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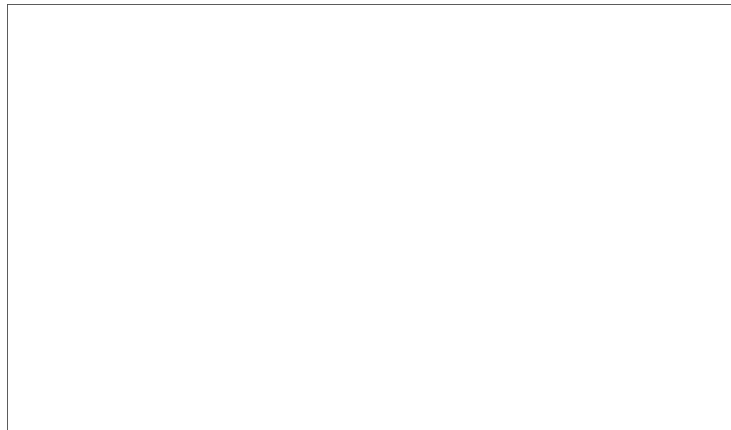
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1. USSR SLOWS RATE OF ECONOMIC GROWTH FOR 1957



At the opening session of the Supreme Soviet on 5 February the USSR revealed a more realistic "new look" in its planning aimed at salvaging Sixth Five-Year Plan goals. Planned growth of industrial production in 1957 has been cut back from the 10.7 percent for 1956 to 7.1 percent in order to concentrate resources in lagging raw materials industries. The 1957 budget allocations to industry and agriculture are slightly higher than last year.

Industry: Incomplete data from the speeches by the new chief of planning, M. G. Pervukhin, and Finance Minister A. G. Zverev give no indication that the USSR has abandoned the Sixth Five-Year Plan goals, but prospects for success are by far the worst that have faced the Soviet Union since World War II. By radically rephrasing the investment program Soviet leaders may still hope to reach the 1960 goals for iron, steel, coal, cement and electric power, the key industries in which construction of new capacity is far behind schedule. The machine building industries will concentrate on producing the capital equipment required by these basic industries. State investment expenditures on machinery and equipment will increase by 20 percent, from 55 to 60 billion rubles. Production of agricultural machinery, however, still has high priority. Growth rates in heavy and light industry were cut back about equally.

Consumer Welfare: The budget provides for a substantial reduction in the state loan and higher personal income tax exemptions, and more than half of the increase in total budget expenditures is allocated to health and welfare measures. Although investment in housing is increased from 25 to 30 billion rubles and loans to private builders will increase six times, no change in the original housing goals for 1960 is apparent. The planned 9.5 percent increase in agricultural production in 1957 assumes that the extremely favorable weather conditions of 1956 will recur. Thus prospects for the Soviet consumer in 1957 appear essentially unchanged.

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Military Allocations: The announced military allocation decreased from 102.5 billion rubles planned for 1956 to 97.6 billion in 1957. Although information is incomplete, this allocation is not inconsistent with the announced Soviet demobilization of 1.2 million men. If this demobilization has in fact been completed, the 1957 allocation could allow an increase in military procurement of approximately 10 percent. On the other hand, if demobilization was limited to the 400,000 soldiers who apparently joined the labor force in 1956, 1957 procurement may be held at about 1956 levels.

Prospects: Soviet economic problems appear to be more serious than had previously been thought. Pervukhin's more realistic approach may in the long run bring industrial growth back to the rate of previous years. In the short run, however, the planned rate of growth will be the smallest for any peacetime year since 1928. The Soviet leadership will have to accept at least a temporary delay in the race to "catch up with the West!"

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2. NEHRU DISTURBED OVER POSSIBLE CONSEQUENCES OF HIS KASHMIR POLICY

Indian prime minister Nehru is at his "wit's end" as to what to do about Kashmir, [redacted]

[redacted] Nehru is fully aware, [redacted] that a plebiscite there would go against India.

Nehru will continue to argue that Kashmir has belonged to India since 1947 and that the UN has no competence to probe into a nation's internal affairs. He fears, however, that such a stand will compromise his own moral position and that Indian refusal to accept the Security Council resolution of 24 January will damage the authority of the UN.

Nehru is said to fear Pakistan border raids which may eventually involve the Pakistani armed forces and end in war, and to feel that President Eisenhower is "our one hope of restraining the Pakistanis."

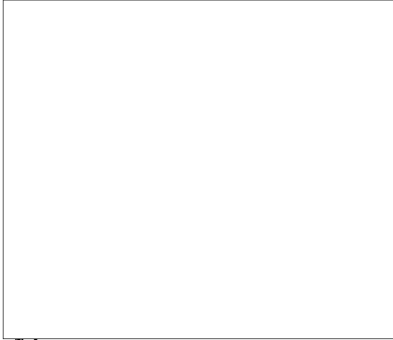
Comment

Nehru's reported attitude probably reflects a recognition that his position on Kashmir is seriously threatened for the first time.

Since the UN last considered the case in 1952, India's prestige has risen and Nehru feels particularly sensitive to attack on moral grounds. He may also feel that the capability of the United Nations to deal with such problems as Kashmir has increased. If Pakistan withdrew its troops from Kashmir--removing India's strongest objection to holding a plebiscite--New Delhi would have only the dubious legality of the Maharajah's accession in 1947 on which to lean. The 10-0 vote in the Security Council on 24 January may have convinced Nehru that this argument will be received unsympathetically.

3. PATHET CHIEF RETURNS TO VIENTIANE

Comment on:



Pathet Lao chief Souphannouvong's return to Vientiane on 4 February would appear to signal a Pathet drive to win final approval for the formation of a coalition government under the terms of its 28 December agreement with Prime Minister Souvanna Phouma. Despite increasing criticism of the agreement and cabinet demands for additional

safeguards, Souvanna maintains that a mutually satisfactory position will be quickly reached and assembly approval will follow.

the Pathets and Viet Minh viewed the growing opposition with apprehension and Souphannouvong was summoned to Hanoi for consultation on 23 January.

The issue hinges on the degree to which the Pathets are willing to meet cabinet demands for the dissolution of the Pathet movement and the restoration of effective government control over the two disputed provinces. It seems likely that Souphannouvong will offer some formula which will satisfy the form, if not the substance, of the cabinet's demands.

Meanwhile,

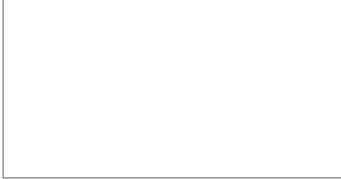
the Pathets are anxious to win legal status for their front organization in order to launch a campaign for the supplementary elections, which will probably be held in April.

they are hopeful of coming to an agreement on campaign co-operation with the non-Communist Independent Party and the National Union Party of fellow-traveling Bong Souvannavong. A measure of Pathet confidence in their prospects is that after the elections they would "demand to have important ministries!"

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4. SINO-CEYLONESE COMMUNIQUE

Comment on:



The joint communiqué issued on 5 February in Colombo by Premiers Bandaranaike and Chou is a propaganda victory for Chou, and will help to offset the fact that he obtained no joint communiqué from Nehru and only noncommittal statements from the other Asian leaders he has visited since his return from Moscow. The statement reflects the Communist view on several key issues and criticizes American policies.

On the question of Middle East developments the communiqué echoes Communist propaganda ridiculing the concept of a power vacuum and charging the US with trying to take over the position formerly occupied by Britain and France. The statement also attacks "antagonistic military blocs," stressing the need for prohibition of nuclear weapons and calling for an end to nuclear weapons tests.

The communiqué calls for stronger Asian-African solidarity to combat the efforts of "imperialist and colonial forces" and declares that another Asian-African conference should be convened "at the earliest opportune moment." Peiping and Moscow both had earlier indicated approval of Indonesian suggestions for a second Bandung conference.

Bandaranaike probably acquiesced in Chou's wording on several points on which the Ceylonese prime minister himself does not feel strongly and which he does not intend to press. A number of views expressed in the communiqué are also held by other South Asian nations.



5. U NU'S POLITICAL OPPONENTS FEAR HE WILL MAKE PEACE WITH COMMUNIST INSURGENTS

[redacted]

[redacted] The Burma Socialist Party, which dominates the government coalition, suspects that U Nu, soon to return as Burma's prime minister, is considering acceptance of the insurgent Burma Communist Party's recent peace offers, [redacted]

[redacted] both the Socialists and the army strongly oppose such action and would resist any move Nu might make in this direction.

[redacted] the Socialists were concerned over the possibility Nu may attempt to include members of the parliamentary opposition--presumably the Communist-controlled National United Front (NUF)--in his new cabinet. [redacted]

Comment Although these views may be colored by the fact that both ministers belong to that section of the Socialist Party which is bitterly opposed to Nu, there may be some substance to the statements.

As an incoming prime minister, Nu may be planning to offer a program with a "new approach" to the solution of Burma's most serious problems. Some kind of negotiations with the insurgents and an effort to establish a coalition with the NUF might well be part of such a plan, as there is considerable sentiment in Burma for the nine years of insurgency to end.

The Communist insurgents have made several unsuccessful approaches to the government during the past year for a negotiated settlement in order to operate as a legal political party. The government, however, has consistently refused to deal with the Communists as equals and has insisted that the insurgents surrender with their arms before negotiations take place.

6. MOSCOW STEPS UP ATTACK ON NATIONAL COMMUNISM

Comment on:



An article in the 3 February issue of Soviet Russia, entitled "Concerning False Slogans of National Communism," contains specific attacks on members of the Yugoslav, Polish and United States parties.

Such attacks, if continued, may cause the Gomulka leadership in Poland to take an even more definitive stand in defense of national Communism and lead to a more overt Soviet campaign against that leadership. At the same time, this type of attack will encourage pro-Soviet elements in Poland to believe that their cause is not yet lost.

The article cites US official and press statements as depicting national Communism as a tactical weapon which can be used to "divide and conquer" and equates national Communism with "national opportunism." It attacks Yugoslavia for attempting to substitute coexistence for proletarian internationalism in relations between socialist states. It criticizes statements "in Yugoslavia, and also in some organs of the Polish press, . . . in which national peculiarities are emphasized one-sidedly and their 'particular roads' are advanced as the first plan for the achievement of socialism."

The continued attack on the Yugoslavs tends to belie the rumors circulating in Belgrade that Khrushchev offered Tito some form of "olive branch" when he talked with the Yugoslav ambassador to Moscow on 28 January shortly before the latter returned to Belgrade. 