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PEIPING'S ASIAN TRADE DRIVE HAS POLITICAL GOALS . . . Page 17

Political objectives clearly have come first in most of Communist China's trade negotiations with other Asian countries during the past year. The principal aim has been to help dissociate non-Communist Asian states from the West; in some cases, defiance of American and UN trade restrictions has been encouraged with success.

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THE SOVIET WORLD

Molotov's offer of 20 November to postpone the Soviet-sponsored European security conference if the West will delay ratification of the Paris agreements seems designed to put the blame on the West for preventing an all-European conference, thus justifying a rump Orbit conference in Moscow. Several Communist spokesmen have said that a conference will be held on schedule, with or without Western attendance. The immediate purpose of such a conference would probably be to draw up an "all-European" pact in order to give concrete form to the Soviet proposal which has been only vaguely outlined to Western Europe.

Communist propaganda has emphasized that the Orbit must take measures to defend itself if the West "sacrifices" European security for West German remilitarization. Molotov implied in his statement on 20 November, however, that such Orbit measures may not be considered until after ratification and implementation of the Paris agreements.

So far Moscow has appeared unwilling to make any significant concessions. On the Austrian issue, on which a real concession would cost the USSR less than anywhere else in Europe, Soviet officials of late have not gone beyond vague platitudes. The Czech ambassador in Belgrade expressed his opinion that the USSR might accept an Austrian treaty, for example, and a high Soviet official in Austria spoke optimistically about some "interim" solution.

Speeches at the World Peace Conference which ended in Stockholm on 23 November emphasized German rearmament and the London agreements as the priority propaganda targets. These speeches, rebroadcast by Moscow, also gave some attention to those Asian issues on which American aggressiveness may be alleged. The size and stature of the Chinese Communist delegation reflect Peiping's increasingly important role in international Communist affairs.

On 17 November Peiping announced the arrival of a Viet Minh delegation to discuss restoration of communications and transportation facilities and the promotion of economic relations. Although military aid to the Viet Minh has been continuous, this was the first official hint from Peiping of any forthcoming economic aid program to the Viet Minh.

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There has been no announcement of a Soviet aid program or of a concerted Orbit campaign for economic assistance since the Geneva conference. This is in contrast to the immediate Soviet and Chinese offers of large-scale reconstruction for North Korea following the Korean armistice. The Communist failure to announce a program of assistance to Ho Chi Minh suggests a desire to avoid undermining Ho's appeal in South Vietnam as the sole defender of "unity, independence and democracy," or giving any pretext for large-scale Western aid to South Vietnam.

Inside the USSR, party first secretary Khrushchev, who returned to Moscow on 30 October after a month's tour in China and the USSR, last week resumed junketing activities--this time to Tadzhikistan, Uzbekistan, and Tashkent. Khrushchev's last two trips have been fairly extensively publicized, and, as a result, for the last two months he has been receiving more personal publicity than have other Soviet leaders. While this seems somewhat contrary to the principle of collective leadership, the publicity is at present considered a fairly logical concomitant of Khrushchev's extensive inspection activity.

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CURRENT SOVIET TACTICS ON "ATOMS FOR PEACE" AND DISARMAMENT

Recent procedural concessions by the USSR on disarmament and the "atoms-for-peace" plan have given a "new look" to its position on disarmament. Soviet proposals on a control mechanism, a balanced reduction in armed forces, and the use of the Security Council veto indicate, however, that the USSR remains unwilling to accept any effective disarmament plan.

Recent Soviet tactics have been timed to influence Western defense planning and to give apparent substance to Moscow's world-wide policy on coexistence. The new Soviet disarmament proposal was presented to the UN on 30 September as Western ministers in London were attempting to find a substitute formula for EDC. Similarly, as French and German leaders met in Paris in October, Vyshinsky agreed to join the West in sponsoring in the UN a procedural disarmament resolution reviving the five-power subcommittee for further negotiations.

The USSR has tried to connect the problems of general disarmament, the "atoms-for-peace" plan, and the German rearmament. It has insisted that rearmament of West Germany is incompatible with general disarmament, and has complained that the "atoms-for-peace" plan does not include a ban on atomic weapons. Although Vyshinsky implied on 16 November that the USSR no longer connected the "atoms-for-peace" plan with general disarmament, there will be future opportunities for the USSR to insist again that the two are inseparable.

Moscow's twin objectives seem to be to gain time and to suggest that agreement on world disarmament is now possible. The USSR may believe that it can delay implementation of the Paris agreements at least until five-power UN subcommittee talks are held.

The USSR voted in favor of the "atoms-for-peace" plan on 23 November, probably because of the popularity of the plan, the rapidity with which the West has moved on it, and Moscow's reluctance to bear the onus for sabotaging it now. The Soviet delegate said that his vote reflected the USSR's support for "principles of co-operation in the field of peaceful uses," but not for the provisions which "narrow the scope" of the proposed agency. The USSR can therefore be expected to revive its objections before the plan is carried out.

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The USSR has expressed particular opposition to an agency which would not be directly responsible to the General Assembly and the Security Council. Vyshinsky told Ambassador Lodge on 16 November that the USSR was concerned over possible "leakages" or illegal diversions of fissionable material. He said the USSR was not trying to prejudge the relationship of the proposed agency to the UN, but wanted to make sure it would operate within the charter provisions relating to the role of the Security Council.

Another Soviet objection to the plan is that Communist China, East Germany, and others would be barred from the scientific conference which has been scheduled and from the proposed agency. Vyshinsky made a special effort to open the conference to "all states which desire to participate."

Moscow may attempt to seize the propaganda initiative from the West by making limited quantities of radioactive materials available to some underdeveloped countries before the "atoms-for-peace" plan can be put into operation. The Iranian delegate to a recent locust control conference in Moscow was told that the USSR would make radioactive isotopes and certain unspecified instruments available to Iran for research.

On the question of general disarmament, Moscow has given no hint that it will materially alter its positions on control machinery, reduction of armed forces, or the use of the veto in forthcoming negotiations. On the vital question of a control organ, Vyshinsky opposed aerial surveys and the creation of a supranational organ with powers to impose sanctions. He agreed that the control organ could make recommendations to a state, but that only the Security Council could impose sanctions.

On the reduction of armed forces, the USSR apparently plans to continue its insistence on a percentage cut--which would perpetuate the USSR's advantage. Vyshinsky said on 27 October that the USSR would stand by its one-third-reduction plan "until a better and more effective plan was worked out."

The USSR has not shown that it is especially fearful of nuclear war in the near future. Moscow probably believes that in the long run disunity among the non-Communist nations will allow the Communists to continue to arm while proclaiming the advantages of "peaceful coexistence."

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COMMUNIST HARASSMENT OF OFFSHORE ISLANDS LIKELY TO CONTINUE

Chinese Communist harassment of Nationalist-held offshore islands is expected to continue through the winter. The Communists are currently concentrating on the Tachens, in what may be an effort to induce a Nationalist withdrawal from these island outposts (see map, p. 10). At a minimum, the Communists apparently hope by maintaining tension along the China coast to accentuate differences between the United States and its allies with respect to Nationalist China.

Communist amphibious assaults on all three of the major offshore island groups--the Tachens, the Matsus, and the Quemoy--will remain possible throughout the winter, as the weather generally clears for several days at a time during which an attack could be made.

Assaults on the Tachens and Quemoy would be costly, however, even against Nationalist opposition alone. The Tachens are defended by 11,000 American-trained and -equipped regulars plus 3,000 guerrilla troops. The Quemoy have about 50,000 regulars and 1,350 guerrillas.

Of the major island groups, the Tachens now appear most vulnerable to Communist harassment short of an invasion. These islands are at the end of Taipei's longest supply line, more than 200 miles from ports in northern Formosa.

Communist air power can hamper the Tachen supply line by attacks on vessels approaching the islands and by raids on the one good harbor. The Nationalist air force could do little to prevent such attacks, and the Tachens commander is reported to have been told he can expect little if any air support.

The Communists could also hinder supply operations by artillery fire from islands to the north and west. American advisers believe that fire from these islands could make the anchorage difficult to use on clear days.

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The Nationalists' three destroyers and five remaining destroyer escorts, together with their smaller vessels, have been considered sufficient to assure Nationalist naval superiority over the Chinese Communists. The recent loss of one of its major combat vessels, however, may discourage Taipei from risking further such losses in the Tachens area. Should the Nationalists halt patrols by their major vessels near the Tachens, the islands and shipping to them would be more vulnerable to fire from Communist ships.

The Tachen garrison now has food and general supplies sufficient for 120 days, with enough ammunition for 15 days of continuous fighting. If the supply lines to Formosa were cut, these stocks would fall rapidly to critically low levels.

The Communists could also weaken the Tachen garrison by repeated bombing and artillery attacks on targets on the islands themselves. Such attacks could make it difficult for the Nationalists to keep road nets open. Even more serious would be the destruction of the reservoirs holding the islands' scanty supplies of water.

Short of supplies, and under repeated attacks, the Nationalist garrison on the Tachens would certainly deteriorate in morale. This would be hastened by Communist capture of smaller outlying islands to the north and south of the Tachens. The Yushans and Ichiang to the north, both of which have been bombed, and Pishan and Nanchishan to the south, are lightly held and could be taken by the Communists at any time.

The current Nationalist intention is to stand and make a fight for the Tachens if necessary. If faced with a weakening Tachen garrison and the loss of smaller islands in the Tachens command, however, Taipei might decide to withdraw its forces from the area.

This pattern of Communist harassment could be extended to the Matsus and Quemoy. The latter have been shelled intermittently since early September. The Communists were also reported on 18 November to be preparing artillery positions on the mainland northwest of the Matsus.

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SCELBA CABINET'S INTERNAL DIFFICULTIES GROWING

The Scelba coalition in Italy seems increasingly beset by dissension over domestic policies and personal conflicts among its supporters. Efforts to step up essential socio-economic reform and restrictive action against the Communists are already being seriously handicapped. The uncertain intentions of Amintore Fanfani, secretary general of the dominant Christian Democratic Party, and the disruptive tactics of that party's right wing are factors dimming the prospects for the present government's survival.

The Scelba government is finding the difficulty of operating with a thin parliamentary majority increasingly aggravated by disharmony among its supporters. In early November Vice Premier Saragat actually threatened to pull out of the cabinet unless certain steps were taken to convince his Democratic Socialist Party that the other coalition parties fully supported the government's socio-economic reform program.

A crisis was staved off only when Saragat backed down on these demands--largely because of pressure from within his own party. Fanfani and the secretaries of the Democratic Socialist, Republican, and Liberal parties did jointly reiterate support for the government's original program, but this agreement failed to meet Saragat's insistence that a new program be negotiated and that the Republicans enter the coalition. In addition, Fanfani rejected Saragat's demand that he and other members of the Christian Democratic Party's left wing join the cabinet as a pledge of full support of the government's policies. It is thus still possible that the Democratic Socialists, whose 19 seats in the Chamber of Deputies are needed for a government majority, may withdraw at a later date.

Scelba may seek to strengthen his cabinet by a reshuffle; the American embassy in Rome believes this may be attempted before the end of the year. Fanfani is perhaps the key person in the present situation, and his actions may determine whether the present government survives and the orientation of any successor. Fanfani has recently been devoting much time to reorganizing and revitalizing his party to cut down the Communists' popular appeal, particularly in south Italy.

Fanfani is generally considered an opportunist. There are indications that despite his protestations of support for the Scelba coalition, he is working for a change of government, possibly to a purely Christian Democratic one based on an alliance with the right or even to one based on an

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alliance with the Nenni Socialists. If his intentions are actually along these lines, he would clearly strengthen his position by remaining outside of the cabinet now and allowing interparty frictions to discredit the present coalition.

If the present four-party arrangement is dissolved and the Nenni Socialists continue unwilling to break with the Communists, the Christian Democrats will be compelled to seek rightist support for a parliamentary majority. The right wing of the Christian Democratic Party has long pressed for such a move. Giuseppe Togni, a right-wing leader, is reported to be seeking support for the formation of a united anti-Communist front spearheaded by the Christian Democrats, with himself as "spiritual leader" and "front runner" for former premier Pella, another right-wing leader. Togni is said to have the support of the Vatican and of Catholic Action leader Gedda, who has consistently favored a Christian Democratic alliance with the right in an anti-Communist crusade.

Developments over the past six months indicate that a Christian Democratic government based on rightist support would rest on precarious foundations. The Monarchists have split into two parties as the result of personality conflicts, and there are at least three factions in the neo-Fascist Italian Social Movement with strongly divergent views. There is even doubt that the rightist parties, despite their protestations, would wholeheartedly back a program to crack down on the extreme left.

Most important, a Christian Democratic alliance with the right, committed to drastic action against the Communist Party and a soft-pedaling of land and tax reform, would probably greatly increase the leftward trend among the electorate, some 40 percent of which now supports the Communists and Nenni Socialists. Alliances of the center and rightist parties for various local elections this past year have in some cases resulted in a net increase--partially protest votes--for the leftists. A center-right alliance on the national level now would probably lead to further gains for the leftists in the 1956 local elections, and might even lead to a leftist victory in the next national elections, scheduled for 1958.

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CURRENT SITUATION IN IRAN

Now that the oil dispute with Britain has been settled, the Iranians must face up to long-neglected problems of economic and social reform, and of developing a sound military establishment.

Effective political opposition to Prime Minister Zahedi's regime has not yet developed. Centers of antagonism have evolved around individuals and Zahedi's relations with the Shah, which have been uneven. Basic differences which were suppressed in the interest of the oil settlement are again coming to the surface. Special interest groups will now increase their pressure for legislation favoring tribes, landlords and merchants. Demands for sweeping reforms are being voiced in the Majlis as its members begin to goad the government for immediate results in tax reforms, education, health and labor.

The Senate and the Majlis are already disagreeing over the way to invalidate some of the legislation passed in the Mossadeq era. Zahedi probably will never again be able to drive through legislation by as large a majority as that which he and the Shah managed to achieve for ratification of the oil agreement.



The prime minister is confronted immediately with the rising cost of living, foreign exchange shortages, and the need to stabilize the currency. Additional funds are necessary to meet budget requirements and probably for an increase in government workers' pay. Although Zahedi has promised that oil revenues will be devoted exclusively to long-range development programs, as provided by law, he will almost certainly feel compelled to divert some of the oil income to immediate needs. Such action is in part dictated by traditional Iranian unwillingness to increase government revenues by such means as tighter enforcement of income tax laws and closer controls over foreign exchange, which would strike at the prerogatives of the classes controlling the government.

Zahedi and his cabinet are trying to draw up a program with the Economic Council for co-ordinating all economic and financial activities of the government. The purpose of the program would be to ensure the best use of American aid and

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oil revenues. Bills will be submitted to the Majlis for reforming the land laws and for reorganizing the Tobacco Monopoly, the Customs Department, and the Income Tax Bureau in such ways that these three major sources of revenue will be able to provide funds sufficient to meet most of Iran's normal administrative expenses.

Iran will receive about \$420,000,000 in oil revenues by January 1958. The United States announced on 2 November that it was making available \$127,000,000 in gifts and loans to tide the country over the three-year period prior to its receipt of maximum annual oil revenues. About \$53,000,000 of this amount is to be used for short-term development projects, and this may ease some of the popular disappointment which is expected when oil operations fail to produce immediate prosperity.

The effect on the armed forces' morale of the recent Tudeh roundup--which resulted in the conviction of 70 officers and the execution of 24 for treason--is not clear. Presumably the arrest of nearly 500 officers, many of whom apparently had never been under suspicion before, will tend to make the remaining officers suspicious of each other. However, the prompt trials and convictions may ultimately strengthen the armed forces by convincing the majority that the government is able and willing to deal with treason.

The armed forces are considered loyal to the Shah and the government at present, and Zahedi should encounter few difficulties with the army as long as the Shah supports him. The Shah's ambitions for the army are unrealistic, however. Though some military improvements are possible with American aid, a completely modernized and mechanized army, such as the Shah wants, is beyond Iran's ability to finance now or support in the future without heavy and continuing foreign assistance.

Iran's development and security depend on the regime's ability to win widespread support in the next few months for long-range, integrated economic and financial planning which will continue even though government personalities change. The Shah's support for a progressive program is essential. Plans for modern revenue laws, a rigorous economic program, and a sound military establishment will clash with traditional Iranian laxity and privilege. Progress will be slow at best.

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PEIPING'S ASIAN TRADE DRIVE HAS POLITICAL GOALS

Political objectives clearly have come first in most of Communist China's trade negotiations with other Asian countries during the past year. The principal aim has been to help dissociate non-Communist Asian states from the West by concluding formal trading arrangements and, in some cases, by encouraging defiance of American and UN restrictions on trade with Communist China. In promoting this program, Peiping has agreed to purchase--at considerable expense--commodities not required by its own economy.

All of the Asian countries with which Peiping is now trading are primary producers and their economies are not complementary to that of the China mainland. Thus Peiping's three general trade agreements--those signed with Burma in April, Indonesia in September, and India in October--involve commodities which China has never bought in significant quantities.

Peiping is tapping scarce reserves of foreign exchange to acquire rice--which it does not need--from Burma, in order to ease Rangoon's surplus rice problem and thereby gain Burmese good will. The current contract provides that Burma is to sell China 150,000 tons of rice, an item which Peiping exports at a rate of about 500,000 tons a year.

Peiping's political purposes in Indonesia, too, have been furthered through trade relations. Although Indonesian rubber was not listed in the formal agreement as a commodity to be traded, Peiping imported 6,000 tons in August, and may have contracted for more. Having thus induced Djakarta to violate the UN embargo on rubber, the Chinese Communists may be able to break down Indonesian resistance in other respects as well.

The Sino-Indian trade agreement includes many manufactured items which neither country is in a position to export in large quantities, and the items that are available for export are not in great demand in either country. At present there seems to be little chance of a significant expansion of trade beyond the 1953 figure of \$11,000,000, but Peiping's political aims will probably be served by the trade agreement.

The 1952 Sino-Ceylonese rice-rubber agreement, which contravened the American aid agreement as regards the Battle Act, has encouraged other Asian nations to disregard trade controls. As in Burma, the Chinese are accepting an economic loss

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on this trade, which has been very profitable to Ceylon. This year, as in 1953, Peiping has paid Ceylon an estimated \$15,000,000 premium for 50,000 tons of rubber--despite the fact that it is able to purchase rubber at world prices through the USSR, which has failed to buy its quota allowed by the West.

The Ceylonese political view of Communist China, however, has apparently not been affected by this trade. The Ceylonese premier has frequently stated that his government is interested only in trade and not in expanded political relations with Peiping.

A political motive is also apparent in Peiping's trade policy toward Japan, the only Asian subscriber to the CHINCOM agreement on trade controls. Exploiting the pressure in Japan for large-scale trade with Communist China, Peiping has offered to barter foodstuffs and industrial raw materials needed by Japan in return for embargoed items.

The Communists are seeking primarily to induce Japan to oppose more strongly than it has thus far done the present level of CHINCOM controls, to which Tokyo adheres--unwillingly--as a result of American pressure. Peiping's offers to Japan are not believed to be motivated by an urgent need for industrial goods, which China can now generally procure from the Orbit on satisfactory terms. Peiping is also attempting to use the prospect of expanded trade as an inducement for Japanese diplomatic recognition of Communist China, on the calculation that recognition would facilitate Communist efforts to entice Japan into a "neutralist" position.

Peiping has not yet attempted to conclude trade agreements or to foster trade artificially with the Manila pact nations, which have made clear their anti-Communist position. Communist China's trade with them consists largely of heavy purchases of Pakistani cotton and Australian wool, both essential to Peiping as industrial raw materials.

Peiping's prospects for political gains from its trade are likely to continue limited by two basic economic considerations: Peiping prefers trade on barter terms, but is unable to offer much in the way of acceptable goods for trade.

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