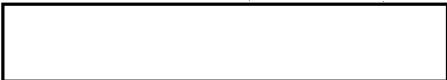


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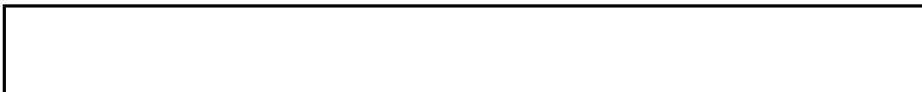
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DIA review(s) completed.

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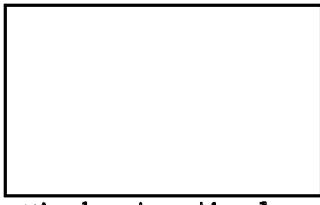
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3. Hammarskjold guardedly optimistic over airmen's case:



UN secretary general Hammarskjold has informed aides in New York that he is optimistic about the final outcome of the case of the United Nations personnel held in China, provided that the case

"is kept entirely outside of the political fight in the next few months." Hammarskjold stressed "the great responsibility" now resting on the American administration.

Comment: Hammarskjold's message supports earlier indications that Peiping intends to hold for some time at least the 11 American airmen sentenced as "spies," but that Chou En-lai left room for a later settlement.

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Hammarskjold's hope for restrained public comment on the airmen's case presumably derives from Peiping's insistence that it will not be "intimidated" into releasing the airmen, and from Chinese Communist statements that the cases might be "reviewed."

4. Nationalist ability to supply Tachens severely limited:

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[Redacted]
Chinese Communist air raids on the Tachens have demonstrated the vulnerability of Chinese Nationalist ships supplying the islands, according to the American army attaché on Formosa.

Nationalist antiaircraft defenses are "entirely ineffective." Ships which can move in and out of the Tachen harbor only during high tide are helpless while anchored in the harbor.

Officials of the American Military Assistance Advisory Group on the Tachens report that supply levels on the islands are sufficient for 30 to 60 days. Water is no longer a serious problem, as there are now enough wells to sustain the garrison.

Comment: Supply of the Tachen garrison will become increasingly difficult if the Communists continue their air attacks on Nationalist shipping in the area. Smaller islands in the Tachen group held by guerrilla forces will be particularly difficult for the Nationalists to hold, since few are self-sufficient in food and water. The Nationalist navy has recommended the withdrawal of the 850 guerrilla troops from the Yushan Islands, 35 miles northwest of the Tachens.

NEAR EAST - AFRICA

5. Movement for independence gains in the Sudan:

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[Redacted]
Sudanese premier Azhari's National Unionist Party, sponsored by Egypt, is threatened with disintegration as a

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[Redacted]

result of the recent series of pro-independence moves by important political figures in the Sudan. This suggests that the party may renounce its support of union of the Sudan with Egypt at its 14 January meeting.

The American liaison officer in Khartoum reports that Mubarak Zarroug, an official of the National Unionist Party, has reached a tentative agreement with pro-independence leaders to promote independence for the Sudan before the meeting of the constituent assembly. Under the terms of the Anglo-Egyptian accord on the future of the Sudan, a constituent assembly, to be elected before 1957, would decide between complete independence and union of the Sudan with Egypt.

Any such change of policy by the National Unionist Party would eliminate all chances of union with Egypt, and would probably have severe political repercussions in Cairo, where the Nasr regime is fully committed to obtaining union of the two countries.

EASTERN EUROPE

6. Comment on possible alteration in East German economic plans:

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[Redacted]

Walter Ulbricht, first secretary of the East German Communist Party, issued a propaganda directive to local party executives on 4 December which suggests that some adjustments in the economy of the German Democratic Republic are anticipated to provide for the additional economic burden of armaments production and an increase in the military establishment. The directive said that as a result of the Moscow conference on European security, "necessary additions are being made" to the decisions of the fourth party congress, which reaffirmed the policies of the new course.

The establishment of an East German army following ratification of the Paris agreements would require altering the present investment policy, which emphasizes consumers'

goods industries and agriculture. However, reducing the presently inadequate production of consumers' goods or raising taxes and workers' quotas to finance urgent armaments undertakings would adversely affect the morale of labor and lead to still lower productivity and efficiency.

East Germany was the only Satellite lacking a regular army establishment at the time it inaugurated the new course. The necessity of readjusting its economy now to support national armed forces would require aid from the rest of the Orbit or abandonment of some of the new course economic program.

WESTERN EUROPE

7. Britain to cut defense budget:

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Britain's defense budget for the fiscal year beginning 1 April 1955 will total 1,527 million pounds sterling (\$4,276 million), according to Minister of Defense Harold Macmillan. For the present fiscal year, 1,640 million pounds (\$4,592 million) was voted, but only about 1,550 million pounds (\$4,340 million) will probably be spent.

The new estimates are carefully calculated in order to avoid the underspending characteristic of the last two years. Since American aid reflected in the budget will drop from about \$238,000,000 to perhaps \$56,000,000, the burden on the British taxpayer will be slightly increased.

Comment: The slight reduction confirms earlier forecasts that while the British are changing over to a new defense strategy, spending will be temporarily less. When the shift is completed, probably in two or three years, defense budgets are expected to be as high as, or higher than, the present level.

Should the general election take place this year, as is widely expected, the Conservatives will be able to make political capital of the fact that the total defense budget will be lower. It fulfills a promise made by the government last April.

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