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H I G H L I G H T S

The continued failure of the USSR to react violently to the prompt and vigorous UN endorsement of the Western position on Korea further lessens the possibility that the USSR or the Chinese Communists will intervene militarily to prevent the UN occupation of North Korea. The Kremlin will probably view the Korean failure as a temporary setback to its long-range expansionist plans but not one so damaging as to require an immediate change in the tactics it has been pursuing since the end of World War II (see page 5). Meanwhile, North Korean actions indicate a determination to prolong the fighting as long as possible (see page 6).

With further NAT conferences scheduled for late October to discuss Western European rearmament plans, the French attitude toward Germany has once again become a key question, largely because of the strong sentiment in other NAT countries for German participation in a European army and a more aggressive German attitude not only in dealing with the occupation powers but in the crucial Schuman Plan negotiations ( see page 2).

In the Far East, Chinese Communist Foreign Minister Chou En-lai's recent speech, while threatening in tone, in itself portends no major change in Peiping's foreign policy (see page 8). Meanwhile, the Peiping regime was preoccupied with the difficult problems of instituting an extensive land reform program in South-Central and East China (see page 8) and in consolidating its control over the border regions of Sinkiang and Inner Mongolia (see page 9).

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## WESTERN REARMAMENT

**French Role** The French attitude toward Germany has once again become a critical factor influencing the course of negotiations on the strengthening of Western Europe's defense system. Although French fear of a revival of German militarism has had a strong influence on Franco-German relations over the past few years, this question has now assumed greater urgency largely because of the growing sentiment in the other NAT countries for German participation in a European army and a more aggressive German attitude not only in dealing with the occupation powers but in the crucial Schuman Plan negotiations. The impact of these new developments affecting Franco-German relations will become apparent when the French Parliament convenes on 17 October and discusses the European rearmament question and when the Military and Defense Committees of the NATO meet in Washington later in the month.

**Greater Urgency** The Korean war has provided a strong impetus for speeding Western rearmament and much real progress was made at the recent conferences in New York. All the NAT nations except France have agreed, at least in principle, to German participation in an integrated Western European defense force. The British particularly are anxious to reach an early decision on the use of German forces so that detailed planning for the new defense force can begin as soon as possible. The French Government, however, although actually taking the lead in proposing a truly unified defense effort and sensing equally strongly the threat of Soviet aggression, does not yet feel that it can take the political risk of agreeing to such a radical departure in its past policy, which has concentrated on preventing a renewal of German aggression. On the other hand, French opposition is weakening, in part because France, for reasons of prestige, cannot afford to be the sole dissenter to an

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otherwise unanimous agreement to incorporate German contingents in the proposed European defense force, and in part because the French themselves realize that such German participation is essential to an adequate defense of Europe. The French are thus more concerned with timing than matters of principle, and they are already showing signs of eventual willingness to acquiesce, with appropriate safeguards, in the use of German troops.

**German Attitude**      Meanwhile, the recent decisions at New York by the NAT Council and the Big Three Foreign Ministers may have an important bearing on the timing and nature of the French decision on the rearmament question. Popular sentiment in Germany in regard to participation in the Western defense effort is still in flux, but the government at least sees in remilitarization a means of strengthening its international prestige and gaining greater sovereignty. Moreover, the proposed revision of the occupation statute is expected to lead the Bonn Government to take a much stronger and less deferential stand in its dealings with the occupation powers. In expectation that the West German economy will become more and more essential to the West European defense effort, Germans will become less cooperative in international undertakings and display a more aggressive spirit toward matters of common European interest. This new German attitude is already apparent in the negotiations for the Schuman Plan. The Germans are increasingly reluctant to make national sacrifices, apparently confident that growing sentiment in the West for the full use of German military resources will enable them to gain an influential international position with lighter sacrifices of national interest than the Schuman Plan would involve.

**French Reaction**      This German attitude, while increasing Western European fears about the advisability of granting a more independent role to West Germany, is particularly disturbing to the French. Its most immediate effect on the French is

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to strengthen French determination to insure effective international controls over Germany's war-making potential. For instance, the French have made it clear that agreement on the Schuman Plan must precede agreement on the use of German manpower in the proposed European army, even to the point of being willing to accept a considerably watered-down version of the original proposal for a truly supra-national body. Increased German aggressiveness will lead the French to press for additional safeguards on Germany's military potential, such as development of a strong NAT army, a large NAT stockpile of arms, and a firmly integrated command structure, prior to organizing and training any German units. The French will also seek guarantees of substantial US military aid as well as positive safeguards against eventual German predominance in an integrated Western force. On balance, full French agreement to the use of German manpower and industrial forces will therefore depend on two factors: (1) the extent to which the other NAT nations will be willing to sacrifice national interests to meet French demands for a truly international defense system capable of controlling German military ambitions; and (2) German cooperation and willingness to accept controls imposed by the occupation powers and to make concessions necessary for agreement on the Schuman Plan.

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**T O P . S E C R E T**

**TOP SECRET****KOREA AND SOVIET POLICY**

**Over-all Soviet Policy**      The loss of North Korea and the defeat of the North Korean Communist regime are not likely to produce any immediate or drastic Soviet reaction. The Kremlin will probably view the Korean failure as a temporary setback to its long-range expansionist plans, but not one so damaging to the over-all Soviet position at home or abroad as to require an immediate change in the tactics it has been pursuing since the end of World War II. In the immediate post-Korea period, the Kremlin will be most concerned with the effect the Korean invasion has had in: (1) uniting the non-Communist world against Communist aggression and stimulating Western re-armament; (2) revealing to the Satellites and Communist Parties Soviet fallibility and failure to rescue one of its Satellites; (3) weakening Communist promises of early success for Communist-led colonial liberation movements; and (4) demonstrating that Soviet power and influence in Asia will not go unchallenged by the West. The USSR will probably be reluctant to attempt another Korean-type venture in the near future, fearing either failure and thus even greater disadvantages than grew out of the Korean invasion, or the necessity to use Soviet troops to achieve success, thus increasing the risk of general war. The USSR will therefore attempt to minimize the UN victory while continuing and intensifying its support for subversive and guerrilla operations by local Communists, especially in Indochina, and the current "peace" propaganda campaign will be pressed with renewed vigor.

**Korean Settlement**      Meanwhile, in Korea itself, the possibility continues to diminish that the USSR or the Chinese Communists will intervene militarily to prevent the UN occupation of North Korea. Soviet propaganda and diplomatic

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activity of recent weeks suggest that the USSR has, temporarily at least, written off Korea. Continued Chinese Communist threats (made through the Indian Ambassador at Peiping) to intervene if US troops cross the 38th Parallel are believed to be primarily a last-ditch attempt to intimidate the US from taking such a step. In the interim, the USSR will use its rapidly diminishing opportunities for obstructing UN action in Korea, but probably will make no serious effort to reach agreement with the Western Powers. Realizing that military developments have destroyed any favorable bargaining position which either the USSR or North Korea once possessed, the Kremlin will probably not countenance a North Korean peace bid and instead will attempt to make the UN victory as costly as possible.

**Military Tactics**     The general propaganda line and the military tactics currently being employed by the North Korean regime indicate that the North Koreans are placing little faith in the possibility of a UN agreement satisfactory to them. The deliberate slaughter of South Korean civilian prisoners by retreating Communist forces, continued exhortations for a supreme effort to expel foreign troops, and evidence of plans for prolonged resistance all point to the improbability of an early surrender. Thus, barring the unlikely intervention of foreign troops, the North Korean regime will probably prolong the struggle to the bitter end, inflict the maximum damage on the country in order to confront a UN-sponsored government with staggering reconstruction problems, and then retire to a safe haven in Manchuria to direct continued guerrilla and subversive activity against the new regime.

**Military Capabilities**     Lack of trained manpower, a major contributor to the North Korean defeat in the south, will probably prove equally disastrous north of the 38th Parallel and is a weakness that could only be cured by time.

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Although North Korea may be able to form ten or more fully equipped divisions within the next month from training camps and remnants from the south, these units would be poorly trained and not highly effective in combat. The initial major defense effort by elements of these hastily organized North Korean forces will probably be encountered as UN forces advance along the Korean west coast toward the capital city of Pyongyang and the central Chorwon corridor. Although North Korean forces will be incapable of maintaining large-scale organized resistance for long, the terrain in most of North Korea favors small defensive forces and guerrilla activity and will enable remnants of the North Koreans to put up stubborn resistance and inflict severe damage on the countryside as they retreat.

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**TOP SECRET****CHINESE COMMUNIST PROBLEMS**

**Foreign Policy** Foreign Minister Chou En-lai's recent lengthy review of Communist China's foreign policy contains no new assertions or accusations and none of the guarded threats is sufficiently strong to indicate any major change in Peiping's foreign policy. The statement that US "intervention" in China will be repelled is an idle one, as the promise to liberate Taiwan specified no time limit; and the intention to liberate Tibet, preferably through negotiation, but if necessary by force of arms, has been expressed before. The Foreign Minister's remarks regarding diplomatic relations with Western countries, relations with the USSR, and the hostile attitude of the US have been uttered many times in the past. Those parts of Chou's speech which have been interpreted as indicating a Chinese Communist intent to occupy North Korea or invade Indochina are in fact estimated to indicate less drastic actions. The statement that the Korean Communists can "obtain final victory" through "persistent, long-term resistance" probably implies extensive Chinese support of North Korean guerrillas and sanctuary for North Korean leaders. However, the intimation that Communist China is now prepared to rush to its neighbor's assistance was probably an attempt to bluff the UN into not crossing the 38th Parallel, rather than a forewarning of Chinese intervention. Finally, Chou's remarks on the UN suggested Peiping's interest in participating in any UN settlement of the Korean question.

**Land Reform** Neither the Chinese Communist Government nor the people seem adequately prepared for the land reform which is scheduled to be instituted this winter in the newly "liberated" areas of South and East China comprising nearly 100 million persons. The regime may thus find that any political advantages accruing from land reform are more than offset by its unfavorable effects on both agricultural production and on the

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regime's prestige and popularity. Implementation of the program will be entrusted to land reform committees which are expected to be understaffed and will probably be unable to solve such complex technical questions as land survey and classification of peasants according to their wealth. Meanwhile, the bulk of the peasantry is apparently unaware of the full implications of the contemplated reform and regards the whole program with suspicion. There have been frequent reports of landlord "sabotage," such as the selling of movable property and trees in order to reduce anticipated losses. Many peasants have been unwilling to buy seeds and fertilizer and to start fall planting as long as the future of their ownership is in doubt.

**Outer Provinces** The Peiping regime is currently engaged in a concerted effort to consolidate its control over Inner Mongolia and Sinkiang, where the predominantly non-Chinese population has long regarded the Chinese with suspicion and hatred and where sentiment has been strong for administrative ties with Moscow rather than Peiping. In addition to making various administrative changes designed to favor pro-Chinese elements in Inner Mongolia, Peiping is attempting to control colonial exploitation of Mongols by Chinese traders, has relaxed restrictions on the activities of Catholic missionaries in Mongolia, and has instituted daily broadcasts in Mongolian. In Sinkiang, the Peiping regime is confronted not only with the long-standing hostility of an isolated, non-Chinese population but with the task of eradicating the influence of the Soviet-supported Ili government which was dissolved in late 1949 when the Chinese Communists took over the entire province. To counteract these influences, Peiping has instituted a widespread cadre-training program, designed primarily to develop a body of native officials for working-level administrative cooperation with the Chinese Communist Party. As yet the success of this program has been very limited. In the former Ili area, a disproportionately

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small number of students has been recruited, and Communist officials have complained of "inadequate unanimity in the ideological trends and working attitude of the cadres of the Government of all the zones."

In the attempt to consolidate its control over Inner Mongolia and Sinkiang, the Peiping regime faces not only a serious problem in the internal administration of minority populations but also the possibility of conflict with the USSR, particularly over the status of Inner Mongolia, for its annexation by satellite Outer Mongolia has long been an objective of Soviet policy. There is small chance, however, that this conflict by itself will seriously disturb relations between Peiping and Moscow.

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**LOCAL DEVELOPMENTS**

**EAST GERMANY**

**Balkan Pacts**     The signing by East Germany of political and economic pacts with Bulgaria and Rumania is another step in the formal integration of the Soviet Zone of Germany within the Soviet bloc; similar pacts were signed in June with Poland, Czechoslovakia, and Hungary. Published statements do not indicate a significant increase in the flow of commerce between East Germany and the Balkan area Satellites, but they do stress the expansion of technological developments in the latter countries to be effected through aid rendered by East Germany. East Germany is experiencing great difficulty in meeting Soviet reparations delivery schedules and is therefore hardly in a position to supply more goods to the Balkans, unless some Soviet reparations goods are delivered to the Satellites or the reparations required by the USSR are reduced. Mutual military assistance pacts are not mentioned in the agreements.

**FINLAND**

**Aaland Islands**     The Soviet protest against the Aaland Island autonomy bill now before the Finnish Diet will probably cause the Finnish Government to shelve the bill, despite the fact that such action would alienate the Swedish People's Party, whose political support is essential to the government. The autonomy bill would incorporate an article, now of purely theoretical significance, of the Aaland Guarantee Law of 1921 which provides that in the event the Aaland Diet presents complaints or

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remarks regarding implementation of the provisions of the law, such remarks, with those of the Finnish Cabinet, would be forwarded to the League of Nations Council, which organization would insure proper observance of the law. The Aaland Islanders, represented in the Finnish Diet by the Swedish People's Party, insist that this international guarantee be preserved. The Soviet Union objects to this article on the grounds that it does not conform with the armistice and peace treaty provisions "guaranteeing complete Finnish sovereignty over the Aaland Islands." Soviet interest in the islands stems from their strategic location at the mouth of the Gulf of Finland, controlling the sea-route from Leningrad through the Gulf to the Baltic Sea, and from the fact that the islands will not be militarized as long as Finland maintains sovereignty over them. Past actions of the Finnish Government suggest that it will in this case seek Soviet favor rather than risk any possible consequences of Soviet wrath.

**NORTH AFRICA**

**Anti-Western Sentiment** Growing North African disillusionment over the prospect of attaining eventual independence is reflected in the attitude of the Istiqlal (Moroccan nationalist) Party and in an increase in native tension in past months. Although the Istiqlal Party continues to be dedicated to a policy of achieving independence peacefully, it might seriously challenge French hegemony in the area if given the means and opportunity for action. In a recently-issued [redacted] news bulletin, the Istiqlal Party identifies Morocco with the Moslem world and the East, and implies that the Moslems

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would oppose the use of North Africa as a base by the Western Powers in the event France were again overrun by a hostile power. French authorities will undoubtedly attempt to suppress the bulletin, and will further tighten restrictions on native activities.

**SOUTHEAST ASIA**

**Commonwealth Aid** The emphasis in plans for Commonwealth economic aid to Southeast Asia now seems to have been shifted in large part to assistance for the South Asian parts of the Commonwealth itself, and the financial scope of the plans has been greatly enlarged. The draft report of Commonwealth technical experts sets up the figure of over a billion pounds as the external aid requirements for a six-year economic development program for these areas, with India accounting for nearly 80 percent and the balance allocated among Pakistan, Ceylon, and colonial Malaya and Borneo; each country would also be expected to raise an equal or greater amount by internal financing. The plan does not discuss how funds are to be raised to meet these requirements but plainly implies that the US is the only practicable source for most of the external assistance. The presentation of this report to the Conference meeting in London apparently means the emergence of a new British tactic, if not a new policy on this question. The UK previously opposed setting up a comprehensive aid program on the grounds that the cost would exceed Commonwealth capabilities and might raise false hopes in Southeast Asia, complicating the already difficult political situation in the region. With the Commonwealth determined to have an aid program, the independent Southeast Asian nations not overly interested in one under

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## SOUTHEAST ASIA

Commonwealth auspices, and US economic aid essential to almost any such scheme, however, the UK has apparently now decided to draw up a generous program, pointing it where it will do the most good politically and strategically -- to India, the main non-Communist state in Asia. The British probably feel there will be a net gain for Commonwealth prestige if the UK can put a Commonwealth trademark on a development plan which the US subsequently adopts in part and under some other name.

## AUSTRIA

**Labor Disturbances**      The recent Communist-inspired strikes and demonstrations, which, in the initial stages, were joined by some rank-and-file Socialists, neither reflect an increase in the strength and influence of the small Austrian Communist Party nor portend a radical change in Soviet tactics in Austria. In this instance, the Communists were able to achieve some success because: (1) they were exploiting a legitimate economic grievance (the new wage-price agreement) felt by all labor groups; (2) the Socialist Party leadership initially underestimated the extent of rank-and-file dissatisfaction with the agreement; and (3) the Austrian Police and Government, as well as the trade union leaders, were taken by surprise and had not anticipated an all-out Communist effort with limited overt support by the USSR. In initiating and supporting the disturbances, the USSR probably hoped to probe the ability of the Austrian Government to control labor's actions, intensify the campaign to undermine Socialist control of labor, and test the action capabilities of the Communist Party. Labor's dissatisfaction with the wage-price agreement will probably continue,

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## AUSTRIA

but the Communist Party is not likely to make any substantial inroads on Socialist control of labor unless labor's economic position deteriorates appreciably during the coming winter. In such an event, Soviet actions during the recent disturbances indicate that the USSR would be more willing than previously to lend open support to Communist efforts to exploit economic grievances.

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