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16 February 1961

CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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State Department review completed

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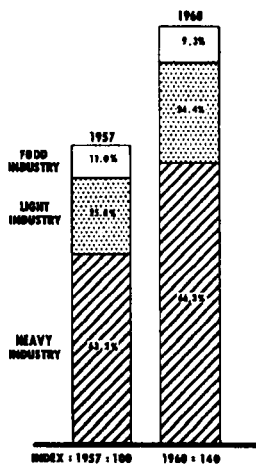
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**HUNGARY: INDUSTRIAL PRODUCTION
1957 AND 1960
(1957 = 100)**



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accomplishment of the plan period.

However, most immediate economic results of this reorganization have not been favorable. Workers--especially the younger ones--have been transferring from agriculture to industry in excessively large numbers, causing a disproportionate growth of the industrial labor force and depriving agriculture of needed manpower. The regime has been forced to increase

agricultural investments at the expense of other economic sectors; its plans to reduce agricultural investments in 1961 will conflict with the continued need to support collectivization with purchases of machinery and the construction of farm buildings.

Prospects are poor for a substantial growth of agricultural production in the next few years. The outlook for the consumer in 1961 is further darkened by the regime's efforts to tighten labor norms in industry.

Agricultural weaknesses have contributed to the regime's greatest problem--foreign trade. Hungary was able to move from a \$194,500,000 deficit in 1957 to a \$50,000,000 surplus in 1958, but exports have risen much less than imports during the past two years, with a resultant unfavorable trade balance. This year, repayments begin to come due on the principal debts owed other bloc countries; Hungary's indebtedness following the 1956 revolt totaled \$382,000,000. Unless the Soviet Union grants a postponement of the main debt payments, the regime will have to generate an export surplus in 1961, a move which might require domestic austerity measures. (Prepared by ORR)

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EAST GERMANY TRIES TO REDUCE VULNERABILITY TO WESTERN SANCTIONS

The East Germans were ill prepared for Bonn's announcement last September that the inter-zonal trade agreement would be abrogated as of the end of 1960. They apparently had taken few precautionary measures to develop alternate sources of supply, in spite of their dependence on West Germany for such products

as rolled steel, chemicals, chemical equipment, and a variety of machinery components.

In emergency steps to minimize disruption of production schedules, the East Germans tried to increase domestic production of items imported from West Germany, conserve existing

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supplies, and find substitute products or immediate alternate sources of supply. Special commissions and working groups were set up to investigate the effects of a cessation of interzonal trade and to find other sources on a long-term basis.

Since the reinstatement of the trade pact on 30 December, East Germany has continued its attempt to decrease its dependence on the West for essential imports while maintaining the volume of trade at past levels. Stressing that the achievement of independence from Western imports remains a major political goal, the State Planning Commission has decreed that any attempt to procure imports from the West in preference to substitutes available from CEMA countries would be considered a "breach of long-range policy decisions taken at the highest party levels."

Industrial and foreign trade planners have been instructed to "achieve independence" from Western supplies by 1962. Wherever possible, domestic production of vital materials will be increased, construction and manufacturing industries will use raw materials produced domestically or available within the bloc, and industry will begin immediately to transform industrial standards from the DIN (German) system to the GOST (Soviet) system. Conservation of materials will continue to be stressed, and domestic products will be substituted for imports wherever feasible. Stockpiling of vital materials not produced in sufficient amounts within the bloc would also appear necessary.

East Germany's program to reduce its dependence on Western supplies apparently was not Soviet inspired but no doubt has Moscow's approval. Reduction of vulnerability to Western economic sanctions would increase the bloc's ability to implement diplomatic and strategic moves affecting Berlin.

There is some question, however, concerning Soviet willingness to absorb the cost of this program. The Soviets reportedly agreed initially to increase their own shipments of needed supplies to East Germany if those from West Germany were cut off. Now that interzonal trade has been re-established, however, Moscow has retracted its offer, at least for some commodities, and apparently does not plan any major adjustments in its economic plans or in those of other CEMA countries in order to accommodate East Germany. Some Soviet aid perhaps can be expected to result from negotiations now under way in Moscow, but it is unlikely that it will be of the scope originally anticipated by East German planning officials.

East Germany's success in pursuing its new trade policy toward the West will depend on how efficiently it expands its domestic production and uses available raw materials, as well as on its ability to adjust its trade with both the West and the bloc without disrupting the plans of other bloc countries. East Germany undoubtedly can reduce its dependence on certain of its West German imports, but it is unlikely that the measures instituted thus far will adequately reduce dependence on such important commodities as steel.
(Prepared by ORR)

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RECENT EAST GERMAN TACTICS ON BERLIN

East Germany's recent actions indicate that it is testing West Germany's willingness to take countermeasures to force the regime to carry out its promise to the West Germans to relax controls on the Berlin sector border and make certain technical concessions to facilitate trade between West Berlin and West Germany. The East German promise was instrumental in inducing Bonn to agree on 29 December to reactivate the interzonal trade agreement for 1961. Bonn had abrogated the pact following East Germany's harassing actions against West Berlin last September.

The East German negotiator in interzonal trade talks held on 8 February to discuss the implementation of the 29 December agreement read a long statement to the effect that the regime was not then in a position to carry out its undertakings, claiming that the Federal Republic had violated its promise to maintain complete secrecy on the concessions. As a result, the talks were broken off. On 13 February, however, they resumed, and the East German negotiator took a somewhat more conciliatory attitude, saying that the Communist regime would soon carry out its commitment to permit the sealing of trucks moving between West Berlin and West Germany.

Two days later, the East German negotiator claimed that the regime had implemented certain concessions, relating to trade traffic, that it intended to carry out the others, and that it was studying the matter of border controls. The West German negotiator, not satisfied with this statement on border controls, demanded a satisfactory proposal by midnight. Later that day, East Berlin police announced that new regula-

tions would go into force at midnight to "satisfy and facilitate" the issuance of passes to West Germans to enter East Berlin.

While the regime probably will claim that this police measure fulfills its promise to ease controls, the regulations expressly reassert the validity of the 8 September decree demanding that West Germans secure passes. This decree violates the quadripartite status of Berlin. The East Germans, moreover, are refusing to conclude long-term contracts with West German firms, which require revocable shipping licenses. Bonn had counted on this licensing procedure as a means to hold East Germany to its commitments.

The USSR does not appear to be interested in creating a major crisis over Berlin at this time, but probably is not averse to allowing East Germany to maintain a degree of pressure on the issue. East Germany's tactics suggest that it believes it can maneuver the West Germans into continuing trade, despite the Communist regime's failure to carry out its promises. The East Germans may have estimated --and informed Moscow--that Bonn would be reluctant to take drastic countermeasures to hold them to their commitments.

The East German action in barring a number of high West German Evangelical churchmen from attending religious services in East Berlin on 12 February probably was an attempt to demonstrate publicly the regime's claim to "sovereignty" over the Soviet sector, as well as a further step in its long-term policy of separating the Evangelical congregations in East Germany from their leaders in West Berlin and West Germany. The Communist regime indicated earlier that it

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would not permit the Evangelical Church to hold meetings of its synod in East Berlin, as had been done in the past, but would permit religious services on 12 February. On 9 February party boss Ulbricht delivered a scorching attack on the "NATO politicians" in the Evangelical Church, declaring that they had "no business in the capital of the German Democratic Republic."

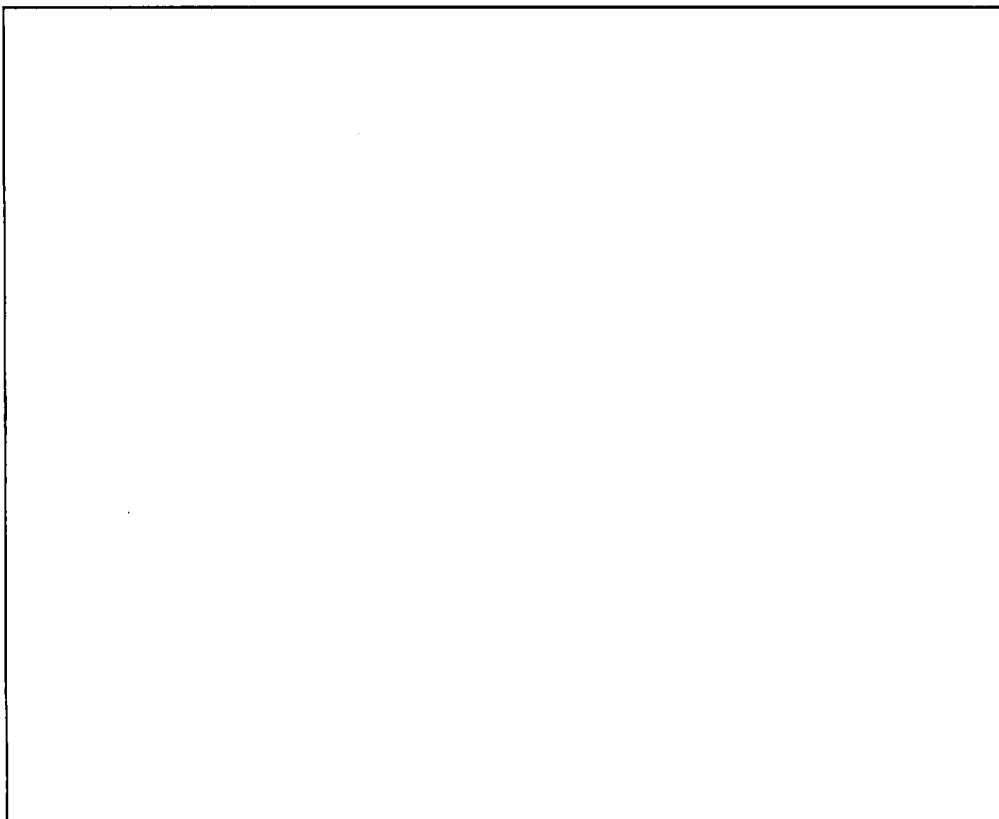
The Communist government does not appear to have made any attempt to prevent East German ecclesiastics from attending the synod in West Berlin nor did

East German police bar Bishop Otto Dibelius of Berlin-Brandenburg from attending the religious services in East Berlin. Dibelius has long been a target of abuse and legal proceedings are pending against him in East Berlin courts for "advocating resistance to the state power."

In view of the East German actions, Bonn is considering reinstating its boycott of the Leipzig Fair to be held 5-14 March. The West German cabinet was scheduled to consider the matter at a 16 February meeting.

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