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# CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY  
OFFICE OF CURRENT INTELLIGENCE

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**PART I**

**OF IMMEDIATE INTEREST**

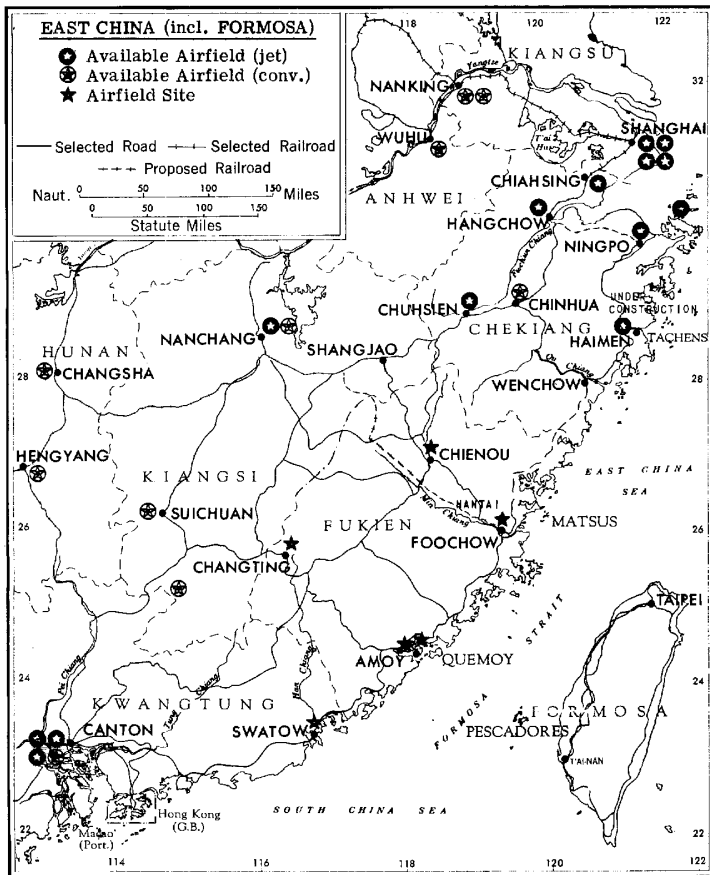
**OFFSHORE ISLANDS  
SITUATION QUIET**

There has been no significant military activity in areas near the Matsus and Quemoy during the past week.

Light, sporadic shelling of Nationalist positions on the Quemoy continued, but there was no action against the Matsus.

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The Chinese Nationalist 84th Division, considered a fine unit by American advisers, is now in place on islands in the Matsu group. It will take some time, however, for the division to ready defenses against a possible Chinese Communist assault.

Exploratory cease-fire talks between Soviet, Chinese Communist, British and Indian officials have apparently been suspended as a result of Chinese intransigence. Peiping has evidently continued to refuse to modify its claim to all Nationalist-held territory, or to renounce the use of force in pressing that claim, or to attend any international conference

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in which Nationalist China is represented.

A Peiping spokesman on 18 March publicly reaffirmed that the Chinese Communists "will go steadily ahead with our just cause of liberating" Formosa and the offshore islands, and that "the 'two Chinas' fraud--the American and British

versions alike--will end up nowhere."

Radio Peiping on 20 March derided any American hope of a "quick victory" through the tactical use of nuclear weapons, and asserted that the United States did not in any case intend to "renounce weapons of mass destruction." [redacted]

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**FRENCH URGE EARLY PREPARATION FOR EAST-WEST TALKS**

On the grounds that he needs every possible weapon to get the French Council of the Republic to approve the Paris agreements, Premier Faure on 22 March handed the American chargé and the British ambassador in Paris an aide-memoire calling for early convocation of a working group to prepare for talks with the USSR.

Faure said he and Foreign Minister Pinay undertook a moral commitment to work for early East-West talks when they pressed for prompt and unconditional ratification of the accords. Council approval is expected by 26 March.

Many Frenchmen accept former premier Mendes-France's implied thesis that negotiations with the USSR after ratification can still stymie German rearmament. Faure himself thinks that an agreed approach to the USSR should be made as soon as possible. Some Frenchmen are still thinking in terms of a con-

ference in May as proposed by Mendes-France.

A tripartite study group was originally suggested by Mendes-France but the proposal was sidetracked during the government crisis in February.

Faure stated that he envisaged initially only a tripartite group, excluding West Germany. Temporary exclusion from the working group would annoy the West Germans, but would probably be accepted by Chancellor Adenauer once the French have ratified the accords. London's reaction to the proposal will depend on its acceptability to Bonn.

German president Heuss signed the Paris accords on 24 March, thus completing action by the Bonn government.

Even if the court on 28 March should agree to accept the Social Democratic petition, most legal observers agree that the case is so weak as to present no threat to the accords.

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**VIETNAM SECTS SERVE  
"ULTIMATUM" ON DIEM**

Premier Diem's plan to deal with the Vietnamese sects by buying off certain commanders in the hope that the army can then deal with the remainder is facing a setback. Those bought off do not always stay bought and the army is in no shape to play its role.

The continuing intrigues of the sects are not likely to result in the fall of the government, but they are preventing it from getting on with the task of building the political and economic strength necessary to deal with the Viet Minh.

The sects stepped up their political pressure with a joint "ultimatum" on 20 March, calling on the government to reconstitute itself in an unspecified manner within five days. Failing this, the signatories threatened to "appeal to the people."

The ultimatum bore the signatures, among others, of the Cao Dai generals Phuong and The, who had not joined in an earlier antigovernment manifesto. The wavering attitude toward the government of these individuals illustrates the sort of difficulty Diem faces.

In February, General The declared his loyalty to the government in a much-publicized ceremony in Saigon. Since that time he has been the recipient of more than half the premier's confidential funds and has deployed his private army of some 2,000 men in a manner designed to offset the influence of the Binh Xuyen forces which have remained hostile to the government.

On 20 March, General The reopened the question of his loyalty to the government by signing the "ultimatum"--and Vietnamese army forces stationed near Saigon suddenly found themselves uncomfortably sandwiched between forces of the Binh Xuyen and of General The.

Meanwhile, Diem admits that army morale is low. He attributes this to the arbitrary dismissal of officers by the defense minister. The latter has expressed his fear that Diem will insist on a tough line against the sects and made it clear that he has no stomach for a showdown fight against them.

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## PART II

NOTES AND COMMENTSUSSR Charges West Is Avoiding Big-Power Negotiations

Prime Minister Churchill's disclosure of his correspondence with Molotov last summer and the State Department's publication of the Yalta documents have been used by Moscow to argue that Britain and the United States are seeking to avoid great-power talks which might ease international tension.

This Soviet reaction suggests that the USSR is trying to establish the position that it will not be to blame if it refuses to negotiate on European issues after ratification of the Paris accords.

The USSR probably considers its negotiating position weak because of its basically uncompromising attitude on the German and Austrian issues, which would be the major subjects of new four-power talks. The Foreign Ministry delayed for six months before agreeing to the Berlin conference of February 1954.

The present propaganda line--in the context of Soviet statements that ratification of the Paris accords would make negotiations pointless--indicates that a prolonged period of stalling will follow ratification of the accords. At the same time, Moscow can be expected to dangle the possibility of talks whenever this seems likely to interfere with implementation of German rearmament.

Following Churchill's disclosure of his exchange with Molotov, the Soviet govern-

ment released the text of the correspondence. Pravda published a sharp attack on Churchill which was in line with a recent hardening of the propaganda tone toward Britain.

Churchill was not only blamed for abandoning his proposal that he and Molotov meet, but his whole public campaign for top-level talks was attacked as insincere and not aimed at lessening tension. According to Pravda, Churchill's various calls for conferences were merely intended to strengthen Britain's bargaining position in relation to the United States.

Ambassador Bohlen has commented that the correspondence last summer shows that the Soviet government, while desiring to exploit differences within the capitalist world, was not prepared to modify its policy in order to take advantage of even such an outstanding opportunity as offered by Churchill's initiative. Instead, Moscow first answered the prime minister cautiously and then interjected the European conference proposal while the correspondence was still in progress.

American publication of the Yalta papers was attacked as part of Washington's crusade against the Yalta agreements designed to further American aggressive policy. The agreements were described as the foundation of postwar co-operation among the big powers. Pravda claimed that the United States, by trying to discredit the Yalta agreements, was seeking to discredit the very idea of great-power talks.

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Austria May Support Sanctions  
Against New Anschluss

The Austrian government, in an effort to ascertain and meet Moscow's terms for a state treaty, is seemingly prepared to accept an arrangement which would call for automatic sanctions by the big powers in the event of another German-Austrian Anschluss.

any West German attempt at an Anschluss would be blocked.

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Chancellor Raab, in a radio address on 20 March, suggested that the four occupation powers guarantee Austria against "any possible" outside danger.

The Austrians are clearly willing to make considerable concessions to Moscow to get rid of the occupation. Actually, however, they have faint hope of success and their present diplomacy is aimed largely at denying Moscow a cheap propaganda victory.

No evidence exists that Moscow is really interested in an Austrian treaty. The purpose of Molotov's statement on 8 February, and his diplomacy since then, may be merely to delay implementation of the Paris treaties by getting the West involved in new Austrian negotiations.

There is also a possibility that the USSR may intend to adopt a harsher policy in Austria in the near future, and that such a policy would be "justified" by blaming the West for failure to reach agreement at this time on a treaty and guarantees against an Anschluss.

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Thus far, however, the Austrians have failed in their efforts to obtain clarification of Molotov's statement before the Supreme Soviet on 8 February that four-power "measures" to guarantee against another Anschluss would facilitate the conclusion of an Austrian treaty. Communist newspapers in Austria continue to insist that the provision against an Anschluss in the present draft treaty is only a "paper guarantee" and hence inadequate.

The Austrians evidently believe that Molotov wants a four-power agreement that

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Japan-USSR Talks

Prime Minister Ichiro Hatoyama has tentatively selected Shunichi Matsumoto, former ambassador to Great Britain, to replace Arata Sugihara as head of the Japanese delegation in the forthcoming Japan-USSR talks.

The switch was necessitated by the eleventh-hour appointment of the nationalistic Sugihara as Defense Board chief following sustained and noisy opposition by the Socialists to the prime minister's first choice for the defense post, former admiral Nomura.

The designation of Matsumoto, a career diplomat who resigned his post to run in

the 27 February lower house Diet election, probably represents a compromise between Hatoyama and Foreign Minister Mamoru Shigemitsu.

Matsumoto is reported to be on friendly terms with both Shigemitsu and Sugihara, the prime minister's personal foreign policy adviser. Matsumoto is likely to take a stronger bargaining position with the Russians than Sugihara.

Meanwhile, Japanese officials in Tokyo continue to manifest "nervousness" over Moscow's failure to confirm New York as the site for the negotiations.

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Possible Disagreements on New Soviet Appointments

Uncertainty or disagreement among Soviet leaders concerning ministerial appointments is suggested by the apparent delay in announcing the appointment of N. A. Mikhailov to succeed G. F. Aleksandrov as USSR minister of culture and by the continued vacancy of the important post of USSR minister of agriculture.

Rumors of Aleksandrov's removal had been current in Moscow since 10 March. His failure to appear at a recep-

tion given by the Ministry of Culture on 13 March suggests that he was removed before that date, but no official announcement was made until 21 March.

Difficulty in reaching agreement on the appointment of Mikhailov--who had been Soviet ambassador to Poland--may have caused the delay.

Mikhailov, like Aleksandrov, has long been considered a Malenkov protégé. He was elected to the party presidium and

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secretariat in October 1952 but was removed from these bodies when their size was reduced in March 1953. On the day after Stalin's death, he was named to the key post of Moscow oblast party first secretary, replacing Khrushchev. At that time, Malenkov was ranking party secretary, ranking member of the party presidium, and chairman of the Council of Ministers.

Mikhailov was appointed ambassador to Poland in March 1954 following a trip to Warsaw, made with Khrushchev, as a member of a Soviet delegation to the Polish party congress. It is possible that Khrushchev was responsible for Mikhailov's removal from the key Moscow secretaryship and transfer to Warsaw. If that is the case, his return to Moscow suggests that Khrushchev is either willing to accept or unable to prevent the appointment to important posts of persons formerly associated with Malenkov.

The Ministry of Agriculture has been without an

official head since 3 March, when I. A. Benediktov was transferred from that post to become USSR minister of state farms. In the past, it has been usual to designate a successor simultaneously with the removal of a minister.

The post may already have been filled, and the official announcement temporarily withheld. It is also possible that the Agricultural Ministry is being reorganized, as recommended by Khrushchev at the January party plenum, and that appointment of a new minister has been delayed pending completion of the reorganization.

This post has pivotal significance in agricultural administration and is one with which Khrushchev would presumably be especially concerned. Failure to fill the vacancy in the near future would tend to indicate conflicting purposes within the top leadership and, like Mikhailov's appointment, would suggest that Khrushchev's authority over important personnel assignments is not unlimited.

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Soviet Forces  
Receive New Medium Tank

The re-equipment of Soviet units in Germany with a new medium tank, beginning in the autumn of 1954, probably follows re-equipment programs for units inside the USSR. This tank, probably the T-54, seems to be a significant improvement over the T-34 which has a 85mm gun developed in World War II. (For a discussion of the re-equipment program in Germany, see p. 1, Part III.)

The USSR, conscious of its leadership in tank design, has maintained close security over postwar developments in this field.

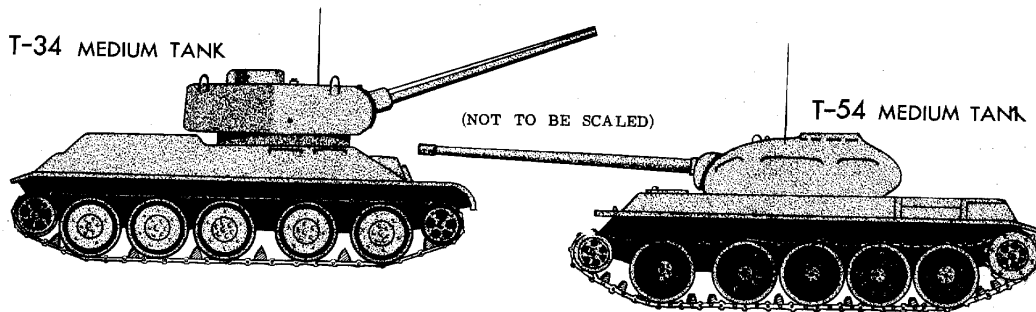
When the new tank began to appear in Germany last autumn, nearly six years after the T-54 began to be produced, little information on its characteristics had been obtained. It was never shown in parades and was not used during the Korean war.

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	T-34/85 * (model 1943)	T-54 ** (model 1949)
WEIGHT (short tons)	35	40
HEIGHT (feet)	7.9	7.8
HULL LENGTH (feet)	19.6	19.8
WIDTH (feet)	9.8	10.8
GROUND PRESSURE (pounds p. sq. inch)	11.4	11.35
MAIN ARMAMENT	85mm gun	100mm gun
AMMUNITION CARRIED (rounds)	56	34
SECONDARY ARMAMENT	2 7.62mm mg's	2 7.62mm mg's and 1 12.7mm AA mg
FIRE CONTROL	Optical telescope	Optical periscope
ENGINE (horsepower)	493 diesel	512 diesel
MAX ROAD SPEED (mph)	35	30
COMBAT RANGE (miles, main tanks)	190	225-250
ARMOR: Front (inches)	1.8	3.5 est.
Turret (inches)	3 max.	?
Sides (inches)	1.8	?
CREW	5	4

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In general, the new tank has a slightly lower, wider silhouette than its predecessor, a more rounded turret set closer down on the hull, and a gun which is probably of higher velocity and larger caliber. Its diesel power plant has been improved somewhat, its armor undoubtedly has been strengthened, and it may incorporate improved transmission, steering and gun-laying systems.

Estimates of current Soviet medium tank production, based on fragmentary evidence, suggest a rate of between 3,700 and 6,200 per year. On this basis, the total number of T-54's produced through the end of last year would be between 18,000-20,000 tanks and 28,000-35,000 tanks.

These estimates seem high in comparison with the total of approximately 18,000 medium tanks authorized in the present tables of organization and equipment for the Soviet army's 175 line divisions, but stockpiling may account for a large portion of T-54 production.

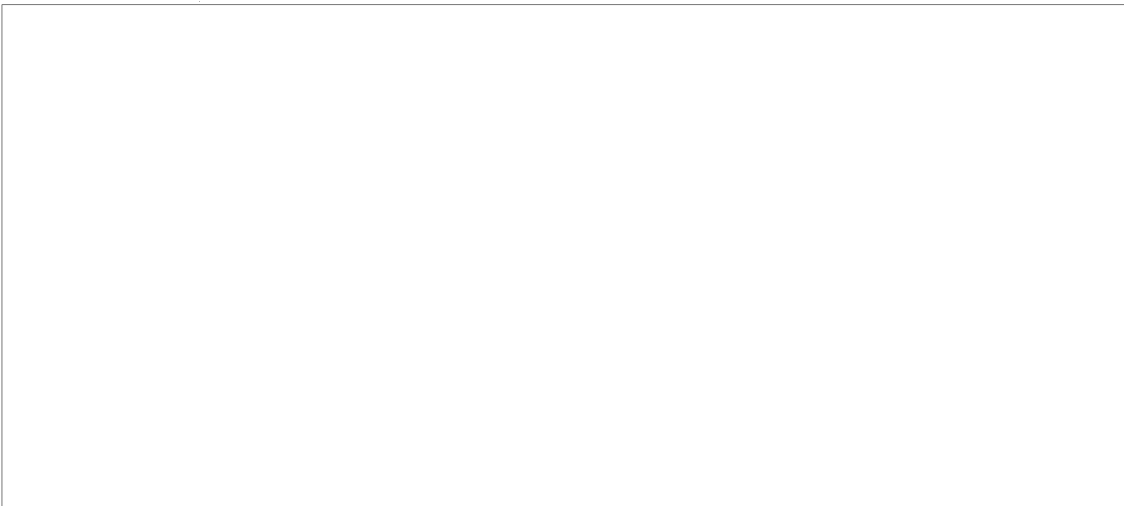
The re-equipment of tank units in Germany probably follows similar programs for units inside the USSR. Despite a lack of positive identification, it is believed probable that substantial numbers of T-54's have been issued to units in key border areas from which Western observers are excluded.

As early as 1951, Soviet personnel allegedly were told that new medium tanks were in standard issue, but only to units within the USSR. The appearance of the T-54 in Germany may well indicate that a still more improved model has been developed.

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Food Shortages and Unrest  
In East Germany

Recent reports indicate increased tension in various localities in East Germany.

Some uneasiness has been noted among the construction workers of East Berlin, who are generally credited with setting off the riots of June 1953.

It is probable, however, that resistance elements in East Germany are not well enough organized, and that the popular mood is too dispirited to bring about an uprising comparable with that of two years ago.

The growing unrest is probably due primarily to food shortages caused by poor sugar and grain crops in 1954, the chronically inefficient distribution system, faulty administration, and possibly a change in the food import program. Food is scarcer now than during the same critical period last year, when an unusually severe winter had caused a serious supply situation.

The shortages, which have been noted in basic as well as less essential categories of food, probably will become more serious during the next few months.

Only an undertone of discontent is evident at present. Under the pressure of the serious food situation, however, scattered strikes and other overt expressions of opposition to the regime may result from the government's plans to increase labor norms, its emphasis on recruiting for paramilitary training, its stiffening attitude against the churches, and its greater emphasis on heavy industry.

There has been no substantial change in the uneasy peace in Berlin, where controls on the free movement of persons between the East and West sectors, tightened during the Christmas holiday season, were relaxed on 17 January. Reports in January and February that West Berliners working in the East sector would be discharged within a short time have not been borne out. The rate of discharge of these employees is not yet exceeding the normal turnover.

The comparatively soft policy in Berlin may be dictated in part by fear that a harsher attitude might rouse an already disaffected populace to increased resistance.

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Food Supply in Soviet Cities

The American embassy in Moscow reports that food supply in the Soviet capital and in the major cities of the western Ukraine is showing no improvement over last year.

As of mid-March, the situation in some cities was somewhat worse than during the same period in 1954.

The average citizen in these areas is thus faced with a daily diet which does nothing to convince him that, after 18 months of major effort, the regime's programs to expand agricultural output have made any real progress.

In the eastern Ukraine, lower Volga region and possibly other areas where droughts occurred during the 1954 growing season, severe food shortages may develop in April and May unless supplies are received from elsewhere.

The total food supply available for consumption in the year ending 1 July 1955 in the USSR as a whole should be about 2 to 3 percent greater than in the preceding year, thus enabling the government to correct deficiencies in drought-stricken areas without major sacrifices in other parts of the country.

In Moscow state stores, food supplies this spring continue substantially at last year's level, with the exception of meat. [redacted]

[redacted] the supply of beef "has not been so short in nine years."

The drive to double the number of livestock in the Soviet Union by 1960, which Khrushchev announced in

January, may result in a temporary reduction in slaughtering so as to improve future supplies.

Meat has always constituted a relatively small portion of the total Soviet diet, however, so that shortages do not cause severe or unaccustomed hardships to the population.

Bread, the staple of the Soviet diet, appears to be in good supply in Odessa and Kiev, and in sufficient though somewhat scarce supply in Kishinev, the capital of the Moldavian SSR. Queues have frequently been observed in that city in front of stores selling bread.

The meat supply in the state stores of all three cities has been very poor, but supplies on the free market are good and prices are about the same as last year.

Considerable shortages of sugar are reported in the western Ukraine, as well as limited shortages in Moscow, probably because the production of sugar from beets in 1954 was about 200,000 metric tons less than in 1953.

Sugar shortages in the Soviet Union probably will be aggravated by a drop in imports from Eastern Europe this year, since bad weather caused poor sugar beet crops throughout the Satellites. Imports last year from the Satellites amounted to over 450,000 tons.

In an apparent attempt to alleviate this impending shortage, the Soviet Union concluded a contract in February 1955 with Cuba for the import of about 200,000 tons of sugar. [redacted]

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North Korea's Food Problem

A serious food shortage has forced the North Korean government to take extreme measures to increase production and to distribute food more equitably in 1955.

The food shortage in urban areas was revealed in October when the regime abolished all private retail trade in grains to curtail widespread speculation. The situation grew worse rather than better, however, and the government reinstated urban food rationing on 10 March.

Natural calamities and an overzealous and unpopular collectivization program, aggravated by continuing shortages of fertilizer, farm equipment and draft animals, combined to limit 1954 grain production to 86 percent of assigned quotas.

Floods, severe cold weather and early frosts caused crop failures which impoverished many farmers and forced the regime to waive defaulted taxes and loan repayments.

Pyongyang has also had to release 100,000 tons of state-held grain to farmers, an amount equivalent to the grain sent as aid from Communist China during 1954.

Japan-Orbit Trade Relations

The impending visit of a 39-man Chinese Communist trade mission to Japan will provide Peiping with many propaganda opportunities.

The Japanese government has limited the places the mission may visit to Tokyo, Nagoya,

Food production failures are apparently in part attributable to an overemphasis on collective farming. Pyongyang announced in January of this year that almost one third of all farmers had been drawn into co-operatives. The number of such enterprises has increased from about 100 at the time of the armistice to more than 10,000.

This hasty collectivization program is reported to have aroused much antagonism, but it continues despite Pyongyang's admission that the nation's experience in co-operative management is insufficient.

To prevent a shortage this year the regime is strenuously attempting to improve the production of foodstuffs. The government offered on 2 March incentive payments of extra rations to those co-operatives which overfulfill their quotas in farming, livestock and fruit production. North Korean propaganda has also stressed an increase in the fish catch.

Increased food production would make it possible to devote more Orbit aid to rehabilitation and industrialization. \_\_\_\_\_ (Concurred in by ORR)

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and Osaka. It is possible, however, that Tokyo will rescind this limitation when the Chinese Communists reach Japan. There will probably be mounting demands by Japanese Communists, businessmen and others, and by the Chinese that this be done.

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Reports indicate that the mission hopes to visit over 50 factories in the Osaka-Kobe area alone.

The Foreign Ministry has already bowed to a Chinese demand by allowing special entrance permits to list the mission members as nationals of the People's Republic of China.

Efforts by the government to form a representative and conservative Japanese group to negotiate the proposed unofficial trade agreement with the Chinese mission have failed. The Japanese Chamber of Commerce and other conservative groups have declined to participate--because of the prominent role played by pro-Communist Diet members and trade promoters--and this may reduce the impact of the mission's visit.

Laos

Premier Katay of Laos has stated that he intends to continue negotiations with the Pathets and preparations are being made to receive them in Vientiane.

Katay blames the Indian truce chairman for the dragging out the negotiations, and says that the royal government

Cambodia

King Sihanouk's abdication and assumption of a power-behind-the throne position has

The government has adopted an official "hands off" attitude toward the Chinese delegation.

The Chinese delegation, led by the vice minister of trade, includes a number of government officials, and Hatoyama's associates will undoubtedly seek "off the record" economic and political discussions. Moreover, according to a Japanese press report of 21 March, the Chinese mission has expressed strong dissatisfaction with the view of the Japanese Foreign Ministry that the purpose of the Chinese visit is merely "to promote trade."

Meanwhile the foreign minister continues to emphasize American-Japanese co-operation as the basis of Japan's diplomacy, while Hatoyama continues to stress "coexistence" in his public remarks. [redacted]

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will break them off unless the Pathets immediately agree to permit royal officials to take up their functions in the disputed provinces.

Katay has reiterated his belief that the Pathets are not real Communists. He conceded, however, that they are "certainly acting as though they were." [redacted]

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thus far brought little real change in the balance of political forces in Cambodia.

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As prince, Sihanouk, the former king, visited Nehru in New Delhi last week, where he received a warm welcome. Sihanouk made no secret of the fact that he was speaking for his government.

Although the prince has been resentful of Indian intervention in Cambodia's internal politics, he made a strong bid for Indian friendship, even to the extent of endorsing the Nehru-Chou En-lai five principles of peaceful coexistence.

Meanwhile, the French government is insisting on equal standing with the United States in the training of the Cambodian army. The French concept is that the French and American training missions would arrive at agreed recommendations and present these to the Cambodian government,

a formula which would give them a veto power over American policy in this matter.

The question whether French or American military doctrine is to be applied also remains unresolved. The French argue either that "Korean" methods are not suited to Cambodia or that a prior understanding on this point is unnecessary.

In addition to their military mission, the French hope to be able to exert their influence through the queen's brother, Prince Monireth, a candidate for army chief. Monireth is a former colonel in the Foreign Legion and would give the French military mission the inside track if he were in charge of the army. [redacted]

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The Afro-Asian Conference

President Sukarno of Indonesia, in his speech opening the Bandung conference, will almost certainly speak out against colonialism and make a strong plea for recognition of Indonesia's claim to sovereignty over Dutch New Guinea. Colonialism is the issue which comes closest to being a common denominator among the conferees.

If his speech otherwise is only a welcoming statement, it would indicate that the sponsoring powers--particularly the neutralists--seriously intend to avoid controversy if

at all possible. On the other hand, a bombastic speech aimed primarily at the West and calling for "coexistence" would probably throw the conference into acrimonious turmoil.

The chances that Chou En-lai will head the Chinese Communist delegation still seem to be somewhat better than even. A likely substitute would be Vice-Foreign Minister Chang Wen-tien who, prior to last January, was Peiping's ambassador in Moscow. The composition of the Viet Minh delegation also remains a mystery. [redacted]

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Court Decision Clears Way  
for Pakistan Reorganization

The decision of the Pakistani Federal Court on 21 March confirming the legality of the present government clears the way for putting into effect Karachi's plans to reorganize the national and state governments and complete a new national constitution.

Reversing a lower court's ruling, the judgment provides the governor general's ruling group with a legal mandate and has been warmly welcomed by the country's press. It also eliminates a potential opportunity for the Communists to exploit American support of an "illegal" government.

The unification of West Pakistan into a single province, for which Karachi has detailed plans, probably will progress smoothly. There appears to be no significant obstacle to the election of delegates to a new Constituent Assembly by the

provincial legislatures in West Pakistan. The arrest of some legislators in Sind, allegedly for plotting against the provincial government, may be designed to ensure the election of progovernment representatives.

On the other hand, Karachi may be forced to delay the restoration of parliamentary government in East Pakistan unless it can resolve the split in the United Front Party there. This would presumably postpone the province's election of delegates to the Constituent Assembly, which in turn would prevent the speedy adoption of the new national constitution.

Considering the general desire throughout Pakistan to re-establish the normal functioning of constitutional government, however, any delay is likely to be fairly short.

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Syria

The Syrian government, in which pro-Egyptian, leftist and neutralist elements predominate, has agreed "in principle" to sign the Egyptian-Saudi Arabian pact.

Meanwhile, Egyptian prime minister Nasr told Ambassador Byroade that his country now is too committed to the pact to change its course, and his advisers believe that Syria "must be signed up quickly."

Iraq, on the other hand, exerted some influence on the Syrian delegation that visited Iraq last week to discuss the rival defense pacts.

According to Iraqi officials, the delegation left Baghdad somewhat "chastened" and inclined to temporize on the subject.

Iraq's partner, Turkey, has made strong diplomatic representations to Syria in the hope of keeping it out of the Egyptian alignment.

Under these conflicting pressures, the Asali cabinet may fall apart as a result of disagreement between Prime Minister Asali, who is inclined to temporize, and Foreign Minister Azm, who appears to favor signing the Egyptian pact.

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At present, Azm and his supporters--the Syrian chief of staff, the extremist Arab Socialist-Resurrectionist Party, Egypt and Saudi Arabia--

hold the upper hand and will probably continue to do so in any cabinet reorganization in the immediate future. 25X1

Strikes Tie Up Iceland's Economy

The strike by more than 7,000 of Iceland's 26,000 organized workers which began on 18 March has had the effect of a general strike on Reykjavik, economic hub of the country. The walkout is a political victory for the Communists.

Operations at the American-manned air base at Keflavik have not been seriously hampered. Some sympathy walkouts are likely, however, and the unions of the outdoor workers, carpenters, ironworkers, and painters have already announced they will strike at midnight on 29 March. There are no immediate shortages at the base, but an airlift of essential supplies has been requested.

The Reykjavik docks, which handle about 90 percent of the nation's imports, are

completely tied up, and workers in essential industries and services are on strike.

The workers are demanding wage increases of at least 25 percent. They have rejected the employers' offer of about seven percent, and a work stoppage of between two and five weeks seems likely.

The most probable economic consequence will be a resumption of the inflationary spiral which was arrested in late 1952. Politically, the strikes are a victory for the Communists, who, in co-operation with left-wing Social Democrats, dominate the Icelandic Federation of Labor. The Communists are seeking to extend their control over the entire labor movement to use it eventually for political ends. 25X1

Growing Labor Unrest In Western Europe

Labor unrest is on the rise throughout much of Western Europe.

At the moment the labor situation in Finland and Iceland is critical; in Italy and

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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West Germany it is serious; in France complicating factors like the Poujade movement leave the situation uncertain but threatening.

For the most part the trouble stems from demands for increased wages, to which governments and employers are opposed, largely because of the inflationary effect of granting such demands.

Except in Finland the Communists are actively involved in the agitation in an effort to damage the Western European economy and promote political instability.

The Icelandic Communists, who dominate the Icelandic Federation of Labor, are spearheading a campaign for inflationary wage increases and have brought about a strike that threatens the port of Reykjavik with economic paralysis.

In Finland the cabinet has threatened to resign if the six striking government workers' unions, representing some 25,000 workers, do not accept the government's compromise offer on their wage demands. While not directly involved in the strike, Finnish Communist would probably use the fall of the government to push their efforts to undermine the political stability of the country.

The labor situation in Italy is worsening while the government makes only feeble efforts to cope with the problem of growing unemployment.

The Sicilian sulphur mines, employing some 10,000 workers, were closed down on 20 March; serious political repercussions are in prospect in view of the imminence of the Sicilian elections in early June. The dismissal of 1,500 Sardinian coal

miners led to a 48-hour protest strike by both Communist and non-Communist miners.

Unity of action between Communist and non-Communist elements was also displayed in Trieste on 15 March when a one-hour general strike was supported by all labor organizations and by an association of small businessmen in protest against the continuing economic decline of the port.

The strike in Genoa of the Communist-dominated port workers' union against new hiring regulations is now in its tenth week, with regular cargo-handling operations interrupted by sporadic stevedore strikes. Communist control of the seamen's union has been strengthened in readiness for sympathy strikes in response to demands from the dock workers.

Under pressure from the Italian Communist Party, the General Labor Confederation reportedly has agreed to start a series of "labor actions," including general strikes, to continue without interruption during the next few months.

In West Germany, dissatisfaction of workers with their share in the general prosperity is causing the unions to adopt a more militant program.

The 600,000-member Ruhr coal miners' union voted on 22 March to go out on strike unless its demands for a 12-percent wage increase are met. The powerful miners' union is prepared to wage a three-week strike, and is seeking financial and tactical support from the metalworkers' and railway unions, both of which engaged in a series of successful strikes last year for increased wages.

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The threatened mine-worker's strike will spur the Adenauer government to strong efforts at mediation, especially if it also ties up large segments of West German industry and transportation. Failure to win on the wage issue, however, would cause the West German unions to lose ground to the Communists, who have been in the forefront of the wage agitation.

In France, rising prices will make it difficult for the Faure government to meet the workers' wage demands at the scheduled April "rendezvous" with industry and labor without risking a new inflationary trend. The government workers' strong protest at the inadequacy of Faure's offer of a three-billion-franc increase in civil service pay has obliged the premier to announce that a rise in the minimum wage for government workers will

also be considered at the April "rendezvous."

Complicating Faure's task are the large budgetary deficit facing the government and the growing Poujade anti-tax movement, which is threatening to get out of hand and stampede the National Assembly into unwise tax legislation.

Faure's problem is to reform the tax system without reducing receipts, and any concessions to small businessmen without adequate compensation to the workers is likely to spark an "antifascist" campaign among the unions to the detriment of the public.

The approach of the cantonal and senatorial elections in France further limits Faure's chances of maintaining a tight economic and financial policy and preserving industrial peace.  25X1

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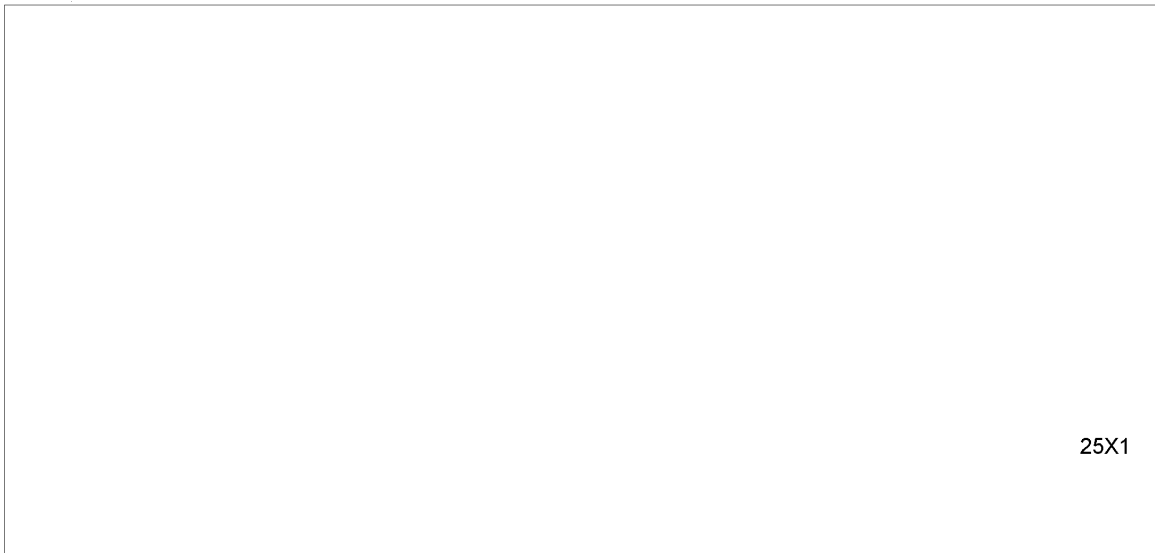
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CURRENT INTELLIGENCE WEEKLY SUMMARY

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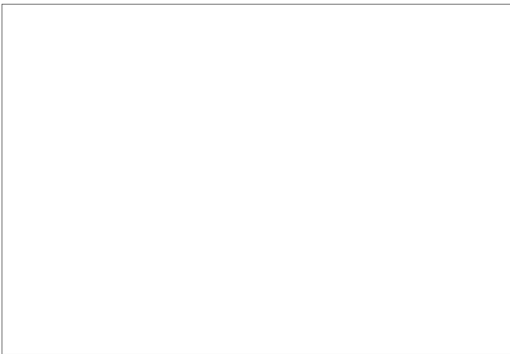


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Guizado Trial May Cause  
Trouble in Panama

The trial of former Panamanian president Guizado, which opened in the National Assembly on 21 March, is expected to have widespread repercussions in Panama, and may even lead to attempts to overthrow the government.

Guizado is charged with complicity in the assassination of President Remon on 2 January.



Prominent Panamanians, local businessmen, and diplomats have informed American officials

in Panama of their belief that an acquittal of Guizado for complicity in the Remon murder case might completely discredit the government and could call for the prosecution of powerful persons not yet publicly implicated. These persons might therefore anticipate such action by seizing the government.

In early February, there were rumors that some highly placed Panamanians feared further revelations in the case and that many favored the establishment of a junta.

At the moment, certain forces in the government and the National Assembly appear determined to have Guizado found guilty by hook or by crook. Their motive may be to conceal their association with narcotics traffickers who are widely believed to have been the real authors of Remon's assassination.

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In theory, if the charges against Guizado are not verified, he will be eligible to reassume the presidency.

Should the government weather Guizado's trial, it must still deal with the trial of Ruben Miro, self-confessed murderer of Remon, in the regular courts.

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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## PART III

PATTERNS AND PERSPECTIVESSOVIET GROUND FORCES IN GERMANY MODERNIZING EQUIPMENT

Soviet ground forces in Germany, which would bear the initial brunt of land operations in the European area in the event of war, were re-equipped and modernized during 1954 to a greater extent than in any other year since the end of World War II. The program, continuing in 1955, is producing a substantial improvement in the mobility and firepower of these forces.

The re-equipment was highlighted by the arrival in Germany, beginning in the autumn of 1954, of over 200 medium tanks of an improved model. (For a discussion of this tank, see Part II.) Four of the eight tank divisions in the Group of Soviet Forces in Germany had probably each received about 50 of the new tanks by the end of February 1955, while a fifth may have received an initial consignment of 10 during February.

The new tank probably is the T-54, which first went into production in 1949. It is evidently being used to replace the T-34, rather than as an additional element of divisional equipment.

The Soviet forces in Germany are estimated to have nearly 4,000 tanks of the T-34/85 model. Whether they will all be replaced quickly or in a single program has not yet been determined.

The eight tank divisions, which are authorized 210 medium tanks each, may rapidly receive their full authorization

of the new model, while the ten mechanized divisions and four rifle divisions (authorized respectively 185 and 52 each) may continue to operate for some time with the older model.

Soviet forces in Germany are known to have received during 1954 a total of 637 tanks of all types, about 1,500 light armored vehicles, and about 1,800 artillery pieces. Relatively few items in any of these categories were noted being shipped out of East Germany during the same period.

More than 20,000 new military trucks also were received last year, while only 6,800 of the 50,000-60,000 trucks previously assigned to the Soviet forces in Germany are known to have been shipped back to the USSR.

New trucks have now almost completely replaced Lend-Lease and old Soviet trucks, many of which probably were cannibalized or otherwise disposed of locally.

Other significant arrivals during the year include new semiautomatic rifles, replacing bolt-action models, a few helicopters, new full-tracked amphibious vehicles, wheeled amphibians, and heavy-duty bridging equipment.

Distribution of new equipment to units in Germany has been widespread, and there are no indications of stockpiling.

some equipment is being used to implement changes in the organization of mechanized and artillery elements of tank and mechanized divisions.

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The effect of the re-equipment will be a significant increase in mobility and fire-power of Soviet ground divisions deployed in Germany.

The re-equipment program indicates that the USSR is

continuing to devote considerable attention to strengthening the capabilities of ground forces, at least in this key area. (Concurred in by ORR and OSI)

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**USSR MODIFIES FOREIGN TRADE POLICY**

The volume of over-all Soviet trade with the West, especially with Western Europe, will be lower in 1955 than in 1954 as a result of a modification in the USSR's foreign trade policy.

Within this reduced volume, the USSR can be expected to import a smaller proportion of

consumers' goods and a larger proportion of goods needed for industrial development--machinery, electric and electronic equipment, nonferrous metals and merchant ships.

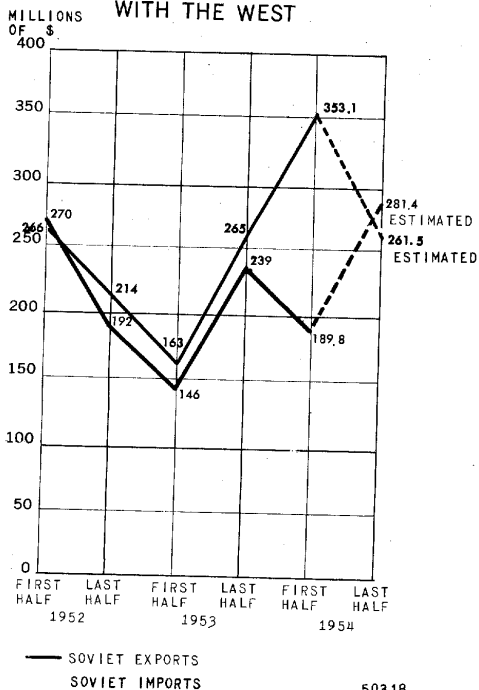
Soviet trade with the West rose sharply from mid-1953 to mid-1954, primarily as a result of a dramatic rise in Soviet imports under the "new course." Difficulties in marketing exports in the West, however, limited Moscow's ability to finance the expanded imports.

In spite of unusually large gold sales by the USSR in late 1953 and early 1954, the trade imbalance continued to grow worse. In the last half of 1954, this trend necessitated a marked decrease in Soviet imports, especially of consumers' goods, from the West.

Since late December, Soviet policy makers--in keeping with their renewed emphasis on the expansion of heavy industry inside the USSR--have determined on a further cutback in imports of consumers' goods both from Western Europe and the European Satellites.

In trade negotiations with Western European countries, Soviet officials now are likely to be less amenable, to talk less about "trade for trade's sake," to haggle more and bargain harder, and to infuse

RECENT TRENDS IN SOVIET TRADE WITH THE WEST



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trade discussions with more political propaganda. They will also continue to use trade offers to reinforce political and diplomatic efforts to divide the Western coalition.

Soviet commercial representatives have attempted, for example, to exert political pressure by claiming that recent reductions in imports are a direct result of Western plans to rearm Germany, and have threatened some Western business firms with a cessation of Soviet orders if the Paris accords are ratified.

The USSR will probably also continue its efforts to split the West on the issue of COCOM and Battle Act export controls. Bloc countries intend to keep on with large-scale imports of some commodities on which controls were relaxed last August, and Communist importing officials undoubtedly will cite these cases to individual Western firms as examples of the increased trade that would become possible if controls were further reduced.

The USSR is putting especially heavy pressure on Japan for a lower level of controls, capitalizing on the desire of Japanese business firms and the government for a rapid expansion of trade with China and, to a less extent, with the other bloc nations.

Both the USSR and the European Satellites are pushing ahead with their program of using trade and economic aid to increase their political influence in the underdeveloped non-Communist countries of the Middle East, South Asia and Latin America. There is evidence, both in the statements of Soviet and Satellite officials and reports of specific negotiations, that there will

be a gradual increase during the next few years in the volume of Soviet capital goods offered in exchange for raw materials and agricultural products.

Additional offers of technical aid for the building of industrial plants in some of these countries probably will be made, but the number of such projects actually undertaken is likely to increase slowly and the total cost to the Soviet bloc will remain small.

Soviet propaganda, capitalizing heavily on such projects as are actually under way, is likely to focus in general terms on claims that the bloc is willing and able to provide such assistance on a major scale.

The USSR and the East European Satellites plan to continue to stage lavish exhibitions at industrial trade fairs in a large number of non-Communist countries, stressing the high level of technical advancement and industrial progress achieved under the Communist system.

Inside the Soviet bloc, announcements of 1955 trade agreements indicate that Soviet trade with the European Satellites will not increase as it has in previous years. Attention apparently is being focused on exchanges of basic raw materials and capital goods, and the volume of consumers' goods traded may well decline.

To attain a higher degree of co-ordination, especially in the output of the heavy industries and armaments industry, the European Satellites also intend to exchange industrial technicians, blueprints, and technical know-how on a major scale and to co-operate in drawing up their

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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individual economic plans for the five-year period beginning in 1956.

The USSR is also committed to provide substantial economic aid to China and North Korea, and the European Satellites are participating on an increasing scale in the construction of industrial plants in those countries. Agreements for 1955 call for a further expansion of Soviet trade with China and a 25-percent rise in trade with North Korea.

The Soviet Union has been behind schedule in supplying economic assistance to North Korea, but most of the Satel-

lites have signed economic aid agreements with Pyongyang for 1955 calling for increased deliveries of capital equipment.

China is the only country in the Sino-Soviet bloc that has as yet concluded formal trade and aid agreements with the Viet Minh, although East Germany and the Viet Minh are reported to have signed an interim trade agreement covering the period 1 October 1954 to 1 March 1955.

Trade and aid agreements are likely to be signed by other European Satellites and the USSR in the near future.

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CHINESE COMMUNIST LEADERSHIP TIGHTENS CONTROL

The Chinese Communist leadership has been tightening its control over the party at the same time the party has been tightening its control over China. Both appear to be in unprecedentedly strong positions.

The party has been engaged since 1951 in a quiet but thorough purge--officially designated a "reorganization"--which has removed about one in ten of those who were party members in 1951.

For the past year the party's central committee has apparently emphasized a drive for "unity" among the committee members. This "unity" drive has evidently been conducted under the continuing leadership of Mao Tse-tung, Liu Shao-chi and Chou En-lai, who have been ranked in that order as the "big three" in party pronouncements for several years.

The leading victims of the drive appear to have been Kao Kang, a politburo member previously publicized as one of the top five, and Jao Shu-shih, chief of the party's organization department. Both were apparently punished in part for trying to build "independent kingdoms" as regional leaders. In addition, Kao may have openly opposed the party's economic policy and Jao may have made unwise appointments.

Continuation of the "unity" drive at the central committee level was probably a factor in postponing the party's conference, which had been scheduled for 1954. Such a conference, last held in 1951, is a kind of vocal outlet for the central committee and can replace up to 14 of its members, whereas a party congress, last held in 1945, has the function of electing the entire central committee which, at present, has 70 members.

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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The next party conference is expected during 1955. It will probably announce the end of the "reorganization," formalize the rise to power of several new leaders, and remove any erring members of the central committee who have not been "rehabilitated." In line with Mao's policy of "treating the sickness" rather than staging a spectacle such as the Soviet purges of the 1930's, the number of those "unreconstructed" is expected to be small.

The party conference is expected to emphasize party unity in the regime's "progress toward socialism." It seems likely also to call for improvements in recruiting and training the rural membership and in the related task of consolidating agricultural producer co-operatives--a transitional step to collectivization. All of these goals will probably be related to the objective of "liberating" all Nationalist-held territory.

Party control has been pervading all phases of Chinese life. The new government set up last fall under China's first constitution has approximately doubled its top-level personnel, and most of these new bureaucrats are experienced party men.

Communist Party members now exercise complete control of all key organs and ministries. Where changes in high-ranking personnel have occurred, party members have replaced non-Communist officials. Non-Communists allowed to retain nominal leadership of a ministry or commission have been surrounded by an increased number of deputies, most of whom are Communists.

Direct central control over provincial party committees is being established

by the abolition of regional party bureaus, which in the Soviet Union remain important links between the center and local units. The North China and Central-South bureaus are known to have been eliminated, and there are good indications that others have been abolished or are soon to be.

Recent elections reveal the party's open control of the united front at the provincial level. In most cases the elected chairman of the united front body is also the party secretary in the province.

Peiping's authority in the provincial governments was increased considerably by the new constitution. Following the decision in June 1954 to abolish regional governments, the constitution provided for provincial governments to come under the direction of Premier Chou En-lai's State Council. The State Council has an additional check through its constitutional responsibility to nominate heads and deputy heads of departments of provincial governments.

Considerable progress has been made in the past year in tightening party control of the armed forces. Changes in September 1954 brought military affairs for the first time into the administrative area of the government, and all elements of the armed forces now seem to be subordinate to the State Council. At the same time the power of regional military leaders--who have long seemed to be the only potential leaders of organized resistance movements in Communist China--has been steadily reduced.

Finally, three regulations enacted in recent months have brought party control even closer to the man in the street.

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These regulations govern the organization of city street bureaus, city residents' committees and public security substations. These typical police state controls, which

have existed in varying degrees in China since the Peiping regime was established, have now been standardized to provide a thorough check on every family.

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**DRIVE TOWARD FREER TRADE AND CONVERTIBILITY IN WESTERN EUROPE**

Final action by most Western European countries to eliminate restrictions on dollar imports and to make their currencies freely exchangeable for dollars may be delayed indefinitely should current symptoms of incipient inflation in several of these countries become acute and general.

In the meantime the better economic outlook in the United States and proposed American trade liberalization measures are furthering progress toward convertibility.

Because approximately 40 percent of world trade is transacted in sterling, it is generally agreed that the pound must lead the way to convertibility. Britain has steadily removed restrictions on the use of sterling over the last two years, but timing of the final step to freely exchangeable currencies is guided to a large extent by the British view that convertibility should be a means to a freer trade system throughout the world.

As a step toward convertibility, the Organization for

**OFFICIAL LIBERALIZATION PERCENTAGES OF THE VARIOUS  
OEEC MEMBER COUNTRIES**

Country	1952		1953		1954	
	30 June	31 Dec	30 June	31 Dec	30 June	31 Dec
ITALY	99.7	99.7	99.7	99.7	99.7	99.7
PORTUGAL	100	85	92.8	92.8	92.8	92.8
NETHERLANDS	75	75	92.3	92.6	92.6	92.5
SWITZERLAND	88.2	91.4	91.6	91.6	91.6	91.6
SWEDEN	75	86	91.4	91.4	91.2	91.2
GERMANY	76.6	81	90.1	90.1	90.1	90.1
BELGIUM-LUXEMBOURG	75	75	87.2	87.2	87.2	87.7
UNITED KINGDOM	46	44	58.5	75.3	80	82.9
IRELAND	75	73.4	75.1	76.7	76.7	76.8
DENMARK	68	75	76	76	76	75.9
AUSTRIA	0	0	35.8	50.6	75.5	82.4
NORWAY	75	75	75.1	75.5	75.5	75
FRANCE	0	0	0	17.9	51.2	64.6
ICELAND	41	0	0	29	29	29
TURKEY	63	63	0	0	0	0
GREECE	0	0	0	0	0	0
ALL MEMBER COUNTRIES	65.2	63.9	70.3	75.7	80.3	82.4

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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European Economic Co-operation (OEEC) in 1948 set a goal of removing quotas on 50 percent of intra-European imports. This goal was raised to 60 percent in mid-1950, and a target of 75 percent was set for 1 February 1951. Despite numerous setbacks for individual countries, a general level of 75-percent liberalization was slightly surpassed by early 1954 except in France, which then lagged at 18 percent.

With internal and external economic conditions much improved in 1954 and with the use of a compensating tax, France advanced to 65-percent liberalization last November and to an experimental 75 percent in January. Announcement that France would commit itself officially to attain the general level of 75-percent liberalization by 1 April was one of the main factors that made it possible in January for the OEEC to raise trade liberalization goals to 90 percent for September 1955.

In order to accelerate preparation for dollar convertibility, the OEEC ministers agreed in January that their countries would periodically submit their records on the removal of quotas on dollar imports for review by the OEEC, with the implication that each would be called on to justify any delays. It was also arranged that the trade policies of the United States and Canada would be reviewed from time to time in the OEEC for their progress toward liberalization.

The ministers also took steps to arrange continuance of the OEEC's European Payments Union (EPU) for one year, and a \$600,000,000 fund was planned to provide credit to support the currencies of countries that may require it when the currencies of most other countries become convertible and the EPU automatically goes out of existence.

The OEEC ministerial examination group on convertibility in January deferred further recommendations for steps toward full convertibility pending the review of the General Agreement on Tariffs and Trade (GATT) then in progress. Little advance was made at the GATT meeting toward freeing trade, largely because of American insistence on continued use of agricultural import quotas.

The earliest target date for full convertibility appears to be some time after October 1955. The British government is unwilling to consider full convertibility before the general election which is expected at about that time.

The outstanding improvement in Western Europe's economic situation between mid-1953 and the fourth quarter of 1954 makes convertibility shortly after the British elections possible.

Industrial production rose 12 percent in this period and gold and dollar reserves increased by \$2.6 billion to \$13 billion, contributing greatly to the reduction of quantitative restrictions on dollar imports, an important step toward convertibility. By the end of 1954 these restrictions had been removed from 48 percent of Western Europe's dollar imports, compared with 13 percent at the beginning of 1954.

It was possible for this expansion in Western Europe's economy to take place with comparatively stable price levels, despite relaxation of controls and increases in money and credit supply, because the increased output came from previously unused capacity.

Since the third quarter of 1954, however, it has become increasingly apparent in

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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several countries that available resources, particularly of manpower, have reached or are approaching full employment. Accordingly, governments have taken or prepared to take steps to limit internal demand in order to counter inflationary trends.

This development has been accompanied by some deterioration in balance of payments positions. All of the Scandinavian countries have already taken or prepared to take measures to restrict credit.

Even in the Netherlands, where the balance of payments remains strongly in surplus, the authorities have reduced liquidity of commercial banks as a precaution. Although economic improvement continues in France and price rises have been moderate thus far, Premier Faure has warned that potential inflation is the greatest threat to the economy.

Most important for the future of convertibility, some inflation has appeared in Britain. That country's

## DOLLAR LIBERALIZATION OF OEEC COUNTRIES, 1953-55

(Percent of 1953 private imports)

Country	1 Jan 53	1 Jan 54	1 Jan 55
AUSTRIA	0	0	0
BELGIUM	57 <sup>a</sup>	70 <sup>a</sup>	86
DENMARK	1	1	38
FRANCE	0	0	0
GERMANY	0	24 <sup>b</sup>	70 <sup>b</sup>
GREECE	0	90	90
ICELAND	0	33	33
IRELAND	0	0	0
ITALY	0	10	24
NETHERLANDS	0	30 <sup>c</sup>	86
NORWAY	0	0	0
PORTUGAL	0	0	0
SWEDEN	0	0	40
SWITZERLAND	98	98	98
TURKEY	0	0	0
UNITED KINGDOM	7 <sup>c</sup>	43 <sup>a</sup>	50
<b>AVERAGE</b>	<b>13</b>	<b>32</b>	<b>48</b>

Source OEEC, except as noted.

NOTE These liberalization figures represent the percentage of private imports from the US and Canada which are free from quantitative restrictions. The base year is 1953.

- a. Member country estimate.
- b. Estimate obtained from unclassified embassy despatch.
- c. American estimate.

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**CURRENT INTELLIGENCE WEEKLY SUMMARY**

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gold and dollar reserves declined by \$82,000,000 to \$2.68 billion in February. Chancellor of the Exchequer Butler stated in January that, because the balance of payments was about level, he foresaw no further liberalization of British trade in the near future.

The sixth annual report on the condition of Western Europe's economy, about to be issued by the OEEC, will present a picture of essential strength and soundness with considerable optimism for the future.

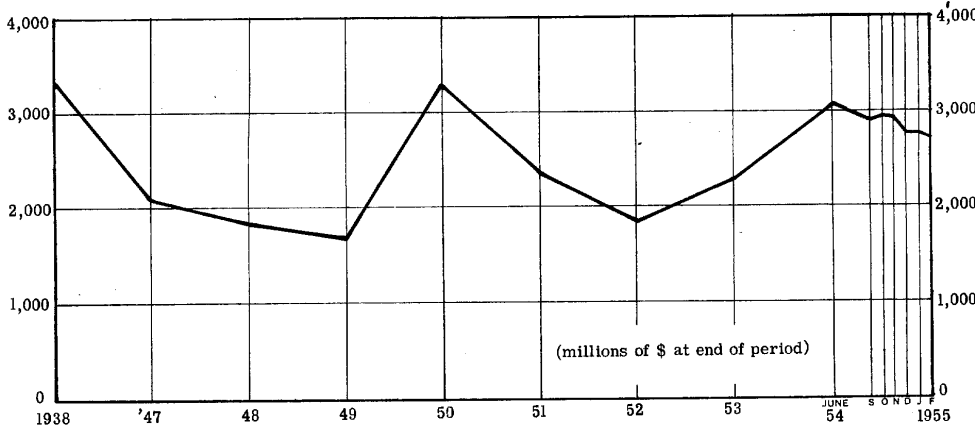
Inflation and deterioration in balances of payments are moderate and governments have proved alert to take corrective measures.

If such measures prove adequate to arrest inflation, if economic expansion continues, and if Western Europe is reassured on American trade policy, the prospects for convertibility this year will be good. Otherwise, West German economics minister Erhard's repeated warnings that it is necessary to move more rapidly toward convertibility "lest we miss the lucky hour" may prove prophetic.

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**UNITED KINGDOM GOLD AND SHORT-TERM DOLLAR HOLDINGS\***

Two billion dollars considered absolute minimum necessary to support convertibility.



EXCHANGE EQUALIZATION FUND ACCOUNT OFFICIAL HOLDINGS OF GOLD, US AND CANADIAN DOLLARS, AS REPORTED BY THE BRITISH GOVERNMENT. 509212

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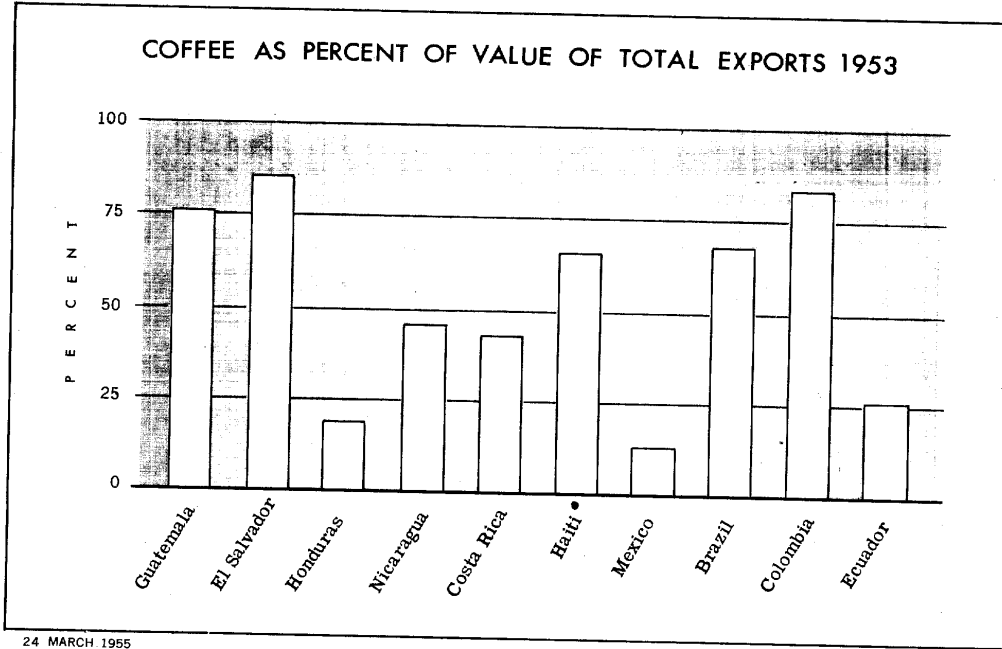
**CURRENT INTELLIGENCE WEEKLY SUMMARY**

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**COFFEE PROSPECTS CAUSE CONCERN IN LATIN AMERICA**

The prospect of a new decline in the coffee market is causing considerable concern in the ten Latin American countries where coffee is a major foreign exchange earner.

Coffee production is expected to exceed consumption by a significant margin for the next several years, largely because of an estimated 12 to 14 percent drop in consumption



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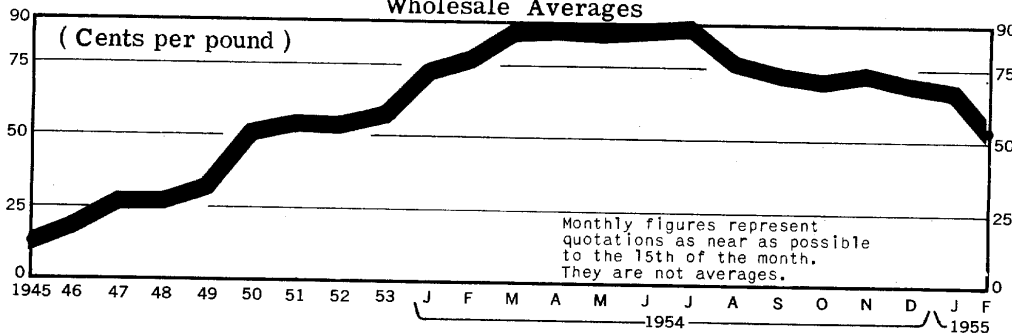
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Another serious drop in world coffee prices, which are already about 40 percent below the 1954 peak, would bring on financial crises in some of the countries and probably lead to new expressions of anti-American sentiment.

in the United States in 1954 and a sharp increase in new plantings in recent years.

The Latin American countries principally concerned are Brazil--which alone supplies about 45 percent of the

**COFFEE PRICES IN THE UNITED STATES**  
Wholesale Averages



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world's coffee--Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, and Nicaragua. Altogether these countries produce about 80 percent of the world coffee output.

These countries, most of which have already imposed minimum export prices, have indicated a belief that international action will be necessary to stabilize coffee prices.

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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Under a recommendation passed at the Inter-American Economic Conference at Rio de Janeiro last November, an ad hoc coffee committee has been appointed and is now preparing a report on coffee prospects for the next several years. This committee is to prepare proposals, if such action is deemed feasible, for international co-operation to reduce fluctuations in coffee prices.

Puerto Rico, meanwhile, has proposed that the Federation of Mexican, Central American and Caribbean producers (Fedecame) invite the South American producers to discuss the coffee problem at Puerto Rico next month.

A likely subject would be the Guatemalan proposal for a conference of all Latin American coffee-producing countries in Washington under the auspices of Fedecame, which is now sounding out the governments concerned.

It is doubtful that these efforts to stabilize coffee prices will be more than partially successful. The depletion in recent years of

stocks both in the major consuming country, the United States, and in the producing countries is a favorable factor. However, the attempt, difficult in any case because of the number of producers involved, is complicated by the facts that (a) the African producers, who supply about 15 percent of world production, are not included, and (b) Brazil, which because of its output is the key to any coffee stabilization plan, is in an extraordinarily weak financial position and may be unable to withstand buyer pressure for lower prices.

A continuation of present price trends would have international political as well as economic repercussions. Many Latin Americans would probably renew their charge that American governmental allegations of sharp practices in coffee markets were important in causing the 1954 drop in American consumption. Meanwhile, any Orbit contracts for coffee, such as the East German-Colombian barter agreement concluded last month, would receive extremely favorable publicity even if the purchases were negligible in terms of world supply.   25X1

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