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# WEEKLY SUMMARY



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**SECRET****H I G H L I G H T S**

Economic problems and their solution continued to occupy the attention of Western European leaders during the past week. On the eve of the talks on the Schuman plan for pooling coal and steel resources, those leaders are conscious of an additional impetus for creating a permanently strong Western Europe: namely, a growing sentiment favoring a unified European bloc capable of taking an independent position in the East-West struggle (see page 2). Although such "third force" sentiment is still ill-defined and tentative, it reflects a widespread hope among Western Europeans that some way can be found to reduce East-West tension and thus avert the war they fear may otherwise be inevitable.

In another phase of the European economic situation, the effectiveness of the US dike against the shipment of strategic materials and equipment eastward to the USSR is being lowered by leaks in Germany, Austria, and Switzerland (see page 14). Capital goods are moving from Western Germany to Eastern Germany, both through authorized trade agreements as reparations payments to the USSR and through extensive smuggling. In Austria, the Soviet Union is able as an occupying power to buy and ship eastward strategic goods otherwise denied. In Switzerland, normally a major transit point for shipments eastward, lax trade regulations are permitting an increasingly large leak in the US economic defense system.

In the Far East, a new threat to the success of the anti-Communist Bao Dai regime in Indochina has appeared as a consequence of rising public and parliamentary pressure in Indonesia favoring support for Bao Dai's opponent, pro-Communist Ho Chi Minh (see page 9). The Hatta Government has been able thus far to divert a move for immediate Indonesian recognition of Ho, an action which might be followed by recognition from Burma and India.

**SECRET****WESTERN EUROPE**

**“Third Force”** In the aftermath of the US-UK-French conferences in London and on the eve of the talks on the Schuman plan for pooling coal and steel resources, Western Europe appears to be on the threshold of a new phase in its postwar reconstruction. The gains it has so far made, especially under the stimulus of the Marshall Plan, have been dramatic and real; with the exception of the Schuman proposal, however, no similar specific stimulus now exists for facilitating the far more difficult task ahead of consolidating these gains and creating a permanent strong and united Western Europe.

Paramount in the minds of Western Europeans as they approach this new phase is the basic conflict between developing military and economic strength. With no prospect of creating a Western military establishment equal to that of the USSR, Western European fear of war has not abated, and sentiment is growing for the concept of a unified and strengthened European bloc capable of taking an independent position in the East-West struggle.

This “third force” sentiment is still ill-defined and tentative, but it reflects both a strong and widespread fear that the present East-West struggle will lead inevitably to war and the hope that some way can be found to reduce existing tension. The “neutrality” concept is receiving some support in France and Italy, and it is evident to a greater extent in West Germany, where political leaders hope that such an “independent bloc” would enable Germany to regain a powerful role in European affairs. The idea of neutrality would appeal to the many Germans who are reluctant either to break all ties with the East or to antagonize the USSR by committing Germany unconditionally to a Western Europe closely tied to the US.

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This growing support for an "independent" Western Europe would harmonize with German participation in the Schuman plan. It is still too early to forecast precisely the long-range influence of this "third force" sentiment. The concept could conflict with that of an Atlantic community, and might even tend to lead Western Europe toward a policy of appeasement with the USSR. On the other hand, "independence" might increase European self-confidence and stimulate progress toward European unification.

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**FRANCE**

**Schuman Plan** Although French political and popular reaction to the Schuman pooling plan is not unanimously favorable, eventual ratification in some form by the Assembly is reasonably assured. The accession of six nations to the pooling

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**SECRET****FRANCE**

agreement will remove the main doubts of Schuman's Popular Republican Party, but the Socialists will continue to be apprehensive of undue advantages which might accrue to German industrialists. The Gaullists will probably oppose the agreement on the grounds that it does not go far enough toward a Franco-German rapprochement and that even the present limited agreement cannot be carried through successfully by the Bidault Government. The remaining rightist groups are split on the question. The Communist Party will continue to oppose the move vehemently while emphasizing the economic dangers of the plan, contending that it is being dictated by US "imperialism." Public opinion, excepting pessimistic trade union sentiment, is favorable, and much helpful support will come from those influential individuals in France who favor a federated Europe and see the Schuman plan as a major step in that direction.

**GERMANY**

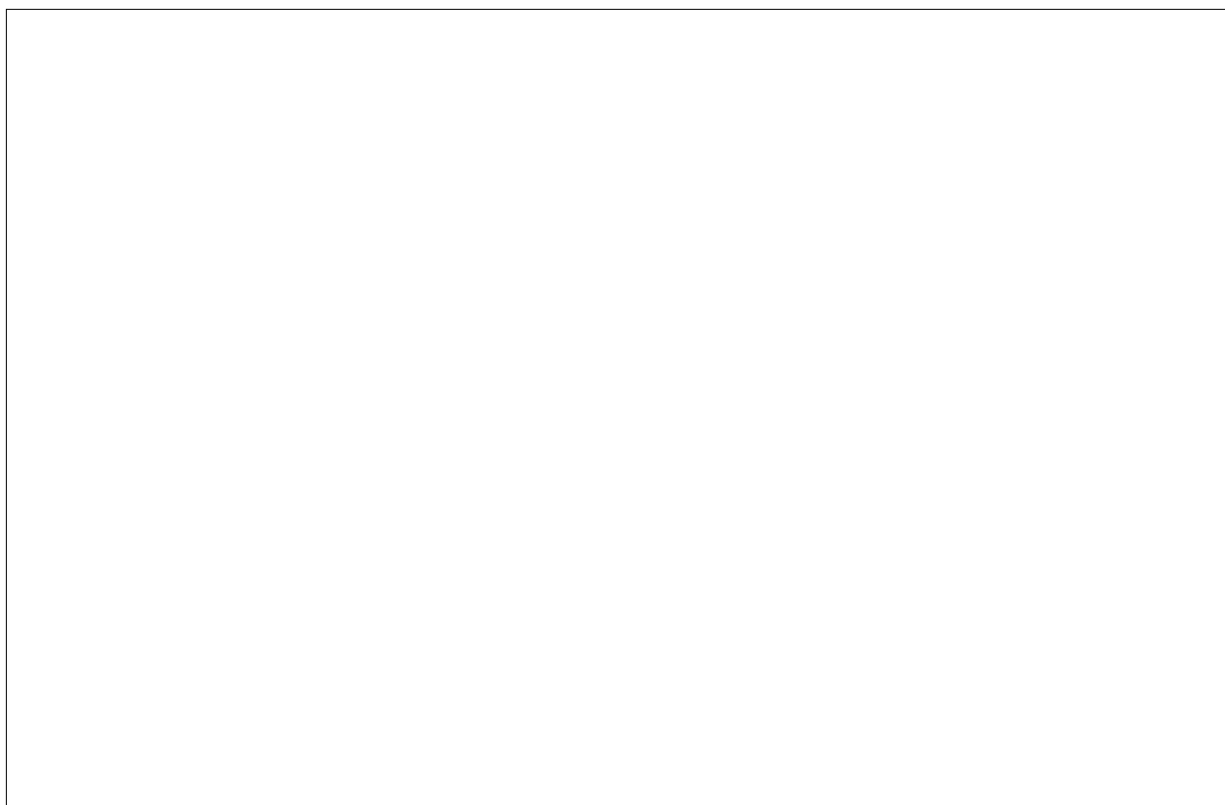
**Parties-in-exile** A West German plan to reconstitute the Soviet zone democratic parties as "parties-in-exile" in West Berlin could develop into an important aggressive political force for counteracting Communist propaganda in the Soviet zone and might even encourage the East German population to resist further Sovietization. The Soviet zone democratic parties are no longer able to effectively oppose the zonal regime, and, on the highest level, the Christian Democratic Union (CDU) and the Liberal Democratic Party merely serve as tools for executing the policies of the Communist-Socialist Unity Party. The present plan to create parties-in-exile, spearheaded by Ernst Lemmer, pre-1948 Deputy Chief of the CDU, calls for dissolution

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**GERMANY**

of the present leadership of the Christian Democratic Union and the Liberal Democratic Party of the Soviet zone and the establishment of new party organizations in West Berlin, made up principally from the many former East German party functionaries who have fled to Western Germany. If the Social Democratic Party can be brought into the plan, the combined political parties could claim to represent the entire Soviet zone population.



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ICELAND

Labor Unrest      The growing number of labor unions terminating their contracts indicates labor's anxiety to establish a legal basis for increasing wages which have been adversely affected by the recent devaluation of Iceland's currency. Iceland's second and third largest unions, as well as several smaller ones, have already terminated their contracts, and Iceland's largest union is reportedly contemplating similar action. With the herring season about to open, the trawler's union (Iceland's second largest) is in a good position to apply pressure for wage raises; other unions can support the action by sympathy strikes. Widespread strike action is not definitely indicated at this point, but with contracts terminated the unions have met the legal requirements for striking at any time the membership wishes.

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E A S T E R N E U R O P E

**Diplomatic Parity**      The recent demand by the Rumanian Government that the French Legation in Bucharest be cut to the size of the Rumanian Legation in Paris is the first indication that the diplomatic parity formula, previously applied only to US missions, may be extended to all Western missions in the Satellites. Heretofore, the pressure against Western missions in the various Satellites has followed no set pattern. The "diplomatic parity" concept offers the Satellites a flexible means of applying pressure for drastic personnel reductions to all Western missions while avoiding long negotiations with each country.

SOVIET UNION

**New SEA Policy**      The recall to Moscow of leading Soviet diplomats from Far Eastern posts and from the US indicates that the Kremlin may be reviewing its entire Far Eastern policy in order to plan for more aggressive action to counter Western anti-Communist efforts in the Far East, especially in Southeast Asia. Such a conference of Soviet representatives from Japan, India, Thailand, and possibly North Korea, together with the recall of the Soviet Ambassador to the US, who is a Far Eastern expert, emphasizes the importance of the area to the USSR at this time.

In Japan, the Kremlin might decide to shift from "legitimate" activities to concentrate on a subversive program as the most effective means of obstructing Western progress in Japan. The issuance of a second Soviet note demanding trial of Hirohito and the intensification of Communist activity in the face of a proposal to outlaw the Party indicate that the USSR is willing to risk having the Japanese Communist Party driven underground.

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**N E A R E A S T - A F R I C A**

**IRAN**

**Government Problems**      Increased prospects that Chief of Staff Razmara will soon be appointed to head a new Iranian Government reflect the Shah's belief that only a strong man of Razmara's character and abilities can provide the leadership needed to bring improvement in Iran's muddled economic and political situation. Although the Shah has misgivings about having a soldier as premier and has apparently stipulated that the Chief of Staff must leave the army if he takes the post, he seems to have concluded there is no one save Razmara on whom he can depend. Razmara will have to fight the vested interests in carrying out the Shah's reform and economic development plans, and his success will depend largely on the effectiveness of the support he gets from the Shah and the new leadership of the armed forces. Although Razmara possesses strength of character and considerable administrative ability, his prestige has been based on his control of the armed forces rather than any political experience.

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**F A R E A S T**

**INDONESIA**

**Pro-Ho Sentiment** Rising public and parliamentary pressure in Indonesia may force the Hatta Government to take some action indicating support of the pro-Communist Ho Chi Minh regime in Indochina. Hatta has already adroitly evaded parliamentary pressure for immediate recognition of Ho by successfully sponsoring a parliamentary motion calling for a further study of the Indochinese question and suggesting a South-east Asian conference on Indochina. However, the motion provides Ho sympathizers in Indonesia with a continuing opportunity to press for support of Ho. A large number of Indonesians view the Ho regime as genuinely realistic and worthy of support, and full recognition remains a possibility. Such recognition might precipitate similar action by Burma and India and would make it virtually impossible to arouse the widespread popular confidence in the French-sponsored Bao Dai regime essential to the success of efforts to establish an effective, independent, and non-Communist Vietnamese state. If a Southeast Asian conference on Indochina is called, Burma, the Philippines, and India would probably participate. In this situation, Indian Prime Minister Nehru might seek primarily to force the French out of Indochina. It is also possible, however, that he might feel that his role as champion of all Southeast Asian peoples obliged him to support Ho Chi Minh as the instrument which can best serve the cause of nationalism in Indochina, despite Ho's Communist affiliations.

**JAPAN**

**Election Results** Although still incomplete, returns from the 4 June elections for the Japanese Diet's House of Councillors give Premier Yoshida's Liberal Party a clear plurality, and should give him control of the Upper House

**SECRET****JAPAN**

on most issues through a working alliance with the Green Breeze conservatives. The gain of approximately 15 seats by the Liberals--the only party favoring a separate peace treaty and forced to defend an austerity regime imposed by the Occupation--indicates less popular resentment to Allied control than was generally believed to exist. The remarkable rise of the Socialist Party to second rank in the Council (a gain of 18 seats) reflects: (1) Socialist success in gaining control of labor during the past year; (2) a switch in the protest vote from the Communists to the Socialists; and (3) the fact that the Socialists no longer had to defend the government's unpopular measures. The emergence of the Liberals and the Socialists as the two principal parties, however, is only a small step toward the two-party system advocated by Yoshida, and the vote in favor of the separate peace treaty is inconclusive as evidence of pro-US sentiment, because Yoshida offered conservatives their only prospect of effective leadership. Meanwhile, Communist popular strength slumped sharply, primarily because of the Party's open subservience to the USSR, its stand on POW repatriation delays, and its policy of violence.

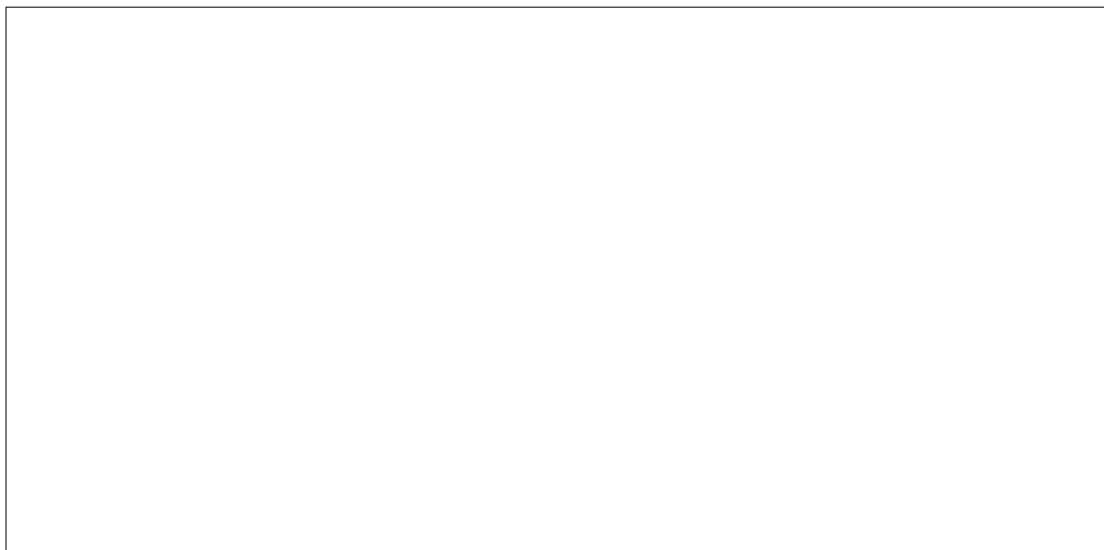
**KOREA**

**New Assembly** The newly elected Korean Assembly will remain predominantly rightist, with the unorganized "independents," who hold 127 out of a total of 210 seats, in a position to exercise the balance of power between anti-Rhee and pro-Rhee forces. In general, voting was heavy and primarily influenced by local issues such as food prices. The Koreans showed their dissatisfaction with the conduct of the Assembly by turning out all but 31 of the 164 incumbents who ran for reelection. The heavy losses sustained

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**KOREA**

by the opposition Democratic Nationalist Party also resulted in part from the stigma still attached to the Party as representative of the conservative land-owning interests, while the Great Korean Nationalist Party of President Rhee suffered because of lack of direct contact with the people. Although the general caliber of the new Assembly is higher than the previous one, the large turnover in Assembly membership will at first cause considerable inefficiency and delay in the legislative process.



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**W E S T E R N   H E M I S P H E R E**

**Hemispheric Trend**    The trend during recent months toward acceptance in practice of the US criteria for recognition of new Latin American governments marks an important gain for Hemisphere solidarity.

All Latin American countries have extended recognition to the Arias regime in Panama. Cuba and Uruguay (the latter being a leader of the "democratic" group which has favored the withholding of recognition from undemocratic governments) have recently indicated a willingness to accept US recognition policy as expedient. All Latin American countries have now either recognized the Haitian military junta or are expected to do so shortly. Moreover, of the few countries which have as yet refused to recognize the Peruvian and Venezuelan juntas, some will probably do so in the near future.

**PERU**

**Critical Period**    President Odria has a good chance of returning to office in the 2 July elections, but the intervening period during which he plans to campaign actively may be a critical one. His relaxation of control over the government during this time may encourage disgruntled military or civilian groups to attempt to unseat him. Although Odria has been assured of general army support, continual reports of subversive plots among influential officers indicate that he may be exposing his life to real danger during his election campaign. Further, opposition leaders may attempt to gain underground support for revolutionary action from the outlawed APRA party, the largest group now opposing the

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**PERU**

Odria regime. Odria, for his part, has been attempting to contain his opposition thusfar by: (1) tightening his control over the electoral machinery; (2) obtaining the limited support of labor leaders; (3) taking firm measures against opposition political figures; and (4) forming a new political party to back his candidacy. If the President can avoid assassination and continue to command general armed-forces support during the campaign period, he will probably be returned to office.



**SECRET****EAST-WEST TRADE PROBLEM**

The effectiveness of the US policy of denying strategic materials and equipment to the USSR is being reduced by leaks into the Soviet sphere through East-West German trade, by Soviet purchases in and via Austria, which obtains important supplies as a full participant in ECA, and by the laxness of Swiss control over transit trade.

Deliveries of capital goods from Western Germany to the Soviet zone through both authorized trade agreements and smuggling are going, in large part, to the USSR as reparations payments. Three-quarters of the total reparations deliveries from the Soviet zone consist of light and heavy machinery which directly or indirectly builds up the Soviet war potential. Moreover, smuggling has increased rapidly during 1950, largely because of lax border controls and general German resentment of the fact that the restrictions on East-West trade for Germany are more severe than those applied to other countries of Western Europe.

Austria provides a focal point where the USSR is able to circumvent US trade regulations designed to withhold strategic materials and equipment from the Soviet sphere. Because of its standing as an occupation power, the USSR is able to purchase goods either on the Austrian market or via Austrian middlemen from other Western countries and can ship these goods eastward without being subject to Austrian export controls. These goods are available in part because of the Western policy of building up the Austrian economy while maintaining the political status quo and working for a treaty. Although this Western policy of treating Austria as an economic unit has preserved Austrian unity, brought the country a measure of prosperity, and contributed to Austria's pro-Western orientation, it has at the same time facilitated Soviet procurement of materials and equipment otherwise denied.

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The recent increase in the flow of strategic items through Switzerland highlights the Swiss contribution to the evasion of Western controls over exports to the Soviet sphere. Switzerland, which is normally a major transit point for shipments eastward, is becoming increasingly important as a breakthrough point for Western strategic commodities headed for the USSR. Although the Swiss continue to assert that they will cooperate in general with the US export control program, restrictions over their own exports and transit shipments continue to be mild. This reluctance of the Swiss to institute effective export and transit controls probably stems from a desire for profit and a real fear of jeopardizing the very delicate position which Switzerland now holds between the East and the West.

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