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21 January 1952

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CIA No. 49506

Copy No. 46

TOP SECRET SUPPLEMENT

TO THE DAILY DIGEST

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State Department review completed

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SECTION 2 (EASTERN)

1. SYRIA. Syria presses for American military aid: Top Syrian officials have increased their demands for US military aid. The American Minister in Damascus states that the Syrian Chief of State will talk of nothing else until he learns the US position in this matter. The Minister believes that the influential Chief of Staff, Lt. Col. Shishakli, delegated to the head of the government the task of pressing for arms, and that "only military aid will really strengthen the US position" in Damascus.

The Minister states that his efforts to work out a unified Western approach in regard to military aid have proved fruitless to date. [REDACTED]

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Comment: Syrian military demands for Western arms have probably increased as the result of the continuing clouded political atmosphere in Damascus. While the Syrian Chief of Staff is believed to be friendly to the West, his conference with Soviet diplomatic representatives in the past indicates that he is sufficiently opportunistic to seek arms from any quarter if his own dominant position in the country will thereby be strengthened.

2. AUSTRALIA. Policy against Middle East troop commitment seen under review: The US Embassy in Canberra has "reason to think" that Cabinet consideration has recently been given to the question of commitment of troops to the Middle East. Presumably as a result of the continuance of the difficult situation in Egypt, there may be a softening or change in the Australian position. [REDACTED]

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Comment: Australia has thus far refused to agree to commit troops to the Middle East in peacetime on the ground that its limited forces should be retained in the Southeast Asia - Pacific area.

SECTION 3 (WESTERN)

3. GENERAL. Peruvian counterproposal to Soviet resolution might postpone vote on Italy's admission to UN: The Peruvian delegation to the UN will present a proposal in the General Assembly calling for all applicants for UN membership to submit evidence of their qualifications to the Assembly as well as to the Security Council. The proposal, which has been redrafted by the American delegation, states that the only conditions for membership are that applicants be peace loving, and that they be willing and able to carry out their obligations under the UN charter. Belaunde, chief of the Peruvian delegation, believes that, with US support, the proposal will

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circumvent Central American efforts to vote Italy a member at the current session.

Meanwhile, the Italian representative at the UN reports that French Foreign Minister Schuman has pledged his country's support for the Soviet resolution calling for the simultaneous admission of all applicants except Korea and Indochina. [redacted]

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Comment: The Peruvian proposal, which by implication excludes the four Satellites from acceptability as members, could cause action on all applicants to be postponed. The Peruvians have long supported Italian admission to the UN and doubtless hope by postponing action on all applicants to forestall a Soviet veto of Italy's application.

Italy has urged the US to drop its opposition to the Soviet resolution.

4. FRANCE. New government faces difficulty in financing present commitments: Former Premiers Pleven, Bidault, and Reynaud have told Ambassador Bruce in Paris that they believe the budgetary problem arising from present commitments in Indochina and Europe is insoluble and that any French government at this time will therefore be "comparatively short-lived."

Pleven believes that he can best promote the European Defense Force plan and the idea of European federation by serving in the Assembly without obligations to the coalition government. He expects Parliament to give general approval of the European defense plan before the Lisbon NATO meeting next month, but warns that full ratification will be more difficult to obtain. [redacted]

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Comment: Premier-elect Edgar Faure has won Assembly support by giving in to the Socialists' objections to government economies by decree. This ends all hope for balancing the 1952 budget without recourse to seriously inflationary measures.

If France fails to get the US and the UN to share its financial burden in Indochina soon, a considerable increase in inflationary pressures in France can be expected; this would further aggravate both the rearmament problem and political instability.

5. UN pressure for alteration of France's Tunisian policy is recommended: The US Consul General in Tunis considers that French policy regarding Tunisia is threatening to make trouble in North Africa and the Near East, and suggests that a UN debate to pressure France into changing this policy would be advisable. The Consul General states that present French policy is indefensible and warns that the US will share in Moslem

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resentment and difficulties "created by French stubbornness and incapacity."

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Comment: Several natives have been killed and the most prominent Tunisian nationalists arrested as a result of Tunisian demonstrations in support of Prime Minister Chenik's petition to the UN Security Council. Although the French have sufficient forces to subdue isolated riots by unarmed natives, these forces would be severely taxed if widespread sympathetic disorders should break out simultaneously in other North African areas.

6. UNITED KINGDOM. Foreign Office working on new compromise proposals for Egypt: At Foreign Secretary Eden's request the British Foreign Office has drafted a new proposal for the Sudan which probably contains a formula for recognizing Farouk as its king.

Foreign Office officials, however, show "no great enthusiasm" for redrafting the Middle East Command proposals at the present time as requested after the Eden-Acheson talks. They would prefer first to obtain Egypt's conditional agreement to join the Command and then develop the proposals as necessary to meet the specific problems of Anglo-Egyptian defense.

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Comment: Eden has apparently abandoned his previous opposition to any compromise on the Sudan. British and American officials, as well as pro-Western Egyptian political leaders have insisted that only recognition of Farouk as King of the Sudan would persuade Egypt to consider the defense proposals. There is still no evidence that once that concession had been made Egypt would give up its contention that it can defend the Suez Canal in all circumstances except global war.

7. Britain sees chance for final liquidation of German assets in Switzerland: Britain sees the Swiss reply to the recent German note on liquidation of German assets in Switzerland as presenting an opportunity for prompt settlement of the long dispute over this question. The British believe that once the Federal Republic has been notified of the amounts due the US, France, Britain, and Switzerland, a four-power discussion should be held in mid-February to make the necessary amendments to replace the Washington Accord on the subject.

The US State Department, on the other hand, does not understand the Swiss reply to be a definite proposal and believes that an ultimate Allied-Swiss agreement on broad terms would be preferable to a protracted technical discussion along the lines of the British proposal.

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Comment: The British estimate of the prospects for early liquidation may be influenced by their desire to settle this knotty problem before the Tripartite Commission on German Debts meets in London next month, and also by their apparent willingness to accept any plan agreeable to the Swiss and the Germans. It is not clear that the Swiss reply is an acceptance of the German proposal, or that the Swiss are willing to isolate this particular question from the broader complex of Swiss-German debts.

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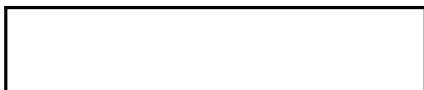


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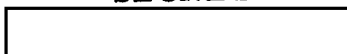
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SECTION 1 (SOVIET)

1. USSR. Soviet Union seeks concessions through UN discussion of Korean war: The American Embassy in Moscow states that Soviet proposals for UN discussion of the Korean problem represent tactical stalling to gain further UN concessions or a better logistical position in Korea. The Embassy suggests that the USSR is attempting to put UN negotiators under added pressure from those members anxious for an early peace.

In a similar comment, the British mission in Peiping adds its belief that both the USSR and China want an armistice on "reasonable" terms and that the Central People's Government was probably consulted on the Soviet maneuvers in the UN. [REDACTED]

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Comment: There is evidence that, despite rumors of disunity, there will be continuing coordination of Sino-Soviet strategy with respect to the Korean war.

2. Soviet note to Austria clarified: The recent Soviet note to Austria mentioning "Austrian citizens liberated by the Soviet Union" has been clarified by the Austrian Minister in Moscow. It apparently refers to 400 Austrians liberated in Poland toward the end of the war and repatriated to Austria, for which the Austrian Government was to assume expenses. The Soviet note thus refers entirely to one of the previously agreed upon articles, rather than, as originally interpreted, to an article still to be negotiated. [REDACTED]

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3. ALBANIA. Hydroelectric power project planned: Premier Enver Hoxha, in a recent ceremony at Burrel, heralded the beginning of Albania's second hydroelectrical power project which will be built on the River Mat in northern central Albania. The 20 million kilowatt-station, one of the largest public utility projects in the Albanian Five-Year Plan, is scheduled for completion in 1955. It will control floods, conserve water and generate power. [REDACTED]

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Comment: The Mat River project will provide electrical power to exploit the rich copper and chrome mines in northern Albania. It will also provide occupation for the traditionally restless, anti-regime population in the Mat River region. The Lenin hydroelectrical station serving the city of Tirana was opened in November 1951.

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4. YUGOSLAVIA. Britain to oppose larger tripartite aid program: The British delegation to the forthcoming tripartite conference in Washington will maintain that the London Agreement which was designed to correct Yugoslavia's balance of payments deficit, should be reexamined in the light of the current and prospective Yugoslav balance of payments position and possible alternative financing methods, and, that the Yugoslav investment program must be financed exclusively by the International Bank.

Britain will also oppose any suggestion that the three powers should underwrite Yugoslav deficits directly or indirectly attributable to Yugoslavia's military effort. In addition, the Foreign Office proposes that fourth countries should also be invited to discuss a common policy concerning Yugoslavia's debts and debt payments.

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Comment: French, British, and American officials will meet in Washington in February, to appraise the present adequacy and future requirements necessary to assure an equilibrium in the Yugoslav external account within the next few years.

The Yugoslavs contend that the International Bank program is unreliable and insufficient and have pressed the Allies to underwrite their capital investment program on the grounds of extraordinary military expenses. Britain, however, has consistently opposed any tripartite commitments beyond the limits of a strict interpretation of the London Agreement.

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SECTION 2 (EASTERN)

1. IRAN. Iranian Communists expected to win parliamentary representation: Non-Communist Iranian labor leaders estimate that at least five Communist-controlled deputies will be elected to the next parliament. The Communists are backing a slate of twelve candidates who are making special appeals to the workers. The labor leaders consider that the good discipline of the Communists will result in a total vote for Communist-supported candidates of 150,000 to 200,000. Labor circles report further that if genuinely free elections were permitted in the oil province of Khuzistan, Communists or fellow travelers would defeat the National Front candidates. [redacted]

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Comment: The outlawed Tudeh Party is making a determined effort to win representation in the Majlis through the use of front organizations and candidates posing as Nationalists. Previous reports have estimated that Tudeh sympathizers might win up to twelve seats.

While the Communists apparently are gaining strength among the workers in all parts of Iran, there is no other indication that they are currently as strong in Khuzistan as the labor leaders quoted above have asserted.

2. INDONESIA. Partial reparations agreement achieved: A member of the Indonesian delegation engaged in reparations and fisheries negotiations with Japan informed Ambassador Cochran that although written agreement has been reached on certain matters concerning reparations, the major questions of the amount of reparations and the method of settlement have yet to be determined.

The delegate stated that Indonesia's and Japan's respective positions on fisheries are still far apart. However, he indicated that when negotiations are renewed in Djakarta, Indonesia would make an effort toward compromise. [redacted]

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Comment: The Tokyo press announced on 18 January that Indonesia and Japan had signed an "interim reparations" agreement.

The Indonesian delegation had been instructed to return to Djakarta with concrete evidence of at least some progress toward a final settlement of the reparations issue. The government hopes that the conclusion of reparations and fisheries agreements with Japan will ensure ratification of the Japanese peace treaty when it comes before the Indonesian Parliament. The government expects to submit the agreement and the treaty to Parliament simultaneously.

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3. BURMA. Burmese considering limited appeal to UN: In reply to the US Charge's suggestion that Burma request an observation commission should it decide to place the Chinese Nationalist problem before the UN, the Permanent Secretary of the Foreign Office stated that his government had already recognized that this was "one feasible line of action." He added, however, that Burma may simply alert the UN to the possibility of a future request for assistance.

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[REDACTED]

Comment: It has been pointed out to the Burmese that presentation of the Chinese Nationalist problem to the UN would be as embarrassing to themselves as to other nations involved and would also be unlikely to produce an effective remedy to the situation. This report indicates clearly that the Burmese are attempting to develop a course of action which would resolve their dilemma by focussing the world's attention on the Nationalist problem without admitting their inability to deal with it.

4. Burma to support Communist China for seat at ECAFE meetings: The Permanent Secretary of the Burmese Foreign Office informed the American Charge that his country would attempt to avoid the issue of which Chinese should be seated at the ECAFE Conference in Rangoon which begins on 29 January. He added, however, that should the situation require it, his government would support the Communists. The Charge commented that the Secretary left no doubt that Burma does not agree with the US position.

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[REDACTED]

Comment: Burma was the first non-Communist country to recognize the Chinese Communist regime, and ever since has been obviously obsessed with a fear of antagonizing or provoking its large and aggressive neighbor. This report is further evidence of this condition.

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7. US Minister disturbed over French morale in Indochina: American Minister Heath states that Marshal de Lattre's death has had a "staggering" impact on all sectors of French opinion in Indochina. He adds that the appointments of General Salan as Commander in Chief and of Gautier as High Commissioner are viewed with misgiving and, in some quarters, with open opposition to this division of authority. He foresees the possibility that an attitude of defeatism will develop if a "third-rater" is named as a permanent successor to De Lattre or if the military situation in Tonkin becomes more critical. [REDACTED]

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Comment: De Lattre provided French officials and troops in Indochina with a tremendous psychological boost during the first half of 1951, but his absences during the past six months had no noticeable effect on French morale.

French forces in Tonkin, on the other hand, have been under constant attack by the Viet Minh since the first week of December, and all reports indicate continued and intensified pressure by the enemy, whose material strength is being rapidly increased by aid from Communist China.

8. CHINA. Communists condemn pirating of workers by industrial firms: An article in an official Shanghai daily condemned the practice of employers who recruit technicians and skilled workers by inducing them to leave their present jobs. The situation was described as gravest in the machine industries, where the pirating of workers has frequently cut output. Private employers were particularly guilty of hiring already employed workers, since the private companies could offer better wages than the state enterprises. [REDACTED]

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Comment: The practice which the article condemns is evidence that Shanghai workers--at least those with technical skills--are enjoying a tight labor market. A Peiping news broadcast in mid-1951 declared that Shanghai's machine industry was expanding, with a backlog of orders sufficient to maintain full operations for the next six months.

9. Peiping comments on Truman-Churchill talks: Peiping radio attributes to unidentified local "observers" the view that the Truman-Churchill talks revealed "ever-developing contradictions" between America and Britain. At the same time, Peiping construes the talks as "further evidence" that the UK is determined to serve as the "miserable satellite" of the US.

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Comment: Several sources have reported that Peiping, while hoping that the Truman-Churchill talks would reveal important differences in US-UK Far Eastern policies, expected the reverse and was consequently preparing to stiffen its own policy toward the UK. Specific actions allegedly contemplated were expulsion of British officials and nationals from China and a demand for retrocession of Hong Kong. There is no good evidence, however, that Peiping plans to alter its policy toward the UK at this time.

10. New governor believes Macao would not resist Chinese attack: Captain Joachim Esmarteiro, a new governor of the Portuguese colony of Macao, has stated that he considers Macao "indefensible" and that Portuguese African troops "would probably not fire a shot" against attacking Chinese Communist forces. The reporting officer concurs in Esmarteiro's view but believes that Portuguese troops would be sacrificed in a rear-guard action to permit the evacuation of Europeans by ship.

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Comment: Portuguese forces in Macao are incapable of offering more than brief resistance to a Chinese Communist force. Macao continues to be valuable to Communist China, however, as a transshipment point and smuggling base. There is no evidence that Peiping plans to extend its control over the colony in the near future.

11. Deported Chinese allegedly threaten Hong Kong authorities: A Chinese news agency alleges that five pro-Communist Chinese recently deported from Hong Kong were heard to declare, over the Communist radio in Canton, that Hong Kong is "part of Chinese territory" and that "we will return" on a "not too distant day."

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Comment: So far as is known, the Peiping regime has never permitted a propaganda vehicle under its control to assert China's claim to Hong Kong or to threaten violence against the colony. The above report may be a garbled version of a Peiping broadcast quoting eight deportees as expressing confidence "that Chinese inhabitants of Hong Kong will carry on the struggle against persecution and that ultimate victory will be theirs."

12. Nationalist officials discuss Communist threat to Nationalist-held coastal islands: The reported loss of Tungtou Island off the Chekiang coast on 14 January and the flight the same day of fighter aircraft of the 12th Division from Shanghai southward were the subjects of a Nationalist staff conference on 15 January. The Nationalist G-2 and G-3 views were that this attack on one of Ta Chen's "outlying" islands would precede an attack on Ta Chen itself (one of two main Nationalist strongholds along the coast). The Chief and Deputy Chief of Staff, however, believe that an attack on Ta Chen is not imminent, and that a successful attack would require participation by the Chinese Communist Air Force. The US Naval Attache who attended this conference comments that an all-out Chinese Communist attack on Ta Chen would be successful and the Nationalists would not support the defenders of Ta Chen in the event of such an attack. Nationalist ground forces at Ta Chen total 4,200, and naval support consists of six small auxiliary vessels.

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16. JAPAN. Tokyo reaction to Yoshida letter reported: Political reaction in Japan to Yoshida's letter to Dulles on China policy was generally favorable, according to US Political Adviser Sebald, although a Democratic spokesman criticized the Prime Minister for "secret and dogmatic diplomacy." A right-wing Socialist spokesman termed Yoshida's action "rash," while a left-wing Socialist said that entering into special relations with Formosa "is to abandon the economic self-sufficiency of Japan."

Although editorial opinion generally recognized the inevitability of the policy outlined in the Prime Minister's letter, Asahi felt that the government "should avoid making Red China more hostile."

Certain business groups reportedly feel that further US economic aid will be essential if trade with Communist China is prohibited.

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17. Soviet "neutralization offensive" continues: American Political Adviser Sebald in Tokyo reports that immediately after the 17 January meeting of the Allied Council for Japan the Soviet member held a press conference at which he released the text of his statement to that body. A Soviet spokesman also indicated that the request of the Kyodo News Agency

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to place a correspondent in Moscow had been "complied with."

Kyodo later denied making an official request but admitted to informal inquiries. The Japanese press interpreted the Soviet statement and the action on Kyodo as further USSR efforts to woo Japan. [REDACTED]

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Comment: The Soviet member of the Allied Council attacked the defense provisions of the new Japanese budget as "unwarrantable" on the ground that it would reduce the workers' real wages.

The French Press Agency reports from Tokyo that "high functionaries" of the Soviet Mission in Tokyo recently have been in frequent contact with leading Japanese businessmen and diplomats. At these encounters the Russians have allegedly dropped such hints as (1) it is difficult for the USSR to settle relations with Japan as long as hostilities continue in Korea because of the numerous US bases in Japan, (2) the USSR will offer a peace treaty when the San Francisco treaty becomes effective, and (3) the USSR is not opposed to Japanese rearmament but only to a Japanese military alliance with the United States.

Of a parallel nature is the reported action of the President of the People's Bank of Communist China, a member of the preparatory committee of the proposed International Economic Conference in Moscow, who has invited former Finance Minister Tanzan Ishibashi and nine other Japanese financial leaders to attend the conference, according to Asahi.

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SECTION 3 (WESTERN)

1. GERMANY. Allies and Bonn disagree over West German financial contribution to defense: In the current negotiations for contractual arrangements, disagreements on the West German financial contribution to defense are assuming an importance eclipsing the dispute on German arms restrictions, and are blocking establishment of European Defense Forces.

Although the Western powers have set a figure of 3 billion dollars for the German contribution, the Adenauer government has demanded that the TCC review this estimate. With French concurrence in doubt, the US and UK are now agreed that TCC hearings should be held and figures produced to convince the Germans of the reasonableness of the estimate. The TCC will only make recommendations; the final figure is to be negotiated by the Allies and the Federal Republic. The British, however, hint that the TCC may find the Germans capable of a contribution larger than the one now envisaged.

Aside from the dispute with the Germans, the Allied powers are in disagreement among themselves as to how much of the German contribution each of the three Allied powers is to receive and as to what agency should review the expenditures.

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2. FRANCE. Military crisis fails to induce French concessions to Viet nationalism: The French Minister for the Associated States believes that the basic problem in Indochina is political rather than military, but apparently has no policy changes in mind for dealing with the political situation. In a conversation with the Far East director of the Mutual Security Agency, the Minister charged that the Vietnamese are incapable of independence, but then agreed that a more effective Vietnamese Government might create further difficulties for France.

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Comment: The Minister's statement reflects France's failure to rally the Vietnamese to an anti-Communist effort within the French Union.

Despite increasing French concern over the financial burden of the war in Indochina, there is no indication that France has any intention of modifying its present political relationship with Vietnam. There is likewise no indication that the Bao Dai government and the Vietnamese people will be willing or able to contribute effectively to the military effort, so long as the French make loyalty to the French Union a prerequisite for high-level office in the Bao Dai government.

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3. NETHERLANDS-SURINAM. Dutch Foreign Minister to discuss 10-year development plan for Surinam: Netherlands Foreign Minister Drees plans to devote part of his visit to the US to discussing a 10-year development plan for the semi-autonomous state of Surinam. The plan is designed to increase bauxite production "for the common defense," to decrease Dutch dependence on dollar imports and at the same time strengthen the guilder, and to bolster the position of Westerners in the heavily Asiatic Surinam population. The plan hinges on the construction of a dam to provide power for processing bauxite into aluminum and create a large lake for transporting lumber to the prospective pulp and board industry.

25X1 Dutch officials are scheduled to discuss the plan with Surinam officials in March. [redacted]

Comment: At present, most of Surinam's annual 2 million tons of bauxite is processed in the US, and the Dutch and other consumers must pay dollars for the finished aluminum. Surinam has virtually no industrial activity and must import almost everything it consumes, with the exception of certain basic food items and lumber.

4. UNITED KINGDOM. Foreign Office will press immediately for West German membership in ECE: Britain will approach France immediately seeking support for the admission of the West German Federal Republic as a consultative member of the Economic Commission for Europe. The Foreign Office believes that there is virtually no possibility of a Soviet withdrawal from ECE over this issue. If France is unable to support the Anglo-American position now, Britain wants to press other Western European governments to support the West German candidacy.

25X1 In Geneva, ECE chairman Gunnar Myrdal has made a new proposal to the US whereby he would — upon request by the Allied High Command — invite the West Germans to join ECE when the contractual agreement becomes effective. East Germany would also be invited to join if the Russians declare it to be no longer occupied territory, but the Western countries would be free to eject it at the 1953 plenary session. [redacted]

Comment: The new British position is more positive than their earlier proposal to ask France to join Britain and the US in a "fact-finding" approach to other governments to get their views on West German membership. The French disagree strongly with the British analysis of the risk involved and believe that the Russians might well withdraw from ECE. A Russian high up in the ECE secretariat stated in December that the USSR had heard of the forthcoming British proposal; but he did not indicate that the Russians might withdraw, and various Western members of the secretariat doubt that the USSR would withdraw.

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Myrdal's proposal that the Allied High Command should request him to invite the West Germans is not consistent with the Anglo-American view that the Federal Republic should be treated as an independent nation.

5. CUBA. Communists experiencing financial difficulties: There is growing evidence that the Communists are experiencing serious financial difficulties and that the party is greatly alarmed at the small amount of funds available to carry on further activities, particularly its election campaign. Communist publications have carried pleas for party members to step up the payment of dues and to help increase the circulation of their papers and magazines. These financial problems have been further heightened by the theft of 13,000 dollars of party funds by one of the party treasurers. [REDACTED]

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Comment: The serious financial straits in which the Communist Party finds itself may be attributed to two factors: a probable reduction in overall party membership as indicated by the loss of affiliates during the recent party registration period, and the withdrawal of advertisements from several Communist publications by certain large firms. These difficulties attest to the weakening position of the Communist Party as a political force during this crucial pre-election period.

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