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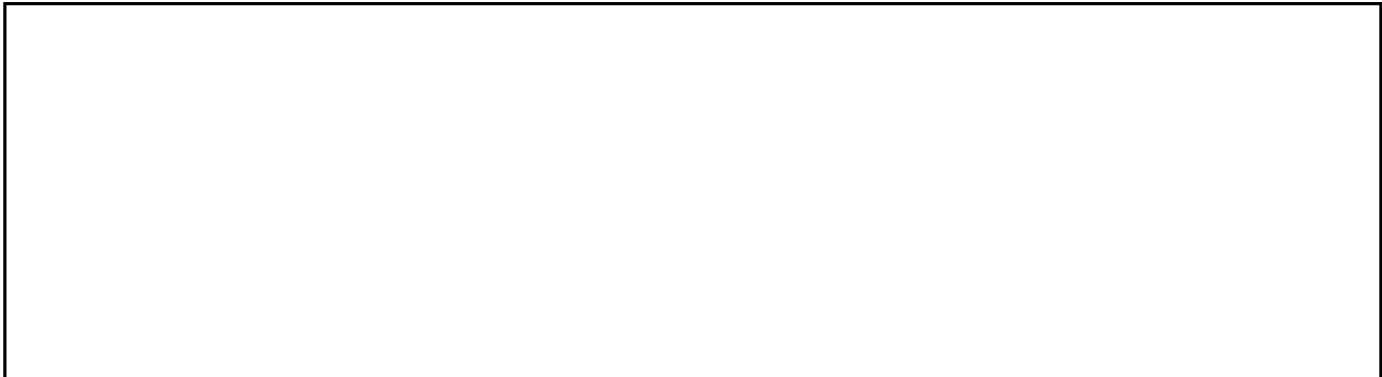
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France's rejection of EDC was a marked setback for the concept of rapid European integration through supranational institutions. There has, however, been continuing progress toward integration by means of closer working relationships among almost all Western European nations. The most recent development along this line is the London agreement of 3 October to broaden the powers of the Brussels Treaty Council.

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THE SOVIET WORLD

The Sino-Soviet communiqué issued in Peiping on 11 October illustrates Moscow's treatment of Communist China as a great power ally capable of managing its own affairs. The communiqué states explicitly that the two governments enjoy a "complete unity of views."

The only military agreement disclosed in the communiqué is for the withdrawal of Soviet forces from the Port Arthur naval base area, and the turnover gratis to the Chinese of Soviet installations there, by 31 May 1955. The communiqué asserts that the truces in Korea and Indochina and the strengthening of Chinese Communist military capabilities have reduced the need for a strong Soviet position in Port Arthur, where the USSR has been maintaining 60,000 troops, 570 aircraft, 12 submarines, and small surface craft.

The agreement on Port Arthur seems connected too with recent Sino-Soviet conciliatory gestures toward Japan. Whereas the Japanese threat was invoked in 1952 as grounds for retaining Soviet troops in the Port Arthur area, the current communiqué looks toward the "normalization" of relations with Japan to take care of this situation.

The Port Arthur agreement may have been aimed in part at embarrassing the United States on the issue of Formosa. The communiqué's language on Formosa questions is mild, does not mention "liberation," and suggests that there will be further Sino-Soviet diplomatic maneuvers, rather than an early Soviet-supported military operation against the island.

In the economic field, the communiqué announces the abolition of the four Sino-Soviet joint stock companies as of 1 January 1955, the projected construction of two new railroad links between the USSR and China, and the granting of new Soviet industrial credits to China.

The abolition of the joint stock companies follows a pattern established in Eastern Europe, where the USSR withdrew from direct administration of such enterprises. Soviet influence may continue to predominate, however, in the Sinkiang mining company, a suspected source of uranium, and in the Dairen shipyard, which has been engaged full time in repairing Soviet ships and building harbor craft for the USSR. Peiping is to pay an unstated amount for the

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- Soviet share of these companies as well as the Sinkiang oil company and SKOGA, the airline which operates three routes between Peiping and the USSR.

There is a surprise in the communiqué's disclosure that the projected Sino-Soviet railroad through Mongolia is to be finished next year.

The other railroad through Sinkiang is not expected to be completed until the 1960's. Peiping started building this line--1,739 miles from Lanchow in Kansu to the Soviet border--in 1952. The USSR is to begin construction from Alma Ata to the Sinkiang border "in the nearest future." The completion of these two projects would reduce the burden on the Transsiberian and Manchurian railroads and would also reduce Soviet and Chinese dependence on these roads, which have been the sole railroad routes into China from the western USSR.

The new Soviet credit to China is for either 520,000,000 rubles or 920,000,000 rubles (\$130,000,000 or \$230,000,000 at the current official rate of exchange); neither the Soviet nor Chinese text makes clear the amount. In either case the total monetary value of Soviet economic aid to China will remain modest. Previous Soviet credits for 1950-1954 were for the equivalent of \$300,000,000. The aid program has, however, included delivery of key equipment not available to Peiping from other sources.

The size of the aid program has been increased to 156 projects, as compared with the 141 projects announced in September 1953.

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SECRET**SOVIET POLICY CONTINUES TO ENCOURAGE INDIAN NEUTRALISM**

Current Soviet policy toward India is designed primarily to encourage India to undertake the role of moderator and mediator between East and West. Moscow and Peiping probably hope that this policy--besides strengthening pro-Soviet attitudes among the Indians--will result in a cohesive, Indian-led bloc of states which could act as an obstacle to further Western defense planning in Asia.

Soviet and Chinese Communist policies toward India have thus far complemented each other. New Delhi was one of the first states to recognize Communist China, and relations between the two governments were highlighted this year by the Sino-Indian agreement on Tibet and the visit of Chou En-lai to New Delhi in June. Prime Minister Nehru is scheduled to visit Peiping in October. Peiping's influence in India is comparatively new, however, and is not so firmly established economically or culturally as is that of the USSR.

Despite a wide disparity between Soviet and Indian political aims, there are a number of important international issues on which the USSR and India have similar views. Outstanding examples are the Soviet and Indian attitudes toward the Manila treaty and the Turkish-Pakistani pact, UN membership for Communist China, colonial issues, Formosa and South Korea. The USSR has recognized India's position on these issues as an effective complement to Moscow's professed policy of "peace" and "coexistence."

India is second only to the Soviet bloc in backing Communist China for a seat in the UN. India's pose as the champion of colonial peoples and the USSR's demand for "national independence of peoples" have led the two powers to side together on colonial issues--usually against the West. There have been indications for some time that the USSR has been moving closer to the Indian position on Kashmir. When the issue is again brought before the UN during this session, Moscow probably will give India full support in charging that American aid to Pakistan has made a settlement impossible.

In the economic field, the USSR has made several offers since the signing of the Soviet-Indian trade agreement last December which contained a vague reference to Soviet technical aid. While these offers are relatively modest, the USSR will attempt to expand economic relations between the two countries and to impress India with Soviet technical achievements.

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The most dramatic gesture has been a Soviet bid to construct a 500,000-ton capacity steel mill. The USSR would supply the required equipment and technicians on a long-term credit with attractive terms. An offer of Soviet credit and technical assistance is also under consideration by a private Indian syndicate mining industrial diamonds. A delegation of Indian agricultural and industrial experts is now touring the USSR. Soviet officials have made overtures for giving technical training to Indian students, and three Soviet specialists on mathematical statistics and electronic computers will work at the Indian Statistical Institute during the coming year.

The USSR has made extraordinary efforts to develop cultural ties with India. Immense prestige was lent to a performance of Indian artists by the attendance of five presidential members and other top Soviet leaders at the Bolshoi theater in Moscow on 30 August. On 6 October, Malenkov received the visiting Indian deputy minister of health and the leader of a cultural group now in the USSR. Such gestures as these have been periodically complemented by Soviet contributions for famine and flood relief.

Neither Moscow nor Peiping has followed up Chou En-lai's hint at the Geneva conference that an Asian collective security arrangement with Orbit and non-Orbit participation might be desirable. Such a move by Moscow or Peiping might--by forcing India to choose between East and West--be harmful to Indian-Orbit relations. India is also unlikely to jeopardize its outspoken neutralist position by accepting military aid from the USSR if it is offered.

Moscow may believe that continued Indian opposition to Western defense planning will influence other states sufficiently to prevent further Western alignments in Asia and weaken those already formed. The successful forging of a neutral, Indian-led bloc of states would satisfy one of the aspirations of the Nehru government and fulfill a current aim of the Communists in Southeast Asia. India has shown no willingness, however, to change its policy in response to Soviet influence. Neither Soviet nor Indian attempts to forge a "third force" bloc in Southeast Asia show signs of being successful.

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SECRET**USSR LIQUIDATING GREATER PART OF SOVIET PROPERTY
IN EASTERN EUROPE AND CHINA**

The Soviet Union's gradual relinquishing of its share in joint companies in Eastern Europe and China is part of a general campaign to enhance the appearance of independence of Soviet bloc members. The USSR is apparently confident that the Eastern European Satellites can carry on industrialization programs without close day-to-day control from Moscow and considers that Soviet long-range economic objectives will not be sacrificed by the withdrawal of direct business participation.

The USSR initially adopted two policies for operating the former German assets in Eastern Europe at the end of World War II. In some cases, Moscow operated the properties as corporate entities; in others, it included them as the Soviet share in Soviet-Satellite enterprises. In joint enterprises, the Satellites had to contribute an amount equal in value to the Soviet share. A Soviet officer was always placed in control. The USSR thus extended its economic control in Eastern Europe at a time when the political control it had over the area was still somewhat tenuous.

In mid-1952, the Soviet Union began to liquidate some of the less important properties it owned in Eastern Europe, including the bulk of the former German firms in Hungary, 66 small Soviet-owned corporations in East Germany, and the joint film company in Rumania. But it was not until August 1953, when the USSR agreed to return without compensation 33 of the 34 important Soviet-owned corporations in East Germany, that a major shift in policy began to emerge. This transfer excluded only the vital uranium-mining enterprise.

On 25 September Moscow announced the sale to Rumania of the Soviet share in 12 joint companies. Although this announcement excluded the two joint enterprises most important to the Soviet Union, the petroleum and uranium mining companies, the 12 companies that were returned account for most of Rumania's industrial production. On 11 October, Moscow announced the return to Bulgaria of the joint ship-building, construction and civil air line companies. Again companies mining nonferrous and uranium ores were omitted from the list. The return of the joint Soviet-Hungarian companies--with the probable exception of the bauxite-aluminum company--seems likely to be announced in the near future.

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The effect of this liquidation on the Satellite economies has varied with the terms imposed by the USSR. In East Germany, the effect was beneficial, since the Soviet corporations were transferred without payment. Hungary, on the other hand, was forced to purchase the returned Soviet companies--although because of the small size of the firms involved, the cost was slight. Rumania and Bulgaria will also be burdened with payments, but the amounts and terms have not been announced. A further strain on the Rumanian and Bulgarian economies may be caused by the withdrawal of Soviet investments in the corporations.

In China, the Soviet share in the four Sino-Soviet joint companies is to be relinquished on 1 January 1955. Compensation for the liquidated Soviet interests is to be made in the form of Chinese exports "over a period of years." In China's case, the four enterprises to be returned accounted for only a negligible part of the economy. As in Eastern Europe, however, the announced rationale for the Soviet withdrawal emphasized that the Chinese economy had matured sufficiently to operate the enterprises without direct Soviet participation.

In Eastern Europe, the USSR will not sacrifice any part of its long-range economic control. Moscow will continue to exercise control through the national economic ministries and commissions, and, at the top policy level, through the party leaders. Most of the Soviet personnel assigned to the companies will probably return home; some, however, may remain and be assigned as advisers at high levels, where their presence would be less conspicuous.

As a gesture designed to impress the West, the local populations and the native Communist parties, the dissolution of the joint companies may prove to be effective propaganda. The joint-company method of Soviet control has long served as a prime example of the technique of Soviet imperialism.

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RATE OF ECONOMIC GROWTH*

Communist China's rapid rate of industrial growth in the first two years of its first Five-Year Plan suggests that the five-year goal of "more than" doubling industrial output by 1957 will be achieved (see table, p. 14). The announced goal of attaining the 1932 Soviet industrial level by 1959 is also expected to be reached.

The industrial output figures just released by Peiping, in some cases considerably higher than previously estimated, and the impressive growth rates reported for the first two years of the plan, suggest that China's industrial progress will correspond roughly to that of the USSR during its first Five-Year Plan which ended in 1932. Because of the high rate of industrial growth, the rate of increase for both agriculture and industry is believed sufficient to permit by 1957 an increase of 25 percent in the gross national product over 1952.

Even by 1957 Communist China will still have only begun the modernization of its economy and will on the whole remain agrarian and underdeveloped. There is a strong possibility, however, that by the early 1960's China will be able to compete with Japan as a major industrial power in Asia. Although it started in 1953 from a small industrial base comparable to that of present-day India, China is now industrializing at a much faster rate.

The situation with respect to electric power, a key industrial item for which fairly complete data are available, is believed typical of Chinese industrial progress. The 1954 power goal of 10.8 billion kilowatt-hours is nearly double the peak annual production achieved before 1949. This called for a 21-percent increase over 1953, which in turn was 26 percent over 1952 output. The electrification part of the Soviet aid program, which should be nearly completed by early 1957, will reportedly result in a doubling of China's 1952 power output.

The 1954 figures are goals yet to be reached. Many unfavorable contingencies affecting production may not have been sufficiently considered in predicting 1954 production.

*Prepared jointly with the Office of Research and Reports.

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For example, the widespread floods have probably affected mining operations and transportation of raw materials, and required allocation of resources for flood relief out of resources scheduled for industrial utilization. However, since China's principal industrial areas--Shanghai, North China, and Manchuria--were little affected by floods, most goals still appear possible of achievement.

The 17-percent increase scheduled for this year over last is approximately half the previous year's growth rate, reflecting a tapering off of production increases after wartorn industries were restored and production rates in many industries approached capacity limits. In the next few years, the growth rate is expected to level off at the relatively high 1954 rate, as new installations under the construction program are brought into operation.

In contrast to the regime's successes in the field of industry, a failure to attain significant increases in agricultural production and a concomitant increase of population since 1952 have reduced per capita food availability in China. This in turn is interfering with the regime's ability to expand further the rate of industrial investment.

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COMMUNIST CHINA'S ECONOMIC PROGRESS, 1949-1954

Item	Percentage Annual Increase in Output			1954 Output Goals	Soviet Output in 1932 (China's 1959 goals)
	1950-1952 Average	1953	1954 plan		
Industrial output	37%	30%	17%		
Agriculture (food crops)	4	-1	-6		
Electric Power	18	26	20-21	10.8 billion kwh	14 billion kwh
Coal	26	9	16-18	81.99 million mt	58 million mt
Pig Iron	124	19	32-36	3.03 " "	6.2 " "
Steel Ingot	126	31	21-24	2.17 " "	5.9 " "
Cement	68	35	19-23	4.73 " "	3.5 " "
Cotton Yarn	27	13	12-14	4.6 " bales	--
Paper	50	15	12-18	.48 " mt	--
Tractors	0	0	0	0	50,640 units
Trucks	0	0	0	0	23,845 units

Note: These are official Communist figures, except on agriculture, for which increases were independently estimated.

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POLITICAL CONDITIONS WORSEN IN HUNGARY

The Hungarian regime is faced with a steadily worsening political situation resulting from failure to provide firm direction in carrying out the year-old, revised economic plans. The government's apparent vacillation and a concurrent relaxation of political controls have encouraged the population to register open disapproval of present Communist policies.

The general attitude of the population has emerged in demonstrations of overt hostility toward the regime and its policies. The defeat of a Hungarian soccer team in an international game, in early July, led to a spontaneous anti-regime demonstration in Budapest involving an estimated 15,000 people. The occasion was seized on by the public to show its dissatisfaction over meat shortages, high food prices, and other hardships identified with government policies. American officials making a flood relief survey this summer were greeted with pro-American demonstrations by numerous peasants. There was another public demonstration against the regime and the USSR at the International University Summer Games in Budapest in mid-August. Moreover, despite the re-establishment of stringent regulations to prevent departures from agricultural co-operatives, peasants have apparently continued to leave.

These demonstrations of popular hostility have been associated with a growing confusion within party ranks and in the government regarding party policies. Local leaders have been criticized for applying party directives so rigidly and zealously as to endanger the welfare of the workers and farmers. They have also been charged, on the other hand, with distorting the party's recent line of "greater liberalism" and permitting discipline to break down.

In mid-September the party political committee issued a communiqué severely reprimanding the minister of construction, Lajos Szijjarto, for failing to comply with government and party directives and for construction delays. Similarly, the deputy minister for crop collection, Tasnadi, was publicly reprimanded for lowering collection quotas, although he was only following established government policy.

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The government has not succeeded in reconciling its professed interest in the people's welfare with the arbitrary shifting of large numbers of industrial and urban white-collar workers to labor shortage areas. During September, possibly as many as 100,000 workers were discharged preparatory to their being shifted to agriculture or other industries. The shifts were so poorly planned that many dismissed workers have not been given new jobs and remain unemployed. According to the American legation in Budapest, the scheduled reduction in force at one plant had to be cut in half because of unfavorable worker reaction. Other reports received by the legation stated that worker resistance to layoffs in several other factories led to police action and arrests.

Local party officials are exhorted by their leaders to regard these problems as merely temporary and as a rational step toward reducing government administrative costs. The current campaign to emphasize nationalism and the increasing effort to create a popular sense of participation in local government affairs, both appear to be designed to counter public hostility. The success of these campaigns is debatable, and they may actually serve to incite the populace further.

As a result of these deteriorating conditions, Hungary faces the coming winter with shortages of fuels, growing unemployment and failures in crop collections. Continuing efforts to rationalize the economy should achieve some beneficial long-term results, but prospects for immediate improvement appear slight. The regime is likely to be faced with further and possibly more serious public demonstrations of hostility.

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THE STATUS OF EUROPEAN INTEGRATION FOLLOWING THE DEFEAT OF EDC

France's rejection of EDC was a marked setback for the concept of rapid European integration through supranational institutions. There has, however, been continuing progress through existing organizations toward integration by means of closer working relationships among almost all Western European nations. (see chart, p.21). The most recent development along this line is the London agreement of 3 October to broaden the powers of the Brussels Treaty Council.

The Movement for Integration

World War II led to an unprecedented surge of both government and private efforts for a united Europe capable of developing collectively greater economic productivity and military strength. The first actual instruments of integration, created in 1948 and 1949, were of the usual intergovernmental type through which member nations take decisions in concert. They were, in the order of their establishment, the Brussels Treaty Council, the Organization for European Economic Co-operation (OEEC), NATO, and the Council of Europe.

Supranational institutions--that is, bodies which make many final decisions without the need for approval by the national governments--became an immediate objective only with the launching in May 1950 of the Schuman Plan, which led to the establishment in mid-1952 of the six-nation Coal-Steel Community (CSC). The CSC is developing what may become part of the apparatus of a future federal government. Meanwhile, it is serving to promote more rapid integration.

The CSC and the proposals for a supranational European Defense Community and a European Political Community were the spearhead of the movement for integration. In view of the steady resurgence of nationalism since 1952, however, the intergovernmental, rather than supranational, approach to integration will probably be emphasized for many years to come. The intergovernmental organizations, two of which are at present making co-operation on West German rearmament possible, have thus far proved to be the only means of drawing Britain closer to the Continent.

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Western European Union and NATO

The Brussels pact of 1948, originally concluded mainly as a defensive alliance of Britain, France, and the Benelux countries against Germany, is, under the new London agreements, to be expanded and revitalized as part of an agreed substitute for EDC. A new agency is to be set up under the Brussels Treaty Council to control the armaments of the Continental members, and the council's decisions on questions involving this agency are to be made by majority vote. With certain reservations, Britain has agreed not to change the size of its forces on the Continent if a majority objects.

Britain had previously refused to consider membership in EDC or other supranational organizations. It felt it could make its present concessions, designed to overcome French fears of a rearmed Germany, only within the Western European Union (WEU).

Existing NATO arrangements providing for integration of forces and of their logistical support make it difficult for any of the Continental nations to take unilateral military action. Moreover, as a result of the London conference, these arrangements may be expanded and tightened. Thus both WEU and NATO demonstrate how organizations which are primarily intergovernmental rather than supranational can still be used to limit national prerogatives.

Council of Europe

The use of existing intergovernmental organizations for promoting closer integration was heartily endorsed at the mid-September session of the Consultative Assembly of the 14-nation Council of Europe. This purely deliberative body at Strasbourg seeks to co-ordinate national policies on common European problems. The British regard the Council of Europe as the most appropriate instrument for promoting the integration idea, and at the recent session they supported a recommendation for tighter mutual control of armed forces and supporting services on the Continent.

Organization for European Economic Co-operation

The 17-nation OEEC is the most important existing organization for promoting European economic stability. Its specific aims are the removal of trade barriers and the

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stimulation of productivity. It commands respect in all the member countries and influences national planning through extensive working-level contacts. Since its decisions, reached by common consent, affect virtually all of Western Europe, the OEEC is able to promote the cause of European unification in the broadest framework, and without the stigma of American "dictation" which had become attached to EDC in the minds of many Europeans.

One of the OEEC's greatest contributions is its continuing effort to obtain full convertibility of currencies. National restrictions on currency exchange, prevalent since the 1930's, are widely regarded as the biggest single obstacle to further economic integration. A big start has been made by facilitating payments among the member nations through the European Payments Union, an offshoot of OEEC. An OEEC ministerial meeting is scheduled for November to consider a broad working-level report on trade payments and convertibility problems.

Coal-Steel Community

The CSC, the only truly supranational organization in Europe at present, will also benefit from the OEEC's achievements. Promoting a common market only in coal, iron, steel, and iron and steel scrap, the CSC is highly vulnerable to clashing decisions by the member nations in the "unpooled" sectors of their economies. A \$100,000,000 American loan granted in March has given it considerable leverage to influence national investment policies, however, and the initially suspicious industrialists are finding that they can live with the new authority.

The CSC High Authority has still not solved the anticartel problem, however, and it faces a possibly critical showdown this winter with the coal cartels on reorganization. Paradoxically, the CSC's position on this issue appears to have been strengthened by the French rejection of EDC. Since then, leaders of some of the governments which had previously supported the cartels have stressed the need for keeping the supranational idea alive through the Coal-Steel Community.

The British, moreover, have decided to give CSC president Monnet a political boost by entering into talks looking toward closer ties between Britain and the CSC. Tentative agreement was reached in late September for the establishment of a joint council with consultative functions, but at present British industry is opposed to any fixed working agreements.

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In the long run, as Monnet has always contended, the CSC can scarcely survive without support from broader supranational institutions. Hence the outlook for the CSC is contingent on the vitality of the supranational idea.

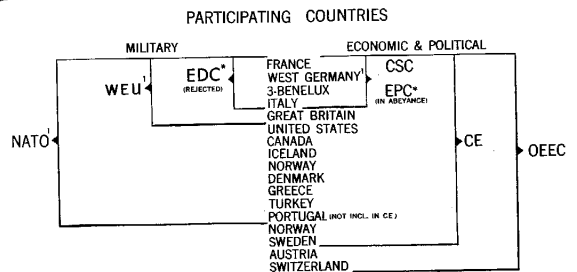
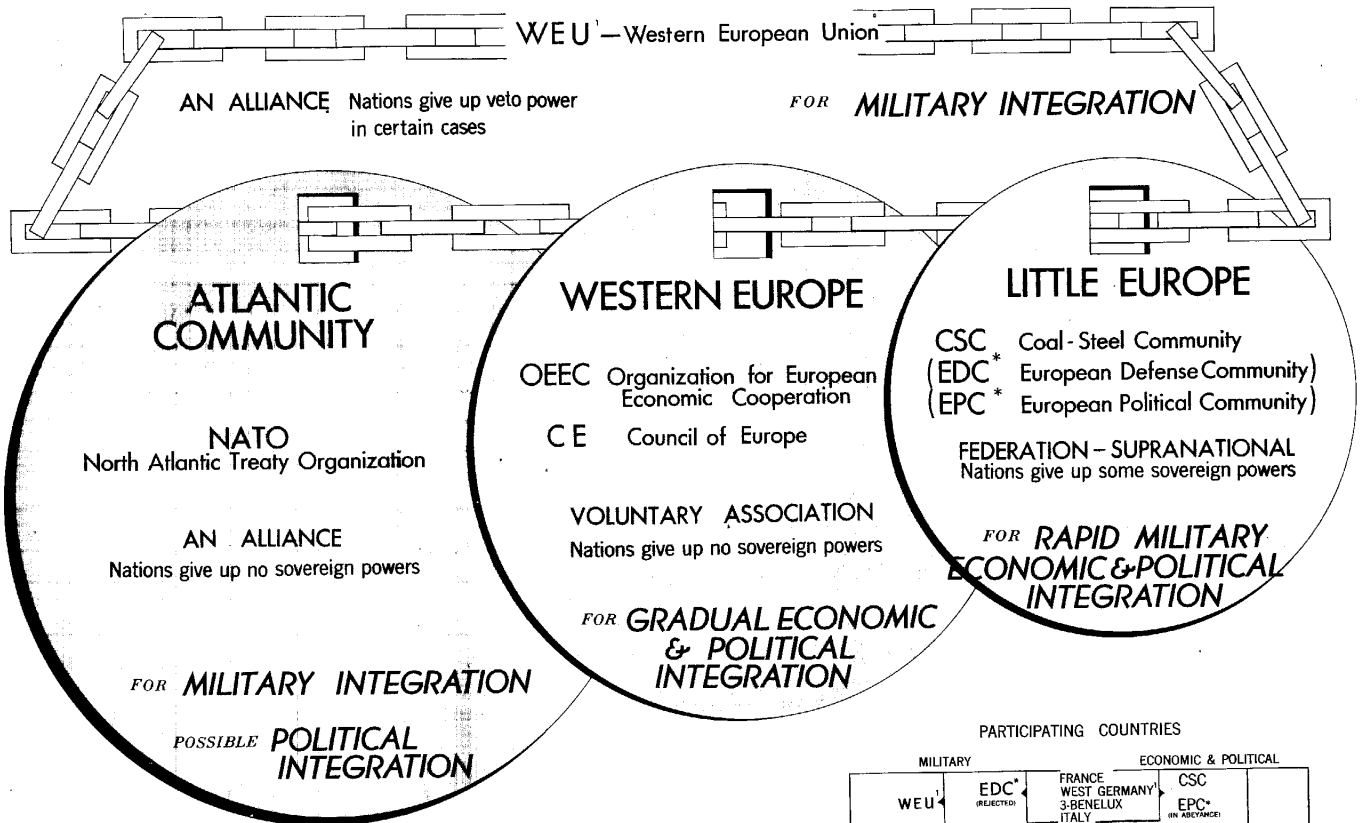
Vitality of the Supranational Idea

Support for the supranational approach to European union has developed deep roots since the Schuman Plan was launched in 1950. The European Movement--the influential association of nearly all the varied private groups promoting integration--demonstrated at its Hague conference in October 1953 that the supporters of supranational integration had gained a preponderant position. These groups are making an intense effort to create both a European patriotism and a broader public understanding of the national and personal sacrifices full federation would entail. Since the French assembly's vote on EDC, public sentiment and government policy in all the other five countries have continued to promote the idea of European federation. The London agreement on a new armaments agency under WEU will give an important fillip to this policy.

The immediate goal of those favoring genuine European integration is election of the CSC's Common Assembly by popular vote instead of by the national parliaments. Such a step is viewed as the most feasible means of creating the embryo of a true European parliament, which would be a basic advantage in overcoming the reluctance of the six national governments to go ahead with full federation. In May they agreed to hold a popular election following EDC ratification. Since the powerful vested interests which fought EDC are less alarmed by the prospect of such a parliament, this plan still has a real chance of being carried out.

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SPHERES OF EUROPEAN INTEGRATION



¹ German membership in NATO, and WEU's powers are considered as envisaged in London agreements.