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23 June 1961

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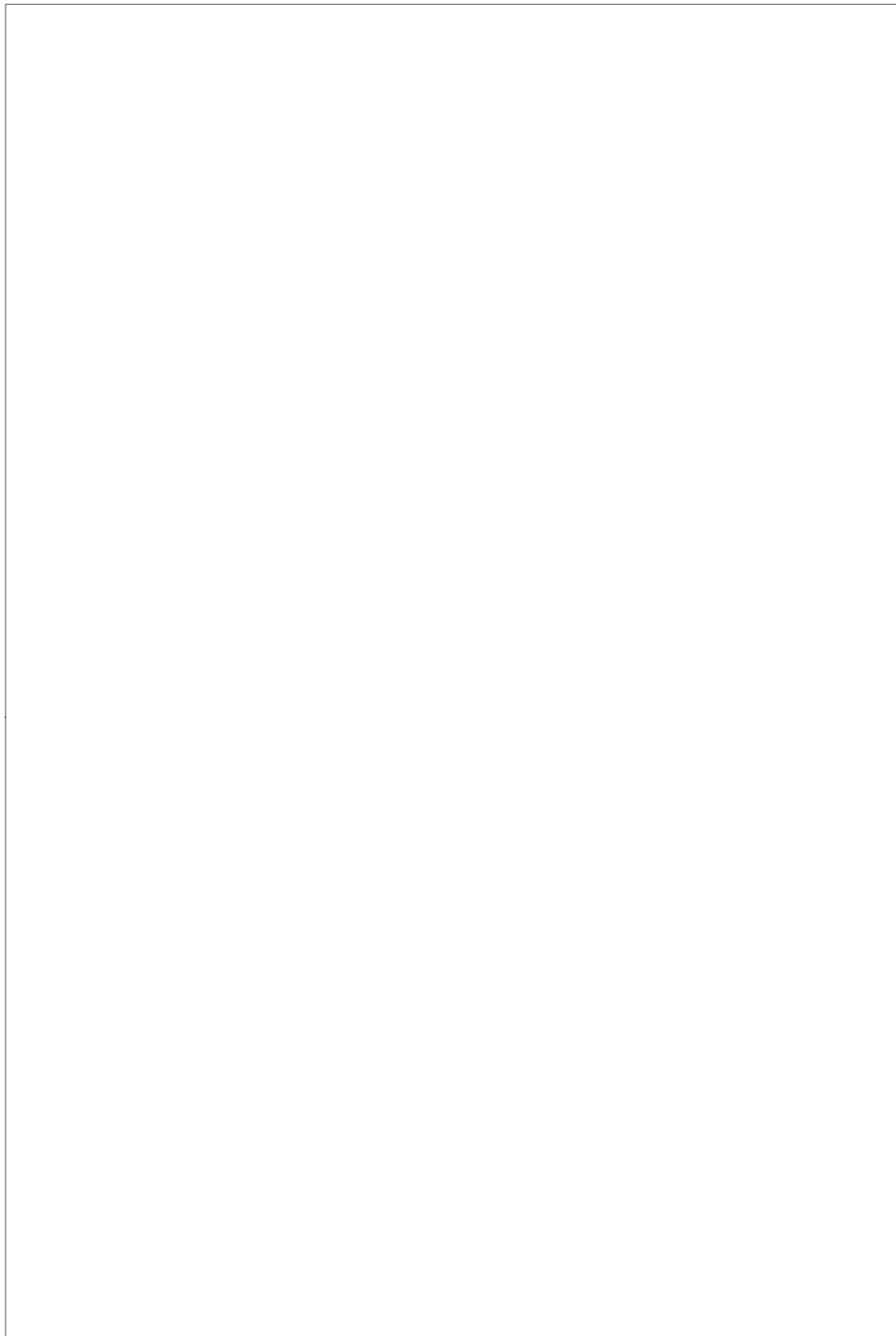
INTELLIGENCE

BULLETIN



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23 June 1961

CENTRAL INTELLIGENCE BULLETIN

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DAILY BRIEF

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~~Laos:~~ The communique signed by Souvanna Phouma, Boun Oum, and Souphanouvong in Zurich on 22 June delineates the broad outlines of a settlement among the groups they represent but leaves for future negotiations such difficult problems as the composition of a government of national unity and the integration of the armed forces of each side. In agreeing to form a coalition government without reference to the national assembly, as well as in other matters, the Boun Oum - Phoumi side appears to have made important concessions. The communique spells out the domestic and foreign policies to be followed by the projected government of national unity; in most cases these aims are those long enunciated by Souvanna. A striking concession by the Boun Oum - Phoumi group in the policy realm was agreement to disavow "the protection of any military alliance or coalition" -- an unmistakable reference to SEATO.

The military situation remains generally quiet. Bloc airlift operations continue to be scheduled through 23 June.

(Backup, Page 1) (Map)

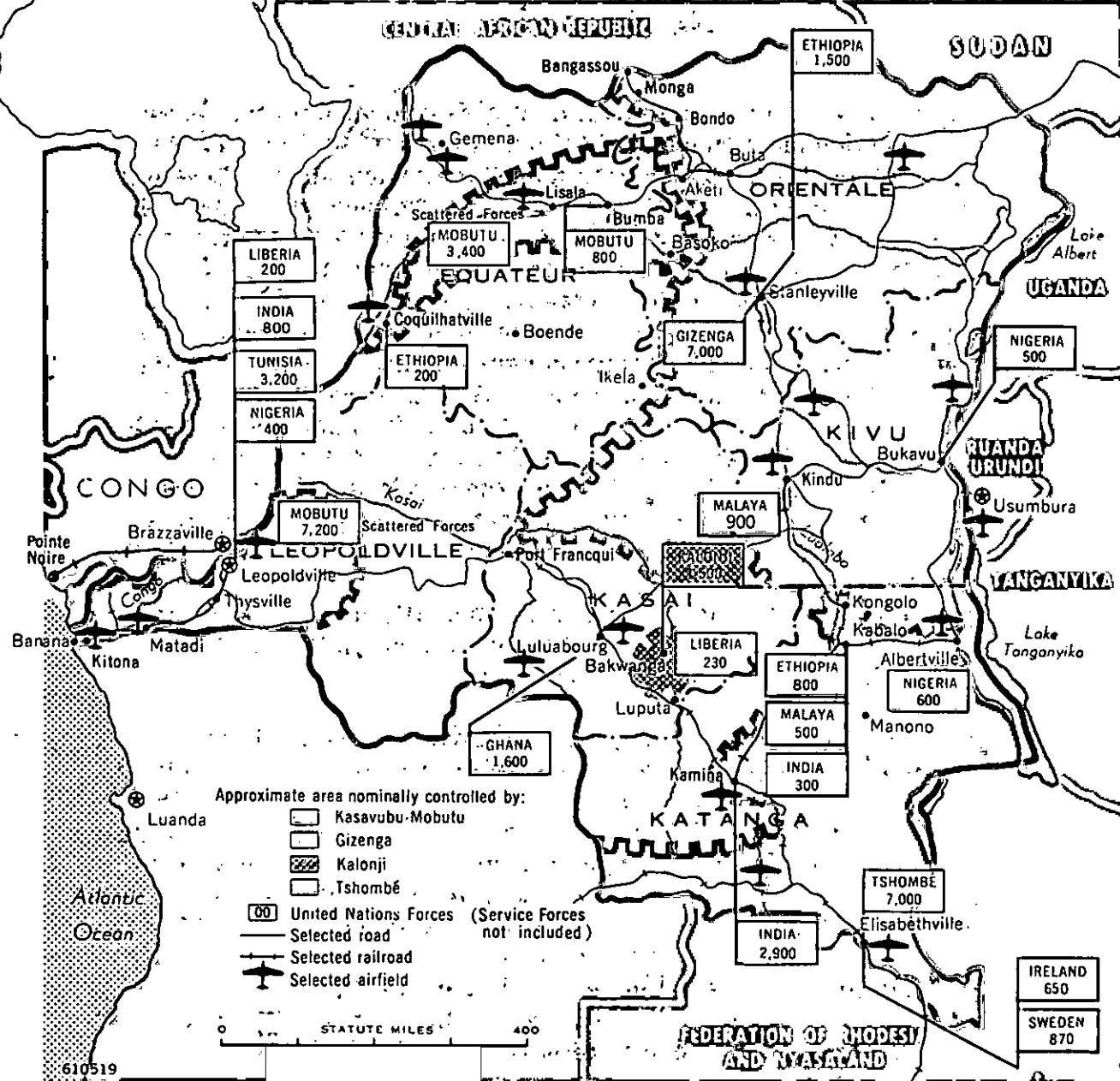
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Congo: Tshombé's remarks on his release from detention in Leopoldville suggest that Leopoldville officials have obtained his promise of increased cooperation between Katanga and the rest of the country. If Tshombé keeps his promise after his return to Elisabethville, Katanga will be represented at the pre-parliament "summit meeting" of Congolese leaders called by Leopoldville Interior Minister Adoula, and deputies probably will attend parliament when it convenes.

Tshombé's release, [coupled with reports that Katanga Interior Minister Munongo has suffered a heart attack] may foreshadow an era of increased political instability in Katanga. Tshombé has said he plans to return to Elisabethville, but his

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Republic of the Congo



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prestige has been reduced by his lengthy enforced absence, and many of his Belgian advisers have departed. Moreover, his lieutenants will be reluctant to give up the power they enjoyed while he was in Leopoldville. [If Munongo, the only other strong personality in the Katanga cabinet, should be incapacitated, a period of infighting among factions in Elisabethville is likely to result.]

(Man)

Nationalist China: Chiang Kai-shek told Ambassador Drumright on 20 June that the attitude of the US administration leads him to suspect that, despite protestations of support, America is actually embarked on a calculated change of its China policy. Chiang protested issuance of a US visa to Thomas Liao, the exiled head of a Taiwanese nationalist organization in Japan; the proposal to establish relations with Mongolia; and any move to abandon the moratorium on the Chinese UN representation issue. He said that "continued US ignoring of the rights and interests of a friendly and loyal ally could produce very serious consequences." Drumright is convinced that Chiang will leave the UN rather than be forced into a "two Chinas" arrangement, and that he will use his veto to ban Mongolia from the UN.

(Backup, Page 3)

France-Algeria: Bruno de Leusse, the number-two French negotiator at Evian, is discouraged over the refusal of the PAG to make any concessions in the first round of talks and believes that it wants to drag them out until the Algerian issue can be presented again to the UN General Assembly in the fall. He said that while the PAG had announced that it desired to resume negotiations, the Algerians apparently believe that time is on their side and the French will go from concession to concession. De Leusse says he is convinced that the talks, which France suspended, must be resumed but he fears that the situation in Algeria will disintegrate rapidly if negotiations are prolonged, and that France will have no alternative but partition.

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The French Government's maneuverability is circumscribed by the marked rise in terrorism and Moslem demonstrations in

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Algeria, and there is growing exasperation among military elements who see the rebels taking advantage of the unilateral cease-fire to strengthen their forces and re-establish control over the civilian population. [redacted] (Backup, Page 5)

Brazil-Cuba: President Quadros' announcement on 21 June that he had ordered a study of the possibility of increasing Brazil's trade with Cuba is a political gesture. Brazilian-Cuban trade has in the past accounted for less than 1 percent of each country's total trade, and the principal exports of both countries are competitive rather than complementary. Quadros is probably interested in making a public pronouncement satisfactory to leftists to balance the effect of strong action which he took recently against striking pro-Castro students in the key northeastern city of Recife. [redacted]

Soviet Bloc - Brazil:

[redacted] the probable expansion of economic relations between the Soviet bloc and Brazil. [redacted]

[redacted] the East Germans had offered to build a variety of industrial installations in Brazil. [redacted] their interest in aiding Quadros' plans for the development of Brazil's impoverished and politically volatile northeast sector.

[redacted] a Polish proposal for the sale of 50 helicopters and 20 "specialized airplanes." Recent agreements call for well over \$1,000,000,000 in total bloc-Brazilian trade over the next five years. Past performance by both parties suggests these goals will not be met, but a significant increase in trade is expected. [redacted] (Backup, Page 6)

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USSR - Communist China: The US Embassy in Moscow notes the absence of a detailed communique and the usual fanfare in connection with conclusion of the Sino-Soviet agreement on economic and technical cooperation. This suggests that the unresolved political dispute is still affecting economic cooperation. Such agreements normally cover long-term Soviet commitments to Peiping. There is probably a significant reduction in Soviet economic commitments to China, and both parties may feel that disclosure would only call further attention to the political dispute. While the last agreement, in 1959, was signed by Khrushchev and Chou En-lai with elaborate publicity, the new agreement was signed by the negotiating officials.

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Hungary: The Kadar regime has invited Frederick Boland of Eire, president of the UN General Assembly, to visit Hungary, promising him access to any one he wishes to interview. Budapest has also lifted restrictions on the travel of American diplomats. These gestures apparently are in part a response to suggestions that a trip by Boland, together with amnesty for participants in the 1956 revolt and the withdrawal of Soviet troops from Hungary, would facilitate normalization of the Hungarian regime's status in the UN and could lead to an exchange of ministers with the US. However, neither an amnesty nor withdrawal of Soviet troops has been announced. Budapest has refused to permit an official visit by Sir Leslie Munro, the UN special observer appointed to investigate conditions in Hungary, and the Hungarians specified that Boland's visit must not be represented as an equivalent. [Boland on 24 May expressed to UN diplomats in New York his reluctance to take the initiative for such a trip for fear of adverse reaction in Ireland.]

Ghana: Nkrumah has invited African nationalist leaders to meet in Accra on 28 June, apparently in an effort to regain the initiative in African affairs before departing on 5 July for a visit

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to the USSR and other Soviet bloc countries. Ghana and its allies of the radical "Casablanca" grouping--Guinea, Mali, Morocco, and the UAR--isolated themselves by refusal to join 20 more moderate African states at the conference held in Monrovia last month. The Accra meeting is being organized at the party rather than government level and apparently is to be limited to nationalists from territories which are still dependent, a group which could be expected to be more willing to follow Nkrumah's lead. In contrast to the abundant publicity afforded previous African conferences sponsored by Nkrumah, Ghanaian leaders have been highly secretive about plans and purposes for this one.

Italy: Reacting to the recent extensive bombings in the German-speaking South Tirol, Interior Minister Scelba reportedly told the Italian cabinet on 17 June that he wants three army divisions sent in to maintain order. Foreign Ministry officials, however, have objected, contending that Italy would lose face greatly if the army failed in this, and that these divisions might be needed to suppress Communist-inspired disorders elsewhere in Italy if a Berlin crisis develops later this year.]

Foreign Minister Segni is still scheduled to meet with Austrian Foreign Minister Kreisky in Zurich on 24 June to discuss Tirolese demands for greater autonomy, although the Italian and Austrian experts who held preparatory talks on the subject in mid-June were unable to make any progress in five days.

(Backup, Page 9)

SELECTED INTELLIGENCE REPORTS AND ESTIMATES

(Available during the preceding week)

Outlook for the renewal of the Azores base agreement, including Salazar's political position in Portugal and Portuguese attitudes toward the US bases. U.S.I.B. SNIE 27.2-61. June 20 '61.

Prospects for the Government of the Republic of China, with particular reference to its international position: attitudes toward Peiping and US, the political and economic situation on Taiwan, and capabilities of the armed forces. Tables. U.S.I.B. NIE 43-61. June 20 '61.

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Laotian Developments

The Zurich communique stipulates that the projected government of national union "will be formed according to a special process by direct designation and nomination by... (the) King without passing through the national assembly." It will be a provisional government, set up primarily to prepare for national elections at an unspecified date. A key statement in the communique provides that "during the period of transition, the organs of administration established during the hostilities will be left in place provisionally." This provision would in effect result in the de facto partition of Laos during the period of any provisional government, allowing the Pathet Lao to strengthen its grip on territories it controls while its political front, the Neo Lao Hak Sat (NLHS), advances the Communist cause in areas controlled by rightists and neutralists. The NLHS is at present the only political party which can claim to be a national organization with extensive grass-roots support.

No specific time or place is set for the next meeting between the three princes, but Souvanna and Souphanouvong, in view of their substantial gains at Zurich, will presumably be eager to take up the formation of a coalition government. In the meantime, representatives of the three sides may continue informally their search for a mutually acceptable division of cabinet posts.

[Ambassador Harriman has expressed concern over Krishna Menon's apparent determination to achieve a Laotian settlement "at any cost," even though Menon apparently recognizes that this could lead to the rapid incorporation of Laos into the Communist bloc. Of special concern is a reported Indian plan--now awaiting a formal go-ahead from New Delhi--to table a document on the future of Laos. Although no Western delegates have seen the document, the Canadians infer from remarks made by members of the Indian delegation that the Indian proposals will be much closer to those of the USSR than to those formulated by the West.]

[Nehru and other officials in New Delhi, whose views are often more moderate than those of Krishna Menon, may modify the Indian delegation's draft, although they are likely to insist on a formula which rules out any interference in Laotian internal]

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[affairs. New Delhi does, however, strongly favor effective control machinery--not subject to veto by any party--to supervise a cease-fire and maintain Laotian neutrality.]

Communist China is displaying increasing annoyance over what it considers US "stalling for time" at Geneva. A Peiping broadcast on 21 June warned that continued adherence by the United States to its positions at the conference would lead to a breakdown in the talks and a "restart of the war" in Laos.

Laotians in Phong Saly Province are seeking to purchase food from North Vietnam, and authorities in Dien Bien Phu suggested [] 40 tons of supplies be made available. Annual spring food shortages have been severe this year in North Vietnam, especially in rural areas, and similar conditions prevail in the remote upland border regions of Laos. Souvanna Phouma's government opened the frontier to such cross-border trade last November.

Chinese Communist road-building experts began surveying in Phong Saly Province on 21 June, [] requesting trucks, bulldozers, and gasoline for use in highway construction work. The road in question presumably is the route connecting Laos and China which Peiping promised to build for Souvanna Phouma when he was in China in late April.

[] a Soviet AN-10--the same one that flew to Canton on two occasions between 1 and 8 June--is again to fly to Communist China. [] six Soviet IL-14s to fly from Hanoi to Canton and return on 24 June. These flights are probably in connection with the arrival of the AN-10. Similar activity was carried out during the first week in June, when six Soviet LI-2s made flights between Hanoi and Canton which were apparently associated with the arrivals of the AN-10 at Canton at that time. []

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Chiang Kai-shek Suspicious of US Motives

[Liao Wen-i (Thomas Liao), a Taiwanese exiled in Japan since 1946, has been an outspoken critic of Chiang Kai-shek and the mainlanders' control of Taiwan. He heads the Taiwan Democratic Independence League, a loose coalition of Taiwanese groups based in Japan and working for independence. Liao's following is reported to be extremely small, and the Japanese Government, which apparently does not regard the movement seriously, has neither encouraged nor interfered with its activities.]

[Chiang fears that Liao will try to undermine the prestige of the Nationalist government by public attacks and become the leader of the independent Taiwanese movement in the US. Chiang regards the US treatment of Liao as a personal affront and a conspiracy against him and his regime. He fears the United States has decided to support Liao as an alternative to Kuomintang rule of Taiwan. Ambassador Drumright believes that, if Liao is admitted to the US and engages in anti-Nationalist activity, Chiang would almost certainly impose security measures on Americans on Taiwan that would cripple the social and economic program on the island.]

[The Nationalist government in February 1953 denounced the Sino-Soviet Treaty of August 1945, which recognized the independence of Mongolia. Although Taipei has not formally reasserted its claim, Nationalist officials insist that Mongolia is a part of China. Chiang argues that the establishment of relations with Mongolia will benefit the Communist bloc and do irreparable harm to Chinese Nationalist interests. He said that the US Government was handling the Mongolia and Liao issues in a manner "that would not be worthy of a master-satellite relationship," let alone the relationship supposed to exist between friendly allies with mutual interests.]

[Nationalist government officials have expressed deep disappointment that the United States has not come forth with an active program to generate support for the moratorium in the]

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[UN. Chiang said that he regarded US proposals for dealing with the China representation issue not only as ineffectual but as a plan to bring about a "two Chinas" arrangement in the UN, and that he would have no part of such proposals.]

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French Pessimistic About Algerian Negotiations

De Leusse conceded that partition probably would not stop the Algerian revolution, but he felt it would be infinitely easier and require many fewer men to protect a small enclave than it had been to carry on war in all of Algeria and man both the Tunisian and Moroccan frontiers.

The mounting disorder in Algeria poses a grave problem for the French Government. Enemies of De Gaulle's Algerian policy, notably those in the army, have always predicted that a truce and negotiations would not lead to reconciliation or peace but would be exploited by the rebels to strengthen their position. If present developments continue, exasperation among French military elements in Algeria may again build up to the explosion point.

The rebel government evidently has no intention of rescinding the order its general staff issued on 30 May for its units to "maintain vigilance more than ever" and to disregard the unilateral truce as "enemy propaganda," and as a maneuver to disarm the Algerian people and the ALN." In addition to increased terrorism largely directed against pro-French Moslems, the FLN has stepped up engagements and ambush attacks on French military units, particularly along the Moroccan and Tunisian borders. On 19 and 20 June it apparently instigated the massive pro-FLN demonstrations by Moslems in three urban centers in eastern Algeria which resulted in clashes with French troops and the death of some 20 participants.

De Gaulle's judgment of the possibility of fruitful talks with the PAG will probably be reflected in the tone of his speeches during his scheduled tour of Lorrain from 28 June to 2 July. He has used similar occasions in the past to try to improve the atmosphere for contacts with the rebels.

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Bloc Overtures for Increased Economic Relations With Brazil

Joao Dantas stated that East Germany's proposed aid to Brazil's northeast includes prompt re-equipping of five textile factories with the "most advanced" technology and automation. The East Germans also expressed an interest "in knowing the total needs of the northeast in that field... in order to study new possibilities of cooperation." Dantas also reported that the East German authorities promised that they would soon offer factories for spinning and weaving jute and for processing wood.

Poland has also indicated interest in Brazil's northeast, where endemic unrest has been accentuated over the past year by the pro-Castro agitation of peasant leader Francisco Juliao.

recent Brazilian negotiations with a visiting Polish trade delegation had been disappointing to Warsaw because few specific agreements were reached on an aid program which the Poles had expected to undertake in Brazil's northeast.

During the Dantas mission's tour of the European satellites, Albania, Bulgaria, Rumania, and Hungary signed long-term trade pacts with Brazil for the first time, and protocols to existing agreements were signed by Czechoslovakia and Poland. An East German - Brazilian protocol was announced, but the terms have not yet been disclosed. Implementation of this protocol may be held up pending a clarification by Brazil of the character of the agreement. As a consequence of criticism by West German and some Brazilian officials that Dantas' action verged on de facto recognition of East Germany, the Brazilian Government has apparently downgraded the protocol to a "record of talks."

All the agreements specify trade goals far higher than the existing level of bloc trade with Brazil. The degree to which trade targets are met depends on the bloc's willingness to boost

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its purchases of Brazil's surplus products, particularly coffee. Some of the agreements contain provisions for deliveries of bloc capital equipment, such as complete plants, ships, and agricultural machinery, under credit arrangements to be negotiated later.

Another Brazilian group recently conducted trade negotiations with the USSR, one result of which was an agreement to exchange resident trade missions. Moscow has implied on numerous occasions that agreement on the exchange of diplomatic representatives is necessary for a significant expansion of trade with Brazil and has hinted broadly that an aid offer will be forthcoming after such an exchange.

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Sino-Soviet Economic Relations

Over-all Sino-Soviet economic talks began in early February. A trade agreement signed on 7 April was negotiated separately from the longer range economic and technical agreement signed on 19 June. The April agreement called for Soviet deliveries of heavy industrial machinery and equipment, petroleum products, and similar exports in return for Chinese supplies of raw materials and light industrial goods. In addition, it called for a Soviet "loan" to Peiping of 500,000 tons of sugar and the deferment over a five-year period of Chinese repayment of the 1960 trade deficit. A Russian trade journal has stated that this Chinese short-term debt is to be repaid in four graduated installments beginning in 1962, which is a more liberal repayment schedule than was implied in the initial announcement of the trade protocol.

At the time of the withdrawal of Soviet technicians from China, the USSR was committed to help China with some 150 long-term industrial projects. It is not known to what extent the 1961 agreement may have modified this undertaking. While Peiping may be dissatisfied with the level of aid promised by the USSR this year, the Chinese may not have pressed for delivery of machinery and equipment at past levels. China's domestic economic difficulties--notably agricultural problems--have not only restricted its capabilities for exporting agricultural products but have led to large imports of grain for domestic consumption. This shift in foreign trade is reducing China's imports of machinery and equipment for its industrialization program.

In general, Sino-Soviet relations in the past few months have been correct. Khrushchev's unyielding positions on such issues as Laos, Berlin, and a nuclear test ban have left Peiping little room for complaint. When the Chinese have shown reservations about Soviet actions--as in the case of the Kennedy-Khrushchev meeting in Vienna--they have still refrained from open criticism of Soviet policy.

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Growing Italo-Austrian Tension Over the South Tirol

An Italian Foreign Ministry official told the American Embassy on 16 June that the ministry is convinced the bombings are designed to ensure the failure of the forthcoming Zurich meetings, which extremists in both North and South Tirol fear will result in a compromise settlement. [The head of the Italian delegation to the mid-June conference of experts reportedly feels that while Vienna wants a reasonable solution, it is frightened by extremist threats.] Some Italian officials believe the Austrians are encouraging the extremists and have even participated in planning and carrying out the sabotage.

Kreisky, [redacted] told a cabinet meeting on 20 June that while the Italian experts had offered "considerable" administrative autonomy, their refusal to concede any legislative autonomy made their concessions inadequate. [redacted] the Austrian Government was pessimistic about the outcome of the ministerial conference. The Austrian press has generally condemned the recent violence as inimical to the best interests of the South Tirol.

Despite the release on 11 June of Victoria Stadlmayer, adviser on South Tyrolean affairs to the Tirol provincial government, whom Italy had jailed for 42 days, tension has remained high. The Austrian press reports the impression that radical elements made gains at the recent conference of the South Tirol People's party.

The Rome government apparently is resolved, for the moment at least, to resist pressure for a shift in its policy toward the South Tirol and to continue conforming with the UN resolution which urged the two countries to settle their dispute bilaterally. Prolonged failure to arrive at a solution, however, might encourage Italian rightists to try to bring Premier Fanfani's cabinet down. [redacted]

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The Scientific Adviser to the President

The Director of the Budget

The Director, Office of Civil and Defense Mobilization

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The Department of State

The Secretary of State

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The Director, International Cooperation Administration

The Deputy Under Secretary of State for Political Affairs

The Deputy Under Secretary of State for Administration

The Counselor and Chairman of the Policy Planning Council

The Director of Intelligence and Research

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The Secretary of Defense

The Deputy Secretary of Defense

The Secretary of the Army

The Secretary of the Navy

The Secretary of the Air Force

The Assistant Secretary of Defense (International Security Affairs)

The Assistant to Secretary of Defense (Special Operations)

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Chief of Naval Operations, United States Navy

Chief of Staff, United States Air Force

Chief of Staff, United States Army

Commandant, United States Marine Corps

U.S. Rep., Military Committee and Standing Group, NATO

Supreme Allied Commander, Europe

Commander in Chief, Pacific

The Director, The Joint Staff

The Director for Intelligence, The Joint Staff

The Assistant Chief of Staff for Intelligence, Department of Army

The Director of Naval Intelligence, Department of Navy

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