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28 December 1951

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**DAILY DIGEST**

Office of Current Intelligence

**CENTRAL INTELLIGENCE AGENCY**

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\*Army, Navy and State Department review(s) completed.

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SECTION 1 (SOVIET)

1. YUGOSLAVIA. Former Army Cominformists released by regime: The Yugoslav Minister of the Interior has announced the release of 137 former army members. The edict, issued during the celebration of Army Day, announced that these men have been convinced of the seriousness of their crimes and can be expected to contribute "to the building and strengthening of our socialist country." [redacted] 25X1

Comment: The significance of this release lies in the timing of its announcement which came during Army Day celebrations. The regime has been releasing in the past year large numbers of "re-educated" Cominformists, apparently in an effort to demonstrate the "unity" of the Yugoslav people and the logic of Tito's anti-Soviet position. The propaganda objective of this particular amnesty announcement may be an attempt to counteract increasing evidence of Yugoslav dependence on the West and the effects on Communist army personnel of reported arrests of anti-Western army officers.

2. Yugoslavs reject majority rules adopted by Danube Commission: Radio Belgrade, in reporting the end of the fifth session of the Danube Commission, states that Yugoslavia voted against the majority-adopted regulations covering the navigation on the Danube.

The Yugoslav delegate objected to the newly established rules because they contained clauses which conflict with Yugoslav laws. Moreover, the Soviet-dominated majority was also accused of ignoring "all justified Yugoslav arguments" submitted during the present session. [redacted] 25X1

Comment: Earlier reports from US officials suggested that the majority had adopted a conciliatory attitude toward Yugoslavia. However, on the more crucial issues, specifically the majority rule that the owner country should be allowed to investigate ships involved in accidents in Yugoslav waters, the majority apparently fulfilled its expected role by rejecting Yugoslavia's key representations.

The result of a lack of unanimity will be the existence of two conflicting navigational codes on the Danube, a situation which provides an additional basis for new provocations.

3. Yugoslavia rejects Hungarian charge of illegal Yugoslav occupation of Hungarian territory: The Belgrade radio has announced that there is no justification for Hungary's note to Yugoslavia charging illegal Yugoslav occupation of a Hungarian island situated in the Mura River. The

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Yugoslavs contend that the island, formed after the war by a change in the course of the Mura River, is still in Yugoslav territory. [REDACTED]

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Comment: Yugoslavia had charged Hungary with an illegal occupation of Yugoslav territory on 20 December, claimed that this was another in a series of planned incidents, and stated that "our peoples will yield no part of their territory to usurpers."

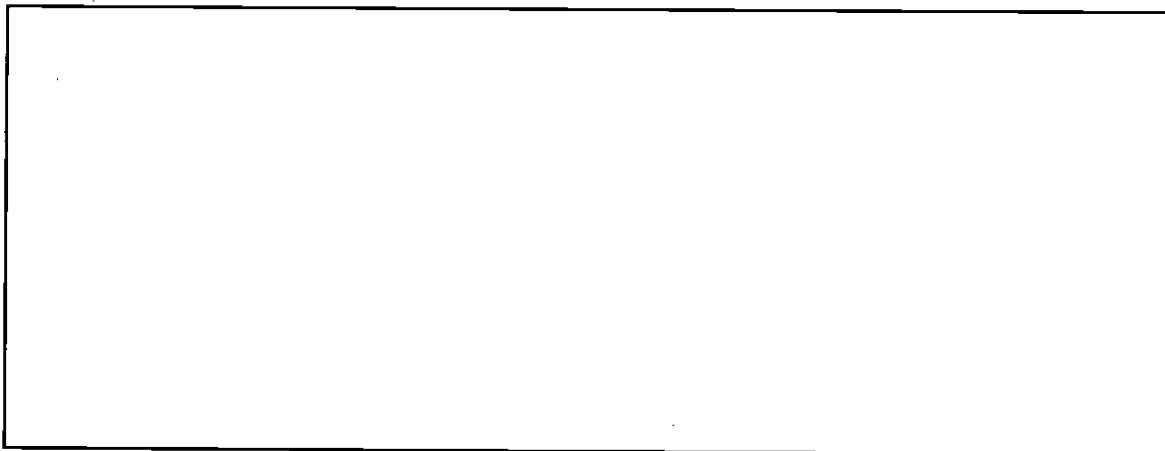
Hungary subsequently delivered a note to Belgrade asserting that the island had been seized illegally from Hungary by Yugoslav peasants who were unlawfully cutting timber.

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SECTION 2 (EASTERN)

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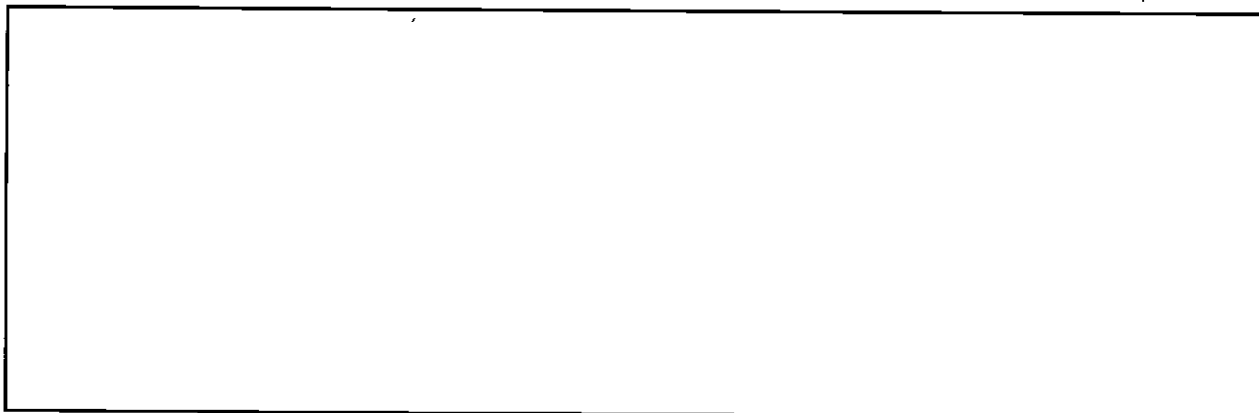
2. IRAN. Iranian Prime Minister refuses to sign Mutual Security Act agreement:  
Prime Minister Mossadeq has again refused to consider signing the agreement required by the Mutual Security Act which provides among other things that the recipient country contribute to the "defense of the free world." He insisted that if formal signatures are required, the matter must be presented to the Majlis and the Senate. He stated that he would be neutral in presenting the matter and suggested that Ambassador Henderson might judge for himself whether or not Parliament would be willing to give the required assurances. 

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Comment: There are no indications that Mossadeq will become more amenable to signing the agreement provided for in the Mutual Security Act. In their present mood the two Iranian Houses will hardly act quickly or favorably on a political matter of such an explosive nature.

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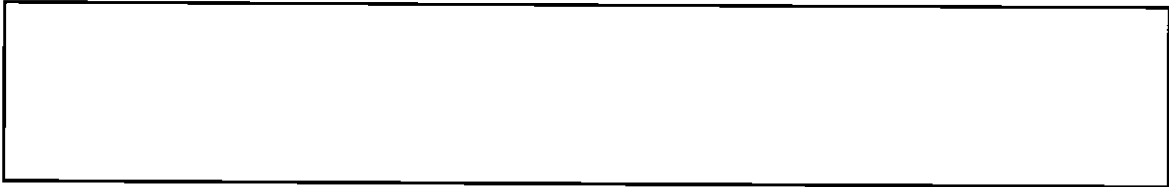
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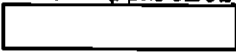
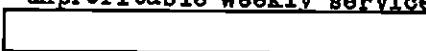
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- 4. AFGHANISTAN. India may be supplying arms to Afghanistan: An Afghan Army colonel told a US Embassy representative that he had just returned from an arms purchasing trip to India.

The Embassy comments that these arms may be part of India's assistance to Afghanistan in return for the latter's pressure on Pakistan regarding Pushtoonistan. The Embassy further states that the only way Indian arms could reach Afghanistan at present would be aboard planes of the Himalayan Aviation Company, Ltd., which recently inaugurated an otherwise apparently unprofitable weekly service from India to Kabul via Iran.

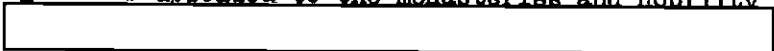
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- 5. CHINA. Chinese Communists plan modernization of Tibet: The Chinese Communists have launched a program for short-term modernization of Tibet, according to Indian press reports. This program is said to include building of motorable roads, construction of a radio network in southern Tibet, installation of a printing press, electrification of important towns, opening of technical schools, and establishment of a state bank. It is reported that the modernization program is supported by the Tibetan Government and that the Dalai Lama has appealed to the monasteries and nobility for financial contributions.

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Comment: Short-term modernization of Tibet will necessarily be rudimentary. The Communists occupying Tibet need transportation, communication and propaganda facilities in order to effect the political and military integration of that region with China proper. As such facilities are developed in Communist Tibet, the stability of adjacent territories in the Indian sphere will become threatened.

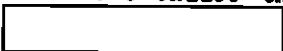
The forcing of a degree of technical culture upon Tibetans will contribute to the ultimate elimination of Tibetan feudal traditions. It is assumed that any public appeal made by the Dalai Lama was dictated by the Chinese Communists, who plan eventually to expropriate the Tibetan monasteries and nobility.

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- 6. Unidentified POW's seen at Dairen: [Redacted] report having seen about 100 POW's being escorted through the Dairen dook area by Chinese guards on 16 November. The identify of the POW's who were taller than their guards, was not apparent. [Redacted]

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Comment: This report does not specify whether the prisoners were Caucasian. If so, they might have been either Soviet troops in the Port Arthur naval base area or UN POW's taken in Korea. Several thousand of the latter have been reported at various points in Communist China.

7. KOREA. FECOM believes Communists will continue on defensive: As the 30-day period of relative military inactivity in Korea approaches an end, Far East Command interprets the meager evidence available as indicating that the enemy will continue on the defensive. FECOM cites as evidence that Communist artillery is still disposed in depth and a great part of it will necessarily have to be moved forward before the enemy can engage in offensive operations. Some POW's have asserted that their units' missions are defensive and will remain so until mid-February, while other POW's have reported that their units are engaged in preparing defensive positions. No major troop movements have been noted during the past 30 days, which would suggest that an offensive is not imminent.

FECOM warns, however, that the enemy's logistical build-up, his increasing air power, and his strength on the ground--particularly in armor and artillery --point to his retention of the capability of launching a major offensive.

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8. President Rhee states that he will not oppose planned constitutional amendment: At the twelfth regular session of the National Assembly which convened on 20 December, President Rhee made the "startling and quite unexpected" statement that he would not oppose the proposed constitutional amendment which makes the cabinet responsible to the assembly. The US Military Attache comments that there is no indication yet as to the real reasons for Rhee's announcement or if he merely intends only to give lip service to the statement.

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Comment: The amendment provides for the assignment to each ministry of one member of the National Assembly as a vice-minister, who would act in an executive capacity and be a liaison man with the assembly. Rhee may have acquiesced because of pressure from within his own party, a majority of which favors the bill.

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SECTION 3 (WESTERN)

1. FRANCE. De Gaulle attacks European integration plans: A recent statement by General de Gaulle is interpreted by the US Embassy in Paris as a possible forerunner of attacks against the US and French Governments for having failed at European unification by allowing Germany to become too powerful.

At a recent press conference, De Gaulle gave the first indications that if his current bitter attacks against the European Army should fail, he would then launch an assault on the alleged German comeback, saying that German "hegemony" could have been prevented had he been granted power in time. The General predicted that the present "weak piecemeal approach" to European integration would lead to "disappointment and disgust" with the European idea, and would result in the failure of European union and in "Atlantic disunity." [REDACTED]

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Comment: Both the current Gaullist line and these indications of future party tactics spell continued difficulty for the middle-of-the-road government. De Gaulle's criticism closely parallels Communist vituperations against the European Army and the "American occupation of France." Such a propaganda assault is especially serious in France, where popular sentiment is innately apprehensive both of foreign troops on French soil and of the rebirth of a German war potential.

2. AUSTRIA. Soviet-controlled enterprise supplies railway tank cars to the West: An Austrian manufacturer under the control of the Administration of Soviet Enterprises in Austria (USIA) is reported to have accepted a large order for railway tank cars from the Turkish National Railways and to have succeeded in delivering a portion of the order to Turkey through an Italian middleman. [REDACTED]

[REDACTED] two Soviet directors of the firm were coincidentally removed from their positions while the transaction was in progress, but a third is reported to have consummated the deal on the plea that USIA needed the dollars involved. The Soviet Military Bank in Vienna allegedly handled the financial arrangements. [REDACTED]

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Comment: While Soviet-controlled enterprises in eastern Austria have heretofore offered surplus and non-strategic items to Western buyers in return for needed foreign exchange, the export of tank cars must be regarded as indicative of either a pressing need for funds or unusual zeal on the part of individual plant directors.

3. NETHERLANDS. The Dutch oppose other European Defense Community nations on internal defense force issue: The Dutch delegates to the Paris Conference on a European Defense Community will accept the plan favored by the French,

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Germans and Italians, whereby all internal defense forces would form part of the European Defense Force, provided that only the national governments -- and not the Defense Community -- have the authority to commit any of these forces to SHAPE.

The German delegate, suspecting that the Dutch are trying to retain the nucleus of a national army, states that if the Dutch plan is adopted West Germany will also have to create some national forces in order to secure Bundestag ratification. [REDACTED]

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Comment: The German delegate's remark is prompted by his Parliament's insistence on equal treatment in the European Defense Community. Since the Allies, and especially the French Government, oppose the formation of any German national forces under a wholly German command, the Dutch proposal would in effect discriminate against West Germany.

The Netherlands and Belgium have intimated a willingness to accept a common budget under international control in exchange for a longer transition period (see following article). This may lead to conciliation on the less important issue of internal defense forces.

4. BELGIUM-THE NETHERLANDS. Benelux indicates compromise on common budget proposal: The Benelux delegates to the European Defense Forces conference have indicated a willingness to accept a common budget under international control in exchange for a longer transition period. The Dutch and the Belgians have intimated that if there is agreement for a transition period beyond the proposed December 1953 deadline, they will agree to a common budget arrangement for the definitive period following. In general, agreement was reached that this common budget would include all expenditures of the EDF forces and institutions. [REDACTED]

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Comment: The Benelux delegates have heretofore been adamant in their opposition to a common budget under international control. Their apparent willingness to compromise will eliminate one of the largest stumbling blocks in the EDF plan, on which the EDF Ministers are now meeting to iron out the remaining difficulties and to reach agreement in time for the February NATO meeting in Lisbon.

5. ITALY. Italian ratification of Schuman Plan expected: The Foreign Affairs Committee of the Italian Chamber of Deputies has already begun consideration of the Schuman Plan treaty, but the US Embassy in Rome believes ratification by both Houses will probably not be achieved until some time in February. With ratification in principle supported by all the democratic parties, it is practically certain that Parliament will take favorable action after some debate. [REDACTED]

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Comment: The majority Christian Democrats, with the support of other moderate parties, should experience no difficulty in securing the bill's passage, even though nationalistic right-wing elements may join the Communist Party in opposition. Implementation of the treaty may be hampered, however, by interested industrial groups who have consistently opposed the Schuman Plan since its inception and have been largely responsible for the long delay in its presentation of Parliament.

6. Italians fear Cabinet crisis: Opposition to the government's Budget Ministry bill recently passed by the Italian Senate has led to speculation as to whether a Cabinet crisis might result if it is defeated in Parliament early in January. The bill would give added powers to the Budget Ministry, now headed by Christian Democrat Pella.

Differences have been reported between Pella and Finance Minister Vanoni, and even between Pella and Premier de Gasperi, on the subject of defense spending. Long standing opposition by both left- and right-wing Christian Democrats to concentration of financial powers in Pella's hands resulted in a Cabinet reorganization in July.

If new Cabinet changes seem indicated, De Gasperi "will certainly use the opportunity to try to get the democratic Socialists and Liberals back into the government." Meanwhile, democratic Socialist leader Saragat stated on 22 December that his party would remain in the opposition until the Italian national elections. 25X1

Comment: Although the Christian Democrats will probably manage to resolve their differences temporarily in order to ensure support of the government in Parliament, where the party has a majority, Pella's control over the Italian economy raises serious questions regarding Italy's participation in the Western community. Italy's contribution to Western defense is limited by Pella's "defense of the lira" policy, and the government's ability to survive the 1952 national elections is jeopardized by party division over this issue.

Because the Liberals and democratic Socialists have made it plain ever since the spring municipal elections that they have no intention of returning, De Gasperi may find it necessary to turn to the extreme right for support.

7. PORTUGAL. American aid for Portuguese defense effort urged by US Embassy: The US Ambassador in Lisbon believes that political considerations make it highly important that the US reverse its tentative decision not to program economic aid for Portugal in fiscal year 1953. He points out that the present Portuguese plan for defense expansion, for which Portugal seeks 30 million dollars, is the result not only of American insistence on a

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maximum defense effort by all NATO countries, but also of Defense Minister Santos Costa's personal cooperation with US officials and his influence on Prime Minister Salazar. The Ambassador feels that failure to program aid for Portugal would amount to belittling the Portuguese defense effort and would undermine confidence in American leadership and adversely affect cooperation between the two governments in all fields. [REDACTED]

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Comment: Portugal had estimated that its minimum defense contribution under NATO would require 30 million dollars in additional appropriations over the next three years. The Portuguese had insisted, however, that the domestic economy could not support this added expenditure and that equivalent amounts of direct American aid would be necessary. The NATO Temporary Council Committee declined to recommend either increased Portuguese defense expenditures or the American aid requested by Portugal.

8. UNITED KINGDOM. Small rise in UK coal production seen for 1952: British Secretary of State for Fuel and Power Lord Leathers has promised MSA officials a vigorous government effort to raise British coal production and full cooperation within OEEC for solving Western Europe's coal problem. The Chairman of the National Coal Board, however, in a later conversation predicted that British output for 1952 would rise by not more than four million tons, while an additional five million tons might be saved by "improved" consumption. [REDACTED]

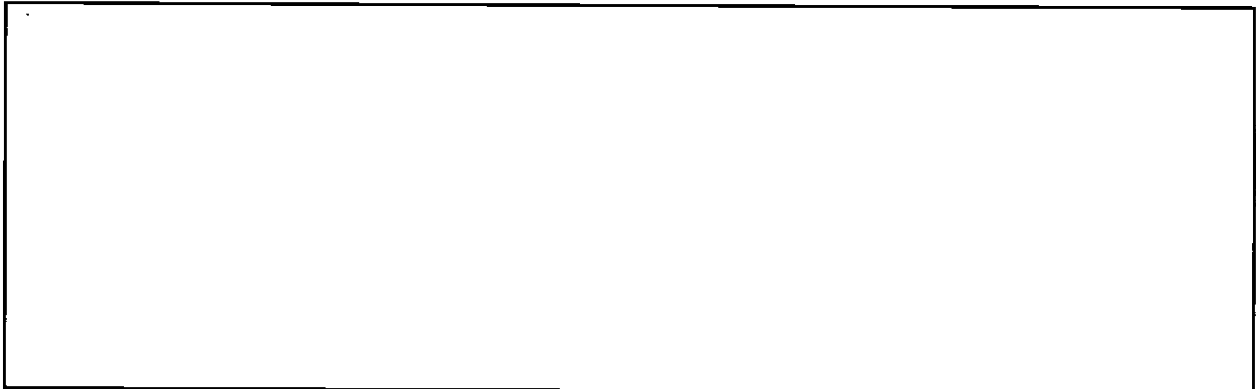
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Comment: Nine million tons, which represents an increase of about four percent over Britain's 1950 coal production, would go less than halfway toward meeting Western Europe's urgent need for non-dollar coal. During 1951 the various Continental countries were scheduled to import 28 million tons from the US, thus significantly worsening their international payments position. Although the UK has been exporting some coal to the Continent, it is itself scheduled to receive 750,000 tons of US coal in the first quarter of 1952.

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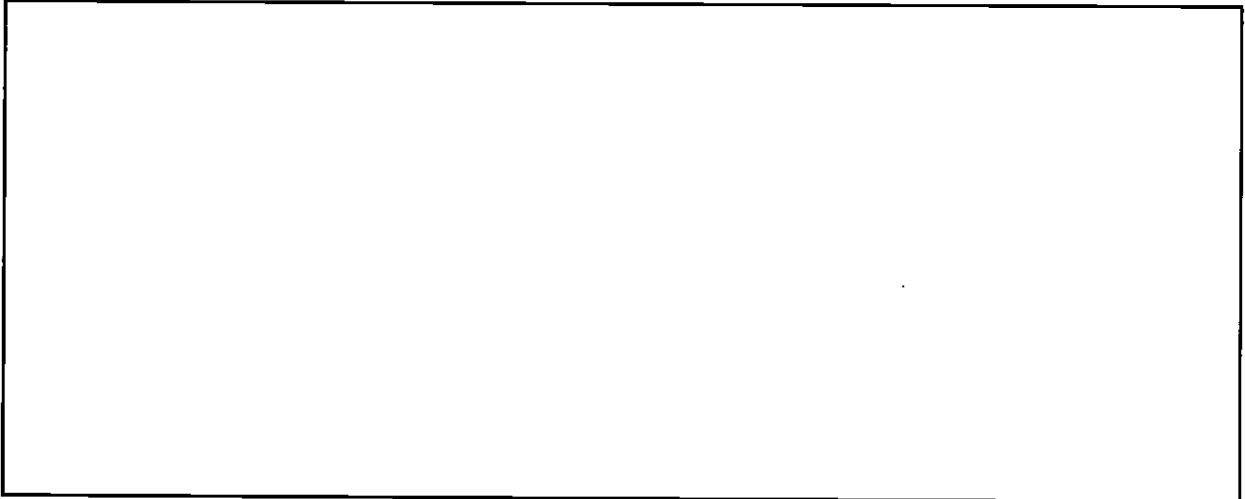
10. BOLIVIA. Bolivian Ambassador says US tin policy endangers good-neighbor policy: Alberto Ostria Gutierrez, Bolivian Ambassador to Chile, has stated that his country is losing confidence in the good-neighbor policy because the US Reconstruction Finance Corporation, in violation of such international agreements as the Bogota Charter, has fixed arbitrary prices for Bolivian tin. He declared that "for the US the issue represents the price of two bombers; for Bolivia it means an economic crisis...." He added that what is being done today with tin may be done tomorrow with copper, coffee, rubber, and other South American raw materials.

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Comment: Earlier in December the Bolivian Government announced that at a propitious moment it would ask the Organization of American States to judge the prolonged Bolivian-US disagreement over the price of tin. Meanwhile, Bolivian diplomats have been seeking support for its position in other Latin American countries, many of whom share Bolivia's views regarding the defense of primary producers.

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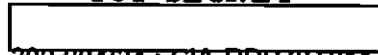
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SECTION 2 (EASTERN)

1. CHINA/INDIA. Indian Government attempting to influence Peiping's position on Korea: The Secretary-General of the Indian Ministry of External Affairs recently told the American Ambassador that the Government of India concurs in the view that Chinese failure to make "reasonable agreements" in Korea would be a further indication of Soviet control of Peiping's policies. The Indian official indicated that his government was making this point "vigorously" to the Peiping regime.

The Indian Ambassador to Peiping told the American Ambassador that he was confident of a successful conclusion to the Korean negotiations. Conceding that such an agreement would require a "drastic change" in Peiping's attitude, the Indian representative stated that, upon his return to Peiping in late January, he would make "every effort" to induce Peiping to modify its position. [REDACTED]

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Comment: It is questionable that the Indian Charge in Peiping is in a position to make any point "vigorously," as he apparently does not have access to the top officials of the regime. While the Indian Ambassador may attempt to influence Chinese Communist leaders upon his return, the prospects for success in such an effort are poor. Indian representations in the past have had no discernible effect on Peiping's policies.

2. JAPAN. Political Adviser comments on significance of Japanese cabinet reorganization: The reorganization of the Japanese cabinet on 25 December caught both politicians and the public by surprise, according to US Political Adviser Sebald. He reports that the purpose of the change is threefold: to reduce internal Liberal Party friction, to strengthen the cabinet for the coming Diet session, since an increase in the effectiveness of the opposition Democrats is anticipated, and to effect the continuation of the Yoshida cabinet after the peace treaty comes into force.

On the transfers of individuals, Sebald comments that the promotion of Chief Cabinet Secretary Okazaki to State Minister is significant. Yoshida intends to make Okazaki the Foreign Minister after the Occupation; meanwhile, he will play an important role in negotiating the administrative agreement under the Security Treaty. Sebald believes that Okazaki's appointment strengthens the government's hand in foreign relations. Ohashi's transfer from Attorney General to State Minister will make him available to head the proposed Ministry of Internal Security. [REDACTED]

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Comment: In general the Japanese press has viewed the reorganization with considerable skepticism and has termed it a mere reshuffle. It probably does not materially strengthen Yoshida's hand in dealing with the Diet opposition.

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The Japanese press has already announced that Yoshida has virtually ordered the Foreign Office to take its instructions from Okazaki.

SECTION 3 (WESTERN)

3. BRAZIL. Negotiations on supply of strategic materials to US authorized:  
The Foreign Minister has informed the US Ambassador that the Brazilian National Security Council on 22 December unanimously authorized President Vargas to negotiate agreements with the US on the supply of strategic materials. Vargas has instructed the Foreign Minister to conduct these negotiations soon. The Ambassador states that he "will endeavor to secure clarification of the action taken by the Security Council and the scope of the Foreign Minister's instructions." 25X1

Comment: The significance of the Security Council's action is not known. The move may be a face-saving gesture, since Brazil has still offered no material aid for the UN struggle in Korea. On the other hand, it may be an effort to obtain additional railway equipment, since any appreciable increase in the supply of strategic materials to the US depends heavily on the improvement of Brazil's transportation system.

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