

SECRET

COPY NO. 74

OCI NO. 0426/62

20 July 1962

# CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

ARCHIVAL RECORD  
PLEASE RETURN TO  
AGENCY ARCHIVES

25X1

SECRET

25X1

224523  
State Dept. review completed

GROUP 1  
Excluded from automatic downgrading  
and declassification

ARMY review(s) completed.

**Page Denied**

**SECRET**

**CURRENT INTELLIGENCE WEEKLY SUMMARY**

20 July 1962

**T H E   W E E K   I N   B R I E F**  
(Information as of 1200 EDT 19 July)

**SOVIET FOREIGN POLICY DEVELOPMENTS . . . . . Page 1**

Berlin and Germany: Moscow has again moved the Berlin problem to center stage and is treating the forthcoming Rusk-Gromyko talks as a "crucial phase" in the East-West dialogue. Tension is being heightened through a tougher tone in Soviet pronouncements and in new threats to sign a separate peace treaty with East Germany, but Khrushchev apparently still hopes negotiations can be used to resolve the impasse.

Nuclear Testing and Disarmament: Khrushchev reasserted on 13 July that the USSR must be the "last" to test, but Soviet tests seem to be some time in the future. The disarmament conference reconvened in Geneva on 16 July with no sign of a significant change in Soviet positions.

Moscow Peace Conference and Sino-Soviet Relations: The congress ended its seven-day meeting with a bland resolution. The Soviet Union and Communist China used the meeting to project an outward appearance of bloc unity, but other developments indicate continued deep hostility.

Cuba: The silence surrounding Raul Castro's departure from Moscow contrasts sharply with the attention given his arrival and activities during the visit, and suggests that difficulties developed during his negotiations.

Indonesia: The composition of the delegation accompanying Mikoyan on his visit to Indonesia--to begin on 21 July--indicates that important political as well as economic matters are to be discussed.

25X1

**CZECHOSLOVAKIA . . . . . Page 6**

Recent governmental changes and the completion of the long delayed program for the 12th Czechoslovak party congress suggest that party and government leader Novotny has beaten down internal party opposition and is moving to strengthen the economy.

25X1

**EAST GERMANY'S ECONOMY AT MIDYEAR . . . . . Page 8**

The regime at midyear could claim some progress toward solving its industrial problems, but the East German economy is suffering more acutely than ever from the effects of agricultural failures and past inflation. Since last August the regime has been able to increase labor productivity in industry while maintaining the former wage level, and to overfulfill the conservative plan for industrial production. The effects of last year's very poor harvest, however, cannot be overcome quickly, and the regime has admitted that the food supply has declined and will not improve in the next four months. The addition of key economic officials to the Presidium of the Council of Ministers represents an effort to adjust to long-range economic problems.

25X1

**SECRET**

**SECRET**

**CURRENT INTELLIGENCE WEEKLY SUMMARY**

20 July 1962

**SINO-INDIAN BORDER . . . . . Page 10**

Tension remains high in the Sino-Indian border area, particularly in the Galwan Valley of Ladakh, where forces of the two sides have been within rifle shot of one another for more than a week. Both sides have warned that a clash may occur at any time, but each seems reluctant to initiate hostilities. Both for the moment appear content to confine themselves to diplomatic exchanges and military shadow-boxing.

25X1

**NEPAL . . . . . Page 12**

King Mahendra's recent reorganization of his Council of Ministers should increase government efficiency. The primary aim of the move, however, seems to have been to conciliate India by removing the India-baiting foreign minister. Mahendra presumably hopes to encourage New Delhi's slight but growing sympathy for his administration to the detriment of the India-based Nepali exiles.

25X1

**LAOS . . . . . Page 13**

Souphannouvong's refusal to allow a company of Phoumi's troops to proceed to Khang Khay presents the Souvanna government with its first test of the "troika" principle. In anticipation of eventual national elections, Phoumi is organizing a political movement designed to counter the Neo Lao Hak Sat--the Pathet Lao's political arm. The Geneva conference on Laos is scheduled to conclude on 23 July, and there is no evidence that Soviet bloc representatives will raise issues to delay the signing of the neutrality agreements.

25X1

**SOUTH VIETNAM . . . . . Page 14**

Recent operations reveal a high level of military professionalism on the part of the Viet Cong. In the northern part of South Vietnam, they appear to be building up a strong force based on cadre units from regular North Vietnamese Army divisions. While South Vietnamese Army sweeps are destroying Viet Cong installations and supplies and keeping the Communists off balance, Communist forces continue to elude encirclement by fleeing into the jungle when helicopters appear.

The Viet Cong's National Front for the Liberation of South Vietnam has stepped up efforts to gain acceptance abroad as spokesman for South Vietnam's people and has proposed that South Vietnam be "neutralized" along the lines of the Laotian settlement.

25X1

**SECRET**

**SECRET**

**CURRENT INTELLIGENCE WEEKLY SUMMARY**

20 July 1962

WEST NEW GUINEA . . . . . Page 15

Dutch-Indonesian talks on the West New Guinea dispute resumed on 13 July near Washington. Certain to impede the talks, however, is Indonesia's long-standing demand for transfer of the area before the end of 1962, thereby by-passing the two-year interim administration fixed by the Bunker plan. Indonesian military movements have continued without letup, and there are indications of plans for relatively large-scale action in early August. [redacted]

25X1

ALGERIA . . . . . Page 17

The rift between dissident Vice Premier Ben Bella and Premier Ben Khedda of the Provisional Algerian Government (PAG) appears to be widening, despite mounting pressure on both leaders to settle their differences and apply themselves to the country's economic and administrative problems. [redacted]

25X1

[redacted] Ben Bella, who has been joined by respected ex-premier Ferhat Abbas, appears to be gaining prestige and military strength. Although Ben Bella's own statements continue to be moderate, members of his entourage have demanded the replacement of the PAG, implying that this would be done by force if necessary. [redacted]

25X1

CONGO . . . . . Page 18

Adoula is probably in serious trouble as a result of the 16 July assembly vote on his reorganized government. The number of his opponents is increasing and, aided by Tshombé, they are intent on toppling the premier. There has been no progress toward Katanga's integration, and Adoula appears increasingly convinced that further negotiations would be fruitless. Tensions between UN and Katangan forces in Elisabethville have risen sharply following Tshombé's "independence" day celebrations and the 17 July attack on a UN roadblock by mobs of Katangan women. [redacted]

25X1

IRAN . . . . . Page 19

The change in prime ministers probably means the end for the time being of economic and social reform in Iran. Most political elements disliked outgoing Ali Amini, whose reform program had alienated the traditional ruling groups without bringing enough visible benefits to the nationalist elements. The appointment of Amir Asadollah Alam from the Shah's entourage marks the Shah's intention again to participate fully in determining government policy. The nationalists will find him completely unacceptable, and may show their feelings in demonstrations. [redacted]

25X1

**SECRET**

**SECRET**

**CURRENT INTELLIGENCE WEEKLY SUMMARY**

20 July 1962

**THE EIGHTH WORLD YOUTH FESTIVAL . . . . . Page 20**

The Communist-sponsored Eighth World Youth Festival meets in Helsinki from 28 July to 6 August under conditions more favorable to Moscow's objectives than those at the Seventh Festival in Vienna in 1959. Unlike the Austrians, the Finnish Government has given the festival organizers considerable support. It is trying to minimize the difficulties caused by the boycott of festival preparations by most Finnish youth groups and to forestall possible Soviet complaints about the lack of Finnish cooperation. While total attendance will probably fall short of earlier estimates, there will be the usual large delegations from the Sino-Soviet bloc. A special effort is being made to ensure extensive African, Asian, and Latin American participation.

[Redacted]

25X1

25X6

[Redacted]

**THE NEW SPANISH VICE PREMIER . . . . . Page 23**

Captain General Augustin Munoz Grandes, appointed to the newly created post of vice premier in the reorganization of the Spanish cabinet on 11 July, has been designated to carry on as head of the government when Franco dies or is incapacitated. Munoz Grandes retains his post as chief of the High General Staff and now has been given control over the three service ministries. He is known to favor close cooperation with the US in defense matters and may be expected to press for US assistance in modernizing Spain's military establishment.

[Redacted]

25X1

**ITALY'S LABOR PROBLEMS . . . . . Page 24**

A wave of summer strikes--although normal in Italy--has raised serious difficulties for Premier Fanfani's experiment in left-center government. Strikes early this month by metalworkers around Turin were accompanied by violent disorders apparently sparked by Communists and rightists to embarrass the government. While these and other strikes are temporarily halted, labor's grievances continue to encourage unity of action by Communist and non-Communist unions at a time when the government parties are seeking to isolate the Communists politically.

[Redacted]

25X1

**SECRET**

**SECRET**

**CURRENT INTELLIGENCE WEEKLY SUMMARY**

20 July 1962

**GREECE . . . . . Page 25**

Premier Karamanlis is facing mounting budgetary problems and heavy pressure from his opposition. The government lacks funds to support a defense program which it and SHAPE consider adequate. Greece's five-year economic development program is also in jeopardy, and creation of an international consortium to support it is endangered by foreign demands for prior settlement of Greece's prewar debts. Failure to resolve these problems could bring on a cabinet crisis.

25X1

**BRAZIL . . . . . Page 26**

Brazil's government crisis eased on 13 July with congressional acceptance of Prime Minister Brochado da Rocha's cabinet. The 17-day struggle between President Goulart and Congress appears to have resulted in at least initial victory for the President. Goulart and his new prime minister apparently still hope for legal restoration of a strong presidency but seem likely to face continuing congressional recalcitrance. The government now may be inclined to increase restrictions on private foreign investment in Brazil.

25X1

**PERU . . . . . Page 27**

The military junta in Peru faces no immediate physical challenge to its control of the country, but will probably have to contend with a general strike, some outbursts of violence as well as passive resistance, and widespread censure by western hemisphere governments. The United States and several Latin American governments announced suspension of diplomatic relations with Peru on the heels of the coup. President Prado is under arrest, constitutional guarantees have been suspended, the 10 June presidential election has been annulled, and a cabinet of military officers has been installed.

25X1

**SPECIAL ARTICLES**

**FRENCH NUCLEAR STRATEGY . . . . . Page 1**

French national security policy today, as France moves toward operational atomic weapons capability, centers on an independent nuclear deterrent capable of inflicting sufficient retaliatory damage to make it unprofitable for an aggressor to attack France. De Gaulle's concept, simplified, is that modern defense requires nuclear weapons; nations without them cannot hope to exert their full weight in international affairs; and multilateral control of France's weapons would mean multilateral control of France's policy. Hence De Gaulle not only remains firmly opposed to sharing control of the French nuclear force, but has refused to have

**SECRET**

v

**BRIEFS**

**SECRET**

**CURRENT INTELLIGENCE WEEKLY SUMMARY**

20 July 1962

French forces, except those in Germany, equipped with nuclear weapons subject to US control. Paris acknowledges a continuing need for the US deterrent and the Atlantic Alliance in the face of the Soviet threat, but the sentiment that Europe needs its own defense capability free of US control is gaining ground in France even among those basically opposed to De Gaulle's nationalistic policies. France, moreover, has little inclination to share its new weapons system with its partners at the present stage of European union.

25X1

**GREEK-BLOC TRADE . . . . . Page 5**

The growing volume of Greek trade with the Soviet bloc is of concern to Athens in view of its political and defense ties with the West. The bloc offers oil, machinery, and other items at bargain prices and provides an assured market for many agricultural products which Greece finds it difficult to sell elsewhere. In recently concluded bilateral trade talks with three bloc nations the Greeks have shown caution about agreeing to further expansion, but the economic attractions of trading with the Eastern European market are very great for Greece and will remain even after Athens associates with the Common Market.

25X1

**SCANDINAVIA AND THE EEC . . . . . Page 8**

The question of membership in the Common Market (EEC) has aroused more controversy in Norway, and to a lesser extent in Denmark, than any issue since these countries chose to join NATO in 1949. In Denmark majority opinion strongly favors EEC membership, but in Norway a powerful minority led by agricultural and fishing interests--with the support of certain religious groups--is opposed. Norway's Labor government is firmly committed to seeking full membership and has taken preparatory steps toward this end. It has, however, expressed fears over the political consequences for northern Europe and inter-Nordic ties if provision is not made for Swedish and Finnish products to compete in the EEC area.

25X1

**ECUADOR . . . . . Page 9**

President Arosemena, who took office through a coup last November, has successfully resisted several efforts by the military and rightist elements to depose him. Rightist apprehension has been caused by his tolerance of leftists in his government and by his advocacy of reform programs, although the reforms are favored by moderates. Now faced with the prospect of working with a new Congress dominated by potentially hostile conservative elements, Arosemena may encounter more determined efforts to oust him.

25X1

**SECRET**



**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****WEEKLY REVIEW****SOVIET FOREIGN POLICY DEVELOPMENTS****Berlin and Germany**

The Soviet Union has re-activated Berlin as an urgent problem and appears to regard the forthcoming Rusk-Gromyko talks in Geneva as a "crucial phase" in the East-West dialogue. Recent Soviet statements have renewed the threat of a separate peace treaty with East Germany if no early negotiated settlement is achieved.

The Soviets apparently feel that this type of pressure will induce Western concessions in negotiations, which they continue to stress as the preferable means of resolving the question.

During the past week, the Soviet Government has issued a flood of strong statements concerning Berlin. On 12 July, TASS published a restatement of the USSR's fundamental position on Berlin and Germany; it was apparently prompted by the immediate US rejection of Khrushchev's 10 July proposal to replace the Western forces in West Berlin with contingents from four of the smaller NATO and Warsaw Pact members under United Nations authority. This was followed on 14 July by a harsh note to the United States, Britain, and France formally rejecting the Western proposal of four-power talks on local

Berlin problems. On 17 July Izvestia published an article pointing out that the US-Soviet bilateral talks have reached a critical stage without a resolution of the main question--the occupation status of West Berlin.

The 12 July TASS statement questioned the "good intentions" of the Western powers and pointed out that it was "common knowledge" that the Soviet Government in Khrushchev's 10 July proposal had taken a "serious step toward meeting the Western powers halfway." The statement reiterated the USSR's decision to sign a separate peace treaty if no agreement with the West is negotiated. 25X1

The 14 July Soviet note on West Berlin further stressed the bloc's demand for abolition of the occupation status in West Berlin. It called attention to "fascist and criminal provocative" activity from West Berlin, pointing out that the Western powers "by preserving the occupation regime" must assume responsibility for the actions of West Berliners. It claimed that this "provocative activity" only demonstrates the necessity for an "urgent normalization of the situation on the basis of a peaceful German settlement."

**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

East German leader Ulbricht has also reflected the apparent bloc decision to increase the tension and pressures surrounding the Berlin question in order to convince the West that some modification of its position is necessary. The official East German Neues Deutschland gave prominent attention on 11 July to Ulbricht's message to the Moscow peace congress in which he emphasized the necessity for a peace treaty. He maintained that the current dangers in the Berlin situation which were causing concern to "all responsible people" could be eliminated only when "respect for the sovereignty and borders of the German Democratic Republic is guaranteed." A leading East German party spokesman, Albert Norden, echoed Ulbricht's statement at a 13 July press conference in Moscow, stressing that East Germany "emphatically demands the conclusion of a peace treaty as soon as possible."

Following Khrushchev's Vienna meeting with President Kennedy, when the Soviet Union was trying to force the US to initiate further diplomatic exchanges on Berlin, there were repeated Soviet and satellite statements that Moscow would sign a treaty with East Germany before the end of that year.

25X1

Despite the bloc's sharper attack on the Western position on Berlin, Moscow has continued to evidence interest in pursuing the bilateral talks. Khrushchev's 10 July proposal was probably aimed at assuring US leaders that the USSR is prepared to offer sufficient variants of its basic position to provide for further discussion. Similarly, in his 13 July interview with a delegation of US newspaper editors, Khrushchev was comparatively restrained in his elaboration of the outstanding East-West issues.

A TASS version of the interview--not published until 17 July and then very carefully edited and revised--quoted Khrushchev as pointing out that he had not lost hope that the US Government would come to a "reasonable understanding" of the Berlin problem. While reaffirming Moscow's demand that Western occupation troops be withdrawn from West Berlin, he attempted to assure the US that if its representatives were more forthcoming in the private discussions on the Berlin question, the situation could be quickly settled. He asserted that on the question of a separate peace treaty "we shall not hurry, but neither shall we tarry," and voiced the expectation that US leaders would take a "reasonable

**SECRET**

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

attitude" toward an eventual solution.

In addition to the diplomatic and propaganda threats, the Communists may also increase pressure in Berlin itself in the hope of inducing some modification in the West's position. They will probably be careful not to undertake a unilateral action which poses a direct challenge to the West, but they may well renew such harassing tactics as the air provocation on 17 July over West Berlin. On that occasion, in what appears to have been a deliberately calculated demonstration, Soviet fighter aircraft twice approached dangerously close to US aircraft.

Nuclear Testing  
and Disarmament

The USSR has reiterated its intention to respond to the current US test series with another series of its own. Both a 13 July TASS statement on nuclear test issues and Khrushchev in his interview with the US editors warned in effect that the USSR must be the "last" to test in order to come "abreast" of the US in the number of testing series. Neither warning, however, conveyed a sense of immediacy, and Soviet tests still seem to be some time off.

Khrushchev's remarks to the US editors that a treaty

banning "tests for all time" could be signed following completion of the current US test series and the next Soviet series suggest that with the conclusion of the Soviet series the USSR will open another propaganda campaign aimed at a test ban treaty using "national" means of detection to police the agreement without providing for mandatory on-site inspections of suspicious events. The Soviets may also amend their present draft treaty along the lines of the neutralists' "compromise" memorandum of last April and provide for invitational on-site inspections by neutral teams. Soviet leaders probably believe that such moves, while clearly unacceptable to the West, would impress the nonaligned powers and embarrass the US.

At the 17-nation disarmament conference, which reconvened in Geneva on 16 July, Soviet delegate Zorin has used much the same tactics of attempting to demonstrate flexibility by making some minor changes in the Soviet draft treaty which in fact do not amount to a significant modification of approach. He characterized his action as a "new step" to meet the US and the other Western powers "half way again." The amendments provided Soviet acceptance of the US percentage figures for conventional armaments reduction in the first two stages of a disarmament agreement. Zorin accepted Western suggestions that military missions be exchanged and "rapid and reliable communication" be established among heads of governments and the UN secretary general in order to inhibit the accidental outbreak of war.

The Polish delegate, who argued vigorously at the

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

conference session that the Soviet changes represented an important move forward, admitted privately to a Western journalist that the changes were, in fact, "not very significant." He asserted, however, that what was really important was that the Soviets now are evidently willing to consider compromises and that such an approach, if applied to other matters in dispute, might permit East-West agreement.

Ambassador Dean has commented that regardless of the specious nature of Moscow's "acceptance" of percentage reduction of conventional armaments and the prevention of war measures, the Soviets are gaining credit among the eight nonaligned delegations for at least making some move from their previous position. The Soviets appear to recognize the appeal of this position for Soviet propaganda, stressing that Dean returned to Geneva "with his old and not even refurbished luggage" to restate the US "bankrupt policy" of controls over armaments rather than disarmament.

Moscow Peace Conference  
And Sino-Soviet Relations

Disarmament was the keynote of the six-day World Congress for General Disarmament and Peace, which closed in Moscow on 14 July with a bland resolution calling for general and complete disarmament "under strict international control." Expressing the fear that the proliferation of nuclear weapons and improved delivery systems will soon make arms control impossible, the congress appealed for an immediate agreement "on renunciation of all tests of nuclear weapons," and for a treaty banning such tests. Although

avoiding any open attacks on Western positions and policies, the resolution reflected Soviet propaganda themes on disarmament, the advocacy of preventive war in the West, and the arms race.

Communist China was represented by a delegation headed by the writer and Minister of Culture Mao Tun, who throughout the congress sought to give the impression of Sino-Soviet solidarity, especially in his remarks hailing Khrushchev's warning against an invasion of mainland China. Both the Soviets and the Chinese, in marked contrast to their open polemics at recent front organization meetings, appear to have been careful to maintain at least the outward appearance of bloc unity and agreement on the question of disarmament. However, the prevailing theme at the congress and in its resolution was that of the overriding importance of disarmament at the expense of the Chinese emphasis on support for "wars of national liberation." The Soviet and Chinese accounts of the congress have differed considerably, with each side emphasizing aspects which support its own position.

The current, largely Soviet, effort to create an illusion of Sino-Soviet harmony was exemplified in the attendance by Khrushchev and Mikoyan at a performance of Chinese acrobats and the Soviet, but not Chinese, accounts of the party for Chinese delegates. The Soviet press also played up the arrival in Moscow, en route to Geneva, of Chinese Foreign Minister Chen Yi and North Vietnamese Foreign Minister Ung Van Khiem. Both were guests of honor at a 16 July luncheon given by Mikoyan,

**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

which the Soviet press described as being held in "a warm and friendly atmosphere."

Peiping so far has not shown the same degree of enthusiasm for Sino-Soviet solidarity as has Moscow and probably remains suspicious of Soviet motives. During the thaw in March and April, at least one member of the Chinese party central committee reportedly was taken in by the propaganda truce, believing that Sino-Soviet tensions had in fact eased a little. This misguided party official was sharply rebuked in front of a party meeting last May by Secretary General Teng Hsiao-ping, who insisted "they have not been eased at all."

Peiping at present seems to be following guidelines laid down recently by the Foreign Ministry not to "recklessly make trouble" for the Soviets while showing that China's ideological position remains "firm and clear." The Chinese have publicly ignored signs of the growing rapprochement between Moscow and Belgrade and permitted the peace congress to pass without heatedly challenging the Soviet emphasis on general disarmament at the expense of the national liberation movement. At the same time, Peiping has reiterated its support for the Albanian leadership and its adherence to other basic positions in dispute with Moscow.

Cuba

The USSR's failure to issue a communiqué at the conclusion of Raul Castro's talks in Moscow or to publicize his departure was in sharp contrast to the attention given his arrival on 2 July and his subsequent meetings with Soviet leaders, including Khrushchev. According to Radio Havana, Castro arrived in Havana on 17 July, but no mention was made of the results of his 14 days in Moscow.

The composition of the delegation Castro headed strongly suggested that its primary

purpose was to negotiate for additional Soviet military aid. The circumstances surrounding Castro's departure suggest that difficulties developed during the negotiations; Moscow may have rejected new Cuban requests for advanced military equipment or a possible Cuban plea for a firmer Soviet defense commitment.

There has been no indication that all of the mission has returned to Cuba, however, and negotiations on other matters could be continuing on a lower level.

Indonesia

The composition of the delegation accompanying Soviet First Deputy Premier Mikoyan on his visit to Indonesia indicates that important political as well as economic matters are to be discussed. The visit, thus far announced only by the Soviet Embassy in Djakarta, is to begin on 21 July.

The presence of a deputy chairman of the State Committee for Foreign Economic Relations suggests that one subject of discussion will be Indonesia's deteriorating economic situation and its difficulties in meeting payments for previous Soviet assistance. The Foreign Ministry officials accompanying Mikoyan--Deputy Foreign Minister Nikolai Firbyubin together with the chief of the Southeast Asian Affairs Bureau--will probably discuss the state of Indonesia's negotiations with the Dutch over West New Guinea and may seek assurances that these negotiations, encouraged by the US, do not reflect a change in Indonesia's attitude toward the USSR.

A delegation of this stature could also discuss long-range aspects of relations between the two countries, particularly in light of Indonesia's heavy indebtedness to the USSR and Moscow's continued willingness to provide Djakarta with complicated and extremely expensive military items. 25X1

**SECRET**

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****CZECHOSLOVAKIA**

Czechoslovak party and government leader Antonin Novotny last week made the second significant shift of a politburo member within a year and announced that the long-promised program of the party's 12th congress would be published beginning this month. These moves illustrate his ability to overcome opposition within the party and his determination to put the economy in order.

On 11 July party central committee economic specialist Alois Indra was appointed to replace deputy premier and party politburo member Otakar Simunek as chairman of the powerful State Planning Commission. At the same time two first deputy chairmen of the commission were demoted to deputy chairmen. These changes will allow Novotny to divert some of the blame for the weak performance of the economy to dismissed and demoted economic administrators.

Simunek, who was in Moscow at the CEMA Executive Committee meeting when the changes were announced, will continue as deputy premier responsible for CEMA matters, foreign trade, and planning. His assumption of the main CEMA representative job--previously held by Stanislav Vlana, one of

the demoted first deputy chairmen--may reflect the regime's anticipation of a further integration of the Czech economy into CEMA and that organization's growing importance to the bloc in the face of the growth of the Common Market.

Since Khrushchev at the 22nd Soviet party congress last November reiterated the necessity of de-Stalinization, the Czech party has twice convened its central committee to take steps to comply. However, the party apparatus, probably up to politburo level, is split over the de-Stalinization issue, and agreement has been reached only on such minor matters as changing street names. Novotny's patently false claims that deceased President Gottwald was responsible for Czechoslovakia's Stalinist era have aroused resentment against the regime.

There were indications in mid-May that the more liberal members of the leadership tried to challenge Novotny regarding the continuing failure of the regime to overcome economic problems and his personal inability to adopt a more liberal outlook. The seriousness of the attack on Novotny was suggested by the decision again to postpone

**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

the already delayed party congress, the further delay in publication of the important party program, and rumors that he would be forced to resign.

Soviet central committee secretary Ilichev was dispatched to Prague in early May, probably to plumb the depths of Novotny's difficulties and to make known Soviet desires on Czech developments. Moscow continues to support Novotny, although there are reports that it is displeased by the imprisonment of Novotny's political rival, politburo member Rudolf Barak, and Czech failure to de-Stalinize. The Soviet party probably feels that Novotny should remain, in view of the lack of a suitable successor and the necessity of avoiding crises which would affect bloc political stability in a time of widespread economic difficulties and ideological dispute with Communist China. Novotny, with Soviet backing assured, probably forced the decision to postpone the party congress from October until December to gain time to rebuild his support in the central committee and to determine the

full scope of the country's economic problems.

On 11 July Prague finally announced the completion and forthcoming publication of new party statutes and a draft program on the further progress toward socialism which will advance Czechoslovakia's claim to being the second socialist state after the USSR. This long-delayed move constitutes further evidence that Novotny has overcome, at least for the present, opposition to his policies.

The completion of the party program further suggests that decisions have finally been made on whether to switch from the present five-year plan to a seven-year economic plan, on the direction of the economy, and on the scope and pace of de-Stalinization. The conduct of the discussions of the party program, selection of delegates to the congress, and the operation of the congress itself will reveal whether Novotny will have sufficient strength to implement his economic programs and his own particular version of de-Stalinization.

25X1

\* \* \*

**SECRET**

CURRENT INTELLIGENCE WEEKLY SUMMARY

EAST GERMANY'S ECONOMY AT MIDYEAR

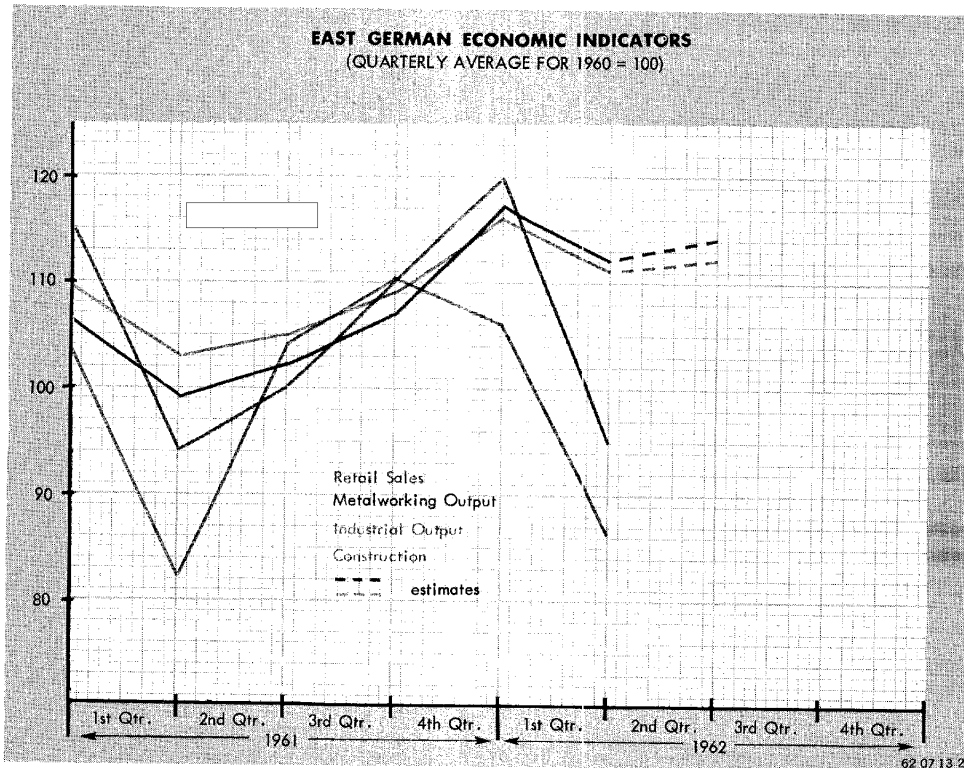
The midyear economic report to the East German central committee indicates that the effects of agricultural failures and past inflation are being felt more acutely than ever, but that some success has been achieved in straightening out problems in industry.

Prospects for industrial growth are somewhat better than in previous years. The closing of the Berlin sector border last August increased the government's control over labor. It practically eliminated the possibility of escape to West Germany, and has enabled the regime to raise labor productivity without granting further wage increases. Under Soviet pressure, planning has become more realistic and is less affected by fears of a Western embargo. The conservative goal for in-

dustrial production is being overfulfilled--production in the first five months was up 7.8 percent over the same period in 1961.

In spite of the improvement in industrial performance, however, investment and export plans continue to be underfulfilled. Lags in construction and in delivery of machinery and equipment have prevented a speedup in the completion of priority investment projects, and the regime does not expect the investment plan to be fulfilled this year. The export program also is behind schedule, partly because of frequent shifts in foreign trade plans. These same shifts have been a factor in a piling up of inventories of semifinished and finished goods, especially in the machinery and equipment industries.

25X1



**SECRET**



**SECRET**

**CURRENT INTELLIGENCE WEEKLY SUMMARY**

25X1

Shortfalls in agricultural production, due in part to precipitous collectivization, cannot be quickly overcome. A very poor harvest in 1961 and a subsequent decline in livestock numbers and the output of animal products this year have led to the current serious food shortages, and the regime has admitted that the food supply has declined and will not improve in the next four months. Neues Deutschland reported on 30 June that the 1961 harvest, in comparison with that in 1960, was lower by 43 percent in potatoes, 37 percent in corn, 32 percent in sugar beets, and 24 percent in grain. Since June 1961, the number of pigs in the country had dropped by about 15 percent and cattle by about 2 percent, and the current attempt to rebuild herds will limit the output of livestock products, even if the harvest is better than last year's. The regime has said that it will not increase imports of meat and butter, but may decide to do so if production drops below expected levels.

The food situation is doubly difficult for the regime because of the existence of excess purchasing power, which is largely directed to food purchases. By making selective price increases and holding wages steady thus far this year, the regime has only just begun to restrict purchasing power built up during 1960-61, when wages outran productivity and prices of consumer goods remained fairly stable. The most effective means of bringing supply and demand into balance--major price increases or reintroduction of formal rationing--are being avoided, undoubtedly for reasons of prestige. However, a form

SOCIALIST UNITY PARTY (SED)		GOVERNMENT
POLITBURO	CENTRAL COMMITTEE	PRESIDIUM OF THE COUNCIL OF MINISTERS
10 Full Members, including:	9 Secretaries, including:	13 Members, including:
LEUSCHNER-----		LEUSCHNER (overall economic coordination)
NEUMANN-----	NEUMANN-----	NEUMANN (chairman, People's Economic Council)
STOPH-----		STOPH (first deputy premier) (promoted from deputy premier for coordination and control)
10 Candidate Members, including:		
APEL-----		APEL (probably responsible for industry)
BAUMANN-----	BAUMANN (food and consumer goods)	WITKOWSKI (food and consumer goods)
GRUENEBERG-----	GRUENEBERG (agriculture)	GRUENEBERG (agriculture)
MEWIS-----		MEWIS (chairman, State Planning Commission)
	MITTAG (general economic planning ?)	

of rationing, which consists of measures to limit buyers to one retail outlet, is spreading rapidly.

The East German regime is still in the process of adjusting to the existence of long-range economic problems that cannot be solved by making up new slogans or carrying on more production campaigns. To this end, the Presidium of the Council of Ministers has recently been strengthened by the addition of four top-flight economic officials, bringing its total membership to 13, and the full Council of Ministers also has been enlarged. The move is designed to reduce the duplication of functions and confusion which have existed in the governmental apparatus since the economic decentralization in 1958 and emergency economic and planning moves in July 1961.

**SECRET**

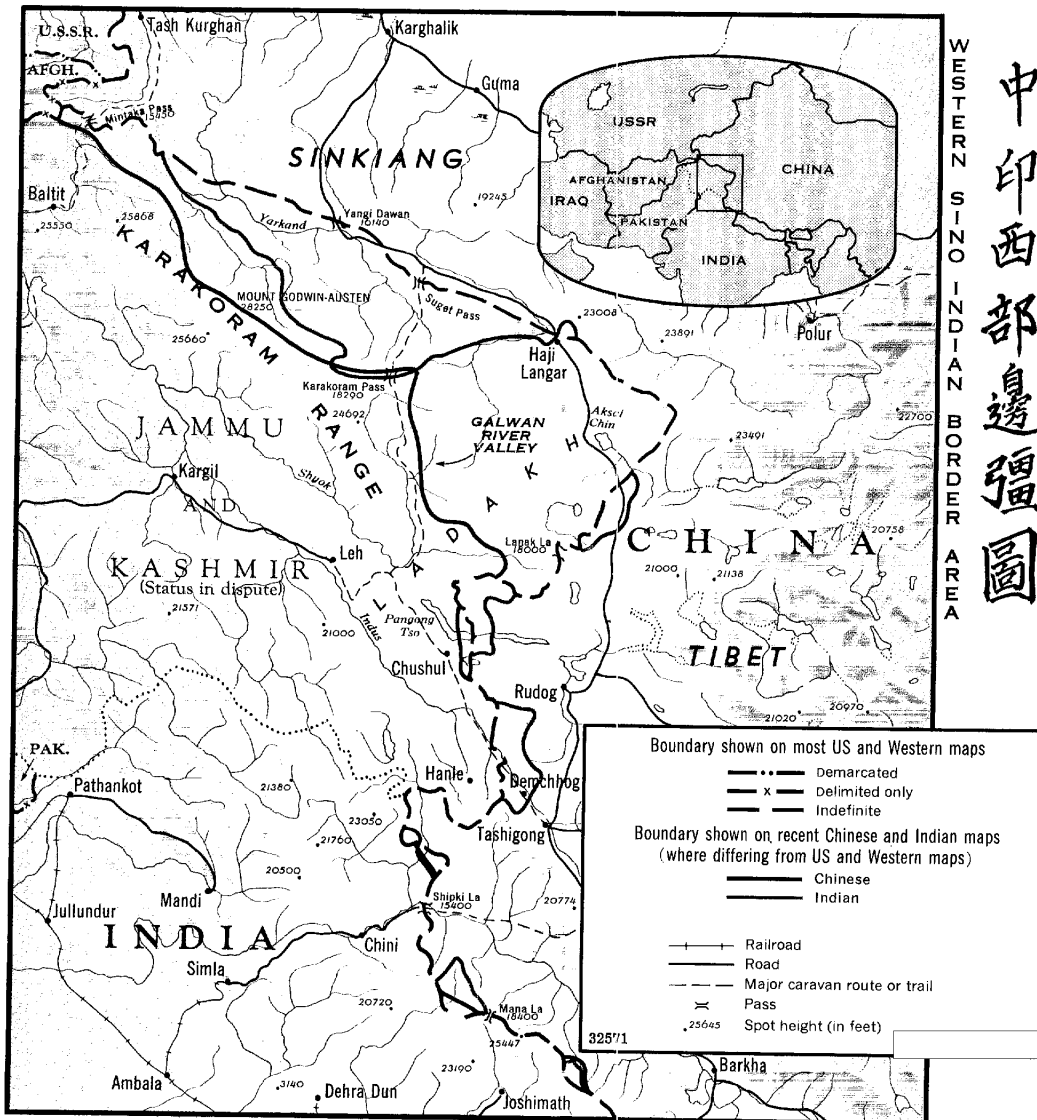
SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

SINO-INDIAN BORDER

Tension along the Sino-Indian border in Ladakh remains high as both New Delhi and Peiping pursue a strategy of occupying as much of the disputed territory as possible without actually fighting for any single piece of real estate.

This military shadowboxing on occasion creates a potentially explosive confrontation of forces such as the one in the Galwan Valley, where several hundred Chinese and Indian troops have been within rifle shot of one another for more than a week.



中印西部邊疆圖

WESTERN SINO-INDIAN BORDER AREA

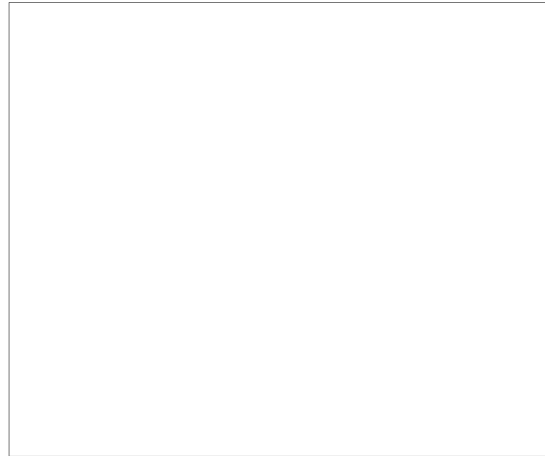
25X1

**SECRET**

CURRENT INTELLIGENCE WEEKLY SUMMARY

25X1

For the moment the advantage there seems to be with the Indians. The Chinese force is reported to have pulled back a bit after having advanced at one point to within 15 yards of the Indian position. Both sides have warned that they cannot and will not submit to threats or pressure, and for each the impasse in the remote 15,000-foot mountain defile has developed into a test of resolve from which it will be embarrassing to back off.

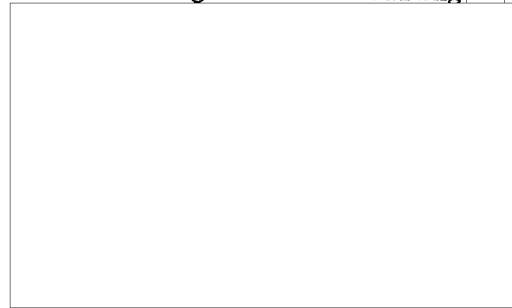


However, no shots have yet been exchanged, and the forces present are apparently under orders not to fire unless fired upon. Indian officials have been quoted publicly to the effect that, if the Chinese open fire, the Indians will "give it back," not only in the Galwan area but at other points along the disputed frontier.

Indian and Chinese forces continue their maneuvering in close proximity and the tempo of public charges and countercharges is increasing.

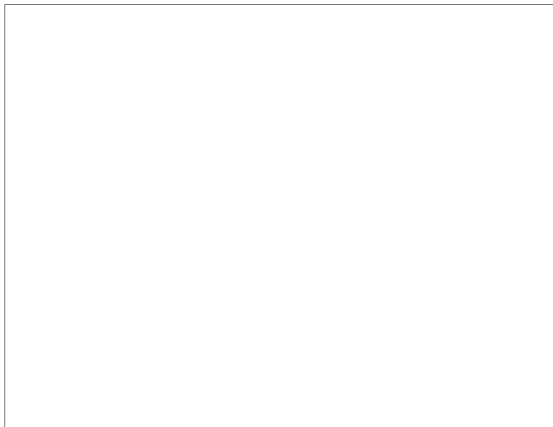
25X1

25X1  
25X1



Both sides are on record, repeatedly, in favor of a negotiated settlement, but so long as each side's version of a negotiated settlement amounts, in effect, to the other's capitulation, productive talks and a consequent easing of tensions are unlikely.

25X1



**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

## NEPAL

Recent changes that King Mahendra has made in his Council of Ministers will reduce the workload of several key ministers, make better use of the country's meager talent, and--most importantly--make the government less objectionable to India. This is the first major shake-up since the King's assumption of personal rule in December 1960.

The principal shift involves the council's two leading figures after the King, who is chairman and defense minister. Tulsi Giri loses the home and foreign affairs portfolios, assumes the newly created post of vice chairman of the council, and retains his post as minister for palace affairs. Rishikesh Shaha, who had been finance minister, takes over as foreign minister; he was once ambassador to Washington.

Giri's new assignment in effect kicks him upstairs where he will have less direct influence on foreign policy but where his general usefulness to the King can continue. As foreign minister, Giri had been the intemperate voice of Nepali nationalism, charging Indian "dominance," whiplashing New Delhi for "supporting" the Nepali exiles, and pressing for closer relations with other countries, including Communist China. Although Giri's India-baiting was probably undertaken

at the King's behest, it earned New Delhi's enmity.

On the other hand, the King appears to have used the more moderate Shaha to soothe New Delhi at times during the past year. While Mahendra will continue to determine foreign policy, Shaha's administration will reflect his broader awareness of the world outside the Katmandu Valley and his recognition that Nepal cannot afford to alienate its powerful southern neighbor.

In moving to mollify the Indians as well as to improve his administration, the King appears to be cautiously following through on matters raised during his visit to New Delhi in April. He presumably hopes that by reducing Giri's role and seeking to inject new vigor into his administration, he can persuade the Indians to make further efforts to restrain the hit-and-run activities of the India-based Nepali exiles and, in time, to accept his claim that Nepal needs his type of personalized authoritarian rule. Although the Indian Government still sympathizes with the rebel movement, there are signs that following the King's meetings with Nehru in April, New Delhi has begun to show more willingness to cooperate with Mahendra.

25X1

**SECRET**

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

While the international conference on Laos appears moving toward an early conclusion in Geneva, the coalition government in Vientiane faces its first major test. Souphannouvong, acting premier in the absence of Souvanna Phouma, has refused to permit a company of Phoumi's troops to proceed to Khang Khay in fulfillment of the coalition leaders' decision to establish composite battalions in administrative centers. Phoumi has warned Souphannouvong that if he persists in this stand, it would be necessary to request withdrawal of Pathet Lao and neutralist companies from Luang Prabang and Vientiane. Phoumi has urged Souvanna to return to Laos to ease the tensions which have developed since his departure in mid-June.

Nationalist and Communist China are continuing to press for diplomatic representation to the new Laotian government. The Nationalist ambassador-designate was told on 16 July that arrangements would be made for him to present his credentials to King Savang. However, accreditation is also pending for the Communist chargé, who arrived in Vientiane on 11 July. The rival Chinese regimes remain unequivocally opposed to any "two-Chinas" solution.

In anticipation of eventual national elections, General Phoumi is organizing a political movement designed to counter the Neo Lao Hak Sat--the political arm of the Pathet Lao. Phoumi's new party, called the National Movement for the Defense and Preservation of the Independence of Laos, aims at merging existing rightist parties. It reportedly hopes to collaborate with Souvanna's fledgling Neutralist Party (Lao Pen Kang) in presenting a single slate of candidates to oppose the Pathet Lao, who have a widespread, disciplined grass-roots organization. Strong regional and vested interests will hamper formation of a non-Communist united front. The Neo Lao Hak Sat's election victories in 1958 largely resulted from the failure of the anti-Communists to put up a unified slate.

Meanwhile, in Geneva, representatives of the 14 nations participating in the Laotian conference convened in May 1961 are scheduled to sign the neutrality agreements on 23 July. Soviet bloc foreign ministers are already arriving in Geneva, and there are no indications that the Communists will raise any extraneous issues such as Vietnamese reunification which could delay the conclusion of the conference.

25X1

**SECRET**

**SECRET**

CURRENT INTELLIGENCE WEEKLY SUMMARY

SOUTH VIETNAM

Sweeps by the South Vietnamese Army are destroying Viet Cong installations and supplies, but Communist forces continue to elude encirclement by melting into the jungle when helicopters appear. Sweep operations apparently are keeping the Communists off balance in some areas; the Viet Cong continue to attack in smaller units and seldom appear ready to risk larger concentrations. Several recent Viet Cong operations reveal a high level of military professionalism as well as good intelligence on the government's troop deployment.

In the southern part of the country the Viet Cong have mounted increasingly successful ambushes, using electrically detonated mines which are evidently factory-made.

[Redacted]

Small-scale attacks on militia outposts and strategic hamlets continue unabated. Viet Cong success in penetrating some garrisons protecting these posts and hamlets is indicated by several

instances during the past three weeks in which Communist attacks have been assisted by Self-Defense Corps or Civil Guard members.

[Redacted] 25X1  
the Viet Cong may plan intensified efforts to disrupt the national economy through "lightning attacks" on military posts circling Saigon, the national distribution center.

In the northern part of the country, which the Communists call Intersector V, there are indications that the Viet Cong are building up a strong military organization around cadre units from regular North Vietnamese Army divisions.

[Redacted] 25X1

[Redacted]

[Redacted] 25X1

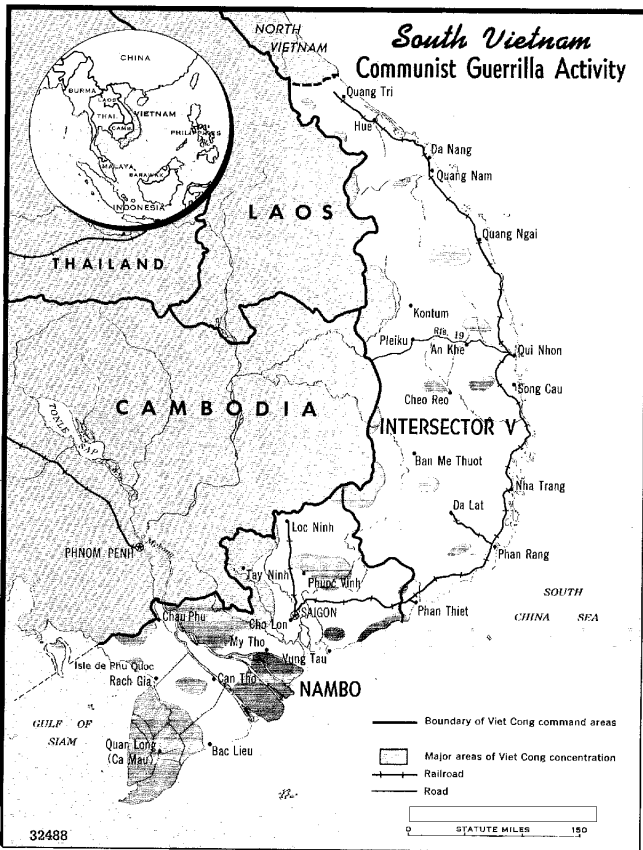
[Redacted]

The rugged terrain in Intersector V and its proximity to trails running through Laos favor the development of an effective Viet Cong regular force.

The Hanoi-directed National Front for the Liberation of South Vietnam--the Viet Cong political arm--appears to be making a greater effort to portray itself to foreign governments as spokesman for the South Vietnamese people and an alternative to the Diem regime. It recently announced plans to set up in Havana permanent representation to Latin American countries; it also has a delegation at the Moscow disarmament conference.

On 17 July, Hanoi released a statement by the Liberation Front proposing that South Vietnam be made a neutral state along the lines of Laos. This proposal appears intended to solicit support for a negotiated withdrawal of the US military presence which would enable South Vietnam to join a "neutral zone" with Laos and Cambodia. North Vietnam has periodically called for international consultations on the Vietnam issue.

[Redacted]



25X1

25X1

CURRENT INTELLIGENCE WEEKLY SUMMARY

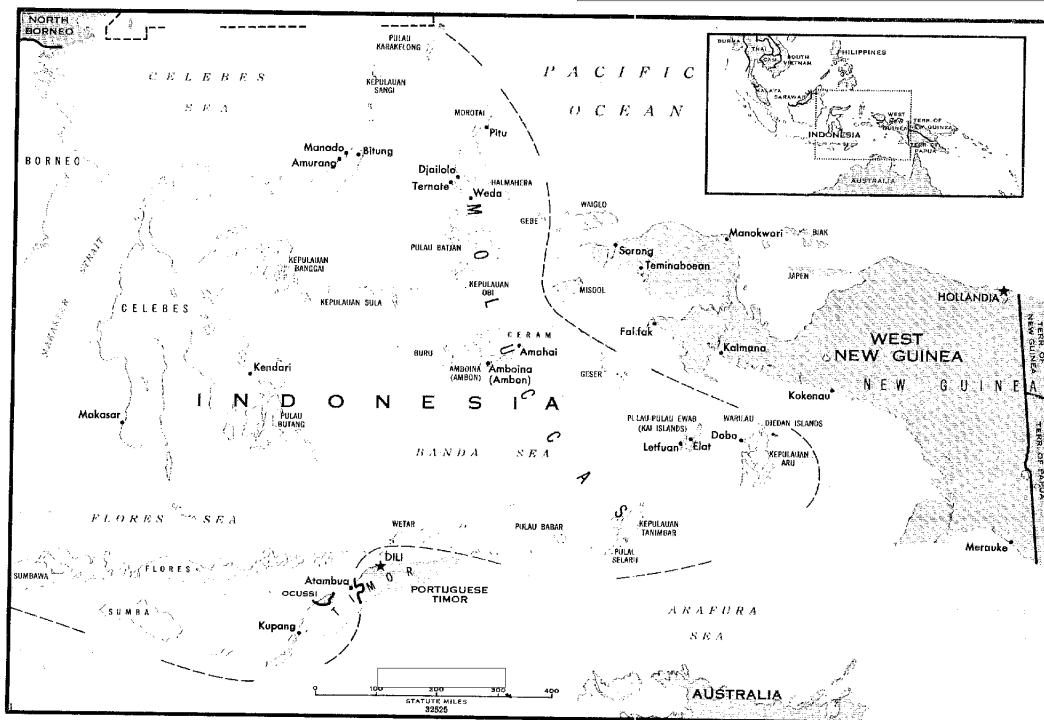
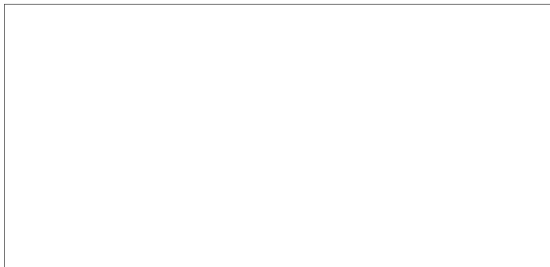
WEST NEW GUINEA

Dutch-Indonesian talks on the West New Guinea dispute resumed on 13 July near Washington. Certain to impede the talks, however, is Indonesia's long-standing demand for transfer of the area before the end of 1962, thereby bypassing the two-year interim administration fixed by the Bunker plan.

ness to transfer West New Guinea's administration to Indonesia in 1962. He said he would not remain long in the United States "if a possibility for peaceful settlement proves non-existent."

25X1

Before Foreign Minister Subandrio left Djakarta on 18 July to join the talks, he described his trip as a "last and more advanced effort" to measure the Netherlands' willing-



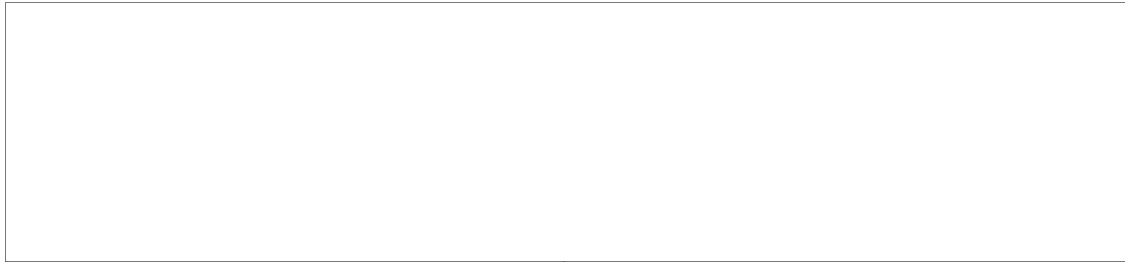
25X1

SECRET

**SECRET**

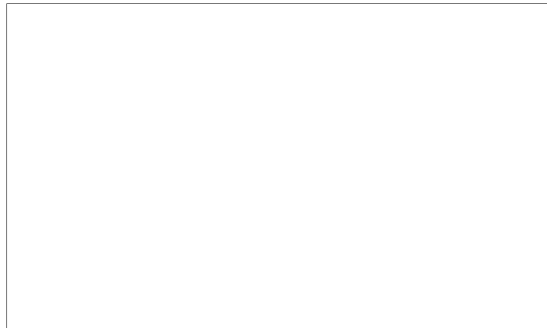
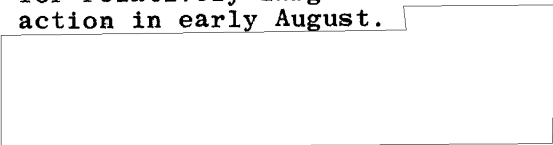
CURRENT INTELLIGENCE WEEKLY SUMMARY

25X1



Indonesian military movements have continued without letup, including a 40- to 60-man amphibious landing on 18 July. There are indications of plans for relatively large-scale action in early August.

25X1



25X1

\* \* \*

**SECRET**



## SECRET

## CURRENT INTELLIGENCE WEEKLY SUMMARY

## ALGERIA

The rift between dissident Vice Premier Ben Bella and Premier Ben Khedda of the Provisional Algerian Government (PAG) appears to be widening, despite mounting pressure on both leaders to settle their differences and apply themselves to the country's economic and administrative problems.

Ben Bella, who has been joined by respected ex-premier Ferhat Abbas, appears to be gaining in prestige and military capability. Although Ben Bella's own statements continue to be moderate, members of his entourage have demanded the replacement of the PAG, implying that this would be done by force if necessary.

Although spokesmen from both factions--including Abbas--have expressed optimism that the military chiefs would find a method for settling the dispute, most of those from Ben Bella's camp stress that they will not accept any formula unfavorable to him.

Abbas' alignment with Ben Bella has probably destroyed his considerable potential as a mediator.

On 17 July two PAG ministers--Foreign Minister Dahlab and Information Minister Yazid--threatened to resign if the

present confusion continues. On the same day the FLN-controlled General Union of Algerian Workers, probably out of concern over unemployment and the stagnant economy resulting from the exodus of Europeans, sent delegations to the PAG, Ben Bella, and leaders of the Algerian National Army (ALN) to urge a speedy reconciliation.

With Ben Bella in Tlemcen are recently resigned PAG ministers Mohamed Khider and Ahmed Francis and former PAG functionary Ahmed Boumendjel, in addition to Abbas and the "dismissed" ALN chief of staff. The US consul general in Algiers reported on 16 July that the whereabouts of PAG ministers Ben Tobbal and Mohammedi, assumed to be loyal to Ben Khedda, is uncertain.

Conflicting public statements by spokesmen claiming to represent Ben Bella suggest that he may not be completely in control of the militant ALN officers around him. The French foreign minister told Ambassador Gavin last week that, in his opinion, the ALN is a force independent of both Ben Bella and Ben Khedda. Ben Bella, moreover, may calculate that he must take some action to counterbalance the PAG's advantage of being installed in Algiers.

An American journalist who has spent considerable time in Algeria told Ambassador Gavin last week that Ben Bella "is sure to win" because he has the support of the Algerian people. The journalist added that he felt that Ben Bella is less oriented toward the Communist bloc than Ben Khedda, but opined that Ben Bella would be difficult to deal with because, like Nasir, he would accept aid from both East and West, and then go his own way.

SECRET

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

## CONGO

Ambassador Gullion notes that Congolese Premier Adoula's failure on 16 July to obtain absolute parliamentary majorities for his reorganized government showed "an embarrassing and unexpected weakness," but does not point to his early fall. His opponents marshaled 44 votes against him in the lower house, and the 60 favorable votes fell nine short of the absolute majority specified in the basic law. In the Senate, no formal vote was taken because the opposition walked out. Adoula contends that no more than a simple majority was required in either house, since he was only reshuffling his government.

The presidents of the assembly and the Senate declared on 17 July that the new Adoula government was legally in office. The opponents, nevertheless, charge that the Adoula government no longer has a legal basis, and have petitioned President Kasavubu to name a new premier. Adoula is expected to move quickly to recess parliament.

Adoula's varied opponents are stronger and better organized, but are still bound together only by the negative aim of overturning the government. They range from the Gizengists and Lumumbists--led by Christophe Gbenye, one of two vice premiers removed by Adoula--to Tshombé's Conakat party deputies. Ambassador Gullion reports that the opposition, encouraged by its show of strength, now is building its hopes around the other ousted vice premier, Jean Bolikango, a leader in Equateur Province. Both Gbenye and Bolikango have reportedly sent delegations to ask Tshombé for more help. Among their complaints against Adoula is their charge that he has placed the Congo under US tutelage.

The consolidation of forces against Adoula stems mainly from his failure to open Katanga's rich mining coffers to the rest of the Congo. No progress on Katanga's reintegration has been made since the Adoula-Tshombé talks ended on 26 June. Adoula's position appears in fact to have hardened. He has flatly stated he will not appoint the Leopoldville members to the joint commissions agreed to by the two leaders, or resume talks until Tshombé gives positive assurances that he intends to reintegrate. Adoula seems increasingly convinced that further negotiations with Tshombé are hopeless and that force is the only feasible answer.

Tension in Elisabethville is again high, with all the elements present for a serious clash.

25X1

Tshombé's introduction of 2,000 Katangan troops into Elisabethville to celebrate Katangan "independence" on 11 July so irritated UN officials that they erected a roadblock on the only main route remaining open into the city. Katangan forces, in turn, erected an opposing barrier.

Scattered firing has occurred, and on 17 July an officially organized mob of Katangan women attacked the Indian-manned UN roadblock with sticks, stones, and brush fires, and denounced the US as well as the UN. Both sides have strengthened their barricades, and the UN is sending 500 reinforcements from Leopoldville.

25X1

**SECRET**

## SECRET

## CURRENT INTELLIGENCE WEEKLY SUMMARY

## IRAN

The resignation of Prime Minister Ali Amini will be welcomed by nearly all political elements in Iran. The Shah, who has always been suspicious of independent-minded prime ministers, supported him only reluctantly and probably is not unhappy to have him leave. Amini's departure probably also marks the end of any hope at present for an effective program of economic and social reform.

The appointment of Amir Asadollah Alam as the new prime minister indicates the Shah's intention to participate fully in government operations. Alam is head of the \$130,000,000 Pahlavi foundation set up by the Shah and is a member of the Shah's entourage. Although he has announced a continuation of land reform and other measures initiated by Amini, pressure from Alam's close friends who have been hurt by the reforms is likely to end them.

In his 14 months in office, Amini undertook a series of measures aimed at evolutionary change in Iran's social and economic patterns. He started the distribution of large private landholdings to the peasants, undertook legal action against high officials accused of corruption, and attempted to carry out a stabilization program to put the country's economic and fiscal house in order. His efforts brought him no public support, however. The landlord-merchant classes saw his program as a threat to their control of the country's economy and political processes. The nationalists--primarily antiregime, neutralist-oriented reformers--considered his program ineffectual and were especially irritated

at his refusal to hold parliamentary elections.

Amini did manage to stabilize the cost of living temporarily and to reduce Iran's foreign indebtedness, but only at the expense of destroying the superficial prosperity which had accompanied the inflation of the earlier period. The rate of investment dropped, unemployment rose, and domestic sources of revenue dried up as the government's fixed-cost financial obligations mounted.

The immediate reason for Amini's resignation was his inability to balance the budget. He ordered a 15-percent reduction in the budgets of all ministries. Opposition to this move, particularly from the ministers of war and education, apparently created a deadlock which Amini was unable to resolve. Amini publicly blamed his troubles partly on American failure to provide aid. Both he and the Shah have been disappointed that US budgetary support, which amounted to about \$44 million last year, has been discontinued.

The nationalists will find Alam even less acceptable than Amini. Alam's appointment will give them an issue which will probably draw their disparate elements closer together. They will have an opportunity to show their strength on 21 July, the tenth anniversary of the massive nationalist demonstrations which forced Prime Minister Qavam out of office in favor of Mossadeq. The National Front is likely to make some sort of demonstration which could snowball into widespread disorders should the security forces be indecisive.

25X1

SECRET

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

## THE EIGHTH WORLD YOUTH FESTIVAL

The Communist-sponsored Eighth World Youth Festival meets in Helsinki from 28 July to 6 August under conditions more favorable to Moscow's objectives than those prevailing at the Seventh Festival in Vienna in 1959. In contrast to the noncooperative attitude of most Austrian authorities, the Finnish Government has given the organizers considerable support in an attempt to minimize the difficulties caused by the boycott of festival preparations by most Finnish youth groups and to forestall possible Soviet complaints about the lack of Finnish cooperation.

Finnish officials now expect about 11,550 participants; previous estimates ran between 12,000 and 15,000. Organizers of the 1959 festival claimed an attendance of 18,000. There will be the usual large delegations from the Sino-Soviet bloc, headed by a Soviet group of about 700. In addition the festival organizers are making a special effort--its success unknown--to draw large groups of Africans, Asians, and Latin Americans. In the free world, however, non-Communist youth groups in general are boycotting the festival and have announced their support of Finland's central youth organization, which has objected to holding the festival in Finland and has disassociated itself from all preparations for the meeting. Helsinki city and business leaders have taken a cool attitude, and Finnish public opinion has been generally indifferent.

Sensitive to reported complaints by the organizers that Finnish officials and youth organizations were not providing a hospitable atmosphere for the festival, and with the 1961 crisis in Soviet-Finnish relations still fresh in mind, the Finnish Government appears to have surrendered its hopes to maintain a hands-off attitude. It seems to have undertaken to assure the sponsors the cooperation of appropriate Finnish officials and groups. Although there has been no evidence of direct Soviet pressure in this regard, President Kekkonen would be anxious to forestall possible Soviet complaints about any unpleasantness that might arise in consequence of a lack of cooperation with the preparatory committee.

The changed attitude is reflected in public statements by government representatives and in actions taken by those organizations most vulnerable to pressure from the government. In April the Agrarian-dominated government appealed to the Finnish public to meet the festival participants hospitably and warned that any attempt to cause unrest or disorder would be prevented. The Agrarian, dissident Social Democratic, and Communist members of the program board of the Finnish state radio subsequently pushed through a resolution providing for half-hour daily transmissions from the opening to the closing day of the festival.

25X1

**SECRET**

**Page Denied**

Next 1 Page(s) In Document Denied

**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****THE NEW SPANISH VICE PREMIER**

Franco's purpose in creating a vice presidency in Spain's Council of Ministers for Captain General Augustin Munoz Grandes was to place an individual directly in a position to carry on as head of the government--but not as chief of state--when Franco dies or is incapacitated. The appointment--announced on 11 July--also gives Munoz Grandes control fo the three service ministries, in addition to his post of chief of the High General Staff. The naming at the same time of "progressive" new ministers of labor and industry suggests that there may be some liberalization of policies in the economic sphere, but there is little likelihood of any similar political thaw.

Munoz Grandes is held in great esteem by Franco, and their political views are probably in close accord. There is some reason to believe that Munoz Grandes' views on social and economic matters may be slightly more liberal than Franco's, but this is unlikely materially to affect the cautious policies now being followed in these fields.

Munoz Grandes' military position--in addition to his status as chief military representative on the three-man Council of the Regency and on the Council of the Realm, which are charged with selecting Franco's successor--suggests that he would have a key role in choosing that successor. He has great prestige both in

the armed services and in civilian political circles, but his age (66) and his poor health make it unlikely that he would himself be the successor. His views on a return to the monarchy, as provided for in the law now governing succession, are not clear.

Although Munoz Grandes has cultivated a reputation as a loyal Franco supporter, some observers describe him as an ambitious opportunist.

Although Munoz Grandes was very critical of the US in earlier years, his attitude has gradually warmed and he now is regarded by the US Embassy in Madrid as "very friendly" to the US. He favors close cooperation in matters of defense and thus can be expected generally to assist any negotiations with the US in the military field. He also may be expected to press strongly for US assistance in modernizing Spain's military forces.

25X1

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

## ITALY'S LABOR PROBLEMS

A wave of summer strikes-- although normal in Italy--has raised serious difficulties for Premier Fanfani's experiment in left-center government. Strikes early this month by metalworkers around Turin were accompanied by violent disorders apparently sparked by Communists and rightists to embarrass the government. While these and other strikes are temporarily halted, labor's grievances continue to encourage unity of action by Communist and non-Communist unions at a time when the government parties are seeking to isolate the Communists politically.

There is evidence that the disorders in the Turin area-- where demonstrators battled for hours with the police-- involved both Communist- and rightist-hired hoodlums. Rightist parliamentarians, who share the Communists' aim of bringing down Fanfani, were quick to criticize the government as "ineffectual" in the face of Communist subversion, while Communist and Socialist officials of the Communist-dominated CGIL criticized the "provocative attitude of the police" in Turin. Moderates such as Social Democratic chief Saragat and Liberal party deputy Alpini condemned both the Communists and the "clerical integralists" --presumably an allusion to Christian Democratic right-wingers who would like to sabotage their party's support of the present government--as inciters of the Turin disorders.

On 11 July the minister of labor offered his services as mediator of the metalworkers' dispute with management, and all three unions have accepted his offer. They refuse, however, to sign any agreement with the manufacturers' association, Confindustria, less favorable than one signed earlier with the organization of government-owned metal industries, Intersind. Progress toward a fundamental resolution of the dispute depends on whether government pressures can induce the hitherto rigid Confindustria to negotiate before the October deadline for renewal of contracts, or whether such a development will be prevented by new strikes. With national elections scheduled for the spring of 1963, both Communists and rightists will be anxious to find ways to embarrass the Fanfani government at the start of its fall parliamentary session.

Meanwhile, strikes by government employees, printers, farm workers, teachers, and doctors have encouraged the Communists to intensify their efforts to promote a popular front in the labor field to counteract their political isolation at the national level. Democratic trade union leaders recognize the dangers behind Communist attempts to exacerbate the labor disputes, and at the same time they lament the "myopia" of the national manufacturers' and farmers' associations for obduracy which plays into Communist hands.

25X1

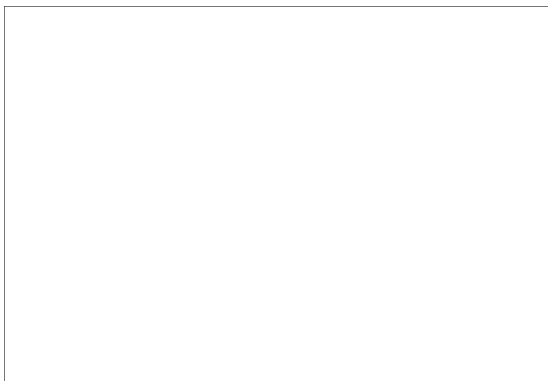
**SECRET**

*SECRET*

## CURRENT INTELLIGENCE WEEKLY SUMMARY

## GREECE

25X1

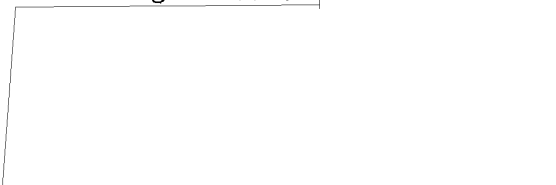


The Greek defense budget has been the subject of debate for some weeks both in Athens and at NATO headquarters in Paris. Military experts at SHAPE, in consultation with leaders of the Greek armed forces, have proposed a defense goal which, although considerably below previous unmet goals, would still necessitate a large increase in funds for the Greek armed forces. The government regards this program as the minimum needed for defense against possible Communist pressure from the north.

Both present and proposed Greek defense expenditures fall far below the level necessary to meet this goal, however, and it is unlikely that other NATO powers will supply funds to fill the gap. Suggestions from NATO committee members that in the absence of the necessary funds the Greek defense goal may have to be lowered below this SHAPE-proposed level

have been denounced in Athens as dangerous for the strategic defense of both Greece and NATO's eastern flank.

A shortage of funds is also threatening the government's Five-Year Economic Development Program (1960-64). A NATO-sponsored plan to establish an international consortium of wealthier members to provide development assistance to Greece is being considered by the Organization for Economic Co-operation and Development (OECD). The British, however, with the support of several other members of the OECD, have balked at joining any consortium until Greece reaches some settlement on its defaulted pre - World War II foreign debts.



25X1

Within Greece, leaders of the nationalist opposition Center Union are continuing their eight-month-old campaign to bring down the government by staging public rallies and by applying pressure on King Paul to intervene directly to force new national elections. This campaign will gather new force if Karamanlis suffers major reverses in present negotiations for foreign military and economic aid.

25X1

*SECRET*



## CURRENT INTELLIGENCE WEEKLY SUMMARY

## BRAZIL

Brazil's government crisis eased on 13 July with congressional acceptance of Prime Minister Brochado da Rocha's cabinet. The 17-day struggle between President Goulart and Congress appears to have resulted in at least initial victory for him. The new cabinet will probably be more amenable than its predecessor to his direction. The ministers are not representative of political party strength in congress, some are apolitical, and several are personally loyal to Goulart.

Possibly the most controversial new appointment is that of Minister of Industry and Commerce Jose Ermirio de Moraes, a long-time associate of Goulart's. Moraes has been giving financial backing to pro-Communist Miguel Arraes, who is the leading candidate for governor in the key northeastern state of Pernambuco. He is "antitrust but only if the trust is foreign," according to the US Consulate in Recife.

Labor Minister Hermes Lima has been a key official in the Goulart government for the past ten months. He is a former law professor who advocates a socialist economy

Foreign Minister Afonso Arinos de Mello Franco is identified with the "independent" foreign policy he helped implement under both Goulart and former President Quadros.

The conservative pro-US finance minister, Moreira Salles, has been retained from the previous cabinet.

The military cabinet ministers, like most of those military figures who support Goulart, support him on constitutional grounds rather than because of his politics. The new navy and air ministers face substantial opposition within their respective services, but War Minister Nelson de Melo appears to be achieving general acceptance.

Goulart and Brochado da Rocha apparently still hope for a judicial decision favoring a plebiscite next October on the abolition of the parliamentary system and legal restoration of a strong presidency. The prime minister has also announced that he will request a grant of special powers from Congress on 6 August--a move which is likely to be met by a quorum failure, since most congressmen are absent from Brasilia to campaign for the October elections.

The government now may be inclined to increase restrictions on private foreign investment in Brazil. Brochado da Rocha in recent years has been closely associated with two expropriations of US companies in southern Brazil. His initial speech to congress stressed that "Brazil is a victim of international capitalism." His program proposed "limited intervention" in the predominantly foreign-owned drug industry, which his political ally, ultranationalist Governor Leonel Brizola of Rio Grande do Sul, attacked recently in a violent anti-US speech.

SECRET

## CURRENT INTELLIGENCE WEEKLY SUMMARY

## PERU

The joint command of the Peruvian armed forces has taken control of the government in order to deny power to the leftist but anti-Communist APRA party. In the early morning hours of 18 July, a military junta arrested President Manuel Prado, installed a military cabinet, suspended constitutional guarantees, and set aside the 10 June presidential election, which had occasioned weeks of political bickering. APRA candidate Haya de la Torre's slight margin fell short of the one-third popular vote required for direct election, but armed forces leaders apparently feared that the new Congress, which was to meet 28 July to settle the presidential race, could be controlled by a coalition which would give APRA a major voice in government.

The junta acted after President Prado had resolutely rejected repeated demands by the armed forces chiefs that he annul the 10 June election or at least nullify as fraudulent sizable blocs of APRA votes. Invalidation of the disputed votes would have given Fernando Belaunde Terry, the runner-up candidate, more than one third of the remaining votes, making him legal president-elect.

Although Belaunde had been the choice of the military during the campaign, his postelection antics--such as urging armed rebellion--have discredited him with the military leaders and most of his Accion Popular party. Communist agitators joined him in Arequipa on 16 July in inciting his followers to "over-

throw the government and punish its wrongdoings," but he disavowed Communist guidance in making his plans for an insurrection.

Haya and former dictator Manuel Odria, who had been negotiating a coalition of their parties, announced partial agreement early in the week, subsequently broke off negotiations, and finally, the evening before the coup, announced agreement that Haya would withdraw in favor of Odria. An APRA man presumably would have been vice-president with good prospects for early succession in view of Odria's age and illness. Odria and Haya reportedly took asylum in foreign embassies on the morning of the coup.

One of the President's last official acts was to reject the mass resignation of his cabinet and to issue a proclamation defending the validity of the elections and the integrity of the National Elections Board. The military junta installed a new cabinet, composed exclusively of military commanders, about nine hours after the coup and also announced that new presidential elections would be held in June 1963.

The first outbreak of violence occurred shortly after the military cabinet was sworn in. Students, mostly from San Marcos University, demonstrated to protest the suspension of civil rights. They were quickly

**SECRET**

CURRENT INTELLIGENCE WEEKLY SUMMARY

subdued by police, but minor disturbances have continued.



ternational censure, disruption of foreign economic aid, and the probability of a paralyzing general strike.



the junta's principal antagonist in the present situation is APRA, which has no arms comparable to those of the army. Hence the junta is thoroughly capable of maintaining physical control of the country.

The immediate threat to the junta, which has no broad public support, lies in in-

The United States, Colombia, Costa Rica, Venezuela, and the Dominican Republic announced the suspension of diplomatic relations with Peru within 24 hours of the coup. Adverse reaction by other liberal governments in the hemisphere is probable. Venezuela has recommended a meeting of foreign ministers of the Organization of American States to consider possible measures against the junta.

\* \* \*

**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

SPECIAL ARTICLES

## FRENCH NUCLEAR STRATEGY

French national security policy today, as France moves toward operational atomic weapons capability, centers on an independent nuclear deterrent capable of inflicting sufficient retaliatory damage to make it unprofitable for an aggressor to attack France. De Gaulle's concept, simplified, is that modern defense requires nuclear weapons; nations without them cannot hope to exert their full weight in international affairs; and multilateral control of France's weapons would mean multilateral control of France's policy. Hence De Gaulle not only remains firmly opposed to sharing control of the French nuclear force, but has refused to have French forces, except those in Germany, equipped with nuclear weapons subject to US control.

Nuclear Weapons Doctrine

French defense theorists both in and out of the government are fully aware of the argument that a nuclear deterrent requires credibility--not only sufficient force to damage the aggressor, but demonstrated willingness to use that force if necessary. They argue that France's proposed force de frappe will have the necessary capability, even though far smaller than the nuclear strike forces of the US and the USSR, because it will be in proportion to the stakes being defended: it can do enough harm to the aggressor to outweigh the advantage he could derive from an attack on France.

As to the second element of credibility--the readiness to wage nuclear warfare--the French theorists hold that only a

nation, as distinct from an alliance, has the unity and cohesive national will to make a potential aggressor believe it would in fact resort to nuclear warfare in defense of national interests in spite of the mutual destruction which would ensue.

Many European military scientists take a skeptical attitude toward US statements that nuclear exchanges in an all-out war will probably concentrate on purely military targets. The Europeans argue that the hardening and dispersal of missile sites and the continuing improvement of weapons and delivery systems leave less and less chance of knocking out an enemy's counterforce, and that enemy cities will therefore remain the major targets. This conclusion is being used by the French to reinforce their view that all powers will be extremely reluctant to resort to nuclear weapons.

The admitted limitations of their own force de frappe give the French an additional reason for opposing a nuclear strategy that concentrates on military targets. The aim of their strike force is to threaten an aggressor with severe damage to his country--in De Gaulle's phrase, "to tear an arm off."

France also differs with the US and NATO on the advisability of "raising the nuclear threshold"--i.e., increasing the capability to resist aggression by conventional forces and so postponing the resort to nuclear weapons. The French, who propose to cut back army strength from over 700,000 at present to 450,000 in 1970,

**SECRET**

~~SECRET~~

## CURRENT INTELLIGENCE WEEKLY SUMMARY

make it a point of military doctrine that conventional forces alone have little deterrent power or capability to compel an aggressor to pause in his advance.

Another French argument against raising the nuclear threshold is that it could lead to a separation of tasks within NATO by tending to create, in effect, a "varsity" team with nuclear weapons and a conventionally armed second team. Such a separation, it is contended, could lead to a weakening of ties between West Germany--a nonnuclear power--and its major allies and make the idea of a denuclearized and neutralized zone in central Europe seem more attractive to the Germans.

#### France and the Western Alliance

French strategic policy--specifically, French opposition to the dilution of full national control of its military forces--is reflected in Paris' relations with NATO. French officials from De Gaulle down continue in major foreign policy statements to acknowledge the need for allies and, by implication at least, the US strategic deterrent in the face of the Soviet threat. Speaking before a Western European Union meeting early in June, Premier Pompidou said the relative security resulting from the "current calm" in Berlin would be "unimaginable" without the US military effort.

The French maintain, however, that every area of the world needs its own deterrent to be fully safe from attack. They argue in particular that the USSR may come to doubt whether

the United States would risk its own cities in the defense of Western Europe and that Europe must thus develop its own deterrent. They see France's national deterrent as fulfilling two functions: (1) serving as a European deterrent--although necessarily a weak one--from the moment it becomes operational; and (2) ensuring France a leading role in any joint development of a more adequate deterrent later on.

De Gaulle, moreover, maintains that the power relationship within NATO does not properly reflect the nuclear standoff between the US and the USSR, which in his eyes makes the increased strength of Europe a decisive factor. French officials argue that when NATO was set up, neither a nuclear stalemate nor a European power center was foreseen, but that the alliance now must be brought into accord with the "realities of the situation."

France appears to be seeking a change in the basic nature of the alliance--giving France more say on policy--rather than mere increased representation in top commands or structural reorganization. De Gaulle suggested in 1958 that a tripartite directorate of the US, the UK, and France should guide their global policy. How this directorate would function and what its authority would be have not been fully explained, but De Gaulle undoubtedly sees this as a means of increasing the French voice in allied councils, gaining some influence on US foreign and military policy decisions even outside of the NATO area, and, in the process, adding to French prestige. Progress in the French nuclear program and in achieving closer political

~~SECRET~~

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

ties among the Common Market countries may have led French officials to believe they now have a stronger base from which to negotiate for these changes.

Recent French statements that changes in the alliance relationships can wait until a decision has been reached on British accession to the EEC are probably reflections of a belief in Paris that the French bargaining position is getting stronger with the passage of time.

De Gaulle will probably continue to call attention to what he believes to be NATO's failure to adjust to a changed environment. Pending a re-organization, France is not likely to be more forthcoming in its force contribution to NATO. For example, French Army units being withdrawn from Algeria will probably remain under national control in a status similar to the divisions transferred from Algeria to eastern France last summer.

#### Domestic Opposition and Support

There seems to be considerable public support for the basic idea of European military and political self-reliance. A poll taken in early June by the reputable French Institute of Public Opinion showed that 59 percent of those responding believed a unified Western Europe could have its own policy independent of the US, while 15 percent believed not. Fifty-one

percent thought this desirable, and only two percent thought not.

Several leading French political commentators who have opposed other De Gaulle policies, including Raymond Aron, have come out in favor of an independent European nuclear deterrent as a part of the increased European strength. Some political leaders, including Radical party leader Maurice Faure and Popular Republican Maurice Schumann, have stressed the value of an independent European deterrent, and a policy statement by the prominent, left-intellectual Jean Moulin club urged greater European independence of action within the Western alliance. 25X1

There remains considerable opposition among parliamentary leaders to what they see as the anti-NATO tenor of De Gaulle's military policy. The motivation of these opponents is complex, however; some are still angry about De Gaulle's Algerian policy, some oppose his anti-inflationary social policy, and many oppose his personal hold on the levers of political power in France. Unable to offer an alternative policy on Algeria and without an important bread-and-butter issue because of the basic health of the economy, parliamentary opponents have concentrated on De Gaulle's nationalist foreign and military policy.

Much of the French nuclear weapons program was begun prior to De Gaulle, under the governments of some of those now opposing him, and it is doubtful if, in the post - De Gaulle period, when these present opponents are likely to be in positions of authority, they will be able or willing to modify significantly a policy which, Gaullists

**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

can point out, has already strengthened the French bargaining position at least within the Western alliance. The French proponents of national nuclear weapons capability can be expected to argue that growing European cohesion makes a national program even more essential.

The French Force and European Union

The French nuclear force may develop under strictly national control, or be merged with other European forces under some form of joint control. There are precedents for a joint approach in the recently formed European space research and launcher development organizations, and the extensive cooperation among European nations in conventional weapons production.

French officials have noted that growing European ties would, at some point in the future, extend to the military and nuclear weapons fields. De Gaulle, in his proposals of a political treaty for the Common Market, has specified that the member nations in the grouping coordinate defense and military policy.

Any post - De Gaulle democratic government, with a greater "European" sentiment among the leadership, would probably move more rapidly toward this alternative. The UK and the smaller members of the Common Market, with policies more firmly rooted in reliance on the Atlantic alliance, might influence France to permit a European deterrent to be placed under NATO command. It seems highly likely, however, that any French government, short

of one dominated by the far left, would insist on retaining some deterrent capability under national control.

At least as long as De Gaulle is on the scene, the primary French effort will be channeled into a national nuclear force. In a speech on 19 June, former premier Debré, reportedly after a long discussion with De Gaulle, opposed either a NATO or a European nuclear force. In the latter case Debré based his opposition on the argument that, in addition to the problem of control of a European force, such a force would be too costly. Debré thus seemed to return to the argument of proportionality--a European force, to actually deter, would have to be raised to the level of "the other super powers." This, Debré thought, would be difficult because the other European nations would be unwilling to contribute the required financial and scientific resources. 25X1

De Gaulle's opposition to a European deterrent as a substitute for a French deterrent does not, however, seem to preclude joint research, development, and targeting, as long as control of the resulting force remains national. The extent of such joint effort largely remains to be worked out. Future cooperation may be implied, however, both by the nature of French - West German relations and by the prospect that Britain would be under increasing pressure--once admitted to the Common Market--to go along with any European deterrent. The way such cooperation develops will directly affect the relationship of the French deterrent to the Atlantic alliance. 25X1

**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

## GREEK-BLOC TRADE

Greek trade with the USSR and its European satellites has nearly tripled since 1955. The bloc offers good prices for Greek agricultural exports and delivers oil, lumber, and manufactures at bargain rates. As a result bloc trade is a higher percentage of total trade in Greece than in any other NATO country--some 22 percent of exports and 11 percent of imports. Both the Athens government and Greek businessmen are concerned about this situation at a time when the country is negotiating for continued Western aid and its association with the Common Market (EEC) awaits ratification only by Italy.

Exports

Aside from the earnings from tourism, shipping, and emigrant remittances, Greece's only important source of foreign exchange is the export of agricultural products. Demand for those in which Greece specializes--cotton, tobacco, and dried fruits--has increased steadily in Eastern Europe during recent years. Greece finds little competition there, since other producers aim at the more profitable Western European market. The agreements with bloc purchasing commissions save costs of standardization, packaging, and sales promotion which Greece would have to bear if it tried to compete in Western markets.

Athens recognizes, however, the dangers inherent in letting

bilateral trade with the bloc absorb a disproportionate share of Greece's foreign trade. Greek agriculture, which is just beginning to enjoy the benefits of increased productivity combined with access to markets, could be thrown into a serious slump if it were suddenly cut off from Eastern Europe.

25X1

Imports

Greek imports from the bloc, considered as a percentage of total imports, have leveled off, although significant increases occurred during 1961 in imports of crude oil, industrial machinery, and frozen meat. About one quarter of the 1,800,000 metric tons of petroleum products consumed annually is bought from the USSR, coming to Greece by tanker at a substantial discount on prevailing world prices. Greece has established a quota of 450,000 tons per year for petroleum imports from the bloc.

Greek imports of machinery and transportation equipment from the Soviet Union have not yet reached levels where they compete seriously with imports from the West, but they may come to do so as a result of aggressive bloc selling. The Soviets, for example, have captured a significant part of the Greek ball-bearing market by engaging in a price war with the American firm which has been the traditional major supplier.

**SECRET**



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

The Soviets and Czechs have also attempted to tie their purchases of Greek products to the sale of their own goods in Greece, particularly transportation equipment and tractors. While the export schedules of trucks and tractors can be increased or decreased on short notice, the supply of perishable Greek agricultural products does not respond as readily to control measures.

In general, the quality of Soviet exports to Greece is inferior to similar Western products, and private Greek importers often prefer the Western goods even though they are somewhat more costly. The Soviets realize that their advantage lies almost entirely in lower prices, at least for the present, and they are evidently willing to place as much emphasis as necessary on the price factor in their effort to gain a key position in the Greek market.

Recent Developments

Greek officials held talks this spring with representatives of the Soviet Union, Czechoslovakia, and Bulgaria. The Greeks recognize the importance of the USSR as a trading partner, and the discussions held in Moscow during April were conducted in a friendly and businesslike manner. The Soviets, evidently anxious about the trade implications of Greece's association with the EEC, made a strong request for most-favored-nation treatment. The Greeks pointed

out that the two commodities--petroleum and lumber--which account for about 90 percent of Soviet exports to Greece would not be affected by Greek-EEC tariff arrangements, but the Soviets showed great sensitivity about future sales of their machinery and automobiles. Trying to allay Soviet fears without actually granting most-favored-nation status to Soviet goods, the Greeks signed a vaguely worded trade protocol promising to negotiate any difficulties that might arise in the future.

In the negotiations with Bulgarian representatives during May, discussion was confined chiefly to the setting of certain quotas on the export-import commodity list. The talks took place in a relaxed atmosphere, no special problems arose, and the Bulgarians made no reference to the EEC. They suggested that direct rail and telecommunication links between the two countries be re-established, but the Greeks indicated that this matter was not ripe for decision.

The talks with the Czechs, however, have been described by Greek officials as "the most difficult and arduous ever." Negotiations nearly broke down at the outset over Greek insistence on settlement of some pre-World War II claims. The Czechs were unyielding on this point, and in the end the existing trade protocol was extended for only one year. The Czechs then raised the issue of Greece's proposed EEC ties, also asking

**SECRET**

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

for assurances that their products would receive preferential treatment. The Greeks thereupon returned to their demand for settlement of their 1939 claims, and the meetings closed on a sour note.

Greek Policy

On the basis of this and previous experience, Athens' policy now is that if trade with the bloc can be expanded on a competitive basis, the Greek Government will not interfere. Certain inducements will continue to be offered to bloc or any other trading partners who accept important quantities of "soft" goods--such as citrus fruit--which are difficult to sell on a competitive basis, but these concessions will be kept at a minimum. A firm policy, based on customs clearance certificates, will be followed in an effort to prevent re-export of Greek goods. Export quotas for "hard" products--such as bauxite--which Greece can sell competitively in the world market have been established with reference to the bloc countries and will be enforced strictly, but no import quotas are set up in bilateral trading.

Prospect

Greece is already heavily dependent on bloc purchases for sale of its agricultural products. This dependence may be gradually overcome when the ef-

fects of association with the EEC take hold, but there is no immediate prospect of reducing it by shifting production to other commodities or developing other markets. Even though earnings of Western foreign exchange from tourism, shipping, and expatriate remittances are increasing rapidly--thereby reducing Greece's overall dependence on the bloc in a purely economic sense--Greece is basically a rural country, and maintaining a high level of agricultural exports remains a major political problem.

On the import side, the sale of bloc petroleum products, particularly crude oil, is the most serious form of market penetration so far, because they compete with the Western products in both quality and price. Soviet oil thus far shipped to Greece has also been a relatively sweet crude, very desirable from the standpoint of refining. The USSR may attempt to improve its position in the petroleum market during the next round of trade talks, and Western interests may have to offer substantial inducements to maintain their present share of the market.

Even if the bloc's share of overall trade declines in percentage terms, Greece will probably continue for many years to be the NATO member with the highest proportion of its trade in bloc hands.

25X1

**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

## SCANDINAVIA AND THE EEC

The question of membership in the Common Market (EEC) has stirred Norway, and to a lesser extent Denmark, more than any other issue since these countries chose to join NATO in 1949. In Denmark, majority opinion strongly favors EEC membership, but in Norway a powerful minority led by agricultural and fishing interests--with the support of certain religious groups--is opposed.

This opposition has been the principal factor in the decision supported by all Norwegian political parties to hold an advisory referendum once the terms of membership have been negotiated. In the meantime, the Norwegian Government is proceeding with steps preparatory to joining. On 4 July Foreign Minister Lange made his initial presentation to the EEC authorities in Brussels reaffirming that Norway accepts the general objectives of the Rome Treaty but citing the special problems of Norwegian agriculture and fisheries.

Led by the farming and fishing interests, anti-EEC elements have met with considerable success by appealing to the latent isolationism and nationalism of many Norwegians who are fearful that their infant manufacturing industries will be overwhelmed by the giant industrial groupings within the EEC. They have sought to broaden their attack by raising the specter of domination by "Roman Catholic continental powers" and by picturing Norway's close association with the former colonial powers as detrimental to relations with the Afro-Asian countries.

A Gallup poll last spring showed Norwegian public opinion closely divided on the question of EEC membership, while a simi-

lar poll showed Danish opinion heavily favorable. The relative success of the anti-EEC campaign in Norway appears to have convinced the government of the necessity to press the case for Norway's membership more vigorously and to educate public opinion on the necessity for such a step. Both sides now are concentrating on their preparations for the advisory referendum.

Within the Labor government and its following there appears to be some concern about the position of a socialist Norway, with its emphasis on a planned economy and a cradle-to-grave social welfare system, in an organization most of whose governments pursue more conservative economic policies. In addition, officials in both Norway and Denmark want to be assured that EEC membership for these two will not adversely affect broad areas of existing cooperation among all four Nordic countries, such as in their common labor market and in the application of social welfare benefits.

These officials recognize that under present conditions Sweden will not seek full membership in the Common Market and instead must negotiate an associative arrangement with the Six. They maintain that concessions on the EEC's part must be generous enough to prevent isolating Sweden economically from Western Europe, since this would create serious political problems for all of the northern countries. This would be particularly true of Finland, which may be forced to seek a kind of remote association with the Six through Sweden if Moscow objects to even a tenuous tie with the EEC.

25X1

**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

## ECUADOR

Ecuador has been the scene of more political turbulence and less political progress than any other country in Latin America. At no time in its history has its government been secure against invasion or internal dissension.

Carlos Julio Arosemena Monroy became president on 8 November 1961 when the stormy fourth administration of Jose Maria Velasco Ibarra came to an abrupt end. Velasco had incurred the wrath of virtually every important interest in the country by reneging on his promises and commitments, and he fled into exile after a period of asylum in a foreign embassy.

Arosemena moved from the vice presidency to the presidency with the support of the leftists, most of the armed forces, and certain parties of the center-right. Many conservatives initially viewed his ascent to power with considerable apprehension, primarily because of his widely publicized stand on the need for reforms in taxation and land tenure, but his first cabinet was basically nonleftist and included representatives of every political party except the Communist. Conservative fears were further assuaged by Arosemena's resolute attack on the economic degeneration which Velasco's fiscal mismanagement had produced. Unpopular but necessary import restrictions were put into effect, an emergency budget support loan was negotiated

with the United States, and new impetus was given planning for orderly economic development and social reform.

Conservatives and rightists were not pleased, however, with Arosemena's continued susceptibility to the influence of his leftist supporters. Several leftists received high-level posts in the administration, including two on Arosemena's personal staff, and no effort was made to inhibit or hinder the public activities of Communist and pro-Communist groups.

25X1

25X1

The animosity between the President and his appointees

**SECRET**

**SECRET**

## CURRENT INTELLIGENCE WEEKLY SUMMARY

continued to grow until Arosemena broke diplomatic relations with Cuba, and with Poland and Czechoslovakia as well, on 2 April. He also replaced three of the more conservative members of his cabinet with political moderates who, like Arosemena, favored the reform programs which had long been delayed in their ministries. By his delaying tactics, Arosemena seemingly strengthened his position.

However, anti-Cuban and anti-Communist sentiment had increased sharply during the previous four months because of disclosures of subversive activities by Castroites and extreme leftist groups. Anti-leftist sentiment became stronger still when members of the Communist-front Union of Revolutionary Youth of Ecuador (URJE) staged an abortive "guerrilla revolt" on 5 April in the mountains near Quito. The army crushed the uprising and captured the rebels in less than two days of sporadic fighting.

Military leaders continued to demand that Arosemena "rid his government of leftists"--specifying, among others, two members of his administrative staff. The pressure from the military leaders became so distasteful to Arosemena that in mid-May he discharged his minister of defense and the top commanders of the army and the air force. Three other ministers resigned two days later, and all were speedily replaced

with independent rightists who seemed likely to speed up Arosemena's reform programs.

The congressional elections of 3 June were a clear victory for the rightists, the more conservative of whom will tend to oppose Arosemena's reform policies. Arosemena nevertheless has retained considerable freedom of action by forming his cabinet of individuals not subject to party control. Although the ministers are all anti-Communist, they are more reform-minded than either their predecessors or the new congress. Probably their nonpartisan backgrounds will enable them to enlist the support of the independents--who may control the balance of power in Congress--and thereby avoid a direct clash between the Congress and the President.

25X1

The rightists are being aided, probably unwittingly, by leftists and Communists, who believe Arosemena has "sold out" to the right. The leftists are encouraging labor unrest and inciting a widespread wave of strikes, a maneuver they used effectively to discredit Velasco in 1961.

25X1

**SECRET**

**Page Denied**