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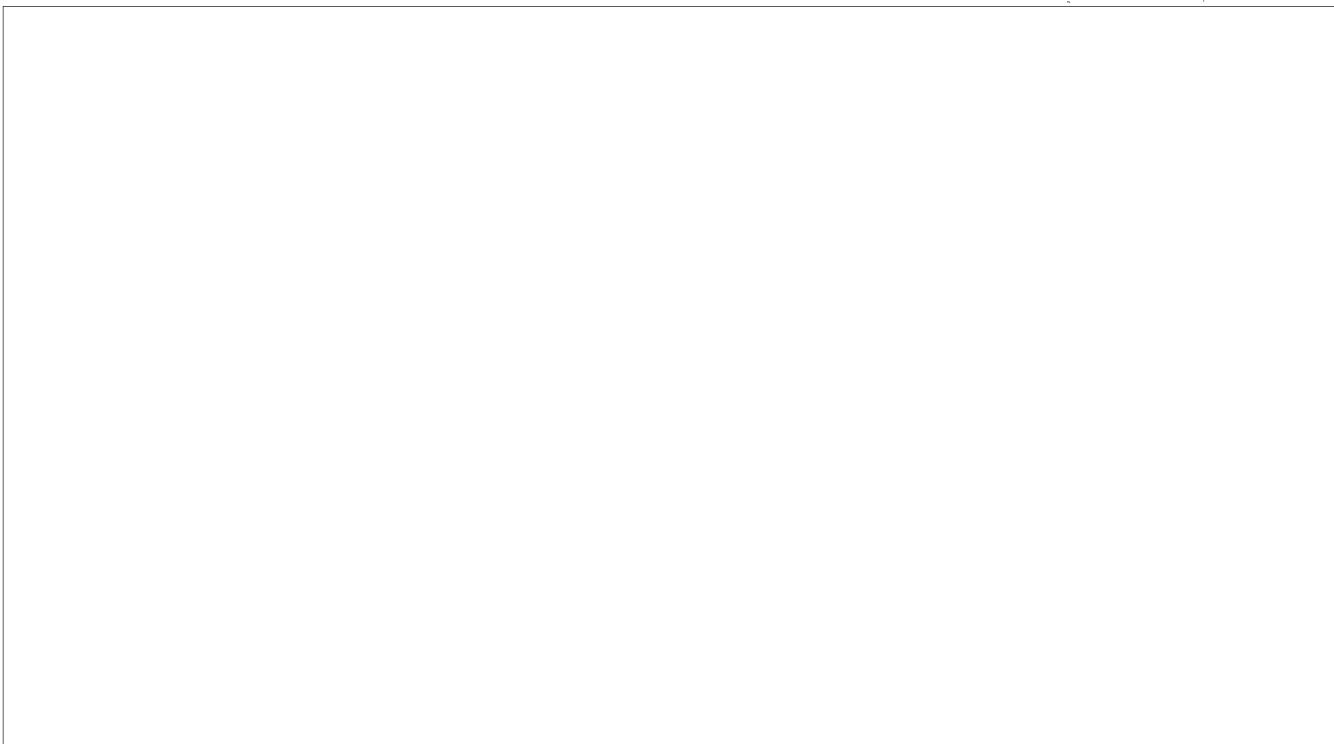
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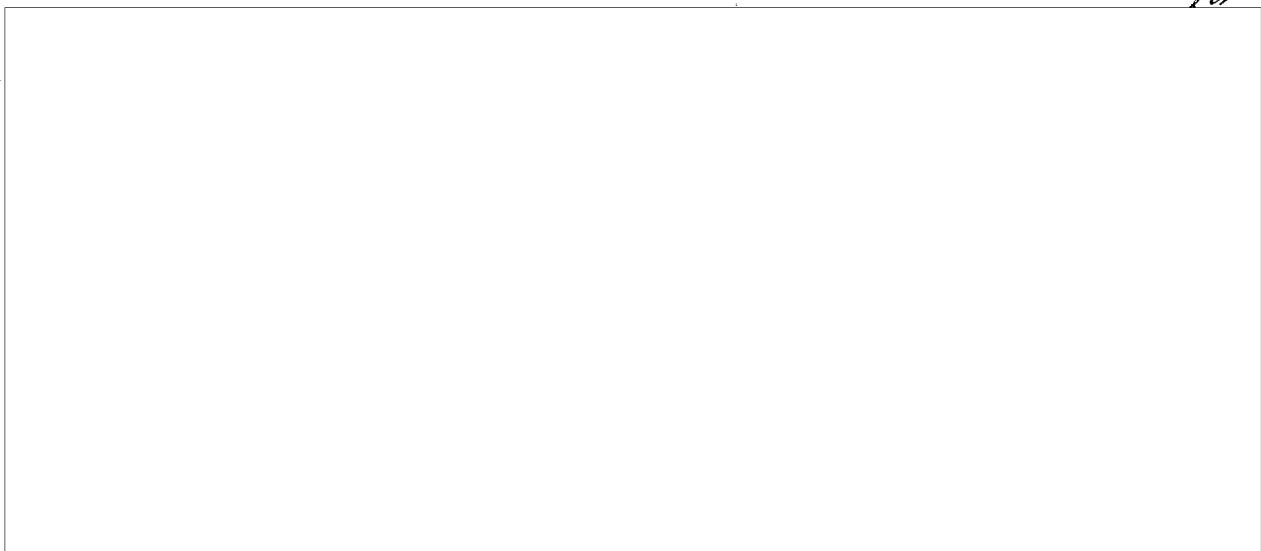
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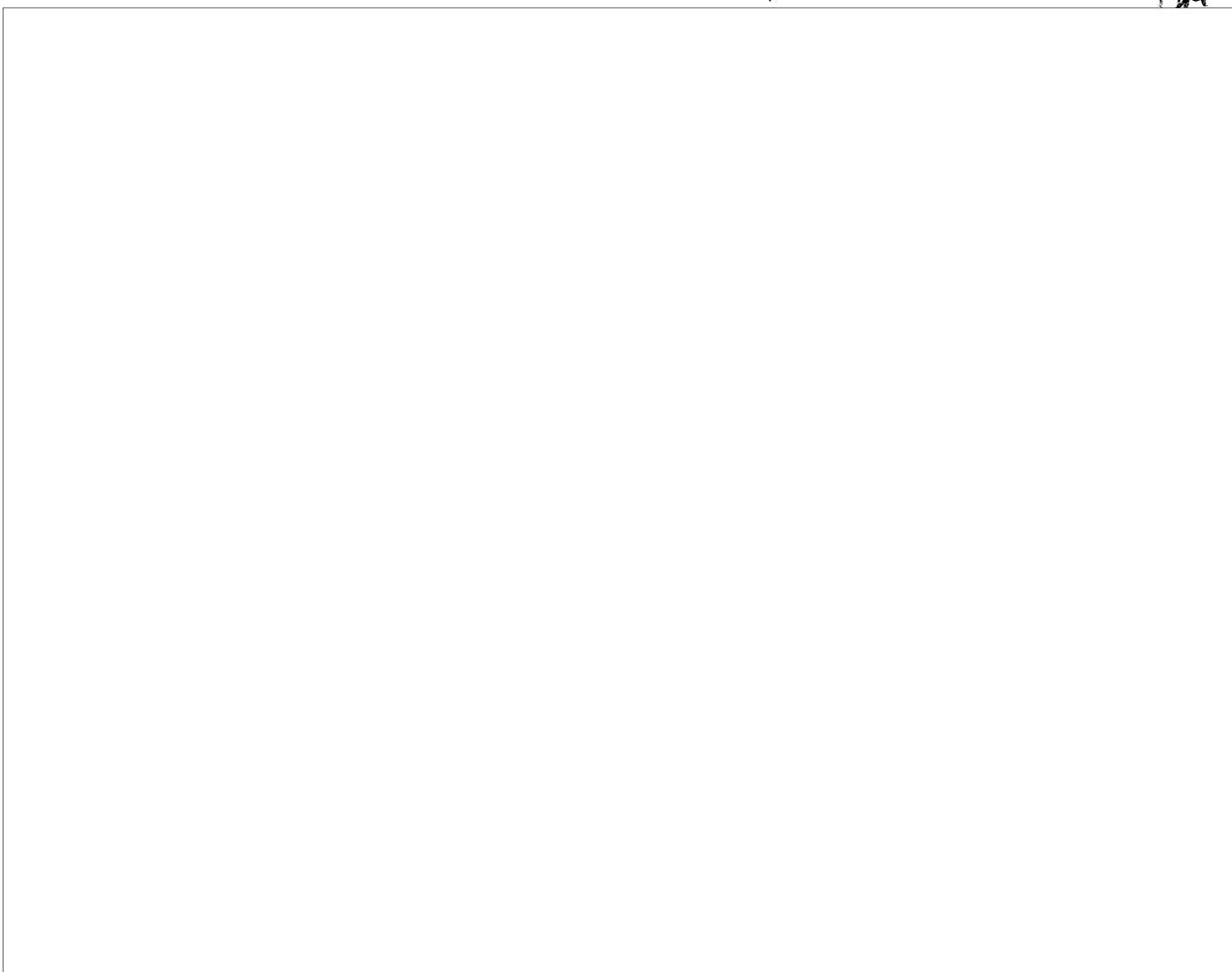
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4. Communists make propaganda capital on serious health conditions in North Korea:



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Following a two week build-up in the Soviet Orbit press, an 8 May North Korean radio broadcast addressed to the UN accused US and ROK forces of employing biological warfare against the North Korean population.

The broadcast, in addition to mentioning alleged ROK documents concerning plans for the use of biological warfare, stated that the American Armed Forces had "contaminated with smallpox" the inhabitants in the areas of North Korea which they temporarily occupied. Claiming that no smallpox had occurred in North Korea for the past four years, the broadcast reported that a widespread outbreak had occurred seven to eight days after North Korean territory had been "liberated."

Comment: In addition to providing Communist forces in Korea with an excellent propaganda device for internal and international consumption, these claims may be an attempt to conceal the failure of North Korean public health authorities to prevent the outbreak of communicable diseases. While the incidence of smallpox to date in North Korea is unknown, ROK intelligence in the Wonsan area reported the outbreak of this disease earlier this year.

5. Communist China offers Ceylon rice in exchange for rubber:



in

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early May Communist China approached Ceylon with a proposal to barter 50,000 tons of rice for an equivalent value of rubber.

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The UK Government has expressed to Ceylon its strong disapproval of such an arrangement.

Comment: Malaya's restrictions on rubber exports to China, which were adopted in early April, have forced the Communists to look for other sources of supply. The Communists

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have already agreed to export 100,000 tons of rice to India in 1951, half of which was to be exchanged for gunny bags. Although China's food situation is not favorable, the government can dispose of a few hundred thousand tons of rice in exchange for industrial materials.



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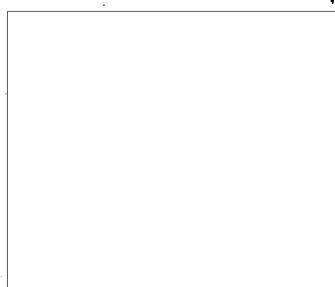
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7. US Ambassador reports Indonesian attitudes toward Communism:



During a conversation with President Sukarno, US Ambassador Cochran referred to enthusiastic May Day celebrations as evidence of Communist growth in Indonesia. Sukarno quickly admitted this development and said measures must be taken to check it.

Meanwhile, the new Indonesian Foreign Minister, Subardjo, has reaffirmed Indonesia's "neutralism" in foreign relations. When questioned regarding the export of strategic Indonesian raw materials to Communist China, Subardjo stated that Indonesia planned to sell "even to the devil" if the interests of the Indonesian people are thereby served.

Comment: The Republic of Indonesia thus far has refused to take a firm stand against Communism either with regard to domestic problems or to external policy. There are no indications that the new government will be more aggressive in this respect. Subardjo has pursued an opportunistic career and has a record of associating with so-called "national Communists."

NEAR EAST

8. US Ambassador appraises Iranian Prime Minister's strategy:



The US Embassy in Tehran has made the following appraisal of the future course of the Mossadeq government: The government will concentrate on the oil problem to the

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exclusion of other considerations, dropping electoral and budget reforms if such measures arouse opposition. Members of the Joint Oil Committee will probably be promptly selected, at which time Prime Minister Mossadeq will move cautiously. It is doubtful whether Mossadeq has any concrete plans as yet on how the nationalization processes will be implemented. Aside from the above, Mossadeq's

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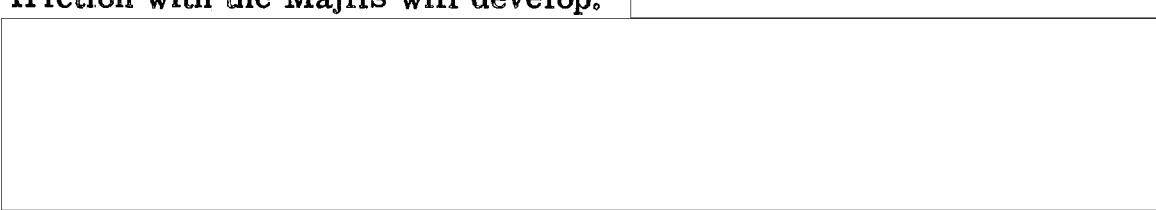
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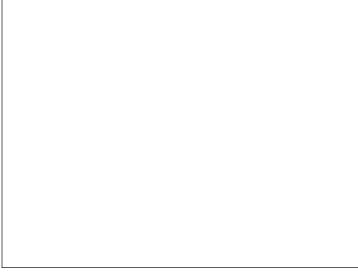
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present strategy is probably designed to avoid friction with the Majlis, and these tactics should keep him in office for at least three months or until the oil committee presents its recommendations to the Majlis. Factors which might cause an earlier upset are his poor health and popular impatience over the oil issue.

Comment: Mossadeq's National Front has wide popular appeal but few Majlis representatives, and Mossadeq's Cabinet Ministers - mostly old-line politicians - are unlikely to support measures that threaten their own interests. It is likely that friction with the Majlis will develop.


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9. Syrian-Israeli border situation continues serious:



According to US Ambassador Davis in Tel Aviv, the border situation between Israel and Syria is still "far from encouraging." Davis reports that Foreign Minister Sharett, 3.3(h)(2) who is acting-Prime Minister while Ben-Gurion is in the US, is in a difficult position in regard to the border issue because: (a) the Israeli public is disappointed over the foreign reaction to the border incidents, and (b) the Israeli Army, headed by Chief of Staff Yadin, lacks confidence in the Mixed Armistice Commission. Meanwhile, US Minister Cannon in Damascus reports that the tense atmosphere within Syria and the popular bitterness resulting from the frontier incidents are increasing the difficulties of the Syrian Government in any approach to a settlement of the dispute. Cannon is concerned that Israel may annex the demilitarized area, since colonization of this small but fertile region would help to release the pressure on Israel's immigrant staging centers.

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Comment: Reports from the Palestine area indicated that fighting on a major scale ended, for the time being at least, as a result of the UN Security Council cease-fire order of 8 May. Skirmishes reported subsequently in the demilitarized zone north of Lake Tiberias indicate, however, the continued seriousness of the Syrian-Israeli border troubles, which might again result in heavier fighting. There is still some danger that the Israeli Army - hostile toward the Mixed Armistice Commission, the Syrians and the local Palestinian Arabs - will force the hand of the Israeli Government by seizing part or all of the demilitarized zones and presenting the UN with a "fait accompli" that would be difficult to change.

EASTERN EUROPE

10. Yugoslavs concerned regarding consequences of Western military assistance:

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[redacted] US Ambassador Allen in Belgrade has been informed [redacted]

[redacted] that their Government would make every effort to keep Western forces out of Yugoslavia in the event of war. Allen has learned that the Yugoslav [redacted] made a similar statement to Yugoslav officials there. Ambassador Allen comments that the Yugoslav Government is aware that anti-Tito Yugoslavs within Yugoslavia and abroad are pressing for a US-UK commitment to send troops into Yugoslavia in case of war.

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Comment: These assurances by high Yugoslav officials are apparently calculated to allay the fears of Yugoslav Communist Party members concerning the possible consequences of the Western military assistance that the Tito government is now seeking. Some Communist Party members undoubtedly fear that the West would attempt to use its military forces in Yugoslavia to replace the Communist regime with a pro-Western government.

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WESTERN EUROPE

11. Don Juan comments on current situation in Spain:

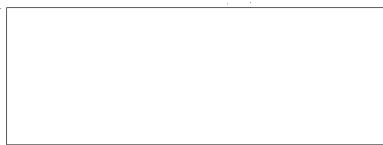
The special assistant to the US Ambassador in Lisbon reports a conversation with Don Juan, the Pretender to the Spanish throne, 3.3(h)(2) in which the latter appeared for the first time to be "cautiously optimistic" that Franco would not be able to last much longer. In the Pretender's opinion, no solution of Spain's economic problems is possible unless the present policies of the regime are drastically altered -- and this, he believes, Franco is not willing to do. He stated that he was still considering a meeting with Franco. 3.3(h)(2)

Comment:



Franco appears to be making a serious effort to induce Don Juan to assume the throne under his auspices in order to protect his position of leadership should the internal situation continue to deteriorate. In this effort, he would be supported by more conservative Monarchist elements who fear for their own interests if the situation reaches the point of general public disorder or if the present regime gives way to a constitutional Monarchy in which the non-Communist left would have a major voice -- as it would under commitments that Don Juan has made. Don Juan still appears determined to wait until he can assume the throne in response to an invitation of truly national proportions and on his own terms.

LATIN AMERICA

12. Political crisis in Panama:

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The recent run on the Caja de Ahorros, the savings bank patronized largely by the working class, appears to have been President Arias'

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[redacted] excuse for setting aside the 1946 Constitution, dissolving the National Assembly, suspending habeas corpus, and placing the justices of the Supreme Court, Court of Appeals and Labor

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Court "on a temporary basis." While the government insists that the banking crisis was instigated by the Communists, other observers feel that it may have been of the Government's own making in order to create an appropriate atmosphere for a return to the 1941 Constitution. Top

US officials [redacted] are convinced that the 3.3(h)(2)

Communists have had relatively little or nothing to do with recent crises. A general strike against Arias has practically paralyzed the capital, and there have been reports of a shooting incident in that city. The press further reports that truckloads of Arias' supporters are beginning to arrive in the city from outlying areas in government trucks. There have also been reports of clashes between the National Police of Colonel Remon and the Secret Police of Arias.

Comment: A return to the 1941 Constitution would extend President Arias' term of office from 1952 to 1954 -- a move he has desired for some time. Colonel Remon, Chief of the National Police and usually considered as the chief factor in the stability of Panama, is not likely to continue supporting Arias unless the latter restores the 1946 Constitution -- which Arias has already reportedly refused to do. [redacted]

Popu-

[redacted] lar reaction may force Remon to announce a decision shortly. Meanwhile, both sides are building up forces and riots can be expected to continue. It is doubtful that these disorders will constitute any immediate threat to the Canal Zone.

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