

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

DAILY DIGEST

Date: JUL 3 1951

- NOTE:
1. This summary of significant reports has been prepared primarily for the internal use of the Office of Current Intelligence. It does not represent a complete coverage of all current reports in CIA or in the Office of Current Intelligence.
 2. Comments represent the preliminary views of the Office of Current Intelligence.
 3. Marginal letter indications are defined as follows:
 - "A" - items indicating Soviet-Communist intentions or capabilities
 - "B" - important regional developments not necessarily related to Soviet/Communist intentions or capabilities
 - "C" - other information indicating trends and potential developments

*Army, DIA and State Dept
reviews completed*

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SECTION 1 (SOVIET)

"A" USSR. Embassy Moscow Believes Communist Cease-Fire Terms Dictated by Prestige Rather than Military Considerations. In commenting on the terms of the Communist cease-fire proposals, Embassy Moscow believes that both the choice of Kaesong at the 38th parallel and the delay preceding negotiations are primarily for prestige and propaganda considerations. The Embassy points out that while the delay could be designed to enable the Communist forces to improve their military situation, launching an offensive would boomerang against their alleged peaceful intentions. The Embassy further questions whether the Communist military forces could now expect to improve their position materially before cease-fire negotiations, except in the unlikely event that the Communists are determined to conclude the Korean war with a large-scale air offensive against UN rear bases and naval vessels. (C Moscow 5, 2 July 51). COMMENT: In addition to possible prestige and propaganda advantages, the Communists probably consider a delay necessary in order to prepare their negotiating position for a conference that has developed quite rapidly. With regard to military considerations, there is evidence that Communist forces in Korea will be capable prior to mid-July of resuming the offensive if they so desire.

"B" USSR Industries Must Eliminate Waste. According to a recent Pravda editorial, managers and Party organizations of many Soviet enterprises tolerate over-expenditures of raw materials and natural resources, infringement of technological processes, and the productive losses resulting from such abuses. The Krasnoye Sormova Works are singled out in this connection because of the many locomotive and ships' parts produced that turn out to be heavier than planned. As a result, this factory is "over-expending" tens of hundreds of tons of materials, and stocks of unfinished goods held there in excess of norms "have still not been eliminated." Pravda cautions the Works Party Committee and the Gorki Town Party Committee to pay attention to these uneconomic and spendthrift activities, and warns that Party organizations must intensify the struggle for the strictest economy and thrift "against wastage and uneconomic conduct." (R FBIS, 28 June 51). COMMENT: This is a further indication of the apparent metal shortage in the USSR that has been reflected in this year's scrap metal program.

"B" Possibility that Leningrad Port Now Closed to Foreigners. Embassy Moscow considers that the port of Leningrad may now be closed to foreigners. While the Soviets have not yet given a categorical answer to queries on this matter, requests for ship reservations have been recently turned down, once for the reason that "no space was available" and again that no foreigners would be given space on the two boats concerned from now on. Furthermore, foreigners visiting Leningrad during the past two

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weeks have been refused permission to take the boat trip down the Neva to Peterhof. The situation is still largely in the rumor stage and the Embassy indicates that it will continue to collect pertinent information. [redacted] Comment: This may well be another step in cutting down the opportunity for observation in that area. (C Moscow 2200, 29 June 51).

"A"

Moscow Continues to be Harassed by Nationalist Problems. The Soviet historical periodical, Voprosi Istorii, has changed the previously accepted theory that since small countries could not long maintain an existence independent of other predatory capitalist powers, Tsarist annexations of Georgia and the Ukraine could be considered the "lesser evil". The magazine claimed that the introduction of the higher Russian culture and economy to these peoples was not "evil but good". This late twist will undoubtedly necessitate further changes in the "facts" of history and significantly the periodical also criticized the history textbook currently in use. (S Moscow Weeka 26, 22 June 51). COMMENT: National minorities in the USSR are certainly cognizant of the differences between the theory of "national equality" and "cultural autonomy" as propounded by the Moscow ideologues and the practice of discrimination in favor of the Russian "elder brother" by the Government and Party. Pravda of 2 July takes the Central Committee of the Ukrainian Communist Party to task for permitting the encouragement of nationalist tendencies. A poem entitled "Love Ukraine" which was written seven years ago and recently republished provides Pravda with the point of departure for a general warning against nationalist emotions which are the most dangerous and elusive "survivals of capitalist mores in the people's minds".

"B"

Soviet Paratroops Reportedly Sent from Rumania to Transcaucasus Military District. Approximately 2250 men of a Soviet parachute brigade reportedly with complete war equipment embarked on 28-29 May from Galati, Rumania bound for Poti and Batumi. On 2 June, 600 paratroopers and 90 female nurses were allegedly transported over the same route. [redacted]

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COMMENT: There is no evidence of any paratroop units in the Transcaucasus Military District north of the Iranian-Turkish border, nor is there evidence that there are Soviet paratroops in Rumania. Closest airborne units in the USSR are believed to be north of the Black Sea in the Kiev and Tauric Military Districts. If a troop movement has actually taken place, it is questionable [redacted]

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[redacted] able to distinguish paratroops from regular military units. There has been no confirmation of a report from [redacted] that paratroop equipment had been identified on ships unloading at Poti and Batumi. (See O/GI Daily Digest, 23 June 51).

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EASTERN EUROPE. BULGARIA. [redacted] Denies Any Readiness for Aggressive Action. [redacted] there is no indication of any aggressive action in Bulgaria, despite general tension and rumors in Sofia. [redacted] no confirmation is available of Soviet troop movements into Bulgaria, although the size of

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the Bulgarian army has increased during the past three months. [redacted] the army is not on a war footing, morale is poor, and the increase in the size of the army is as much because of the internal situation as from external reasons. [redacted]

COMMENT: Although there is no firm indication of immediate aggressive intent on the part of the Bulgarian Army, recent estimates indicate that the Bulgarian army has attained combat readiness. The fact that specialists are not only being retained in the army but are even being recalled to duty tends to detract from the foregoing estimate that recent increases are for internal control purposes.

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"B" CZECHOSLOVAKIA. Embassy Comment on Oatis Trial. According to US Ambassador Briggs in Prague the Oatis trial is a propaganda operation designed to smear the US in general and the US press and diplomacy in particular. He accordingly stresses the need for the US press and VOA broadcasts to emphasize the "worthlessness of any 'confessions', 'revelations', etc." obtained from Oatis after he has been held incommunicado for seventy days. Briggs also cautions against Communist references to Oatis' good physical condition, since, in his opinion, the Communists have probably deliberately built up Oatis' physical condition after having extracted the confession. (C Prague 3, 2 Jul 51).

"B" Details of Jet Pilots and Aircraft Release Announced. According to a Czechoslovak aide-memoire, the US jet pilot who inadvertently landed in Czechoslovakia will be delivered to US authorities at the German border on 4 July. The jet aircraft are to be shipped on 5 July to any German border point selected by the US authorities. (C Prague 5, 2 Jul 51). COMMENT: The US Air Attache Prague had previously requested permission to take custody of the pilot in Prague and return him personally to the US Zone of Germany and had asked that a US Air Force team be allowed to come to Prague to take delivery of the two aircraft.

"B" FINLAND. Comment on Finnish Diet Elections. The nationwide elections being held on 2-3 July for the 200 seats of the Finnish Diet are not expected to produce any striking developments. It is most likely that the Communists will gain three or four seats in the northern provinces, where they have done much organizational work during recent months. The Social Democrats are also likely to gain a few seats due to their improved organizational techniques among Finnish labor. Such gains as the Communists and Social Democrats make will probably be at the expense of the Agrarian and Liberal Parties of the center. As a result of such changes, a coalition government would probably be formed similar to the present one, but with a slightly stronger labor representation. Present party strengths in the Diet are as follows: Left -- Communists 37, Social Democrats 55; Center -- Agrarians 56, Coalition Party 33; and Right -- Swedish Peoples Party 14, and Progressives 5.

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"B" POLAND. Attache Field Trips Reveal No Unusual Military Activity. Recent field trips by personnel of the US Embassy Warsaw Army and Naval Attaches' Offices during the latter part of June revealed no unusual military activity in central, southwest and northwest Poland. The Naval Attache on 22 June observed a total of about 28 small craft near Swinoujseie at the mouth of the Oder River, but saw no unusual activity. The Assistant Army Attache on a trip through central and southwest Poland 25-27 June observed Polish troops engaged in normal training, some Soviet military activity in the Trzebian area of southwest Poland indicating a possible build-up, but otherwise nothing that he considered to be of an unusual nature. (S ALUSNA Warsaw 261600Z, 28 June 51; S USARMA Warsaw MA-128-51, 29 June 51).

"A" RUMANIA. Mass Evacuations Indicate Importance of "National" Security. The US Legation in Bucharest reports mounting evidence that the large scale evacuation of minority population groups and "unreliables", possibly totaling 50-75,000 since 15 June extends along the whole length of Rumania's frontier with Yugoslavia to a possible depth of 30 to 40 miles. The "general feeling among western representatives" in Bucharest is that the move is probably "for long-term security purposes related to both border control and military considerations." Although concurring that these are the major motivating factors, the Legation states it is "at a loss to understand" why the evacuation is being effected (a) immediately prior to the harvest season in an important agricultural area, and (b) with such rapidity that transportation facilities are so overburdened that serious accidents have resulted. As a possible reason, the Legation suggests that the Rumanian Government may wish to complete resettlement of the evacuees before winter. The Yugoslav Government in a protest note delivered to the Rumanian Legation in Belgrade on 28 June alleges that the evacuation is principally directed against the large Yugoslav minority in the border area and constitutes "a warmongering action" to increase war psychosis and international tension. (S Bucharest 781, 27 June 51; S Bucharest 785, 29 June 51; FBID, 28 June 51). COMMENT: Although large-scale evacuation of peasants from the important Banat agricultural area will undoubtedly necessitate emergency harvesting measures, such as use of military personnel, the Rumanian Government probably considers "national" security a more important consideration. The Rumanian Communists are undoubtedly anxious to avoid a repetition in Rumania of wholesale defections to Yugoslavia and increasing Yugoslav subversive activities, which have already occurred in Bulgaria. Previous information indicates that the evacuees are being sent into the agriculturally important Rumanian Danube plains, where the Government has complained of a lag in harvesting operations.

"B" YUGOSLAVIA. US to Warn Tito Government Regarding Albania. The State Department has advised Ambassador Allen in Belgrade that it is essential for the Yugoslav Government to be informed of US concern

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regarding possible pro-Yugoslav activity in Albania. The Department notes that an indication of US concern over the discrepancy between the Yugoslav public position and recent Yugoslav action regarding Albanian refugees in Yugoslavia should dissuade Tito from engaging in any unilateral action in Albania. (TS SD To Belgrade 1478, 30 June 51). COMMENT: Despite previous contrary reports, Ambassador Allen can find no signs that the Tito Government is currently planning to instigate an anti-Hoxha coup in Albania.

"R" YUGOSLAVIA-RUMANIA-BULGARIA. Satellites Counter Yugoslav Protest of Rumanian Border Evacuation. On 29 June Bulgaria and Rumania delivered notes to Yugoslavia alleging numerous violations of their respective borders during the past two months. The Rumanian note charges that Yugoslavia despite previous protests, continues to engage in "provocative and aggressive activity through numerous violations of Rumanian territory, territorial waters, and airspace". Bulgaria similarly accuses Yugoslavia of failing to heed previous Bulgarian protests and lists 18 new "provocations" by Yugoslav frontier troops and aircraft. (R FBID, 2 Jul 51). COMMENT: The simultaneous Bulgarian-Rumanian presentation of these notes is undoubtedly a joint maneuver to draw attention away from the Yugoslav protest of the previous day against Rumania's ruthless evacuation of Serbs from its Yugoslav border.

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SECTION 2 (EASTERN)

- "B" GREECE. King Calls For New Government Or Elections. According to press reports, King Paul intervened in the cabinet crisis today and declared he would dissolve Parliament and call new elections if political leaders did not form a strong coalition government. (U Wash Post, 3 Jul 51). COMMENT: The present crisis was precipitated by (1) the unwillingness of Prime Minister Venizelos and ex-Vice Premier Papandreou to support the US backed wheat pricing program, and (2) the expressed opposition of Papandreou—who resigned on 2 July from the coalition—to the electoral law proposed and supported by Venizelos and other leading Greek political parties. The US Embassy in Athens is stressing the necessity of a stable interim government which would facilitate the adoption of vitally necessary economic measures without which the whole rationing program in Greece might have to be abandoned with severe financial loss to Greece.
- "B" IRAN. Iran Has Strengthened Its Military Forces in Oil Field Area: The US Military Attache in Tehran reports that, as of 1 July, the total Iranian ground force at Abadan is estimated to be 2,500. Its equipment consists of small arms, mortars, machine guns and 11 tanks mounting 77mm guns. Naval strength is placed at 500 men with several small vessels, whose largest guns are four inch. The bulk of the Tenth Iranian Division is located at Ahwaz, some 80 miles away from Abadan (three hours distant in time). The Military Attache believes the troops now in Abadan are completely adequate to preserve order. The Iranians are apparently now awed by the British cruiser with its six inch guns off Abadan and would resist any British efforts to land military forces. Personnel from the British cruiser have already been denied landing permission. There is no doubt, according to the Military Attache, that any British effort to land would result in Iranian military action that would cease only when sufficient British forces were brought in to defeat Iranian units. (S US Army Attache Tehran, 1 Jul 51). COMMENT: This latest US military estimate of Iranian deployment and Iranian determination to resist is fully corroborated by all available reports. Iran's moves to strengthen its military forces in Abadan and elsewhere are, however, probably also aimed at preventing internal disorders.
- "B" AFGHANISTAN. Pakistan Stops Export of Diesel Oil to Afghanistan. On 27 June, the Government of Pakistan stopped the export of high speed diesel oil to Afghanistan, presumably in order to ensure maintenance of adequate stocks in Pakistan until the Iranian oil situation becomes more clear. A permanent stoppage of diesel oil shipments to Afghanistan could result in cancellation of the contract of Morrison-Knudsen Afghanistan, an American firm currently employed on large-scale development projects in that country. (R Karachi Jt Wka 26, 29 Jun 51; C Kabul 1, 1 Jul 51). COMMENT: Afghanistan is entirely dependent upon Pakistan and the USSR for its petroleum sup-

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plies. Since the Soviets have delivered to Afghanistan only 800,000 of the 3,000,000 gallons of gasoline and kerosene supposed to be dispatched in 1950-51 under the terms of the 1950 Afghan-Soviet trade agreement (see OCI Daily Digest, 27 Jun 51), the cessation of any petroleum exports from Pakistan will seriously affect the Afghan transportation system as well as the Morrison-Knudsen construction company.

"B" INDIA. Protest to United Nations about Pakistani Border Violations in Kashmir. India announced today that it has protested to the United Nations Security Council against a series of violations by Pakistan along the cease-fire line in Kashmir during the past fortnight. Prime Minister Nehru warned that if these violations were not checked, they might flare into open war. (R FBIS Ticker, 3 Jul 51). COMMENT: Minor border violations by both India and Pakistan are a relatively common occurrence along the cease-fire line in Kashmir, and they are customarily treated by both sides as routine matters. It is probably not coincidence that India's present attempt to call attention to Pakistan's aggressive tendencies comes just one day after the arrival in India of Dr. Frank Graham, UN Representative for India and Pakistan.

"C" BURMA. Burmese C-in-C Concerned Over Military Situation: Lt. Gen. Ne Win, the Burmese C-in-C, recently admitted to the US Military Attache in Rangoon that he was disappointed with the meager results of military operations against the various insurgents. He also expressed concern over Burmese Communist infiltration in the Sino-Burma border area which he claims cannot be controlled with present available forces. (S Rangoon 969, 29 June 51). COMMENT: Ne Win now joins the Burmese Foreign Minister in acknowledging the increasingly serious problem of Communist forces moving towards the China border, although they both still maintain the fiction that the Communists are not receiving assistance from the Chinese.

"C" INDONESIA. Continuing Strikes Diminish Government Prestige. Widespread strikes, largely the result of a general demand to celebrate a Mohammedan holiday, continue in defiance of the Government's arbitration policy and its ban on strikes in vital industries. The Government has attempted to counter its resultant diminished prestige by demanding that employers grant a one and a half month's wage bonus in most mediation proceedings and by announcing the release of 1,000 political prisoners on 5 July. Keng Po, a leading non-Communist Chinese daily in Djakarta, in editorializing on the Government's weakness, stated that coordination among cabinet ministers is lacking, that they act individually and sometimes recklessly. COMMENT: "wonder," the Keng Po concluded, "there are ever more voices speaking for a cabinet change." (C Djakarta 1856, 30 June 51). COMMENT: The present cabinet undeniably is composed of a less capable group of men than its predecessor, and lack of coordination frequently has

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been apparent. However, although it has received little or not support from the Indonesian press since its formation, the Government's majority in Parliament remains firm and there are no indications that any immediate issues will cause its fall.

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French Check Signature of US-Viet ECA Pact. The US Legation was informed by a Viet official on 28 June that word had just been received from the French Ministry for Associated States that the US-Viet bilateral agreement on economic aid could not be signed without the prior approval of the High Council of the French Union. Minister Heath, while conceding that the French are by this move acting within legal rights as prescribed by the 8 March 1949 agreement with Vietnam, observes that French authorities have been constantly and fully consulted during the course of US-Viet negotiations. He adds that the French Economic Counselor in Indochina had given written approval of the bilateral procedure, that the French did not require High Council approval of the pentilateral agreement on military aid, and that the High Council of the French Union is not yet in existence. On 30 June, General De Lattre made the further announcement that the French Government had now proposed certain changes in the text of the agreement. Minister Heath finds the French action "astonishing" and is at loss to explain it, but he urges that every effort be made to secure speedy signature of the agreement without exacerbating the feelings of either the French or the Viets. (R Saigon 2346, 29 June 51; S Saigon 2364, 30 June 51; S Saigon 5, 1 July 51).

"B"

CHINA. Reported Movement of 30,000 2nd Field Army Troops into Kwangtung-Kwangsi Area. Two armies, totaling over 30,000 men, of the Communist 2nd Field Army recently moved into the provinces of Kwangtung and Kwangsi from Yunnan according to a Hong Kong press report. This movement was allegedly to aid in the clean-up of guerrillas in these provinces and to move into positions on the Indochinese border. (U Hong Kong Reuters Ticker, 2 July 51).
COMMENT: The location of elements of the 18th Army, 2nd Field Army has been recently confirmed in the Canton area [redacted]

[redacted] Reasons for this change in the long standing allotment of area responsibility--Kwangtung being a 4th Field Army sector--are still unknown. Other reports suggest the 19th Army and Field Army, as the second unit involved in this movement. The figure of 30,000, however, indicates only one full army. There has been no reliable evidence to indicate that the internal situation in these two provinces necessitates employment of additional troops, or that any further build-up is planned at the Indochinese border at this time. The 2nd Field Army, [redacted] has been charged with the responsibility of "liberating" Indochina. Activities towards that objective are reportedly under the direction of CH'EN Keng, deputy commander of the 2nd Field Army.

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"C" CHINA. Alleged Sino-Soviet Conference.

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[redacted] 10 top Chinese Communist leaders met with two Soviet representatives in Peiping on 4 June. CHOU En-lai reportedly demanded that the USSR "do something" about excessively heavy Chinese losses in men and materiel in the Korean conflict, and complained that Peiping was being distracted from its major objective of Taiwan. The Chinese are said to have been told that Soviet troops are moving into Northeast Manchuria and building up in Siberia, and to have been promised (a) Soviet aid if the mainland were invaded and (b) training and equipment for Chinese troops (for unspecified purposes).

[redacted] the conferees agreed to attempt to "split the solidarity of the UN and to create diversions elsewhere," to attempt to prevent the conclusion of a Japanese peace treaty, and to improve transport and road-building in China to facilitate troop movements.

COMMENT: Developments in China are often preceded, or followed, by reports giving details of the proceedings of alleged top-level meetings concerned with such developments. In general, it has proved difficult to distinguish the possibly valid material in such reports from plausible rumors or embroidery of newspaper reports. The degree of validity of the above report is unknown. Although available evidence suggests that Peiping is prepared to continue with its Korean commitment, it is possible that Peiping has been concerned over the magnitude of its losses in Korea, as well as its inability to assault Taiwan, and that Chinese pressure on the USSR contributed to Malik's cease-fire proposal. There have been many reports, prior to the alleged meeting, of the movement of Soviet troops into Manchuria and of a Soviet program of training and equipping Chinese forces in Manchuria; the latter development might explain the former. The USSR has been bound by treaty since February 1950 to come to China's aid if the mainland is attacked. The final three alleged agreements of the conference relate to known Sino-Soviet objectives.

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Nationalists and Pirates Harass Shipping. During June Chinese Nationalist naval patrols intercepted four small merchant vessels between Swatow and Foochow. Pirates in the same general area attacked two vessels and sank the Panamanian ship BUST. (U Far East Trader, 27 June 51 and R FBIS Daily Report, BBB 5, 27 June 51). COMMENT: As a result of such incidents many vessels destined for North China ports are being diverted to Whampoa, the port for Canton. Another result may be a hastening of Chinese Communist plans to occupy offshore islands from which the Nationalists and pirates operate.

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"B" CHINA. Morale Problem of Chinese Nationalist Forces. Suicide and desertion among members of the Chinese Nationalist armed forces has become a problem, according to a senior Chinese Nationalist general. The causes: (1) homesickness, heightened by the backfiring of propaganda promising an early return to the mainland; (2) physical sickness--tuberculosis is increasing; (3) assignment to "coolie jobs"; and (4) fear of being reported to CHIANG Ching-kuo by his Soviet style political officers. The omnipresence of these political overseers, [redacted] is shown by four of them being placed aboard a Chinese Navy tanker running from Japan to Taiwan, one being on duty at the ship's compass at all times. An "understudy" captain has been aboard this tanker, in addition to the regular captain for over four months. [redacted]

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[redacted] this practice appears to be inconsistent with another Naval practice of sending the regular captain to school for political indoctrination for three to four months. These political commissars of CHIANG's were put aboard ships about three months ago over the strenuous objections of Admiral KWEI Yung-ching, Commander of the Chinese Nationalist Navy. (S ALUSNA Taipei Weeka 26, 29 June 51). COMMENT: A morale problem has always existed in the Chinese Nationalist forces. It is generally understood that their contained position on Taiwan has brought about a further deterioration of morale. Any increase in the high 1950 average daily sick rate of 150 per thousand among only those ill enough for hospitalization would seriously affect the combat potential of the Nationalist forces.

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While the institution of political officers serving with the armed forces is not new, they had not been accorded as much power--and corresponding fear--prior to CHIANG Ching-kuo's direction. CHIANG, who is the Gimo's eldest son, spent some 10 years training in Russia and is reportedly attempting to emulate the Soviet methods of insuring control over potential defectees in military service, and, in the process, is arousing increasing resentment from all military elements concerned.

"B" KOREA. Increased Guerrilla Activity. Far East Command reports that enemy guerrilla bands, quiescent for several months, have become noticeably more active during the past few weeks with over 1400 engaged between 23 June and 1 July. According to a recent 8th Army report cited by FECOM, the enemy retains the capability of increasing guerrilla activity in coordination with future offenses. FECOM adds that continued friendly control measures, low guerrilla strength, struggle for survival and recent decrease of control and coordination, however, may be expected to confine guerrillas to minor harassing actions. (S FECOM Telecon 4899, 3 July 51). COMMENT: Indications of enemy intentions to expand guerrilla activities also have been derived from recent guerrilla POWs as well as from [redacted] who have reported the formation of new guerrilla units and the rehabilitation of the North Korean 10th Division committed early this year in a deep infiltration mission against the UN's main supply routes in South Korea.

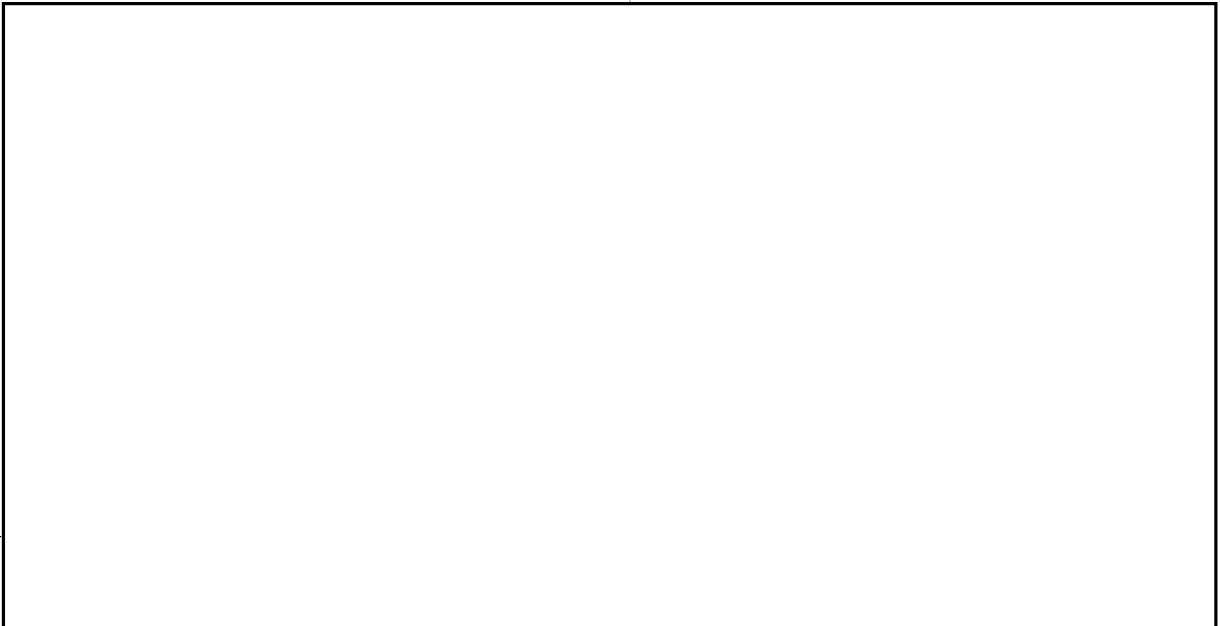
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"A" KOREA. Augmentation of Enemy Forces in Korea. According to Far East Command numerous recent reports, confirmed and unconfirmed, strongly indicate that the enemy is continuing to provide reinforcements and replacements for both North Korean and Chinese Communist forces in Korea. Front line Korean Corps have been strengthened by replacements drawn from units in the Pyongyang and Wonsan areas. The strength of these units in turn, has been maintained by the consolidation of units assigned to rear area security missions, the reactivation of units dissipated in the defeats of last autumn, and the continuance of recruitment and training at a relatively high level. Recent [redacted] reports have mentioned the activation in Manchuria of new North Korean divisions and their movement into Korea.

Numerous sources have referred to the arrival in Korea of additional Chinese Communist units to replace those recently withdrawn as a consequence of combat losses. POWs have confirmed the presence in Korea of the 140th Army. Other POWs have reported that other units of the Fourth Field Army are in Korea in a relief role. [redacted] tend to confirm the movement of sizeable CCF forces along the enemy main supply route back of the northwest front in the Sibyon area. (S FECOM Telecon 4893 and 4899, 1 and 3 July 51). COMMENT: There is ample evidence of a long range program to build-up the North Korean armed forces. The extent to which the Chinese Communists have instituted a rotation of forces to replace units withdrawn remains uncertain. The influence of the cease-fire negotiations on such long term manpower commitments have not as yet been reflected in available information.

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SECTION 3 (WESTERN)

"B" FRANCE. Popular Distrust of US Business Hampers Closer Relations. Certain directors of the powerful French Bank of Indochina believe that US "economic imperialism" is a serious danger for the political, military, and economic future of France. The same attitude exists in numerous French commercial and industrial circles.

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[REDACTED] COMMENT: Apprehensions of a growing influence of US business are widespread in France, even in non-Communist circles. These fears and a widespread antipathy for any signs of US diplomatic dictation appear to be the principal threats to a closer popular support of current US-French undertakings. Guy Mollet, Secretary-General of the French Socialist Party, has expressed [REDACTED] his concern lest US business take undue advantage of its opportunities for influence in Europe, under both the NATO arrangements and the Schuman Plan. While this French distrust of US economic influence is grist for the Communists' propaganda mill, there are no indications that they could induce "great violence" from this situation in the near future.

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"B" ITALY. Proposed 1952 Defense Budget. The proposed defense budget for fiscal year 1952 totals 435.6 billion lire, or almost \$700 million. This amount includes the approximately \$160 million chargeable to 1952 of the \$400 million supplementary defense appropriation approved earlier this year as well as unspecified advances chargeable to fiscal year 1953 from this \$400 million appropriation. Parliament is not expected to take up the defense budget, which represents roughly 24% of the national budget, until autumn. (S Rome Joint Weeka 26, 30 June 51) COMMENT: The proposed Italian defense budget for fiscal 1952 is approximately the same proportion of the total budget as was the case in fiscal 1951. This comparison would appear to reflect unfavorably on the scope of the Italian defense effort. However, it is believed that within the next year the Italians will actually place contracts for the entire \$400 million extra-military budgetary appropriation, which was originally supposed to be spent over a three-year period. The Italians can be expected to pass another extraordinary defense appropriation within the next year and a half.

"B" SWITZERLAND. Swiss Urgently Seek Tanks. The Chief of the Swiss Light Troops has stated it is imperative that Switzerland obtain tanks. He said that the Swiss were dependent upon foreign countries for this military item. He also declared that once tanks are obtained, the technical and

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training problems in the use of these vehicles could be solved by the Swiss. (R Bern, Joint Weeka 26, 29 June 51) COMMENT: The Swiss have apparently decided the manufacture of Centurion tanks, for which they have obtained licensing rights, is impracticable at this time. The appeal of the Chief of the Swiss Light Troops is probably designed to bring this problem to the attention of the West. Without the 550 tanks they need, the Swiss will not be able to defend their lowland area—a corridor from Germany into France.

"B"

Swiss Reaction to World Bank Bonds Issue Reflects Anxiety Over Inflation. The Swiss press has announced the plans of the International Bank for Reconstruction and Development (IBRD) to float a 12-year 3.5% interest-bearing loan on the Swiss market on 3 July. This is the first time that the IBRD has publicly floated a loan in Switzerland; previously such loans have been handled privately. Swiss bankers reportedly informed the IBRD that on its present terms the loan would fail because Swiss investors are showing increasing reluctance to acquire any long-term obligations. The US Legation Bern comments, however, that the 3.5% rate coupled with medium terms and low risk factor would ensure the success of the loan. (R Bern Joint Weeka No 26, 29 June 51; NY Times, 3 July 51) COMMENT: The Swiss bankers' objections to the IBRD are no doubt conditioned by their desire to get the best terms possible. It is true, nevertheless, that Swiss investors are becoming increasingly concerned over the prospects of inflation in Switzerland and that therefore they are hesitant to purchase fixed-return securities.

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SCANDINAVIA. Korean Peace Prospects Delay Decision on Sending Troops to Korea. The prospect of an armistice in Korea is delaying a decision by the Norwegian and Swedish Governments with respect to the UN's request of 22 June for troops. At the moment neither the Norwegian nor the Swedish Foreign Ministers find advisable the meeting of Scandinavian Foreign Ministers proposed by Denmark (see OCI Daily Digest, 29 June 51). (R Stockholm 1, 1 July 51; P Oslo 1289, 29 June 51) COMMENT: Undoubtedly, all three Scandinavian Governments are pleased at the prospects of a cessation of hostilities in Korea. The Norwegian Foreign Minister, nevertheless, indicated the sympathetic attitude of Norway to an equitable sharing of the burden in Korea. The Swedish Foreign Minister, on the other hand, is undoubtedly greatly relieved at being able to avoid serious consideration of Sweden's responsibilities military-wise to the UN, and another public discussion of Sweden's foreign policy.

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- "B" BRAZIL. Council Refuses to Send Troops to Korea. The Brazilian National Security Council, on 30 June, stated that Brazil does not have, at this moment, "military forces other than those required for the defense of its national territory". The Council has decided to recommend to the Chief of Staff of the Armed Forces the study of preliminary methods of technical collaboration and planning which will permit the implementation "in good time" of Brazil's obligations under the UN. (U Rio de Janeiro I, 1 July 51)
- COMMENT: The Council met to discuss the appeal of Secretary General Lie to the UN members for additional troops for the Korean war. The Brazilian public remains overwhelmingly opposed to sending troops overseas. Only during the past two weeks has the Vargas administration begun its campaign to overcome this public attitude. It is generally accepted that it will take several months even to prepare the Brazilian public politically to favor active participation in UN military actions. As a follow-up of the NSC meeting, General Gois Monteiro, presently Chief of Staff of the Armed Forces, is coming to the US to consult with military officials on the practical ways in which Brazil may participate in the UN action. General Gois, however, has recently remarked that Brazil's efforts "should be preferentially utilized in the Atlantic area", and that the "defense of the Western Hemisphere might begin in Berlin or more to the East".
- "C" GUATEMALA. Government May Request Withdrawal of US Air Mission. The US Air Attache in Guatemala has been informed that President Arbenz is seriously considering requesting the withdrawal of the USAF Mission on the grounds that the Mission will serve no useful purpose if the US is unable to provide the Guatemalan Air Force with equipment and materiel. The Attache comments that, "Such action seems well within the realm of possibility and would probably be concurred in by the Chief of the Air Force and many of his officers on purely professional grounds rather than any anti-US sentiment." (C Guatemala, IR-57-51 USAIRA, A-3, 28 May 51)
- COMMENT: The Guatemalan Government permitted the morale and equipment of the Air Force to deteriorate largely because the Air Force was regarded

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as a questionable asset to Arbenz during the presidential campaign of 1950. A desire to rehabilitate the Air Force may be indicated by a recent plan to purchase surplus Spitfire aircraft from Italy. US representations to Italy, however, prevented this transaction, and there are no indications that Guatemala will soon obtain aircraft.

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CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE
DAILY DIGEST OF SIGNIFICANT S/S CABLES

3 July 1951

SECTION 2 (EASTERN)

"B" IRAN. Tanker Receipt Problem Under Consideration. The US Ambassador in Tehran reports that he saw Prime Minister Mossadeq on 2 July, and suggested acceptance by the National Oil Company of the receipt proposed by AIOC (Anglo-Iranian Oil Company) which acknowledges the amount of oil removed, but would not prejudice the eventual outcome of the oil dispute. Mossadeq stated that he would accept such a reservation only if given an absolute guarantee that this endorsement will not be used by the AIOC or any other company lifting the oil as an excuse to avoid payment. (S, S/S Tehran 13, 2 July 51). COMMENT: The receipt problem goes considerably further than agreement between the AIOC and Iran on acceptable wording. If a method is not devised to remove the oil from the areas where storage facilities are becoming increasingly tight, the oil industry will be forced to shut down, whether or not AIOC personnel is available. Since Mossadeq has maintained an intransigent position heretofore, it will be surprising if he does accept a new type of receipt.

"B" US Company Offers 2,500 US technicians to Iran to Operate Oil Industry. The US Ambassador in Tehran reports that Lee-Factors Inc. of Los Angeles has sent a letter to Iranian Prime Minister Mossadeq and to the Chairman of the Iranian National Oil Board offering immediately to negotiate a contract to supply up to 2,500 US technicians to manage and operate the oil industry in Iran. (C, S/S Tehran 10, 2 July 51). COMMENT: The major US oil companies have a tacit understanding not to offer their services to Iran at the present time, inasmuch as the repercussions would far outweigh any advantages which might accrue to them. Smaller companies, however, have not made any such decision. The US Department of State was not informed of this move by Lee-Factors.

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"B" INDOCHINA. US Minister in Indochina suggests altered policy in that country. US Minister Heath in Saigon, observing that the decisive battle for Indochina has yet to be fought and that pressure for this larger battle may come to a head by this fall, asks the State Department to review its policy toward Indochina. In this connection Heath points out (a) that the French are and will continue to be during the foreseeable future the sole effective barrier to Communist expansion in Indochina, and, therefore, (b) it is of the greatest importance that harmonious US-French relations be maintained. He asks that the Department direct him to request General De Lattre to take steps to stop anti-American reports emanating from the General's entourage, and to inform the General of our belief that it is necessary for him to issue specific instructions to certain key officials of his staff to enter into closer relationships with designated political and economic officers of the Legation. Heath also asks authority to inform De Lattre that ECA will discuss its projects and their publicity with designated members of the General's staff, that there are and will be no US operations in Indochina beyond those of which the French are informed and that the officer and clerical staffs of all US missions in Indochina have been personally briefed by the Minister to insure that they fully understand the importance of the French contribution to the free world being made in Indochina, and to insure that they not listen to or give encouragement to improper criticism of French sacrifices and intentions.

Subsequently, Heath reported that he gained the impression from a conversation with De Lattre that the General was in correspondence with Paris regarding changes in the status of ECA operations in Indochina. (S, S/S 2355 Saigon 29 Jun 51; S, S/S 2365 Saigon, 30 Jun 51).

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