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CENTRAL INTELLIGENCE AGENCY

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3.5(c)

~~TOP SECRET~~

~~TOP SECRET~~**SUMMARY****GENERAL**

1. Soviet pictured as "serious" about East-West trade meeting (page 3).

FAR EAST

2. Enemy strength in Korea may be much greater than now believed (page 4).
3. Soviet long-range bombers reported in Manchuria (page 4).
4. Chiang Kai-shek reportedly orders demonstrations against US and UK (page 5).
5. Indonesia concerned over increased Chinese Communist diplomatic representation (page 5).

NEAR EAST

6. Oil company dividends may be withheld from Iran (page 6).

EASTERN EUROPE

7. Tito government desires continuation of UN General Assembly (page 7).
8. Industrial cooperation planned among Czechoslovakia, East Germany and Poland (page 7).

WESTERN EUROPE

9. Comments on Berlin trade impasse (page 8).
10. Precarious coalition is in prospect for France (page 9).

LATIN AMERICA

11. Coup d'etat planned in Bolivia (page 10).

3.5(c)

~~TOP SECRET~~

3.5(c)

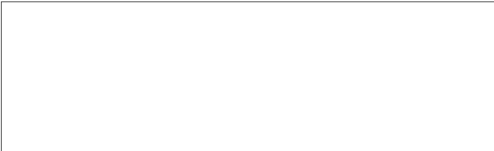
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GENERAL

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1. Soviet pictured as "serious" about East-West trade meeting:

 The Soviet decision to attend UN technical discussions on improving East-West trade was "taken at a very high level," according to information given to the Secretariat for the Economic Commission for Europe by a Soviet member of the UN Secretariat. The source, who has just returned from Moscow, also emphasized that the Soviet participants would be very high ranking officials of the Ministry of Foreign Trade and that this was further evidence of Soviet "serious intentions."

The US delegation to the Economic Commission for Europe considers that, at the August 20 meeting, the Soviet bloc will probably make offers of a substantial quantity of grain and perhaps timber, demanding strategic commodities in return. In this connection, the Soviet delegate has informed the Secretariat that the USSR is in a position to sell Western Europe somewhat more than one and a half million tons of coarse grains during each of the next five years against "appropriate counter-deliveries." Information reaching the Secretariat suggests that Satellite harvests are very good and that Rumania, for example, may be able to export a million tons of wheat this year.

Comment: The Soviet Orbit has been encountering increasing difficulties in obtaining strategic commodities, because of the growing effectiveness of the Western export control program and because Western nations have been able to arrange alternative sources of supply for goods needed from the Soviet bloc. If unable to obtain desired commodities for Soviet grain through multilateral negotiations, the Soviet Orbit could utilize this meeting in order to attempt to split the Western nations on export control policy, or to gain information that would improve the Orbit's bargaining position in future bilateral negotiations.

3 -
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3.5(c)

~~TOP SECRET~~

3.5(c)

FAR EAST

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2. Enemy strength in Korea may be much greater than now believed:

In addition to enemy units currently accepted in Korea, Far East Command considers that the 20th Chinese Communist Army Group, composed of three or four armies with a strength of 105,000 to 140,000 troops, "probably" is also in Korea. "Possibly" in Korea are at least five additional Chinese Communist armies, totalling 175,000, and three new North Korean Corps of at least 30,000 men.

Comment: The strength of enemy units currently accepted in Korea totals 493,000, of which 265,000 are Chinese Communists. A recent Far East Command estimate that the enemy could now support a five to seven day, 72 division offensive is presumably based on the possibility that the above-mentioned units might participate, as well as on the supply build-up.

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3. Soviet long-range bombers reported in Manchuria:

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A unit of 14 TU-4 four-engined bombers has been "identified" at Changchun in Manchuria



under the Soviet Air

Force, not the Chinese Communists.

considers this report "probable."

Comment: The airfield at Changchun has a paved 8,000-foot runway, long enough to handle TU-4's, which are similar to the B-29 medium-bomber. The arrival of four-engined aircraft in Manchuria during March and April has been reported several times by



3.3(h)(2)

- 4 -

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~

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3.3(h)(2)

4. Chiang Kai-shek reportedly orders demonstrations against US and UK:

[REDACTED]

[REDACTED]

Chiang Kai-shek has ordered his cabinet to incite anti-American and anti-British demonstrations as a protest against Nationalist

China's exclusion from the proposed Japanese peace treaty. Chiang also wants to show that he is still in control of Formosa and can cause trouble if not accorded full consideration, and to add a bargaining point in his negotiations for US aid.

Chiang reportedly blames his Foreign Minister and Secretary-General for the present Nationalist position. The Chen Li-fu clique, which supports Chiang but is not part of the government, reportedly will attempt to use the present crisis to bring about the downfall of the Premier and the cabinet.

Comment: Chinese Nationalist objections to the US-UK draft of the Japanese peace treaty have been vigorously advanced since the official release of the terms on 12 July. While an anti-British program is possible in view of the UK's policy toward Communist China, the Nationalists realize that an anti-US campaign might seriously hamper continued US economic and military aid. The proffered resignations of various Nationalist officials, including the Premier and Foreign Minister, have been ascribed to the current "crisis."

5. Indonesia concerned over increased Chinese Communist diplomatic representation:

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[REDACTED]

The Indonesian Foreign Minister told US Ambassador Cochran that his government regards as an "insult" the arrival, without prior clearance with Indonesia, of twenty

additional Embassy staff members. He said that Peiping had not requested diplomatic visas for these persons; instead, the Chinese Ambassador in Djakarta merely informed the Indonesian Foreign Office of the addition of twenty staff members, whose names and positions would be revealed upon arrival.

- 5 -

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~


The Minister stated that his government was extremely reluctant to admit so large an increment. In conclusion, he said that Indonesia would return the group to China "even if it means a diplomatic incident."

Comment: Several days ago, the Foreign Minister told Cochran that Indonesia originally had approved only a fifteen-member staff for the Chinese Communist Embassy in Djakarta. The twenty additional members will increase the staff in Djakarta to a total of eighty. The Indonesian Government has never fully appreciated the menace of Communism and is probably as much concerned over the diplomatic slight by the Chinese Communists as it is over the prospect of increased Chinese Communist activity.

NEAR EAST

6. Oil company dividends may be withheld from Iran:

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 The Anglo-Iranian Oil Company probably will withhold from the Iranian Government 1,600,000 pounds, Iran's share of the company's forthcoming 1950 profits distribution dividend, if there is "no improvement in the Iranian atmosphere." It may, however, use this sum as a "sweetener" if there is any progress towards a settlement of the dispute.

Comment: The AIOC excuse for withholding payment would be that Iran has already received 7,000,000 pounds in advance royalties this year, and that this includes a share of 1950 profits. The UK continues to assume that the application of financial and other forms of pressure, in the present circumstances, is the best means of eventually bringing the Iranians to terms. The British Government believes that a more conciliatory policy would be regarded as a sign of weakness, both by the Iranians and by domestic UK critics.

- 6 -

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~

EASTERN EUROPE

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7. Tito government desires continuation of UN General Assembly:

[REDACTED]

The Yugoslav Government, concerned over possible Soviet aggression, has asked the US not to support adjournment of the UN General Assembly. UN delegate Bebler indicated that he did not intend to discuss this matter widely with other delegations, apparently in order to avoid spreading the Yugoslav Government's apprehension. According to Bebler, the Yugoslav Government sees grave danger of general war following any breakdown of the Korean armistice talks.

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Comment: [REDACTED]

[REDACTED] The military preparations of the Balkan Satellites have reached a point, however, where aggression could be launched with little or no warning. On 13 July Tito stated publicly that the situation on Yugoslavia's borders had grown worse while the Kremlin was making peaceful gestures in Korea, and warned against any false optimism regarding Korean armistice negotiations.

8. Industrial cooperation planned among Czechoslovakia, East Germany and Poland:

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[REDACTED]

[REDACTED] the East German Office for Research and Technique recently visited Czechoslovakia and Poland to discuss industrial cooperation among the three countries. Under the plan, the three countries would specialize in mutually complementary industrial fields.

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Poland would become the iron-ore producing center of the Satellites; Czechoslovakia would process the Polish ore and become the heavy machinery arsenal of the Satellites; while East Germany would be developed into the petroleum producing partner.

- 7 -

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~

Comment: An inter-Satellite economic entente of this nature has been discussed off and on for several years and is probably a major goal of CEMA, the Soviet-controlled Council for Economic Mutual Assistance. Current economic planning in the three countries is consonant with this target.

Czechoslovakia and Poland signed an agreement in 1948 to cooperate in developing the Moravian-Silesian Basin into a second Ruhr, although little has been accomplished to implement its provisions. Poland, with extensive aid from the USSR, is expanding its raw steel making facilities under the current Six Year Plan (1950-55). The Czechoslovak Five-Year Plan substantiates the foregoing report that this country will become the heavy industry center of Eastern Europe.

The Soviet Union, reversing its post-war looting activities, is currently rebuilding the extensive World War II synthetic fuel production facilities in East Germany. Goals for 1955 include the production of 780,000 tons of gasoline and 475,000 tons of diesel oil, in addition to special products such as jet fuel, aviation gasoline and lubricating oils.

WESTERN EUROPE

9. Comments on Berlin trade impasse:

The trade impasse continues in Berlin, with the USSR showing no sign of permitting the free flow of Berlin exports. In retaliation, the West is withholding approval of the interzonal trade agreement; the East German Government has reacted by stopping coal supplies to West Berlin and is threatening to cut off electric power deliveries. To alleviate the hardship inflicted on West Berlin manufacturers, US authorities are considering the use, on a small scale, of additional commercial airliners to move most of the backlogged goods out of Berlin.

In the event this measure proves inadequate, a military airlift could be started, though such a step is considered too spectacular and far-reaching in its implications for the moment. The

- 8 -

~~TOP SECRET~~

~~TOP SECRET~~

3.5(c)

West Berlin Senate, in an extraordinary session on 18 July, talked in terms of "preparing for difficulties," a new blockade, and the substitution of Berlin for Korea as a target of Soviet activities. The spirit of resistance among the Berliners was evident at the meeting. Some Berlin leaders, including Mayor Reuter, feel that the present situation will be alleviated only when Berlin acquires a guaranteed "open corridor" to the West.

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10. Precarious coalition is in prospect for France:

The US Embassy in Paris does not anticipate an early solution of the party differences that now prevent the formation of a government.

It still appears certain that the next government will be Centrist, without Gaullist support, and based on a compromise among the heterogeneous partners who campaigned together against both Communists and Gaullists.

Nevertheless, Socialist sentiment against participation is increasing, partly because non-Gaullist Rightists have recently voted with the Gaullists to deprive Socialists of Assembly chairmanships. The thorniest issue dividing the middle-of-the-road parties is that of state aid to church schools. A compromise appears possible on the Socialist demand for wage increases geared automatically to price rises.

A few prominent leaders believe that the only government possible at this time is one including the Gaullists and excluding the Socialists.

Comment: Inasmuch as a government must be formed before the Assembly can adjourn for its annual vacation in August, it is most unlikely that the next government can be based on a sound compromise on the church-school question, or even on the wage issue. Hence for at least the next two months it can be expected that France will be governed by a weak middle-of-the-road coalition. Without the Socialists, it will be a minority government; with them, it will be committed only to temporary and superficial compromises.

- 9 -

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~

3.5(c)

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LATIN AMERICA

11. Coup d'etat planned in Bolivia:

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[REDACTED] Fifty-two crude bombs, manufactured by members of the Nationalist Revolutionary Movement, were seized at Catavi last week and 20 persons were arrested, [REDACTED]

[REDACTED] an Indian entering Catavi on the night of 19 July carried 120 rifle cartridges. He commented that many more cartridges were probably smuggled in the same way.

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[REDACTED]

Comment: Bolivia is now in dire need of foreign exchange, and a further weakening of its economy would seriously threaten the country's stability.

There have been several reports that the Nationalist Revolutionary Movement will attempt a coup on 6 August. On this date Congress would have chosen the president if the Junta had not nullified the May elections -- in which the Nationalist Revolutionary Movement candidate received a large plurality but not the required majority.

The army apparently is still loyal to the Junta.

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- 10 -

~~TOP SECRET~~

3.5(c)