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SECURITY INFORMATION~~

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GENERAL

1. British attitude toward Communist China seen hardening:

The American Consul General at Hong Kong sees the closure last week of the British Consulate General in Tientsin as a further acknowledgement of inability to establish normal relations with Peiping. He also cites evidence of a "growing realization" by the British that their hopes for doing business with the Chinese Communists will not be fulfilled. He predicts a "stiffer attitude" toward the Chinese Communist regime on the part of the Hong Kong Government.

Comment: The policy of the Hong Kong Government, reflecting disillusionment in London, has been stiffening toward Peiping this year. The colony has tightened export controls on goods to China, deported Communist agents, sentenced two Communist propagandists for sedition, compelled the Communist news agency to register, and decided against Peiping in the dispute over the ownership of 71 commercial aircraft.

NEAR EAST - AFRICA

2. Comment on Mossadeq's report to the nation:

Prime Minister Mossadeq's 14 December report to the Majlis on the progress made by his government since he was granted special powers in mid-August shows extensive attempts at reform in nearly all phases of Iranian social and political life.

Presumably, in deference to the basic national opposition to devaluing the currency, the measures enumerated did not include expansion of the note issue, the most important step the government has taken toward alleviating its financial crisis. Opposition to other important measures, such as the land reform bill, has necessitated their being strengthened. The lack of administrative machinery has impeded implementation of many reforms.

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The Prime Minister appears to be sincerely interested in reform, and the government will continue these attempts in the two remaining months during which he has special powers. Similar inconclusive results may be expected.

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3. Majority of German officers in Syria will leave in January:



According to an American official in Damascus, only three of the approximately 20 former German army officers engaged by the Syrian Government will renew their contracts. The others

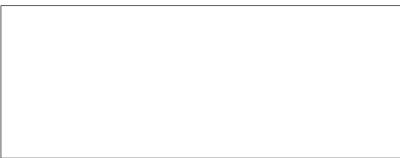
are leaving in January because of failure to receive salary increases and because of exasperation over Syrian "stupidity" and "false pride."

Comment: Syria's dictator, Colonel Shishakli, has clearly indicated to the American Ambassador in Damascus that he would like a US military aid program similar to that in Turkey. Turkey, Britain and France would probably like to replace the German group with their own officers.

WESTERN EUROPE

4. Czechs threaten to break off trade negotiations with Austrians:

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An Austrian Foreign Ministry official has told the American Embassy in Vienna that the Czech delegation has threatened to break off the current trade negotiations if an agreement

is not reached by Christmas. Although the Czechs have increased coal offers to meet Austrian requests, there seems to be a concerted threat on the part of Czechoslovakia and Poland to cut off all coal shipments if the Austrians do not agree to their terms.

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Comment: The Austrians desire to obtain Czech coal to conserve dollar funds. They may be overestimating the Czech threats, however, due to their fear that a collapse in negotiations would endanger their export market in Czechoslovakia.

The Czech delegation continues to demand increased Austrian aluminum exports and the renewal of last year's agreement to export one million dollars' worth of ball bearings.

5. East German five-year plan reportedly suspended for rearmament drive:

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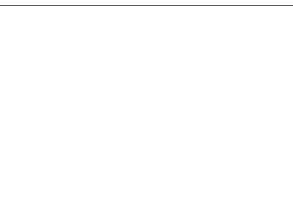
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[redacted] [redacted] the East German Economic Plan has been suspended and a new plan to concentrate factory production on rearmament substituted.

Comment: The report that the Soviet Union ordered a suspension of the East German five-year Economic Plan in favor of a new plan that concentrates on rearmament is probably a somewhat distorted account of an actual development.

The original five-year plan has probably been extensively revised to increase production of heavy machinery, machine tools, electronics and railroad equipment as well as armaments. A reported recent secret directive by the East German Ministry of Finance listed "financing of the National Armed Forces" as one of the primary objectives of the 1953 budget.

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~~TOP SECRET~~**6. Interest grows in American-West German bilateral arms pact:**

An American official in Munich, reporting on the chances for ratification of the EDC treaty, states that an increasing number of West Germans favor a bilateral defense treaty with the United States as the only means for securing the formation of German defense forces.

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sistance to such an arrangement might be overcome by reducing the number of German divisions to six from the twelve projected under EDC.

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Comment: Should the members of the West German Constitutional Court believe that rearmament can be effected outside EDC, they may be more inclined to declare the Bonn and Paris treaties unconstitutional. There is considerable sentiment in West Germany for the adoption of a bilateral treaty in preference to the projected arrangement.

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