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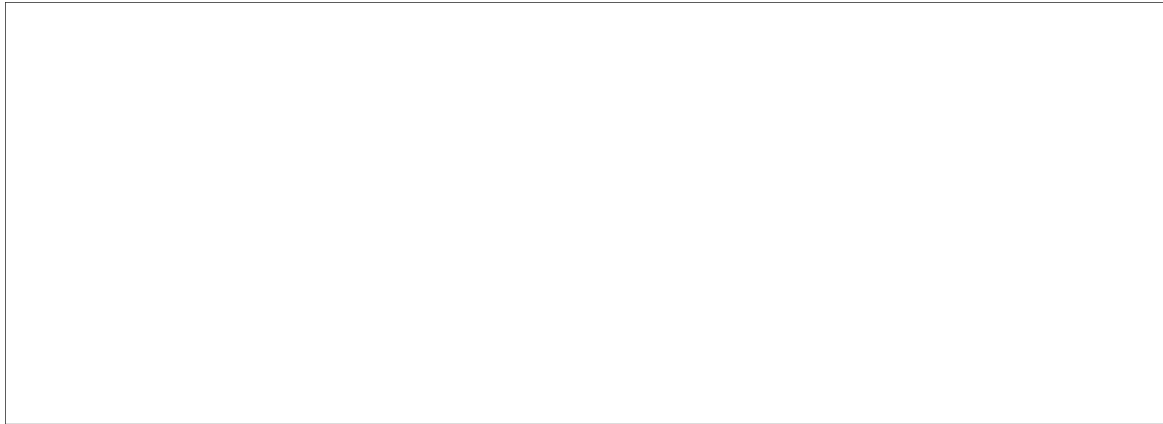
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GENERAL

1. Afghanistan to exchange ambassadors with Communist China:



Comment: The Afghan decision to exchange ambassadors with Communist China--coming shortly after Kabul's renewal of relations with West Germany and agreement to establish relations with Yugoslavia--appears to result from Afghanistan's growing interest in expanding its relations with the outside world. It does not necessarily indicate a specific interest in closer ties with the Orbit.

China has also recently evidenced a more active interest in improving its diplomatic relations with non-Orbit governments.

2. USSR may propose making Berlin a free state:



The Soviet government, after giving notice of the termination of the four-power agreement on Berlin, will propose new four-power negotiations during which it will suggest making Berlin into a "free state,"



Plans are reported to have been worked out three or four months ago which provide that the "state" would be completely isolated from East Germany and that it would have

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its own currency. The East German government would be moved to Leipzig and its chief representative in the free "state" administration would be Deputy Premier Nuschke.

Comment: There have been previous European press reports along these lines, some of which have cited Danzig as a model for a Berlin free state. It is possible they are neutralist or Soviet plants designed to arouse West German hopes for some form of settlement for Berlin and ultimately for German reunification, thus generating sentiment for delaying final action on ratification of the Paris accords until settlement prospects can be explored.

It is unlikely the USSR will seek internationalization of Berlin, since such an arrangement would be contrary to the basic Soviet objective of forcing the withdrawal of the Western Allies from the city. It is more likely that upon ratification of the Paris accords, the USSR will pursue a combination of tactics which would include physical harassment and a propaganda campaign stressing that the West, by its many violations of the Potsdam Agreement, had nullified the legal basis for its continued presence in Berlin.

FAR EAST

3. Formosa MAAG chief reports widespread confusion in Tachen command:



General Chase, MAAG chief on Formosa, reports that confusion in the Tachen command was prevalent "from the staff on down" during and after the first Communist air attack on 10 January, resulting in higher Nationalist losses than might otherwise have been the case. Hours were spent in discussion of "trivial and various long-term items" not required by the immediate situation, and this resulted in a lack of observation and supervision of actions under way.

The Chinese Nationalist admiral in command of the Tachen task group left his flagship after the first air

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strike, took refuge on shore, and failed to order dispersal of his ships--which remained in the harbor to suffer heavily in later attacks the same day.

Comment: The defense command staff has in the past been the target of MAAG criticism for incompetence, although the commanding general and many of his tactical unit commanders are well regarded by American advisers.

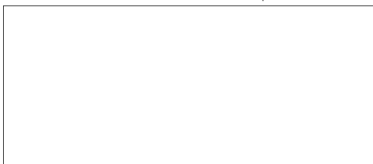
SOUTHEAST ASIA

4. Indonesian Communists gain substantial vote in local election:

[REDACTED] In the election for a 15-member town council in Pakan Baru, an oil center in Sumatra, the first election reported anywhere in Indonesia since the present cabinet assumed office in mid-1953, the Communists gained a substantial vote.

Pakan Baru is not a typical Indonesian town, however, because of its large number of oil workers. The Communists appear to have achieved almost what they hope to do on a national scale in the first national election scheduled for later this year. They have stated that in the national elections they will concentrate on winning one third of the contested seats. With these as a base, they hope to form a national front government.


The Pakan Baru election resulted in four seats for the Communist Party and six for the Masjumi--a Moslem party believed to be Indonesia's largest political organization and the Communists' principal rival for the votes of urban workers and peasants. Although lacking a full third of the seats, the Communists are believed capable of controlling the council with the cooperation of the remaining non-Masjumi votes, most of which appear susceptible to Communist direction. [REDACTED]

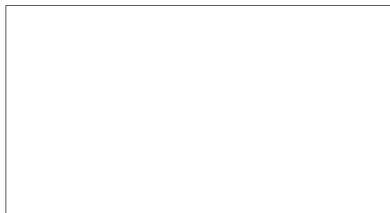
SOUTH ASIA**5. Comment on Congress Party's weakening position in south India:**

Serious weakening of the Congress Party's position in two important south Indian states can only be averted if the party displays unexpected vigor and leadership at its annual convention, scheduled to open in Madras on 17 January.

In Travancore-Cochin, the Congress Party has already announced its intention of withdrawing support from the Socialist government, which cannot exist without its support. At the moment, however, the Congress Party itself seems unable to form a government, and the only alternative to governor's rule--direct administration from New Delhi--would be for the strong Communist group in the legislature to form a government.

In Andhra, where elections are scheduled for mid-February, early Congress hopes for an easy victory have been frustrated by party splits and the necessity for Congress, for the first time, to form a defensive electoral alliance. The Congress Party is running fewer candidates than the Communists and is seven weeks behind them in starting campaign activities.

Though the national government can always maintain control by enforcing governor's rule in any state, the necessity of doing so indicates automatically a lack of popular confidence in the ruling Congress Party. 

WESTERN EUROPE**6. Comment on resignation of labor government in Norway:**

The resignation of Premier Oscar Torp and his Labor cabinet on 14 January is not likely to result in any significant changes in Norway's foreign or defense policies. A new government--which is

being formed by ex-premier Einar Gerhardsen, chairman of the Labor Party--will probably retain several ministers of the Torp cabinet, including Foreign Minister Halvard Lange, a firm supporter of NATO.

The extensive cabinet changes--which had been rumored for more than a month--are the result of a growing demand within the Labor Party for more vigorous government action to deal with domestic inflation and a worsening foreign exchange problem.

The Torp government had already proposed a seven-percent cut in Norway's 1955 defense budget. The new government will probably propose in addition a cutback in Norway's extensive domestic investment program. This would entail some reduction in government spending, but Gerhardsen is not likely to urge any action which would seriously affect Norway's modest NATO commitment.

LATIN AMERICA

7. Brazilian Communists promote South American youth festival:

[REDACTED] The Communist Party of Brazil is making a major effort to encourage attendance at the South American youth festival scheduled to be held in Sao Paulo from

6 to 13 February,

[REDACTED] the party has been clever in concealing the Communist sponsorship of the meeting.

Comment: Although outlawed in 1947, the Communist Party of Brazil has successfully continued its activity and is today the largest and wealthiest Communist Party in Latin America. Its membership is estimated at 120,000, an increase of about 100 percent in the past two years.

The youth festival was originally scheduled to be held in Santiago, Chile, in October 1954 and was later

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postponed until January 1955. The Ibanez administration in Chile forbade holding the festival in Santiago on the grounds that it was Communist-inspired and designed to serve the purposes of international Communism.

LATE ITEMS

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9. Comment on Soviet call for talks on Germany:



The Soviet statement of 15 January calling for new four-power talks on Germany and offering to normalize relations with West Germany if the Paris accords are not ratified was addressed primarily to the West German public. Having failed thus far in its prolonged campaign to exert diplomatic pressure on London and Paris, Moscow is shifting its attention to Bonn, where the Bundestag's final debates on ratification are scheduled for mid-February.

The offer to establish diplomatic relations with West Germany and the stated willingness to accept some undefined form of internationally supervised German elections if West Germany remains free of any defense commitments to the West are the major new points designed to appeal to West Germany.

Moscow has previously urged economic and cultural ties with Bonn, but this is its first offer to establish diplomatic relations. The assertion that this move could contribute to "better mutual understanding and the search for more successful paths" toward German unity is a hint that Bonn could improve the prospects for German reunification by abandoning Adenauer's pro-Western policies and seeking direct contacts with Moscow.

The statement of 15 January is intended to create the impression that Moscow will accept free German elections. The reference to international supervision of German elections, subject to East and West German approval, marks an apparent reversal of the Soviet position. The possibility of such a shift was foreshadowed last August by propaganda which hinted at the possible establishment of a weak supervisory commission, composed of neutrals and excluding the occupation powers, similar to the International Control Commission in Indochina.

In addition to its reference to international supervision, the statement says that all democratic parties should have "freedom of election propaganda" throughout Germany and that the electoral law must take account of existing laws in both East and West Germany. Past Soviet statements on Germany, however, have very narrowly defined "democratic parties" and East and West German election practices are incompatible.

The latest statement fails to repeat previous unacceptable Soviet demands for the withdrawal of occupation troops and the establishment of a provisional government prior to elections, while it accepts more clearly than before the Western demand for elections prior to a peace treaty.

This new statement is unlikely to have any effect on the West German schedule for legislative action on the Paris treaties. Many Germans will still not believe that Moscow is seriously proposing the unification of Germany. Others, who may feel that Soviet policy has been liberalized, may also feel that they will be in a stronger position to negotiate for unification after ratification of the treaties. The Soviet statement will serve, however, to fix German opinion in favor of four-power talks in the next few months.