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3 January 1953

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Copy No. 58

3.5(c)

CURRENT INTELLIGENCE BULLETIN

2
DOCUMENT NO. 2
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TC S C
NEXT REVIEW DATE: 2009
AUTH: HR 70-2
DATE: 19 Dec 79 REVIEWER: 006514

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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GENERAL

1. Large manganese-copper deal between USSR and London firm reported:

[redacted] a British [redacted] 3.3(h)(2)
 firm has reached agreement with the Soviet
 trade delegation in London to purchase 150,000
 tons of Russian manganese ore at \$47 per ton

against delivery via Antwerp to Gdynia of Chilean electrolytic copper of
 the same value. Deliveries are to be made within the next six months.

Comment: This amount of manganese ore is
 about three times the total quantity shipped from the USSR to all of West-
 ern Europe in 1951, although it represents less than three percent of
 estimated Soviet production. In November an East-West trader ap-
 proached the US Embassy in Bern seeking a dollar buyer for at least
 50,000 tons of manganese ore and an offer to an American firm of 30,000
 tons has been reported from Bombay.

The apparent willingness to expand manganese
 ore exports suggests that Moscow now attaches more significance to
 obtaining embargoed copper than to depriving the West of manganese.

2. Yugoslav position on joint military planning with Greece and Turkey
 reported:

[redacted] Yugoslavia desires a formal agreement with
 Greece and Turkey for joint action in the
 event any one of the countries is attacked,
 according to the Greek Defense Minister.

3.3(h)(2)

At the most recent military talks with Greece, Yugoslavia proposed
 that such an agreement include specific arrangements such as pro-
 vision for operations of Greek forces in Yugoslavia and vice versa.

The Greek Defense Minister states that Greece
 would be disposed to sign a defense agreement with Yugoslavia if such
 an agreement would not conflict with its NATO obligations.

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Comment: Yugoslav military talks with Turkey and with General Handy, representing the United States, France, and Britain, have made little progress; none of the participants is yet ready to make definite commitments. Yugoslav willingness to proceed immediately with Greece probably reflects the greater need of such cooperation for strategic reasons, the hope that Turkey will follow Greece's lead, and a need to strengthen Yugoslavia's hand against Italy. Turkish officials have also indicated a desire to coordinate the matter with NATO before making a specific agreement.

FAR EAST

3. Japan planning reduced defense expenditures in new budget:

[redacted] The Japanese Cabinet has tentatively approved 3.3(h)(2) a reduction in defense expenditures for the fiscal year beginning 1 April 1953. The proposed budget, which will be presented to the

Diet in late January, allocates only \$403,000,000 to the defense program in contrast with a total of \$514,000,000 for the current fiscal year.

Comment: The proposed reduction reflects the basic weakness of the Yoshida government, which feels that public opinion will not support increased military expenditures. An expansion of Japan's ground forces to 180,000 during 1953, as envisaged in tentative American planning, cannot be accomplished under the proposed budget.

Japanese officials justify the contemplated decrease on the grounds that \$155,000,000 of the 1952 appropriation was a one-time expenditure for construction and original equipment.

4. Chinese apparently expect early completion of highway to Lhasa:

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[redacted] four tons of agricultural equipment for Tibet had arrived. [redacted]

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Comment: Only the eastern half of the 1,300-mile Kangting-Lhasa road, begun in 1950, was open to traffic in November. [redacted] the road may be finished sooner than expected.

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Completion of the first motor highway to Lhasa will greatly increase Chinese influence and trade in Tibet, and facilitate logistic support of Peiping's estimated 20,000 troops there.

SOUTH ASIA

5. Nepal reported considering diplomatic relations with Communist China:

[redacted] The Nepalese Government is seriously considering the early establishment of diplomatic relations with Communist China.

3.3(h)(2)

A late November Nepalese press report stated that the establishment of relations with Peiping was under consideration.

Comment: Nepal reportedly rejected a Chinese Communist approach on this subject last summer, apparently because of opposition from India, which exerts strong influence in Kathmandu.

NEAR EAST - AFRICA

6. Kashani reportedly challenges Mossadeq's control of parliament:

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Comment: Kashani is the acknowledged leader of the extreme rightists of the National Front and he may have gained new adherents following recent parliamentary criticism of the government. Nevertheless, Mossadeq is believed still able to control the National Front.

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9. British Suez proposals contingent on Egypt's participation in MEDO:

Egyptian participation in MEDO is an essential part of the British proposal for settling Anglo-Egyptian differences. Under the plan, now being discussed in London with American officials, MEDO would be established, including Egyptian officers, as soon as Egypt agrees to participate.

Britain hopes thus to determine Egyptian willingness to cooperate in the joint defense of the Middle East before withdrawing all British troops from the Suez area.

Comment: Ambassador Caffery, commenting on the British proposal, states that Egypt will not accept any settlement making British evacuation dependent on participation in MEDO. To him, Cairo's 10 November note to the United States indicates that Nagib would probably not agree to any public announcement of his intention to participate in joint Middle East planning.

WESTERN EUROPE

10. Soviet officials predict early reopening of Berlin canal:

Soviet officials told British representatives in Berlin on 30 December that the Rothensee shiplift on the Mittelland Canal would probably

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be opened by the end of January. They said that repairs had been given high priority, but that bad weather had hampered the work.

The Soviet officials also said that the Allied request for additional trains to Berlin could be granted, but that details had not yet been worked out with the East German Reichsbahn. They proposed another meeting in about two weeks to discuss the matter.

Comment: According to some reports, the shiplift is already being used by East German barges.

LATIN AMERICA

11. Colombian guerrilla outbreak reportedly suppressed:

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[redacted] [redacted] an attack against the Palanquero Air Base about 70 miles north-west of Bogota had been repulsed early that morning and that the armed forces were in control of the situation. Divisional police commanders were ordered to take preventive measures against possible attacks elsewhere.

Comment: The Revolutionary Junta of the Colombian guerrillas was reportedly preparing an all-out attack on government installations for any time after the night of 31 December should the Junta be able to confirm rumors of the proposed initiation of a full-scale government offensive against the guerrilla forces. The attack on Palanquero may be the forerunner of widespread guerrilla action.

Government forces, including the police, total approximately 42,000. Guerrilla strength is conservatively estimated at 5,000 to 25,000.

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