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NEAR EAST SITUATION

Egypt is continuing efforts to strengthen its position in the Arab world. Within the past week, Egypt has announced a bilateral military alliance with Syria and a military agreement with Saudi Arabia. Israel has reacted to these events by intensifying its efforts to obtain arms and by dispatching Prime Minister Sharett to Paris and Geneva to call Israel's concern to the attention of the Big Four foreign ministers.

Pact With Syria

The initialing on 20 October of a draft military pact between Egypt and Syria was enthusiastically received in Syria and was approved by Saudi Arabia. According to the American embassy in Damascus, the pact has an excellent chance of being promptly approved by the Syrian Chamber of Deputies.

The Egyptian-Syrian pact is formally aimed at Israel but also blocks any Iraqi attempts for union with Syria. Apparently in an effort to mollify Iraq and possibly to balance Egyptian influence, Syria's chief of staff on 24 October informally suggested a Syrian-Iraqi pact to the Iraqi foreign minister.

Rumors that Syria is considering bilateral pacts with Lebanon and Jordan may be a reflection of Syria's desire to lessen its dependence on Egypt.

The military capabilities of Egypt and Syria would not increase immediately as a result of the pact, though greater coordination of activities against Israel would be likely.

Israeli Reaction

Israel's concern over Soviet arms reaching Egypt is heightened by the military pact Egypt has negotiated with Syria. Tel Aviv, pressing for new security guarantees, is making a major bid for big-power attention by sending Prime Minister Sharett to Paris and Geneva. The Western powers have been approached repeatedly during the past weeks on the subject of arms aid and security guarantees.

While pursuing its campaign for Western guarantees, Israel is also engaged in a large effort to build up its war machine. An international loan drive for arms is reportedly being launched throughout world Zionist circles. In Israel, the government's appeal for contributions for arms purchases is meeting an enthusiastic response.

Israeli public opinion is being prepared for a period of great tension and sacrifice. Chief of Staff Dayan has been recalled from a European holiday to participate in drawing up a new arms purchasing program, while the cabinet is engaged in trimming other budget allocations. Dayan's return may also be followed by a review of Israeli military tactics, possibly including plans for sabotaging future Soviet-bloc arms shipments to Egypt. The Israelis may even consider making approaches to the USSR for military aid.

New incidents are inevitable as border forces are augmented. The Israeli army's raid into Syria on 22 October was retaliatory, but it

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evidently also had the objective of highlighting the threat of war as Sharett arrived in Paris to promote international consideration of the Middle

East problem. A minor Syrian raid into Israel on 24 October was followed by two Egyptian attacks on Israeli police posts in the El Auja area on 26 October. ~~(SECRET REPORT)~~

~~PREMIER FAURE
ASKS FOR EARLY ELECTIONS~~

~~Premier Faure's proposal to hold National Assembly elections in December was precipitated by pressure from conservative leaders in his cabinet, who see an early date as favoring their parties. The opposition is determined to block this move and has maneuvered Faure into calling for a vote of confidence for 28 October.~~

~~Elections must in any case be held by June 1956. Faure maintains that a new mandate is necessary now to assure continuity in making vital decisions on foreign policy, but his opponents charge him with wanting to evade responsibility for unpopular decisions on increased taxes, additional call-ups of reservists, and renewed unrest in North Africa.~~

~~Most of Faure's supporters believe that time favors Mendes-France's effort to organize a left-center majority. They are also apprehensive lest new rightist movements, such as the Poujade antitax revolt and renascent ex-Vichyite combinations seriously cut into the support of the traditional right-wing parties.~~

~~There is general fear, moreover, of an upsurge in Communist electoral strength, aided by an increase in labor unrest and Socialist-Communist co-opera-~~

~~tion on the local level. The Popular Republicans believe that early elections would give them their optimum chance of profiting from the disintegration of the Gaullist political organization and also of preventing Mendes-France from excluding them from his projected left-center alliance.~~

~~On the other hand, while few deputies dare oppose early elections publicly because of the low public esteem in which parliament is held, many are not eager to shorten their terms in office. They point out that more time is needed to permit adequate revision of the electoral law in order to achieve a more coherent majority.~~

~~The public in general is skeptical that elections now could improve the unstable government situation, or that constitutional reform could be accomplished in time to affect the next election. Moreover, Mendes-France--not Faure--controls the Radical Socialist political machine and has succeeded in putting the party on record as opposing elections before the electoral law is changed.~~

~~Faure demanded priority for his bill to permit early elections, and is reported to have cabinet approval to pose a vote~~

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PART II

NOTES AND COMMENTS

Chinese Communist Activities
In the Middle East

Peiping, like Moscow, apparently sees in the present situation in the Near East an opportunity for a co-ordinated effort to establish closer contacts between the Arab nations and the Sino-Soviet bloc.

Although less spectacular than the shipment of Czech arms, the Chinese policy of concluding trade pacts and pushing for recognition is meeting with encouraging response from the Near East countries. Trade and cultural agreements with Egypt have recently been concluded, a trade pact with Syria is pending, and some progress seems to have been made in winning recognition from these and other Near East states.

If Chou En-lai's reportedly planned visit to Egypt should materialize in the near future, it would be the strongest indication thus far of Peiping's interest in winning Arab sympathies.

The Sino-Egyptian trade pact is the first Peiping has concluded with a country which does not recognize Communist China. In previous cases, Peiping has had to conclude such agreements with private businessmen or other groups acting unofficially.

Opportunity for expanding Sino-Egyptian contacts, paving the way perhaps for full diplomatic relations, is provided in the exchange of trade mis-

sions under the terms of the agreement. The exchange of other personnel, under the terms of a cultural agreement, is also under way.

The Lebanese foreign minister is reported to have told the Chinese Nationalist envoy recently that the whole question of recognition of Peiping by the Arab states depends on whether or not the United States will move to conciliate Egyptian opinion. He implied that other Arab League states would probably follow Egyptian policy in the matter.

Aside from Egypt, Chinese Communist activities are being directed mainly at Syria. Trade negotiations between the two countries were recently concluded and an agreement reportedly now awaits signature by Damascus. It is probable that Chinese Communist trade representatives visiting Syria this month have been in communication with Syrian officials and members of parliament on the question of recognition.

In conversation with the American ambassador on 8 October, the acting prime minister of Syria observed that the current of opinion was running in favor of the Communists and that it would be difficult to oppose those pressing for recognition. The opinions of other Arab League members will probably influence Syrian action on Chinese recognition. ~~(SECRET)~~ (Concurred in by ORR)

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French North Africa

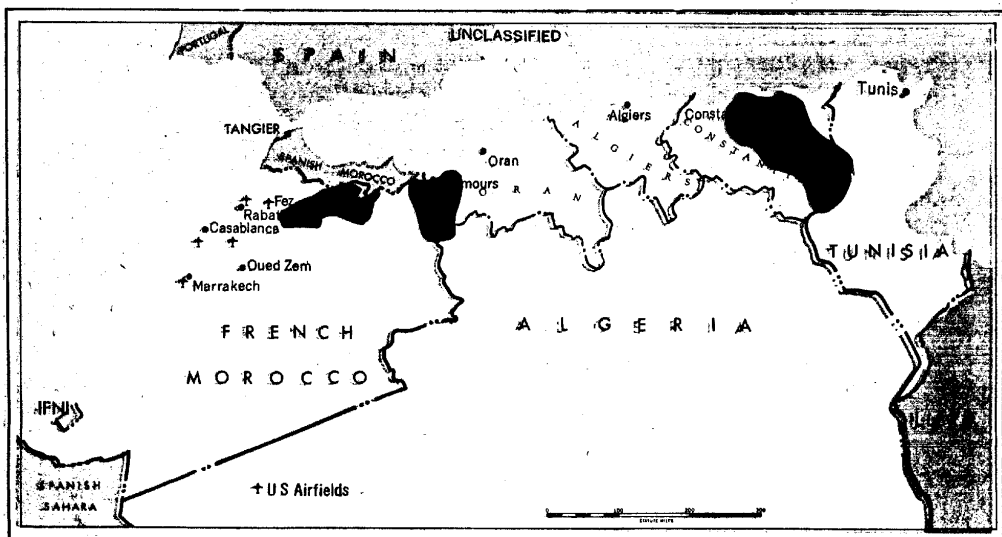
The turnabout of El Glaoui, Moroccan pasha who was largely responsible for the deposition of ex-sultan Ben Youssef in 1953, and who is now demanding Ben Youssef's return to Morocco, indicates the futility of the present French timetable for that protectorate in the face of a new Moroccan unity. Both the nationalist Istiqlal organization and the main settlers' organization, the Presence Francaise, have refused to participate in the Moroccan government being organized by Premier-designate Ben Slimane.

El Glaoui's action suggests he believes the French will eventually accede to nationalist demands for the restoration of Ben Youssef. The improved chances of Ben Youssef's restoration are likely to encourage the Presence Francaise to greater violence, and this in turn may lead to new nationalist terrorism.

Istiqlal's refusal to cooperate with Ben Slimane has won increasing Moroccan support and French efforts to separate the organization from the people have failed. The agreement of the small nationalist Democratic Party of Independence to participate in the government is based on Ben Youssef's alleged approval of the Council of the Throne.

A split within the Istiqlal is reported developing, however, and a moderate faction of the organization may later agree to participate in the government, especially if Paris carries out its plans to bring Ben Youssef to France on 29 October.

The nationalist ranks in North Africa are increasingly divided over whether to pursue a political, moderate policy or a revolutionary one. Moderates are still generally pre-eminent



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in Morocco and Tunisia, but extremists are in control in a few areas.

The nationalist Islah leader in Spanish Morocco reports that moderate leaders are trying to form a political general staff of prominent Moroccan nationalists in an effort to control the extremists fighting in the Riff area. Meanwhile, a

reports that an outbreak in another mountainous area of French Morocco is scheduled for about 10 November.

French-Spanish tensions remain high over charges of Spanish aid to the rebels.

~~(SECRET - NOFORN)~~

✓ New Saar Negotiations
Likely Soon

The Referendum Commission of the Western European Union probably will continue to supervise the Saar territory pending agreement on a substitute for the European statute rejected by the Saarlanders on 23 October. Both France and West Germany seem inclined to undertake new negotiations, and opinion in the Saar territory will probably be given considerable weight in any decision that is made.

French foreign minister Pinay took a highly conciliatory line in discussions with the other WEU representatives on 24 October. While the French press contained some caustic comment

on West Germany's role in the referendum, several papers recognized the need for a more objective reappraisal of the Saar problem, particularly in view of the large margin by which the statute was defeated. This relatively restrained reaction suggests that only a few extreme nationalists in the French assembly will maintain an intransigent attitude. In West Germany, the Bundestag is adopting an equally restrained attitude toward the plebiscite's results.

American embassy officials in Paris have found the Quai d'Orsay outlook "relaxed"

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One official commented that the referendum may be a "blessing in disguise" since "it cures by a drastic surgical operation a sore which would have otherwise continued to trouble French-German relations for a long time."

The Saarlanders themselves have accepted the referendum results in matter-of-fact fashion. Saar premier Johannes Hoffmann's formal resignation is expected to be accepted by a special Landtag session on 28 October.

The American consul at Strasbourg suggests that elections will not be held until mid-January as a result of the "universal desire" to allow things to settle down. The absence of violence during and since the referendum and the apparent French restraint may, however, permit the holding of elections early in December.

Some of the many pro-German parties which were organized

during the referendum campaign are already reported to be disintegrating now that their goal has been reached. There are hints that the rival pro- and anti-statute Catholic parties and similar rival Socialist units are already negotiating to coalesce their groups in preparation for the electoral campaign.

Prospects for the peaceable working out of Saar internal politics under the new conditions of freedom for pro-German groups will depend primarily on whether moderate pro-German leaders can wrest control from extremists such as Dr. Heinrich Schneider, the ex-Nazi head of the Democratic Party of the Saar. His claim of "victory for Germany" has already been rebuked publicly by a prominent West German opponent of the Saar statute.

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South Vietnam

In the Bao Dai-Diem popularity contest on 23 October, Diem won approximately 98 percent of the votes. Of the 2 percent, a little more than half were for Bao Dai and the rest were invalid. On 26 October Diem proclaimed Vietnam a republic and designated the chief of state, himself, as president.

In view of Bao Dai's unpopularity and the government's complete control of the pre-referendum campaign, the significance of Diem's triumph lies more in the voter turnout

(over 90 percent of those registered) and the orderliness of the voting than in the overwhelming plurality he won. Bao Dai's poor showing seems to destroy his value for any future role in Vietnam either on his own initiative or as a tool of the Viet Minh.

In an interview on 25 October, Diem interpreted his victory as a popular mandate not to proceed with unification elections until "true liberty" is established in the north. The referendum results set the stage for

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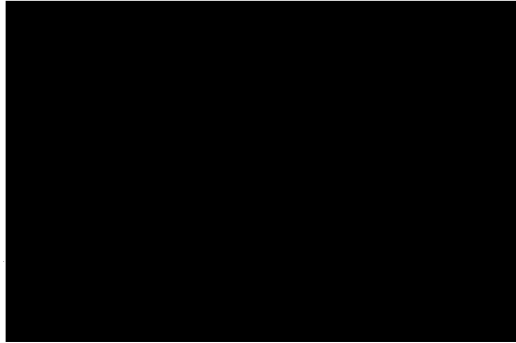
the adoption of a South Vietnam constitution and the establishment of a representative assembly which will enable Diem to speak from a more solid political base.

The Viet Minh denounced the referendum in the strongest terms from the time plans for it were first announced. It charged that Diem was imitating Hitler and Mussolini and asserted the Vietnamese would not be present at the polls and the results would be made in Washington.

The fact that the turnout was impressive and that invalid ballots numbered less than one percent of the total suggest that the Viet Minh did not desire to reveal its strength in a contest in which Diem's

victory was assured, possibly preferring to keep it secret until the forthcoming elections for provincial councils and for a South Vietnam national assembly.

The Communists may have abandoned any hope of getting early South Vietnam participation in a conference on all-Vietnam elections as called for in the 1954 Geneva agreement.



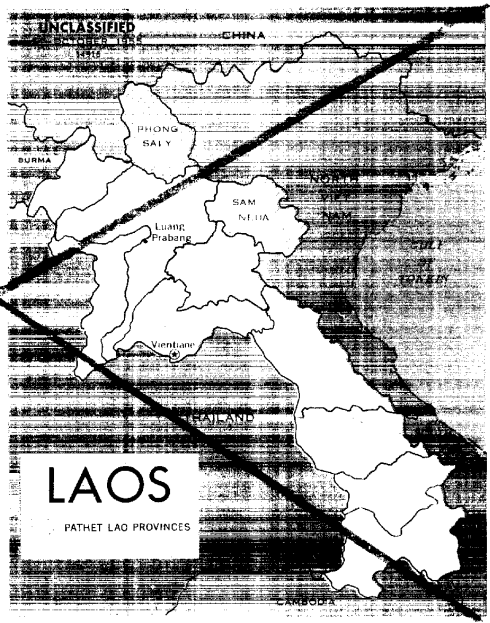
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Laos

The Laotian government is preparing to hold elections on 25 December in the ten provinces under its control. Unless the government reaches an agreement with the Pathet Lao prior to the elections, the two northern provinces under Pathet Lao control will be excluded from the elections.

A total of 235 candidates have filed for 39 parliamentary seats. Laotian officials maintain that few if any of the candidates are Pathet sympathizers. The two largest political parties have an agreement to work jointly to bring about the defeat of any candidate suspected of such leanings.

The deadline for candidates to file for the election



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Japanese Conservative Merger
May Be Near

Japan's conservative Democratic and Liberal Parties are making progress toward unification, and top Democratic leaders have confidently told American officials that the merger will take place in early November.

The formation on 27 October of a New Party Preparatory Committee may in effect have accomplished the merger "at least in form" as suggested by Prime Minister Hatoyama, since Democratic and Liberal policy-makers will jointly compile the government budget and formulate government policies.

The desire of large numbers of rank-and-file members of both parties for a unified conservative party, as well as pressure from influential business interests, are strong forces for unification. The unity sponsors appear to be using the strategy of agreeing on noncontroversial issues to accomplish a de facto merger, thus making it difficult for any opponents to refuse to go along. In addition, Democratic leaders may hope to use their "commitment" to US officials that the merger is virtually assumed as further pressure on the Liberals to come to terms.

Policy differences in respect to the negotiations with the Soviet Union and reparations to the Philippines are being left for the new party or a preparatory organization to resolve.

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Afghan-Pakistani Dispute

Pakistani spokesmen in Karachi and Lahore are insisting to American officials that Afghanistan is inciting violence along the Afghan-Pakistani

frontier. Afghan foreign minister ~~Naim~~ denies these allegations. Pakistan's announced intention to retaliate has increased tension on the border.

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The success of the merger will be primarily contingent on the settlement of the question of the head of the new party. Prior to agreeing to participate in the New Party Preparatory Committee, the Liberals strongly insisted on a dissolution of both parties and an open election of the new party head. If, as the Democrats have implied, the Liberals have tacitly agreed to accept Hatoyama as the new party chief, they probably insisted at the same time on a commitment for his eventual retirement and replacement by Liberal Party president Ogata.

A successful unification would assure the conservatives a working majority in the Diet. Should the sponsors of the merger be unable to make good on their promises with respect to the head of the new party, however, sizable defections might cause any unity program to founder. The Democrats probably hope that even if the merger plans collapse, their maneuvers will gain them their minimum objective of compelling the Liberals to support the Hatoyama cabinet outside the government in the forthcoming Diet. ~~(SECRET NOT FORN)~~

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Emphasize "Peace Movement"

The World Peace Movement has gained a new significance in Communist tactics as a result of Geneva. It must prevent, according to Foster, "atom war crises." Leading Western Communists assert that unique conditions now exist to influence Western peoples and governments through regimented mass opinion, for which the World Peace Movement is the main vehicle. This belief was pithily expressed by French Communist Pierre Courtade, who observed, "A hundred million Americans have seen Ike smile at Bulganin. They can no longer hear with the same ear the prophets of destruction who announce the 'red invasion' every day."

Peace activity is also being directed at specific international negotiations, such as those of the foreign ministers and the UN Disarmament Subcommittee.

Communist Cautions

Communist ideology sets a limit on how far party members may go in practicing the spirit

of Geneva. Authoritative party leaders in France and the United States--Marcel Servin and W. Z. Foster--have reminded Communists that the differences between capitalism and socialism remain. Servin warned on 30 August that "the capitalist regime, which is a reality in the United States, England, France, and elsewhere, represents by its very nature a perpetual danger of war."

In addition, Communist spokesmen have insisted on freedom of action for non-Orbit Communists and have refused to admit that their activities are subject to international diplomatic bargaining in a forum such as the foreign ministers' conference. Courtade, the French Communist foreign affairs authority, argued in *L'Humanité* on 30 September that "the action of Communists in capitalist countries for the defense and emancipation of the working class, and the support Communists give to the movement of liberation of colonial peoples, has no connection with the problems posed by peaceful coexistence, that is to say, with establishment of peaceful relations between states, whatever their regime." ~~SECRET~~

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BRAZIL'S ECONOMIC SITUATION

Brazil's critical economic problems, largely overshadowed in the last six months by political maneuvering in connection with the 3 October presidential election, have again come to prominence.

President Café Filho's refusal to accept the responsibility for immediately carrying out Finance Minister Whitaker's sweeping reform of Brazil's tangled foreign exchange regulations led to Whitaker's

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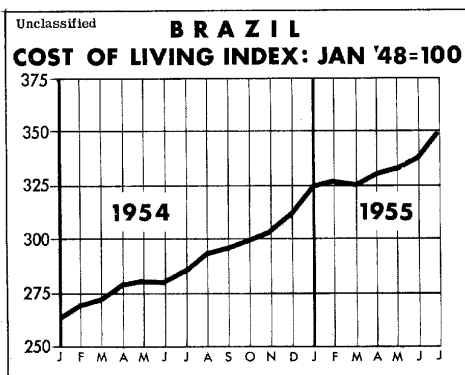
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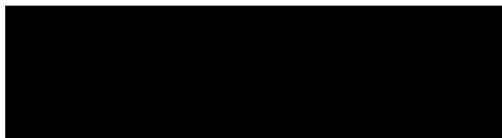
resignation on 10 October. This was the fourth resignation of a competent financial expert from that post in the past two and one half years. The new finance minister, again a competent economist, is expected to propose no major reforms for the remaining three months of the current administration.

Since Brazil's twin problems of foreign exchange shortages and rising inflation are acute, the preparations president-elect Juscelino Kubitschek is making for action after he is inaugurated on 31 January 1956 are being given prominent play. Kubitschek's program apparently will contrast sharply with the austerity measures suggested by the finance ministers of his predecessor. Kubitschek has repeatedly indicated his belief that the stimulation of economic development will be his chief line of approach.

He clearly hopes and apparently believes that his program, which will require considerable quantities of capital equipment, can be financed in large part through financial aid from the United States, perhaps amounting to as much as half a billion dollars.



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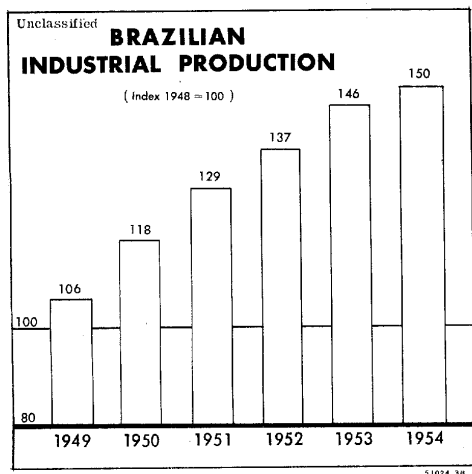


Background of the Crisis

The present inflationary trend began just prior to World War II and has accompanied Brazil's rapid economic expansion since that time. During the war period the trend was stimulated by the accumulation of substantial foreign exchange surpluses, which Brazil was unable to convert into consumer goods. After 1947, domestic factors such as government deficits and the expansion of credit fostered inflation. Illustrative of this continuing inflation is the rise in the cost-of-living index, which has more than trebled since 1948.

The late president Vargas tried to offset this situation by decreeing the doubling of the minimum wage scale in July 1954. This led to a redistribution of income, which helped create additional demand. The continuing rise in living costs has, in some occupations, more than wiped out the gain, however, and strikes are now reported looming throughout Brazil unless wages are again raised.

With Brazil's population increasing by over one million a year, an expansion of production



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is clearly necessary if even present standards of living are to be maintained. The considerable expansion achieved since the war has been insufficient to keep pace with growing needs.

Since foreign loans and voluntary savings at home did not cover the capital requirements of the country, the Vargas government undertook to finance investment by credit expansion and paper currency issues. The government also sought to encourage a trend toward self-sufficiency by entering the field of public investment. As a result, the government's share of total investment rose from 8.2 percent in 1948 to 25.6 percent in 1953.

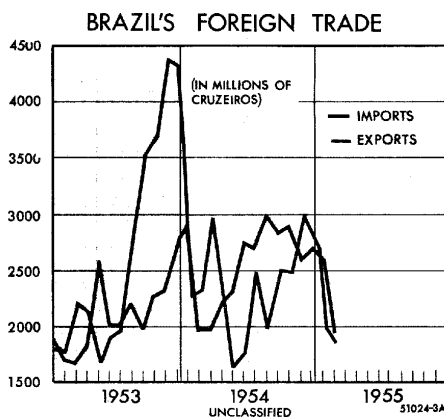
Although Brazil can produce nearly all its present food needs except wheat, scarcities and high prices are still the rule in most large Brazilian cities because of woefully inadequate storage, transportation and distribution facilities. Better soil management and improved agricultural techniques would also help reduce the cost of foodstuffs and help supply keep pace with demand.

The Café Filho government attempted to stem the tide of inflation by imposing economic austerity measures when it assumed power after Vargas' suicide in August 1954. During the eight-month term of office of Café's first finance minister Eugenio Gudin, a strong effort to restrict credit was partially successful. Gudin's successor, José Whitaker, loosened credit restrictions to some extent but maintained severe import restrictions and abandoned the inflationary price support program for coffee which had been instituted under Vargas.

Foreign Exchange Difficulties

Brazil's economy is to a great extent conditioned by its capacity to import necessary

capital goods and raw materials. This capacity is limited by the volume of exports, which has not expanded in proportion to the increase in population. Domestic industry is therefore turning to the manufacture of many goods which are now imported.



Brazil's effort to maintain its rate of industrial expansion, even at the cost of severe inflation, is reflected in the fall of the cruzeiro on the free market and in recurrent foreign exchange shortages. In order to permit domestic industry to purchase its needed imports cheaply, the official rate for the cruzeiro has been maintained at an artificially high level. This overvaluation of the cruzeiro weakened the competitive position of Brazilian exports and contributed to a concurrent loss of foreign exchange.

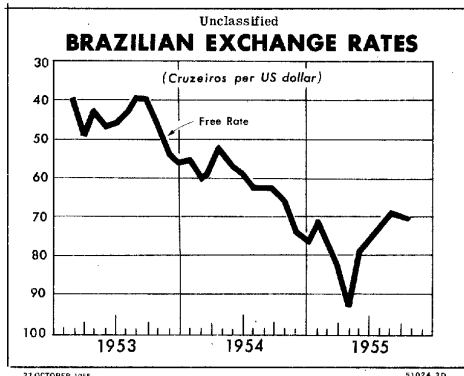
The net deficit on investments has also added to Brazil's foreign exchange problem. New capital entering the country in 1954 totaled \$69,000,000 and capital withdrawals \$76,000,000, according to the Bank of Brazil. In addition, remittances of income on investments were \$141,000,000 while income remittances to Brazil were somewhat over \$6,000,000. The total deficit on investment account, therefore,

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was about \$141,000,000. This fact has served as the basis of charges by xenophobic editors and congressmen that foreign investors bleed more out of the Brazilian economy than they transfuse into it.

The exchange deficit is further aggravated by the demand of existing industries for imported equipment and supplies, particularly fuels. The outstanding example of this is the petroleum problem.

The Petroleum Problem

The ever-increasing demand for petroleum is one of Brazil's major economic problems. Consumption in 1954 averaged nearly 160,000 barrels a day, an 84-percent rise over 1950. Domestic output, however, met less than 2 percent of demand. Brazil therefore had to spend around a quarter of a billion dollars for oil imports in 1954, or about one third of its dollar exchange earnings.

It is estimated that at least \$1 billion would be needed to develop Brazil's potential petroleum resources to meet present demands. Of this, over \$700,000,000 would have to be spent abroad. Brazil alone cannot afford such an expense, and even if foreign investment capital participated, volume output would probably not be reached for another five to ten years.

At present, however, foreign petroleum companies are restricted to distribution and marketing operations. Petroleum exploration and development are by law the monopoly of a mixed government-private capital corporation known as Petrobras, in which native Brazilians alone--not even Brazilians married to foreigners--may invest as minority stockholders. Statements by Kubitschek have implied that he will resort to other means to develop Brazil's petroleum if Petrobras has not proved itself in another year's time.

Some of Kubitschek's supporters, however, are nationalists and Communists violently opposed to any foreign participation in Brazilian petroleum development. This view is shared by an important segment of the military. It is thus believed that Kubitschek would have great difficulty in pushing any such measures through Congress, and that he would be running the grave risk of providing the military with a popular pretext for ousting him.

To a considerable degree because of Brazil's unrealistic petroleum policy, total exchange obligations rose to about \$2 billion dollars by the end of 1954. Dollar loans, particularly those from the US Export-Import Bank in 1953 and 1955, coupled with a program by the Café administration to raise exports and reduce imports, have averted further crises for the present. Service of these obligations, however, adds yet another burden to Brazil's strained economy.

Kubitschek's Economic Approach

Kubitschek's long-range solution to the problem of inflation is likely to be a stepped-up expansion of production rather than any program of economic austerity. His tenure as governor of Minas Gerais from 1951-1954 was marked by extensive construction of power facilities

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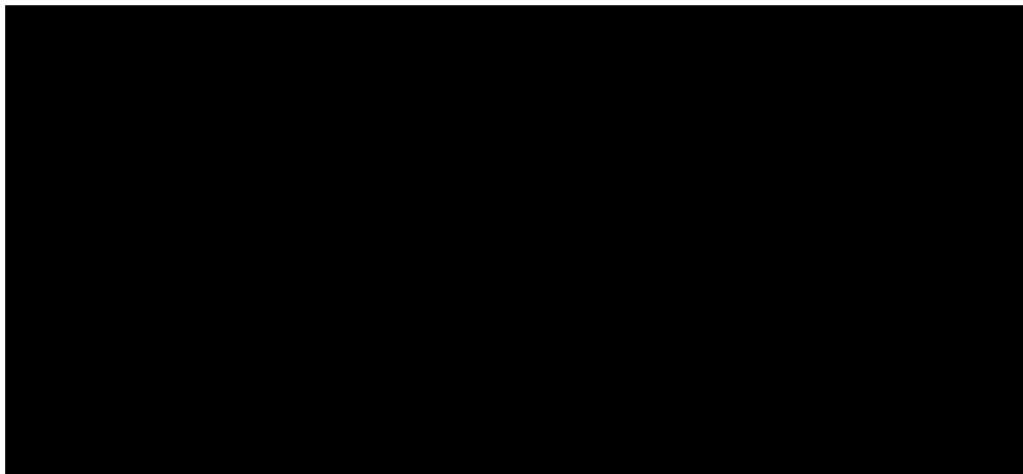
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COMMUNIST CHINA'S UNEMPLOYMENT PROBLEM

One of the problems facing the Chinese Communist regime is the shortage of employment opportunities, both for rural labor, which has been increasingly attracted to the cities, and for the unskilled urban labor force.

Although many visitors to China return with the impression that there is virtually full employment--the absence of beggars is commonly cited as evidence--Communist population and labor policies indicate that unemployment is nearly as serious as ever.

Reduction of Urban Population

Since 1952, Peiping has periodically issued directives that the millions of unemployed peasants in the cities return to their farms. These directives have been relatively ineffective, however, and the regime recently began taking coercive measures to accomplish this objective.

Figures released by Peiping disclose that from April through August 1955 more than 425,000 peasants were forced to leave Shanghai, where the unemployment

problem is exceptionally acute because of the depressed industrial and commercial activity there. In addition, "thousands" of skilled workers are being sent to inland areas such as Sinkiang. The present population of Shanghai is over 6,000,000 and the regime plans "gradually" to move out of the city the 1,000,000 persons, 80 percent of them peasants, said to have moved in since the beginning of 1950, according to a Shanghai newspaper.

Nevertheless, the tendency of destitute farmers to migrate to the cities will grow as the comparative standard of living of state workers rises following official efforts to improve their morale and efficiency. This tendency is apparently to be combated not only by forcible movements but also by the new food rationing system which will go into effect in all cities by the end of November.

Rural Unemployment

Some unemployed farm workers have found work in large government projects such as those for water conservation and

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and highways in line with his effort to stimulate industrial growth in the state.

In accepting the presidential nomination of his party in February 1955, he pledged himself "to struggle against inflation not only for the strengthening of the currency but also for the improvement of productivity." His subsequent statements have stressed the need for rapid expansion of the whole Brazilian economy with emphasis on industrialization, a program which in his view calls for large-scale highway construction and electrification in order to create conditions attractive for private investment. Kubitschek has indicated that he will seek foreign financing for such a program, coupling this effort with an attempt to consolidate Brazil's short-term debts and amortize them over a longer period.

His economic expansion plans were outlined on 21 October

in an interview with visiting newsmen from the United States, for whom he mapped out a broad program of building roads, improving Brazil's inadequate railway system and producing more electricity, steel, aluminum, and fertilizer. This program, he said, will require the purchase of \$500,000,000 worth of machinery and equipment over the next five years, mostly from the United States. He said he is confident that if Brazil "presents to the United States a realistic explanation of our problems and the solutions we plan, we will get the necessary financial and technical aid."

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SOVIET BLOC PROGRESS IN PEACEFUL USES OF NUCLEAR ENERGY

On the basis of impressive results already achieved in nuclear research and in experiments with practical application, the Soviet Union is pushing rapidly forward with its own "atoms for peace" program. The Soviet press and radio, as well as the contributions of Soviet scientists to the International Conference on Peaceful Uses of Atomic Energy held in Geneva last August, have provided considerable details on the progress in developing important industrial and biological

cal applications of the atom in the USSR.

The Soviet Union has, moreover, negotiated agreements to furnish assistance in the peaceful uses of atomic energy to Communist China and all of the European Satellites except Albania. Yugoslavia has agreed to accept a Soviet aid proposal more limited in scope. Soviet assistance offers have also been made to India, Egypt, and Iran, though none of these has as yet been accepted. In addition,

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the USSR has indicated that it will consider requests for assistance from other non-Communist countries, and it has permitted scientists from a number of Western countries to visit certain Soviet nuclear research installations.

The program inside the Soviet Union promises to be of extreme importance to long-range economic development. The aid to China and the Satellites will, over the next few years, markedly increase their nuclear research capabilities. As a part of the larger Soviet program of scientific, technical, and economic assistance, the USSR's atomic aid offers to non-bloc nations will strengthen its political relationship with those countries, increase its scientific prestige, and provide persuasive support for its general "peace" propaganda.

Accomplishments in USSR

Soviet propaganda has particularly emphasized the USSR's "pioneering" success in the construction of the world's first industrial atomic power plant. This 5,000-kilowatt plant has been in operation since June 1954, providing current for industrial and agricultural use. Located at Obninskoye, about 70 miles southwest of Moscow, it is fueled with enriched uranium and uses a graphite moderator. Work is reportedly now under way on the construction of a plant with an output of 50,000 to 100,000 kilowatts.

In addition to developmental work in harnessing the atom for producing industrial and transportation power, Soviet scientists are advancing swiftly in developing a whole gamut of uses of radioactive isotopes. These uses range from new automatic control devices for a number of industries to a method of treating yeast so that beer can be produced twice as quickly as before. Soviet experiments

have been taking place in industrial plants as well as laboratories on the use of "tracer atoms" for studying the properties of alloys, for determining wear on machine parts, and for quality control and counting, sorting, and synchronizing techniques on assembly lines.

Radioactive isotopes are also being utilized for extensive basic and applied biological research. Agricultural experiments are under way which indicate that tiny quantities of radioactive substances used in conjunction with standard soil-enrichers can substantially increase the yield of grain and vegetable crops. In parallel experiments, "tracer atoms" are used to aid the study of the nonroot method of soil nutrition and its applications in various climates and soils.

Isotopes are also used on a significant scale for medical treatment of various types. According to a Soviet claim, some 1,500 packages containing artificial radioactive isotopes are sent out monthly from the Soviet atomic industry to hospitals and other medical facilities all over the USSR.

Soviet Research Capabilities

Even more important than such achievements in applied research is the continuing rapid growth in the Soviet nuclear research capability itself. Papers presented by Soviet scientists at the Geneva conference indicated that the USSR has a broad research base capable of supporting both an intensive weapons program and peaceful uses projects. They also showed a high level of competence among top-level Soviet scientists and technicians and suggested that the Soviet government fully appreciates the value of a wide basic research program.

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25X1X Soviet scientists have developed excellent equipment with which to work. [REDACTED] reports have indicated that several atomic reactors of different types are in operation and that several particle accelerators are now available. Soviet scientists stated at Geneva in August that a bigger and better accelerator would soon be completed. This would be a 10-billion-electron-volt (10-Bev) particle accelerator for high energy nuclear physics research--the largest accelerator in the world.

While the Soviet Union's research program on peaceful applications of nuclear energy has made rapid progress, large-scale industrial and agricultural utilization still lie far in the future.

Satellite and Chinese Programs

Over the next two years the USSR is scheduled to supply Communist China and each of the European Satellites except Albania with an atomic reactor suitable for research, a 25-million-electron-volt (25-Mev) cyclotron, radioactive isotopes, and technical training. China is to get a 6,500-kilowatt reactor, and a 2,000-kilowatt reactor is to go to each of the European Satellites except Albania.

Even with such aid, the Satellites and China will have no more than an improved research capability for gradually developing industrial and biological applications of nuclear energy. None of these countries has accomplished very much in nuclear research thus far, and none can be expected to have the capability for production of nuclear weapons in the next five years because of deficiencies in research, in the number and caliber of nuclear scientists, in equipment, and in the stage of development of supporting industries.

It is doubtful that the Soviet leadership wants to encourage any rapid development of nuclear weapons programs in the other bloc countries. Satellite and Chinese scientists have been denied access to the Soviet nuclear weapons program in the past, and the scale and type of aid offered this year by the USSR seem designed to support basic research and peaceful applications.

The European Satellites are estimated to be producing and shipping to the Soviet Union uranium ore and ore products containing far more than half the total amount of uranium metal obtained by the USSR from all sources including its own mines. Of the estimated 3,000 tons of recoverable uranium metal furnished by the Satellites in the year ending in April 1955, East Germany accounted for 71 percent, Czechoslovakia 17 percent, Bulgaria 7 percent, Poland 2 percent, and Rumania 3 percent.

East Germany

East Germany is undoubtedly more advanced than China or any of the other Satellites in terms of qualified personnel and research facilities. A number of capable East German scientists who were sent to the Soviet Union at the end of World War II have recently returned and now hold important positions in the East German research program. One of these, Dr. Gustav Hertz, has received both Nobel and Stalin prizes; two others are also Stalin prize winners.

In addition, East Germany has other well-qualified men working in the field, utilizing limited but reasonably adequate research facilities. As early as November 1952, a commission of nuclear scientists was reportedly given the responsibility for organizing and equipping a research institute.

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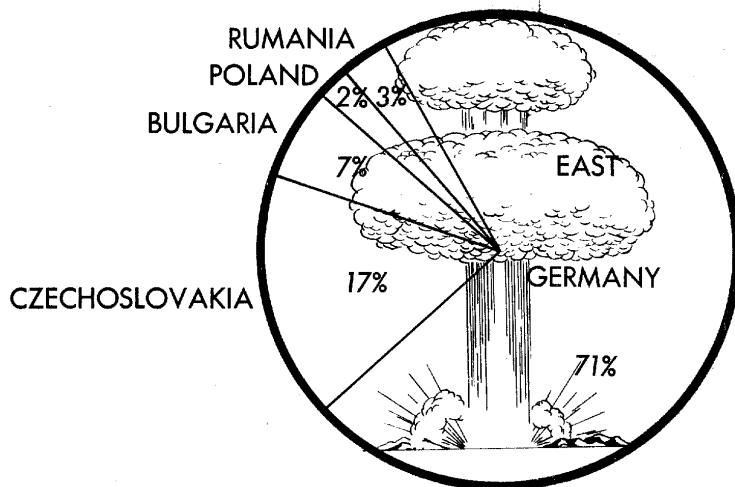
With the Soviet aid to be received in the coming year, a nucleus of good scientists, and excellent potential industrial support, East Germany should make significant progress toward the industrial use of atomic energy within the next five years. It is doubtful whether any attempt at military use will be made other than possible research in propulsion.

the Czechs have set up a governmental directing committee and established an Institute of Nuclear Physics at Prague to perform basic and applied research in nuclear physics, radium chemistry and nuclear power, to ensure speedy application of the research results, to produce isotopes and radioactive compounds for science and industry, and to give postgraduate training.

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ESTIMATED 3000 TONS OF URANIUM METAL FURNISHED USSR BY EAST EUROPEAN SATELLITES

(year ending April 1955)



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Czechoslovakia

Prior to the Soviet assistance pledge early this year, Czech nuclear research was confined to the university level and was not controlled or coordinated except through the normal function of the Czech Academy of Sciences. Since then,

A "large group" of Czech postgraduate students went to Moscow in September to attend courses on nuclear research, and training courses were also begun in Prague at a new Industrial School for Nuclear Technology.

On 18 September Prague radio announced that during the

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second Five-Year Plan (1956-60) Czechoslovakia plans to build with Soviet help an atomic power station. Additional Soviet aid beyond that already announced for 1956 will be required if this project is to be successful, since the lack of well-qualified scientists will make general Czech progress in industrial uses of atomic energy very slow.

Poland

Until very recently, Poland had no real organized program directed toward the use of nuclear energy, and even the university research in basic nuclear physics was hampered by lack of adequate equipment and qualified personnel. This year, however, a Polish State Commission for Atomic Energy has reportedly been formed, and construction on a special institute for nuclear research was begun in August. The first contingent of a group of 50 Polish technicians was scheduled to go to the Soviet Union this fall to receive training in nuclear physics, radio-chemistry and isotope applications.

Even with the Soviet assistance pledged for 1956, Poland will require two or three years to build the group of capable scientists and acquire the equipment needed for an effective research program. It is unlikely that any significant Polish advances in industrial or biological uses will be achieved within the next five years.

The Other Satellites

None of the other European Satellites has a program that amounts to much. Hungary has little more than research at the university level. Rumania has established a Nuclear Energy Committee responsible to the Council of Ministers. Albania

has virtually no capability and was not even included in the Soviet aid promise.

Because of the lack of trained personnel, research facilities, and industrial support, Hungary, Bulgaria, and Rumania may require as many as five years to get effective research programs going, even with the equipment and materials to be delivered by the USSR in 1957.

Communist China

Aside from the control over university research which is exercised by the Academy of Sciences, Communist China had until very recently no organized effort directed toward the development of atomic energy. In February of this year, following the Soviet assistance offer, a committee of seven leading scientists of the Chinese Academy was formed to plan the utilization of nuclear energy, which is a "key" task in scientific research during the first Five-Year Plan period of 1953-1957. An experimental center is currently being established to develop uses of radioactive isotopes and the application of atomic energy to industry.

China's research capability is still very limited but there are a small number of highly trained nuclear scientists, several of whom received their advanced education in American universities.

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Several months ago, Pavel Yudin, the Soviet ambassador to China, told [redacted] that the USSR was giving China scientific and technical know-how in the atomic field which would eventually enable the Chinese to produce nuclear weapons. He said, however, that China had not been given

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either the bomb itself or facilities for its manufacture.

With the aid to be received from the USSR in 1956, Chinese nuclear research capabilities will develop considerably over the next five years. There is no evidence, however, that the Chinese plan by 1960 even to begin developing the capability for producing nuclear weapons, and it is believed that little of China's limited investment funds will be diverted from its ambitious military modernization and industrialization programs to an atomic energy program.

Sinkiang in Northwestern China may be a Soviet source of some uranium and other metal ores important to atomic energy development. Deposits of such ores are known to exist in parts of Sinkiang, and the Soviet Union has provided extensive technical assistance and large amounts of equipment for mining operations there. Sinkiang will also be a potential source of raw materials to China's own program as it develops.

Offers to Non-Bloc Countries

Within the past year, the Soviet Union has made offers of nuclear assistance to Yugoslavia, Egypt, India, and Iran and has indicated a willingness to consider applications by other economically underdeveloped countries for such aid. These Soviet approaches have been in direct competition with the US-sponsored atoms-for-peace program.

The Yugoslavs have accepted a Soviet offer to assist them with their nuclear research program, but the project is only tentative and unclear. Present plans call for the USSR to provide uranium 235, graphite, and

technical assistance. The Soviet Union apparently will not be providing a complete reactor or parts for assembly. Instead, parts for a single reactor are to be built in Yugoslavia and assembled by Yugoslav technicians with some Soviet technical advice. While this limited amount of aid will permit acceleration of the Yugoslav training and research effort, any Yugoslav program for industrial or military uses of atomic energy is still several years in the future.

While still considering the Soviet aid offer, the government of India decided to accept Canada's offer of an atomic reactor as part of Canada's Colombo Plan contribution. Prime Minister Nehru has indicated, moreover, that India will permit accredited foreign scientists, including those from other Colombo Plan countries, to use the reactor's facilities. The Indian government is likely, however, to accept supplementary aid from the USSR later on.

Egypt has not yet indicated whether it intends to accept Soviet nuclear assistance, and there is no evidence that the Iranian government seriously considered the Soviet offer which was made in a roundabout fashion through an Iranian scientist participating in an international conference in Moscow.

Although the USSR has not found many takers in the West, the offers themselves are an appealing part of the bloc's larger program of technical and economic aid to underdeveloped non-Communist countries. As some of these nations begin to develop a real nuclear research capability, they may become more responsive to Soviet approaches. ~~(SECRET)~~ (Prepared in co-operation with OSI)

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objective of the security plan was the withdrawal of all foreign troops from Europe.

The USSR later in the conference offered a proposal under which most of the features of the first stage would be adopted without any commitment to the second stage or any change in the status of NATO and the Warsaw pact. This step would serve the minimum Soviet objective of deepening the freeze on the split of Europe.

More is likely to be heard about these Soviet plans, as Moscow seeks to get agreement on the principles of its program as a step toward an all-embracing security plan.

The USSR has reacted sharply to reports that the West is planning to offer guarantees against any attack by a united Germany incorporated in NATO.

At the summit conference, however, the USSR did express interest in Eden's proposal for a five-power security pact, suggesting that some other European powers should be included at the start with still others added gradually thereafter.

The USSR can be expected to adopt gradually some of the features of security plans put forward by the West. One might be the British suggestion for the creation of a European zone where troops would be kept within agreed limitations and perhaps under international inspection. The USSR might offer a similar plan limited to East and West German forces, or perhaps including all troops in Germany.

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EGYPT

Egypt last week appeared to be well on the way to regaining its dominant position among the Arab powers which it lost last spring as a result of the Turkish-Iraqi pact and its own subsequent failure to secure a military alignment with Saudi Arabia. The Nasr government, moreover, continued to exploit the arms agreement with the Soviet bloc not only to strengthen Egypt's position among the other Arab powers, but also to establish Egypt

as a key neutral between East and West.

Among developments during the past week were: (1) The Arab foreign ministers, concluding a conference in Cairo, for the most part expressed themselves in favor of doing business with the USSR; (2) the USSR and Egypt announced a Soviet offer of assistance in building the Aswan dam; and (3) quasi-official Egyptian sources encouraged rumors that a second

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Asian-African conference would be held during the coming year in Cairo. (See also Part III, p. 1.)

Aswan High Dam

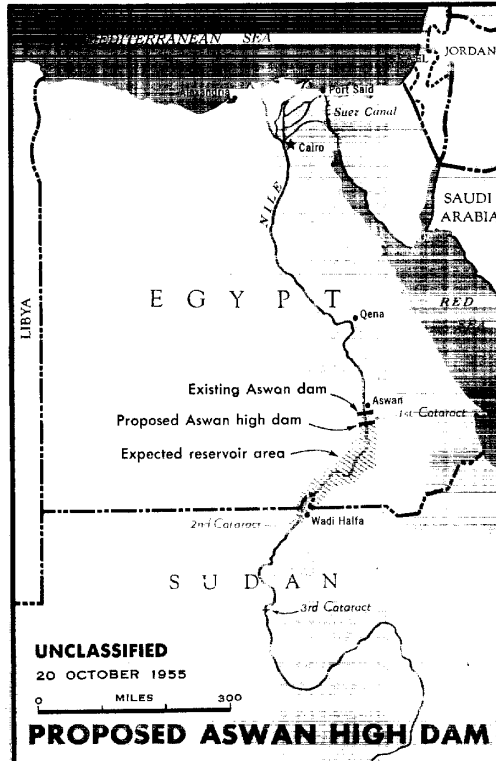
For some time it has been apparent that the USSR was interested in participating in at least some phases of Egypt's TVA-like 1.3-billion-dollar Sadd-el-Asli Project.

Following the public announcement of the Soviet offer to build the Aswan high dam, the Egyptian ambassador in Washington said that the USSR had suggested a 30-year loan for an unspecified amount at 2-percent interest payable in Egyptian cotton and rice. The estimated cost of the dam is approximately \$480,000,000. Equipment worth \$275,000,000 would have to be imported and Egypt therefore would need this amount in foreign currency. By providing equipment and technical assistance the Soviet Union can create at Aswan an enormous monument to Soviet industry in the Middle East.

The driving ambition of the Nasr regime to construct this project, and the frustrations it has experienced in trying to obtain Western financing, provide an ideal opportunity for Soviet exploitation. From the Egyptian point of view, it would be difficult to refuse an attractive Soviet offer, especially since it would be the result of earlier Egyptian initiative.

Asian-African Conference

In the past two weeks both Radio Cairo and the Egyptian newspaper Al Ahram have



stated that most of the 29 countries which met at Bandung consider Cairo the appropriate location for another Asian-African conference. Both the Cairo and Arab Jerusalem radios have referred to the "coming conference," and the Egyptian cabinet has reportedly agreed to convoke the next meeting in Cairo in November 1956.

However, of the five Colombo powers--Burma, Ceylon, India, Indonesia, and Pakistan--which sponsored the conference in Bandung last April and which were made responsible for arranging subsequent meetings, only Ceylon is reported to have shown interest in another meeting. The Indonesian foreign minister said last week that Ceylon's Prime Minister Kotelawala had written Nasr suggesting a conference in Cairo in 1956.

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Chinese Communists Continue Work On Airfields in Southeast China

25X1X7 The Chinese have continued construction of extensive military facilities in areas opposite Formosa and the offshore islands. Three more airfields have been detected since 3 October [redacted] bringing to nine the number of fields in the Formosa Straits area which have been worked on this year. While only three of these can yet be rated as serviceable, the expanding ring of bases in the coastal area will permit Peiping to undertake military action on a massive scale, if it so chooses.

One of the three new bases is located on the east coast about 55 miles northeast of Amoy. Another is in southwestern Fukien, near Liencheng, about 175 miles from Foochow. These two are in very early stages of construction. The third, about 25-percent complete, is in the Huiyang area, midway between Canton and Swatow.

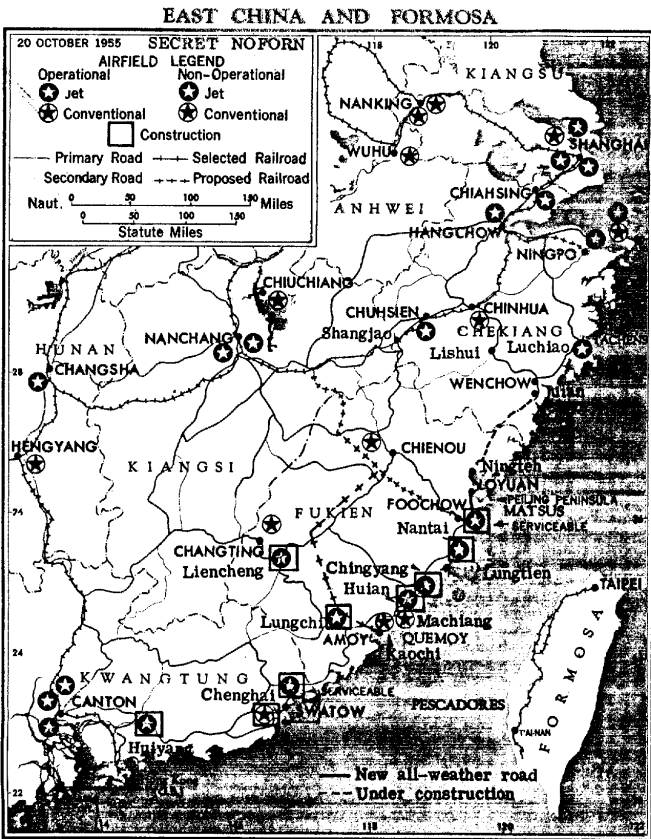
Improvement of military supply routes also has continued. An overland road northward from Foochow to positions on the Peiling Peninsula overlooking the Matsu group has been completed. Some 32 field artillery

positions on the peninsula now can be supplied easily. Some of these positions were used during the first Communist shelling of an island in the Matsu group on 7 October and in subsequent shellings on 12 and 14 October.

Another road, running north from Foochow to the coastal port of Wenchow, is now under construction.

Two more military railway construction divisions have recently been identified in Fukien Province working on the rail line to Amoy. At least eight of 11 such divisions in the Chinese Communist armed forces are now assigned to the project. The assignment of so many units to this line may indicate a change in priority, and may make

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it possible for the Communists to complete the entire 400-mile route by the end of 1957. According to Five-Year Plan goals

announced in February, only 270 miles of this line were to be completed by the end of 1957. ~~(SECRET - NOFORN)~~

USSR Plans Long-Range
Flights to Antarctica

Soviet delegates to a conference of the Special Committee for the International Geophysical Year (1957-1958), held in Brussels from 8 to 14 September 1955, informally revealed plans to establish two routes for regular flights to the Soviet Antarctic base on Knox Coast. One route would run over the African continent, the other via India and Australia.

Diplomatic negotiations are under way to obtain rights to operate Soviet four-engine aircraft of unspecified types over Turkey, Egypt, Kenya, the Union of South Africa, India and Australia, and to land at Singapore. No other intermediate layover points have been indicated.

The entire air operation will be under I. T. Spirin, the leading Soviet Arctic navigator, whose experiences in polar navigation date back to the Papanin expedition of 1937, and who is now professor of polar navigation in the Voroshilov Military Air Academy.

Flights to the Antarctic would permit the USSR to complement polar flying experience gained in the Arctic and give Soviet air crews their first transoceanic experience. The world-wide scientific endeavor in the Antarctic would afford the USSR an opportunity to conduct intercontinental flights without inviting criticism of war-gaming. It is expected that the aircraft used would

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PART III

PATTERNS AND PERSPECTIVESIMPLICATIONS OF RECENT SOVIET POLICIES IN THE MIDDLE EAST

Recent events have made the Middle East of foremost importance in East-West relations and a subject for discussion at the foreign ministers' conference. Moscow's decision to supply Middle East states with arms and Iran's adherence to the Western-sponsored "northern tier" defense arrangement will alter the balance of power in the area. Shipment of Communist arms to the area undercuts the West's tripartite agreement of 1950. Iran's adherence to the Baghdad pact closes the gap in the "northern tier" arrangement and finalizes a Western defense scheme that the USSR has repeatedly protested against as a threat to its security.

Reaction to Turkish-Iraqi Pact

Moscow's recent steps in the Middle East may have resulted from the conclusion of the Western-sponsored Turkish-Iraqi pact last February.

There are indications that the USSR shortly thereafter made offers of aid to Syria. Approaches to Saudi Arabia, Libya, possibly Yemen, and especially Egypt, for closer ties with the Soviet bloc indicated that Moscow was approaching the most anti-Western of the Arab League states as candidates for a neutralist bloc in which Egypt, with Soviet bloc aid, would be the dominant force. Since then, the Soviet ambassador is reliably reported to have asked Nasr's opinion concerning Soviet aid to the Sudan and Syria.

By thus hurdling the northern tier, the USSR apparently hoped to preserve opportunities for expanding its influence to the south.

The Soviet Union will probably make every effort to prevent the participants in the Baghdad pact from becoming effective links in the northern tier chain. Thus, despite its immediate reaction against Iran's adherence to the pact, the USSR probably will avoid a long-term hostile policy lest it push Tehran even closer to the West. Moscow probably will try to convince Iran--the weakest and most strategically located of the northern tier states--that the Communist threat has disappeared and that added expenditures for protection against a nonexistent enemy would be wasted.

Afghanistan, which has recently reiterated its willingness to participate in Middle East defense planning, may receive offers from the USSR in addition to the economic aid it is already receiving. The American embassy in Kabul believes the Egyptians, with or without the connivance of the USSR, may be using the prospect of receiving Communist arms to dissuade Afghanistan from joining the northern tier states. A favorable climate for further Soviet penetration exists in view of Kabul's continuing bad feeling toward Karachi and its dissatisfaction with the nature of American aid.

Effect on Tripartite Agreement

The introduction of Communist arms into Arab arsenals nullifies the objectives of the tripartite agreement of 1950 between Great Britain, France and the United States. The agreement, which was aimed at promoting peace and stability in the area, includes a

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declaration of opposition to an arms race between the Arab states and Israel.

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[REDACTED]

in view of the Soviet arms offer, France now is willing to relax the arms embargo against Syria and Egypt if the United States and the United Kingdom will do the same. Israel has already begun to press the United States to match the Soviet arms offers to the Arabs.

Great Britain, which has specific military commitments with Egypt, Jordan and Iraq, as well as general obligations under the Baghdad pact, regards Soviet moves--especially the offer of arms--as a serious threat to its own position. Prime Minister Eden stated on 9 September that the risk of war in the area has been intensified, and intimated that the Western powers should seek an agreement with the USSR to halt the arms race.

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[REDACTED]

Britain's recent encouragement of Iraq's Prime Minister Nuri Said to adopt "a more forward policy" in Syria suggests that the Foreign Office now intends to strengthen its support of Iraq as a counterbalance to Egyptian and Soviet influence among the Arab nations.

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[REDACTED] Britain

may be preparing to give Libya more arms assistance than it has in the past.

In the case of the French, the present Soviet policy will have unfavorable implications. French policy in the area has been motivated by a desire to preserve weak disunited states amenable to French pressures. France is particularly sensitive to any changes affecting the status of Syria. Its policy toward the other Arab states, particularly Egypt, is primarily conditioned by its attitudes toward North African affairs. Paris will have to face the possibility that Soviet arms shipments, especially to Egypt, will result in additional arms becoming available to North African nationalists.

Foreign Ministers' Meeting

There have been several indications that the USSR may broach the subject of the Middle East with the Western powers, possibly at the foreign ministers' meeting this month. Bulganin and Molotov have publicly indicated the importance the USSR attaches to maintaining neutrality in the area and have stated that Moscow not only will respect such a course but is prepared, in conjunction with other countries, to participate in a guarantee of this neutrality. The Soviet ambassador to Tehran has made direct approaches to Iranian and Saudi Arabian officials which reflect Moscow's concern in this connection.

If Moscow does elect to broach the subject at this time,

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it may offer the West the alternative of participating in an agreement with the USSR which would guarantee the neutrality of the area, or of facing a continuation of the Soviet offensive

in competition with the Western powers.

Moscow probably believes that it stands to gain in either case. ~~(SECRET RETURN)~~

* * *

SATELLITES ACT TO IMPROVE RELATIONS WITH UNITED STATES

Since the Geneva conference, the European Satellites have demonstrated a strong interest in improving diplomatic, cultural, and economic relations with the West, and particularly with the United States. At the same time, they have publicly taken the position that the United States should reciprocate these gestures by moderating its "antagonistic" policy toward the Soviet bloc.

These actions undoubtedly stem from a desire to impress the West with the Soviet bloc's adherence to the "Geneva spirit," and are intended to reduce Western opposition to the Eastern European regimes. The Satellites probably also hope that "normalizing" relations with the United States will permit them to increase trade with the West, obtain American trade credits, and benefit from American technical and economic experience by developing an exchange of technical delegations and information with the United States.

Moves on Outstanding Problems

Rumania is apparently preparing to take steps to settle some long-standing problems which have been a major factor in its poor relations with the United States. Rumanian deputy foreign minister Preoteasa told

the American chargé d'affaires in Bucharest on 23 September that the Rumanian government was considering granting long-denied visas to a number of the 371 American citizens and dual nationals in Rumania.

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Professor Mihai Rosianu, deputy minister of culture and a member of the Workers Party central committee, mentioned

that the United States Information Service reading room, closed by Rumanian action in 1950, might be reopened. He admitted that Rumania and the United States might be "equally at fault" for the poor relations between the two countries, and said his government would welcome visits by prominent Americans in all fields. This latter gesture apparently was made in hopes of sharing American technical experience.

Hungary, Poland, and Czechoslovakia have also proposed negotiating outstanding problems. Hungary's suggestion that each side submit a list of questions it wished to negotiate was apparently made to facilitate obtaining long-term credits for the purchase of American foodstuffs and consumer goods. Hungarian trade officials have unofficially approached American businessmen on this subject in recent months.

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✓ ARAB STATES RESPOND FAVORABLY
TO EGYPT-SOVIET BLOC ARMS DEAL

The reaction of other Arab states to Egypt's arms agreement with the Soviet bloc has been overwhelmingly favorable. Although credit for the deal has redounded so far much more to Egypt than the Soviet bloc, Moscow's public reiteration of its eagerness to provide all the assistance the Arabs may ask, economic as well as military, may focus Arab attention more directly on Soviet generosity and friendship.

Egypt's gains in prestige from the arms deal have been reflected in favorable press comment and in official statements from all the Arab states except Iraq. Even the Iraqis have felt constrained to confine their criticism to private talks. The Arabs generally see the deal as a major move in their emancipation from Western dominance. Egypt reportedly has been quick to capitalize on this sentiment by offering itself as a channel through which Syria, Lebanon, and Libya also can acquire arms.

The Arab reaction has emphasized Egypt's heroic role in breaking with the West on the arms issue, rather than any policy change in the Arabs' favor by the USSR. However, Moscow's gains, though slower in coming, are likely to be nonetheless real.

Indicative of the kinds of gain the Soviet bloc may make is a report from Syria that local Communist leader Khalid Bakhdash is now listened to much more seriously than he was a few months ago and a report that the Sudan on its own initiative has asked for

Soviet arms. In addition, a 14-man contingent of Czech and Soviet arms experts arrived in Cairo on 2 October.

Not only have the Czechs started implementation of the agreement with Egypt quickly, but Moscow has followed up promptly with a public announcement of its willingness to provide economic assistance, specifically for Egypt's Aswan high dam project. Soviet ambassador Solod told the press in Cairo on 10 October that the USSR could assist with equipment, though not with cash.

25X1C On political issues, Solod reportedly told [REDACTED]

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[REDACTED] that the USSR will do all in its power to see that "justice" is done in the Arab-Israeli question and other area problems. Developments along these lines are likely to bring the USSR more local gains than the arms deal itself.

In Arab international politics, as distinct from Arab public opinion, the arms deal has had a disturbing effect. The increase in Egypt's prestige and the possibility that Syria may also deal with the bloc have aroused Iraqi and Lebanese fears that Egypt may use its new supplies of arms to secure the dominant influence among the Arabs that it failed to obtain through the abortive Egyptian-Syrian-Saudi Arabian defense pact.

Both Prime Minister Nuri Said of Iraq and President Chamoun of Lebanon have indicated that they feel something should be done about Syria.

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Nuri apparently has in mind a coup to be followed by some form of Iraqi-Syrian union. While he has promised to take no precipitate action, he can

be expected to return to this subject if a Syrian-Soviet deal appears to be in the offing or if Egyptian influence appears to be making significant new gains in Damascus. ~~(SECRET NOFORN)~~

~~FRENCH ASSEMBLY
DEBATES ALGERIA~~

~~In its debates on Morocco and Algeria, the French National Assembly has succeeded neither in settling these issues nor in clarifying its attitude toward the Faure government.~~

~~The debate on Algeria got off to an apathetic start on 11 October, but as the time for a vote approached, the outlook appeared less favorable to Faure than immediately following the Moroccan debate.~~

~~The premier must play for time to work out a long-range program for Algeria. The Socialists reject as unrealistic a program aimed at integrating Algeria fully within the French republic, and rightist extremists demand strong repressive measures to nip budding nationalism. Assembly opinion on Algeria's relationship to France is evolving fast, however, and support is growing for a federalist solution.~~

~~A major influence in this direction is the fact that complete integration of Algeria would mean 140 Moslem deputies in the French National Assembly. In the meantime, the immediate reform measures sponsored by Governor General Soustelle are sufficiently supple to be backed by disparate elements in Paris.~~

~~The final 477-140 vote of 9 October on the Moroccan issue was not an indication of Faure's parliamentary strength. It was more of a warning to Faure to stop pussyfooting and begin immediately to implement the Aix-les-Bains agreement with the Moroccan nationalists. Disgruntled rightists who deserted Faure on the Moroccan issue but are still nominally in the government coalition are determined to block such a program, however, and the Socialists, despite their strong support of Faure on the Moroccan issue, are still basically an opposition party. ~~(CONFIDENTIAL)~~~~

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The German press has already reported French threats of the serious consequences that rejection of the statute would have on the French attitude toward German reunification efforts.



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25X6 Alternative Proposals

With National Assembly elections imminent, the French government would find it difficult to make concessions. Pre-occupation with domestic and North African problems, however, might encourage the French to accept another "temporary solution" to the Saar problem.

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COMMUNIST PROPAGANDA TREATMENT OF THE UNITED STATES

A moderate and restrained attitude toward the West, particularly the United States, remains a dominant feature of Soviet propaganda supporting the Kremlin's current foreign policy efforts. Nonetheless, there is no evidence of any change in Moscow's long-range strategic objectives.

East-West Negotiations

Perhaps the best evidence for this can be found in the sustained domestic propaganda preparing the Russian people for a period of East-West negotiations. This material is characterized by an absence of distorted pictures of American life and invective against American personalities, by more objective treatment of American affairs, by daily reports on friendly exchanges of visitors between the USSR and the West, and by avoidance of comment on sensitive issues.

Soviet propagandists are developing the technique of

clothing standard criticisms of American foreign policy in new dress. For instance, some are presented as "logical" discussions. Many others merely quote well-known American news analysts' criticisms of United States policy.

This pattern is vividly depicted in the Russian "humor" magazine, Krokodil. Before July, every issue was filled with such anti-American cartoons as the one below.

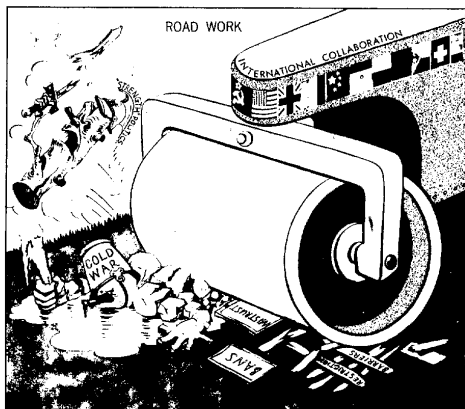


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There are also persistent reminders that "certain circles" in the United States refuse to enter into the spirit of the times. Soviet officials, on the other hand, it is stated, will never submit to dictation or threats but will patiently weigh all proposals in search for common grounds for negotiation since they believe President Eisenhower and, to some extent Secretary Dulles, are sincere in their endeavors toward world peace.

Krokodil interprets this line as in the cartoon below.

Other Communist Efforts

Elsewhere in the Sino-Soviet bloc a modified version of Moscow's propaganda pattern is being carried out--with Eastern European media only slowly

The change which took place in the 28 July issue was the more pointed because distribution was held up eight days--presumably for a reprint and such an about-face "in the spirit of Geneva" as in the cartoon above.

Soviet Cautions

But Moscow limits this type of propaganda so as to avoid any hint of Soviet weakness or capitulation, to ensure continued progress toward the achievement of domestic goals, and to accommodate any tactical reversal should the situation demand it.

Thus, Moscow emphasizes favorably foreign reaction to its efforts to promote the "Geneva spirit," demands reciprocal American deeds, discusses the advantages of neutralism and conversely the dangers inherent in the existence of foreign bases. It warns that the settlement of many problems depends on the establishment of mutual trust and this is a time-consuming process.



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picking up the Soviet line, and Far Eastern Communist propagandists making only a token contribution to the new effort.

Satellite anti-American propaganda was sharply reduced after the "successful conclusion" of the summit talks and has since remained at a low level. Favorable commentaries dealing with the United States, particularly with the President, have recently appeared in Satellite output. At the same time, however, the Satellites have continued to criticize some aspects of American foreign policy.

Peiping's failure to accord the "Geneva spirit"

theme as much emphasis and significance as Moscow reflects the difference between the pressures and problems confronting the two governments. The conflict between Chinese Communist and American interests, particularly in the Formosa area, is expressed in sharper and simpler issues than the more general and complex conflict between the Soviet Union and the United States. This difference in the nature and intensity of Soviet and Chinese collisions with American power and interests requires different postures toward the United States and different approaches to foreign and domestic policies.

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PEIPING'S CONCILIATORY APPROACH TO FAR EASTERN PROBLEMS

Peiping's professed adherence to the "Geneva spirit" has emerged in such recent gestures as the announced decision to evacuate six divisions from Korea and the continuing calm in the Formosa area. Without renouncing its objective of "liberating" Formosa, Communist China is apparently deferring major attacks in the offshore island area while it sees some prospect of political gains in direct talks with the United States. Elsewhere in Asia, the Chinese Communists maintain the conciliatory tone adopted at the Bandung conference last April and seek to weaken American prestige and influence by intensifying appeals to neutralist sentiment.

Formosa

The capture of several Nationalist-held offshore islands in early 1955 was announced by the Communists as preliminary to the "liberation" of Formosa itself. The "liberate Formosa" propaganda campaign, however, diminished sharply just before the Bandung conference in April

at which Chou En-lai declared Communist China's readiness to negotiate with the United States. Since then, no assaults have been made on the offshore islands.

Communist China appears to be impatient to get from the current ambassadorial talks at Geneva to higher-level discussions on the Formosa issue. Charges by Peiping radio that the United States is obstructing progress in the talks show that China is anxious to give the appearance of adhering to the "Geneva spirit."

The "Geneva spirit," as statements on Communist China's national day, 1 October, make clear, does not entail renunciation of the "liberate Formosa" goal. Peiping acknowledges the possibility of "peaceful liberation" but does not reject the use of military force if "peaceful" methods fail. Through negotiations with the United States, it sees the possibility of a withdrawal of American forces from the Formosa area and a consequent erosion of the

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Nationalist position. But it insists that the status of Formosa and the offshore islands is a purely domestic issue.

Korea and Vietnam

The Chinese Communists have tried to contrast the "military threat" of the United States in Asia with their own "peaceful moves" in other ways. For example, Peiping has asserted that the alleged demobilization of 4,500,000 Chinese troops and the forthcoming withdrawal of six more Chinese divisions from Korea are in keeping with the regime's efforts "to ease the Far Eastern and world situation." In fact, however, the reduction of Chinese strength in Korea has been accompanied by a strengthening of North Korean military forces, to some extent in violation of the terms of the Korean armistice.

Professions of the "Geneva spirit" also emerge in Peiping's appeals for peaceful unification of Vietnam and for compliance with the provisions of the 1954 Geneva settlement on country-wide elections. But military aid is still extended to the Viet Minh, and the Viet Minh in turn promotes subversion in South Vietnam and small-scale warfare in Laos.

Lifting the Bamboo Curtain

To support its Far East peace campaign, Communist China seeks to associate itself with the rest of the Asian community and to demonstrate that the bamboo curtain is an American fiction. To this end, the invitation to visit China has become a standard tactic. At Bandung, Chou En-lai invited even such staunch anti-Communists as Carlos Romulo of the Philippines and Prince Wan of Thailand to visit Communist China.

The response to these invitations has been quickest where neutralist sentiment is strongest. Former Indonesian

premier Ali undertook a goodwill mission to Peiping shortly after the conclusion of the Bandung conference. The Burmese have responded to Peiping's invitations by sending three top-level groups to China--a cultural mission headed by a cabinet officer, a religious mission led by the chief justice, and a military mission under the commander in chief. On 1 October, some 300 Japanese visitors were said to be in Peiping.

Asian Peace Pact

In further support of its effort to identify China with other Asian--particularly neutralist--countries, Peiping on 30 July proposed a "collective peace pact" for Asia. Such a pact is intended to supplant the American-sponsored Manila pact which has been unpopular with neutralists and under attack in Communist propaganda as a military bloc organized to have "Asians fight Asians." Peiping also proposed a general Far Eastern conference to discuss a wide range of Asian issues. Most neutral nations are believed to favor such a conference.

Communist China's flattery of India affords the most conspicuous illustration of the effort to enlist neutralist sympathies. India, which used to be treated in Peiping's propaganda as only semi-independent, is now acknowledged to be fully independent and is associated with China as a charter subscriber to the "five principles of coexistence." India invariably is China's announced preference for membership on international armistice commissions and has been chosen to represent Peiping's interests in the repatriation of Chinese desiring to leave the United States.

Trade Agreements

The trade agreement is another tactic used by Peiping to exploit neutralist sentiment. Peaceful trade is offered as an

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alternative to the economic warfare fostered by American policies. Perhaps to dramatize its own "peaceful reconstruction," Communist China evidently intends to offer quantities of machinery and iron and steel products in forthcoming agreements.

The precedent for such offers has been set in recently concluded trade pacts with Burma, Indonesia, and Egypt. In China's present primitive stage of industrial development, the export of industrial products probably is not warranted on economic grounds, and the exports reflect the fact that political rather than economic factors constitute for Peiping the overriding consideration in the negotiation of trade agreements.

Peiping's appeal for "peaceful" trade has been addressed particularly to Japan. Communist China's political overtures to Tokyo--the latest

was Chou En-lai's reported offer to restore diplomatic relations "without conditions"--have thus far failed to evoke a clear affirmative response from the Japanese government. But in the matter of trade, Peiping has been able to address itself to unofficial or semiofficial levels in Japan, and has succeeded in concluding agreements with Japanese businessmen.

The result of these economic overtures and the Chinese Communist practice of offering to barter industrial raw materials for strategic goods has increased pressure in Japan for a relaxation of trade controls and for recognition of Communist China. In this connection, Peiping may feel it is forcing Washington to choose between reducing its efforts to apply strict trade controls on strategic items for China or perpetuating American-Japanese differences on trade with Peiping. ~~(SECRET)~~ (Concurred in by ORR)

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TROUBLE IN INDIAN-HELD KASHMIR

Strong Communist influence in the government of Indian-held Kashmir and continuing popular opposition to the administration endanger the internal stability of this area, which remained in Indian hands at the time the fighting with Pakistan ended in January 1949. While Pakistan continues to press its claims to Kashmir, most of the immediate local difficulties are caused by indigenous opposition to the present government. The 40,000 Indian troops in Kashmir probably could handle any sudden crisis, but New Delhi appears uncertain how to resolve the long-range internal political problem it faces in Kashmir.

Just after the partition of India in October 1947, Pathan

tribal raiders from Pakistan entered Kashmir in an attempt to join the state, which has a majority of Moslems, to Pakistan. The Hindu maharaja, who until then had refused to attach his state to either India or Pakistan, decided for union with India. Regular Indian army forces entered the state to battle with the raiders and occupied the most important areas.

United Nations intervention brought a cease-fire agreement in January 1949. Pakistan and India have continued their quarrel over the state on the diplomatic level ever since, without any solution being in sight. Last July, Indian prime minister Nehru even implied he no longer felt bound by his

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Morocco on the pattern established in Algeria last November. This thesis is supported by the distribution in Morocco of what purports to be the "first communiqué of the liberation army of Morocco." This leaflet states that long-planned joint operations are commencing in Morocco and Algeria and will continue until independence is won for all North Africa and former sultan Mohamed ben Youssef is returned to the Moroccan throne.

A similar announcement of a combined nationalist military direction was broadcast by the Cairo radio on 4 October. While these claims are almost certainly exaggerated, they may portend a trend toward closer collaboration by dissident forces in Morocco and Algeria.

Algeria: Rebel activities continue in eastern Algeria, and minor terrorist attacks were reported on 1 October along the Moroccan border near the port of Nemours. The withdrawal of three battalions of French troops to reinforce units in Morocco may

encourage the rebels to commence attacks in western Algeria.

In Paris, officials in the Ministry of the Interior are pessimistic regarding Governor General Soustelle's modest reform program for Algeria. They consider it unlikely that the Faure government will last long enough to accomplish anything in Algeria and expect that the restoration of order there will be a long and discouraging task. They have reiterated that the Algerian problem is more difficult than either the Tunisian or Moroccan, principally because of the absence of national traditions and a coherent group of Algerian spokesmen.

Nationalist reaction to inscription of the Algerian item on the agenda of the UN General Assembly and France's subsequent withdrawal from that body is not yet known. Both Algerian and Moroccan nationalist positions will presumably become firmer, as will those of the settler groups in both areas, thus contributing to local disturbances. ~~(CONFIDENTIAL)~~

GREEK PRIME MINISTER'S DEATH
PRECIPITATES POLITICAL CRISIS

The Greek government resigned on 5 October, following the death of Prime Minister Papagos, and King Paul asked the former minister of public works, Constantine Karamanlis, to form a new cabinet. Papagos was the unifying force in the Greek Rally coalition, which will now probably disintegrate. A period of political instability is in prospect and, if elections are held soon, an

unstable coalition government with strong leftist and neutralist influence is likely to result.

The king, who had been seriously concerned for months over the government's lack of leadership during the prolonged illness of Papagos, recently insisted that the prime minister resign. Papagos' refusal, reflecting long-standing friction

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between himself and the palace, was partially overcome shortly before his death and Foreign Minister Stephanopoulos was named temporary prime minister during Papagos' illness.

Apparently fearful of a bitter struggle within the Rally over the succession to leadership of the party, the king has dramatically cleared the way for the popular and able Karamanlis to try to form a new government. Karamanlis had already organized the nucleus of a new center party and he and the king apparently believe that enough Rally deputies will switch to his party to keep a Karamanlis government in office until national elections are held.

Karamanlis' cabinet, which was sworn in on 6 October, is comprised entirely of Rally members, including several of the outgoing cabinet officers. Karamanlis probably intends this to be a temporary arrangement, and he plans to expand his government to take in some politicians of the center groups. The "old guard" of the Rally, however, is excluded, and its resentment may force a parliamentary fight over voting confidence in the Karamanlis government.

Members of the parliamentary opposition have recently been clamoring for elections and threatening to resign en masse--to force by-elections and thus a display of popular sentiment--if they are delayed. The king will probably delay holding any new elections at least for several months in order to allow Greek anger and frustrations relating to the Cyprus issue to subside and to

give Karamanlis and his party time to gain public confidence and build an effective organization.

Since Karamanlis is closely connected in the public mind with the United States, he will have to contend with the strong anti-NATO and neutralist trend of Greek opinion. He can be expected, therefore, to make strong efforts to establish his independence of American influence during the current anti-American clamor. Meanwhile, Turkish prime minister Menderes' message to Papagos of 29 September will probably serve to re-establish formal Greek-Turkish co-operation and may have a calming effect on Greek popular passions.

The Greek parliament, which legally must convene on 15 October, will probably soon revise the electoral law and then devote itself to preparing for national elections which were scheduled for November 1956 but which may now be held earlier. The present majority electoral system, which favored any party receiving a majority of popular votes, is almost certain to be abandoned and some modification of the proportional system adopted. Since with the death of Papagos no party will expect to gain an electoral majority, the various factions in parliament will probably agree on a new election law which will seat more splinter groups. This may enable Communist-front candidates to regain a voice in parliament.

Early elections are likely to result in an unstable coalition government which, because of general disillusionment with Rally conservatism and popular feeling against NATO and the

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United States, might be dominated by a leftist bloc led by Liberal Democratic Union chief Sophocles Venizelos. The powerful ultraconservative secret military society IDEA, which enjoyed a unique position of

influence under Papagos, would probably attempt a coup only if a clearly leftist election trend was established and support from other rightist groups seemed probable. ~~(SECRET)~~

~~NOFORN~~~~INDONESIAN ELECTIONS~~

The National Party continues to retain its lead in the Indonesian elections. On the basis of unofficial returns accounting for 90 percent of the estimated vote, it has won 27 percent of the votes, which constitutes a plurality. The three other large parties--the Moslem Masjumi, the conservative Moslem Nahdlatul Ulama (NU), and the Communist Party--are closely grouped in that order. Inconclusive returns from Sumatra and Borneo show the Masjumi leading and have revived Masjumi leaders' hopes of further diminishing the National Party's lead.

The central Java election committee is reported to have ordered new elections in five cities in central Java because of irregularities and illegal activities. Both the National and Communist Parties have polled well in this area.

Returns are sufficiently advanced, however, to indicate that no party is likely to win a majority and that a new coalition government will be necessary. Ali Sastroamidjojo, former premier and National Party spokesman, has refused to discuss parties with which the Nationalists might co-operate. A pro-National Party daily has suggested co-operation with either the Masjumi or the NU,

and leaders of the latter are advocating a triple coalition of the largest non-Communist parties. The NU has stated specifically that it will not participate in a government in which the Communist Party is represented.

The possibility of a National Party coalition with the Communists, however, cannot be disregarded, and the Communists have already indicated their eagerness for inclusion. The last Nationalist government accepted Communist support.

Prime Minister Harahap has stated that his Masjumi-led cabinet will remain in office until the new parliament is seated some three months or more hence. Harahap may wish to stay in power in order to preside over the 15 December elections which will choose 520 members of a constituent assembly to draft a permanent constitution.

There is no assurance, however, that Harahap will be able to remain in office. The National Party has already called for his resignation, and several small parties are considering withdrawing their ministers from the coalition cabinet. The reassembled provisional parliament, depending on Masjumi placement in election

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PART II

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NOTES AND COMMENTSSoviet Arms to Middle East

The first shipment of arms under the Soviet agreement to arm Egypt through Czechoslovakia has apparently already reached Egypt. The USSR is taking advantage of general Arab approval of the agreement with Egypt to push a similar offer to Syria, which, according to one report, has accepted. Israel meanwhile is engaged in a major diplomatic maneuver to forestall its loss of military superiority in the area.

the first Soviet bloc shipment of small arms and machine guns arrived in Alexandria harbor on 27 September. The next load, expected shortly, is said to include 60 "Stalin" heavy tanks.

The Soviet minister in Damascus is reported to have made an arms offer to Syria on 27 September which may be a follow-up of an offer made last March. American officials when questioning Syrian officials on the alleged Soviet offer received evasive responses.

While the new Syrian government is friendly toward the Western powers, it may be inclined to follow Egypt's lead, especially if it were offered arms on advantageous barter terms. Such terms reportedly were indicated in the Soviet offer. The Damascus stopover of the Egyptian delegation on its way to Prague suggests that Egypt may be trying to promote Syrian interest in obtaining Soviet equipment, possibly through Egyptian representations.

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The first Soviet statement on the arms sales was expressed in a TASS communication dated 2 October which stated that each government has the right to buy weapons for its defense requirements on "usual commercial terms," and that "no foreign state has the right to intervene and to present any one-sided claims which would infringe the rights or interests of other states."

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The political aspect of the Czech arms deal was virtually admitted in a 30 September Czech army newspaper editorial which stated that the arms agreement was motivated by Czech respect for Egypt's sovereignty and its increasing contributions to the cause of peace.

The USSR's deal with Egypt and other offers are designed to weaken Western ties with the Middle Eastern states and draw them toward a neutral position in international affairs. This would serve Soviet interests by undermining the "northern tier" defense system.

In the longer run, the long-term barter agreements involved in Soviet bloc arms deals and associated economic assistance offers would make the Middle East states vulnerable to Soviet bloc economic penetration. Once having established a steady market in the Soviet bloc for vital exports, countries such as Egypt and Syria will be under pressure to hold on to this market.

Israel, which views any arms shipment to the Arabs as a direct threat to its existence, is making a major diplomatic effort to counter the Egyptian arms deal. In the press, the UN, and representations to the Western powers, Tel Aviv's

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spokesmen have emphasized the arms deal as a threat to Middle East peace. Tel Aviv believes the situation requires new Western guarantees to maintain the status quo of the area and wants the West, particularly the United States, to supply Israel with additional military equip-

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chases of military equipment in other parts of Europe. The intemperate press campaign now being conducted is likely to promote public sentiment in favor of aggressive action, and the government will, as a result, probably adopt a tougher border policy aimed at warning the Arabs. If Soviet equipment begins to pour into the Arab states in quantity, Israel is likely to give serious consideration to launching a full-scale war before the Arabs overtake it in military strength.

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Meanwhile, Israel will almost certainly step up its pur-

Laos

The necessity of preparing for the national elections scheduled for 25 December has led the Laotian government to set a 10 October deadline for agreement with the Pathet Lao in the negotiations which have been under way intermittently since last January. If no settlement is reached by 10 October, the last date candidates may file for the national assembly elections, the government plans to hold elections only in the 10 provinces under its control.

There may be a brief deferral of the deadline as the result of a last-minute agreement by the Pathet Lao chief, Prince Souphannouvong, to meet with Premier Katay. Souphannouvong has agreed to a meeting in Burma on 9 October. He had earlier refused to attend a scheduled meeting in Laos on the grounds that the site was "insecure" because of "aggressive" actions by the government.

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termed this excuse "ridiculous." They are not optimistic of any results from the meeting in Burma, which the commission will sit in on, and believe it will not last more than two days. They think the poor showing made by the Communists in Cambodia's recent elections have probably convinced the Pathets that it would be unwise to test their popularity at the polls.

If the government-Pathet Lao negotiations end in complete failure, there is a strong possibility that the Pathet Lao will resort to intensified military activity.

Meanwhile, interrogation of the secretary of the Pathet negotiating team, who defected last month, provides some interesting observations. He stated that all important posts in the Pathet organization are held by the Viet Minh and that Souphannouvong and his ministers

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Chinese Communists to Withdraw
Two Armies from North Korea

Peiping is expected to withdraw six divisions from Korea in October as announced on 29 September. These withdrawals would reduce Communist numerical strength in Korea below that of the UN Command. In September 1954 and March 1955, the Chinese made similar public announcements and withdrew troops shortly afterwards.

On the basis of present information, departure of six divisions, which presumably comprise two armies, would reduce the number of Chinese Communist armies in Korea to five and lower troop strength from 449,000 to approximately 350,000--augmented by about 329,000 in the North Korean army. The present strength of the UN Command in Korea is slightly over 750,000.

When the withdrawals are carried out, the Chinese will have removed at least 13 of the 19 armies which were deployed in Korea in July 1953 when the armistice was signed. The fact that even with the announcement of the October withdrawals Peiping will have publicly acknowledged the departure of only six of these armies may reflect an unwillingness to reveal the magnitude of the effort the Chinese were compelled to make against UN forces in Korea. On the basis of past performance, the public announcement of the divisions' departure suggests that they

may be checked on by Neutral Nations Inspection Teams, although this has not yet been stated by Peiping.

The announced departures appear motivated primarily by propaganda rather than military considerations, and are likely to be publicized as being in keeping with the "spirit of Geneva" during the month of the foreign ministers' conference. The Chinese Communists have offered to withdraw all their forces from Korea if the United States does the same. Chinese withdrawals of troops would strengthen Peiping's propaganda and political position and bring pressure on the United States to withdraw its forces from Asia.

The newly announced Chinese withdrawals would not basically weaken the Communist strategic position in North Korea, since large-scale reinforcements would be available from Manchuria on short notice. Moreover, the effectiveness of North Korea's military forces has been improved through intensive training, reorganization, and re-equipment programs, which have to a certain extent been carried out in violation of the terms of the Korean armistice. The withdrawals would, however, further diminish the prospect of any sudden resumption of hostilities by the Communist forces in Korea.

~~(SECRET)~~Changes in Rumanian Regime
Reaffirm Pre-eminence of Party

On 1 October, some 17 months after he had belatedly adhered to the collective leadership principle by giving up his position as leader of the

party secretariat, Rumanian Communist leader Gheorghiu-Dej reassumed the post of party first secretary. In order to maintain the facade of collective

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New Argentine Government
Marks Time

The Argentine provisional government headed by Maj. Gen. Eduardo Lonardi continues to consolidate its position with a gradual purge of personnel.

Lonardi has announced that he will not deprive labor of any gains achieved under Peron, and, according to press reports, he appears to be winning a victory over the pro-Peron General Confederation of Labor (CGT) in that a number of unions have ousted their pro-Peron leaders, possibly with assistance from the new government. All of the secretaries of the CGT have now reportedly resigned with new elections to be held in four months.

Lonardi's dealings with labor may be complicated by the

reported decision of the Communist Party to fight the new government by supporting the Peronistas. Communist Party members were instructed to agitate for new elections in the unions in the hope of electing Communists to key positions.

The Argentine public is in general wary of the new regime. The government has had plans to set up a consultative junta, as an interim body in the absence of a congress, composed of representatives of labor and all political parties except the Peronista and Communist. The plan now appears doomed, however, inasmuch as the Radicals, the only anti-Peron party of any consequence, have reportedly refused as a matter of principle to participate in the junta.

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Growing Labor Unrest in France

Recent agitation for wage rises by the Communist-dominated General Labor Confederation (CGT) is probably aimed in part at weakening the free labor unions and ensuring worker support for the Communist Party in the 1956 parliamentary elections. The strikes and work stoppages pose a real threat to Faure's economic program as well as to the stability of his government.

Despite a 15-percent increase in real wages during the past three years, French workers are convinced they have not kept pace with the economy, and in recent months they have shown new willingness to strike. They have been encouraged to resort to violence by the success of the shipyard workers at St. Nazaire who in August won wage hikes as high as 22 percent as a result of strong-arm union action.

The CGT effort to exploit this discontent has in recent weeks been directed at the public utilities, railroads, and the civil service. Although strikes called have been of short duration thus far and only moderately effective, non-Communist labor spokesmen maintain that workers in these nationalized industries and services are particularly sensitive to the wage issue.

Free labor spokesmen fear that CGT tactics are aimed at eliminating the non-Communist unions, particularly the Socialist-orientated Force Ouvriere (FO). The atmosphere of detente is reducing the effectiveness of the FO, which based its opposition to the CGT campaign for "unity of action" on anti-Communism. The CGT has been careful to keep its current campaign nonpolitical, and free unions fear they

may "give the appearance of denying the authenticity of the labor unrest and the virtue of worker demands." The serious inroads made by these CGT tactics on the loyalty of FO members, including some of the local leaders, have forced the FO civil servants' union to second the CGT demand for a revision of the accord on wages of 30 June.

Officials of both the Technicians' Union and the FO believe the CGT has an eye on the 1956 elections, and that by undermining free union strength and prestige, the Communists expect to weaken the Socialists and Popular Republicans. By this tactic and their pressure for a united front, it is believed they might swing enough votes to Communist and co-operative Socialist candidates to elect up to 150 Communists and party sympathizers to the National Assembly.

Recurring strikes threaten the price stability which has been the key factor in the French prosperity of the past two years. Premier Faure made it clear in a radio speech on 21 September that the government will brook no adjustment in price controls, and added that he would "accept no public disorder while the North African situation is so disturbed."

The inflationary effect of wage increases in conjunction with a general loss of confidence in economic circles is already reflected in the rise in the black-market rate for the dollar from 364 to 388 francs in the past month. A break in the current economic prosperity or an all-out strike effort might well be exploited as a convenient issue to bring down the Faure government. ~~(SECRET)~~

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SINO-SOVIET BLOC PROMOTES UNOFFICIAL CONTACTS WITH JAPAN

While Soviet-Japanese relations have been highlighted by stalemates on several major issues in London, a number of exchanges between the countries of the Sino-Soviet bloc and Tokyo on lower levels--involving cultural, economic and political contacts--have been taking place on an active and friendly basis.

The Communists, by encouraging such contacts, apparently are trying to dispel Japanese reservations with respect to normalizing relations with bloc countries. While Tokyo has avoided actions implying official recognition of Peiping and adopted a cautious approach in the negotiations with the USSR in London, it has openly encouraged informal contacts.

One of the chief inducements which Peiping and Moscow have offered Japan--even before relations are normalized--is the promise of expanded trade. Sponsors of private trade and fishing agreements between Japanese firms and the Chinese Communists last spring failed to obtain official participation by the Japanese government but laid the groundwork for a renewed effort next year. The Communist refusal to accept more than a limited quantity of nonembargoed items has led influential Japanese businessmen to support the campaign for a reduction of China trade controls.

Efforts to Expand Trade

Moscow has had a trade mission in Tokyo for more than a year negotiating contracts which exaggerated press reports have set at \$94,000,000 each

way. Only an insignificant portion has been realized, however, because of high Soviet prices, financing difficulties and uncertainties over the quantity of Soviet products.

Khrushchev told a Japanese parliamentary delegation last month that the Soviet Union would place "large" orders for Japanese ships and ship repairs in exchange for Russian oil, gasoline, coal and timber.

Beginning with the UN-sponsored ECAFE conference in Tokyo earlier this year, when a Czech delegate contacted Japanese businessmen, the European Satellites have exchanged unofficial trade delegations, negotiated contracts and invited Japanese businessmen to attend sample fairs with all expenses paid. Even North Korea and North Vietnam have participated in the Communist trade offensive.

While there has not been a major rise in Japanese trade with the bloc, the continuing exchange has served to keep Japanese interest alive. A former conservative Diet member was asked by the Japanese Agriculture and Forestry Ministry to negotiate with Moscow for the purchase of wheat, fertilizer, and soybeans. The USSR agreed to treat his delegation as a "civil group with the proxy of the Japanese government."

Japan's main interest, however, is in Communist China, which possesses the iron ore, coal, soybeans and oilseeds Japan hopes to import in return for Japanese finished goods. The Hatoyama government has already announced its intention to seek

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a reduction of the embargo to accomplish this objective.

Cultural Contacts

In addition to trade, "good-will" missions shuttling back and forth between Japan and the Communist bloc have established ties between politicians, journalists, farm and labor leaders, and prominent figures in the arts, sciences, and professions. Sport teams, musicians and ballet troupes have added their weight to the Communist propaganda campaign.

Liao Cheng-chih, a member of the Chinese Communist Party central committee, reportedly told a Japanese delegation that Japan and China should first establish commercial and cultural relations, with diplomatic relations to follow. Liao stated that Peiping wished to invite more Japanese to visit China, particularly writers and others who wield influence over segments of the Japanese population. He specifically mentioned former prime minister Katayama and former foreign minister Arita, both prominent in the antirearmament movement.

Japanese visitors to the Sino-Soviet bloc are often flattered by being given interviews with top Communists. Last month, Bulganin and Khrushchev met for two hours with Japanese Diet members and used the occasion to belabor the Japanese government for "artificially drawing out the London talks," in contrast with the five days of negotiations with Chancellor Adenauer. The Japanese were told to follow an "independent" policy and establish closer ties with the Orbit, or be drawn into an armaments race. Khrushchev's exposition of the Russian position drew an enthusiastic response from several Diet members who indicated they would press for Japan's acceptance of the Soviet position on their return.

The USSR and Japan have had an especially spirited exchange on matters involving nuclear subjects. Moscow has often exploited Japanese anti-Western sentiments in this regard, and has regularly sent delegations to Japanese scientific congresses and to ceremonies commemorating the bombing of Hiroshima and Nagasaki. As a result, Moscow has been successful in getting wide Japanese support for its demand for a ban on nuclear weapons.

Numerous Communist fronts in Japan support the "peace offensive" in its various forms and promote visits to and from the bloc. They are normally headed by respected Japanese, such as Fusanosuke Kuhara, prewar conservative party president and one of the lesser Zaibatsu--prewar industrial--leaders, who is presently visiting Peiping. Most fronts are organized by covert Communists in close coordination with the unofficial Soviet mission in Tokyo. Overt relationships with the Japanese Communist Party are avoided.

Effects on Japan

Unofficial contacts between Japan and the Communist bloc have on the whole been a propaganda success for the Communists, despite an undercurrent of cautious criticism voiced by recent Japanese visitors. Most Japanese tours of the bloc have produced a rich harvest of complimentary articles, interviews, books and speeches. Some Japanese try to justify their highly biased public views by claiming that any other stand would be "unpopular," therefore commercially unsalable. Certainly, there has been much wishful thinking in Japan, based on a universal desire for trade and diplomatic relations with the mainland.

These contacts have given a strong impetus to neutralism in Japan. They have weakened public support for a favorable

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settlement of Japanese claims advanced at the London talks. They have increased pressure for recognition of Communist China and the reduction of trade controls, and by convincing many Japanese of the sincerity of the Communist "peace offensive," they have weakened support for rearmament and Japanese

participation in an Asian defense system.

Moscow probably considers that the success of its unofficial contacts with Japan will eventually force the Japanese negotiators in London to normalize relations with the USSR substantially on Soviet terms.

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NEW SOVIET POLICY ON TOURISM

To add luster to its campaign for "peaceful coexistence," the Soviet Union in the last few months has been promoting an exchange of tourists with other countries. For the first time in Soviet history, a small number of tourists without official status are going abroad, and for the first time since the 1930's, unofficial foreign tourists are being admitted to the Soviet Union in considerable numbers.

Soviet Tourists Abroad

In August, a group of about 250 Soviet tourists visited Warsaw and other Polish cities. A short time later, the Soviet press announced that a group of tourists had left Moscow for a 12-day trip to Stockholm, Goteborg and other Swedish cities. The press also reported that Finnish tourist agencies had agreed to arrange a similar trip to Finland. Tours of Soviet citizens "in the near future" are being arranged to Communist China and the other

"People's Democracies." In fact, TASS reported on 25 September that a group of Soviet managers, engineers, workers and journalists had arrived in Budapest for a 7- to 10-day trip through Hungary.

There are indications that other countries will be included in Soviet tours. According to unverified Soviet reports, prices for tours to Norway (1,500 rubles), Italy (3,000 rubles), Poland (1,200 rubles), and France (6,000 rubles) have been posted on factory bulletin boards. One of these sources allegedly said that no one in his right mind would express interest in a trip to Paris, and that in any case, only hand-picked persons would be allowed to travel there.

B. S. Rzhanov, one of the Soviet officials directing the program, has expressed hope that Soviet tourists will be invited to the United States. He estimated that a total of 2,000 Soviet tourists will travel abroad this year.

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Platform

The platform for the unified party has incorporated ambiguously phrased policy statements which gloss over sharply differing views. The compromises appear to have been made largely at the expense of the more moderate Right Socialist policies, although a Left Socialist Party convention has criticized the platform for failing to state the "peace principles" of the party. The platform asserts that Japan is oppressed by the United States for military reasons, and that Japan should scrap the security treaty and the administrative agreement

with the United States and seek a neutral position without dependence on either the Communist or the free world.

The Socialists' prospects for attaining power in the near future are limited, but could be improved by the continued political instability of the conservatives and their failure to resolve Japan's vital economic problems. The policies of a Socialist government, because of the anti-American attitudes of the more extreme Left Socialist leaders, would emphasize neutralism and closer relations with the Communist bloc. ~~(SECRET)~~

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AUSTRIA SINCE THE STATE TREATY

In the two months since the Austrian state treaty came into effect on 27 July, Austria has cautiously adjusted to new conditions within the general pattern of neutrality formed by ten years of occupation, and on the whole has fared a little better than anticipated.

The two governing coalition parties--the People's Party and the Socialists--have reached compromises on the procedure for forming the new Austrian army and on the disposition of the formerly Soviet-held industries. The latter have generally proved to be in better economic shape than had been expected. The government has made minor progress in eliminating local Communists from influential positions in these industries and has removed the remaining Communist police chiefs in Vienna.

The Austrian government is making every effort to appear neutral, not only in foreign policy, but also in domestic affairs having possible international implications. This caution is well illustrated by the recent removal of its appointee as personnel director of the newly acquired oil administration after a Communist press campaign had unearthed his former connection with the American embassy in Vienna.

Creation of the Army

Current plans for the armed forces are relatively modest. The army will be brought to a strength of about 30,000 in the next 18 months. Plans for the development of an air force have been shelved as too expensive to be considered at present. A large share of the army's equipment is expected to come from the United States

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and France. Under pressure of a rebuke from the Soviet ambassador on this score, however, Vienna announced a "request" for Soviet military equipment on 15 September and has since described to an American official the small arms, artillery, tanks, and other equipment that the USSR has arranged to transfer to Austria.

A political struggle between the coalition parties for control of the army had been anticipated, but a workable compromise was reached in a law passed in September. Under this, the army is administered under the chancellery, where the People's Party is represented by Chancellor Raab and the Socialists by Vice Chancellor Schaerf. The army organization itself is headed by a member of the People's Party with a Socialist deputy, and a similarly dual distribution of the top positions is to prevail throughout the military hierarchy.

Former Soviet Enterprises

The two parties have been even more at odds over the ultimate disposition of the oil fields and varied industrial plants formerly operated by the USSR. The Socialists want to absorb these assets into their nationalization program under the Ministry of Nationalized Industries, which they control. The conservative People's Party wants to return the individual plants to their original owners or sell them to private capital.

Both parties, however, are in full agreement on the urgency of continuing the operation of former Soviet enterprises, which are of great importance to Vienna and lower Austria, and a resolution of the more immediate problems has already been achieved. The government will operate as nationalized enterprises about

15 large firms which were originally included under the nationalization laws passed in 1946 and 1947. All other firms will be held by the Finance Ministry, which is controlled by the People's Party, for ultimate disposition. Both parties will be represented in the administration of these properties.

It now appears probable that this compromise will go even further. Under the projected arrangement, the Finance Ministry would have to obtain Socialist approval of the sale or return to private owners of any plants it administers, while People's Party representatives would continue to be included in the management of the state-owned plants.

So far at least, the purely economic problems of administering the former Soviet enterprises have proved less difficult than expected. Austrian technicians have expressed surprise at how well a number of the factories have been maintained, and it now appears that the oil reserves are over 30,000,000 tons greater than the amount Austria had counted on to make the deliveries to the USSR which are specified in the treaty. Production is handicapped, however, by a severe shortage of technical personnel.

Eliminating Communist Influence

More serious difficulties are posed by the problem of removing Austrian Communists from their entrenched positions in the formerly Soviet-held enterprises. The Austrian-Soviet agreement of 15 April specified that no worker can be dismissed solely for Communist affiliation. It is not always possible to shift workers to less responsible positions or dismiss them because their jobs have been abolished. Communist control of the labor

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organizations in formerly Soviet-controlled plants will be even harder to overcome.

In Vienna, where the police in the Soviet sectors were heavily Communist infiltrated, the government has removed all the remaining Communist police chiefs. The Austrian Communist Party, which has never polled more than five percent of the popular vote except in a few areas under Soviet occupation, will be further weakened by such moves, but it must be assumed that there are still numerous penetrations by Communist agents of the police and other government agencies both in Vienna and the provinces.

International Communist organizations, such as the World Federation of Trade Unions and the World Peace Council, which maintain their headquarters in Vienna, will not be seriously harassed by the Austrians. The government has stated it intends to deport any of their officials living in Vienna without proper documentation, but it has been

scrupulously legal in its treatment of the organizations and has allowed them to remain there despite the objections of some Western powers.

Foreign Policy

The government has thus far made no indicative moves in international affairs, but some hint of the kind of neutrality it will pursue in the future is found in its current position on the Danube question.

There is already considerable pressure from businessmen and numerous government officials for immediate Austrian adherence to the Soviet-dominated 1948 Danube Convention, and such a move is generally expected within the next year. The Foreign Ministry, however, thus far has avoided any move in this direction and is presumably waiting for the opportunity to balance such action with a corresponding move toward association with some Western international organization such as the Coal-Steel Community. ~~(SECRET)~~

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29 SEPTEMBER

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✓ EGYPTIAN ARMS DEAL WITH SOVIET BLOC

Prime Minister Nasr's announcement on 27 September confirmed reports that Egypt had concluded an arms deal with a member of the Soviet bloc on or about 21 September 1955. Deliveries are to begin in late October.

Conclusion of this deal with Egypt increases the likelihood of similar Soviet bloc agreements with other Arab states, such as Saudi Arabia and Syria. The sustained high level of arms production in the USSR during the postwar period and the USSR's armed forces modernization program have resulted in large surpluses of serviceable military equipment of good quality by Middle Eastern standards. The USSR therefore can provide war materiel to non-Orbit states in such quantities as its political interests warrant.

In the Middle East, Soviet arms offers serve to encourage a reduction of dependence on the West and the formation of closer ties with the Sino-Soviet bloc. In the specific instance of Egypt, Moscow may also intend to make it possible for Egypt to supply North African nationalists with additional light weapons.

Nasr's public statement claimed that the deal had been made with Czechoslovakia. The Egyptian prime minister, however, told [redacted] that the "Soviets" were to provide him with jet fighters, medium jet bombers, tanks, artillery, PT boats, and other heavy equipment under the terms of an agreement. Other reports have claimed that Egypt was dealing directly with the USSR.

If fully carried out, the agreement would give Egypt marked superiority over Israel in aircraft and tanks. In terms of actual military capabilities, however, the impact of the agreement would be slow and uncertain. Egypt is having difficulty in keeping even its present small air force operational.

Egypt lacks competent personnel all along the line and is apparently unable to develop the various skills needed in a modern military establishment. Nasr has stated that Soviet technicians would remain in Egypt only three months, which is too short a period for them to make any real contribution to Egyptian military efficiency.

Nasr is taking a strong line in response to Western expressions of concern over the arms agreement. He told the American ambassador on 26 September that he would watch intently to see if the United States now gave arms to Israel, and that if it did he could only conclude that the US had nothing but hostile intentions toward Egypt. Nevertheless, Nasr is still inclined to be friendly to the United States, and his position may be strengthened internally by the arms agreement. Nasr has always insisted, and he repeated this on 26 September to Ambassador Byroade, that he did not want war with Israel and would not start such a war.

Israel can be expected to make maximum representations to the United States, Britain and France, demanding new guarantees and arms for itself. (SECRET - NOFORN)

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PART I

OF IMMEDIATE INTEREST

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Schirdewan, like Ulbricht, is an experienced cadre and organization man. He has also handled SED relations with the West German Communist Party--a qualification which appears to have particular significance at the present time. At 48, he is 16 years younger than the aging Ulbricht. Arrogant and ambitious, he reportedly has challenged Ulbricht's policies on several occasions though he has been generally in agreement with them. Although Schirdewan spent the prewar and war years in German concentration camps--and not, like Ulbricht, in Moscow, this fact may not be con-

sidered prejudicial under present conditions.

Willi Stoph may be slated eventually to occupy the post of premier. In the meantime, he is probably scheduled to take over the post of defense minister, now that an East German army is to be formed (see Part III, p.3). Like Schirdewan, he is a longtime German Communist who spent the war years in Germany. He worked closely with Soviet authorities in building up the East German armed forces and security services prior to his appointment as minister of the interior in 1952.

~~(SECRET)~~The New Argentine Government

The efforts of the Argentine government to solidify its position continue to meet obstacles. The pro-Peron General Confederation of Labor has withheld any announcement of allegiance to the new regime, and among provisional President Lonardi's supporters the army and navy are already reported at odds on the timing of new elections. While some key officials have expressed a desire for close relations with the United States, there are also indications of extreme nationalism in the government.

The General Confederation of Labor (CGT), perhaps the greatest potential source of trouble for the new government, has made no public profession of allegiance, while the government seems to have made a move toward appeasing the CGT. Hugo di Pietro, secretary general of the confederation, stated in a radio speech on 25 September that Lonardi had agreed to guarantee Peron's safety and all of labor's social gains, as well as to refrain from intervening in the CGT and member organizations and from "modifying" the status of the newspaper, La

Prensa, "through executive action."

This statement, however, leaves the possibility of judicial action for the recovery of La Prensa, confiscated by Peron in 1951 and then "sold" to the CGT. Final decision as to ownership has been pending in the courts. It is within the power of the courts to return the paper to former owner Gainza Paz.

Lonardi is already encountering disputes among his own supporters over his stated desire to hold elections--presumably for president, vice president, and congress--in six or seven months. The Peronista Party is the only one with any organization and it would possibly poll a strong plurality, if not a majority, if elections were held soon.

the army maintains that 18 months are needed to pacify the country, while the navy wants elections in six months. Vice President Admiral Rojas has stated that the navy will leave the government if its demands are not met.

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Service rivalries on other questions also could threaten the stability of the government, particularly since Lonardi has been reported to have little support in the army. According to one report, he was chosen president through the intervention of his brother, a rear admiral.

Extreme nationalist influences may be strong in the new government despite the expressed desire of key officials for close relations with the

United States.

Peron-sponsored contract for a US oil company to develop Argentina's petroleum resources will be dropped. Lonardi has stated that the contract is not "advantageous" to his country and has said that he would do "whatever is necessary to acquire the technical equipment required for us to drill on our own." (SECRET) 25X1X60

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Communists have a firm grasp on the church organization. Because of the absence of close ties with Western churches, the whole problem is less acute than in the western Satellites and East Germany. Relative quiet also prevails in Albania, where the population is largely Moslem with a sizable Orthodox minority.

The East European regimes will continue to pursue their

long-range program of strengthening their controls over all areas of life. Key policies such as absorption of the churches into the national front organizations and detachment from their Western connections, notably the Vatican, remain unchanged. While making some gestures toward the churches, the regimes have not abandoned the basic Communist goal of destroying religion as a dangerous competitor of the Marxist-Leninist faith. ~~(S)~~

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THE PUSHTOONISTAN PROBLEM

The Pushtoonistan problem arises from the campaign waged by Afghanistan for the past eight years for the creation of a new independent state made up of the Pushtu-speaking areas of West Pakistan. The new state would inevitably be an Afghan satellite. The campaign is based in large part on Afghanistan's claim that British India in 1893 forced acceptance of what is now the Afghan-Pakistani border.

There is no political or economic basis for the state envisaged by Kabul's Pushtoonistan movement. The tribes in the area in dispute have virtually no economic assets, and many of them have never had a common ethnic allegiance.

Although most Pushtoons are satisfied with the role played by the Pakistani government in regard to them, the Pushtoonistan movement tends to intensify and perpetuate unsettled conditions on the border. It also is a constant source of friction between Kabul and Karachi, and as such poses a continuing threat to stability on the northwest frontier of South Asia.

Land and People

The area claimed for Pushtoonistan comprises more than half of the total territory of West Pakistan. All of it was under Afghan rule in the 18th and 19th centuries. Its population is about 7,000,000, of which about 5,000,000 are Pushtoons (also called Pathans). There are an additional 5,000,000 to 7,000,000 Pushtoons in Afghanistan, but these would not be included in the proposed state.

The political and cultural heartland of the Pushtoons is the Tribal Area, a narrow strip on the Pakistani side of the Afghan border. The 2,500,000 well-armed tribesmen who live here have always considered themselves exempt from Pakistani law. They have almost no economic resources, and the rulers of the more fertile plains have had to pay them subsidies to keep open the vital communication routes through the area, the most noted of which is the Khyber Pass.

The various Pushtoon clans on both sides of the border, the most important of which are the

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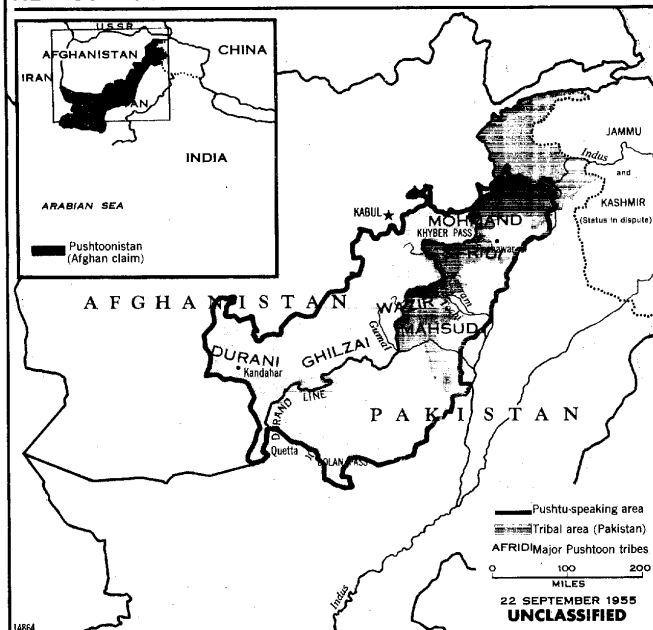
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Mohmands, Afridis, Wazirs, and Mahsuds, constantly feud among themselves, and there is practically no support among them for Pushtoonistan as a political entity. Few feel national allegiance toward either Pakistan or Afghanistan.

As the British prepared to leave India in 1947, Kabul raised the question of disposition of the Pushtu-speaking areas. When Pakistan refused to consider any adjustment of the Durand boundary, Afghanistan launched its Pushtoonistan movement.

THE PUSHTOONISTAN PROBLEM

The Pushtoonistan Movement

The consistency of Afghanistan's ethno-linguistic arguments on behalf of the movement is compromised by the proposed exclusion from Pushtoonistan of those Pushtoons who are Afghan nationals. Moreover, Kabul's insistence on inclusion of the sparsely populated non-Pushtoon areas of southern Baluchistan suggests that its campaign is at least partly motivated by a desire for an outlet to the sea via the new satellite.

Within the Afghan government there is an

Background of Dispute

Under the Durand Agreement of 1893, Afghanistan and British India agreed on an international boundary which placed the Khyber and other strategic access routes to India in British territory. Afghanistan has always insisted the agreement was made under duress and continued to claim the right to interest itself in the affairs of the Pushtoon population beyond its boundary on the grounds of kinship and former suzerainty. There are also practical reasons for this interest. In 1929, these tribes were responsible for the overthrow of King Amanullah and the establishment of the present dynastic line in Kabul.

extensive apparatus which carries on propaganda at home and abroad, pays subsidies to tribal leaders, maintains an excellent free school for several hundred Pushtoonistani youths, and produces maps, official documents, and other trappings of independence for the Pushtoonistan area. In addition to keeping Kabul's claims alive, these activities also help to keep the Pushtoon tribe from again menacing the Afghan capital.

The most extreme advocate of Pushtoonistan in Afghanistan is Prime Minister Daud, but almost all of the ruling group--who are themselves Pushtoons--are publicly committed to it.

Shooting incidents are a continuing occurrence on the

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border. They have not increased significantly in recent years and many routine disturbances are attributed by Kabul to a nonexistent agitation for independence.

A few influential tribal chiefs are in exile in Kabul, and one of them was able in December 1952 to raise 5,000 men who set out to plant the Pushtoonistan flag on the banks of the Indus River. This force was driven back by Royal Pakistan Air Force bombing. Several similar incidents on a smaller scale have taken place since.

The Latest Flare-up

In March 1955, the Pakistani government began to implement a plan to merge all the subunits of West Pakistan into a single province, thus eliminating all distinctive status for the Pushtoon areas. This occasioned a violent speech by Afghan prime minister Daud, which was followed on 30 March by mob attacks on Pakistani diplomatic establishments in Afghanistan.

The resulting quarrel between Kabul and Karachi dragged on for over five months, chiefly because both sides tried to use it to promote their views on Pushtoonistan. The settlement reached on 7 September left the basic Pushtoonistan issue unresolved.

The "one-unit" plan for West Pakistan also occasioned the revival of a quiescent movement within Pakistan for Pushtoon autonomy under the leadership of Abdul Ghaffar Khan, a former Congress Party leader.

International Interest

Since 1947, India has supported the Pushtoonistan movement for two basic reasons: (1) it has traditional economic and political interests

in Afghanistan, and (2) unrest on Pakistan's western border relieves pressure on the eastern border with India over quarrels which developed out of partition.

Britain has taken no active role in the controversy and has steadfastly refused to comply with Afghanistan's request for denunciation of the Durand Line as an international boundary.

The USSR carefully avoided involvement in the Pushtoonistan matter until the past year, when it began to manifest interest in the proposed state. Should Moscow decide to lend its support to Pushtoon autonomy, it probably would be directed at increasing difficulties for Pakistan. Soviet propaganda has claimed that Pakistan plans to use the Pushtoons as cannon fodder in Western-sponsored military arrangements.

Most of the Middle Eastern countries have deplored the "squabbling between Moslem brothers," and several have urged Afghanistan to abandon its position.

In 1950, the United States offered its good offices in an attempt to promote a settlement.

Prospects for Future

Since the Pushtoonistan movement serves both to express Kabul's irredentist feelings for the area and to divert the tribes from threatening the Afghan government, it is unlikely to be abandoned permanently. Afghanistan's promise in its recent settlement with Pakistan to moderate its propaganda probably means only a short lull in the Pushtoonistan dispute.

Pakistan is equally adamant. Karachi has given priority to economic and social development of the Pushtoon areas, which has to date more than offset Afghan efforts to promote agitation

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for independence. However, little success has been achieved in extending government control into the more remote areas.

Recent increases in American ties with Pakistan and Soviet contacts with Afghanistan tend to make the Pushtoon area of greater interest in world politics. The potential

key to control of eastern Afghanistan and northwestern Pakistan lies with the fierce and unreliable tribes. Consequently, the Pushtoonistan movement serves to perpetuate a volatile situation in an area which would be of major importance in any struggle for control of the frontier of South Asia. ~~(SECRET)~~

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will facilitate the return of Chinese who feel they are being prevented from departing.

It is doubtful that all of the remaining 19 or 20 Americans will be freed in the near future. Peiping has consistently indicated it will continue to hold some of them indefinitely in order to save face, to ensure satisfactory action on Chinese in the United States, and to secure concessions as the Geneva talks develop. Wang has informed Ambassador Johnson that the remaining cases will be considered individually, thus suggesting that there will be no further mass releases.

Apparently the Chinese wish to minimize discussions at Geneva on implementation of the repatriation agreement. Wang has told Johnson that progress on the remaining cases will be reported to the United States through the British mission in Peiping. This suggests a Chinese hope for early discussion of the second agenda item, "other practical matters at issue."

Apparently in anticipation of developments in the Wang-Johnson talks, the Chinese Communists last month seemed to be preparing a position on

the principle of renunciation of force. Peiping's latest comment on this concept supports previous indications that any Chinese formula will be based on a withdrawal of American forces from the Formosa Straits area.

Previous remarks by Chou En-lai suggest that Peiping will endeavor to include among the "practical matters" the question of military and intelligence operations in the China area. Wang asked on 14 September that the question of lifting Western trade restrictions against China be resolved. He has hinted that travel in China by Americans might be discussed. Peiping may also try to bring up for discussion the exclusion of Peiping from the United Nations, American nonrecognition of Communist China, and the American commitment to defend Formosa.

Peiping almost certainly calculates, however, that major questions cannot be resolved under the limited terms of the Geneva talks. The Chinese can thus be expected to press for a higher-level meeting to discuss the whole question of "relaxing tensions." (~~SECRET~~ ~~NOFORN~~)

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Soviet-Japanese Negotiations

In the Soviet-Japanese discussions in London, the USSR has made minor concessions on the issues of returning prisoners of war and restoring Soviet-held island territory to Japan. On the third major point at issue, however, the USSR has continued to argue that navigation on the Sea of Japan must be regulated by the riparian powers, a demand the Japanese

have insisted they cannot accept since it involves an international body of water.

Soviet delegate Malik had told Japanese delegate Matsumoto repeatedly that the prisoner issue would be solved when relations were normalized. On 5 September, however, Malik gave Matsumoto a list of prisoners on whom the USSR would declare a

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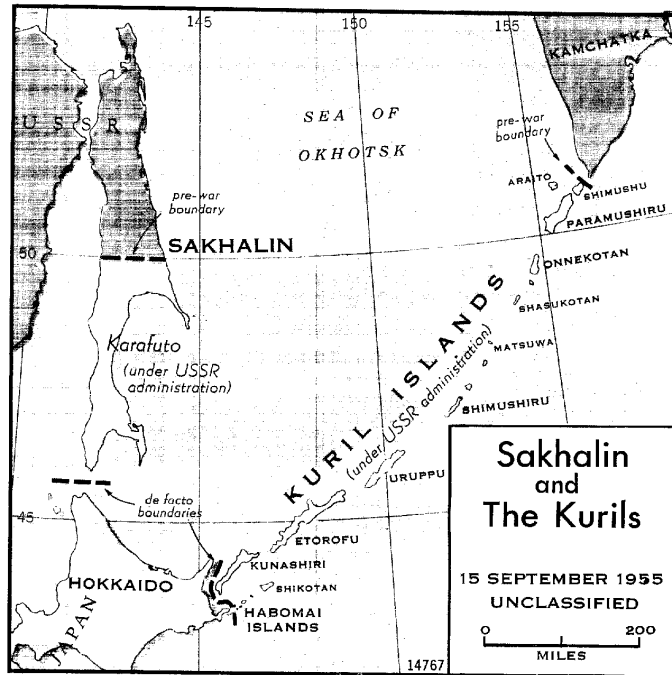
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"special amnesty," effective only when an agreement was reached on the normalization of relations. The list contained 1,365 names-- a number smaller by several thousand than Japanese estimates, but described by Malik as the total number held by the USSR.

On territorial issues, the USSR had insisted that this question was solved once and for all by the Yalta and Potsdam agreements. Malik originally refused to consider the possibility of returning any Soviet-held territory previously belonging to Japan, which included southern Sakhalin and the Kuril Island chain. At the 30 August meeting, however, he offered the return of Shikotan and the Habomais, very small islands just north of Hokkaido. On this occasion, Malik did not attach conditions to the offer.

On 6 September, however, Malik announced that the USSR was ready to discuss the "technical details" of handing over the islands and stated that in view of the present situation in the Pacific and its bearing on the security of the USSR, the transfer of the islands would be conditioned on Japan's agreement not to use them for military purposes. He said the USSR would not accept the pros-



pect of two additional bases in the area.

It is possible that Malik's original offer on 30 August was designed to influence Japanese-American discussions then in progress in Washington by giving the Japanese encouragement to press for the return of islands occupied by the United States.

The USSR's demand that navigation in the Sea of Japan be controlled by the riparian powers is probably regarded by Moscow mainly as a bargaining point to obtain concessions on other issues. In Moscow's view, a "closed" Sea of Japan would allow free navigation for commercial vessels of all nations, but would restrict warships of nonriparian powers.

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The Japanese have insisted that the Sea of Japan is an international body of water, and navigation on it must be unrestricted. The Japanese will probably insist that the problem has no connection with a peace treaty between the two countries, and that it has a bearing on Japan's future and its current arrangements with other countries, rather than problems evolving from World War II. Tokyo's final position in the negotiations will be largely determined by domestic political considerations.

Prime Minister Hatoyama might decide that the only way to strengthen his government, which has been weakened by criticism of his foreign minister's talks in Washington, is to reach a quick agreement with the USSR. Although Moscow's willingness to return Shikotan and the Habomai Islands has received little publicity and aroused no favorable comment, if Hatoyama decided to make a deal--as has been rumored--he could play up the Soviet offer as a major concession with good prospects that it would have considerable public appeal. ~~(SECRET)~~

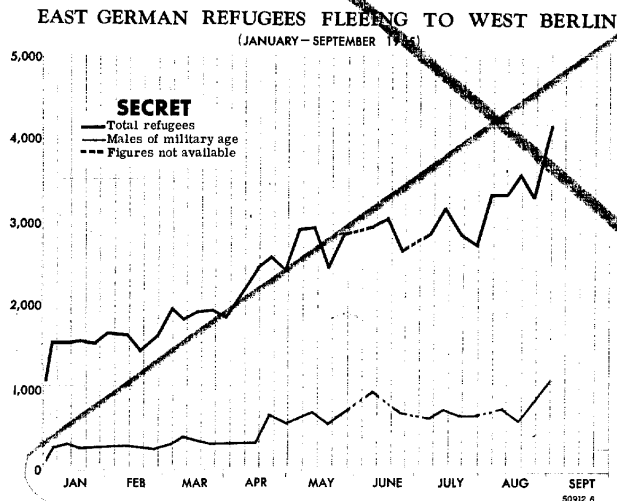
Refugee Influx from East Germany Reaches Two-year Peak

The desire to escape military service and depressed economic conditions, and rising despair of political reform in East Germany have brought the number of refugees from East Germany during recent weeks to

the highest point since June 1953, the month of the anti-Communist riots.

During the week ending 3 September, 4,177 refugees arrived in West Berlin, the major escape center. Of these, 1,064 were men of military age. During the first half of 1955, a total of some 124,665 East Germans escaped, compared with 194,080 for all 1954.

Since mid-April, approximately 13,000 potential recruits for an East German army have fled to West Berlin. This increased flow was set off by a stepped-up recruiting drive for the Garrisoned Peoples Police (KVP) and the threat of tighter internal security measures.

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PART III

PATTERNS AND PERSPECTIVESSIGNS OF SHIFT IN INDIAN POLICY TOWARD THE UNITED STATES

Indian prime minister Nehru, his political adviser V. K. Krishna Menon, and Indian representatives at the United Nations and on the International Control Commission in Indochina have recently made statements which were unusually sympathetic toward the United States and hinted at an imminent change in India's foreign policy. These statements, together with other information from New Delhi that Nehru has been reviewing foreign policy problems since his return from the USSR, suggest that Nehru has decided to abandon his policy of strict neutrality and to adopt a more friendly attitude toward the United States.

This would be a major change in Indian thinking. Any change would probably not be expressed in dramatic actions, and Nehru would probably continue to stress his country's independence of thought. There may, however, be less criticism of the United States, greater co-operation on the part of Indian officials, and a relaxation of restrictions on American business interests. India's policy on multinational problems such as international air agreements would not necessarily be affected.

Political and Economic Motives

Nehru's apparent change in attitude may spring partly from his recent visits to the USSR and Communist China, during which he was impressed by the political and economic might of these countries. Nehru is reportedly also concerned over the inroads the USSR has made into Afghanistan and the increasing pressure China has exerted on Nepal. With Afghanistan as an example, he may

suspect the motives behind Soviet economic aid to India. Viewing India's world position, therefore, Nehru may have concluded that India needs Western friends to balance the combined power in Asia of the Soviet Union and China.

As a result of his trips to Communist countries, Nehru seems convinced of the need for India to make rapid economic progress to keep pace with China, to discourage the growth of Communism, and to ensure the continuation of a Congress Party government in India.

Nehru knows that India's second Five-Year Plan, which goes into effect in 1956, contains a large gap between financing available from Indian resources and what is actually required and must be obtained through foreign aid. Being aware of the current trend on the part of the United States to cut down foreign aid allotments to certain areas, Nehru may feel that India must be assured of the continued flow of large quantities of economic assistance from the United States to make the new plan a success and achieve his aims.

Finally, Nehru may be chafing under the restrictions of the neutrality policy which prevent him from freely expressing his views or making positive moves in any direction without exposing himself to criticism either from the West or the Sino-Soviet bloc.

Evidence of New Attitude

The evidence supporting the possibility of a new Indian attitude is as follows:

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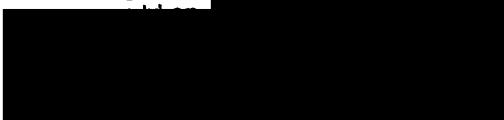
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Among other things, Indian officials noted Nehru's markedly more friendly attitude toward the United States and the apparently favorable impression Ambassador Cooper made on him.

On 30 August the American consul general in Madras reported that V. K. Krishna Menon, during a week's stay in Madras, had vehemently defended the American government both publicly and privately, emphasizing the United States' peaceful intentions and essential good will.

On 31 August, the American consul general also reported



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Nehru had returned from the Soviet Union "disillusioned" and convinced that India must "unobtrusively but surely" bring its foreign policy closer to that of the United States. Nehru felt this would be easier now that "America for the first time since Indian independence" was beginning to understand that "Indian hobnobbing with the Chinese and Russians" was dictated by security interests alone.

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On 1 September, the American ambassador in Cambodia

reported that the Indian chairman of the International Control Commission there had stated that India would inevitably have to take a position "on one side or another" rather than maintain its neutralist attitude.

On 6 September, Nehru criticized in parliament a Chinese Communist claim that the United States was involved in the crash last April of an Indian airliner carrying Chinese officials to the Bandung conference. Nehru said he had not seen the "remotest proof" that the United States was involved and that unsupported charges merely "vitiating the atmosphere."

Nehru's statement in parliament on 6 September clearly indicating that he intended to prevent both mass marches and individual penetrations into the Portuguese territory of Goa in the future may also be indirectly connected with a decision not to antagonize Western nations.

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On 11 September,

in briefing the UN delegation before its departure Nehru had said that relations with the United States had grown closer. Nehru said that India must feel closer to the United States and the Western powers than to the Sino-Soviet bloc although it was not in India's interest to alter its nonalignment policy at present. He added that India must not press the anticolonial issue to the embarrassment of the United States and Britain.

~~(SECRET - NOFORN)~~

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CURRENT INTELLIGENCE WEEKLY SUMMARY

15 September 1955

Cultural contacts are now being openly promoted by Paris as an admitted "first step" toward ultimate recognition.

Belgian foreign minister Spaak told American officials in Brussels on 1 September that "the time has come to recognize the Communist Chinese regime." Although Spaak has since agreed to delay taking this step, Belgian political and public opinion favors early action in this direction.

for Egyptian recognition, and then using Egyptian influence to induce other Near Eastern governments--primarily Saudi Arabia and Syria--to follow Egypt's lead.

To this end, Chou En-lai is allegedly planning to visit Egypt before the end of this year. He may succeed in establishing diplomatic relations. Cairo and Peiping have recently concluded agreements providing for the barter of Egyptian cotton for Chinese rolled steel. Both Saudi Arabia and Syria have received friendly overtures from Communist China.

Conclusion

While recognition of Peiping does not necessarily carry with it support for Peiping's admission to the UN, it does portend an eventual showdown in the UN on the substantive issue of Chinese representation. Moreover, UN members which recognize or are considering recognition of Peiping would be likely to view the establishment of a UN study commission as an important step toward Peiping's admission to the UN. ~~(SECRET NOFORN)~~

At the Bandung conference in particular and in other cultural and economic contacts during the year, Peiping has made a special effort to improve relations with the Afro-Asian nations. Peiping's strategy apparently calls first

* * *

POST-GENEVA PROSPECTS FOR EAST-WEST TRADE CONTROLS

One of the major consequences of the "Geneva spirit" seems likely to be a further relaxation of Western controls on exports of the Sino-Soviet bloc. The pace and extent of this deterioration may depend largely on the outcome of the Big Four foreign ministers' meeting in October, where an important topic will be "measures to bring about a progressive elimination of barriers

which interfere with free communications and peaceful trade between peoples."

Many COCOM members have made it clear they now feel more strongly than ever that the present system of export controls is too stringent, and that the differential between the China list and other control lists should in particular be eliminated.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

15 September 1955

The Western Big Three have accepted the view that, given a general East-West detente, "peaceful trade" is an issue on which some concessions can be made, "even to the extent of accepting some risk." They also agreed before Geneva that although the export control system was not to be discussed as such, Moscow should be given to understand that the system would be re-examined if "substantial" Soviet concessions were forthcoming in "other fields."

Many COCOM members, however, are eager to offer concessions for the mere promise of future benefit. Their longstanding aversion to "economic warfare," their desire to resume "normal" trade relations with the Communist bloc, and their doubts about the efficacy of the present control system have all intensified recently.

If the Soviet Union maintains its conciliatory attitude through October, these nations

will probably be encouraged to (1) expand East-West trade in nonstrategic goods, (2) continue their opposition to measures aimed at tightening the present control system, and (3) intensify their efforts to abolish the "China differential" and lower the level of controls on trade with the whole Sino-Soviet bloc.

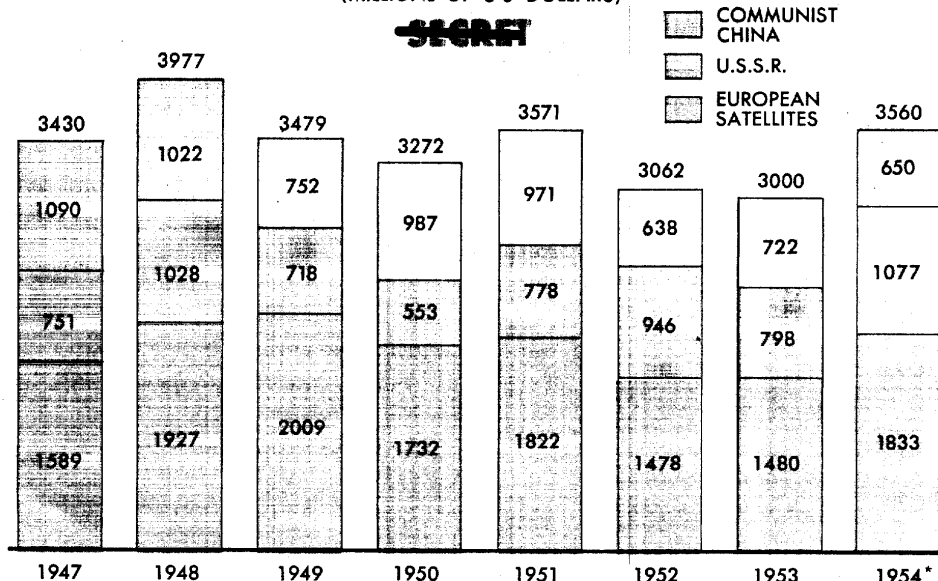
Nonstrategic East-West Trade

From 1949 until mid-1953, trade in nonstrategic items between the West and the Sino-Soviet bloc declined generally. Western trade with Communist China in 1954 was below that for 1953. In trade with the USSR and its European Satellites in 1954, Western exports increased 35 percent and imports rose 22 percent; the value of this trade was still only 2.9 billion dollars, however, a tiny fraction of the free world's total trade.

Within the framework of this rather limited commerce,

TOTAL TRADE: SINO-SOVIET BLOC WITH FREE WORLD

(MILLIONS OF U.S. DOLLARS)



*1954 FIGURES BASED ON PRELIMINARY DATA FROM DEPT. OF COMMERCE, JUNE '55

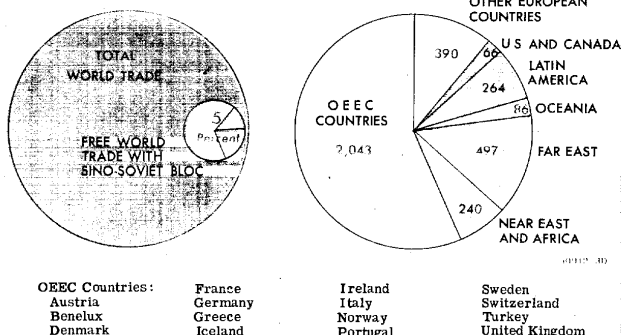
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CURRENT INTELLIGENCE WEEKLY SUMMARY

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DISTRIBUTION OF SINO-SOVIET BLOC TRADE THROUGHOUT THE FREE WORLD-1954
 (Millions of US dollars)



ties with the East, and urging the view put forth by Churchill that increased trade is a positive force for peace.

Insofar as the Soviet Union actively pursues trade in non-strategic goods, it must in general be assumed that this trade is at least as advantageous economically to the Sino-Soviet bloc as it is to the West. Moreover, such trade may well carry with it

Communist countries have concentrated on purchases which contribute most to their economic potential, and have paid for them in a manner which does not portend a development of lasting two-way trade. Soviet and Satellite purchases have been largely limited to transportation equipment, heavy machinery, manufactured goods and raw materials vital to industrial development. Payment difficulties have been frequent, and declining traditional exports such as grain and timber have been supplemented by exports of petroleum, gold, and other metals.

political advantages for the USSR, particularly in countries like Finland, Austria, and Iceland, where the level of East-West trade is already high, and in underdeveloped areas where the Communists apparently foresee political penetration through technical assistance.

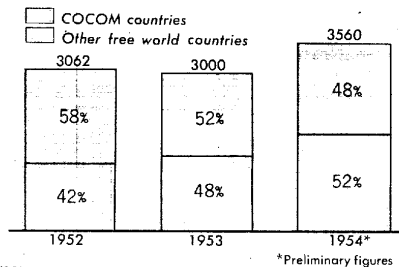
Nonetheless, many non-Communist countries are exerting strong efforts to exploit the Communist trade potential for whatever it is worth. Japan's efforts to develop trade with Communist China continue unabated. West Germany was barely dissuaded from sending a trade mission to China shortly after ratification of the Bonn and Paris agreements. France has a similar mission in mind, to either Peiping or Moscow.

Strategic Trade

Since at least autumn 1953, the United States has been fighting an almost solitary, rear-guard action to preserve the COCOM export control system. The major revision of August 1954 reduced these controls below what the United States regarded as minimum security standards. The coincidental improvements in COCOM machinery agreed on at best only mitigated the effects of this revision.

As the Soviet Union renews its trade overtures, most Western nations seem amenable, arguing that they have certain export problems in Western markets, citing their historic economic

~~SECRET~~ TOTAL TRADE FREE WORLD WITH SINO-SOVIET BLOC
 (Millions of US Dollars)



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CURRENT INTELLIGENCE WEEKLY SUMMARY

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These effects are reflected in part in the development of recorded trade in items on the three International Lists--embargo, quota, and watch. COCOM statistics show that COCOM-country exports of such items to the Soviet bloc more than doubled last year, rising from \$76,000,000 in 1953 to \$168,000,000 in 1954. Such items accounted for about 25 percent of total COCOM-country exports to the Soviet bloc in 1954 as against 15 percent in 1953.

Since the 1954 revision, efforts to solve remaining issues and to introduce further improvements have been largely unsuccessful. For example, by the end of 1954, copper wire and cable, which were removed from the embargo list in August, were being imported into the bloc at an annual rate of 100,000 tons--an amount which American officials believe is enough to frustrate COCOM's embargo on copper in other forms. Although such copper shipments are continuing at a high rate, American efforts to obtain tighter controls have resulted only in reinstatement of the embargo on certain copper communications items.

No acceptable formula has been devised to institute more effective controls on exports of ships to the bloc. Deliveries of ships last year totaled 80,400 gross tons, an increase of 25 percent over 1953. A substantial increase in deliveries is expected during the 1955-57 period. As a result of Britain's refusal to accept a special dispensation for Denmark, ships have not been placed under agreed quotas, and dry-cargo vessels continue to be exported to the Soviet bloc on a quid pro quo basis.

The negative attitude in COCOM extends beyond strong commercial interests in particular commodities. Improvements in certain COCOM administrative procedures advanced by the United States have been held in abeyance since early this year. According to one delegate, there is no point in retaining or adding rules which will be violated in practice.

Sentiment now appears to be developing in favor of another downward revision of the COCOM controls.

25X6

There are a number of indications that Paris is of similar mind. Without consulting the United States, the French government in early August asked the chairman of COCOM's Consultative Group to call a meeting for 27 September. This meeting of the Consultative Group, the policy-making body for which COCOM is the executive committee, would include a discussion of a "further shortening of the COCOM lists." Subsequent discussions among the Western Big Three have left the date of the meeting open, but the French have made it clear that they

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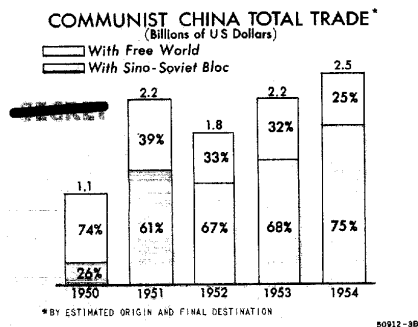
CURRENT INTELLIGENCE WEEKLY SUMMARY

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want it as soon as possible after the October meeting of foreign ministers.

The "China Differential"

A primary objective of the British and the French is a revision of controls on trade with China. These controls will almost certainly be reviewed at the next Consultative Group meeting. The United States has been committed for a year to such a discussion, and sentiment among the other Consultative Group members is virtually unanimous for elimination of the so-called "China differential."



This differential, which began with the UN resolution in May 1951 embargoing trade with Communist China and North Korea, has been progressively increased. Apart from an embargo on nuclear energy and munitions items to the entire Sino-Soviet bloc and the unilateral embargo on all trade with China by the United States, Western nations now prohibit the shipment of about 500 items to Communist China, as compared with about 170 items embargoed to the Soviet Union and its European Satellites.

These more stringent controls have been justified in the past on the grounds that they were directed against an aggressor and were actually a burden to the Peiping government.

Now, however, most Western nations maintain that China can obtain what it wants either in or through the USSR. They also argue that the China controls at best impose a slight cost burden on the Chinese economy, and that meanwhile they increase Peiping's dependence on Moscow, raise tensions in the Far East, and deprive Western nations of a potential market.

As in the case of controls on trade with the Soviet bloc, the "China differential" is being treated as a question of overriding political significance. The Japanese government continues to lead the fight for elimination of the differential primarily for domestic political reasons and in full awareness of its disappointing efforts to revive trade with the Chinese mainland during the past year. France, which is now taking the initiative for revision, has never had any sizable commerce with China. Britain's interest in China trade can, because of its recent experience with business interests left in China, be regarded as primarily political.

These political aspects may well be decisive. Given the present lack of concern in Europe over the Formosan situation and the Communist Chinese willingness to enter into negotiations, the prestige of the United States, which has sustained the China list during the past year, may no longer prevail.

Some Broader Implications

A period of even limited economic coexistence appears certain to create serious strains on the unity on which any Western economic defense program must be based. Present indications are that an American refusal to countenance further relaxations of controls may well disrupt the voluntary, multilateral system on which the present COCOM structure is based.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

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Any efforts to make controls more effective appear to depend on the very argument that most Western nations now prefer not to accept--namely, that East-West relations still require a posture of economic defense. In the present mood of virtually all of the Western

allies, it may take a relatively small show of conciliation on the part of the Soviet Union to unite the Western European countries and Japan in a demand for drastic reduction of controls on trade with the Sino-Soviet bloc. ~~(SECRET)~~ (Concurred in by ORR)

* * *

REPORT ON KAZAKHSTAN

Moscow is showing increased interest in economic exploitation of Kazakhstan, the largest Soviet republic in central Asia, which covers an area one-third that of the United States but with a population of only 8,500,000. It was selected as the principal site for N. S. Khrushchev's virgin soil agricultural program. Furthermore, recent statements in the Soviet press have strongly suggested that the Soviet government will begin the construction of a heavy industrial base there as part of the sixth Soviet Five-Year Plan (1956-60).

Extensive personnel changes over the past year and a half not only reflect the growing importance of this area in Soviet thinking but reveal the failure of native Kazakh politicians to measure up to the regime's exacting requirements for leadership in an area undergoing rapid economic development.

Mineral Resources

In a long article in the 3 July Kazakhstanskaya Pravda, the president of the Kazakh Academy of Science, Satpaev, stated that the republic's proven deposits of iron ore, mainly at Kustanai and in the Karaganda region, were the

largest in the USSR. Kustanai is on a rail line within 300 miles of the existing Urals steel centers of Magnitogorsk, Chelyabinsk and Zlatoust. Discovery of iron deposits in the vicinity of the Karaganda coal fields, which supply good coking coal, for the first time gives the USSR both coal and iron in the same area.

Satpaev placed great emphasis on these developments, declaring that "such an exceptionally fortunate geographical combination of ore and coal predestines the creation in the republic in the near future of a most powerful coal-metallurgical base, one of the basic centers of ferrous metallurgy and of heavy industry in the USSR."

Industry

The Kazakh republic is one of the Soviet Union's wealthiest areas in terms of mineral resources, but it is at present principally devoted to the production of raw materials and foodstuffs. Construction of a heavy industrial base there would give the area a strong, diversified economy.

It already plays a key role in Soviet production of nonferrous metals. The following tabulation shows the

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PART I

OF IMMEDIATE INTEREST

ADENAUER'S VISIT TO MOSCOW

West Germans expect that Chancellor Adenauer's visit to Moscow will have few tangible results other than the release of some German citizens who have been held in Soviet custody since World War II. (For a detailed discussion, see Part III, p.1.)

West German expectations about the gains which Adenauer might attain during the visit have been modified considerably since the Geneva conference. Soviet firmness in opposing German reunification at Geneva has disillusioned many West Germans as to the possibility of real progress on this subject in the near future. According to German officials, Chancellor Adenauer anticipates that the conference will only define the issues between the two governments and consider some principles for their eventual solution, with specific agreement to be reached possibly in the case of detained German citizens.

Many Bonn politicians believe that Moscow's willingness to recognize the Federal Republic is merely a device to gain eventual recognition of the East German government by non-Soviet bloc countries--a devel-

opment which would formalize the division of the nation.

To avoid jeopardizing German unification, Bonn government spokesmen have indicated that an exchange of representatives will not occur unless Moscow gives some assurance on unity, accepts Bonn's policy of nonrecognition of East Germany and the postwar German boundaries, and consents to release German citizens. Should sufficient progress occur during the meeting, Adenauer may consent to exchange diplomatic representatives immediately.

Most West German observers expect the Soviet Union to free many of the estimated 17,000 German prisoners of war. The chancellor has referred in public statements, however, only to "Germans," a term which would also apply to an estimated 115,000 civilian internees who, according to the German Red Cross, are still believed to be in the Soviet Union.

If Adenauer returns from Moscow without a concrete understanding with the Soviet Union on reunification, this would not be accounted a great personal failure in West Germany, since most West Germans continue to believe that reunification cannot be realized now. ~~(SECRET)~~

8 SEPTEMBER
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THE CYPRUS ISSUE

Failure of the London conference to find agreement on the Cyprus question has resulted in severe tension between Greece

and Turkey. Co-operation on defense planning in the eastern Mediterranean will probably suffer, and for the first time

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violence on Cyprus is likely to be directed against the Turkish minority as well as the British colonial government.

The conference of Britain, Greece and Turkey was "suspended" indefinitely on 7 September after British foreign secretary Macmillan offered Cyprus limited self-government, together with the creation of a tripartite committee to examine details of the proposed new constitution for Cyprus.

The Greek reaction to the proposal was noncommittal, but Athens will almost certainly reject it because of the omission of any assurance regarding self-determination for the island's predominantly Greek population.

Turkey's immediate reaction was "very negative." Ankara, however, will probably accept on condition that the self-government proposal be amended to provide for equal representation of the Greek and Turkish populations of Cyprus.

The rebuff to Greece in London will probably weaken the Rally government still further and increase maneuvering among the Rally's disparate factions. King Paul, who has been concerned over the government's lack of an effective leader during the prolonged illness of Prime Minister Papagos, may appoint a provisional prime minister and call for new general elections.

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[REDACTED] Turkish delegate Zorlu's "intolerable" press statements

in London had deeply wounded Greek national honor. If Greece were forced to accept Turkish views on Cyprus, Kanellopoulos said, his government would have to resign and might be replaced by one less well disposed toward the West.

Any Greek government will be committed in advance to pressing the appeal regarding Cyprus in the UN General Assembly. Greek anger at the anti-Greek outbreaks in Istanbul and Izmir on 6 September will probably be vented in intensified preparations for a bitter UN debate with Britain and Turkey over the Cyprus issue and in more open encouragement to the Cypriot Nationalists.

As a result of the Turkish riots, which revealed a deep religious antagonism toward the Greek Orthodox Church, the NATO Council was summoned to an unprecedented meeting on 8 September. Also, the Turkish Grand National Assembly has been called into a special session on 12 September.

Like the Greeks since the beginning of the London conference, the Turks appear willing to sacrifice the short-lived friendship between their two countries over the Cyprus issue. Both may now give free rein to the many divisive issues which have lately been submerged. NATO will have increased difficulty co-ordinating Greek and Turkish contributions to European defense, and the Balkan alliance will probably atrophy or be replaced by a Greek-Yugoslav entente. ~~(SECRET)~~

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endorsed UN membership for the following applicants: Cambodia, Ceylon, Japan, Jordan, Laos, Libya, Nepal, and "unified Vietnam."

According to the American embassy in Colombo, Prime Minister Kotelawala of Ceylon received a letter from Indian prime minister Nehru in July stating that the USSR had expressed willingness to support the admission of "all countries which are qualified." Nehru added that the USSR had mentioned other countries as well as those which were endorsed at the Bandung conference. The Soviet ambassador in Cairo had informed the Libyan ambassador that the USSR would support Libya for UN membership this fall, according to a 3 September report from the American embassy in Cairo.

25X6

USSR has abandoned its insistence on a quid pro quo from the West. At the UN commemorative meeting in San Francisco, Molotov adhered to a typical package plan by proposing admission of six "peace treaty states"--Austria, Finland, Italy, Bulgaria, Hungary, and Rumania.

The Peruvian chairman of the UN Committee of Good Offices on the Admission of New Members has been promoting, apparently with some success, a compromise plan designed to meet both the West's insistence that each country must be judged on its own merits and the USSR's adamant stand in favor of a package. Under this plan, the Security Council would vote on each membership application separately, but the voting would be preceded by a "gentlemen's agreement" among the Big Four on which countries were to be considered.

When the Security Council considers the membership question this fall, the increased pressure of Asian applicants may lead to some arrangement whereby the deadlock on membership might be broken. Some Western UN members, including Britain, have argued that the UN would be better able to exert moral pressure on the Satellites if they were members of the organization. ~~(SECRET)~~

3

In the USSR's various offers of support for individual countries' admission to the UN, Soviet representatives have given no indication that the

Yugoslav-Soviet Relations

The Yugoslav-Soviet agreements announced this week are the most concrete steps yet taken in the improvement of re-

lations between Belgrade and Moscow. The agreements call for Soviet credits and a marked expansion in trade, Soviet

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delivery of nuclear equipment, and the opening of a joint Belgrade-Moscow direct air service.

The economic agreements with the USSR go a long way in the direction of the pre-1948 pattern of Yugoslav trade, when half was with the East. Soviet-Yugoslav trade is to more than double to a total of \$70,000,000 annually for the three years starting next January. This would give the USSR approximately 12 percent of Yugoslav trade as compared to 18 percent in 1947, the last full trading year before Tito's expulsion from the Cominform.

Similar increases in Yugoslav-Satellite trade, however, will probably take longer. The Satellites cannot as readily as the USSR more than double their trade with Yugoslavia, since their over-all foreign trade is more limited. For its part, Belgrade has only a limited quantity of uncommitted exports. Hence Yugoslavia's trade with the East is not likely to go above 30 percent of all its foreign trade in 1956.

The Yugoslavs appear well satisfied with the 10-year, 2-percent credits they received from the USSR. Up to a third of the credit for \$54,000,000 can be drawn in each of the three years starting in 1956 for purchase of certain Soviet raw materials, apparently mainly coking coal and cotton. Another

credit for \$30,000,000 in gold or convertible currency will greatly increase Yugoslavia's depleted currency reserves. Vice President Vukmanovic-Tempo claims these loans will keep Yugoslavia from being forced to obtain short-term loans elsewhere at high interest rates.

Yugoslavia also obtained Soviet credits for planning, building, and equipping two artificial fertilizer plant complexes, and rehabilitating three small mines. Vukmanovic indicated the Yugoslavs might later take up Soviet offers for partial financing of other plants.

The American embassy in Moscow speculates that there may have been some discussion of the idea of Yugoslav production of Soviet aircraft under a licensing arrangement, although there has been no specific reference to such.

The air agreement permitting Yugoslav flights to Moscow and the agreement enabling Yugoslavia to purchase an atomic reactor, a cyclotron, and other nuclear research equipment are the first such Soviet agreements with a non-Orbit nation. Nothing indicates that Belgrade agreed to ship atomic raw materials to the USSR in exchange for this assistance. The Yugoslavs probably do not have sufficient quantities of such materials to export them and still develop a domestic research program. ~~(SECRET)~~ (Concurred in by OSI and ORR)

Military Significance
Of Satellite Troop Reductions

Five of the East European Satellites now have announced plans for reductions in their armed forces commensurate with the Soviet plan for a 640,000-man reduction announced on 13

August. Only Bulgaria has yet to be heard from. These reductions are designed to give substance to the USSR's disarmament campaign. Over-all Communist military capability is not likely to be materially impaired.

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NENNI SOCIALISTS IMPROVING POSITION IN ITALY

The steady gains in power and prestige of Pietro Nenni's Italian Socialist Party are arousing increasing speculation among leading Italians as to the possibility of an eventual genuine split between Nenni and the Communists. Communist leaders, aware that their own party is in a period of relative decline, seem somewhat uneasy over the prospect that they may lose control of their old Socialist allies.

Leading Christian Democrats, while firmly rejecting collaboration with any party connected with the Communists, now are weighing the attractions of an eventual government "opening to the left"-- that is, a working alliance with Nenni which would permit a Christian Democratic government to control parliament with the support of the Socialists. The fall of premier Scelba in June 1955 and the difficulties encountered in forming the Segni cabinet demonstrated the weakness of a government formula which requires the Christian

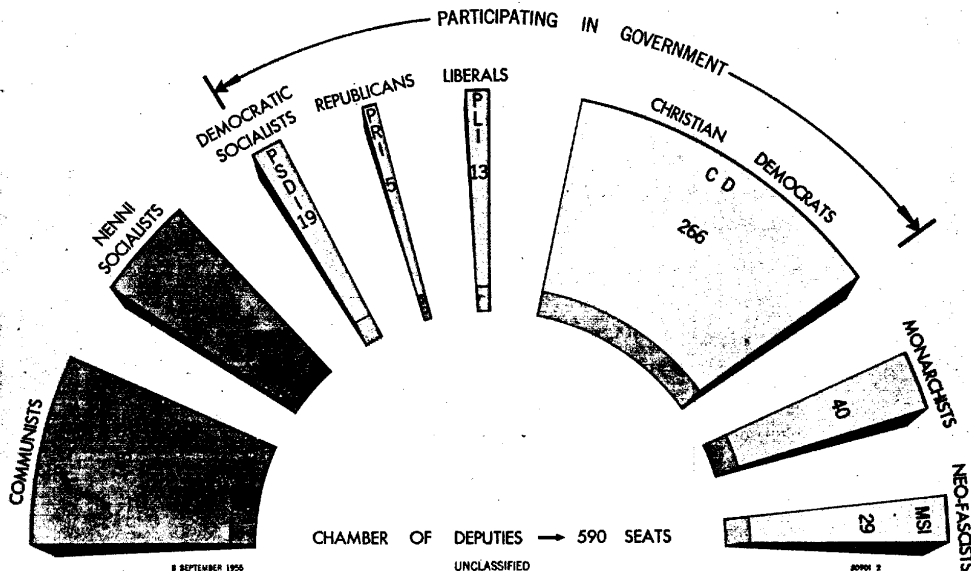
Democrats to rely for support on the steadily declining smaller center parties. Many observers believe that in the next general elections, which may be held in 1956, the small center parties will virtually disappear.

The Communist Decline

There are a number of indications that the Communists are losing ground in Italy. In the important Sicilian elections in June, for example, the Communists polled fewer votes than in 1951. They have also generally shown losses in shop steward elections throughout Italy over the past year, partly as a result of management's switch from conciliating the strong Communist labor confederation to bringing pressure on Communist employees in firms seeking offshore procurement contracts. The circulation of the Communists' newspaper, L'Unita, has fallen off by about 25 percent since 1954.

The Communists' losses probably result both from the

ITALIAN CHAMBER OF DEPUTIES



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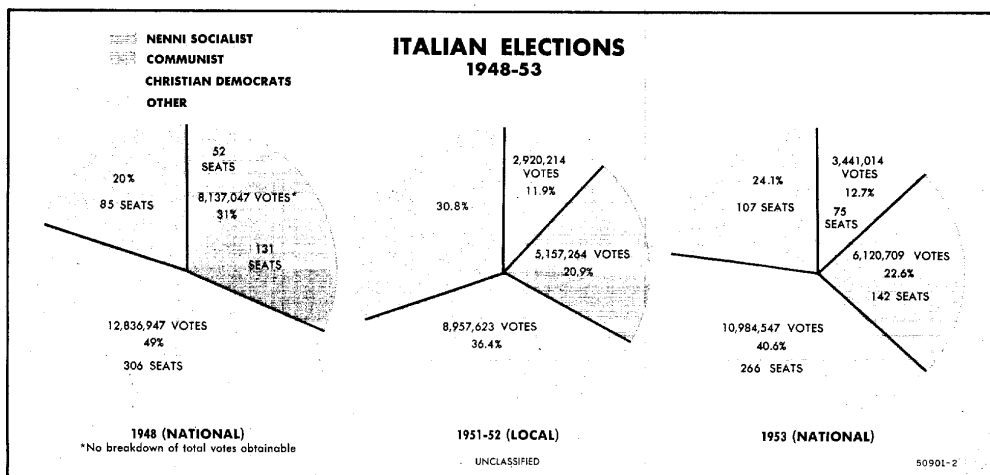
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international detente and from domestic developments. The relaxation of tension may have increased intraparty friction between supporters of party leader Togliatti's conciliatory policies and the militant group led by Secchia. In addition, although the Communists are trying to exploit it to win votes, the detente may have influenced some who voted Communist for fear of reprisals. Meanwhile, as more voters are beginning to benefit from Italy's

previous practice in Sicily ran separate from the Communists in this year's elections, gained more than the Communists lost, so that the left bloc's share of the vote was higher than in 1951. Other elections since 1948 have shown a steady rise in the Nenni Socialists' polling power. The current relaxation of world tension, moreover, which Nenni has championed, tends to boost his prospects.



economic improvement, fewer are interested in Communism.

The Communists have suffered further attrition from the fact that even though they and their Nenni Socialist allies have polled more than one third of the popular vote, they have no voice in the government and have even been unable to block important government legislation, such as ratification of NATO and the Paris agreements.

Nenni Socialist Rise

Evidence of the changing balance of power on the left was provided by the Sicilian election results. The Nenni Socialists, who contrary to

It now appears that certain financial interests are jumping off the Communists' bandwagon and jumping on the Nenni Socialists'.

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The independent press, too, appears increasingly interested in the Nenni Socialists as a possible anti-Communist force. The director of the influential Milan newspaper Corriere told an American official on 12 July that "Operation Nenni"-- that is, an effort to achieve a Nenni Socialist-Christian

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ANALYSIS OF SHOP STEWARD ELECTIONS

(257 PLANTS, 309,000 WORKERS INVOLVED)

UNCLASSIFIED

PERCENT OF VOTE
JAN - JUNE 1954

CGIL 65.8%
CISL and UIL 29.2%
OTHER 5%

ITALIAN GENERAL LABOR CONFEDERATION

ITALIAN CONFEDERATION OF TRADE UNIONS

ITALIAN LABOR UNION

OTHER

PERCENT OF VOTE
JAN - JUNE 1955

CGIL 50.5%
CISL 37.7%
UIL 8.4%
OTHER 3.4%

OTHER

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Democratic rapprochement based on moves by Nenni away from the Communists--was "in full swing." He predicted that Nenni, who "has no intention of sharing the political starvation" of the Communists, will either vote for or abstain on the Segni government's programs for about a year, with the idea of securing a place in the government.

The director of Turin's important Stampa told an American official on 16 July that "the remaining danger is that Nenni will not be helped to divorce himself from the Communists and will be driven back, making possible a popular front."

Socialist-Communist Differences

Developing friction between the Nenni Socialists and the Communists is apparent in both the political and labor fields. According to a spokesman for the Sicilian Separatist movement, the Socialists' decision to run on a separate list in the June elections had been opposed by the Communists. Another report quotes a member of the Communist Party's central committee as complaining that the Socialists, by entering

separate electoral lists, were "disorienting the base."

Abstention of the Nenni Socialists in the July balloting for the president of the Sicilian regional assembly permitted the Christian Democratic candidate to win despite the opposition of the Communists, Monarchists and neo-Fascists. Thus for the first time in eight years the Christian Democrats did not rely on the support of the rightist parties in Sicily.

In the vote of confidence for the Segni government on 18 July, some 20 of the Nenni Socialist deputies reportedly left the chamber in order to provide the Christian Democrats with a larger victory.

A long-standing source of friction between Communists and Nenni Socialists has been the Communists' emphasis on the political rather than the labor problems of the Italian General Confederation of Labor. This has had repercussions in shop steward elections and in the failure of such strike efforts as the one in Genoa last winter.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

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Within the Socialist Party, sharp differences have emerged between the pro-Communist and "autonomous" factions. This was particularly evident at the Socialists' national congress at Turin in March, which resulted in a decision by the party leadership to seek an "understanding" with the Christian Democratic leadership.

Various feelers have followed. In May the Nenni Socialist newspaper *Avanti!* published a statement by the party directorate and later one by Nenni himself which, in contrast with earlier and more general statements, named specific socio-economic reform measures on the basis of which his party would collaborate with the Christian Democrats.

In July, the Nenni Socialists' central committee adopted a resolution urging the party's organizations "to widen and deepen their relations with the Catholic masses." Nenni is also reported to have sent emissaries at various times to Christian Democratic Party secretary Fanfani, as he had in 1953 to De Gasperi.

Christian Democrats' Attitude

Christian Democratic leaders are openly expressing interest in bringing the Nenni Socialists into the democratic fold.

Gronchi is reported to feel that the democratic forces must make it possible for the Nenni Socialists to differentiate themselves from the Communists, not by "deals and bargaining," but by carrying out a progressive social and economic program and by coupling an "opening to the left" with a "closing to the right."

Gronchi believes that in view of the deep disagreement on economic policy within the present government coalition, only a single-party Christian

Democratic government could agree on a sound economic program such as Budget Minister Vanoni's ten-year economic plan, which Nenni has already stated his party will back. Gronchi believes the support of the Nenni Socialists, who hold 75 seats in the Chamber of Deputies as compared to the 38 held by the Christian Democrats' present three center party allies, is necessary to provide a government majority strong enough to push through needed reforms.

Christian Democratic Party secretary Fanfani, at the party's national council meeting in August, is reported to have stated that the Christian Democrats would not collaborate with any party "connected with the Communists," but at the same time to have expressed the hope that the Nenni Socialists' gains in the Sicilian elections would encourage them to "move toward the center."

The government-controlled news agency, ANSA, which has for years maintained that the Communists and Nenni Socialists are one and the same thing, came out on 27 July with a commentary headlined, "Gulf between Communists and Nenni widens." ANSA said that the meeting of the Communist Party's central committee in Rome several days before had left the impression that the Communists were trying to appropriate the "opening to the left" slogan. It added that the Communists "obviously fear that should 'Operation Nenni' succeed, the Communist Party would find itself even more isolated."

Communist deputy chief Longo had declared at the central committee meeting that the formula for the move to the left was not a recent one, but had been suggested by Togliatti in 1954. Longo said there could be "no differences between

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Communists and Socialists," and that the Socialist Party is too closely tied up "with the broad masses of the working people to renounce its political origins" and "commit suicide" by breaking with the Communists.

The question of Nenni's price for co-operation with the government is being widely discussed. Some Italians continue to believe that Nenni's overtures to the Christian Democrats are part of a Communist plan to control the government through him. Some of these, however, feel the Communists are showing signs of unease over the possibility that Nenni's pseudo independence might increase his popular prestige to such an extent that he would eventually feel strong enough to make a genuine break away from them. Many Italians feel it has been politically necessary for Nenni to continue his public insistence that he is maintaining the unity-of-action pact with the Communists until he is sure the bulk of his present supporters will follow him into a new alignment.

To the question of whether Nenni would be acting in good faith or as a Communist stooge, they cite his desire to be on the winning side, apparently the basis of his successive switches from the Fascist to

the Republican Party, and then to the Socialist Party. They also point to the practical success of his postwar association with the Communists, as contrasted with the fate of the Social Democrats, who left his party in protest against Communist domination and have steadily lost ground because of their subservience to the Christian Democrats. 25X1X4

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gard to foreign policy, Nenni announced on 30 June that "the existence of the Atlantic and European military pacts does not prevent the Italian Socialist Party from supporting a government which fundamentally obligates itself to a policy of lessening international tensions."

Many Italians feel that the real test of the Nenni Socialists' intentions will be their performance in parliament over the next year. In any case the outcome of the next general elections, in which both the Socialists and the Christian Democrats are expected to gain, should determine the direction both parties will take. ~~(SECRET - NOFORN)~~

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PART III

PATTERNS AND PERSPECTIVES

SOVIET DISARMAMENT POSITION

In the crowded schedule of international negotiations set for the next few months, the USSR seems likely to give high priority to disarmament. Concrete achievements in this field could demonstrate to the NATO nations the political and financial advantages of "peaceful coexistence"--without materially reducing Soviet military strength in the process.

The USSR's disarmament position undoubtedly will be based on its 10 May omnibus proposal for relaxing international tension. The disarmament section of the 10 May pronouncement seems to be a serious counterproposal to the plans previously advanced by the West. The USSR probably hopes that if it appears reasonable and offers dramatic "deeds" like the recent demobilization of part of its armed personnel, Western resolve to maintain the strength of the Atlantic coalition will gradually diminish.

Moscow may seek to avoid the complex questions at issue by pressing for specific

numerical limitations of armed personnel, which it probably regards as reasonable, mutually advantageous, and possible to effect. Moscow may be willing to make substantial reductions in its conventional military strength in order to achieve political objectives, but probably intends to maintain its nuclear strength. The divergence of views on the crucial matter of inspection and control makes an early agreement on this issue unlikely.

Basically, the Soviet proposal of 10 May would establish limitations on the troop strength of the five major powers, reduce overt military expenditures, and prohibit the use of nuclear weapons. The principal loopholes appear to be the lack of provisions for an adequate system of inspection and control and the lack of a specific limitation on conventional armaments.

Conventional Arms and Expenditures

The two-year disarmament plan would first freeze the

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PROPOSED REDUCTION OF MILITARY MANPOWER

	Present Strength	Interim Level	Ultimate Level
United States	3,304,001 (Unofficial)	2,152,000-2,402,000	1,000,000-1,500,000
USSR	3,991,000	2,496,000-2,746,000	1,000,000-1,500,000
China	2,624,000	1,812,000 -2,062,000	1,000,000 -1,500,000
France	810,000	730,000	650,000
United Kingdom	834,000	742,000	650,000

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military manpower of each of the major powers at its 1954 level and then reduce this figure during the first year by half the amount required to reach the proposed ultimate level. Military expenditures would be reduced accordingly. Reduction of manpower and expenditures would be completed during the second year of the plan.

The apparent balance of armed personnel strength which would result from the proposal may be misleading. The development of nuclear weapons, together with the ability to deliver such weapons, probably will continue to be the most decisive factor determining relative military strengths. The Soviet switch to a willingness to abandon some of the USSR's conventional strength as a first step in the disarmament schedule may represent no more than a recognition of the realities of nuclear warfare. Furthermore, aside from the gap that may exist between overt and covert military expenditures, there remains the important question of conventional equipment and materiel. The Soviet proposal calls for a reduction of armaments paralleling personnel and expenditure cuts, but nothing is said with regard to the number of such items as jet bombers, submarines or tanks.

Moscow has stipulated that a world disarmament conference should be held to fix arms and manpower

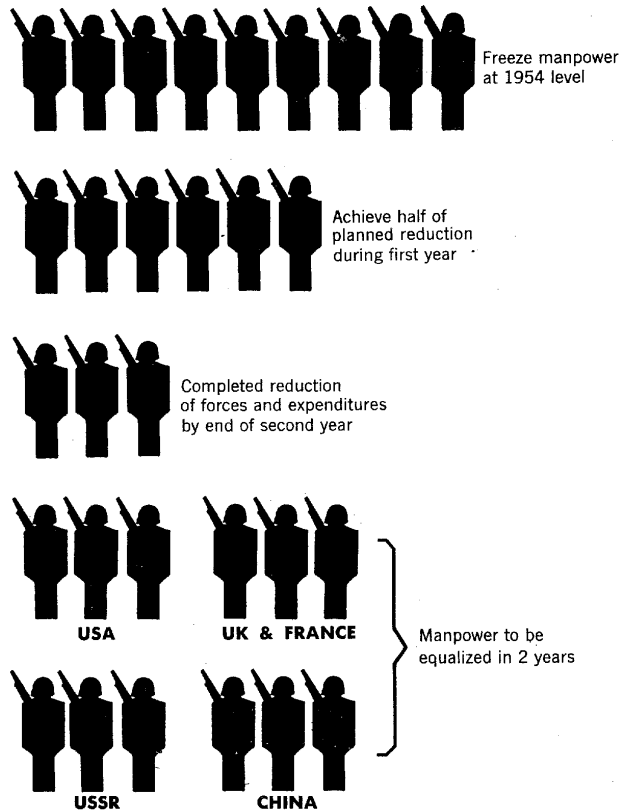
limitations for the other nations of the world--at levels to be determined by economic and political factors, but not to exceed 200,000 men for each nation. This figure was enunciated by Bulganin at Geneva.

The recent Soviet and Satellite announcements on reduction of military manpower probably are intended, in part, to give additional propaganda impetus to the manpower aspect of the Soviet proposal.

Nuclear Weapons

With respect to nuclear weapons, during the first year

SOVIET DISARMAMENT PROPOSAL



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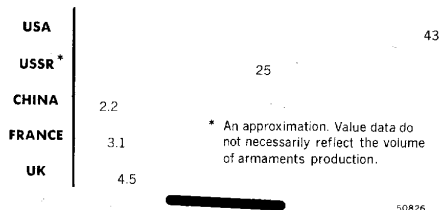
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1954 DEFENSE EXPENDITURES
(BILLIONS OF DOLLARS)



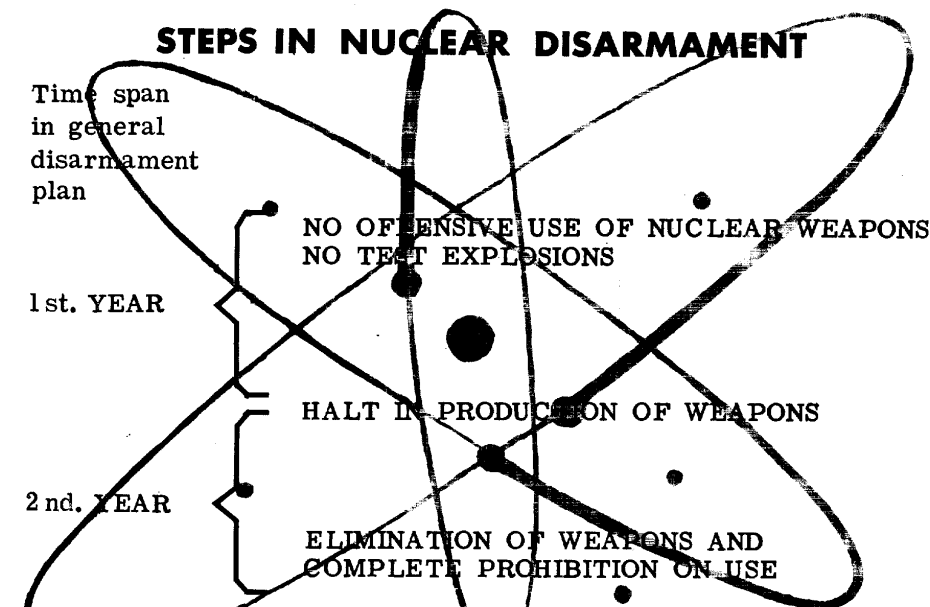
the Soviet proposal calls for a moratorium on test explosions and agreement by the five major powers not to be the first to employ nuclear weapons. At the beginning of the second year, the production of nuclear weapons would be stopped and there would be a complete prohibition of their use after the armed forces were reduced by 75 percent of the total reduction. By this proposal, Moscow reiterates its earlier insistence that the disarmament program must be completed in such a way that conventional and nuclear disarmament are completed simultaneously.

Control and Inspection

The Soviet disarmament plan substantially follows Western proposals, but the Soviet provision for control and inspection moves away from the framework within which control usually has been discussed. The Soviet statement asserted that under current conditions of international distrust the types of disarmament control hitherto proposed would be unreliable and unrealistic. The proposal urged that conditions of trust must first be created among nations by means of a broad political settlement and a system of warnings and guarantees against sudden aggression.

The Soviet plan contained a provision for setting up a permanent control organization, which would be allowed during the first phase of the plan to establish control posts at "big ports, railway junctions, motor roads, and airdromes."

STEPS IN NUCLEAR DISARMAMENT



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It would be entitled to "demand and receive" information from states regarding implementation of the cuts in armed forces and armaments, although there is no provision for verifying this information.

The control organization would, when the second phase of the plan came into effect, have a staff of inspectors who "within the bounds of the control functions they exercise would have unhindered access at any time to all objects of control." This phrasing suggests that the USSR still adheres to its position of strictly limiting inspection to specifically designated establishments.

The Soviet proposal dismisses the crucial matter of nuclear inspection, saying it is an insoluble problem because of the difficulty in detecting whether atomic energy installations permitted for peaceful purposes were in fact being used for the production of stocks of fissionable material for weapons. It asserts that there are "possibilities beyond the reach of international control" for "organizing the secret manufacturing of atomic and hydrogen weapons."

Physical inspection of plants producing fissionable materials, however, and a close audit of the records of these plants, if this were allowed, would of course make more difficult the clandestine accumulation of a large stockpile of fissionable material for nuclear weapons.

While there could not be complete confidence that the inventory of Soviet nuclear weapons or the clandestine production of fissionable material could be determined, there could be fairly effective inspection of weapons delivery systems. The preparation necessary for launching a co-ordinated air attack on the United States

would, at the present time, be difficult to conceal from inspection agents, given facilities for unhindered travel. Similarly, the development and production of long-range guided missiles would probably be impossible to hide from inspectors because of the scale and extreme complexity of the undertaking required for such projects.

Under the broad terms of the current Soviet disarmament proposals, however, the possibilities for evasion of inspection of disarmament measures are almost unlimited. The USSR's reluctance to commit itself to an effective inspection system is suggested by the fact that the USSR has so far temporized with the reciprocal aerial inspection plan advanced by President Eisenhower at Geneva.

Related Aspects of the Omnibus Proposal

The disarmament plan was a major part of the Soviet proposal of 10 May. Also included were proposals for the discontinuation of war propaganda, the withdrawal of forces from Germany, the dismantling of extraterritorial bases, the settlement of Far Eastern problems, and economic and cultural exchanges. It was not clear from the language of the proposal whether Western acceptance of some or all of these other provisions was expected to precede agreement on the disarmament plan.

While the Soviet Union will probably continue to publicize these issues for propaganda purposes during forthcoming disarmament discussions, the issues themselves are not likely to become major bones of contention in the discussions.

Soviet propaganda on disarmament has continued to emphasize the 10 May proposals

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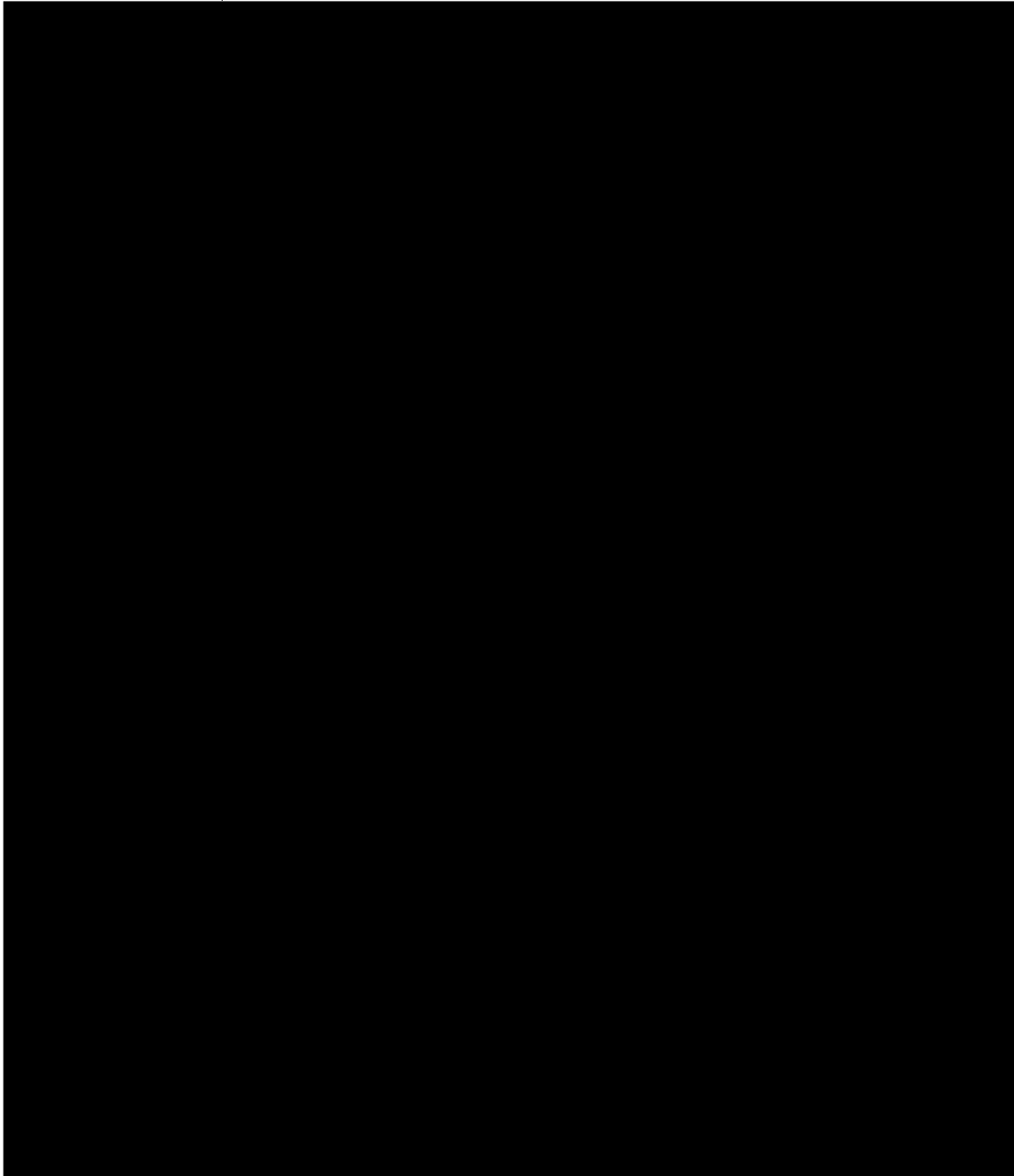
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suggesting that they would provide a realistic basis for UN discussions. A recent Pravda article stressed that the possibilities for an agreement

are infinitely better since the Geneva conference and maintained that a new "vital force" is apparent in the current move for disarmament. ~~(SECRET - NOFORN)~~

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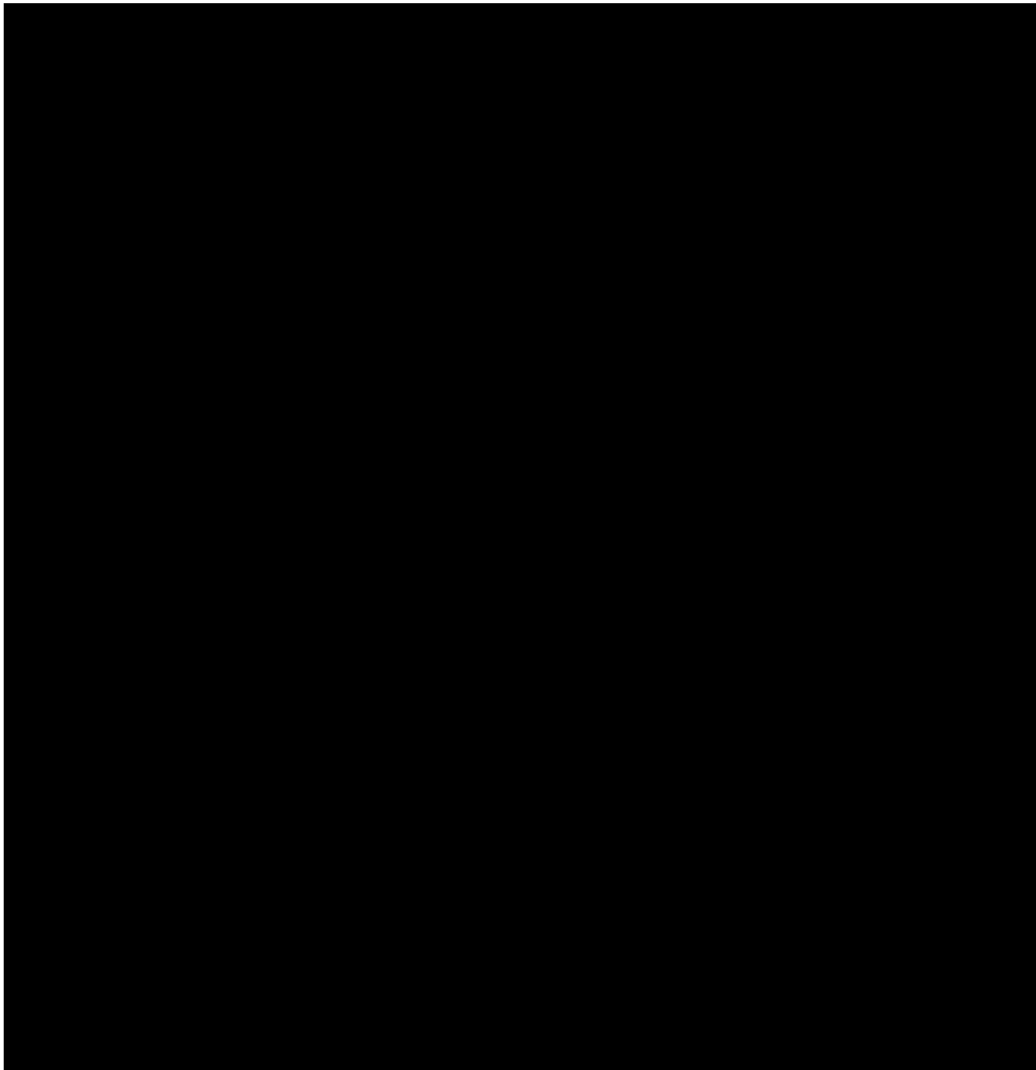
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✓ NEW LEADERSHIP GROUP IN SOUTH KOREA

A new and growing cohesion among top South Korean leaders manifests their desire to stabilize the present political balance of power in order to assure an orderly transfer of authority to them in the event of President Rhee's death or incapacitation.

The group, whose members are friendly to the United States, is composed of Defense

Minister Son Won-il, Liberal Party leader Yi Ki-pung and the three military service chiefs. Son appears to be in an advantageous position of balance between the military leaders and the government's Liberal Party. Yi's domination of the party machinery provides the mechanism through which the group hopes to perpetuate itself by selecting the administration's vice presidential candidate in

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next year's elections. Underlying the group's power is Chief of Staff Chong's domination of the Korean army.

The members of the group appear to have as their objective the preservation of their status in key government positions and the gradual extension of their authority while the aging president's capacity for direction falters.

President Rhee continues to manifest unusual confidence in Yi Ki-pung by permitting him unprecedented control over the administration's Liberal Party and its auxiliary mass organizations. Of 15 individuals elected to the Liberal Party policy committee in early August, 14 were supporters of Yi.

Army chief of staff Chong Il-kwon is credited with the support of the majority of corps and division commanders, and the commander of the Second Army, the logistical command which covers all of Korea to the rear of the combat zone. The military's potential for influencing politics has been further enhanced by inactivation of the militia and absorption of its personnel into the ten new army reserve divisions.

The extent of co-operation among the top Korean leaders is suggested by recent statements of General Chong to American officials that he, Defense Minister Son, and Yi Ki-pung had developed plans to promote the selection of Son or possibly Yi as vice president in the 1956 elections. It was generally agreed that if Rhee were alive he would be re-elected president. Chong expressed a desire to remain as army chief of staff because he considered that this position made him the most powerful man in Korea. The military leaders were reported to believe that Yi Ki-pung, "while not brilliant," would be an acceptable political leader while the

military provided control from behind the scenes.

The common cause of Yi Ki-pung, Son and the service heads was demonstrated on 12 August, the day before the expiration of Rhee's ultimatum to the truce teams. That evening Yi hastily convened a dinner for UN commander General Lemnitzer and Ambassador Lacy which was attended by Son and Generals Chong and Kim, presenting American officials with an unprecedented demonstration of solidarity at the risk of Rhee's displeasure.

President Rhee is almost certainly aware of this potential for opposition among his top leaders, since the group is opposed by ambitious and conflicting factions, both within and outside the Liberal Party, which are anxious to discredit it. If Rhee decided that the group is a threat to his authority, he would probably attempt to subvert individual members and manipulate its internal rivalries. Through his control of the police, the president would probably be able to dominate any internal situation unless challenged by the army.

Chong Il-kwon has the capability of employing military units against the government in co-operation with the remainder of the group. For the present, however, the group will probably attempt to consolidate its position, while avoiding Rhee's ire. The young Korean military leaders, who are privately critical of inefficiency and corruption in the government, and of Rhee's determination to bar trade with Japan, consider that their future is tied to continued American confidence and support. The trend toward increasing military involvement in politics is thus under way and is unlikely to be reversed. (SECRET NOFORN)

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The hydroelectric potential being developed under these programs is extremely important to Chinese industrial expansion plans in Central, North and Northwest China. The Chinese plan to have 1,000,000 kilowatts of generating capacity at the Sanmen Dam and part of another 1,000,000-kilowatt plant near Lanchow in operation by 1967. Low water flow during winter will limit the year-round generating capacity of these plants to about 280,000 and 400,000 kilowatts respectively, but even

these figures exceed by many times the power capacity of thermal plants now in these two areas.

By 1967, the Chinese probably will have installed part of the power plant at the Iohang Dam on the Yangtze, for which American surveys recommended a 10,000,000-kilowatt plant. Most of this capacity is available all year. Capacity of electric power plants in all of China is now only 3,000,000 kilowatts.

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TURKEY'S ECONOMIC DIFFICULTIES COMPLICATE RELATIONS WITH US

Turkey's economic difficulties and related domestic political problems have led its government to adopt a cooler attitude toward the United States. Nevertheless, Turkey's co-operation with the Western powers in defense matters almost certainly will continue.

The Turkish Democratic Party administration, which started its second four-year term in May 1954 with an overwhelming majority in parliament, aims to expand the country's production and to develop rapidly its retarded economy. The government's program, however, has been overly ambitious and poorly executed. It apparently has not understood the relationship between the physical and financial aspects of development and the importance of economic stability for orderly economic development. Inflation has been allowed to get out of hand and the external payments deficit has reached unmanageable proportions.

Although the government is now giving some indication that it may be getting ready to tackle its economic problems realistically, it has in the past shown a marked hostility toward a realistic appraisal of these problems and toward any suggestions for correcting them.

When Ankara failed in the spring of 1955 to obtain a \$300,000,000 credit from the United States to support its program, an apparently government-inspired campaign designed to force the American hand in connection with the loan was launched in the Turkish press. The press takes the line that Turkey is entitled to American aid because of its unique contribution to the free world and that any American suggestions concerning Turkey's economic policies are presumptuous.

Progovernment newspapers reported that rejection of the credit "exploded like a bomb"

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and called the American action "lamentable." Other papers remarked that Turkey could not accept "economic and financial tutelage" from any nation, no matter how friendly. The press gave little publicity to the \$30,000,000 in aid which was granted. As a result, a considerable public reaction has developed.

Acting Foreign Minister Zorlu, commenting in mid-August to Ambassador Warren on the deterioration in the cordial relations between Turkey and the United States, pointed to speculation in the press that the United States was no longer as interested in Turkey as previously because of the Soviet peace offensive. Zorlu said Prime Minister Menderes was very nervous about the economic situation, commenting bitterly: "Your people are all theoretical. They do not understand the practical aspects."

Zorlu insisted that the government is trying to allay press speculation on American intentions, but that it is impossible at present to explain the extent of aid to be expected

from the military and economic conversations which are now going on.

The government's economic policies have become a domestic political issue. The opposition Republican People's Party has accused the government of inept handling of the negotiations. Recent reshuffling of a few top leaders also suggests that some behind-the-scene differences have developed.

The government leaders and politicians are concerned over the opposition's activity. There is no indication, however, that the Democratic Party's control is now threatened or that a serious change in relations with the United States is occurring. Any reduction in overall aid to Turkey automatically creates certain dissatisfactions and problems, but long-range American security interests in the area should not be seriously affected. American use of certain Turkish facilities is secured by a treaty which is not apt to be abrogated. Turkey needs a strong ally as a counter to the Soviet Union, and American and Turkish objectives remain basically the same. ~~(SECRET-NOFORN)~~

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PROSPECTS FOR LONDON TALKS ON CYPRUS ISSUE

The three governments meeting in London on 29 August to discuss Cyprus are firmly committed to their respective positions concerning the union of Cyprus with Greece. There is no room for compromise between the British and Turks on the one side and the Greeks on the other.

Greece intends to be "moderate and reasonable," accord-

ing to Foreign Minister Stephanopoulos, who nevertheless will almost certainly demand early application of the principle of self-determination to Cyprus. Since the majority of the Cypriots are clamoring for enosis--the union of Cyprus with Greece--"self-determination" means Greek annexation of the island. The concessions which Athens is willing to make are all based on the assumption that

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PART III

PATTERNS AND PERSPECTIVESNEW ROLE FOR SOVIET CENTRAL COMMITTEE

The Soviet Communist Party's central committee, formally the party's top policy body, but actually in Stalin's time a rubber-stamp institution, has gradually increased in power and prestige during the past two years. It may now play a deciding role in at least some high-level policy decisions.

The central committee elected in October 1952 at the 19th Party Congress consisted of 125 full members having voting privileges. Although there has been some attrition since then through death and political discrediting, the committee is still a large body composed of leading provincial party secretaries, important military leaders and government executives, as well as the all-union party leaders.

Whereas the individual members of the central committee have been important and relatively powerful, the committee as a body has, until recently, done little more than give automatic approval to the party presidium's decisions and act as a transmission belt between the top leaders and local party officials.

The most recent evidence of a change in this role is the report

of a party censure incurred by Foreign Minister Molotov at the July plenum of the central committee for his stand on Yugoslavia. Molotov allegedly opposed sending the high-level Soviet delegation to Belgrade and, at a plenum held shortly before its departure, had violently criticized Yugoslavia and suggested that it be dealt with like any other capitalist country. Molotov apparently had used this earlier plenum as a forum for

presenting his disagreement with other party presidium members, which suggests that the central committee was called upon to witness a disagreement within the presidium and to choose between the alternatives posed.

This report of the central committee's actions lends credibility to an earlier story by Ralph Parker, Moscow correspondent of the London Daily Worker. According to Parker, G. M. Malenkov walked out of the January central committee plenum during its debate over economic problems, and it was only after this that the decision was made to relieve him as chairman of the Council of Ministers. Parker also reported that some 2,000 selected economic and party workers participated in the meeting to help decide the future course of the Soviet economy.

There has been considerable earlier evidence that the central committee has been gaining in stature since Stalin's death. Nine announced plenary meetings of the central committee have been held since March 1953, although the rules passed at the 1952 party congress called for a minimum of only two a year.

Furthermore, the central committee has not been expected simply to rubber-stamp the presidium's proposals as presented by the top leaders. Khrushchev himself stated that he expected discussion of the reports and even implied that they might be amended, and he specifically mentioned an anticipated "exchange of opinions" on one of his proposals. The decrees emanating from some of the central committee's plenums reveal differences, albeit

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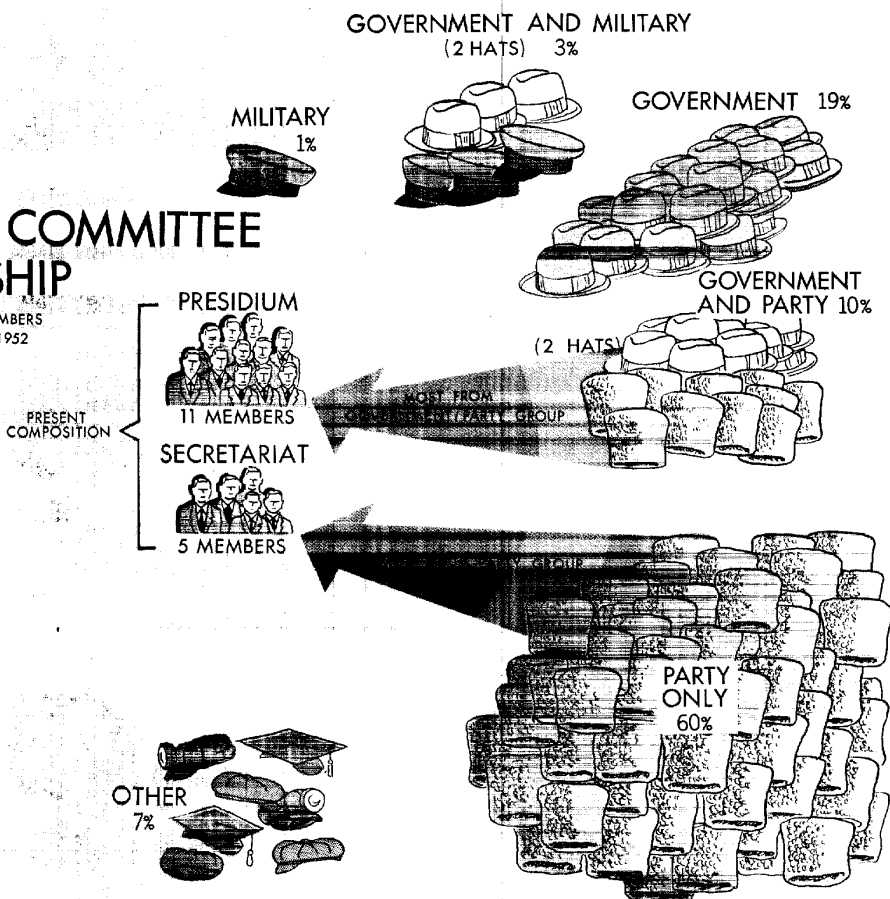
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CPSU CENTRAL COMMITTEE MEMBERSHIP

125 FULL VOTING MEMBERS
ELECTED OCTOBER 1952



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slight, from the proposals presented by Khrushchev at the meeting, suggesting that discussion and emendation did in fact take place.

This extension of more decision-making power to the central committee, which represents a more inclusive balance of forces than the party

presidium, will tap points of view and talents hitherto slighted in the Soviet Union. If continued and expanded, the process will bring forth a rejuvenated central committee and make a return to one-man rule as a method of leadership increasingly difficult.

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~~USSR EXPLOITS DIFFERENCES BETWEEN WEST AND MIDDLE EAST~~

~~During recent weeks Moscow has moved to capitalize on differences between Middle East-~~

~~ern states and the Western nations in connection with defense planning. Soviet overtures have~~

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