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9 November 1961

CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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CURRENT INTELLIGENCE WEEKLY SUMMARY

9 November 1961

T H E W E E K I N B R I E F
(Information as of 1200 EDT 8 Nov)

EAST-WEST RELATIONS Page 1

Soviet moves following the 22nd party congress have maintained the pattern the USSR has pursued since the Vienna talks last June: pressure and intimidation tactics, combined with hints of flexibility in negotiations for a compromise settlement on Berlin. The TASS statement of 5 November which implied that the USSR will conduct further nuclear tests if the Western powers continue testing, particularly if the US undertakes atmospheric tests, suggests that Khrushchev feels he must maintain the war of nerves to achieve his objectives in Berlin. At the same time, however, statements by Khrushchev and Ulbricht on Berlin and Germany reflect Moscow's desire to hold out the prospect of a negotiated settlement.

The Finnish Government, in response to the Soviet note of 30 October calling for consultations on the "military threat" from West Germany, has announced that Foreign Minister Karjalainen will go to Moscow to discuss the note. Karjalainen's mission is to seek clarification, not to negotiate. [redacted]

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SOVIET BLOC REACTION TO THE RENEWED DE-STALINIZATION CAMPAIGN Page 4

The new attacks on Stalin at the recently concluded Soviet party congress have provoked widespread debate and apparently caused considerable shock among Soviet citizens. Ambassador Thompson believes the people now will expect further democratization of the system. It is unlikely, however, that the regime will feel compelled by any public expression to relax controls further. In Eastern Europe, indications of official concern range from fear of public pressure for more liberalization in Poland to a defensive attitude on the part of the leaders in East Germany. [redacted]

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CHINESE RESPONSE TO KHRUSHCHEV'S CHALLENGE Page 6

No authoritative party statement of Peiping's position on the Albanian issue has been forthcoming; Chinese propaganda continues to be indirectly critical of the Soviets, but it falls short of the denunciation that the Albanians may desire. The People's Daily editorial on the 44th anniversary of the October Revolution specifically alluded to Stalin's role in carrying forward Lenin's work and to the "12 socialist countries"--a reminder to the Soviets that as far as the Chinese are concerned, the Albanians are still members of the bloc. Peiping's message of greeting to the Albanian party on its 20th anniversary--endorsing the "correct" leadership of Enver Hoxha and praising Tirana's role in "preserving the purity of Marxism-Leninism"--suggests that the Chinese will continue to support Hoxha in the face of Soviet efforts to undermine his leadership. [redacted]

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CONGO Page 7

The Adoula government, routed in its initial military foray against Tshombé, may try to recoup by moving eastward from Kasai into northern Katanga in support of a "shadow regime" it is trying to develop there. Leopoldville's efforts, however, may be undercut by Gizenga, who has refused Adoula's requests that he return to Leopoldville and who is moving troops south in an apparent attempt at an attack of his own on Katanga from Kivu Province. Tshombé returned from Switzerland on 6 November; he says he is still willing to meet Adoula on neutral ground. [redacted]

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SOUTH VIETNAM Page 9

Viet Cong pressure on the Diem government is continuing to increase throughout South Vietnam; the Communists appear capable of mounting large-scale attacks at almost any time or place. Communist activity registered a new high in October, and heavy fighting has again occurred in the past two weeks. Propaganda from Moscow, Peiping, and Hanoi has strongly denounced alleged intentions of the US to increase its military commitment in South Vietnam. [redacted]

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LAOS Page 11

Souvanna, in the face of Vientiane's refusal to agree to a meeting at the Plaine des Jarres, now is reported willing to have further talks on neutral territory. The International Control Commission has sent a message to the three princes urging a meeting "without delay." The most significant military action of the week was the enemy attack on a Meo post near Xieng Khouang town. Hard bargaining continues at Geneva. [redacted]

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FRANCE-ALGERIA Page 11

Indications are that talks between the French and the Algerian rebel government are in progress. General Salan's Secret Army Organization is reportedly continuing preparations to seize power in at least part of Algeria, and may attempt to do so if Paris seems about to reach an understanding with the rebels. [redacted]

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ECUADOR Page 13

Following new outbreaks of rioting in several Ecuadorian cities, President Velasco was forced to resign late on 7 November, but his successor remains in doubt. Vice President Arosemena, a leftist who had rounded up considerable congressional support for his move to impeach Velasco, has reportedly been recognized as President by Congress. Military leaders, however, have asserted that the constitutional order has been broken and have named a right-wing socialist, Supreme Court Justice Camilo Gallegos, as acting president. A possible compromise figure is Reinaldo Varea Donoso, who as vice president of the Senate ranks third in the constitutional succession and is also a professional military man. [redacted]

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CUBA Page 14

Labor delegations from several bloc countries are en route to Havana for labor rallies later this month. There have been some recent instances of sabotage and other anti-Castro activities on the island, despite a steady increase in the number and efficiency of the regime's security forces. Other Latin American governments are still split over the question of joint action on the Cuban problem; Venezuela is considering an early break in diplomatic relations with Cuba. [redacted]

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ARGENTINA Page 15

President Frondizi's efforts to reorganize the Argentine railway system, including a one-third reduction in personnel, have been countered by a rail strike and a supporting general strike on 7-9 November observed mainly by industrial and port unions. [redacted]

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[redacted]

Frondizi

has taken strong security precautions, including a military alert. [redacted]

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[redacted]

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THE UN SECRETARIAT UNDER U THANT Page 17

U Thant's appointment as interim UN secretary general by consensus in the Security Council and the unanimous endorsement of the General Assembly will be interpreted as giving him considerable latitude to act as the sole executive of the Secretariat. Thant will probably lean over backward in an effort to be impartial and insist on specific authorization for UN operations. He is unlikely to exhibit the strong executive leadership frequently exercised by Hammarskjold. [redacted]

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[Redacted]

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ALBANIAN PARTY BOSS ENVER HOXHA Page 18

Enver Hoxha over the years has eliminated all opposition to his rule in the party and has used Stalinist methods to perpetuate the party's domination in Albania. Since he is so well entrenched and, in addition, enjoys some popular support, Soviet efforts to unseat him appear to have little chance of success. (Confidential)

EAST GERMAN ECONOMIC DEVELOPMENTS Page 20

Agricultural production in 1961 is probably less than in 1960. The pace of industrial development has slowed down, and the planned growth rate is not being met. The regime has admitted that production is below plan in key industries such as metal processing. Industrial manpower requirements appear to have been given priority over recruiting for the military services. [Redacted]

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SEVERE DROUGHT IN YUGOSLAVIA Page 21

A severe drought in Yugoslavia threatens the regime's economic plans. Several important industries have had to cut back production because of hydroelectric power shortages, river transport has almost come to a halt, and a poor harvest is in prospect. These reverses, which will adversely affect Yugoslavia's foreign trade and exchange positions, come at a particularly bad time; at the first of the year, the country began an economic reform program designed to enhance domestic competition and make the Yugoslav economy more responsive to foreign markets. [Redacted]

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BLOC ACTIVITY IN WORLD RUBBER MARKET Page 22

After a sharp decline in 1960, Soviet imports of natural rubber this year are approaching a record level. Rubber is one of the few critical commodities Moscow must procure from non-bloc sources. The step-up appears to result from economic rather than military factors. East European satellite purchases are also rising, but not so sharply. Communist China's foreign exchange troubles and curtailed production have reduced its rubber imports to less than half the level of recent years. [Redacted]

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BLOC ECONOMIC ASSISTANCE TO THE SOMALI REPUBLIC Page 23

The USSR and Czechoslovakia have provided almost 65 percent of the approximately \$90,000,000 in foreign grants and credits now available to the Somali Republic. The USSR has provided credits of \$44,000,000 for agricultural and industrial development and \$7,700,000 to finance the purchase of Soviet commodities. Czechoslovakia has extended \$5,600,000 in economic aid. [Redacted]

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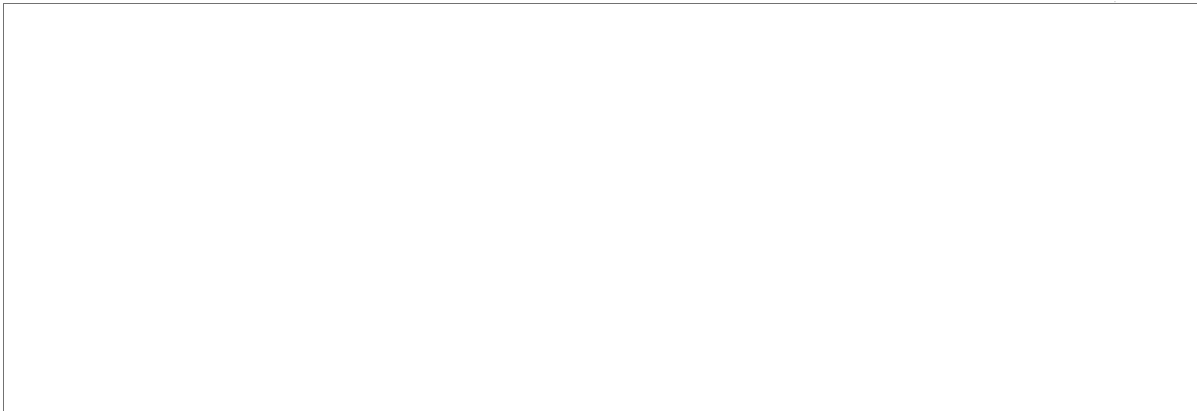
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SPECIAL ARTICLES



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ECONOMIC PROSPECTS IN NORTH KOREA Page 6

North Korea, which has most of Korea's natural resources and industrial assets, has made greater economic progress than South Korea and has substantially reduced its dependence on other members of the Communist bloc. Prospects under Pyongyang's new seven-year plan (1961-67) are for further industrial expansion, although at lower rates of growth, and for continued low priority for agricultural and consumer-goods production. The consumer in North Korea, as in most Communist countries, has an adequate but unvaried diet and must be content with generally drab conditions and consumer goods of poor quality. Living standards in South Korea are approximately the same.

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WEEKLY REVIEW

EAST-WEST RELATIONS

Soviet moves following the 22nd party congress have maintained the pattern the USSR has pursued since the Vienna talks last June, combining pressure and intimidation tactics with hints of flexibility in negotiations for a compromise settlement on Berlin. The TASS statement of 5 November which implied that the USSR will conduct further nuclear tests if the Western powers continue testing, particularly if the US undertakes atmospheric tests, strongly suggests that Khrushchev feels he must maintain the war of nerves to achieve his objectives in Berlin. At the same time, however, statements by Khrushchev and Ulbricht on Berlin and Germany reflect Moscow's desire to hold open the option of a negotiated settlement.

Nuclear Testing

In reaction to President Kennedy's 2 November statement on US testing plans, the 5 November TASS statement argued that the USSR might have to continue its tests if Western testing, particularly US testing in the atmosphere, placed the Soviet Union at a military disadvantage. The TASS statement was more cautious than the position Khrushchev is reported to have taken in talks with Italian Minister Codacci Pisanelli on 3 November: that the Soviet Union would continue its nuclear tests if the "United States" resumed "atmospheric" explosions.

Speaking with newsmen at a 7 November Kremlin reception, Khrushchev asserted that "we will stop nuclear tests when other powers stop." He was also quoted as saying "there will be more Soviet tests if the West goes on testing." He also appeared to deny that there would be another 50-megaton explosion. He parried a question as to whether the current test series is completed. Moscow did not report his impromptu remarks

with the newsmen, but TASS transmitted his formal toast. In the toast he acknowledged the dangers to human health from testing but said nuclear war would be more dangerous.

The TASS statements, quoting "leading circles in the USSR," charged the President's statement shows that the US is seeking an "illusory superiority in nuclear armament." Noting that the USSR has conducted fewer tests than the combined total of the US, Britain, and France, the TASS statement asserted that the Soviet Union has a "full moral right to equalize the situation and not to allow a discrepancy" between the number of Western and Soviet tests. It ignored the President's offer to conclude a test ban treaty with adequate inspections and controls, and repeated the standard Soviet proposal to sign immediately a treaty on general and total disarmament which would discontinue tests permanently.

In the UN debates on the six-power resolution calling for an end to testing, Soviet delegate Tsarapkin insisted that suspension of tests could not be divorced from the question of complete and general disarmament. After failing to defeat an amendment omitting a reference to complete and general disarmament, the Soviet bloc voted against the resolution. Tsarapkin also adopted an adamant stand against the US-UK resolution calling for renewed test ban negotiations. He relied heavily on the arguments in the TASS statement, claiming that the US was seeking to prevent further Soviet tests and gain a military preponderance through a test ban treaty.

Berlin and Germany

In impromptu remarks at a Kremlin reception on 7 November, Khrushchev said he was willing to be patient and wait for the West to take the initiative on

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negotiations on Berlin and Germany. He reiterated that the date was not important, but warned that the Soviet Government could not wait forever.

According to Western press reports, Khrushchev on 3 November told Pisanelli that the Soviet Union wanted a "proper settlement" of the Berlin dispute and therefore did not intend to act hastily. Khrushchev was said to have made the remark in explaining his statement to the congress that the USSR would not hold to its year-end deadline for a German peace treaty if the Western powers displayed readiness to negotiate. Khrushchev reportedly agreed with the Italian minister's assertion that "we must have negotiations and negotiations mean not only to receive concessions but to make concessions." Pisanelli said that Khrushchev expressed the view that negotiations were necessary and the only way out of what he described as the present "difficult international situation." There is no Soviet version of the conversation.

Speaking at the East Berlin airport on his 3 November return from Moscow, East German party chief Ulbricht put primary emphasis on a Berlin solution separate from a German peace treaty and endorsed further Soviet-US talks or four-power negotiations, without mentioning East or West German participation. He also supported a "phased reduction" of troops in Berlin and a settlement of access either through an agreement between the "interested parties" and East Germany or between "an independent and neutral" city of West Berlin and the East German regime. While Ulbricht reaffirmed that a peace treaty was necessary, he did not present this with a sense of urgency.

Pravda published an account of Ulbricht's speech, emphasizing his endorsement of US-Soviet discussions on Berlin, but omitting his statements relating a

peace treaty to resolution of the West Berlin problem.

The separation of a Berlin solution from the standard German peace treaty context was also reflected in the final resolution of the Soviet party congress, which dropped the usual language calling for a Berlin solution on the basis of a peace treaty and merely referred to the Soviet proposal to normalize the situation of West Berlin. According to the US Embassy in Rome, the pro-Communist newspaper Paese, in a 2 November article commenting on the conclusion of the congress, played up the omission of the idea of "solving the Berlin problem on the basis of a German peace treaty" and described it in a sub-headline as "an important concession to the West." The Italian Communists have frequently used Paese to float trial balloons for Soviet policy.

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During the last week the Soviets have set the stage for further encroachments against Allied travel with the objective of converting the East Berlin sector border to an international frontier. On 3 and 4 November, the East German police refused to accept from members of the Danish and Norwegian military missions in West Berlin accreditation documents issued by the Allied Control Commission. They have also refused to accept as sufficient the identification cards issued by the Allied military mission for civilian personnel, and have demanded passports instead. For several days the East German police also harassed US army vehicles making routine

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patrols in East Berlin. In addition, the USSR again protested Allied flights over East Berlin, asserting that this was East German territory.

Ambassador Thompson feels, on the basis of his conversations with Gromyko and Deputy Foreign Minister Kuznetsov, that eventually the East Germans will demand identification from military personnel. In this connection there are some indications that the checkpoint for Allied personnel will be shifted from Friedrichstrasse to an entrance point in the British sector. The USSR has indicated it will accept West Berlin police controls over Soviet military personnel entering West Berlin.

Finnish-Soviet Relations

The Finnish Government, in response to the Soviet note of 30 October proposing talks on defense measures, has announced that Foreign Minister Karjalainen, accompanied by three officials of the Foreign Ministry, will meet with Soviet Foreign Minister Gromyko on 11 November in Moscow for "exploratory" talks on the Soviet note. According to a Finnish Foreign Ministry spokesman, the meeting is not to be regarded as "consultation" under the terms of the 1948 treaty of friendship and mutual assistance. Karjalainen has not been authorized to negotiate but only to seek clarification.

The Finns apparently are trying to determine exactly what the USSR has in mind before opening formal talks. The Finns want to avoid any implication that they accept the Soviet contention that there is any threat posed by West Germany and its allies to the security of Finland or to the USSR via Finnish territory.

President Kekkonen, following his return from the United States on 3 November, sought in a radio and television broadcast

to reassure the Finnish public that the nation's independence and neutrality are not threatened by the Soviet move. He discounted the idea of an attack on the USSR through Finland, although he conceded that the outbreak of a general war could lead to violations of Finnish land, sea or air space. 25X1
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Official public reaction in Scandinavia has been restrained, but Scandinavian leaders have privately expressed their deep concern over the possible consequences of the Soviet move for Finland and Scandinavia. Foreign Minister Lange of Norway appears to be unusually disturbed. The periodic meeting of the Nordic prime ministers in Finland on 11 and 12 November will provide these officials with an opportunity for a first-hand exchange of views.

Soviet propaganda following up the note seems designed to play down any suggestion of a crisis in Soviet-Finnish relations. The first indication to Soviet readers of any reaction appeared in a 3 November Izvestia article which carried an account of Kekkonen's statement in Los Angeles that the Soviet proposal for consultations is a legitimate request based on the Soviet-Finnish treaty. Pravda on the following day noted Kekkonen's return to Finland and reported a meeting of the Soviet-Finnish Society in Helsinki at which the Soviet ambassador delivered a message of greetings from Khrushchev. Moscow also publicized a lengthy summary of Kekkonen's 5 November speech. Soviet broadcasts have commented extensively on the situation but with primary emphasis on the threat of German influence in Northern Europe.

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SOVIET BLOC REACTION TO THE RENEWED DE-STALINIZATION CAMPAIGN

The new attacks against Stalin at the recently concluded Soviet 22nd party congress have provoked widespread debate and apparently caused considerable shock among Soviet citizens. Ambassador Thompson believes the people now will expect further democratization of the system. It is unlikely, however, that the regime will feel compelled by any public expression to relax controls further.

In Eastern Europe, indications of official concern range from fear of public pressure for more liberalization in Poland to a defensive attitude on the part of the leaders in East Germany.

Reaction in USSR

According to the US Embassy in Moscow, the Soviet public appears to be in a state of agitation over the new charges leveled against Stalin and the dramatic removal of his body from its place beside Lenin in the mausoleum. The most striking manifestation is the extent of relatively open public discussion.

Younger people who grew up under Stalin and were taught to deify him appear to be most disoriented, while older citizens who remember the terror in that period seem more inclined to approve. Anger at having been seriously misled for so long as to the true nature of Stalin's rule is apparently widespread.

Khrushchev's first attack on Stalin, his speech to the 20th party congress in 1956, was circulated only among the party elite. Rumors of it spread throughout the Soviet Union, however, and for a while caused considerable confusion and some outbreaks, as in Georgia, Stalin's birthplace. Public concern soon died away in the face of the official line in the press--that Stalin committed "errors" as a result of the cult of personality but was deserving of respect for his great contribution to the building of the Soviet state.

Speeches at the 22nd congress were the first charges to reach the general public that Stalin was guilty of murder and mass repressions. The decision to bring these charges into the open was presumably based in part on Khrushchev's belief that the public was sufficiently prepared and politically mature to hear the full story.

Satellite Reaction

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Indicative of the concern in Eastern Europe was the recent statement by a Polish politburo member [redacted]

[redacted] that he foresees new and uncontrollable public pressures within Poland for greater freedom. He feels, moreover, that within the party these pressures will be bolstered by the vigorous reappearance of "revisionism" --i.e., advocacy of more liberal policies. Reflecting such a tendency, an article by party secretary Zambrowski in

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the 31 October issue of the official party daily called for a higher degree of inner party democracy--a formulation reminiscent of 1955-56, when the Polish party was struggling to overcome its own brand of Stalinism.

Warsaw's leaders are concerned with maintaining the political stability which they have gradually, and without resort to terror, created in the country since 1957, and are fearful that the middle course steered by Gomulka will be upset by the outspoken liberals in the party.

The de-Stalinization campaign is likely to have even greater, although quite different, repercussions in East Germany, since party boss Ulbricht appears to have gone further than any other satellite leader in recent years to promote his personal leadership.

Typical of the convolutions party spokesmen are going through was the performance of Hermann Axen, chief editor of Neues Deutschland, on a television program on 1 November. In discussing the lessons to be drawn from the Soviet congress, he admitted that some East Germans "had perhaps not fully grasped the difference between the concept of the personality cult and that of

appreciation of the role of personality." Axen claimed that Ulbricht, "like Khrushchev," merely represents the party's "collective leadership," and that when he speaks, "with his great ability to analyze the situation, it is not just his opinion but the opinion of the politburo and the central committee."

A regime spokesman reportedly has stated that East Germany will gradually remove memorials to Stalin. Possibly reflecting a similar concern, the Bulgarian Government on 4 November decreed that all projects and locations bearing the name of Stalin shall be renamed in honor of Lenin.

The anxiety and uncertainty among Polish and East German party leaders may also exist to a lesser or greater degree elsewhere in Eastern Europe. In those satellite parties where they exist, revisionist party elements have largely remained quiescent in recent years, but they now may see a new opportunity to push their views. Nevertheless, they will find it difficult to challenge the party leaderships because, in contrast to 1955 and 1956, emotions among the East Europeans are no longer as strained as they were under Stalinist repression and the revisionist elements probably do not have much backing within their respective parties.

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CHINESE RESPONSE TO KHRUSHCHEV'S CHALLENGE

Peiping's official response to Khrushchev's challenge on the Albanian issue may come in the Chinese Communist party's theoretical journal, Red Flag; the issue due to appear on 1 November has been delayed. The Chinese propaganda line is indirectly critical of the Soviets but short of the denunciation the Albanians may desire.

While not criticizing Khrushchev directly, the Chinese Communist party's message of greeting to the Albanian party on its 20th anniversary takes implicit issue with Soviet charges that Albanian policy is "incompatible with Marxism-Leninism." Broadcast by Peiping on 7 November, the message lauds Albania's role in "preserving the purity of Marxism-Leninism" and alludes to the "profound comradeship-in-arms" between Peiping and Tirana. It specifically endorses the "correct" leadership of Enver Hoxha, describing him as the "long-tested" leader of the Albanian people. The message suggests that the Chinese will continue to support Hoxha in the face of Soviet efforts to undermine his leadership.

In keeping with Soviet attendance at recent Chinese functions, Peiping sent only a low-level delegation representing the Sino-Soviet friendship association to the celebrations of the 44th anniversary of the October Revolution in Moscow on 7 November. While Peiping and Moscow have exchanged the customary affirmations of friendship and unity during these celebrations, the ceremonies also served to expose the continuing frictions.

The Soviet ambassador's attacks on the Albanian leaders at the reception in Peiping reportedly provoked the Albanian guests to walk out, while Chinese officials there refused to applaud the Soviet remarks. The People's Daily editorial on the anniversary, moreover, specifically referred to Stalin's role in carrying forward Lenin's work and alluded to the "12 socialist countries"--a count which includes Albania--as a reminder to the USSR that as far as the Chinese are concerned, the Albanians are still members of the bloc.

The Chinese press has printed the texts of attacks on the Hoxha leadership by Soviet and other Communist speakers at the Soviet party congress. In covering the Albanian side, People's Daily on 6 November published the caustic editorial from the 1 November issue of the official Albanian paper, which called Khrushchev a liar, slanderer, bully, anti-Marxist intriguer, and disrupter of bloc unity. The head of the New China News Agency in Paris recently made many of the same accusations against Khrushchev, although it is not certain to what extent he was reflecting established Peiping policy. The Soviets have denounced such statements as hypocritical and slanderous, and Peiping's move to print Tirana's invective is indicative of Chinese refusal to be intimidated by Soviet rancor.

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Adoula's "police action" to end Katanga's secession collapsed on 4 November following the defeat of Congolese Army (ANC) incursions into Katanga from Kasai Province. Leopoldville had used three battalions for the main "thrust" aimed at taking Kaniama and its airstrip. Although the UN command declared Katanga's defense action a violation of the cease-fire and ordered UN ground and air patrols, no Katangan aircraft were destroyed by UN forces, nor was there any fighting between UN and Katangan forces.

Even before the ANC retreat back into Kasai, Adoula complained over UN failure to neutralize Katanga's aircraft and control its mercenaries, and threatened to obtain his own planes and pilots. Adoula's next political objective would appear to be a new UN mandate.

Ethiopia, Nigeria, and the Sudan have requested a meeting of the Security Council, presided over this month by the Soviet representative, to clarify the directives to the UN forces and to seek means of exerting pressure on Tshombé's foreign supporters. However, Sture Linner, the top UN civilian representative in the Congo, told the American ambassador on 4 November that he found little sentiment in the Security Council for a new mandate and that he felt developments could be handled under the existing one. Linner said the UN Secretariat does not interpret the Adoula-Tshombé fighting as civil war, and that UN forces will not intervene. He said he had informed Adoula that Leopoldville could not expect UN military support, although the UN forces were in effect giving the ANC important air support by maintaining patrols over the Katanga border. Linner said that in the event that the cease-

fire were broken or that UN forces were attacked, the UN would not resort to "operations on a grand scale."

Adoula apparently hopes, in cooperation with the UN, to set up a "shadow regime" in northern Katanga to counter a move by Gizenga to the south and to exert further pressure on Tshombé. Jason Sendwe, the anti-Tshombé Baluba leader and one of Adoula's two deputy premiers, was scheduled to arrive in the area on 5 November, and food and medical supplies were being sent to the Balubas. UN representatives are aware of this "peaceful penetration" of northern Katanga and are apparently supporting it. Adoula, foiled in his invasion from Kasai, may now move his forces eastward to reinforce Sendwe.

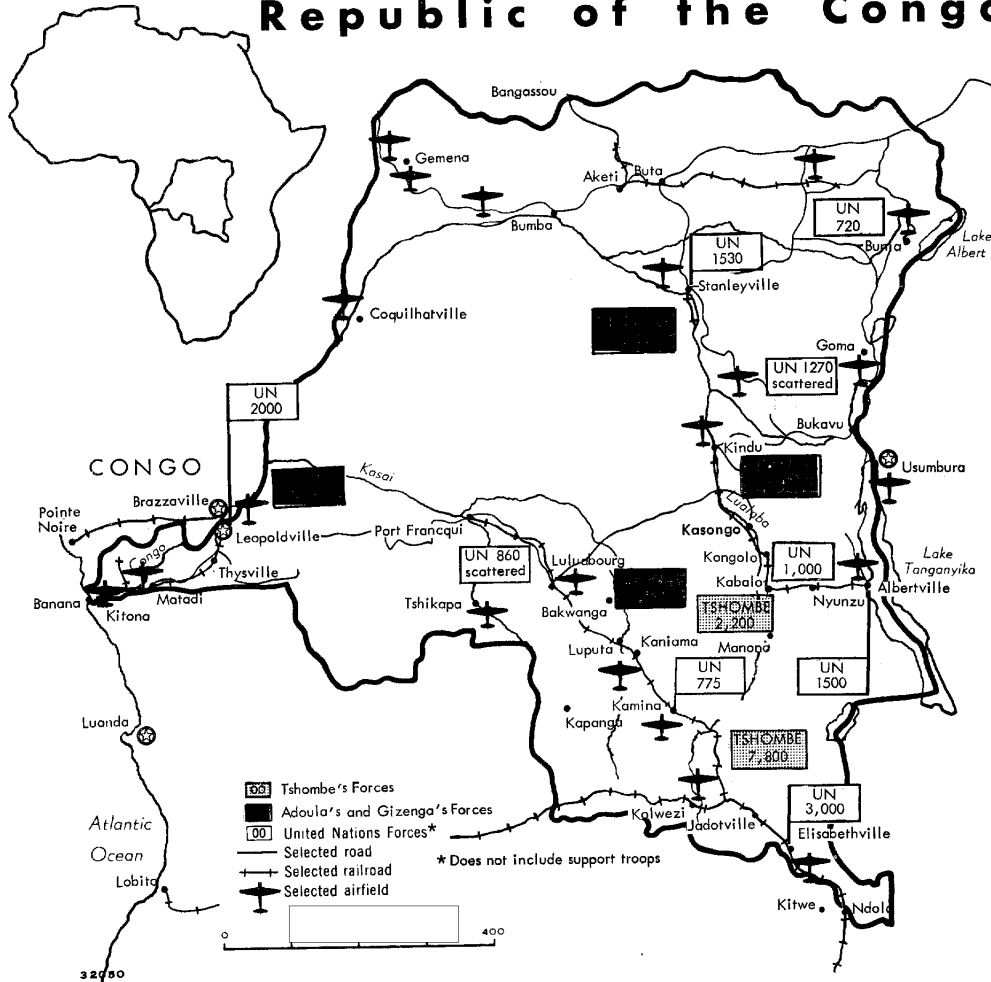
On 2 November, General Mobutu planned to bring 800 reinforcements into Kasai Province from Leopoldville and Coquilhatville, and UN sources report that he planned to move eastward to join General Lundula's ANC forces sent down to Kindu and Kasongo from Stanleyville to open a new "front" toward Kongola, Kabalo, and Nyunzu in northern Katanga. Adoula may, however, run into conflict with Gizenga, who has been in Stanleyville since 4 October.

Minister of Interior Christophe Gbenye, sent to Stanleyville by Adoula to bring Gizenga back to Leopoldville, returned on 3 November without him. Lundula's loyalties have continued to shift, and Adoula's efforts to woo him away from Gizenga may also have failed. Gizenga may be attempting a military move against Katanga, independent of Leopoldville, hoping that he can undermine the Adoula government by achieving victory on his own over Tshombé. Adoula threatened on 4 November to bring Gizenga back to Leopoldville by force and said that the time had come for a showdown.

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Republic of the Congo



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Tshombé gave no indication to Ambassador Harriman, who talked with him on 5 November, that he was in Geneva for anything other than medical treatment. He stuck to his proposals for a Congo federation, but reiterated he would meet Adoula any place outside the Congo without pre-conditions. Tshombé, [redacted] returned to Elisabethville on 6 November, [redacted]

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Press rumors that Tshombé was seeking ways to lessen his dependence on Brussels-controlled

Union Miniere are partially substantiated by reports from Elisabethville. Plans are reported under way to reorganize the Katanga National Bank in order to reduce Belgium's financial hold on the Katanga economy. [redacted] a new law would require all foreign companies operating in Katanga, including Union Miniere, to incorporate locally. The aim, [redacted] is to retain in Katanga foreign exchange now sent abroad in the form of profits and dividends. [redacted]

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SOUTH VIETNAM

Viet Cong pressure continues to increase throughout South Vietnam. Reported acts of sabotage, attacks on government outposts, and political demonstrations mounted during the last week in October and registered another all-time high for the month as a whole. The US Embassy Task Force in Saigon believes that the Communists will at least maintain and may increase their present rate of activity, and that they have the capability to launch large-scale attacks at almost any time or place.

The largest clash reported in several weeks occurred on 1 November north of Saigon in Phuoc Thanh Province, where the Viet Cong in September had temporarily seized Phuoc Vinh, the provincial capital, and where a Communist base used during the Indochina war is being re-established. Part of a government force of two paratroop battalions, engaged in an operation launched on 28 October to seek out a large guerrilla concentration in the area, was ambushed by a Viet Cong force estimated at up to 1,000. Both sides reportedly suffered heavy casualties before the Viet Cong withdrew.

Fighting has also been reported in some of the less-flooded delta provinces south of Saigon and in the central coastal area, where a government sweep was carried out near Nha Trang.

Moscow, Peiping, and Hanoi, in an effort to forestall any substantial increase by the US in its military commitment in South Vietnam following the fact-finding mission of General Taylor, have alleged that US plans for "intervention create a threat to peace and security in Southeast Asia." In a Foreign Ministry statement of 3 November, the USSR rejected a British proposal calling upon the Geneva co-chairmen to protest North Vietnamese subversive actions in South Vietnam. Instead, the Soviet Union drew attention to a Hanoi warning of 14 October, which called US actions "a gross violation of the Geneva agreements."

However, there has been no mention in bloc propaganda of specific retaliatory measures in the area. At the 22nd party congress, Khrushchev touched only on the Laotian issue, citing it as an example

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Communist Guerrilla Activity in South Vietnam



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where the "Western forces of war and aggression" were effectively frustrated by a national liberation movement. The Soviet representative at the Geneva conference on Laos has gone to

some lengths to assure US delegates that a "most rapid solution" at Geneva would not only reduce tension in Laos but in all Southeast Asia as well.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****LAOS**

Vientiane, in an exchange of notes with Xieng Khouang, has persisted in its rejection of the Plaine des Jarres as the site for a meeting of Boun Oum, Souvanna Phouma, and Souphannouvong as proposed by Souvanna. General Phoumi, observing that the formation of a coalition government would be "very difficult," has indicated to American officials that his failure to support another meeting stemmed from his belief that Souvanna would be adamant in his demand for a "neutralist" center group drawn entirely from his Xieng Khouang followers.

On 7 November Souvanna indicated his willingness to meet at Hin Heup, the site of the previous meeting, rather than the Plaine des Jarres. This concession, however, was accompanied by the observation that unless agreement on a coalition government was achieved, there "certainly would be a resumption of war."

The International Control Commission (ICC), disturbed by the continued political stalemate and the recent shelling incident at Xieng Khouang, has sent a message to the princes noting that "in the last few weeks the military situation in Laos has deteriorated considerably," and calling on the princes to meet "without further delay."

The recent Meo mortar attack on Xieng Khouang town pro-

voked vigorous counteraction, and combined Kong Le and Pathet Lao forces have launched a determined attack on the nearby Meo outpost at Pou Khe. Pathet Lao units in the Vientiane area harassed the strategic supply town of Tha Deua with small-arms fire during the past week. In Khammouane Province, Vientiane forces are continuing clearing operations against enemy units.

Hard bargaining continues at Geneva on the ICC's role in Laos. While Soviet delegate Pushkin, in talks with the UK representative on 4 November, came closer to the Western position on the critical points of voting procedure and investigations, he remained adamant that any "supply depots" for the ICC would have to be manned by Laotian authorities. Pushkin indicated that if the West dropped its demand for these supply centers throughout Laos, he would not oppose an arrangement between the ICC and the Laotian Government on this question.

Pushkin insisted that specific mention of SEATO be included in any neutrality declaration and demanded assurances that the four non-conference SEATO members would respond to a Laotian declaration of neutrality in the same manner as those attending the conference.

The Soviet delegate also maintained that, allowing for a very short transition period, the French would have to give up their installations in Laos.

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FRANCE-ALGERIA

There is growing evidence that a fourth round of formal negotiations may soon take place between France and the provisional Algerian government (PAG). Officials of both sides have recently made public statements indicating broad areas of agreement and a willingness to make further concessions. Indications are that secret talks are already in progress, although both sides deny it publicly.

"Self-determination" presumably will be the formula for the transfer of sovereignty. PAG premier Ben Khedda in his 24 October speech mentioned it as a second choice to an immediate joint proclamation of independence, and President de Gaulle on 7 November again stated his preference for it, with partition as a "last resort" solution.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

The US consul general in Algiers feels that the arrest of Abdurrahman Fares by the French on 4 November is an important event in the development of the Algerian affair. Fares, a highly regarded Moslem who was formerly president of the Algerian Assembly, had long been considered completely loyal to France. His arrest on charges of having directed the rebel "tax" collections among the nearly 400,000 Algerians in France will, the consul general thinks, alarm the dwindling group of Moslems who still place their confidence in France--and it will certainly shake French confidence in them.

The Secret Army Organization (OAS) is reportedly continuing preparations to seize power in at least part of Algeria in order to frustrate any agreement Paris might make with the PAG.

cessful, the organization has issued a new call for a mass "flag-showing" on 10 and 11 November.



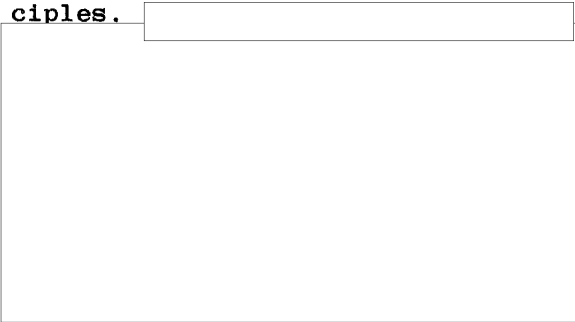
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the OAS is generally believed to be capable of producing another crisis in Algeria. Whether the army generally would support the government under such conditions is not clear, but recent reports indicate that military loyalty to the government is increasingly assured.

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Both De Gaulle and Premier Debré are taking action this month to "mend fences" between the government and the armed forces. Debré is addressing cadets at the army and air force academies on current international developments and the need to adhere to high principles.

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the Oran region is practically under the control of the OAS and its sympathizers among the military. Although public manifestations to demonstrate settler support for the OAS have not always been suc-

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****ECUADOR**

Following new outbreaks of rioting in several Ecuadorean cities, President Velasco was forced to resign late on 7 November, but his successor remains in doubt. Vice President Arosemena, a leftist who had rounded up considerable congressional support for his move to impeach Velasco, has reportedly been recognized as President by Congress. Military leaders, however, have asserted that the constitutional order has been broken and have named a right-wing socialist, Supreme Court Justice Camilo Gallegos, as acting president. A possible compromise figure is Reinaldo Varea Donoso, who as vice president of the Senate ranks third in the constitutional succession and is also a professional military man.

Velasco's political support had declined in recent weeks, partly because of his government's failure to remedy the deteriorating economic situation and carry out its promises of social reform. A Communist-leftist attempt at a general strike occasioned rioting in three northern provincial cities in early October, and one mid-October session of Congress ended in a stone-throwing and shooting fracas between Velasco supporters and those of Arosemena. The present round of violent outbreaks began on 3 November with Velasco's visit to the southern provincial city of Cuenca.

Leaders of the armed forces, who strongly distrust Arosemena for his leftist tendencies, had earlier on 7 November supported Velasco in ousting and arresting Arosemena. Their sudden withdrawal of support probably stemmed from a belief that Arosemena

had been disposed of and from the widespread breakdown of law and order under Velasco's rule. They have also resented his earlier pro-Cuban policy and his failure to crack down on leftist agitation.

The 42-year-old Arosemena, who as vice president and ex officio president of the Senate is first in the constitutional line of succession to the presidency, was an ally of Velasco until a few months ago. Arosemena's indebtedness to leftists and his favorable accounts of his trip to the USSR last summer outline his probable policies if he comes to power. He could be more pro-Cuban than Velasco was, and his administration more open to Cuban subversive activity.

Gallegos, who is not in the constitutional line of succession, was apparently named by the military as an interim figure because he had not been involved in the recent power struggle and because of his ostensibly impartial position. Now 66 and a Supreme Court justice since 1947, he is a moderate who would presumably accede to any solution worked out between the military and responsible political groups.

Lt. Col. Varea Donoso, although outranked by the president of deputies in the constitutional line of succession, is probably a more acceptable compromise candidate because of his military connections and his experience as defense minister during Velasco's 1952-56 term. Now 45, he has been closely linked with Velasco but has on occasion intrigued against him. 25X6

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CURRENT INTELLIGENCE WEEKLY SUMMARY

CUBA

Several Cuban economic and "friendship" missions are traveling in bloc countries. Trade union delegations from North Korea, North Vietnam, and other bloc nations are en route to Havana, along with representatives of various Latin American leftist labor organizations, for labor rallies beginning on 22 November.

The meetings are expected to extend automatic approval of the regime's new labor program consolidating 33 national trade unions into 25 and formally installing new officers--most of whom were "elected" unanimously--for each union. Regime officials have promised that the labor program will include "the most democratic trade union laws ever dictated in Cuba."

Scattered incidents of sabotage and evidence of occasional skirmishes between small bands of anti-Castro guerrillas and government troops demonstrate that active opposition to the regime is continuing, despite a steady increase in the numbers and efficiency of the government security forces.

The anti-

Castro movement within Cuba is not believed to pose a serious threat to the regime at this time, however, in view of the strength of the forces loyal to Castro.

Other Latin American countries are still split in their attitudes toward possible OAS action on the Cuban question, although several governments have demonstrated increasing irritation over recent Cuban moves. Venezuelan President Bentancourt told US Ambassador Moscoso on 6 November that his government would break relations with Cuba "within 48 hours," provided arrangements could be made to relocate the 47 political refugees presently sheltered in its embassy in Havana. This problem could remain unresolved for a considerable period of time, however, in view of Cuba's continuing refusal to grant safe conduct to many refugees.

The present position of Ecuador regarding the Cuban problem is not known, but immediately prior to its ouster on 7 November the Velasco regime was reported under strong pressure from the Ecuadorean military to break relations with Cuba over Havana's meddling in its internal affairs.

Latin American diplomats in Havana are protesting new Cuban restrictions on diplomatic asylum to political refugees there, and Mexico has criticized as inadequate the Cuban Government's investigation of the mysterious death in Havana of a Mexican diplomat last August.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

ARGENTINA

President Frondizi's extended efforts to reorganize the Argentine railroad system have been met with a railroad strike starting 30 October, a general strike on 7-9 November, supported mainly by the Peronista Unions, and a general rise in political tension. Labor leaders protest Frondizi's plan to dismiss or retire 75,000 of the some 200,000 employees of the state-owned railroads and to turn over to private hands various auxiliary services, such as restaurants and repair shops. These steps are prerequisite to receipt of a World Bank loan needed to modernize the railroads. Frondizi insists that the rail deficit--estimated at \$180,000,000 next year--is a disproportionate burden on the economic stabilization program, soon to begin its fourth year.

Declaring a "serious state of emergency," Frondizi on 5 November issued three decrees establishing police control over the transport system within a radius of 36 miles of Buenos Aires and over the petroleum industry. He said the general strike call "aimed at adding the threat of chaos," and he reiterated his resolve to carry out the transportation reorganization plan.

A security command has been established under the chief of federal police--reflecting the army's reluctance to repeat its

extremely unpopular mobilization of the railway workers. Marines have been ordered to Buenos Aires to reinforce the police. All the armed forces are cooperating in guard duty at strategic installations and are on alert to combat any terrorist acts. 25X1

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****THE UN SECRETARIAT UNDER U THANT**

U Thant's appointment as interim UN secretary general by consensus in the Security Council and the unanimous endorsement of the General Assembly give him considerable latitude to act as the sole executive of the UN Secretariat. Thant, one of the first candidates suggested to succeed Dag Hammarskjold, had made it clear that the Burmese Government would not permit him to accept if there were any form of "veto or compulsory consultations with advisers" involved. He has since pledged himself to preserve the impartiality and effectiveness of the Secretariat.

Thant will act as secretary general until April 1963--the date on which Hammarskjold's second term would have expired. He has retained Ralph Bunche of the United States and Georgy Arkadyev of the USSR as under secretaries, and Narasimhan of India as chef de cabinet. He said that he would also invite a "limited number" of persons to act as "principal advisers on important...functions entrusted to the secretary general."

Thant will probably lean over backward in his efforts to be completely impartial. He is unlikely to exhibit the strong executive leadership frequently exercised by Hammarskjold, who sometimes went beyond a strict interpretation of the UN Charter. In addition to the active role he played in the Congo, Hammarskjold had set up--without a specific mandate from the UN and despite strong Soviet objections--a UN operation in Laos which included diplomatic as well as economic advisory func-

tions, and had appointed personal representatives who served to bolster Jordan in its dispute with the UAR.

Thant is more likely to insist on specific mandates and to seek more active participation of representatives of UN member-states in the conduct of UN operations in crisis situations. The implied commitment to consult with the under secretaries will also tend to deprive him of the opportunities Hammarskjold sometimes used to confront the USSR with a fait accompli.

Generally recognized as one of his country's ablest public servants, the 52-year-old Burman gained the respect of all political factions as Prime Minister U Nu's chief adviser in both domestic and foreign affairs. At the UN, where he has been Burma's permanent representative since 1957, Thant is highly regarded for his quiet and efficient promotion of Burmese objectives. A Buddhist of great personal integrity, Thant is also a hard worker.

Thant is in accord with Burma's neutralist objectives, but within this pattern he is broadly pro-Western in outlook and, according to the American Embassy in Rangoon, a strong anti-Communist. He vigorously defends the right of newly emerging nations to occupy a neutral position between East and West, and has been a persistent advocate of Communist China's admission to the UN.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

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ALBANIAN PARTY BOSS ENVER HOXHA

Enver Hoxha, Albania's dictator, at 53 is one of the youngest of the East European Communist leaders. Over the years, he has eliminated all opposition to his rule. The only East European leader with a Western college education, Hoxha is considered intelligent and cosmopolitan, but ruthless.

Hoxha's father was a middle-class textile merchant in the southern Albanian town of Gjinokaster who at the beginning of

the century had worked in a textile mill in New England. Enver attended grammar school in Gjinokaster, the French Lycée in Korçe, and reportedly the American Technical School in Tirana. In 1930 he went to Montpellier University in France on an Albanian Government scholarship but never completed his course of study. It apparently was in this period that he became interested in Communism--a common phenomenon among young Albanian intellectuals of the period.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

When Italy seized Albania in 1939, Hoxha apparently was already one of the influential members of the Communist study group in Korçe, probably the most important of several such groups in Albania. He fled to the hills to organize resistance to the Italians, but returned to Tirana in November 1941 as representative of the Korçe group at the founding of the Albanian Communist party. The Yugoslav organizers appointed him provisional secretary general.

Hoxha helped organize the 1942 conference which founded the Communist-dominated National Liberation Movement, and he was confirmed in his party posts at the party's first national conference in 1943. He was appointed premier in the provisional government elected at the Berat conference in 1944, when the war was almost over and the other internal liberation forces had been eliminated.

During this period, the Yugoslavs viewed Hoxha as only one of several leading Albanian Communists. Some evidence suggests Belgrade held party secretary Koci Xoxe in higher esteem. Hoxha was little known in Moscow and practically unheard of in Communist parties elsewhere in Eastern Europe. According to Vladimir Dedijer--once a high official in the Belgrade regime--Stalin asked Yugoslav Communist leader Kardelj about Hoxha at a meeting in 1947. Kardelj responded: "Our opinion is that he is good and honest on the whole, although he has certain characteristics of a petit bourgeois intellectual. He has a good war record and the people love him, but he lacks Marxist-Leninist training. Still, we think that he will hold on."

In the same conversation, Molotov chimed in: "I think that the opinion of the Yugo-

slavs is right. I saw Hoxha in Paris. He is very handsome and leaves a good impression. He is quite cultured, but you feel Western influence in his upbringing."

Most characterizations of Hoxha agree that he displays considerable personality and a driving ambition. Although he is a general in the Albanian Army, he is seldom seen in uniform and is never identified by rank. He has retained a great deal of the popular following he won for himself during the war, and much of the regime's brutality is attributed by the people to Premier Mehmet Shehu. On the other hand, Hoxha has also been described as egotistical, unreliable, temperamental and illogical, cunning and sincere, and merciless in political infighting.

Hoxha has weathered every political storm in the Albanian party, which at various times has undergone anti-Yugoslav, pro-Yugoslav, anti-Soviet, and pro-Soviet purges. Of the 11 members of the provisional central committee of 1941, only Hoxha remains. Yugoslavia has claimed that of the 13 members in addition to Hoxha when the central committee was formally elected in 1943, three have been shot, one committed suicide, five are in prison, three are without public office, and one was killed in the war. Hoxha's closest collaborator in recent years, despite reports to the contrary, has been Shehu.

The Soviet and Yugoslav Communists may be correct when they label Hoxha more of a nationalist than Communist. It can certainly be said that he has used Communism to gain power, and found Stalin's brand of rule a good means of perpetuating his position and of defending what he feels to be Albania's national interests. (CONFIDENTIAL)

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CURRENT INTELLIGENCE WEEKLY SUMMARY

EAST GERMAN ECONOMIC DEVELOPMENTS

The standard of living in East Germany apparently has not suffered to date from the sealing of the Berlin sector last August. Since then, however, purchases of some foods and consumer goods have been well above normal--panic buying probably motivated by fear of scarcities, of new prices rises, or of a currency reform. Commodities being hoarded include coffee, cocoa, canned goods, linens, hardware, matches, and other "sundry items."

Control of butter and potato supplies was tightened last July when rationing was reintroduced for these foods. Although butter is frequently available in quantities exceeding the ration, the shortage of potatoes is more acute. The potato supply in East Berlin may become increasingly tight as a result of transportation delays.

This year's poor harvest of grains and row crops will make it increasingly difficult to maintain existing food supplies. Grain production is estimated to be approximately 10 percent less than in 1960, and the outlook for potatoes, an important feed and food crop, is for a below-average year.

As feed supplies directly affect production of meat and livestock products, supplies of meat, milk, and butter will reach their low point in the annual production cycle earlier than in past years. Early spring may be a critical period. The East Germans are negotiating for livestock products from Denmark, additional supplies of butter from the USSR, and fruits and vegetables from Poland.

East German economic officials reviewed the progress of the economy at a conference called by the party central committee on 10 and 11 October. The pace of industrial development is slow; the planned growth rate of 7.2 percent is not being met. A higher rate is planned for 1962 and a still higher one for 1963, although planning chief Mewis admitted recently that the 1962 plan was hastily worked out with a view to "again reaching the

goals of the Seven-Year Plan beginning with the year 1963"--i.e., a growth rate of 9 percent. The loss of manpower, the unsettling effects of the Berlin crisis, and preparation for a possible West German embargo are blamed for the failure to reach the plan rate in 1961 and for the inability to return to the Seven-Year-Plan rate in 1962.

Alfred Neumann, chairman of the new National Economic Council, reported to the conference that industrial production in the first nine months of 1961 was higher by 3 billion East marks (about \$750,000,000) than in the same period of 1960--implying an increase of somewhat less than 6 percent, about the same rate as in the first half-year. The change in labor productivity over the period suggests that industrial employment has declined at a rate of about 1 percent a year, reflecting both the loss through refugee flights during the first eight months of the year and the unfavorable age structure of the population.

The basic material industries, specifically steel and chemicals, are reported to be meeting production goals. The finished-goods industries, particularly metal-processing, continue to lag, not only because of the loss of labor but also because of shortages of materials and lack of capacity. Investment continues to run well behind plan, and Neumann's report implies that investments are not expected to increase over those of last year.

The regime appears to be giving industrial manpower requirements priority over recruiting for the military services. A greater number of "volunteers" in the 18-23 age group are being rejected for military service. Rejectees include persons who had formerly worked in West Berlin, craftsmen preparing for exams, and employees of plants or agricultural enterprises short of labor. Increased deferments are also being granted for production workers.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

SEVERE DROUGHT IN YUGOSLAVIA

Yugoslavia is beset by a severe drought which threatens to interfere seriously with the regime's economic plans. The economy remained generally healthy through the third quarter, but several important industries have had to cut back production because of the hydroelectric power shortages; river transport has virtually halted; and agriculture has suffered a sharp setback.

These reverses will adversely affect Yugoslavia's foreign trade and exchange positions, particularly by sharp reductions in the surpluses of corn and tobacco available for export. Belgrade can ill afford to lose these sources of foreign exchange, for at the first of the year the country began an economic reform program designed to enhance domestic competition and make the Yugoslav economy more responsive to foreign markets. Foreign exchange is particularly needed for imports to force down the cost of certain domestic products.

Agriculture has been hardest hit. Belgrade has been forced to seek 800,000 tons of wheat from the US, and corn, which brought in almost \$11,000,000 in foreign exchange last year, fell a third below last year's production. The tobacco crop, which earned almost \$8,000,000 last year, was 50 percent below last year's crop. An embargo on potato exports will probably be ordered.

The poor corn crop--and resulting shortage of cattle feed--has led many peasants to slaughter or sell their animals too early in the year. The

government is making available \$1,200,000 in low-cost credits for fodder imports, buying cattle to ensure a meat supply in February and March, and loaning money to state and cooperative farms. Even so, regulations may be enacted against slaughtering.

State and cooperative farms are preparing for around-the-clock plowing and seeding operations when the rains come, but fall seeding may be so long delayed that the 1962 spring harvest will also be small.

The US Embassy in Belgrade believes that higher food prices are in prospect. Eggs already have gone up, and meat and wine prices will probably also rise shortly.

The embassy also notes that the peasants on privately owned land will be the hardest hit by the drought. In order to recoup, they may be forced to enter contract arrangements with the state and cooperative farms. While there is no evidence that the regime plans to change current policy, the Yugoslav press is placing primary blame on the private peasants for the lower production this year; the government could use this as justification for further pressures on the private farmers.

The drought has reduced hydroelectric power production to a minimum. Although Yugoslavia is importing electricity from Austria and Italy and has stepped up thermal electric production, power shortages have been reported in some cities, and some electrolysis-processing industries have been forced to shut down.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****BLOC ACTIVITY IN WORLD RUBBER MARKET**

After a sharp decline in 1960, Soviet imports of rubber this year are approaching a record level. Natural rubber is one of the USSR's chief imports and one of the few critical commodities Moscow must procure exclusively from non-bloc sources. Soviet imports of natural rubber rose to an estimated 220,000 tons during the first eight months of 1961, and the year's total probably will exceed 300,000 tons. The previous peak of about 250,000 tons was recorded in 1958 and maintained in 1959, when rubber purchases accounted for more than 3 percent of the USSR's total imports and about one-fourth of all Soviet purchases in underdeveloped countries.

Soviet purchases have been concentrated in Malaya and Singapore, but Moscow is taking increasing amounts from Ceylon, Indonesia, Thailand, and Cambodia. As part of the bloc's trade offensive, the USSR has sought to buy rubber directly from producing countries rather than through West European middlemen, but last year Moscow doubled its purchases in the UK while curtailing its imports elsewhere.

Soviet rubber imports fluctuate widely from year to year, but a general upward trend has resulted from lags in Soviet synthetic rubber production. To some extent the volume of Soviet rubber imports reflects world price changes and stockpile requirements. Political considerations have affected the source of Soviet imports, but not the volume. The USSR's record imports this year are basically prompted by an increase in demand not matched by a corresponding rise in domestic production, but they are also a result of the heavy drawings on stockpiles last

year when Moscow reduced its purchasing during a period of high world rubber prices. Since late 1960, rubber prices have dropped and the Soviet Union has bought large quantities, apparently to replenish its stockpiles. There is no indication that the USSR's rubber buying this year is directly linked to increased military preparedness.

Moscow's desire to reduce its dependence on natural rubber imports and simultaneously to meet sharply increased Soviet needs for rubber is reflected in the Seven-Year Plan goal of increasing synthetic rubber production from about 300,000 tons in 1958 to 800,000 tons in 1965. The failure of the synthetic rubber industry to maintain the required pace, however, probably will require continued large-scale rubber imports at least through 1965.

Communist China's natural rubber imports dropped to only 40,000 tons in the first 8 months of 1961--less than half the level of recent years--reflecting Peiping's stringent foreign exchange position and curtailed Chinese economic activity. In the past, a sizable share of China's rubber imports from Southeast Asia has been re-exported to the USSR and European satellites. This year, however, Peiping is relying on its rice-rubber barter agreement with Ceylon and reduced imports from Indonesia to cover domestic requirements and probably has little or nothing for re-export. China's exports of tires to other bloc countries have probably also been curtailed.

Rubber imports by the European satellites are rising, but not as sharply as those of the USSR. The satellites imported about 125,000 tons directly in 1960, plus additional quantities re-exported by the USSR.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

BLOC ECONOMIC ASSISTANCE TO THE SOMALI REPUBLIC

The USSR and Czechoslovakia are the major sources of external economic assistance to the Somali Republic, having already provided almost 65 percent of the approximately \$90,000,000 in foreign grants and credits now available to Mogadiscio.

In recent speech before the National Assembly, Prime Minister Abdirascid outlined the government's plans for development projects in the fields of agriculture, industry, communications, education, and housing. He referred specifically to some 37 major projects which the government hoped to undertake. Of the projects mentioned, fourteen are included in the Soviet and Czech aid agreements and four in a Soviet grant offer. Although it is by no means certain that all of the projects will be undertaken, the USSR and Czechoslovakia will be providing assistance in a number of important fields which will allow for considerable bloc participation in Somalia's development program.

Since the republic received independence in July 1960, the bloc has sought to develop and strengthen its economic relations with the country. The general framework for an increase in economic ties was established in June of this year when the USSR and Czechoslovakia agreed to extend about \$56,000,000 in economic credits. The USSR provided credit in the amount of \$44,000,000 and Czechoslovakia in the amount of \$4,200,000 for agricultural and industrial development. In addition the USSR extended a \$7,700,000 credit to finance the purchase of unspecified Soviet commodities.

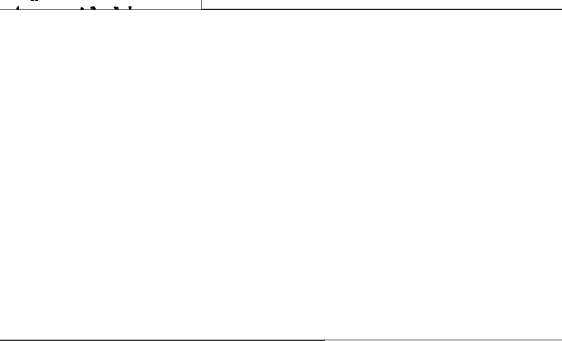
Under the terms of the Soviet aid agreement, economic and technical assistance will

be given for the establishment of four government farms for raising cotton, oil-bearing seeds, cereal grains, and livestock. The USSR also will construct an agricultural school, three food-processing plants, a dam and power station on the Juba River, and a maritime port. Soviet technicians will carry out geological explorations and drill for water. In addition to those projects, the USSR has offered to build on a grant basis a 50-kilowatt short-wave radio station, a printing plant, two hospitals, and a secondary school.

The Czech agreement lists six alternative projects--a power plant, a cement factory, a flour mill, a tractor assembly plant, an ice-making plant, and a cold-storage plant--from which projects to be financed will be chosen. Prague also is providing \$1,400,000 in grant assistance for the construction of a technical training school.

A Soviet technical delegation has been in Mogadiscio since mid-September drawing up plans for specific projects in the implementation of Moscow's agreement.

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The USSR may feel this is the time to step in with an offer of military aid to demonstrate its responsiveness to the Somali Republic's needs as well as to assuage any apprehensions regarding Soviet assistance.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

ECONOMIC PROSPECTS IN NORTH KOREA

Since the end of the Korean war, North Korea has made considerable progress toward stabilizing its economy and freeing itself of economic dependence on the USSR and Communist China. Production of many major industrial and consumer goods has surpassed pre-Communist levels, and further expansion is planned.

Basic Resources

North Korea's basic economic position is more favorable than South Korea's. With a population of about 10,000,000, the North has only about half as many people as the South but most of the peninsula's major natural resources. The area north of the 38th parallel has 97 percent of the iron ore, 68 percent of the coal, 85 percent of the hydroelectric power potential, and most of the forest resources.

In addition, the North inherited an estimated two thirds of the heavy industrial assets left in Korea by the Japanese in 1945, including 94 percent of the power-generating facilities, 87 percent of the iron and steel capacity, and 90 percent of the chemical industry.

By Far East standards, moreover, North Korea has a large area of cultivated land for the size of its population; about 0.6 acre per capita, as compared with 0.4 acre in Communist China and 0.25 in Japan.

Industry

Since the end of the Korean war in 1953, nearly one-third of North Korea's gross national product (GNP) has been reinvested in the economy to restore and expand productive capacity. This program, together with substantial

assistance from its bloc partners, has enabled Pyongyang to build an industrialized economy. By 1960, an estimated 34 percent of GNP came from mining and manufacturing, 13 percent from trade and finance, and 16 percent from construction, transportation, and communication--as against 23 percent from agriculture, forestry, and fishing and 14 percent from services.

North Korea's economic policy, modeled closely after that of the USSR, has given top priority to industrial development, with initial emphasis on machinery and metalworking. High investment and large imports of heavy machinery and equipment have made this industry, which consisted only of small handicraft shops up to 1954, the largest and fastest growing in North Korea. Production in 1960 reportedly included generators totaling 30 megavolt-amperes in output, transformers of a total capacity of 640 megavolt-amperes, the equivalent of 33,000 twenty-horsepower electric motors, 300 freight cars, and 3,100 trucks.

Progress has been steady although less rapid in other parts of heavy industry. The 9 billion kilowatt-hours of electricity produced in 1960 constituted recovery to the pre-Communist peak year of 1944, coal output of 10,600,000 metric tons was substantially more than in 1944, and production of crude and finished steel was about four times that in 1944. Output of iron ore, ammonium sulfate, and basic chemicals has not yet recovered to peak levels achieved in 1944. North Korea exports annually to Communist China about one fifth of the electric power produced and about 400,000 tons of iron ore.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

SELECTED NORTH KOREAN PRODUCTION STATISTICS

	ACTUAL		GOAL		
	1944 (prewar peak)	1960 (end of 1st 5-yr plan)	1961	1962	1967 (end of 7-yr plan)
Gross value Industrial production (billion won)		2.08	2.45	3.06	6.7
Coal (million tons)	5.7	10.6	----	15.02	23-25
Iron ore (1,000 tons)	3,100	486	----	----3	---
Pig Iron (1,000 tons)	564	752	----	----4	2,200-2,500
Crude steel (1,000 tons)	147	641	----	1,200	2,200-2,500
Finished steel (1,000 tons)	105	474	----	----	1,600-1,800
Electric power (billion kwh)	8.1	9.1	----	----	17
Cement (1,000 tons)	958	2,285	----	----	4,000-4,500
Chemical fertilizer (1,000 tons)	512	650	----	----	1,500-1,700
Cotton and silk fabric (million meters)	1.4	190	----	250	400-500
Grain and soy beans (million tons)	2.4	3.8	4.8	5	6.7
Fish (1,000 tons)	----	690	----	800	1,000-2,000

Another factor behind the rapid expansion in industry has been the composition of North Korea's total imports--concentrating heavily on industrial equipment and raw materials.

Agriculture

North Korea increased grain output by about 25 percent between 1949 and 1960 to about 750 pounds per capita; 1960 output was about 406 pounds per capita in South Korea, where domestic production is supplemented with sizable grain imports. A collectivization program has been carried out without major disruption of normal farm work, and, more important, concerted efforts have been made to increase supplies of chemical fertilizer, mechanize agriculture, expand irrigation, and shift acreage to higher-yield crops.

The number of tractors in North Korea--which Pyongyang's statistics report in terms of 15-horsepower units--reached 10,400 in 1960, or one for every 357 acres of cultivated land. The USSR had achieved roughly the same ratio in 1955.

Bloc Assistance

Foreign grants and credits have played an important part in North Korea's economic progress to date. Bloc assistance between 1950 and 1960 came to a minimum of \$1.3 billion, or \$130 per capita. These grants and credits, which amounted to about 33 percent of GNP in 1954, have since been gradually supplanted by normal commercial trade and in 1960 amounted to only 3 percent of GNP.

Foreign Trade

Another measure of the increasing viability of the North Korean economy is the steadily improving balance of trade. In 1954, exports were only about 13 percent of total imports (including economic aid) but by 1960 had risen to 45 percent. North Korea is completely dependent on imports for its coking coal, POL, and rubber and is deficient in raw cotton and in machinery and equipment. Industrial raw materials, heavy machinery, and equipment have made up almost two thirds of total imports since 1958, with foodstuffs, drugs, and other

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consumer goods comprising only about one third.

Living Standards

In contrast to the priority given to investment and industrial expansion, consumption in North Korea has made only small advances. The average North Korean has adequate amounts of basic food and clothing, but he is subject to rationing, queueing, and other unfavorable features that face consumers throughout the bloc. The North Korean populace appears better off than the people of Communist China, where serious food shortages have led to widespread malnutrition and weakened resistance to disease, but the diet in North Korea, as compared with that in Japan, Taiwan, South Korea, and most other non-bloc countries of the Pacific area, is poor, especially in quality.

As heavy industry recovered, North Korea's economic planners shifted emphasis to overcoming deficiencies in light industry. In 1954, North Korea produced only 0.16 yards of cloth per capita. However, by 1960, when production of textiles comprised roughly half of all light industrial production, per capita output was about 21 yards. To make up for its deficiency in raw cotton, North Korea has started an ambitious program for the manufacture of synthetic fibers. A new nylon plant is expected to produce 10,000 tons next year.

Housing remains a problem, but gains have been registered despite industry's priority on construction materials and manpower. In 1960, per capita residential floor space was about 56.7 square feet in urban areas and 83.5 square feet in rural areas, an over-all

average of about 69.5 square feet and an increase of 16 over 1956. This level compares favorably with the estimated 64.6 square feet per capita in South Korea.

Prospects

North Korea started this year on a new seven-year plan (1961-67). Except for grain, no specific goals for 1961 have been announced, but "six peaks" for 1963 were mentioned in the press recently. The plan envisages increases by 1967 in gross value of industrial output of 18 percent annually, and significant increases in the output of major industrial and consumer goods. Announced in August 1960, this plan involves substantial modernization of the economy and per capita outputs of major commodities commensurate with an industrially developed economy. Until 1963, the emphasis will be on agriculture and light industry. From 1964 to 1967 emphasis will shift back to chemical, machine-building, mining, and power industries.

Prospects for achievement of this ambitious program are fairly good, although the rates of growth probably are overstated. High rates of growth in the immediate past reflect large gains in the production of basic industrial products and are attributable in substantial measure to loans and grants from other bloc countries. These factors will be less important in the future, and rates of growth henceforth will not be as great. Although the consumer will continue to receive low priority, he will benefit from some increases, particularly in non-food goods, and he will remain at least as well off as the consumer in South Korea.

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