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23 December 1958

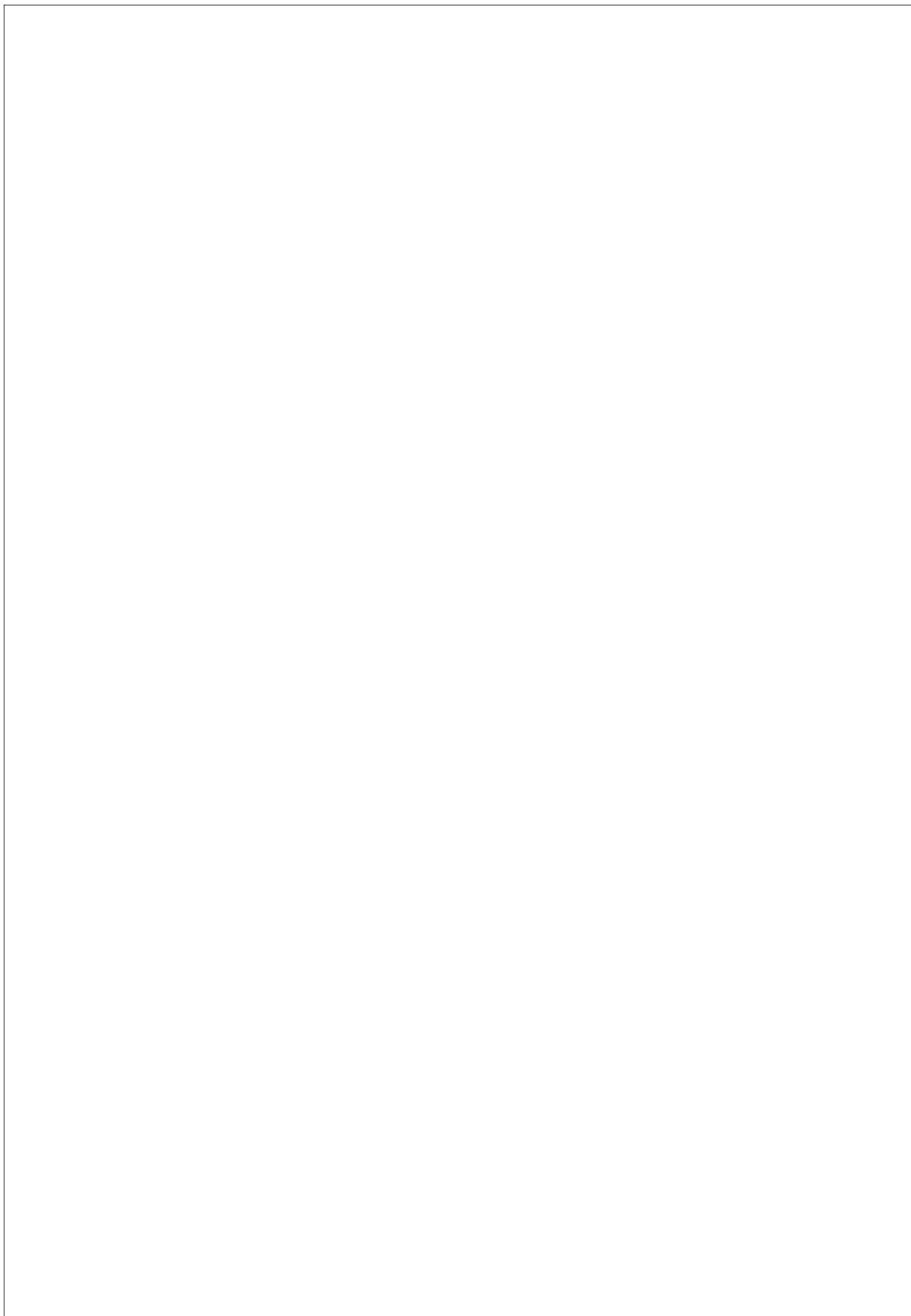
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CENTRAL INTELLIGENCE BULLETIN



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23 DECEMBER 1958

I. THE COMMUNIST BLOC

Published Soviet budget figures call for increase in revenue and spending of 12 percent over last year.

Flow of East German refugees to Berlin at record low, with one exception, since 1949.

Communist China agrees to supply US-made arms to Algerian rebels.

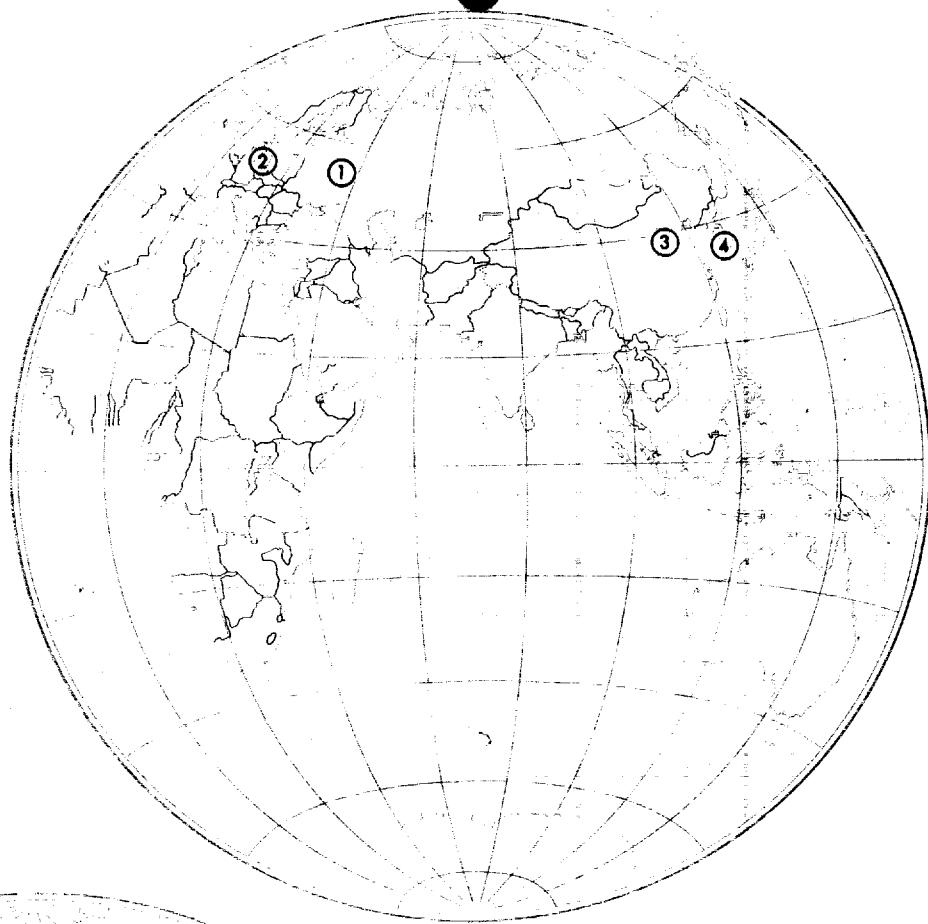
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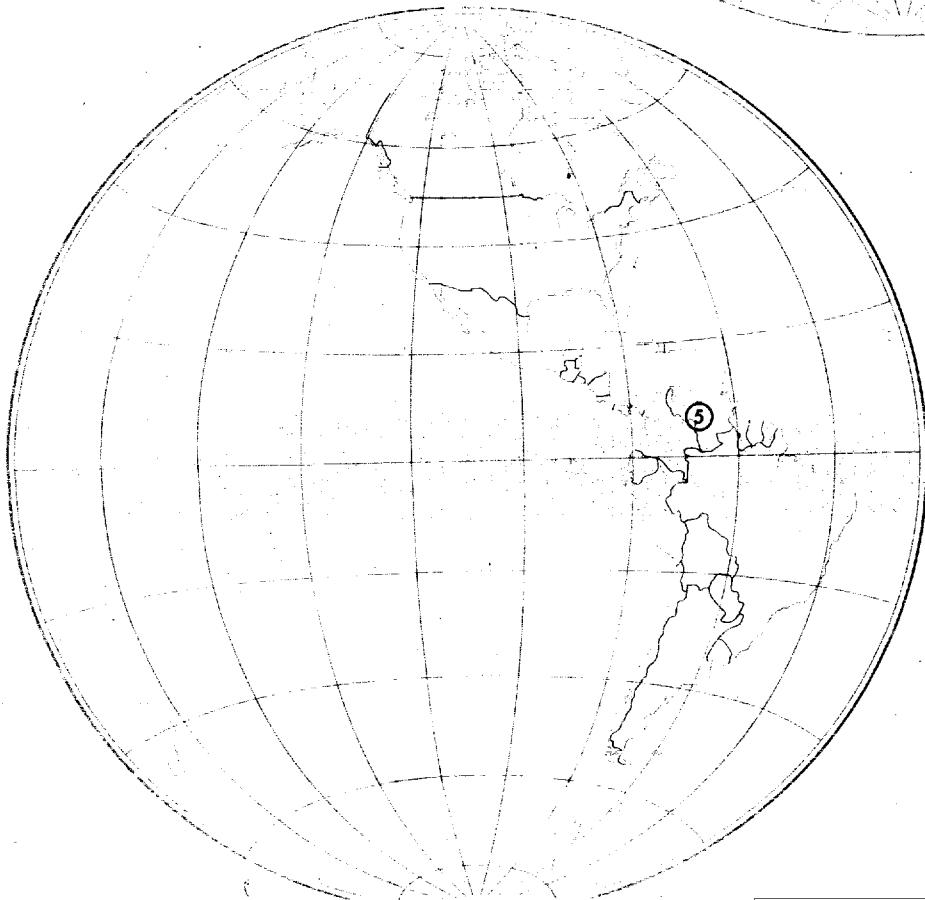
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II. ASIA-AFRICA

South Korea - Rhee government moving police into Seoul to cope with opposition to legislation further restricting civil liberties.

**III. THE WEST**

(5) Venezuelan junta announces increased tax rates to yield government more than 50-percent share of profits of foreign companies.



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CENTRAL INTELLIGENCE BULLETIN

23 December 1958

DAILY BRIEF

SLRAB

I. THE COMMUNIST BLOC

DK

Soviet budget: The summary of the Soviet 1959 budget, as publicized by the USSR, calls for a sharp rise in revenues and expenditures--about 12 percent over last year as compared with an average increase of 4 percent annually in the previous years since 1953. Over two thirds of this total increase will go toward financing the national economy, primarily into investment for further rapid industrial expansion as the new Seven-Year Plan gets under way. Explicit defense spending of 96.1 billion rubles maintains such spending at the level of the last 3 years. However, unstated defense expenditures included in other budget categories may have increased.

(Page 1)

DK

Berlin: The flow of East German refugees into West Berlin has reached the lowest weekly rate, with one exception, since 1949. Although refugee figures normally decline during the holiday season, American officials in Berlin attribute the present sharp drop in part to more effective East German controls over the approaches to East Berlin and uncertainty among potential refugees, many of whom would normally remain in West Berlin, over the future status of the city.

(Page 3)

Communist China - Algerian rebels: Chou En-lai has assured a visiting Algerian rebel (FLN) delegation in response to its request for American-made arms that Peiping would supply a "limited number of light weapons" provided the FLN would arrange transportation through the UAR.

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Peiping has access to US-made materiel acquired during the Chinese civil war and the Korean conflict. Supplying weapons will enhance Peiping's prestige with the FLN leaders.

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II. ASIA-AFRICA

NO

South Korea: The Rhee administration is secretly moving large numbers of selected provincial police to Seoul to reinforce National Assembly guards in overcoming a sit-down by opposition Democrats, which is blocking action on a revision of the National Security Law. Despite possible adverse effects the further restriction of civil liberties will have on Korea's international position, the government has adopted an uncompromising stand on the bill and is prepared to use any strong-arm tactics necessary to secure its enactment.

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III. THE WEST

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Venezuela: The junta has announced a change in tax laws applicable to 1958 income, which will in effect modify the 50-50 division of profits between the government and foreign oil and mining companies. The step, which was not expected until after the inauguration of President-elect Betancourt early next year, was taken without consulting the companies. This change could provide the government with as much as 65 percent of some oil company profits.

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I. THE COMMUNIST BLOC

Soviet Budget for 1959

The summary of the Soviet 1959 budget, as publicized by the USSR, indicates a sharp rise in revenues and expenditures--about 12 percent over last year's planned budget as compared with an average increase of 4 percent annually since 1953. Over two thirds of this total increase will go to financing the national economy, primarily into investment for further rapid industrial expansion.

Explicit defense spending, planned at 96.1 billion rubles, is at virtually the same level as it has been since 1956; however, unstated defense expenditures appear in other budget categories. The general growth of planned expenditures is sufficiently large to permit continuation of the rapid growth of those military programs financed under other budgetary categories. Scientific research establishments are allocated about 27 billion rubles as compared with approximately 18 billion rubles announced for 1958. However, this increase may result in part from changes in accounting categories.

Centrally planned capital investment is to grow 11 percent as compared to a planned growth of 7.4 percent in 1958 and an expected actual increase of 9.2 percent. In specific industries, capital investment is to increase 32 percent in ferrous metallurgy, 72 percent in chemicals, 23 percent in oil and gas, and 35 percent in engineering. This effort is being made to implement the priorities of the Seven-Year Plan in the face of underfulfillments during 1958. During the first nine months of 1958, the plan was underfulfilled 12 percent in ferrous metallurgy and 22 percent in the chemical industry, chiefly because of shortfalls in equipment procurement. This may account in part for the 1959 plan's notably higher emphasis on investment in the engineering industries. Capital investment in housing is to increase nearly 5 billion rubles, or 14 percent, over last year, thus continuing the emphasis on housing.

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Industrial output in 1959 is scheduled to increase 7.7 percent, almost the same rates (7 and 7.6 percent) planned for 1957 and 1958. In 1957, the plan was substantially overfulfilled, a pattern which apparently will be repeated again for 1958. Soviet leaders may expect overfulfillment again in 1959; the average annual rate of increase necessary to fulfill the Seven-Year Plan is 8.7 percent.



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East German Refugee Flow Drops to New Low

The refugee exodus to West Berlin dropped last week to the lowest figure since Christmas week, 1954. Some 1,163 were registered in the week ending 16 December compared with 1,341 and 1,723 in the preceding two weeks. Intellectuals, however, are arriving at roughly the same rate as in recent months. The 1954 Christmas week figure was 1,092, the lowest since registration was begun in 1949.

Although the flow of refugees normally declines during the holiday season, American officials in Berlin attribute the present sharp drop in part to more effective East German controls over the approaches to Berlin and uncertainty among potential defectors over the future status of the city. East German authorities are now requiring special passes to travel to any point within 50 kilometers of Berlin. While many refugees customarily remain as permanent residents of West Berlin, fears of future Communist control of West Berlin as a result of the new Soviet initiatives may have contributed to the decrease.

East German authorities are continuing to show concern over the flow of medical men to the West, which, despite some drop in number, now includes a larger percentage of highly qualified personnel,

The regime reportedly plans at the forthcoming fourth central committee plenum to introduce further concessions to doctors in an effort to deter the exodus and even to attract West German practitioners.

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Peiping Pledges Arms Support to Algerian Rebels

The Chinese Communists have assured a delegation from the Algerian National Liberation Front's (FLN) provisional Algerian government--which ended a much-publicized "official" visit to Communist China on 21 December--that they would supply the rebels with a "limited number of light weapons,"

[redacted]
Peiping,

Nasir's ambassador in

[redacted] follow-

[redacted]
ing an interview with Premier Chou En-lai, indicated that the rebels had specified the arms be "of American manufacture" and had agreed to a Chinese stipulation that they be channeled through the UAR. Shipment as far as Egypt would apparently be handled by the Chinese, who are also exploring the possibility of aiding the Algerians financially.

The rebels' expressed preference for American weapons was probably inspired primarily by practical, but to some extent also by political, considerations. The rebels are experienced in the use of American weapons which have always formed an important part of their heterogeneous armament. Furthermore, when the rebels concluded an arms deal with the Czechs in 1957--the only other arms deal they are known definitely to have signed with a bloc country--the weapons were to be not readily identifiable as of bloc origin. Peiping can presumably satisfy the Algerians by drawing on stocks of US-made materiel of World War II vintage acquired during the Chinese civil war and the Korean conflict.

Delivery to the UAR of the arms would not solve the rebels' most pressing supply problem, which is the infiltration of materiel past increasingly effective French border fortifications. If some of the weapons should be captured along the border, this would probably be regarded by some French elements as proof that American arms shipped to Tunisia are reaching the rebels.

Peiping, wishing to impress Arab-African states with the value of its military support, is also discussing providing artillery to the UAR.

II. ASIA-AFRICA

South Korean Government Augments Assembly Guard

The South Korean Government has secretly augmented the National Assembly guard with approximately 275 plain-clothes men from the provincial police forces. The government apparently intends to use force if necessary to overcome a sit-down strike by opposition Democrats in the assembly building.

The Democrats, who have barricaded themselves in the building since 19 December, are preventing passage of a revision to the national security law. They are opposed to the loose definition of espionage in the revision which would make possible severe curtailment of political and press freedoms. The Democrats' chances for obtaining a compromise on the bill appear dim as the government party seems determined to pass the bill unchanged in order to prevent an administration defeat in the 1960 presidential election.

[redacted] government concern that incidents may occur outside the capital and warns police chiefs to exercise vigilance. The government's tactics will contribute to the growing sense of futility among the South Korean people, who are already demoralized by inflation, a deceleration in industrial progress, and an increase in politically motivated bank loans. [redacted]

[redacted]

III. THE WEST

Venezuelan Junta Modifies Tax Policy Toward Foreign Oil Industry

By a change in tax laws the Venezuelan junta has in effect altered the application of the 50-50 profit-sharing formula between the government and the foreign oil and mining companies in a manner which may provide an estimated 60 to 65 percent of the profits for the government. The practical effect of this change, which is in the ordinary income tax law and not in the "additional tax law" ensuring the government at least 50 percent of net profits of the extractive industries, can only be estimated at present. Applicable to 1958 incomes, the tax change was publicly announced on 20 December without consultation with the oil companies--the principal corporations affected. No change was expected until after the inauguration of President-elect Romulo Betancourt early next year.

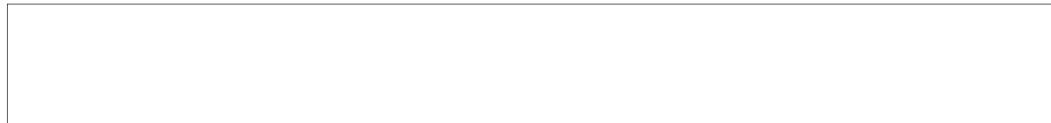
The unilateral adoption of this measure could set a precedent for similar government action in the future and, according to the American Embassy in Caracas, could touch off an adverse chain reaction against American investments in other parts of the world. In any case the move will probably have an adverse effect, at least for several months, on the rate of foreign investment in Venezuela.

All major parties and their leaders were committed prior to the 7 December national elections to seek a higher share of company profits for the government. Betancourt had stated, however, that he would carry out this policy only after careful study and negotiation with the companies. Although he apparently knew in general terms of the action being planned by the interim government, Betancourt was not informed of details nor did he collaborate in the tax law change.

He may lose some of the domestic political benefits he would have derived from obtaining the change during his presidency,

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but may also avoid being tagged with any onus attached to such unilateral action. Moreover, his government will presumably benefit immediately from any increased revenues without the delays caused by study and bilateral negotiation. He may also seek to modify the "additional tax law," and thus make further inroads on the net profits of the oil companies.

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