

This report is divided into two parts:

The first consists of items on situations where developments may occur in the near future.

The second part consists of status reports on other important situations where critical developments are not expected immediately.

State Dept. review completed

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Moscow is ready to move promptly to counter the French National Assembly's vote approving ratification of the Paris agreements.

FRENCH COUNCIL EXPECTED TO APPROVE PARIS ACCORDS. Page 7

Following approval of the Paris agreements by the National Assembly, the French Council of the Republic will also probably vote for ratification even if--as seems likely--Premier Mendes-France's cabinet falls before the council acts on the accords.

GERMAN RATIFICATION OF PARIS ACCORDS PROBABLE Page 8

Both houses of the West German legislature are expected to vote for ratification of the Paris accords.

HAMMARSKJOLD DUE IN PEIPING NEXT WEEK. Page 9

Difficulties beset Hammarskjold's mission to Communist China despite Peiping's deportation of a missionary charged with having plotted to assassinate Mao Tse-tung--a possible precedent for release of the US airmen.

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NEW ARAB-ISRAELI
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The Israeli government is permitting press criticism of the United States and demands for a tough policy against the Arabs which may lead to serious border incidents.

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Anti-Soviet Emigrés

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PART I

USSR READY TO MOVE
AGAINST GERMAN ARMING

Moscow is ready to move promptly to counter the French National Assembly's vote approving ratification of the Paris agreements.

Measures the USSR may now adopt include the following:

- (1) A new Orbit security conference.
- (2) Establishment of a unified Orbit military command.
- (3) Measures implying a build-up of Orbit military strength and further deployment of Soviet units to the Satellites.
- (4) Announcement of the creation of East German national armed forces.
- (5) Bellicose statements concerning the strength and readiness of Orbit armed forces, including greater stress on Soviet nuclear capabilities.

(6) Refusal to take part--at least for the present--in further four-power talks on the grounds that the Paris accords make such talks "void of substance and will exclude the possibility of achieving agreement on the German question." (Soviet note of 9 December).

(7) Annulment of the Anglo-Soviet and French-Soviet treaties, as threatened in recent notes.

(8) Threats to break off disarmament negotiations, on the grounds that the "establishment of militarism in West Germany...cannot be reconciled with the plan for a general reduction in armaments." (Soviet note of 9 December).

(9) Harassing action in Berlin.

The placing of East Berlin under East German jurisdiction may lead to new attempts to force the West to deal with the German Communist regime.

(10) Possible--but least likely--shows of force by Orbit military forces, particularly in the northern Satellites opposite West Germany.

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FRENCH COUNCIL EXPECTED
TO APPROVE PARIS ACCORDS

Following approval of the Paris agreements by the National Assembly, the French Council of the Republic will also probably vote for ratification even if--as seems likely--Premier Mendes-France's cabinet falls before the council acts on the accords.

The American embassy in Paris believes that the council will vote promptly--probably toward the end of February--and favorably on the agreements. The embassy reported on 28 December, moreover, that the council will consider the accords in a dignified manner, in order to offset the "shameful impression" made by the National Assembly in its debate.

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GERMAN RATIFICATION
OF PARIS ACCORDS PROBABLE

Favorable action by the French assembly will facilitate handling of the treaties in the West German legislature. Undoubtedly the critics will maintain that pacts acceptable to Paris must--ipso facto--be bad for Bonn. Nevertheless, the vast majority of West Germans appreciate that their future progress depends on these accords, and for that reason are even willing to swallow the pill of the Saar agreement.

A healthy majority for the bills on sovereignty, rearmament, and troop stationing should be forthcoming when the Bundestag holds its second and third readings of them in late January. Unless the Germans become convinced that the Saar agreement is provisional, however, the Saar bill will have a slim majority.

No difficulties are foreseen in the later Bundesrat action.

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HAMMARSKJOLD DUE
IN PEIPING NEXT WEEK

UN secretary general Hammarskjold plans to talk with Eden in London and with Nehru in New Delhi on his way to Peiping, where he is due to arrive about 4 January. Hammarskjold expects to remain in Peiping for a week or ten days.

Meanwhile, the Chinese Communists have offered a ray of hope in the case of the American airmen imprisoned as spies. On 26 December an elderly Roman Catholic missionary, sentenced in 1951 to life imprisonment on charges of conspiring with an American officer to assassinate Mao Tse-tung, was released and expelled from Communist China.

Peiping had previously deported a number of foreigners after sentencing them, but none of those released had been regarded as a major political prisoner. It thus seems possible that this missionary was released to establish a precedent for the eventual freeing of the airmen.

Chinese Communist propaganda on the airmen's case continues to suggest, however, that Peiping's asking price for a settlement will be high and other difficulties may be encountered in these meetings.

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NEW ARAB-ISRAELI
INCIDENTS LIKELY

Israel's frustration over what it regards as a deterioration of its international position is resulting in a press campaign increasingly critical of the United States and urging a tougher approach to the Arabs. The resultant internal build-up of pressure is likely to cause serious border incidents, but war between Israel and the Arab states is not anticipated.

American officials in Tel Aviv have noted recently that the local press is voicing "increasing uneasiness and tense frustration." Both the conservative and radical press have issued veiled threats of action ever since the first American military grant aid equipment reached Iraq in mid-December. The press has also been greatly exercised over the Egyptian trial of alleged Israeli spies and Egypt's refusal to let Israeli ships pass through the Suez Canal.

This campaign has tacit government approval. The American embassy has reported conversations with top Israeli officials who have adopted an uncompromising line on arms for Arabs and on the right of passage through the canal.

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The current Israeli campaign appears aimed largely at alerting international opinion to force the Arabs to negotiate settlements with Israel. The Tel Aviv government is apparently willing to risk border incidents and is ready to take actions similar to the interception of the Syrian air liner in mid-December.

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PART II

STATUS REPORTS
ON OTHER SITUATIONS

Chinese Offshore Islands: There has been no significant Communist military activity against Nationalist-held offshore islands in the past week.

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"Liberation" of Formosa Plans: The Chinese Communists are exploring political means of "liberating" Formosa while continuing their preparations for an eventual military assault on the island.

Chou En-lai recently told the Burmese premier that a withdrawal of American forces from the Formosa area would offer the possibility of "peacefully liberating" the island. Chou referred to the relatively bloodless transfer to the Communists of major cities and entire provinces in 1949 and 1950, when many Nationalist and local leaders chose to protect themselves by assisting in a peaceful turnover.

Chou may be right in suggesting that many or most Chinese from the mainland now on Formosa, if they were to believe themselves abandoned by the United States, would try to deliver the island to the Communists.

The recent move to establish a 2400 to 0500 curfew in Taipei may reflect Chinese Nationalist concern over possible subversive activity on Formosa. Although the order was withdrawn after one night, it was announced that reimposition might be necessary.

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US-South Korean Aid Agreement: In what may be a move to undermine another pertinent provision of the United States-South Korean aid agreement, the South Korean defense minister recently announced his country's desire, in the absence of hostilities, to withdraw its forces from operational control of the US Eighth Army.

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Possible ROK Action Against NNIT: Direct action by the Rhee government against the Communist members of the Neutral Nations Inspection Teams has been made less likely by an American diplomatic approach warning Rhee of the consequences of such action and by a UN Command decision to discontinue use of three airfields in South Korea, which would thus limit the movements of the Communist inspectors. The UN decision should placate Rhee for the time being, although public threats will undoubtedly continue to be made periodically.

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Diem's Position Shaky: Despite the critical problems faced by the Diem government, an atmosphere of inaction and stagnation is becoming

increasingly dominant in Saigon. Diem's success in getting rid of General Hinh has apparently convinced him that most of his troubles are over. The fact is that the revamped General Staff remains weak and the lack of a competent full-time interior minister--Diem himself still holds this position--is delaying action necessary to counter Viet Minh subversion.

At the same time, clashes between armed units of the sects and the army have become more frequent. Diem has cited the power of the sects as justification for his opposition to General Collins' plan for reducing the size of the army.

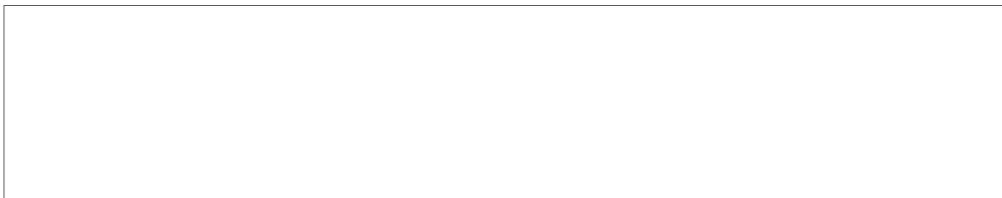
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Laotian Talks With Pathet Lao: The Viet Minh intends to use the discussions between the royal government and the Communist-backed Laotian rebels as a means of propagating anti-American sentiment.

The Laotian prime minister insists that he has no intention of taking any rebel leaders into his government, but shows little awareness of the Viet Minh's potential for subversive action through an ostensibly indigenous front group.

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USSR-Japan Relations: The USSR may make a diplomatic overture to Japan during the New Year holidays.



Asahi, the leading independent Japanese newspaper, has submitted five questions to President Eisenhower and may well have sent some to Malenkov. If it has done so, it has provided the Soviet premier with an opportunity to appeal directly to the Japanese people for a normalization of relations.

Moscow has adopted two courses of action recently which suggest the possibility of a new bid of this sort:

(1) The Kremlin has said repeatedly--most recently on 23 December--that the initiative for a resumption of relations must come from Japan, but has argued this point in terms calculated to make resumption appear inevitable and add to public pressures in Japan in favor of such action.

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Overtures from the Orbit to Japan have not been specific enough thus far to cause the Hatoyama government to consider seriously the possibility of renewing relations in the foreseeable future, but Tokyo would be faced with a real dilemma if Malenkov should make a specific proposal, for example, calling a peace conference in which Communist China would participate. Failure to accept such a proposal would risk alienating a large bloc of public opinion and improve Socialist chances in the March elections.

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On the other hand, Japan would be wary of making any move toward recognition of Red China which would jeopardize its relations with Washington and its trade with Formosa.

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Japan-COCOM: American efforts to get COCOM agreement for stricter controls on copper will be handicapped as the result of large recent shipments of Japanese copper to the Orbit. In pursuing its announced policy of expanding trade with Communist nations, Japan has licensed 7,300 tons of copper wire for export to the USSR, Czechoslovakia and Poland. Japan believes it unfair to expect it to ban trade which other nations have found profitable, and against which there is no prohibition.

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Burma: The United States faces new difficulties in its relations with Burma as a consequence of Premier Nu's visit to China and a significant increase in Peiping's prestige in Burma which has resulted.

Nu became convinced on his trip that the Communists want a long period of peace in which to build a "new China," and is prepared to accept at face value their pledge not to interfere in Burma's internal affairs if Burma "does not turn stooge of any power or play tricks in international politics."

Nu would probably regard the acceptance of American arms--which the Burmese army has long been interested in obtaining--as falling into one or the other of these categories of policies.

At the same time, Nu also wants to remain on good terms with the United States and would like to visit Washington as a follow-up to his trip to Peiping in the hope of reducing tensions between the United States and Communist China. According to the British ambassador in Rangoon, however, Nu has postponed efforts to arrange such a trip for about two months on advice of the Burmese ambassador in Washington because of the high feeling created by Peiping's imprisonment of the American airmen.

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Communist Gains in Indonesia: Vigorous and skillful leadership is winning greater popular support for the Indonesian Communist Party.

The Communists have won their greatest success thus far in infiltrating intellectual circles. With the possibility of nationwide elections in view, the party is now broadening its popular base. In this effort the Communists benefit from a general ignorance of Communism throughout the countryside which permits organizers to equate party principles with those of Islam. The leadership of the principal anti-Communist party, the Masjumi-- or Moslem Council--has been ineffective in the face of this threat to its popular appeal.

Peiping is devoting greater attention to Indonesia. It has reached an agreement with Indonesian negotiators on the citizenship status of Chinese residents there and Chou En-lai plans to go to Djakarta to sign it in March.

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Syria: The situation continues to be "the most worrisome" in "the confused Middle East," in the words of responsible British observers as reported in this publication on 16 December.

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French North Africa: The situation remains quiet except for isolated acts of terrorism. A breakdown of the stalled negotiations in Paris over limited self-government for Tunisia would, however, probably lead to a resumption of local nationalist agitation.

The French and the Libyans have apparently agreed to negotiate on the Fezzan but the terms of reference are still vague.

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Greek Crisis: Public demonstrations against the United States and Britain because of the UN's postponement of consideration of the Cyprus issue have ceased. The riots have damaged the popularity of the Papagos government and its position will probably continue to deteriorate.

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Chile: President Ibanez has lifted the state of siege and the Chamber of Deputies has withdrawn its charges against Minister of Interior Olavarria. These actions will not, however, assure smooth executive-legislative relationships or solve Chile's critical economic problems.

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Finland: The Finnish government crisis was resolved at least temporarily on 23 December, when Parliament gave its approval to the economic powers bill submitted by the government.

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Note: There are no significant new developments to report this week on the following situations:

Egypt and the Sudan

British-Arab Oil Dispute

Anti-Soviet Emigrés

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30 December 1954

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CRITICAL SITUATIONS

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