

SECRET

COPY NO. 73

OCI NO. 0441/62

2 November 1962

CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE.

ARMY review(s)
completed.

State Dept. review completed

SECRET

25X1



GROUP 1
Excluded from automatic
downgrading and
declassification

38-228523

Page Denied

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

2 November 1962

T H E W E E K I N B R I E F
(Information as of 1200 EST 1 Nov)

THE SITUATION IN CUBA Page 1

Cuban forces remain on alert. Castro's domestic position has apparently changed little thus far despite Khrushchev's decision to remove the offensive missiles from Cuba. Cuban propaganda continues to insist that the Castro conditions are decisive in any disarmament of Cuba. In talks with U Thant, the Cubans rejected any international inspection of their territory.

25X1

SOVIET TACTICS IN THE CUBAN CRISIS Page 3

The Soviet leaders are seeking to salvage as much as possible of their position in Cuba and to shore up their world prestige after the unexpected strength of the US reaction transformed what had been Khrushchev's boldest foreign policy gamble into his greatest defeat. The back-down by the Soviet premier has been followed by repeated assurances of Moscow's desire for an early settlement intended to guard against any renewed danger of US military action. At the same time, the USSR is seeking to contain the damaging effects of the Cuban fiasco by portraying Khrushchev's agreement to remove the missiles as a "major victory for Soviet policy" which forestalled US aggression.

25X1

IMPACT OF THE CUBAN ADVENTURE ON THE SOVIET LEADERSHIP . . Page 5

The Cuban crisis is likely to produce new strains in the Soviet leadership. Khrushchev seems to have opened himself to charges of adventurism in international affairs. Some of his associates may feel that they now can move to redress the balance of power in the party presidium. Any move to put Khrushchev permanently in check, however, would not be an easy undertaking.

25X1

IMPACT OF CUBA WITHIN THE COMMUNIST BLOC Page 6

Moscow's decision to remove offensive weapons from Cuba caught satellite leaders, as it did Castro, unprepared and without guidance from the USSR. Except for Albania, the European satellites are echoing Moscow's line portraying Khrushchev's action as statesmanlike, forbearing, and responsible for preserving the peace. Khrushchev's conduct of the Cuban affair, however, will probably strengthen the doubts among those East European Communists who have long held reservations about his policies. Communist China has indicated in its propaganda that it regards Khrushchev's action as a complete capitulation to the US enemy. Peiping can be expected to exploit this view in its efforts to induce other Communists to oppose Soviet primacy in the Communist movement.

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

2 November 1962

THE WESTERN ALLIANCE AND THE CUBAN CRISIS Page 3

While the NATO countries joined in congratulating President Kennedy for his leadership in the Cuban crisis, the degree of their support varied considerably. The reasons include special national interest and attitudes, domestic political pressures, or reservations regarding specific aspects of past or present American policies toward Cuba. US actions have also raised anew long-standing problems such as other countries' desire for prior consultations and differences over the geographic limits of NATO responsibility. The highlighting of the weakness of individual European nations relative to the superpowers may give a new spurt to the drive for European economic and political unity.

25X1

ACTIVITIES OF CASTRO FOLLOWERS IN LATIN AMERICA Page 11

There are indications that Castro has ordered some of his supporters in Latin America to start militant action, but he probably has not yet issued a general call mobilizing all his assets for a campaign of sabotage and violence. The Soviet-controlled sabotage apparatus in Latin America has been alerted, but apparently will not be put in action unless "aggression" against Cuba occurs.

25X1

SINO-INDIAN BORDER FIGHTING Page 13

After a series of reverses during the first week of heavy fighting at both ends of the border, India has apparently stiffened its resistance to Chinese Communist military pressure. New Delhi has appealed for arms from the West in an attempt to overcome China's advantage in infantry firepower. Krishna Menon, removed as defense minister after being blamed for heavy Indian losses, will remain a close adviser to Nehru. Moscow's support of Chinese proposals for settlement of the dispute has not satisfied Peiping, which is seeking to have the Soviet Union dissociate itself further from India.

25X1

HARVEST PROSPECTS IN COMMUNIST CHINA Page 16

Grain production in Communist China in 1962 may be only slightly better than the poor 1961 harvest and below normal for the fourth straight year. The food situation is therefore expected to remain stringent through the coming winter and spring, and any resumption of a program of industrial expansion will have to be postponed at least another year.

25X1

THE SITUATION IN YEMEN Page 17

Royalist tribes in northern and eastern Yemen, with Saudi and Jordanian support, continue to resist the revolutionary government.

25X1
25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

2 November 1962

25X1

[redacted] A reorganization of the revolutionary government, which has strengthened those elements most in sympathy with the UAR, may precipitate religious strife and could eventually result in more support for the royalist cause.

25X1

DEVELOPMENTS IN SOUTH VIETNAM Page 19

Viet Cong forces are continuing their recent pattern of small-scale, effective guerrilla activity throughout South Vietnam while avoiding significant combat with regular government troops. The Viet Cong apparently are still building up their force strength through local recruitment and infiltration.

25X1

CONGO DEVELOPMENTS Page 19

UN Under Secretary Bunche returned to New York from Leopoldville on 29 October reporting no progress on the UN reconciliation plan. The UN appears to be preparing to strengthen its military posture in South Katanga to mount new pressures on Tshombé. UN forces may try to move outside Elisabethville to the mining towns of Kolwezi, Jadotville, and Kipushi--a move which could trigger new fighting. The Adoula government, fearful of being overthrown, has not yet decided whether to allow parliament to reconvene as scheduled on 5 November.

25X1

RESULTS OF THE FRENCH REFERENDUM Page 21

De Gaulle's failure to win the massive support he sought in the 28 October referendum for popular election of future French presidents may foreshadow a period of renewed parliamentary instability after the National Assembly elections late this month. Encouraged by their showing in the referendum, De Gaulle's opponents will probably continue to press for a united effort against him, particularly in the runoff vote on 25 November.

25X1

SPECIAL ARTICLE

ECONOMIC AND POLITICAL DEVELOPMENTS IN SPAIN Page 1

General Franco, evidently convinced of the need for associating Spain with the European Common Market, is pushing forward with measures to liberalize the economy and make Spain better able to compete in foreign markets. His political changes to date, however, appear to be no more than gestures designed to quiet fears at home and abroad regarding continuity of stable government and to create the impression that political liberalization may be on the way. Nevertheless, the economic liberalization moves--notably in the field of labor--and Spain's growing contacts with other Western countries are likely to generate political ferment.

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

WEEKLY REVIEW

THE SITUATION IN CUBA

25X1

Military Situation

25X1

[redacted] Soviet MRBM sites in Cuba [redacted] showed that no definite steps had been taken toward dismantling the weapons and removing them from the country. Launch stands, cabling, and other launch components which would probably be the first items to be torn down were still intact. Many of the missile erectors at the MRBM sites had been moved from their hardstands [redacted] and were no longer visible. There is evidence that at least one of these erectors at one site, plus other missile-associated equipment, had been concealed in nearby woods. As long as the erectors remain near the launching sites, they remain fully operational.

[redacted]

There is no clear evidence of any wholesale disaffection or poor morale among Cuban military forces,

25X1

[redacted]

A 27 October military radiobroadcast in Las Villas Province ordered that "severe measures" be taken against those militiamen "who may demonstrate a lack of loyalty toward the present regime."

25X1

Internal Conditions

[redacted]

Regime leaders have made few speeches, and there has been no effort to organize the usual street demonstrations and protest meetings. Civil defense activities were continuing even after the 28 October announcement of the Kennedy-Khrushchev exchange; regime spokesmen, reflecting the Castro line that further US assurances must be given before Cuba can accept any guarantee that it will not be invaded, still insist that the danger of "US aggression" is as great as ever.

Other evidences of the profound impact of the crisis on internal conditions include the formation of numerous committees, including one to draft Cuban workers to serve wherever they are needed the most. Radiobroadcasts indicate that strict measures to control the sale and distribution of gasoline and motor oil have been decreed in some areas, and Cuban commentators and local governmental

25X1

An American U-2 photographic reconnaissance aircraft was downed about noon Cuban time on 27 October. Cuban comment on the event has been kept to a minimum, and very few references to the incident appeared in the Cuban press and radio statements. Castro had implied in a public announcement earlier on 27 October that foreign aircraft flying over Cuban territory would be attacked, and Havana radio claimed in mid-morning that antiaircraft batteries "drove off unidentified war planes over wide areas of eastern Cuba."

Cuban military forces are continuing to improve their state of readiness [redacted]

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

organs have issued strong warnings against "scare buying" of foodstuffs and other goods known to be in short supply.

Havana radio announced on 31 October that a vessel loaded with "gifts" of foodstuffs and other goods from Czechoslovakia would arrive in Havana on 1 November and that a Czech commercial delegation would arrive there in mid-November in order to negotiate the Cuban-Czech commercial agreement for 1963. Soviet First Deputy Premier Mikoyan is to arrive in Havana on 2 November amid speculation that his trip has been undertaken to pressure Castro into going along with the Soviet decision on removal of the missile bases or to extend some new Soviet aid to Cuba as a sign of the USSR's continuing underwriting of the Castro regime.

Castro's domestic position has apparently changed little thus far despite the announced decision of Khrushchev to remove offensive missiles from Cuba. Regime leaders have reiterated Castro's 29 October demands for a cessation of exile activities and the US evacuation of its Guantanamo base, and Cuban propaganda media at home and abroad continue to insist that the Castro conditions are decisive in any disarmament of Cuba.

Reaction Outside Cuba

Latin American governments so far are responding cautiously to the announcement that the missile bases are to be dismantled. Some are apprehensive lest the US commit itself beyond promising not to invade Cuba, fearing that any further commitments on the part of the US could weaken its ability to support them in their struggle against Cuban subversion and Communist encroachments.

Cuban exile groups are generally despondent over the latest turn of events, many

expressing the fear that any US guarantee not to invade Cuba would signify the end of their hopes for liberating the island. Several of the more militant anti-Castro groups, such as Alpha-66 and the Revolutionary Student Directorate, have reversed their earlier decision not to continue armed action against Castro.

United Nations

UN Acting Secretary General Thant's talks with Castro in Havana went badly. The Cubans continue to refuse to accept any form of international inspection or presence in their territory. Thant may call for a meeting of the Security Council to report his lack of success and request guidance regarding the next steps to be taken by the UN.

Meanwhile Secretariat officials have begun recruiting officers and men to staff the UN observation corps in Cuba. They have run into considerable difficulty with the neutrals, who are reluctant to participate unless there is complete agreement between the US and the USSR. Thant had hoped to appoint officers from Ethiopia, Nigeria, Ghana, Sweden, Yugoslavia, the UAR, Brazil, Mexico, and Switzerland. The US delegation comments that appointing only Brazil and Mexico to represent Latin America is "politically unwise." With the exception of Switzerland, the other countries, while considered to be neutral, have not been particularly sympathetic to the US position on the Cuban crisis.

Secretariat officials have also been negotiating with officials of the International Committee of the Red Cross, which has agreed to inspect shipping reaching Cuba "if the US, the USSR, and Cuba consent." The ICRC is thinking in terms of about 30 persons who would come to New York for briefings before proceeding to the sites where the inspection of vessels will take place.

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SOVIET TACTICS IN THE CUBAN CRISIS**

The Soviet leaders are seeking to salvage as much as possible of their position in Cuba and to shore up their world prestige after the unexpected strength of the US reaction transformed what had been Khrushchev's boldest foreign policy gamble into his greatest defeat. The Soviet premier's backdown on 28 October was motivated by his belief that US military action was imminent. His acceptance of President Kennedy's terms for dismantling and removal of offensive weapons was a last-minute move to forestall a US attack which would have confronted the USSR with a choice between accepting the destruction of the missiles, loss of Soviet lives, and possibly the collapse of the Castro regime, or making a response which would have carried unacceptable risks of escalation to general war.

Khrushchev had become convinced by 25-26 October that the situation was critically dangerous and that his maneuvers in the days immediately following President Kennedy's 22 October speech to gain time and involve the US in protracted negotiations were failing. He decided that immediate action was required to avert US military action which would spell complete disaster for his Cuban venture, inflict enormous damage on the USSR's world position, and make the risks of any meaningful Soviet response prohibitive.

In this situation, he dispatched his long, rambling private letter of 26 October to President Kennedy, indicating in guarded language willingness to accept the President's terms for a settlement. In less than 24 hours, Khrushchev sent another letter, which was published immediately, in an effort to cover his retreat and to stimulate pressure on the US to begin negotiations at once. This letter, which contained Khrushchev's first public proposals for a settlement, called for reciprocal Soviet-US withdrawals of offensive weapons from Cuba and Turkey under international supervision and for mutual non-aggression guarantees covering these two countries. Khrushchev expressed the belief that it was possible to "end the conflict quickly" and that his scheme for a Turkey-Cuba swap provided the "basis for a settlement."

President Kennedy's 27 October letter stating that Khrushchev's private proposals of 26 October "seem generally acceptable" opened the way for the Soviet premier's public backdown on 28 October, when he informed the President that a "new order" had been issued to dismantle the missiles and to "crate and return them to the Soviet Union." Khrushchev used this letter to begin developing the justification for his retreat. He represented the President's 27 October offer to give assurances against an invasion of Cuba as a formal

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

commitment and declared that, in view of this alleged pledge, "the motives which induced us to render assistance of such a kind (offensive weapons) to Cuba disappear."

Khrushchev then moved quickly to get negotiations under way, to impress the US with his good faith in carrying out his commitments, and to minimize Soviet responsibility for any complications which might arise.

Mikoyan's Mission to Cuba

Mikoyan's urgent trip to Havana via New York reflects the Soviet leaders' great concern that Castro's attempts to block an agreement could jeopardize the negotiations, revive the danger of US military action, and thwart the USSR's efforts to salvage its position in Cuba and its international prestige. His immediate assignment probably is to reassure US officials of Moscow's intention to carry out its commitments and to bring heavy pressure on Castro to clear the way for an early agreement.

In addition to trying to bring Castro into line, Mikoyan probably is under instructions to work out coordinated negotiating tactics. Despite Moscow's

propaganda support for Castro's "just demands," it is unlikely that Mikoyan will endorse Castro's insistence on the return of the Guantanamo naval base and termination of US economic sanctions. He may, however, agree to support Cuban attempts to obtain US guarantees extending beyond President Kennedy's offer of assurances against an invasion. This line suggests that the USSR and Cuba may call for reciprocal pledges by the US, Cuba, and various Latin American countries to respect each other's sovereignty and to refrain from interference in each other's internal affairs.

In his attempts to obtain Castro's cooperation, Mikoyan may be authorized to make new offers of assistance. Several members of his delegation are economic and trade specialists. Khrushchev's 28 October letter make it clear that the Soviet leaders will not "absolve ourselves of responsibility for rendering assistance to the Cuban people."

Soviet Propaganda

Moscow Radio is claiming that President Kennedy's guarantee against an invasion of Cuba is "precisely what the Soviet Union and the Cuban Government have tried to achieve all the time." Moscow also contends that its sole aim was to bring about a "detente" over Cuba and that the US-Soviet agreement on terms for a settlement constitute a "major victory for Soviet policy."

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****IMPACT OF THE CUBAN ADVENTURE ON THE SOVIET LEADERSHIP**

The Cuban crisis is likely to produce new strains in the Soviet leadership. Khrushchev seems to be vulnerable to charges of adventurism in international affairs and of excessive domination of Soviet foreign policy. Some of his associates may feel that they now can move to redress the balance of power in the party presidium.

The military buildup in Cuba was clearly Khrushchev's policy. With the aid of his military advisers, he probably sold it on the grounds that it was a relatively fast and inexpensive way to improve the USSR's strategic military posture at a time when the Soviet Government was pressed to allocate its strained resources elsewhere. Unlike some other Khrushchev policies--the industrial reorganization, for instance--there has been little or nothing to suggest that Cuba had become a heated issue within the leadership. While the policy seems to have received collective endorsement, its reversal will probably strengthen the hand of Khrushchev's detractors and may weaken his authority at home.

Any move to put Khrushchev permanently in check, however, would not be an easy undertaking, since it is unlikely that he would acquiesce easily in the demands of his colleagues. Over the past five years he has been able to build such an intricate network of control over the party, armed forces, and secret police that no one apparently has dared to challenge his primacy. At the same time, he now may feel that he is on the defensive and that a challenge can no longer be ruled out. If this is the case, he would probably marshal his forces quickly

and attempt to make a dramatic display of authority. For their part, any members of the leadership who might be disposed to throw down the gauntlet to Khrushchev would probably seek to champion the cause of the military in its efforts to garner a larger share of economic resources.

Should Khrushchev need scapegoats, there are several likely possibilities at home. Military advisers and intelligence officials could readily come under fire. Foreign Minister Gromyko, who was in the United States as late as 20 October but evidently unable to report accurately on US intentions, is a particularly good target.

At this time, the leadership is trying to give the impression of business as usual. On 28 October, Khrushchev and most of his chief lieutenants attended a theater performance in Moscow, probably in an attempt to demonstrate that the Cuban crisis had not divided their ranks. At the same time the Soviet propaganda machine started proclaiming Khrushchev as the great defender of peace. On 1 November, Mikoyan was dispatched to Havana as a special emissary. The choice of Mikoyan, who is closely associated both with Khrushchev and with Cuba, was probably intended to show that the political balance of power in Moscow is unchanged.

The Soviet leaders now may give increased attention to domestic affairs to divert popular attention from Cuba and to focus on the "full-scale building of Communism" at home. Plans for a major industrial administrative reform--to be considered at a central committee plenum sometime this month--are believed to be still under development.

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****IMPACT OF CUBA WITHIN THE COMMUNIST BLOC**

Moscow's decision on 28 October to remove offensive weapons from Cuba caught satellite leaders, as it did Castro, unconsulted, unprepared and without guidance from the USSR. All the European satellites, with the usual exception of Albania, are dutifully echoing the Russian line portraying Khrushchev as statesmanlike, forbearing, and responsible for saving the peace. This unanimous and almost automatic propaganda response, however, cloaks a probably highly diversified private reaction within the bloc.

Khrushchev's whole conduct of the Cuban affair--major risks followed by a major backdown--will probably help strengthen the doubts among those Communists in Eastern Europe who have long harbored reservations about his policies. The East German leadership in particular will fear that it must wait yet another turn for progress on the Berlin problem. The immediate reaction of middle-level party and government officials in East Berlin on 28 October was reported to be that Khrushchev's yielding on Cuba would imply an indefinite postponement of any action on Berlin and on a separate peace treaty.

East German officials believe that the signature of a peace treaty and the creation of a free city of West Berlin are of vital importance to them as the symbol of the stabilization of their regime and the elimination of an immediate threat. Disappointed in their expectations for the past four years, they have tended toward bitter--although necessarily covert--criticism of Khrushchev for sacrificing their basic interests to the desire to conciliate the United States. Moscow's actions in the Cuban crisis will be interpreted as

new evidence of Khrushchev's weakness, indecision, and vacillation, and will deepen their discontent.

Poland and Hungary, whose liberal regimes are dependent on Khrushchev's support, were dismayed at the deep risks taken by the Soviet leader. Until Ambassador Stevenson supplied graphic proof, they simply did not believe President Kennedy's charges. Despite this, US officials have been treated by both countries in a business-as-usual manner; in Poland numerous special efforts have been made to show friendship. Officials of both countries have openly congratulated American representatives on a substantial victory. The attitudes of both countries can be summed up in the words of a Polish journalist, who said if there must be war over Cuba, the US should: (1) forbear from use of nuclear weapons, and (2) win it.

The more conservative regimes in Czechoslovakia and Rumania and the strong opposition in Bulgaria, which have demonstrated a private preference for Stalinist internal and external policies, will also find much to criticize in Moscow's policy. Although the implications that this policy can have for Berlin will not be as immediate to them as to the East Germans, there are many other aspects of Khrushchev's handling of the affair with which they can disagree.

These regimes share a critical attitude toward what they consider excessive aid by Moscow to underdeveloped countries outside the bloc and to bourgeois governments. They probably feel, as Stalin did, that it is best not to become deeply committed in areas far from home. They too will look upon the climax of the crisis

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

as a display of weakness. Nevertheless, their criticism will remain unspoken.

The Chinese Communists, however, are not constrained by the same political need for conformity in expression. During the height of the Cuban crisis, Peiping struck the bloc's most militant note. Khrushchev's 28 October letter was received in Peiping with "surprise and disapproval," according to a creditable Western news account from the Chinese capital. Top political circles there were said to be talking of a "Soviet Munich."

On 31 October, People's Daily indicated the depth of Peiping's dismay. The West, said the Chinese, now could boast that President Kennedy has scored a "major triumph." Whatever assurance Khrushchev had received from the President was "nothing but a hoax"; no trust could be given to the "empty promises of the US aggressor." Hopeful but not optimistic that they can influence Khrushchev into rejecting what they consider a complete capitulation, the Chinese indicate he now should press for US acceptance of all five of Castro's demands.

A major point of apprehension in Peiping appears to be that a resolution of the Cuban crisis might lead to further understandings between the US and the Soviet Union. A Chinese

Communist broadcast on 29 October noted that President Kennedy's reply to the Soviet leader had "in particular" mentioned the issue of proliferation of nuclear weapons. Peiping has publicly proclaimed that it will not allow itself to be cheated out of nuclear weapons.

The Chinese will undoubtedly exploit Khrushchev's actions in the Cuban crisis as evidence of Soviet weakness in the contest with "the imperialist enemy" in further efforts to induce other Communists to oppose Soviet primacy. Despite Moscow's moves, as in the shift of position on the Sino-Indian border dispute to increase solidarity in the crisis situation, the USSR seems likely to be faced with further open deterioration in its relations with China.

Albania, China's East European ally, has not yet joined Peiping in direct attacks on Khrushchev's backdown. Tirana fears political and possibly military intervention from both Yugoslavia and Greece, and probably expects that the USSR would abandon it in a crisis situation as it "abandoned" Cuba. On 30 October, however, the party press published a major review and condemnation of US policies, which by implication supports China's criticism of the Soviet Union's "trust" in the promises of President Kennedy.

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****THE WESTERN ALLIANCE AND THE CUBAN CRISIS**

The decision of the United States to challenge the Soviet military buildup in Cuba has tested the cohesion and vitality of NATO as no event has since the Suez crisis in 1956. All the allies joined on 29 October in congratulating the President on his leadership, but the degree and nature of their support varied considerably, reflecting differing national interests and attitudes and, in some instances, domestic political considerations.

The strongest support of the US actions came from some of the Continental allies--particularly West Germany, France, and Turkey, long-standing advocates of a "hard line" toward the USSR. Bonn's National Defense Council promised on 24 October to go to any lengths in its support of the US, and the French foreign minister almost simultaneously expressed the view that a destruction of missile sites in Cuba would have been justified and, in some ways, preferable. Turkey pledged its "full support" on 23 October.

By contrast, officials of some of the smaller NATO countries greeted the quarantine announcement with deep concern which was moderated only partially by the fuller proof of the presence of Soviet offensive weapons in Cuba. The concern among the Danes and

Norwegians was linked both to their traditional feeling of special vulnerability to Soviet countermeasures and to their dislike as maritime nations of the US quarantine. Only on 25 October did the Canadian Government enunciate formal support of the US position, and then partly as a result of prodding by the opposition Liberals and the press.

The positions of London, Rome, Brussels, and Athens fell somewhere between these hard and soft extremes. The US Embassy in London has noted that MacMillan's early declaration of support contained no explicit suggestion of Britain's willingness to take part in sanctions against Moscow, and among British officials there was lingering skepticism about US intelligence estimates and persisting doubts that Washington was perhaps moving a bit too fast. The Dutch Government was somewhat slow in registering support, and while Greece officially supported quarantine action, it was fearful of repercussions should more drastic action be taken.

In Italy, Premier Fanfani's first official statement concentrated approval primarily on the US decision to take the Cuban issue to the UN. Italian officials later explained privately that the government's support of the US was actually much firmer than it appeared but that Fanfani was wary of alienating the left-of-center parties

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

on which he depends in Parliament.

NATO Problems

The crisis also pointed up once more the longstanding NATO problem of prior consultation with the member countries regarding decisions affecting their vital interests.

None of the NATO governments has seemed disposed to make an issue of this, and some of the smaller countries which have raised the question --like Belgium and the Netherlands--have expressed "understanding" that situations will inevitably arise in which it will be impossible to consult all members of the alliance in advance. However, De Gaulle, in ordering public support of the US position, indicated that France could not be committed to support any military act on which it had not been previously consulted. It has been a major theme in NAC discussions that there must be fuller discussion in NATO of future Soviet actions with the clear implication that the response to them should be a matter for joint review.

The crisis has also raised the problem of delineating the NATO area. Belgium's Spaak was quick to point out that the Caribbean was outside that area and that treaty provisions calling for mutual support

against aggression would not necessarily apply. By contrast, Netherlands Foreign Minister Luns commented publicly that NATO would be "right" in concerning itself with the crisis even though the treaty area itself is not directly involved. While Luns' position may be a reflection of the existence of special Dutch interests in the Caribbean, it is also in keeping with frequent assertions that he considered Allied support for the Netherlands in the West New Guinea dispute a "test" of NATO.

NATO members, while impressed by Khrushchev's apparent retreat when faced with a showdown, have agreed at recent NAC meetings that increased vigilance is required against Soviet actions elsewhere. There was, however, also a strong current of feeling that a satisfactory solution in Cuba might create an atmosphere favorable to broader East-West negotiations, particularly on disarmament. Ambassador Finletter anticipates considerable interest among the NATO countries in the Brazilian resolution calling for denuclearization of the African and Latin American continents. He also notes, however, the problems this would raise for the French nuclear testing program in Africa and the risk that the concept of nuclear free zones might be extended to Europe with a revival of the Rapacki or similar plans.

In view of the possibility that future disarmament

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

discussions may highlight the question of foreign bases in general, there will probably be increased interest in considering multilateral MRBM forces. Previously, some of the NATO countries have been reluctant even to schedule serious discussions of US proposals for a NATO seaborne MRBM force. Interest in such proposals now seems bound to increase, but the problems of organizing such a force are generally believed to be fearful, and the European countries seem likely to be appalled at the costs involved. Similar problems of a European deterrent are also likely to be canvassed, but must probably await satisfactory conclusion not only of the EEC-UK accession talks, but also further progress toward a workable European political organization.

Europe and the US

In any case, Cuba, like Suez, has again made Western Europe painfully aware of its dependence on American strength and of the fact that no single European nation counts for very much in a struggle between the world's giants. This seems likely to raise once more the

twin specters--that Europe might be able to exercise no real influence in deciding a question of war and peace between the US and the USSR, or that Europe might be unable to prevent a sacrifice of its basic interests in a Soviet-American detente.

Whether this realization will make the logic of European union seem more compelling than ever remains to be seen. There is little question that the French-British misadventure in Suez contributed to the feeling that the small nation-states of Europe are anachronistic and gave new impetus to the drive for closer union which produced the Common Market and Euratom.

The lesson has probably not been lost now on either Paris or London that, despite Britain's nuclear capabilities, Britain was accorded no special privilege in the formulation of US policy in the Cuban crisis. In the light of this, De Gaulle may be forced to reconsider his view that a small nation possessing nuclear weapons can play a significant role in international affairs.

25X1

* * *

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****ACTIVITIES OF CASTRO FOLLOWERS IN LATIN AMERICA**

There are indications that Castro has ordered some of his supporters in Latin America to start militant action, but he probably has not yet issued a general call mobilizing all his assets for a campaign of sabotage and violence. The Soviet-controlled sabotage apparatus in Latin America has been alerted, but apparently will not be put in action unless "aggression" against Cuba occurs.

The Venezuelan press has reported a message from Cuba to Latin American recipients ordering them to start destruction of property. However, the scattered demonstrations in various Latin American countries since 25 October--which are continuing--appear to have been the work of hotheaded pro-Castro groups acting on their own. Except for the Venezuelan oil field bombing, which occurred the day after the Cuban call for destruction of property, pro-Castro demonstrations and terrorist activities appear badly planned and largely ineffective.

The Communist parties and pro-Castro groups in Latin America were apparently caught unprepared to deal with the situation presented by the measures taken by President Kennedy. They are believed to have contingency plans for large-scale strikes, sabotage, and demonstrations, including actions against

US citizens and property. However, these assume an invasion of Cuba or a counterrevolution there. They are not now considering such extreme measures. Most of these parties and groups were totally unprepared for the announcement that the USSR had emplaced offensive weapons in Cuba, and apparently have been thrown off balance by the generally widespread sympathy in Latin America for the actions taken by the US.

25X1

The Communist parties in Latin America, which have been cool to Castro's exporting his revolution, may feel that precipitous action in the present situation is likely to provide drastic governmental reprisals which could cripple their potential for large-scale strikes and sabotage in future "emergencies."

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

25X1

Castro still maintains five embassies in Latin America --in Brazil, Chile, Bolivia, Mexico, and Uruguay--which he has used to pass instructions to area Communists. He also has the large Radio Havana facility which beams intensive propaganda at Latin America, and the Prensa Latina press network abroad. Castro himself has spoken publicly over Radio Havana only once since the start of the Cuban crisis and did not on that occasion call for any anti-US violence in other Latin American countries.

The Cuban-backed groups are probably not strong enough to bring off any successful revolutions but they do control guerrilla units in some countries and riot and sabotage cadres in others. These have long been getting practical experience through harassing operations and contributing to whatever disorder they find. The attraction that "Fidelism" has had for youth and other "impatient" groups in Latin America has been of marked assistance to the Cubans' activities.

25X1

Castro probably still expects support from the subversive groups in Latin America which he has fostered. In addition to supplying arms and money, Cuba has trained personnel from these countries in espionage, subversion, sabotage, propaganda, and guerrilla warfare at a special school in Oriente Province.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SINO-INDIAN BORDER FIGHTING**

After a series of reverses during the first week of heavy fighting at both ends of the border, India has stiffened its resistance to Chinese Communist military pressure. Battle lines have begun to stabilize, reflecting greater Indian strength at key points of contact as well as an apparent pause in the Chinese drive, perhaps in part as a result of winter weather.

Two weeks of border warfare have, nonetheless, put the Chinese in a strong position. In Ladakh, they control a little more than the extent of their claims and still threaten the key Indian base at Chushul. In the North East Frontier Agency (NEFA), they occupy several hundred square miles of their 34,000-square-mile claim and are poised just north of the strategic pass at Se La.

New Delhi has moved to a virtual war footing and has sought, through appeals to the West for arms, to redress the imbalance in Chinese and Indian infantry firepower.

Troop Deployments

Heavy troop movements have brought Indian strength along the northeastern frontier to more than three full divisions under IV corps commander Kaul at Tezpur. One of these divisions guards Se La; other passes are defended by forces up to brigade strength.*

Since 20 October, the Chinese are believed to have committed at least four regiments to the NEFA area. Two and possibly three regiments (a total of 10,000 men supported by artillery) now hold the

Towang area. A fourth regiment is deployed near Walong.

Indian forces under the XV Corps in Kashmir are divided between the Chinese front in Ladakh and the Indo-Pakistani cease-fire line in the west. Although the extent of any Indian shift of strength to Ladakh is not known, Indian infantry forces facing the Chinese probably number about 6,000; they are subordinate to a newly created division headquarters at Leh.

The Indians estimate Chinese forces in Ladakh at about 10,000 men.

Ouster of Menon

The major Indian casualty to date has been Defense Minister Krishna Menon, whom Nehru shunted aside in response to widespread clamor for his head. Menon was blamed for the unpreparedness which resulted in heavy Indian losses during the early days of fighting. He continues in the cabinet as minister of defense production--a portion of his former responsibilities--and will remain a

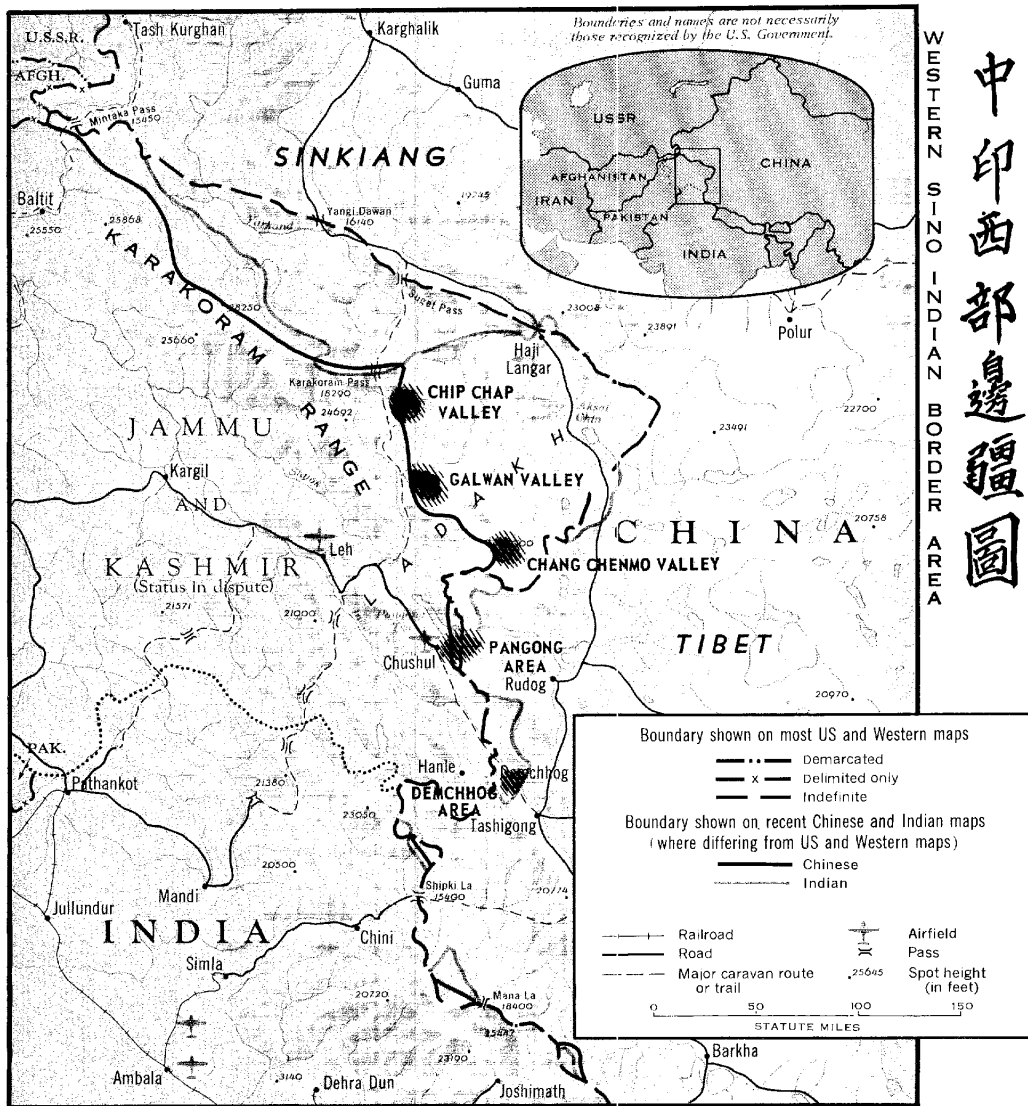
*The basic Indian infantry unit is the battalion of 926 men. Three or more battalions make up a brigade. Divisions are normally composed of three or four brigades, usually including one artillery brigade.

The basic Chinese Communist unit is the independent infantry regiment of about 3,500 men. Subordinate to it are three infantry battalions and one heavy-weapons battalion for artillery support.

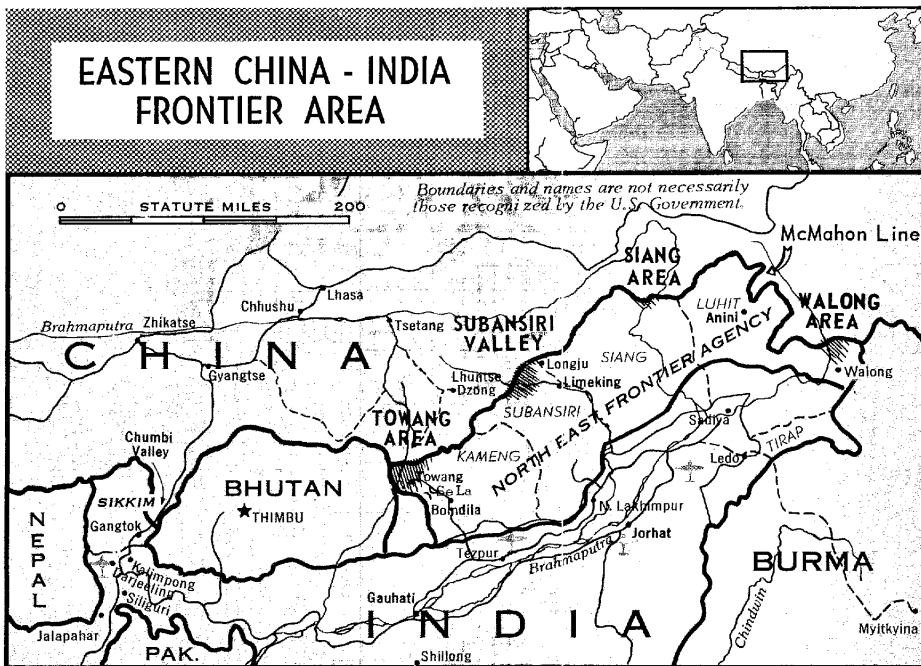
SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY



25X1



SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

close adviser to Nehru, but he will no longer control Indian military forces or procurement.

Diplomatic Efforts

Both Nehru and Chou En-lai have written various leaders in Asia and Africa seeking support for a settlement on their respective terms. The Chinese insist on the reasonableness of their 23 October "peace proposals" which called for disengagement, a 12-mile mutual withdrawal, and top-level negotiations. The Chinese have indicated that in NEFA they would be willing to pull back north of the McMahon line if India meets other Chinese conditions, including remaining some distance south of the line.

New Delhi, which has rejected Peiping's mutual withdrawal proposals four times since 1959, refuses to talk to the Chinese until Peiping's forces withdraw to positions they held before 8 September. This would restore to Indian control all of the forward outposts set up by New Delhi this year.

Soviet Policy Reversal

Moscow, in addition to publicly espousing Chinese proposals for settlement of the dispute, has decided against selling MIG-21 (Fishbed) jet fighter aircraft to India. On 29 October, "a high Soviet military source" told Western press representatives that Moscow would not ship military equipment to India.

This reverses a policy of over three years' standing of implied support for the Indian position in the Sino-Indian border dispute. The abrupt shift was probably caused by the recent renewal of fighting and Moscow's concern for bloc solidarity at a time when the Cuban crisis was coming to a head.

Chinese Reaction

Moscow's shift, however, has not resolved all of Peiping's doubts about Soviet trustworthiness on the Sino-Indian border question. On 28 October, three days after Moscow endorsed Peiping's peace proposals, the Chinese People's Daily lectured the Soviet Union on the essentials of a proper Marxist-Leninist attitude toward the border war. The Indian Communists were criticized explicitly and the USSR implicitly for supporting Nehru. The paper alluded to a comparable situation in the 1920s when the Soviet Union, embroiled in border clashes with China, was supported by China's Communist Party.

The Chinese described Nehru's nonalignment as a facade, termed his outlook on domestic and foreign affairs reactionary, and implied that the USSR should reconsider the whole range of its Indian policy. Such a reassessment, in Peiping's view, would require not only the shift of position on the border issue but also a revision of Moscow's policy on such matters as economic aid to India and the support that should be extended to anti-Nehru "progressive" forces in India.

Pakistani Attitude

Pakistan's President Ayub is reluctant to give an assurance not to cause trouble on Pakistan's border with India, feeling that by easing India's predicament he would eliminate New Delhi's only incentive to negotiate on Kashmir. He wants to emphasize to New Delhi that India's refusal to negotiate a Kashmir settlement compels it to deploy badly needed troops against Pakistan.

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****HARVEST PROSPECTS IN COMMUNIST CHINA**

Peiping continues to withhold data on agricultural production, but indications are that grain production in Communist China in 1962 may be only slightly better than the poor harvest in 1961 and below normal for the fourth straight year.

Because of dryness in some of the major producing areas and localized flooding in others, the early rice crop, normally about 10 percent of total annual grain production, probably was smaller than the fairly good early crop last year. Yields of winter wheat, about 12 percent of total grain output, probably increased in some areas because of improved soil moisture conditions last fall and winter. Wheat acreage declined, however, and late frosts, below-normal precipitation during the spring and early summer, and localized flooding probably prevented an increase in yields sufficient to more than offset the decline in acreage.

The fall grain harvests--intermediate and late rice, spring wheat, and other grains--normally account for about two thirds of annual grain production and continue through late November. Peiping stated on 1 October that these fall crops are expected to be "better" than those of last year, but prospects generally seem only fair.

Growing conditions, although better in some areas than in 1961, have been characterized by extremes in precipitation levels, with the average below normal. Moisture conditions through September in areas normally accounting for 55 percent of fall grain output (Northeast, North, Central, and South China) were generally below average and about the same as in 1961. In areas accounting for 35 percent of fall crops (East and Southwest China) conditions were generally better than in 1961 but still below average.

Fall crop acreage probably was larger than last year, but the increase is not expected to boost total grain output over last year's because drought-resistant but low-yielding crops such as kaoliang and millet were substituted for wheat in many areas.

The regime continues to encourage peasants to plant their private plots and to offer them other production incentives. These policies probably have served to increase agricultural output somewhat. Supplies of vegetables and subsidiary foods are reported to have been better this year than in 1961. Reports persist, however, of morale problems and of peasants neglecting collective fields to concentrate on their private plots. While there has been some improvement in peasant morale and in production efforts since the winter of 1960-61, it probably will not affect total grain production appreciably.

Supplies of chemical fertilizer evidently increased somewhat over 1961. Imports, according to trade sources, have been about the same as in 1961, but domestic production reportedly increased. This may have brought some localized improvements in output, but is unlikely to have had a significant impact on total food production this year.

It is doubtful that there will be any great improvement in Communist China's per capita food supply before the summer of 1963. Ration data from refugees indicate that daily food intake averaged roughly 1,500 calories during April-June 1962--a slight increase over levels indicated for the same period in 1961 and earlier in 1962. There may be some decline in food consumption during the winter, however, as supplies of vegetables enter their seasonal decline. Since a relatively good harvest is necessary before industrial expansion can be renewed, any program contemplated in this field will have to be postponed at least another year.

SECRET

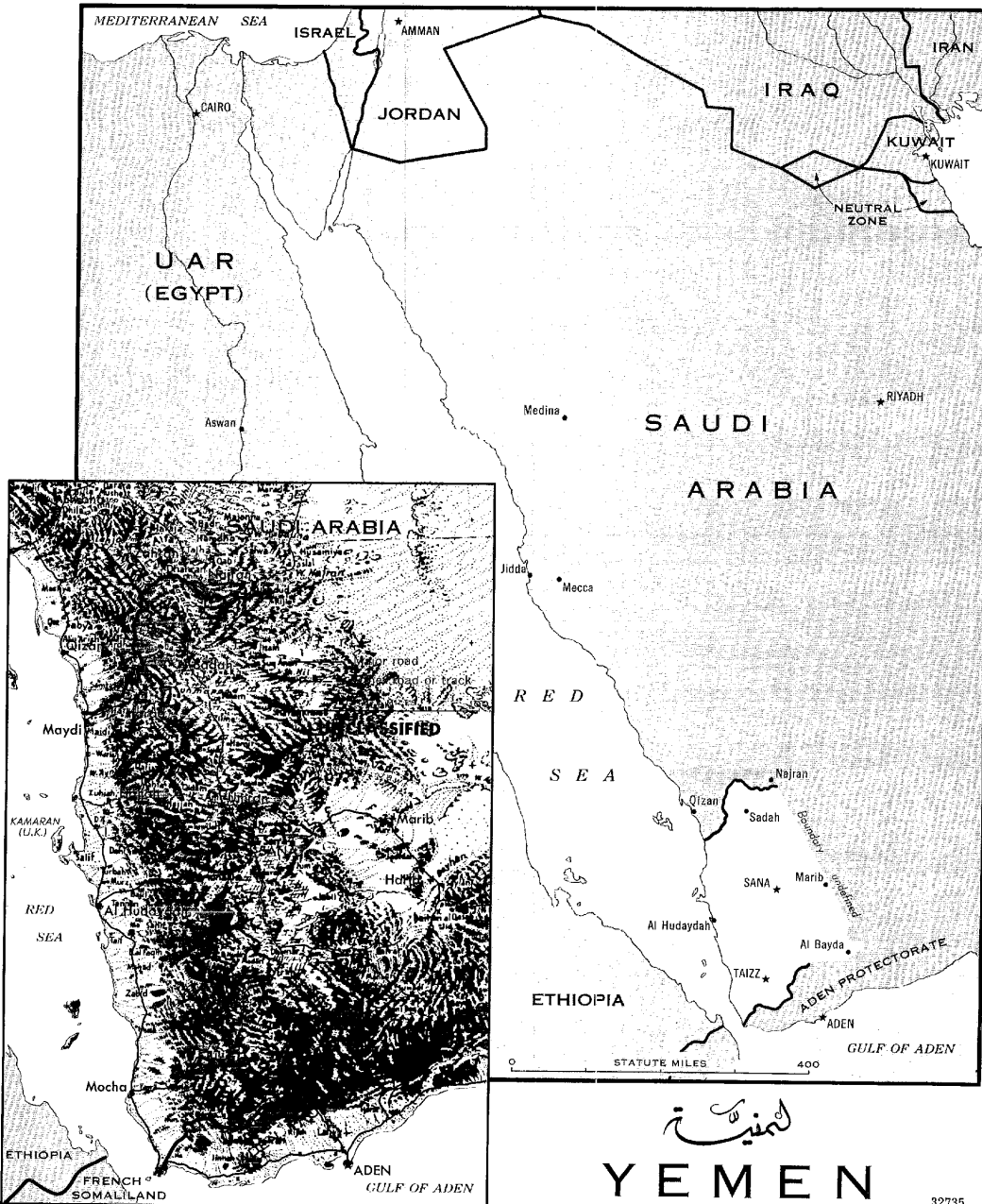
SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

THE SITUATION IN YEMEN

Forces of a reorganized revolutionary government continue to meet stubborn resistance from royalist tribes in the northern and eastern parts of Yemen.

Regular bombings by Egyptian pilots of the royalist strongholds of Marib and Wadi al-Jawf have had only slight effect in frightening the tribes into submission. Government



32735

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

forces led by Egyptian blitz troops have advanced to a point some 20 miles west of Marib, where they are building up for an attack.

The movement of large numbers of UAR troops and quantities of military supplies into Yemen continues to be noted. The total number of Egyptian troops in Yemen is believed to be about 4,000.

Sana radio on 31 October announced a reorganization of the revolutionary government. The reorganization has strengthened those elements most in sympathy with the UAR; a number of independent-minded figures were posted abroad. Sallal assumes the title of President of the Republic, and Baydani, who appears to be Nasir's protégé, has become vice president. The changes may precipitate religious strife and in time could result in more support for the royalist cause. Most members of the reorganized government are adherents of the Shafi religious sect, rival to the Zaidi sect that dominated Yemen under the Imamate.

25X1

* * *

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****DEVELOPMENTS IN SOUTH VIETNAM**

Viet Cong forces are maintaining a pattern of small-scale but effective guerrilla activity throughout the country. They continue to avoid significant combat with South Vietnamese regular forces, but are losing their fear of government aircraft and are developing countermeasures. There is no evidence that weapons other than small arms are yet being used in ground fire against aircraft.

Communist attacks have been concentrated against government outposts, the coastal railroad, and strategic hamlets. In the sparsely populated highlands, the Viet Cong are exerting heavy pressure on tribesmen in a quest for food and manpower.

Despite reported heavy casualties, the Viet Cong apparently are still building up their force strength through both local recruitment and in-

filtration. Several reports indicate that a well-armed unit of 400 infiltrators entered the country through Laos on 30 September. US military officials in Saigon now estimate the total strength of identified Viet Cong units at 23,000 men.

To date, battalions are the largest Viet Cong units observed in combat, but Viet Cong defectors have reported three regiments in the northern part of South Vietnam. These apparently are staff organizations coordinating the independent operations of interprovincial battalions. There is considerable evidence that a North Vietnamese major commands military operations in this area and that the military headquarters has been reorganized along the lines of the North Vietnamese regular army.

25X1

CONGO DEVELOPMENTS

UN Under Secretary Bunche, who returned to New York on 29 October after a week in Leopoldville, concluded that achievements to date under the UN reconciliation plan "were zero."

Bunche said Adoula considered the cease-fire signed in Elisabethville on 16 October a dead letter, but would accept an unconditional halt of all troop movements and the activation of mixed military observer teams. Bunche was not sanguine this would be acceptable to Tshombé, who has been insisting that Adoula honor the cease-fire agreement. The embassy concluded

from Bunche's remarks that any forthcoming negotiations between Leopoldville and Elisabethville would be limited to points within the UN plan, rather than those involved in the Elisabethville accords repudiated by Adoula. Other signs of Leopoldville's hardened stand are Adoula's offer of more Congo National Army battalions to the UN and a request that the battalion already at Kamina be transferred directly to the Katangan capital.

The UN appears to be planning a tougher military posture in South Katanga, possibly to

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

increase pressure on Tshombé. The UN has some 4,000 men in the Congo outside Katanga who could be added to the approximately 9,600 UN troops now there. The aim of such a UN move would be to force the mining companies to pay to Leopoldville tax revenues now paid to Tshombé.

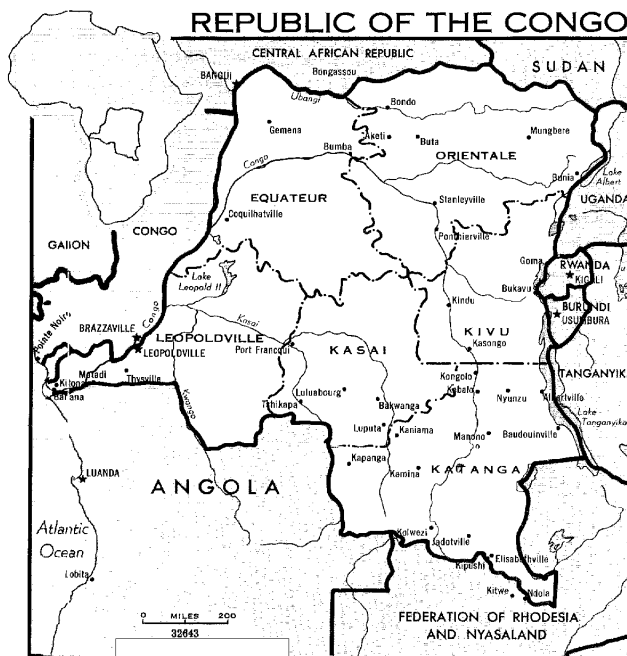
Various reports indicate that the UN is trying to strengthen both its ground and air forces. Three Indonesian paratrooper battalions--some 1,800 men--are scheduled to arrive in the Congo by late November, and UN officials are seeking additional jet aircraft contingents following the departure of the three Ethiopian F-86 aircraft last week. Although various other Afro-Asian states are reportedly willing to send troops to the Congo, no other specific commitments are known.

Presumably the UN would like to move fairly rapidly in exerting military pressure on Tshombé since about one third of the 1,500-man Malay contingent will leave in November, the 1,000-man Tunisian contingent is scheduled to depart without replacement in December, and the Sino-Indian border conflict may force the recall of the 4,200-man Indian contingent, most of which is in Elisabethville. In any event, the arrival of any UN reinforcements is bound to alarm Tshombé and cause tensions to rise. Fighting is certain if the UN forces attempt to move outside Elisabethville to the important mining towns of Kolwezi, Jadotville, and Kipushi.

In Leopoldville, attention is centered on the scheduled reopening of Parliament on 5 November, and on the threat the opposition represents to the survival of the Adoula government. Adoula and his cabinet have not yet decided whether to permit the reopening;

the embassy believes that the trend now is to allow it.

Last July, the opposition mustered only 44 votes in the lower house against Adoula's reorganized government, 23 short of the number required for a no-confidence vote. The embassy sees no indication that the opposition



25X1

line-up has changed significantly since then, but states that the great imponderable is the extent of dissatisfaction over the lack of progress on a Katanga solution.

While the opposition might not unseat Adoula, it clearly has enough votes to block the two-thirds majority (88 votes) Adoula needs for approval of the UN-drafted constitution. This may be the deciding factor pushing him to dissolve Parliament and govern by decree.

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****RESULTS OF THE FRENCH REFERENDUM**

De Gaulle's failure to win the massive support he sought in the 28 October referendum for popular election of future French presidents may foreshadow a period of renewed parliamentary instability after the National Assembly elections late this month. Encouraged by their showing in the referendum, De Gaulle's opponents will probably continue to press for a united effort against him, particularly in the runoff vote on 25 November.

Although the referendum result constituted a clear loss of prestige for De Gaulle, he managed to retain the support of 62 percent of those voting despite the united opposition of almost all of the press, the traditional political parties, and labor leaders. However, despite his threat to resign in the absence of a massive "yes" vote, his support for the first time fell below 50 percent of the eligible electorate. This came about even though the abstention rate was lower than in the two preceding referendums, and despite the assist De Gaulle received from the Cuban crisis --which seems to have influenced some people to vote for strong national authority. The result is therefore a clear warning to De Gaulle that he has exhausted the advantages to be gained by recourse to personal "plebiscites" in his battles with the political parties.

Senate President Monnerville had originally threatened to present a formal request for a decision on the constitutionality of the referendum by the Constitutional Council immediately after the polls closed on 28 October. When the Council made known that it would delay publishing the official count until 6 November, he stated he would delay his request until then. The Council is composed of former presidents Vincent Auriol and René Coty and nine other members--three appointed by De Gaulle and three each by the presidents of the Senate and the Assembly.

There is no precedent for such an appeal to the Council, which is a creation of the current constitution. The expectation is that the Council will interpret its competence strictly and will limit itself to scrutiny of the conduct of the referendum without examining the constitutionality of the law adopted by the vote. If it did otherwise, a major crisis would result. In his 7 November television appearance De Gaulle may try to dissuade the Council from making an adverse decision.

The relative success of the non-Gaullist parties in influencing many voters to reject De Gaulle came as a surprise to many of their leaders, who had been almost unanimous in expecting De Gaulle to get an absolute majority. Socialist

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

leader Guy Mollet, for example, had thought the Cuban crisis would mean an additional million votes for De Gaulle. The Association for the Fifth Republic, which Andre Malraux formally launched on 30 October to put a Gaullist cachet on candidates for the Assembly, is not expected to prevent a severe cut-back in Gaullist strength in the new legislature. Even if De Gaulle were to campaign actively, the Gaullist Union for a New Republic could not expect to hold its own. It has not succeeded in establishing itself throughout the country, while the old-time parties have at least maintained their bases.

Nevertheless, a clear-cut anti-Gaullist coalition has not been achieved. Many Popular Republican (MRP) and Independent candidates are accepting the Gaullist label, and Mollet, for example, must face an MRP candidate in his home district.

There is speculation about the possibility of a compromise coalition government following the elections. This would imply a retreat by De Gaulle, who would be forced to accept the active participation of political leaders in the formulation of policy. There is no hint yet that he would accept such a situation, but it is not entirely incompatible with his belief that France needs a combination presidential and parliamentary regime. He could then assume the role he originally envisaged for the president as arbiter between premier and parliament.

Failing such a compromise a violent tug of war is in prospect. The Assembly will be safe from dissolution for a year, and it may censure premiers as quickly as De Gaulle appoints them.

25X1

* * *

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**SPECIAL ARTICLE**ECONOMIC AND POLITICAL DEVELOPMENTS IN SPAIN**

General Franco, evidently convinced of the need for associating Spain with the European Common Market, is pushing forward with measures to liberalize the economy and make Spain better able to compete in foreign markets. His political changes to date, however, appear to be no more than gestures designed to quiet fears at home and abroad regarding continuity of stable government and to create the impression that political liberalization may be on the way. Nevertheless, the economic liberalization moves--notably in the field of labor--and Spain's increasing contacts with other Western countries may cause greater political ferment than the regime anticipates.

Economic Liberalization

Following completion of the first stage of the economic stabilization plan inaugurated in July 1959 after prolonged negotiations with the Office for European Economic Cooperation, the Spanish Government took steps to prepare a long-range development program designed to expand and modernize the economy. At Madrid's request the International Bank for Reconstruction and Development (IBRD) sent a mission to Spain early in 1961 to conduct a survey and prepare a report on its findings, including recommendations which would serve as a guide to the Spanish Government in its economic planning.

Spain has also been following with increasing interest economic integration trends in Western Europe. The European Economic Community (EEC) takes some 40 percent of its total exports, and another 26 percent goes to the European Free Trade Area--whose members are seeking

ties with the EEC. Last February Madrid, too, formally asked to begin talks regarding association with the EEC.

The IBRD mission's report, approved by Franco's cabinet in August 1962, stated that the Spanish economy had been expanding at a good pace during the last few years with favorable prospects for achieving, under capable direction, a 5-percent annual rate of growth in per capita GNP. It further stated that the government needed to overcome several shortcomings in the economic structure to facilitate progress toward economic growth. Among these the mission stressed the need for increased imports and exports and greater foreign private investment to permit a substantial expansion of trade.

The mission found that many Spanish industrial enterprises, particularly small firms, operated with low productivity and high costs as a result of inefficiency and obsolete equipment. Consequently they were at a competitive disadvantage in trying to market their products abroad. This situation, together with the absence of full employment, the immobility of labor, and the continuance of many controls over internal investment and production, hampered industrial expansion.

In recent months the government has taken some significant steps toward remedying deficiencies stressed in the IBRD report. Last May it moved toward encouraging greater foreign participation in the country's development by permitting foreign capital and profits to be repatriated without limitation. The 50-percent ceiling on foreign participation in joint

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

ventures remains, however, and can be exceeded only with government authorization.

Further liberalization has also been achieved in regard to internal investment and production, where the government has long exercised strict control over any new economic initiatives. Early in August the minister of industry announced that the time period in which the government could object to and prevent a proposed investment in existing enterprises would be limited to 15 days. Although this fell short of complete liberalization in this field, it was a step toward the eventual abolition of restrictions on the establishment of new industries and expansion of existing ones.

Both of these categories were provided for in the government's move in mid-September, raising from \$33,000 to \$500,000 the ceiling on fixed industrial investments permissible without a license. Again the time period for objection was severely limited. This raising of the investment ceiling, however, does not apply to those enterprises in which foreign capital participation in excess of 50 percent had been authorized, nor does it affect the public services, the automotive and oil industries, and one or two other types of enterprise.

In at least one respect pressures are developing within the regime for a policy at variance with the IBRD recommendation that economic development planning be on a national scale. The government-controlled press has attacked the report's point of view that solutions for backward areas must be achieved by stimulating the growth of the economy as a whole. The syndicates--the

state-controlled labor organizations comprising representatives of management and labor--have been pushing for regional plans which in fact are shopping lists of what provincial officials would like. Franco himself, in public speeches during a mid-September visit to several of the northern provinces, made only a passing reference to national planning but praised the concept of regional planning for the area in question.

The Labor Problem

The major question now confronting the nation's economy, according to the American Embassy in Madrid, is whether productivity can keep up with substantial wage increases, both those granted as a result of the wave of strikes in April and May and other raises that appear certain. If pay boosts should exceed a rise in productivity or be passed on to consumers in order to maintain or even increase industry's already high level of profits, there would be a threat of serious inflation. Pressure on wages has already been accompanied by pressure on prices. The sharp price rise in April--mostly in food--was reflected in a 4.3-percent increase in the cost-of-living index during the first five months of this year. Meanwhile, wage earners' greater purchasing power is contributing to increased consumer demand.

The regime has recently acted constructively to facilitate settlement of labor-management problems and seems inclined to continue its new lenient tactics toward labor as long as there is no violence. Perhaps the most potent pressure on the regime in this direction is that exerted by the Spanish church hierarchy, which has recently indicated it will intensify

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

activities to improve the workers' lot and use its lay arm, the Workers Brotherhood of Catholic Action, for this purpose.

On 7 September the cabinet in a 15-hour session approved a decree providing for a new system of handling labor disputes which arise out of collective bargaining procedures. First, the syndicates are to undertake conciliation efforts. If no agreement is reached, the labor minister is to act as arbitrator. If either party disagrees with the minister's decision, it can appeal to the labor courts for adjudication. There are also signs that the government is preparing changes in the syndicate structure to make the organization more responsive to the workers' interests.

Worried over the problem of keeping its production costs competitive, however, the regime will tend to grant labor the minimum concessions it deems necessary to keep workers on the job and to convince Western European public opinion that Spain is progressing sufficiently in the direction of greater socio-economic liberalization to be considered qualified for eventual association with the EEC.

Political Moves

The regime's political moves of recent months likewise seem designed in large part to reassure foreign opinion. In mid-July, following last spring's wave of strikes in the north, Franco carried out an extensive cabinet reshuffle. His appointment of Capt. Gen. Agustin Munoz Grandes as vice president of government with the function of carrying on as prime minister in the event of the dictator's own incapacity or death in office is a belated recognition on Franco's part of the need

for providing in some measure for continuity of stable government. Munoz Grandes is also the nation's highest ranking military officer after Franco, chief of the High General Staff, and the most powerful member of the three-man Council of the Regency. His appointment, however, signifies no intention of the regime to relax restrictions on such civil liberties as the right to form political parties.

The replacement of the ministers of industry and labor was widely interpreted as a move to speed up the elimination of governmental controls on industrial expansion and facilitate the handling of labor's demands for higher pay whenever economically justifiable. The outgoing industry minister had been a strong opponent of economic liberalization policies, and his colleague in the labor post had been unwilling to act energetically in trying to end the spring strikes. There have been several instances in which the new ministers have moved with dispatch in lifting restrictions on internal investment and seeking to settle the workers' grievances.

The replacement of the reactionary minister of information and tourism is not likely to result in any real freedom of the press. The new minister, himself an ardent Falangist, stated publicly in July that a new press law was being drafted for presentation to the cabinet in November and the parliament in December. He added that it would be based on the principle of "self-control" on the part of the press--i.e., transferral to the individual editorial offices of the responsibility for seeing that nothing distasteful to the regime was published.

The extensive coverage by the press of the August strikes

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

in northern Spain stood in marked contrast to its failure to report the spring strikes in their early weeks. In other respects the evidence so far points to a relaxation of censorship only on foreign news contained in the local press or in publications entering Spain from the outside.

Outlook

Although the regime will continue to confine genuine liberalization moves to the economic field, it is likely to find among various elements, principally labor and opposition groups, increasing pressure for concessions of a political nature that could cause it embarrassment. Labor, cognizant of its important role in further economic growth, will probably serve as the motive force in this atmosphere of ferment. The loss of skilled labor through emigration to other Western European countries has already had a noticeable effect on the expansion of Spanish industry. This trend to seek work abroad declined slightly last spring, partly because of higher wages offered at home and partly because of difficulties encountered by some workers abroad. The government apparently intends to balance the present attraction of higher pay abroad by authorizing wage increases in Spain through collective bargaining on a factory-by-factory basis.

Another aspect of the labor problem is that returning workers will bring with them ideas on political and social democracy derived from association with members of free trade unions in other Western European countries. These ideas will stimulate their awareness of the relatively poor working conditions and lack of political liberties at home and will

probably impel them to resort to new strike action in order to achieve improvement at least on the economic level. The great increase in the number of tourists visiting Spain in the last two years will also contribute to ferment within the country.

The government will tend to meet increasing pressure from labor for additional economic concessions by increasing the tempo of socio-economic reforms, such as extending collective bargaining procedures to all of industry and making the syndicates more representative of the workers. It will stand firm, however, against a return to the old system of political parties or the formation of genuine free trade unions.

The government's policy of granting minimum concessions to labor has already stimulated activity among various opposition groups which probably hope to gain greater immunity for themselves as a result of the defensive attitude shown by the regime in dealing with last spring's strikes. These groups may soon move to test the apparent relaxation of press controls. Some splinter groups of the opposition recently tried to bring their views on reform to the attention of the American Embassy in Madrid in the hope of capitalizing on the attendant publicity which they desire.

Serious manifestations of unrest in Spain seem unlikely in the coming months in view of the great aversion of most Spaniards to a recurrence of violence, the lack of a clearly preferable political alternative to Franco, and the gradual improvement in the nation's economy.

25X1

SECRET

Page Denied