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FAR EAST

1. Effects of intensified bombing weighed by FECOM:

The UN's program of intensified bombing of North Korea, beginning with the raids against power plants in late June, has had a "substantial effect on the enemy," the Far East Command believes.

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Reports from North Korea indicate that the loss of electric power caused considerable disruption of both military and civilian activities through early August.

Civilian morale, already lowered by the long and costly war, has been subjected to additional strains by the mass bombing. Rigid Communist control techniques, however, have counterbalanced them.

The military has not suffered any material lowering of morale. The enemy is still able to keep his front line units supplied despite destruction of some arms plants and supply areas.

2. Murphy believes US policies might suffer at hands of Hatoyama faction:

Japanese Foreign Minister Okazaki advised Ambassador Murphy on 5 September that the Liberal Party will present a united front in the election campaign, but simultaneously admitted that the party's factional split is widening.

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Okazaki stated that those around Hatoyama "are utterly reckless in their pursuit of power and patronage" and would exercise a harmful effect on Japanese foreign policy. The Ambassador states that the more he sees of the Hatoyama faction and the opposition group the more he "wonders" if US policies would not suffer at their hands.

Comment: The two factions of the Liberal Party are apparently undertaking the campaign with a working agreement that the faction winning the larger number of seats will be given control of the party.

3. Reported Chinese aims in Moscow talks:

[redacted] [redacted] 50X1
[redacted] [redacted] 50X1

the Chinese at the Moscow conference will request extensive military and economic aid, including a long-term loan, and additional shipping. Some military items wanted by Peiping are equipment for more armored and airborne divisions, 500 jet planes, and 60 submarines.

Peiping will request restitution of the Port Arthur-Dairen area, but will be satisfied with nominal control. It desires return of the Changchun railroad, but will agree to joint Sino-Soviet operation for a stated number of years.

The Chinese hope to obtain Moscow's agreement to a truce in Korea, to the timing of an invasion of Formosa, and to the loan of 50,000 tons of shipping as well as Soviet naval and air assistance for the invasion.

Comment: The Democratic League is a powerless non-Communist party tolerated by the Peiping regime. It is doubtful that a member of this group would know what is being discussed in Moscow.

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[redacted]

The composition of the Chinese delegation to Moscow indicates that the talks will be concerned primarily with economic matters.

SOUTHEAST ASIA

4. Chinese Communist units reported still in Indochina:

[redacted] Chinese 50X1

Communist units which entered northwest Tonkin over six weeks ago to aid the Viet Minh against French-supported guerrilla tribesmen are still there. They have not penetrated farther south, however, suggesting that this is a local action rather than a pre-invasion move.

It is expected that the Chinese forces will return to China about the middle of September, leaving one Chinese battalion to assist the Viet Minh.

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There have been three such incursions into Indochina during 1952.

NEAR EAST - AFRICA

5. Mullah Kashani reportedly ready to act against Mossadeq:

[redacted] 50X1

Mullah Kashani notified Prime Minister Mossadeq before his departure for Mecca that he will take matters into his own hands if the government does not take measures "to remedy

the present situation," according to [redacted] a pro-British newspaper in Tehran [redacted] 50X1 50X1

Kashani expects Majlis support and will probably also have Tudeh cooperation. The timing of the plan is not known but it is believed to call for action shortly after Kashani's return.

Kashani wishes to become the next prime minister. His ultimate aim is to oust the Shah and become president of an Iranian republic.

Comment: An anti-Mossadeq group in the Majlis, composed of conservatives and followers of Kashani, sought American support in August. Kashani also apparently has the support of several street organizations which, combined with the Tudeh, could have a powerful effect. Kashani's acceptance of Tudeh cooperation is probable, since he has always maintained that he could easily control the Tudeh once he has used it.

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7. Comment on Nagib's assumption of Egyptian Premiership:

The forced resignation of Prime Minister Ali Maher and General Nagib's assumption of the premiership, following the arrest of important political figures in Cairo, has moved Egypt close to complete military dictatorship.

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The military clique publicly stated that although Nagib now heads the government, he will surround himself with civilians in the new cabinet. It is doubtful, however, that Nagib will be able to secure many competent civilians to accept appointment in a cabinet under direct control of the army clique, whose members are generally inexperienced in political and economic affairs.

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The present crisis was foreshadowed by [redacted] the army's impatience with Ali Maher's delay in adopting a land reform program. Maher's stalling was due in part to pressure from Egypt's landowning group, which maintained that drastic changes would upset the Egyptian economy. Maher presumably also recognized that the reform proposals might raise problems which he could not solve.

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Ambassador Caffery reported from Cairo on 5 September that Maher, reading the handwriting on the wall, has assured him that he would soon be in a position to meet the army's demands for action and had asked him to pass on these assurances to Nagib in the hope of gaining a few days' grace. Caffery did this with little hope of success. At that time, he reported, the army was considering a final effort to find a civilian prime minister as an alternative to military rule.

Although some of Nagib's officers recognized Maher's honesty and ability, the deciding factor in requesting Maher's resignation was the apparent fear that the prestige gained in the July coup might be lost through continuing delays.

The arrest of key political figures in Egypt is the direct result of mounting charges by the army that the political parties had failed to make a thorough purge of their ranks. Only last week Secretary-General Serageddin of the Wafd Party, one of those taken into custody, openly defied the army by declaring that the Wafd would await a court order before dismissing more of its members. Serageddin's detention and the arrest of independents and former members of the palace clique indicate that the army has no intention of compromising its objectives in order to gain the support of any political group.

8. General Nagib may visit Sudan:

The British Foreign Office reports that General Nagib and Prime Minister Ali Maher intend to visit the Sudan within the next month or two. 50X1

The Foreign Office feels that in some ways such a visit would be advantageous but that the question of timing should receive careful consideration.

Comment: Maher's forced resignation will obviously change these plans, but there is no reason to believe that Nagib, despite his new duties as Prime Minister, will abandon them or lose interest in the Sudan. Nagib's few cautious statements on this issue do not clearly indicate what his position will be.

The new constitution, bringing almost complete self-government to the Sudan, will go into effect in November unless the two condominium powers agree on changes. Past British efforts to secure Egyptian cooperation on the Sudan have been rebuffed.

WESTERN EUROPE

9. Comment on Western differences in Austrian treaty strategy:

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Although the British and French Governments followed the American lead in the 5 September note to the Soviet Union on the Austrian treaty, there is strong evidence of differences on strategy. Britain and France have accepted as "good tactics" the note's insistence on negotiating from the short treaty draft, but show a willingness to abandon this stand and resume discussions on the old draft.

Britain and France do not accept the American view that further concessions to the Soviet Union would not advance an Austrian settlement and that the economic concessions previously offered are probably no longer acceptable to either the Austrian or the American legislature. The British have expressly stated their readiness to accept the Soviet position on unagreed articles in the old draft.

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Since the Soviet Union probably prefers renewed four-power negotiations to a United Nations hearing on the Austrian question, Western differences over the suitable price of an Austrian settlement might provide opportunities for Soviet exploitation.

10. Vyshinsky reportedly urges neutrality upon Italy:

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Foreign Minister Vyshinsky in late May idealized the position of a "neutral Italy" to the Italian Ambassador in Moscow, [redacted] 50X1

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pointed out that a change in Italy's course would put it in an advantageous position, "economically as well as politically," to obtain much more from all concerned. Ambassador Di Stefano had no doubt that a warning to both Italy and the Western powers was implied.

Vyshinsky also expressed interest in the possibility of direct negotiations between Italy and Yugoslavia on Trieste. He emphasized that the USSR would reserve the right to oppose any settlement arrived at without its agreement, and that the "temporary nature of the present regime in Yugoslavia" does not affect the Soviet attitude regarding Trieste.

Comment: The new Italian Ambassador had an interview with Vyshinsky on 24 May. Nothing is known of the nature of the conversation, but this account is in line with Nenni's report that Stalin offered a non-aggression pact if Italy would abandon its pro-Western policies and espouse neutrality.

LATIN AMERICA

11. Comment on the Chilean presidential election:

Since no candidate has obtained the necessary majority in the Chilean election, the naming of a president rests with Congress, which must choose between the top two candidates, Ibanez and Matte. Although the Ibanez forces have little strength in Congress, as against Matte's approximate 40 percent control, there are indications that Congress will respect Ibanez' 47 percent plurality and select him.

The very recent "go easy on Ibanez" attitude on the part of the administration, in strong contrast with its previous desire to smear him as linked with Peron, lends credibility to a reported deal between Ibanez and the administration forces, which also control 40 percent of Congress.

The Congress probably will not act until sometime after mid-October. Should it not proclaim Ibanez president, a revolt can be expected.