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15 November 1956

CURRENT INTELLIGENCE WEEKLY SUMMARY



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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

MIDDLE EAST CRISIS Page 1

Israel is maintaining a large proportion of its military manpower in alert status along the Jordanian and Syrian borders. Fedayeen attacks from Jordan and Syria continue. The continued mobilization of the Israeli army suggests that the Israelis contemplate becoming involved in hostilities on their eastern borders. In Egypt, Nasr remains in full control of the government

[Redacted]

The Soviets have taken an increasingly harsh attitude toward Israel, and may demand that Israel withdraw to the 1947 demarcation lines. Meanwhile, the USSR is making preparations to provide "volunteers" and additional equipment to the Arab states and has threatened to do so if Anglo-French-Israeli troops are not withdrawn.

Britain and France have reiterated their intention to keep their troops in Port Said at least until substantial United Nations forces are well established in the canal zone.

THE SITUATION IN HUNGARY Page 6

Although the new puppet regime in Hungary is continuing its desperate efforts to assert its authority, its effective control apparently does not extend beyond the range of Soviet guns. The fighting, for the most part, appears to have ended, but the general strike in Budapest continues; many "freedom fighters" apparently have retained their arms and come out at night to snipe at the Soviet and Hungarian police. The government has, to date, been unable to cope with the widespread passive resistance.

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PART II

NOTES AND COMMENTS

ASIAN REACTION TO SUEZ AND HUNGARIAN CRISES Page 1

With very few exceptions, Asian countries have been far more deeply moved by events in Egypt than in Hungary. Egypt is identified in the Asian mind as a brother nation fighting the old, common enemies of freedom, while Hungary is regarded as remote and is considered as essentially the white man's problem. Moreover, Suez Canal operations are of economic concern to many Asian nations, which have no economic interest in the outcome of the Hungarian rebellion.

[Redacted]

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BULGARIAN OFFICIALS CONCERNED OVER DOMESTIC PROBLEMS Page 2

Some Bulgarian officials at home and abroad believe the Bulgarian domestic situation is similar in many respects to that in Poland and Hungary prior to the recent upheavals. While they do not believe popular uprisings are imminent, they feel the regime must take immediate steps to correct the domestic situation. Disagreements over what these steps should be have brought to the surface the factionalism which has developed, largely as a result of Moscow's changed attitude toward Tito, in the regime in the past year.

[Redacted]

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THE GOMULKA REGIME IN POLAND Page 4

The Polish regime is confronted with the difficult task of formulating policies that will satisfy popular aspirations and yet not antagonize the Kremlin. In the face of an "unnatural calm" on the Polish scene, party first secretary Gomulka continues to implement his policy of national Communism while the Kremlin looks on with suspicion. He is now in Moscow to discuss outstanding differences. Meanwhile, the new regime is taking steps to strengthen the economy and carry out the economic program Gomulka outlined when he took office.

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EFFECT OF SUEZ CANAL CLOSURE ON BLOC ECONOMIES Page 6

Closure of the Suez Canal will have only a negligible impact on the economies and shipping of the USSR and the Eastern European Satellites, whose vessels accounted for only 2 percent of Suez Canal transits in 1955. Communist China, however, depends on substantial sea-borne deliveries through the Suez Canal. Cargoes carried by Soviet bloc and Finnish ships to China support industrial construction, while nonbloc vessels carry materials for China's agricultural development program. If the canal is closed for only a few months, it is probable that supplies adequate to meet China's normal petroleum requirements can be furnished from existing stocks and by a Trans-Siberian rail movement. [redacted]

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TURKEY'S TRADE WITH SOVIET BLOC RISING Page 7

The continuing deterioration of Turkey's economy over recent months has made Turkish businessmen increasingly receptive to Soviet bloc trade and credit offers. Turkey has accumulated debts of about \$300,000,000 to its Western trading partners and is now in a very poor payments position with free world countries. [redacted]

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TENSION IN KOREA Page 8

Officially inspired demonstrations in South Korea continue to call for North Korean revolts. The demonstrations reportedly are apathetic and are failing to create any enthusiasm among the populace for a "march north." The North Koreans apparently are not looking for a pretext to initiate hostilities and have been increasing their emphasis on "peaceful unification." Recently reported troop movements in North Korea are believed to have been on a small scale and probably reflect defensive relocations. [redacted]

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LAOS Page 10

The Pathet Lao will probably seek to integrate many more insurgents into the Laotian army than expected by the royal government, whose negotiators suggest they may be unable to prevent it. Should the government continue to make concessions to the Pathets, it will reduce its ability to maintain an independent Laotian policy. The crown prince is pessimistic over the drift of events in Laos and believes a political crisis may develop during the special session of the National Assembly which begins on 20 November. [redacted]

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SINGAPORE Page 11

Chief Minister Lim Yew Hock, who on 7 November won a 25-to-4 vote of confidence for his handling of the recent Communist-led riots, is continuing to press his campaign against subversion. Government and local British officials are cautiously optimistic, but fear there may be further disturbances following the release of those persons now in custody and the reopening of two Chinese middle schools. [redacted]

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EURATOM AND THE EUROPEAN COMMON MARKET Page 13

Compromise proposals on EURATOM and the European common market approved by Chancellor Adenauer and Premier Mollet at their 6 November meeting have evidently cleared away some of the major obstacles to both projects. Prospects for resolving the serious problems which remain have improved in Bonn, but there is some feeling in France that Mollet has conceded too much. [redacted]

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PART III

PATTERNS AND PERSPECTIVES

COMMONWEALTH STRAINED BY NEAR EAST CRISIS Page 1

The Eden government's military intervention in Egypt has seriously shaken the confidence of the other Commonwealth governments in its leadership. Particularly in India, Pakistan, and Ceylon, elements opposed to the Commonwealth connection may be expected to bring heavy pressure against co-operation with Britain. While no withdrawals from the Commonwealth are expected, London's relations with all members may have suffered extensive damage. [redacted]

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AIN'S NEW INTEREST
A WEST EUROPEAN FREE TRADE AREA Page 3

Britain is promoting the formation of an extensive European "free trade area" that would be associated with the customs union now under consideration by the six nations of the European Coal-Steel Community (CSC). Such a customs union would give West Germany and the other CSC nations competitive advantages over Britain unless Britain becomes a member. [redacted]

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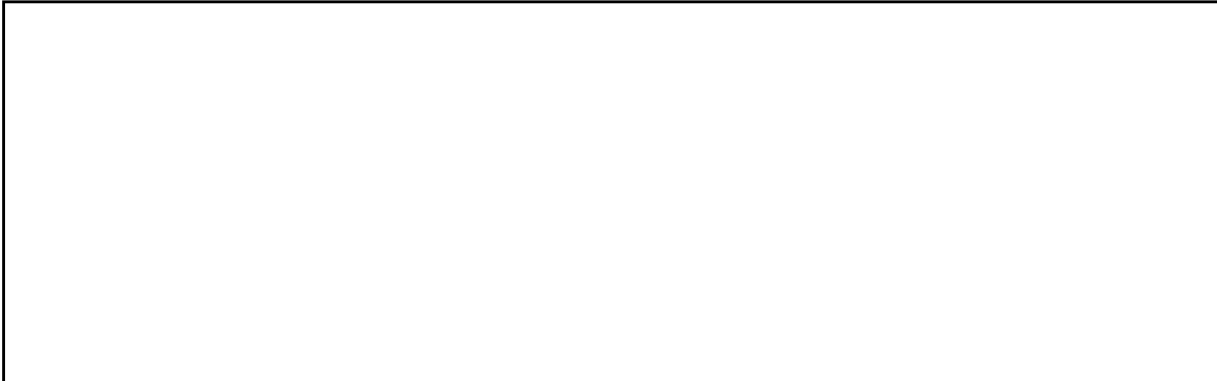
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NATIONALIST CHINA AND THE OVERSEAS CHINESE Page 9

Since last May the Chinese Nationalist government has renewed its efforts to gain the loyalty of the numerous and influential Overseas Chinese, most of whom have been indifferent toward the Taiwan regime. Limited success has been achieved in encouraging visits to Taiwan and promoting better economic relations between local Chinese and the Nationalist government. Obstacles to the Nationalist program are formidable, however, and it is questionable whether sentiment favoring Taipei is being significantly increased.



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PART I

OF IMMEDIATE INTEREST

MIDDLE EAST CRISIS

Israel is maintaining a large proportion of its military manpower in alert status despite the government's announcement that Israeli troops would withdraw from Egypt--though not from Gaza, nor presumably from the Saudi-owned islands commanding the entrance to the Gulf of Aqaba. Prime Minister Ben-Gurion has said he believes there are still "battles" to come.

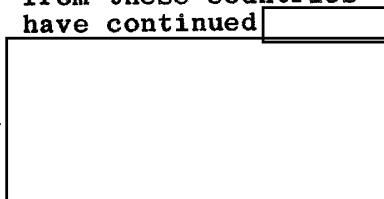
The Israelis apparently feel pressure from at least two directions. First is the continued hostile attitude of Syria and Jordan, inspired by Egypt and supported by the prospect of "volunteers" and other assistance from the USSR.

Neither Syria nor Jordan is militarily ready for action; but fedayeen attacks from these countries have continued

which may weigh in Israel's calculations is the possibility that the great powers, acting through the UN, may seek to take from Israel the fruits of its victory in Sinai.

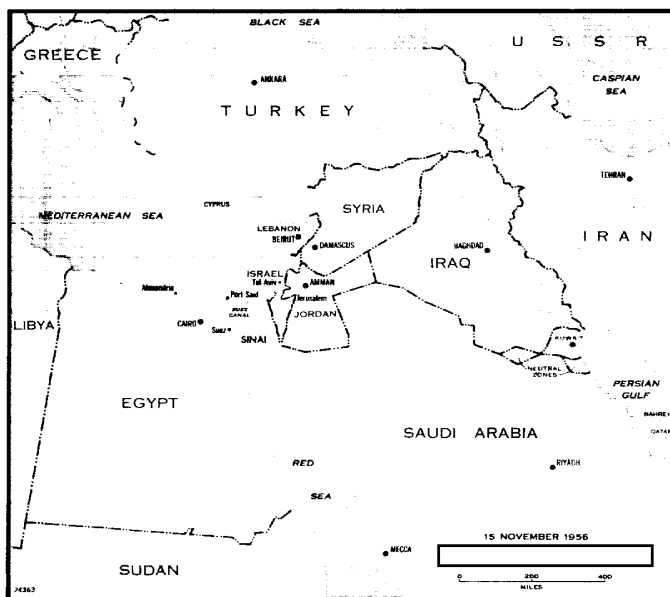
The Israeli army is reported to be hurrying to evacuate captured Egyptian equipment from the desert before the UN police force moves from the Suez Canal zone to the old armistice lines. The recall on 11-12 November of Israeli units and personnel which had recently been demobilized was explained to the American army attaché in Tel Aviv as necessitated by the urgency of this evacuation operation. Beyond this immediate need, Israel probably desires to be able to bargain from strength, to head off or if necessary defy future Soviet-or Arab-Asian-sponsored demands that Israel return to

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Israel's record indicates it will not long tolerate a situation of this kind, and the Israeli army's continued mobilization suggests that the Israelis may contemplate striking at Syria and Jordan before being attacked by them.

A second possible development



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Egypt the occupied territory without at the same time calling on Egypt to make a definitive peace settlement.

Egypt

The Nasr regime is making a major propaganda effort to convince the Egyptian public that the "heroic" defense put up at Port Said--the "Stalin-grad of the Arabs"--and what is alleged to have been a last-ditch stand in Sinai, are the result of the regime's efficiency and patriotism.

could be re-established with Israel only if the Israelis in no way profited from their attack on Egypt. In this context, Nasr specifically mentioned the Gaza strip. Moreover, he said he could not see any possibility for early negotiation of a "settlement" of the Palestine issue. Israeli spokesmen have insisted that such an over-all settlement is a condition for Israeli compliance with the most recent UN resolutions.

Soviet Moves

The Soviet line this week credited Bulganin's notes to Eden, Mollet and Ben-Gurion on 5 November with forcing the three powers to accept a cease-fire.

An increasingly harsh attitude toward Israel has become apparent and is likely to be followed shortly by a Soviet demand that Israel withdraw to its former boundaries, evacuating the Gaza strip.

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Ambassador Bohlen believes any Soviet assistance given during the cease-fire would be to Syria and possibly Jordan and Iraq. A Soviet broadcast of 13 November again called into question the "whole future" of Israel, stating that "what happened to Hitlerite Germany may happen to Israel."

Last week, Soviet propaganda frequently mentioned that the USSR, within the context of the UN, would help "crush aggression." This week, however,

In his concept of future developments, Nasr appears even less willing to compromise than he has been on the question of the activity of the UN force. He told Ambassador Hare on 13 November that "peace"

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the USSR avoided mention of UN forces on the way to Egypt, used the slogan "No foreign soldiers on Egyptian soil," and reportedly distributed a call-up notice to an unspecified number of Soviet citizens requiring them to "volunteer" for service in Egypt and Arab countries.

The TASS statement on 10 November is the clearest to date on the USSR's intention regarding Soviet volunteers. It declared that if Great Britain, France and Israel did not withdraw their troops in accordance with UN decisions, "the appropriate authorities of the USSR will not hinder the departure of citizen volunteers who wish to take part in the struggle of the Egyptian people for their independence." This is the first time since the attack on Egypt that the USSR has suggested that it might send volunteers to the Middle East unilaterally and outside the framework of the United Nations.

Moscow's continuing suspicion of any UN-sponsored police action was indicated by Secretary General Hammarskjold's remark to Ambassador Lodge on 11 November that he is sure that Egyptian reservations concerning the composition of the police force were the direct result of Soviet influence since, in his conversations during the past week, the Egyptians had never hinted at them.

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Soviet UN delegate Sobolev told representatives on 7 November that a conspiracy would develop during the next two to three weeks to impose

on the Arabs a settlement in line with the two resolutions introduced by the United States on 1 November which deal with a settlement of the Suez Canal question and the entire Arab-Israeli question.

President Nasr's reservations concerning the UN police action, and Sobolev's attempt to arouse further Arab suspicions, may foreshadow an attempt by the USSR to get Egypt to voice such strong objections to the plan that it will be ineffective unless it is altered. Soviet propaganda is declaring that the Soviet government is apprehensive lest the cease-fire was merely a maneuver to gain time.

Britain and France

Britain and France intend to keep their forces at Port Said until substantial United Nations troops are well established in the canal zone, and may be preparing to hold on longer. The two brigades of British assault troops there are being replaced by an equivalent strength in infantry.

British and French leaders have indicated that before withdrawing their forces they intend to make sure the UN forces will prevent the canal from reverting to Nasr's control. Eden told parliament on 9 November that withdrawal would come only when UN forces were able to carry out their mission "effectively." In a 14 November conversation with Ambassador Lodge, Foreign Secretary Lloyd said these forces must be far more substantial than the present contingent of "Finns, Scandinavians, and Colombians." Lloyd expressed confidence of British and French

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ability to take care of as many as 50,000 "volunteers" from the Soviet bloc.

London and Paris clearly believe that UN policing of the canal is essential--despite the lack of any UN resolution providing for this and statements from UN officials that it is not part of the UN mission. This view has been indicated by public statements from Eden, Mollet, and Pineau, and by Lloyd in his conversation with Ambassador Lodge. Several supporters of the Eden government have told the American embassy in London that the Conservative Party will be split wide open if Britain is pressured into evacuating Egypt before the UN can assure freedom of navigation in the canal.

Domestic Opinion

Domestic opinion in Britain and France remains highly agitated over the intervention, cease-fire, and likelihood of a withdrawal from Egypt without any principal goal having been achieved.

Prime Minister Eden's standing has been shaken by a series of resignations from his government. Two junior ministers quit, and five back-bench MP's have refused to support the government. Several influential journals, including the independent Economist, believe his usefulness as Britain's leader is ended and he should resign.

The government won its latest vote of confidence, however, by 62 votes, just one short of its over-all majority; and Eden's standing with the general public appears to have

risen. Some of the fire of Labor's attacks on Eden has now turned toward the Soviet Union for its intervention in Hungary. The last of the oil tankers to pass through Suez arrives in Britain this week, so the impending oil shortage is yet to have any impact on popular attitudes.

French public dismay at the abortive intervention is reflected in the renewed search for a foreign scapegoat. The United States has received a major share of the blame. Non-Communist members of the National Assembly foreign affairs committee are said to accuse the United States of supporting the Asian-African bloc rather than its European allies. French leaders also compare unfavorably the United Nations' quick action on Suez with its response on Hungary. Foreign Minister Pineau told the foreign affairs committee that the UN is controlled by irresponsibles and is no longer an effective instrument.

Signs of French-British differences over the responsibility for instigating the intervention and causes of its failure are receiving more notice as well. Press reports in Paris hint at excessive British pressure for the cease-fire and for an Israeli withdrawal.

British Middle East Position

Meanwhile, British officials profess to believe that conditions in the Middle East will allow Britain to retain considerable influence. In sum, they see Nasr's prestige suffering from the quick defeat and believe that the

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Western show of strength may eventually redound to their favor. London also hopes that its claims to have averted the threat of Soviet dominance will also gain it favor among the Arab rulers, if not among the people.

Britain evidently believes the Baghdad pact can still serve its interests. The relatively pro-British stand of Iran and Turkey at the meeting of Moslem Baghdad pact members on 8 November, as well as Pakistan's intention to ask Saudi Arabia to join, presumably encouraged London. Despite Iraq's announced refusal on 9 November to participate in any pact council meetings attended by Britain, British officials note they can continue to participate in the committees.

Officials also express confidence they can control any disaffection in the Persian Gulf principalities, despite the likelihood of further sabotage, and in Aden, despite Yemeni distribution of arms to dissident tribesmen.

Despite the break in diplomatic relations with Syria and Saudi Arabia, as well as Egypt, London seems to believe that a basis for resuming relations still exists and that other breaks can be prevented. As yet the British give no evidence of abandoning their long-term hope of weaning Saudi Arabia away from its close Egyptian ties. Signs

that Jordan is considering accepting aid from the Soviet Union have not deterred Britain from furnishing a \$700,000 installment on its promised \$34,000,000 annual aid.

UN Police Force

UN secretary general Hammarskjold has obtained Egyptian agreement to the use of Colombian, Danish, Finnish, Norwegian, Swedish, and Indonesian troops in the UN emergency police force. At Egypt's request the force will also include Indian and Yugoslav units. Canadian participation in principle has been accepted by Egyptian foreign minister Fawzi but remains subject to negotiations between Nasr and Hammarskjold this week in Cairo. The Egyptians reportedly are concerned that the Canadian troops' resemblance to British troops creates the possibility of incidents with the populace.

Egypt rejected Pakistani troops because of Karachi's adherence to the Baghdad pact. However, Hammarskjold overcame Egyptian objection to the use of Danish and Norwegian troops because of their NATO ties by insisting that the Scandinavian contingent could only come as an integrated one.

Hammarskjold rejected troop offers from Czechoslovakia and Rumania, and believes the Indonesian troops will never materialize.

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Twenty-three UN members have offered troops to the UN police force. Of the Commonwealth countries, Australia, Canada, Ceylon, India, New Zealand, and Pakistan have volunteered forces. Western European volunteers are Belgium, Denmark, Finland, Greece, Italy, the Netherlands, Norway, and Sweden. Brazil and Colombia are the only Latin American UN members so far to have offered to contribute troops. Other offers came from Burma, Ethiopia, the Philippines and Yugoslavia. An advance contingent of Scandinavian and Colombian troops landed at Ismailia on 15 November.

Afghanistan was the first country to respond to Egypt's call for volunteers, and "floods" of Afghans are preparing to go to Egypt, according to press reports from Cairo and Moscow.

Afghanistan's relations with the USSR have become increasingly close over the past year, and Kabul is keenly interested in the Egyptian situation. Soviet use of Afghanistan to support a volunteer movement into Egypt is conceivable, despite the country's geographic isolation and its primitive stage of development.

Hammarskjold believes that the clearance of the canal is not within the mandate of the UN police force, but is subject to negotiation, along with arrangements for control and operation of the canal, in accordance with the six principles previously accepted by the parties concerned. However, Hammarskjold is optimistic about getting Egyptian consent for the UN to use Danish and Norwegian technicians, on a commercial basis, for clearance operations.

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THE SITUATION IN HUNGARY

Although the new puppet regime in Hungary is continuing its desperate efforts to assert its authority, its effective control apparently does not extend beyond the range of Soviet guns. The

fighting, for the most part, appears to have ended, but the general strike in Budapest continues; many "freedom fighters" apparently have retained their arms and come out at night, singly or in

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small groups, to snipe at the Soviet and Hungarian police. The government has, to date, been unable to cope with the widespread passive resistance.

Military Situation

No Soviet troop movements in Hungary have been reported since the large-scale withdrawal of some Soviet tanks and motorized equipment from Budapest on the evening of 8 November. Possibly some additional elements departed on 10 November. Soviet military units in and around Budapest are, according to the American army attaché, digging in and fortifying artillery and infantry positions along all major routes leading into the city. They control all major street intersections and guard government buildings within the city. The American legation opined on 12 November that "a protracted period of absolute Soviet military occupation" of Hungary or of "stations so near as to represent a visible threat of immediate reoccupation" is probable.

Popular Attitude

The over-all situation in Hungary, particularly in the capital and the western areas, has been characterized by observers as a form of "quiet chaos," with little work being done, transportation at a virtual standstill, and industry stopped by a general strike.

The strike, which the legation reports is in deadly earnest, is based on the demand that the Soviets must

leave Hungary--a demand which many Hungarians seem to believe will be met. Groups of workers have held meetings in which new demands were formulated, including the formation of a government under ex-premier Imre Nagy, which would then enter into immediate negotiations for the withdrawal of Soviet troops.

Kadar's Program

The Kadar regime, faced with this "quiet chaos" and confronted with overwhelming popular hostility, is attempting to get the country back on its feet. It has reversed its policy on Western relief aid, and is now admitting International Red Cross relief convoys, and is increasingly declaring its support of Nagy-like policies--including a hedged promise of "free" elections in the "near future."

The regime has adopted the national Kossuth emblem as the nation's coat of arms and has pledged an alteration of the army uniform to conform with national traditions. It has reaffirmed the Nagy regime's disbanding of the security police and has avoided accusations of treachery against ex-premier Nagy for his tactics during the revolution.

Budapest radio announced on 14 November the removal from the central committee of a dozen top party figures of the prerevolution days. These individuals, including Gero and ex-premier Hegedus, had been earlier demoted by Nagy.

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In additional efforts to win support, the regime has pledged itself to an extremely liberal labor program based on workers' councils, which would ensure worker autonomy, and declared trade union independence from political parties and the government. Specifically, the regime promised wage increases up to 11 percent by 1 January, the abolition of certain unfair taxes, and adjustments of insurance for those who suffered a loss during the revolution. The government has also announced that "all restrictions of private retail trade in the markets have been abolished" and that market trading is now "completely free."

The regime, despite these "liberal" moves, has specifically rejected demands for Hungarian neutrality and an immediate withdrawal of Soviet troops, although Kadar is pledged to negotiate for Soviet troop withdrawal after order is restored.

Regime's Prospects

Kadar's ability to achieve control and to serve as another Gomulka--apparently the original Soviet plan--is very much in doubt. The chaotic economic situation--now made graphically clear by threatened famine--a decimated party and state apparatus, and popular hostility--aggravated by reports of large-scale deportations--confront the regime with monumental tasks. Any successes Kadar may achieve in meeting these problems would depend on the support of the USSR, which can remove its troops in order to enhance the prestige of the Hungarian hierarchy or

which can continue using force to support the regime.

Soviet Policy

A number of Soviet leaders, including Mikoyan and Suslov, and possibly Khrushchev, reportedly were in Budapest on 12 November, apparently in order to look the situation over and to advise the local Communist leadership. Pravda's favorable coverage on 13 November of Kadar's 11 November policy address represented general support for the Hungarian leader's liberal national Communist program. Another Pravda article two days later indicated, however, no deviation in the Soviet insistence that "counterrevolutionary" activities in Hungary were prepared well in advance.

As a consequence, the Hungarian regime may try to gain some measure of popular support and perhaps work out a popular-front government with Communist and Soviet control as well concealed as possible, while simultaneously quietly pursuing a course of repression.

The Soviet estimate of Hungarian public opinion is probably realistic and the USSR presumably would take some insurance measures to prevent any "soft" policy from getting out of hand. The large-scale deportation of Hungarians--including many who have demonstrated leadership qualities--for continued resistance has been reliably reported under way for several days. The American legation in Budapest estimates that, at a minimum, 16,000 have already been deported from Budapest.

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The continued adherence to the principles of the 20th party congress and the 30 October resolution concerning relations with the socialist states suggests that Moscow

may contemplate the withdrawal of Soviet forces to positions outside the country at such time as it feels that a stable Gomulka-like regime in Hungary is established.

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NOTES AND COMMENTS

ASIAN REACTION TO SUEZ AND HUNGARIAN CRISES

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Egypt is identified in the Asian mind as a brother nation fighting the old, common enemies of freedom, while Hungary is regarded as remote and is considered essentially the white man's problem. Moreover, Suez Canal operations are of economic concern to many Asian nations, which have no economic interest in the outcome of the Hungarian rebellion.

South Asia

Nehru's statements during the last two weeks typify the thinking of most leaders in neighboring Asian countries. He quickly condemned British-French action as "naked aggression" but delayed comment on Hungary for several days. When he finally spoke on Hungary on 9 November, he linked Egypt and Hungary as "small countries made to suffer because of the rivalries of great powers." This expression of sympathy, however, was offset by an observation that the fighting in Hungary appeared to be merely "civil conflict."

Krishna Menon on 9 November voted against the UN resolution on Soviet intervention in Hungary, probably because Nehru feared that the section calling for free elections in Hungary might set a bad precedent for Kashmir. Despite hints of Indian officials that Menon violated his instructions, it seems likely his vote accorded with guidance given him by Nehru.

Nehru is reluctant to admit that his vision of a liberalized Soviet Union as a force for peace has been proved erroneous, and he is apparently satisfied with Bulganin's prompt and lengthy explanation to him of the situation in Hungary.

Pakistan, Ceylon and Afghanistan also have concentrated their attention on Egypt, almost to the exclusion of Hungary. Pakistani president Mirza called a meeting on 8-9 November of Moslem members of the Baghdad pact to discuss Egypt. At this meeting a demand was made for foreign troops to leave Egypt, threats were made to force the British out of the pact, and Pakistan talked of leaving the Commonwealth. No mention was made of Hungary.

On 14 November, the prime ministers of India, Burma, Ceylon and Indonesia issued a communiqué from New Delhi denouncing attacks against Egypt and Hungary, but using much harsher language against Britain and France than against the Soviet Union.

Southeast Asia

The strongest reaction in Southeast Asia has occurred in Indonesia, where both the government and parliament have violently attacked the British, French and Israelis as aggressors. The British and French embassies have been the targets of mobs, and labor unions are refusing to service British and French planes or ships. The government was quick to support the Soviet proposal for another Bandung conference, indicating

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impatience with UN efforts, and President Sukarno publicly suggested that the Anglo-French action was the forerunner of a Dutch attempt to retake Indonesia.

Indonesian foreign minister Abdulgani's attitude toward Hungary is believed typical. He told his parliament on 13 November that although Indonesia was in sympathy with the resolution condemning Soviet intervention in Hungary, an "important consideration in our decision to abstain was the fact that we were faced with a resolution which could easily be made into a tool to transfer world attention from a more serious issue, namely the British-French-Israeli aggression against Egypt."

In Burma, news coverage of the Middle East overshadows that of developments in Hungary, and demonstrations have included the posting of anti-Western slogans on American embassy walls. Premier Ba Swe stated the British and French--along with the Russians--were "scuttling the United Nations."

In Malaya, it is feared ultranationalist political leaders may split the government party by demanding an anti-British declaration.

In Thailand, four minor parties issued a joint condemnation of the British and French and a march was staged through Bangkok demanding Thai withdrawal from SEATO. Further

and more serious demonstrations are feared.

Despite a surface calm among SEATO representatives in Bangkok, underlying tensions and hostilities have reportedly been created by the attack on Egypt. The American ambassador in Thailand believes that for some time it will be difficult for Asian members to defend domestically their membership, and that hope for expansion of membership has been seriously set back.

Far East

South Korea and Taiwan have been greatly stimulated over events in Hungary and had high hopes the revolt there was the beginning of the collapse of the Communist world. On Taiwan, the Chinese Nationalists have alerted their forces and ordered them to intensify their state of readiness. Taipei has criticized other Asian countries for condemning British and French aggression while remaining silent on Soviet action in Hungary.

The prestige of Britain and France is undoubtedly at an all-time low in Asia and will probably not be recouped quickly. The USSR's prestige has been tarnished, but its strong threats to Britain, France and Israel have had a balancing effect. Thus far, the stock of the United States has risen high, but the Communists are working hard to link the US with the British and French and to gain credit for the ceasefire in Egypt.

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BULGARIAN OFFICIALS CONCERNED OVER DOMESTIC PROBLEMS

Bulgarian officials at home and abroad believe the situation in Bulgaria is similar in many respects to that in Poland and Hungary prior to

the recent upheavals. While the Bulgarian officials do not believe uprisings are imminent, they feel the regime must take immediate steps to correct the

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domestic situation. Disagreements over what these steps should be have brought to the surface the factionalism which, largely as a result of Moscow's changed attitude toward Tito, has developed in the regime in the past year.

Bulgarian officials reportedly believe that widespread discontent, economic privation, and exploitation of domestic unrest by foreign elements were the major factors which led to the "troubles" in Hungary and Poland. These officials believe the same factors exist in Bulgaria. The officials note particularly the acute shortage of bread, generally poor living conditions, failure of the press to provide accurate news, lack of party democracy, and failure of the regime to implement the liberal reforms being publicized elsewhere in the Soviet bloc. Other probable causes of discontent are unemployment, the intensive agricultural collectivization program last spring, the reported increase of armed militia patrols, and the arrest of former army officers and students.

Some officials believe immediate measures must be instituted to correct the economic situation. Others believe that events in Hungary and Poland have proved the correctness of the Stalinist policies toward the Satellite nations and that any liberalization measures would appear to be signs of weakness.

Until these apparently loose factions join forces, no significant policy changes in Bulgaria are likely, even if there is some juggling of positions within the leadership.

Yugoslavia could have a considerable influence upon the development of these factions. It has indicated that its differences with Bulgaria were not resolved when their parties agreed to renew relations last October. Furthermore, it has implied that Bulgaria can make no progress toward development of independent national Communism until all its present leaders are removed from power. The Yugoslavs now claim that Bulgarian party groups are blaming Tito for the Polish and Hungarian "troubles."

Most Bulgarians, including the Communists, fear Tito's aspirations toward hegemony in the Balkans. Therefore, any tendencies toward emulating Tito's independent national Communism are tempered by the possibility that Bulgaria's dependence on Moscow would be replaced by dependence on Belgrade.

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THE GOMULKA REGIME IN POLAND

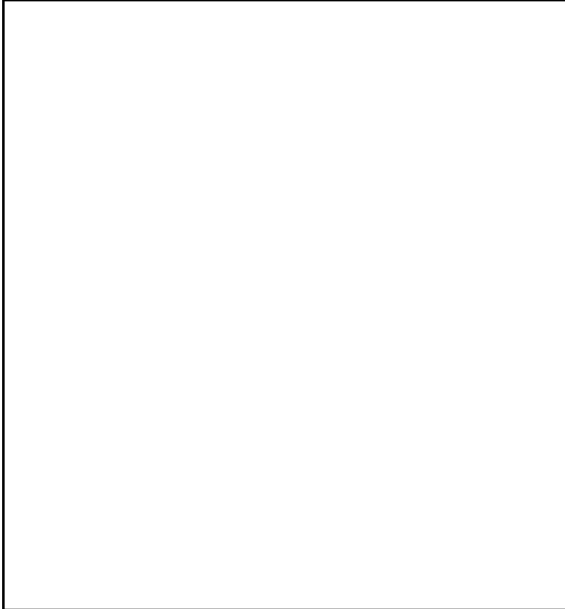
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The Polish regime is confronted with the difficult task of formulating policies that will satisfy popular aspirations and yet not antagonize the Kremlin. In the face of what is described as an "unnatural calm" on the Polish scene, party first secretary Gomulka continues to implement his policy of national Communism while the Kremlin looks on with suspicion. He is now in Moscow to discuss outstanding differences. Meanwhile, the new regime is taking steps to strengthen the economy and carry out the economic program Gomulka outlined when he took office.

Relations With the USSR

Private statements attributed to Gomulka, as well as Polish press comments, have made clear that Poland considers the Soviet Union its "best friend" and believes close relations between the countries must continue. Gomulka is said to have stated recently that only friendship with the Soviet Union would guarantee for Poland the maintenance of the Oder-Neisse line.

Indications that Soviet forces in and around the country were alerted on 8 and 9 November reflected the Kremlin's sensitivity to possible dangerous trends. However, American military attachés in Warsaw, after an extensive tour of the country on 10 and 11 November, reported no abnormal troop activity.



The removal of Soviet officers from the armed services and antiliberal Polish officials from the party apparently continues. The purge of one more Stalinist Polish leader--trade union federation chairman Wiktor Klosiewicz--appears imminent.

Despite the expressions of friendship for the Soviet Union, Polish propaganda has refrained from endorsing the Kremlin's intervention in Hungary. The American embassy in Warsaw reported that the press was approaching this subject "as though disarming a time bomb," and that most of its statements on the Hungarian situation have been in general terms.

Meanwhile, popular expressions of sympathy with the rebels in Hungary--and concomitant anti-Sovietism--have been noted, including a demonstration in Krakow on 5 November of 20,000 students bearing black-bordered Hungarian flags.

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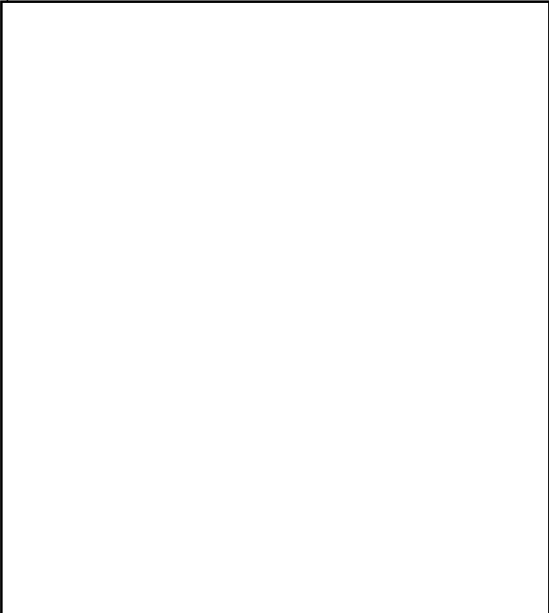
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Domestic Economic Program

The new regime is taking steps to strengthen the economy and implement the program Gomulka outlined when he took office. Trybuna Ludu, the leading organ of the Polish press, has recommended that the draft five-year plan be abandoned as of dubious practical importance, and that a two-year program geared to immediate economic problems be initiated. At a meeting of the Sejm on 7 November, the draft five-year plan was accepted merely as a "guide for action and a basis on which to work out the 1957 plan."

A revised economic program will apparently not be approved until the new Sejm convenes after the January elections. By that time, the Gomulka regime should have a clearer conception of available foreign aid and should have had an opportunity to "re-examine" certain premises of the five-year plan, "hitherto considered inviolable, especially regarding agricultural policy." The regime should also be able by then to detail the "considerable amendments" called for in the provisions of the five-year plan concerning consumer goods and housing.

A party and government commission has approved the establishment of workers' councils and the participation of workers' representatives in decisions affecting the more important problems of economic enterprises.

Accepting earlier demands of Polish merchant seamen, the central board of the Polish merchant marine stated that foreign shipowners had been approached about the employment of Polish sailors. It was announced that two seamen had already gone to work for a Swedish line. In the future, such matters are to be decided by the sailors' trade unions.

In agriculture, the government is trying to halt the recent rush of peasants from co-operatives. It has stated that "weak and unprofitable" farm co-operatives should be disbanded, but has asked that members of co-operatives delay the breakup until the year's farm work has been completed and the annual meeting of each co-operative has been held. Deputy Premier Ignar has promised that in the future, private farms will receive the same encouragement from the state as co-operative farms.

A special government committee has recommended that the Ministries of Agriculture, State Farms, Forestry and Purchasing be combined and the prewar agricultural crops re-established in Polish agriculture. These recommendations will probably be accepted by Gomulka and, when implemented, will eliminate certain crops whose production was pushed in recent years but which are not suited to the Polish climate.

The Ministry of Agriculture is preparing a draft law abolishing ownership limitations applying to farms acquired in the postwar agrarian reform. The peasants are to receive full title to these properties and will then be able to sell or lease them.

The regime is also modifying previous policy in numerous other fields. Measures have been initiated to increase the amount of foreign exchange available to Poland, to boost imports and to eliminate the black market. A devaluation of the zloty is reportedly to be announced in several weeks in order to encourage trade with the West.

Poland's economic policies as revised will strengthen the economy but will allow only a gradual improvement in living

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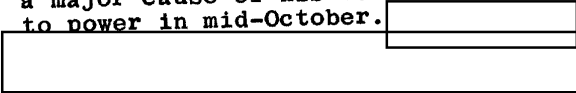
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conditions. Barring large-scale foreign aid, the economic program set forth by Gomulka cannot rapidly eliminate the hardships and discontent which were

a major cause of his return to power in mid-October.

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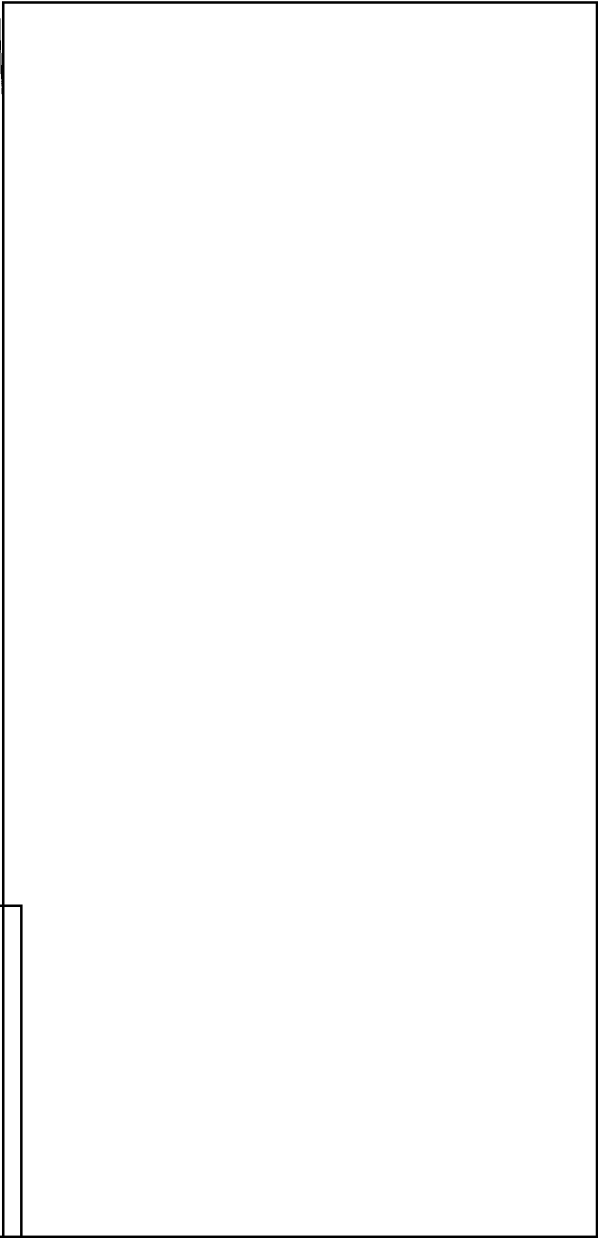
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EFFECT OF SUEZ CANAL CLOSURE ON BLOC ECONOMIES

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Closure of the Suez Canal will have only a negligible impact on the economies and shipping of the USSR and the Eastern European Satellites, whose vessels accounted for only 2 percent of Suez Canal transits in 1955. Communist China, however, depends on substantial sea-borne deliveries through the Suez Canal. Cargoes carried by Soviet bloc and Finnish ships to China support industrial construction, while nonbloc vessels carry materials for China's agricultural development program.

Sea-borne deliveries of petroleum products by bloc tankers from the Black Sea to the Communist Far East, which increased by 300 percent in 1955 over 1954 and rose further in 1956, will also be reduced. However, the November to January period has been the slack season for such deliveries in past years. If the canal is closed for only this period, it is probable that supplies adequate to meet China's normal requirements can be furnished from existing stocks and over the Trans-Siberian Railroad.



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[redacted] Due to increased freight rates and the limited number of vessels offered for Far East runs, such deliveries this year will probably be curtailed, resulting in a decreased availability of chemical fertilizers for China's spring planting. The small amount of manufactured foodstuffs which comprise the remaining deliveries from Europe could be obtained by China in Southeast Asia.

Peiping will undoubtedly arrange for rail shipment of industrial items necessary for China's construction program which are usually shipped by sea from Gdynia.

Rail facilities, although heavily burdened between Omsk and Novosibirsk, could handle the additional tonnage of China-bound industrial products. Increased petroleum shipments could present difficulties, however. The growth of the Soviet tank car park has not kept pace with rapidly increasing petroleum production. China's less urgent demands will continue to be met

by diverting vessels around Africa. It is probable, however, that increased freight rates will cause China to defer delivery of many items. Non-Communist shipping agencies will probably hold their vessels for the expected increase in transatlantic runs.

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[redacted]

The lack of vessels to carry these goods, primarily agricultural commodities, may well cause a storage problem in China, although the delay in their arrival in Europe will not vitally affect East European consignees. Exports of raw materials required by Soviet and East European industries are exported for the most part via the Trans-Siberian Railroad. Iron ore which China provides Czech and Polish steel industries could be purchased by these countries from Scandinavia.

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TURKEY'S TRADE WITH SOVIET BLOC RISING

The continuing deterioration of Turkey's economy recently has made Turkish businessmen increasingly receptive to Soviet bloc trade and credit offers. Turkey has accumulated debts of about \$300,000,000 to its Western trading partners and is now in a very poor payments position with free world countries.

Because inflationary prices have made traditional buyers reluctant to purchase Turkish goods, Turkish exporters and producers have pressed the government to permit an increase of exports to bloc countries, which are willing to pay the

high prices. In this situation the government was unable to prevent a rise in exports to the bloc, but it held down imports as a deliberate policy during the first half of 1956. As a result, the Soviet bloc is the only area in which Turkey has a favorable balance of trade and is in a credit position.

The reluctance of Western countries to extend further credit or to buy Turkish goods at inflationary prices has created such a scarcity of foreign exchange that Turkey is suffering severe and widespread shortages of essential imports.

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This has made it inevitable that Turkey use its credits with the bloc to alleviate the situation.

Turkey's annual trade with the bloc in recent years has been largely with the Satellites; trade with the USSR has been negligible. During the first six months of this year, Turkish exports to the bloc reached the highest level ever recorded, accounting for 25 percent of total exports, and imports from the bloc were 13 percent of the total. It is likely that bloc imports will increase substantially during the next few months, and, unless the disparity between internal and world prices is remedied, Turkey will probably direct its commerce more and more toward the Soviet bloc.

The government itself has been and continues to be opposed to any large-scale, government-to-government aid agreements, and all official Russian approaches thus far have met a negative response. The Turkish government does not seem to take the same attitude, however, toward limited and specific credits, especially from the Satellites, and there are a

number of projects now under way with bloc financing, as well as several instances of government purchases of bloc products on long-term credit.

Soviet and Satellite commercial representatives diligently toured the country in 1956, offering credit to private businessmen and state enterprises. Several of these offers have been accepted and licensed. Poland has offered a \$6,000,000 credit to a group of private firms to furnish and install a foundry for manufacturing steel spare parts. There are indications the government will approve the transaction.

With the export season beginning, the shortage of foreign exchange may be somewhat alleviated and the pressure on the government to accept Soviet aid will be lessened. The relief may be only temporary, however, and Ankara has made several overtures to the United States for increased aid, implying that it would be forced to accept some of the large-scale loan offers of the USSR if American help were not forthcoming.

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TENSION IN KOREA

Officially inspired demonstrations in South Korea continue to call for North Korean revolts. The demonstrations reportedly are apathetic and are failing to create an enthusiasm among the populace for a "march north." The North Koreans apparently are not looking for a pretext to initiate hostilities and have been increasing their emphasis on "peaceful unification." Recently reported troop movements are believed to have been on a small scale and probably reflect defensive relocations.

South Korean Developments

North Korean troop movements along the demilitarized zone have been reported, and an emergency meeting of the South Korean cabinet was called on 10 November to discuss this situation.

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PART II

NOTES AND COMMENTS

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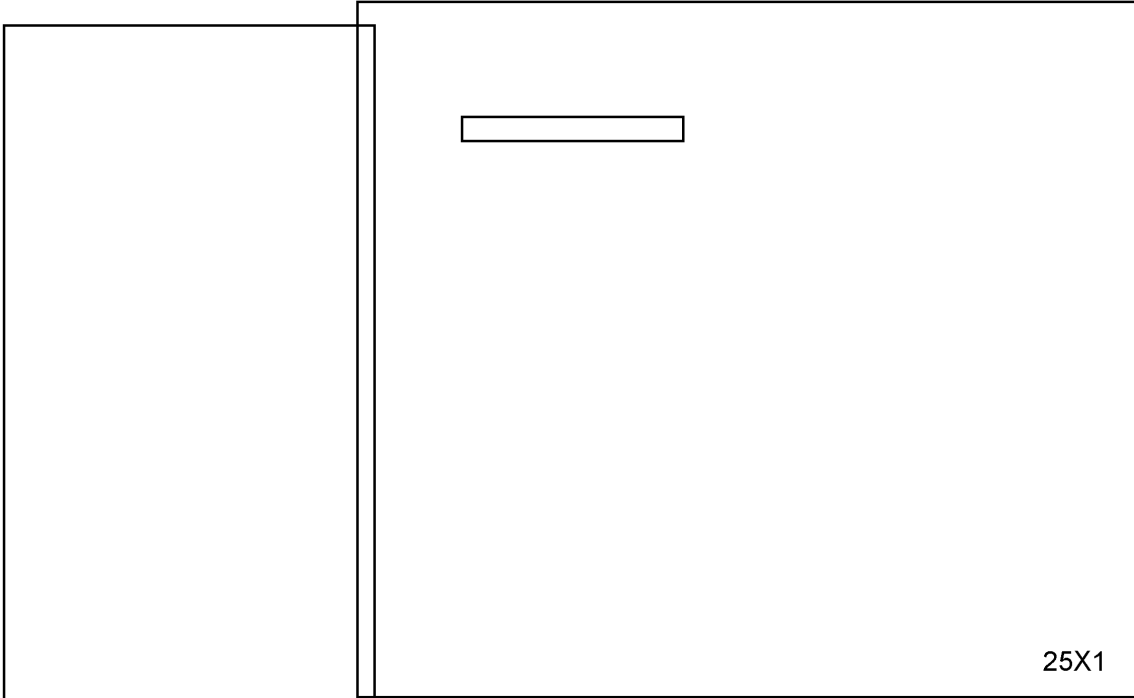
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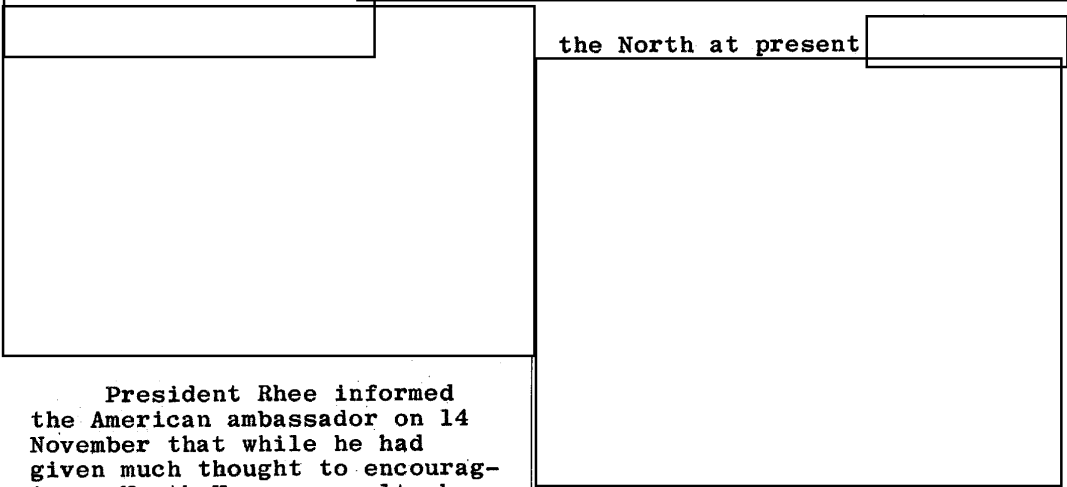
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the North at present

President Rhee informed the American ambassador on 14 November that while he had given much thought to encouraging a North Korean revolt, he had finally decided against it. He said he could not encourage North Koreans to risk their lives unless South Koreans were able to come to their aid, which could not be done without American support.

It seems likely that Rhee has no definite plans against

North Korean Reactions

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On 2 November, North Korean premier Kim Il-sung declared that the North did not want "internecine civil war" and strongly reaffirmed the peaceful unification theme. North

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Korea's protest on 8 November against two overflights of South Korean aircraft was phrased in routine language and was followed by an appeal for "friendly" North-South parliamentary meetings "at an early date."

In the meantime, the Pyongyang regime is calling on North Koreans for "higher vigilance" against "provocations."

The indications of a North Korean military build-up and of troop movements underscore the continuing improvements in North Korean combat capabilities since the cessation of hostilities in 1953. Pyongyang has recently reorganized its army command structure and re-equipped its artillery, replacing the 120-mm. mortars with guns and howitzers up to 152-mm. caliber. These new weapons triple the range of North Korean corps artillery.

In the unlikely event President Rhee implements his threats to march north, his 650,000-man army will find itself almost matched numerically by Communist forces consisting of 350,000 North Koreans and over 290,000 Chinese Communists. In addition, the Communists could bring in at least 250,000 more troops from nearby Manchuria within eight or nine days.

In the air, the South Korean air force of some 240 aircraft--of which only 84 are jet fighters--is no match for the North Koreans, who are equipped with over 500 aircraft, about half of them jet fighters. Apart from their own planes, the North Koreans would be assisted by the Chinese Communist air force, now estimated at some 2,200 aircraft, more than half of them jet fighters and jet light bombers.

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LAOS

The Pathet Lao will probably seek to integrate many more insurgents into the Laotian army than expected by the royal government, whose negotiators suggest they may be unable to prevent it. Laos has already granted dangerous concessions to the Pathet Lao on the question of neutrality, which paves the way for diplomatic relations with bloc coun-

tries and the acceptance of bloc economic aid.

Should the government continue to make concessions to the Pathets, it will reduce its ability to maintain an independent Laotian policy.

General Sounthone, the commanding general of the Laotian

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army, estimates that some 5,000 Pathet Lao troops will be ordered to "volunteer" for integration into the royal army. He feels that 3,000 of them "might" be eliminated by various screening devices. This contrasts with an earlier Laotian statement that only 300 Pathet Lao soldiers would be integrated.

Although aware that re-indoctrination of Pathet Lao troops is imperative to reduce the prospect of widespread subversion throughout the royal army, Sounthone said nothing could be done if the Pathets were to "balk" at the prospect. Questioned about a report that the Pathet Lao had increased its effective force by 1,600 men since the 5 August cease-fire, he replied that the government had no way of proving figures of Pathet strength.

Crown Prince Savang is pessimistic about the drift of events in Laos, which he attributes to internal intrigues and the lack of an effective government. He believes, however, that it would be extremely difficult to form another

government at this time.

He told Ambassador Parsons there was much opposition to Souvanna in the cabinet and indicated that a political crisis might develop during the special session of the National Assembly which begins on 20 November.

The crown prince offered no solution and cited the constitutional limitation on his direct participation in politics. His ability to take action is circumscribed by the lack of an acceptable alternative to Souvanna. Vice Premier Katay's political position has suffered a serious decline in recent months, and there is an apparent general lack of confidence in Phoui Sananikone, the only other prominent pro-Western candidate. The only other strong contenders are Bong Souvannavong and Prince Petsarath, both of whom, in varying degrees, have taken positions favorable to the Pathet Lao.

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SINGAPORE

Chief Minister Lim Yew Hock, who on 7 November won a 25-to-4 vote of confidence for

his handling of the recent Communist-led riots in Singapore, is continuing to press

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his campaign against subversion. Government and local British officials are cautiously optimistic, but are aware that Communist influence is still extensive among Chinese students and labor unions. They have expressed concern that there may be further disturbances following the release of those persons now in custody and the reopening of two Chinese middle schools.

ground activity. [redacted]

Chief Minister Lim has the added difficulty of dealing with former chief minister David Marshall, who returned to Singapore on 24 October after three and a half months in Japan and Communist China. Lim defeated an attempt by Marshall to regain control of their party, the Labor Front, but Marshall was successful in forcing Lim's hand on the subject of Singapore elections by demanding that an election date be set. Lim has announced he will request the British to grant Singapore self-government by August 1957 and that full general elections will be held at that time.

In the separately administered Federation of Malaya, where Communist subversion is less advanced than in Singapore, the October riots reportedly have stiffened the opposition of Chief Minister Rahman to an early merger with Singapore. Rahman has, however, agreed to consider a merger as an aid to containing Communism in Singapore sometime after August 1957, when Malaya will receive its independence. [redacted]

The government, meanwhile, faces the problem of overcoming the suspicions of a large element of Singapore's predominantly Chinese population, which believes the antisubversion program is directed at eradicating Chinese culture. The government may also have to cope with increasing under-

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EURATOM AND THE EUROPEAN COMMON MARKET

Compromise proposals on EURATOM and the European common market worked out by French and West German experts and approved by Chancellor Adenauer and Premier Mollet in Paris on 6 November have evidently cleared away some of the major obstacles to the treaties for the two projects. Other serious problems remain, however, which may delay the signature of the treaties, and there is some belief in France that Mollet may have yielded too much already.

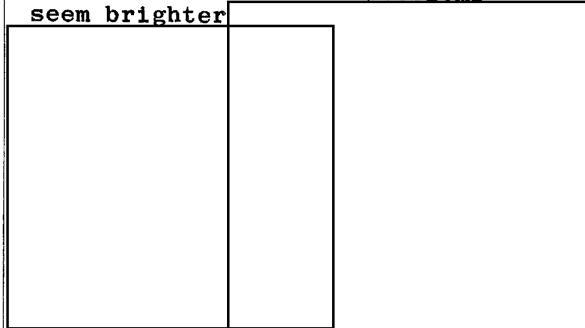
The new French-German proposals embody major concessions by both countries. The position of Bonn's Defense Minister Strauss has been rejected by Adenauer, who has agreed to give EURATOM priority in the purchase of nuclear materials and a monopoly over their supply--subject to later review, but with exceptions only in the event of shortages or excessive prices.

Mollet in turn has relinquished long-standing French insistence on the prior equalization of wages, hours, and social benefits, on the understanding this would come about in the first four-year period of the common market. French industry would be protected until this has been achieved, but the protective measures would be subject to multi-lateral review, and France would have no veto over the progression of the common market from one stage to the next.

These proposals are not expected to cause serious difficulty in Italy or the Benelux countries. If they can be translated into treaty

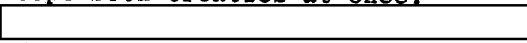
form, they will resolve two key issues which have plagued the negotiations since their inception. They should also facilitate agreement on other issues, such as ownership of nuclear fuels, national weapons programs, the level of common tariffs, the role of agriculture in the common market, and institutional arrangements.

Prospects for a settlement of these serious problems seem brighter 25X1



Steel Community vice president Franz Etzel as co-ordinator among the ministries concerned with EURATOM and the common market--a move which promises a definite policy as well as a more "European" one.

In France, Mollet evidently is willing to run considerable risks in order to complete the treaties. Some French officials have cautioned, however, that further concessions might seriously jeopardize French parliamentary support once the treaties are signed. Mollet's willingness to bargain on both EURATOM and the common market has inevitably forged links between the two--a linkage which is advantageous elsewhere, but not in France, where the assembly is not likely to accept both treaties at once. 25X1



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PART III

PATTERNS AND PERSPECTIVES

COMMONWEALTH STRAINED BY NEAR EAST CRISIS

The British government's relations with the other independent Commonwealth members have suffered a severe shock as a result of its military intervention in Egypt. All members, including those which have publicly supported Britain's policy, are angry with the Eden government for undertaking such risks affecting them all without informing them of its general intentions beforehand.

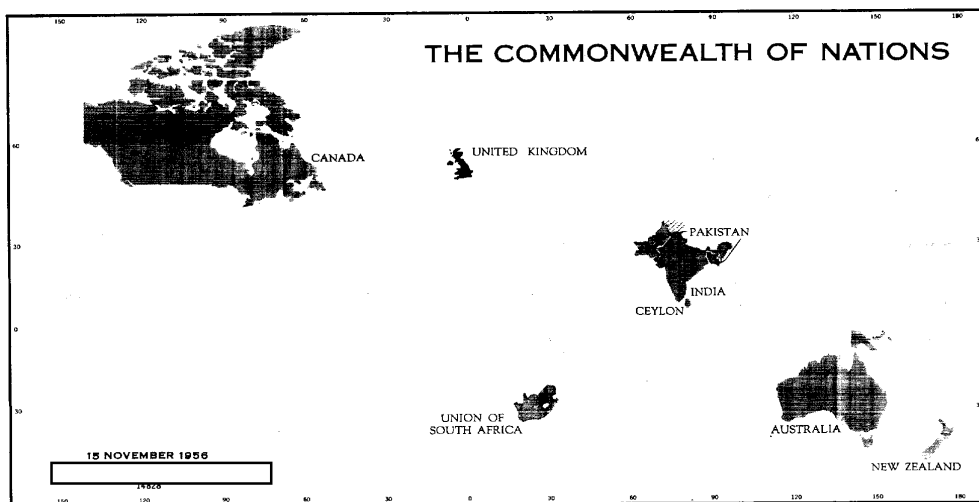
While the other members may regard Eden's behavior as greatly out of character, Britain's demonstration that it is capable of radical departures in foreign policy without regard to its responsibilities as the leader of the Commonwealth may diminish their long-term willingness to accept Britain's claim to such leadership. At the minimum, the confidence of even the most loyal Commonwealth members in the quality of Britain's present government leadership has been shaken.

From Britain's point of view, the Commonwealth is the

basis of its position as a world power, and represents the measure of its success in transforming its colonial empire into a community of free and independent states bound by the common ideals of the peaceful settlement of differences and the rule of law and the obligation to consult closely together on mutual problems.

Commonwealth Opposition

Britain's apparent conspiracy with France and Israel, therefore, appears to many Commonwealth observers as a betrayal of the fundamental principles on which the Commonwealth tie rests. Prime Minister Nehru said he regarded Britain's move against Egypt as a clear case of aggression. An official of the Indian Foreign Ministry told the American embassy on 1 November that the Indian cabinet believes the presence of British troops in Egypt runs counter to Britain's previous commendable transformation of the empire, and is a "terrible thing." High government officials of Pakistan and Ceylon

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have expressed similar sentiments.

Officials of the New Zealand Foreign Ministry told the American embassy on 6 November it has been a "difficult wrench" to support Britain publicly. The embassy at Canberra reports that in referring to his public policy of supporting Britain, Prime Minister Menzies stated, "You can't let your own side down, can you?"

Canada and South Africa have similarly deplored Britain's actions. External Affairs Minister Pearson on 30 October publicly regretted that Britain had found it necessary to resort to force. External Affairs Minister Louw "indignantly" told the embassy in Pretoria on 31 October he believed Britain's actions toward Egypt were about as flagrant a case of "intervention" as that of the Soviet Union in Hungary.

The Commonwealth governments evidently hold Eden personally responsible for aggravating the crisis in the Middle East.

The American embassy at Wellington reports that some New Zealand officials privately feel Eden was "precipitate" and "ill-advised." The Labor Party now is regarded, particularly among the Asian member countries, as the main proponent of the principles of the Commonwealth.

Lack of Consultation

Contrary to Prime Minister Eden's statement to the House

of Commons on 31 October, it appears that his government did not inform any of the Commonwealth governments before announcing the Anglo-French ultimatum to Egypt. Officials in all the Commonwealth capitals have denied being so informed, and Louw of South Africa complained on 2 November that London has apparently changed its policy on consultation with the Commonwealth on foreign affairs. Louw said his government had not been officially informed of the ultimatum until 18 hours after the event.

It appears that concern in London over Britain's neglect of Commonwealth practice and opinion has been nearly as influential as the United States' reaction in inducing the Eden government to accept the UN cease-fire proposal and seek to abate the Middle East crisis. Press reports indicate that Leader of the House Butler and his supporters within the cabinet relied heavily on the Commonwealth argument to persuade the Eden group of the wisdom of such a policy.

Even Chancellor of the Exchequer Macmillan, a proponent of intervention, referred to the strain upon "our Commonwealth" after "estrangement" from America as a danger the Eden government knew it would encounter in the process of intervening in Egypt. In Labor Party circles too, the feeling appears to be that the seriousness of the effects of Eden's actions lies primarily in his failure to consult the Commonwealth and Britain's allies.

Fear for Commonwealth

The British fear, therefore, is that their relations with the Commonwealth have been extensively injured. An official of the Commonwealth Relations Office expressed his

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personal view to the American embassy in London on 3 November that he did not expect the Commonwealth to break up "in form." He said, however, that the effects of the Middle East developments could cause it to do so "in substance."

All three Asian Commonwealth prime ministers have indicated they have no intention of "leaving" the Commonwealth, but Britain's actions have aroused elements in all three countries that oppose the Commonwealth con-

nection, and their influence may be expected to bear heavily against co-operation with Britain in the future. In particular, Prime Minister Bandaranaike appears likely to be subjected to such pressure to raise his demands on Britain in the forthcoming negotiations in London on the Ceylonese air and naval bases. The American embassy in New Delhi comments that Nehru's reference on 9 November to severing Commonwealth ties "if circumstances compel us" carried an implied threat to do so if Indian views are not heeded.

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BRITAIN'S NEW INTEREST IN A WEST EUROPEAN FREE TRADE AREA

Britain is promoting the formation of an extensive European "free trade area" that would be associated with the customs union now under consideration by the six nations of the European Coal-Steel Community (CSC)*. Such a customs union would give West Germany and other CSC nations competitive advantages over Britain unless it becomes a member. Another important factor in British thinking is the continuing pressure of the Scandinavian countries and other members of the 17-nation Organization for European Economic Co-operation (OEEC)** for specific tariff reductions which the UK is unwilling to grant.

Free Trade Area Proposal

Because of tariff arrangements with the Commonwealth countries, Britain cannot enter a customs union which requires

*The CSC consists of France, West Germany, Italy, and the Benelux countries.

all members to have common tariffs against all other countries.

At the July meeting of the OEEC, Britain suggested instead a free trade area, to be directed by a committee of the OEEC. By definition, participants in a free trade area, while gradually eliminating their tariffs against fellow members, as in a customs union, remain free to determine their own tariffs against outsiders. As a member, Britain could continue its present preferential tariff rates on agricultural and raw materials sold by Commonwealth countries and retain the advantage of preferentially lower tariffs imposed by Commonwealth members against British manufactures.

**The OEEC consists of Austria, Belgium, Denmark, West Germany, France, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Sweden, Portugal, Switzerland, Turkey, and the United Kingdom.

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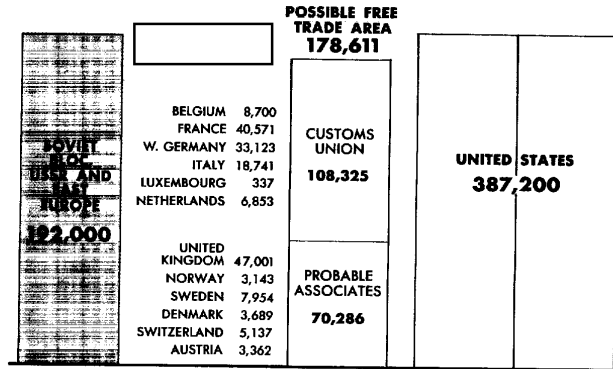
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In actual practice, most British imports from the Commonwealth are raw materials not produced in Western Europe. Britain's plan in any case specifically excludes all agricultural commodities--both for Commonwealth considerations and to protect its domestic agriculture. It does not anticipate that any Commonwealth countries would join the proposed free trade area, but that the Scandinavian countries, Austria and Switzerland, and possibly other OEEC countries would.

GROSS NATIONAL PRODUCT 1955
(MILLIONS OF DOLLARS)



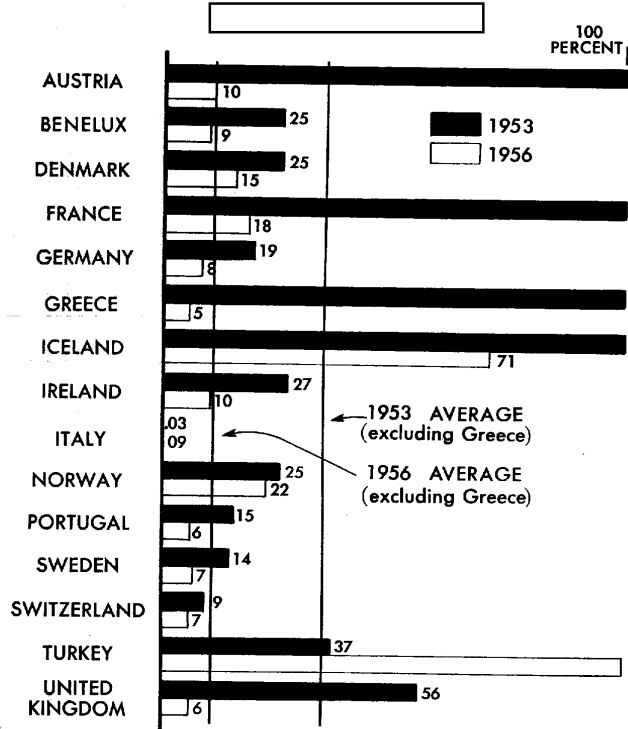
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Entry into such a free trade area would involve a fundamental change in the United Kingdom's trade relations with the Continent and would present many political and technical hurdles. Nevertheless, the chancellor of the exchequer and the Board of Trade are recommending participation; initial reactions in Britain and the Commonwealth and on the Continent are mostly favorable:

Rationale of Proposal

Britain's outstanding economic problem, like that of most other European nations, is how to continue expansion and avoid inflation. When Chancellor of the Exchequer Macmillan endorsed the free trade area project on 13 September, he made the point that "small-nation units of 40,000,000 to 60,000,000 people are entirely inadequate to provide markets and economic

PERCENT OF INTRA-EUROPEAN IMPORTS QUANTITATIVELY RESTRICTED



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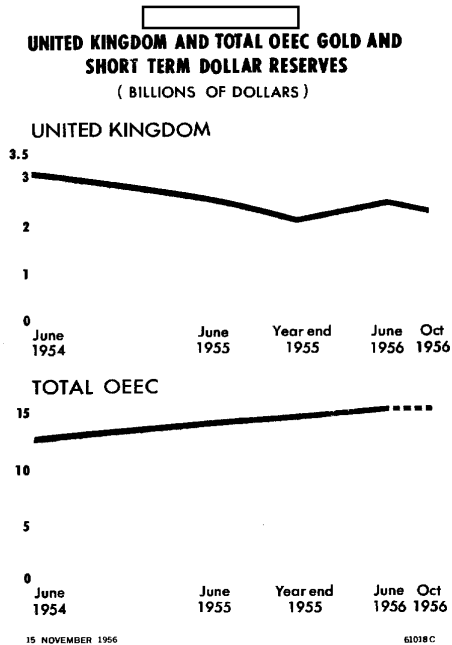
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of some 160,000,000 people. These advantages would operate not only in the CSC trading area--where the United Kingdom would be handicapped by tariffs--but would also extend to world trade because of the much larger resources base German industry would then have.

As Commonwealth bonds are being loosened by political as well as economic factors, Britain sees an urgent need to expand alternative markets. Although its exports to the Commonwealth are still many times greater than those to the CSC countries, they have remained static at approximately \$12 billion annually since 1950 and may decline with the Commonwealth countries' drive for self-sufficiency. In the same period, on the other hand, the United Kingdom's exports to the CSC rose from \$700,000,000 to \$1.1 billion, and this area is considered to be the world's fastest growing market for foreign imports.

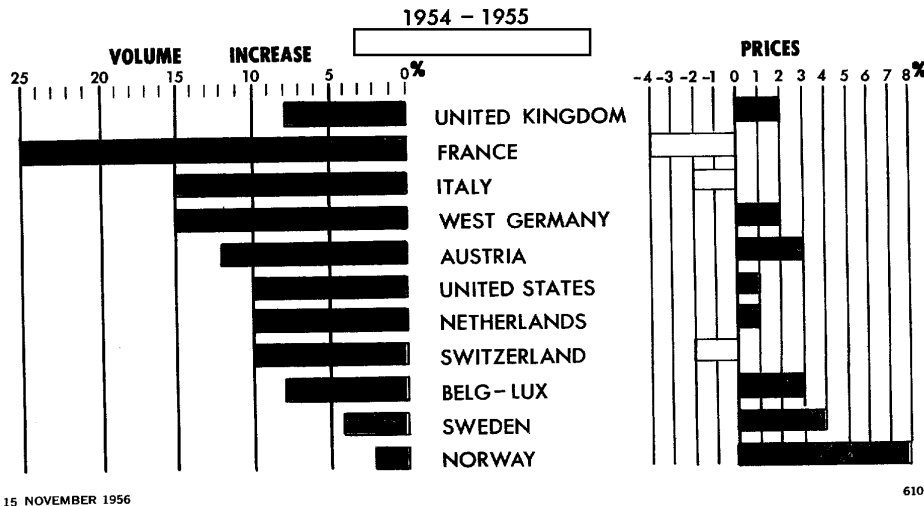
opportunities for modern mass production."

The British are known to be particularly concerned over the competitive advantages West Germany would gain from free access to a CSC common market

OEEC Considerations

Recent developments within the OEEC, where the United

PERCENT CHANGE IN EXPORT VOLUMES AND PRICES



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Kingdom has always tried to maintain a position of leadership, have also influenced British officials in favor of the free trade area project. The OEEC has achieved some 90 percent of its goal of freeing intra-European trade from quantitative restrictions, but it is now evident that the accepted goal of trade liberalization cannot be achieved by present methods. The low-tariff members, principally the Scandinavian and Benelux countries, have accordingly been pressing Britain to commit itself to a program of automatic tariff reduction; even going so far as to threaten to reinstate their own import quotas if such action is not taken.

Britain considers that its adverse trade payments and reserves position precludes any commitment to such a program.

Problems and Prospects

Of the many obstacles to Britain's participation in the proposed free trade area, political opposition by affected interests at home and in the Commonwealth would probably prove most serious. Certain British industries would suffer from intensified competition in the home market. On the other hand, it is argued that only marginal firms would be affected, that gradual elimination of tariffs would pro-

vide time for adjustment, and that for the economy as a whole, the added competition would have the salutary effect of forcing costs down, making Britain's exports more competitive in world markets.

A recent survey by the Federation of British Industries showed approximately 70 percent of management in favor of Britain's participation if adequate safeguards against increased foreign competition could be devised. Preliminary responses of the finance ministers of the Commonwealth countries were also generally sympathetic, as were those of most of the trade unions that have been heard from thus far. Resistance can be expected in some quarters, however, as workers in vulnerable industries realize that a free trade area arrangement may put them out of work.

There is some skepticism on the Continent concerning Britain's sincerity, and some apprehension that the proposal may be a ruse designed to weaken the common market. On the other hand, if Britain were to adopt the free market area plan as a national policy, it might reassure France and hasten formation of a customs union by the CSC nations, which have long sought Britain's association in one form or another.

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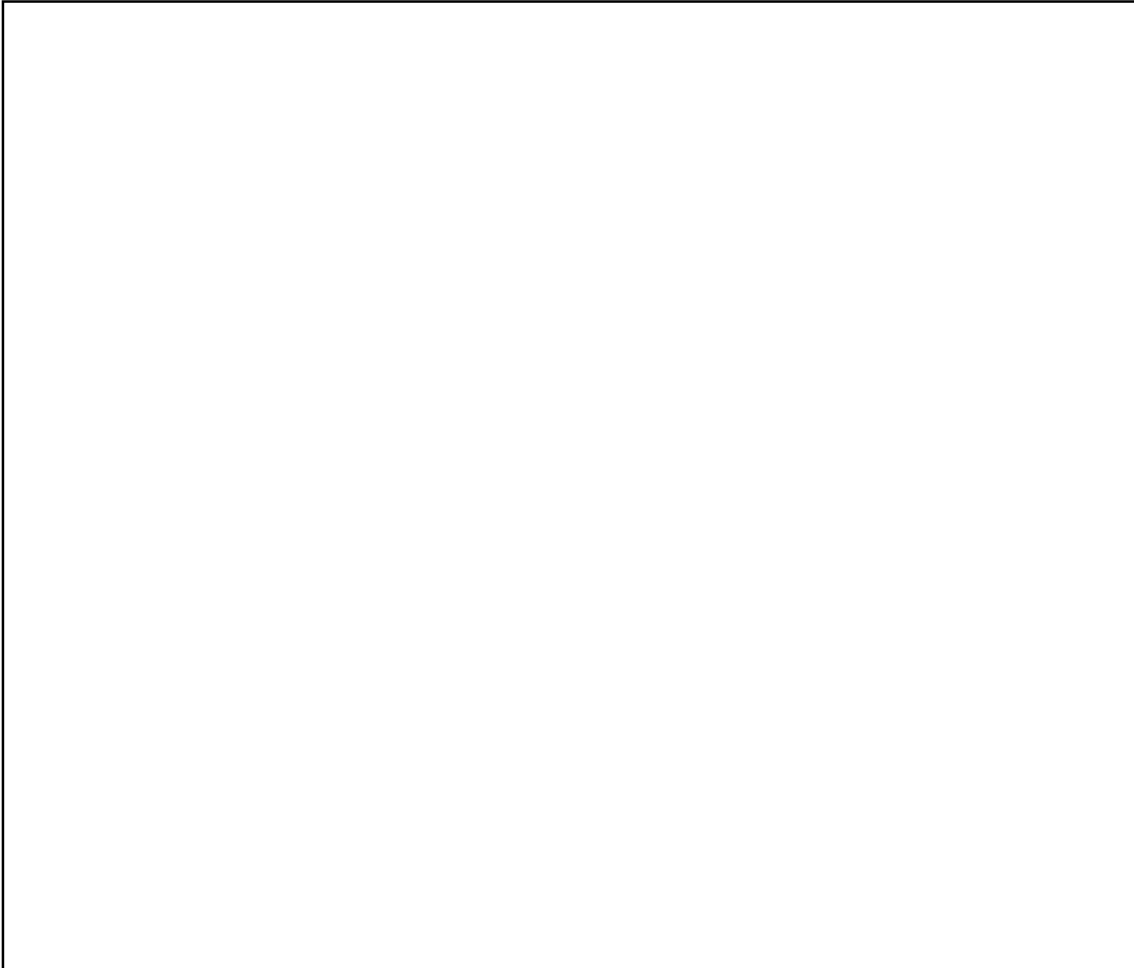
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NATIONALIST CHINA AND THE OVERSEAS CHINESE

Since last spring, the Chinese Nationalist government has revived its efforts to gain the loyalty of the 10,000,000 Overseas Chinese living in non-Communist Asia. The campaign was stepped up following Generalissimo Chiang Kai-shek's appeal at the Kuomintang Party convention in early May for revitalization of the Kuomintang at home and abroad.

Half-hearted efforts, bogged down in red tape and bureaucratic indifference, had been made before. Many high officials had felt that the attitude of the Overseas Chinese did not matter--it would change as soon as Nationalist troops began the reconquest of the mainland. The initiative of younger Nationalist officials is now gradually overcoming

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the inertia of older Kuomintang stalwarts who have resisted efforts to launch an all-out campaign.

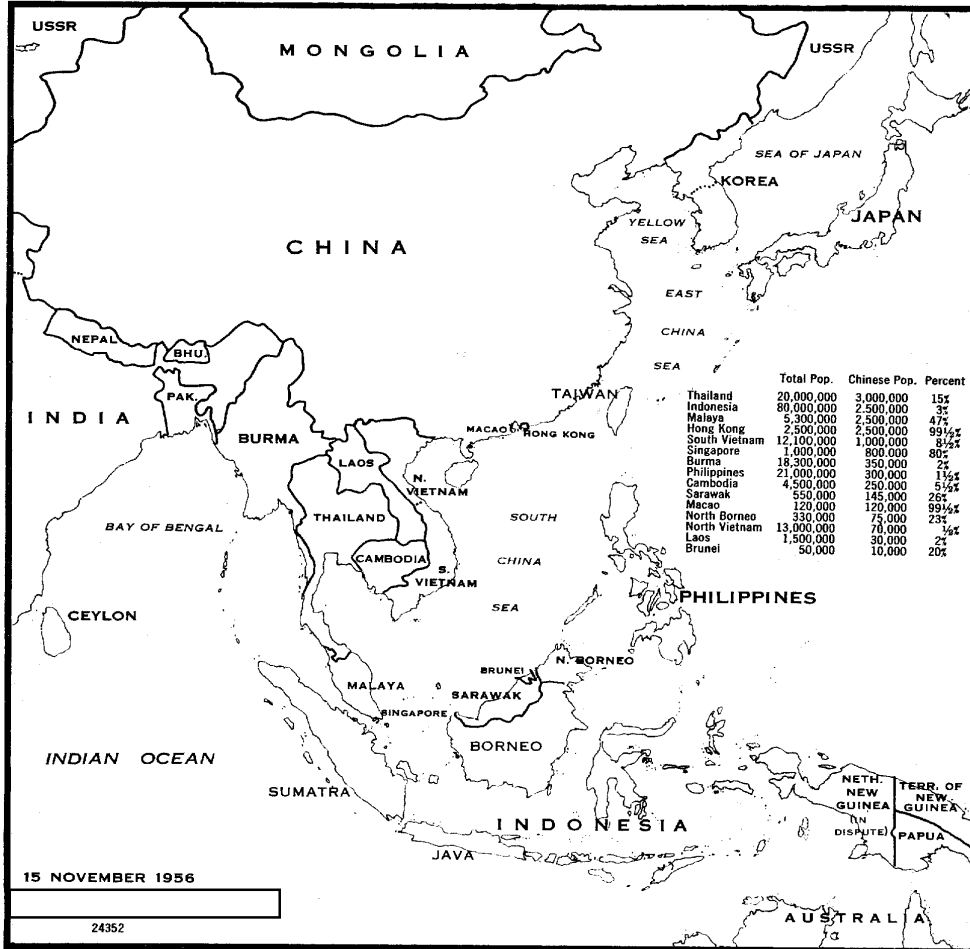
Attraction of Visitors

One of the first steps the government took was to announce in late May that Overseas Chinese who had been to Communist China were also welcome to come to Taiwan and freely compare free China's manner of living with Communist China's. This was a reversal of policy, for heretofore the Nationalists had regarded all Chinese lured to the mainland as blackguards and potential

traitors, too dangerous to be allowed to visit Taiwan. This new policy was followed by an announcement that entrance requirements would be simplified, and on 1 August the Nationalist diplomatic representative in Macao was allowed to issue passports and visas without referring each case to Taipei for approval.

Several Nationalist holidays in October attracted overseas visitors. Gala festivities took place on the 10 October "Double Tenth" holiday commemorating the birth of the Chinese Republic, and on Overseas Chinese Day (21 October),

DISTRIBUTION OF CHINESE IN SOUTHEAST ASIA



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United Nations Day (24 October), and Taiwan Restoration Day (25 October). The American embassy in Taipei comments that curiosity to see Taiwan is beginning to outweigh political qualms.

Southeast Asia Visits

Ignorance of local conditions within individual Asian countries has been one of the greatest difficulties facing the Nationalist government in preparing an effective program to woo the Overseas Chinese. In this connection, visits to Southeast Asian countries in June and July by Dr. Sampson Shen, director of the Government Information Office, and Foreign Minister George Yeh were of considerable importance. Dr. Shen, one of the younger, dynamic and more foresighted Nationalist officials, produced a detailed report stressing the need for early, positive measures to improve the Nationalists' relations with Overseas Chinese.

Although Yeh's trip was much shorter and confined to Thailand and Cambodia, it convinced him Taipei's diplomatic representatives in Thailand were failing in their liaison tasks with local Chinese and that an overhaul of embassy personnel was in order. A new press attaché and ambassador were promptly assigned and their intensive spadework prior to the 10 October Nationalist holiday produced a turnout in Bangkok markedly larger than in recent years. Ambassador Rankin said Yeh returned from his trip "brimming with ideas" and apparently spoiling for a fight with the Kuomintang stalwarts operating the Overseas Chinese program.

Economic Measures

The Nationalist government has long recognized that the Overseas Chinese are particularly sensitive to business opportunities. A few limited steps have

been taken to expand trade with Overseas Chinese firms and merchants and provide them with opportunities for investment on the home island.

In August samples of 185 different varieties of Taiwan-produced consumer goods were sent to various Southeast Asian countries, where Nationalist officials believe a ready market exists among Overseas Chinese communities now purchasing cheap but shoddy Communist items. A commission was also established to plan for Taiwan's participation in various international trade fairs, notably the Bangkok fair in December, where free China's goods will be displayed alongside those from Communist China. At the end of August, the government announced the establishment of a semiofficial trade center on Taiwan to promote foreign commerce.

Beginning in November 1955, limited measures were taken to stimulate overseas investment in Taiwan by easing tax burdens on importers of commodities. This was followed by other measures, of which the latest and most important is a decision made on 23 October by the Ministry of Finance to extend the preferential exchange rate now enjoyed by diplomatic and American official personnel to remittances of foreigners and Overseas Chinese for approved investments.

Whether effective government action will be taken remains to be seen. The fundamental problem is to develop a sympathy for foreign trade within the Nationalist government. Many officials at present are opposed to consumer goods exports; they prefer to maintain a high level of domestic consumption and rely on American aid to make up the imbalance in foreign exchange. Increased exports, they argue, will merely lead to reduced American aid.

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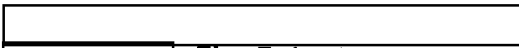
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Diplomatic Support

The Overseas Chinese have traditionally looked to the homeland for guidance and protection, and the Nationalist government has traditionally maintained that all Chinese are citizens entitled to protection. In practice, however, Taipei has been unable to furnish protection, and certain highly nationalistic Asian nations-- notably South Vietnam and Indonesia--have discriminated against local Chinese despite Taipei's protests.

Under these conditions, Nationalist "diplomatic support" has harmed rather than helped the local Chinese. Many are resentful because of this, and Taipei is now beginning to realize that a totally different approach to the problem is needed if the loyalty of the Overseas Chinese is to be won.



The Taipei government evidently has concluded that quiet attempts to improve the relations between local Chinese and their countries of residence will help to mollify the strong nationalistic feelings promoting discrimination and ultimately better serve the interests of the Overseas Chinese than official protests. At the same time, it probably hopes that the policy will help improve relations between Taipei and these countries.

Campaign Progress

The revitalized Chinese Nationalist campaign to win the loyalty of the Overseas Chinese has achieved limited successes, of which the 10 October celebrations in South Vietnam and Thailand are examples. While the increasing appreciation on the part of Nationalist government officials of the urgency of the problem is encouraging, it is questionable whether sentiment favoring Taipei is being significantly increased by the campaign.



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