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H I G H L I G H T S

In carrying out their intention to defy the UN peace ultimatum and continue resistance throughout Korea as long as possible, the North Korean forces can count on material assistance from the USSR and Communist China. They will be forced to rely largely on their own manpower resources, however, except in the unlikely event of direct Chinese or Soviet intervention (see page 5). The North Koreans now have at their disposal approximately 140,000 troops, of which only 40,000 have seen combat in the south. Although this force will be capable of stiff defensive action at key points, it probably lacks both the strength and experience necessary to continue prolonged organized resistance.

French forces in Indochina have suffered their most disastrous defeat in the war with Viet Minh forces in an engagement in which four French battalions were virtually annihilated (see page 7). Viet Minh capabilities for an eventual decisive assault against the French have been greatly increased by this victory. Meanwhile, the political relationship between the Bao Dai Government and the French has not improved. Fighting elsewhere in Southeast Asia, between the rebel Ambonese and Indonesian Government troops, threatens to bring international repercussions to the new Republic of Indonesia (see page 8). At the same time, the recent decision of that government to refuse further MDAP aid emphasizes the strong Indonesian sentiment for neutrality in the East-West conflict.

Recent developments in the Near East point up several continuing problems which contribute to instability in the area (see page 2). In the Palestine region, little progress toward a peace settlement between Israel and Jordan was made in a recent meeting between Israeli officials and King Abdullah. In Pakistan, the recent Afghan "invasion" is potentially serious in that it could lead to severe Pakistani countermeasures. Meanwhile, political unrest continues to brew in Ethiopia and Syria.

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NEAR EAST PROBLEMS

Recent events point up continuing problems in various parts of the Near East. The major questions of Kashmir and Palestine are still unresolved, relations between Afghanistan and Pakistan are deteriorating, Syria is unsettled politically, there is danger of revolution in Ethiopia, and Iran is still beset with pressing economic and political problems.

Afghan "Invasion" No serious military complications are expected as a result of the recent Afghan "invasion" of Pakistan, but an increase in such incidents could lead to Pakistani countermeasures which might have serious repercussions for Afghanistan. The Pakistanis are aroused because they feel border incidents would be rare if the Afghan Government ceased its propaganda attacks against Pakistan in its attempts to promote an autonomous Pathan state, and the government has reiterated its firm intention not to yield "one inch of Pakistan's soil." Hostile Afghan propaganda is likely to continue, however, and Pakistan may decide to take forcible countermeasures, the two major courses of action open to it being the cutting off of all Afghan trade through Pakistan and the incitement of tribal revolt in Afghanistan. The first method could force Afghanistan into economic vassalage to the USSR; the second might invite Soviet intervention in Afghanistan and stimulate similar disorders within Pakistan's own territory.

Ethiopian Coup Dissatisfaction with the central government in Ethiopia, as evidenced earlier in 1950 by serious disturbances in Gojjam Province, has increased considerably, and a substantial opposition group is reportedly preparing a revolution, possibly to take place as early as November. The revolutionary opposition is said to include

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several high officers of the Imperial Guard, the most efficient Ethiopian military unit, in which case the plot would have good chances of success. The opposition group was formed largely in protest against corruption on the part of such high officials as Minister of Finance Hapte Wold; accounts of the plot call for the exiling of the Emperor, the execution of corrupt officials, and the installation of the Crown Prince on the throne. These accounts are given some support by the fact that the Crown Prince left Ethiopia suddenly on 5 August, possibly in order to remain out of trouble until the coup is effected.

Syrian Instability Hopes for a stable regime in Syria following the adoption of the new constitution have been dimmed by the current controversy in Parliament over the army's arrest of several parliament deputies on charges of treasonable relations with Jordan. The arrests have provoked stormy debates concerned more with the point of violation of parliamentary immunity than with the substantive question of the existence of a plot against the regime. The fact that Prime Minister Qudsi, who in the past has voiced displeasure over military interference in civil affairs, is supporting the army in the present instance may indicate that a serious plot against the government has in fact been discovered, but no specific evidence has been made public, and some local opinion believes the charges were trumped up to discredit the opposition.

Palestine Issue Little progress toward an Israeli-Jordan peace settlement was achieved by the secret 2 October meeting between King Abdullah and Israeli officials at Amman. The resignation of the Jordanian Prime Minister on 1 October furnished a chilly atmosphere for Abdullah's expression of hope at this meeting that some agreement might soon be reached between Jordan and Israel. The smouldering opposition to any settlement with Israel felt by so many Jordanians--particularly

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those from Palestine--came out into the open after the Israelis occupied the disputed Yarmuk territory a few weeks ago. Abdullah, who was none too fond of the old Cabinet, accordingly finds himself facing real difficulty in obtaining a strong replacement which will support his general desire for an Israeli-Jordanian peace pact. Since even the Israeli officials who conferred with Abdullah in Amman were skeptical of Jordan's willingness and ability to undertake serious discussions, an Israeli-Jordanian peace settlement continues to remain in the visionary stage.

Iranian Economy The Eximbank's decision to loan Iran \$25 million should serve immediately to bolster waning US prestige in Iran and possibly to check the growing popular receptivity to the USSR's friendly approaches toward Iran. The welcome for the loan may become tempered, however, when the public realizes that the Majlis must make official provision for the servicing and repayment of the loan and that Eximbank officials must approve specific projects before the credits actually begin to flow. Although the Iranian Government should be able to provide for its financial obligations under the loan (by securing British consent for conversion of sterling if other dollar sources prove insufficient), the Majlis is not geared to enacting the necessary legislation promptly. Moreover, the process of working out technical project details and getting them approved is also an essentially time-consuming one.

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T O P S E C R E T

TOP SECRET**KOREAN SITUATION**

Military Tactics Despite the UN peace ultimatum, the North Koreans have reiterated their determination to continue resistance throughout Korea for as long as possible. Although the North Koreans will continue to receive substantial material assistance from the USSR and Communist China, they will be forced to rely largely on their own manpower resources, except in the unlikely event of direct Chinese Communist or Soviet intervention. Some Korean units may still be transferred from Chinese armies to North Korea and Peiping may send a few Chinese troops across the Yalu River to protect its bridges and the hydroelectric plant at Suiho. The principal Chinese Communist contribution, however, probably will consist of military and other supplies, bases for reorganizing and re-equipping North Korean troops, and sanctuary for North Korean leaders charged with directing long-term guerrilla resistance. The North Koreans, meanwhile, probably now have at their disposal approximately 15 major units of division size or less, comprising approximately 140,000 men. Only 40,000 of these have seen combat in the south, the remainder being hastily trained conscripts with little combat efficiency. The entire force, while capable of stiff defensive action at key points, is estimated to lack the strength or experience to continue prolonged organized resistance.

Economic Recovery With the exception of the food supply situation, the South Koreans face a formidable task in economic reconstruction. The speedy recapture of southwestern Korea, coupled with an exceptionally good rice crop, assures the country of ample supplies of rice when the harvest begins to reach the urban markets in early December. The South Korean industrial system, however, has

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been brought to near ruin. The textile industry has been reduced from more than 150,000 spindles to 4,000. The machine tools and metals industry is believed to be either almost totally destroyed or removed to North Korea. The railroad and highway systems have suffered severely and damage to electric power installations will be a major obstacle to economic recovery. Perhaps the most immediate and pressing task facing the ROK Government will be that of housing more than one million South Koreans who have lost their homes in the fighting.

Political Disputes: Serious and explosive issues are likely to develop as the new seven-nation UN Korean Commission undertakes the task of "holding elections for the establishment of a unified, independent and democratic government in the sovereign state of Korea." The major controversy will be over whether to: (1) make a fresh start by holding elections throughout the country for an entirely new government; or (2) merely hold UN-supervised elections in North Korea to fill the 100 seats "reserved" in the present ROK Assembly for representatives from that area. President Rhee and other ROK leaders feel strongly that the second alternative is all that is necessary, and will oppose strenuously any UN effort to hold new nation-wide elections. Even in the event that the UN Commission accepts Rhee's contention, additional disputes will arise if Rhee insists on enforcing ROK election laws and security legislation in North Korea, which would bar Communists from voting.

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SOUTHEAST ASIA

Indochina Military In the most disastrous defeat yet sustained by the French in the Indochina war, four French battalions have been virtually annihilated in the China border area by an organized Viet Minh force of more than 16,000 men. Although heavy casualties sustained by the Viet Minh will probably prevent them from pressing their immediate advantage, Viet Minh capabilities for an eventual decisive assault against the French have been greatly enhanced. The Viet Minh now control a stretch of 300 miles along the Chinese-Vietnam frontier and will probably soon capture the major remaining western French outpost of Laokay, northwest of Hanoi at the juncture of the Red River and the China border. This latest Viet Minh operation provides no fresh evidence of Chinese Communist intervention, but the size of the attack is probably attributable to the training and material aid received by the Viet Minh from China; elimination of the French border posts will permit a substantial increase in the flow of material aid from China. The military situation in northern Indochina is now approaching one of positional warfare which will permit a Viet Minh build-up of military formations of much more formidable size and armament than those which have been used against the French in the guerrilla warfare of the past several years.

Political Impasse Although recent deterioration in the French military position is largely responsible for the announced departure for Indochina of Minister for the Associated States of Indochina Letourneau, General Juin, Commander of French Forces in North Africa, and the reported intention of Bao Dai to return shortly, there is still no indication that the French have abandoned their belief in the primary necessity for a military solution in Vietnam or are more willing than previously to make political concessions to the Vietnamese. Bao Dai's long-delayed

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return to Indochina will do little to compensate for the blow to Vietnamese nationalist aspirations resulting from the failure of the Indochinese and French thus far to reach agreement at the Pau Conference. The inability of the conferees to resolve their differences; after four months of negotiations, not only has had unfavorable repercussions on relations between France and Vietnam, but has seriously delayed implementation of the ECA program and establishment of adequate administrative machinery in the Associated States. The central issue of the conference has been the long-standing dispute over allocation of customs revenue. As long as the French refuse to make concessions on this point, which the Vietnamese regard as an essential first step to further independence, there is little likelihood of early widespread Vietnamese support of the French effort to eradicate the Viet Minh.

Ambon Rebellion The battle now in progress between Indonesian Government troops and rebel Ambonese on the island of Ambon, near New Guinea, may have unfavorable domestic and international repercussions for the new Republic of Indonesia. The fighting resulted from the Ambonese attempt to establish an autonomous "Republic of the South Moluccas." By initiating hostilities, however, the Indonesian Government has risked international censure for not having attempted a peaceful solution using the good offices of the UN Commission stationed there. Meanwhile, government forces are apparently not having much success in suppressing the rebellion; a prolonged military campaign would be an additional blow to the new state's prestige. The presence in Java of at least 20,000 Ambonese troops who formerly served with the Royal Netherlands Indies Army presents another complication. The Indonesian Government cannot afford to repatriate them under present circumstances and may face serious difficulties in controlling them. Moreover, the Ambonese issue may well prove an obstacle to success of the forthcoming

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Dutch-Indonesian negotiations on the disposition of New Guinea, with: (1) the Indonesians accusing the Dutch of using New Guinea as a base for intrigue against the Indonesian Government; and (2) the Dutch charging Indonesia with having violated The Hague Round Table Agreement by refusing to grant the Ambonese autonomy in a federated Indonesia.

Indonesia and MDAP The decision of the Indonesian Government to reject further military aid through the Mutual Defense Assistance Program (MDAP) emphasizes the strong sentiment in Indonesia for a neutral policy in the East-West conflict. The government feared that acceptance of MDAP aid would lay it open to charges of having sided definitely with the West. Moreover, at a time when the Cabinet is facing a critical vote of confidence, the government did not wish to risk being overthrown by agreeing to MDAP terms, the restrictions of which would be opposed by certain political interests as an impingement on Indonesian sovereignty. The Indonesian decision does not foreshadow abandonment of the past friendly attitude the US.

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LOCAL DEVELOPMENTS

ITALY

Cabinet Changes The recent sharp increase in public criticism of the financial policies of the Italian Government will probably result in several shifts in the De Gasperi Cabinet within the next few months. The immediate occasion of the present controversy is an unauthorized statement of an ECA official warning the Italian Government of the consequences of its failure to encourage long-term investment. The issue itself is not new. The government has long been under pressure to accept the risks of inflation and adopt a program of industrial investment designed to reduce the chronic mass unemployment in Italy. The left wing within the Christian Democratic Party has attacked the government's conservative financial policy, has been gaining influence within the party as a result, and will continue to exploit the issue. The right-wing Socialists, who have criticized the government on the same score, will continue to do so, emphasizing the dangers of extensive unemployment. They may also seek to use the issue as a basis for reuniting all anti-Communist Socialists and may even threaten to withdraw support from the De Gasperi Government. De Gasperi is not likely to make any immediate changes, for in so doing he would in effect be acknowledging the justice of the criticism, but in due course he is likely to reshuffle his Cabinet partly in response to the increased political pressure generated by the present controversy.

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Cabinet Changes The resignation on 9 October of Federal Minister of the Interior Gustav Heinemann removes from the Adenauer Cabinet the one settled opponent of Western German rearmament and the principal representative of German Protestantism. Dr. Robert Lehr, a Bundestag member in Adenauer's Party, has been named as Heinemann's successor. The occasion for Heinemann's resignation is reported to have been his refusal to disassociate himself from the views of Pastor Martin Niemoeller, who recently accused Adenauer of provoking war through his support of German participation in Western European defense. Heinemann, who has maintained extensive personal contacts in East Germany, has long opposed rearmament in any form and has been reluctant to support any other steps that might intensify East-West tension. Besides disagreeing with Adenauer on broad policy, he has contributed to Adenauer's difficulties by insisting that all police questions be placed under the exclusive control of his ministry. Heinemann's departure has cleared the way for the creation of a Commissioner for External Security with Cabinet rank, who will be responsible for the establishment of German military units and the direction of the federal intelligence service. Theodor Blank, a Christian trade union leader, is reportedly slated for this post.

The ouster of Heinemann, one of the leading German Protestant laymen, is likely to alienate Protestant electoral support to a considerable degree, despite Lehr's religious affiliation, and will induce a more hostile attitude toward the Federal Government on the part of the Evangelical Church hierarchy than it has previously displayed. The SPD has already indicated its support of Heinemann in this situation, and may attempt to exploit Protestant anger over the issue to bring about a Protestant-Socialist front of opposition against any form of German rearmament. The likelihood of such a development will be greatly increased if final decision on German contribution to Western European defense is indefinitely postponed.

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