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H I G H L I G H T S

In a week devoid of any startling developments affecting East-West relations, the Soviet Union gave every indication of pursuing during September the same general tactics in the United Nations, any variations being largely the result of having lost those opportunities for procedural obstructionism deriving from Malik's position as president of the Security Council (see page page 7).

Meanwhile, any real progress toward the rearmament of Western Europe appeared to hinge upon the resolution of two crucial issues: the form and extent of US aid, and how far the North Atlantic Treaty nations would move toward a truly integrated European defensive effort (see page 2).

[Redacted]

[Redacted] British-Egyptian defense negotiations once again reached a stalemate (see page 4); and Chinese Nationalists and the Government of Tibet both increased their pressure for US military assistance (see pages 5 and 6).

In other sensitive areas of the world the most crucial developments included the growing threat to the Finnish Cabinet (see page 9) and continued French reservations regarding the creation of a strong native army in Indochina (see page 10).

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## WESTERN MILITARY DEVELOPMENTS

**Rearmament Problems**      Although the recent session of the North Atlantic Treaty Deputies revealed general agreement on the inadequacy of the presently projected European rearmament effort and the need for its acceleration, it became clear that the crucial issues confronting the NAT countries are whether this rearmament is to be a fully integrated effort and how it is to be financed. The European Deputies clearly regarded the form and magnitude of US aid as a key factor affecting the scope of the defense effort Europe can undertake. For instance, while recommending an immediate high priority military production program, the Europeans emphasized the extent to which such a program would depend on US aid, particularly for financing intra-country transfers of military equipment. Moreover, the UK and France were particularly insistent that they must know the total US aid available before they could implement over-all rearmament plans.

A more comprehensive issue was raised by French insistence of the need for a far more closely integrated NAT effort, including a collective system of financing which would fairly distribute the rearmament burden. A cleavage similar to that over other European unification measures is apparently developing over this issue: the UK, probably supported in varying degrees by Canada, Norway, Denmark, and Portugal, prefers a limited association of national efforts, while Belgium and Italy tend to support the French. The European NAT members will probably eventually agree on a compromise between these two views because: (1) the French are likely to insist on greater unity as a condition not only for expanding their own rearmament program but for permitting any real remilitarization of Germany; and (2) the NAT members will eventually be forced to the realization that an adequate rearmament program is impossible without some degree of greater defense integration.

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NAT Conscription      Meanwhile, the decisions by the Governments of the UK, France, and Belgium -- subject to parliamentary approval-- to increase the respective terms of national military service reflects the growing recognition in Western Europe of the urgent need for greater defensive forces in being. The British proposal to increase service from 18 months to two years would augment present British forces by approximately 70,000 men in about a year's time. British pressure on the continental countries to join the UK in lengthening the conscript period, combined with general US pressure for a greater European military effort, were partially responsible for the French, and Belgian decisions. However, many of the continental countries, though willing to make some increase in the term of military service, will be slow to follow the British lead of requiring two full years because of their reluctance to increase forces more rapidly than equipment becomes available.

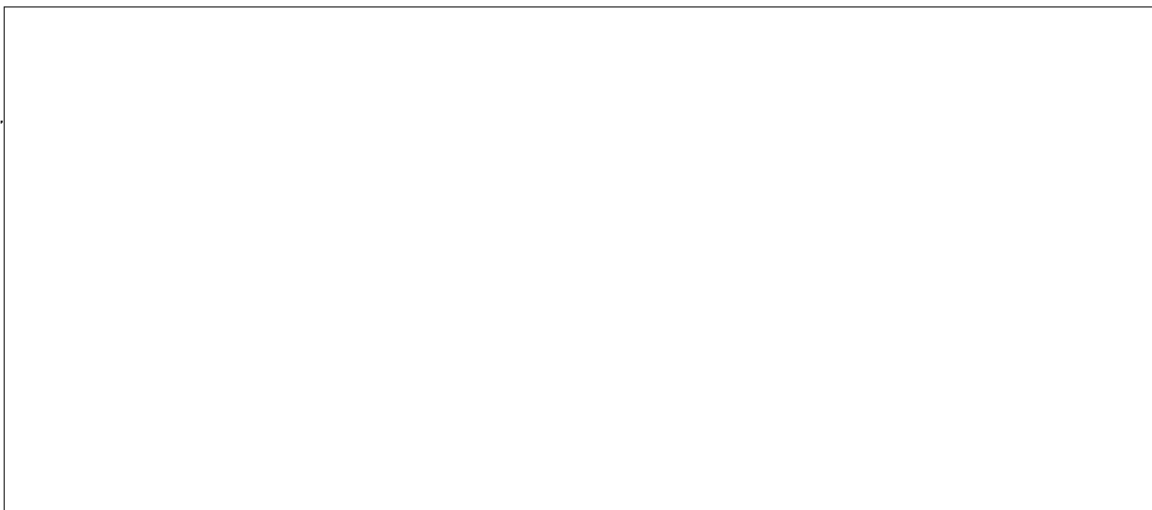
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**UK-Egyptian Talks**      Once again British-Egyptian discussions regarding defense arrangements appear to have ground to a halt; the questions under consideration have been referred back to the two governments for study. On the central issue of the British garrison in the Suez Canal Zone, Egypt has apparently felt unable to compromise: even though some Egyptian officials secretly oppose complete British evacuation, many Egyptian leaders have publicly demanded that the troops leave and Foreign Minister Salaheddin seems to feel that continued delay may force the British to yield ground. As for the UK, the so-called Gaza plan, which offered a possible compromise whereby the British troops in the Canal Zone would be moved to the Gaza area, appeared impractical to many of the British concerned, while the Korean outbreak has strengthened the UK's interest in remaining in the Canal Zone. Nevertheless, British Ambassador Stevenson as well as some British Foreign Office officials doubt whether the UK can ignore Egypt's demands until their present treaty expires in 1956. The fact that British Foreign Secretary Bevin and Salaheddin will both be at the General Assembly meeting in New York this fall offers a glimmer of hope that agreement may be reached on a real basis for treaty negotiations.

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**Arabian Military Aid** King Ibn Saud has again demanded that an immediate decision be made regarding the proposed plan for US military aid to Saudi Arabia. Seizing upon a request by General O'Keefe that the US be permitted to store bombs at the Dhahran Air Base, the King launched into the now familiar theme that the US is anxious to defend the air base but not Saudi Arabia. As is his custom, Ibn Saud ended his speech with the threat that, failing to receive assurances of aid from the US, he will turn elsewhere (by implication, to the UK) for assistance. The King, however, is well aware that there is little possibility of receiving substantial aid from non-US sources and he may be expected to acquiesce in additional defense measures at Dhahran. Nevertheless, the protracted US delay in reaching a decision on arms aid to Saudi Arabia has imposed an increasingly severe strain on the King's patience and on US-Saudi relations in general, a strain which may yet manifest itself to the detriment of US interests in the area.

**Chinese Pressure** In what may be another move aimed at forcing the US to underwrite the security of Taiwan, the Chinese Nationalist Government has formally requested that in the event of a modification of the US 27 June policy toward Taiwan there be "consultation and understanding between the US and the Chinese." The note also asked for indications of what the US intended to do if the Chinese Communists attacked after the withdrawal of the Seventh Fleet. Reminiscent of Nationalist charges in 1947 and 1948 of US responsibility for Communist military build-ups during the 1946 to 1947 truce, the note alleged that since 27 June the Chinese Communists have been able to prepare unmolested for the invasion of Taiwan, thus placing the National Government "under great military disadvantage." Further indication of Nationalist anticipation that the US will not only underwrite the security of Taiwan but will donate the necessary supplies for

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the island's defense is found in recent Nationalist cancellations of contracts for essential defense materiel to be purchased abroad. The Nationalists have recently cancelled orders for 50 F-51 aircraft as well as contracts for radar and other communications equipment (including technicians to install the equipment) valued at \$865,000.

**Tibetan Request** Tibet apparently has not yet given up hope of obtaining military aid with which to oppose threatened Chinese Communist invasion and has dispatched a note requesting specific quantities of arms from the US for use by the extremely limited Tibetan army. At the same time, however, Lhasa is preparing to enter into negotiations with Chinese Communist representatives in New Delhi. By attempting to negotiate an adjustment of their claims to autonomy with the Chinese Communists' demand that Tibet recognize Communist China's sovereignty, the Tibetan representatives may be stalling for time in order to take the measure of possible Western support. They are probably well aware that any agreements to "autonomy within Communist China" will be the first step in the Communist program to gain full control. Chinese Communist infiltration and propaganda activities have already produced considerable confusion and disunity in Tibet and recognition of Communist sovereignty would only hasten the process of assimilation.

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**TOP SECRET****CURRENT SOVIET TACTICS**

**Malik and the UN** Soviet tactics in the Security Council during September will in general conform to the pattern developed during August; any variations will be largely the result of having lost those opportunities for procedural obstructionism deriving from Malik's position as president of the SC. Nevertheless, in continuing his campaign to use the Chinese Communist charges of US aggression on Taiwan and US violations of Manchuria to pin the label of aggressor on the US, Malik will still have considerable opportunity to obstruct, delay and confuse the deliberations of the Security Council. This campaign, however, designed primarily for Asian consumption, may begin to backfire during September as reliance on the veto rather than purely procedural maneuvers will dramatize Soviet intransigence. Soviet propaganda efforts will be further deflated by US willingness both to permit UN investigations of the Taiwan and Manchurian issues and to abide by majority UN decisions regarding their disposition.

**North Korean Reserves** The numerous reports of a readily available strategic manpower reserve in Manchuria composed of Korean veterans (who had served with Chinese Communist forces in the Manchurian campaign of 1946-48) tend to be discounted by the non-appearance of such troops in the combat area. It is logical to assume that if such a reserve had been in existence on 25 June, it would have been committed shortly after UN forces had been committed and when its use might have proved decisive. Moreover, since mid-July the North Korean Army has been using recruits with as little as two weeks' training. In addition, even if not immediately available in concentration areas on 27 June, there has been ample time since that date to organize and equip any Korean veterans in Manchuria who would have been far more

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useful in combat than the inexperienced reinforcements being used. Thus, it is likely that the North Koreans will have to depend for further replacements on: (1) non-veteran Koreans recruited in Manchuria and that part of Korea now in Communist hands; (2) untrained Chinese Communist or Soviet manpower resources; or (3) Chinese Communist or Soviet military units, if it is decided to commit such forces in order either to defend the 38th parallel or to drive UN forces out of Korea.

**Satellite Trade**     The continuing Soviet campaign to integrate the economies of the Satellites has resulted in the almost complete absence of formal commercial and financial agreements between Rumania and Bulgaria with the countries outside the Soviet orbit. These two countries thus resort to spot purchases of strategic items from the West, a procedure which is proving more successful in evading Western export controls than would be possible if formal commercial agreements were in effect. Rumania has been obtaining many types of petroleum equipment, bearings, vehicles and other goods on the prohibited lists. Bulgaria is obtaining from the West similarly banned goods, especially transport equipment, required for its industrialization program. Moreover, both countries are making direct and clandestine purchases of military goods from Western sources. The USSR is apparently supplying Bulgaria and Rumania with the hard currency for these spot purchases which, because they can be concluded rapidly and are small in volume, often go unnoticed by Western officials.

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**TOP SECRET****LOCAL DEVELOPMENTS****FINLAND**

**Cabinet Threatened**      The current Social Democratic wage offensive, which stems partly from Finland's growing wage-price difficulties, may lead to the eventual downfall of the Kekkonen Government (which is already under considerable pressure for wage adjustments in numerous strategic industries). The Social Democrats are apparently determined to prove they are indispensable to a stable government. Labor sentiment and economic conditions will make it relatively easy for the Social Democrats to focus public opinion on Kekkonen and force him either to request Social Democratic participation in the present government or resign and attempt to form a new government including the Social Democrats. The metals industry is already shut down; a strike is scheduled in the wood producing industry which provides 90% of Finland's exports; and work stoppages are threatened in various other industries and government services. If the growing economic and political pressures bring about Kekkonen's downfall, there will be a prolonged period of negotiations between the various parties before another coalition can be formed. These negotiations will be complicated by the perennial question of including Communists in the Government. Kekkonen would probably favor including the Communists and the Kremlin would probably exert its familiar pressures to support him. The Social Democrats, as well as the other parties, would steadfastly oppose inclusion of a Communist in the Government. In such a situation, the most likely possibility would be the formation of an Agrarian-Social Democrat coalition which would exclude Communists.

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## INDOCHINA

**French Military Views** Although the French have agreed in principle to the formation of a strong native army in Vietnam, their still strong reservations about implementing the program may considerably reduce its effectiveness. For example the French have made it plain that they will be financially unable to realize their target of a 120,000 -man Vietnam Army by July 1951 and that the Vietnam Government will be unable to defray the requisite costs. In addition, the French continue to discourage the development of native armed forces which are not firmly controlled by the French High Command and have rejected the US suggestion that Vietnamese serving with the French regular army be placed under the flag of the State of Vietnam. Notwithstanding their protestations of their eagerness to build an effective native force, the French are opposed to conscription (claiming that manpower is not a great problem), have activated only four all-Vietnamese battalions since 1945, now oppose the creation of a Vietnam Army made up entirely of regular (i.e., battalion) formations as compared with local militia, and are even reluctant to permit a substantial increase of Vietnamese militia. Finally, the French recognize the critical shortage of military instructors, but are opposed to the assumption of training responsibilities by the US MAAG and have insisted that US technicians not be attached directly to the Vietnam Government. It appears, therefore, that the French are still basically opposed to the development of a military organization of a type which has proved its ability to fight without French cadres. Moreover, the absence of any indication that the expansion of native armed forces in Vietnam will be accompanied by French political concessions will undoubtedly incline many Vietnamese to believe that their country is merely contributing more manpower without anything in addition to show for it.

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## KOREA

**Military Situation** Although the main force of the recent week-long North Korean offensive appears to have been broken by stiff UN air and ground resistance, reports indicate a considerable movement of supplies and replacements southward in North Korea and another large-scale North Korean effort will probably develop in the near future. Initially, the greatest enemy pressure was exerted in the south, against the US 25th and 2nd Divisions. After losing some ground in this area, UN forces counter-attacked and have now taken up defensive positions along or close to the line originally held before the North Korean attack. In the meantime, however, North Korean forces, assisted by a large concentration of infiltrated guerrillas, broke through on the northern sector, drove UN forces out of Pohang and threatened to capture both Kyongju and Yongchon, key points on the alternate Pusan-Taegu supply route. This attack has been temporarily contained but the North Koreans continue to threaten the Kyongju-Yongchon road and are exerting heavy pressure along the entire front.

## SOUTH AFRICA

**Election Results** The Nationalist Party's sweep of all six South-West African seats to the Union's House of Assembly in the 30 August elections constitutes a severe set-back not only for the United Party but also for the moderate elements within the Malan Government. With the coalition's margin of seats increased to thirteen, the restraining influence of Finance Minister Havenga and his small Afrikaner Party will be greatly reduced. Consequently, the Nationalists are now in a position to eliminate the colored

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## SOUTH AFRICA

franchise and thereby reduce the future United Party vote. Another result of the election will be to strengthen the Nationalists' determination to absorb South-West Africa regardless of UN criticism and the advisory opinion of the International Court.

## GERMANY

**Strike Increase** The West German Government is seriously concerned over the increase in strikes which began in the Frankfurt building trades on 29 August and are rapidly spreading to other cities. Rising prices have led the building worker's union, comprising nearly half a million workers, and public-service workers to demand substantial wage increases. Federal Minister of Labor Storch has set up an arbitration committee in an effort to mediate the strike, and has warned the workers that granting their demands would cause serious inflation. Moreover, any substantial increase in wages would have serious effects on the program, which in turn would cause a serious decline in West Germany's export trade. Meanwhile, the Communists are exploiting the strike situation through their "national resistance" movement which is aimed at disrupting the German economy and preventing German cooperation with Western defense plans. Chancellor Adenauer doubts that the West German Laender police have the ability to control serious labor disturbances, and is pressing the High Commission for immediate permission to establish and expand an effective federal force.

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