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SECURITY INFORMATION

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GENERAL

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1. Preliminary Commonwealth finance talks show realism and determination:

In the technical discussions preceding the Commonwealth Finance Ministers' meeting which began in London on 15 January, the Canadian delegation noted a unanimous conviction that the sterling area must solve its own problems, and the recognition that dollar aid from the United States would not provide the solution.

According to the Canadian officials, there was agreement that convertibility of sterling should be restored as soon as possible, a goal previously regarded by many sterling countries as very distant.

The emphasis in their specific recommendations for dealing with the short-term dollar crisis fell on domestic deflationary measures, rather than upon purely restrictive devices, such as direct cuts in import quotas. Final decisions on these suggestions will be taken during the Ministers' meetings now in progress.

The United States Embassy in London comments that "moderate" optimism over the long-term outlook for Britain and the sterling area is justified if the Canadian observations are borne out in the Ministers' talks. In the Embassy's view, the critical question is whether the conference will find the means to restore world confidence in sterling within the next six months.

Comment: This report tends to refute earlier widespread comment to the effect that serious strains had developed among the sterling countries to the point of destroying the solidarity of the group.

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FAR EAST

2. Communists issue new regulation for handling prisoners of war: 3.3(h)(2)

[REDACTED] An order on treatment of prisoners of war from the Korean Commander in Chief, dated 7 December, provided that no prisoners of war were to be released, that proper records on prisoners should be kept, and that currently held prisoners, "not as yet registered," should be reported to headquarters. The order further outlined the administrative procedures for handling of prisoners.

Comment: The issuance of this order eighteen months after the outbreak of war strongly suggests that Communist unit commanders have enjoyed a wide latitude in their handling of UN prisoners. It is also apparent from the order that the Communists have no record of some of the prisoners captured to date.

3. Plans for aid to the Viet Minh formulated: 3.3(h)(2)

[REDACTED] A conference of Chinese Communist military leaders to plan activity in western Tonkin during the first half of 1952 reportedly took place recently at Hokow, across the border from the Indochinese town of Laokay. It was decided at this meeting, which was attended by a Soviet adviser, that mixed Sino-Viet Minh forces in the Laokay sector will be reinforced by local recruitment and that they will receive forty percent of their equipment from the USSR and sixty percent from Communist troops stationed in Yunnan.

An independent military headquarters will be established soon for the Laokay sector. Twenty percent of the advisers will be Soviet officers.

Comment: Many reports have been received detailing the build-up of mixed units in western Tonkin as well as the provision of Soviet materiel and the presence of Soviet officers. None of these reports has been confirmed, but any Soviet participation in the Indochina war would be easier to conceal in this remote area than elsewhere in Viet Minh territory.

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SOUTH ASIA

4. Indian Communists reportedly to move headquarters from Bombay to Calcutta:

The Communist Party of India will move its headquarters from Bombay to Calcutta within the next several months. Communist activity appears to be considerably stronger in the Cal-

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cutta area, where early election returns indicate that the Communists may be scoring successes.

The US Consul General in Calcutta feels that in view of Communist agitation in the frontier areas near Sikkim and Bhutan, increased Communist Chinese activity in Tibet, and reported Indian Communist plans for armed violence in the Assam areas near Burma, the establishment of headquarters in Calcutta would greatly facilitate Communist Party communication and control in these areas.

NEAR EAST - AFRICA

5. Mossadeq warns of imminent financial collapse:

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Prime Minister Mossadeq has informed the US Ambassador that Iran's situation is desperate and that without financial assistance government collapse and revolution would be certain within thirty days. Mossadeq stated that the government had used up all its available funds, except for those received from the International Monetary Fund, and that the government owed money for civil and military salaries and supplies.

He insisted that, although he had not yet discussed the sale of Iranian oil with the USSR, he would have to do so if he were not assured of American financial aid. He suggested that the Ambassador inform Washington that if he did not receive promise of such aid within five days, he would have to make a deal with the Russians.

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Comment: Mossadeq has not exaggerated his financial difficulties, but his warning of imminent collapse appears to contain elements of blackmail. In making his plea, he was presumably motivated by a realization that a clash with the Majlis over the devaluation of the currency, a possible alternative, might bring about his fall.

6. Reuters correspondent implicates British officials in Iran:

[REDACTED] The Reuters correspondent currently under arrest for circulating false reports derogatory to Iran is being held incommunicado and has made "confessions" mentioning four members of the British Embassy staff as the sources of his information. The British believe that he will be given a "state trial" along Eastern European lines, probably before the parliamentary interpellation of Mossadeq scheduled for 21 January. Iranian Minister of Court Ala has stated that the correspondent, who was "being encouraged to talk," has made statements which reflected adversely on members of the British Embassy staff. 3.3(h)(2)

Comment: Those British Embassy officers mentioned in the "confessions," individuals with much knowledge and experience in Iran who have been concerned with political reporting, have been suspected by the Iranians of inciting the tribes to revolt.

7. Egypt's internal situation worsens:

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[REDACTED] Continuing incidents in the Suez Canal zone have justified the anxiety of King Farouk's top palace adviser over the steady worsening of Egypt's internal situation. The French Ambassador in Cairo points out that, while the Egyptian Government maintained control of the country in the first months following Egypt's denunciation of the 1936 treaty, governmental authority is breaking down. 3.3(h)(2)

[REDACTED] the widespread popular animosity toward foreigners is also being directed against Egypt's upper classes, and criticism of King Farouk is increasing. Demonstrations which followed the reopening of Egypt's universities have caused the government to consider closing them again until next September.

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[redacted] terrorism continues in the Canal zone, agitation throughout the country "tends to become a permanent phenomenon."

Comment:

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recent demonstrations in Egypt have been anti-palace in sentiment and that the Egyptian situation in general is steadily declining.

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EASTERN EUROPE

8. Czechoslovakia lacks hard currency resources for purchase of strategic goods:

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[redacted] Czechoslovakia has "exhausted its resources" and purchases of strategic goods are being slowed down as a consequence, according to the Czech Ministry of Foreign Trade. The Ministry asked for suggestions from its commercial representatives in India on means of obtaining ready cash and suggested that Indian merchants should pay cash for Czech goods usually covered by letters of credit.

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Comment:

[redacted] US economic sanctions, which deprived Czechoslovakia of most of its dollar resources, have dealt a serious blow to Czech clandestine purchase of strategic goods, such as electrolytic copper, on the world market. Because hard currency supplies for such purchases have now been effectively reduced, Czechoslovakia will be forced to work on a hand-to-mouth basis.

9. Buying wave sparked by Radio Free Europe sweeps Prague:

[redacted] A buying wave is sweeping Prague, set off, according to the American Embassy, by speculations on the possibility of a currency reform broadcast over Radio Free Europe. Purchases are so far selective, and buyers have concentrated on textiles, gold and

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diamonds sold on the free market. The Embassy feels that the broadcasts may provide the Czech regime with a scapegoat upon which to pin the necessity for more stringent economic measures against the population.

Comment: Rumors of an impending currency reform have circulated for several months in Czechoslovakia. A buying panic swept Budapest earlier this month. Economic conditions in both Hungary and Czechoslovakia make a future currency reform probable.

WESTERN EUROPE

10. Possible Austrian Cabinet shifts reported:



The directorate of the People's Party reportedly decided at its 9 January meeting to replace all party members now serving in the Austrian Cabinet. The shake-up would involve

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the Chancellery, the Foreign Office, the Ministries of Finance, Trade, Agriculture, and Education, the Office of State Secretary, and the Presidency of the Parliament. Party Chairman Julius Raab has allegedly been urged to assume the Chancellorship; if he accepts, Foreign Minister Gruber would be replaced by Chancellor Figl.

The Embassy cautions that this report may indicate persisting uneasiness among People's Party leadership rather than clear-cut decisions to initiate far-reaching changes.

Comment: If the reported Cabinet changes were to be confirmed at the party conference on 28-29 January, they would fortify the moderate leadership represented by Chancellor Figl and Chairman Raab. The success of their pro-coalition policy will depend, however, on their capacity to maintain supremacy while still holding the party together.

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