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CURRENT INTELLIGENCE WEEKLY SUMMARY



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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

SUEZ SITUATION Page 1

The British and French forces in Egypt are now scheduled to be completely withdrawn by 18 December. Tel Aviv has announced that its troops have pulled back, but hopes to secure guarantees regarding Sinai and navigation in the Gulf of Aqaba before completely evacuating Egyptian territory. Cairo has hailed the announcement of the British and French withdrawals as an unconditional surrender. [redacted]

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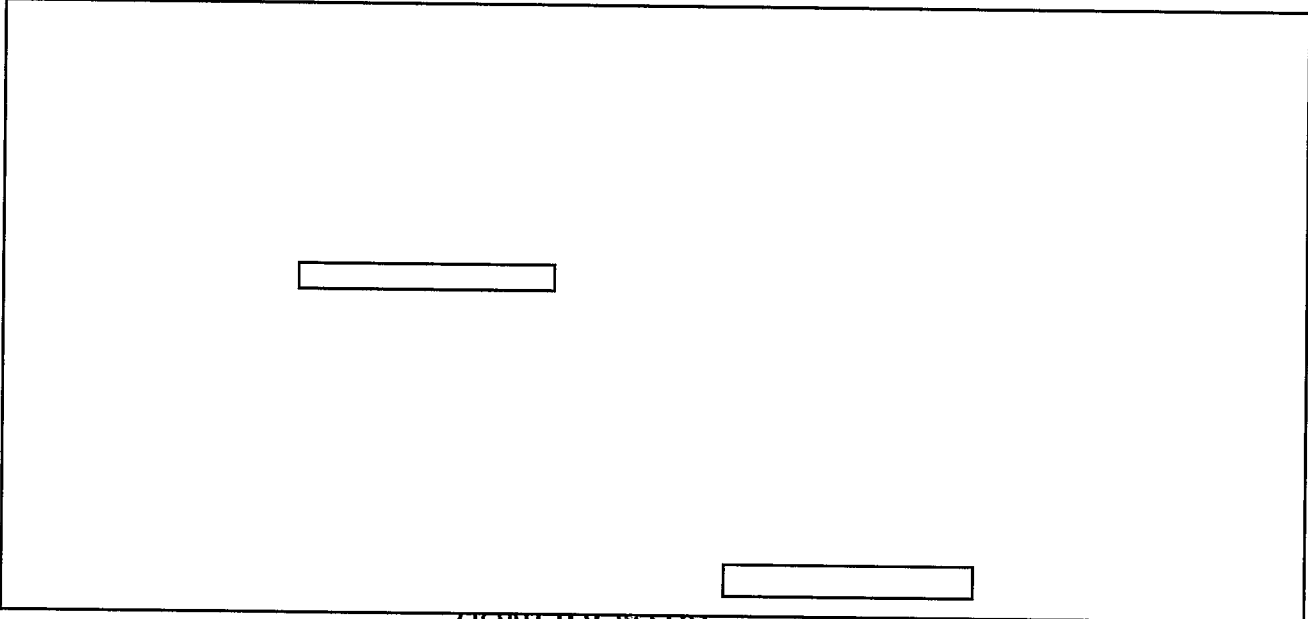
HUNGARIAN WORKERS CONTINUE TO DEFY KADAR REGIME Page 3

Renewed demonstrations of worker defiance after six weeks of revolutionary chaos point up the inability of the Kadar regime to restore order with its two-pronged policy of threat and compromise. Although the USSR's policy appears to be to consolidate its control mechanisms within the country on a basis of firm military supremacy, it continues to be reluctant to push an all-out campaign to crush the workers, hoping instead that hunger and need will finally force the recalcitrant strikers to engage in productive effort. [redacted]

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PART II

NOTES AND COMMENTS

POLISH SITUATION Page 1

Polish party first secretary Gomulka continues to be faced with the delicate problem of not offending the USSR by adopting too liberal policies and, at the same time, of not inciting the population to open anti-Soviet demonstrations by resorting to too harsh restraining measures. In his efforts to stabilize control of a tense and uneasy Poland, he appears to be adopting a somewhat stiffer attitude toward all popular sentiments which could jeopardize his arrangement with Moscow. Poland has made overtures to the West for economic aid. Increased contacts with the West would probably give the regime a greater respectability in the eyes of the Polish people.

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UNREST IN THE SATELLITES Page 2

Unrest in the Satellites, stimulated by events in Hungary and Poland and by economic privation, continues at a high pitch, particularly in Bulgaria, East Germany and Rumania. The governments are endeavoring to meet this situation through a combination of coercive measures designed to ensure essential controls and concessionary economic policies calculated to reduce popular hostility.

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SOVIET FORCES TIGHTEN BORDER SECURITY IN EAST GERMANY Page 4

The Soviet Union has apparently resumed full responsibility for controlling all East German borders. As a part of its general effort to tighten bloc-wide security, Soviet troops have moved into positions which assure them more direct control over East German border areas and stricter supervision over Allied travel to Berlin. Soviet authorities on 5 December turned back an American army convoy.

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SOVIET CENTRAL COMMITTEE PLENUM Page 5

The plenary session of the Soviet Communist Party's central committee which Khrushchev has stated will be held this month may clarify Khrushchev's position in the Soviet leadership. According to recent rumors and speculation, he has been slipping as a result of Soviet reverses in Poland and Hungary. At the present time, forces in opposition or potential opposition to Khrushchev do not seem to be in a position to effect his removal. Khrushchev remains extremely active and continues to speak authoritatively for the regime, which continues to adhere to the principle of collective leadership.

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NORTH AFRICA Page 5

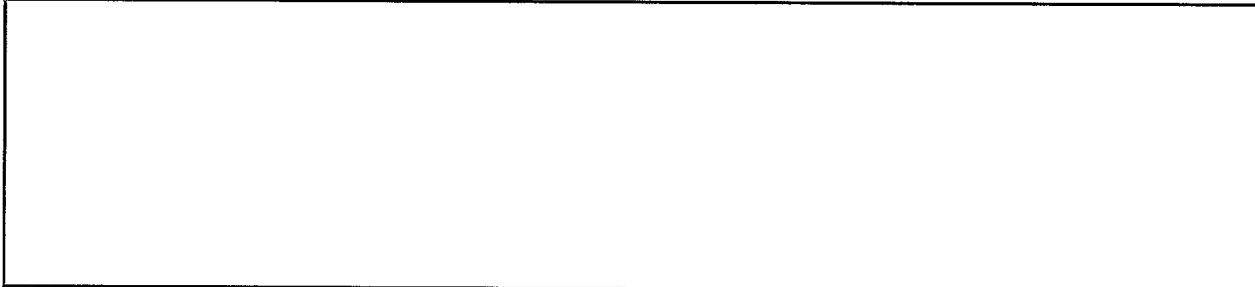
The Moroccan government has indicated its desire to open bilateral discussions on the status of the American air bases; it considers recent French military activity at the Port Lyautey base an "unacceptable affront to Moroccan sovereignty." The recent "harmonious" relations between France and Tunisia abruptly ended when a French air force unit attempted to install a radar link on Cape Bon Peninsula. [redacted]

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NATO MEETING FACES UNITY TEST Page 6

The concern of NATO members for bringing new unity to the alliance overshadows preparations for the regular agenda items of the foreign ministers' meeting from 11 to 14 December. The meeting will give special attention to the report of the three ministers appointed to study nonmilitary aspects of the alliance. Their report urges greater use of NATO's present facilities for this purpose, but little formal change in its structure. [redacted]

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AUSTRALIA AND NEW ZEALAND RALLY TO BRITAIN IN CRISIS . . Page 8

The unwavering support of Australia and New Zealand for British military intervention in the Suez Canal zone, despite London's failure to consult with either the Commonwealth or the United States, reflects the strength of the bonds which link the countries with Britain. The press in both countries has expressed increasing alarm about the future of the Western alliance. [redacted]

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INDONESIA Page 9

A widening cleavage among Indonesian political parties is in prospect which would split the country approximately evenly, with the National and Communist Parties supporting President Sukarno and the major Moslem parties--the Masjumi and the Nahdlatul Ulama--rallying to former vice president Hatta. Hatta, who resigned on 1 December, has indicated an intention to remain active in politics and even a willingness to challenge Sukarno's leadership. [redacted]

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POPULAR DISCONTENT IN NORTH VIETNAM Page 10

[redacted]

New outbreaks may occur during the next few months, but the Viet Minh leadership seems confident of its ability to control the situation. The Diem government is trying to make the most of the unrest in an effort to discredit the Viet Minh as well as to enhance Saigon's prestige at home and abroad. Hanoi has reacted vigorously to what it terms South Vietnam's "distortions" of recent events. [redacted]

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KUBITSCHKEK'S RECENT MOVES IN BRAZIL Page 11

President Kubitschek's attempt in late November to crack down on military intervention in politics appears to have gained general approval. His authority remains in question, however, as long as his war minister, General Lott, continues to create political controversy, hampering Kubitschek's attempts to establish viable domestic policies and maintain good relations with the United States. [redacted]

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THE CUBAN REVOLT Page 12

The rebel outbreak in eastern Cuba, probably intended to trigger a full-scale revolution against the Batista regime, met with determined action from the armed forces. The situation appears to be stabilizing, although a small rebel invading force has not yet been brought under control. [redacted]

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CONSTRUCTION PROGRESS ON TRANS-SINKIANG RAILROAD Page 13

Work is now under way on the Soviet as well as the Chinese end of the Trans-Sinkiang Railroad, which will cut the rail distance between Peiping and Moscow by 625 miles and will facilitate development of petroleum and other important mineral deposits in Sinkiang. The line will probably be completed by July 1958, well in advance of the 1960 target date. [redacted]

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PART III

PATTERNS AND PERSPECTIVES

SOVIET REAPPRAISAL OF RELATIONS WITH YUGOSLAVIA Page 1

The Soviet leaders today are facing a situation similar in many respects to that which confronted Stalin in 1948--an independent Yugoslav Communist regime setting itself up as an authority independent of Moscow and capable of exerting influence in the Eastern European Satellites. The crises in Poland and Hungary have increased the risk to Moscow of growing Yugoslav influence in the area and have forced the Soviet leaders for the present to stop trying to draw Tito closer into the bloc and begin to try to isolate Yugoslavia from the Satellites. [redacted]

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INDIA'S ECONOMIC PROBLEMS Page 5

India's economy is experiencing a foreign exchange crisis caused by the large-scale imports of industrial products needed for the industrialization program under the Second Five-Year Plan. Estimates of foreign aid needed to fulfill the plan have been revised from nearly \$1.7 billion to over \$2.1 billion. India has secured less than \$400,000,000 of this sum, of which about \$240,000,000 has come from the USSR. Indian leaders are reluctant to become too closely tied to the USSR economically, but are determined to meet the plan's goals. [redacted]

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ECONOMIC CONDITIONS IN EGYPT Page 8

The effects of the Middle East crisis on the Egyptian economy, although severe, have not yet resulted in the development of organized opposition to the Nasr regime. While that small part of the population which derives its livelihood from industry, commerce and the operation of the Suez Canal is undergoing considerable hardship, most Egyptians exist on a simple agricultural economy and remain relatively unaffected. [redacted]

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POLISH ARMED FORCES Page 10

The Polish armed forces, the largest in the Satellites, have been developed with Soviet direction and support into a reasonably efficient, well-organized and well-trained force. A shortage of qualified company- and field-grade officers and technicians, dependence on the USSR for logistical support, and lack of experience and skill among the recently appointed Polish top command, however, limit their combat effectiveness. The military forces can be expected to support a nationalist regime. [redacted]

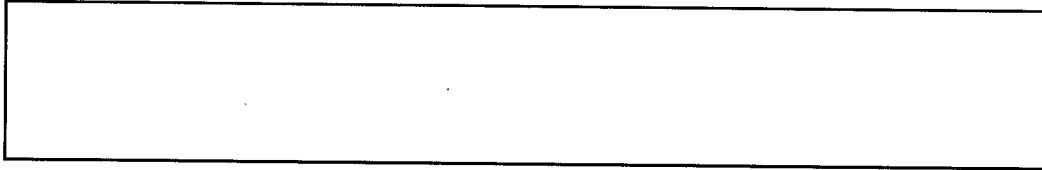
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PART I

OF IMMEDIATE INTEREST

SUEZ SITUATION

British and French forces will be completely removed from Egypt by 18 December, according to a statement by Foreign Secretary Lloyd to the American embassy in London. About 4,000 British troops but of a total Anglo-French force of nearly 20,000 began the withdrawal on 5 and 6 December.

A general British and French pullback from the eastern Mediterranean, under way for over a week, has recently included the return to Toulon of one of the two French aircraft carriers, and the dissolution of the British carrier task force and the general movement westward of naval units leave no major British combat vessels in the area.

In their public announcements, Lloyd and French foreign minister Pineau gave no date, stating only that the forces would be withdrawn "without delay."

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In agreeing to unconditional withdrawal, London and Paris publicly renewed their support of the six broad principles on control and operation of the canal they agreed to with Cairo on 12 October. They also indicated that their salvage equipment would be left in care of the UN forces, in the evident hope that it might be used to speed clearance of the canal.

Political Problems

The announcement of the withdrawal followed a week end of intense efforts, especially in London, to marshal parliamentary support. The Conservative Party's deep divisions over the Middle East policy have brought expressions of doubt from government leaders that the government can survive the decision to withdraw from Egypt. Some ministers in the government have joined the back-benchers' sharp attacks on the United States for "forcing" the retreat. Speculation that Eden will never resume active leadership of the government has increased.

In Paris, dissatisfaction with the decision to withdraw appears common to almost all parties supporting Mollet, and dissension within his own Socialist Party is reported to have grown. Apart from the need to follow the British, a major factor in the decision to accept the withdrawal appears to have been a belief in the need to re-establish good relations with the United States.

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Economic Consequences

As a result of the Suez situation, Britain evidently faces an indefinite period of financial crisis. Britain's gold and dollar reserves dropped by \$279,000,000 during November, Chancellor of the Exchequer

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Macmillan announced on 4 December, and now stand at 1,965 billion dollars, the lowest since 1952. The emergency measures announced--particularly the request for a waiver of interest on the American and Canadian debt payments due on 31 December--would help relieve the short-term pressure on hard-currency reserves, but also may be interpreted as a sign of weakness, and thus add to the long-term pressure on the reserves.

The French economy is encountering similar pressures, although no such emergency steps have yet been announced. Inflation is growing and the government faces increasing budgetary difficulties as well as the drain on the country's dollar reserves.

Israel

The Israelis have not finally committed themselves to withdraw their troops. On 2 December, Tel Aviv announced that its troops in Sinai had been drawn back about 30 miles, but a further Israeli withdrawal seems unlikely in the immediate future, since the Israelis have announced they will bargain for some kind of UN or Western guarantees regarding the future of Sinai and the freedom of navigation in the Gulf of Aqaba and the Suez Canal before they pull out of Egyptian territory entirely.

The Israeli government's posture remains militant; on 3 December, Ben-Gurion called for a larger and better air force than that which Israel had before the hostilities, and the Israeli army appears to be leveling off at about

100,000 men including paramilitary forces--a figure some 15-20,000 higher than normal peacetime strength.

Egypt

The Egyptian press received Lloyd's announcement as an unconditional surrender; the Nasr regime greeted it with a mixture of relief and exultation. Ambassador Hare reported that Nasr, even before the official announcement, appeared to be resuming his chosen role as the military savior of his country in contrast to the worried petitioner of the past several weeks.

Nasr's "victory" may have come none too soon to head off incipient unrest. On 30 November the regime reportedly arrested some 150 persons including a number of leaders of the old Wafd party. Although these arrests appear to have been only a warning to dissidents, Egypt's economic position continues to deteriorate (See Part III, p.8); and the first reports of crowds gathering to demand government action to alleviate the situation came last week from Alexandria, a "soft" area economically and politically, as far as enthusiasm for Nasr is concerned.

There have been more reports of dissatisfaction in the armed forces. Rumors of executions are probably false. 25X1

popular revulsion against the army also has been reported--many urban Egyptians now feel that they are protecting the army as a result of the

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dispersal of military units in the cities, rather than the army protecting them on the battlefield.

UN Activity

When Egypt permits the UN to begin canal clearance operations, Secretary General Hammarskjold will implement the next stage of his schedule--the announcement of the UN's plans for clearing the canal. He has already sent a survey group

to the area. By the end of December, Hammarskjold hopes to have begun talks on canal operations between Britain, France and Egypt on the basis of the six principles which all three accepted on 12 October.

UN consideration of the two American draft resolutions on settling the Suez dispute and the general Arab-Israeli problem will be deferred until the troop withdrawal and clearance operations are well under way. [REDACTED]

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HUNGARIAN WORKERS CONTINUE TO DEFY KADAR REGIME

Renewed demonstrations of worker defiance after six weeks of revolutionary chaos point up the inability of the Kadar regime to restore order with its two-pronged policy of threat and compromise. Although the USSR's policy appears to be to consolidate its control mechanisms within the country on a basis of firm military supremacy, it continues to be reluctant to push an all-out campaign to crush the workers, hoping instead that hunger and need will finally force the recalcitrant strikers to engage in productive effort. Soviet deputy premier Malenkov reportedly was still in Budapest on 29 November, a week after his arrival, presumably to formulate and implement policies designed to overcome the stalemate.

Worker Defiance

The regime's rebuff of worker demands, levied in a number of meetings with Kadar, has spurred workers to demonstrate their open defiance of the puppet Communist regime. The regime's continued disinclination to permit UN secretary

general Hammarskjold to visit Budapest may further irritate the workers. The workers, apparently not intimidated by a threat of force, have not accepted the proposition that further concessions cannot be wrung from the government.

Some workers, however, continue to feel that the strikers are striking against themselves and that they will be in a better position after returning to work; others feel that Hungary's only course is to continue anti-Soviet demonstrations. Several large public demonstrations which were staged from 2 to 5 December in Budapest provided additional evidence of the continued determination and strength of the working population. On 5 December leaflets were circulated in Budapest calling for a general strike and armed resistance. The following day, numbers of workers in major Budapest factories went back on strike, reportedly largely in those plants where members of the factory workers' councils had been arrested on 5 December.

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The workers have striven toward their goals by trying to overcome differences among themselves and to establish a "unified" labor position with which to confront Kadar. The workers' councils report that they have "good" relations with writers' and students' groups. Worker representatives have engaged in a lively free-for-all with the Kadar regime to gain control of the workers' councils. Kadar's efforts to limit the function of the workers' councils to harnessing economic productive effort and to delimit their political function has been ignored and his effort to infiltrate the councils' leadership has met with only slight success.

Kadar has announced the abolition of revolutionary councils established during the past few days in various ministries in youth groups and among intellectuals. These councils--apart from the workers' councils--have served as focal points of opposition to Kadar.

Non-Communist worker groups appear to have gained a victory over the regime-dominated national trade union council when Sandor Gaspar resigned as trade union president. Several officials who reportedly have a Social Democratic background and others who are Communists--but who have long been out of public light--were named to leading trade union posts. This suggests that leftists not "controlled" by Kadar have assumed authority over the trade union movement.

Economic Situation

Although the regime claimed on 3 December that 60 to 65

percent of the workers in Budapest reported to their factories, the breakdown of transportation and communication facilities, shortages of fuel and raw materials, and the sullen defiance of the people make normal production a far distant hope. The threat of a renewed general strike still remains very great. Food and fuel shortages will become more acute in the latter part of the winter, even if the strike is settled, due to the time necessary after full work effort is resumed to attain a reasonable production level. For the moment, the food supply in Budapest appears adequate and state market prices have not risen.

Kadar Policies

Kadar, in attempting to restore public order and control, has found it increasingly difficult to keep the remnants of his own Communist Party in line. Large numbers of Communists, who must apply for admission in the reconstituted party--the Hungarian Socialist Workers Party--are not doing so. Party activists' meetings, when held, are reportedly scantily attended and certain local Communists are apparently aligning themselves with the workers' councils in defiance of Kadar.

Attempts to reorganize the armed control mechanisms in Hungary have not been very effective. The police force is inept, shattered by fear of public reprisals or trials for past errors. The army and air force,

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[redacted] no longer exist as organizations. They have been

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disarmed and will not be re-organized for some time to come. All officers belong to a conglomerate "Armed Forces Officers Corps" with the only duty being to restore peace and disarm "counterrevolutionaries."

Soviet Measures

The USSR is apparently reluctant for the moment to crush the workers in an all-out drive and hopes to exercise its control in as unobtrusive a manner as possible. Continued resistance, however, has forced Soviet control into the open and demonstrated the

necessity for the retention of such control for the maintenance of Communism.

The Soviets do not appear concerned about immediate political and economic developments. They are quietly moving to consolidate their control mechanism throughout the country. Soviet officers reportedly are now appearing at workers' council meetings. A Soviet citizen has reportedly been appointed as managing director of the Hungarian State Railways, in a move which may presage similar appointments to key posts throughout the country in order to oversee the recovery of the Hungarian economy.

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PART II

NOTES AND COMMENTS

POLISH SITUATION

Polish party first secretary Gomulka, in his efforts to stabilize control of a tense and uneasy Poland, appears to be adopting a somewhat stiffer attitude toward all popular sentiments which could jeopardize his arrangement with Moscow. He continues to be faced with the delicate problem of not offending the USSR by adopting too liberal policies but, at the same time, of not inciting the population to open anti-Soviet demonstrations by resorting to too harsh restraining measures.

In a speech on 29 November, apparently in response to a recent series of Polish press and radio commentaries critical of the USSR, he warned against "reactionaries trying to ride the wave of democratization" and said that anyone who opposed the Communist program of socialism is on the "other side of the barricades." The Kremlin followed up the speech by broadcasting in Polish a bitter East German newspaper attack on a Warsaw writer for holding up Poland's "revolution of 1956" as a model for all Communist parties.

In respect to the recent popular demonstrations against the militia and the mob attack on a jamming station in Bydgoszcz, he said "we shall ruthlessly combat provocateurs, scum and all those who disturb public order..." A warning to the press was made on 1 December by Jerzy Morawski, member of the Polish party politburo, who called for "good articles based on competent knowledge," in a mild admonition to journalists to "undertake a broader exchange of

views...as to which is to be the Polish road to socialism...."

The country's leading intellectuals have nevertheless reaffirmed their determination to work for complete freedom of expression. The Polish Writers' Union, concluding its extraordinary congress on 2 December, resolved that a number of changes should be made in legislation in relation to the control of information, including the abolition of censorship and of "prohibited" books. In addition, it called for increased contacts abroad.

While Gomulka attempts to stem popular criticism, he is continuing to take steps designed to meet popular demands for political and religious freedoms and economic improvement.

Gomulka has gone far in settling long-time issues with the Catholic Church, moves which have undoubtedly won the regime increased support from the predominantly Catholic Polish people. Gomulka, after restoring Cardinal Wyszynski to his office as Polish primate, agreed to permit the church freedom of publication and education that had heretofore been denied it.

In return, the Vatican appointed bishops in the western territories of Poland and that portion of East Prussia now occupied by Poland, thus giving the Holy See's implicit recognition of Poland's sovereignty over these areas. Wyszynski has also lent his support to the Gomulka regime

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and urged the populace to support the government in its efforts to improve conditions in Poland.

Economic Moves

In the economic field, Poland's recent approach to the United States for economic aid suggests that the recent Soviet grants are insufficient to effect a substantial improvement in the Polish standard of living in the near future. The Kremlin reportedly sanctioned Poland's move during the recent Moscow negotiations.

The Polish regime is wary of the possibility of controls attendant on American aid and fearful lest the Kremlin get the impression that Poland is becoming too economically bound to the West. The Poles are also approaching the United Kingdom and France to seek trade agreement extensions and loans, and [redacted]

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[redacted] appear to be playing one country against the other in an effort to obtain the best possible credits. Poland has also indicated a desire to rejoin the International Bank and the International Monetary Fund.

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Poland has also made an overture to the United States for a resumption of cultural contacts, the Polish UNESCO delegate in New Delhi on 26 November having suggested an exchange of professors to participate in projects "completely free of politics."

Increased relations with the West will probably give the Gomulka regime a greater respectability in the eyes of the Polish people. While increasing contacts with the West, however, the regime will try to prevent any deterioration of Polish-Soviet relations.

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UNREST IN THE SATELLITES

Unrest in the Satellites, stimulated by events in Hungary and Poland and by economic privation, continues at a high pitch, particularly in Bulgaria, East Germany and Rumania. The governments are endeavoring to meet this situation through a combination of coercive measures designed to ensure essential security controls and economic concessions calculated to reduce popular hostility.

The failure of the majority of the Satellites to undertake any significant political liberalization measures and the lack of opposition leadership for the restive populations lessen the likelihood of anything more than local demonstrations occurring in Albania, Bulgaria, Czechoslovakia, East Germany and Rumania.

Popular Unrest

Hatred of the USSR by the East Germans is reported to be even greater than in the period immediately following the riots in June 1953, although it is no longer expressed openly as in the days immediately following the Soviet intervention in Hungary. Unrest remains most prevalent among university students, who have, however, confined themselves largely to demanding changes in university curricula and openly questioning the Communist version of events in Hungary and Poland.

The previously reported tense atmosphere in Rumania has not abated. Although a popular uprising does not appear imminent, further local

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demonstrations against the regime are possible.

Considerable instability in Bulgaria is reported and appears to be due to both factionalism in the party leadership and dissidence and discontent among the people. The dissident party elements are not believed to be sufficiently united, however, to bring about any significant changes in the Bulgarian leadership or to lead a popular movement against the regime.

The numerous press reports of unrest in Albania remain unconfirmed and may be largely Yugoslav-inspired in order to abet Belgrade's propaganda battle against the Albanian leadership.

Communist Control Measures

Satellite leaders in Eastern Europe are fearful of the example provided their people by revolutionary Hungary, national Communist Poland and independent Yugoslavia. Apparently in an effort to lessen similar pressures in other Satellites, Moscow is permitting, if not encouraging, them--particularly Albania and Bulgaria--to pursue a vigorous campaign of denigrating Yugoslav ideology. The USSR may be hoping by these means to goad Yugoslavia into severing relations with its sensitively exposed Satellite neighbors.

Hard repressive measures have been resorted to in Bulgaria and Rumania, where numerous arrests have taken place. The East German regime, in addition to having instituted an unusual security alert, is placing more and more emphasis on internal party orthodoxy, and paying only lip service to the de-stalinization policies of the 20th congress. German leaders appear determined to make

no real concessions and prepared to take drastic measures to put down quickly any signs of overt resistance.

The Czechoslovak regime is taking no chances and has adopted a policy of utmost vigilance. To emphasize its position, party leaders in late November ostentatiously celebrated the anniversary of the birth of the late Stalinist leader Gottwald.

In addition to conventional security precautions, the Czechoslovak and Rumanian regimes have mounted a vigorous propaganda campaign against the United States and have increased their harassment of Western diplomatic personnel. Albania has been making life difficult for the few Western diplomats in Tirana.

All the Satellites have in the past week or two announced economic concessions such as price reductions, family allowance increases, or some form of wage increase in an effort to reduce the crushing economic privations suffered by their peoples. Czechoslovakia has made unusual and successful efforts to keep food stores well stocked and ensure a good supply of consumer goods for the Christmas season.

While these minor concessions have undoubtedly been made with the hope of reducing popular dissatisfaction, they may also be an indication that the basic long-range Soviet policy of permitting very carefully controlled liberalization and de-Stalinization in the Satellites will continue. As indicated by the Soviet-Rumanian communiqué of 3 December, however, Moscow is now placing great emphasis on the need to strengthen the "unity" of the Sino-Soviet bloc--that is, ties to the USSR. [redacted] (pared jointly with ORR)

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SOVIET FORCES TIGHTEN BORDER SECURITY IN EAST GERMANY

The Soviet Union has apparently resumed full responsibility for controlling all East German borders, probably as a part of its general effort to tighten bloc-wide security and prevent Western exploitation of the tense situation in Eastern Europe. Soviet troops have moved into positions which assure them of more direct control over East German border areas and stricter supervision over Allied travel to Berlin.

West German officials have reported that during the past several days controls on West German travel on East Germany's highways have been tightened considerably. The controls appear to be aimed principally at the important truck traffic between West Germany and West Berlin. Truck drivers report that cargo inspections are more rigid and more frequent now at practically every check point. At some points, additional control booths have been erected in the last few days to check passenger traffic on the highways, and all road approaches to Berlin are being checked more thoroughly.

On 14 November, Soviet authorities re-established control points on the highway to Schoenefeld Airport just outside East Berlin, requiring Soviet travel passes for all persons, including official Allied personnel. Similar restrictions had been lifted on 5 October. Since the latter part of October, Soviet authorities have refused visas to personnel of the American mission in Berlin for travel in East Germany, probably in connection with the general

tightening of security restrictions in East Germany.

In an apparent effort to justify the overt Soviet resumption of responsibility for maintaining security, the East German party newspaper Neues Deutschland observed on 25 November that "sovereignty" is not incompatible with principles of "fraternal co-operation and assistance." The newspaper also said "independence does not mean that each country had to cope with its problems alone," and noted "there is no contradiction between sovereignty and socialist internationalism because one needs the other to become firmly established."

The Soviet authorities who have been checking Allied trains to Berlin for more than a week have been accepting identity documents and Russian translations of Allied travel orders as adequate documentation.

American army authorities in Berlin announced on 5 December that the regular weekly convoy was turned back to Berlin "rather than submit to investigations beyond those which have been in effect for many years." This is a continuation of the Russian harassment of Allied highway traffic which began on 29 November when they attempted to search an American army truck convoy en route to Berlin. At that time, the convoy was permitted to pass after a considerable delay with the warning that in the future the interior of all vehicles would be searched before being permitted to continue the journey.

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SOVIET CENTRAL COMMITTEE PLENUM

Changes in the composition of the Soviet Communist Party's presidium and secretariat may be announced following the plenary session of the party's central committee which Khrushchev has stated will be held early this month, since such changes are normally formalized at plenums. The proceedings may clarify Khrushchev's position in the Soviet leadership. According to recent rumors and speculation, he has been slipping as a result of Soviet reverses in Poland and Hungary. On 29 November, for example, Yugoslav deputy premier Kardelj predicted [redacted]

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[redacted] that Khrushchev would fall from power in the not-too-distant future.

At the present time, forces in opposition or potential opposition to Khrushchev do not seem to be in a position to effect his removal. Khrushchev remains extremely active

and continues to speak authoritatively for the regime, which continues to adhere to the principle of collective leadership. Molotov, who has taken the strongest stand against Khrushchev's Yugoslav and Satellite policies, appears to have been successfully shunted aside through his appointment as minister of state control.

Khrushchev thus appears to have weathered the setbacks in Eastern Europe. He may have successfully disarmed his critics by adopting a tough line on Hungary and the Middle East, and he may have been able to offset his responsibility for the loss of prestige suffered by the USSR in Eastern Europe by the recent strategic gains accruing to the USSR in the Middle East and the substantial success this year of his agricultural policy.

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NORTH AFRICA

Morocco

The Moroccan government has indicated its desire to open discussions on the status of the American air bases in Morocco. Rabat strongly protested to the French chargé and the American ambassador on 29 November against the recent use by France of the American sector of the jointly operated naval air base at Port Lyautey. This French activity was described as an "unacceptable affront to Moroccan sovereignty."

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[redacted] Rabat's concern primarily was to stop

importation of war supplies beyond the maintenance needs of the French.

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[redacted] if the French ship carrying military supplies expected soon at Casablanca were unable to unload without difficulty, the French would offload at Port Lyautey again. In view of the recent anti-French agitation, American-employed Moroccan labor might strike as it has threatened if France persists in using these facilities.

Tunisia

The "harmonious" relations between France and Tunisia

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brought about by Paris' special representative, Roger Seydoux, have ended abruptly. In spite of a "gentlemen's agreement" reached by Seydoux with regard to the general conduct of French forces in Tunisia, the air force, without the knowledge of the French embassy or the consent of the Tunisian government, dispatched a detail to make a radar link installation on Cape Bon Peninsula. Two Tunisians were killed and several wounded when French fighter planes attempted to disperse the crowd which gathered to prevent the installation, and the isolated unit has been reinforced by helicopter. Acting Premier Ladgham declared the government would

"act" to protect Tunisia's sovereignty, and France has apparently decided to withdraw the radar installation crew.

The French consider that this incident is balanced by the discovery of a large arms cache in western Tunisia destined for the Algerian rebels, and the program to withdraw approximately 10,000 French troops by the end of December has been halted. The anger and frustration of the Tunisian government, recently subjected to financial pressure by France, will make it more determined than ever to remove Tunisia from France's sphere of influence.

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NATO MEETING FACES UNITY TEST

The NATO governments evidently consider the NATO foreign ministers' meeting from 11 to 14 December critical for the future of the alliance. The concern for achieving new unity overshadows preparations for discussion of the formal agenda items. Of principal concern is the damage suffered by differences over the Anglo-French intervention in Egypt at a time when disturbances in Eastern Europe have underlined the continuing need for Western unity.

Although the foreign ministers will also give their usual consideration to the annual review of military progress and plans and the survey of the international situation, they will regard repairing the alliance as their principal task. Belgian foreign minister Spaak and Chancellor Adenauer have privately stated that the

United States should take the lead in "reconstructing" the alliance.

London and Paris are especially pessimistic on the future of the alliance. In France, recent criticism of the United States' role in the Middle East crisis has intensified existing dissatisfaction with NATO to an unprecedented pitch.

The recommendations of Foreign Ministers Pearson of Canada, Lange of Norway and Martino of Italy on improving nonmilitary aspects of the alliance will probably receive even more attention than was anticipated when their committee was appointed last May. Their letter of transmittal asserts that if the organization is to survive, individual members must first of all make full use of NATO's present facilities for promoting harmony.

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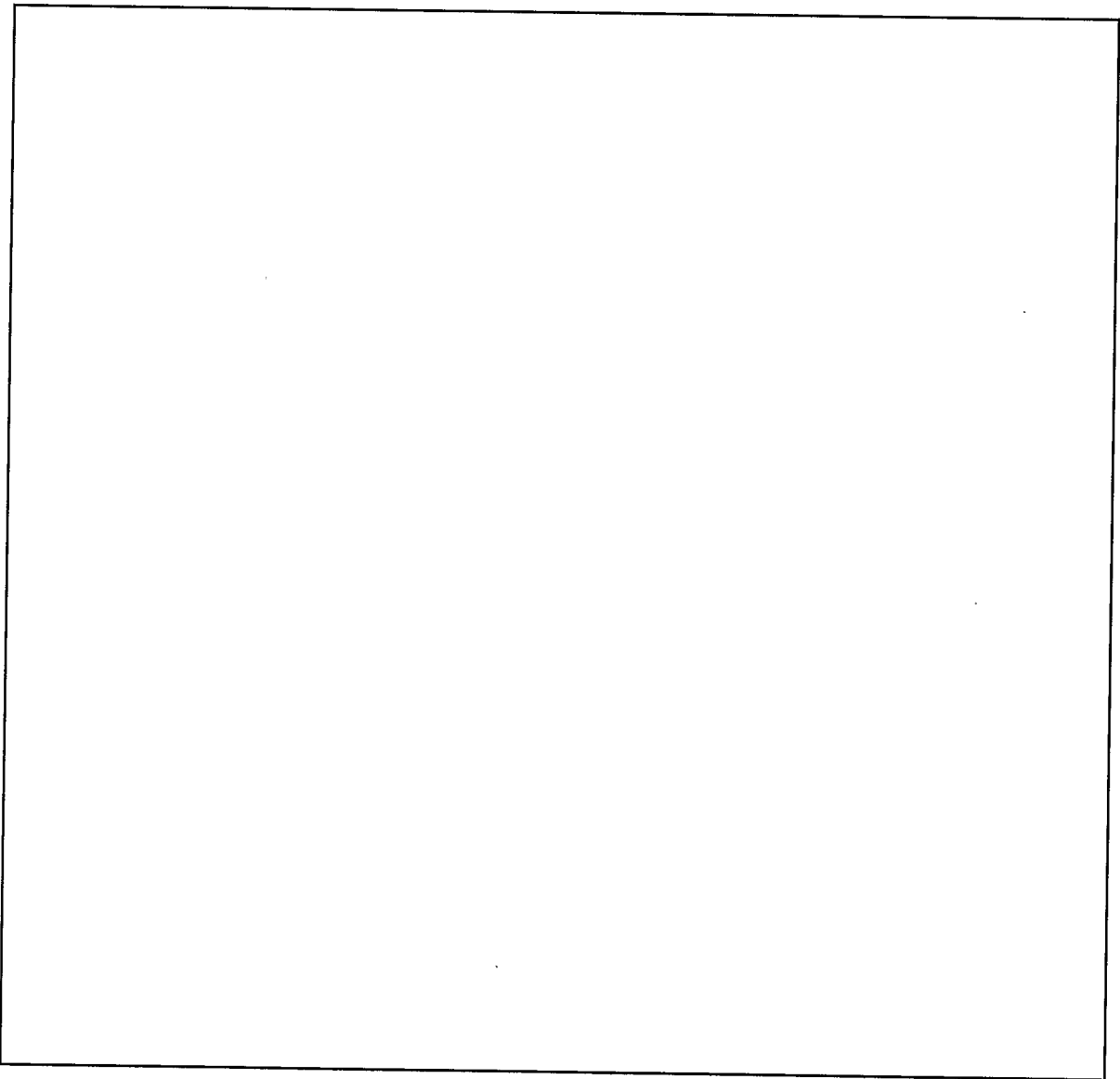
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Little structural change is recommended by these "three wise men." They urge a more active role for the secretary general and would have him report on instances where co-operation and consultation have or have not worked. They would also empower him to offer his good offices "informally" on intermember disputes, such as the Cyprus question, and to

call on permanent representatives for aid in conciliation or mediation. To enhance the usefulness of the North Atlantic Council, the three urge more frequent attendance by government ministers and top officials and greater support by governments of their permanent representatives at NATO headquarters.

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AUSTRALIA AND NEW ZEALAND RALLY TO BRITAIN IN CRISIS

The quick and unwavering support of Australia and New Zealand for the Anglo-French military intervention in the Suez Canal zone reflects the strength of the bonds which link both countries with Britain. This support was extended despite London's failure to consult with either the Commonwealth or the United States before precipitating the Suez crisis.

Indicative of the strong pro-UK sentiment is the fact that Australia and New Zealand are the only two UN members to have voted with Britain, France and Israel against a troop withdrawal from Suez. Domestically, with the exception of Herbert Evatt in Australia, the Labor opposition in both countries has refrained from attempting to exploit the issue against the government.

This attitude is all the more striking in view of the increasingly close relations both countries have developed with the United States since World War II, particularly through the formation of ANZUS. Although officials of the two nations have reiterated their conviction that Western unity must be preserved and none has suggested loosening ties with the United States, sentiment on the Middle East is, and will continue to be, partial to the mother country.

Considerable criticism of the United States has been

expressed in both countries. The American embassy in Canberra, for instance, reports that the vehemence of anti-American expression in Australia is "astonishing." Embassy officials in Wellington stated on 30 November that nothing favorable of the United States had been published for more than a week. The press in both countries has expressed increasing alarm about the future of the Western alliance and has published a flood of criticisms from London and elsewhere charging that American policy has reinforced Nasr's power, weakened the United Kingdom and France, failed to solve Middle Eastern problems, and played into Soviet hands.

Australian prime minister Menzies has been particularly outspoken. In a speech on 28 November, he said that United States support for the United Nations resolution demanding the immediate withdrawal of allied forces from the Suez area had caused "definite revulsion" in Australia and posed a serious menace to Australian-American relations. New Zealand officials are generally reticent, but some are privately echoing charges current in Britain that American policy is guided by US oil companies, which they feel are interested in removing British companies from the Middle East.

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INDONESIA

A widening cleavage appears to be developing among the Indonesian political parties which would split the country approximately evenly with the National and Communist Parties supporting President Sukarno and the major Moslem parties rallying to former vice president Hatta.

Hatta, who is widely respected throughout Indonesia, resigned on 1 December. Of all Indonesian politicians, he probably has the clearest understanding of the Communist threat. He exercised considerable influence in the government until 1953 and was generally considered a balance to the emotional and highly nationalistic leadership of President Sukarno.

Since 1953, Hatta has found himself more and more at variance with Sukarno, particularly on the subject of Communism, and has been increasingly unable to assert himself within the government. His influence, although still substantial, has declined with the falling fortunes of the Masjumi and Socialist Parties. Conversely, the increased power of the National Party, which supports Sukarno, has encouraged the president to ignore Hatta's advice.

Hatta said privately last February that he would resign after the Constituent Assembly convened in November. In connection with his resignation, Hatta has stated that after 11 years in a provisional office on which no legal time limit had been set, it was time to resign, and broadly hinted that Sukarno should follow his example.

In a speech on 28 November, Hatta indicated he would

continue an active political career. In this speech he directly challenged Sukarno by stating that "the assertion that the national revolution has not been completed is wrong." The principal theme of Sukarno's political pronouncements has been the necessity for "unity" to "complete the national revolution." Hatta's criticism is so basic, both of Sukarno and of Indonesian politics generally, that apparently few political elements have yet dared to react publicly, and only two daily newspapers have commented. Both are supporters of the National Party, and both upheld Sukarno.

To challenge Sukarno effectively will require painstaking organizational work and consistent and widespread activity at the grass-roots level. To prevent the Communist Party from benefiting from a major cleavage in Indonesian politics, the Communist appeal must also be undercut.

Hatta appears willing to make the attempt. The key to his success, just as it has been the key to the life of the present coalition cabinet, is the role of the Nahdlatul Ulama (NU), the second largest Moslem party. The NU reportedly has regarded Hatta as its major adviser from time to time and, during the first two weeks of the Constituent Assembly, took its place as principal antagonist of the National Party.

The Masjumi, the largest Moslem party, already strongly supports Hatta and, in order to accomplish Moslem unity under his direction, may be forced to cede leadership of Indonesia's Islamic bloc to the NU.

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POPULAR DISCONTENT IN NORTH VIETNAM

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Hanoi admissions of serious disturbances in the country. The situation is such that new outbreaks during the next few months are quite possible, although the Viet Minh leadership seems confident of its ability to maintain control. Hanoi's sensitivity on this issue, however, is indicated by its vigorous reaction to what it terms South Vietnam's "distortions" of recent events.

Western observers in North Vietnam are convinced that internal problems rather than events abroad triggered the revolts. The reaction of the Viet Minh leaders, however, was evidently conditioned by the East European developments. They declare that they will draw "important lessons from the Hungarian situation" and will "pay adequate attention to the people's living conditions." They have also promised to adopt a program of democratization, cautioning, however, against an "excess of democracy that could be exploited by enemy saboteurs."

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Viet Minh leaders are "at their wits' end" because of North Vietnam's failure to attain its major economic and political goals. Viet Minh hopes for Vietnamese unification on Communist terms at any time in the foreseeable future appear to be steadily fading in the face of the weaknesses revealed in North Vietnam and the continuing progress in the South.

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popular discontent is very strong in the vicinity of the north of Hainhong

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Despite the widespread popular disaffection, the army apparently remains loyal to the Viet Minh regime. The army's quick success in crushing the recent uprisings supports the view that the regular army remains loyal to the regime. Nevertheless, the inability of the Viet Minh to consolidate its control over the population foreshadows continued severe internal problems for the North Vietnam regime, and weakens both its military and subversive threat against the South.

In South Vietnam, the unrest in the North is being actively exploited in an effort to discredit the Viet Minh regime as well as to enhance Saigon's own prestige at home and abroad. Diem undoubtedly calculates that highlighting Communist repression in the North will strongly support his other efforts to gain prestige and recognition. On 29 November, he issued an appeal to "freedom-loving" nations and the UN to help "in every way" so that the people of the North might be spared further massacre. Diem petitioned the UN to concern itself with North Vietnam "in the same way" it has with Hungary.

South Vietnam also sent a letter to the truce commission requesting that the freedom-of-movement clause of the Geneva agreement be reinstated temporarily. It charged that the Viet Minh had failed to inform North Vietnamese residents

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originally of their rights under the 1954 Geneva agreement to request transfer to the southern zone, and offered to open the border to facilitate any movement of refugees. On 2 December, a crowd estimated at more than 100,000 demonstrated in Saigon in sympathy for the victims of the uprisings in the North.

Diem is attempting to make the most of the situation

as a means of proving his government to be the true exponent of nationalism in Vietnam. Consequently, a large portion of the publicity in the South emphasizes the Viet Minh's subservience to Communist China and international Communism. In this, Diem is seeking to capitalize on popular discontent in the North in the same manner he won acclaim in the South by his strongly anti-French policy.

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KUBITSCHKEK'S RECENT MOVES IN BRAZIL

President Kubitschek's crackdown in late November on military intervention in politics and on the extreme right-wing opposition appears to have gained general approval but leaves his authority and his continued national leadership still in question. The success of his attempt to reassert himself depends to an important degree on the future course of the powerful and controversial war minister, General Lott, who represents the major military strength --and chief political weakness --of the regime.

Lott's political activities were publicly censured by the president for the first time on 24 November when police closed for six months the

offices of the pro-Lott November Front, an ultranationalistic, Communist-infiltrated army-labor mass movement. The president also closed an organization of the militant opposition called the Lantern Club, which had recently stepped up its attacks on Lott and the government.

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At the same time, Kubitschek accepted responsibility for Lott's widely unpopular house arrest of General Tavora, a defeated presidential candidate who had issued a strong attack on Lott and Kubitschek on 22 November.

The November Front and the Lantern Club have been the

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chief factors in reviving the explosive animosities of the 1955 election, which resulted in important segments of the predominantly conservative navy and air force being pitted against a majority of the army in Lott's "preventive coups" of November 1955 to ensure Kubitschek's inauguration.

Considered entirely non-political until that time, Lott emerged from these coups as the pivotal figure of Brazilian politics and has since retained that position.

His failure to disclaim the recent aggressive support of the November Front and his

acceptance from the front of a commemorative "golden sword" was widely interpreted as both a provocation to the opposition and a serious challenge to the president's authority.

Kubitschek's attempts to achieve "national pacification," viable domestic policies, and good relations with the United States have been seriously hampered by Lott's political missteps, as well as by the prevalent ultranationalism represented by both the November Front and the Lantern Club. His recent crackdown is only a first step toward winning back a needed measure of confidence among the more moderate elements.

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THE CUBAN REVOLT

The revolutionary outbreak in Cuba's eastern Oriente Province which began on 30 November met with determined action from armed forces of the republic, and the situation now appears to be stabilizing, although a small rebel invading force has not yet been brought under control. Further rebel attacks and disturbances seem likely, and there is some reason to believe statements of Cuban exiles in Mexico that the main effort of the revolutionaries is yet to come.

This latest outbreak against President Batista, who ousted former president Prio in March 1952, first centered in Santiago de Cuba, the country's second largest city, and is now marked by action of rebel invaders on the southern coast west of Santiago. There have also been sporadic incidents elsewhere. Participants included many persons identified with revolutionary exile Fidel Castro, who led the abortive attempt on the Santiago garrison on 26 July 1953, a date for which his present movement is named. He also

reportedly planned the Matanzas revolt last April.

Castro reportedly announced on 30 November a "fight to death," and the rebel action is probably intended to trigger a full-scale revolution. Plans may envisage drawing military forces away from Havana to facilitate an uprising there. There has been no confirmation of reports that Castro has been killed or is in Cuba.

Some military support has been dispatched to Santiago and the coastal area. Opposition elements are being rounded up throughout the island, and constitutional guarantees have been suspended for 45 days in all provinces except Havana and Matanzas. The government apparently has attempted to avoid massacring local rebels.

It appears that Batista retains the loyalty of a majority of the armed forces, but in the past year there have been reports of dissatisfied factions and possibly plotting,

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particularly within the army, a key factor in the situation.

The Batista government previously has alleged that Prio and Dominican dictator Trujillo have been linked with Castro in plotting and, during the congressional session on 3 December, the Cuban prime

minister reportedly claimed that the invading rebels have a base in the Dominican Republic. Should the Cuban situation deteriorate further, Batista may refer his case to the Organization of American States, claiming Dominican involvement.

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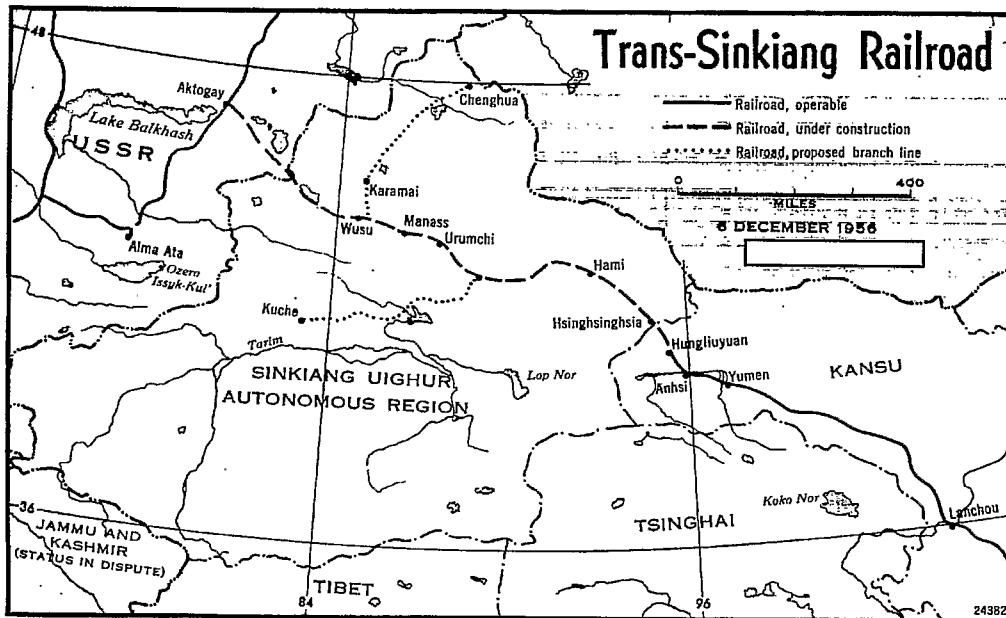
CONSTRUCTION PROGRESS ON TRANS-SINKIANG RAILROAD

Work is now under way on the Soviet as well as the Chinese end of the Trans-Sinkiang Railroad, which will cut the rail distance between Peiping and Moscow by 625 miles. The line will probably be completed by July 1958, well in advance of the 1960 target date.

By 23 November the first 12 miles of roadbed at the Soviet end had been finished, according to Soviet announcements. The Soviet target for 1956 is about 90 of the 190

miles from Aktogay to the Sino-Soviet border.

An article in a recent issue of the Soviet Railroad Ministry's newspaper Gudok stated that the Chinese would reach the Soviet border in July 1958. It also implied that the Soviet section would be completed before that date. Actually the USSR will probably continue to build on past the border into Sinkiang, since Moscow has announced it would "help" build the line as far as Urumchi.



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By the end of 1956, China will probably have laid track to Hsinghsinghsia, just inside the Sinkiang border, and over 700 miles from the starting point at Lanchou. The distance from this village across Sinkiang to the Soviet border is about 770 miles. The most difficult engineering problems are now behind the Chinese builders. Within Sinkiang, the major problem will be one

of climate--intense heat and cold, high winds and shortages of water. The rate of construction achieved during the next few months should provide a fairly reliable index of what to expect for the entire Sinkiang stretch. If the Chinese continue to increase their efforts, a rate of 450-500 miles per year is feasible.

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PART III

PATTERNS AND PERSPECTIVES

SOVIET REAPPRAISAL OF RELATIONS WITH YUGOSLAVIA

The Soviet leaders today are facing a situation similar in many respects to that which confronted Stalin in 1948-- a Yugoslav Communist regime setting itself up as an authority independent of Moscow and capable of exerting influence in the Eastern European Satellites. The crises in Poland and Hungary have increased the risk to Moscow of growing Yugoslav influence in this area and have forced the Soviet leaders to reappraise their policies toward Yugoslavia.

Problems of Reconciliation:

The primary aim of the Soviet rapprochement with Tito was to obtain the return of Yugoslavia to the Communist camp. The Soviet leaders thought they could achieve this if they made it clear that Yugoslavia was to have a special place in the Orbit, as an equal and independent state, far different from the role which Stalin had tried to assign to it.

In addition to the obvious gain for the Communist camp, the reconciliation with Tito was an essential part of the new look in Soviet foreign policy. The original excommunication of Tito was the epitome of Stalinism, the proof of Soviet intolerance of any Communist regime that did not take orders from the Kremlin. The pardoning of the heretic was used to make a favorable impression on the Asian neutrals and the European socialists, which the 20th party congress made clear were the primary targets of Soviet foreign policies. Moreover, Tito became an effective apologist for the USSR, willing to tell all who would listen

that things had changed for the better in Moscow.

Khrushchev apparently made the mistake, however, of thinking he could draw the Yugoslav leaders closer to the USSR than they wanted to go. He greatly underestimated Tito's ability and determination to use Soviet overtures to increase Yugoslav influence in Eastern Europe at the expense of the USSR, and to increase Tito's international prestige and freedom to maneuver between the two power blocs. He seemed to think that, as Communists, the Yugoslavs felt uneasy and lonely, isolated from the Orbit and adrift in a dangerous capitalist world.

Khrushchev also may have overestimated the strength of pressures within the Yugoslav party which might have forced Tito to return to close ties with the Soviet party on the basis of orthodox Marxism-Leninism.

Some of the risks of a reconciliation with Tito have always been clear. The example of Tito's successful rebellion was not lost on those Satellite leaders with nationalist tendencies. Moreover Tito, as the price of reconciliation, made Moscow recognize the principle of different roads to socialism.

Khrushchev did not intend for this principle to apply to the Satellite states in the same sense that it did to Yugoslavia. Moscow had conceded this right to Yugoslavia, as it had conceded a similar right to China in October 1954 because these regimes had achieved the right by their own efforts.

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The program of liberalization undertaken by the Soviet leaders in the Satellites, while welcome to Tito, was not undertaken primarily to satisfy him. In the post-Stalin period, the Soviet leaders felt that changes were needed in the Satellites, as well as in the USSR, to make Soviet control less dependent on military force and the secret police.

Economic and political reforms, the loosening of Soviet control and its concealment from open view were probably intended to make these countries more willing and permanent allies, as well as to impress the outside world with reforms. Moscow certainly did not appraise accurately the strength of nationalist feelings among some Communist leaders in the Satellites or the depth of nationalism and anti-Communism among the populations.

Course of Rapprochement

Khrushchev launched the Soviet campaign for a rapprochement when he led the Soviet delegation to Belgrade in May 1955 and, in his airport speech, blamed Beria for the 1948 split and called for a re-establishment of party relations. The party aspect of reconciliation appeared to have been blocked by Yugoslav opposition. Governmental relations, however, became very close, particularly in the economic field. Moscow tried to show Tito how valuable links with the bloc could be in tangible terms of trade and credits. These soon reached large proportions, and it began to appear that Tito's independent

position between East and West might be compromised by the lure of rubles.

The 20th party congress in February led to a further improvement of Soviet-Yugoslav relations. The doctrinal revisions of the congress, the emphasis on a variety of roads to socialism, and the denunciation of Stalin were welcomed by Tito. At long last he had some solid and dramatic evidence to support his claim that de-Stalinization was really the dominant trend in the USSR.

Tito's triumphant tour through the USSR in June 1956 marked the high point in relations between the USSR and Yugoslavia, but it did not obliterate their fundamental differences. The communiqué establishing party relations was a concession to Tito's views, with its acknowledgment that "the roads and conditions of socialist development are different in different countries" and its standards of "complete voluntariness and equality, friendly criticism and comradely exchange of views" for relations between the parties. In the climactic speeches of the visit, however, there was a noticeable contrast between Khrushchev's emphasis on the monolithic unity of the socialist countries and Tito's statement that his trip was the logical extension of his policy of improving relations with all countries on the basis of equality.

Each side had fundamental reservations about the other. The Soviet leaders questioned Tito's orthodoxy and

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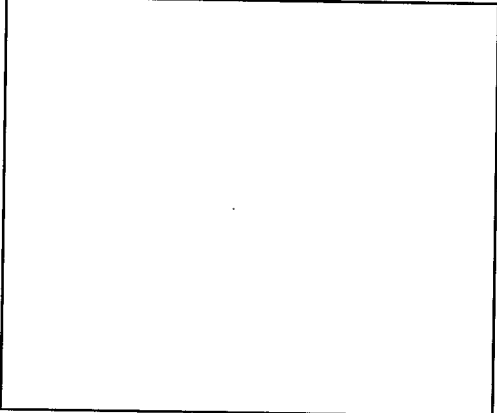
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he doubted their sincerity about the "new look" in relations between Communist parties.

These talks had barely ended when the Poznan riots dramatized the increasing seriousness of Soviet problems in the Satellites. This issue began to overshadow Soviet-Yugoslav relations. The various Soviet statements in June and July emphasizing the need for unity and "proletarian internationalism" and attacking the idea of "national Communism" appear to have been directed more at the Satellites than at those Western Communist parties that were following Togliatti's lead in asserting greater independence.

The September-October talks in Brioni and the Crimea certainly concerned the different approaches to the Satellites, Moscow presumably wanting to slow the pace of liberalization and Tito to speed it up. They differed on how much--if any--Yugoslav influence was desirable in the Satellites. Moscow must have resented Yugoslav efforts to meddle in Satellite leadership and policy problems.

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Soviet Dilemma

The events in Poland and Hungary have badly shaken the Soviet rulers and raised the possibility of the loss of

Soviet control over some or all of the Satellites. More forceful policies may increase hostility, while conciliation may breed still bolder demands.

The Soviet intervention in Hungary showed how little Moscow would yield to world opinion when its ultimate authority was endangered. What is not yet clear, as in Poland, is how much independence the Soviet leaders feel they can allow without dissipating their authority. As a bare minimum, they probably insist on the maintenance of the military alliance and the continuation in power of a Communist government. This policy does not exclude the possibility of further liberalization in the future if demanded by local Communist leaders, but for the present the Soviet leaders will probably urge continued discipline rather than political liberalization.

Khrushchev's experiment in liberalization has released a flood of contradictions and clashing interests in the Satellites which Stalin had managed to keep under control by ruthless methods. This, together with his attempt to establish a new basis for relations with Yugoslavia and China, has weakened the underpinnings of the empire inherited from Stalin. The present Soviet leaders are now facing a situation similar in many respects to that Stalin faced in 1948--an independent Yugoslav Communist regime setting itself up as a rival of Moscow's authority and attempting to exert influence in the Satellites. The problem may be more serious for the present Soviet leaders than it was in 1948 because the Yugoslav regime is now stronger economically and politically, more self-confident, and less vulnerable to subversion or invasion, while the Satellite states are less surely under Moscow's control.

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Under these conditions, Moscow cannot afford to cater to Belgrade's wishes in framing its Satellite policy. The Nagy kidnaping shows how little consideration is given to Yugoslav wishes when vital Soviet interests are at stake.

But it is not simply a question of ignoring Tito. The Soviet leaders are involved in a struggle with Tito for influence in the Satellites and therefore must do what they can to isolate him from Satellite affairs. The recent Polish press statements supporting Tito's Pula speech point up the danger Moscow faces.

It is not so much a case of the popularity of Tito and the Yugoslavs in a country like Poland, or of Polish desire to imitate every Yugoslav practice. Rather it is the mutual need of Poland and Yugoslavia to stand together for the principle of independence from Moscow. Tito has symbolized independence from Moscow, has elaborated a theory of independence, and has been practicing and preaching it. A Satellite seeking to shed all or part of its Soviet coat must turn to Yugoslavia as its only source of support and advice.

Moscow may have stopped for the present trying to draw Tito closer into the bloc and begun to try to isolate him and discredit him in the eyes of Satellite leaders. Pravda seemed to be aiming at this in a long editorial on 23 November. It charged that Yugoslavia was trying to impose its brand

of Communism on others and that this brand was ideologically deficient, that it had resulted in a lag in the socialization of agriculture, failure to produce adequate crops, and the necessity for economic dependence on the West. It accused Tito of trying to interfere in the affairs of other Communist parties. In short, it warned the Satellites that Yugoslavia would make a poor ally.

Perhaps more pointed warnings about Yugoslavia, like the September letter, have been or will be sent to the Satellites, although this would risk much more serious Yugoslav alienation from Moscow. Moscow may allow its more orthodox Satellites to take the lead in this campaign. The Soviet leaders still find Tito useful, one of the most useful neutrals, outside the Orbit, however much of a nuisance he is inside. Therefore, in the weeks ahead they will probably be walking a tightrope in their relations with him.

Heavy economic or military pressure on Yugoslavia, an ideological break, or anything reminiscent of the 1948 break, would hurt Moscow's worldwide objectives because it would so obviously tar Moscow with a Stalinist brush. On the other hand, strenuous economic or political efforts to lure Tito into the Orbit are unlikely for the time being, since Moscow appears to be no longer confident that he is a reliable Communist who can safely mingle with the other members of the Communist camp.

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INDIA'S ECONOMIC PROBLEMS

India's economy, seriously strained by the pressure of the ambitious goals of the Second Five-Year Plan, is experiencing a foreign exchange crisis caused by the large-scale imports of industrial products needed for the industrialization program. Estimates of foreign aid needed to fulfill the plan have been revised from nearly \$1.7 billion to over \$2.1 billion. India has secured less than \$400,000,000 of this sum, of which about \$240,000,000 has come from the USSR. Indian leaders are reluctant to become too closely tied to the USSR economically, but are determined to meet the plan's goals, even if they are unable to obtain additional Western assistance.

First Five-Year Plan

India's First Five-Year Plan, which ended on 30 March 1956, sought to increase agricultural production substantially and lay the groundwork for future industrialization. Although its goals were not fully reached, the plan was generally successful, partly because of the effects of favorable monsoons on agricultural production. National income increased by 18 percent, agricultural output by about 20 percent, and industrial production by 22 percent.

Second Five-Year Plan

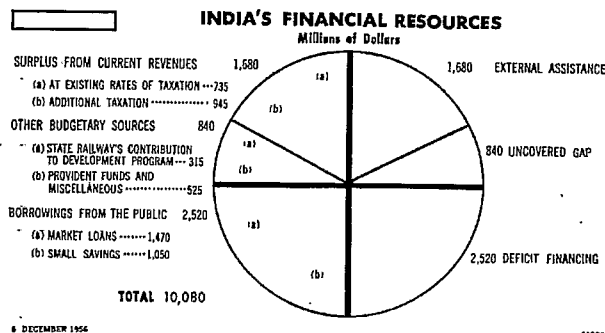
The goals of the present plan are far more ambitious, with the major effort directed toward increasing industrial production rapidly. National income is to rise by 30 percent, agricultural production by 28 percent, and industrial production by over 45 percent over 1955

levels. Special emphasis is being placed on heavy industry, and the production of producers goods is scheduled to increase by 150 percent.

The plan calls for about \$15 billion to be spent for development projects, compared to about \$6.5 billion spent during the first plan. The private sector should be able to approach its target of \$5 billion, although it will be hard pressed to do so, since this represents more than twice the amount invested during the first plan. The major difficulty facing New Delhi during the next five years is the financing of the remaining \$10 billion of governmental outlays called for in the plan.

Internal Financing

The government's main problems of internal finance are likely to arise from the deficit financing and the uncovered gap. A rapidly developing economy needs an increasing money supply, and a certain amount of deficit financing is considered necessary and safe. Many financial experts think, however, that India may generate inflationary pressures by resorting to deficit financing to raise \$2.5 billion as planned and that inflation

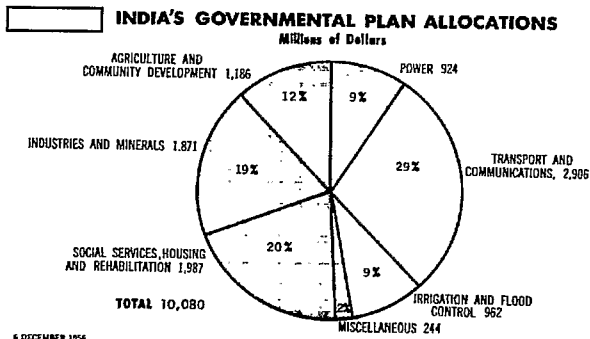


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would set off social and political unrest.

In addition to the problems of raising such large sums through increased taxes and deficit financing, the government has admitted that \$840,000,000 of needed resources were not available when the plan was adopted. While part of this sum was made up by the \$360,000,000 agricultural agreement India recently signed with the United States, a gap of nearly \$500,000,000 remains. Since New Delhi cannot fill this gap through increased deficit financing, it will probably be forced to impose additional sacrifices on the Indian people or reduce the scope of the plan in some sectors.

Although major sacrifices will be required of the poverty-stricken Indian people to raise over \$8 billion by 1961, Prime Minister Nehru and other Indian leaders are determined to carry out the plan. If the Congress Party remains in power following the 1957 elections, India should be able to come close to raising these amounts.

External Financing

Despite the difficulties inherent in raising such a large sum of money within India, the most serious obstacle to fulfilling the plan is the inability to pay for the large-scale imports of industrial

equipment which are necessary to carry out the industrialization program. The Indian Planning Commission estimated that the value of the imports required would be about \$2.3 billion greater than the value of Indian exports from 1956 to 1961. The planners calculated that this gap would be partly closed by \$210,000,000

of private foreign investment-- which is likely to take place-- and by withdrawing \$420,000,000 from India's foreign exchange reserves. India would then have needed \$1.68 billion in foreign assistance.

India has already experienced a major setback in this program, however, caused by the rapid depletion of its foreign exchange earnings. From 1 April through 23 November--normally a good period for foreign exchange earnings--holdings fell approximately \$426,000,000 or the total amount they were scheduled to fall by 1961. These reserves now stand at only \$1.14 billion, which is the minimum level regarded as necessary to back the currency and provide working capital for foreign trade operations. More ominous still is the fact that almost half of this drop has occurred in the past 10 weeks and shows no sign of ending. The government reportedly plans, as a temporary remedy, to borrow funds from the International Monetary Fund.

Two unforeseen factors brought about this fall in reserves: the prices of imports have been higher than estimated and the Indians apparently have had to make considerably larger advance payments on their orders abroad than they thought would be required. In addition, they appear to fear

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that the British will devalue sterling again, and may be attempting to prepay the costs of some equipment being purchased outside the sterling bloc. Minister of Production Reddy recently told American officials that the estimate of the foreign assistance needed had been raised from the original figure of \$1.68 billion to between \$2.1 billion and \$2.3 billion as a result of the world crisis and increased import and freight costs.

Foreign Assistance

Thus far, India has had only moderate success in securing foreign assistance to finance imports of industrial equipment. Loans of approximately \$350,000,000 have been obtained from the USSR, Britain and Western Germany to purchase such equipment. The United States has agreed to supply about \$50,000,000 during fiscal 1957, and Indian leaders are planning on continuation of such aid.

B. K. Nehru, secretary for external financial affairs, spent the summer in Western Europe and subsequently came to the United States to see if increased private investment could be obtained to help close the foreign exchange gap. To date he has had almost no success--chiefly because many Western businessmen are hesitant to invest in India in view of the rapid pace of socialism, as Nehru gears the country to meet the plan and seeks to ensure a Congress Party victory in the 1957 general elections by expanding welfare services and government ownership of industries.

The Indians probably recognize that the results of the Middle East crisis on Western European economies will severely limit the amount of assistance they can obtain from those countries, thus forcing them to rely on the United States and

the Soviet Union if the plan goals are to be achieved. The USSR has already agreed to lend India \$115,000,000 to purchase equipment for a steel mill, and in November extended another loan of \$126,000,000. This latter loan reportedly is to be used for equipment for a government-controlled oil refinery, a heavy-machinery manufacturing plant, fertilizer plants, and other machinery.

The terms of both Soviet loans are reportedly the same--2.5 percent interest repayable in rupees in 12 annual installments into a special Soviet account in India. Moscow is to use the rupees to cover its purchases in India, and the balance remaining at the end of the loan period is convertible into sterling. The fact that the loans are repayable in rupees is attractive to the Indians in view of their foreign exchange position. Unless India is to be faced with a huge decline in its foreign reserves 12 years hence, however, it must provide for as high as \$20,000,000 worth of exports to the USSR each year, compared to \$5,000,000 in 1955.

India reportedly plans to do this without disturbing existing trade patterns by use of "ordinarily nonexportable surpluses" such as spices, leather goods, and manufactured consumer goods. While the USSR has already taken small shipments of such products, it is unlikely to be satisfied with only these items indefinitely. Therefore, India probably will have to supply the USSR with some of its regular exports such as cotton, jute, and minerals. While such a shift would not be large enough to have a major effect on India's pattern of trade, the shift required if India were to receive additional Soviet loans could have more serious consequences.

Despite the recently expressed unwillingness of the

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World Bank to provide India with a loan of several hundred million dollars to support the Second Five-Year Plan, the bank probably will continue to make loans for specific projects in the plan, and some additional capital should be forthcoming from Europe. These loans will close only a portion of the foreign exchange gap, however, and there are indications that the Indians may make a concerted effort to obtain large-scale assistance from the United States, possibly during Nehru's coming visit.

If Indian leaders are unable to obtain the assistance they need from the West, their determination to fulfill the plan probably would cause them to turn to the USSR despite their reluctance to tie India's economy too closely to that of

the Soviet Union. The USSR, hard pressed for aid by the Satellites, Communist China, and Middle Eastern countries, might be reluctant to meet their requests.

The American embassy in Moscow has stated that to date the Soviet press has not mentioned the latest Indian loan, in sharp contrast with the widespread publicity given the loan for the steel mill. The embassy comments that this may be due to the reported feeling of the Soviet people that such loans are in part responsible for their low standard of living. Even so, Soviet leaders might decide to give assistance, if requested by India, as their best hope of gaining a dominant position in South Asia. [redacted]

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ECONOMIC CONDITIONS IN EGYPT

The effects of the Middle East crisis on the Egyptian economy, although severe, have not yet resulted in the development of organized opposition to the Nasr regime. While that small percentage of the population which derives its livelihood from industry, commerce and the operation of the Suez Canal is experiencing considerable hardship, most Egyptians exist on a simple agricultural economy and remain relatively unaffected.

The bulk of the population exists at subsistence levels, spending income largely for food and shelter. As long as adequate food supplies are available and prices are held down, there is little incentive for this group to take positive action. As a result of the good domestic harvests, and

the commitments from the USSR, Syria and Italy for 690,000 tons of wheat, an adequate food supply can be expected during the next few months.

Egyptian industry and commerce, however, is coming to a standstill, and the prospects are poor for any significant improvement during the next few weeks. Petroleum, on which Egyptian industry is completely dependent for fuel as well as lubrication, is critically short. There are reportedly only enough stocks on hand to last until January. The two oil refineries at Suez have been cut off from most of their former sources of crude oil by the closure of the canal and the denial to Egypt of British tankers. Both installations are now shut down.

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Normal production of the Suez refineries accounted for approximately 75 percent--about 2,780,000 tons--of Egypt's petroleum needs. The USSR has promised to increase its shipments of refined products, but it is doubtful that Moscow will supply more than 1,000,000 tons annually, about 25 percent of Egyptian requirements. The supply problem is aggravated by a general shortage of tankers.

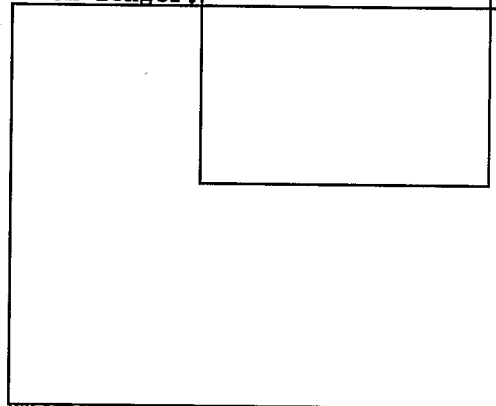
Unemployment and unrest in Alexandria, Port Said and Suez are increasing as foreign trade has been reduced to a trickle. In Alexandria last week, large groups of Egyptians gathered before government buildings, clamoring for food and money. Industries most affected are those depending on foreign suppliers for raw materials and spare parts. The business community has lost confidence in the government's ability to cope with the situation.

Cotton sales, which normally provide about 90 percent of Egypt's foreign exchange, have been unusually slow since the beginning of the marketing season on 1 August. The Communist bloc, which in 1955 took about one third of Egypt's cotton exports, in part for arms first delivered late that year, has not yet begun heavy purchases. The 1956 cotton crop has been estimated at about 354,000 tons, of which probably 95 percent--worth from \$258,720,000 to \$336,300,000--is scheduled for export.

The disruption of canal traffic is not expected to cause transportation problems for the bulk of the cotton exports since Alexandria, the main shipping center, has not been affected. Exports to India--Egypt's second largest customer after Czechoslovakia in 1955--and other Asian countries will have to originate

from Suez, however, pending clearance of the canal. The additional cost of shipping by rail from Alexandria to Suez can be readily absorbed. As last year, the successful sale of the 1956 crop still depends on large purchases by the Sino-Soviet bloc.

Egyptian foreign exchange reserves, sorely needed to finance essential imports, are dangerously low despite the government's limited success in developing alternative sources following the blocking of sterling, dollar and franc accounts. In the past, the stability of the Egyptian pound was maintained precariously by constant withdrawals from the large blocked sterling accounts in London accumulated during World War II. Withdrawals from this and other sterling accounts are now prohibited by the British. Increased trade with the Communist bloc and bilateral and trilateral trading arrangements with Western countries have delayed the full impact of the blocking of these accounts on the stability of the Egyptian pound. However, a substantial depreciation probably cannot be avoided much longer.



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The exchange situation is already so tight that the government has indicated that it will be unable to pay American oil companies for the oil it has been receiving from stocks and still pay for other essential imports.

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In accordance with a decree of 2 November, the regime began sequestering the substantial British and French properties in Egypt, including bank accounts of individuals. In addition, Egyptian and European companies whose productive services are related to the Egyptian war effort have come under the supervision of the newly established Department of Mobilization under the Ministry of Defense. These moves were in part justified by the war effort, in part retaliatory, and in part aimed at the nationalist goal of "Egyptianization" of the economy. However, the confusion caused by the take-over, the lack of sufficient trained Egyptian personnel and the

international character of many firms have so far merely further dislocated the economy.

Economic conditions within Egypt will probably continue to deteriorate. Some observers fear that unless substantial amounts of economic aid are forthcoming, a complete breakdown of Egyptian industry and commerce might occur. In urban areas, shortages of consumer goods, aggravated by hoarding and distribution problems, are driving prices higher. In addition, layoffs have resulted in worker discontent and are leading to demonstrations. So far the regime's security apparatus has managed to cope with all cases of incipient unrest. 25X1

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POLISH ARMED FORCES

The Polish armed forces, the largest in the Satellites, have been developed with Soviet direction and support into a reasonably efficient, well-organized and well-trained force. A shortage of qualified company and field-grade officers and technicians, the dependence on the USSR for logistical support, and the lack of experience and skill of the recently appointed Polish top command, however, limit their combat effectiveness. The military force can be expected to support a nationalist regime and to give a reasonably good account of itself in time of war.

Reorganization of High Command

The promise of Polish party first secretary Gomulka to make the armed forces entirely Polish has led to the removal of Soviet Marshal Kon-

stanty Rokossowski as defense minister and the reorganization of the high command of the Polish armed forces along more nationalistic lines. This change has resulted in less qualified leadership, a fact which may be somewhat offset by a rise in morale. Moscow is expected to maintain limited and less obtrusive control through the retention of Soviet officers--particularly those of Polish birth--in certain key commands and Soviet advisers at all echelons. The capability of the Polish army may be reduced, at least during the period of reorganization.

The recent appointments place Polish officers in most major command positions, including commander and chief of staff of artillery troops, commander of armored troops,

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air force and anti-aircraft defense commander, and commanders of two military districts. Last July, the navy was returned to Polish control.

The weakness of the new leadership is exemplified by the lack of the de-training of the defense minister, Major General Marian Spychalski, whose military career has been limited to the activities of a resistance organizer and a political commissar of the army. Several appointees are rehabilitated prewar officers who have not been active in military affairs since 1949, and a few have been placed in positions of major responsibility for the first time. At least three of those advanced, however, have been trained in Soviet military academies.

Army

The 250,000-man army is the largest component of the Polish armed forces and is composed of eight corps--six infantry and two mechanized--made up of 18 divisions--twelve infantry and six mechanized. In addition there are two Soviet divisions stationed in Poland.

The corps exercise tactical control over all Polish units except those few assigned directly to military districts or to general headquarters. There are three military districts, which exercise administrative control of military functions in their respective

HIGH COMMAND OF POLISH ARMED FORCES

Minister of Defense	Maj. Gen. Marion Spychalski
Vice-Minister & Chief of General Staff	* Lt. Gen. Jerzy Bordzylowski
Deputy Chief of General Staff	Brig. Gen. Zygmunt Duszynski
Deputy Chief of General Staff	Brig. Gen. M. Grakiewski
Vice Minister & Commander, Ground Troops	* Army General Stanlaw Poplawski
Chief of Cadre Dept.	Col. Jerzy Fonkowicz
Chief, Artillery Troops	Brig. Gen. Kunicki
Chief of Staff, Artillery Troops	Brig. Gen. Czubryt-Borkowski
Chief, Armored Troops	Brig. Gen. Czaplowski
Quartermaster General	Brig. Gen. Wiktor Zieminski
Acting Cmdr, Air Force & AA Defense	Brig. Gen. Jan Frey-Bielecki
Commander, Navy	Vice Adm Jan Wisniewski (unconfirmed)
Vice Minister & Chief, Main Political Admin	Lt. Gen. Janusz Zarzyski

MILITARY DISTRICT COMMANDERS

Commander, Warsaw MD	Brig. Gen. Jozef Kuropleka
Acting Commander, Pomeranian MD	Brig. Gen. Zygmunt Huszcza
Acting Commander, Silesian MD	Brig. Gen. Waryszak

All above are new appointees except the two marked (*), who are Polish-born Soviet officers who have been with the Polish forces since 1944.

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areas. Units are generally organized and equipped as Soviet divisions of a similar type were before the recent Soviet reorganization.

With few exceptions, Polish divisions are up to their normal peacetime strength in both personnel and equipment. There has been no evidence that the announced reductions in strength levels of 47,000 in 1955 and 50,000 in 1956 have been implemented. Exemptions from service are being granted for persons willing to work in mines. Poland's mobilization potential, with a large pool of fit manpower and trained reserves, is greater than that of any other Satellite. By M-day plus six months, an army of approximately 1,100,000 men and as many as 42 divisions could be raised and equipped with Soviet logistical support.



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Equipment in the army is basically Soviet World War II standard types, although the Soviets apparently favor Poland over the other Satellites when distributing new types of weapons, such as the 160-mm. mortar M1943, the 100-mm. field antitank gun M1944, and two newer antiaircraft machine guns. No large major equipment reserves are known to exist in Poland, and in the event of mobilization, Poland would be logistically dependent on the Soviets for major equipment items. The Poles manufacture small arms and ammunition, artillery ammunition and components, trucks and a limited number of medium tanks.

Air Force

The Polish air force is believed to possess about 800 aircraft, including some 500 jet fighters and 80 jet light bombers. There are in addition an estimated 250 IL-10 piston ground-attack bombers and 30 transports. Personnel strength is about 34,500. Nearly 500 jet aircraft of the Soviet air force are based in Poland.

Modern military airfields have been constructed and there are now approximately 50 major

airfields in Poland--a number believed to exceed the present needs of Polish and Soviet air units combined.

Navy

The principal elements of the Polish navy are two destroyers, nine submarines, 31 patrol vessels and 13 minesweepers. A small number of these ships are old and of limited usefulness. Inasmuch as there is no warship construction program in Poland, all increases must come from foreign sources. The USSR transferred two short-range submarines and five submarine chasers to Poland in 1955, but no additions are known to have been made since then.

Bloc naval forces in Polish waters are supplemented by Soviet offshore defense force units which are based at Swinemuende.

Capabilities

The present standard of combat readiness in the Polish army is good, largely as a result of the intensity and realism of the unit field training each year. Maneuvers on a division level have become more 25X1

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frequent. Marked deficiencies in combined-arms training noted in previous years have been overcome. Corps-level maneuvers were held in 1955, but it appears that major field exercises were not conducted this fall. Adverse weather conditions, harvesting labor needs and the tense political situation may have contributed to this curtailment.

The Polish army is capable of undertaking limited independent offensive action, as well as maintaining a stubborn defense against an invading force. In both instances, however, sustained Polish operations would be possible only if the USSR provided extensive logistical support. As a member of the Warsaw pact in a general war, Polish units could be used as part of a bloc force. Approximately eight Polish divisions could be employed initially while the remaining line units were being brought up to full strength.

The mission of the Polish air force in the bloc's strategy appears to be twofold: to provide air support for Polish ground forces, and to perform air defense functions as an integral part of the over-all Soviet-controlled air defense system for Communist Europe. The capability of the air force to carry out its mission has been enhanced by

the Soviet-sponsored modernization and expansion program, which has included developing major airfields, re-equipping with jet aircraft, increasing personnel, and expanding the training program. As a result, Poland has not only an organizational structure well suited for the development of its air force, but actually has in being an air force with significant operational capabilities.

The air fighter force is situated defensively, along the northern and northwestern perimeter of Poland and near the principal cities. Its operational readiness is below Western standards but is sufficient to permit a reasonable defense by day in good weather. Its effectiveness under night and bad weather conditions is doubtful since it is still without an integrated all-weather air defense capability. However, it has been improved during the past year by the introduction of a few MIG-17's equipped with air-borne intercept radar. The expanded jet light bomber force must presently be credited with a significant offensive capability.

The Polish navy is assigned primarily coastal defense duties. However, its principal importance to the USSR is in maintaining facilities which would serve as advance bases for the Soviet navy.

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