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CENTRAL INTELLIGENCE BULLETIN



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DAILY BRIEF

I. THE COMMUNIST BLOC

*USSR-Geneva: Foreign Minister Gromyko's new offer on Berlin continues the USSR's refusal to reaffirm Allied rights in Berlin except in a manner so qualified as in effect to deny those rights. Although the USSR undoubtedly expects rejection of its conditions, it probably hopes that its proposal will prompt an initiative by at least one of the Allies to prevent a breakoff and a subsequent sharpening of the Berlin crisis.

Gromyko has hinted at the possibility of leaving the deadlocked question of Western rights in Berlin for later negotiations, presumably at a summit meeting. If, however, the Western powers refuse to defer the question of Allied rights, Moscow seems prepared for an early breakoff on the calculation that a period of additional pressure will finally induce the Western powers to make further concessions on Berlin, Germany, and European security.

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Watch Committee conclusion--Berlin: (No significant indications bearing on the possibility of hostilities.)

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II. ASIA-AFRICA

Watch Committee conclusion--Middle East and Asia: Situations susceptible of direct exploitation by Sino-Soviet action which would jeopardize US interests exist in Laos and in the Middle East, particularly in Iraq and Iran. The situation in the Middle East remains

25X1 (precarious, but a deliberate initiation of large-scale hostilities is unlikely in the immediate future.)

25X1 UAR: (The introduction of a unified new currency in both regions of the UAR is reportedly scheduled for 1 July. This attempt of Egypt to strengthen its control over the Syrian economy is apt to result in new strains and an intensification of the flight of Syrian capital.

25X1 25X1 The existence of separate currency systems in the UAR has been a major roadblock to rapid economic integration.)

25X1 Pakistan: The continued decline in Pakistan's exports during recent months is posing a threat to the new government's efforts to improve economic conditions and is causing Pakistan to seek expanded barter trade with the Sino-Soviet bloc. Exports for the first quarter of 1959 were 32 percent below the first quarter of 1958. The decline in exports is forcing Karachi to restrict imports of raw materials and spare parts, thereby limiting the growth of industrial production.

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India: India's production of over 74,000,000 metric tons of food grains during the crop year 1958-59--announced by Prime Minister Nehru at a 10 June press conference--surpasses the original 1958-59 food production goal of the Second Five-Year Plan (1956-61). This year's production, which is over six percent above the record crop of 1956-57, should also tend to reduce inflationary pressures and improve New Delhi's ability to finance economic development projects during the last two years of the Second Plan.

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DAILY BRIEF

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I. THE COMMUNIST BLOC

New Soviet Proposal for a "Provisional Status" for West Berlin

After nearly two weeks of stalemated restricted sessions in Geneva, Foreign Minister Gromyko has offered to recognize certain drastically limited Western rights in Berlin for one year in a major bid to crack the hitherto unified Western position that any new solution must contain an explicit Soviet reaffirmation of Allied rights. The USSR seems to be estimating that unless there were some prospects of Western concessions on the issue of Allied rights, a summit meeting in the next few months would be less desirable than waiting for possible advantages which might be derived from an increase in political pressures on the British Government,

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[] and the continued erosion of the NATO military organization as a result of French national policies.

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Although the Soviet leaders undoubtedly expect rejection of their conditions, they probably hope that a combination of threats and inducements will prompt an initiative by at least one of the Allies to prevent a breakoff and a subsequent sharpening of the Berlin crisis. [] Gromyko had hinted at a compromise interim arrangement which would leave aside the deadlocked question of Western rights in Berlin for later negotiation, presumably at a summit meeting. However, on the possibility that further pressure might produce eventual if not immediate change in the Western position, each condition of the new Soviet package was tailored to take advantage of differences in Western willingness to make concessions on these points.

Gromyko also threatened to conclude a separate peace treaty with East Germany should the West, during the one-year grace period, prevent agreement on an all-German peace treaty.

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New UAR Currency Likely in July

(The introduction of a unified new UAR currency reportedly scheduled for 1 July will probably signal the beginning of more effective Egyptian domination of the Syrian economic scene. It will result in fairly serious losses to holders of Syrian currency and probably in a renewed flight of Syrian capital. The Syrian pound is relatively sound, while the Egyptian pound is overvalued)

(The existence of separate currency systems in Egypt and Syria has been a major barrier to rapid economic integration of the two regions)

(The Syrian business community is likely to view this development as marking the downfall of the Syrian free-enterprise economy. This group, however, is politically impotent, and no effective opposition to a currency merger is likely to develop.)

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Pakistan's Exports Continue to Decline

The continued decline in Pakistan's exports during recent months is posing a threat to the new government's efforts to improve economic conditions. Exports for the first quarter of 1959 totaled only \$73,143,000, a decline of 32 percent from the first quarter of 1958, a period when exports had already fallen substantially below the level of earlier years. Pakistan's exports dropped steadily from \$401,000,000 in 1955 to \$298,000,000 in 1958, chiefly because of difficulty in exporting raw cotton, Karachi's second most important export.

While the government has limited the impact of the recent decline in exports on its foreign-exchange reserves--which have remained fairly steady during the first quarter of 1959--it has done so only by reducing imports by 20 percent. This action will have a serious impact on the economy, since it reduces the raw materials and spare parts available to the country's industry, which is already operating at about half of capacity. A recently announced reduction in petroleum imports is expected to force the closure of several factories in East Pakistan, which may cause Karachi to reconsider its earlier decision against accepting the USSR's offer to supply petroleum at reduced prices. Such a limitation on production may also cause the government to lose some of the popular support it gained by reducing prices when it came to power.

The difficulty of finding markets in the free world is again causing Pakistan to seek increased barter trade with Communist countries, a device Karachi has occasionally resorted to in the past. Pakistan has already completed arrangements to barter cotton for cement with several European satellites, and is negotiating to exchange jute and cotton for cement from the USSR and coal from China. Pakistan's trade with the Sino-Soviet bloc has amounted to less than 1 percent of its total trade in recent years, however, and it is unlikely to increase substantially in the near future.

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Indian Food-grain Production Increases Sharply

India's production of over 74,000,000 metric tons of food grains during 1958-59--announced by Prime Minister Nehru at a 10 June press conference--substantially improves the country's chances of achieving the ambitious food production goals of the Second Five-Year Plan (1956-61). This year's output is 17 percent above last year's poor crop--which was affected by a serious drought--and is over 6 percent above the record crop of 1956-57. The end of the drought was the major reason for the higher production, but increased use of irrigation and fertilizers were also important factors.

India's second plan originally called for increasing annual food-grain output from 66,000,000 to 76,200,000 metric tons between 1956 and 1961, but the goal was later raised to 81,800,000 metric tons. The progress made to date indicates that India is likely to surpass the original goal and that it may reach the more ambitious revised goal. The continued increase in food-grain production, in addition to permitting modest improvements in the people's diet, should reduce prices and improve New Delhi's ability to finance a large part of its economic development program through deficit financing without stimulating serious inflationary pressures. New Delhi probably will continue to seek US surplus foodstuffs, to enable it to build up a reserve in case of future drought.

In addition to steadily increasing food-grain production, the important tea and jute crops--which provide India with a large part of its foreign-exchange earnings--have already surpassed the goals for 1960-61, and production of cotton and oilseeds have also increased approximately on schedule. Sugar is the only important crop which seems unlikely at this point to reach the second plan goal.

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