th of June group's headquarters but, despite claims to the contrary, not at the UCN offices. As far as is known, the pro-Castro Dominican Popular Movement was not involved in the violence.

President Balaguer was apparently unaware of the police excesses until well after the event. Ramfis Trujillo may be having some difficulty controlling some of the "old-line"

officers. He had apparently had some success earlier, however, in neutralizing his uncles--Generalissimo Hector Trujillo and General Arismendi Trujillo--who had hoped to restore the dictatorship. The appointment on 3 August of Dr. Francisco Gonzalez Cruz as secretary of state for the armed forces and the earlier shake-up in police commands appear to be steps toward moderation.

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Balaguer and Ramfis are still encountering pressures against liberalization from elements in the armed forces and from other members of the Trujillo family. Both are said to believe that some kind of US recognition or support is imperative if their efforts are to succeed.

Among the opposition, resentment and bitterness are high, and there may be further outbreaks. The moderate leaders of the UCN, who still claim an intention to follow a course of nonviolence, were still dominant in their organization as of 6 August, but pressure on them for drastic revolutionary action has increased. On 5 August, an authorized UCN spokesman "officially" requested immediate US action against "the forces repressing the country." He said his group was prepared to form a provisional government to replace Balaguer's, and added that the US will face great disillusionment and bitterness unless it takes prompt action.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****BRITISH GUIANA ELECTIONS**

The Communist inclinations of Cheddi Jagan and other leaders of the People's Progressive party (PPP) now running the colonial government are the principal issue in the increasingly acrimonious campaign for the British Guiana legislative elections on 21 August. The outcome will probably be determined in those of the 35 constituencies where independents are running against candidates of the PPP and the other two major parties--the People's National Congress (PNC), a Negro racist socialist party, and the multiracial United Force (UF), formed last fall as an anti-Communist party.

Ousted from office by the British in 1953 for seeking to establish a Communist state, the PPP was allowed to return to political life in 1956 and since 1957 has been the ruling party. Full internal self-government, with London controlling only defense and foreign affairs, became effective in July 1961. London designed the new 13-member Senate to act as a brake against extremism, but eight of its members are to be appointed on the advice of the new premier, who is likely to be Jagan. Jagan's US-born wife Janet, considered a more doctrinaire Communist than her husband, reportedly wants to become president of the Senate. Whatever the election outcome, the British plan to grant complete independence in about 1963.

The PPP draws its strength largely from East Indian rural workers; it is running no candidates in six heavily Negro districts. The 1961 redistricting of constituency boundaries has improved the PNC's chances at the expense of the PPP, and Cheddi Jagan faces a hard fight in his own constituency against a popular fellow East Indian who recently defected from the PPP and is running as an independent.

Nevertheless, the PPP's superior organization--probably combined with some intimidation of voters--makes it a formidable opponent.

The PPP leaders, while professing to be socialists, have been less equivocal recently in denying their belief in the inevitable triumph of Communism. A known Communist, the young, Harvard-educated Ranji Chandisingh, is slated for a ministerial post in the event of victory, and at least 14 other PPP legislative candidates are known or suspected Communists. This has already caused some East Indian businessmen to shift to the UF.

The British continue to believe that the PPP will win by a narrow margin. The American consul in Georgetown, however, feels that a narrow majority by either the PPP or the PNC is possible. The UF is expected to win only a few seats. These estimates are partially based on the fact that in the race-conscious colony, approximately one third of the voting-age population is East Indian, one third is Negro, and the rest is mixed.

In any event, the PPP will have a well-disciplined group of representatives in the next assembly, since it is placing members of the party hierarchy with little popular following in fairly safe East Indian districts. It could thus probably thwart any attempt by either opposition party to form a stable government, even if the PPP lost the election. PNC leader Burnham, who had some Communist associations before he split with Jagan in 1955, is widely distrusted as an opportunist. In any case, the bitterness created last spring when Burnham's party failed in an attempt to unite with the UF would make a PNC-UF government hard to arrange.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SOVIET PARTY RULES REVISED**

The new Soviet Communist Party Statutes will require the replacement of at least six members of the presidium at the 22nd party congress in October but do not appear to have altered the basic principles of party operations. The statutes, which govern the organization and activities of the party, have been completely rewritten to incorporate much of the language of the published party program, and include--without elaboration--the few substantive changes called for. These changes are primarily refinements of existing practices.

The principal change is the requirement for a specified minimum in the turnover of the membership of party committees and bureaus at all levels. For example, one fourth of the presidium must be replaced at each regular party congress--normally every four years--and "as a rule" the members will be limited to three consecutive terms. However, this latter provision, which could affect only Khrushchev, Mikoyan, and Shvernik at the present time, need not apply in the case of officials of "recognized authority, high political, organizational, and other qualities." This undoubtedly exempts Khrushchev and Mikoyan, but Shvernik, a relatively minor figure in the presidium who has been in ill health, will probably be dropped.

Others on the 23-man presidium who may be dropped to satisfy the turnover requirement are Kuusinen, who will soon be 80

years old, and Aristov, Ignatov, Kalnberzin, Pospelov, Pervukhin, and possibly Furtseva, all of whom have suffered political setbacks in recent years. The party secretariat is excluded from the requirement for periodic refurbishing.

The minimum turnover at each regular election is one fourth for the central committee in Moscow, and one third for the republic and regional party committees. Half the members of

PERCENTAGE TURNOVER IN REPUBLIC CENTRAL COMMITTEES AT REGULAR PARTY ELECTIONS

THE PROPOSED 1961 PARTY STATUTES REQUIRE A CHANGE OF AT LEAST 33-1/3% OF THE COMMITTEE MEMBERSHIP AT EACH ELECTION. 25X1

Figures in red are below the new norm.

	1952	1954	1956	1958	1960
ARMENIA	33	55	21	19	18
AZERBAYDZHAN	50	51	32	35	43
BELORUSSIA	44	27	12	*	62
ESTONIA	31	32	28	25	29
GEORGIA	56	68	23	26	22
KAZAKHSTAN	36	30	41	*	54
KIRGIZIA	59	24	33	26	52
LATVIA	29	33	26	36	35
LITHUANIA	40	37	35	26	34
MOLDAVIA	31	37	27	28	40
TADZHIKISTAN	48	26	23	29	23
TURKMENISTAN	?	25	23	27	43
UKRAINE	44	24	30	*	37
UZBEKISTAN	61	18	18	*	48

* No elections were held.

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lower party committees must be replaced at their biennial elections. These provisions for "systematic renewal" will result in a considerable expansion in the number of party members drawn into committee work at the lower levels. The net effect on the central committees of the several republics will vary somewhat, but there will probably be a tendency to standardize turnover near the one-third minimum. The percentage of change in the central committees has averaged slightly over 35 percent for the last decade, but has fluctuated widely from year to year and from republic to republic. Half the time, changes have been less than the new requirement.

For 30 years, political factors and normal attrition have made the turnover in the central committee in Moscow run well above the new 25-percent minimum. In 1952, 53 percent were replaced; in 1956, it was 40 percent; almost half the current members seem slated for replacement at the congress in October.

The renewal provisions will create the impression of safeguards against a return to one-

man rule and should increase the incentives for party work by affording more party members the prestige and accompanying status benefits of minor party office.

The new statutes were published in the Soviet press on 5 August instead of 20 August as originally scheduled, probably because more time was needed for "public discussion" of the rules prior to the lower level party conferences which begin later this month. An all-out campaign to explain the program and the rules and register opinion about them has been launched through the party's organizational and propaganda channels. Although the rules will not go into effect until formally adopted by the congress in October, the new provisions will probably be implemented in the elections at the lower echelon conferences and congresses preceding the national meeting.

At the congress, some minor changes--derived from the public discussion--will probably be made in the rules for the sake of appearances, but major revisions are unlikely.

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PEIPING STEPS UP ANTI-AMERICAN PROPAGANDA

The announcement of US military preparations for dealing with the Berlin crisis has been followed by a sharp upsurge of anti-American invective in Peiping's public commentary. The

President's 25 July speech on Berlin was cited by Peiping as evidence that Washington had embarked on "frenzied war preparations," the Chinese have repeatedly condemned US "distortions"

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of Soviet proposals on Berlin and have charged that Washington is trying to use the crisis as a pretext to solve deepening internal economic problems.

Chinese attacks on the Kennedy administration, which have grown progressively shriller since the inauguration, reached a new peak in a People's Daily commentary of 2 August characterizing the administration's first six months as a period of "adventures and failures." The article charges that the President's "aggressive" policies exceed the "brinkmanship" of the previous administration and incorporate the strategy of instigating "limited wars." People's Daily warns, therefore, that the bloc must maintain a heightened state of vigilance because the US is impelled by repeated failures to take increasingly reckless gambles.

The article suggests that bloc strategy should center around a "head-on struggle" against the US--language reminiscent of that Peiping used to belittle the possibility of detente with the US in the course of the Sino-Soviet dispute last year.

Much of Peiping's recent invective has centered on US strategy for keeping Communist China out of the UN. According to the Chinese, the US is planning a series of "provocative incidents" in the Far East designed to involve Peiping in a situation which would underscore its belligerence before the Chinese representation issue comes up at the next UN General Assembly session.

In contrast to the bellicosity of Peiping's public anti-American posture, Chinese Communist diplomats several weeks ago were unusually affable in a series of approaches to US representatives in Europe. The regime's aims in these approaches seem to have been modest: to get a reading on the prospects for change in the new administration's China policy and to emphasize Communist China's unyielding stand on major points at issue. It seems unlikely, in view of the tone of its public utterances, that Peiping had much confidence that these approaches would lead to an early rapprochement.

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INDUSTRIAL PROBLEMS IN COMMUNIST CHINA

Recent reports of production declines, stoppages, and related problems in China's industry reflect the cumulative effects of economic difficulties brought on by the excesses of the "leap forward," two successive years of poor crops, wide-

spread food shortages, the withdrawal of Soviet technicians, and generally inept planning and leadership. The "leap forward" effort strained both men and machines, and reports suggest that over the past six months malnutrition and lowered caloric

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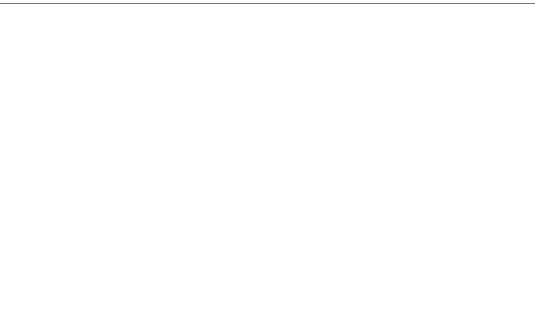
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intake have affected not only the morale of the workers but also their physical ability to carry a full work load. Reduced working efficiency is believed to be a contributing factor in current shortages of coal and iron ore, which are in turn causing local stoppages in heavy industry.

Because coal mines in China are still far from mechanized, the stamina of the labor force has an important bearing on the output of the industry. The widespread indications of food shortages imply a decline in productivity in practically all labor-intensive industries, even though heavy industry has been receiving preferential rations for its workers. The government has even shortened hours and reduced time spent in political meetings in an effort to ease excessive work burdens on food-short workers. Morale has clearly been hurt by the government's failure to fulfill its grandiose promises of the "leap forward" period or even to maintain the previously low standards of living.

The consequences of worker disillusionment and apathy are difficult to calculate in terms of production and efficiency of distribution. However, available information suggests that health problems in 1960 and 1961 have at least slowed production through absenteeism and reduced efficiency on the job. Among the extractive industries, which are dependent on a high level of labor input, it can be assumed that the output of coal and iron ore mines is lagging.

Stoppages in industrial production in recent months have been attributed most often to shortages of raw materials and fuel.



[redacted] The Nanking Hsinhua Daily published an editorial on 29 July defining the current major problem in industry as an "insufficient supply of raw materials and fuel." 25X1

Coal, which has been repeatedly cited [redacted] as a cause for production stoppages, accounts for more than 95 percent of the total production of energy in China. Information is not available to refute or to confirm Peiping's 1960 claim for coal production of 425,000,000 tons. Because of the relatively high content of noncombustible matter included in Chinese coal, however, it is estimated that the 425,000,000 tons claimed for 1960, if expressed in units of energy, would equal only about 300,000,000 tons of standard fuel--an increase of only about 10 percent over 1959. 25X1

The shipment of uncleaned coal from the mines not only puts a heavy burden on the transport system but also disrupts those industrial processes which require consistent standards of quality in their fuel. 25X1

[redacted] reports [redacted] cite complaints of low-quality coal rather than inadequate quantities. The regime's attempt to correct this problem by expansion of coal-cleaning facilities now may be delayed by the cut-back in industrial construction. [redacted] 25X1 25X1

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****MIKOYAN'S FORTHCOMING TRIP TO JAPAN**

Soviet First Deputy Premier Mikoyan's trip to Japan to open a Soviet trade fair on 15 August will be the first visit to that country by a top Soviet leader and reflects Moscow's desire to offset Japan's continuing strong suspicion and mistrust of the USSR. Moscow probably hopes the trip will help to regain some of the political leverage which it felt it had achieved with the fall of the Kishi regime last summer.

There are outstanding chronic irritants in Soviet-Japanese political relations, however--including Soviet occupation of the southern Kuril Islands and continued restrictions on Japanese fishing rights--which pose formidable obstacles to rapprochement between the two countries. More recently, Moscow was annoyed by Japanese Prime Minister Ikeda's trip to the United States. In a speech on 6 July, Khrushchev attacked the trip as proof of Japan's complete subjection to US policies. Moreover, Japan recently refused to permit top Communist party representatives, including Soviet presidium member Mukhitdinov, to attend the eighth Japanese Communist party (JCP) congress.

Mikoyan can be expected to hold discussions with Liberal-Democratic party leaders concerning closer relations with Moscow and will probably hint to them that a serious offer by the Ikeda government to enter into peace-treaty negotiations

might lead the USSR to adopt a less intransigent attitude on the Kurils. Mikoyan will probably also make known to JCP leaders the USSR's continued support for their program of gradual revolution in Japan and cooperation with leftist groups in joint demonstrations against the government.

Although Mikoyan is traveling at the invitation of the Japan-Soviet Society rather than as a guest of the government, the Foreign Ministry expects to treat the visit as semiofficial in order to maintain some control over Mikoyan's schedule, and is attempting to discourage all political activities in connection with the visit and trade fair. Nevertheless, leftist organizations will probably attempt to stimulate widespread celebrations as evidence of public desire for a closer accord with the USSR.

Cabinet officers suspect that Japanese rightists, who are opposed to the visit and have protested to the government that it "runs counter to the national sentiment of the Japanese people," are planning counterdemonstrations. The government, fearing violence, is preparing extensive security measures to prevent a clash between the two groups.

Mikoyan is likely to have much more success in the economic than in the political sphere. His visit will be the high point

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of a prolonged Soviet effort to stimulate Japanese interest in trade with the USSR, and he undoubtedly will use the occasion to offer even greater prospects for trade increases. Although many specific problems remain unsolved and the Japanese are increasingly frustrated by Soviet bargaining techniques, the main obstacles barring the steady development of trade have been cleared away. Like most of the industrial countries in Western Europe, Japan has become a major supplier of Soviet import needs for advanced industrial machinery and equipment.

The trade goals specified in the three-year trade pact signed in March 1960 were surpassed last year; total Soviet-Japanese trade rose to \$147,000,000 from some \$62,000,000 the year before--although trade with the USSR still accounts for less than 2 percent of Japan's total trade. While the balance of trade remained heavily in favor of the USSR, the conclusion of a number of major import contracts by the USSR, including the purchase of \$62,000,000 worth of ships and \$42,000,000 in paper-making machinery, has cut this imbalance in recent months.

Other negotiations for important items included in the three-year trade agreement have collapsed or are bogged down by Soviet price and credit demands. The stimulus of the first major deals, however, has served its

purpose, and Moscow has played up these transactions as an example of the profits to be made in Soviet markets, stressing in particular the position Japan could occupy as a source of imports for the development of the eastern regions of the Soviet Union.

Other indications of the USSR's long-range intention of fostering trade with Japan include the conclusion of three- to six-year contracts for sales of oil, coal, and timber to Japan; the successful bid to increase the size of the Soviet trade mission in Tokyo from 25 to 39 persons; and the recent agreement to allow expansion of Japanese shipping services to the Soviet Far East. Moscow's efforts to encourage exchanges of industrial missions have led to a growing number of such visits in recent months, which probably will pave the way for more trade deals.

The Japanese trade fair in Moscow last summer and the Soviet fair in Tokyo this year are the first exchanges of this kind between the two countries. A proposal by the heads of Japan's two most powerful business associations, the Federation of Economic Organizations and the Japan Chamber of Commerce and Industry, to hold a formal dinner for Mikoyan is indicative of high-level Japanese response to the Soviet efforts to encourage trade.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****NORTH KOREA AND JAPAN RENEW REPATRIATION AGREEMENT**

Japan and North Korea have agreed to a one-year extension of the 1959 Calcutta Accord, under which nearly 70,000 of the more than 600,000 Koreans in Japan have been repatriated to North Korea. The Calcutta Accord, due to expire in November, is a private agreement between the Japanese and North Korean Red Cross societies but has the official backing of both countries. The extension was arranged through an exchange of telegrams between leaders of the two societies. No additional formalities are planned, and the absence of fanfare should to some extent mollify South Korea, which has strongly opposed permitting Koreans in Japan to go to the Communist North.

From the beginning Pyongyang has valued the repatriation program for its effect on Japanese - South Korean relations. Conclusion of the repatriation agreement in 1959 prompted Syngman Rhee to sever trade relations with Tokyo and break off all negotiations with the Japanese. The Chang Myon government, while opposing repatriation in principle, tended to ignore it.

Extension of the accord-- on the eve of renewed talks for a settlement of Japanese - South Korean differences--drew adverse official and public reaction in South Korea.

Although Seoul has indicated that it will "soft-pedal" the repatriation issue providing Tokyo does not press for immediate estab-

lishment of a resident diplomatic mission in Seoul, distrust of the Japanese runs deep, and there have been indications of strong anti-Japanese feelings among the younger officer elements on which the leaders are dependent for support.

Pyongyang's own enthusiasm for the repatriation program has been somewhat dampened by the problems of resettling the 25X1 repatriates, who are accustomed to better Japanese living standards.

Registrations fell off sharply last winter, and Pyongyang temporarily suspended the program in February to allow the Korean front group in Japan time to build up a backlog of applications. The Koreans in Japan continue to show reluctance to return to North Korea; at the 70th sailing on 4 August only 737 out of more than 1,000 registrants who were alerted appeared at the port of embarkation.

Pyongyang may prefer to replace the present system-- under which repatriates are processed and moved in large groups--by some procedure in which they would return singly or in family groups. In this way North Korea could keep the program going indefinitely and continue to exploit the returnees in propaganda. At present, however, the Japanese continue to press for rapid removal of as many as will agree to be repatriated, and a backlog of about 10,000 additional registrants remains.

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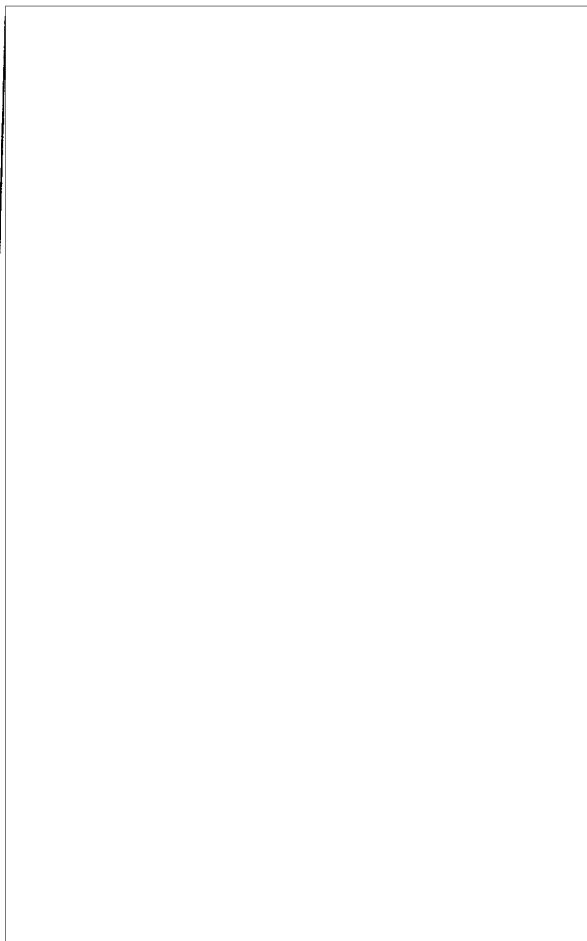
CURRENT INTELLIGENCE WEEKLY SUMMARY

INDIA

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There continues to be a strong sense of urgency in the Indian Army's efforts to improve its defensive position in the Indo-Tibetan frontier area, despite indications of varying estimates in New Delhi of Chinese Communist intentions. Many Indian officers are apparently convinced that there will be further Chinese border encroachments in this area and that a test of military strength between Chinese and Indian forces will occur in the near future; others take a longer view of the problem. Prime Minister Nehru [redacted] continues to be concerned over the possibility of some "aggressive" move by the Chinese this fall.

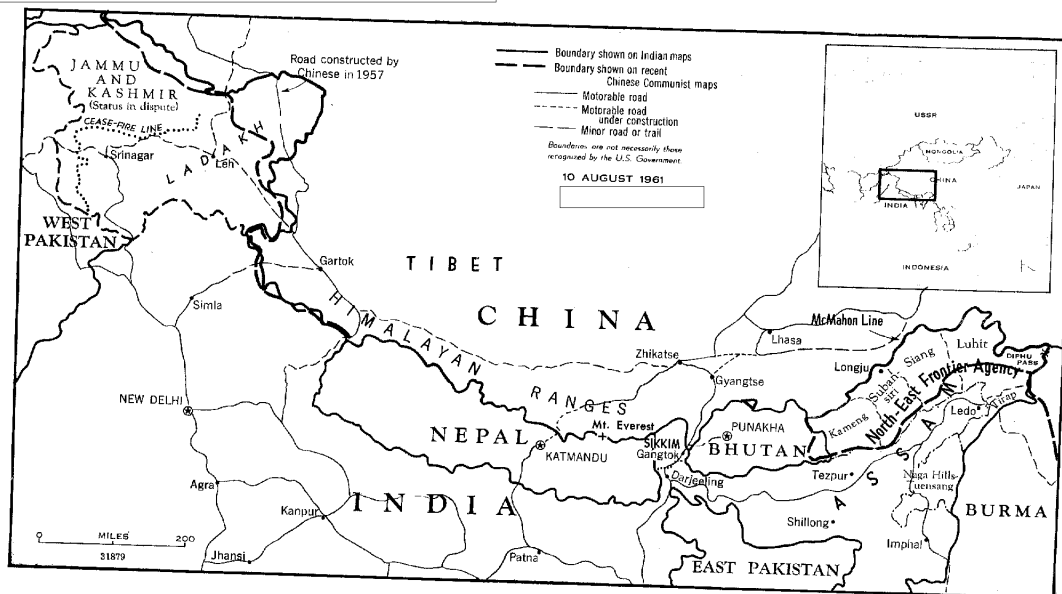
There does, however, appear to be agreement, from Nehru on down, that India cannot afford to give up any further territory to the Chinese and that it must prepare for the worst, in view of the dim prospects for resolving the Sino-Indian border dispute.



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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****BRITAIN AND THE COMMON MARKET**

Although Britain's application for membership in the European Economic Community (EEC, or Common Market), formally submitted on 10 August, has been widely hailed as a milestone in the European movement, nearly all observers anticipate difficult negotiations ahead. All the EEC countries--and especially France--are loath to change the EEC treaty in any basic respect, yet Macmillan has posed conditions which will have to be met to some degree if he is to secure parliamentary approval for such a basic change in British foreign policy.

Before formal talks can open, probably in late September or early October, a number of procedural questions will have to be settled. Although the EEC Commission acted as the Common Market's agent in the recent talks with Greece, the six member countries are likely to insist on individual representation at the conference table this time. Some of these countries as well as Britain hope to induce Belgium's Spaak to chair the negotiations, a service he performed with distinction when the EEC treaty was written. The EEC will probably refuse to bargain simultaneously with any of Britain's partners in the Outer Seven, but it will be difficult to avoid their intervention.

Most of the substantive issues have already been identified, and prospects for eventual agreement hinge largely on France. Because the French regard the EEC both as a "prime instrumentality for progress toward European union" and as a major means for achieving national economic and political goals, the American Embassy in Paris expects France to insist

that London accept the EEC treaty largely as it is. While in many respects Britain appears ready to do this, London is counting on the other EEC countries and the US to persuade the French to be "reasonable" concerning the changes the British feel they need.

Despite the desire of both sides to reach agreement, ready solutions to a number of difficult problems are not yet in sight, and some observers believe London has been far too slow in seeking negotiations. The EEC is a going concern in which bureaucratic and commercial--as well as national--interests are deeply entrenched. Moreover, the EEC is on the verge of important decisions--for example, on its agricultural policy, its relations with Africa, and the transition to its second stage. Even those who have strongly favored Britain's accession have questioned whether the EEC should "come to a halt" while the bargaining with London goes on.

Room for compromise may also have been reduced on Britain's side by Macmillan's delay in announcing his decision. A recent poll has shown that public support for an approach to the EEC has declined from 44 to 38 percent in the past month; moreover, the large majority the government received following the parliamentary debate of 2 and 3 August was due in part to Macmillan's emphasis that no final commitment was involved. Thus, even with his success in this initial stage, Macmillan will be keenly aware during the negotiations that he has as yet no clear mandate to enter the EEC.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

ITALY

Premier Fanfani's trip to Moscow from 2 to 5 August seems to have been aimed primarily at further strengthening his government's domestic position following the vote of confidence given him by the Chamber of Deputies in mid-July. He reportedly took a "very firm" line with Khrushchev, and may now be encouraged to push harder for Italian participation in big-power meetings.

When Parliament recessed on 21 July, Fanfani's position was perhaps more solid than at any time since his investiture a year before. Socialist leader Nenni had been constrained to press for a no-confidence vote to forestall a revolt by his party's pro-Communist wing, which was encouraged by Socialist electoral losses to renew its criticism of Nenni's mere abstention when Fanfani was invested.

The no-confidence motion, however, obliged the small center parties--Social Democrats, Republicans, and Liberals--to reaffirm their support for Fanfani's all-Christian Democratic cabinet with the more or less explicit admission that no alternative is in sight, at least until 11 November. After that date, when President Gronchi begins his last six months in office, the constitution precludes the President's ability to threaten Parliament with dissolution.

Fanfani's eagerness to go to Moscow underlines the changed

political atmosphere in Italy. In 1960 the Segni cabinet's approval of a similar trip by Gronchi was used as an excuse to overthrow the government. Fanfani presumably saw in such a trip at this time an opportunity to spike Communist charges of anti-Soviet intransigence on the part of the Italian Government and at the same time to impress rightists at home and Italy's allies with his firmness.

The Rome daily Il Messaggero, a government mouthpiece, reports that Italo-Soviet relations have deteriorated slightly as a result of the Moscow visit. This opinion is presumably aimed at fostering the impression that Khrushchev was disappointed by Fanfani's strong support of NATO. A bid for Italian participation in big-power talks is apparent in the paper's citation of Fanfani's statement that Khrushchev expressed no preference for a specific number of participants in negotiations with the West.

The Italian Communist party has attempted to link the South Tirol problem to the Berlin issue by raising the question of "pan-Germanism," but the Italian ambassador in Moscow implied to Ambassador Thompson that the South Tirol question was not mentioned in the Fanfani-Khrushchev talks. The German minority problem in northern Italy continues to threaten Italian political stability, however, and Fanfani's next domestic hurdle may come this fall if rightist extremists press the issue.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

SPECIAL ARTICLES

THE USSR'S ROLE IN THE CONGO

A year ago, Moscow thought it saw an excellent opportunity to influence the Congo's political and economic development--and to advance Soviet goals for Africa as a whole--by establishing a firm advisory position within the central government at Leopoldville. For a time, the USSR's objective of unifying the country under Patrice Lumumba coincided with the aim of independent African states. Soviet leaders, however, underestimating the extent of Afro-Asian support for the United Nations, overplayed their hand, and bloc aims in Africa suffered a severe setback.

Although its opportunities to influence the situation have diminished, the USSR does not consider the Congo a lost cause. An eight-man Soviet diplomatic mission arrived unannounced in the Gizenga stronghold of Stanleyville early last month, presumably anticipating the reconvening of the Congolese parliament. Two members of the Soviet Foreign Ministry told an American official on 27 July that the USSR expected the formation of a Congolese government representing all factions in parliament. Moscow has begun to lay the groundwork for cultivating Congolese extremists and those elements sympathetic to the Communist bloc.

Early Soviet Attitude

Soviet actions in the months before the Congo received independence gave no evidence that the Kremlin leaders anticipated the later developments there. Prior to 1960 the bloc maintained limited contacts with Congolese political figures through the Czech Consulate in Leopoldville. The Communists began systematic cultivation of leading

Congolese during the pre-independence Round Table Conference in Brussels early that year.

Principal responsibility apparently was assigned to the Belgian Communist party (PCB) and, within the party, to central committee member Albert Deconinck. Trips to East Germany, Prague, and Moscow were offered to the delegates, and some--including Gizenga--visited the bloc during and immediately after the conference.

The Economic Round Table in late April and early May of 1960 gave the PCB and bloc representatives in Brussels further occasion for contacts with the Congolese.

After the Belgian Government ended its administration of the Congo on 30 June 1960, Khrushchev sent a personal message recognizing the regime and requesting diplomatic relations. The Soviet delegates attending the independence ceremonies remained more than a week in Leopoldville, and at their departure an agreement to exchange ambassadors was announced.

The mutiny which broke out a week after independence--among Congolese troops near Leopoldville who demanded increased pay and the removal of Belgian officers--initially was not politically inspired or primarily anti-European in character. It received impetus, however, from inflammatory anti-Belgian speeches by Lumumba, who had come out ahead of his rivals in elections a few weeks earlier and

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headed a "national coalition" government representing 25 different factions and parties. His accession to the soldiers' demands led to the army indiscipline and rioting throughout most of the provinces and prompted a request from him and President Kasavubu for UN assistance in controlling the outbreak.

Influencing Factors

The rapidly deteriorating political and economic situation which followed gave Soviet leaders an opportunity to establish a strong bloc presence deep in Black Africa and at the same time to further the USSR's pose as champion of anticolonialism, benefactor of newly independent African states, and defender of African and Asian nationalism. In addition, it offered the possibility of opening to Communist penetration a key area adjacent to the still dependent territories of British East Africa, the Portuguese colonies, and, within the French Community, the new Central African Republic and Congo Republic (Brazzaville).

The collapse of the Paris "summit" meeting two months earlier had ended Moscow's pre-summit attitude of conciliation toward the West, and Soviet leaders had adopted an increasingly belligerent posture. Moreover, the Congo situation followed in the wake of the conference of Communist leaders at Bucharest in late June, at which the Chinese openly accused Khrushchev of softness toward the West. A specific point at issue was the degree and character of support the bloc should give nationalist movements in the underdeveloped areas.

Soviet leaders apparently felt that developments in the Congo could be fully exploited without undue risk, and Moscow mounted an extensive campaign of official statements, diplomatic activity, and propaganda as part of its strong anti-US line.

Bloc Tactics

Belgium's airlift of reinforcements to the Congo to assist its troops who remained there by treaty was immediately denounced by Khrushchev in a special press conference at the Kremlin as an attempt to suppress the Congo's attainment of independence. This was followed by a Soviet Government statement accusing the Western powers of seeking to "liquidate" the new state through direct military action.

The USSR initially supported UN action to deal with the situation in an effort to prevent unilateral Western intervention, force the withdrawal of Belgian troops and civilian advisers, and strengthen the central government. Premier Lumumba's extreme anticolonial nationalism supported the bloc's objective of removing European influences from Africa.

The independent African states favored UN intervention as a means of easing tension, restoring the authority of the Leopoldville regime, and avoiding extension of the cold war into Africa. Ghana and Guinea, already aiding Lumumba financially as part of their effort to promote claims to African leadership, were particularly eager to cooperate with the UN. In addition, they saw an opportunity to enhance their role within the international organization, to insulate the Congo from unwelcome foreign intervention, and--by acting as mediator between the Congolese premier and the UN--to set a precedent for future situations elsewhere in Africa.

At the Security Council session convened to discuss the situation, the Soviet delegate demanded a resolution condemning Belgium's "armed aggression," accusing the US of collaboration, and calling for the withdrawal of Belgian forces.

In the early days of the crisis, Soviet leaders sought to create the impression that

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the USSR might intervene. In reply to Lumumba's and Kasavubu's request on 14 July to "watch developments closely" since the Congo might "find it necessary" to ask for Soviet help, Khrushchev promised "resolute measures" and the "required help" if further "imperialist aggression" made such action necessary. Responding to Lumumba's reiterated threat a few days later to request Soviet troops, First Deputy Foreign Minister Kuznetsov told the Security Council that the USSR would "answer all requests" of peoples struggling for liberation. These carefully non-committal pledges, by appearing responsive to the Congo Government's concern, were also intended to bolster Lumumba's tenuous hold over the governmental machinery.

Meanwhile, the USSR began rallying neutralist support for its campaign to brand the Western countries aggressors. First Deputy Premier Mikoyan and Foreign Minister Gromyko expounded Soviet views on the Congo situation to diplomats at a reception on 13 July and called on the Afro-Asian countries to join the USSR in denouncing the West's intervention.

However, Soviet leaders were careful to avoid becoming isolated from the Afro-Asian position. In the Security Council, Kuznetsov withdrew his resolution calling for evacuation of Belgian forces within three days and accepted a mod-

erate one for "speedy" withdrawal sponsored by Tunisia and Ceylon.

Bloc Intervention

While Soviet diplomats were taking the lead in urging UN assistance to the Congolese Government, Moscow was obtaining maximum propaganda advantage by circumventing the UN facilities and delivering aid directly to the Congolese. The first Soviet planeload of food supplies arrived in Leopoldville on 20 July; from then until mid-September, when bloc personnel were expelled from the Congo, the Soviet bloc provided Lumumba's extremist faction with 17 aircraft (including a personal plane for Lumumba), 100 trucks, and unknown quantities of small arms, money, food, and medicines. The bloc sent 350 to 400 technicians and several high-level political and economic advisers, and Soviet IL-18s ferried Ghanaian and Guinean troops to the Congo in support of Lumumba.

The aid and support of bloc and radical African states encouraged Lumumba to take a hard line with his opponents and to defy the UN in order to achieve his goal of unifying the Congo under his personal rule. He boasted of bloc support and of the Soviet troops which would be sent if he requested them.

Soviet leaders apparently became concerned over the exaggerated Congolese expectations

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of bloc support. A party of Soviet representatives headed by Foreign Ministry official Fomin--later appointed Soviet chargé d'affaires--arrived in Leopoldville in late July aboard a Soviet food plane to coordinate future moves with the Lumumba government and channel first-hand information to Moscow.

During Lumumba's visit to New York at the end of July, the USSR sought to moderate Congolese demands. Two Soviet Government statements issued between 31 July and 5 August reaffirmed the USSR's readiness to "take resolute measures to rebuff the aggressors," but they carefully avoided committing Moscow to unilateral action.

An official statement on 20 August contained the first reference to "volunteers," a flood of which could come from among "loyal friends" in Africa and other continents if additional NATO units were sent to the Congo. The Congo three days later rejected Soviet military help, however, stating that it did not need foreign volunteers. Soviet propaganda began to claim that Moscow's action had prevented the US from intervening in the situation.

Attitude Toward the UN

Soviet leaders from the outset regarded the UN operation in the Congo as no more than a temporary expedient for eliminating Belgian influence and creating conditions favorable to advancing bloc aims in Africa. The African states expected that the UN would act in support of Lumumba and use

force against opposition elements --particularly secessionist Katanga Province--to unify the country under Leopoldville. They feared that political fragmentation into autonomous provincial governments would encourage continued economic dependence on Brussels and that national allegiance would be subordinated to tribal and sectional loyalties.

Secretary General Hammarskjold, however, ruled that the UN resolutions did not authorize UN troops to use force on behalf of the central government. His failure to move against Tshombé's Belgian-backed regime in Katanga drew strong Afro-Asian and bloc criticism. Moscow accused Hammarskjold and Under Secretary Bunche of connivance with the Western powers to perpetuate colonial control under cover of the UN.

When Mobutu overthrew Lumumba on 14 September and subsequently expelled all bloc representatives, Soviet tactics entered a new phase. The USSR launched an all-out campaign to wreck the UN's Congo operation. Moscow, for the first time, broke with the Afro-Asians by vetoing in the Security Council a moderate resolution sponsored by Tunisia and Ceylon designed to confirm Hammarskjold's stand against unilateral military support to the Congo. General Assembly approval of the resolution on 15 September provoked the first Soviet propaganda criticism of the Afro-Asian position. In his shoe-pounding address before the General Assembly a week later, Khrushchev reaffirmed the USSR's support for Lumumba and made his "troika" proposal for replacing the UN secretary general.

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SPECIAL ARTICLES

CONFIDENTIAL**CURRENT INTELLIGENCE WEEKLY SUMMARY**Soviet Influence Wanes

The bloc's direct involvement in the Congo virtually ceased with the closure of the Soviet and Czech embassies at Leopoldville on 17 September, and the USSR sought to channel assistance to pro-Lumumba forces through Guinea, Ghana, and the UAR. UN control of the major airfields prevented any substantial amount of aid from reaching the rebels

In the UN, Moscow refused to pay its share of the Congo operation expenses and demanded that Hammarskjold submit proposals for withdrawing UN military forces.

The USSR responded to Lumumba's arrest in early December with a government statement scathingly attacking Hammarskjold and the UN command and laying the blame entirely on what it alleged was US interference. The statement again voiced displeasure with those African and Asian states which "have not preserved the requisite unity" on the Congo issue.

Soviet leaders took a cautious attitude toward the rump government proclaimed in Stanleyville by Lumumba's pro-Communist deputy Antoine Gizenga in mid-December, presumably to maintain flexibility with regard to events in Leopoldville. Gromyko stated publicly that the USSR recognized Gizenga as acting premier, but Moscow did not extend formal recognition to his regime. After a delay of ten days, Khrushchev replied to an appeal for material assistance from Gizenga by reiterating general promises of Soviet support and sympathy.

The UAR, however, threw its entire support to Gizenga. A "diplomatic" mission was established for him in Cairo, and UAR officers in Stanleyville provided military advice and technical assistance. Nasir

withdrew the UAR unit from the UN command and urged Ghana and Morocco to do the same.

Moscow apparently regarded UAR support for Gizenga as strengthening the position of the extremists and thus facilitating Lumumba's eventual restoration. It sought to coordinate bloc aid efforts with the UAR and made available to Gizenga's mission in Cairo a substantial sum of money and a small quantity of arms. Bloc states joined the UAR, Ghana, and Guinea in urging Sudanese officials to permit UAR overflights en route to Stanleyville. With Khartoum's refusal to grant this permission, bloc and radical African support for the pro-Lumumba group was restricted to demands for Lumumba's release and reinstatement and for the disarming of Mobutu and Tshombé forces.

The Soviet leaders saw in Lumumba's death--announced in mid-February--an excellent opportunity to carry forward their campaign against colonialism and again identify the USSR with anti-Western elements in Africa and Asia. They hoped it would lead to the withdrawal of the remaining Afro-Asian contingents in the Congo and block any effective Western-backed UN action to deal with the situation.

Moscow also seized on the issue as a pretext for renewing Soviet attacks on Hammarskjold and for pressing Khrushchev's plan to reorganize the UN in the hope of garnering Afro-Asian support. In letters in late February to Nehru and other heads of government in Asia, Africa, Europe, and Latin America, Khrushchev sought to establish the point that Lumumba's death justified the Soviet proposal and Moscow's attack last fall on Hammarskjold. He proposed that all "foreign troops" be withdrawn from the Congo and replaced with a commission of African states.

As a gesture of restraint toward the new administration

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in Washington, Khrushchev did not directly implicate the US in Lumumba's death, but he obliquely warned against any unilateral intervention in the Congo.

Shortly thereafter, Communist China and the bloc satellites formally recognized Gizenga's regime and agreed to exchange ambassadors.

Present Soviet Attitude

Moscow's bitter denunciation of Hammarskjold reflected the frustration the Soviet leaders had felt since Lumumba was overthrown and bloc missions expelled from the Congo. In attacking the UN organization, however, the USSR lost support among the African and Asian countries. While the Asian-African states disagreed with some of Hammarskjold's policies, they were unanimous in upholding the institutional authority of the secretary general, and they considered the United Nations the only alternative to involvement in East-West power struggles.

Soviet hopes in the Congo were further frustrated by an apparent conflict of interest between Moscow and Cairo. As early as January there were signs that the Soviet Union was becoming concerned over the UAR's influence with Gizenga and the possibility of unilateral UAR aid.

The Soviets were also said to feel that Nasir was paying "lip service" to African nationalism while resting on the "laurels" of

his success in influencing Afro-Asian opinion.

In late February, following the adoption by the UN General Assembly of a moderate resolution sponsored by the UAR, Liberia, and Ceylon upholding Hammarskjold's authority in the Congo, a top Soviet official characterized the UAR's African policy as "equivocal" and said Nasir's real aim was to isolate the "socialist camp" from Africa.

The failure of renewed Soviet efforts to provide aid to Gizenga and to install him as Lumumba's legitimate successor closed out this phase of Moscow's attempts to influence events in the Congo.

Nevertheless, with political forces and structures still in flux, the Congo remains a potentially fertile ground for bloc activities.

Soviet Foreign Ministry official Semenov warned Ambassador Thompson in mid-May that the Soviets had been restrained with respect to the Congo, but that if the situation should deteriorate, they would act "very forcefully." Should the current unstable relationships among Congolese factions break down, Moscow could be expected to move quickly in an attempt to influence subsequent alignments and recoup its former position.

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COMPARISON OF SOVIET AND US INDUSTRIAL PRODUCTION

Moscow's official economic statistics for the first half of 1961 indicate that in production of most basic commodities--such as steel, oil, and electric power--the USSR continued to narrow the US lead. Some consumer-oriented industries, however, remained much at a standstill for a variety of reasons, including an insufficient supply of agricultural raw materials and the changeover in light industry to the seven-hour day. The Soviet goal is to match US production of major industrial items by 1965 and to reach the present level of total US production on a per capita basis by 1970.

Industrial Production

Soviet gross industrial production in 1961 has gained on that of the US. In 1959 and 1960, the USSR's industrial output was about 40 percent of the US figure, by the end of 1961 it promises to be closer to 43 percent, and by 1970 the USSR may reach the 1961 level of US production. On the assumption that Soviet industry is growing at 9 percent annually and that of the US at 4.5 percent and that Soviet output now is about 42 percent of that of the US, however, Soviet industrial production would be about 67 percent of that of the US by 1970, and 103 percent by 1980. During the past year, the USSR's industrial production actually grew at about 8.4 percent, while that of the US declined.

Steel

The Soviet gain on the US in steel production--inferred from the 1961 midyear plan report--reflects primarily a

drop in demand in the US. While Soviet steel output shows an increase of 9 percent over mid-1960, US steel production actually dropped by about 26 percent. Thus, while total US capacity for producing steel is far greater than that of the USSR, the USSR is using its capacity to the fullest and, at the same time, is adding to it rapidly. At the beginning of 1960, Soviet steelmaking capacity was about 46 percent of that of the US industry and by the end of 1960 was about 50 percent. The Soviets plan to commission 7.2 million tons of new capacity in 1961, the largest addition on record.

The trend in crude steel production in 1961 appears to be consistent with that envisaged in the Seven-Year Plan (1959-65). Taken in conjunction with the increases in 1960, it indicates that output of crude steel should reach at least the level of 86-91 million tons planned for 1965 and probably will approach 93-95 million tons. US production of crude steel has declined fairly steadily from 106 million tons in 1955 to 90 million in 1960, a figure that will probably not be exceeded in 1961.

Machine Tools

In the production of machine tools, there was an absolute drop in US production--8 percent--which, although smaller than the decrease in steel, still contributed substantially to the over-all picture of relative Soviet progress. In the first six months of 1961, the USSR produced almost as many metal-cutting machine tools as did the US in the entire year 1960.

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While the Soviet Union is out-producing the US in machine tools--and is, incidentally, exporting a considerable number to the underdeveloped nations--the variety of Soviet output is limited, and the machine tools produced are considerably less complex than those of US manufacture.

While the USSR continued its steady increase in production of metal-cutting tools, it was not at a rate sufficient to meet the sharply increased revised goal for 1965 of 270,000 units. Moreover, production of metal-forming machines showed no increase, although Seven-Year Plan goals for that item were also sharply increased in December 1960. It is probable that work is still proceeding on the development of prototypes of new models which have not yet been put into production on a significant scale.

Electric Power

Khrushchev has set his sights on complete electrification in the USSR to support the development of the national economy and to surpass the US in production and industrial consumption of electric power. In this field the USSR is gaining every year on the US. While the USSR produced about 31 percent as much electric power as the US in 1958, by 1965 it is estimated that this percentage will have risen to 44 percent. Since mid-1960, the USSR has narrowed the gap between its own and US production by an additional 2.5 percent.

Industry consumed 65 percent of all electric power produced in the USSR in 1958, while

in the US, industry used only 43.5 percent of the output. On this basis, the USSR could surpass the US before 1975 in the amount of electric power supplied to industry.

Oil and Gas

Crude oil production in the USSR during the first half of 1961 increased 13 percent over the corresponding period in 1960, while that of the US

PRODUCTION OF SELECTED ITEMS

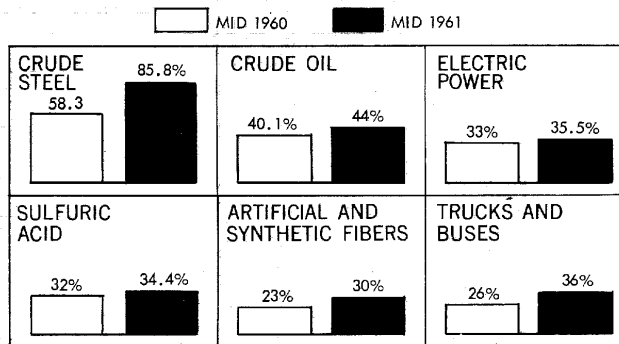
	UNIT OF MEASURE	OUTPUT MID 1959--MID 1960			OUTPUT MID 1961		
		US	USSR	USSR as % US	US	USSR	USSR as % US
Crude Steel	mil mt	55.1	32.1	58.3	40.7	34.9	85.8
Crude Oil	mil mt	176	70.6	40.1	181*	79.7	44
Natural Gas	bil cm	217.3*	21.6	10.4	208*	27.9	13.4
Coal	mil mt	202	257	127.2	187.1*	255	136.3
Electric Power	bil kwh	436	144	33	422*	157	35.5
Sulfuric Acid	mil mt	8.5	2.7	32	8.1*	2.8	34.4
Automobile Tires	mil units	74.2	8.4	11	53.9*	9.2	17.1
Artificial and Synthetic Fibers	thou mt	434.2	99.6	23	403.4*	121	30
Radio Receivers	thou units	8,524	2,100	24	7,091	NA	
TV Receivers	thou units	2,963	796	26	2,620	934	36
Passenger Cars	thou units	4,833	68	1.8	2,738*	73	2.7
Trucks & Buses	thou units	730	189	26	574*	202	36
Tractors	thou units	99.3	119	119	129*	132	120
Metalcutting Tools	thou units	23.9	75.1	314	22*	81.3	369
Cotton Fabrics	mil sq m	4,799	2,447	51	4,510*	2,400	53
Wool Fabric	mil sq m	219	216	99	186*	224	120
Silk & Man-made Fabric	mil sq m	1,422	339	24	1,359*	341	25
Leather Footwear	mil pairs	332	210	63	259*	220	85

* Estimated on the basis of incomplete six-month reporting.

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INDUSTRIAL OUTPUT: USSR AS PERCENTAGE OF US



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grew by less than 3 percent. Output in excess of domestic needs is increasing, and the USSR is beginning to compete in world oil markets. In 1960, the USSR sold 19 million tons of oil outside the bloc, 4 million more than in 1959. Oil pipeline transport increased 23 percent in 1960, and a similar increase is apparently planned for 1961. On the other hand, although the Soviet petroleum industry gained on that of the US in the past year and gains steadily each year, production planned for 1965 is still well below that of the US in 1958.

The USSR lags far behind the US in production of natural gas. While the ambitious Soviet plan was not fulfilled in 1960, the industry produced 10 billion cubic meters more than in 1959. Again, in 1961, while the gas industry is running behind plan, an increase of 28 percent was achieved in the first six months over the first half of 1960, while US production dropped by some nine billion cubic meters. The continuing Soviet plan shortfalls are due mainly to inadequacies of storage facilities, gas-consuming equipment, and compressors for pipelines rather than production difficulties.

Chemicals

Despite ambitious plans the USSR will have a difficult time closing the gap between its own production of chemicals and allied products and that of the US. The US has a much broader base and is technologically far

ahead of the Soviet Union in this field. While the record of the past year shows impressive gains in some areas--notably in artificial and synthetic fibers--they can be attributed largely to slowdowns in US production rather than significant increases in that of the USSR.

Consumer Goods

There were indications in the midyear plan report of a slowdown in the rate of growth of Soviet light industry, which has traditionally lagged drastically behind the US consumer industries. Little progress was achieved in closing this gap even though in many instances US production fell off.

In the USSR less cotton and linen fabric, for example, were produced in the first six months of 1961 than in the corresponding period of 1960. Production of rayon and synthetic fabric was only slightly above that produced in the first six months of 1960 and still considerably below the output achieved in the corresponding period of 1959. The output of wool fabric and leather footwear increased in the first half of 1961 but at a rate below that achieved in 1960. The USSR outproduces the US in wool, but the high quality of synthetic fabrics in the US has decreased the demand for wool in this country.

Continued progress was made in increasing the output of consumer durables even though plans were not met. [redacted]

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