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CURRENT INTELLIGENCE WEEKLY SUMMARY

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in the rate of increase in industrial production.

In Britain, for example, the rate of increase in industrial production declined from 6 percent in the first quarter of 1955 to 4 percent in the third quarter and to 3 percent in October. A further decline is probable unless labor and materials become more plentiful. Even in France, which has not yet felt the impact of inflationary pressures as much as the rest of Western Europe, the rate of increase in industrial output declined from 13 percent in the first quarter to 8 percent in the third.

Prospects

Western Europe's present economic situation contrasts favorably with conditions which led to crises in 1947, 1949 and 1951. The resurgence of financial policy as the primary instrument for guiding the economy is itself a measure of how far Western Europe has moved since wartime and the early postwar years, when direct controls were resorted to.

The trade liberalization and the degree of economic integration achieved since these

years permit national shortages and price distortions to be countered to a greater extent on a regional basis. The tendency of demand to outrun supply has been much more gradual and limited on this occasion, offering more time for the application of remedial measures. Another factor which should help ease trade and payments problems has been the general adherence, in the face of difficulty, to multilateral co-operation within the CEEC.

Furthermore, the high level of investment--which was one of the main factors responsible for current inflationary pressures--will in due course bring new capacity into operation and tend to relieve some of the pressure.

The managing director of the International Monetary Fund, in a recent statement characterizing the nature and importance of these problems, said of them: "They are not now transitional problems arising from wartime destruction and postwar distortion in trade and payments. They are the ordinary problems of a dynamic world economy."

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STRAINED RELATIONS BETWEEN GREECE AND TURKEY
INTERFERE WITH REGIONAL CO-OPERATION

The continuing diplomatic "cold war" between Greece and Turkey makes unlikely the resumption of full Greek participation in NATO and the Balkan alliance, until Athens can present some semblance of a diplomatic victory over Turkey to the Greek people. The jockeying between the two countries over issues arising from the

anti-Greek riots in Istanbul and Izmir last September reflects their traditional competition for prestige in the eastern Mediterranean and more recently for American favors. Athens apparently feels that the riots and the Greek defeat in the UN on the Cyprus issue seriously damaged Greek prestige, and is seeking a way to redress the balance.

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Greece has resented Turkey's aggressive assumption of leadership in the organization of Middle East defense and is attempting to counter this by strengthening its influence among the Arab states. A Greek military mission to Egypt last spring reportedly hoped to negotiate a Greek-Egyptian alliance, and a state visit to Lebanon is planned by the Greek king and queen. Although the problem of Cyprus is longstanding, the Greek government's sponsorship of Cypriot claims in the last two years partly reflects Athens' desire to balance the rise in Turkish prestige.

The Greek foreign minister recently professed concern over "neo-Ottoman imperialistic tendencies" of Turkish foreign policy and urged the United States to "help the Turkish government and nation to remain as steadily as possible on the road of proper democratic thinking and behavior." The Turks, absorbed in efforts to create a Middle East defense organization, apparently took no notice of Greek maneuvers until it appeared that Britain was weakening in its determination to maintain the status quo in the area. The Cyprus issue reached a climax in the London conference at the end of August.

Asserting that the issue was another case of Greek expansionism, Ankara has publicly assumed an uncompromising stand against any change in the status quo on Cyprus, which dominates the southern ports of Turkey. The Turkish nationalism whipped up just before and during the conference exploded in the anti-Greek riots of 6 and 7 September. Although the Turks

have sought to normalize relations with Athens since the riots, Greece is exploiting them to reduce Turkish prestige and to force moderation in Ankara's Cyprus policy.

Athens is aggrieved and frustrated by the relative increase in Turkish power and influence, but has limited means of matching them. Thus far, Greece has pursued an international propaganda campaign through the Greek Orthodox Church and philhellenic organizations abroad to brand the Turks as anti-Christian barbarians. It has also held back from participating in Western defense arrangements pending settlement of issues stemming from the riots in Turkey. Ankara has retaliated with an aide memoire to foreign missions in Turkey which attempts to counter Greek charges and place the onus on Greece for the disruption of defense co-operation.

Athens' relations within NATO are no longer at issue, but Athens continues to temporize on co-operation within the Balkan alliance. However, Athens remains attached to its alliance with Yugoslavia and Turkey. Since compensation claims of Greek victims of the riots are the sole ostensible obstacles to renewed co-operation, Athens will resume participation in the alliance when Ankara liquidates the compensation problem. The traditional competition and antagonisms between Greece and Turkey in the eastern Mediterranean will nevertheless present a continuing possibility for new estrangement.

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