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15 December 1955

CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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THE WEEK IN BRIEF

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PART I

OF IMMEDIATE INTEREST

BERLIN SITUATION Page 1

The USSR is permitting the East German government to continue its public claims of authority over East Berlin, but apparently will not authorize at this time direct East German interference with the position of the Allies in West Berlin. Tension and pressure are being maintained by recurrent Soviet emphasis on East German sovereignty over East Berlin, alternating with statements by Soviet and East German officials that the four-power status of the divided city is unchanged. [redacted]

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THE BULGANIN-KHRUSHCHEV TOUR Page 2

In their joint communiqué of 13 December, the Soviet leaders and Prime Minister Nehru went on record as being in agreement on a number of international issues. Moscow, for its part, will use the communiqué to show India's support for the Soviet Union's policies. A new trade agreement announced at the conclusion of Bulganin's and Khrushchev's visit to India commits Moscow to supply India with 1,000,000 tons of steel over the next three years and sets the stage for considerably expanded Soviet-Indian economic relations. In Burma, the Soviet leaders' visit may have had the effect of adding impetus to the trend toward closer relations with the Sino-Soviet bloc. During their stay in Afghanistan, the Soviet leaders undoubtedly will also make favorable economic offers, including arms shipments. [redacted]

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FRENCH ELECTION PROSPECTS. Page 4

The large number of party slates in the 2 January elections for the French National Assembly and the restricted scope of party alliances rule out the possibility of achieving a stable majority. The Communists are almost certain to increase their representation--possibly by as much as 30 to a total of about 125. Mendes-France admits privately that his alliance, including the Socialists and part of the Radicals, can win only about 150 of the 596 seats. The support of the Gaullist groups will probably be spread from the Socialists to the extreme right, the bulk going to Pinay's Independent bloc which may obtain about 150 seats. With little change anticipated in the strength of the Popular Republicans and Faure's Radicals, the present government coalition could muster about 275. [redacted]

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THE WEEK IN BRIEF

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NATIONALIST CHINA'S VETO
IN THE UNITED NATIONS. Page 6

Nationalist China's veto on 13 December of Outer Mongolia's application for UN membership was cast in full knowledge that such action might lead to moves in the UN to unseat it. Brazil, Colombia, and Sweden had previously said they would move for Taipei's ouster if it used the veto on the issue. The admission of the 16 nations on 14 December, however, removes much of the pressure behind any movement to exclude the Chinese Nationalists at this session. The rejection of Japan's membership application may have extensive political repercussions in Japan [redacted]

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JORDAN AND THE BAGHDAD PACT. , Page 7

Jordanian political leaders are split sharply over the issue of the country's adherence to the Baghdad pact. While King Hussain and leaders from East Jordan favor adherence, representatives from the western area where Palestine refugees are concentrated are strongly opposed. There is a possibility of serious agitation and rioting in West Jordan should the government announce adherence. [redacted]

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PART II

NOTES AND COMMENTS

Arab-Israeli Situation: Israeli troops raided Syrian positions near the shore of Lake Tiberias on 11 December. The latest round of talks between UN truce chief, General Burns, and the Egyptian and Israeli leaders has resulted in no appreciable progress toward adoption of the UN proposals for maintaining peace in the El Auja demilitarized zone.

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[redacted] Page 1

French North Africa: The movement for complete independence is gathering strength in French North Africa. Encouraged by the gains the nationalists have made in Tunisia and by French-Moroccan negotiations, the Algerians are preparing to seek a new relationship with France. The French government has indefinitely postponed parliamentary elections in the four Algerian departments. [redacted]

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Cyprus: The prospects for renewed discussions of the Cyprus problem between the British governor of the colony and Cypriot archbishop Makarios appear to have improved since the British on 9 December suggested to Athens a revised formula for settling the dispute. Athens is likely to urge Makarios to resume negotiations on the basis of the British proposal. The archbishop stated publicly on 11 December that his talks with Governor Harding might soon be resumed. [redacted] Page 4

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Turkey: The new Turkish cabinet has been approved by the Democratic Party caucus and should have no major difficulty winning a vote of confidence in the Grand National Assembly, probably on 16 December. The vote in the assembly, where party loyalties are reflected, is not likely to indicate the extent and intensity of the opposition to Prime Minister Menderes or his policies. Unless Menderes proves his willingness and ability to cope with Turkey's basic economic problems, the cabinet may fall again within a few months. [redacted] Page 5

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Plans for Egyptian Parliament: Egyptian prime minister Nasr has set 16 January as the date on which he will announce plans for re-establishing a national parliament. The narrow range of powers which the regime intends to allow the parliament makes it unlikely that the move will arouse much popular enthusiasm. [redacted] Page 5

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Electrification of Soviet Railways: According to recent announcements, the USSR intends to electrify the Trans-Siberian railway from Moscow to Irkutsk during the sixth Five-Year Plan (1956-1960). Mainline steam locomotives are to go out of production during 1957, and the percentage of total freight hauled by diesel and electric locomotives is to increase from about 10 percent to 40-45 percent by 1960. [redacted] Page 6

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South Vietnam: Communist propaganda from Hanoi is denouncing the forthcoming election of a national assembly in South Vietnam, and according to President Diem, the Viet Minh has intensified subversive activities in the country. Diem is seeking to counter Communist influence by establishing a village defense force and resettling anti-Communist refugees from the north in areas where Communist cadres are active. [redacted] Page 8

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Laos: The Pathet Lao attack against royal government troops southeast of Muong Peun on 5 December appears to have been a localized skirmish rather than the signal for military action throughout northern Laos. The government forces repulsed the attempt to cut their line of communications and have forced the enemy's retreat. [redacted] Page 8

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Satellites Move to Improve Relations With United States: Ex-
pressions of interest by East European countries in improv-
ing relations with the United States have now been followed
by action. On 28 November, negotiations on outstanding
economic problems began in Prague between the United States
and Czechoslovakia, and on 7 December, Rumania granted 13
long-denied exit visas requested by the United States.
Polish and Hungarian officials have also expressed interest
in negotiating outstanding problems with the United States.
[redacted] Page 9

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USSR Returning Satellite Prisoners: A former anti-Communist
Hungarian political leader who had been imprisoned in the
USSR for more than eight years is reported to have been
returned to his homeland and to be under detention there.
This is the first indication that Soviet authorities may
have begun to return Satellite nationals accused of polit-
ical crimes as well as those sentenced for war crimes.
[redacted] Page 10

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Hungary's Relations With Yugoslavia: Recent reports indicate
that the Hungarian regime may be falling in line with the
other Satellites in improving relations with Yugoslavia.
Hungary apparently is prepared to begin payments on Yugoslav
economic claims and to repudiate the anti-Tito Rajk trial
held in 1949. [redacted] Page 11

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Argentina: The Aramburu government is continuing efforts to
reduce Peronista strength and placate divergent political
elements among its own supporters. No substantial threat
to the regime has materialized to date. [redacted] Page 12 (b)(3)

PART III

PATTERNS AND PERSPECTIVES

MENDES-FRANCE AND THE FRENCH ELECTION. Page 1

Much of ex-premier Mendes-France's effort in the French
election on 2 January will be directed toward those Frenchmen
who have traditionally voted against the government in power
in protest against the established order. He feels that this
protest vote, which has been a major part of Communist strength,
must be won over to a new and dynamic non-Communist program if
France is to achieve political stability. He is counting heavily
on the Socialists for the base of his "Republican Front," but
his success will depend to a large extent on retaining the sup-
port of his own Radical Socialists. [redacted] (b)(3)

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REVOLUTIONARY PLOTTING IN CENTRAL AMERICA. Page 4

Central America is again being shaken by rumors of impending revolutions. High officials of the Venezuelan and Nicaraguan governments claim to have evidence that Costa Rica is the center of an international conspiracy aimed at ousting various anti-Communist governments in the area, including that of Nicaragua. The Costa Rican government, on the other hand, gives credence to rumors that it is about to be attacked from Venezuela and/or Nicaragua. Internal pressures are building up in Nicaragua and El Salvador which may lead to violence in these countries.

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SHORTAGES OF KEY RESOURCES SLOW WESTERN EUROPEAN BOOM. . . Page 6

Western Europe's three-year economic boom is being slowed down by shortages of skilled manpower and coal and steel. These shortages have generated inflationary pressures and contributed to trade deficits. There will probably be a further slowdown in the rate of economic expansion in 1956, but improved basic conditions and the financial policies of the governments make the recurrence of an economic crisis unlikely at this time.

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STRAINED RELATIONS BETWEEN GREECE AND TURKEY INTERFERE WITH REGIONAL CO-OPERATION. Page 12

The continuing diplomatic "cold war" between Greece and Turkey makes unlikely the resumption of full Greek participation in the Balkan pact and NATO until Athens can present some semblance of a diplomatic victory over Turkey to the Greek people. The jockeying between the two countries over issues arising from the anti-Greek riots in Istanbul and Izmir last September reflects their traditional competition for prestige in the eastern Mediterranean and more recently for American favors. Athens apparently feels that the riots and the Greek defeat in the UN on the Cyprus issue seriously damaged Greek prestige, and is seeking a way to redress the balance.

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PART IV

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PART I

OF IMMEDIATE INTEREST

BERLIN SITUATION

The USSR is permitting the East German government to continue its public claims of authority over East Berlin, but apparently will not authorize at this time direct East German interference with the position of the Allies in West Berlin. Tension and pressure are being maintained by recurrent Soviet emphasis on East German sovereignty over East Berlin, alternating with statements by Soviet and East German officials that the four-power status of the divided city is unchanged.

A Soviet protocol officer told several correspondents on 8 December that the USSR had no intention of tearing up any four-power agreements and would continue to respect Allied rights in East Berlin. He said that nothing had been changed, despite Soviet commandant Dibrova's statements on the incident involving American congressmen. He repeated Dibrova's assertion, however, that East Berlin is no longer occupied territory and is the capital of a sovereign East Germany. Soviet ambassador to East Germany Pushkin, in a formal note of 14 December to the three Western ambassadors, reiterated completely Dibrova's position that East German authority extends to East Berlin.

As long as Soviet authorities act as intermediaries for

American nationals on duty in Germany, the USSR will argue that the four-power status of Berlin remains unchanged. The West considers, however, this concept to have been narrowed by the Soviet assertion of East German sovereign authority in East Berlin.

East German deputy premier Nuschke told a correspondent that the Allies had uncontested freedom of movement in East Berlin, and that there would probably be no further arrests like that of the congressmen on 27 November, which he said was made by a "simple-minded" policeman. He argued, however, that incidents would be less likely if American authorities provided the East Germans with advance notice of such trips. He ruled out the possibility of a new blockade of Berlin.

It appears that the Soviet Union, desiring to build up the prestige of the East German government, is permitting it to assert authority in East Berlin, and that Soviet authorities will step in to prevent any serious interference with Allied travel to West Berlin or in East Berlin. East Germany will probably be given more latitude to exploit every opportunity to press the West Germans to negotiate and submit to East German authority on such matters as visas, permits and police regulations.

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Bonn ministries are currently studying what reply should be sent to East German transport minister Kramer, who in November sent a letter to his West German counterpart, Seebohm, proposing the joint issuance of permits for new

barges using interzonal waterways. Bonn is aware that to act on Kramer's proposal would lead to a joint meeting of ministers, which would be unprecedented and might convey an impression of GDR legitimacy.

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THE BULGANIN-KHRUSHCHEV TOUR

India

The Soviet leaders ended their visit in India on 13 December with another denunciation of the West and colonialism, with special emphasis on the status of Goa and Kashmir. Their speeches continued to be strikingly indicative of the differences in the personalities and positions of the two men. Khrushchev has been outspoken and taken stands on specific issues while Bulganin, on the other hand, has been much more conservative and general in his approach.

In their joint communiqué of 13 December, the Soviet leaders and Prime Minister Nehru sought to go on record as being in agreement on a number of international issues. Moscow, for its part, has tried to use the communiqué to show India's support for the Soviet Union's policies. The absence of any statement on anticolonialism was probably the result of the restraining influence of Prime Minister Nehru, who reportedly was pressed by the Soviet leaders to include statements on Goa and Kashmir.

The declaration supported the Nehru-Chou "five principles," Communist China's claims to Taiwan and a UN seat, and elevation

of the Geneva ambassadorial talks between the United States and Communist China to a higher level. The declaration also condemned the formation of military blocs--a statement not contained in the declaration issued at the conclusion of Nehru's visit to Moscow in June and apparently aimed primarily at the Baghdad pact.

A supplementary communiqué on Soviet-Indian economic relations suggested that for practical purposes New Delhi has accepted the formal Soviet proposal to construct a steel works at Bhilai. The \$95,000,000 project, the largest ever undertaken by Moscow in a non-Communist country, will probably become a central theme in the USSR's current drive to impress underdeveloped countries with the sincerity of its offers and its ability to deliver. Although no other specific projects are mentioned in the communiqué, earlier reports indicate that Moscow is interested in many phases of the forthcoming Indian second Five-Year Plan, particularly in the electrification program.

While the agreement sets the stage for considerably expanded economic relations and calls for an exchange of delegations to work on further

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contracts, there is no statement on the extent to which trade will play in the picture. The communiqué announced, however, that Moscow will "considerably" increase its purchases of Indian goods in the next year in an effort to cover the cost of the Soviet shipments of plants and equipment. To assure a smooth flow of goods, Moscow and New Delhi will organize a shipping route between Indian and Soviet ports using ships of both countries.

The new trade agreement announced at the same time as the communiqué commits Moscow to supply India with 1,000,000 tons of steel over the next three years. Moscow's willingness to alleviate the severe Indian steel shortage at the expense of Soviet domestic requirements underlines the Kremlin's desire for Indian good will.

The USSR apparently plans, as part of its new assistance program, to use increased numbers of Communist technicians to construct industrial installations in foreign countries. In this connection the decision to supply India with equipment for oil and mining activities is obviously tied to the presence of Soviet technicians now investigating the possibilities of developing these industries in India.

Burma

In addition to the Soviet-Burmese declaration at the end of the leaders' visit, new agreements were reached under which the USSR apparently will take additional quantities of surplus Burmese rice in exchange for Soviet agricultural and industrial assistance. The Soviet

Union's willingness to permit deferred payment in rice for the goods and services it will provide indicates that it envisions a program considerably larger in scope than could be arranged under the existing three-year barter agreement.

In an initial analysis of the Khrushchev-Bulganin visit, the American embassy commented that it provided added impetus to the trend toward closer relations between the Sino-Soviet bloc and Burma. The embassy believes the trend can be checked, however, especially if markets can be found in friendly non-Communist countries for Burmese rice.

Local Communist tactics in Burma--particularly the surrender offer--appear to be aimed at influencing the Burmese government, rather than overthrowing it, according to the American embassy. The Soviet Union and Communist China are believed to have convinced most Burmese that they support the present government and that local Communists are no longer a threat.

Afghanistan

Bulganin and Khrushchev arrived in Kabul on 15 December after a day's delay because of bad weather. Soviet efforts to extend the stay of Bulganin and Khrushchev in Afghanistan from three days--as preferred by the Afghans--to five days apparently have been successful. Invitations for a reception on the fifth day of their visit have been sent out by the Afghan government. In view of the length of the visit, original Afghan plans will have to be considerably expanded. Soviet representatives in Kabul have been busily preparing for the visit

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but, according to Foreign Minister Naim, their requests for mass rallies to greet the Soviet leaders have been denied because of "bad weather."

Naim believes the visit of the Soviet leaders will be "less triumphal" than was the case in India and Burma, with only a minimum of speeches scheduled. In view of Khrushchev's informal behavior in India and Burma, however, there appears to be only an outside chance that he can be restrained from addressing the Afghan populace.

The Soviet leaders are almost certain to take a stand on supporting the Afghans and denouncing the Pakistanis on the Pushtoonistan issue, just as they supported India on the status of Kashmir. In view of the widely publicized concern in non-Communist countries

over Afghanistan's increasing economic dependence on the Soviet bloc, the Soviet leaders probably will make a special effort to convince the Afghans that the USSR has no designs on Afghanistan and that Moscow's primary wish is to conduct its relations along the lines of good-neighbor lines and the "five principles."

The American embassy believes the Soviet leaders will make the most headway in further economic agreements, possibly including deals for Soviet bloc arms. According to press reports of 13 December, the USSR plans to facilitate Afghanistan's trade with the Far East by shipping Japanese goods destined for the Afghans via Soviet Siberia, thereby avoiding the delays that have been encountered by sending these shipments through Pakistan.
(Concurred in by ORR)

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FRENCH ELECTION PROSPECTS

The large number of party slates in the 2 January elections for the French National Assembly and the restricted scope of party alliances rule out the possibility of achieving a stable majority.

The Communists are almost certain to increase their representation--possibly by as much as 30 to a total of about 125. Mendes-France admits privately that his alliance, including the Socialists and part of the Radicals, can win only about 150 of the 596 seats.

The support of the Gaullist groups will probably be spread

from the Socialists to the extreme right, the bulk going to Pinay's Independent bloc which may obtain about 150 seats. With little change anticipated in the strength of the Popular Republicans and Faure's Radicals, the present government coalition could muster about 275. (For an analysis of Mendes-France's role in the elections, see Part III, p. 1.)

With elections for the 30 Algerian deputies indefinitely postponed because of the local situation, the 103 districts of metropolitan France have nearly 1,000 party lists and over 5,000 candidates--25 percent

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more than in 1951. Many of these lists have only nuisance value, but local issues may complicate the situation for most of the national parties to the advantage of the better disciplined Communists.

The Communist Party's improved prospects, despite its lack of alliances, stems mostly from dissension among the middle-of-the road parties. Unlike 1951, when the center groups combined forces in 83 election districts to block both Communists and Gaullists, major non-Communist alliances are competing with each other in 56 of the 95 constituencies where affiliation of party lists is permitted. In 28 other districts, a single alliance involving some of the non-Communist parties has been made, and only in 11 constituencies have no alliances been reached.

The chances of any one affiliation winning a majority of the votes in a given district are considerably reduced in comparison with 1951, when 38 alliances got all the seats in their respective districts on that basis. An increase in the number of Communist deputies is practically assured because the percentage of Communist votes is not expected to drop appreciably, and in 1951 the party's popular vote warranted about 50 more deputies if proportional representation had applied generally, as it will this time.

Mendes-France has split the Radical Socialist Party in an effort to build a non-Communist left-wing majority. His "Republican Front" is based primarily on the Socialists, with minority Gaullist support. The government coalition has formed less extensive lists than had

been anticipated, partly because the Popular Republicans, reluctant to widen their drift from the Socialists, with whom they had 51 affiliations in 1951, rejected alliances with the Independents in a number of districts.

The major factor which will be difficult to assess is the remarkable increase in registration, which boosts the number of those eligible to vote to over 26,000,000--some press reports give 30,000,000--compared to 24,500,000 in 1951. An increase of over 1,000,000 voters in the 17 November social security elections was distributed evenly over all the major party lists, and there is little evidence of a stampede to any one party now, despite the efforts of the Mendes-France group to play up the large registration as evidence of opposition to the Faure coalition.

Many late registrants seem to be under the impression that voting is now compulsory, because the assembly had approved such a measure on first reading in November. Moreover, there will be an unusually high proportion of young voters. Both Pinay and Mendes-France opened their campaigns on 13 December by direct appeals to this group, stressing the desirability of reduced compulsory military service.

Another uncertain factor is the strength of the Poujade antitax candidates. They may be able to whittle away enough support from moderate rightist candidates to bring proportional representation into play and thus help the Communists in some districts where Communist representation would have otherwise been effectively excluded. Leaders of the Independent-Peasant-Gaullist bloc have already expressed some concern over this danger.

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NATIONALIST CHINA'S VETO
IN THE UNITED NATIONSEffect on Taiwan's Position

Nationalist China's veto on 13 December of Outer Mongolia's application for UN membership was cast in full knowledge of threats that such action might lead to moves in the UN to unseat Taipei. China's veto was followed by the Soviet veto of the 13 free world applications, thus defeating the 18-nation membership proposal. Brazil, Colombia, and Sweden had previously threatened to move for Taipei's ouster if it used the veto on the issue. The admission of 16 nations on 14 December, however, removed much of the pressure behind any movement to exclude the Chinese Nationalists at this session.

If the General Assembly concludes its session as scheduled on 16 December, the motion to oust Taipei from its permanent seat could be originated in the Security Council. Any attempt by one of the five permanent members to use the veto would probably result in the referral of the issue to the International Court of Justice for a ruling on whether the veto could legally be applied to such a motion.

The imminence of this session's closing and the need for UN members to get instructions from their governments make it more likely that the Chinese representation issue will arise at a possible spring session of the General Assembly and in any event at the regularly scheduled fall session. At that time, a residue of ill will over the sacrifice of Japan and the increase in strength of the Arab-Asian bloc, added to the growing UN desire to settle the Chinese representation issue,

may result in a defeat for the Chinese Nationalists.

In a 1950 resolution, the General Assembly reserved to itself the power to decide which membership credentials are valid. It further requested the other organs of the UN to abide by the will of the assembly. Any General Assembly action presumably would not legally endanger Taipei's permanent seat on the Security Council.

Taipei, however, may forestall attempts to remove it from the UN by walking out of the the international body.

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On 8 December Chiang informed Ambassador Rankin that Nationalist China would remain in the UN only as a symbol of anti-Communism. Except for this consideration, Chiang said, the Nationalists would be better off outside the UN because their continued presence could bring "more shame and disgrace to China."

Effect in Japan

In Japan, where support for the Chiang Kai-shek regime has never been strong, criticism is being directed primarily against Taiwan, but also against the

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United States and the USSR. Japan's rejection is likely to further weaken Japanese support for continued recognition of the Nationalist regime, and increase the already strong pressure for widening relations with the mainland. The government is also being attacked by the Socialists and even some members of the government party for its overdependence on the United States and for its refusal to conclude an early agreement with the USSR on normalization of relations.

Foreign Minister Shigemitsu, who is the greatest Japanese exponent for continued close cooperation with the United States, has told Ambassador Allison he

may be forced to assume responsibility for Japan's UN defeat and resign. The Socialists are planning a no-confidence vote against Shigemitsu in the Diet, and although it will probably fail, Prime Minister Hatoyama may take the opportunity to shelve the foreign minister for differing with his own more conciliatory policy toward the USSR.

Hatoyama has told the Japanese press that the only way now to ensure Japan's entry into the UN is to bring about an early normalization of relations with the USSR. He indicated he would be willing if necessary to visit the Soviet Union.

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JORDAN AND THE BAGHDAD PACT

Jordanian political leaders are split sharply over the issue of the country's adherence to the Baghdad pact. While King Hussain and leaders from East Jordan favor adherence, representatives from the western area, where Palestine refugees are concentrated, are strongly opposed. There is a possibility of serious agitation and rioting in West Jordan should the government announce adherence.

The British offer to revise the Anglo-Jordanian treaty of 1948 and to increase equipment and financial aid to the Jordanian Arab Legion in return for adherence to the pact apparently won the support of the king and those members of the previous government who come from the eastern part of the country--"old Jordan" as it was called before the Palestine war.

Leaders from west Jordan, the area annexed after the Palestine war which contains the bulk of the half million Arab refugees who fled to Jordan from what is now Israel, see in the Baghdad pact a device which at least tends to distract attention from the Arab-Israeli dispute and which may limit Jordan's freedom of action in regard to Israel.

The west Jordan outlook was manifest in the hostile public attitude toward the visit of Turkish president Bayar to Jordan in November. It was also responsible for the fall of the Jordanian cabinet on 13 December, when four west Jordan ministers who refused to approve adherence to the pact resigned.

For these reasons King Hussain asked General Templer,

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chief of the British Imperial General Staff and Michael Rose, head of the Levant Department of the Foreign Office, who brought the British offers to Jordan, for time to prepare public opinion for the step. Templer was scheduled to leave for London on 15 December, but he is prepared to return to Jordan should further talks with the new government be needed.

The British Foreign Office is inclined to believe that the new government will be stronger

than the last and will not hesitate to join the pact.

Egyptian intrigue and Saudi Arabian money will be brought to bear against a favorable decision. The memory of the assassination in 1951 of King Abdullah, who also was accused of softness toward Israel, is likely to be evoked. Rigorous security measures will therefore be necessary if Jordan does join the pact, and the decision, whichever way it goes, will probably continue to be an issue dividing the country for some time to come.

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PART II

NOTES AND COMMENTSArab-Israeli Situation

Israel raided Syrian positions near the shore of Lake Tiberias on 11 December. The latest round of talks between UN truce chief General Burns and the Egyptian and Israeli leaders has resulted in no appreciable progress toward adoption of the UN proposals for maintaining peace in the El Auja demilitarized zone.

An Israeli official told the American embassy in Tel Aviv that the raid was really "preventive" rather than "retaliatory," since the Israelis wished to teach the Syrians that they could not interfere with Israeli activities on Lake Tiberias. Israel claims the lake and all its shores are in Israeli territory.

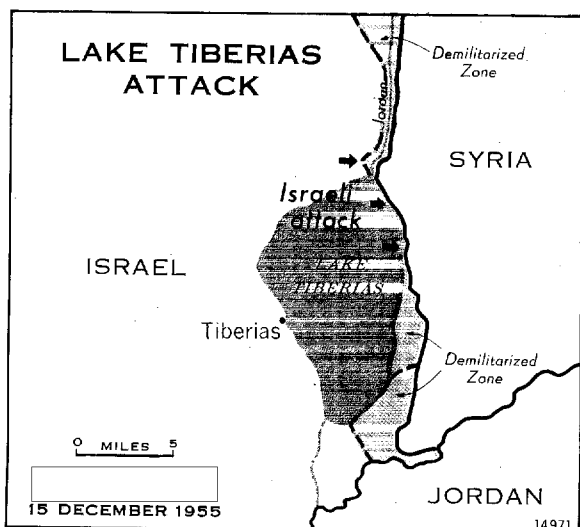
The action may also have been intended to test the newly created Syrian-Egyptian joint command. If Tel Aviv's object is to discredit the effectiveness

of this alliance, it may well have had initial success; the joint command headquarters reportedly refused to make any comment on the attack. Should the Israelis pursue these tactics further, however, Egyptian prime minister Nasr will be under considerable pressure to take some counteraction, since his failure to do so could result in a serious loss of Egyptian influence in Syria.

Egyptian recognition of this possibility is presumably behind Nasr's announcement on 15 December that Egypt and Syria will attack Israel on two fronts if there is "any further Israeli aggression."

Both the Israeli action and General Burns' conspicuous lack of success in bringing Egypt and Israel closer to a solution of the El Auja problem suggest that neither side any longer considers the UN a serious factor in the situation. The Israelis have shown for some time that this was their attitude by their tactic of calling the truce organization's attention to border violations and shooting incidents while neglecting to ask for formal investigations.

Reports from Cairo and Tel Aviv indicate that basic decisions on future policy are being held up pending the return of Israeli foreign minister Sharett from his trip to the United States and some announcement of the Western attitude toward Israel's request for arms.



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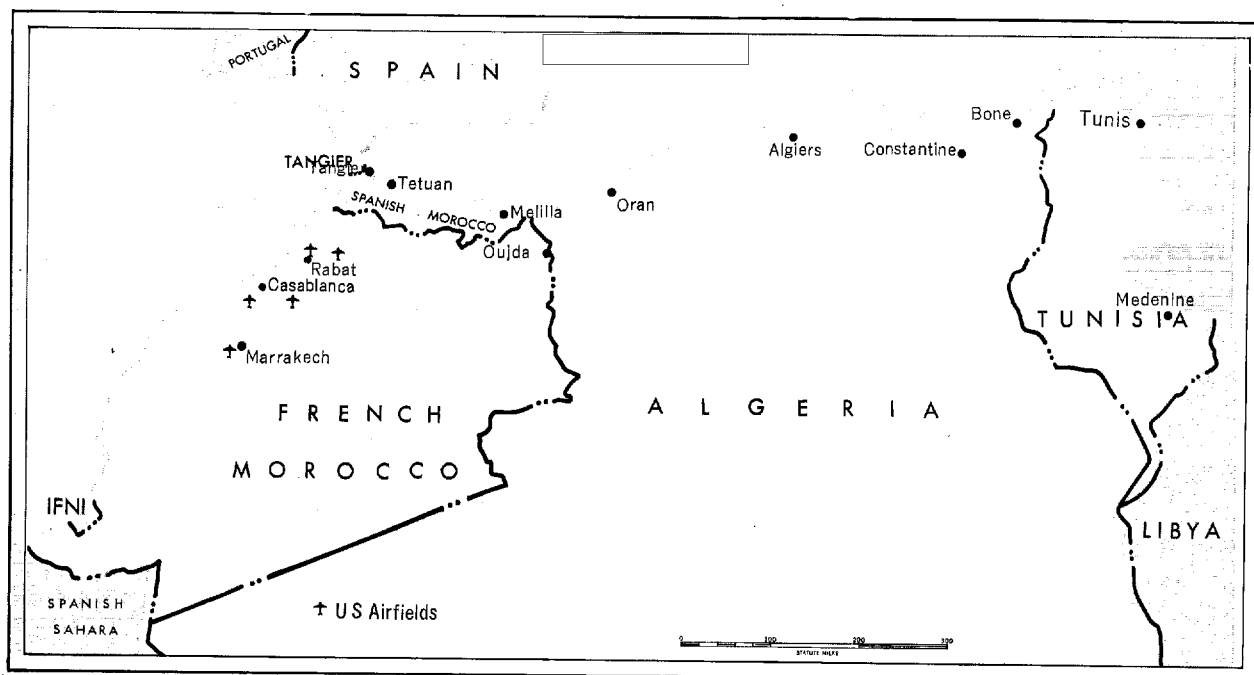
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French North Africa

The movement for complete independence is gathering strength in French North Africa. Encouraged by the gains the nationalists have made in Tunisia and by French-Moroccan negotiations, the Algerians are preparing to seek a new relationship with France. The French government has indefinitely postponed parliamentary elections in the four Algerian departments.

major routes, one extending south through Spanish Morocco from Melilla and the other across the Algerian border. Should the Spanish authorities tighten existing controls, the tribes would probably be supplied from Algeria.

In an apparent effort to force the Spanish high commissioner to proceed with his reported plan to establish an



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FRENCH MOROCCO

Berber tribal attacks continue in northeastern Morocco. French authorities fear that the rebellion may spread to the Beni Snassen tribe in the fertile Oujda area. Moroccan prime minister Si Bekkai, a member and former chieftain of this tribe, probably is being pressed by the French to exert his influence to prevent such a development.

American air force officials in Morocco believe the tribesmen are supplied by two

autonomous Moroccan government in Tetuan subordinate to the sultan in Rabat, Istiqlal leader Allal el Fassi and Islah (Spanish Morocco) leader Abdelkhalek Torres issued a joint communiqué on 10 December requesting Spain to free and unite its protectorate with the rest of Morocco. The eventual unification of Morocco, including the internationalized zone of Tangier, is a basic policy of all Moroccan nationalist groups.

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of liberal French settlers now being formed by Jacques Chevalier, mayor of Algiers.

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Meanwhile, the Moroccan Communist Party has stepped up its propaganda activities. Allegations by the French resident general that the Communists are involved in the tribal rebellion in the Rif have not been substantiated. The Moroccan Communist Party, however, is attempting to take credit for participation in the independence movement.

ALGERIA

The French government has indefinitely postponed the 2 January parliamentary elections in the four Algerian departments because of deteriorating public safety and indications of a widespread boycott by potential Algerian Moslem candidates as well as the voters.

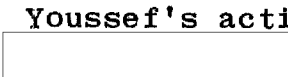
Sixty-one of the 91 Algerian Moslem members of various national elected bodies, known as the "61," appear to have solidified their organization formed in September. An "Action Committee of the 61" recently issued a communiqué calling for immediate negotiations by all representative political groups aimed at establishing a new Algerian Charter. This group may ally itself with the organization

TUNISIA

The French high commissioner announced on 8 December that France had turned over several internal security police units to the Tunisian government. Other units will be transferred gradually to Tunisian authorities. This development should strengthen the hand of the Ben Amar government, which is strongly criticized by sympathizers of extremist nationalist Salah ben Youssef as being too conciliatory toward the French. Under the French-Tunisian conventions, transfer of control over internal security forces was not scheduled until late 1957.

Ben Youssef is continuing his campaign both to discredit moderate leader Habib Bourghiba and to undermine the Tunisian government. On 10 December, several hundred demonstrators, probably followers of Ben Youssef, clashed with French troops while attempting to loot the Neo-Destour party headquarters in Medenine, southern Tunisia. Such clashes will probably continue unless the government soon acts to suppress Ben Youssef's activities.

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Cyprus

The prospects for renewed discussions of the Cyprus problem between the British governor of the colony and Cypriot archbishop Makarios appear to have improved since the British delivery in Athens on 9 December of a revised formula for settling the dispute. Athens is exerting pressure on Makarios to ensure that their positions are co-ordinated, and the archbishop stated publicly on 11 December that his talks with Governor Harding might soon be resumed.

Although the British ambassador in Athens was not encouraged by the initial reaction of the Greek foreign minister to the latest British revised formula, Athens is nevertheless likely to urge Makarios to resume negotiations on the basis of that proposal. Prime Minister Karamanlis evidently wants to continue his bargaining, and he would probably like to see new Makarios-Harding negotiations protracted until after Greek elections early next year in order to minimize the Cyprus issue during the election campaign.

Since the prime minister is now primarily concerned with avoiding Cyprus as an election issue, he will probably soft-pedal the controversy to avoid further incitement of popular emotions in Greece. King Paul, who reportedly favored support of London's original formula, and Foreign Minister Theotokis are probably reconciled to Britain's refusal to guarantee a time limit for self-determination.

In any new talks with Harding, Makarios will probably continue the moderate approach he took in the talks last month. Although Makarios has been criticized by the Communists and terrorist groups for his moderate stand, his position has probably been strengthened as a result of several recent developments. The British military operation in the Troodos Mountains on 11 December, for example, resulted in what appears to have been the first significant success of the British security forces to date against guerrillas of the terrorist organization EOKA.

Moreover, the Nicosia newspaper controlled by the Cyprus ethnarchy recently began warning the Cypriots against Communist intrigue to undermine Nationalist unity and destroy the gains already achieved under Makarios' leadership. The outlawing of the Cypriot Communist Party on 14 December and the arrest of 135 party leaders in an island-wide roundup by the British may also have the effect of easing the pressure of the extremists on Makarios and further strengthening his position.

In general, the circumstances appear favorable for an interim settlement at an early date. Although some extremists will probably persist in terrorist activities, gradual pacification of the island may follow as Makarios' followers in the countryside discontinue support of EOKA guerrillas.

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Turkey

The new Turkish cabinet has been approved by the Democratic Party caucus and should have no major difficulty winning a vote of confidence in the Grand National Assembly, probably on 16 December. The vote in the assembly, where party loyalties are reflected, is not likely to indicate the extent and intensity of the opposition to Prime Minister Menderes or his policies.

Menderes' decision to keep the national defense portfolio suggests his intention to continue personal domination of the government.

When the previous cabinet was forced to resign on 29 November, Menderes was able to obtain a narrow vote of "personal confidence." The party caucus agreed to give him another chance. Unless he proves

his willingness and ability to handle Turkey's economic problems, the cabinet may fall again within a few months. Menderes' new program provides several administrative and judicial reforms but apparently includes no major economic reforms.

A second cabinet crisis, possibly when the budget is debated in March, might end Menderes' political career. If he were dropped from the premiership, President Bayar would probably assume a more active leadership of the Democratic Party and of government affairs.

In a policy statement to the assembly on 14 December, the new government confirmed its position on the Cyprus question and its intention to continue working for the development of the Balkan pact.

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Plans for Egyptian Parliament

Egyptian prime minister Nasr has set 16 January as the date on which he will announce plans re-establishing a national parliament. This action will fulfill one of the long-standing promises made by Nasr's military regime. However, the narrow range of powers which the regime intends to allow the parliament makes it unlikely that the move will arouse much popular enthusiasm.

Ever since they overthrew the monarchy in 1952, the army officers who led the revolution have considered ways and means of returning Egypt to at least

ostensible civil control. A constitutional committee, named in January 1953, has produced drafts, but none of these seems to have found much favor with Nasr, in whose hands the decision rests. Nasr's problem is to institute constitutional arrangements which will preserve his own power against possible opponents both in and outside the present governing body, the Revolutionary Command Council (RCC), and which, at the same time, will not be too patently rubber-stamp in nature.

The solution Nasr and his close advisers have chosen

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is a strong executive, with Nasr as president and with the present members of the RCC--minus any who may be purged in the interim--as cabinet officers. The proposed parliament is usually envisaged as a largely appointed one in which interest groups, such as industrial and agricultural labor, industry, etc., rather than geographic constituencies will be represented.

Such a constitutional structure closely resembles the corporate state outlined in Italian Fascist theory. The prototype of the Cairo regime's conception, however, is reportedly Portugal under Salazar, whose example presumably is more palatable than Mussolini's. A parliament composed on these lines has the advantage of avoiding popular elections. Such a parliament of interest groups also practically ensures the political anonymity of its members, who, if known to the

public at all, are identified with the groups they represent rather than as individual leaders.

The RCC has indicated that a considerable share in a new parliament would be given to organized industrial labor, a group which the regime has sought to use to develop the mass base of support which it lacks. During the last six months, however, this still relatively small group has shown little interest in the RCC's proposals, regarding with indifference the possibility of representation in a powerless parliament whose members would be hand-picked. Regardless of how adroit the constitutional arrangements are, this indifference is likely to be the reaction of the Egyptian public as well, and the regime may find that in instituting a parliament of this kind it will lose rather than gain popularity.

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Electrification Of Soviet Railways

According to recent announcements, the USSR intends to electrify the Trans-Siberian from Moscow to Irkutsk. Main-line steam locomotives are to go out of production during 1957, and the percentage of total freight hauled by diesel and electric locomotives is to increase from about 10 percent to 40-45 percent by 1960.

Plans for electrification after 1960 include the remaining stretch of the Trans-Siberian from Irkutsk to Vladivostok, a Moscow-Black Sea-Sochi line, a Moscow-Sverdlovsk line, a Moscow-Leningrad line, and several important shorter stretches. By 1965 diesel and electric locomotive freight haulage is scheduled to rise to 80-85 percent of total haulage.

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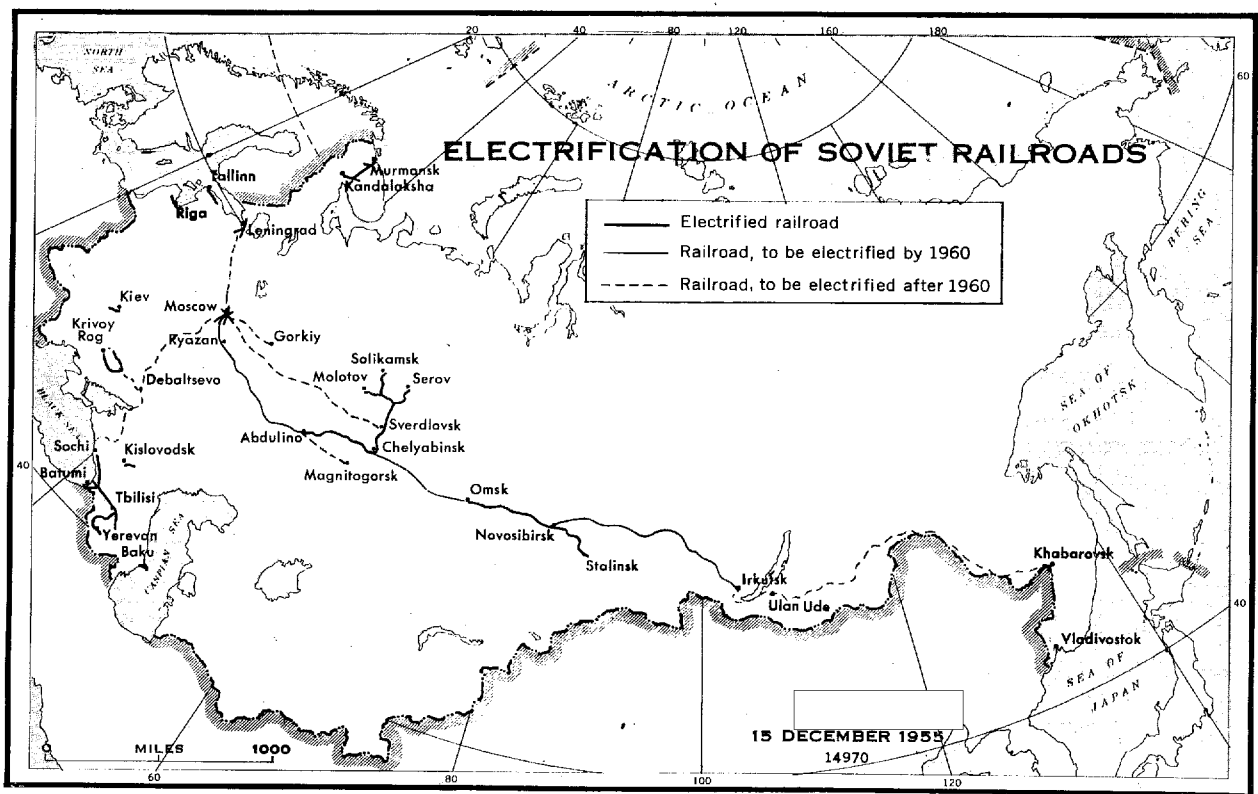
Advantages of railway electrification over steam location are higher speeds, heavier loads, lower maintenance costs, higher degree of readiness for operation, and savings of high-quality coal. Diesel engines have, in general, similar advantages over steam locomotion. Dieselization costs less than electrification, and is therefore preferred in areas of relatively lower traffic densities and longer hauls.

Less than one fourth of the 3,320-mile stretch from Moscow to Irkutsk is now electrified, and the remaining distance is about equal to the 2,500 miles of line electrified in the Soviet Union in the past quarter century.

When this project is completed, the electrified portion of the Trans-Siberian,

with a sizable increase in capacity, will not only serve the rapidly developing Irkutsk area but will also reach almost to Ulan Ude, the junction with the new Mongolian railway to China. Electrification to this junction, including a difficult stretch around the southern tip of Lake Baikal with many tunnels, will probably soon follow.

The intention to end steam locomotive production in 1957 indicates that plans have been radically revised since May 1954, when First Deputy Premier Kaganovich announced that during the 1956-60 plan, 6,000 steam, 2,000 diesel-electric, and 2,000 electric locomotives would be needed. If steam locomotive production ends in 1957, only 2,000 or 2,500 will probably be built during the coming plan period. [redacted] (b)(3) pared by ORR)



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South Vietnam

Viet Minh propaganda is devoting considerable attention to the forthcoming elections for a national assembly in South Vietnam, which will probably be held sometime before mid-February. It describes them as an integral part of a plot to "wreck the Geneva agreement, integrate South Vietnam into the SEATO bloc, and rekindle the war." One broadcast noted that the experiences gained in struggling against the October referendum on Bao Dai's future provides "ample means of opposing the American-Diem plot for wrecking peace and unification."

Recent reports credit the Viet Minh with an increased capacity for infiltration, sabotage and terrorism at the village level in South Vietnam,

especially in the area west of Saigon. Viet Minh infiltration of the Hoa Hao dissidents in this area is apparently making headway and President Diem has described the situation as critical. The Viet Minh may hope to utilize the Hoa Hao rebels as a front to harass the Diem government, and thus avoid open violation of the Geneva terms.

To counter Viet Minh influence in rural areas, Diem has inaugurated a village self-defense corps. In addition, he has decided to resettle approximately 100,000 northern refugees in western South Vietnam. The presence of these anti-Communist refugees will ultimately aid greatly in eliminating the security problem in that region. [redacted]

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The Pathet Lao attack against royal government troops southeast of Muong Peun on 5 December now appears to have been a localized skirmish rather than the signal for military action throughout northern Laos. The government forces repulsed the attempt to cut their line of communications and have forced the enemy's retreat.

The American army attaché in Vientiane reports that the government troops demonstrated a reasonably good degree of combat effectiveness. French air supply, on which the troops

involved were totally dependent, continued during the operation.

Government commando units reportedly have also retaliated in other areas, attacking Pathet Lao munitions depots. Reports on the extent of this activity, which could provoke a strong enemy reaction and expand the present hostilities, are fragmentary. Premier Katay, however, has told the American ambassador that the government does not wish to press a counter-offensive prior to the National Assembly elections on 25 December. [redacted]

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Satellites Move to Improve Relations With United States

Expressions of interest by East European countries in improving relations with the United States have now been followed by action. On 28 November negotiations on outstanding economic problems began in Prague between the United States and Czechoslovakia, and since 7 December Rumania has granted 13 long-denied exit visas requested by the United States. Polish and Hungarian officials have also expressed interest in negotiating outstanding problems with the US, but no formal action has yet been taken by either government comparable to the Czech and Rumanian initiatives.

CZECHOSLOVAKIA

The announced objective of the talks in Prague is to normalize economic relations between the United States and Czechoslovakia insofar as possible under existing political circumstances. The current series of meetings caps several years of efforts to establish some mutual basis of discussion.

Czechoslovakia's approach however, makes it improbable that any quick settlement will be reached. Czechoslovakia has included in its agenda, proposals for a general discussion of all outstanding economic issues, including the problem of "economic discrimination" against Czechoslovakia, which is very important "since the United States had discriminated unscrupulously against Czechoslovakia." The Czechs are maintaining that there is a close relationship between the problem of discrimination and matters of compensation, which the United States is attempting to settle.

The American negotiators have, nevertheless, succeeded in introducing into the discussion their proposal for a lump-

sum settlement of \$45,000,000 for an estimated \$200,000,000 worth of American property nationalized, confiscated, expropriated or otherwise taken over in Czechoslovakia.

Other American objectives are a resumption of current payments and arrears under the surplus property agreement, in default since 1952; release of Czech crowns in the blocked US army crown account and the film account; resumption of service on defaulted dollar bonds; and the fulfillment of Czechoslovakia's contractual obligations to the International Business Machines Corporation.

Czechoslovakia hopes to re-establish economic relations as they existed prior to the Oatis case in 1951; to regain its GATT membership; and to secure American aid in the settlement of its Gold Pool claims, the proceeds of which would net it from \$7,000,000 to \$14,000,000. It also wishes the return of funds used to purchase a steel mill, later sold to Argentina by the United States.

RUMANIA

The Rumanian government, in its first specific action to comply with an American request that 371 American citizens and dual nationals be permitted to leave the country, granted ten long-denied exit visas on 7 December, and three more on 11 December.

Since early fall Rumania has evidenced interest in improving relations with the United States. In a two-hour conversation with American minister Thayer on 29 November, Rumanian-party leader Gheorghiu-Dej stressed the need to establish close cultural and economic relations and promised Rumanian co-operation in destroying the

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pyramid of retaliatory measures which has been built up. On 2 December, at Gheorghiu-Dej's suggestion, the American minister met with the Rumanian foreign minister to review relations between the two countries and delineate the specific problems affecting these relations.

The Rumanian position is that closer relationships could be developed. The Rumanians have indicated interest in exchanges of scientific and cultural personnel and have also made clear that they are willing to discuss a reopening of the USIS reading room in Bucharest, which was closed under Rumanian

pressure in 1950. They have also evidenced an intense desire to develop trade with the United States, particularly for agricultural and chemical industry machinery. The Rumanian officials proposed the exchange of permanent trade representations between the two countries.

On the other hand, Rumanian officials have evidenced extreme sensitivity to VOA and RFE propaganda, complained about US travel restrictions on the Rumanian diplomatic corps, and criticized the failure of the United States to support Rumanian membership in the United Nations. (b)(3)

USSR Returning Satellite Prisoners

A former anti-Communist Hungarian political leader who has been imprisoned in the USSR for more than eight years is reported to have been returned to his homeland and to be under detention there. This is the first indication that Soviet authorities may have begun to release Satellite nationals accused of political crimes as well as those sentenced for war crimes.

espionage against the Soviet Union, and had long been presumed dead.

Polish press reports since early November reveal that from 2,500 to 4,000 Polish nationals have been returned from the USSR. These returnees include World War II "war criminals," and possibly postwar political prisoners. The regime is apparently releasing and resettling these repatriates as quickly as possible.

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 Bela Kovacs, the former first secretary of the Hungarian Smallholders Party, was among a group of 500 Hungarians returned by the USSR last month. Over half of the group reportedly has been freed, but Kovacs, along with 230 others, allegedly is being held in a detention camp by Hungarian authorities, apparently awaiting an official review of his "case." Kovacs disappeared in 1947 after being accused of

The Hungarians and Poles may have been released in accordance with the terms of the 17 September Soviet amnesty, which, although technically applied only to Soviet citizens, may have been extended to include Satellite nationals as well. The return of these Satellite prisoners may reflect a Soviet and Satellite feeling that their reappearance will support the program to relax domestic political atmospheres. (b)(1)

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The Satellite regimes may also intend to release such former Soviet-held anti-Communist leaders as Kovacs, especially if they can be persuaded to recant their former opposition and to support the present governments.

A number of onetime antiregime figures, who had fled to the West and returned or who had been imprisoned by the Satellites themselves, have been used in this manner during the past two years. [redacted]

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Hungary's Relations
With Yugoslavia

Recent reports indicate that the Hungarian regime may be taking steps to catch up with the other Satellites in improving relations with Yugoslavia by removing the two major obstacles to such a development. Hungary may now be prepared to begin payments on Yugoslav economic claims and to repudiate the anti-Tito Rajk trial held in 1949.

In a major address last July, Yugoslav president Tito charged that certain persons in the Satellites, especially in Hungary, were finding it difficult to admit mistakes such as the Rajk trial and to pursue a course of friendship with Yugoslavia. On 24 September, the Yugoslavs broke off financial talks with Hungary because it failed to agree to Belgrade's demands for about \$100,000,000 in reparations and \$20,000,000 in damages for unfulfilled orders for capital goods. On 15 October, Yugoslavia reportedly informed Budapest that financial discussions could not be resumed until Hungary began to fulfill its financial obligations.

Last week the American legation in Budapest received an unconfirmed report that Hungary was willing to begin payment immediately on Belgrade's claims for World War II reparations and the balance owed on the pre-1949 trade account. Such action would pave the way for the reopening of the financial talks.

One of the problems to be settled in such talks would be the terms of settlement for the \$120,000,000 in claims; this may cause difficulty in view of Hungary's lack of available foreign exchange. In addition, Yugoslav claims for damages stemming from loss of trade after the 1948 break must still be negotiated.

The Hungarian leadership has publicly blamed purged police chief Gabor Peter for the bad relations with Yugoslavia. During the past 15 months the regime has quietly released several important individuals who never received public trials but who were arrested in connection with the Rajk trial. About 30 Social Democrats jailed in connection with that trial are reported to have been released recently, perhaps in an effort to improve the atmosphere for the resumption of economic negotiations with Yugoslavia. One of those released, Pal Justus, was tried with Rajk in 1949 and received a life sentence on charges which included working for Yugoslav intelligence in Hungary.

It is unlikely that the Yugoslavs will be satisfied with anything less than a public repudiation by Budapest of the Rajk trial. Reports that Hungarian party activists have been told that Peter foisted the trial on the party suggests that such a repudiation may be in the offing. [redacted]

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Argentina

The Aramburu government is continuing efforts to isolate and reduce surviving Peronista strength, and to placate and control those divergent political elements among its own supporters who appear dissatisfied with the regime. To date the government has succeeded in preventing the materialization of opposition to a degree which would seriously threaten the regime.

The Peronistas who have been excluded from participation in government and labor councils and also deprived of their major organizations, must depend on covert activity for antigovernment action. The Peronista Party was ordered dissolved by a decree of 30 November, and the General Confederation of Labor and its two newspapers have been placed under the control of government-appointed administrators.

The government seems less concerned over any organized move by the Peronistas than over dissatisfaction among anti-Peronista groups, especially the right-wing clericalists who supported former president Lonardi. An official communiqué of 4 December outlined reasons for Lonardi's "resignation," stressing that it represented a defense of democratic action in that "persons with a totalitarian outlook" were usurping authority from Lonardi. The statement made a point of denying charges that the government is anti-Catholic or antilabor, or that the armed forces are divided.

A statement on 8 December by the highly regarded interior minister, Busso, clearly outlined the government's basic policy

as one of re-establishing democratic practices--within the labor unions and elsewhere--guaranteeing freedom of conscience, and providing a healthy economy which will respect private property and encourage foreign investment. Busso emphasized that no government official would run for office in the forthcoming elections, and that the "revolutionary government" would maintain strict neutrality toward the "various tendencies of the democratic political parties."

The government also seems to be trying to conciliate Catholic elements which are disturbed by the new regime's failure to restore to the Church all the prerogatives Peron took from it in his last months in office. On the important religious holiday of 8 December, President Aramburu and other high officials attended the large outdoor mass celebrated by Bishop Tato, who had been expelled by Peron in June. Tato, in speaking at some length on the general subject of the Catholic role on Argentina's political scene, made no reference to any of the points of current Catholic dissatisfaction with the new government, though the leaflets advertising the celebration had made an issue of them.

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PART III

PATTERNS AND PERSPECTIVESMENDES-FRANCE AND THE FRENCH ELECTION

Much of ex-premier Mendes-France's effort in the French election on 2 January will be directed toward those Frenchmen who have traditionally voted against the government in power in protest against the established order. He feels that this protest vote, which has been a major part of Communist strength, must be won over to a new and dynamic non-Communist program if France is to achieve political stability. He is counting heavily on the Socialists for the base of his "Republican Front," but his success will depend to a large extent on retaining the support of his own Radical Socialists.

Mendes-France's campaign to win control of the Radical Socialist Party machinery began shortly after he lost the premiership in February 1955. Initially, the campaign was hampered by the widespread popularity of his successor, Edgar Faure, also a Radical Socialist and formerly a friendly rival. Faure's unequivocal stand in favor of the Atlantic alliance was a major factor in his popularity, and he also was in a position to attribute the current prosperity to his guidance as finance minister under Laniel and Mendes-France.

Mendes-France argued that since there is a potentially large electorate for the non-Communist left, a clearly leftist-oriented Radical Socialist Party would be the better vote getter and would preclude either Socialist-Communist cooperation or draining off support from the center parties into a rightist coalition. He was opposed by the older, more conservative Radical Socialists who were against identifying the party too closely with a movement that would endanger

its "hinge" position in the assembly. By building up support for his position in the local federations, Mendes-France gained control of the party machinery at the May and November congresses of the party.

Political Approach

Mendes-France bases his political attitudes on economic analysis. He has long maintained that France must adjust its commitments to its capabilities, and has advanced a policy of austerity involving currency reform, economic controls to cut nonproductive expenditures, and heavy emphasis on investment in basic industries.

His approach to problems beyond metropolitan France have been largely determined by apprehensions over the nation's economic health. He was one of the first to point to the Indochina war as a conspicuous example of French economic and political overextension. He emphasized the inflationary threat of the military budget in general, maintaining that only by decreasing its consumption could France develop.

He made quick concessions to the Tunisians to conserve domestic strength and block continued disintegration of France's overseas holdings. He discarded EDC because he feared France's weakness would lead to domination by Germany. While he still hopes for closer ties between Britain and the Continent, he wants other European integration schemes delayed so that France can strengthen its economy before entering into freer international competition.

He was eager for an East-West detente because he claimed that heavy military expenditures

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would in the long run force the French standard of living below that of the Satellites. Consequently, East-West negotiations, closer relations with the East, and even a restricted experiment in coexistence in Vietnam, were all peripheral efforts necessary to the main task of building at home.

His Aims Questioned

Because of his policies and tactics and the staff he assembled when he became premier, Mendes-France has been called a pro-Communist and a neutralist intent on selling out the West. Most of these charges appear to have originated with rightists or European integrationists, others with victims of his biting tongue or critics of his unwillingness to compromise.

Some of the men he chose for key staff positions, such as George Boris, have been identified with leftist-neutralism, and others were known to be sympathetic to Communism or had dubious moral or financial reputations. Mendes-France rejected criticism of his entourage, however, on the grounds that he made all decisions and indeed was reluctant to delegate authority.

His approach, as premier, to EDC and Indochina culminated in the charge that he was not sincere in his protestation of adherence to the Western alliance. His rejection of EDC does not seem to have stemmed from any desire to appease the USSR, and his subsequent fight for the Paris agreements removed much of the stigma attached to his role in the EDC defeat.

Mendes-France's extensive reshuffling of key government personnel also caused concern. Many high officials with

pro-American attitudes were removed to unimportant posts, and officials in the information media were shifted to give the premier tighter control. Moreover, appointments to sensitive posts in defense and research were construed to show a "soft" policy toward Communists.

Many shifts of personnel, particularly in the Foreign Ministry, were probably the normal aftermath of an unusually extensive change in the government itself. Nevertheless, it is hard to discount the tendencies toward authoritarianism he showed in this period. He ran the nearest thing to a one-man government that France has had in the Fourth Republic.

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Current Views

Mendes-France will probably not change his views on the basic elements of his policy, although his experience as premier seems to have disabused him of certain misconceptions. In regard to foreign affairs, for example, he apparently came around to accepting the opinion of experts in the Foreign Ministry regardless of the views of his entourage.

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Barring an international crisis, he will probably try to concentrate on economic affairs both in the electoral campaign and in the new assembly. Despite the current prosperity, any new government must concern itself with the continuing basic weaknesses in France's economy, such as the noncompetitive prices, which have again raised the question of devaluation, and the fears of inflation following a leveling off of industrial production. Housing construction, social allowances and wage-price relationships will also be major issues in the next assembly.

It is likely that he will continue to believe in negotiations with the East to lessen world tension. While he will probably not carry this view to the point of advocating bilateral talks, he will probably press the United States and Britain for frequent contacts with the Soviet bloc. He will probably also press for expanded trade with the East.

His major long-run drive will, however, continue to be the rejuvenation of France both economically and politically. The platform he put through the Radical Socialist November congress included cutting France's military build-up. In an August speech to a group of NATO officers, he held to the view that European integration must have British participation, and his recent attack on Faure for "abandoning WEU" is interpreted as being aimed against Monnet's continental atomic energy integration. In the NATO speech he also clearly indicated his continuing hope for East-West cooperation and discussion by advocating eventual joint activities of WEU and Warsaw pact countries.

Concurrently with his success in gaining control of the Radical Socialists, Mendes-France seems to have regained

popular support. More newspapers are backing him now, and he has stepped up his own press campaign in L'Express, which became a daily in October. His own press attacks, however, may boomerang as may also the expulsion from the party of such prominent Mendes-France opponents as René Mayer. Freedom from direct party control has been traditional among Radical Socialists, and candidates and deputies may balk at Mendes-France's strong disciplinary tactics.

Attitude Toward Communism

In the last few months Mendes-France has appeared particularly sensitive to charges of pro-Communism and has pointed to L'Humanité's bitter attacks against him as evidence to the contrary. The French Communists did consistently support him during the first few months of his premiership in the belief that he offered the best chance of reorienting French foreign policy, but since then they have attacked him relentlessly. In a speech at Lyon on 13 October, he castigated the Communist position and based his demand for a new electoral law on the need to block Communist gains.

The Communist Party has also been making a strong effort to counter Mendes-France's appeal to the Socialists. Thorez had stressed the unity of the working class as a prop for Communist desires to revive the "popular front." They had some success in local elections in the spring of 1955, which prompted their attempts to form alliances with the Socialists for 2 January.

General Communist prospects in the coming elections are fairly good, since the party will probably receive close to the same percentage of the popular vote as in 1951, and splits among the center parties will mean more seats for the

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Communists. The Communists supported Faure's call for early elections under the 1951 law largely to have elections under the proportional representation

feature of the 1951 law, and to block Mendes-France before he could organize an effective electoral campaign. [redacted]

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REVOLUTIONARY PLOTTING IN CENTRAL AMERICA

Central America is again being shaken by rumors of impending revolutions. High officials of the Venezuelan and Nicaraguan governments claim to have evidence that Costa Rica is the center of an international conspiracy aimed at ousting various anti-Communist governments in the area, including Nicaragua. The Costa Rican government, on the other hand, gives credence to rumors that it is about to be attacked from Venezuela and/or Nicaragua. Internal pressures are building up in Nicaragua and El Salvador which may lead to violence in those countries.

Charges Against Costa Rica

The authoritarian regimes in Nicaragua and Venezuela, which supplied and directed the Costa Rican exiles who launched the abortive invasion of Costa Rica last January, still hate President Figueres and would like to see him overthrown. They blame the United States for supporting the decisive action by the Organization of American States (OAS) last January which brought an end to the fighting in Costa Rica.

They consider Figueres a danger because of the sympathetic attitude he has shown

to exiled Nicaraguan and Venezuelan oppositionists. Their attempts to convince the United States and other governments of the danger to peace represented by Figueres have led them to charge Figueres with being the leader of a vast international conspiracy financed by the Soviet Union and dedicated to promoting revolutions against the anti-Communist regimes in the Caribbean area.

There is no evidence to support the charges of Figueres' involvement in a Communist plot. [redacted]

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[redacted] he has a long anti-Communist record. He has an equally long record of active opposition to area "dictatorships." [redacted]

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[redacted] There is some evidence that certain Costa Rican officials have more recently been assisting Nicaraguan plotters, despite obvious Costa Rican efforts during the past month to convince Nicaragua that it will not permit anti-Somoza revolutionary preparations in Costa Rica.

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Nicaragua

An attempt by domestic opposition elements to oust the Somoza regime in Nicaragua is probable some time prior to the presidential election scheduled for next November. There is no evidence that these would-be rebels expect any significant aid from Costa Rica.

Somoza, who has been in power for over 20 years, had the constitution revised last year to permit him to serve another six-year term. Leaders of the opposition Conservative Party, who apparently have lost hope of a peaceful change in government, have reportedly allied themselves with Nicaraguan exiles in neighboring countries and plan an attack, possibly from a base near the Honduran border. Some sources have predicted revolt in December, when the opening of the 6-month dry season will favor military operations.

Somoza would almost certainly accuse Costa Rica's Figueres of being involved in any attempt against him,

He intimated

that, in the event of a revolutionary move against him, he might be forced to take "punitive action" against Figueres.

Rumors in Costa Rica

The Figueres administration is giving credence to rumors that preparations for a new "revolt" in Costa Rica, similar to that of last January, are under way in Venezuela and/or Nicaragua. Leading Costa Rican oppositionists are in Venezuela and apparently have access to high Venezuelan officials.

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Investigation of the Costa Rican allegations

[Redacted]

in early December failed to substantiate the reports.

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Apparently the Venezuelan government was seriously considering backing such a plan as late as November, but no such attempt against Costa Rica now seems imminent. The possibility still remains, however.

El Salvador

In El Salvador, where a bitter presidential campaign is now in progress, a military coup by one of the several factions in the politically important army is a distinct possibility prior to the election, which is scheduled for next March. The administration candidate, the capable pro-American Lt. Col. Lemus, and two of the three opposition presidential candidates are army men and each claims to have a personal following in the army. President Osorio, whose term ends in September, is probably weakening in his control of the army. United action by the opposition, which is reportedly being planned, would have a good chance of ousting the government. Several sources have predicted revolution in December.

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The Salvadoran political scene also has ramifications extending to nearby countries.

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Though Salvadoran would-be revolutionaries have probably sought foreign financial and arms assistance, it is unlikely that they have asked or received any from the Costa Rican government, which has been on good terms with the Osorio regime. Any foreign assistance would be more likely to come from Nicaragua, Venezuela or Guatemala, each of which has shown deep distrust of Osorio during the past year.

Possible OAS Investigation

On 7 December Costa Rican foreign minister Esquivel

suggested that ODECA, the newly formed organization of the five Central American countries, request the OAS to investigate Nicaraguan charges of a Communist plot in Central America.

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The mere proposal of an OAS investigation tends to seize the initiative from Venezuela and Nicaragua in the current "war of nerves." In any actual investigation, Costa Rica would undoubtedly press for consideration by the OAS of the rumors of an impending attack on Costa Rica by exiles supported by Venezuela and Nicaragua.

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SHORTAGES OF KEY RESOURCES SLOW WESTERN EUROPEAN BOOM

Western Europe's three-year economic boom is being slowed down by shortages of skilled manpower, coal and steel. These shortages have generated inflationary pressures and contributed to trade deficits. There will probably be a further slowdown in the rate of economic expansion in 1956, but improved basic conditions and stabilizing policies of governments make the recurrence of an economic crisis unlikely at this time.

The upsurge, striking enough in terms of increased gross national product and gold and dollar reserves, had a significance beyond the mere figures. The sharp recovery from the post-Korean slump clearly demonstrated the success of the Marshall Plan in relieving war induced shortages of supplies, plants and equipment. It also produced a revival of confidence which was expressed

domestically in increased savings and investment, and internationally in the removal of many postwar import quotas and other barriers to trade. Governments generally abandoned direct controls in favor of flexible monetary policies to curb inflation or deflation.

The increase in industrial production, moreover, was rather evenly spread over all the OEEC member countries.* It was significantly higher in West Germany, which had larger reserves of labor, and somewhat lower in Belgium, Denmark and Sweden. On an over-all basis, it amounted to 25 percent over the past two and a half years.

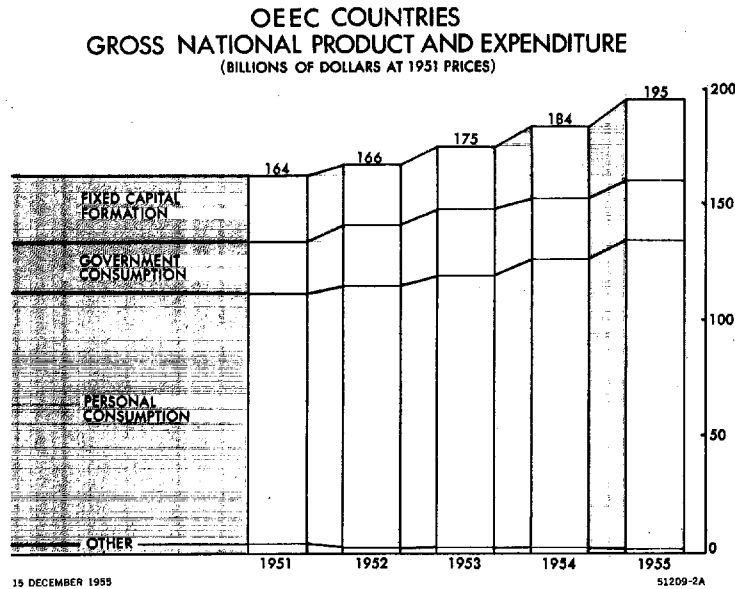
*The 17 members of the organization for European Economic Co-operation are Austria, Belgium, Denmark, France, West Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom.

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percent in the first half of 1955 over the same period in 1954. It is in the resources most essential for this industry that Western Europe's supply deficiencies are most acute--notably in skilled manpower, coal and steel.

The Manpower Shortage

Lack of skilled manpower is Western Europe's most disturbing shortage. It is particularly severe in Britain, where total unemployment was

below 1 percent in the first half of 1955 and vacancies in the machinery industry rose by 30 percent over the same period in 1954.

The shortage is also acute in Scandinavia, the Netherlands and increasingly so in West Germany. It has not yet become a serious problem in France, which entered the boom phase six months late, or in Italy, where there is a labor surplus. Both countries have expanded production largely through more intensive utilization of resources, including manpower.

Through 1954, wage increases appear generally to have been offset by increased productivity and to have been closely in line with price rises. In 1955, however, as the labor market tightened, wage rates tended to increase more rapidly. For example, wage rate increases in Britain were 5.5 percent larger in the first half of 1955 than in the first half of 1954, but the corresponding increase in hourly output per man in industry was only 3.5 percent.

Numerous important wage increases are being demanded in Western Europe and others are anticipated. In general, the present rate of wage increases

Strain of Demand on Resources

Two outstanding features of the boom, highly favorable in themselves, combined to produce incipient trouble for the European economy in the form of shortages of key resources.

One feature was the rapid development of consumer demand for durable goods. Sales of automobiles and trucks, for example, increased by 50 percent in the two-year period 1953-54 and have apparently retained this rate of expansion in 1955.

The other feature was the marked rise in the rate of investment. In most OEEC countries the proportion of national product going into fixed investment rose by 20 percent or more in the three-year period 1953-1955, and in residential building the rise was even greater. For West Germany and the United Kingdom the continuing increase in factory building starts was particularly noteworthy, the first quarter of 1955 in Britain seeing a 30-percent rise over the first quarter of 1954.

The two features in combination had their heaviest impact on the metals and machinery industries; the latter industry increased its output by 16

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is the most serious threat so far to financial stability of OEEC member countries.

The Coal Shortage

Coal production in Western Europe has not expanded to meet growing energy requirements, and there is an increasing conversion to oil, gas and hydro-electric power.

There are large reserves of coal in the area and considerable scope for increasing the output of existing mines through further mechanization. There has been no significant overall expansion of output since 1913, owing to a steady decline in the mine labor force and to restrictionist attitudes toward investment intensified by coal surpluses in the between-war years.

Production did not regain its prewar level until 1951, and during the past three and a half years has fluctuated around 475,000,000 tons annually, with no indication of an upward trend. Increased investment since the inauguration of the Coal and Steel Community (CSC) in 1953 has apparently been counterbalanced by an accelerated decline in the labor force, and Western Europe still remains

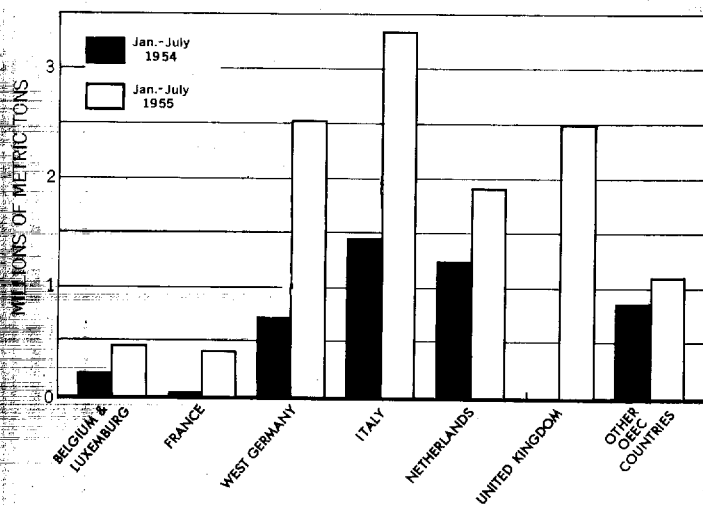
occasionally dependent on American coal.

Britain has been called by OEEC experts the key to Europe's coal shortage problem. Despite strenuous efforts to expand production, output in 1954 was still only 224,000,000 tons--as against an average annual figure of 240,000,000 before World War II, when British consumption was much less and substantial quantities of coal were exported.

In 1955, Britain's coal position has progressively deteriorated. The United Kingdom has now lost to West Germany its position as Western Europe's largest coal exporter and has become a net coal importer. By mid-October, production was 3,900,000 tons below that for the corresponding period of the previous year, and imports were over four times as great. Britain has warned the OEEC Fuel Committee that it will be obliged to cut exports from 12,000,000 tons in 1955 to 6,500,000 in 1956 while maintaining imports from the United States of at least 5,000,000.

On the Continent, the impact of the coal shortage was delayed by the availability in 1954 of large pithead stocks and by greater success than in Britain at substituting oil, gas and hydro-electric power. In the latter half of 1954, however, West Germany, France and Belgium had to draw on these pithead stocks.

In the first half of 1955, there was an intensified demand for the coking coal needed to support a high level of steel operations. Imports of coal from the United States more

IMPORTS OF BITUMINOUS COAL FROM THE UNITED STATES

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15 DECEMBER 1955

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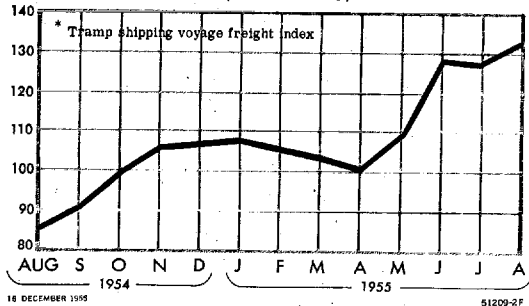
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than doubled as compared with the first half of 1954, and the OEEC estimates that 1955's total Western European imports of American coal will reach 22,000,000 tons at a cost of \$400,000,000 including freight.

increased demand than has coal, but there are serious shortages, particularly of scrap and high-quality steels, and steel could become a more important bottleneck than coal because there are fewer substitutes available.

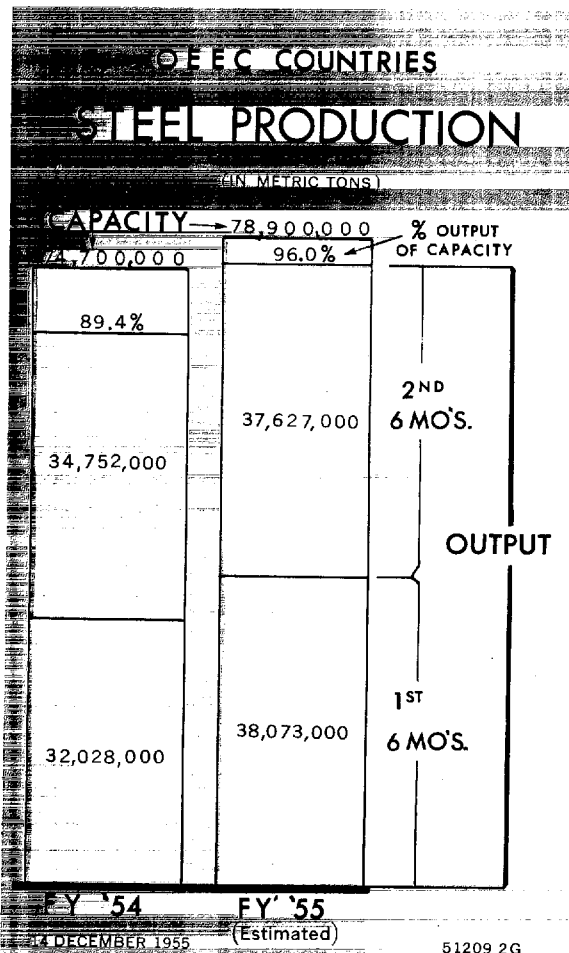
INDEX OF FREIGHT RATES ON COAL
(OCT 1954=100)



The resulting sharp rise in ocean freight rates--which in September of this year reached a temporary peak almost double that of the previous September--so disturbed European officials that they reconvened the Commercial Advisory Group which had served in the shipping crisis provoked by the Korean war. This body agreed that increased 1956 requirements could not be met by European production or through imports from the Soviet bloc, and indicated concern over the possibility of an Atlantic shipping crisis and paralyzing European coal shortages in the winter months. With the OEEC Fuel Committee projecting 1956 imports from the United States of over 27,000,000 tons, there is continuing concern among European coal experts as to the capacity of the American coal industry and port facilities as illustrated by an inquiry on these points from the CSC High Authority early in November.

The Steel Shortage

Steel production in Western Europe has thus far responded more favorably to



Failure of the steel industry to expand sufficiently to supply peak demand results largely from inadequate investment between World Wars I and II. There are large reserves of iron ore distributed among many countries, but the mining of ore, as measured in metal content, stood at almost the same figure in 1951 as in 1913.

Vigorous postwar expansion programs, particularly in the steel industries of France and West Germany, began to show results in rapidly rising steel output on the Continent from 1950 on, despite periodic scarcities of coke and other raw

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materials. By late 1953 there was even a mild glut, apparently because producers in the six CSC countries had previously maintained a high level of operations in order to maximize their respective shares of the CSC's common market which opened in May of that year.

As in the case of coal, the present steel shortage came earlier and more acutely in Britain than on the Continent. British steel capacity has expanded less rapidly and supply has been continuously tight, even during the Continental steel market's slack period in the winter of 1953-54. As early as mid-1954, expanded demand in the steel-consuming industries prompted the British government to remove restrictions on imports of certain types of steel and at the beginning of 1955 to suspend import duties on practically all steel products until new capacity should become available in 1956.

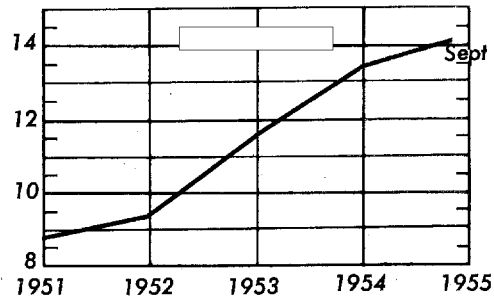
On the Continent, orders for steel went up sharply toward the end of 1954, outrunning the inadequate production capacity for pig iron and, accordingly, forcing up steel scrap prices from the equivalent of \$36 per ton in August 1954 to \$65 per ton a year later. The acute shortage of scrap has in turn led to greatly expanded imports from the United States. These are expected to total 4,300,000 tons for Europe as a whole in 1955, as compared with only 1,300,000 tons in 1954.

Effects of Shortages

The shortages of key resources, though accompanied by inflationary pressures apparent in credit expansion and in stock market quotations, have not yet led to any substantial rise in general price levels. Consumer prices rose by 2 percent in eight CEEC

member countries in 1954 and somewhat faster in the United Kingdom and Scandinavia in the first half of 1955--rates of increase which would be disturbing if long continued.

GOLD AND SHORT-TERM DOLLAR RESERVES
(Billions of Dollars End of Period)



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Of more immediate concern is the rapid widening of the dollar gap from the enforced reliance on the United States for certain key commodities such as steel, steel scrap and coal. Since the first half of 1954, imports from the dollar area have risen by 40 percent, or eight times as fast as from other areas. Meanwhile, Western European exports to the dollar area, which had declined during the American economic downturn and which were 3 percent below the 1953 rate in the first half of 1955, did not recover their previous levels until the third quarter of 1955.

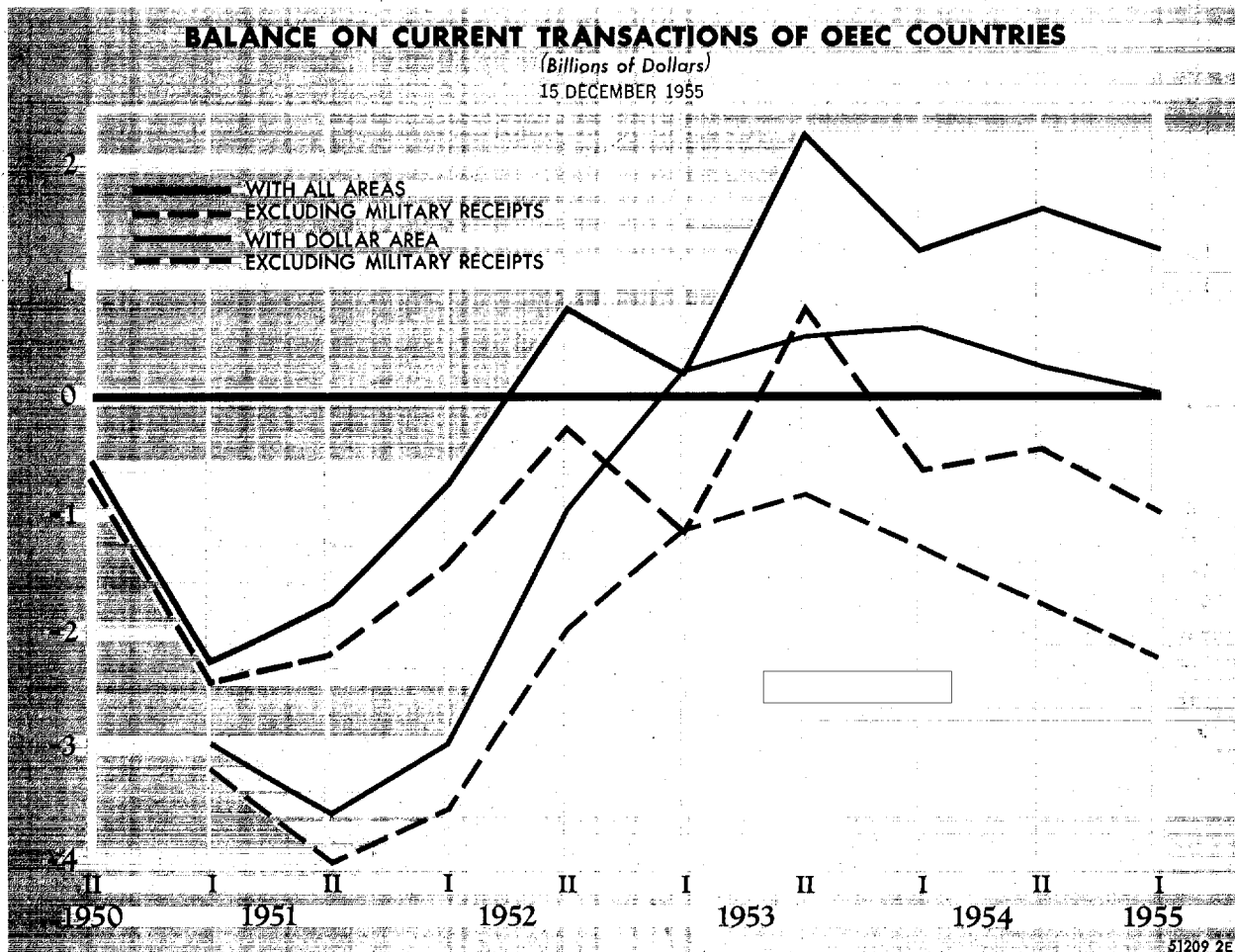
The impact of this deterioration in the dollar trade balance has so far been cushioned by increased military aid from the United States, and Western Europe as a whole has thus been able to continue its build-up of gold and dollar reserves at about half of the \$2 billion annual rate of 1953. Military receipts rose from an annual rate of \$1.4 billion in the second half of 1953 to an annual rate of \$2.2 billion in the first half of 1955, offsetting the decline in American economic aid.

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These military receipts, however, will decline as off-shore procurement contracts are completed, while dollar import requirements are expected to rise. Furthermore, the relative stability of the overall dollar balance conceals a divergent trend among OEEC member countries. Over the past two years, a downward trend in dollar earnings has already been experienced by Britain, West Germany, Austria, the Netherlands, the Scandinavian countries and Switzerland.

In Britain's case, the growing dollar deficit has assumed serious proportions. Between June of 1954 and November 1955, Britain's gold and dollar reserves declined from \$3,017 million to \$2,283 million, a precariously low level to support the global trading role of sterling. Sterling

convertibility has been indefinitely postponed.

A further effect of the present shortages and impending price rises will probably be to add economic pressures to the political ones already reducing the defense programs of various European countries. Defense appropriations as a whole have fallen off moderately in 1954 and 1955, and the cost of military equipment has tended to increase.

Corrective Measures

Britain, West Germany, Belgium, the Netherlands and the Scandinavian countries have already taken restrictive monetary and credit measures to curb excessive demand. These measures have had some disinflationary effect and have been accompanied by some slowing down

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in the rate of increase in industrial production.

In Britain, for example, the rate of increase in industrial production declined from 6 percent in the first quarter of 1955 to 4 percent in the third quarter and to 3 percent in October. A further decline is probable unless labor and materials become more plentiful. Even in France, which has not yet felt the impact of inflationary pressures as much as the rest of Western Europe, the rate of increase in industrial output declined from 13 percent in the first quarter to 8 percent in the third.

Prospects

Western Europe's present economic situation contrasts favorably with conditions which led to crises in 1947, 1949 and 1951. The resurgence of financial policy as the primary instrument for guiding the economy is itself a measure of how far Western Europe has moved since wartime and the early postwar years, when direct controls were resorted to.

The trade liberalization and the degree of economic integration achieved since these

years permit national shortages and price distortions to be countered to a greater extent on a regional basis. The tendency of demand to outrun supply has been much more gradual and limited on this occasion, offering more time for the application of remedial measures. Another factor which should help ease trade and payments problems has been the general adherence, in the face of difficulty, to multilateral co-operation within the OEEC.

Furthermore, the high level of investment--which was one of the main factors responsible for current inflationary pressures--will in due course bring new capacity into operation and tend to relieve some of the pressure.

The managing director of the International Monetary Fund, in a recent statement characterizing the nature and importance of these problems, said of them: "They are not now transitional problems arising from wartime destruction and postwar distortion in trade and payments. They are the ordinary problems of a dynamic world economy."

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STRAINED RELATIONS BETWEEN GREECE AND TURKEY
INTERFERE WITH REGIONAL CO-OPERATION

The continuing diplomatic "cold war" between Greece and Turkey makes unlikely the resumption of full Greek participation in NATO and the Balkan alliance, until Athens can present some semblance of a diplomatic victory over Turkey to the Greek people. The jockeying between the two countries over issues arising from the

anti-Greek riots in Istanbul and Izmir last September reflects their traditional competition for prestige in the eastern Mediterranean and more recently for American favors. Athens apparently feels that the riots and the Greek defeat in the UN on the Cyprus issue seriously damaged Greek prestige, and is seeking a way to redress the balance.

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Greece has resented Turkey's aggressive assumption of leadership in the organization of Middle East defense and is attempting to counter this by strengthening its influence among the Arab states. A Greek military mission to Egypt last spring reportedly hoped to negotiate a Greek-Egyptian alliance, and a state visit to Lebanon is planned by the Greek king and queen. Although the problem of Cyprus is longstanding, the Greek government's sponsorship of Cypriot claims in the last two years partly reflects Athens' desire to balance the rise in Turkish prestige.

The Greek foreign minister recently professed concern over "neo-Ottoman imperialistic tendencies" of Turkish foreign policy and urged the United States to "help the Turkish government and nation to remain as steadily as possible on the road of proper democratic thinking and behavior." The Turks, absorbed in efforts to create a Middle East defense organization, apparently took no notice of Greek maneuvers until it appeared that Britain was weakening in its determination to maintain the status quo in the area. The Cyprus issue reached a climax in the London conference at the end of August.

Asserting that the issue was another case of Greek expansionism, Ankara has publicly assumed an uncompromising stand against any change in the status quo on Cyprus, which dominates the southern ports of Turkey. The Turkish nationalism whipped up just before and during the conference exploded in the anti-Greek riots of 6 and 7 September. Although the Turks

have sought to normalize relations with Athens since the riots, Greece is exploiting them to reduce Turkish prestige and to force moderation in Ankara's Cyprus policy.

Athens is aggrieved and frustrated by the relative increase in Turkish power and influence, but has limited means of matching them. Thus far, Greece has pursued an international propaganda campaign through the Greek Orthodox Church and philhellenic organizations abroad to brand the Turks as anti-Christian barbarians. It has also held back from participating in Western defense arrangements pending settlement of issues stemming from the riots in Turkey. Ankara has retaliated with an aide memoire to foreign missions in Turkey which attempts to counter Greek charges and place the onus on Greece for the disruption of defense co-operation.

Athens' relations within NATO are no longer at issue, but Athens continues to temporize on co-operation within the Balkan alliance. However, Athens remains attached to its alliance with Yugoslavia and Turkey. Since compensation claims of Greek victims of the riots are the sole ostensible obstacles to renewed co-operation, Athens will resume participation in the alliance when Ankara liquidates the compensation problem. The traditional competition and antagonisms between Greece and Turkey in the eastern Mediterranean will nevertheless present a continuing possibility for new estrangement.

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