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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

DAILY DIGEST

Date: JUN 13 1954

- NOTE:
1. This summary of significant reports has been prepared primarily for the internal use of the Office of Current Intelligence. It does not represent a complete coverage of all current reports in CIA or in the Office of Current Intelligence.
 2. Comments represent the preliminary views of the Office of Current Intelligence.
 3. Marginal letter indications are defined as follows:
 - "A" - items indicating Soviet-Communist intentions or capabilities.
 - "B" - important regional developments not necessarily related to Soviet/Communist intentions or capabilities
 - "C" - other information indicating trends and potential developments

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Section 1 (Soviet)

"B" USSR. Bureaucratic Practices in Soviet Industry Condemned. According to Pravda, correspondence published on 5 June indicates that faulty leadership in competition has become "entrenched" on a number of mines belonging to the Voroshilov Trust in the Donbas. Apparently, the Director and chief engineer talk a great deal about competition but do little about organizing competition in a practical manner, and consequently, in certain mines, projects announced in various competitions are completely unknown to some of the workers. Furthermore, according to Pravda, individual competition is not organized and the fulfillment of pledges is not systematically checked. As a result, the mines of the Voroshilov Trust have so far this year "underdelivered" tens of thousands of tons of coal. In this connection the Voroshilovgrad Provincial Party Committee is accused of "complacency" in that it took no action after hearing reports concerning the low output of the Trust. Pravda warns that such "bureaucratic" practice is intolerable, and recalls that success in socialist competition lies in its "mass character" and in its development of the "creative initiative" of the millions. (R-FBIS, 6 June 51). COMMENT: This is another example of the constant watch maintained by the Party over the managerial groups. Of particular interest is the fact that the criticism in this case includes the Provincial Party Committee as well.

"B" Soviet Liaison Bureau Reportedly Established in South China. [REDACTED]

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[REDACTED] at the end of 1950 a Soviet Liaison Bureau was established in South China (Canton) which in effect increases Soviet control "throughout the area." The functions of the Bureau are to consider all important decisions affecting South China before transmittal to Moscow and to direct the activities of all Soviet military and civilian personnel in the area. Reporting Officer Comment: Doubtful Soviets have such control over a part of China so far removed from the USSR and believes purpose of Bureau is to control Soviet personnel in South China only. [REDACTED] COMMENT: Increased Soviet activity in South China in 1951 might well warrant the creation of such a bureau, probably subordinate to Peiping. In addition to numerous reports of Soviet assistance in the military training of Viet Minh Chinese Communist personnel in South China, Soviet advisers reportedly also aid in minelaying and in the construction of railroads, airfields, submarine bases, coastal defenses and in inspecting the Indo-China and Hong Kong frontiers. It is probably true as Reporting Officer suggests that the Soviets do not exercise control over the area in the same sense as control is exercised in border region such as Outer Mongolia or even in Manchuria. However, the Soviet advisory technical program is designed to secure control of key points throughout the Chinese Communist governmental apparatus.

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EASTERN EUROPE:

"C" CZECHOSLOVAKIA. Effort Made to Increase Number of Junior Officers. The Czechoslovakia Minister of National Defense has issued instructions that all healthy unmarried Czechoslovak citizens of working class of peasant origin who are graduates of lower secondary schools may apply for admission to officer candidate schools. The US Military Attache in Praha comments that the Czechoslovak Army is believed to be seriously handicapped at present because of a lack of adequate senior NCO's and junior officers.

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"B" HUNGARY. Austerity Campaign Reveals Shortcomings of Hungarian Economy. A recent Hungarian Cabinet resolution calling for intensification and expansion of the austerity movement blamed the economic Ministries for failing to carry out the initial austerity resolution of December 1950. Better control of the individual worker and closer contact between factory managers and Ministry personnel are called for. The resolution added that economy must be practiced not only with materials but also with manpower. The US Legation in Budapest comments that the recent scrap collection drive was not a success, a fact which probably influenced the Cabinet to issue the resolution. The Legation also believes that the austerity campaign testifies to the seriousness of continuing Hungarian shortages in virtually all commodities, especially manpower and metals.

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COMMENT: On 5 June, Radio Budapest reported that only 30,000 of the 60,000 workers scheduled for recruitment by the first of July had been recruited. Numerous reports reveal the desperateness with which the Hungarian Government is attempting to secure needed metals from sources outside of the Soviet orbit.

"A" YUGOSLAVIA. Yugoslavs Encouraging Development of National Communist Party in Greece. US Ambassador Peurifoy reports that there is evidence that Yugoslav representatives in Greece are interested in the development of a national Communist Party in Greece, but there is no indication of any Yugoslav success in this effort. The Ambassador states that the Yugoslav Legation in Athens and Consulate in Salonika have intimate contact with certain Greek leftists who are seeking to found such a party, but there is no evidence to date of Yugoslav financial backing. Ambassador Peurifoy is of the opinion that Yugoslav interest in the creation of a Greek Titoist movement has been limited, and is not likely to unduly disturb relations between the two countries in the near future. (C-Athens 4407, 12 June 51). COMMENT: The Yugoslavs, whose prestige in Greek Communist circles was appreciable before the Ceminform break, have sought to retain their influence and challenge the position of the USSR and Bulgaria among Greek Communists and Leftist groups. Any appreciable Yugoslav efforts to encourage a pro-Yugoslav Communist Party or to champion the rights of the Macedonian minority in Greece, however, will arouse the Greek suspicions and hamper the development of any mutual defense understanding.

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SECTION 2 (EASTERN)

"B" ARAB STATES. Bahrein Sheikh to Receive Increased Oil Revenues.
 According to information received from the British Foreign Office, the Bahrein Petroleum Company is planning to increase its payments to the Sheikh of Bahrein. The Company decided to offer larger payments because: (1) it recognized Bahrein's need for increased revenues now, (2) the island's oil reserves are less than anticipated, and increased payments will ease the company's relation with the Sheikh, (3) increased payments would serve to protect the company's investment in refinery facilities on the island, and (4) events in neighboring oil-producing countries make it desirable to grant the Sheikh an increase now. (C London 6503, 12 June 51). COMMENT: The fourth point listed is undoubtedly the motivating factor in the Oil Company's interest in enlarging its payments to the Sheikh of Bahrein. The Bahrein refinery, with a daily capacity of 185,000 barrels, is second in the Near East only to the Abadan refinery (approximately 550,000 barrels daily), and is already being in part supplied with Saudi Arabian oil. Bahrein's importance increases as clouds of uncertainty continue to envelope the Iranian oil situation.

"A" INDOCHINA. Rebels Said to be Planning Five-pronged Attack. A

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██████████ the main forces of the Democratic Republic of Vietnam (DRV) are being divided into five task units, four of which will attack French forces at separate points both to the north and to the south of the Tonkin Delta while a fifth force rebuilds resistance zones within the Delta which were recently dispersed by the French. The alleged objective of the DRV is to retain the initiative, to divide and destroy French forces, and to avoid large concentrations of its own troops. ██████████

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COMMENT: Although current information on DRV order of battle is lacking or tentative, the above report is supported by the following reliable information: (a) the DRV is now attempting to reinfiltate areas within the Delta recently cleared by the French, (b) the declared objective of the DRV is to destroy French forces rather than to "liberate" new territory. ██████████

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██████████ an all-out DRV attack during the rainy season (May-September) is unlikely. The flooding of rice fields, the generally good flying weather, and the reduced usability of the roads linking DRV zones with Communist China are factors which favor the defending forces

"B" BURMA. Dissension Reported in Nationalists' General LI Mi's Burmese-Yunnan Command. ██████████ Gen LI Mi,

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generally recognized as being in command of all Kuomintang (KMT) forces in the Sino-Burmese border area, actually has no more than 1000 men. ~~under his control.~~ LI Yuen-K'ai, who controls the anti-Communist forces in Yunnan, has been alleged as causing LI Mi concern, and this has resulted in LI Mi's blockading the flow of supplies from Burma into Yunnan. A

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conflict with HUANG Chieh, commander of KMT troops interned in Indochina, is also credited to LI Mi who reportedly has been attempting to induce HUANG's troops to enter his command. [REDACTED]

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COMMENT: This is the first report of upper-level dissension in the KMT ranks along the Sino-Burmese border. Trouble has not been unexpected, however, considering the heterogeneous nature of the combined regular and guerrilla-type forces involved. Reports from other sources indicate that two-thirds of the estimated 3-5000 KMT troops are under LI Mi's control, that they are well equipped and trained, that their morale is high, and that all essential elements have entered Yunnan. It is believed that Nationalist control over LI Mi is not absolute and that the above report is biased as a result of a Nationalist desire to deprecate his importance.

"B" CHINA. Kuomintang Forces Seize Five Towns in Yunnan. According to a Burma War Office report the majority of Kuomintang (KMT) troops in Burma have crossed into Southwestern Yunnan, and, with little resistance, occupied five villages. This report states further that airfields have been reliably reported at three of the above locations seized by the KMT forces. (S Rangoon, 897, 8 June 51)
COMMENT: KMT troop movements into Yunnan have been reported from a variety of sources as having commenced on an observable scale during the latter part of May. Chinese Communist troop deployment along that section of the Yunnan-Burmese border has generally been considered light with fairly strong concentrations reported some 80-100 miles north and south of this sector. Some 3-4,000 Nationalist soldiers are believed to have taken part in this operation. Airfields serviceable to C-47 type aircraft are known to exist at Meng Sa and Keng Ma. In light of the isolated location of these KMT operations the desirability of air supply is generally recognized for anything greater than small guerrilla forays. The support of guerrillas native to the area is problematical since rumors have been received of a personal conflict between LI Mi, commander of the KMT units from Burma, and LI Yuan-k'ai, reportedly leader of the guerrilla forces in Yunnan, (See item above).

"A" Estimate of Aircraft Strength in China. The US Far East Air Force Intelligence Staff estimates that combat air strength in China (including Manchuria) now totals 1050 planes. Exact subordination of these aircraft is not known, but it is believed that 300-350 are Soviet Air Force planes, 100-150 are North Korean and the remainder Chinese Communist. Jet fighter strength which includes 320 MIG-15's, is believed to be 445. More than half the planes (690) are believed based in Manchuria. The revision in strength from 900 (estimated by FEAF on 19 May) does not reflect any influx of aircraft, but is based on additional information. (S FEAF, Tokyo, AX 8562, 10 June 51). COMMENT: The latest official US Air Force Headquarters estimate (as of 31 May) was that 1000 combat planes were based in China; of these 400 were jet fighters.

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"B" KOREA. CCAF/NKAF Capabilities Estimated. The Far East Command estimates that a full-scale Chinese Communist-North Korean air forces attack on UN ground units in Korea in an initial assault could include 350 jet and 45 conventional fighter sorties. An operation of this size would disrupt UN interdiction and ground support activity and greatly curtail UN resupply by air of ground units in the battle area. Due to the distance of enemy bases from the front lines and the proximity of UN air bases, the enemy probably would sustain severe losses; realization of this is believed to be a significant deterrent to this type of attack. FECOM notes, however, that the repair and construction of North Korean airfields, the improvement and expansion of radar warning and control facilities, and an increase in enemy anti-aircraft artillery strength in North Korea has given the enemy the capability of expanding his defensive air operations southward from the Yalu River at any time. (S, DA FECOM Telecon 4818, 13 June 51).

"C" JAPAN. Communist Youth Organizations Reportedly Selecting Delegates for Berlin Conference. [REDACTED]

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three Japanese Communist youth organizations have received invitations to participate in a conference of the World Federation of Democratic Youth to be held in Berlin, and are now selecting delegates. Political Advisor Sebald comments that it is unlikely that the Japanese Government would permit the departure of such a delegation, but points to the possibility that the delegates could be smuggled out of Japan to join the Chinese Communist delegation. (S Tokyo 2123, 11 June 51).
COMMENT: Presumably the conference referred to is the 3rd World Festival of Youth and Students for Peace scheduled for August 1951. Although the Communist organizations are aware of their inability to attend the conference legally, past practice indicated that they undoubtedly will go through the motions of selecting delegates and raising travel funds in order to propagandize the Government's "oppression". Smuggling of Communist personnel into and out of Japan does exist. Currently there is some suspicion that NOZAKA Sanzo, second ranking leader of the JCP and underground for the past year, may have been smuggled out and may even have attended the World Peace Council meetings held in Berlin in February 1951 under the pseudonym of KAWAMURA Kasuo.

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SECTION 3 (WESTERN)

"B" GERMANY. Possible Communist Proposal to Send International Commission to Investigate Remilitarization in Both East and West Germany. US representatives in Frankfurt are discussing Allied counteraction should Communist spokesmen propose that an international commission be sent to both East and West Germany to investigate remilitarization. An indication of this possibility is given in a letter from Walter Ulbricht, Deputy Premier of the East German Democratic Republic, to the German Peace Committee (Communist), supporting a proposal of the World Peace Council to send a commission of "prominent persons from abroad to investigate what is being done in both parts of Germany for establishing the peace idea or for remilitarization." The US representatives believe that if this maneuver is executed it will be executed quickly, and they recommend that the three Allied occupation powers be prepared to counter in a manner designed to expose the insincerity of the Soviet proposal. (S Frankfurt 9990, 11 June 51)

COMMENT: No such proposal by the World Peace Council (the directing body of the Communist peace movement) is known to have been made, nor is there any further evidence of the reported Ulbricht letter. The purpose behind such a Soviet maneuver would be purely propagandistic.

"A" Opinions of East German Foreign Ministry on East-West Relations. In recent discussions of reports submitted by the East German (GDR) Ambassador to Communist China, officials of the GDR Foreign Ministry expressed the following opinions: (1) the "critical period" in the Korean war will come in the autumn of 1951 at which time the USSR may join China in support of the North Koreans; (2) Chinese policy is to keep the forces of the UN tied down and to buy time for the USSR to study the weapons with which it will have to reckon in the coming war; (3) the GDR will obtain a peace treaty and will be fully incorporated into the Eastern bloc as soon as a West German peace treaty has been concluded; (4) "things will break loose in the West in the spring of 1952".

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25X1A COMMENT: Although it is entirely credible that these opinions were in fact voiced by officials of the GDR Foreign Ministry, there is no evidence that these opinions are based on inside information. It is also possible that these theories have been fed the East Germans to provide an explanation for the USSR's failure to come to the aid of its Far Eastern satellites.

"C" Coal Strike Possible. In a special conference of the west German mine-workers' union convention, a resolution unanimously rejected a wage counter-offer of the industry spokesmen. The union had demanded an average 14% wage increase for mine-workers. Communist delegates, attempting to color the question with politics, attacked the Schuman Plan, the Ruhr Authority, and rearmament, and introduced two resolutions calling for immediate strike action. These resolutions were defeated, and further meetings

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between union and industry spokesmen are expected. Nevertheless, the gap between the two groups is still large, and many top unionists believe that a strike is entirely possible. (P Duesseldorf 128, 11 June 51) COMMENT: Although Communist membership in the miners' union is large, they do not have representation in the leadership of the union. The relatively conservative union leaders are likely to attempt to continue negotiations as long as possible in order to avoid a strike which would be exploited by the Communists for political ends.

"A" FRANCE. Non-Communists Replace Communist Extremists on Union Committee. A shake-up in the personnel of the 35-man Administrative Commission of the Communist-controlled General Labor Confederation (CGT) following the recent CGT congress resulted in the appointment of 21 new members, including Catholics, Socialists, and "pure" unionists. These men were added to promote the "unity of action" campaign, but it is notable that they replace a number of former members of the National Strike Committee which practically took over the conduct of the 1947 strike, and which was then considered the direct arm of the French Communist Party (PCF). (C Paris 7659, 10 June 51). COMMENT: Communist domination of the CGT is not endangered by this move which, on the surface, is an attempt to gain support among non-Communist unionists for concerted labor agitation at the plant level. In view of CGT Secretary General Frachon's implied criticism of PCF labor policy in his speech at the CGT congress, however, the removal of Communist extremist elements from the Administrative Committee may indicate a policy of greater concentration on labor's legitimate economic demands.

"C" NETHERLANDS. Deterioration of Balance of Payments Situation. During May, the Dutch debit in EPU was \$33 million, the cumulative total to 31 May \$256.5 million. In addition, Dutch foreign exchange reserves have dropped to \$255.4 million in comparison to \$380.2 million in the early part of 1951. Although April exports covered 71% of imports as compared to 64% in March, the trade deficit had reached \$260 million by the end of April. (C Hague Joint Weeka No. 23, 8 June 51) COMMENT: The EPU deficit is largely due to the stalemate in Dutch-German trade relations, in which the Netherlands normally has a surplus that is paid to its other European debtors. The Dutch balance of payments situation, however, probably will worsen as the tempo of the defense program increases and the extent of the Dutch loss of economic influence in Indonesia becomes apparent.

"B" ITALY. Communist Gains Increase in Second Series of Local Elections. Complete returns for the election of provincial councils in thirty Italian provinces for which voting took place on the week-end of 10 June showed gains for the Communist bloc and decreased strength for the Government bloc over the 1948 national elections. Although the Communist bloc lost control of administration in eight major cities, including Florence and Turin, they retained control in Italy's main naval bases, Taranto and La Spezia, as well as in the ports of Leghorn and Brindisi. In the pro-

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vincial elections the Communist bloc won 38.5% of the vote, compared with 36% in the same area in 1948. The pro-Government bloc, led by the Christian Democrats, polled 50.3%, compared with 59.5% in 1948. The Christian Democratic vote alone declined to 36% from 46% in 1948. The neo-Fascist Italian Social Movement rose to 4.3% from 1.4% in 1948. Partial results for the municipal elections showed the same trend. To Italian non-Communist political leaders the election results showed the need for a stronger anti-Communist policy on the part of the Government to curb left-wing propaganda and for more vigorous social reforms in order to better the conditions of large numbers of Italians who are either unemployed or living on near starvation wages. (U NY Times Rome, 13 June 51)

COMMENT: It is not clear what is meant by "a stronger anti-Communist policy on the part of the Government to curb left-wing propaganda". The strongest and only effectual curb to Communist propaganda would be the vigorous social reforms recommended surprisingly as point two.

"B" SPAIN. UK Embassy Estimate of Franco's Position. US Embassy London has been informed by the UK Foreign Office that the British Embassy in Madrid has estimated that Franco would remain in power much longer than his enemies predicted and that if he were overthrown it would more likely be by a Military Junta than by his "ineffective political opponents". The Foreign Office concurs in this estimate. (S London 6515, 12 June 51)

COMMENT: Army support will enable Franco to remain in power indefinitely. The principal non-Communist opposition forces are aware that the peaceful change of regime which they desire can only be effected by the Army and that the Army will act only when it is convinced that Franco can no longer control the political situation. They expect that the current strike movement will weaken Franco, and hope that it can be made sufficiently effective to convince the Army that a change of regime is essential to internal order.

"B" UNITED KINGDOM. British Considering Boycott of Iranian Oil if Negotiations Break Down. US Embassy London reports that a temporary cessation of the exportation of Iranian oil in case negotiations between the Anglo-Iranian Oil Company and Iran should be broken off is very probably under consideration by the Company and the UK Foreign Office. A study recently made at Government request reportedly reveals that less than 5 per cent of present Iranian oil exports could probably continue to be exported if the AIOC boycotted Iran, since the AIOC would expect the cooperation of the major US oil companies and the lack of tankers would limit the ability of other purchasers to move the oil. In addition, the AIOC is understood to be considering the possibility of taking legal action, in case of its withdrawal, against any purchasers of Iranian oil on the ground that the supplies would be "stolen oil". The Embassy emphasizes that it has no reason to believe that the AIOC would resort to an interruption of Iranian oil exports as part of the tactics of negotiation; but that if the negotiations broke down, the Company might well adopt this course of action. (S London 6495, 12 June 51) COMMENT: This report adds to other indications that

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neither the AIOC representatives nor the Iranians are approaching the forthcoming negotiations in as conciliatory a frame of mind as public statements suggest.

"C" CHILE. President May Request Permission to Leave His Post. According to rumors, President Gonzales Videla—following the solution of ministerial difficulties—will request permission to leave his post due to ill health and appoint the President of the Supreme Court to his post. The President reportedly has been suffering from uremia for approximately a month. While the President's attending physician has recommended that he undergo "strict treatment", the Minister of Interior reportedly has stated that the President's illness is not serious. (R FBIS, 13 June 51) COMMENT: This information tends to confirm an earlier [redacted] report of the President's illness and the "probability" of the appointment of a Vice President. (Secret/Control, US OFFICIALS ONLY) Also, US Embassy Santiago has commented that the President's recent "State of the Nation" speech lacked "its usual fire". There is no Vice President in Chile. If the President cannot exercise his office, the Minister of Interior who heads the established order of succession within the cabinet may assume the presidential office—after congressional approval—with the title of Vice President. The President of the Supreme Court is last in the established order. Alfonso Quintana Burgos, ex-cabinet officer and an influential member of the President's Radical Party, is presently Minister of Interior. 25X1C

"C" ECUADOR. Comments on Socialist Cabinet Members. [redacted] Chilean Communist Juan Esteban Garcia Moreno remarked to a Communist Assembly in Guayaquil that Ecuador is one of the few countries where the Communist Party has complete freedom of action and with "so many Socialists in the cabinet and ministerial positions" it would be easier in the future for the Communist Party to implement its plans. Embassy Quito comments that the observation by the Chilean Communist coincides with the Embassy's evaluation of the situation created by the recent cabinet change. (S Joint Weeka No. 23, Quito, 11 June 51) COMMENT: The recent appointment of Socialists (one of whom is reported to have had some connections with the Communist Party) to two of the eight cabinet posts during the recent cabinet reorganization was motivated by a desire to reduce some of the opposition to the Government and improve the present administration's chances of serving out its term until 1952. Since President Plaza is a president who does not delegate broad authority to his cabinet ministers without keeping closely in touch with their official actions and policies, and since he is strongly pro-US, it is believed that this should serve as a sufficient check to prevent the Communist Party from gaining any notable advantage through any influence it may have with the two Socialist ministers. In view of the many cabinet changes which have occurred since Plaza took office in 1948 (he has had five different Ministers of Government, for example) he would probably not hesitate to remove these men from the cabinet if convinced that they are at any time seeking to further Communist objectives. 25X1C

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SECTION 2 (EASTERN)

- "B" CHINA. UK Considers Restriction of Shipping in China Trade. UK officials are giving consideration to prohibiting British ships from carrying to China cargoes which are embargoed by the UN resolution. A UK foreign officer states, however, that no consideration has been given this proposal above working levels in the government and strongly cautions against the assumption that the proposal would be approved. In this connection, the UK official has expressed concern that traffic by Panamanian flag vessels might nullify the shipping restrictions which might be adopted by other countries. (S, S/S London 6410, 7 Jun 51). COMMENT: Although other sources indicate that the eventuality of an embargo on goods to China has been discussed at the cabinet level, the proposed shipping restrictions do not contemplate following the US lead in withdrawing all vessels from the China trade, but simply the carrying of the specific items covered by the UN resolution. The proposed measure would therefore not deprive the Chinese Communists of British shipping, but it would help give effective implementation to the UN resolution. Norway and Panama are also reported to be contemplating measures similar to those being considered by the British.
- "B" JAPAN. UK Cabinet Accepts US Formula for Chinese Accession to the Peace Treaty. The British Cabinet on 11 June agreed to the US proposal that: (1) neither Chinese Government sign the original multilateral peace pact with Japan; and (2) the Japanese Government be permitted to determine with which regime it will conclude a bilateral treaty. (S, S/S London 6485, 11 Jun 51). COMMENT: Agreement on the Chinese accession problem removes the most serious obstacle to US-UK accord on the Japanese treaty. The sudden shift in the UK Cabinet's attitude toward the US proposal probably represents a desire to improve US-UK relations with regard to Far Eastern issues, rather than a reversal of the fundamental UK policy toward Communist China.

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