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In five years the Soviets have managed to build an impressive atomic energy industry whose primary objective is the production of weapons. There appears to be no doubt that the guiding aim of the program has been and continues to be the acquisition of a large stockpile of atomic bombs in the shortest possible time.

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Russia does not desire a united Germany that is free of Soviet control. Although the Russian Government might now be prepared to offer unification proposals on a four-power level which appear closer to the Western position than anything that it has previously proposed, its purpose in so doing would be to exploit German hopes for unification to delay or even prevent German integration with the West.

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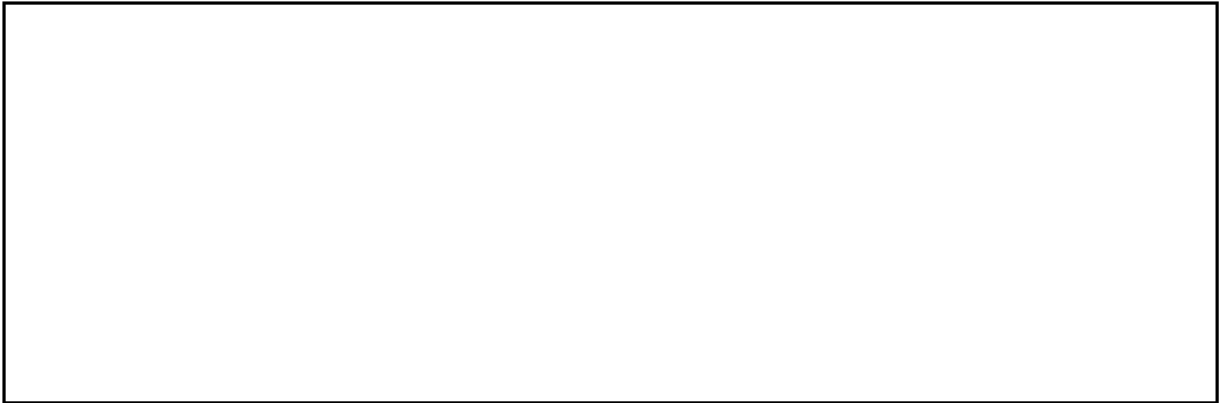
The Burmese Communist movement, in apparent disintegration less than a year ago, is being transformed into a vigorous force with a clearly-defined strategy for obtaining control of Burma. This revival is largely the result of aid received or anticipated from Communist China. Barring a Chinese invasion, however, there is little danger of a Communist government assuming control of Burma in the immediate future.

ITALY'S INTERNATIONAL RELATIONS FURTHER COMPLICATED Page 14

As a result of the tripartite declaration of 26 September favoring revision of some of the restrictions of the 1947 peace treaty, Italy's relations with the treaty signatories have reached a delicate point. France's refusal to revise the economic provisions of the treaty creates a point of tension; and alleged British support of the Yugoslav position on Trieste is already a source of friction with Italy. Relations with the US will continue close, but disappointment at the results of De Gasperi's visit may lessen Italian public support of De Gasperi's pro-US policies.

AUSTRIA'S COALITION GOVERNMENT FACES NEW DIFFICULTIES Page 16

Dissension within the People's Party and the prospective strengthening of political forces on the extreme right have recently increased the internal instability of the Austrian Republic and have raised new obstacles to the continuation of Austria's coalition government. Should the present trends continue, the fulfilment of American policies in Austria would be seriously handicapped.



THE SOVIET WORLD

Continuing Satellite attempts to maintain trade relations useful to the Orbit, in spite of US efforts to curtail the eastward flow of strategic materials, are evident in recent Czech and Hungarian trade negotiations with non-Orbit countries.

Negotiations are taking place for renewing a Czech-Indonesian trade agreement which provides that each country will take all measures to facilitate an annual trade turnover of some thirteen million dollars. The deal will involve the annual shipment of 400 tons of Indonesian tin to Czechoslovakia, plus an unknown commitment for rubber. Czechoslovakia has renewed its agreement with Mexico. Hungary and Poland have renewed trade agreements with Indonesia.

A Hungarian-Austrian trade treaty has recently been signed to run through August 1952; it calls for the exchange of Hungarian foodstuffs for Austrian steel and manufactured goods. During 1950 Hungary was the second largest importer of Austrian ball-bearings.

Finnish commercial interests are attempting to interest the US in the purchase of Finnish cobalt, a steel alloying metal indispensable in the making of jet engines. The Finns fear that the USSR will put pressure on their government to obtain the metal if the US does not make prior application. The quantity of the metal involved in the offer is some 300 tons annually out of an estimated annual world production of 5,000 tons (1947).

Several recent reports indicate that the Satellite countries are having further success in acquiring Western shipping.

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Poland now owns three tankers and charters two others. The Polish Government is also on the verge of acquiring an 8,000-ton French cargo-passenger vessel, which exceeds the size and speed restrictions agreed on by the Western Powers as making the vessel potentially useful for military purposes.

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Various reports from Eastern Europe point to continuing Communist difficulties in tightening the Soviet grip on the area. Moscow has apparently begun a weekly series of broadcasts stressing vigilance against imperialist spies. The first broadcast pointed out that the US was resorting to all measures to undermine the People's Democracies, including espionage, provocation, sabotage and terrorism.

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[redacted] a well-supplied and well-organized resistance band has been operating in Western Poland since May. The band, which has been terrorizing local Communist headquarters, seems to have infiltrated the Communist Party ranks and apparently operates with a prior knowledge of local Party activities.

The Bulgarian Ministry of Industry has been split into the Ministries of Light and Heavy Industry. The move has probably resulted from the Ministry of Industry's failure to meet planned goals. The reshuffle will reallocate and narrow responsibilities, tighten central controls and align the Bulgarian administration with those of the more industrialized Satellites.

Western embargoes are forcing the Soviet Union to draw on its own resources to supply the strategic materials which China formerly obtained from the West.

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[redacted] The USSR-Manchurian trade agreement concluded in July 1949 and the several Sino-Soviet economic agreements of September 1950 concerning Sinkiang are other illustrations of the manner in which Moscow's influence extends to the border areas.

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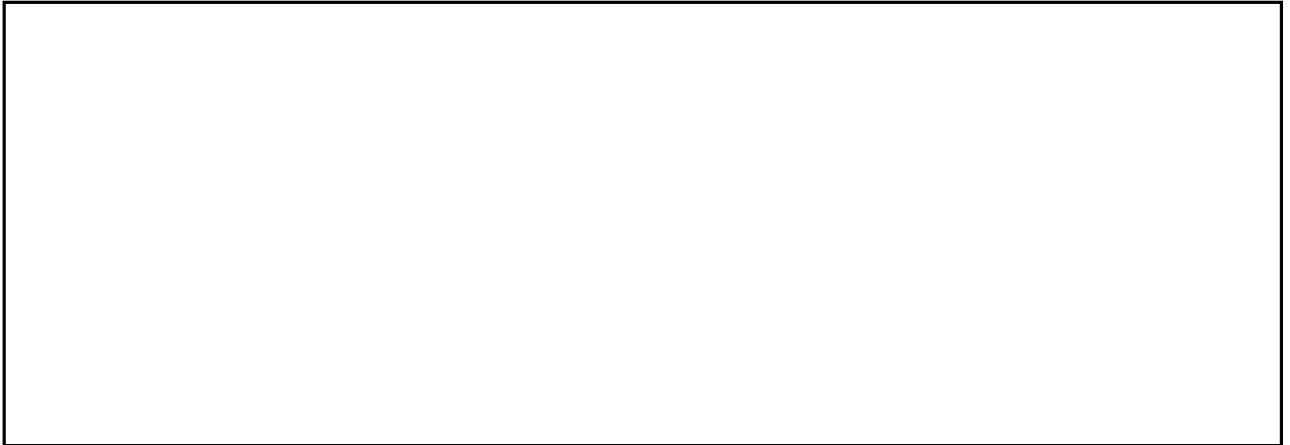
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[redacted] Since World War II several autonomous republics

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have been either reduced to plain Oblasts or have vanished from the map. Three republics formed out of minor nationalities which collaborated with the Germans have suffered this fate; the Crimean is an example of the first procedure and the Volga-German and Checheno-Ingush ASSR's of the second.



SOVIET ATOMIC ENERGY DEVELOPMENTS

In five years the Soviets have managed to build an extensive atomic energy industry whose primary objective is the production of weapons, not research into peaceful uses. There appears to be no doubt that the guiding aim of the program has been and continues to be the acquisition of a large stockpile of atomic bombs in the shortest possible time.

It was formerly believed that the amount of available uranium might seriously limit the productive capacity of the atomic industry. However, the discovery of additional sources of ore and the willingness to expend manpower and resources extravagantly have now apparently assured the USSR an uninterrupted expansion. The rate of bomb production is accelerating and a much greater increase in the total number of bombs may be expected within a few years. It is estimated that the USSR will have a stockpile of 100 bombs by mid-1952, and 200 by 1953.

During World War II atomic energy activity in the USSR was conducted on only a minor scale. After the explosion at Hiroshima and Nagasaki, however, L. P. Beriia, Deputy Chairman of the Council of Ministers, was given the responsibility of organizing a large-scale atomic energy program. In October 1945, the First Chief Directorate attached to the Council of Ministers was formed to handle all of its aspects. As a result of a major reorganization in 1950, the Second Chief Directorate attached to the Council of Ministers was set up to handle the mining, concentrating and refining of uranium. The production of fissionable materials and the fabrication of weapons was retained by the First Chief Directorate.

The Russians currently obtain uranium ore from sources both inside and outside the USSR, with foreign producers providing two thirds of the total estimated production. Outside sources of uranium ore are in Germany, Czechoslovakia, Bulgaria and Poland; Germany and Czechoslovakia provide around 90 percent of the total outside production. The deposits in the Soviet Zone of Germany, although they contain low-grade ore, are at present the most productive single source, but it is estimated that these will be greatly diminished in another three to five years.

The magnitude of the Soviet atomic energy program has necessitated the diversion to it of large blocks of manpower, especially from among scientific, engineering and construction personnel. The estimated number engaged in related mining activities in the USSR is 80,000 to 120,000; in Germany 150,000 to 200,000; in Czechoslovakia 15,000 to 25,000; in Bulgaria 4,000 to 6,000 and in Poland 6,000 to 10,000. Those engaged in production activities are estimated at 20,000 to 30,000; in research 5,000 to 8,000; and in construction 50,000 to 60,000. The grand total for all these activities is 330,000 to 459,000 workers.

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Soviet espionage against the American, British and Canadian atomic energy projects was widespread during World War II and has since been well publicized. However, the mass of information reported to the USSR by Fuchs, Gold, Nunn-May and others apparently did not find expression in a well-organized large-scale program until after the war. All in all, the available evidence concerning Soviet atomic energy espionage activities warrants the inference that Soviet plant design, construction and operations have been carried out with considerable knowledge of all the important atomic energy programs in other countries. The Soviet program has followed a line of development technically similar to the US program.

After the end of World War II, the Russians showed considerable interest in German research in heavy water. In October 1945, the personnel of the principal German pilot plant located in the Leuna works at Merseburg, were evacuated to the USSR under MVD auspices. [REDACTED]

[REDACTED] their knowledge of heavy water production was exploited. Subsequently, the group was isolated from further heavy water research and transferred [REDACTED] Many other German scientists and technicians are apparently making significant contributions to the Soviet atomic energy program, but few, if any, are in its more highly sensitive branches.

The bulk of the equipment for the Soviet atomic energy program is standard, and is produced in any number of plants throughout the Soviet

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Union. The Russians have offset deficiencies in their industry by purchasing equipment not obtainable in the USSR from the Satellites and, prior to increased export restrictions, from Western countries, including the United States.

Until such time as the USSR becomes far more self-sufficient in atomic weapons and other military applications of atomic energy and until international tension is eased, there will be a minimum diversion of effort toward peaceful applications of atomic energy in the Soviet Union. In fact, although Soviet propaganda proudly tells of moving mountains by atomic power, the Presidium of the Supreme Soviet of the USSR in a resolution of 6 August 1951 pointed out that "there is no doubt that only after a ban on atomic weapons is imposed, can atomic power be truly utilized for peaceful purposes, for the good of peoples."

CURRENT SOVIET POLICY TOWARD GERMANY

Early in September, as it became clear that the Western powers intended to go ahead with arrangements to integrate West Germany into the defense of Europe, the Soviet Union increased its efforts to forestall West German rearmament. Moscow's efforts were probably stimulated when the Western powers demonstrated at San Francisco that, if necessary, they would proceed with settlements involving the former enemy nations without the participation of the Soviet Union.

The Soviet diplomatic campaign was opened on 11 September with a note to France charging that French acquiescence in Germany's role under the Schuman and Plevin Plans violated the Franco-Soviet Treaty of 1944 and the Potsdam Agreement. The Kremlin can be expected to make further demarches to the French and may send a similar protest to Great Britain before the October elections in that country.

On 15 September Prime Minister Grotewohl of the (East) German Democratic Republic renewed the campaign for German unity based on a two-point program: (1) the holding of free, all-German elections with the objective of establishing a unified, democratic, and peace-loving Germany; and (2) the speeding up of the conclusion of a peace treaty with Germany. The Volkskammer, at Grotewohl's request, passed a resolution proposing "joint all-German consultations between representatives of East and West Germany" to implement this program. On 20 September, the proposal was endorsed by General Chuikov, head of the Soviet Control Commission in Germany. At about the same time, Soviet propaganda attention to Germany reached the highest point since formation of the East German state in October 1949.

The Soviet motives in endorsing the East German approach were made very clear in the note to France by the emphasis on the Schuman and Plevin Plans, which involve the economic and military integration of West Germany into Western Europe.

Although the USSR might now be prepared to offer unification proposals on a four-power level which appear closer to the Western position than anything that it has proposed in the past, the purpose of this would be to exploit German hopes for unification to delay or even prevent Germany's integration with the West. Actually, such proposals would not indicate that the USSR was interested in German unity on terms that could be acceptable to the West. Soviet tactics are being applied, not in the expectation that the Bonn government or any of the Allied powers will undergo a change of heart, but with the calculation that popular support for the policies of these governments may be weakened, perhaps to the point that the policies themselves become ineffective.

Soviet postwar policy toward Germany has been distinguished by two

main aspects. The Soviet Union has consistently sought de facto integration of the Eastern Zone into the Soviet Orbit, although at a slower pace than in the case of any Eastern European Satellite. At the same time Soviet diplomacy, backed by strong propaganda, has claimed that the USSR favors German unity and the early conclusion of a peace treaty with all of Germany.

These obvious contradictions stem from the West's success in frustrating the USSR's efforts to extend its control over Germany as a whole. The Soviet Union does not desire a united Germany led by a government which might have Western sympathies and irredentist aims beyond the Oder and the Neisse. By holding firmly to Eastern Germany, Russia can retard indefinitely the resurgence of a united Germany which might become a threat to its security.

Nevertheless, the Soviet Government is aware that this attitude may help bring about a progressive integration of Western Germany into Western Europe. In particular, it is extremely unwilling to see Allied defenses strengthened by the addition of fifty million Germans and their resources. A rump West German state will have even greater irredentist aims in the east than a united Germany. In order to counteract these tendencies, Russia has been obliged to state its diplomatic objectives in terms of a united Germany and an early peace treaty.

From the Soviet point of view, no wholly satisfactory solution to the German question is possible at the present time. As a result, Soviet policy continues to drift in its already well-marked channels, and each move in the West is countered by a similar move in the East. Both Russia and the Western powers are confronted with a partition of Germany that appears likely to be prolonged indefinitely, and both face a situation in which the German question may ultimately lead to war among the powers themselves.

WORLD COMMUNISM: COMMUNIST THREAT TO BURMA

The Burmese Communist movement, in apparent disintegration less than a year ago, is being transformed into a vigorous force with a clearly-defined strategy for obtaining control of Burma. This revival is largely the result of aid received or anticipated from Communist China.

Burmese Communist propaganda frankly admits the movement's dependence on China. Since the issuance in January 1951 of a Burmese Communist Party "Order of the Day" which called for "winning the war in two years," there has been persistent stress on the need for strengthening Sino-Burmese "friendship." Thakin Than Tun, chief of the Party, is reliably quoted as stating that it was the party's aim to establish a "Peoples Democratic Republic of Burma," and advocating the creation of an "impregnable stronghold" in Upper Burma, which would serve as a key area for the advancement of the "revolution" in Southeast Asia. Proclaiming that the US is attempting to make Burma into a military base from which to attack China, Than Tun has told his followers to join with the Chinese Communists should the latter enter Burma in pursuit of an American or "puppet" force.

While they are still active in Lower Burma, the Burmese Communists have shifted their principal efforts to areas north and east of Mandalay. Communist-created unrest has broken out in the heretofore peaceful Shan and Kachin States on the China border.

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Besides entering into closer relations with China, the Burmese Communists have sought to enhance their capabilities by shifting from a "go-it-alone" policy to one of active collaboration with the various other insurgents in Burma. The Communists insist upon retaining leadership in

any joint effort, but toward the other insurgents they stress the common objectives of overthrowing the government. While little unity has actually been achieved, the Communists have been strengthened by the reduction of internecine warfare among the anti-government forces. The development of a "united front" of this nature has also been advocated by international Communist strategists.

The greatest asset of the Burmese Communists, aside from their Chinese allies, is the continued indifference of most Burmans, including high government and military officials, to the threat of international Communism. Only very recently has the government admitted that the Communists' northward movement existed. It still ignores the significance of this development. This apparent opacity is a combination of fatalism, belief that Communists are not real Communists, and blind reliance on Buddhism to save Burma from an alien faith. It directly contributes to the increased relative strength of the Communists. For example, it has permitted the current bickering between political leaders and the Army Commander-in-Chief to continue with the result of lowered morale in the already weak and overextended Burmese Army.

Barring a Chinese invasion, there is little danger of a Communist government assuming control of Burma in the immediate future. Nevertheless, current developments clearly indicate that Communism in Burma is on the upswing and there appear to be few obstacles in the way of the Communists gaining control of large areas in north Burma from which an effective political, military and psychological campaign can be conducted against the rest of the country.

ITALY'S INTERNATIONAL RELATIONS FURTHER COMPLICATED

As a result of the tripartite declaration of 26 September favoring revision of some of the restrictions of the 1947 peace treaty, Italy's relations with the treaty signatories have reached a delicate point. At the same time, Italy's relations with its former axis partners, Japan and Germany, are moving toward a new status as a result of the San Francisco and Ottawa conferences, respectively.

The Ottawa meeting gave Italy the opportunity to promote, in unofficial discussions, German participation in a European defense force, as advocated by Premier De Gasperi. Italo-German rapprochement is growing, fostered by the close ties between the two Christian Democratic Prime Ministers, and, on a lower level, between Christian Democratic foreign office officials of the two countries. In addition, the Vatican strongly supports such relations and presumably is anxious for the emergence of western Germany as a Catholic and an anti-Communist force. Italy and Germany have terminated the state of war between them.

Relations between Italy and Japan, on the other hand, have been awkward since the Italians first protested their exclusion from the San Francisco conference. They further complained that the conference produced a peace treaty for Japan far more lenient than the 1947 treaty between the Allies and Italy despite the fact that the latter had been a co-belligerent rather than an enemy after October 1943. Italy and Japan also have reached agreement on a bilateral termination of the state of war, but have not settled Italian claims for war damage.

The decision of the big three to "make every effort to secure Italy's membership in the United Nations" renews Italo-Soviet friction. Formal contacts between the two countries are correct, but the USSR continues to block Italy's admission into the UN. Italian relations with the Satellites are deteriorating under the same pressures from the Satellites that have been imposed on most Western nations. Continued Czechoslovak harassing tactics forced the Italians to close their consulate in Bratislava and they, in turn, requested the Czechs to withdraw their consulate in Milan.

A pledge from the US, Great Britain, and France to free Italy from the peace treaty limitations on its armed forces is considered only a small part of the big issue of total abrogation of the peace treaty which Italy wants. France's refusal to revise the economic provisions of the treaty was a disappointment to the Italians, who were beginning to regard France as their champion, particularly on the Trieste problem.

The question of disposition of the Free Territory of Trieste, not dealt with by the tripartite declaration, remains a cause of sharp friction between Italy and Yugoslavia and one of Premier De Gasperi's major problems of foreign relations and domestic stability. Italy has transmitted a note to Tito, expressing its willingness to negotiate but leaving it up to him to arrange for such negotiations. There are indications that the note was intended less as the prelude to Italian concessions than as a sop to the Western powers, who have urged bilateral negotiations, and as a means of showing up what the Italians regard as Yugoslav intransigence on the issue.

Italian relations with Britain since the war have been generally less cordial than those with the United States. Currently the Italians claim that the British are supporting Tito at the expense of Italy, and that they even favor an independent Trieste rather than return of the area to Italy, as supported by the US-UK-French declaration of March 1948.

Relations between the Italian Government and the US, hitherto regarded as a protagonist of Italian interests, will continue close, but the Italian public may feel somewhat less inclined to support De Gasperi's pro-American policies. The Italians had been whipped up by their press to expect concrete decisions on Trieste, Italian emigration and exports to the US, and other issues, to be championed by the US against opposition from the other Western powers. The non-government Italian press is already showing unfavorable reactions to the tripartite meetings, especially their failure to deal with the Trieste issue, and the Italian Communists are of course seeking to exploit this disappointment.

AUSTRIA'S COALITION GOVERNMENT FACES NEW DIFFICULTIES

Dissension within the People's Party and the prospective strengthening of political forces on the extreme right have recently increased the internal instability of the Austrian Republic and have raised new obstacles to the continuation of Austria's coalition government. This is of particular interest to the US, as the present coalition of Austria's People's and Socialist Parties has been an effective instrument for the attainment of American political and economic interests in Austria since 1945.

The monopoly of conservative leadership exercised by the People's Party since World War II was not seriously challenged until 1949, when the Union of Independents appeared. Austria's first authentic "fourth party," the Union polled nearly 12 percent of the total votes in the elections of that year and contributed an impressive delegation, many of them well-known Nazis, to the national parliament. The Union subsequently frittered away much of its new prestige, however, in factional disputes and in an alignment with the Communists on the fourth wage-price agreement. But in the presidential elections this past spring, the Union once more revealed surprising strength and showed that it remains a political force of significance.

Diverging objectives of the component cliques of the Union of Independents have heretofore prevented a clear definition of the Party's program. The Union of Independents has commanded wide support from former Nazis by demanding equal rights for all Austrians, a camouflaged, but obvious, denunciation of the denazification laws. In speeches and in publications it has made vague references to cultural pan-Germanism and talked about a rehabilitation of the military virtues. Even monarchists have found a sympathetic response among party adherents. The Union has become a refuge for the malcontented.

Recent ideological disputes have provided some insight into the current thinking of the party's more moderate leaders. While this thinking cannot be termed "neo-Nazi," "totalitarian" may not be an incorrect appellation. Party Chairman Herbert Kraus in a recent article on the prospects of European unity defended "national" parties, denounced those democratic forms he considers debilitating, and made a plea for an economic philosophy transcending class warfare.

Within his own party Kraus is attacked for his betrayal of "national conscious socialism," for cooperation with the "capitalistic People's Party," and for his rejection of the alleged "progressivism" of "European veterans' organizations" in favor of DeGaulism. In other words, Kraus' totalitarianism is obviously not "fascist" enough for some of his militant followers. This apparent moderation may cost him support within his own party, but it attracts those who defect from the People's Party and protest against compromise with socialism.

Negotiations, never successful heretofore, between dissident elements of the People's Party and representatives of the Union of Independents are now reported to be in progress. Whatever its ultimate objectives, the Union hopes immediately to form a rightist bloc of sufficient strength so that the People's Party will be compelled to accept the Union of Independents in a coalition government of the right. If it should achieve this goal, the Socialists, who regard the Union as ultra-reactionary, have sworn to leave the government. This would bring to an end the system of organized compromise which has provided the comparative political stability in Austria. The fulfilment of American policies would be seriously handicapped should Austria revert to a prewar type of politics when socialism and conservatism were irreconcilable.

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