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Document No. 001  
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 DECLASSIFIED  
 Class. CHANGED TO: TS S C  
 Auth: DDA Memo, 4 Apr 77  
 Date: 29/1/77 By: 023  
 DDA REG. 77/1763

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## H I G H L I G H T S

The battle of words continued unabated in the Security Council, with the Indian proposal that the "Little Six" members of the SC be appointed to work out a solution for the Korean situation the only new development on that stormy verbal front. Although the proposed committee of the "Little Six" would have more flexibility than the full SC in working out some solution for Korea, there is always the possibility that without the restraining influence of the US, the UK, or France, the committee might come up with a recommendation which falls short of the minimum Western objectives in Korea (see page 2). The USSR is again speaking soft words and making friendly gestures toward Iran; trade negotiations between the two nations have been opened in Tehran and several Iranian border guards have been released by the USSR (see page 3).

West European efforts to speed rearmament have resulted so far in considerable legislative discussion, some rather promising plans and projected proposals, but very little material improvement in the over-all defensive capabilities. France continues to insist upon a genuinely centralized control as the first step in creating the desired defenses for Western Europe (see page 4). Under such a centralized defense organization, France would probably be more than willing to accept German participation. While most of the West European nations are going ahead with increased rearmament plans, they are waiting for dynamic and aggressive US leadership to bring some kind of order and meaning out of the present confusion.

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## THE WARM PEACE

Security Council Security Council approval of the Indian suggestion that a committee of the non-permanent SC members be formed to study proposals for a "peaceful and just" settlement of the Korean fighting might complicate US efforts to maintain firm UN support. The general hope that a proposal of this nature might open the way for some fresh approach to the Korean problem will ensure it a certain amount of support in the SC, especially if the committee's terms of reference require compliance with the previous SC resolutions. The USSR, thus far noncommittal, probably would not welcome having the Korean situation taken out of the SC but might seek to maneuver the US into rejecting the Indian proposal in the hope of then being able to charge that US rejection "proves" US opposition to peace.

A committee of the "little six" would have a greater degree of flexibility than the SC for exploring new avenues toward a Korean solution and might offer an opportunity for reaching an acceptable compromise. However, the six non-permanent members might, under Indian leadership, be willing to consider proposals which would fall short of US objectives.

Taiwan Invasion Even though the outcome of the Korean conflict remains in balance, Chinese Communist invasion of Taiwan remains a strong possibility during the next few weeks when the most favorable weather for crossing the Formosan straits will prevail. With reduced prospects for being seated in the UN during the present session, the Peiping Government may decide that Taiwan should be invaded before the worst of the typhoon weather sets in and before the US can strengthen the island's defenses. Chinese Communist propaganda recently emphasized that the liberation of Taiwan was

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inevitable and, during the civil war on the mainland, Peiping propaganda was an accurate indicator of the next military target. Moreover, recent reports indicate that vessels are available in sufficient numbers to permit rapid concentration opposite Taiwan for an invasion, and the Chinese Communists have stated that they could provide the most effective aid to North Korea by intensively preparing for the invasion of Taiwan.

**USSR and Iran**    The opening of Soviet-Iranian trade negotiations in Tehran this week and the reported return of four Iranian soldiers who had been held by the USSR provide additional evidence of a new Soviet attitude toward Iran. When the Soviet Ambassador recently aired the new line by suggesting that the Iranian Government send a delegation to Moscow to discuss the trade question and other outstanding difficulties between the two countries, Prime Minister Razmara firmly replied that the matter of the soldiers and Iran's repeated demands for the return of Iranian gold held by the USSR were not matters for negotiation and that, in any case, he was not prepared to send a mission to Moscow. Razmara also stated that no trade agreement would be ratified unless his conditions were complied with. Although it remains to be seen whether the USSR will completely meet Razmara's terms, the Soviet Union has apparently decided, at least for the moment, that a "friendly" policy will pay bigger dividends than the threatening approach hitherto employed. Although such soft-glove tactics might encourage some Iranians to believe that the danger from the north is not immediate and that--particularly in view of US reverses in Korea--it would be prudent for Iran to avoid closer identification with the Western Powers, it is most unlikely that Premier Razmara will modify Iran's present Western orientation or his attitude of vigilant firmness toward the USSR.

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**T O P   S E C R E T**

**TOP SECRET****WESTERN DEFENSE**

**French Attitude**    The French are not likely to embark on a vigorous rearmament program on a national basis, but they would make greater efforts to speed rearmament if Western defense planning and control were integrated under strong US leadership. Also, the French public could probably be persuaded to accept West German participation in an integrated Western defense system directed by a genuinely international command. The French people are not convinced that a coordination of separate national defense programs under the North Atlantic Treaty Organization will provide adequate security for Western Europe, and many other West European peoples are inclined to agree with the French view.

The French are deeply concerned over present NAT planning, which they feel would require them to contribute a major share of the infantry forces in a European war; and even though the French Government might be willing to make greater NAT commitments, the Assembly would probably refuse to endorse substantial national sacrifices to build up the French military establishment under the present arrangements. French deputies will place strong emphasis on economic recovery as a means of curbing the internal Communist threat. Furthermore, there is little likelihood that governmental revenues can be raised appreciably, nor does the tenuous political position of the "Third Force" coalition permit major economies through cuts in the heavy expenditures for social welfare. Such a move would almost certainly result in the collapse of the governing coalition. However, a greater willingness to make the necessary sacrifices could be generated for an integrated Western defense effort, based on strong and effective US moral, political, and economic leadership and support. Such an arrangement could imbue the

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French people with a hope of security sufficient to make them willing to sacrifice for defense. The French Government conceives integrated defense to include a common military fund and budget, joint allocation of production responsibilities, and an international army under a single authority. The French emphasize that defense burdens under a central control should be shared according to the capacities of each NAT signatory.

**Norway and Denmark** Norway and Denmark are each planning additional defense appropriations for 1951 and 1952, to be used for the regular armed forces, home guard, civil defense, and expanded police services. Norway's proposed increase in appropriations must be submitted to the Storting in September, but it is virtually assured of approval. The additional appropriation, which will bring Norway's defense expenditures to about 5 percent of the national income, should not place an undue burden on the Norwegian economy. Denmark's expanded defense spending, which will constitute about  $3\frac{1}{2}$  percent of the national income, should not be a severe strain to the economy. Both countries, however, realize that their defense preparations will be far from complete even with these supplementary funds, and look to the US for more and faster aid under the MDAP.

**Turkish Army** Reorganization of Turkey's major tactical units has now been completed, and a significant improvement in the capabilities of the army is expected within the next twelve months. The Turkish Army is not yet an effective modern force, however, because many divisions of the army still lack adequate equipment, armament, trained manpower, and supporting units. The Turkish Government, with the advice and assistance of the US Military Aid Mission, is making a serious effort to remedy these deficiencies.

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**South Africa**    Ensuring of an effective South African contribution to the long-range Western defense effort may result from conversations to be held in London in September between the South African Defense Minister and British defense officials. Last summer the South Africans secretly committed themselves to supply an armored division for use outside the Union in defense of the African continent, and the Union Government is now planning a mobile field force with total strength of 18,000 men to fulfill this commitment. In order to carry out this plan, however, the South African forces will need much equipment from the US and the UK.

**Trend in Iceland**    The Iceland Government's recent agreement to the visit of two US destroyers to the east coast town of Seydisfjordur constitutes a major departure from Iceland's previous policy and provides additional evidence that Iceland is moving toward more active participation in the NAT. Even after signing the NAT, the Iceland Government continued to refuse to permit any semblance of foreign military influence on the island. During the past year, however, the Icelanders have come to accept and approve membership in NAT, and their growing awareness of Iceland's vulnerability is causing them to reexamine Iceland's role in NAT and to reconsider the possibility of creating a security force. Although the Icelanders' basic anti-militarism is still strong enough to preclude immediate permission for foreign military forces to be stationed on the island, additional security measures will almost certainly be investigated.

    If Iceland decides additional security measures are necessary, the most likely lines of action would be either: (1) to seek NAT discussion of Iceland's security problem and possibly to request special protection during the coming critical period of European and North Atlantic defense development; or

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(2) to take steps to establish and train a security force and possibly even to permit NAT-sponsored military groups to help train such a force. The establishment of a security force, of course, would be possible only with US or NAT aid in providing arms and equipment.

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**THE NEUTRALITY BLOC**

**SWEDEN**

**Defense Thinking** Prime Minister Erlander of Sweden will call an early conference of the leaders of the four democratic parties to discuss "Sweden's defense-political situation." Up to this time the government, which was concerned with next month's provincial-municipal election, had adopted an attitude of complacency with respect to the world situation and the state of Sweden's military preparedness, and seemed unwilling to risk lowering the standard of living by demanding increased defense appropriations. The Social Democratic Government, belatedly recognizing the seriousness of the international situation--largely because of pressure from opposition parties, has decided to reconsider the possibility of increased defense measures. The Prime Minister is now apparently seeking to establish a united stand by all democratic parties on defense requirements before risking any basic change in Sweden's standard of living.

**YUGOSLAVIA**

**Economic Problems** The rapid growth of Yugoslavia's anticipated foreign exchange deficit between February and June constitutes the latest threat to the Yugoslav economy and may impair Tito's ability to resist Soviet pressure. During these four months, the estimated foreign exchange deficit almost doubled, rising from 75 to 131 million dollars. Apparently, Tito is unwilling to curtail purchases of expensive industrial machinery and equipment from the West, preferring to gamble on having the deficit covered through increased Western aid.

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The magnitude of Yugoslavia's foreign exchange deficit stems primarily from the high cost of capital equipment imports and the necessity of freeing the Yugoslav military establishment from dependence upon Soviet-Satellite materiel. Other expenses requiring foreign exchange are payments on nationalized properties settlements and servicing of loans already contracted. Before Yugoslavia's foreign exchange requirements can be met, export receipts will have to be increased through the installation and operation of more efficient modern mining machinery and timber-handling equipment. Meanwhile, export prospects, already hurt by expected low yields in corn, hemp, and other crops, could be improved by sacrificing certain long-term features of the Five Year Plan for industrialization in favor of greater production of goods for export.

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**TOP SECRET****LOCAL DEVELOPMENTS****KOREA**

**South Korean Army** The determined stand made by the reorganized South Korean Army, currently holding the entire northern front and 90 percent of the east coast sector, has made possible the present build-up of UN forces in Korea. Following the decisive defeat of the ROK forces in the Uijongbu corridor north of Seoul during the early days of the invasion and their subsequent rout south to Suwon, the stand of the US 24th Division provided time for battered South Korean forces to be reorganized and re-equipped. The remaining 5 South Korean divisions were reorganized into two corps and, given responsibility for the northern sector to the east coast, have fought stubbornly as they fell back to successive defense positions in the UN-delaying action. The 17th Regiment of the Capital Division, which is one of the best units in the South Korean Army, escaped annihilation when attacked by a superior force on the Ongjin peninsula at the beginning of the invasion. The 17th fought its way north into the industrial port of Haeju, and evacuated two battalions by water. Following this escape, the 17th has been fighting almost continuously on almost every UN front, and earning a reputation for providing the best shock troops of the UN forces.

Although the South Korean Army was reduced to about 50,000 by the rapid advance of the enemy early in the invasion, the return of stragglers and conscription in UN-held territory has raised strength to about 75,000. Republican casualties (including missing) have been estimated to be in excess of 35,000. This heavy toll, coupled with the lack of a single major unit defection, is a measure of the South Korean Army's willingness to contribute substantially to the defense of its homeland.

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## INDIA-PAKISTAN

**Kashmir Progress** UN Mediator Dixon's new approach on Kashmir, which abandons an over-all plebiscite in favor of exploring the best possible compromise on partition, may clear the ground for an eventual Kashmir settlement. Both sides at last have consented, Pakistan conditionally, to discuss what appears to be the most feasible solution of the dispute, partition coupled with a plebiscite limited to the Vale and minor disputed areas. Dixon, having obtained India's agreement by capitalizing on its strong preference for partition, must now wrest from Indian Prime Minister Nehru a guarantee to implement a partial plebiscite before Pakistani Prime Minister Liaquat will agree unconditionally to meet Nehru.

If the Prime Ministers hold the proposed meeting, the plan which Dixon presents must offer Pakistan satisfactory assurance regarding the division of vital irrigation waters, as well as firm Indian guarantees regarding neutralization of the Vale in preparation for the partial plebiscite. The Pakistanis are suspicious of Indian good faith, especially since India has obstructed all UN efforts to implement the over-all plebiscite previously accepted by both parties, and Liaquat therefore must be armed with these Indian guarantees to get his Cabinet to accept the partition principle. If Nehru is willing to make the necessary concessions and commitments, the way for a settlement of the Kashmir dispute may now be open.

## INDIA

**Tibet Invasion** Although India has manifested serious concern over the recent Chinese Communist broadcast announcing the approaching "liberation of Tibet," it is doubtful that the Indians will actually take strong action

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to block Communist invasion of that area. The Indian Government has apparently urged the Chinese Communists not to invade Tibet lest they help bring on a new world war and has reportedly warned that an unprovoked attack on Tibet might require India to revise its opinion regarding China's peaceful intentions and possibly to take a different view regarding Chinese admission to the UN. Because of the emphasis which India has placed on the maintenance of friendly relations with the Chinese Communists, however, it is unlikely that India will follow through on such statements, even if they have in fact been made in such direct and forceful terms. Although Chinese invasion of Tibet would shake Nehru's confidence in Chinese tractability and friendship, India will probably do little more than strengthen its border guards to indicate that invasion of the small states along India's frontier would not be tolerated.

**UNITED KINGDOM**

**China Problem** British hopes that the usefulness to the Chinese Communists of UK business and commercial organizations in China would convince the Peiping regime of the advantages of establishing normal relations with the Western Powers are rapidly dwindling. The presence of the British Charge in Peiping has merely been tolerated, and Chinese Communist commercial policy, rather than encouraging British business in China, is forcing several old established firms to consider withdrawing their representatives from Shanghai. With the failure to obtain economic cooperation, the British optimism which accompanied the extension of recognition in January is disappearing, and the feeling is growing that the UK has lost whatever prospects existed for weaning the Chinese Communists away from their close alliance with the USSR.

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**ERITREA**

**Federation Prospects**    The failure to date of Italy and Ethiopia to agree on terms for the disposition of Eritrea reduces prospects that the UN General Assembly will reach a decision that can be implemented. Italy fears that any "federation" plan acceptable to Ethiopia would be merely a disguised form of annexation, while Ethiopia is concerned lest any solution favored by Italy would be a concealed form of Eritrean independence. Probable support from the Latin American bloc assures the adoption of some form of federation by the GA this fall, but there is no certainty that Ethiopia will put into effect any recommendation which it considers unsatisfactory.

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## **COUNCIL OF EUROPE**

Developments in the Consultative Assembly of the Council of Europe, currently meeting in Strasbourg, indicate that the Council may be entering a critical stage which could determine whether it is to play a major role in European unification. A sharply increased sense of urgency, touched off by the Korean crisis, has accentuated the Assembly's dissatisfaction with its purely consultative status and further emphasized the rift between the Assembly and the Committee of Ministers on this question.

The Assembly has displayed great initiative in seeking to strengthen and unite Europe, especially by calling for creation of a European army under a European defense minister. This Assembly action constitutes open defiance against the limited role given the Council by the sponsoring governments. The Assembly's call for increased European unity also carries with it implicit criticism of the Committee of Ministers, which as the representative of the member governments, has continually opposed the desire of the Assembly to increase its own authority and convert the Council of Europe into a European political authority with real powers.

The Assembly delegates, impelled by the serious implications of the international situation for the security of Europe, are clearly unwilling to have the Council continue its present limited and passive role. Disgust with the negative attitude of the Committee of Ministers is mounting in the Assembly and unless the Assembly is granted additional authority by the signatory powers to make the Council a more effective instrument for European unification, the Council of Europe will gradually degenerate into an ineffective debating society.

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## BERLIN ECONOMY

The general economic situation in Berlin continues to be unsatisfactory, and the city will continue to be a drain on the resources of West Germany until some drastic action is taken to spread the burden as a part of the over-all West European defense effort. Soviet interference with transportation and high production costs handicap all Berlin industries, and even greater financial subsidies will cause only limited recovery in the city's economy.

Berlin's unemployment remains high, with approximately 280,000 persons (nearly 25 percent of the labor force) idle. The upward trend in unemployment has been arrested during recent months, but the improvement has been due primarily to a series of public works projects financed by ECA counterpart funds. Because of war damage and isolation from normal markets and supply sources, Berlin's industry has lagged far behind the economic progress achieved in the Federal Republic. Business and industrial interests have been reluctant to invest in Berlin, partly because of its exposed position. Tax measures instituted to improve the competitive position of Berlin's industries have met with only limited success; the general production index for West Berlin is less than 30 percent of the 1936 level, compared to 105 percent in Western Germany.

The continuing financial deficits of the city have so far been met by the Federal Republic and ECA. Although the Federal Republic maintains a monthly subsidy for Berlin of deutschmarks (DM) 20 million, it is reluctant to accept long-range financial responsibility for the city. Such recurring crises as the recent inability to meet public...

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payrolls have been met by the temporary expedient of releasing ECA counterpart funds. Current estimates for the coming fiscal year anticipate a budgetary deficit of DM 650 million. The Federal Republic hopes to bring this down to DM 500 million, with the balance to be met equally by the Federal Republic and ECA. The proposed ECA contribution, however, together with special works projects financed by ECA, would exceed available funds. If the UK and France fail to assume a larger share of the costs, the assumption of the deficit by the Federal Republic would inevitably entail a departure from the policy of a balanced budget. With the common interests of Western Europe in Berlin being stressed, Western European countries, particularly the Federal Republic, are being urged through the OEEC to take a larger volume of Berlin's exports, as a means of indirectly subsidizing Berlin industries and contributing to their stability.

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