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Recent developments point to a concerted Soviet effort to destroy the effectiveness of the Western export control program and to drive an economic wedge between the US and its allies. The disruption of reestablished East-West trade patterns as a result of US imposed export controls has provided the Soviet Orbit with effective economic warfare weapons.



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With the suspension of Anglo-Iranian negotiations, the Iranian Government faces increasing economic and political pressure. Should the present Prime Minister withdraw or be removed in a manner which does not lend itself to extremist exploitation, a capable, moderate government might be installed. Failure to settle the oil issue and the resulting political and economic deterioration would be an invitation to the Communists to take over.



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THE SOVIET WORLD

With the San Francisco Conference less than a week away, Soviet propaganda continues to obscure Russia's precise intentions when discussion of the draft peace treaty for Japan begins. The tone of Communist comment, however, is one of assurance, and contains no hint of a defensive attitude.

Moscow originally commented that "all men of good will" desire a multilateral treaty, a statement which the Literary Gazette expanded by quoting Western and Indian opinion to prove the "extreme unpopularity" of US policy vis-a-vis Japan. Other Moscow comment has rejected the "revival of militarist forces in Japan and the permanent US occupation of that country."

Most Satellite commentary follows the parent line. The Paris paper Humanite, however, asserted that Gromyko will arrive "equipped with proposals for a veritable peace treaty," and Hungarian propaganda media added that Soviet participation "will turn the conference into a powerful forum of the peace fight."

Gromyko himself, upon arriving in New York, stated only that the USSR has "its own proposals," and expressed the hope that "they will be supported by all those who are really interested in . . . a peace treaty for Japan which would lay the foundation for . . . normal relations between Japan and other countries, especially those who suffered most from Japanese aggression."

His statement was an obvious appeal to those Asian nations that will come to the conference after experiencing varying degrees of difficulty in accepting the principles of the draft treaty, and, beyond them, to the two Asian nations, India and Burma, that declined invitations. It also was a clear indication that when the conference opens Gromyko will promptly bring up the question of Chinese Communist participation. It seemed highly probable that the breakdown of the Kaesong negotiations would be one of the most potent weapons in his arsenal.

The breakdown may have been designed in part to strengthen the USSR's attack on the Japanese treaty draft as a cover for US aggression in the Far East, since the Soviet delegates could accuse the United Nations in general, and the US in particular, of lacking good faith toward the Korean peace negotiations.

The talks could also have been broken off as a necessary preliminary to placing the conference under the stress of military events. The launching of a full-scale Communist offensive prior to the conference, if it resulted in serious setbacks to the UN forces, might supply the Soviet

Union with an effective weapon to disrupt the program for the Japanese peace treaty.

More probably, failure to reach a Korean peace settlement will be portrayed by the USSR as an object lesson to the conference that Far Eastern questions cannot be solved without being discussed in their full context with the participation of Communist China and North Korea. Moscow would therefore propose that the Peiping and Pyongyang regimes be invited to send delegations, and the suggestion might be revived that a Big Four or Big Five meeting which included Communist China should endeavor to reach a general settlement.

If Soviet proposals at San Francisco were to be rejected, a final breakdown of the Kaesong talks, to be followed by a renewed offensive or actual expansion of hostilities, could be timed to coincide with a Soviet walkout from the conference.

In any event, Moscow has retained for itself almost complete freedom of action. Although probably in substantial control of decisions taken in Peiping and Pyongyang, the USSR enters the conference still technically a neutral party. In regard to its part in the Kaesong negotiations, the Kremlin appears in fact to be channeling directives through a Soviet military mission in the area to the North Koreans. Thus, the more stubborn position taken by Nam Il may, in the final analysis, prove to be a more correct reflection of Soviet policy than that of the Chinese Communist delegates, who have maintained direct contact with Peiping.

As the climax to the international Five Power Peace Pact signature campaign, the Soviet Government is finally beginning to collect signatures throughout the USSR. Another plank in the program proposed by the Soviet-controlled World Peace Council last February is expected to find expression in an international economic conference in Moscow later this year. Invitations will be issued to foreign businessmen, with practical spadework for reopening East-West trade the principal purpose of the conference.

A significant trend in Eastern Europe is the continued stress on overcoming popular resistance and on realigning the people behind the Communist regimes. Poland is the most recent Satellite to resort to the mass deportation of political unreliaables from its capital. The victims are reported to be officers of the Polish Armed Forces who were members of the wartime underground, relatives of political prisoners, and businessmen deprived of their enterprises. Although most of the "unreliaables" are being relocated within the country, ex-members of the anti-Nazi underground are being moved to undetermined destinations outside of Poland.

WORLD COMMUNISM: COMMUNIST CHINA AND THE "LIBERATION" OF ASIA

Mao Tse-tung's "theory of the Chinese revolution" is not a Chinese Communist heresy but the official Stalinist program for the "liberation" of East Asia. Sino-Soviet theoretical agreement on the strategy and tactics to be employed in the Stalinist conquest of Asia is demonstrated conclusively by the pronouncements of an international Communist conference at Peiping in late 1949 and by the republication of Mao's "theory" in the Soviet domestic press and in the Cominform journal in the summer of 1951. The Chinese Communists have clearly received Soviet sanction for assuming the principal role in Asia's "liberation."

Mao Tse-tung's "theory" is summarized for popular consumption in a recent article composed by Lu Ting-yi, the Chinese Communist Party's propaganda director, and reprinted and implicitly endorsed by the Cominform journal. Lu takes the approved line that the Soviet October Revolution is mankind's greatest event and the "classic type" of revolution in an "imperialist" country, while the ascendancy of the Chinese Communists is history's second greatest event and the classic in a "colonial or semi-colonial" country.

Lu explains that a colonial area, as a result of imperialist exploitation and oppression, is necessarily backward and ill-prepared to struggle against the ruthless and well-armed imperialist enemy and his local lackeys. Lu asserts that it was Mao Tse-tung who showed Asian "liberation" movements how to win against such heavy odds.

Lu's article repeats Mao's own definition of the "essence" of Chinese Communist success: (1) the creation of a disciplined Communist Party "armed with the theory" of Marx, Engels, Lenin and Stalin; (2) the organization of armed forces controlled by the Party and possessing a territorial base; and (3) the formation of a "united front of all revolutionary strata." With the achievement of national power through military action, this movement establishes a "people's democratic dictatorship led by the working class," and this dictatorship "unites with all international revolutionary forces."

In other words, Mao's program envisages the leadership of the revolution by an orthodox Stalinist Party, relying primarily upon its armed forces and willing to work temporarily with all disaffected elements of society. The state established by this movement is to be an orthodox Stalinist dictatorship by the Party, which by definition is the "most advanced" segment of the "working class," even when its members, as in China, are predominantly of peasant origin. This state uses the bourgeoisie for its purposes for an indefinite period, but emphatically

discredits the concept of "bourgeois democracy." Finally, this state is to be allied with, and in international affairs subservient to, the Soviet Union. Mao's "theory of the Chinese revolution" is thus an act of assent in the Stalinist capture and perversion of genuine revolutionary movements in Asia.

International Communist strategy, was publicly outlined in an International Communist conference at Peiping in November 1949. That strategy, recommending Chinese Communist tactics for liberation movements throughout Asia, divided Asian countries into three blocs. Bloc I comprises countries or areas under Communist control, regarded as "base areas" for future campaigns: Communist China and North Korea. Bloc II includes countries judged vulnerable to Communist conquest: South Korea, Indochina, Thailand, Indonesia, Malaya and the Philippines. The Bloc III countries are those in which Communist victory is recognized as far distant: India, Pakistan, Japan and Burma. This grouping should probably now be altered to place the Viet Minh in Bloc I and Burma in Bloc II.

The Peiping conference statement assigns to the Bloc I "base areas" the task of assisting, by all practicable means, the Bloc II "liberation" movements. In the Bloc II countries, Communist-led military operations are given the highest priority. Bloc III nations are scheduled for the early stages of political division and isolation, rather than for conquest by either internal or external military forces. The conference statement leaves obscure the question of whether the armed forces of the "base areas" would directly support each other or the "liberation" movements of Bloc II.

The Korean Communist invasion of South Korea in June 1950 was not technically an alteration of the November 1949 strategy, as North Korean forces could be regarded as an indigenous "liberation" movement engaged in the first phase of the revolutionary effort, the struggle for total military power in a single country. Neither did Communist China's intervention in Korea in late 1950 necessarily indicate that international Communism had abandoned its policy of placing primary reliance upon native Communist forces. These developments made clear, however, that the strategy permitted the provision of direct military support by Bloc I countries to "liberation" movements of Bloc II countries suffering serious reverses or in danger of extinction, and raised the possibility of outright military aggression by Bloc I countries. In any case, the leading role in East Asia devolved upon Communist China.

It has thus been apparent for some time that Asian governments contiguous to Communist China would be obliged indefinitely to resist strong diplomatic pressure from Peiping, intensive Chinese Communist-subversive activities, and substantially Chinese-supported native "liberation" movements. The more ominous possibility was and is that of a Chinese Communist invasion of Southeast Asia.

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THE CHINESE COMMUNIST THREAT TO SOUTHEAST ASIA

[redacted] a coming Chinese Communist invasion of Southeast Asia emphasize the continuing vulnerability of this area to conquest. The 200,000 Red Chinese troops within striking distance of the Indochina border are capable of intervening decisively against French-Vietnamese forces in Tonkin; and the 30,000 or more now assembled along the Sino-Burmese frontier can easily destroy the defense forces in northern Burma. Although there are no firm indications of an imminent Communist drive to the south, the Communists maintain the capability of overrunning in a short time most of the Asian mainland.

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Thus far, Communist China's involvement in the Southeast Asian power struggle has been almost entirely indirect and covert. Aid to the rebel regime of Ho Chi Minh in Indochina has included the training in China of possibly 30,000 of Ho's troops, the provision of large amounts of arms and ammunition, and the loan of an estimated 10,000 advisers and technicians. Less evident, but no less ominous, is the Chinese Communist program for Burma.

[redacted] Peiping is committed to aiding the Burma Communist Party [redacted] the steady movement of Burmese Communist forces from central Burma toward the frontier, where Chinese aid and guidance will be readily available. [redacted]

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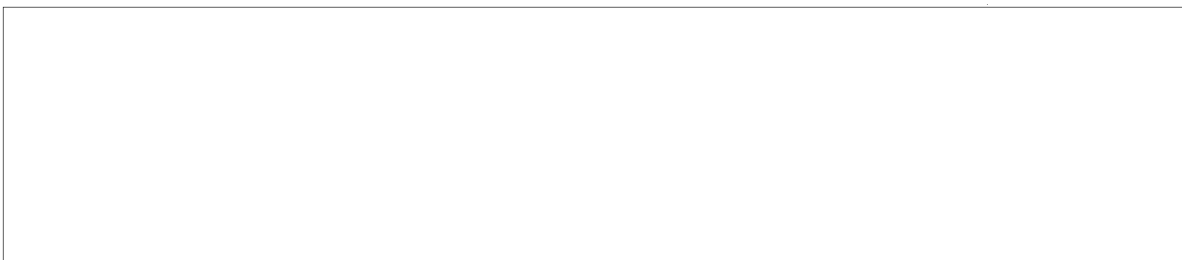
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[redacted] some aid has already been provided in the form of training, supplies, and possibly technicians.

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[redacted] this aid program, as well as guerrilla operations in Burma, is under the direction of a Chinese guerrilla leader who is thoroughly familiar with the rugged terrain of northern Burma.

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International Communist strategy in the Far East has preferred to rely primarily on the efforts of indigenous Communist forces, but events in Korea have shown that this strategy is not inflexible. There is, therefore, the distinct possibility, if covert Chinese aid to Communist forces in Southeast Asia appears inconclusive, that Peiping will intervene directly.

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[redacted] the Chinese, with the cooperation of Burmese and Vietnamese Communist forces, are preparing to penetrate northern Burma, Laos, and, finally, Thailand. Military penetration of the last country is allegedly to be undertaken to eliminate a supply base of the Chinese Nationalist forces recently defeated by the Communists in Yunnan. Even though Chinese Communists might have only limited present objectives, the temptation to press their gains would be strong once they were committed to overt action.

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Peiping and Moscow propaganda has frequently called attention to the activities of the French "imperialists" in Indochina and thus prepared a pretext for entry into that country. In addition, three routes of access to Indochina have been fairly well developed.

A pretext is likewise provided for entry into Burma by the presence of remnants of the defeated Chinese Nationalists, who the Communists charge were armed and sent into Yunnan under Western direction. It is evident that a conquest of Burma, which could presumably be accomplished in a single short campaign, would virtually assure the extension of Communist control over Thailand. The strong French forces in Tonkin could then be easily outflanked.

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CAPABILITIES OF THE EUROPEAN SATELLITE ARMIES

Combat capabilities of Eastern European Satellite armies developed markedly during the past twenty months. During this period, their total strength increased from 607,500 to 895,000 and from 54 to 65 line divisions. Intensification of training in Soviet tactics and ideology, reorganization to conform to the Soviet pattern, the presence of large numbers of Soviet advisers, and accelerated deliveries of Soviet materiel are steadily bringing all of the Satellite armies, except the Albanian, closer to combat readiness.

This process, which would better enable them to conduct coordinated operations by themselves or in support of Soviet units, now approaches completion only in Bulgaria and Rumania. The organization of tank and mechanized divisions, the lack of defensive fortifications, and the nature of the training program indicate that the present military expansion program is primarily for offensive purposes.

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The rate of Sovietization and expansion of Satellite armies apparently is governed by the degree of political reliability of each state, and does not in itself reveal plans for war against any specific country. The current stress on the reorganization and reequipment of the Satellite armies strongly indicates preparations for eventual rather than imminent hostilities.

The effectiveness of the Satellite armies will continue to increase throughout 1951 with the formation of possibly eight additional divisions for a total of 73. At the current rate of expansion it is estimated that all the Eastern European armies, except that of Albania, will have completed their expansion and Sovietization programs by the end of 1953. At that time Satellite armies may total 115 to 117 line divisions, some of them armored or mechanized, totaling 1,500,000 men under arms and with additional trained reserves.

The Satellite military picture looks as follows:

Bulgaria

Bulgaria currently possesses the best trained army of all the Eastern European Satellites. It is composed of 165,000 men, organized into 13 line divisions, two of which are tank divisions. A historic orientation toward Russia, and repeated postwar purges have made the Bulgarian Army relatively amenable to Soviet direction. The advanced state of its training, including army level maneuvers, as well as its nearly complete re-equipment with Soviet arms, gives the Bulgarian Army a high degree of

combat readiness. Two additional divisions may be added this year. Bulgaria is the only Satellite with major troop concentrations on the Yugoslav border.

Rumania

The Rumanian Army comprises 13 line divisions of 230,000 men. It is generally considered second to Bulgaria in degree of Sovietization, and probably has attained a relatively advanced state of combat readiness. Except for Bulgaria, Rumania was the only Satellite where the building of an effective army was well under way prior to 1950. Reports indicate that throughout 1949 and 1950 new units were being established, training in Soviet doctrine was being intensified, and a continuous flow of Soviet equipment was arriving in Rumania.

The Rumanian Army's mechanized equipment is now believed to be almost totally of Soviet origin, except for its motor transport, which is Czechoslovak. Upon the completion of the 1951 training, the army will be capable of offensive operations. At the present rate, the expansion program will have been completed by the spring of 1953, and the army will probably consist of 18 to 20 divisions.

Hungary

The Hungarian Army in less than one year has expanded from 35,000 to 100,000 men and from three to nine divisions. Corps headquarters, which will enable the high command better to utilize existing troop strength, have been established. In addition to its great expansion, reorganization along Soviet lines, an accelerated training program, and increasing availability of Soviet equipment are all contributing to a marked improvement in Hungarian Army capabilities.

The training of large numbers of signal, anti-aircraft, and engineering troops indicates an effort to create an army of relatively high technical skill. Combat effectiveness has improved rapidly since the expansion program started in October 1950, and an intensification of the program could make the Hungarian Army capable of joining in joint Satellite-Soviet combat operations by the end of this year. It is estimated that the current expansion program will be completed by the end of 1952, when the army will consist of 12 divisions.

Czechoslovakia

The Czechoslovak Army includes 10 line divisions, embracing 155,000 men. It is a second-rate army hampered by poor morale, the absence of strong leadership, lack of standardization, obsolescence of equipment,

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and questionable reliability. Its incomplete reorganization to conform to the Soviet pattern, and its only rudimentary training in Soviet tactics, would render the Czechoslovak Army ineffectual in joint operations at this time.

Any appreciable expansion of the Czechoslovak Army would be at the expense of industrial and military production, since the economy is already suffering from a manpower shortage. The present army is incapable of successful aggressive action and it is unlikely that it would be entrusted with any major combat assignment. It is estimated that two more divisions will be added this year and an additional six by the end of 1953, at which time the current expansion program will have been completed.

Poland

It is currently estimated that the Polish Army is composed of 200,000 men, comprising 16 line divisions, a figure which may be increased to 18 this year and to 22 by the end of 1952. The reorganization of the army closely follows the Soviet pattern; four corps headquarters were newly identified during 1951, and four infantry divisions were converted to Soviet-type mechanized divisions. Of the 16 divisions, an estimated six have been effectively trained in Soviet tactical doctrine and furnished with Soviet equipment. By the end of 1951 limited offensive capabilities are expected, provided that the Soviet Union continues to give large-scale logistic support.

Albania

The Albanian Army consists of 45,000 men organized in four divisions. It is being trained as a defensive force and remains weak because of poor leadership, low morale, and questionable loyalty. Its present heterogeneous collection of equipment is gradually being replaced by Soviet materiel. It is incapable of launching a successful attack against any of its neighbors.

MERCHANT SHIPS IN THE CHINA TRADE

Communist China's dependence on Western-flag shipping to transport her foreign commerce constitutes a major vulnerability that has thus far been only partly exploited by the West. [redacted] vessels in the China and Yellow Seas last February, considered typical of recent months, about two thirds were identified as Western-flag ships. The remainder were largely of unidentified registry; only five per cent were known to be Soviet or Satellite.

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Current figures show no decline in the number of Western-flag ships in the China trade. In June 1951, over 250 vessels of 1,000 tons or more, totaling about 1.3 million gross tons, were engaged in the China trade (that is, called or were scheduled to call at a Chinese Communist port or at Hong Kong, which has served as an important transshipment point for goods going to the Communist mainland). These figures approximate those of the preceding month and are in excess of those of earlier months of the year. Preliminary estimates for July and early August indicate Western-flag tonnage in the China trade at approximately the June level.

British-flag vessels in this trade are more numerous than those of any other nationality. Panamanian-flag vessels, the next largest category, have figured prominently in recent months, their number more than doubling during the year ending in June. British and Panamanian vessels combined have constituted the majority of the ships in the China trade.

American-flag ships, which were about as numerous as the British in trade with mainland China when the Nationalists were in control, have been forbidden to call at any Chinese Communist port since December of last year.

With continued access to ships of other Western registry, the Communists have not been effectively handicapped by American shipping controls. Recently, however, there have been further Western restrictions on ships in the China trade. A Panamanian decree of 18 August 1951 forbids Panamanian-flag ships from calling at Chinese Communist ports. Still more recently, the Costa Rican Government cancelled the registry of a tanker en route with a load of kerosene to China.

In an effort to meet their shipping requirements, the Chinese Communists have followed an active policy of purchasing or chartering Western-flag vessels. Some of the recent acquisitions are ships which formerly carried Chinese Nationalist registry and then transferred to Panamanian registry after the Nationalists withdrew from the mainland.

Vessels transferred to Communist control frequently continue under the nominal ownership of Panamanian or British corporations, with the real ownership concealed. The Far East Enterprise Co. Ltd. of Hong Kong, for example, believed to be controlled by Chinese Communist interests, acts as registered owner for several vessels in the China trade. The shipping firm of Wallem & Co. Ltd. of Hong Kong also acts as registered owner of vessels whose beneficial owners are not known. The Far Eastern and Panama Transport Company is an example of a "paper" Panamanian corporation set up by concealed interests to serve as registered owner of vessels in the China trade.

The decree forbidding Panamanian-flag ships from calling at Chinese Communist ports will probably force a modification of some of the methods of concealing ownership. Recent reports indicate that shipowners plan to transfer their vessels from Panamanian to other registry. It is expected that new firms will replace the old "paper" Panamanian corporations.

The USSR has attempted to supplement the limited facilities of the Chinese Communists by increasing its own shipping in Far East waters. In November 1950, Soviet merchant ships, which had discontinued calls at Chinese ports at the outbreak of the Korean conflict, resumed voyages to China. In addition, the Soviets have chartered Western-flag ships, being reimbursed in turn by the Chinese for the costs of charter.

Soviet commitments to step up sharply the delivery of petroleum to China have resulted in active efforts recently to charter Western-flag tankers. The two Western tankers so far chartered this year may be withdrawn from their contracts if US pressure is successful. Despite all obstructions, the USSR is continuing its efforts to charter other tanker tonnage.

The East European Satellites have also been active in chartering Western-flag ships for the China trade. The Poles, in addition, have been able to assign some of their own ocean-going fleet to the Far East. The present ability of the Chinese to count on Polish shipping may enable them to lift a cargo of rubber from Ceylon which Western shipowners had refused to handle. Although Polish ships en route to China are being handicapped by the refusal of oil companies at intermediate ports to supply bunkers, the Poles are making persistent efforts to overcome this difficulty.

Although assured of cooperation from other Communist countries, China is largely dependent on Western shipping -- a vulnerability which has not been effectively exploited by the West because of the failure to secure joint action by the principal maritime countries. The withdrawal of US vessels from trade with mainland China did not effectively handicap the Communists, who had continued access to British and Panamanian ships. Panama's decree will be largely circumvented by the transfer of Panamanian-flag vessels to other registry. British merchant ships, free from official restriction, continue to call at Chinese Communist ports.

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Western efforts to deny tanker tonnage to the Communists have met with some success. Because of the shortage of Soviet and satellite tanker tonnage, however, the Communists are persisting in negotiations to acquire Western tankers.

SOVIET ORBIT ATTEMPTS TO DESTROY WESTERN EXPORT CONTROL PROGRAM

At the current UN-sponsored East-West trade meeting in Geneva the Soviet Union has intensified its efforts to break up the Western export control program by demanding strategic commodities in exchange for materials sorely needed by Western Europe. The USSR has already proposed in Geneva a revival of the 1949-1950 pattern of East-West trade. The Soviet Orbit is offering coal, grain and timber for traditional imports from Western Europe which include a wide variety of strategic items on Western embargo lists.

Evidence is available that Soviet efforts to split the West on the export control program might meet with some success. The Western European countries are showing signs of increasing restiveness under US pressure for greater restrictions on strategic exports to the Orbit. Although trade with the Orbit amounted to only 3.3 percent of Western Europe's overall international trade in 1950, the commodities involved (grain and coal) are much more important than this figure would indicate. The newly-imposed restrictions are disturbing historic trade patterns which were again forming under Western Europe's postwar economic rehabilitation under the Marshall Plan.

The US observer at the Geneva meeting considers that close collaboration among the Western countries is highly desirable in order to avoid the danger of blackmail inherent in the Soviet position, which bears the earmarks of a major Soviet trade and propaganda offensive. The Russians have mounted a heavy propaganda campaign charging the US with erecting artificial East-West trade barriers which are disrupting the normal flow of world commerce in order to build up a militarized economy of scarcity. This theme fits into the overall Soviet Peace Campaign.

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The Satellites rather than the Soviet Union have borne the chief burden of the shortages resulting from the US sponsored embargo which has resulted in a widespread resort to clandestine trade. The Orbit has apparently been able to procure some of the strategic items it needs via covert channels, but only at exorbitant cost and great effort.

The Soviet block in addition has used items in short supply in Western Europe as a bargaining weapon in trade negotiations. The most spectacular example of hard trade bargaining by the Orbit has been Poland's exploitation of its coal surplus in negotiations with coal-hungry Western European countries. The Polish trade agreement with Austria was made contingent upon continuing Austrian deliveries of

substantial amounts of ball bearings on the Western embargo list. Polish-Norwegian trade negotiations broke down recently because of excessive Polish demands for strategic goods in return for coal. Current Swiss trade talks with Poland are in difficulties over Polish insistence on the exchange by Switzerland of large quantities of ball bearings and aluminum for coal and foodstuffs. Poland is reluctant to deliver coal and coke to Finland because of the latter's refusal to import aluminum and cobalt for resale to Poland.

The usefulness of coal as a bargaining weapon against Western Europe is indicated by the fact that during 1950 some 8.5 million tons were exported to Western Europe at a total value of approximately 112 million dollars. Since then the European rearmament effort has increased that region's need for coal without a corresponding growth of the available supply. Italy, France, Austria, Switzerland, The Netherlands and the Scandinavian countries will most quickly feel the pinch of curtailed coal exports from the Orbit.

Eastern Europe has traditionally been an exporter of foodstuffs, and specifically grain. This is another potent weapon in its economic arsenal against Western trade controls. England, Belgium and The Netherlands are primarily susceptible to the use of food as an economic weapon against Western Europe. The Soviet bloc has thus far been non-committal at the current East-West trade meeting as to the overall amount of grain available for export to Western Europe. Soviet representatives previously asserted that the USSR would be able to export 1.5 to 2 million tons of grain annually for a period of five years. The favorable crop prospects throughout Eastern Europe should currently give the Soviet Orbit at least this capability.

Differences of opinion on dealing with the Soviet bloc have already appeared at the current East-West trade negotiations. A redirection of Western European trade away from the Soviet Orbit is open to serious economic and political doubts.

POSSIBLE NEW TROUBLE SPOTS FOR THE BRITISH

Recent blows to the British from the rising nationalism of Iran and Egypt suggest the existence of similar situations elsewhere which, during the next year, might seriously impair Britain's position as a world power.

A rapid survey indicates no threats in the dependent territories, except Hong Kong, that the British are not capable of containing; more serious British vulnerabilities to nationalist agitation are, however, to be found in a number of independent countries where the UK has special interests— notably Burma, the Indian subcontinent, Jordan and Iraq.

Trouble at any of these points would arise against the background of a British economic outlook much less favorable than that of six months ago when the Iranian crisis began. Worsening trade, falling gold and dollar reserves, and varied domestic inflationary pressures have all reduced Britain's ability to shoulder a substantial new rearmament program in Europe while continuing to maintain a series of military commitments elsewhere in the world.

The immediate dangers to Britain's position in Asia lie mainly in independent countries where the UK retains important interests of a military and economic nature, but can no longer give these interests direct protection as it can in its own dependent territories. If Indian-Pakistani nationalist rivalries should erupt into war, it would mean not only a serious loss of prestige for the Commonwealth but great economic loss to the UK and a weakening of its strategic position in the whole Indian Ocean — the area in which these two powers, with British military advice and assistance, have been counted on to maintain stability.

Further east, in Burma, other dangers threaten both the still sizeable British investments and the UK's general position. Geographically, Burma is important as a buffer between the Chinese Communists and the Indian Ocean area. Its rice exports are important to the economies of Malaya, India, East Pakistan and Ceylon. Britain's capabilities for assisting Burma against outright aggression by the Chinese Communists are in any case very limited; its ability to assist with military and administrative advice in the more immediate problem of Burma's chaotic internal conditions is intrinsically much greater, but largely nullified in effect by Burmese nationalist sensitivities.

There are some indications that these sensitivities have been aggravated rather than allayed by Burma's current difficulties. Relations between the Burmese military authorities and the British Service Mission continue bad; the 1948 Defense Agreement has been subject since January to denunciation by either party on 12 months notice; and the Burmese Government has recently made certain proposals looking toward total or partial nationalization of the Burmah Oil Company, an affiliate of the Anglo-Iranian Oil Company. The former company's present production, unlike its pre-war output, represents no significant part of the sterling area's present oil

supplies; but British resistance to the nationalization proposals is another irritant to Burmese nationalist sentiment, a possible excuse for Burmese action against mining companies and other British enterprises, and a further obstacle to Burmese acceptance of British advice for coping with the country's problems.

In the Middle East the danger to Britain centers in the states with which the UK has special treaty relations, Jordan, Iraq, and the Persian Gulf sheikdoms of Kuwait, Bahrein and Qatar. The three minor sheikdoms are too primitive to present any current nationalist threat to British control of their foreign relations. The Kuwait Oil Company -- jointly owned by British and American capital -- is unlikely to encounter in its current negotiations any difficulty like that experienced in Iran.

In Jordan, where the British military treaty still has twelve years to run before being legally open to renegotiation by either party, the British have not yet experienced any of the troubles widely anticipated at the time of King Abdullah's assassination in mid-July. There is strong anti-British feeling among the Palestinian Arabs, however, and [redacted] Prince Tallal, who has in the past been considered an anti-British figure, is returning from his Swiss sanitarium to ascend the throne. So long as the Jordanian constitutional situation remains fluid, the British position there cannot be regarded as secure.

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In Iraq the British face no immediate difficulties, but their basic position has disturbing analogies with that in both Egypt and Iran. The present military treaty, which becomes formally open to renegotiation in 1952, is roughly comparable to the 1936 Treaty under which Britain now maintains bases in Egypt. In 1948, when the British worked out with Iraq a new and more flexible military treaty, a sudden upsurge of Iraqi nationalist feeling forced the resignation of the Prime Minister who had negotiated it, and the question has not since been reopened.

Oil contract negotiations have recently been concluded for a new agreement between the government and the largely-British Iraq Petroleum Company, and the terms of this agreement are far more favorable to Iraq than any previous arrangement. Press reports stated on 24 August, however, that the three opposition parties in the Iraqi Parliament had come out against ratification of this agreement. Here, as elsewhere, the more extreme nationalists take encouragement from Egyptian and Iranian examples.

In the British colonial empire, on the other hand, nationalist threats are for the most part a post-war minimum, owing in part to recent British concessions to nationalist feeling. Native nationalist movements in British West Africa, the Union of South Africa's nationalist aspirations for certain British dependent territories, and agitation in Cyprus for political union with Greece all present difficult problems to London, but not immediately pressing ones. In Malaya, progress at eradicating the Communist guerrillas continues slow and there are some indications of widespread resentment that the area's vast dollar earnings are so much under the control of London;

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but there is as yet nothing approaching an anti-British nationalist movement, and the local Communists seem to be no longer a rising force.

THE IRANIAN SITUATION

The breakdown of the Anglo-Iranian negotiations on 23 August was caused in large part by Prime Minister Mossadeq's fear of extremist reaction, coupled with his conviction that a British-controlled agency operating in Iran would exert undue influence in internal affairs.

The Iranians may also have been influenced by a belief that the United States would eventually come to their aid by providing personnel to operate the oil industry.

While there is some sentiment in Iran for a negotiated settlement, nationalism is still in control. There is no indication that the present government will become more yielding on the oil issue at any early date.

Mossadeq's intransigence on the oil issue has, for the time being, assured him of popular support. The government's position, however, will weaken as political and economic pressures intensify. Revenues from the oil industry constituted about forty percent of the government's annual income. There is no adequate long-range substitute for this source: the government is not likely to find either sufficient foreign technicians or adequate transportation facilities in the West to operate the industry at anywhere near past levels. For the present, the government will not be inclined to seek or to accept Soviet help in operating the oil installations, but may modify this attitude as internal pressures build up.

Breakdown of the discussions will encourage those who have been working to remove Mossadeq and to install a new government headed by Ahmed Qavam or Seyyid Zia, either of whom would presumably be more amenable to British interests.

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it is quite possible that certain tribal leaders have reached some understanding with the British on action to be taken in case the Tehran government collapses from internal or external pressure.

The UK has indicated that it does not intend to use military force to retain the oil properties. The British Government, however, is under pressure from the public and from the opposition to take a firm line, and it cannot be assumed that the British would not consider drastic action before accepting outright Iranian confiscation.

Any effort to install a government recognized by the Iranians as more amenable to settling the oil dispute would be followed by widespread internal disturbances. Any British display of strength in the Persian

Gulf or an ostentatious readiness to apply military force is also likely to aggravate the situation. British effort to use military force to protect its nationals in the oil fields would be considered armed invasion by the Iranians.

Should the present Prime Minister resign or be removed in a manner which does not lend itself to extremist exploitation, a more neutral government supported by the Shah and by the more moderate elements might be achieved. Such a government would have to give considerable lip service to nationalism and would have to be able to adopt a tough policy against the extremists. Aged ex-Prime Minister Ahmed Qavam, an astute and able politician, might be the man to step into the breach. His long-standing bitter quarrel with the Shah, however, provides an almost insurmountable block.

Unless the oil issue is settled in the relatively near future, there is a very grave possibility that the internal situation in Iran will deteriorate to the extent that the pro-Soviet Tudeh Party will succeed in establishing a Communist-influenced or Communist-controlled government in Tehran. Such a development would encourage widespread tribal revolt, especially in the southwest, where influential Bakhtiari and Qashqai chieftains, presumably counting on British support, would probably attempt to establish an independent state.