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SAMPLE ISSUE

OF

CIA WEEKLY REVIEW

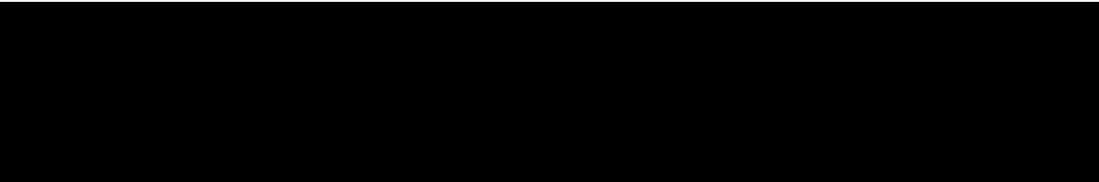

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INTERNATIONAL ORGANIZATIONS

GA retains critical attitude toward USSR

Speculation whether Soviet possession of the atom bomb would alter existing UN political alignments seems to have been resolved in the negative by recent roll calls in the GA. Concrete tests of UN reaction were recently provided by the bitter struggle between Yugoslavia and Czechoslovakia for the Eastern European SC seat and by the hotly disputed issues of observance of human rights in the Satellites and continuation of the controversial UN Korean Commission. In all three, the USSR suffered resounding defeats; in the human rights case, the majority vote was greater than last spring. So far, the USSR has found the going rougher in this GA than in any previous session. Neither acquisition of the A-bomb, nor Vishinsky's new-found cordiality seem to have made friends or influenced people at Lake Success. On the other hand, when the GA considers the problem of the A-bomb itself, it is certain that the fact alone that a second major power has acquired this weapon will exert new pressure for a solution.

Soviet propaganda technique turned against USSR

The Soviet device of utilizing international conferences as sounding boards for propaganda has been turned against the USSR very neatly by Yugoslavia, in a way proving the USSR a good teacher and Yugoslavia an apt pupil. The forum was the GA Legal Committee, which had before it the proposed Declaration of the Rights and Duties of States. Yugoslavia promptly offered 25 amendments, including some very pointed proposals on the duty of a state to respect the rights of other states, not to foment civil war in other nations, not to engage in slander campaigns or economic warfare against fellow UN members, etc. Poland tried to rescue the USSR from embarrassment by moving that the Declaration be referred to the member states--as a maneuver which would have stalled the Yugoslav motion indefinitely. The Greek representative was unable to refrain from expressing the hope that Yugoslavia would in the future observe the lofty principles for which it was contending and from regretting that such sentiments had not occurred to Yugoslavia two years ago.

Few people--and almost certainly not the Yugoslav representatives--believe either that the proposed amendments improve the draft declaration or that they have the slightest chance of being approved. But the Yugoslavs are as indifferent to these considerations as the USSR has been on similar occasions in the past. They will have attained their sole objective--a world-wide audience for denunciations of their former ally.

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NOTED IN BRIEF

Syria Damascena

The Syrian newspaper AL-NASR reports that US Chief of Staff Omar Bradley is in reality an Arab born in Damascus under the name of UMAR BIN HASAN AL-BARRAD. Following out the plot of "HMS Pinafore," (thus cocking an additional snit at annexation) this esteemed contemporary relates that the infant UMAR was kidnapped by a gypsy woman (possibly named AL BUTTAKUP) who sold him to some American tourists then visiting the Middle East.

Outlook in the Greek case.

Prospects for settling the Greek case during the current GA have dimmed with failure of the conciliation talks. The uncompromising Soviet position during the private discussions offers little hope for significant concessions in public UN debate. Therefore, the only course open to the GA will be to continue UN machinery in Greece and again call upon the parties to settle their dispute by peaceful means. Actual progress during this session will be limited to facilitating a rapprochement between the Greeks and Yugoslavs.

ECATF lineup

Although the 13-nation Economic Commission for Asia and the Far East accepted Vietnam and the Republic of Korea as associate members and rejected the applications of Vietnam and Communist North Korea, Far Eastern fear of the USSR and apprehension as to the future role of Communist China were evident in the commission vote. In the case of Vietnam and Vietnam, the favorable votes were cast almost exclusively by Western or Western-oriented countries--the US, UK, France, Netherlands, Australia, New Zealand and China. On the other hand, India favored the admission of both, while the Philippines, Thailand, and Burma abstained and Pakistan absented itself. Only the Philippines and Thailand voted with the Western-oriented states against admission of North Korea.

Arab labor divided on cooperation with Israeli unions

The Egyptian, Syrian, and Lebanese organizations hold divergent views regarding collaboration with the Israeli national labor organization, Histadruth, in the projected Free Trade Union international. The Egyptian

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workers, although not opposed to cooperation on an international level, have refrained from public support of Histadruth because of their government's opposition to Israel. The Syrian unions strongly oppose any collaboration. The Lebanese unions, in contrast, are prepared to work alongside the Israeli group if it disaffiliates from the WFTU and eliminates its Communist elements. In any case, Histadruth is in a difficult position internationally. Not wishing to offend the USSR because of obligations to it for past aid and because of the Jewish refugees in Eastern Europe, it will probably try to maintain relations both with WFTU and the Free Trade Union International.



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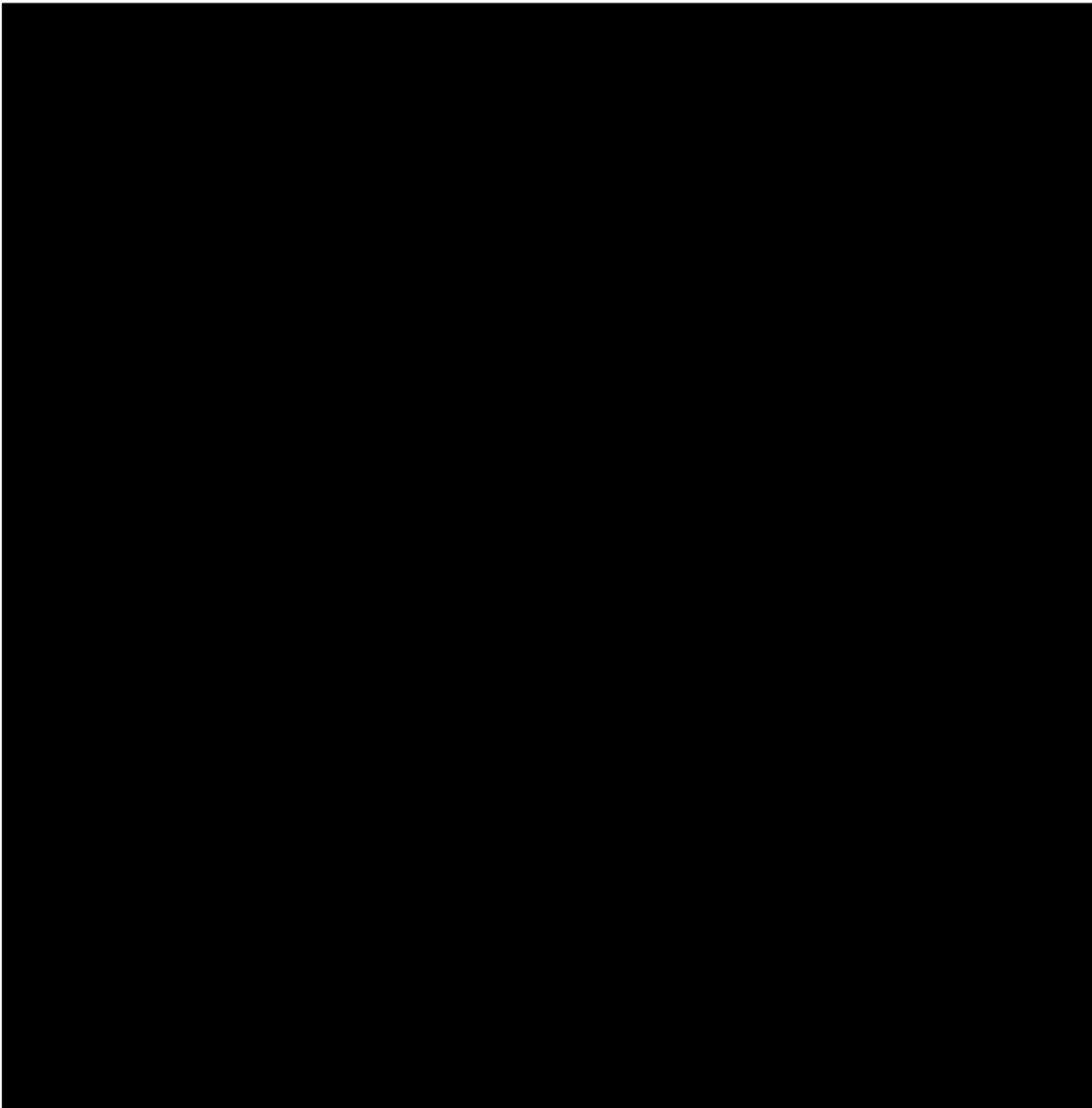
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IRELAND

Costello Government faces difficult tests in new Dail session

Although there is a possibility of its breaking up on some controversial issue, particularly social welfare, Prime Minister Costello's "inter-party Government" will probably survive the crucial

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IRELAND

Parliamentary session commencing 26 October. A return of De Valera would not be as significant for domestic affairs as for foreign affairs, where Ireland could then be expected to be more isolationist and neutrality-minded. However, as the five parties and the independent deputies supporting the Government were brought together not by common policies and objectives but by common opposition to De Valera, it is in controversial domestic issues that the greatest dangers for the Government lie. The next Dail session will probably be dominated by such issues, which are appropriate for the Opposition's favorite tactic of attempting to exploit the divergences that have inevitably developed within the paradoxical coalition of Right and Left.

The most dangerous issue from the Government's point of view is social welfare. The Labor Party is demanding, and has been promised, a codification and expansion of social welfare legislation, but the conservative Minister for Finance is resisting. In a background of an expected rise in the cost of living and renewed demands for wage increases, the drive for an expanded social security program has an especial urgency. A failure to develop an acceptable program would split the coalition, and the Government cannot much longer postpone making its proposals. The odds are that it will somehow manage to agree on a program acceptable to all of its present supporters.

DENMARK

Parliamentary crisis temporarily averted

The minority Social Democratic Government averted an immediate parliamentary crisis by attaining, after prolonged debate, a vote of confidence. The solution is only temporary, and general elections may yet be held, for the Government's continuance in office rests solely on the fact that the majority of the Moderate Liberal Party, the strongest opposition party, abstained from voting. The combined votes of the other opposition parties (Conservative, Justice, and Communist) were insufficient to unseat the government.

Although clearly unwilling at this moment to unseat the Government and thus provoke a general election, the Moderate Liberals cannot afford to reverse their present position by giving full support to the Government. Their position is delicate since for the time being, at least, they must continue to attack the Government but not so strongly as to precipitate elections. Abstention from the vote of confidence was a strategic retreat from a politically untenable position.

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DENMARK

The Social Democratic Government, although it could face an election with reasonable confidence that it would be returned to office, does not at present wish to bear the responsibility for precipitating an election knowing that it would then be exposed to the opposition's charges that it had refused to wait until debates on specific legislative proposals had demonstrated whether a basis for continued cooperation existed.

To date, only the position of the Communists in the Rigsdag appears to be clarified. Until early 1949 the Communists supported the Government on most domestic issues, and the Government depended on Communist votes, as well as on those of the Radical Liberal Party, to assure its Rigsdag majority. Early in 1949, however, the Communists voted against a Government finance measure and since that time there has been some speculation as to their future course of action. Their vote against the Government in this instance seems to indicate that in the future the Communists will obstruct rather than support the Social Democratic Government.

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FRANCE

De Gaulle's Rally of the French People losing ground

General de Gaulle's inability to capitalize on the recent Government crisis makes clear that his influence upon the political situation has declined in 1949 and is not likely to regain critical importance unless the Communists should again threaten economic progress or political stability. His Rally of the French People (RPF) probably reached peaks of strength in the municipal elections of October 1947 and the Council of the Republic (Senate) elections of November 1948. In the local cantonal elections of March 1949, however, after the Communist-inspired strikes of both 1947 and 1948 had been broken, the RPF's share of the popular vote dropped to about 25%, from a maximum of about 39% in the municipal elections of 1947. This October when the Communist strike plans failed to develop and the middle-of-the-road Third Force coalition which De Gaulle challenges reached its weakest point, the RPF was unable to increase its popular appeal.

Four special municipal elections held in France on 16 October, furthermore, resulted in losses for Gaullists as well as Communists, while the Socialists and Moderate Right gained. Two of these elections were held in the Paris suburbs of Pantin and Sceaux, one at Rouen, and one in the small town of Saint-Chaumas. The Socialists, Radical Socialists (Moderates), and Independents gained from one to four councillors in all four municipalities, while the RPF lost more seats than the Communists.

New Dollar Export Board to promote exports to dollar area

Formation of a Dollar Export Board, soon to be announced in France, is an effort to take advantage of the promotional opportunities afforded by devaluation, and hence eventually to contribute to a reduction of France's critical dollar trade deficit. Although the trade deficit with the dollar area as a whole increased only 11% over 1948 in the first seven months of 1949 (from \$39.9 to 49.5 million), the meager exports to the US--the greatest potential dollar market--declined over 15% in the same period (\$5.2 to 4.4 million).

George Villiers, head of the Association of French Employers (CNPF), who will be President of the new Board, has outlined a plan for promoting exports to the dollar area. A small group of top US buyers representing important merchandising interests would meet with

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FRANCE

representatives of appropriate manufacturing interests in France. The US group would be in a position to specify items which might be purchased in large lots, and the French would indicate present availabilities and probable prices. The French could then get together under Villiers' guidance and arrange production specialization necessary for the desired volume. Villiers hopes that those French prices which may be found too high can be reduced by large-scale production and increased efficiency. Villiers' plan, however, is at best a long-range one and will furthermore be hampered during the coming twelve months by the prospective decline of French investment in capital goods and the slowing up of production gains, partly as a result of the substantial cut in MCA aid.

FRENCH AND SPANISH NORTH AND WEST AFRICA

Communist propaganda proposes joint nationalist-Communist activity

A novel form of Communist operation in French overseas territories is now in evidence. Presumably in order to hasten rapprochement between the intractable nationalists and the local Communist Parties, several Communist members of the Assembly of the French Union have just gone into action in North and West Africa. They are propagating the thesis that, jointly, nationalists and Communists can better combat the approaching "menace" of US economic penetration (which invariably leads to political hegemony) of French overseas territories by means of the "insidious" Point Four Program. Benefiting by parliamentary immunity and travelling at government expense, these envoys of subversion enjoy considerable prestige and freedom of movement. Their position will add weight to their disruptive views, effectively convincing certain nationalist elements, infusing new life into the more listless members of local Communist Parties, and distorting the motives of the Point Four Program.

BELGIUM

"Popular consultation" bill on return of Leopold

The rather unstable Catholic-Liberal coalition in Belgium probably will not fall in the near future despite differences over social and economic policies and the royal question. The reconvened parliament gave a vote of confidence to the Government's financial policy, indicating that the Catholics probably will accept Liberal

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BELGIUM

economic plans in exchange for Liberal support of a "popular consultation" on King Leopold. The Catholic members of the Senate, supported by most of the Liberal Senators, passed a bill providing for a "popular consultation," although a few Liberal members joined with the Socialist and Communist members to dissent. Passage of the bill by the Chamber of Deputies is also likely, although opposition by Liberal, Socialist, and Communist Party members will be stronger. Liberal support for Leopold's return, after the results of the "popular consultation" are known, may not be forthcoming, however, unless he receives at least a majority vote in Flanders, Wallonia, and Brussels. In any event, controversy over the royal question will provoke the most serious test to date of the stability of the Government, will delay decisions on important economic problems, and may solidify the position of the Socialists as a strong opposition force.

ITALY

Postponement of unification of non-Communist labor forces likely

Growing opposition will probably prevent unification in Italy of the non-Communist labor forces this year, even if the unification congress scheduled for 8 November is held. This congress is sponsored by the Christian Democrat-sponsored Free General Confederation of Workers (CGIL) and the heads of the moderate Socialist-Republican Italian Federation of Labor (FIL). In recent weeks, increasing opposition to early unification has been shown by the following groups: (1) certain prominent moderate Socialist political and labor leaders and, presumably, their followers; (2) the majority of the leaders of the Republican Party; and (3) various leaders of the independent unions outside the Communist-dominated General Labor Confederation (CGIL).

The opposition of the first two groups is based primarily on the recognition that a merger of the CGIL and the FIL at their present membership levels (CGIL is approximately three times the size of the FIL with its 400-500,000 members) would mean a complete absorption of the smaller organizations. The leaders of the independent unions, whose total membership is at least as large as that of the FIL, distrust the political affiliations of the heads of both these organizations. The independents insist that their autonomous unions should initiate and direct labor unification because they are not handicapped by political ties, and are concerned solely with trade union problems.



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ITALY

Postponement of unification would assure fuller exploitation of membership potentialities by both the ICGIL and the FIL. The latter's appeal to non-Communist elements who are now or were formerly in the CGIL and to unorganized workers who find either Communist or Catholic domination unpalatable would then be increased. As a result, the FIL might participate more effectively at a later date in the formation of an organization strong enough to break the Communist hold on the Italian labor movement. Besides, more time is required to secure the collaboration of the important independent unions in any new labor organization.

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## E A S T E R N E U R O P E

## SOVIET UNION

USSR opens negotiations between local border commanders to forestall Iranian Retaliatory Acts

The Soviet-Iranian dispute over the return of fifteen Iranian soldiers, apparently being held as hostages by the USSR, may be resolved by negotiations reportedly underway between the Iranian and Soviet border commanders in the area where the Iranians were seized. Following Iranian threats to close all Soviet establishments in Iran, including the Soviet hospital and VOKS (Soviet Cultural Agency), if the Iranian soldiers were not returned promptly, the USSR has replaced its entire personnel complement along the border east of the Caspian sea. In a conference between the new Soviet border commander and the Iranian border commander the Soviet officer reportedly promised to consider the return of the Iranian soldiers. The Iranian government, which has accepted this latest Soviet move as an indication that the USSR intends to return the soldiers soon, has not implemented its threats.

The USSR's inauguration of negotiations between the local border commanders is probably prompted by a desire to keep the dispute localized as well as to gain time in its efforts to effect the return of two Soviet defectors, for whom the Iranian soldiers are being held as hostages. Moreover, since the Soviet agencies in Iran are especially important as centers of Soviet espionage and subversion, the USSR will probably avoid aggravating the current dispute to the point that the Iranian government will act to close these establishments.

2 October set for first international post-war communist peace demonstration

"International Peace Day," planned for 2 October, is the first coordinated, world-wide peace demonstration staged by the Communists since the end of the war. Possibly timed to coincide with the UN General Assembly session, the occasion will provide the Communists with a fresh opportunity to point to the USSR as the sole champion of peace. The underlying purpose of this Soviet peace strategy is to strengthen national Communist parties by enlisting the support of as many non-Communists as possible and to induce the masses to withhold support from their governments.

Propaganda for peace is by no means a new Communist tactic. At the Sixth World Congress of the Communist International (1928) it was resolved that all Communist Parties would engage in "political, organizational, agitational and propagandistic work in preparation for

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### SOVIET UNION

International Day for the fight against imperialist war and defense of the Soviet." Since then, yearly mass demonstrations for peace were organized, beginning 1 August 1929 and continuing until the outbreak of World War II.

While the anticipated propaganda themes have already been worn threadbare, the Communists probably hope, by the resumption of their pre-war tactic of simultaneous mass demonstrations, to give the appearance of wider support and more enthusiasm for the Soviet "peace" line than was exhibited at the recent peace congresses in Wroclaw, Paris, New York and Mexico City.

#### USSR to get a larger share from Swedish production

Under the 1946 1 billion kronor credit agreement the Soviet Purchasing Commission in Sweden has recently placed orders with the Swedish shipyards for fishing boats and sailing freighters, valued at 40 million kronor.

In view of past Soviet reluctance to place orders because of high Swedish prices, it is probable that the Soviets had advance information of the sterling area devaluation plan, since the orders were placed at the former Swedish prices. As these contracts do not involve current exchange of goods, the Soviets have taken advantage of western currency revision to obtain the contracts at 30% savings.

During 1948 Swedish deliveries under the credit account were about 40 million kronor. Earlier in 1949 Swedish officials estimated that, by the end of 1951, the Soviets would have received only about 400 million kronor worth of Swedish goods. Up to now only 174 million kronor have been utilized, and total Soviet commitments to date amount to 360 million kronor.

The Swedish deliveries are likely to be much more extensive during the next two years, since some important industries are now reconsidering certain Soviet contracts which had previously been rejected. While the USSR is utilizing the temporary opportunity of lower exchange value of the krona, Swedish industrialists apparently have increased their interest in Soviet contracts in order to hedge against possible contraction of Western markets.

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SOVIET UNION

Sovzone of Germany dumping below-market-priced goods on West Germany markets

Previous reliable information indicated that the Soviet Union and its Satellites were studying the possibilities of dumping agricultural and surplus chemical products on markets of Western Europe. One of the reasons advanced as possible Soviet motive for such a course of action was: "By underselling Western competitors the Soviet bloc can obtain dollars for the purchase of much-needed machinery from the West."

According to recent information, the Soviet zone is now dumping large quantities of household goods, chemicals, paper, textiles and glass on West German markets at prices believed to be below real production costs in order to obtain West marks for industrial purchases from West Germany.

It is not surprising that the Kremlin should resort to such action as a temporary expedient to secure the necessary Western currencies for the purchases of Western industrial products which are in short supply in the East, and sporadic activity of this type should logically be expected in the future.

YUGOSLAVIA

Tito's position would be strengthened by Security Council seat

At the current UN General Assembly session Yugoslavia has publicly asserted its independence of Moscow not only by deserting the Soviet bloc in voting on some East-West issues, but, even more significantly, by seeking a seat on the UN Security Council. If successful, Yugoslav membership on the Security Council would strengthen Tito's defiance of the USSR because it would: (1) afford Yugoslavia a strategic position for directing UN attention to dangerous Soviet pressure, thus providing an additional deterrent against Soviet aggression; (2) increase the internal and international prestige of the Tito regime, (3) provide Tito with a more impressive rostrum from which to assert the ideological superiority of Yugoslav Communism to Stalinism, thus encouraging the development of Titoist tendencies in Communist parties throughout the world and notably in the Far East.

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## YUGOSLAVIA

Soviet reaction to the election of Yugoslavia as a Security Council replacement for the Ukraine would be extremely antagonistic, not only because of the loss of a seat traditionally reserved for a Soviet-bloc member but even more because of the granting of that seat to the Kremlin's arch-enemy. The USSR would utilize this issue as proof that Yugoslavia is now operating as a tool of the Western Powers against the People's Democracies.

Yugoslavia as a member of the Security Council would have some difficulty in following an independent line in the Security Council. Because Tito is attempting to be the true interpreter of Communism and has to compete with the USSR in support of Communist interests, Yugoslavia could be expected to vote often with the USSR against the West. Particularly, Yugoslavia would not side with the "capitalist" West on issues involving western colonialism in the Near and Far East. On many East-West issues, however, Yugoslavia would probably abstain rather than antagonize the Western Powers. But where Soviet and Yugoslav interests clashed, as in Trieste or possibly Greece, Yugoslavia would undoubtedly vote against the USSR. In general, Yugoslavia would probably adopt a policy of supporting the small nations against the "imperialism" of the great powers, both East and West.

## CZECHOSLAVAKIA

### Czech-Yugoslav trade continues

Czechoslovakia's trade plans for August and September reportedly include an exchange of certain essential goods with Yugoslavia. In return for 20,000 tons of pyrites, 5 tons of mercury, 1,000 tons of hemp, and 350 tons of gypsum, Czechoslovakia is to supply Yugoslavia with 24,500 tons coke, 100 tons cable, and minor quantities of industrial equipment believed designed expressly to meet Yugoslav specifications.

This proposed interchange is small in comparison with the former volume of trade and may be a temporary expediency for both parties. The cessation of Czech-Yugoslav trade in June 1949 has left Czechoslovakia critically short of pyrites and mercury and Yugoslavia with an inadequate supply of coke. Therefore, despite the widening rift between Tito and the Kremlin, neither the Czechs nor the Yugoslavs appears disposed to let their political differences completely preclude the meeting of immediate economic requirements. Moreover, it is possible that for political reasons as well neither side is yet willing to sever completely its relations with the other.

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HUNGARY

Difficulties foreseen in Hungary's ambitious Five-Year-Plan

The current Hungarian Three-Year-Plan will be completed, it is officially claimed, seven months ahead of schedule, and will be replaced by a broad Five-Year-Plan for 1950-1954.

The Three-Year-Plan was essentially a reconstructive program and was to lay the foundation for industrial expansion. As such, the plan has reached its goals. In general, production has attained prewar levels.

Objectives of the Five-Year-Plan aim at a radical transformation of the national economy. It is planned that the value of industrial production will exceed that of agriculture. Of the total 35 billion forints to be invested by the end of 1954, 17 billion will go for industry and 6 billion for agriculture.

The Five-Year-Plan aims predominantly at the development of heavy industry, with 20 new plants scheduled for the iron and machine industry. By 1954, the iron and machine industry is to account for 34 percent of all industrial production, as compared with 20 percent in 1938, and electric energy production, for 4.5 percent. These proportions are plausible if the industrial goals are attained. To realize this goal a total of 900,000 new industrial workers would be recruited, most of whom would, initially, be poorly qualified.

Transportation facilities must be expanded along with industry. By the end of 1954, the communication system is to exceed the 1938 level by 65 percent. This goal appears possible since much modernization has already taken place in the rail lines and in motor transport. However, difficulties are being experienced in the production of locomotives, rail cars, and river vessels, but, with expected increases in supplies and skilled labor, these may be overcome. The greatest difficulties will probably be experienced in highway traffic expansion.

In the agricultural sector, the Five-Year-Plan calls for an increase in livestock production, an increase in the average yield of wheat by 20 percent, sugar beets by 30 percent and alfalfa by approximately 40 percent. The fulfillment of these goals is dependent upon success of land reclamation and irrigation projects, use of agricultural machinery, fertilizers and high quality seed.

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EDUCAEX

Hungarian industry shows increasing signs of deterioration

Signs of industrial economic deterioration in Hungary have been increasing within the past few weeks. The Hungarian Press, during August and September has stepped up campaigns of criticism attacking the entire industrial personnel, from managers to unskilled laborers. The instances cited have serious connotations when reviewed in context with the self-glorifying habits of the Communist press. Criticisms have included instances of gross inefficiency, production of defective goods, lower unit production and absenteeism among workers. Instances of such deficiencies have been cited as occurring in the model Hoffherr-Schrantz factory (which is officially producing tractors and has been cited in unconfirmed intelligence reports as participating in war production), and in the Ganz Waggon factory, another model Hungarian Communist enterprise. In local speeches Deputy Prime Minister Rakosi has spoken discreetly of such failures.

The report of the Communist Party Conference for Greater Budapest (60% of Hungarian industry is concentrated in this area) also complains of the many failures. In this report, productivity of the manufacturing industry for the period February to July 1949 is admitted to have fallen 17%. In the Manfred Weiss iron factory, the percentage of waste had risen from 10% to 24%; another factory was reported to have had 200 absentees in one day. Instances of low labor morals were highlighted by a report that sick relief had been given to workers who were actually suffering from self-inflicted wounds.

In another reliable report the vicious trend of deterioration is described in a more specific case history. In this case, an expensive turbogenerator was designed for production in the Ganz Electric factory by a non-Communist, old-regime, factory engineer. With the ascent of the Communist engineers, the original plans were discarded and production completed by the latter. In the design and construction of the unit "Socialist Principles" were employed in "economizing on materials and manhours."

Trials for the new unit were begun in April 1949. As a result of the faulty design of the unit, the electric wiring was burned out and the trial was a failure. The same process was repeated twice. The unit now is locked away in a deserted shed at the electric factory.

With the building of such units, the power program will fail. With the failure of badly needed power output, industrial production will continue to decline, as well as suffer from wasteful use of the existing resources.

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### HUNGARY

With the exception of the livestock program these agricultural targets seem overly optimistic, since agricultural goals are in a large measure dependent on success of the industrial program.

It isn't likely that the Hungarian economy can make such strides in all sectors. The expansion planned for industry will mean setbacks in other areas of production. USSR assistance is imperative. Otherwise Hungary's Five-Year-Plan will remain largely unfulfilled.

#### Widespread repercussions of Rajk trial

The Rajk trial, which recently ended with death sentences for the principal defendants, will have repercussions not only in Eastern Europe but also among Communist and fellow travelling groups everywhere. Testimony given by the accused during the trial has included deposition that Tito-sponsored anti-Stalinist plots exist in Czechoslovakia and Poland similar to the one in Hungary and that uncovered earlier in Albania. Extensive publicity has been given throughout Eastern Europe to these accusations with emphasis on the warning that the Eastern European parties must be "vigilant against infiltration of enemy agents." By calling Rajk and his followers agents of Western imperialism, the Cominformists have tried to camouflage the split in the party; however Pravda frankly admitted that nationalist deviationism is the crime.

The Cominform propaganda buildup may be the forerunner of similar purges in Poland and Czechoslovakia, and most certainly will result in a further tightening of party discipline and increased emphasis on ideological education throughout the Satellites. With a purge long overdue in the heterogeneous Czech Party, the Rajk affair may instigate a widespread screening of its 2,300,000 members, which would probably culminate in a shakeup on the top level. Jakob Berman, a member of the Polish Communist Party politburo, warned recently that although an attempt at deviation had already been frustrated by bringing Gomulka into line, the danger still had to be dealt with in the oversized Party. In Hungary, itself, the Rajk affair has provoked another of the series of purges, begun a year ago, aimed at reducing the party from over a million members to 250,000.

There will also be longer-term consequences of the Rajk affair on the effectiveness of Soviet propaganda and ideological appeal in the general picture of World Communism. A similar phenomenon, the Moscow trials of 1936-1938, temporarily turned numbers of left-wing intellectuals against the Kremlin. After the furor had died down,

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## HUNGARY

however, many returned to the party line, especially after the German attack on the USSR. The same sort of confusion and disillusionment, evoked initially by the Kremlin's conduct toward Tito, but brought into sharp focus by the Rajk trial, is now evident in Communist, fellow-traveller and leftist intellectual circles. The essential differences between the 1938 situation and that of today, however, are (1) that there is now in the person of Tito a leader of a Communist state who who is extremely adept in pointing out the contradictions between Soviet statements and Soviet behavior and (2) Soviet imperialism against ostensibly independent states is involved in the current purges whereas the 1938 affair did not involve this issue. Yugoslav propaganda, now making capital of the Rajk trial, may be expected continually to revert to the trial as an example of Soviet duplicity and aggression. The series of nationalist trials in Eastern Europe, of which the Rajk affair apparently forms a part, indicates the inability of the Cominformists to solve the underlying problem.

## BULGARIA

Kostov's trial to hit Satellite economic nationalism

Featuring economic rather than political deviationism, the trial of Traicho Kostov, Bulgaria's former economic administrator and second-ranking Communist, will form another in the series of trials presently being staged in the satellites to demonstrate the futility of any satellite Communist following a nationalist policy.

Even without falsification of the record the Government will be able to present abundant evidence that the original charge made against Kostov--that he had engaged in anti-Soviet activity--is true. At the time of the original accusation in April 1949, the only hint of Kostov's anti-Soviet attitude was a report that a speech he had made to the fifth Party Congress in December 1948 had been altered at the last minute to stress the indispensability of the USSR to Bulgarian economic development, as well as the necessity of eventually nationalizing agriculture. A hint of Kostov's leanings was given by the revelation that he had invoked the State Secrets Law against Soviet economic representatives. More recently it has been credibly reported that Kostov attempted to use information gathered by a trade mission in 1947 as a basis for the thesis, advanced at the December 1948 Party Congress, that Bulgaria would profit more from trade with the other satellites than with the USSR.

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BULGARIA

Inasmuch as the revelation that Kostov sought to liberate Bulgaria's economy from the USSR would make him a local hero, the state will doubtless attempt to prove that his real purpose was to deliver Bulgaria, as Tito did Yugoslavia, to the imperialist West. Available reports indicate that Bulgarian Cominformists have already begun preparing evidence to substantiate such charges.

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N E A R E A S T - A F R I C A

GENERAL

Opposition to Syrian-Iraqi union

Increasing opposition from various quarters to union between Syria and Iraq makes it unlikely that the scheme will be adopted at this time. Within Syria, the Ikhwan al-Muslimin (the Moslem Brothers), the Arab Resurrection Party, the Communists, and the Association of Ulema (religious leaders) look upon the proposed union as a threat to Syrian sovereignty. Certain Syrian Army officers, moreover, have taken it upon themselves to inform the interim government that it does not have the legal right to make commitments now. Strong objection is also felt to making Syria a monarchy or to extending to Syria the Anglo-Iraqi treaty of 1930, and there even appears to be a serious split within the cabinet on the subject. If the plan does not founder on the opposition within Syria itself, it still must contend with the formidable objections of other Arab countries. Jordan, Saudi Arabia, Egypt, and Lebanon view the proposal as a threat to their respective ambitions or interests, and all of these states will attempt to undermine the plan. It thus appears that divisive tendencies within the Arab world will again prove stronger than centripetal forces and will necessitate postponement of this step toward unity—even the union of only two states.

Meanwhile, Shukri Qawatli, former President of Syria, and Jamil Mardam, Prime Minister, both ousted from office by Zaim, are in Egypt. Both men were long connected with the Syrian Republic and still command sizable support in dissident political and even military circles. As Syrian opposition to union with Iraq grows, these two figures may possibly attempt to take advantage of the unstable political atmosphere to assume an active role once more in Syrian affairs.

G R E E K

Papagos and the premiership

Greek political circles have recently become increasingly agitated over the possibility that the almost unprecedented prestige which Commander in Chief Papagos now enjoys may serve as a springboard for the ambitions of his friend and political mentor, Spyros Markezinis, who aspires to a dominant political role. Since he was

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GREECE

eusted from the cabinet last April, Markezinis has taken pains to strengthen his ties with influential segments of the center and moderate right and to maintain his close personal relationship with Papagos and the King. His recent suggestion that Papagos be drafted to head the non-political "service" government traditionally established prior to national elections, and that the constitutional tenure of this government be extended from forty-five days to nine months, evidently represents his bid for political power. Although Papagos himself is a man of very high principles and apparently without political ambitions, his strong sense of discipline and his tendency to follow Markezinis' political advice might lead him not only to accept the responsibility of the premiership but also to join in efforts to strengthen the executive arm at the expense of the parliament.

The selection of Papagos, now elevated to the exalted rank of marshal, will be difficult to block, in view of the great popularity his military success has given him. However, a personal feud between Markezinis and Populist leader Tsaldaris, as well as a general fear in political circles of Markezinis' pronounced ability and driving ambition, will prompt some opposition to any move to draft Papagos. The result may be the selection of a less popular but also less controversial figure, such as the present non-political Premier, Diomedes. The question of a service government will probably assume increasing importance during the winter, inasmuch as the elections are likely to be scheduled for early next spring.

JORDAN

Abdullah and Arab Palestine

The formal incorporation of Arab Palestine into Jordan will probably be proclaimed during the next few months. King Abdullah's natural keenness for formal annexation has been whetted by rumors of Syrian-Iraqi union, and he recently made a good-will tour among his subjects-to-be. For all practical administrative purposes, Arab Palestine is already as much a part of Jordan as the areas of Palestine occupied by the Israelis are a part of Israel. Until annexation becomes official, however, various anti-Mashimite groups in Palestine will continue to agitate against the scheme although their inability to work together and their weakness before Jordan's Arab Legion make local opposition a negligible factor. The other Arab states now

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JORDAN

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now appear resigned to annexation. [REDACTED]

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Jordan. Annexation under such circumstances would enhance Abdullah's prestige and would greatly increase the security of the Palestinian Arabs.

AFGHANISTAN

Difficult relations with Pakistan

The Government of Pakistan is adopting a hard attitude toward Afghanistan, having concluded that any conciliatory or cooperative gestures are ineffective and are viewed as evidence of weakness by the Afghans. Pakistan's recent curtailment of freight rebates on petroleum products bound for Afghanistan may be only the first manifestation of this attitude. The GOP apparently intends to fulfill strictly all treaty obligations with regard to the passage of goods through Pakistan and otherwise to maintain a severely correct position in its relations with Afghanistan. It is believed, however, that the GOP also intends to refuse any favors the Afghan Government may now ask of it and to discontinue any concessions not legally required as in the case of transportation rebates. This attitude is reportedly based on the conviction that only thus can the Afghan Government be made to realize the desirability of moderation and collaboration with respect to the tribal disputes and other matters of disagreement.

Afghanistan's land-locked position, its dependence on Pakistan for normal trade channels, and the current Afghan financial crisis are such that Pakistan may be able to impose economic pressures of a sort to force Afghanistan to adopt a more conciliatory attitude. A recent offer by the Afghan Foreign Minister of "unconditional negotiation" of Afghan-Pakistan disagreements may be evidence that abolition of the railway concession rates has already had a sobering effect upon the Afghans. However, as the Afghans have failed to define their meaning of "unconditional" and as the GOP, though willing to negotiate on matters pertaining to the economic development of the tribal area and on matters of internal tribal administration, will not negotiate on the status of the tribal area, the offer may come to nothing. Furthermore, the danger exists that an intensification of economic pressures, if due in part to actions by Pakistan, may result in further intransigence toward Pakistan on the Afghans' part, with increased retaliation by the Pakistanis resulting in a serious curtailment of Afghanistan's outlets through Pakistan.

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AFGHANISTAN

The Indian subcontinent has long been what might be termed the front door to Afghanistan, and thus Afghanistan's back has been to Russia. If the Afghans feel that the front door is closed, they may turn more and more toward the USSR for the sake of economic relief, accepting as a calculated risk the possibility of drastic political developments resulting therefrom. In the meantime, a much-needed loan from the Export-Import Bank remains unauthorized, despite the importance of that loan to Afghan-US relations.

NOTED IN BRIEF

Arab-Israeli peace talks under consideration

The feasibility of holding direct Arab-Israeli peace talks through the medium of the Mixed Armistice Commission is under consideration by General Riley, who is concerned over the impermanence of current armistice terms. He believes that de facto agreements on a wide range of relatively minor subjects might well lead to permanent settlement of the basic issues. Moreover, there are indications that Egypt and Jordan may be giving ear to Israel's overtures for direct negotiations. Israel's adamant stand on such matters as refugees and territorial boundaries, however, suggests that Jordan and Egypt would gain little from participating in Israeli-sponsored direct negotiations.

Proposed Saudi Arabian loan to Syria

Saudi Arabia's proposed \$6 million loan to Syria, for the purpose of cementing relations with "the blood brother country," will not be concluded. The Saudi Government apparently believes charity begins at home and has dipped into the allocated funds to the extent of \$5 million in order to meet its own obligations. By improving its immediate financial position to the detriment of Syria's, Saudi Arabia has as usual spent in advance an important source of income. The \$6 million, borrowed from the Banque de l'Indo-Chine, was guaranteed by an off-shore oil rental of \$2 million per year. This source of income will now be lost to Saudi Arabia until the end of 1951.

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NOTED IN BRIEF

Israel alleges mistreatment Iraqi Jews

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Iraqi Jews have been discriminated against for centuries, but there appears to be little evidence to support the Israeli claim that some 2,000 Jews in Iraq have recently been arrested or placed in concentration camps. During the Palestine troubles, the Iraqi Government has dealt harshly with certain Jewish individuals accused of Communist or Zionist activity, but in general it has exerted itself to protect Iraq's Jews from mob action. Israel's allegations, which may be officially submitted to the UN in the near future, are probably [redacted] which will come before the UN when the Economic Survey Mission submits a preliminary report about 10 November.

Majlis elections marked by disorders

Elections for the new (XVI) Majlis have been marked by some scattered disorders and demonstrations against alleged government interference. A contest between Sunni and Shia factions erupted into violence in the south, and in Tehran a small oppositionist group conducted a determined but unsuccessful protest against "rigged elections" before the Shah. Nevertheless, reports indicate that the government is interfering less in the elections than ever before. Indeed, the very fact that demonstrations are being permitted suggests a certain willingness on the part of the government to accept "free" elections and their trappings.

First shipment Soviet wheat in Iran

The first shipment of Soviet wheat to Iran arrived in the northern border area at Julfa on 20 October, according to the Iranian press. As additional shipments are received, the preservation of internal security in Azerbaijan, which was beginning to be threatened in the frontier areas by acute food shortages, should become less of a problem for the Iranian authorities.

NOTED IN BRIEF

UN subcommittee plan for Libya

The UN political subcommittee's plan for Libya, providing for ultimate independence and membership in the UN after a period of administration under a UN high commissioner assisted by a multi-nation advisory council, pleases the Arabs and appeases the Italians. British authorities in Tripolitania, however, have not taken kindly to the plan, charging that it would make for cumbersome administration and expressing doubt as to Libya's readiness for independence in 1952, the date specified in the plan. Nevertheless, this scheme appears to be the only compromise solution assuring continuance of UK-US strategic bases in Libya which is capable of winning a two-thirds vote in the General Assembly.

Premier-designate of Cyrenaica missing

The Cyrenaicans are having trouble establishing their new government because Premier-designate Fathi Kekhia is missing and cannot be found. It is rumored that Kekhia, a successful attorney in Alexandria, and his wife, who enjoys Alexandria's social activity, are not enthusiastic about the somewhat dubious rewards of political service in Cyrenaica.

Trade difficulties in Mozambique

Overcrowded conditions at the port of Beira in Mozambique, at present the most important outlet for Southern Rhodesian chrome required by the US stockpiling program, may be alleviated somewhat as mechanical improvements projected by the Portuguese Government get under way. Increased imports into the Rhodesia together with wartime deterioration of facilities at Beira have limited the annual export of chrome. Although Southern Rhodesia normally supplies only about 10% (50,000 tons) of US chrome imports, US firms have contracted for 300,000 tons of the backlog which cannot be moved from the mines because of the Beira bottleneck. The short-term improvements, which include mechanical ore-handling facilities, should be completed in eighteen months and will increase port and railway facilities to the extent necessary to meet minimum US strategic materials requirements from this area.



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F A R E A S T - P A C I F I C

CHINA

"United front" on recognition may not hold

The "united front" of the leading nations of Asia and the West, in regard to the question of de jure recognition of the Communist-controlled People's Republic as the National Government of China, may collapse before the end of this year. The Communists, believing that a break in the "united front" on the part of one major power would cause the dissolution of the entire structure, are endeavoring to persuade certain major powers, and especially the UK and India, that their interests in China cannot be protected or advanced in the absence of recognition. The UK and India are known to be more favorably disposed to granting rapid recognition than is the US, and a conference of top UK officials in Southeast Asia, scheduled for next month in Singapore, will undoubtedly take up this question.

India appears to have been impressed primarily by the nationalistic motivation, rather than by the Communist domination, of the Chinese revolution. Moreover, India does not regret the decline of the Nationalist regime, which it regards as dependant upon and subservient to the West. Although India probably will not recognize the People's Republic without warning the US and the UK of its intention, it is quite likely to accord recognition in spite of US-UK objections. This may happen at any time and is anticipated before 1950, unless the implications of seating the Chinese Communists on the UN Security Council (especially in regard to the Kashmir issue) should prove an overriding consideration.

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Most US observers believe, on the contrary, that Titoism will develop in China, if at all, only after the People's Republic has been forced into economic dependence on the USSR and has got its fill of Soviet exploitation in the name of "friendship."

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CHINA

Szechwan appears next on Communist list

The easy Communist occupation of Canton has reduced Nationalist control in mainland China to the southwestern provinces of Szechwan, Kweichow, Yunnan, and Kwangsi. Szechwan, China's most populous province, and its major cities, Chungking and Chengtu, are the most inviting objectives for the next Communist offensive. An attack on Szechwan may begin within the next two weeks and the Province's major centers probably will be in Communist hands by the end of 1949.

The high, rugged mountains surrounding Szechwan limit possible avenues of invasion. From the north, the most suitable route for major troop movements is the mountain highway south from Hancheng in Shensi, to Kwangyuan in Szechwan, and thence to the Szechwan basin and the cities of Chengtu and Chungking. From the east, there are two roads: one from the Patung-Shshih area of northwest Hupeh and the other from the Changte-Yuanling area in Hunan. These routes join just inside the Szechwan border and from there a single road leads directly to Chungking, some 190 miles further west. From the south, a highway leads to Chungking from Kweiyang, capital of Kweichow, a little over 200 miles to the south. At the present time, the Communists are in position at only one of these four departure points, the area of Changte and Yuanling in Hunan.

Hancheng in Shensi is Hu Tsung-nan's present headquarters. It is believed that Hu can muster no more than 20 to 25 thousand combat effectives despite all Nationalist reports to the contrary. The morale of Hu's forces is pitifully low and his field-generalship leaves much to be desired. The Patung-Shshih area of Hupeh is presently defended by some 100,000 men under Sung Hsi-lien. Nominally under Pai Chung-hai's command, Sung is considered unreliable and is expected to offer no more than "face-saving" resistance at best.

Within the boundaries of Szechwan, there are some 35,000 Nationalist troops as well as an undetermined number of indifferent provincial levies, together with small forces who owe allegiance to none but their individual warlord commanders. Against these troops the Communists can throw the 150,000 men of Peng Teh-huai's First Field Army, as well as elements from the commands of Liu Po-cheng and Lin Piao, totalling more than that number. These are first-class forces, capable of overrunning the defenses of the province in short order and the actual launching of the Communist attack presumably awaits the redistribution of these troops. This redistribution, while unreported as yet, is probably already well under way.

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INDOCHINA

Review of the military situation

Although the French last week mounted an attack on the Vietnamese resistance stronghold of Vinh, an important arms-smuggling port, possession of which has been unchallenged for nearly three years, official communiques offer little hope that the over-all French military position will be improved in the near future. Arrival of some ten thousand reinforcements from France and North Africa during the past several months (bringing troop strength in Indochina up to approximately 130,000) has not reversed the steady deterioration of the French position in three out of four major fighting areas. Only in the Hanoi area has there been any improvement.

Indicative of a growing desperation on the part of the French command is the willingness to take military measures prejudicial both to the immediate and to the long-run well-being of the Indochinese economy. Fruit trees and coconut palms bordering on military routes have been cut down in large numbers for reasons of military security. Railroad workshops and rolling stock in resistance areas have been destroyed. Nearly a thousand junks and sampans plying the river network of Cochinchina were sunk in recent operations, thus aggravating a shortage of rice in Saigon, already made severe by a resistance blockade of the major producing area to the west. Rice exports for the first half of 1949, as a result, were about 8% of prewar.

Resistance capabilities, on the other hand, appear to be improving. French High Commissioner Pignon has stated that Vietnamese military operations have passed beyond the guerrilla stage and that a "real war" is now under way in Tonkin. The southern advance of the Chinese Communists is expected to permit a flow of arms from China into Vietnamese resistance areas, thus imposing a further strain on French resources in order to counter such increasing pressure. During the three year period ending in 1948, French military expenditures in Indochina totalled more than 430 million dollars (US). It is estimated that operations for 1949 will require an increase of 60% over the previous year's expenditures. The time appears to be approaching rapidly when the French will be faced with the choice of granting full sovereignty to Vietnam, or accepting the consequences of a costly military disaster.

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INDONESIA

Cease-fire violations threaten Round Table Conference

Charges of violation of the hitherto reasonably successful Netherlands-Republican cease-fire agreement have increased to the point where current negotiations at the Round Table Conference at The Hague may well be endangered. Although no attacks have been sanctioned by either side, several armed clashes and a deterioration of official relationships, have resulted in rising tension during recent weeks until, at present, widespread fighting is threatened throughout East Java.

Recent Dutch complaints that their military positions are being undermined by the "infiltration" of Republican forces in accordance with a well-defined plan have brought Republican replies that the alleged infiltration process is nothing more than the emergence of underground units already present in the areas concerned. Dutch charges that Republican-sponsored "shadow administrations" are forcibly replacing Dutch-established civil governments in certain rural localities are countered by Republican explanations similar to those offered for their infiltration tactics. The Dutch have claimed, further, that the Republican Army is being infiltrated by great numbers of extremists, who hold no allegiance to the Sukarno government and will be in a position to overthrow the Republic as soon as Dutch sovereignty is relinquished. The Republicans say that this peril is greatly exaggerated. The Republicans maintain that, according to the truce agreements, the Army was to be supplied with food and clothing by the Dutch during the truce and that this has not been done. Republican spokesmen put the blame for increasing impatience and looting in their army on this lack of food and clothing. The Dutch deny such an understanding, although admitting a recent informal agreement to aid certain units in West Java. However, they say that logistics problems have delayed the fulfillment of this promise.

Recently, perhaps as a result of uneasiness both over their exposed positions and the general deterioration of relations, the Dutch on several occasions have surrounded and disarmed small guerrilla bands. The Republicans, in turn, have retaliated by ambushing a number of Dutch patrols. Instead of settlement of such incidents on the level of local military command, they are being vigorously argued at high government levels. This week, the Republican Minister of Defense publicly accused the Dutch of legalistic "unreasonableness" and stated that, as the result, "a rapidly deteriorating situation" was developing which could result in open warfare throughout Java and Sumatra. The Dutch countered the Defense Minister's charge by stating that such public criticism, in itself, was a violation of the truce agreement. Meanwhile, tension in Indonesia is mounting to the point where a single serious armed clash might well lead to a general conflict. Should such hostilities commence, any successful termination of the Hague Conference would be highly improbable.

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PHILIPPINES

Violence expected in presidential campaign

Violence threatens the Philippines as the bitterly-contested presidential campaign enters its final three weeks. Sporadic gunplay has already been reported at widely separated points--the latest incident being the murder of a provincial campaign manager for the minority Nacionalistas on 16 October. Earlier, a minority poll inspector was killed and four other recent killings have been attributed to political strife.

A high Nacionalista has stated that his party is organizing combat units, composed of men "not afraid to die," to prevent election frauds and counteract anticipated terrorism by Quirino's Liberal Party and the Government Constabulary during the 8 November election. Upon returning from a campaign tour last week, Nacionalista candidate Laurel charged "there are definite indications of fraud and terrorism in the provinces .... Beyond the ballot, thus paralyzed and violated, what other recourse is there for the people but recourse of arms?"

The Government is aware of the dangers of election disturbances by all factions, including the Communists, and is apparently making serious efforts to control the situation. Manila police have conducted raids in the capital city to uncover subversive activities and the Constabulary has once again launched an anti-Huk drive in central Luzon to "clear the ground" for the coming election. Nevertheless, outbreaks of lawlessness are expected throughout the Republic on 8 November. Illicit firearms are plentiful and the strong sentiments connected with the election contest make sporadic incidents of violence a certainty. "Irregularities" at the polls, including "tampering in the ballot boxes," will furnish supporters of all political factions with ample excuse for disturbances. The Government's law-enforcing agencies, however, are deemed capable of keeping the situation under control.

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NOTED IN BRIEF

News Notes on China

Senator Smith (R., New Jersey) arrived on Taiwan on 16 October in General MacArthur's personal plane. Senator Smith "exchanged personal views" with Chiang Kai-shek in a two-hour meeting. General Chennault arrived from Hong Kong on the same day. A Nationalist station, calling itself "The Voice of Free China," has begun broadcasting from Taiwan.

The Nationalists lost their last two major ports on the Chinese mainland when the Communists walked into Canton and Amoy on 15 and 17 October. These ports, the only ones of any size remaining in Nationalist hands, were abandoned without a fight.

Shanghai suffered its heaviest air attack to date on 15 October. The bombing was described as "inaccurate" and "indiscriminate." A Li Tsung-jen emissary has reported that Pai Chung-hsi suffered "heavy losses" when he was forced by the "Generalissimo's treachery" to fight his way out of Hengyang.

Australian High Court upholds conviction of Communist Laurence Sharkey

The Australian High Court has upheld the conviction of the Secretary-General of the Australian Communist Party, Laurence Sharkey, for sedition. Sharkey's conviction, which carried a three-year prison term, resulted from a statement made last March in which, among other things, he implied that Australian workers should support Soviet forces in the event of a USSR invasion. On the Crown's contention that such words expressed an intent to incite disaffection, Sharkey was convicted last June by a lower court, but sentence was withheld pending an appeal to the High Court against the constitutionality of the Crimes Act --the statute under which he was charged.

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L A T I N   A M E R I C A

COLOMBIA

Liberal Party will attempt to gain control of the CTC

The Liberal Party will probably try to gain control of the Colombian Workers' Confederation (CFO), a CTAL affiliate, at the confederation's tenth national congress meeting 28 October in Bogota. Although the Communist membership of the confederation is extremely small, that party has, to date, succeeded in dominating this organization mainly through its greater cohesiveness and skill in parliamentary procedure. The Communists have been aided in this also by the fact that the Liberals are singularly lacking in good labor leaders, and that at least some of the left-wing Liberals have supported the Communists in the confederation. Now, however, in view of the growing anti-Communist feeling in Colombia, continued Communist domination of the Liberal-backed confederation is a serious political handicap to the Liberals in the coming presidential election. The Liberal Party recently made its first official anti-Communist pronouncement and caused no split in the party. It is therefore in a good position to make a greater effort than ever before to dislodge the Communists from all directive posts in the confederation, and has a fair chance of success.

ARGENTINA

Concern for stability leads to undemocratic practices

Contrary to the favorable indications of a few weeks ago, it now appears that apprehension for the future is leading the Peron administration to resort more extensively to anti-democratic methods than previously seemed probable. This apprehension has led to recent politically defensive measures contrary to the spirit of democracy, such as a "gag law" providing imprisonment for offenders against the dignity of public officials and a regulation which makes the formation or continuance of political parties subject to the discretion of the Peron-dominated federal judiciary. Further, the Government has increased its surveillance of disaffected elements in the military establishment as well as in labor unions; has strengthened the Casa Rosada Secret Police and the Federal Police; and has appointed extreme

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ARGENTINA

nationalists to some key government posts--evidently as an attempt to appease the right-wing army faction. It is significant also that the Government has deliberately tried to conceal the seriousness of its economic problems from the public.

Underlying this uneasy situation are the persistence of readjustments in the Argentine economy and the administration's fear that economic reform cannot be implemented in time to avert labor disorder and a possible rightist subversive reaction. Although important measures toward a sounder economic policy continue to be pushed by the Government--notably efforts to expand trade, particularly with the US, and a shift in emphasis from industrialization to agricultural development--inflationary pressures persist, and labor is expected to become increasingly demanding. Moreover, the Government's steadily diminishing financial resources restrict its ability to continue to spend, as it has in the past, large sums for special labor benefits. The only alternative to repudiation of these benefits appears to be monetary expansion which would stimulate the wage-price spiral. Finally, the administration continues to be plagued with the difficult problem of restoring Argentine production costs on many items to internationally competitive levels.

It is believed that the success or failure of the Peron Government's efforts toward economic reform during the next six months will be the critical factor in the Government's stability and that the Government will continue to resort to such undemocratic measures as it may consider necessary to defend its domestic position.

PARAGUAY

Unrest centers around Army Chief of Staff Diaz de Vivar

The unrest which has been chronic in Paraguay since 1947 now centers around Army Chief of Staff Diaz de Vivar, whose opponents are attempting to remove him from office. Lines for a showdown have not been drawn as yet, but Major General Caballero Alvarez appears to be the principal aspirant for the job. Although Diaz de Vivar has increased his strength within the army during recent months, a combination of his rivals possibly could shift him from his position if sufficient support were received from the civilian government. As the Chavez Government would be strengthened by the removal of a too-independent army leader and potential strong man --as Diaz de Vivar appears to be--it might very well offer this support to his rivals.

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TRANSPORTATION

Isbrandtsen ship movements in Shanghai port

The Chinese Nationalist Government has not indicated whether it will take action against either the US Isbrandtsen Line vessel scheduled to depart from Shanghai shortly or another vessel of the same line which will soon leave Hong Kong with cargo consigned to this Communist port. Release of two other Isbrandtsen ships which were detained recently on leaving Shanghai was apparently effected as a result of special circumstances, such as the presence of Korean refugees and cargo consigned to the US Army, which will not necessarily apply to future movements of vessels in and out of the port. The Chinese Nationalists, therefore, do not seem committed to refrain from interference with further shipping activity outside the harbor.

If the Nationalists consider it expedient to interfere further with the Isbrandtsen traffic, they appear to have a strong legalistic argument for the "closure." This position would be strengthened, furthermore, by the surreptitious entrance into Shanghai of the Isbrandtsen vessel now in that port, after it had been intercepted and "advised" not to enter. Contributing to such a Nationalist decision might be the fact that the US Government did not: (1) specifically request release of the two detained vessels; (2) take the position that their detention was illegal; or (3) indicate that it would oppose further Chinese naval interception of vessels which defy Nationalist instructions. In view of the rapid deterioration of the Nationalist Government's position, however, it seems probable that the question of further action against shipping to and from Shanghai will actually be decided by the capabilities and willingness of Nationalist naval units, even if the foreign policy of the Canton Government requires an aggressive enforcement of the "blockade."

Egyptian restrictions on petroleum for Haifa refinery

Continuation of Egyptian restrictions to prevent movements of petroleum through the Suez Canal consigned to the Haifa refinery may substantially affect the long-range petroleum logistic situation in the Eastern Mediterranean. If these restrictions and the present obstructions to the supply of Haifa by pipeline are of long duration,

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the US, UK, and Western European powers will be obliged to consider their consequences in any strategic planning with respect to the supply and distribution of petroleum in that area.

The sensitiveness of Egypt vis-a-vis the other Arab States makes resolution of the question difficult for the Egyptian Government. British efforts to obtain Egyptian consent to the passage of Haifa-bound tankers have thus far been unsuccessful. The UK, moreover, is apparently unwilling to force the issue at this time, despite US willingness to approach the Egyptian Foreign Office in support of the UK position that the Arab-Israeli armistice eliminates the Egyptian justification for the embargo.

Yugoslavia new customer for western aviation industries

The recent US-UK agreement to exempt Yugoslavia from export restrictions on aviation equipment imposed on the Satellite states, and to approve limited air transport agreements with that country, will be noted by the aviation industries of Western Europe. The Yugoslavia airline, JAT, expects soon to initiate scheduled services to the principal western centers and to this end is desirous of modernizing its civil air fleet. It is evident that there will be keen competition in the western aviation market to satisfy the requirements of this new customer.

The Dutch are prepared to sell DC-3 transports and undertake the major overhauling of JAT aircraft on a contract basis. The French, likewise, are eager to conclude a deal involving 400-500 million francs for the sale of ten jet trainers equipped with French-made Rolls Royce Hene engines, and believe that this would pave the way for Yugoslav purchase of the new French medium transport, Bretagne, which is designed to compete with the US Convair. <sup>25X6</sup> [REDACTED]

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[REDACTED] In consequence, Yugoslavia will be in a position to shop around for the best that Western Europe has to offer in the expansion of its international services.

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