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23 October 1951

CIA No. 49394

Copy No.

143

**DAILY DIGEST**

Office of Current Intelligence

**CENTRAL INTELLIGENCE AGENCY**

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DIA, DOS, OSD and USAF review(s) completed.

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SECTION 1 (SOVIET)

1. USSR. Moscow comments on the assassination of Liaquat Ali Khan: The first Soviet press comment on the assassination of Pakistan's Prime Minister, Liaquat Ali Khan, obliquely hinted at US complicity. Stressing that "disputes among the imperialists are daily becoming more acute," the article explained this comment by saying "it is sufficient to recall that in recent years the following persons have been killed in the Near East," and listing them all. The Russian's clandestine Azerbaijan radio, meanwhile, stated that "it is now abundantly clear that the US-UK imperialists are responsible for these murders," including that of the Liaquat.

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Comment: Following the assassination of Iran's Prime Minister Razmara in March, Soviet commentary issued strong and scurrilous hints that the US was the instigator of the murder and was, moreover, motivated by rivalry with the UK. Propaganda will possibly develop the same line on the Liaquat's assassination; as part of Moscow's current effort to highlight Western "aggression" and arouse Moslem nationalism against it.

2. CZECHOSLOVAKIA/HUNGARY. Specialists replacing incompetent party reliables in industry: There have been recent indications that Czech and Hungarian officials have recognized that uneducated Communist Party members in managerial positions are partially responsible for the present production failures.

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President Gottwald has ordered a large-scale reinstatement of professional personnel and specialists, including non-Party members heretofore frequently barred from government posts. In a speech at the Foundry Conference in mid-October, Erno Gero, economic boss of Hungary, emphasized the necessity for competent managers who were qualified specialists. Managers must be industrial commanders, Gero said; they must direct the workshop instead of indulging in political agitation.

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Comment: Since the Communists gained control of the Eastern European countries they have alternated between emphasizing political reliability and technical proficiency in their industrial managers. The current economic difficulties in Czechoslovakia and Hungary have forced the Communist leaders to seek out all possible ways to improve production.

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- 25X1 3. HUNGARY. Soviet economist Varga in Budapest: [redacted] that Eugene Varga, the Soviet economist, is in Budapest. He is reported to be directing Hungarian foreign trade and perhaps other branches of the economy. [redacted]

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Comment: Varga, who was born in Hungary, spent several months there during the summer of 1950. His visit coincided with increased Soviet demands on the Hungarian economy and the beginning of a period of austerity for the people.

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4. YUGOSLAVIA. Yugoslavia ready to sign bilateral arms agreement: Assistant Foreign Minister Mates has assured Ambassador Allen that the Yugoslav Government now has a clear conception of the cooperative character of US military assistance and that he is certain that the bilateral arms aid agreement can be carried out in this spirit.

The Yugoslav Government therefore proposes that the agreement be signed as soon as possible and that the chief of the US military group, General Harmony, and an initial staff of six or seven officers, come to Yugoslavia at his earliest convenience to work out details. Mates explained that the Yugoslav Government now appreciates that the US Government needs to furnish satisfactory reports to Congress on use of the military equipment. He added that the discussions with General Collins had also brought out the Yugoslav reasons for avoiding any recurrence of the interference and domination which it experienced with the Soviet military mission. [redacted]

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Comment: Signature of the agreement as the Yugoslavs propose will not settle the US-Yugoslav differences over the size and functions of the US arms aid group. This problem will remain to be negotiated after the agreement is signed, and the Yugoslav Government will probably continue to insist that the group's size and functions be limited.

5. Implementation of the new economic program postponed: Yugoslav Minister of Finance Popovic announced yesterday that the threat of inflation had forced the government to delay the introduction of the new economic policy from 1 November to 1 January 1952, and to freeze wages at their present level.

A shortage of consumer goods and heavy defense expenditures were given as the principal reasons for this postponement.

As a deflationary device, the Finance Minister announced the introduction of increased electricity, transportation, amusements, and

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postal rates. He insisted, however, that these increases would be compensated for through stabilized prices of foodstuffs and consumer goods brought about by reduced purchasing power.

Prices of food products in state shops and prices of industrial products are to be lowered in proportion to the fall in the prices of farm produce on the free market. However, the regime has already announced the lowering of sugar, lard, flour and tobacco prices in state stores.

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Comment: The postponement of the wage increases indicates that the regime is willing to institute unpopular deflationary devices and partially abandon its economic plan to liberalize the economy in order to save its ambitious investment program.

However, by forcing down the prices of staples in the state stores, through the employment of subsidies or reduced prices on forced deliveries of grains, the regime may be able to preserve the relative economic position of the worker.

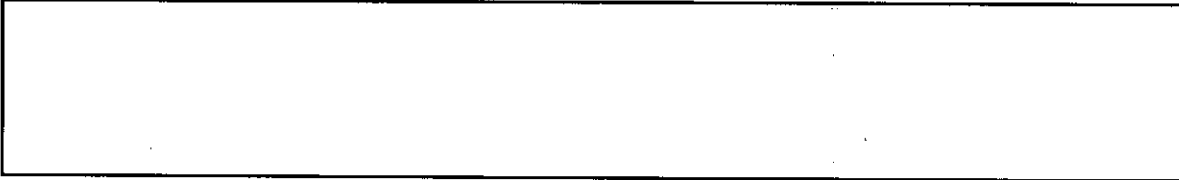
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SECTION 2 (EASTERN)

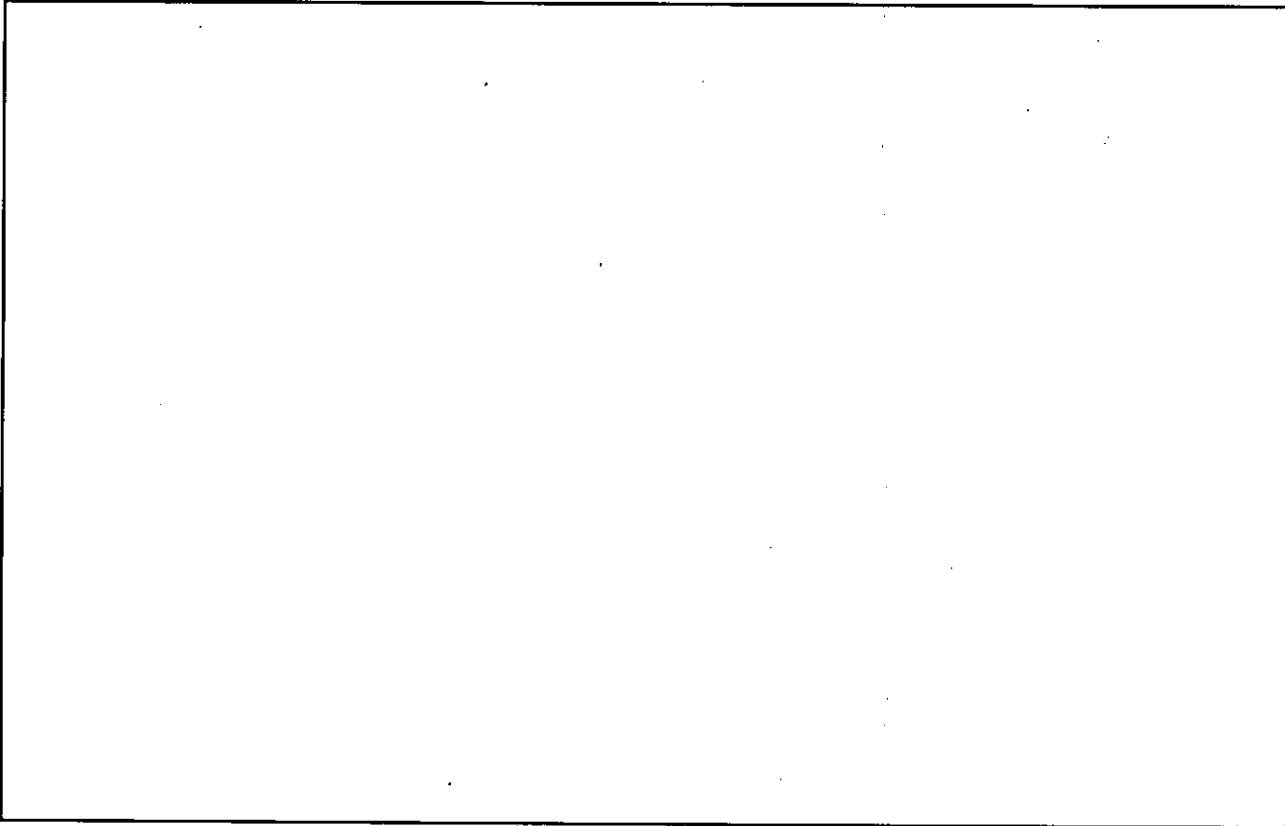
1. EGYPT. Possible future Egyptian action in its dispute with Britain:  
A leftist Parliamentary deputy in Cairo states that the Egyptian Ministry of Foreign Affairs has sent a draft of a non-aggression pact with the USSR to the Council of state for final review.



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Comment: There is no confirmation that an Egyptian-Soviet non-aggression pact is being considered. Some Egyptian and other Arab leaders have on occasion suggested that Soviet aid might be sought if the West refused to yield to Arab demands.

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3. BURMA. Increased insurgent activity reported: Increasing activity is reported in northeastern Burma adjacent to China. A customs official in Bhamo has been attacked, and others have requested transfer on the grounds of insecurity in the area. A sundown curfew has been imposed upon Sagaing, across the Irrawaddy River from Mandalay, as a result of the concentration of insurgents in the hinterland. [redacted]

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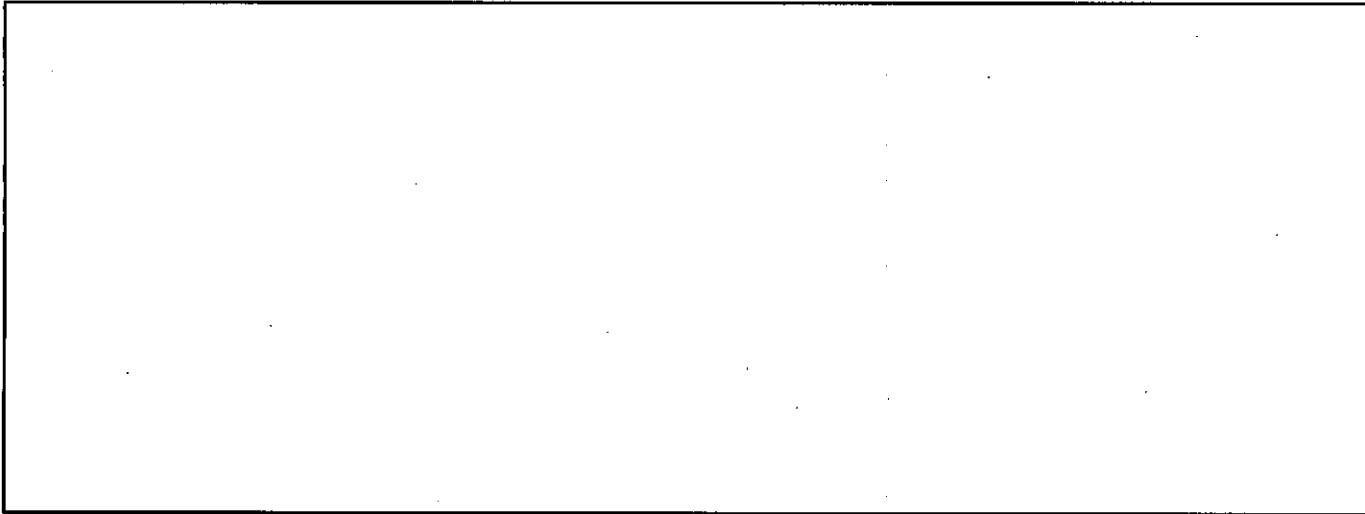
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[redacted]

Comment: A large-scale Communist offensive scheduled for November to gain control of northern Burma, including Mandalay, has been predicted. [redacted] Communist activity in central and northern Burma has been mounting for the past several months.

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5. Indonesia will initiate bilateral negotiations with Japan: Sudjono, chief of the Indonesian mission to Japan, told a press conference in Tokyo that an Indonesian delegation would visit Tokyo within the coming month to negotiate bilateral treaties on reparations and fisheries. [redacted]

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Comment: The Indonesian Government does not plan to submit the general Japanese Peace Treaty to Parliament for ratification until after negotiation of the bilateral treaties. It hopes that terms of the bilateral treaties will satisfy the current objections of various political groups to the general agreement.

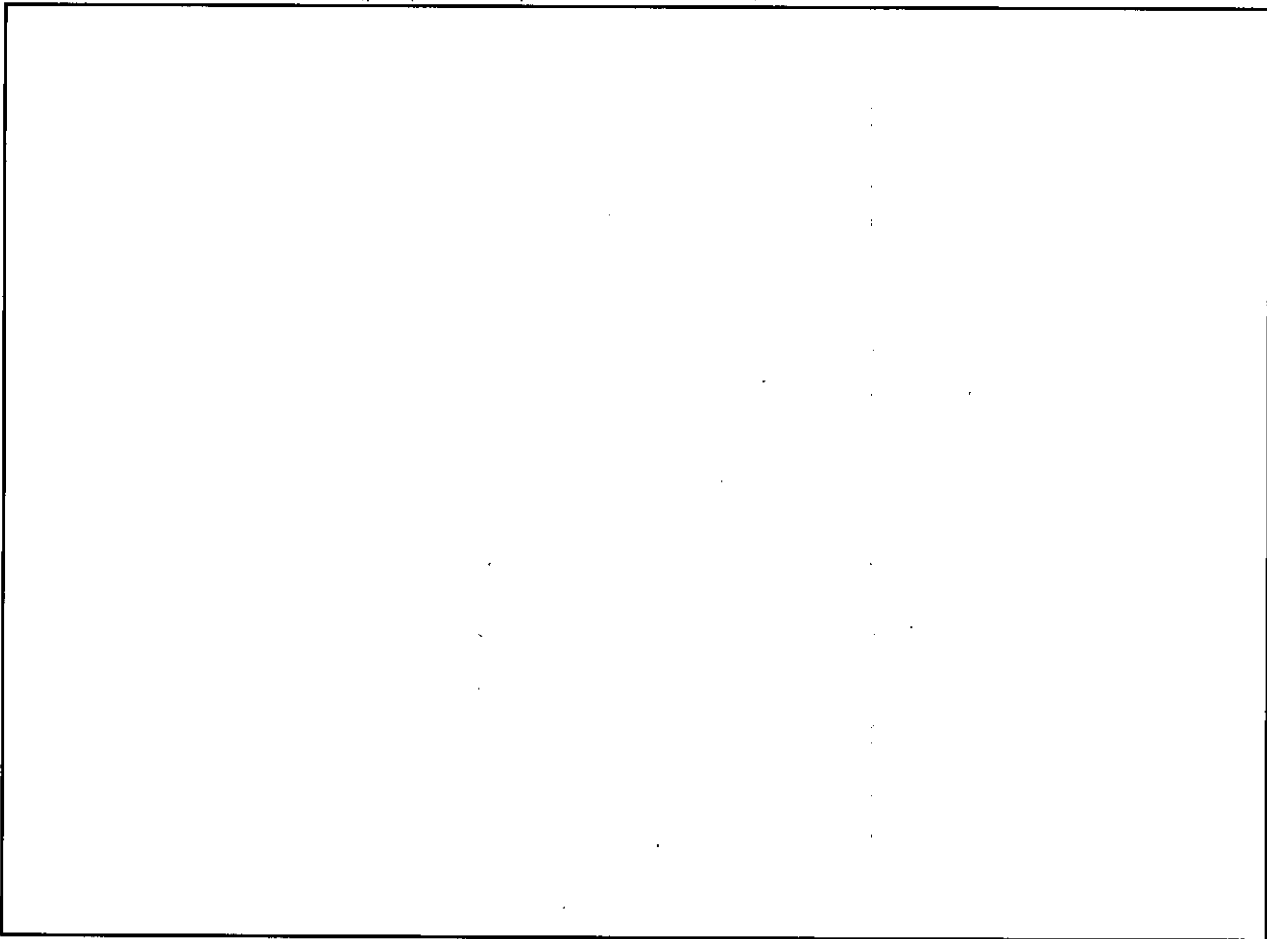
Japan plans soon to engage in negotiations on fisheries with the United States and Canada and will prefer to complete them before beginning

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discussions with Indonesia. Indonesia therefore may have to postpone the dispatch of its mission.



8. Shanghai authorities jail 374 but announce no death sentences:  
The Shanghai press reports that 374 more Shanghai residents have been sentenced to slave-labor camps as "counter-revolutionaries" but gives no figures for persons sentenced to death.

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Comment: At least 25,000 alleged "counter-revolutionaries" are believed to have been arrested in Shanghai since April. The Communist press has thus far admitted the execution of about 600 and the imprisonment of about 1000. Of those arrested, the number admittedly executed has declined from a peak of 70 percent in June.

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9. Communists order manufacture of uniforms: The Chinese Communists have ordered the manufacture by the end of November of 150,000 army uniforms at a factory in South China, [redacted]

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[redacted] Purchasing agents of the factory have gone to Hong Kong to purchase the cloth. [redacted]

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Comment: The Chinese Communists have been buying heavily in cotton and wool items, as well as shoes. It is probable that these items are being bought for the armed forces. [redacted]

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10. Soviet air units reportedly move to Manchuria: [redacted]

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[redacted] the 8th Soviet Air Division was transferred from Khabarovsk in the Soviet Far East to the Manchurian cities of Mukden and Dairen in late September. In early October, [redacted] the Soviet 12th Air Division moved from Komsomolsh to Harbin and Changchun. The mission of both divisions is to protect the Chinese Changchun Railway and other installations against possible US-JN bombing. [redacted]

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Comment: There are no Soviet air force units known to be in Manchuria outside of the Port Arthur area. [redacted]

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11. President of Nationalist Legislative Yuan resigns: The resignation on 19 October of Liu Chien-chun, President of the Nationalist Legislative Yuan, [redacted]

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Comment: Charges of corruption and the use of dictatorial methods while in office, were brought against Liu by the Yuan in its opening meeting in early September. Subsequently, a fifteen-man committee of Yuan members investigated the charges, which resulted in the call for Liu's resignation.

Chiang Kai-shek reportedly has been quite disturbed over the Legislative Yuan's unprecedented freedom of action, which he considers an obstacle to his personal attempts to establish certain reforms recently.

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requested by the US.

12. KOREA. Rhee continues pre-election maneuvers: In a 16 October conversation President Rhee "hinted" to Ambassador Muccio, as he had done before, that he would not run for re-election in May 1952. Complaining that "it was time someone else shouldered the heavy burdens," Rhee stated that he would feel no obligation to serve again. Muccio got the impression that Rhee hoped Muccio would urge him to run. The Ambassador comments that he has "invariably remained noncommittal."

Muccio also states that Rhee has urged the State Council (his cabinet) to "take action" on the constitutional amendments providing for a popular Presidential election and for a bi-cameral assembly. Passage of the former would greatly enhance Rhee's opportunities for re-election or for the election of a Rhee-picked candidate. [redacted]

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Comment: Under the constitution, the President is elected by the National Assembly, and in view of the friction between the President and the Assembly it is doubtful whether he would be given another term. On the other hand, it is equally doubtful whether Assembly action on constitutional amendments, which requires a two-thirds vote, could be obtained.

13. South Korean National Assembly recommends recall of ROK Minister to Japan: In the 17 October National Assembly session, it was recommended that Sihm Sung Mo, ex-Minister of War and present Ambassador to Japan, be recalled from his diplomatic post. Although Sihm's recall ostensibly was requested so that he might testify in the Kochang massacre court-martial, the chairman of the opposition political party--the Democratic Nationalist--stated that Sihm was "unfit" to be chief of the ROK mission in Japan and a member of the ROK delegation to the Korean-Japanese talks that began on 22 October. Ambassador Sihm was criticized by the ROK Foreign Minister during the course of the Assembly session for failing to comply with ROK Defense Ministry orders to return to Korea. [redacted]

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Comment: The court-martial trying military personnel charged with the Kochang massacre has been recessed for a considerable period to await Sihm's testimony. Although the degree of his involvement in the case is not believed great, he has aroused the ire of the National Assembly by refusing to obey "requests" to return to Korea.

14. JAPAN. Japanese-Korean talks off to bad start: The US Political Adviser in Tokyo reports that the formal Korean statement at the opening session of the Korea-Japan conference was so offensive to the Japanese that the

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latter are considering withdrawing from the conference. The statement contained several "ill-advised" references to the Japanese occupation of Korea, the tone of which was such that the Japanese might ask for a lengthy recess to reconsider the purpose of the conference and to prevent serious attacks against the Government during the current debates on the peace treaty ratification in the Diet. The Political Adviser urged the Japanese not to withdraw, since to do so would open Japan to serious charges of breach of good faith from Korea and other Asiatic nations who anticipate bilateral negotiations in the near future.

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Comment: The tendency of the Korean minority in Japan to demand a privileged position, in retaliation for their previous inferior status, has been a continuing source of friction between the Japanese Government and the Koreans in postwar Japan. Since Japan does not intend to grant Korea the status of a victor nation in the present negotiations, any attempt of the Koreans to gain concessions beyond those granted in the peace treaty will lead to further illwill between the two nations.

The current negotiations were arranged primarily for the purpose of settling the question of the nationality of Koreans resident in Japan, but the Koreans evidently hope to enlarge the scope of the conference to include the settlement of other outstanding problems.

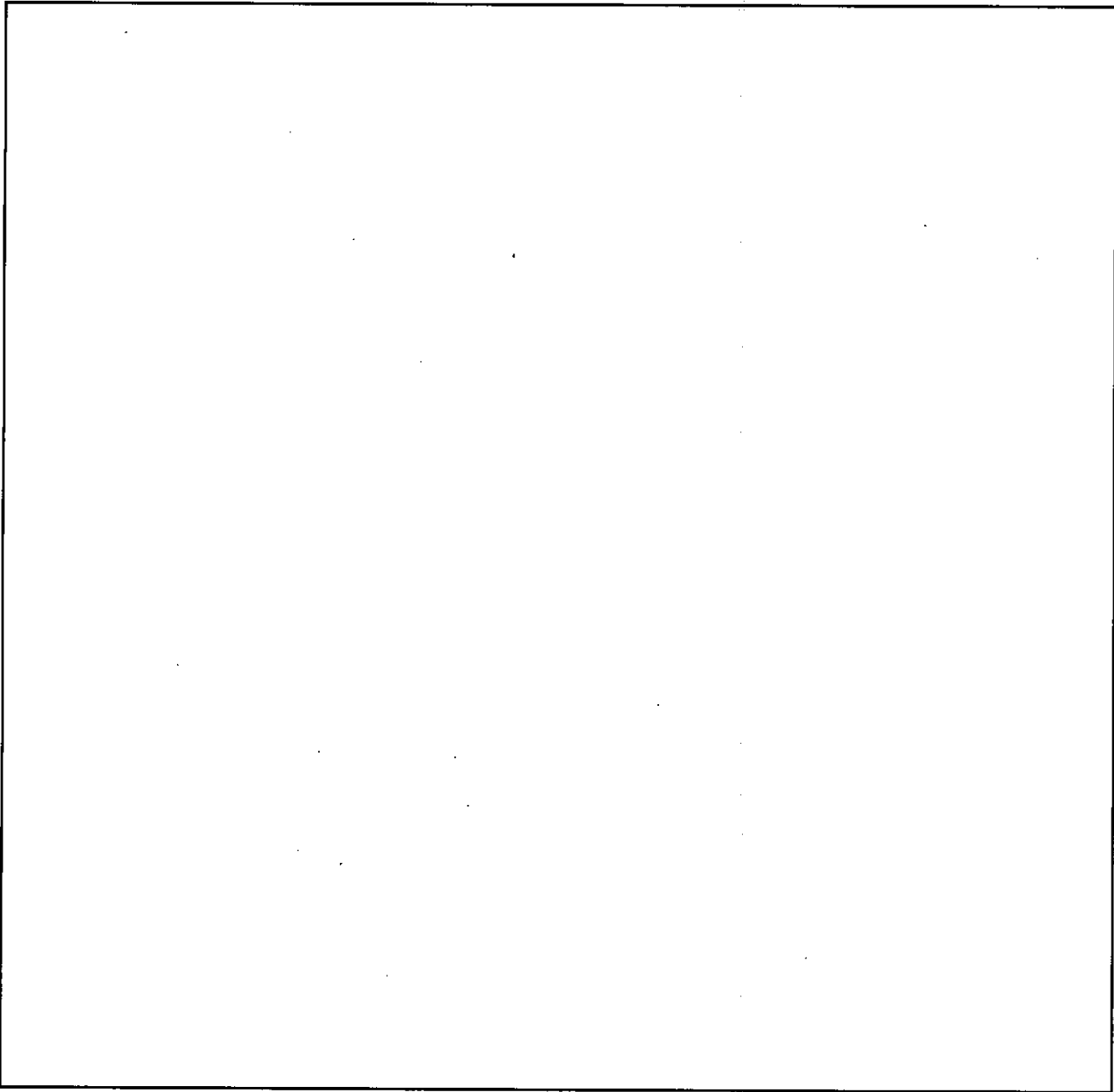
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SECTION 3 (WESTERN)

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25X1 3. ITALY. Italian surplus in European Payments Union inhibits industrial exports: [redacted] as a result of Italy's "heavy" European Payments Union surplus, the Italian Government's

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present licensing policy is to restrict the export of items not in the normal trade pattern with the country in question. RIV, the Italian manufacturer of ball bearings, reported, for instance, that it foresaw a possibility of further large increases in sales to the United Kingdom and France, but that it was encountering difficulties in getting government licenses for exports to these countries.

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Comment: Italy finds itself in an anomalous position, complaining of insufficient raw materials and orders to keep its large industrial establishment going, while at the same time enjoying a surplus in the European Payments Union.

ECA in Paris has requested a study of this situation to ascertain whether the Italian Government will take advantage of its creditor position to increase imports of raw materials and capital goods from the EPU monetary area or will continue to maintain that it cannot expand investments and defense programs because the "so-called raw materials shortage" would lead to an inflationary threat.

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4. Government examines its defense potential against possible Communist uprising: Recent threats of insurrection made in Parliament by Communist leader Togliatti to the effect that MDAP arms in Italy may one day be used against the US have caused the Italian Government to examine its internal defense forces. According to competent observers, a Communist revolt could succeed only if it were accompanied by the appearance of a hostile army at the border. Even in such an event it is believed that government forces could hold central and southern Italy until NATO aid arrived. These opinions are based on the size and efficiency of the police, the loyalty of the armed forces, and the unwillingness of most Italians to support an uprising.

Comment: US observers have long agreed that a Communist-inspired revolt could not succeed unless actively aided by outside intervention. They have also agreed that Italian defense against an invading force would consist mainly of delaying action. No official estimates are available to indicate to what extent Italy's defensive capabilities have improved during the past year.

5. SPAIN. Details of European fascist meeting reported: [redacted] the members of the fascist European Social Movement feel that the movement is making unsatisfactory progress. At the recent meeting in Spain they explored the ground for future action but arrived at no decisions. Among the twenty-two delegates present were two Spaniards, one a Falangist journalist, allegedly pro-Nazi during World War II,

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and the other an unidentified military officer. The next meeting, scheduled for spring 1952, may be held in Paris. [REDACTED]

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[REDACTED] 25X1

Comment: This is the first report on the European Social Movement since the September meeting in Spain. According to earlier reports, leaders of the movement had hoped to secure at that meeting a pledge of Falange cooperation from Franco. General Moscardo, hero of the Alcazar and a Falange National Delegate, was to have addressed the meeting.

6. UNITED KINGDOM. Conservative victory foreseen in general election: The US Embassy in London reports that "opinion still strongly favors a Conservative victory with a working majority" in the 25 October general election. Nevertheless, the latest Gallup poll shows that the Conservative margin over labor has fallen from 11 percent in late September to 4.5 percent in mid-October, with 10 percent of the people still undecided.

Observers agree that the election campaign has been relatively quiet, and attribute this to "a serious British electorate thinking hard about the issues." If the total vote is not high, the Embassy estimates that the Conservatives will benefit.

The cost of living and foreign affairs continue to be the main campaign issues. The adverse effect upon the Labor Party of the Iranian evacuation appears to have been partly offset by the government's firm stand on the Egyptian problem. Neither party has made the rearmament program or US-UK relations a vital campaign issue. [REDACTED]

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Comment: The figures of the generally reliable British Gallup poll at least show that, with the margin between the two major parties narrowing and with a substantial proportion of the electorate still claiming indecision, the outcome is far from certain.

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Approved For Release 2002/10/21 : CIA-RDP79T01146A000500090001-8

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