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FAR EAST

1. Chinese Nationalist Government proposes establishment of a mobilization board: 3.3(h)(2)

A proposal recommending the establishment of an economic mobilization board directly responsible to Chiang Kai-shek was presented to the Chinese Nationalist cabinet in early September, [redacted] 3.3(h)(2)

[redacted] The board would bring all economic affairs under the direct control of one agency.

Premier Chen Cheng is reported opposed to this further centralizing of power and has delayed action on the proposal. As a result, a compromise plan, placing the board under the cabinet, but still subject to independent directives from the president, is now under consideration.

Comment: Chiang Kai-shek is faced with the conflicting problems of meeting the ever-increasing expenses of the secret services, considered by him essential for the continuance in power of the Nationalist regime, and the demands of the US for economy in administration. Chiang's proposal appears to be designed to provide him with easier access to government funds.

Premier Chen Cheng, according to recent reports, is of the opinion that the last hope of the Nationalist regime lies in all-out cooperation with the US.

2. Chinese Nationalist forces reported in Burma west of the Salween: 3.3(h)(2)

[redacted] The US Embassy in Rangoon transmits a report that on 1 September there were 5,000 Chinese Nationalist troops west of the Salween River in northeastern Burma. These troops are under the control of

Li Yuan-kai, "Commander-in-Chief" of Nationalist forces in southwest China. They are said to be operating independently of General

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Li Mi, Nationalist "Governor" of Yunnan, whose forces, currently located to the east of the Salween, have caused the Burmese Government so much concern.

The embassy comments that this report, though probably exaggerated, is the first indication that a sizeable group of anti-Communist Chinese guerrillas is operating west of the Salween.

Comment: This is the first report that Li Yuan-kai's troops are in Burma, although it is entirely possible that they too have sought refuge there from the Communists. It is probable that the two Nationalist forces are operating independently because of the jealousy between their commanders, both of whom claim extensive jurisdiction in southwest China.

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WESTERN EUROPE

4. McCloy to maintain Berlin air-lift in view of continued Soviet harassment:

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High Commissioner McCloy has abandoned earlier plans to discontinue the Berlin freight air-lift, because there is no conclusive evidence that Soviet and East German officials intend to cease their harassing measures. For the time being the limited

air-lift, which has been flying out West Berlin exports, will be continued on a day-to-day basis, and the matter will be considered further by the High Commission at its next regular meeting on 4 October.

Comment: At the time of the signing of the interzonal trade pact on 20 September, the East Germans agreed orally that various harassing measures would be discontinued. So far, they have complied only by reducing the rates of the road tax on Berlin-West Germany traffic. Soviet and East German officials are still holding up approval of export permits. As of 29 September, parcel post shipments were still being interfered with and the Rothensee canal lock had not been opened.

5. Comment on French cantonal elections of 7 and 14 October:

The major political parties in France are placing unusual emphasis on the forthcoming cantonal elections. They are determined to capitalize on any shift in popular support since the indecisive June elections for the National Assembly. Since, however, many of the local contests, which are for 50 percent of the seats on the councils of the French departments, will be decided on local issues, the results will not give a true picture of national political sentiment. When the deputies reconvene early in November, the parties' gains and losses in these local elections, together with the ill-feeling engendered in the recent assembly debates, will increase present tensions which stem largely from basic economic issues.

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The Gaullists are confident of making an even better showing than they did in the June elections, when they emerged as the largest party in the Assembly. The Socialists, who currently hold the largest number of the seats being contested, are struggling to minimize their anticipated losses; nevertheless, they have declared their intention not to cooperate with either the Communists or the Gaullists in the present campaign. The Communists have publicly stated that they regard the forthcoming elections as equal in importance to the national poll in June. They probably believe, with considerable justification, that they will be able to hold their lead in the popular vote, especially in view of the growing inflation and the controversial NATO issues.

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