

Book IV ~~-----~~ Weekly Summary complete
9 Jan 1948 (#80) thru 14 May 1948 (#98)

14 MAY 1948

5U

98

~~TOP SECRET~~

CONTENTS

	Pages
TRENDS IN BRIEF	1 - vii
ARTICLES	1 - 3
US-Soviet Exchange of Views	1
Disintegration in the Chinese Nationalist Army	2

Document No. 019
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1763
 Date: 27/01/78 By: 021

NOTE

The publication of the CIA TOP SECRET Weekly Summary will be discontinued with this issue. In its place, CIA will begin publication on 21 May of a new Weekly Summary under the classification of SECRET.

~~TOP SECRET~~

~~TOP SECRET~~

TRENDS IN BRIEF

GENERAL

The Soviet inclination to accept the Smith-Molotoy exchange as an invitation for direct conversations may spring from both tactical and propaganda considerations (see page 1).

Following the relinquishment of the UK mandate in Palestine, the Arabs and Jews will be free to act without external interference. No effective UN administration will exist in Palestine, and an Arab-Jewish truce will not be in effect. The British troops still in Palestine (numbering some 20,000) will be concentrated in Haifa awaiting evacuation. The British naval blockade will be at an end. In the ensuing period, it may be anticipated that: (1) a Jewish state will be proclaimed; (2) regular army units of the Arab states will enter Palestine and occupy the predominantly Arab areas; (3) Arab-Jewish hostilities will increase in central Palestine and in the Galilee area of northern Palestine; and (4) Jewish immigrants of military age will be brought in from Cyprus and European ports. The Jewish state will probably be granted belligerent rights (and, subsequently, recognition) by the USSR, the Soviet Satellites, and certain of the South American countries, and pressure will certainly be brought to bear on the US to recognize and support the new state.

Formation of a Jewish state in Palestine will enable the USSR to intensify its efforts to expand Soviet influence in the Near East and to perpetuate a chaotic condition there. Although the USSR and its Satellites will probably delay full recognition of the new state, they may grant it belligerent rights in the near future. In any event, the flow of men and munitions to Palestine from the Soviet bloc can be expected to increase substantially. The USSR will undoubtedly take advantage of the removal of immigration restrictions to increase the influx of trained Soviet agents from eastern and central Europe into Palestine where they have already had considerable success penetrating the Stern Gang, Irgun, and, to a lesser extent, Haganah.

~~TOP SECRET~~

WESTERN EUROPE

UK Government spokesmen made it clear, during the recent parliamentary debate on foreign policy, that the UK intends to stay in Berlin despite Soviet pressure and to secure British interests in the Middle East despite the UK withdrawal from Palestine. Although more than one-quarter of the House of Commons pressed for immediate steps to create a European federation, the Government indicated its satisfaction with the present gradual progress toward such a federation, which it accepts as "ultimately" inevitable. It is significant that both major parties agree on full consultation with the Dominions regarding British affiliation in a European organization.

The proposed formation of a Scandinavian military alliance will be possible only if a solution is found for the problems created by: (1) Swedish insistence that such an alliance be consistent with the Swedish concept of Scandinavian neutrality; (2) Swedish reluctance to conclude a pact with Norway and Denmark whose military strength is comparatively weak; and (3) the feeling in Norway and Denmark that a Nordic military alliance based on the concept of joint Scandinavian neutrality would not be preferable to close western relations and ultimate inclusion in a western European security system. Informal military cooperation, or even a regional Scandinavian pact without western commitments, might result from the pressure of international developments, or from effective and rapid Danish-Norwegian rearmament. Norway, however, will undoubtedly refuse to meet Swedish demands on the neutrality issue.

German food strikes, labor demonstrations, and general labor unrest may be expected to continue in the US-UK Zones until the food situation and general economic conditions are improved substantially. The present wave of strikes may be regarded, in large part, as spontaneous protests resulting from: (1) the unsatisfactory food situation; (2) the slowness

- ii -

~~TOP SECRET~~

TOP SECRET

of economic recovery; (3) the preferential treatment of workers in favored industries; and (4) dissatisfaction with the efficiency of the German local administrations. Meanwhile, union members still at work have been instructed by trade union officials to slow down production until ration demands are granted.

The recent rightist trend in Germany, which may develop into a strong current of resurgent nationalism, may find active expression in two separate National Democratic Parties (NDP) which are being organized in both the US Zone and the Soviet Zone. The NDP in the US Zone has attracted increasing numbers of Conservatives and re-enfranchised ex-Nazis; the present leadership is conservative but a younger ultra-rightist element will probably overthrow the present party leadership. The NDP of the Soviet Zone, still in the process of formation, has been expressly designed by the USSR to gain the support of Conservatives and Rightists and to exploit fully German nationalistic sentiment. The USSR will undoubtedly attempt to exploit the NDP of the US Zone. The most obvious Soviet move would be an attempt to merge the two National Democratic Parties after they have acquired political stature and then to urge the combined party to adhere to the Bismarckian concept of Russo-German cooperation.

Premier Schuman's current success in dealing with French economic recovery may cause a shift in the tactics of both Gaullists and Communists. Realizing that violent Communist opposition might force the Gaullists and the present moderate coalition government into a solid anti-Communist front, the Communists may even support the Government in a crisis. The Gaullists may be expected to abandon their recent conciliatory gestures in favor of attacks on the Government for having compromised French security by making a weak stand on the future status of Germany and for having impaired French "military autonomy" in negotiations with other western European union powers. The position of the Schuman Government, which will be further improved by the

- iii -

TOP SECRET

TOP SECRET

anticipated announcement of increased bread rations to begin in June or July, will probably enable Schuman to overcome the disadvantages of any Communist collaboration as well as renewed Gaullist opposition.

The French attitude concerning naval reparations from Italy will probably become firmer. Although the French Government apparently is disposed to permit Italy to retain some of the naval craft scheduled for transfer to the French Navy, the French fleet requires for its operations certain other vessels and France will probably insist that Italy cease its procrastination on this issue and make definite arrangements to transfer certain specified warships. In an effort to exert further pressure on Italy for the transfer of these vessels, the French have indicated that they will not accept Italy as a member of a western European defense system until the question of naval reparations has been satisfactorily adjusted.

Recent disagreements over Premier De Gasperi's candidate for President of the Italian Republic may jeopardize the formation of an effective coalition government. The moderate Left has sought important economic posts in the new Cabinet and has conflicted with De Gasperi who may, out of deference to rightist and Vatican interests, continue to block the economic and social reform efforts of the moderate Leftists. De Gasperi's continuance of this policy may cause this leftist minority to refuse to participate in the government with the result that a new coalition cabinet would then be formed without working-class representation.

EASTERN EUROPE

Recent evidence indicates that the USSR has embarked on an intensive jamming operation of "Voice of America" (VOUSA) broadcasts, which, if vigorously pursued, may render the transmissions completely inaudible in the Soviet Union. In addition to the interference encountered on all Russian-language

TOP SECRET

programs to the Far East, Soviet jamming has recently occurred on the Munich frequencies which beam broadcasts to European Russia. The jamming on the Munich frequencies has not yet affected the intelligibility of the programs appreciably. The Soviet Foreign Office has evasively answered two recent US protests concerning the jamming of the Far Eastern programs. Contemplated US countermeasures, such as increased transmitting power, longer schedules, and unannounced shifts of program time and frequency, would require the USSR further to divert scarce equipment and technical personnel to jamming operations.

Reduction of tension and strife in Trieste may result from the Communist declaration of its intent to cooperate with AMG in the development of Trieste's industry under the European recovery program. This Communist reversal was probably caused by the realization that: (1) many of the workers of Trieste have been alienated by the recent Communist-inspired political strikes and demonstrations; and (2) AMG could favor the anti-Communist labor union at the expense of the Communist-dominated labor union during the industrial development of Trieste. Continued Communist cooperation would remove one major obstacle to economic recovery in Trieste.

Increasing concern by Marshall Tito over his regime's weak political and economic position is suggested by recent changes in the hierarchy of the Yugoslav Communist Party. Yugoslav economic recovery has been retarded by the need to maintain a large army, failure of the USSR to deliver machinery and capital goods in return for Yugoslav exports of raw materials, a lack of qualified managerial personnel and skilled labor, and a serious dollar shortage. These economic difficulties have also intensified the already strong popular opposition to Tito's Communist dictatorship. Probably in an attempt to carry out the Kremlin's instructions to remedy this situation, Tito has subordinated the "moderate" Communists, who previously were his chief advisers, to the fanatical, extremist wing of the Party. Tito has also attempted to increase public support for his regime by

- v -

TOP SECRET

TOP SECRET

emphasizing Yugoslav nationalism instead of world communism. Although these measures will not provide an immediate solution to the regime's basic economic and political weaknesses, they will enable Tito to control any future dissensions within the Yugoslav Communist Party.

FAR EAST

The Chinese Nationalist Army's existence as a unified organization is being threatened not only by the recently renewed attacks of the Communists but also by the advocacy of regional decentralization by Li Tsung-jen, the new vice-president (see page 2).

The USSR will probably try to retard the execution of previous plans for the establishment of a "Korean People's Republic" in North Korea. The Soviet-controlled North Korean People's Council made last-minute revisions designed to delay the establishment of a separate Democratic People's Republic. This delay will permit the USSR to use the UN-observed South Korean elections (which were sponsored by the US) to place the onus of Korean separatism on the US.

French officials in Paris and Indochina are attempting to negotiate a temporary settlement of the French Vietnam dispute. High Commissioner Bollaert has been authorized to form a provisional Vietnam government headed by General Xuan, president of the Provisional Government of South Vietnam (Cochinchina). The formation of such a government may result in a transfer to France of the meetings with Bao Dai and might postpone indefinitely his return as head of a new regime. If a government, with nominal independence and geographic unity, should emerge under the reportedly ineffectual Xuan, the prospects for internal stability would still be slim because of the postponement of the settlement of problems concerning finance, customs, and diplomacy. Ho Chi Minh, who is supported by 80% of the population and who is allegedly loyal to Soviet foreign

- vi -

TOP SECRET

TOP SECRET

policy, probably would then assume control; much of his support would come from elements who insist upon a propaganda campaign against French use of the European recovery program to further French colonial policy. Because of the delicate balance of control exercised by the Schuman Government, the French will probably not risk a major policy decision involving liberal concessions on the controversial colonial issue in Indochina. A temporary Xuan government, therefore, will have little chance of success.

WESTERN HEMISPHERE

An army coup in Paraguay to continue President Morinigo in office past 15 August (expiration date of his legal term) appears more likely as the result of a recent ultimatum by high army officials. These officials have declared that the army will support the continuation of President Morinigo in office unless the Colorado Party is re-united in support of President-elect Gonzales. Early exploratory talks regarding the unification of the Colorado Party into an effective administrative or political control organization indicate there is virtually no hope for such unification. Morinigo's chances of remaining in office are, therefore, good if he can obtain support from both the democratic faction of the Colorado Party and the army.

Despite the continuing personal popularity of Bolivian President Hertzog and the apparent loyalty of key army officers, the Government may be unable to cope with any serious disorders which may result from growing opposition on the part of the extreme Right and the extreme Left. Of the three most important parties, one is in opposition to the Government, a second no longer supports it, and now the sole governing party, the Republic Socialist Union Party, itself weakened by internal dissension, probably will be unable to command a majority in Congress. The rightist groups who governed the country during the Villaruel regime from December 1943 to July 1946 have increased their revolutionary plotting. Communist influence is strong among the leftists generally and in some of the more important unions.

- vii -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET

US-SOVIET EXCHANGE OF VIEWS

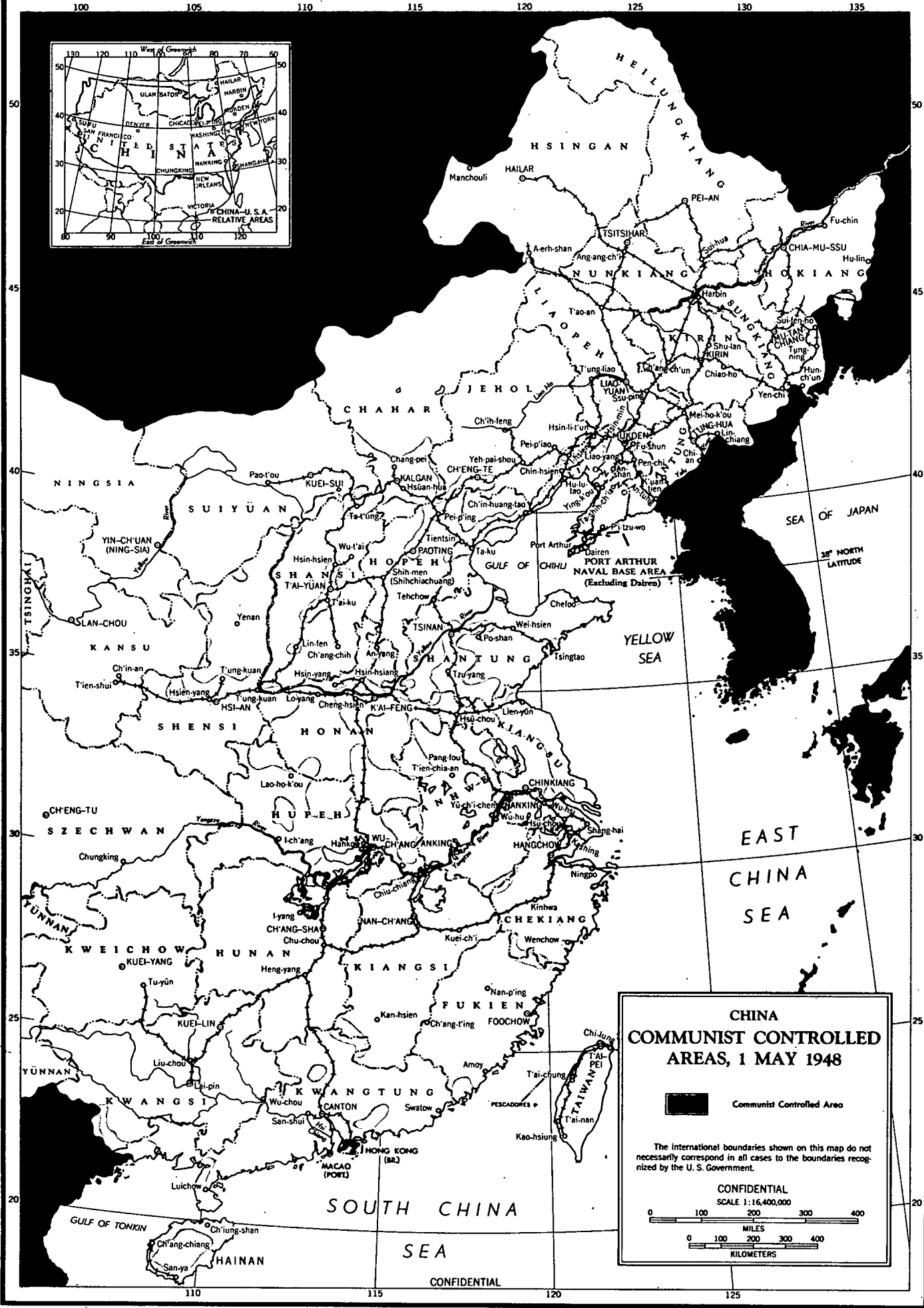
The Kremlin's apparent inclination to construe the US aide-memoire of 4 May as an invitation for direct conversations between the US and the USSR, and to "accept" this "proposal," may spring from tactical as well as propaganda considerations. The Soviet response was obviously designed to obtain maximum propaganda advantage both at home and abroad by (1) creating within the US and the USSR a feeling of optimism which in turn would encourage a relaxation in defense measures; (2) allaying the war fears of the Soviet and Satellite populations; (3) giving support to the efforts of the western Communists to regain their popular following; and (4) driving a wedge between the US and the western powers.

The Soviet response may also reflect an actual desire to participate in such conferences as a means of advancing the following immediate Soviet objectives: (1) to gain a share in the administration and production of the Ruhr and to facilitate the spread of Communist influence in the western zones by obtaining US agreement to the reopening of four-power discussions on Germany; (2) to wreck the European recovery program or obtain benefits from that program by participation in the program (preferably under UN auspices); and (3) to persuade the western powers to modify their present embargoes on trade with the USSR and its Satellites.

In short, the USSR has much to gain, and little to lose, by entering into direct US-Soviet negotiations and may even offer conciliatory gestures to this end. Nowhere in the Soviet reply, however, is there any indication of change in the long-range objectives of the USSR.

- 1 -

TOP SECRET



10958 Map Branch, CIA, 5-48

TOP SECRET

DISINTEGRATION IN THE CHINESE NATIONALIST ARMY

The continued existence of the Chinese Nationalist Army as a coherent functioning whole is being threatened by the Chinese Communists who, after a period of relative quiescence, have resumed the attack, particularly in Manchuria, in the region along the Honan-Hupeh border, and in south Shensi. The National Government fears that the Manchurian Communists will prove sufficiently strong to make a drive into North China, and that Communist forces in Central China may be preparing to cross the Yangtze River. Moreover, the unity of the Nationalist military organization recently has been weakened by the election to the vice-presidency of Li Tsung-jen, an advocate of political and military regionalism and an outspoken champion of the provincial military leaders.

The Chinese Nationalist Army, as it exists today, represents what remains of a merger, effected at the beginning of the Japanese war, of old-line troops loyal to Chiang Kai-shek and of provincial troops loyal primarily to the generals of their home provinces. During the course of the Japanese war, Chiang managed to split up many of the provincial forces by interchanging their component parts or by absorbing them piecemeal into units loyal to him, thereby effectively robbing them of their provincial homogeneity. However, Chiang is no longer able to force such transfers upon leaders in many areas far removed from Nanking. Furthermore, some of these leaders, who owe no particular loyalty to Chiang, are opposing the Communists in key areas with relative success.

As a consequence, the Nationalist high command is constantly faced with a dilemma. It must either provide the forces of these regional commanders with all possible military and economic support, with the risk that such support may eventually be turned against Nanking, or deny this support, with the real danger that certain vital areas will in all likelihood be overrun by the Communists. Chiang Kai-shek, backed by

- 2 -

TOP SECRET

~~TOP SECRET~~

powerful factions in the army and the Kuomintang, has generally withheld this support. Now, however, General Li, together with Defense Minister Pai Chung-hsi, advocates the allocation of arms to generals who have successfully opposed the Communists (regardless of the relations of these generals with the Nanking Government), the arming of local militia, and the removal of favored but incompetent generals. This program, while theoretically commendable, could be implemented only with difficulty. Such a program would require not only a considerable length of time to put into effect, but it would be strongly opposed by the old guard and, in addition, would have to be undertaken concurrently with military operations in an increasingly critical war situation.

The decision in these matters remains at present with Chiang Kai-shek who has unwaveringly opposed such decentralization. If the current deterioration in the Nationalist military position continues, however, Chiang will be unable to withstand the mounting pressures leading toward regional decentralization within the army.

- 3 -

~~TOP SECRET~~

~~TOP SECRET~~

97

MAY 7

C O N T E N T S

	Pages
TRENDS IN BRIEF	i - viii
 ARTICLES	 1 - 10
Western European Defense System	1
Achievements of the Benelux Customs Union ...	2
Italian Efforts to Revise the Peace Treaty	4
The Situation in Palestine	6
The Kashmir Situation	9

Document No. 018
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1795
 Date: 27/01/78 By: 021

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

GENERAL

The slow growth of the western European defense system is probably caused by the present military weakness of the five signatory nations and their uncertainty regarding the speed and nature of US aid in event of aggression (see page 1).

Communist May Day demonstrators displayed a reluctance to precipitate disorders, and expressed in their speeches and slogans a surprisingly moderate amount of anti-US sentiment. This probably indicates a need for more time to formulate a revised party line, based on a reconsideration of the effectiveness of past anti-western propaganda themes in view of Communist losses in the Italian elections. Separate celebrations, indicative of a growing dissatisfaction with Communist exploitation of legitimate liberal movements, were staged throughout western Europe by numerous non-Communist labor socialist groups.

Increased nationalism in the Arab world will probably result in a request by one of the Arab states at the September meeting of the UN General Assembly for an investigation of the French and Spanish administrations in Morocco. A similar request, initiated last year, was postponed because of the urgent Palestine and Indonesian problems. The Arab League has recently indicated renewed interest in Morocco by allocating almost \$1 million for the Moroccan independence movement. If the requested investigation is undertaken by the UN, it may eventually lead to an Arab petition for the independence of all French North Africa.

Despite the Soviet desire to sabotage European recovery, the USSR has taken a relatively mild line at the current session of the Economic Commission for Europe (ECE) and is urging the creation of a new industrial development subcommittee in

TOP SECRET

an apparent effort to: (1) publicize the needs of countries not participating in the European recovery program; and (2) to obtain outside financial aid from the US or the International Bank. The USSR may be greatly concerned at the prospects of success of the European recovery program and may therefore be attempting to utilize the ECE in order to secure essential goods and credits for the Satellites who were unable to participate in the recovery program.

The intense reaction of the USSR to the desertion of Lieutenant Colonel Tasseov (now reported to be a political refugee in the UK) indicates strong Soviet fear that if deserters from the Eastern Zone are openly given refuge by the western powers, such defections will be greatly accelerated, with consequent damage to Soviet security. Soviet demands that a special commission of the Soviet Military Administration (SMA) be permitted to investigate Tasseov's "kidnapping" in Bremen are based apparently on an informal agreement between the US Military Government and the SMA to return military deserters from either Zone to their proper command at once. The Military Government has refused the request for a special commission, but has offered to extend the present Soviet military liaison mission facilities for investigating the officer's disappearance.

Major Soviet concessions at the Rome meeting of the World Federation of Trade Unions (WFTU) have averted an east-west schism in the WFTU at least temporarily and have precluded the use of the federation to oppose the European recovery program. Attacks by British and American trade union organizations on the pro-Soviet bias of the WFTU General Secretary (Saillant) have resulted in the curtailment of Saillant's authority and his freedom to participate in outside political activities. Although the USSR has forestalled a move to replace him, Saillant's usefulness as an instrument of Soviet propaganda and policy will be greatly reduced. By its concessions, the USSR has again indicated its desire to maintain an undivided WFTU and to preserve its contacts with the non-Communist labor groups of the West.

TOP SECRET

TOP SECRET

The recent abrupt interruption by Hungary of negotiations for an interim US-Hungarian air agreement probably reflects Soviet belief that the deadlocks in Berlin and Vienna over transportation matters preclude the satisfactory operation of an Hungarian airline through the western zones. The negotiations had been reopened in January 1948 at the suggestion of Hungary and appeared to be on the verge of successful conclusion after the US had met Hungarian objections to clauses of the US draft. Hungary has suddenly advised the US negotiators, however, that the final draft is "unacceptable" in view of the recent US expulsion from Germany of the Hungarian restitution and reparations missions. The Kremlin may believe that the US would hamper Hungarian air operations in reprisal for further Soviet interference with US air traffic in the occupation zones, and that the air agreement may therefore bring no immediate advantage to Hungary. By instigating the arbitrary Hungarian step, the USSR forestalls US commercial air access to Budapest, which would have been distasteful to the USSR, and allows Hungary to save face in regard to the ejection of its missions.

WESTERN EUROPE

The Benelux customs union has thus far chiefly benefited Belgium, the Netherlands, and Luxembourg by greatly increasing their influence in western European political affairs (see page 2).

The new Italian Government will probably begin a vigorous campaign for a revision of the Italian peace treaty, following its assumption of office on 8 May (see page 4).

The French military contribution to the western European union defense system should be materially increased by the new organization for national defense which will shortly be put into effect by governmental decree, pending its presentation to the National Assembly. The new structure is designed to improve coordination of the national defense program, to centralize control of the army, the navy, and the air force, and to provide for their modernization and more efficient operation.

- iii -

TOP SECRET

TOP SECRET

The resignation on 5 May of the Belgian Socialist-Catholic Cabinet under Socialist Premier Spaak is not expected to result in any major change in Government policy. The crisis, which was brought about by Socialist-Catholic conflict over a Government bill to provide increased subsidies for Catholic technical schools, was strongly opposed by left-wing Socialists. Although Spaak probably could form a new Government, it is possible that another Socialist will be chosen. Even if Spaak is replaced as Premier, he will probably remain the Foreign Minister.

A Rightist trend in Germany, indicated by the recent municipal and country elections in Hesse and Bavaria and probably caused by the nationalistic and anti-Communist tendencies of newly enfranchised ex-Nazis and expellees, may be expected to continue. This trend is largely caused by the failure of the moderate parties to institute social reforms or to achieve adequate economic reconstruction, the lack of effective leadership among Social Democrats, and the anti-Communist policy of the US.

EASTERN EUROPE

The Kremlin's determination to accelerate the Sovietization of Hungary is reflected in the Hungarian Government's extension, until 31 December 1948, of the extraordinary power of the Cabinet Council to govern by decree. (This extended power of the Cabinet Council will allow it to proceed with the nationalization of all industrial enterprises composed of more than ten persons and with the formation of agricultural co-operatives before the next harvest.) The Communists have also launched a campaign for the formation of a National Front to insure an overwhelming victory in this year's national elections, and they have renewed their attacks upon the Catholic Church--the last remaining stronghold of organized opposition in Hungary.

TOP SECRET

TOP SECRET

NEAR EAST-AFRICA

Units of the Arab state armies are expected to enter Palestine after 15 May, when the withdrawal of the British will open the way for unrestricted war. The campaign will be a long-range affair, in which the Arabs will attempt to wear down the Jewish communities by guerrilla attacks and by economic sanctions (see page 6).

The Security Council resolution on the Kashmir dispute is acceptable to neither India nor Pakistan. If India should attempt to end the dispute by force of arms, initial successes will be followed by retaliatory action by the tribesmen and further rebellion in the State (see page 9).

Pakistan's decision to exchange ambassadors with the USSR can be attributed to dissatisfaction with the US and UK rather than to a reversal of its firm anti-Soviet stand. Heretofore, Pakistan has clearly indicated its intention of remaining aloof from the USSR. Now, however, it is convinced that the UK has unduly favored India (as a more valuable ally), and it also holds the US and UK largely responsible for the concessions made to India by the Security Council in the Kashmir dispute. Pakistan also resents the US decision that it may not purchase military supplies in the US so long as the Kashmir dispute remains unsettled. Pakistan's establishment of diplomatic relations with the USSR does not represent the adoption of a pro-Soviet attitude, but is apparently intended as a clear indication that the western powers cannot ignore Pakistan's wishes and needs if they wish to be assured of its close collaboration.

Turkey's decision to call up a new class of conscripts reflects the gravity with which the Government views the international situation. The Turks had hoped to avoid imposing this additional strain on a budget already heavily burdened with appropriations for national defense. Mobilization of the approximately 150,000 new conscripts, which is expected to commence in a few days, will increase the total of Turkey's armed forces to about 500,000.

TOP SECRET

TOP SECRET

The enthusiastic reception given Qavam upon his recent return to Iran may presage a renewal of the struggle for power between himself and the Shah. Qavam not only retains a group of loyal supporters in the Majlis but also appears to be gaining the support of such varied elements as the anti-Soviet Seyyid Zia (former prime minister) and members of the pro-Soviet Tudeh Party. The Shah, who is increasingly insistent on obtaining greater prerogatives for himself, has declared that "dictatorial measures" might shortly become necessary, especially if Qavam engages in political intrigue. If Qavam becomes politically active, the ensuing conflict between him and the Shah will seriously reduce Iran's ability to resist Soviet demands.

FAR EAST

The existence of a centralized Far East Communist group coordinating the activities of Far East Communist parties is further suggested by recent evidence. [REDACTED]

[REDACTED] Soviet representatives held an eight-day session in Harbin in mid-April with Communist leaders from China, the Mongolian Peoples Republic, and North Korea. [REDACTED] a similar meeting held April 19-22 included Communist representatives from Japan and the Southeast Asia countries. This may reflect a general tightening of the coordination of Communist activities throughout the world, especially in the Far East, although additional evidence is needed to establish conclusively the existence of a Far East Cominform along the lines of that organization set up in Eastern Europe. In addition, the development of a new international "All Asia" line in the Far East Communist propaganda has been indicated recently by: (1) attacks upon US "reactionary and imperialist" policies in Korea; (2) Chinese Communist charges that the US and South Korea "reactionaries" are sending 50,000 Korean youths to help Chiang Kai-shek; and (3) a reported South Korean Labor party statement that "war in China is more important than the situation in Korea."

STAT
STAT

STAT

- vi -

TOP SECRET

TOP SECRET

A drastic shake-up of the present Burmese Government or the elimination of prewar civil servants from government positions is currently under consideration by a high-level Burmese policy committee. The committee is probably motivated by the intense nationalistic feeling now prevalent in Burma which demands the removal of all vestiges of previous British and foreign influences. Any such elimination of civil servants or curtailment of their influence through extensive changes in the composition of the government would leave the Burmese administration largely in the hands of uneducated and irresponsible young men and would create political and administrative confusion favorable to Communist purposes. Decisions by Burmese Communists on important policy matters apparently are being held in abeyance pending the opening of the Soviet Embassy from which local Communists hope to obtain the support and impetus needed to intensify their present insurrectionary activities.

Increasing Chinese Communist interest in urban areas, reflected in recent Communist Party policy statements and directives aimed at gaining the support of labor and capital, is consistent with the developing Communist tendency toward military occupation of large cities. Some such pronouncements have stressed the need of protecting industry and commerce at this stage in the social revolution. One prominent Communist leader has even stated recently that the urban proletariat is the "leading class in the Chinese revolution." This increased emphasis on industrial development indicates the Party's recognition that, as Communist control is extended over the large Chinese cities, its agrarian program must be supplemented by industrial expansion, which in turn would increasingly require the cooperation of non-Communist administrative and managerial personnel. In addition, this trend may reflect reported international Communist criticism that the Chinese Party has given too little attention to urban areas.

Dutch insistence on the Indonesian Republic's acceptance of principles set forth in a draft paper on internal security recently presented by the Dutch may precipitate a crisis and

- vii -

TOP SECRET

TOP SECRET

lead to an ultimate breakdown of the current Republican-Dutch negotiations in Indonesia. The Dutch consider that the existence of a private Republican Army within a sovereign United States of Indonesia (USI) would be an infringement upon the Dutch concept of sovereignty; they are therefore proposing that this Army be dissolved in the interim period prior to the establishment of the USI. The present Republican Government, on the other hand, recognizes that it would probably collapse for lack of popular support if it agreed to such a dissolution of its Army. In preparing their formal proposal to the Republic, the Dutch are thus confronted with the alternatives of: (1) insisting on the abolition of the Republican Army and risking the consequences of almost certain rejection; or (2) accepting its continued existence and risking serious loss of prestige for yielding to Republican obduracy.

WESTERN HEMISPHERE

A considerable increase of arms smuggling into Mexico was further indicated recently by the discovery and confiscation of over 100,000 rounds of contraband ammunition by the Mexican customs officers at Nuevo Laredo. The US Consul at this port of entry has stated that these munitions were undoubtedly intended for shipment to southern Mexico. US Embassy Mexico has been unable to ascertain whether similar recent shipments of ammunition were destined for revolutionary activity against the Government or for possible eventual shipment to Palestine or some other area outside Mexico. These numerous interceptions by US and Mexican officials, as well as an abnormal increase in the legal traffic in arms and ammunition to Mexico in recent months, are significant in view of the increasing dissatisfaction in Mexico with the Aleman administration and may indicate preparations for its overthrow.

- viii -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**WESTERN EUROPEAN DEFENSE SYSTEM**

The slow growth of the western European defense system and the tendency of the signatories toward a piecemeal approach to the broad strategic problems of defending western Europe against aggression probably result from: (1) the present military weakness of the five signatory nations; (2) their inclination to move cautiously until they know precisely how much political and material support the union may count upon from the US; and (3) their uncertainty whether the nature of the US military force will permit early and effective US support. These three considerations, plus an evident hesitancy to commit themselves to a guarantee of the borders of other nations more exposed than themselves to Soviet aggression, account for the reluctance of the union to admit new members who do not bring with them a military strength commensurate to the additional risk assumed by the union.

The UK visualizes the eventual expansion of the union, but feels that an effective military structure should be established before admitting any new members. The Benelux countries, particularly the Dutch, appear reluctant to commit themselves to defend Italy. France, while endorsing the inclusion of Italy into the western European defense system, seems to favor the establishment of three military defense groups on the basis of geographic location (western Europe, eastern Mediterranean, and Scandinavian). These attitudes seem to be inspired to some extent by a "limited liability" concept whereby each state would concentrate upon its own defense and that of its immediate neighbors. Such a piecemeal plan for the defense of western Europe would not provide an effective deterrent to the Soviet Union. Moreover, maximum effectiveness of US military aid to western Europe can only be achieved through a single defense system which will encompass all the remaining free nations.

- 1 -

TOP SECRET

TOP SECRET**ACHIEVEMENTS OF THE BENELUX CUSTOMS UNION**

During the first four months of its operation the Benelux customs union, which was established to insure the close co-operation and eventual integration of the economies of Belgium, the Netherlands, and Luxembourg, has been chiefly effective in enabling its constituents to present a united and influential front in western European affairs. Through their action in sending a common delegation to the meetings of the Committee on European Economic Cooperation, the Benelux countries exercised an influence which was surpassed only by France and the UK. By making a concerted demand, Belgium, the Netherlands, and Luxembourg have been able to secure participation in the discussions on western Germany. The experience of Benelux in the problems of international economic cooperation has given the customs union a leading role in the formulation of such constructive measures as an international agreement for the clearing of foreign exchange balances and the possible establishment of an all-European customs union. Moreover, by formulating positive and acceptable compromises, Benelux may act as conciliator between the UK and France in settling their differences on European cooperation.

Benelux has been less successful in carrying out measures to make effective the customs union. The first phase of the implementation program--the unification of tariff rates on trade with third countries and the reduction of inter-Benelux restrictions--was initiated on 1 January 1948. Because this step involved comparatively few concessions on the part of each of the Benelux countries, their serious intent to carry out the agreement will not be demonstrated until the program reaches the second and third phases. The second step--requiring elimination of the basic differences in economic, financial, and social policies--is scheduled for 1 January 1949. Because the economic policies of Belgium and Luxembourg have since 1945 diverged from those of the Netherlands, this phase may be difficult to implement. The Dutch follow a policy of controlled economy while Belgium and Luxembourg practice the greatest possible

TOP SECRET

TOP SECRET

measure of free trade. The third phase of complete economic union--allowing the unrestricted movement of goods, capital, and persons within the Benelux area--is not expected to be effected for several years at least.

Despite the difficulties to be met in carrying out this program, the advantages accruing to the three nations from economic unification are tremendous. The political and economic bargaining power gained both from their situation as the third largest trading area in the world and from the strategic advantages of their geographic location is enormous. By uniting their combined population of 18 million people, Belgium, the Netherlands, and Luxembourg have achieved a combined importance much greater than they have had individually in the past.

- 3 -

TOP SECRET

TOP SECRET**ITALIAN EFFORTS TO REVISE THE PEACE TREATY**

The new Italian Government, which will come into office shortly after 8 May, will probably wage a vigorous campaign to effect revisions in the Italian peace treaty in order to recover lost territory and to remove or liberalize the limitations on its military establishment. The Government will contend that without revision, Italy cannot assume the responsibilities expected of it in the affairs of western Europe.

Concerning the return of the former colonies, the Italian position is that they were acquired before the advent of fascism and that a considerable investment of men and money has been put into their development. The Italians also contend that the return of the colonies will partly solve the serious problem of over-population and may ease trade and food problems. The Free Territory of Trieste is regarded by the Italian people as an integral part of Italy, and the Government will probably base its argument for Trieste's return on the pre-election proposal of the US, UK, and France that the area be given back to the Italians. Finally, the view is held by many Italians that the loss of the colonies was a serious blow to Italy's prestige, which will prevent Italy from assuming the responsibilities of a major power until the colonies are returned.

The Italian case for revision of the military terms of the treaty can be more effectively argued. Besides its claims as co-belligerent of the allied powers, the Italian Government can point out that its armed forces are too weak to offer more than a limited defense against an invader and could be quickly overrun by Yugoslavia. Such military impotency would make Italy more of a liability than an asset as a member of the western European union, and although Italy would like to participate as a sovereign state in international organizations, it cannot do so until it is strong enough at least to defend its own independence and territory against aggression.

TOP SECRET

TOP SECRET

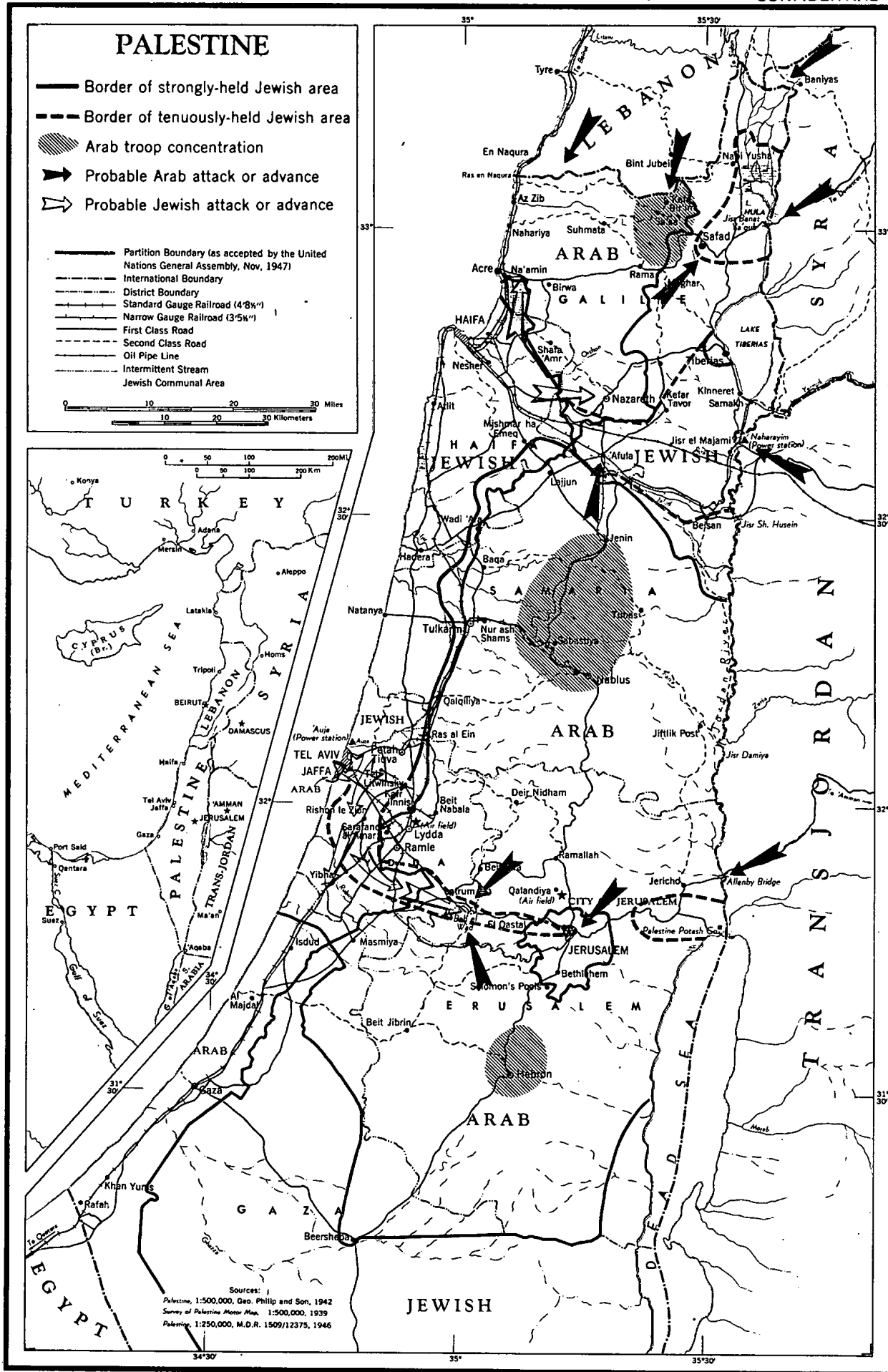
The Italian Government will probably also stress the fact that unless the treaty revisions are made, the Communists and the neo-fascists will profit politically. The Communists will contend that western power promises are unreliable and that Italy might better have joined the bloc of Communist countries which not only favor the return of the colonies but would assure Italy of the protection of the Soviet army. The neo-fascists will stress Italian nationalism and will play upon the traditional appeal of the Italian empire in the Mediterranean.

- 5 -

TOP SECRET

MILITARY SITUATION - 3 MAY, 1948

CONFIDENTIAL



TOP SECRET**THE SITUATION IN PALESTINE**

The prospects for a Palestine truce appear as remote as ever in spite of the various efforts now being made in Palestine, New York, and the Arab capitals. The dispatch of British reinforcements has had the effect of deterring Jewish attacks on Jaffa and in the Jerusalem area and possibly of delaying the invasion of the country by the armies of the Arab states. Both Jews and Arabs appear unwilling to provoke the British, who are increasingly determined to maintain order during the last ten days of the mandate.

After the end of the mandate on 15 May, contingents of the Arab states' armies will be free to move in, and full-scale operations can be resumed without interference from the British. The immediate prospect will be for a series of limited-scale battles, in which neither side will obtain a decisive victory. The Jews will probably hold substantially what they do at present but their communications will continue to be harassed.

Neither side can muster decisive striking forces, although both Arabs and Jews have large numbers armed and trained for part-time defense of their own communities. Hagana, the Jewish army, has approximately 35,000 full-time members, with perhaps 20,000 more troops available for field service out of some 50,000 civilians now on part-time home guard duty. Hagana is well trained and has armored cars and light support weapons. However, the Hagana field forces are scattered, and the Jews have not committed more than 3,000 men in any single attack to date.

The largest Arab contingent will probably be drawn from the regular armies of the Arab states, operating under Arab League control. Although the armed forces of the Arab states total well over 100,000 men, most of them will be needed at home for internal security duty. Initially, the Arab states are expected to contribute no more than 18,000 (out of some 35,000 available for Palestine duty), including the 8,000-man Transjordan Arab Legion and contingents from Iraq, Syria, and perhaps Egypt. These forces possess armored cars and light artillery, and the Arab Legion is reasonably

TOP SECRET

TOP SECRET

efficient. Also available are the 15,000 troops of the only partially trained Arab Liberation Army, which is still suffering from recent defeats. Approximately 30,000 Palestinian Arabs are members of para-military organizations and another 70,000 are available for home guard duty.

The Arabs can count on some assistance from Bedouin tribesmen in the nearby countries, while the Jews have some reinforcements available among immigrants waiting at Mediterranean and Black Sea ports for the British naval blockade to be lifted.

The beginning of the unrestricted campaign will find the Jews in substantial possession of the areas allotted to them under the partition scheme, except in southern Palestine, where no more than 3,000 Jews are scattered in isolated settlements. The Jews are well-established in the coastal area from newly-captured Haifa to south of Tel Aviv, including a small area in the Arab port of Jaffa. They have consolidated their positions in the Lake Tiberias area in northeast Palestine and appear to be in a position to seize all of Jerusalem. They do not, however, hold firm lines of communications from the coast to either Tiberias or Jerusalem.

The primary aim of the Jews, therefore, will be to hold their present areas, making partition a fact. They will probably attempt to complete the capture of Jaffa and to extend their coastal holdings north of Haifa to the Lebanon border. They will probably undertake limited attacks to strengthen their communications with the Lake Tiberias region (particularly around Arab-held Nazareth, which controls the main Haifa-Tiberias road). They may attempt to seize Jerusalem (although it is possible that Jews and Arabs will agree to consider Jerusalem a neutral area). The Jews may also make some attacks on Arab troop concentrations. In case of military reverses, the Jews are probably prepared to abandon their Lake Hula salient in the extreme north and later to withdraw from the Tiberias area, holding at all costs the coastal areas (which contain well over half the Jewish Palestinian population). If their initial operations result in striking successes, they might launch

TOP SECRET

TOP SECRET

a major attack on the Arab Liberation Army in the Nablus area and might eventually attempt to extend their rule over all of Palestine.

Although the ultimate Arab objective is to destroy all vestiges of a Jewish state, their immediate aims appear less ambitious than those of the Jews. Initially, the Arab regulars can be expected to occupy the Arab sectors of Palestine and probably also the Jewish areas of southern Palestine. Thereafter, they will probably make limited-scale attacks on key points along Jewish communications, on utilities (such as the Jerusalem water supply at Ras-el-Ain and Solomon's Pools) and on isolated Jewish settlements. They would resist Jewish seizure of Jerusalem. Despite pressure from the Arab peoples for a dramatic victory and possible limitations on the ability of the Arab states to maintain their armies in the field for an extended period, strong direct attacks by the Arabs are unlikely.

After the opening moves, the campaign is expected to settle down into a long-range affair, in which the Arabs will wear down the Jewish communities by guerrilla attacks on communications and exposed farms and by economic sanctions--including continued shutdown of the oil pipeline to Haifa and of the Naharim hydroelectric station, which supplies Haifa and Tel Aviv.

TOP SECRET**THE KASHMIR SITUATION**

Efforts by the Security Council to achieve a settlement of the Kashmir dispute have resulted in its adoption of a resolution acceptable neither to India and the pro-India legal Government of Kashmir headed by Sheik Abdulla nor to Pakistan and the revolutionary pro-Pakistan Azad (Free) Kashmir Government.

Under the terms of the resolution (1) Sheik Abdulla's Government, pending the outcome of a plebiscite, would be broadened to include equal representation of pro-Pakistan elements; (2) Indian troops would be progressively withdrawn to the extent permitted by internal security requirements; and (3) Pakistan forces would be allowed by agreement between the two dominions to occupy certain areas of the State to assist in the maintenance of law and order.

The Government of India and Sheik Abdulla's Government of Kashmir claim that these provisions, if implemented, would nullify their legal rights and would constitute a breach of faith with the people of Kashmir. Pakistan and the Azad Kashmir Government, on the other hand, maintain that a fair plebiscite cannot be held so long as Sheik Abdulla heads the Kashmir Government and so long as Indian troops remain in occupation of the State. The Government of Pakistan maintains further that it could not persuade the tribesmen of the North West Frontier Province to return home, and that the use of force against them would permanently alienate this important segment of Pakistan's population. Pakistan, supported by the Azad Government, demands therefore the complete withdrawal of all troops and the replacement of Abdulla by an interim neutral administration to be appointed by the Security Council.

Despite the bitterness of the dispute and Pakistan's conviction that a fair plebiscite would result in a pro-Pakistan vote, it is unlikely that the Government of Pakistan will sponsor

~~TOP SECRET~~

an attempt to end India's occupation of the State by force. The Government fears that its Army is too short of arms and ammunition to gain a victory. Indian Army leaders, on the other hand, notwithstanding India's superior military strength, recognize the possibility of over-extending their forces in Kashmir and have indicated a desire to negotiate a settlement with Pakistan.

Current statements by Indian political leaders are contradictory. They suggest that in view of the failure of the Security Council to provide a satisfactory solution, a resolution of the dispute will be sought both by "other peaceful means" (implying direct arbitration with the Government of Pakistan) and by intensified action of the Indian Army. If arbitration is adopted, a satisfactory and lasting solution could probably be obtained by conceding to Pakistan those areas of west and north Kashmir (including Poonch and Gilgit) which have clearly indicated an overwhelming sentiment in favor of Pakistan. Jammu and the important vale of Kashmir would be retained by India. If, on the other hand, India attempts by force to establish Sheik Abdulla's rule over all of Kashmir, it will probably succeed initially but in the near future will be confronted by retaliatory action on the part of the tribesmen, with the connivance and possible involvement of the Pakistan Government, and further rebellion in the State.

- 10 -

~~TOP SECRET~~

20 APR 1948

~~TOP SECRET~~

96

APR 30

C O N T E N T S

	Pages
TRENDS IN BRIEF	i - ix
ARTICLES	1 - 5
Post Election Problems in Italy	1
Weakened Position of Chiang Kai-shek	2
The New Phibul Government in Siam	4

Document No. 017
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 Auth: DDA Memo, 4 Apr 77
 Date: DDA REG. 77/1765 By: 021

~~TOP SECRET~~

TOP SECRET**TRENDS IN BRIEF****GENERAL**

Recent Jewish military successes in Palestine, by increasing Zionist confidence and the probability of early intervention by the armies of the Arab League states, have further undermined UN efforts to bring about an Arab-Jewish truce for all of Palestine. The present possibility of effective UN action regarding Palestine is therefore all but destroyed. Because the formulation and implementation of an international policy for Palestine appear impossible, purely national interests will now come to the fore. The Arabs and Jews will continue their struggle unchecked. The UK, which will no longer be responsible for Palestine after 15 May, will be more anxious than ever to protect its strategic interests in the Arab world. The USSR will use covert means (and possibly open support for the Jews) to keep the Palestine war going as long as possible, thereby insuring instability in the Near East and ideal conditions for Communist infiltration.

The Soviet Union's belated decision to occupy its hitherto vacant seat in the UN Trusteeship Council is attributable to a desire to improve the Soviet tactical position in opposing the US trusteeship proposals for Palestine. Through its participation in the Trusteeship Council (where decisions are made by simple majority), the USSR has taken the best move left open to it following the success of the US in taking the Palestine question away from the Security Council where the Soviet Union can use its veto. In the Trusteeship Council, the USSR will not only obtain a greater voice in the disposition of the Palestine issue, but it will also be able to exploit the colonial issue most effectively.

A reawakening of German initiative in international trade has recently been indicated by an informal proposal of the two largest German shipping companies that 75 US Liberty

- 1 -

TOP SECRET

TOP SECRET

ships be turned over for operation by German crews. The German companies hope to forestall the opposition of US shipping interests by suggesting limitations in the use of these vessels which would reduce competition with US ships. US approval of this proposal, however, would necessitate a reversal of the recent extension of the Ships Sales Act which prohibits the chartering of US war-built vessels to foreign operators.

The UK will probably initiate efforts in the near future to settle Antarctic questions, probably by means of conversations with Argentina and Chile. In view of the earlier British position that the problem should be settled by the International Court, the apparent readiness of the UK to negotiate a political settlement is in itself a concession. However, because the Government will be unable to offer any substantial geographical concessions to the South American countries, in view of Conservative opposition to any Laborite "liquidation" of the Empire, the outlook for an easy settlement of the issue is not bright.

The long-expected breakup of the World Federation of Trade Unions (WFTU) will probably not occur at the 30 April meeting in Rome of the WFTU executive committees. Although dissatisfaction of the CIO and the British Trades Union Congress (TUC) with the WFTU continues, the USSR's acknowledgment of the right of each national affiliate to determine its attitude toward the European recovery program has reduced the tension. Both the CIO and the TUC wish to avoid the charge of having broken the solidarity of world labor and therefore will seek to base their withdrawal from the WFTU upon a non-political trade union issue. At the Rome meeting, they will probably attack the pro-Soviet bias of the WFTU secretariat and demand that the powers of the Communist Secretary General (Saillant) be curtailed. The USSR desires to maintain an undivided WFTU through which to spread its propaganda and will seek to postpone major decisions until the Brussels meeting of the full WFTU Congress in September.

TOP SECRET

TOP SECRET**WESTERN EUROPE**

Despite the decisive victory of the Italian Christian Democratic Party in the recent elections, the stability of the new Italian government will depend upon De Gasperi's ability: (1) to form a strong coalition cabinet which will include the Socialists, and (2) to implement necessary economic and social reforms (see page 1).

The political stability of the German ports of Hamburg, Bremen, and Emden may be seriously impaired as a result of the US decision to divert their traffic to the ports of Rotterdam and Antwerp in order to distribute traffic more evenly over the German transportation system by making greater use of the inland waterways. Lack of traffic for these German ports has already hampered economic recovery to the extent that some German businessmen are considering strengthening economic and political relations with businesses now located in the Soviet Zone. Any further lowering of the economic level in these major port areas, where Communism has always flourished, would offer the USSR valuable opportunities for penetrating the business community of the western zones.

Communist-inspired wildcat strikes in Essen, Hamburg, and Frankfurt may occur during the next few months and will probably follow the general pattern of the successful wildcat test strike of dock workers in Hamburg last January. The Central Committee of the Communist Socialist Unity Party in Berlin is reported to have organized strike committees in these German cities and to have sent leaders to organize and control strikes in the areas. The local Communist headquarters in each city has been instructed to show sympathy for the strikers but not to participate openly in strike action. Discontent and idleness among workers in Essen and Hamburg make those cities especially vulnerable to this type of penetration. Frankfurt, as the seat of the Bizonal Economic Council, also makes an excellent target for such Communist activity.

- iii -

TOP SECRET

TOP SECRET

The deadlock over transport problems continues in Berlin despite a lull in sensational publicity. The USSR has not made a single real concession but has actually established complete but somewhat inefficient control over surface traffic moving in and out of Berlin, except incoming freight. Present hope for solution by negotiation is small. The USSR is now apparently preparing to tighten its grip on the city by attempting to enforce new restrictions on air traffic which would make all allied transport subject to Soviet regulation. So far, Soviet action on air transport has been limited to probing for western power weakness under the guise of a desire for increased air "safety." If the US-UK reaction to this probing shows indecision, the USSR may be expected to take strong action to compel western air traffic to submit to Soviet controls. Such action would probably include use of Soviet fighter planes to threaten and intimidate allied pilots.

EASTERN EUROPE

Czechoslovak armaments, including tanks and heavy artillery, are reportedly being shipped from the Skoda works to the USSR at the rate of six trainloads per month. These reports have not been confirmed, however, and the possibility cannot be excluded that the shipments may actually include heavy industrial machinery and equipment as well as armaments. Although Czechoslovak armaments production has reportedly been expanded since the coup, it is believed that priority is still being given to the export of Czechoslovak machinery, steel piping, rails, and other equipment to the USSR. Any substantial increase in Czechoslovak heavy armaments production would be at the expense of these essential industrial products and would represent only a small proportion of total Soviet armaments production.

Although Yugoslavia, Rumania, and Bulgaria probably do not contemplate the severance of diplomatic relations with the US at this time, their recent efforts to restrict the activity

TOP SECRET

TOP SECRET

of US diplomatic and military representatives indicate a firm intention to limit or reduce the capacity of these missions to function efficiently. The Yugoslav Government has threatened to curtail the staff of the US Military Attache unless that mission is reduced voluntarily, and the US Consulate in Zagreb is virtually unable to function because of recent governmental restrictions. The Rumanian Government is also seeking to reduce the size of the US Military Attache's office there by delaying the issuance of entry visas. Continued harassment of the US missions in all of the above countries is maintained by the intimidation and arrest of native employees, limitation on travel, and attempts to implicate US employees in espionage plots.

Despite an intensification of Communist propaganda in Finland and numerous reports of a Communist coup before the July elections, it is unlikely that the Kremlin will order an insurrection until the Communists have obtained control of the police, army, and trade unions. Because the Communists cannot obtain this control before the elections, they are unlikely to take any drastic action which would impair their recently improved electoral prospects resulting from the "benevolent" character of the Soviet pact. The Kremlin will probably refrain from further interference in internal Finnish politics prior to the elections unless: (1) East-West relations deteriorate markedly; (2) Finland fails to move cautiously in its relations with the west; or (3) Communist prospects in the elections suffer a severe setback. Soviet reluctance to further the western orientation of Scandinavian nations acts as an additional deterrent to the use of strong-arm Communist tactics in Finland.

NEAR EAST-AFRICA

Early participation of the Transjordan Arab Legion in the Palestine fighting appears probable in response to widespread Arab dissatisfaction over recent Jewish victories and in view of Abdullah's desire to strengthen his position in the Arab world. Severance by the UK of its connection with the

- v -

TOP SECRET

TOP SECRET

Legion would probably not be sufficient to prevent the Legion from marching. The Arab League has announced that it will assume the British 2 million pounds annual subsidy if necessary, and the withdrawal of the approximately 40 British officers now serving with the Legion would probably have only a limited immediate effect on its fighting ability. Heavy British pressure on Abdullah might deter him from using the Arab Legion in Palestine, but only at the expense of jeopardizing the close relations the UK has laboriously built up with the Arab states. Continuing UN inaction on Palestine may even strengthen the reluctance of the UK to obstruct Arab military efforts, particularly after the British responsibility for Palestine ends 15 May.

Continued shutdown of the Haifa oil refinery (which normally processes 90,000 barrels a day) will have serious economic consequences in Palestine and the nearby Arab states and adverse effects in other parts of the world. Haifa normally supplies all the petroleum needs of Palestine and Transjordan, half the requirements of Syria and Lebanon, and a fourth of Egypt's current consumption. Unless oil can be obtained from other sources, economic activity in these countries can be expected to be sharply curtailed in the near future, and Arab-Jewish military operations may in time be affected. The Haifa shutdown has already interrupted Greek-Turkish aid program oil shipments and has also resulted in a US decision to reduce US export quotas for Argentina and other Western Hemisphere nations. Reopening of the Haifa refinery is unlikely while the Palestine struggle continues: the Jews hold the refinery and the Arabs control the pipelines which supply it.

The revival of Iranian claims to the Bahrein Islands in the Persian Gulf (in response to a growing nationalism and the desire among leftist circles to embarrass the US and UK) is not expected to be successful but will nevertheless have unfavorable repercussions. The UK, which has controlled the islands through exclusive treaty rights since the latter part

- vi -

TOP SECRET

TOP SECRET

of the nineteenth century, has made clear that it will not countenance the Iranian claims. The US, which is interested in the maintenance of stability in the area and is also concerned because of American oil interests in the islands, has informally indicated its disapproval to Iran. Finally, Bahrain's predominantly Arab population, as well as the Arabs of neighboring states, opposes the claims. The Iranian Government will lose prestige at home by its failure to reestablish sovereignty over the island. Moreover, popular antipathy against the US and UK will be stirred up in Iran, and the USSR will be provided with further opportunities to promote international discord in this troubled area.

FAR EAST

The election of General Li Tsung-jen to the vice presidency of the Chinese National Government represents a political setback to Chiang Kai-shek, who opposed Li's candidature (see page 2).

Phibul's position as head of the new government in Siam is not yet fully established despite the nominal control he exercises over parliament and the support he enjoys from the army. He may therefore be expected to counter any threats to his position with dictatorial measures (see page 4).

The instability of the National Government in China is further demonstrated by the current exodus of Chinese textile mills and other factories from Shanghai to Hong Kong. Despite T. V. Soong's efforts to encourage northern industrialists to transfer their operations to South China, factory owners are apparently reluctant to remain in the country because of existing economic controls, labor unrest, and military threats. Any sizeable reduction of China's inadequate productive capacity will greatly increase inflationary pressures in the country, endanger its foreign exchange position, and add substantially to unemployment and consequent social unrest.

TOP SECRET

Indochinese Vietnam propaganda has recently shifted to include some direct attacks against the US, probably in response to an increased possibility that the French may soon seek foreign mediation in order to resolve the political deadlock in Indochina. French prestige in Indochina has been seriously weakened by the failure of the French forces to achieve military success and by the continued impasse in negotiations with the Vietnamese. Meanwhile, guerrilla activity against the French has increased in all sectors, and Vietnam morale has been greatly strengthened.

The recent change in the Burmese Cabinet, aimed at increasing the military effectiveness of the Government's forces, has given the Defense Minister control of the military police as well as of the army. The Defense Minister (Bo Let Ya), who is known to be ruthless and strongly anti-Communist, may emerge as Burma's strong man at a time when the Burmese Communists are increasing their attacks on villages and outlying police stations. It is doubtful, however, whether the army and the military police will be able to bring the Communists under control before the monsoons in mid-May when a general stalemate will occur. If the Communists disrupt the vital north-south transportation and communication systems, they will be in a position to disturb the trade between upper and lower Burma and to produce further political complications favorable to their objectives.

The critical situation in Korea has been intensified by the establishment of a "Democratic People's Republic" through the adoption of the "Draft Provisional Constitution" by the North Korean People's Council on 29 April. The "Republic's" claim to national sovereignty will be "legalized" through an "all Korea" election after the withdrawal of all occupation forces and the annexation of South Korea by force, if necessary. In the US Zone, the violent Communist campaign against the forthcoming UN-observed elections will probably be greatly intensified on 1 May and could develop into generalized terrorism and sabotage from 8 to 10 May. Despite the increasing use of firearms and explosives by the Communists, native security forces will probably prove capable of controlling the situation with a minimum of assistance from US occupation forces.

-viii-

TOP SECRET

TOP SECRET

WESTERN HEMISPHERE

Further deterioration in Argentina's foreign exchange position has improved US bargaining power for Economic Cooperation Administration purchases. President Peron has urgently requested the US to suggest a program under which Argentina could obtain dollars for grain and certain other products. The US is thus provided with a favorable opportunity to achieve its major economic objectives in the country, including better treatment of US capital and an increase in petroleum production.

- ix -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**POST ELECTION PROBLEMS IN ITALY**

The decisive victory of the Christian Democratic Party in the Italian elections does not guarantee a stable democratic government. The stability of the new Italian government will depend upon the composition of the cabinet to be formed in May and upon the successful implementation of necessary economic and social reforms.

The Italian Communists and their allies still constitute a strong minority in the new Parliament and control approximately six million organized workers through the Italian General Confederation of Labor (CGIL). In addition to this considerable political and economic strength, the Communists are in a position to discredit the government by exploiting the seriously adverse conditions which beset the people. As a consequence of the severely reduced Italian economy, there still is considerable unemployment and the standard of living, particularly in south Italy and Sicily, is extremely low. Moreover, the present tax system is highly unfavorable to the working classes and helps to perpetuate the maldistribution of wealth. Working conditions, particularly for industrial and agricultural labor, are bad and furnish the Communists with effective propaganda. The Communists can also exploit the discontent of a large number of landless peasants who are virtually serfs to a few important landowners. If any of the groups which gave De Gasperi active support influence him against making needed economic or social reforms, or if his government is unable to implement efficiently such reforms, the Communists would be able quickly to regain the influence and prestige lost at the elections.

The establishment of a stable Italian government would require the inclusion in the new cabinet of the moderate Socialists, whose program has the support of the non-Communist workers, and the adoption of an integrated Socialist and Christian Democratic program. The strongest weapon possessed by the Communists is their control of organized labor. This control can be broken only through effective collaboration by the Christian Democrats with moderate Socialist labor leaders.

TOP SECRET

TOP SECRET**WEAKENED POSITION OF CHIANG KAI-SHEK**

The election of General Li Tsung-jen to the vice presidency in China is not only a victory for that considerable group within the Kuomintang and the National Government which strongly desires a more progressive leadership, but also represents a political setback to Chiang Kai-shek, who was opposed to Li's candidature. Confronted by this defeat, Chiang may possibly refuse to accept his recent election to the presidency. There would undoubtedly be strong opposition at the present time to his withdrawal, however, because it is still generally recognized throughout the National Government that no other leader can so effectively rally the support of various Kuomintang factions and cliques.

It is doubtful that two such vigorous personalities as Li and Chiang, with such apparently antagonistic views on fundamental questions, can work in harmony for more than a short period. Besides the opposition of their views on reform and its implementation, Chiang is the proponent of strong centralized government, while Li apparently favors the development of China as a federation with a considerable degree of provincial autonomy. Li's support comes largely from those who favor decentralization and the delegation of increased authority to provincial governments in matters of civil administration and defense.

Although the withdrawal of Chiang from the political scene in China may not be imminent, the forces leading in this direction are steadily gathering strength and will continue to do so as long as the National Government under Chiang shows no greater capability in coping with its military and economic problems. The departure of Chiang, for whatever cause, would probably be followed by accelerated disintegration in the Kuomintang and National Government, a course which might continue unchecked and be exploited to the advantage of the Chinese Communists. It is possible, however, that the removal of Chiang's dominating personality would allow the formation of a broadly representative government under a new and progressive

TOP SECRET

TOP SECRET

non-Communist leadership. Such a leadership, commanding the support of the more progressive elements in Nationalist China both within and outside the Kuomintang, may now be developing in the "reform" movement associated with the new vice president. The capabilities of such a movement are untested, however, and even the identity of its more prominent leaders remains somewhat obscure.

- 3 -

TOP SECRET

TOP SECRET**THE NEW PHIBUL GOVERNMENT IN SIAM**

Phibul's position as head of the new Siamese Government is not yet fully established despite his popularity among nationalist groups, his nominal control of Parliament, and his present firm support from the Army. He faces the threat of resistance or non-cooperation from a significant parliamentary opposition. (In the recent vote of confidence there were almost as many abstentions as affirmative votes.) He may therefore encounter difficulties in obtaining parliamentary approval of vital budgetary measures. Phibul may also be confronted by defections among his followers in the Army. Moreover, like the predecessor regimes, his economic position is complicated by the extent of local Chinese control over vital aspects of the nation's economy.

Phibul may be expected to counter any threat against himself or his government by vigorous and dictatorial action. His regime is likely to be both rightist and nationalistic in character, and inclined toward opportunism. If Parliament proves unmanageable, he may dissolve it and call for a general election or simply attempt to govern through an intimidated Supreme Council of State. He is threatening to improve Siam's economic position by taking steps to reduce Chinese control. The local Chinese could effectively counter such a move by shutting down their vitally important rice mills; however, they may be persuaded by the Chinese Government to refrain from such action because of China's urgent need for rice. Phibul, also, may attempt to obtain more favorable trade contracts from the US and UK by capitalizing on the presence of the Soviet diplomatic mission in Bangkok. Phibul will probably honor Siam's existing international commitments. On the other hand, he will probably impose restrictions on some of the important foreign profit-taking enterprises as he gradually consolidates his position. Moreover, he will probably play up the Communist internal threat in an effort to extract arms and financial support from the US.

- 4 -

TOP SECRET

TOP SECRET

Phibul, military dictator of Siam during 1938-45, came back into power in early ~~1947~~¹⁹⁴⁸ as a direct consequence of the November 1947 coup which he engineered. This coup ousted the Thamrong Cabinet and resulted in the installation of a "democratic front" Cabinet under Abhaiwong as a means of winning foreign approval of the change in regimes and as a means of avoiding the appearance of military control. Abhaiwong, however, did not prove to be a willing stooge and Phibul consequently forced Abhaiwong's resignation and had himself appointed premier by the Supreme Council of State. Authoritarian action by Phibul will undoubtedly increase the size of his opposition and encourage plots to remove him from power. The opposition presently has meager capabilities for a successful coup. Its armed strength is limited to an impotent navy and the remnants of the wartime Free Thai movement. This opposition group, however, may in time be swelled by disaffection within the Army.

- 5 -

TOP SECRET

23 APR 1948

50

~~TOP SECRET~~

Apr 13

CONTENTS

	Pages
TRENDS IN BRIEF	i - v
ARTICLES	1 - 7
New Soviet Attitude Toward Austrian Treaty	1
The Effects of the Election on Italian Labor. . . .	2
Prospective Communist Strategy Following the Italian Elections	3
Political Disintegration in China	6

Document No. 016
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1563
 Date: 27/01/79 By: 021

~~TOP SECRET~~

TOP SECRET

TRENDS I N B R I E F

WESTERN EUROPE

The apparent desire of the USSR for early completion of an Austrian treaty has led to a change in tactics at the London treaty discussions and in Soviet administration of Austria (see page 1).

Communist domination of Italian labor has been seriously impaired by the results of the recent general elections (see page 2).

Recent preparedness steps by the UK reflect increasing official pessimism regarding the international situation. The British Government has sharply advanced production plans for two types of jet bombers, and the army is drawing up measures to improve its operational readiness (including a plan for general mobilization after 1 April 1949). The Government is also actively considering the problems of the organization of civilian defense.

Sporadic strikes and demands for additional wage increases can be expected in France unless food prices are substantially reduced before June. The average Frenchman spends 80% of his income on food and, although long-range agricultural and industrial prospects for 1948 are good, recent reductions in the prices of household commodities are not as yet reflected in the standard of living of the workers.

The fears of certain French military and political leaders concerning the likelihood of a Soviet attack on western Europe probably indicate uneasiness over France's ability to resist as well as a desire for positive US military commitments. France will undertake joint military defense plans with the signatories of the Brussels pact, although the success of this collective effort will be dependent upon clear-cut evidence of US military support.

TOP SECRET

Resistance to Communist-inspired strikes and demonstrations in Berlin and the penetration of Soviet-controlled labor unions in that city by anti-Communists have been facilitated by the success of the anti-Communist Independent Trade Union Organization (UTO) in recent trade union elections in Berlin. In defeating the Communist-controlled Free German Union of Trade Unions in the Soviet sector as well as the Allied sectors, the UTO has gained control of these unions, especially of the important police and transport groups in the western sectors. This victory has partially deprived the USSR of the chief instrument, except military force, by which control of the city could be attained and through which the presence of the western powers could be rendered increasingly difficult.

EASTERN EUROPE

Following the Communist electoral defeat in Italy, the USSR may temporarily moderate Communist activities in Italy and France, but is expected to continue Communist pressure in Germany and aggressive tactics in the Near East (see page 3).

Increased military activity by the USSR in eastern Germany, particularly in Berlin, during the past 90 days can probably be regarded primarily as measures to consolidate the Soviet postwar position in western Europe and to continue the war-of-nerves against the western powers. Such military activity is estimated to have the following objectives: (1) a further sealing of the western border of the Soviet sphere; (2) normal replacements for Soviet armed forces in Germany; (3) participation in the program of maneuvers now being conducted in all territories occupied by the USSR; and (4) a contribution to the war-of-nerves designed to decrease or eliminate western representation in Berlin and the Allied Control Council. Although increased military activity may be expected to continue for some time, it is probably not a preparation for movement against western Europe.

TOP SECRET

Several measures recently adopted by the USSR are designed apparently to increase the Soviet Union's military and economic capabilities and to facilitate a transition from a civilian to a military economy. By a recently-published decree, military ranks are established for all administrative, engineering, and technical personnel now in industries under jurisdiction of the Ministry of Non-Ferrous Metallurgy and the Ministry of Internal Affairs. This decree, which is almost identical with the one issued in 1947 to govern the coal ministries, may indicate the formation of quasi-military organizations. In addition, civilian defense groups are reportedly being established for each city block in Moscow, and air raid systems are being reorganized.

Recent shipping agreements between Czechoslovakia and Poland are designed to integrate more closely the Satellite economies. By the terms of these agreements, large quantities of Czechoslovak traffic will be handled through Stettin instead of Hamburg, Czechoslovakia will transfer some 30,000 tons of river barges from the Elbe to the Oder, and Czechoslovakia will receive a free port in the Stettin area. Oder traffic, however, cannot reach western Czechoslovakia without transshipment, and the Baltic port of Stettin is not as convenient to the North Sea as Hamburg. Despite the obvious disadvantages to Czechoslovakia, the USSR is apparently determined to implement the agreements as soon as possible in order to: (1) avoid future costs at Hamburg involving hard currency; (2) develop ports which can compete with facilities in the western zones; and (3) make the Satellite economies more independent of trade areas which the USSR does not control.

NEAR EAST-AFRICA

Severe criticism of the US Palestine trusteeship proposals in the General Assembly makes it increasingly unlikely that any effective UN action on Palestine will be taken before the termination of the UK mandate on 15 May.

- iii -

TOP SECRET

TOP SECRET

As a result of the steadily increasing hostilities between Arabs and Jews and the disinclination of the UN to send a military force to impose a settlement, certain UN delegations are attempting to shift the emphasis from plans for a truce and trusteeship to the problem of safeguarding the religious shrines in the Jerusalem area. By maintaining security in a Jerusalem area (possibly including rail and road communications to the sea), the UN would control a center of authority which might eventually be expanded to include the rest of the country. While such a course of action would initially leave most of Palestine in a state of civil war, it is the only UN action which appears to have any chance of success at this time.

~~FAK EAST~~

Political disintegration in Nationalist China has become relatively advanced and may be greatly increased by the outcome of the current vice presidential elections (see page 6).

The registration of almost 92% of the South Korean electorate for the forthcoming UN-observed election reflects a considerable degree of pressure by rightist police and terrorist youth groups and, only in part, a spontaneous expression of public interest in a national election. Police and youth groups who are members of the Rhee Syngman machine have been offering "instruction" in democratic procedures to the rural population, and Soviet propaganda has already begun to attack the validity of the election on the grounds of coercion and intimidation.

Jose P. Laurel, president of the Philippines under the Japanese occupation, is making every effort to exploit the uncertain political situation (produced by the death of President Roxas) to further his presidential aspirations for 1949. Ignoring the period of national mourning, Laurel has continued his public criticism of the Government for its alleged subservience to US military and economic interests, and he has engaged in a series

- iv -

TOP SECRET

TOP SECRET

of maneuvers designed to harass the new Quirino administration. Unfavorable popular reaction to his attacks upon Quirino has led Laurel to make a conciliatory proposal for the establishment of a coalition government under Quirino and to indicate that he is willing to join such a coalition. However, Laurel recognizes that he is now a key political figure, and he wishes to extract maximum concessions from Quirino for the support which the new president needs.

WESTERN HEMISPHERE

Reports continue to be received of Soviet submarine activities in the Caribbean. By early April a Soviet submarine had allegedly arrived at a secret base on an island off the Mexican coast and was scheduled to land arms and Soviet officers in Costa Rica. The possibility has also been reported that a Soviet submarine recently sent men ashore in the Nautla area (near the Poza Rica oil fields and pipelines north of Veracruz). On 21 April, a US submarine reported sighting a foreign submarine in the Gulf of Panama and a US plane reported "almost positive evidence" that a Soviet barkentine in the same area was refueling a submerged submarine. Although positive confirmation of any of these reports is not yet available, the possibility of such activity is not discounted.

The formation of a Costa Rican military junta is expected as a result of the recent agreement ending the civil war. The desire to destroy the military power of the Communist Vanguardia Popular and the need for a firm attitude toward the meddling of General Somoza of Nicaragua will compel the victorious rebel forces to pursue, temporarily at least, a dictatorial policy.

- v -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**NEW SOVIET ATTITUDE TOWARD AUSTRIAN TREATY**

The apparent desire of the USSR for an early conclusion of an Austrian treaty has recently led to a definite change in Soviet tactics both at the London treaty discussions and in the administration of Soviet areas in Austria. Until recently, the USSR enjoyed an excellent tactical position in the London negotiations because of the reluctance of the western powers to commit themselves on the economic phases of the treaty without knowing the Soviet position on questions of Austrian security. The USSR has sacrificed this advantage by agreeing to defer the discussion of economic items in order to consider the security issues.

Although recent moves by the USSR in Vienna and in the Soviet-occupied zone of eastern Austria appear to be confused and defensive, they essentially reveal a Soviet desire to impress the Austrian Government and the western allies with the desirability of an Austrian treaty. Soviet steps to impede transportation between the western zones and Vienna, which have proved annoying even though never fully enforced, are probably intended to serve as a reminder of the capabilities of the USSR in Austria. Austrian leaders are particularly disturbed by the prospects of possible Soviet violence and forced partition of the country following a breakdown in treaty negotiations.

There can be little doubt that the USSR regards the present quadripartite occupation of Austria as unfavorable to its designs and considers that forced partition is not a desirable solution to the problem. The Kremlin would welcome a treaty which would both provide for quadripartite troop withdrawal and leave Austria unable to resist eventual absorption into the eastern bloc. Although the USSR, through an underestimation of Austria's political vitality and economic potential, might accept a settlement which would make it difficult for either the USSR or its Satellites to absorb Austria except by armed aggression, it is unlikely that the Kremlin will agree to any terms which would be likely to prejudice seriously its chances of eventual domination in Austria.

- 1 -

TOP SECRET

TOP SECRET**THE EFFECTS OF THE ELECTION ON ITALIAN LABOR**

The position of the Communist Party as the chief representative of the working classes in Italy has been seriously impaired by the overwhelming victory of the moderate parties in the recent elections and by the Communist stand against the European recovery program in Italy.

The outcome of the election increases the likelihood that a large number of the Nenni left-wing Socialists will re-join the moderate Socialist group. Already such confirmed leftists as Giuseppe Romita, ex-Minister of Interior, have called upon other left-wingers to take part in regaining the "independence of the Socialist Party," presumably through an alliance with the moderate socialists. It is even possible that Nenni himself may now withdraw his support from the Popular Front, but because of the Government's fear of pro-Communist infiltration the likelihood is still remote that either he or Romita would be allowed to take part in the new coalition government.

Such a realignment of Socialists would seriously challenge Communist domination of the Italian General Confederation of Labor (CGIL). In reaction to this possibility, the Communist chief of the CGIL recently announced that he intends to ask the Executive Council of the World Federation of Trades Unions (WFTU) to permit the labor organization of each country to determine its attitude toward the European recovery program. (WFTU executives, meeting in Rome on 30 April, will probably reiterate earlier statements that each national labor organization has always been free to determine its own attitude.) Communist apprehension over the growing strength of anti-Communist labor has been increased by the recent switch of several labor unions from the left-wing to the right-wing Socialist Party and by the comparative failure of the one-hour general strike of 12 April. The CGIL moderates now appear to be strong enough not only to accomplish their long-awaited break with the CGIL but possibly even to achieve domination within the Confederation itself.

- 2 -

TOP SECRET

TOP SECRET

**PROSPECTIVE COMMUNIST STRATEGY FOLLOWING
THE ITALIAN ELECTIONS**

The defeat suffered by the Communists in the Italian election has further reduced Communist capabilities for assuming power and has vastly improved the morale and confidence of the anti-Communists in both Italy and France. An increasing number of left-wing European Socialists and fellow-travellers may now abandon their Communist association. The Communists in western Europe thus are confronted with a considerable loss in political influence in addition to their already reduced capabilities for revolutionary action.

Italy and ~~Germany~~^{France} may consequently enjoy a brief respite while the Communists regroup their forces and revise their strategy. The USSR, however, can be expected to maintain its pressure in Germany. Moreover, it will probably continue its aggressive tactics in the Near East. In Iran, continuing Soviet pressure may eventually lead to actual intervention, professedly based on the 1921 Soviet-Iranian Treaty. The deteriorating situation in Palestine may soon present the Kremlin with an irresistible opportunity for greatly expanded covert intervention. Although the Satellites continue to exercise caution in their support of the guerrilla forces in Greece, they are capable of vastly increasing the scale of their covert aid. In Latin America, the USSR can be expected to seize upon any favorable opportunities for exploiting local unrest or violence.

For the immediate future, Communist activities in western Europe are likely to be directed toward rebuilding the popular front rather than an early or determined bid for power. A Communist drive to recover the allegiance of the non-Communist Left is indicated by these recent developments: (1) French Communist Leader Thorez on 18 April called upon Communists, Socialists, and Catholics to unite in defense of French "liberty and independence"; (2) the Cominform Journal, reversing its original position, is now professing to represent

- 3 -

TOP SECRET

TOP SECRET

all workers' parties, not merely the Communists; (3) the German Communists recently voiced approval of a "Middle-Class Auxiliary" of the Socialist Unity Party (SED), which might conceivably develop into the long-expected "nationalist" movement based on the Bismarckian concept of Russo-German cooperation; and (4) the Kremlin reportedly has issued a directive to the French Central Communist Committee calling for a program of non-violence in western Europe and intensified activity in Germany and the Near East.

Concurrently, Communist propagandists may intensify their efforts to contrast "peaceful" Soviet intentions with US "warmongering" and "imperialist designs." Such a drive would be designed to win the support of those western Europeans who are prepared to seek "peace at any price" and to encourage a relaxation of western, and particularly US, military preparedness. Such an intensified campaign would presumably be launched in the speeches and pronouncements which traditionally are made by leading Communists on May Day.

In any event, the Communists are not expected to relax their efforts to prevent recovery in Europe. Defeat of the recovery program remains a prime objective of Communist strategy. Strikes and industrial sabotage, conducted ostensibly on the basis of local economic issues rather than political considerations, therefore can be expected. Although Communist propaganda will continue to impugn US motives in promoting recovery, the Kremlin may henceforth moderate its attacks upon present western European governments.

In Greece, the Kremlin is also faced with a possible reduction of Communist capabilities. Differences between Greek Communists and Soviet-Satellite Communists have apparently arisen over problems concerning Soviet aims in Greece and the conduct of the civil war. Greek Communist leaders are reportedly disturbed by the failure of the Satellites to provide the guerrillas with enough aid to halt the continuing successes of the Greek Army, and the Minister of Interior in the Markos government is said to be distrustful

TOP SECRET

TOP SECRET

of the "selfish" policy of the USSR and fearful that Yugoslavia may be planning to seize Greek Macedonia. Moreover, certain Greek Communist leaders believe that the primary Soviet intention in the civil war is to wage a long campaign of economic attrition against the US and not to effect the rapid military defeat of Greece. In view of the successful operations of the Greek Army, it is apparent that the Kremlin must decide soon whether to authorize a drastic increase in aid to the guerrillas or allow their gradual defeat by the Greek Army.

Although Communist May Day demonstrations in Latin America may result in local disturbances, present indications are that the Latin American governments will be fully capable of controlling any outbreaks. In Mexico, the electrical workers have threatened to call a May Day strike. If they are joined by the petroleum workers, miners, and railway workers (all closely allied with the electrical workers by inter-union agreements), the resulting strike could cause a general paralysis of the country and threaten the stability of the Mexican Government. Sporadic violence may break out in Cuba, and possibly in a few other countries, though there are no indications at present of coordinated plans for strikes or public disturbances.

- 5 -

TOP SECRET

TOP SECRET

POLITICAL DISINTEGRATION IN CHINA

Political disintegration in Nationalist China, both in the provinces and the central regime at Nanking, appears to have reached a relatively advanced stage. In addition to well-established separatist tendencies in South China, a feeling of regional independence is apparently growing among Nationalist civil and military officials in North China, largely as a result of the inability or the unwillingness of the National Government to extend realistic military support. Some direct overtures from local military commanders for US military aid, a tendency among provincial governments to raise and support their own levies (in at least one case in contravention to National Government ordinances), and evidence of increasing liaison among North China leaders--all indicate that while North China officials still hope for assistance from Nanking, they have ceased to expect it.

Despite Chiang Kai-shek's recent reelection to the presidency, dissatisfaction with his leadership has not been dispelled in the National Government at Nanking, and there is considerable doubt whether Chiang can so reorganize the Government as to make it capable of effective political, military, and economic action. If Li Tsung-jen is defeated in the vice-presidential election now in progress, the result may be a split in the Government, inasmuch as Li has become the candidate upon whom liberal elements within the Government have placed their hopes for constructive "reform." Li and his group have had the apparent aim of seeking the vice-presidency as an initial step toward taking over the Government by evolutionary means. If victorious in the current election, Li may be expected not only to push the adoption of reforms but also to attempt to reduce the power of Chiang and perhaps force his retirement. In the event of his defeat, there is a remote possibility that Li may stage a military coup to displace Chiang. It is more likely, however, that he will not at this time take such precipitate action for fear of the disastrous consequences to his cause if an overt move against Chiang should prove unsuccessful. He may instead seek to develop a non-Communist revolutionary movement capable of overthrowing Chiang eventually.

- 6 -

TOP SECRET

~~TOP SECRET~~

Such a movement could not only coordinate the activities of existing dissident elements but also it probably would attract the support of many elements within the National Government who are becoming convinced that it is futile to hope for a favorable military solution of the civil war. For such groups there is some prospect that a government under the leadership of Li could reach an accommodation with the Chinese Communists who continue to refuse adamantly to negotiate with Chiang Kai-shek. This prospect has been improved by some indications that the Communists may also desire a political settlement and may be willing to negotiate with a government led by someone other than Chiang Kai-shek.

- 7 -

~~TOP SECRET~~

16 APR 1948

50

~~TOP SECRET~~

APR 16

CONTENTS

	Pages
TRENDS IN BRIEF	i - vii
ARTICLE	1 - 2
The Military Situation in China	1

Document No. 015
 NO CHANGE in CLASS.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 Auth: DDA Memo, 4 Apr 77
 Date: 27/01/78 By: 021

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

GENERAL

Prospects for a Palestine settlement continue to be poor. In view of the advanced state of Jewish preparations for establishment of the Zionist state announced for 16 May, Arab determination to gain complete control of Jerusalem, and ever-increasing Arab-Jewish hostilities, the truce which many UN members consider a prerequisite to UN trusteeship over Palestine has little chance of acceptance by the belligerents. Moreover, even should the Security Council's political and military "standstill" formula be accepted by Jews and Arabs, it will be extremely difficult to muster the necessary two-thirds support in the UN General Assembly for a temporary trusteeship for Palestine. Until the US position with respect to the use of force under the proposed trusteeship is clarified, even those states which now favor a trusteeship in principle will remain non-committal. Thus far, eight nations have indicated tentative support for trusteeship, and eight or more other nations are likely to follow their lead. The ten Moslem states and India will continue to be hesitant so long as they suspect that trusteeship may be a detour to partition or may be indefinite in duration. The six nations of the Soviet bloc will probably continue to fight any retreat from partition.

The concern of the USSR over the weakness of its position in the Far East may be indicated by a recent Soviet protest against "34 violations of the freedom of commercial navigation" by US aircraft in the Sea of Japan and the Yellow Sea. This protest, the third in the past two months, demonstrates that the USSR is convinced that the US is engaged in systematic observation of Soviet shipping. The Soviet Union is particularly desirous of concealing from the US certain outstanding weaknesses of its position, such as shortages of oil and similar weaknesses which seriously restrict the operations of its navy and merchant fleet. The USSR undoubtedly feels that US patrol activities could, if unchallenged, be extended northward to the supply lines from

- 1 -

TOP SECRET

TOP SECRET

Sovyetskaya Gavan to the Dalstroi project and other areas where military and commercial development on a large scale is in progress. Furthermore, by protesting US air "violations" in the Far East, the USSR probably hopes to weaken US opposition to Soviet interference with US air operations in the German and Austrian occupation zones.

WESTERN EUROPE

De Gasperi's Christian Democrats and the other moderates will probably win a majority in the Italian elections on 18 April, and Italy will continue under a government similar to the present coalition. Although bad weather on election day or Communist intimidation at the polls would improve the Communist position, available evidence indicates that the Communist-dominated Popular Front will fail to gain a plurality. If there is a turnout of approximately 90% of the 29 million eligible voters, the election is expected to give the Christian Democrats 39% of the total vote, the Popular Front 33%, the Moderate Socialists 8%, the Republicans 4%, the rightist National Bloc 7%, and the numerous minor parties the remaining 9%. 47.6-S
48.5-A

The success of the French Government's economic stabilization program has greatly increased the strength of the Schuman coalition Cabinet and has simultaneously weakened both De Gaulle's Rally of the French People (RPF) and the French Communist Party. In reaction to this situation, Communist leaders have apparently issued orders to provoke Gaullist groups to public disturbances. Moreover, after the reconvening of parliament on 20 April, the Communists are expected to demand the dissolution of the RPF para-military organization. Although the Communist campaign to promote disorders is likely to continue, the present Government is capable of maintaining order. If the disorders become nationwide, however, or if a major international disturbance occurs, another Gaullist appeal to the French people might prove timely.

Latest indication of Soviet efforts to break up the Berlin four-power administration is the appearance on duty in Berlin of

TOP SECRET

TOP SECRET

German police from the Soviet Zone, without giving notification to city police or allied officials connected with municipal administration. The entrance of the Soviet Zone police into Berlin is a flagrant violation of Berlin quadripartite rule and creates a law enforcement agency over which the western powers have no control.

Recent elections of the Algerian Assembly indicate that French sovereignty is now more securely established in Algeria than at any time since the liberation. The elections, the first under the Algerian Statute of 1947, resulted in: (1) a decisive victory for pro-French rightist candidates, (2) a rejection of the Communist platform advocating Algerian autonomy within the French Union, (3) a setback to the proponents of Moslem nationalist separatism, and (4) an overwhelmingly successful support of De Gaulle's Rally of the French People (RPF).

EASTERN EUROPE

The Communist Government in Czechoslovakia has scheduled general elections for 30 May, apparently in the hope of cloaking the recent coup with a semblance of legality. Nevertheless, Communist concern over the possibility that the results of the elections cannot be controlled is indicated by the adoption of a succession of steps designed to prevent an opposition vote. The Government originally proclaimed its intention to permit all parties in the National Front Government to offer their own list of candidates, but this announcement has been rescinded and only one list of candidates will be offered. The opportunity to vote for opposition parties outside the single Government list will be severely restricted. Moreover, the Government has not yet decided whether it dare permit the voters to express their disapproval by casting a blank ballot. Although the results of the election are a foregone conclusion, the strong tradition of democracy in Czechoslovakia, as compared to that in the other Satellite States, will make it difficult for the Communists to achieve these results if they pay even lip service to democratic procedures.

- iii -

TOP SECRET

TOP SECRET

NEAR EAST-AFRICA

The intensified Soviet campaign of intimidation against Iran is designed to force the Iranian Government to abandon its pro-Western orientation and to submit to Soviet domination. Increased subversive activities are apparently planned to stimulate local disorders, and these in turn will be exploited by action committees of the pro-Soviet Tudeh Party. If these tactics are not quickly successful, the USSR may resort to direct military action on the pretexts that: (1) disturbed conditions in Iran threaten the security of neighboring Soviet territory; (2) Iran is being used as a base by hostile powers; and (3) the USSR is morally obligated to assist Iranian "democratic" elements in the liberation of the oppressed Iranian people. Although the Iranian Government appears determined to suppress subversive groups and to take vigorous action against disorders, there is danger that the present inclination of certain Iranians to mollify the USSR may lead to general appeasement of the USSR unless Iran retains confidence in western support.

FAR EAST

The continued inability of the Chinese Nationalist military command to solve its logistical problems is severely damaging the morale and the effectiveness of the Nationalist units in the field (see page 1).

Despite Chinese dissatisfaction with the present state of Sino-Soviet relations, the National Government is not expected to do anything to aggravate this relationship in the immediate future. China probably will not adopt a firmer attitude until improvement of conditions in Europe enables the US to devote more attention to the Far East and to offer China more assurance of effective support vis-a-vis the USSR. The restraint shown by China in the recent exchange of notes with the USSR (concerning the Soviet attack on a Chinese commercial plane in the Port Arthur vicinity) is indicative of the current Chinese attitude.

TOP SECRET

The sudden death of Philippine President Roxas has removed a strong restraining influence on growing nationalistic trends which may seriously affect US interests. The assumption to the presidency of Vice President Elpidio Quirino, a less forceful person than Roxas, is likely--following a period of mourning--to precipitate political uncertainty which could be openly exploited by dissident and left-wing groups which have been the main target of Roxas' administration. Roxas' death also increases considerably the possibility that Jose P. Laurel (Japanese occupation president), recently cleared of collaboration charges by Roxas, will be elected president in 1949. Laurel's nationalism and anti-foreignism were emphasized recently in a campaign speech when he stated that although the Philippines has won political freedom, "victory has yet to be won in the fields of economics and international relations."

The emphasis in current Dutch-Indonesian Republican negotiations has shifted from problems concerning the conditions of Republican participation in an interim federal government to the nature of the projected United States of Indonesia (USI) and the Netherlands-Indonesian Union. This shift appears to result from the Republic's realization that, once it has entered an interim organization, it will be merely one of the future member-states of the USI and will thus lose much of its power to influence the formation and structure of the USI. The Republicans are presently seeking agreement on long-range considerations, thus indicating their distrust of Dutch motives and their belief that the Republic's political future is identical with dominance in the USI. Dutch counterproposals, aimed at restricting future Republican influence in the USI and reinforcing the Netherlands-Indonesian Union in order to offset a Republican-dominated USI, may lead to a protracted deadlock in the current discussions.

Armed clashes are now occurring in widely separated areas in Burma between Communist guerrillas, aided by lawless bands, and the Burmese army and military police. If prolonged, this guerrilla warfare will undoubtedly lead to progressive economic deterioration and increased political unrest. The ability

- v -

TOP SECRET

TOP SECRET

of the Government to restore law and order quickly depends directly upon the loyalty of the military forces. In recent engagements, troops drawn from the Karen and other minority ethnic groups have been used in preference to personnel from certain groups whose loyalty is considered less reliable--the Burmese Army, the provincial police, and the Peoples Volunteer Organization (PVO). If the PVO or the Karens (who comprise 30% of the Burmese Army) attempt at this time to pursue their own objectives, the ability of the Burmese military forces to deal successfully with the Communists could be seriously impaired by the divided loyalties of the Karen and PVO contingents.

The postponement of the North Korean "unity conference" (scheduled for 14 April) at the request of South Korean emissaries indicates that the USSR has decided to make concessions to South Korean representatives in the hope of assuring a successful conference. Kim Koo, leading South Korean anti-Rhee Rightist, remains enthusiastic about the conference, but Kimm Ki-unic, South Korean Moderate leader, now seems unwilling to attend. Kimm Ki-unic seems to be convinced that the proposed Pyongyang conference can neither achieve Korean unification nor postpone the election (and Rhee's inevitable victory). To avoid participating in the conference, Kimm may decide to stipulate certain conditions totally unacceptable to the North Koreans: This may enable Kimm to "save face" and reduce somewhat the propaganda value of the conference to the Kremlin. His maneuver will have little effect upon Soviet policy or tactics.

WESTERN HEMISPHERE

The stability of the Colombian Government continues to be uncertain because of (1) the continuance of the general strike, and (2) the real possibility of renewed violence at the time of Gaitan's burial. The army continues to be loyal and probably could cope with any new disturbances.

Peron may be forced to place more reliance on the Argentine Army and to seek additional support from anti-US nationalist elements, if the Argentine Government loses control

TOP SECRET

of labor groups through a new technique of negotiation being used by striking bank employees. The strikers have set up an illegal "inter-Bank Committee" through which the Government has been forced to negotiate, thus giving the committee de facto recognition. If other Argentine labor groups use this extra-legal device, the Government may resort to more repressive measures with a consequent loss of labor's support.

If the current presidential campaign in Panama results in leadership of the government by Arnulfo Arias, lessened cooperation with the US on measures vital to safeguarding the security of the canal may be expected. Arias is the most popular candidate and he could come to power (1) by popular election, or (2) by taking advantage of a revolutionary situation resulting from his disqualification on technical grounds. Regardless of the high economic price any Panama administration must pay for non-cooperation with the US, Arias would probably be most reluctant to recognize the realities of US strategic necessities in Panama.

Growing dissatisfaction with the regime of President Aleman of Mexico is indicated by the strengthening of the secret police and the presidential guard, by the large number of Mexican federal troops being reassigned to strategic areas, by the unusually numerous changes in the army high command recently, and by an abnormal increase--amounting in some cases to ten times normal trade-level requirements--of demands for ammunition in certain areas. Present dissatisfaction is attributed largely to: (1) Aleman's firm attitude toward labor and his swing from the leftist policies of his predecessors; (2) Aleman's inability to control corruption among his personal advisers; (3) Mexico's unfavorable economic position, coupled with a continuing rise in living costs; and (4) hostility against the unpopular foot and mouth disease campaign. Although discontent among the population has not reached alarming proportions, it could develop into a serious threat to the present administration and to the continuing stability of the Mexican Government.

- vii -

TOP SECRET

TOP SECRET

ARTICLE

TOP SECRET

TOP SECRET**THE MILITARY SITUATION IN CHINA**

Despite the recent prediction by Chiang Kai-shek that the new Nationalist military strategy--which gives top priority to the Central China theater--would result in the pacification of that area within six months, the Communists are still carrying the civil war into Nationalist areas in Central and North China and may already have undertaken initial moves in a Manchurian spring offensive. The real difficulties facing the Nationalist armies in the field have not yet been met. Chiang's prediction, which was made in an address to the National Assembly, was probably designed to rally popular support to the Nationalist cause and revive public confidence. Serious shortcomings in the Nationalist military structure must be overcome before his efforts can be successful, since the Government's announced program for land redistribution and the broader utilization of local militia will in all likelihood prove only palliatives.

The Nationalist armies continue to be handicapped by poor leadership, passive tactics, and low morale. Meanwhile, the logistic difficulties facing them continue to mount. The failure of the Nationalist command to recognize the weight of these difficulties has led to over-extension of tactical units which, together with extremely effective Communist economic warfare, has reduced original Nationalist advantages in numbers and material resources to the point of parity. In certain areas, these advantages have already passed to the Communists.

The Nationalist main areas of production (centered in the cities of Chungking, Hankow, Canton, Nanking-Shanghai, and Peiping-Tientsin) were connected initially with the major combat areas by a long but fairly adequate net of rail, highway, air, and waterborne transport. Continued Communist assaults against overland communications have compelled, however, at least two of the eight major Nationalist combat forces to rely primarily upon air supply and have made three dependent upon water transport. Because of the inability of the Nationalist air force to sustain an air tonnage adequate for the needs of the ground forces

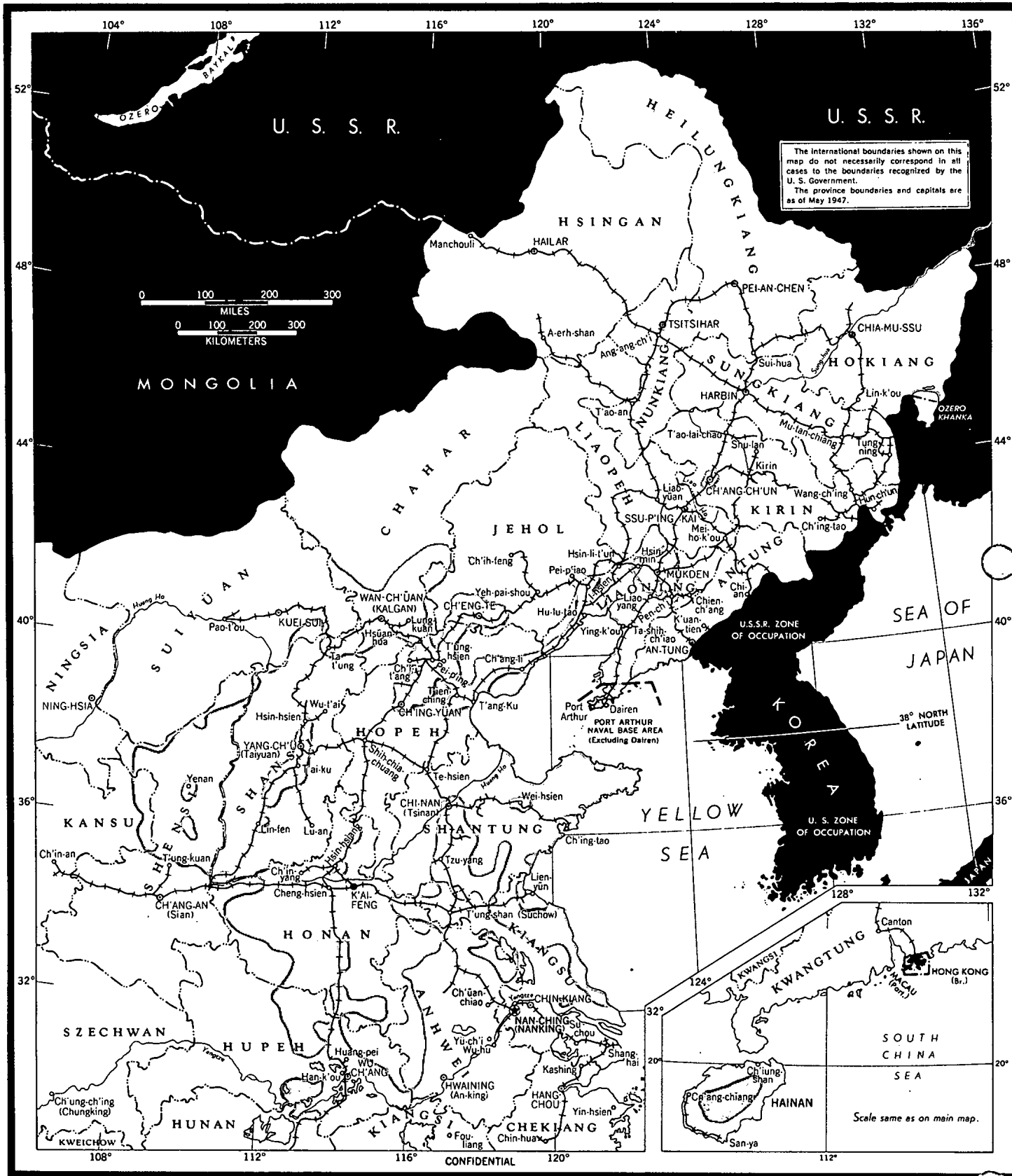
TOP SECRET

CONFIDENTIAL

CHINA: COMMUNIST CONTROLLED AREAS 1 APRIL 1948



10936



The international boundaries shown on this map do not necessarily correspond in all cases to the boundaries recognized by the U. S. Government. The province boundaries and capitals are as of May 1947.

TOP SECRET

involved, the continued resistance of these forces is directly related to the capability of the area to feed and equip them. Movement of war materiel to all fighting areas suffers commonly from poor administration and from jealous bickering among agencies of the National Government, cliques within the Nationalist Army, and various area transport commands. These difficulties are further aggravated by the tendency of local commanding generals and subordinate commanders to divert military supplies passing through their zones to their own uses or needs.

As a consequence of the inability of the Nationalist command to solve these problems of supply, Nationalist units at the fighting fronts have either been short of, or totally without, the necessary equipment with which to fight. The effect upon their morale is indicated by wholesale defections to the Communists. Unless the National Government is able to solve these problems, the lack of continuous logistical support will be equivalent to default to the Communists in certain vital areas.

TOP SECRET

50

APR 7

95

~~TOP SECRET~~

CONTENTS

	Pages
TRENDS IN BRIEF	i - vi
ARTICLES	1 - 5
Diminished Communist Capabilities in Italy.	1
The Chinese Presidential Election	4

Document No. 014
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1763
 Date: 27/01/78 By: 021

~~TOP SECRET~~

TOP SECRET**TRENDS IN BRIEF****GENERAL**

Continued Soviet advocacy of partition for Palestine will hinder UN adoption of an effective trusteeship plan and also may contribute to full-scale civil war in Palestine by encouraging the Jewish Agency to proceed with the establishment of a Zionist state. Nevertheless, the privately expressed fears of some prominent Arab leaders that establishment of a Jewish state will be followed by prompt Soviet recognition and military aid do not seem to be justified. It is unlikely that the USSR considers Palestine worth the risks involved in open military intervention. Furthermore, the USSR would probably be unwilling to take such drastic unilateral action while the Palestine issue is before the UN.

An increasing number of incidents involving US aircraft and US personnel in the clandestine transport of munitions into such areas as northern Italy and Palestine threatens US strategic interests in those areas. The most recent of such incidents took place on 31 March in Prague when a US-owned C-54, manned by US nationals, loaded a cargo of "surgical instruments and hand tools" under direct supervision of the Czechoslovak secret police and flew the cargo to a small village in Palestine. Such international traffic in arms, taking advantage of existing loopholes in US regulations, can increase the potential of the Italian Communists and embarrass the US by giving covert aid to combatants in the current Palestine hostilities.

Most-favored-nation treatment for Germany in the Committee of European Economic Cooperation (CEEC) charter appears unlikely because of continued British and French opposition, as well as that of most other CEEC nations. The UK and France feel that full CEEC membership for Germany will result in maximum German trade expansion with other CEEC members and thereby make most-favored-nation treatment unnecessary. The US has sought such a provision in the charter in order to protect Germany from possible trade discrimination by other CEEC nations.

TOP SECRET

TOP SECRET

The Chinese Government will probably deny the US request that Hankow and other river ports be opened to US vessels. Although Chinese shipping officials are sympathetic, the Government believes the UK would charge discrimination if the legal ban against foreign vessels operating in coastal and inland waters were relaxed solely in favor of the US. If, on the other hand, British participation in coastal and river shipping is permitted, the Chinese fear that virtual domination of this trade by the British will result in view of the firmly entrenched position of British shipping interests at Hong Kong.

WESTERN EUROPE

Italian Communist prospects of obtaining a plurality in the 18 April elections and Communist capabilities for successful large-scale insurrection have been considerably reduced in recent weeks (see page 1).

Non-Communist members of the Italian General Con- federation of Labor (CGIL) may withdraw from the organization as a result of an order for a one-hour general strike on 12 April recently issued by the Communist secretary of the CGIL. Such a withdrawal of the non-Communists will be more advantageous to the De Gasperi Government if it comes after the 18 April elections. The non-Communists have been effective previous to the elections in restraining CGIL opposition to the Government, and they will be in a better position following the election of a non-Communist government to form a separate and effective labor organization.

British objections may make impossible a western powers joint announcement favoring the return of Italian colonies, as desired by the De Gasperi Government for its effect in the current election campaign. The UK's objections are based upon a desire for military bases in Cyrenaica and British promises that Cyrenaica will not be returned to Italian rule. Also, the UK is not sure that the local populations of Italian Somaliland, Eritrea, and Tripolitania would accept peacefully a restoration of Italian rule. The Italians, supported by the French, may be expected to continue their requests for a favorable colonial announcement from the western powers.

- ii -

TOP SECRET

TOP SECRET

Both the recent Soviet walkout from the Allied Control Council (ACC) and recent Soviet interference with transportation into Berlin seem to indicate that the USSR: (1) has abandoned hope of using the ACC to hinder the present western European reconstruction program, and (2) intends to accelerate preparations for the establishment of an eastern "German state" whenever the Kremlin decides that the western powers can be successfully blamed for partitioning Germany. In this preparatory phase, the USSR may place the Soviet Zone under a "democratic" and "loyal" German administration, created from the Communist-dominated Peoples' Congress and strengthened by trained Germans from the former Moscow Free Germany Committee. Both the presence of the western powers in Berlin and the functioning of the ACC hamper the realization of the Soviet objectives and, unless allied determination remains obviously strong, further Soviet attempts to eliminate these hindrances may be expected. (A CIA Special Estimate titled "Possible Program of Future Soviet Moves in Western Germany" is now being prepared.)

Soviet preparations for possible clandestine activity against US-UK occupation authorities in the Ruhr are apparently indicated by current replacement of known Communist leaders with new party men from the Soviet Zone and with thoroughly indoctrinated former prisoners of war. Probable reasons for the replacements are: (1) comparative failure of the present leadership of the Communist Party (KPD) in the Ruhr; (2) Soviet dissatisfaction with the opposition of many old KPD leaders to pro-Soviet policy dictates from Moscow; (3) preparations to go underground in the event of US-UK action against the party; and (4) the danger of using well-known and easily-identified party leaders in clandestine and illegal operations.

Franco's reliance upon Argentina for his main support in maintaining Spain's precarious economic position, while rejecting the US and UN recommendations to liberalize his regime as a prerequisite to participation in the European recovery program, is indicated by his announcement on 5 April of the extension to Spain of a new Argentine peso credit amounting to \$427 million. The new

- iii -

TOP SECRET

TOP SECRET

credit can be used only for Argentine products, largely foodstuffs, and it will probably satisfy Spain's critical food needs for the next two years. The urgent problem of rehabilitating the seriously deteriorated transport, industrial, and power production systems is not, however, solved by this credit. In return for the credit, Argentina will receive the privileges of a free port at Cadiz and participation in joint Argentine-Spanish corporations. Extreme nationalists among Franco's advisers have convinced him that Argentine aid will enable Spain to forego the European recovery program and membership in the UN. Franco will be supported in this policy by nationalist-clerical elements who favor establishment of a "Latin bloc," as opposed to both Communism and to US capitalistic "expansionism." Argentine economists are studying various methods of securing repayment of the loan, including the construction of warehouses and processing plants in Spain and the establishment there of a European base for the distribution of Argentine products.

EASTERN EUROPE

Although Finland gained substantial concessions from the USSR during negotiations on the recently signed treaty of mutual assistance, the treaty will provide the USSR with an excuse for further moves against Finland whenever the Kremlin considers it necessary. Future Soviet action toward Finland will depend on the course of events within Finland and on international developments. An intensification of the "cold war" would prompt the Kremlin to hasten the campaign for Communist domination of Finland. Similarly, a pronounced rightist swing within Finland or increased Finnish cooperation with the west might also persuade the USSR to move more quickly. Finnish non-Communists, therefore, are expected to vote for ratification of the treaty, to maintain superficially friendly relations with the Communists and the USSR, and to move cautiously in their relations with the west.

NEAR EAST-AFRICA

Recent Greek Army successes have probably been sufficiently dislocating to the guerrilla forces to necessitate postponement of the large-scale offensive reportedly planned by Markos

- iv -

TOP SECRET

TOP SECRET

for the latter part of April. It is possible that the army, by retaining the initiative, can prevent the successful launching of any concerted guerrilla offensive in the near future. Nevertheless, the army victories are limited in extent, and a decisive defeat of the guerrillas is not yet in prospect.

The short-lived strike of the Egyptian police, although brought on by purely economic grievances, may indirectly lead to a settlement of Egypt's long-standing differences with the UK over the Sudan and British military rights in Egypt. The Egyptian Government's inability to cope with the strike (which was accompanied by violent public disorders and widespread property damage in Alexandria and Cairo) has seriously impaired Prime Minister Nokrashi's prestige and may bring about his downfall. His most likely successor is Senate President Heykal, who has consistently maintained that successful termination of the Anglo-Egyptian deadlock is essential to Egypt's future.

FAR EAST

Chiang Kai-shek will undoubtedly be elected president of the Chinese National Government in the 12 April elections. Chiang's expressed unwillingness to be a candidate has effectively rallied the full support of the Kuomintang and has considerably enhanced his authority (see page 4).

Control of the Siamese Government by a group of military extremists now appears assured. Once foreign recognition of the Abhaiwong Government had been obtained, the extremist military group demanded the resignation of the Government because of its inability to bring about the return of normal economic conditions. The military group then declared to the Regency Council that only Marshal Phibul would be acceptable as the new premier. In view of the determination of the members of the Abhaiwong Government to boycott a Phibul Government, it is expected that Phibul will experience difficulty in forming a new cabinet of any significant strength and that its tenure of office will be solely dependent on army support. Every effort will be made during the assumption of office by the new government to observe all legal forms in order to avoid jeopardizing recently-obtained recognition by foreign powers, but the essential character of government control as based on military force will remain unchanged.

- v -

TOP SECRET

TOP SECRET

Whether or not South Korean leaders Kimm Ki-unic and Kim Koo cooperate with the North Koreans at their conference in Pyongyang on 14 April, their action will probably have little effect either on future Soviet tactics in Korea or South Korean elections. Because these Moderates and Rightists can provide little more than a minority dissent at the conference, they will provide the USSR with justification for establishing a People's Republic in the name of all Korea and for accusing any future South Korean government of being unrepresentative.

A developing split among South Korean Rightists over the choice of candidates for the forthcoming UN-observed election and over the form a provisional government should take when the assembly convenes has made Rhee Syngman's chances of emerging as chief of the South Korean Government almost certain. Rhee's autocratic policies as head of this government would probably assist the USSR in its efforts to win away South Korean leaders. Future Soviet moves will probably include demands for the withdrawal of occupation troops both from North and South Korea and pressure for recognition by the UN of a Soviet-sponsored People's Republic.

WESTERN HEMISPHERE

An early rebel victory in Costa Rica may be indicated by the growing disorganization among Government forces, the high morale of rebel forces, and the impending withdrawal from the Government by the Communist Vanguardia Popular. If the rebel forces gain control of the Government, they will probably continue Costa Rica's traditional policy of friendship with the US.

- vi -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**DIMINISHED COMMUNIST CAPABILITIES IN ITALY**

The prospects have sharply diminished that the Italian Communist Party will obtain a sufficiently large plurality in the 18 April elections to ensure Communist or left-wing socialist representation in the next Italian Government. Concurrently, the Party's capabilities for successful large-scale insurrection, without active military assistance from Yugoslavia, have been considerably reduced. Unless the Communists receive substantial outside aid, the Government now appears sufficiently strong to prevent its overthrow by force and to put down large-scale rebellion. Whether the Kremlin, even under these circumstances, will direct an insurrection either before or after the elections cannot be predicted. If, as seems probable, the Communists fail to secure representation in the new government, they will then launch a new program of strikes and sabotage to wreck the recovery program and discredit the government.

The reduction in Communist capabilities for successful large-scale insurrection springs largely from four factors. In the past few months, the Italian armed services and security forces have been greatly strengthened, not only by new equipment but also by a considerably improved morale. Concurrently, the Communist para-military forces have been weakened and to some extent disrupted by government seizure of clandestine munitions dumps and caches and the interception of arms shipped in from abroad. No evidence available indicates that Yugoslav forces--the most logical source of outside assistance--are being prepared for action in Italy. Finally, and probably most important, the Italian masses appear less inclined than ever to support a Communist uprising and have become increasingly anti-Communist in their attitude.

Communist capabilities for effective revolt, in the absence of outside aid, now appear limited to localized successes, particularly in north Italy. These capabilities are based upon military potential and the party's following in labor. The Communist semi-military organization, the Apparato, consists of

- 1 -

TOP SECRET

TOP SECRET

approximately 100,000 ex-Partisans, armed and trained, and about 100,000 reserves in training. The Apparato has general headquarters at Milan and operational headquarters in cities on the main highway between Milan and the other Communist stronghold of Bologna. Communist munitions dumps are believed to contain extensive supplies of arms, including armored cars, light field guns, anti-tank guns, mortars, machine guns, and a few tanks. To increase their armaments, the Communists would attempt to seize Government arsenals and ammunition dumps, and, if unsuccessful in capturing them, would make every effort to blow them up.

In addition to their military potential, the Communists possess a powerful revolutionary weapon in their control of the Italian General Confederation of Labor (CGIL), which has five million workers in industry and various public services. Domination of the agricultural Workers' Confederation, which has approximately two million members, gives the Communists almost complete control of the agriculture of the important Po Valley region; virtual Communist control of the industrial unions would facilitate seizure by the workers of most industrial establishments. The Communists, furthermore, dominate the newspaper printers' union and have infiltrated communications. Public utilities, particularly gas and electric services, are Communist-dominated and could be disrupted in case of revolution.

The De Gasperi Government, however, with control of armed forces totaling approximately 336,000 men, would probably be able to prevent Italian Communists from taking over the central government. Army strength is concentrated in northern Italy, and army divisions are disposed at Udine, Treviso, Milan, Torino, and Lucca. Supplementary to the army are the security forces of the Ministry of the Interior: 75,000 carabinieri, a mobile reserve corps of 16,000 civil police, 80,000 regular members of the civil police, 36,357 finance guards, and 5,000 railway police. The carabinieri maintain their heaviest concentrations in the north. Critical areas, such as Bologna, have been reinforced by special

- 2 -

TOP SECRET

TOP SECRET

reserves of the security forces. In the event of insurrection, the Italian Navy could employ its units to protect Italian ports and could land many of its approximately 35,000 men to assist the ground forces. The bulk of the Italian fleet is based at Taranto and La Spezia. The Italian Air Force, with personnel numbering 25,000, has about 500 planes, mostly obsolescent, of which about 60 are fighters in tactical units.

- 3 -

TOP SECRET

TOP SECRET**THE CHINESE PRESIDENTIAL ELECTION**

Despite Chiang Kai-shek's announced unwillingness to be a candidate for the presidency of the Chinese National Government, he will undoubtedly be elected to this position by an overwhelming majority of the National Assembly on 12 April. Party leaders have brushed aside Chiang's recent recommendation to the Kuomintang Central Executive Committee that it select a non-party man as presidential candidate and permit Chiang to serve his country in some other capacity. These leaders are unanimous in stating that Chiang is China's indispensable man for the presidency. Thus, the effects of Chiang's action have been to assure him of the presidency, to rally the full support of the Kuomintang to his leadership, and to enhance his authority.

In view of the basic and growing weaknesses of the Kuomintang and the National Government, however, this strengthening of Chiang's political position may prove to be temporary. Chiang's maneuver was undoubtedly prompted as a measure to offset these weaknesses. The Kuomintang had become disrupted by increasing factionalism and by mounting discontent with Chiang's leadership to such an extent that there was danger that the National Assembly would be the scene of public attacks on his policy by party members, thus leading to an open split. Throughout the party, however, it had been generally accepted that Chiang would be elected to the presidency with little opposition. This maneuver of Chiang, consequently, surprised and dismayed party leaders, and their response has once again demonstrated convincingly that there is no leader other than Chiang who can command the allegiance of all Kuomintang factions and cliques.

Chiang's proposal that he take a less significant post in the new government appears to have been designed to answer the criticism of Chinese Communists and others that the National Government is under his "personal rule." His recommendation that a non-party leader, with civilian rather than military background, be favored for the presidency was probably intended to

TOP SECRET

TOP SECRET

be a rebuttal to critics at home and abroad who both question the purity of China's incipient democracy and urge that the base of the National Government be broadened by the inclusion of non-Kuomintang elements.

For the moment, Chiang has secured from Kuomintang leaders a clear mandate to continue his rule, and consequently he will be under less pressure to alter his policies or reorganize the Government. Unless the Government demonstrates under his leadership more success than hitherto in coping with its enormous military and economic problems, dissatisfaction and criticism of his leadership will inevitably mount again and will be more difficult to silence.

- 5 -

TOP SECRET

~~TOP SECRET~~

CONTENTS

	Pages
TRENDS IN BRIEF	i - v
ARTICLES	1 - 9
British Intentions in Palestine	1
Italian Pre-Election Trends	2
Instability in Iraq	3
Serious Labor Unrest in Japan	4
Diminished Communist Threat in Burma	6
Balance of Power Among Caribbean Countries ..	8

Document No. 013
 NO CHANGE in Class.
~~X~~ DECLASSIFIED
 Class. CHANGED TO: TS S C
 Auth: DDA Memo, 4 Apr 77
 Date: 27/01/78 By: 021
 DDA REG. 77/1763

~~TOP SECRET~~

APR 78

TOP SECRET

TRENDS IN BRIEF

GENERAL

The UK will probably adopt a more constructive and helpful attitude in UN or other international deliberations over Palestine issues after terminating its mandate on 15 May, although the British policy of withdrawal will almost certainly not be modified (see page 1).

WESTERN EUROPE

Favorable Italian reaction to recent encouragement from the western powers appears to have reversed the previous trend toward a Communist plurality in the April elections (see page 2).

Communist influence in Scandinavia has been reduced by the efforts of Government officials and the leaders of the Socialist Party and the trade unions to awaken labor groups to the menace of cooperating with the Communists. Recent elections in Norway and Sweden have resulted in Socialist victories within trade unions formerly dominated by the Communists, and similar results can be expected in Denmark. In Iceland, the Government is transferring Communist civil servants (former appointees under the previous coalition ministry) from sensitive security posts.

The projected development of French North Africa into an important strategic defense area is proceeding gradually. This strengthening of the North African defense establishment anticipates the likely contingency that metropolitan France will be rapidly overrun in any future conflict and that France would have to make its real stand in North Africa. Consequently, the naval base at Mers-el-Kebir (near Oran) is being developed to replace Toulon as the French Navy's chief Mediterranean base; the establishment of a combined operations training school with an estimated capacity of 20,000 at nearby Arzeu is well

TOP SECRET

under way; emergency inland operational air bases are being developed at Oujda, Morocco, and at Colomb Bechar (200 miles farther south), the terminus of the presently completed section of the projected standard-gauge, north-south, trans-Saharan railway; air stations in the region are to be increased in anticipation of the transfer to this region of primary pilot training; the British and French governments are preparing an agreement covering the use of French and French North African airfields by UK aircraft; and the French are accelerating their program to provide the necessary industrial facilities in North Africa to allow the strategic bases in Algeria, Morocco, and Tunisia to operate independently of metropolitan France if the latter were occupied.

EASTERN EUROPE

No spectacular Soviet diplomatic measures to influence the forthcoming Italian elections are expected at this late date. The USSR, Yugoslavia, and the Italian Popular Front will probably content themselves with a reiteration of the theme that only a Popular Front victory in the general election can result in a peace treaty revision favorable to Italy. There is a possibility, however, that the Soviet Union will attempt to seize the diplomatic initiative by making one or more of the following offers: (1) a reduction of reparations; (2) the renunciation of claims to part or all of the Italian fleet assigned to the USSR; and (3) the shipment of wheat.

The current Soviet propaganda attack on Norway and Sweden appears to have the following purposes: (1) to capitalize upon the prevailing fear of further Soviet aggression in Europe and thus delay the rebuilding of a strong European economy; (2) to prevent the Scandinavian countries from signing military alliances with the western powers; and (3) to coerce the Finnish negotiators now in Moscow into signing the comprehensive military agreement desired by the USSR.

- ii -

TOP SECRET

TOP SECRET

NEAR EAST-AFRICA

The instability of the present Iraq Government can be attributed largely to deteriorating economic conditions. It is doubtful, however, that the Cabinet feels strong enough to take adequate remedial measures (see page 3).

The recent Soviet note to the Iranian Government, which is basically another phase of the Soviet Union's world-wide propaganda offensive against the US, indicates the means by which the USSR may attempt to subjugate Iran. By insinuating that the presence of US military missions in Iran makes the current situation analagous to that of 1941 when Germany had many agents in the country, the USSR is continuing to build a case for possible direct intervention on the basis of the 1921 Soviet-Iranian treaty. (The treaty, which provides for entry of Soviet troops in case a third power seeks to use Iran as a base of operations against the USSR, was invoked in 1941 as justification for Soviet occupation of northern Iran.) The possibility of indirect aggression is suggested by the USSR's declaration of its right to protect Iranian political refugees, who are known to be plotting revolutionary activity against the present Iranian Government.

Arab willingness to accept a UN trusteeship for Palestine and to negotiate a truce with the Jews may be indicated by the fact that Jamal al Hussein, Vice Chairman of the Palestinian Arab Higher Committee (which is headed by the Mufti) is coming to New York to participate in the current UN deliberations on Palestine. This is the first time since the General Assembly recommended partition on 29 November 1947 that a representative of the Palestinian Arabs has had official dealings with the UN. Hussein is certain to demand rejection of partition as a condition for Arab acceptance of either a truce or trusteeship.

Soviet efforts to profit from Middle East unrest resulting from the Palestine situation are indicated by recent

- iii -

TOP SECRET

TOP SECRET

reports that the USSR is accelerating its activities among the Kurds and Armenians. By encouraging separatist tendencies while exploiting the increasing economic and political instability of the area, the USSR can most easily threaten the US-UK alignment of the Middle East regimes. Current Soviet promises that the USSR will aid separatist movements among Middle East minorities after "settlement" of the Palestine problem are thoroughly consistent with Soviet support of partition. The formation of an independent Zionist state would provide a logical basis for separatist demands by the Kurds, the Azerbaijani, and the Armenians of eastern Turkey.

India-Pakistan relations have generally improved, with responsible leaders in both dominions appearing increasingly willing to adopt conciliatory attitudes. The Kashmir dispute, which constitutes the only threat to peace at present, is not likely to cause open warfare between the two dominions in the immediate future. India has, at least temporarily, a military advantage in Kashmir itself, and Pakistan seems to be increasingly aware of India's over-all military superiority.

FAR EAST

Although a Communist-inspired labor crisis in Japan has been averted through prompt action by SCAP, labor unrest can be expected to continue until some means can be found to relieve the acute economic distress of Japanese workers (see page 4).

The complex Burmese political crisis has been temporarily eased by the Government's decision to suppress all Communist activities (see page 6).

A recent Soviet effort to obtain South Korean endorsement for "the formation of a democratic unified state in Korea" has taken the form of an invitation to South Korean "democratic" leaders to attend a joint conference on 14 April in Pyongyang.

TOP SECRET

TOP SECRET

Ten Leftists from South Korea will give the decisions of the conference a "representative" character. Leaders of moderate and rightist delegations, who have no illusions concerning Soviet intentions, will attend the conference, largely in the hope of increasing their chances of success in the forthcoming UN-observed elections in South Korea. By presenting themselves as patriots who exerted every effort to achieve national unity, they will seek to contrast themselves favorably with Rhee Syngman who, as a means of satisfying personal political ambitions, has consistently advocated the creation of a "separate" South Korean state. The Moderates desire to postpone the forthcoming elections in order to prepare an effective candidate to oppose Rhee. Although the UN recently rejected General Hodge's request to postpone the elections from 9 to 24 May, circumstances may force a reversal of the UN decision.

The Philippine Department of National Defense has indicated concern over the international situation by redoubling its efforts to obtain clarification of US military plans for the Philippines. The Philippine Secretary of National Defense, in stating recently that more than 300,000 Filipinos can be mobilized to support the US in the event of an emergency, assumes that the Philippines continue to figure prominently in US strategic planning and that the weaknesses of the Philippine armed forces can be overcome. Current attempts to obtain additional military appropriation from the Philippine Congress may meet with some success and such action may therefore be the basis for vigorous efforts to obtain a commitment for additional US military assistance.

WESTERN HEMISPHERE

The US plan for concerted hemisphere defense may be endangered by the present civil war in Costa Rica because opposing interests are dividing the Caribbean countries into two groups in a balance-of-power situation (see page 8).

- v -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET

BRITISH INTENTIONS IN PALESTINE

Although the intention of the UK to withdraw from Palestine by 15 May will almost certainly not be modified, official British denials have not dispelled a persistent rumor that the UK would retain some responsibility for Palestine under certain conditions. Because the UK would want to avoid any solution which would enable Soviet troops to enter Palestine (either through a UN decision or a default by the western powers), two possible courses of British action have mainly been rumored: (1) UK troops might remain in Palestine until US troops were deployed, if the US declared its readiness to provide troops for the purpose of maintaining order during the proposed temporary trusteeship; or (2) the UK might agree to a joint temporary trusteeship, if the US agreed to supply a large part of the troops and to pay most of the costs involved.

Despite the strength of British public opinion against further entanglement in Palestine and despite the reiterated British intention not to participate in a Palestine solution which would offend the Arabs or be unacceptable to either Arabs or Jews, the UK may take a more active part in negotiations over Palestine after 15 May. Responsible and influential British publications are urging the Government to adopt a more positive and helpful attitude in the UN deliberations, and a similar movement is apparent among permanent Foreign Office officials. Because Palestine involves issues which so actively concern other members of the UN and the strategic interests of Britain, it is not likely that the UK can continue indefinitely its policy of exaggerated disinterest.

- 1 -

TOP SECRET

TOP SECRET**ITALIAN PRE-ELECTION TRENDS**

Anti-Communist forces in Italy have been considerably strengthened as a consequence of the favorable Italian reaction to recent encouragement from the western powers. Such declarations as President Truman's announcement of stiffened US policy toward Soviet aggression, the joint statement on Trieste, and the statement that a Communist government in Italy would not be eligible for economic aid from the US have made a highly favorable impression upon the Italian people. The prestige of the present Italian Government has been increased by such indications of international recognition as the signing of the French-Italian economic pact. The Vatican's anti-Communist campaign, particularly the increased activity of the Catholic Action groups in Italy, has also been effective in bolstering the non-Communist position.

The Italian reaction appears to have reversed the previous trend toward a Communist plurality in the April elections, and it now seems probable that the Christian Democrats, together with other moderate groups, will secure enough votes to enable them to form another coalition government excluding the Communists. This new trend, which will probably continue if the anti-Communist forces maintain their present tempo of activity and thereby keep the Communists on the defensive, has been particularly furthered by the recently improved electoral chances of one of these moderate groups, the right-wing Socialists.

Diminishing Communist chances of receiving a plurality in the elections appear, however, to have put the Communist-led Popular Front on the defensive. The Communist Party now seems to be reverting to its earlier tactics of violence and threats of violence in order to intimidate the voters. Pre-election clashes between Communists and anti-Communists have been reported and may be expected to increase. There are also increasing threats of industrial strikes and large-scale violence. It seems likely that these Communist strong-arm tactics, which may cause further popular resentment against the Communists, will be resisted by the newly-encouraged Italian masses.

- 2 -

TOP SECRET

TOP SECRET**INSTABILITY IN IRAQ**

The serious instability of Iraq's present government can be attributed largely to economic conditions. Continuing inflation, lack of consumer goods, and food shortages caused by the failure of the 1947 wheat crop have resulted in bread riots, demonstrations, and strikes. Basic popular unrest, heightened by tension over Palestine, flared into serious riots in January in protest against the signing of the Anglo-Iraqi treaty. The riots weakened the prestige of the police and led to the fall of the Jabr Cabinet. The shaky Sadr regime which succeeded the Jabr Government has lowered police morale even further by putting on trial policemen who fired on the demonstrators in an evident attempt to appease the mob which brought it to power. The Communists, never strong heretofore, have already taken advantage of the current difficulties by attempting to turn anti-Government demonstrations into Communist rallies. Although on this occasion the Communists were rebuffed by the demonstrators and their leaders jailed by the police, the Communists will nonetheless continue to be active and potentially dangerous.

Government inaction in the face of Iraq's economic difficulties has contributed significantly to the present crisis, and it is apparent that forthright measures will have to be taken if further economic and political disintegration is to be averted. Furthermore, the police must be assured of Government support if demonstrations are to be curbed and subversive groups held in check. It is doubtful, however, that the Sadr Cabinet considers itself strong enough to take adequate remedial action in the present situation. Its reluctance to arouse opposition may therefore result in its downfall.

TOP SECRET

TOP SECRET**SERIOUS LABOR UNREST IN JAPAN**

An acute labor crisis in Japan, which threatened to develop from a coordinated nation-wide strike, has been forestalled through prompt action by SCAP. Although this action has effectively halted an attempt by the Japanese Communist Party to exploit labor unrest and the weakness of the Government, SCAP's intervention may also cause labor dissatisfaction to be directed toward itself instead of the Japanese Government. The Japanese Communist Party, through its domination of the militantly leftist Communications Workers Union, played a leading role in promoting the labor offensive. In exploiting the acute economic distress of government workers, the Communists are seeking to undermine the labor policy of the Ashida Cabinet which they feel is designed to restrict labor and to combat growing anti-Communism in labor by uniting the unions over the issues of wages and the rights of trade unions.

The developing crisis has shaken the present coalition Government of Premier Ashida. The Government is under considerable pressure from its rightist components and from the conservative opposition to take energetic measures to cope with labor. At the same time, however, the Ashida Government depends upon the cooperation of labor and upon the support of the left-wing Socialists represented in the Cabinet by the Minister of Labor. Under this pressure from both the right and the left, the Ashida Government will probably be forced within a matter of months to call for new general elections.

By re-invoking the January 1947 ban on general strikes, SCAP has rebuffed Communist attempts to capitalize on labor unrest and the government's weaknesses and has for the moment taken the labor crisis out of the hands of the Japanese Government. This rebuff, moreover, comes at a time when anti-Communism is growing in Japan and the prospect of US aid to promote economic recovery is strengthening Japanese hopes for improvement of the status of labor. SCAP's intervention, how-

TOP SECRET

TOP SECRET

ever, has directed toward itself bitterness and disappointment which might otherwise be directed toward the Japanese Government. Dissatisfaction and unrest will continue if measures to augment real wages remain ineffective and if democratic trade union development within the framework of SCAP-instituted reforms is jeopardized by the efforts of the Government to counter Communist activity.

- 5 -

TOP SECRET

TOP SECRET

DIMINISHED COMMUNIST THREAT IN BURMA

Tension in the complex Burmese political crisis has been somewhat eased by the Government's action in suppressing Communist activities and the decision of the People's Volunteer Organization (PVO) not to support Communist efforts to oust the Socialists from the Government. (The Burmese Government is dominated by the Anti-Fascist League coalition of which the Socialists and the PVO are the principal components.)

In an effort to increase political unity and avert civil war, Prime Minister Thakin Nu on 28 March made a final appeal to the Burmese Communist Party to join the Government. The Communist leader instead denounced Thakin Nu and demanded his resignation. On 29 March, Government police arrested several Communists, closed the Party's Rangoon headquarters, seized a considerable quantity of arms, and successfully broke Communist-instigated strikes. Than Tun and other important Communist leaders escaped to their stronghold in central Burma where they are believed to be reorganizing their forces in preparation for guerrilla activities.

The Government coalition, which had been threatened by the PVO's apparently wavering loyalty as well as by the possibility of overt Communist action, has consequently been strengthened. Although anticipated Communist guerrilla operations will increase the already substantial task of suppressing lawlessness, the Government should be able eventually to bring the Communists under control if the PVO continues loyal and the Karen minority does not attempt to exploit internal dissension.

Effective control of the Communists, however, will not be easy to achieve. Communist doctrine has a strong appeal to many Burmese. The severe measures which the Government is taking against the Party will be exploited by Communist propaganda as a means of discrediting the Government. The continued existence of the Government will depend in large

TOP SECRET

measure upon its ability to take firm action, without seeming authoritarian to a people which has traditionally distrusted central government. Because the Government probably cannot avoid taking some steps which will appear dictatorial and because the Communists seem capable of conducting disruptive activities for some time to come, continued unrest and the recurrence of crises similar to that which is presently abating appear in prospect.

- 7 -

TOP SECRET

TOP SECRET**BALANCE OF POWER AMONG CARIBBEAN COUNTRIES**

The present civil war in Costa Rica not only emphasizes the internal political instability of the republics of the Caribbean and stresses the intra-regional rivalries of the area, but it also tends to endanger the US concept of concerted action for hemisphere defense by dividing the Caribbean countries into two opposing groups. The resultant balance-of-power alignment, which places Cuba, Haiti, Venezuela, and Guatemala in opposition to Nicaragua, the Dominican Republic, El Salvador, Honduras, and Costa Rica, now overshadows geographic, economic, and social considerations in providing a basis for inter-governmental relationships. Even more important, this alignment vitiates the advantages of a common ideological antipathy to the USSR on the part of the US and the Caribbean republics.

The Presidents of El Salvador, Honduras, Nicaragua, and Costa Rica were reported to have signed in May of 1947 a secret pact which was purportedly "anti-Communist" but was actually aimed at the isolation of Guatemala. This pact was cited recently by General Somoza of Nicaragua in justifying his intervention on behalf of the Costa Rican Government. Since that Government is Communist-supported, however, it is clear that Somoza's action was actually directed against the Guatemalan Government which has reportedly assisted anti-Government forces in Costa Rica. Likewise, the Guatemalan Government, which contains many communistic adherents, was attempting--by assisting conservative oppositionists in Costa Rica--to terminate the isolation of Guatemala in Central America and to redress the balance of power in its favor.

Similarly, fear of the Dominican Republic has driven Haiti into closer relationships with Cuba and Venezuela and has caused the Haitians informally to offer a naval base to the US in exchange for a US guarantee of the status quo of the Haitian-Dominican border. In addition, the desire for balance of power has led the Dominican Republic and Costa Rica to make a hasty recognition of the de facto regime in Nicaragua

TOP SECRET

TOP SECRET

and has persuaded the Dominican Republic to furnish aid and assistance to Venezuelan revolutionaries in the hope of replacing the present hostile Venezuelan Government with a friendly administration.

Besides the forces already active in creating a balance-of-power situation, the presence of substantial numbers of political exiles in all of the Central American republics, together with the universal practice of condoning and even assisting their conspiratorial activities, not only accentuates the internal instability of these republics but also contributes substantially to the unsatisfactory inter-governmental relationships of the area.

- 9 -

TOP SECRET

MAR 1948

50

~~TOP SECRET~~

91

CONTENTS

	Pages
TRENDS IN BRIEF	i - xi
ARTICLES	1 - 6
Prospects for the Committee of European Cooperation.	1
Issues in Forthcoming Political Negotiations in Indonesia.	3
Imminent Financial Crisis in Nationalist China.	5

Document No. 012
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1703
 Date: 27/01/78 By: 021

~~TOP SECRET~~

26

TOP SECRET

TRENDS IN BRIEF

GENERAL

Full unification of European recovery efforts appears unlikely until the UK alters its present opposition to a strong Committee of European Economic Cooperation (see page 1).

An agreement between the US-UK and the French Zones of Germany, signed on 18 March, will solve a longstanding impasse over freight cars. Large numbers of French and German freight cars have been unavailable for traffic between the US-UK Zones and France, because France has been holding some 80,000 German cars which the German Army left behind; the French have insisted that their title to this equipment be recognized before the cars circulate into Germany. Bizonal authorities, in turn, have been unwilling to return French cars from Germany because this would have caused a steady depletion of the bizonal freight car pool. The US-UK Zones will now return to France all freight cars of French origin while France will release an equal number of freight cars of German origin. The agreement will immediately alleviate the acute car shortage by facilitating the free flow of railway traffic and by initiating the return of un-serviceable cars to their home areas for repairs. Moreover, the agreement will remove a source of friction between the US-UK Zones and the French Zone administration.

The British Cabinet appears to be on the verge of abandoning the "fly British" policy and will probably authorize the purchase of 25 US Constellations or a like number of Canadian DC-4M's. Although the UK estimates that DC-4M's could be paid for out of earnings in five years and that it would take seven years to pay for the more expensive Constellations, from the operating point of view, it prefers Constellations. The UK has now clearly indicated, however, that it could not unequivocally guarantee the ultimate dollar payments for Constellations if the aircraft fail to produce the necessary dollar revenues. (The Canadian offer would not obligate the British

TOP SECRET

treasury to a net dollar outgo.) In an emergency the US would benefit considerably from British operation of a large fleet of US commercial aircraft to all parts of the world, which would insure the global distribution of maintenance depots, with standardized spares and parts. However, it appears that unless the US considers this advantage sufficiently important to warrant still more favorable payment terms, the UK is likely to decide on the purchase of Canadian aircraft.

The rift between the free Social Democratic parties of western Europe and the Communist-dominated Socialist parties in the Satellite states widened at a recent London meeting of the Committee of International Socialist Conferences (COMISCO) and resulted in the expulsion of Czech, Hungarian, Rumanian, and Bulgarian Social Democrats and in the withdrawal of Polish and Italian (Nenni) Socialists. COMISCO, largely dominated by the British Labor Party, abandoned its former policy of conciliating eastern European Socialists, formally recognized the split in European socialism, and condemned Communist aggression against socialist and democratic governments. The London meetings of the Socialist parties of the fourteen countries participating in the European recovery program and of the trade unions supporting the European recovery program, and the COMISCO meeting all demonstrated the indispensable roles which socialism and organized labor can be expected to play in any effective containment of Communism.

The US-UK-French proposal to return the Free Territory of Trieste to Italy has been received with marked enthusiasm by non-Communist Italians and has produced a considerable degree of optimism in all except leftist political circles. The Vatican believes that for the present the defeatist trend, which gathered momentum after the Czechoslovak coup, has been reversed. So far, Communist attempts to minimize the effect of the proposal have been limited to vague

TOP SECRET

TOP SECRET

declarations and to an apparent effort to prevent publication and circulation of newspapers for several days following the tripartite announcement. The printer's strike, the temporary refusal of Milan and Turin printers to work even after the strike ended, and the burning of 10,000 Vatican newspapers (the only press news source during the strike) indicate recognition by the Communists that the Trieste proposal can seriously damage their election prospects.

Soviet-Yugoslav reaction to the US-UK-French proposal for the return of Trieste to Italy is not yet fully apparent. The initial response was more prompt and bitter in Belgrade than in Moscow; neither country has yet flatly rejected the tripartite proposal. Moreover, such a rejection is unlikely so long as the Italian Communists hold to their plan to participate in the elections. Instead, the Kremlin will attempt to soften the loss to Communist prestige in Italy by criticizing US motives in making the proposal and possibly by offering other amendments to the Italian peace treaty in an attempt to embarrass the US. Such a policy would make a firm Soviet decision unnecessary, until after the Italian elections. The tripartite proposal is not expected to precipitate any overt Yugoslav action against the US-UK Zone of Trieste. The Communists may organize demonstrations, and possibly strikes, in an attempt to demonstrate popular opposition to Italian control. Pro-Italian elements in Trieste are jubilant over the proposal.

WESTERN EUROPE

The Soviet walkout from the Berlin Allied Control Council, following the refusal of the US, UK, and France to explain the London decisions on western Germany, appears to be a forceful Soviet condemnation of the western power position, as well as a maneuver to create fear, confusion, and delay in the West, pending formulation of a Moscow policy decision. However, the continued functioning of the four-power Berlin Kommandatura and the Soviet attempts to schedule four-power subcommittee meetings on subjects of interest

- iii -

TOP SECRET

TOP SECRET /

to them indicate that the walkout is a tactical move and not a permanent break. The Soviet step, at least initially, has made some pro-western Germans reluctant to commit themselves further in support of the western powers, pending western reaction to the Soviet move. The US decision to keep Germany under military control has encouraged the pro-western Germans, who apparently now realize that General Clay has several powerful weapons--such as cessation of reparations, bilateral currency reform, and interzonal trade restrictions--and that the western powers are thus in a position to prevent a complete stalemate in Berlin.

Communist plans to announce a "German Unity" referendum and subsequently an Eastern "all-German" state, appear to have been postponed. German Communists had hoped that the "German Unity" petitions, which they had circulated for some months, would permit the People's Congress (which convened in Berlin on 17 March) to demand an immediate unity referendum. The Congress, however, resolved merely to circulate more petitions. This postponement may have been caused by the popular disinterest in the petitions or by Soviet reluctance to support the referendum until the western powers can be charged with initiating or attempting to initiate a partition of Germany. Until now, the Soviet Military Administration, probably motivated by a desire for a voice in the administration of the Ruhr, has discouraged attempts of the more extreme German Communists to set up an eastern German satellite state.

Shortages of basic foods continue to threaten Ruhr coal production upon which bizonal economic plans and the success of the European recovery program are largely dependent. Within recent weeks, miners' rations have consistently fallen below the guaranteed level, and the highly-publicized incentive program of issuing bonus food packages to the miners appears to be only temporarily effective because coal production tends to drop as soon as this food is consumed. If these basic food deficiencies are not remedied, the search for food will increase absenteeism among miners.

- iv -

TOP SECRET

TOP SECRET

By voting to adjourn until 20 April, the French Assembly has given the Schuman Cabinet a month's respite from parliamentary crises. This period of comparative political calm will permit the Government to concentrate on its basic task of stabilizing the economy and creating public confidence and will also allow the Gaullists to continue their behind-the-scenes efforts to reach some agreement with the moderate center and left. Both the Government and the Gaullists hope to improve their respective political strength, because of the increasingly hostile popular reaction to Communist tactics. The Brussels Treaty and President Truman's speech have considerably bolstered public morale during the last week and the Communists are increasingly hard-put to justify their agitation against every constructive move.

The UK Government's recent, belated decision to initiate a mild purge of Communists and fellow-travelers from "sensitive" civil service posts was not based on any new information or new assessment of the security dangers inherent in potentially subversive civil servants. This action was primarily delayed in order to prepare public opinion to accept such a departure from long-established UK tradition. Over the past year the Government, with the help of the Labor Party and the Trades Union Congress, has successfully conducted an educational program on Communism, culminating in the official interpretation of the Czechoslovak coup. Because of British reluctance to infringe upon traditional democratic practice, the purge will be very moderate and will affect few government instrumentalities outside: (1) the Service Ministries, and (2) the Ministry of Supply which is largely responsible for military research and procurement, including atomic research.

EASTERN EUROPE

Temporary gains to the Soviet worker from devaluation, currency reform, and reduced commodity prices in the USSR will be eliminated by increased working norms (quotas) in

TOP SECRET

TOP SECRET

industry and agriculture and by the concomitant reduction in actual wages. Changes in work quotas will probably be introduced gradually, without publicity, and therefore are not expected to impair the morale of the Soviet worker or to make him readily aware of the lack of improvement in his standard of living.

Although Finland will attempt to prolong current Soviet-Finnish negotiations in Moscow, a conventional treaty of mutual assistance and friendship will probably be concluded. The USSR is expected to exert sufficient pressure on Finnish non-Communists to overcome their reluctance to a military agreement with the Soviet Union. The final pact may be loosely worded and thus may permit the USSR to demand that its implementation requires a purge of all anti-Communists from both the Finnish Foreign Office and the army. Such a purge would increase the capability of the Communists to control the elections in July and would pave the way for their subsequent seizure of the Finnish Government.

Recent intensification of military activity in southern Yugoslavia and Albania suggests an increase in Soviet-Satellite assistance to the Greek guerrillas and indicates that, for the present, Yugoslav preparations to support a possible Communist uprising in Italy are of secondary importance. Military preparations in Albania have increased substantially in recent weeks: Yugoslav troops, tanks, artillery, and planes have been moved south in increasing numbers, and three of Tito's five active colonel-generals are stationed in southern Yugoslavia. Meanwhile, no unusual military activity has been observed in northern Yugoslavia. Although this concentration along the Greek border may be an attempt to conceal Yugoslav intentions in Italy, it is more likely that plans are being made for providing full Satellite support (short of overt participation by Yugoslav troops) for a spring offensive by the Greek guerrillas. Although it reduces Yugoslavia's capacity to assist the Italian Communists, current emphasis on Greece will not prevent Yugoslavia from supporting a possible Communist revolt in Italy by transferring arms, supplies, and agents across the border.

- vi -

TOP SECRET

TOP SECRET

Large-scale guerrilla action in Greece can be expected in mid-April, concentrated mainly in northern Greece, in the west Macedonia-Epirus and east Macedonia-Thrace areas. Preparations for a general offensive, timed to disrupt the scheduled Greek Army offensive and to secure a wide area of territory, are increasing. Supplies and reserves are reported to have been concentrated in the Satellite countries along the northern Greek border. Guerrilla and Satellite propaganda is stressing the aggressive acts and designs of the Greek Army, probably as justification for a "counterattack" by large guerrilla forces supported by Satellite-trained and Satellite-armed reserves. Publicity given to the guerrilla "child welfare" program has already succeeded in creating further chaos and fear in northern Greece. Heavy guerrilla recruiting, diversionary attacks in the Peloponnesus and near Athens and Salonika, and action directed specifically against army and National Defense Corps units are designed to build up guerrilla strength while preventing the concentration of Army forces for the Greek offensive.

NEAR EAST-AFRICA

While the Arabs will probably agree to a trusteeship for Palestine if it does not commit the UN to ultimate partition, the Jews are violently opposed to the idea as representing a withdrawal from the UN General Assembly partition resolution. If the Zionists attempt to carry out their plans to establish a "Provisional Jewish Government" on 16 May (as announced by the Jewish Agency), Arab violence will increase, and hostilities can therefore be expected to become more intense. However, if the UN authorizes the establishment of an effective trusteeship supported with force furnished by the trustee power or powers, the Jews will ultimately have to accept trusteeship, and final settlement of the Palestine issue will be indefinitely postponed. Should the terms of the trusteeship envisage eventual partition and therefore prove unacceptable to the Arabs, violence would ensue to an even greater degree. Without trusteeship, the Palestine issue will be resolved by full-scale civil war, with grave international implications.

TOP SECRET

TOP SECRET

Indian leaders have become increasingly disillusioned with the USSR, particularly because of: (1) Soviet refusal to concede India a seat in the UN Security Council; (2) strong Soviet pressure on Mrs. Pandit, the Indian Ambassador in Moscow; and (3) the impolitic behavior of the newly-accredited Soviet Ambassador to India. Mrs. Pandit (who is Prime Minister Nehru's sister) was unquestionably predisposed toward the USSR before her arrival in Moscow. She now recognizes, with deep concern, that the USSR is attempting to compel India's alignment with the USSR, using attacks in the press as well as direct pressure. Government circles in New Delhi are reported to be deeply resentful because the new Soviet Ambassador has largely ignored responsible Government officials and has assumed clandestine direction of the Indian Communists. Although recent confidential efforts of Government spokesmen to convince the US of their friendship may be attributed in part to India's desire for US support in the Kashmir dispute, it is evident that Nehru and other responsible Indian leaders are rapidly losing faith in the concept of the USSR as a sound friend and a potential champion of India's policies.

- viii -

TOP SECRET

TOP SECRET

FAR EAST

Forthcoming Dutch-Republican negotiations in Indonesia are expected to be delicate and protracted but presumably will result in eventual agreement on Republican admission to an interim federal organization established by the Dutch (see page 3).

China's critical military and political problems are being vastly complicated by rapidly accelerating increases in commodity prices and an alarming deterioration in the foreign exchange value of the national currency (see page 5).

A reorganization of the Chinese National Government is an immediate prospect. Chiang Kai-shek will probably make a statement of major importance on this subject at the convocation of the National Assembly, now scheduled for 29 March. Under the new constitution which nominally became effective on 25 December 1947, the Assembly has as its primary function the election of a President and a Vice President of the Republic. It is generally conceded that Chiang will be elected President with little, if any, opposition, but the vice-presidential race is hotly contested by several aspirants and is of considerable significance because the winner must be regarded as Chiang's potential successor. In this contest, the support of Chiang will probably be the decisive factor. In making his choice, Chiang will be obliged to decide whether to continue his reliance on old and trusted conservative elements in the Kuomintang, or to give greater heed to younger and more progressive elements within the party.

In Korea, the USSR has apparently selected mid-April as the time for executing a series of dramatic moves calculated to anticipate and minimize the effect of the UN-observed South Korean elections in May. Evidence of this intention is contained in: (1) the recent threat of the North Korean Peoples' Committee to cut off power now supplied to South Korea if the US has not paid for this power on Soviet terms by 15 April; and (2) the invitation extended by the North Korean Peoples' Front to South

- ix -

TOP SECRET

TOP SECRET

Korean "parties and social organizations" to attend a joint conference on 14 April at Pyongyang. The conference has been called to permit South Korean Moderates and anti-Rhee Rightists to join North Korean leaders in forming a "coalition government." By this move the USSR evidently hopes to confuse the UN Commission by making the forthcoming elections appear "unrepresentative." Because the Kremlin is not likely to authorize any overt action against South Korea, at least until a new government is established there during the summer, the contemplated moves seem designed to embarrass the US and precipitate an ostensible "crisis" in Korea.

The redistribution of former Japanese-owned land in South Korea under the terms of the new land reform ordinance will: (1) increase US prestige and attract mass South Korean support to US policy, because the popular and long-needed reform was the result of US initiative; (2) establish a sound pattern for the redistribution of large Korean-owned estates by the future Korean government; (3) vitiate the most effective propaganda weapon employed by the USSR against South Korea; and (4) permit the US to take the psychological offensive in propaganda beamed to North Korea by pointedly comparing the provisions of the new ordinance with the illusory North Korean "reforms."

The prestige of the Government of Burma has declined appreciably as the result of Karen and Communist problems and the growing dissension within the government party, the Anti-Fascist League. The Government appears bewildered by the deteriorating political situation and, lacking a strong policy, is tending to appease all political factions. Unless the Government adopts and implements a firm policy to deal with the crisis, popular support for the Anti-Fascist League will disintegrate and, in the absence of a widely acceptable leader, numerous small feuding political groups will develop. In such political chaos, the possibility of political vendettas and coups will increase and the maintenance of law and order will become virtually impossible. The continuation of this state of affairs might easily result in the establishment of a dictatorship by the strongest party. In such a contest for power, the Burmese Communists could emerge the victors.

- X -

TOP SECRET

TOP SECRET

WESTERN HEMISPHERE

Argentina's recent refusal to participate in the International Trade Organization and the International Wheat Agreement indicates that Peron's declared policy of cooperation with the US does not extend to participation in US-sponsored international organizations at the possible sacrifice of current Argentine profits. Repeated US invitations to Argentina to cooperate in the worldwide distribution of foodstuffs through membership in the International Emergency Food Committee also remain unaccepted. Present indications are that any Argentine participation in international cooperative efforts must be extracted as a quid pro quo for gains anticipated from dollar proceeds from US purchases in Argentina for the European recovery program, and from US allocation of industrial equipment and US capital investment.

- xi -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**PROSPECTS FOR THE COMMITTEE OF EUROPEAN
COOPERATION**

Although the current meeting of the Committee of European Economic Cooperation (CEEC) reflects a growing recognition by all 16 participating countries of the urgent need of western European economic integration, the majority still appear reluctant to set up the strong continuing CEEC organization desired by the US. The closest approach to the US concept is the French proposal, supported by Italy, for an organization with specific detailed powers and a strong secretariat capable of independent action. Several nations, however, are still reluctant to commit themselves: (1) to support an organization which has sufficient power to unify European recovery efforts; or (2) to join fully in the cooperative measures necessary for European recovery. Despite its assertions to the contrary, the UK in particular still does not wish a strong CEEC, apparently preferring a weak organization in which final authority on economic cooperation remains in the hands of the individual governments. Many of the smaller nations, like Switzerland and Sweden, tend to favor the British approach, as infringing least upon their own sovereignty.

The UK attitude, apparent in its cautious approach to such projects as customs unions and multilateral clearing arrangements, is based largely upon the fact that Britain, more than any other participating CEEC country, has extensive non-European economic and political ties. Consequently, Britain considers its recovery to be much more dependent upon direct US aid than on closer economic integration with western Europe, and it fears that such integration might involve weakening its Commonwealth bonds. The UK, therefore, would prefer to preserve its freedom of action rather than commit itself to a strong CEEC.

Unless the continuing CEEC organization is made stronger than appears likely at present, it may be unable to achieve the economic integration of western Europe essential

- 1 -

TOP SECRET

TOP SECRET

to recovery. Many of the participants at the Paris Conference have recognized that the CEEC must develop full economic cooperation and not confine itself to the mere programming and reviewing of US aid. Without a strong CEEC capable of taking an overall approach to the European recovery problem and resolving or overriding conflicting national views, such cooperation will be difficult to achieve. The development of such an organization will depend in large measure on whether the UK alters its present basic attitude toward the CEEC.

- 2 -

TOP SECRET

TOP SECRET

ISSUES IN FORTHCOMING POLITICAL NEGOTIATIONS IN INDONESIA

The principal issue in the imminent Dutch-Republican political negotiations will be the conditions under which the Republic will be admitted to the preliminary federal structure established by the Dutch in preparation for a sovereign United States of Indonesia (USI). Eventual agreement appears probable, though negotiations will be delicate and protracted. Once in the organization, the Republic will work to reduce Dutch influence.

The Dutch claim that the "Provisional Federal Government" which they created on 9 March is not the interim government in which the Republic, under the terms of the 17 January Renville Agreement, is to be represented but is merely its predecessor. The Republic, however, considers that this organization is the interim government and that its exclusion is a violation of the Renville Agreement. This difference of opinion and its concomitant tension are obstacles to any progress on the question of Republican participation in a preliminary federal structure.

The Dutch take the position that the Republic can be admitted to an interim organization as soon as it has accepted its status as a state within the projected USI, as provided in the Renville Agreement. The Dutch will seek primarily during the forthcoming negotiations to obtain such an acknowledgement from the Republic and to settle the procedures for the dissolution of such Republican attributes of sovereignty as an independent army, foreign representation, and the conduct of its own international trade.

The Republic is bound by its signature of the Renville Agreement to accept the status of a state in the USI. However, the Republic believes that its authority as a state in the USI should extend over all of Sumatra, Java, and Madura, including those present states which have arisen in Dutch-occupied areas on the three islands. The Republic insists that these states are

- 3 -

TOP SECRET

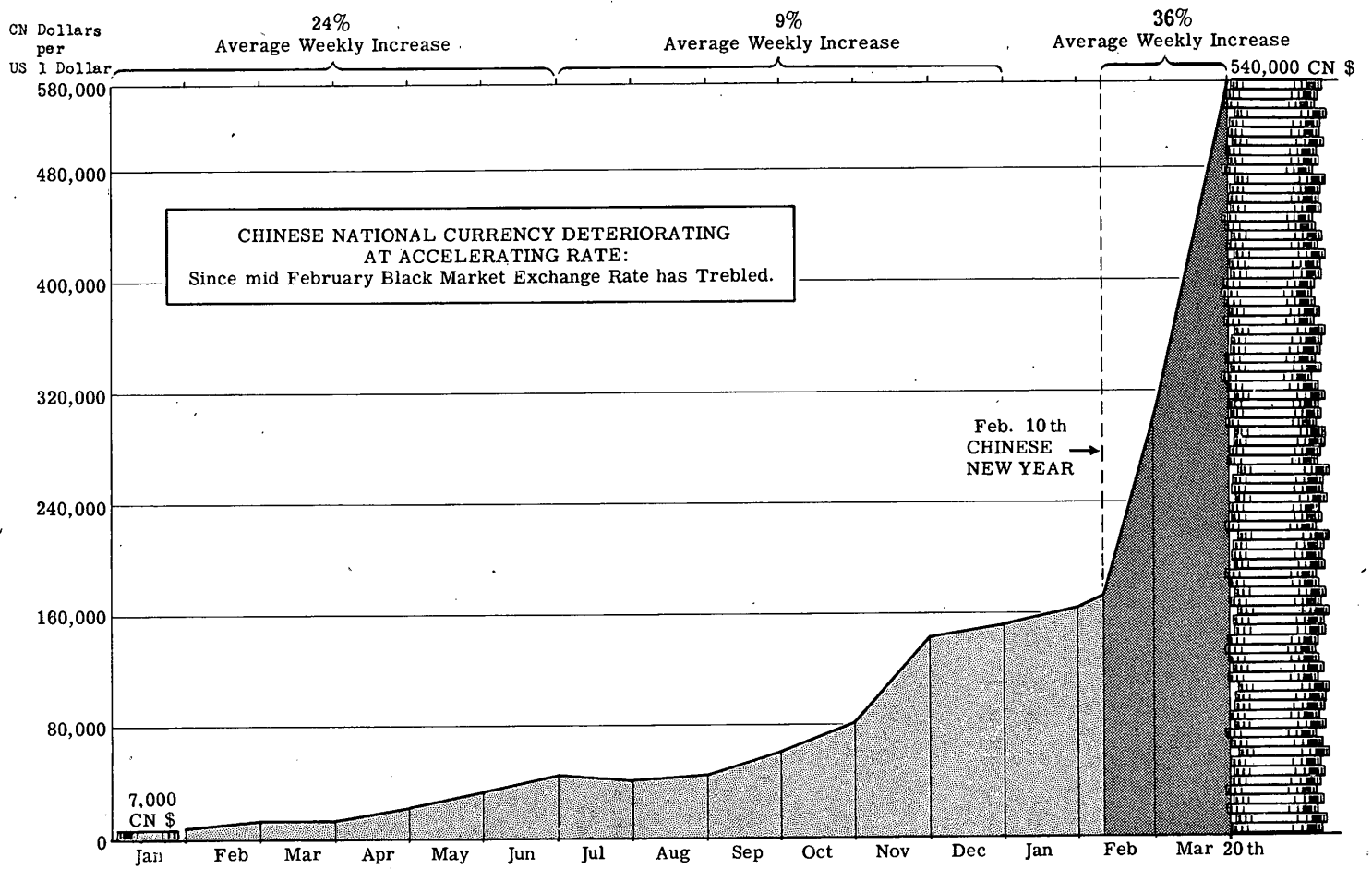
TOP SECRET

undemocratic in origin, and that they developed under Dutch military occupation in complete disregard of the real desires of the populations of those areas. The Republic will therefore make every effort to prove, during the negotiations and by the forthcoming plebiscites, that the people of the new states desire to rejoin the Republic. The recent election of a Republican official to head the new West Java state will be cited by the Republic as proof of its contention.

The negotiations will be delicate and complex because the future of the Dutch-encouraged system of states in Sumatra, Java, and Madura and the future of Republican influence in Indonesia are at stake. The Republic cannot risk the economic strangulation and political isolation which would result from its refusal to join an interim federal organization; it may be expected to enter this organization, but only after exhausting every possibility of obtaining from the Dutch favorable conditions for its admission. The Republic will then devote its efforts to reducing Dutch influence in this organization, to expediting the formation of the USI, and to laying the foundation for future Republican influence as the champion of Indonesian unity and independence.

- 4 -

TOP SECRET



CHINESE NATIONAL CURRENCY DETERIORATING
AT ACCELERATING RATE:
Since mid February Black Market Exchange Rate has Trebled.

Feb. 10th
CHINESE
NEW YEAR

TOP SECRET**IMMINENT FINANCIAL CRISIS IN NATIONALIST CHINA**

The threat of an unprecedented financial crisis has greatly complicated the critical military and political problems now facing the Chinese National Government. Deterioration in the Government's economic position, as measured by soaring commodity prices and black market exchange rates for foreign currencies, has accelerated at an ominous rate since the Chinese New Year (February 10). In the ensuing six weeks, general commodity prices have doubled, and US dollars on the Shanghai black market have trebled in terms of Chinese currency. The Government's official holdings of foreign exchange are believed to be nearing exhaustion. With the possible exception of an immediately implemented US aid program, there are no economic or other factors now in evidence which can halt this accelerated movement toward complete financial collapse.

Basically, the deterioration in the Government's economic position reflects the general lack of confidence--now approaching panic--in the Government's ability to contain the Communist military forces. Important interests in Chinese financial circles appear to be extremely skeptical about the possibility that US aid can be effective. A single major military defeat sustained by Nationalist armies may be sufficient to cause a general refusal to accept the Chinese national dollar as a medium of exchange and a consequent reversion to barter. The chart on the opposite page shows the complete deterioration in the foreign exchange value of the Chinese national dollar, which in turn indicates the extent to which confidence in the national currency has recently fallen.

A financial collapse will have immediate and serious implications with respect to the National Government's military effort. The Government's ability to maintain its armies in the field will be jeopardized and the possibility of a complete military and political debacle will be imminent if the economic situation continues to deteriorate at its present rate.

TOP SECRET

TOP SECRET

There is no evidence of either official Chinese determination or a Government plan to cope with the mounting inflationary pressures. The apathy with which the National Government is viewing the approaching collapse of its financial structure demonstrates how much more serious and pressing are the military and political problems which currently monopolize the Government's attention.

- 6 -

TOP SECRET

~~TOP SECRET~~

CONTENTS

	Pages
TRENDS IN BRIEF	i - viii
ARTICLES	1 - 4
Soviet Efforts to Buy US Lend-Lease Ships	1
Prospects for Strengthening the Inter- American System at the Bogota Conference ..	3

Document No. 011
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: T5 S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1765
 Date: 27/01/78 By: 021

Mar 19

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

GENERAL

Recent Soviet efforts to obtain title to 38 lend-lease Liberty ships may indicate that the USSR does not expect hostilities in the near future but expects relations with the US to become more strained (see page 1).

A step toward internationalization of commercial air operations may result from the proposed consolidation of western European airlines now under consideration by France and the UK. Under this plan, existing airlines would presumably retain their national corporate identity, but policy would be decided by a controlling board on which all participating states would be represented. Such a western European air pool presumably would not attempt to exclude US airlines from local European traffic. However, US air interests might be adversely affected by complete internationalization of civil aviation, a possibility which the UK is currently considering and which France may raise at the forthcoming Geneva Assembly of the International Civil Aviation Organization (ICAO). Unless the provisions of such a plan are brought into line with US interests before its submission to ICAO, the US may find it necessary--in order to avoid interference with the operation of US world-wide air routes and landing rights at strategically important points--to oppose a plan which has strong support from numerous UN members. World-wide acceptance of air transport internationalization is unlikely to develop, however, except under conditions of world peace and stability, with an effective UN which is able to enforce its decisions.

If the Canadian delegation withdraws from the UN Temporary Commission on Korea as a result of continued opposition by the delegation to US policy on South Korea, US prestige may be seriously affected not only in Korea, but in the Far East generally, and in the UN. The Canadian Government (which has consistently opposed the desire of the US to

TOP SECRET

TOP SECRET

hold separate South Korean elections) apparently feels that if Canada supports the US position in this matter, the UN may be placed in the position of underwriting an unstable and undemocratic government for Korea. If Canada refuses to recognize the South Korean elections, such action--in addition to its effect as a strong rebuke to US leadership in the UN--would constitute an ostensible endorsement of Communist activity in interfering with UN elections.

WESTERN EUROPE

The London Conference decision to permit participation by the western zones of Germany in the European recovery program is expected to increase materially western Germany's contributions to the program. Important German political leaders have warmly welcomed this projected participation, which includes active German representation on the program's administrative units and eventual representation on control boards for the internationalization of the Ruhr. The intensity of this response reflects the strong desire of the Germans that their country be restored to independent national status and the hope that Germany's eligibility for such status may be advanced by its contributions to the recovery program. Consequently, the program will receive widespread support in western Germany, and German participation will serve as a strong incentive to domestic industrial production. German reaction to certain points in the London discussions, however, has not been wholly favorable. Kurt Schumacher, chairman of the Social Democratic Party (SPD), has expressed strong opposition to the idea of a federal government and to internationalization of the Ruhr without similar internationalization of other European heavy industry. Schumacher maintains that the German people should be permitted to decide on their form of government, and that they will not allow themselves to be exploited in the Ruhr as slaves for the rest of Europe. Because the SPD controls the western trade unions and because Schumacher is the leading German opponent of Communism, the retention of Schumacher's support is desirable, and therefore his views cannot be disregarded.

TOP SECRET

TOP SECRET

Significant pressure may be put on the UK Government to seek a far-reaching federation of Europe by a recent non-partisan motion in the House of Commons which calls for a "Council of Western Europe" with a permanent staff composed of representatives from the 16 countries which make up the Committee for European Economic Cooperation. The function of this staff would be to coordinate immediately social and defense policies, as well as economic policies. The long-range objective of the Council would be the creation of an "organic federation" of Europe which would provide for common citizenship, foreign policy, defense, currency, and customs. British public opinion apparently is ready for a greater degree of European federation than is envisaged by the UK Government, which seems hesitant, at this time, to project itself beyond traditional intergovernmental cooperation.

US-UK bizonal authorities are considering a reduction of German coal exports in order to provide German industry with a greater supply in conformity with the revised bizonal level of industry. France, which receives 25% of Ruhr coal exports and has based its planning for 1948 accordingly, would react unfavorably to any reduction. Countries receiving less coal under the export revision would be encouraged to purchase equivalent amounts from the US and the UK, however, and France's reaction might be less vigorous after overall allocations under the European recovery plan have been established.

The immediate intention of the People's Congress in Berlin to form a German Government of national character, "to take the place of the Allied Control Council," has been declared by German Communist spokesmen in Berlin. The constitution for such a government was prepared months ago. This is the initial Soviet reply to western plans for a provisional west German state. The degree of authority to be accorded the new government, the extent of its claims for sovereignty over Berlin, and the amount of overt Soviet backing it receives, will be indications of Soviet intentions either to proceed aggressively or to match the western powers step for step.

TOP SECRET

TOP SECRET

The 48-hour "warning strike" by French coal miners is the first in a series which the Communists hope will prepare the ground for an all-out attempt to wreck French economy during April or May, or before the European recovery program becomes effective. As a result of lessons learned during the unsuccessful strikes of November 1947, the Communists will employ disguised tactics, including scattered "non-political" strikes, and exploitation of existing local grievances. Such strikes, even if of short duration, could retard overall French economic recovery only enough to prevent foreign aid from alleviating real hardship. This strategy will allow the Communists to test and improve the organization of their General Confederation of Labor which is at present recovering from the setback received at the hands of the Force Ouvriere.

There is increasing danger of a Communist attempt to seize power in Italy either by subversion of key Government services or through armed revolt with outside aid. As various US efforts to bolster the De Gasperi Government in the 18 April national elections become effective and correspondingly decrease Communist prospects for success, Communist resort to violence before the elections becomes more likely. If the Communists believe they will win a plurality in the elections or will obtain enough votes to warrant a demand for their participation in the government, they will probably not resort to force, at least until after the elections. If they fail to win power or are prevented from participating in the government, the Communists can be expected to launch an insurrection with Yugoslav Communist assistance (short of overt military action) or at least to set up a People's Government in North Italy. The Communists are believed capable of creating such a puppet government, and the Italian Government would probably require foreign aid to regain complete control of the area.

To prevent Dutch unemployment and serious curtailment of economic activity, the Netherlands Government is exhausting its last remaining dollar resources by forced liquidation of Dutch-held US assets. Although the Netherlands may thus be

- iv -

TOP SECRET

TOP SECRET

able to forestall economic collapse until 1 July 1948, any delay in dollar aid after that date will have serious economic and psychological consequences.

The firm Swiss attitude toward Soviet demands for special concessions in the current Swiss-Soviet trade negotiations (indicative of an increasing Swiss reluctance to form close economic ties with the east) and the severe public criticism in Switzerland of the Czechoslovak coup make the extension of Swiss credit to the USSR very unlikely at this time. Politically oriented to the west, Switzerland has recently shown a considerable disposition to strengthen its western military and economic ties within the limits of Swiss neutrality.

The western European union can become an effective force in European affairs only by the practical integration and strengthening of the military establishments and economies of the European nations which recently signed the 50-year "western union" pact. The present military and economic weaknesses of the participating powers reduce the pact to little more than a gesture for the time being. The agreement obligates each signatory nation to render military and general assistance to each other (in event of armed attack in Europe) with the general objectives of: (1) preserving western European democratic institutions; (2) providing a common defense against aggression; (3) furthering mutual economic recovery; and (4) strengthening economic, social, and cultural ties between the member countries. Supplementing specific obligations to each other in event of attack in Europe, each member is empowered to convene the permanent consultative council to decide upon joint defensive action in cases of aggression or threats of aggression in non-European areas. This same permanent council will deal with matters of economic cooperation. Other states may join the union by consent of all the members.

- v -

TOP SECRET

TOP SECRET

EASTERN EUROPE

The Soviet Union's strong stand in support of the UN Palestine partition plan probably indicates that the USSR intends to exploit all propaganda possibilities in the Palestine issue by assuming the role of the faithful executor of UN policy and by posing as the true friend of the Jews. In the hope of concentrating unfavorable world attention upon the US for retreating on this issue, the USSR will probably continue this line of action as far as possible without risking permanent alienation of the Arab world. This support of the Jews is in line with a fixed Soviet policy of exploiting minority grievances in all parts of the world.

Normal Soviet troop movements prior to annual spring maneuvers in Germany and eastern Europe, plus the recently-announced "6th phase" of demobilization of the Soviet army, are considered to be the basis for reports that the USSR is building up its armed forces in these areas. There appears to be no foundation for current speculation that the USSR is adding to its armed strength in eastern and central Europe.

FAR EAST

Opposition to Japanese Premier Ashida's coalition government has been considerably strengthened by the recent formation of the Democratic-Liberal Party through the merger of dissident Diet factions with the conservative Liberals. This new group, claiming 152 of 466 seats in the lower house, becomes the plurality party and adds considerable strength to ex-Premier Yoshida's bid for power when the present coalition Cabinet falls.

A possible French request for US or UN mediation of the French-Vietnamese deadlock has recently been considered by both anti-Viet Minh nationalists and liberal French officials in Indochina. The probability of such a step will increase if the current negotiations between High Commissioner Bollaert

TOP SECRET

TOP SECRET

and former Annamite Emperor Bao Dai fail to result in agreement. The inconclusive French fall military offensive, as well as Bao Dai's insistence upon Vietnamese diplomatic representation and control of the army, finance, and customs, has widened the gulf between the Vietnamese and the French. Although the ultimate decision regarding a request for US mediation rests with the French Government, it is becoming increasingly apparent that discouraged French officials in Indochina would welcome intervention as a face-saving solution.

Serious labor unrest in the Philippines is expected as a result of activities inspired largely by the leftist Congress of Labor Organizations (CLO), the most active and politically conscious of Philippine labor organizations. During the past month the situation has been aggravated by: (1) the Government's refusal to negotiate with and its subsequent lock-out of striking employees of a government corporation; (2) the Government's failure to apprehend the murderers of a prominent CLO official; and (3) President Roxas' outlawing of the dissident Hukbalahap and its political affiliate, the National Peasants Union, with both of which several CLO leaders are associated. The CLO has threatened to precipitate strikes against all government-owned corporations.

The Labor Governments in New Zealand and Australia appear to be seriously threatened by opposition demands that Communist activities be outlawed. Although the Australian Labor Government is maintaining that it has no intention of banning any political philosophy, it is expected to review its stand on this issue at a 6 April meeting of the Labor Party caucus. In New Zealand, the Prime Minister has rejected a suggestion of the opposition leader that Parliament be called to discuss New Zealand's Communist menace, but he has recalled the ministers of Works and Finance from overseas for party discussions of difficulties with militant labor elements.

TOP SECRET

TOP SECRET

WESTERN HEMISPHERE

Approval at the Bogota Conference of the "organic pact" for strengthening the inter-American system will probably require that some concessions be made to the larger Latin American countries (see page 3).

The continuation of civil disorder and violence in Costa Rica reduces the possibility of resolving the country's political impasse. Ideological ties are not the basis for the rapidly developing interference of the neighboring republics. On the contrary, General Somoza has admitted sending former members of the Nicaraguan National Guard to support the Costa Rican Government's forces which include members of the Communistic Vanguardia Popular; and there is evidence that the Guatemalan Government, which includes both leftists and Communists, is lending assistance to the conservative oppositionists. Both contending factions in Costa Rica are seeking support in Panama and Honduras. The peaceful relations of the Central American republics will be further jeopardized in the absence either of a compromise solution or of successful outside mediation.

Plans for inter-American cooperation to increase petroleum production suffered a setback during the past week with the addition of Sanches Cuen, well-known opponent of US oil operators, to the Mexican delegation to the Bogota conference. Cuen has probably been selected to defend oil expropriations by Mexico and to justify Mexico's failure to produce more oil by alleging essential materials and equipment could not be obtained in the US. Cuen may launch a general attack upon the US by repeating charges that US administration officials, in delivering oil production equipment, have discriminated against Mexico in favor of Saudi Arabia. If pressed, these charges by Cuen could also seriously impede negotiation in process between US oil operators and the Mexican oil authority pointed toward eventual re-admission of US oil companies into Mexico.

- viii -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**SOVIET EFFORTS TO BUY LEND-LEASE SHIPS**

The recent offer by the USSR to pay for 38 lend-lease, dry cargo vessels immediately provides some indication of Soviet expectations regarding future US-USSR relations and suggests that, although the USSR does not anticipate open hostilities in the near future, it expects relations with the US to become increasingly strained, resulting in extreme economic measures.

The Soviet offer to buy these ships was made shortly before the extension of the Ship Sales Act at the end of February. Apparently prompted by fear that this legislation would preclude Soviet purchase of the vessels, the USSR attempted to make down payment for the Liberty ships in its possession on terms previously stipulated by the US. Following the refusal of the US to accept payment for the vessels except as a part of an overall lend-lease settlement, negotiations were resumed covering all phases of the lend-lease problem and the USSR was given renewed assurance of US intentions to permit Soviet acquisition of the vessels.

The USSR has a continuing use for Liberty ships in its long-haul bulk services, such as transport from the Black Sea to Soviet Pacific ports, and movements between the Black and Baltic Seas. The Liberty ships are the largest and most modern cargo vessels in the Soviet merchant marine and can be used as replacements for smaller and older ships. Even if the US vessels were not needed now for domestic Soviet uses, they could be chartered in regular commercial service to create dollar exchange if the USSR obtained clear title. At present, the US can object to such a use under the provisions of lend-lease.

There is little chance that the USSR could replace the lend-lease tonnage from either domestic or foreign sources. Soviet shipyards are largely engaged in building naval vessels and in any case are probably incapable of rapidly constructing vessels of the size and type of Liberty ships. Moreover, with

TOP SECRET

TOP SECRET

the general tightness of European shipping resulting from the implementation of the European recovery program unless US war-built vessels are made available, the USSR probably cannot purchase or charter equivalent tonnage elsewhere.

Unless the Soviet offer to pay for the vessels was a deliberate attempt to obscure intentions, it would seem to indicate that the USSR does not anticipate open hostilities in the near future but definitely foresees further deterioration in US-Soviet relations. If the USSR expects actual conflict, there would be no incentive to obtain clear title to the ships because in time of war the US would take direct military action against the vessels regardless of their legal status. Short of war, however, it is important for the USSR to have unquestioned claim to the ships if the Kremlin foresees increasingly strained US relations because the vessels are the only items of lend-lease equipment which operate outside the Soviet orbit and therefore could be seized or interned by the US. Rather than risk such action, the USSR apparently hoped to obtain clear title through an offer to pay for the vessels. Furthermore, if the USSR could have bought the 38 ships, the Kremlin would then have felt little or no compulsion to negotiate an overall lend-lease settlement, even if technically normal relations with the US were to continue.

TOP SECRET

TOP SECRET**PROSPECTS FOR STRENGTHENING THE INTER-AMERICAN SYSTEM AT THE BOGOTA CONFERENCE**

The most important question facing the Ninth International Conference of American States, scheduled to open in Bogota, Colombia, on 30 March, appears to be that of presenting the projected strengthening of the inter-American system in such terms as to win the support of the larger Latin countries. The proposed "organic pact" includes provisions (foreshadowed by resolutions of the Mexico City conference in 1945 and in large part included in the Rio Treaty signed in September 1947) that greatly strengthen the Governing Board of the Pan American Union by granting the board, among other powers, authority: (1) to act as the provisional organ of consultation in determining measures to be taken for pacific settlement of disputes; and (2) to supervise other inter-American organizations.

Attitudes toward the proposed "organic pact" will be influenced by the relative power position of the several countries and the consequent degree to which the projected inter-American organization could restrict the freedom of action of the individual states. The military weakness of the smaller Latin American states permits them little freedom of action in any event; these small republics therefore are little concerned by a possible further restriction through the establishment of an inter-American agency. Moreover, as the Latin Americans themselves recognize, the US (which is considerably more powerful than all the other republics together) cannot be compelled to yield to the power of the group, and it can and will, under conditions of extreme necessity, disregard the Pan-American organization completely.

But with the larger and stronger Latin countries--Brazil, Argentina, Mexico, and possibly Chile and Peru--the case is quite different. Their freedom of action with respect to their neighbors is considerable, if there is no inter-American organization to enforce their compliance;

TOP SECRET

TOP SECRET

on the other hand, the organization as a whole would have sufficient power readily to coerce any one of them. Thus, the smaller Latin countries and the US have much to gain and little to lose from a strong inter-American organization which is authorized to use compulsion. The larger Latin states, however, find themselves in the position of having to weigh carefully the value of the system to them against the loss of liberty of action inevitable in the strengthening of the system.

Consequently, Argentina apparently plans to fight strongly against those articles in the organic pact that increase the power of the Governing Board. Argentina's opposition may be attributed in part to pique at the defeat of its representative for the chairmanship of the Governing Board last fall, but it probably stems also from more basic considerations bearing on loss of freedom of action. Mexico has served formal notice that its delegation at Bogota will object to the extensive "political" powers given the Governing Board of the Union. Similar objections may be brought forward by one or more of the other larger and more important Latin countries.

If the nations approving a pact at Bogota are to include those countries most capable of supporting the US (unanimity is not required by the conference regulations, but it is of course desirable for its impact on both domestic and world opinion), all the American nations must be assured that the benefits to them will outweigh the costs. The US and the smaller countries are already so convinced; it is likely that some concessions may have to be made to the larger Latin countries before they conclude their interests are served equally as well.

- 4 -

TOP SECRET

12 MAR 1978

50

89

~~TOP SECRET~~

C O N T E N T S

TRENDS IN BRIEF Pages
i - ix

ARTICLES 1 - 4

Soviet Exploitation of Czechoslovak
Airline 1
Current Military Situation in China 3

Document No. 010

NO CHANGE in CLASS.

DECLASSIFIED

Class. CHANGED TO: TS S C

DDA Memo, 4 Apr 77

Auth: DEA REG. 77/1763

Date: 27/01/78 By: 021

151
12

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

GENERAL

Progress toward the formation of a five-nation (the UK, France, Belgium, Netherlands, and Luxembourg) western European union has been considerably accelerated by the Communist coup in Czechoslovakia and by the Soviet request for a military agreement with Finland. The resolution of the remaining difficulties confronting the Brussels conference will probably be accomplished without extended delay. The proposed five-nation pact, which will constitute a regional arrangement under the UN charter, reflects a growing tendency among UN members to conclude virtual regional alliances in an effort to obtain a partial substitute for the international security which they had hoped to find in the UN. Because the five powers recognize that the effectiveness of the proposed pact as a deterrent to Soviet aggression rests on the degree of US backing obtained, their action in undertaking to establish a western European union actually represents a bid for US support.

A proposal that Moscow serve as a central clearing house for eastern European trade, now being discussed by Soviet and Satellite officials, provides further evidence that strictly bilateral trade is not a satisfactory solution for economic problems within the Soviet orbit. Such a central clearing house arrangement at Moscow would be an economically sound move toward facilitating trade among the countries concerned. While designed ostensibly for handling settlement of debit and credit balances resulting from trade and financial transactions, such a clearing house would also provide the USSR with: (1) more complete control of trade between Satellite countries and between them and the USSR; (2) more effective utilization of resources within the Soviet area; (3) less dependence upon non-Soviet countries.

TOP SECRET

TOP SECRET

Informal discussion of the possibility that Italy's application for UN membership may be brought before the Security Council by one of the western powers prior to the elections in April, may eventually confront the USSR with an embarrassing decision. A third Soviet veto of the Italian application would undoubtedly bring some political benefit to the anti-Communists in Italy. Moreover, even if the USSR endorsed the application, thereby enabling the Security Council to act favorably upon it, the major credit in the opinion of the Italian people would probably go to the nation which again brought the question before the Security Council.

The USSR may use the Rome meeting of the World Federation of Trade Unions' Executive Committee as an occasion to sponsor its own recovery program in opposition to the European recovery program. Such a move would be designed both to counter the attempts of the WFTU western bloc to set up a separate organization of trade unions which would endorse the Marshall proposals and to hold in line the non-Communist minority in the Italian labor movement.

WESTERN EUROPE

The lack of German transportation is seriously retarding recovery in western Germany (despite record hard coal production in the Ruhr) and threatens to limit greatly Germany's vital participation in the European recovery program. This transportation bottleneck is caused by: (1) inadequate railroad equipment; (2) failure to utilize fully the Dutch and Belgian ports and inland waterways which normally carry heavy traffic; (3) insufficient construction of new railroad equipment; and (4) the long delay in establishing an effective freight-car exchange system.

Delay in currency reform is seriously hampering recovery of western Germany by preventing considerable stocks of goods and raw materials from reaching agricultural

TOP SECRET

TOP SECRET

and industrial markets because the present mark is considered almost worthless. Soviet officials, who use this currency for black market operations, possess large stocks of marks and can print more. They are using them to drain goods from the Western Zones and to finance the Communist Party there at little expense to the USSR. The USSR desires to continue this situation and has, therefore, consistently blocked efforts at quadripartite currency reform in the control council. Such reform in the US/UK Zone would cause a violent Soviet protest and charges that termination of quadripartite currency removes one of the few remaining reasons for a four-power government in Berlin. Without some reform, recovery of western Germany is impossible.

The French anti-Communist Force Ouvriere is losing coal miner adherents to the Communist General Confederation of Labor because of lack of funds, equipment, and experienced organizers. Although a general coal strike would probably be successful if called now, the Communists have refrained from such action because they apparently believe that a coal strike should come as part of a nation-wide labor movement, for which neither external nor internal conditions are yet propitious.

The final 56-vote margin obtained by Premier Schuman in the French Assembly's 7 March vote on the Government's tax policy represents an unexpected last-minute strengthening of the Schuman majority and, although technically not a vote of confidence, appears to have assured the continuance of the Government for at least the next few weeks. Both the Gaullists and the Communists now appear to be deferring any direct attempt to unseat the Government in the belief that further economic deterioration will cause the Government's program to fail and destroy the remaining popular confidence in Schuman's Cabinet.

- iii -

TOP SECRET

TOP SECRET

Spanish Communist leaders who remain in southern France will probably remove their headquarters to Yugoslavia if the French Government carries out its plan to curb their activities. In that event, these leaders can be expected to set up, with the guerrillas of the Spanish Levant who have been operating for some years in mountainous areas inland from the port of Valencia, a new line of communication via northern Italy and the Balearic Islands. Spanish Communists-in-exile have been seeking increased aid for these guerrillas. If the Spanish Communist directorate moves to Yugoslavia, guerrilla activities in Spain may grow in strategic significance.

EASTERN EUROPE

Control of the Czechoslovak airline, CSA, provides the USSR with an instrument for penetrating the western hemisphere and the Near East (see page 1).

Soviet methods of increasing Communist control of Finland are not expected to be as drastic as those employed for the subjugation of the eastern European Satellites because the Kremlin probably does not desire to consolidate opposition among the Scandinavian countries at this time. The forthcoming Moscow negotiations for a Finnish-Soviet mutual assistance pact will therefore be accompanied by compromises on both sides. The USSR may insist, however, on: (1) Soviet responsibility for the defense of northern Finland in time of war; (2) Soviet bases on the Gulf of Bothnia similar to the Porkkala enclave on the Gulf of Finland; and (3) joint militarization of the Aaland Islands. Although Finland may be able to retain a semblance of free democratic government and control of its internal affairs, the Finns will be unable to avoid making military commitments which will satisfy Soviet demands for increased security against an attack from the west.

Soviet jamming of the "Voice of America" Russian-language programs being beamed to listeners in the Far East apparently indicates Soviet willingness to risk unfavorable

TOP SECRET

TOP SECRET

reactions in the international community, or possible retaliatory action by the US, in order to maintain the isolation of Russian-speaking peoples in the Far East area. Although such jamming contravenes international radio agreements signed and ratified by the US and the USSR in 1932 and revised in 1938, possible diplomatic protests were probably discounted in advance by the Kremlin in authorizing such action. US retaliatory measures would represent a considerable financial outlay for jamming equipment, with little positive gain, and would at the same time deny to the US the use of the Soviet transmissions as sources of intelligence.

NEAR EAST-AFRICA

Effective Security Council action on Palestine prior to 15 May, when the British mandate will terminate, appears increasingly unlikely in view of the sharp disagreement between the US and the USSR. The USSR insists that the consultations now in progress between the US, the USSR, France, and China be restricted to possible methods of implementing partition. On the other hand, the US, still hoping to effect Arab-Jewish conciliation (which would require a broader basis of discussion), is attempting to persuade Arab Palestinian representatives to participate in the discussions. If the Security Council fails to take effective action before 15 May, Arab-Jewish strife can be expected to develop into full-scale civil war.

Current Communist plans for Greece appear to call for a gradual increase in Satellite aid to Markos to a point just short of formal recognition. Semi-official support of Markos is being given in the Satellite countries through measures such as enforced worker contributions, which are then converted into goods for shipment to the guerrillas. Markos has cleared the way for participation of Satellite

- v -

TOP SECRET

TOP SECRET

personnel in the Greek fighting by announcing that he will accept "volunteers." Meanwhile, the Belgrade official radio has anticipated Greek protests against guerrilla use of foreign personnel by accusing the Greek Army of raiding Albania to seize Albanians.

Although the appointment of a new Soviet ambassador to Turkey (whose predecessor has been absent from his post since 1946) has caused speculation that the USSR may be trying to allay Turkish suspicions by a display of friendliness, it appears more likely that the USSR is merely regularizing its diplomatic relations with Turkey with a view toward making whatever representations the developing international situation may demand. The Turks, however, are well aware of the true nature of Soviet policy vis-a-vis Turkey and will continue to resist whatever Soviet demands they regard as unjust.

FAR EAST

Military operations in the Chinese civil war have reached a general lull following the recent conclusion of the Communist winter offensive in Manchuria. Only local operations are expected in that area during the several weeks necessary for the Communist forces to regroup and resupply (see page 3).

Marked deterioration in the financial situation of Nationalist China has occurred in the past few weeks, despite the lull in Communist military activity and a favorable reaction to US discussion of aid to China. A growing lack of confidence in the National Government is indicated by a 100% advance in prices and a 50% depreciation in the foreign exchange value of the Chinese national dollar since mid-February. The financial situation has become so precarious

TOP SECRET

TOP SECRET

that a serious military setback, such as the fall of Mukden, might result in a general refusal to use the Chinese national dollar as a medium of exchange, and this, in turn, would seriously impair the Government's ability to keep an army in the field.

The Government of Burma is faced with two increasingly serious separatist movements. The Karen National Union, representing a section of the Karen population, the largest indigenous minority in Burma, is demanding the formation of an independent sovereign Karen state and has threatened to establish a parallel government if its claims are ignored. The Burma Communist Party has begun aggressively to exploit the Government's difficulties with the Karens. The Communists have issued a directive ordering the establishment of parallel administrations in four districts of central Burma and the institution there of a Communist program of nationalization of private concerns, forcible occupation of lands, and non-payment of rents and taxes. Although both the Karens and the Communists are relatively well armed, revolt by either group could lead to a general insurrection which might prove beyond the capability of Burma's armed forces to control. If the government is successful in meeting, even temporarily, Karen demands and reducing internal friction within the Government, the Communist situation may be brought under control.

The Japanese coalition Cabinet, formed on 9 March by Premier-elect Ashida, is composed of the same parties that formed the previous cabinet, and therefore inherits the basic weaknesses of its predecessor. The Socialist representation, however, includes for the first time left-wing members (who hold two of the portfolios), and this new representation will provide an additional source of friction. The new cabinet, moreover, faces an enlarged and strengthened opposition. When the Socialist Party's left wing (whose complete support has not been won despite cabinet representation) finds it advantageous to cooperate with the opposition, the new cabinet will

TOP SECRET

TOP SECRET

fall. In any event, the inability of the Government to solve Japan's present economic problems will probably cause the Cabinet to fall within the next three or four months.

The greatly strengthened prestige of the Indonesian Republic, augmented by its recent success in procuring the selection of a Republican leader as head of the new state of Pasundan in West Java, increases the possibility that the populations of Dutch-occupied East and West Java may vote to join the Republic in future plebiscites. Such a vote would enlarge the area of the Republic to include the entire island of Java and might also give the Republic greatly increased influence in the affairs of the projected United States of Indonesia.

Consolidated opposition in the Philippine Congress may result from President Roxas' 6 March declaration outlawing the dissident Hukbalahap and the National Peasants Union. Roxas' declaration, which was neither an executive nor an administrative order but an extension of previous statements of policy, has precipitated heated controversy in the Philippines. Favorable and unfavorable reactions to the Roxas' declaration have been so intense that its implementation will probably be delayed until its legal status can be clearly determined either by legislative action or judicial interpretation.

WESTERN HEMISPHERE

Although the UK has remained adamant with regard to Argentine and Chilean claims in that part of Antarctica which it considers British, Foreign Secretary Bevin may be preparing to seek a compromise. Bevin would be motivated in this action by the desire of the UK to disentangle itself from inter-American affairs and to avoid damaging US-UK relations. Indications are that the UK may be willing to recognize certain Argentine and Chilean claims, if these

TOP SECRET

TOP SECRET

countries first recognize British "rights" in those parts of the Falkland Islands Dependencies to which the UK is convinced it has an unchallengeable legal title. The UK also seems willing to consider the possibility of some form of international control or condominium, as suggested by the US, once British prestige, commercial, and strategic interests have been protected. The question of the strategic Falkland Islands, which the UK intends to retain, would be kept separate from negotiations on the general Antarctic issue. Conciliatory moves by the UK will be cautious, however, because the Conservative opposition in Parliament is alert to make an issue of any "liquidation of Empire" or of any demonstrations of weakness chargeable to the Attlee Government.

- ix -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**SOVIET EXPLOITATION OF CZECHOSLOVAK AIRLINE**

The Communist coup in Czechoslovakia has presented the USSR with the opportunity to exploit the Czechoslovak airline (CSA) as a means of penetrating the western hemisphere and the Near East. Such exploitation can be accomplished only with difficulty, however, principally because the present CSA personnel is predominantly anti-Communist and because some non-Communist countries will undoubtedly be reluctant to grant landing rights to a Soviet-dominated airline.

In its handling of Rumanian, Hungarian, and Yugoslav airlines, the USSR has maintained effective control but has consistently failed to furnish material assistance. These airlines are under-equipped and have only obsolescent, poorly-maintained aircraft. The USSR has evidently not desired, for strategic reasons, to permit the use of its aviation resources outside the Soviet Union. Moreover, the USSR has probably felt that these Satellite airlines were not suitable for active expansion because they lack the experience necessary to conduct efficient international air operations.

Czechoslovakia, on the other hand, has had considerable experience in international air operations. Czechoslovakia is a member of the International Civil Aviation Organization and has fully reciprocal air agreements with the US, the UK, Eire, Sweden, Denmark, Turkey, and Transjordan. Also, the Czechoslovak Government has interim air agreements with Switzerland, Egypt, and Iraq, and intra-Satellite arrangements with Poland, Hungary, Yugoslavia, and Rumania. Czechoslovak experience in international air transport, as well as the scope of the Czechoslovak air agreements, makes CSA an especially attractive instrument for Soviet penetration.

The USSR will, however, encounter such immediate difficulties in exploiting CSA as: (1) the political unreliability, from the Soviet point of view, of present CSA personnel; and (2) the inability of CSA to acquire efficient four-engine, long-range aircraft from the US or other countries. Even though the USSR already has in production a four-engine transport

- 1 -

TOP SECRET

TOP SECRET

closely resembling the B-29 and capable of long-range operations with large payloads, it does not appear likely that the Soviet Union will make these airplanes available to CSA in the near future. Finally, many countries will certainly resist the implementation of expansionist plans by a Satellite airline.

The interests of the US would be affected both favorably and adversely by the expansion of Czechoslovak air transport. Improved air communications in Europe may encourage slightly the trade relations between eastern and western Europe and possibly aid thereby the economies of the countries whose well-being is the objective of the European recovery program. On the whole, however, the strategic interests of the US would be adversely affected by a Soviet-controlled Czechoslovak airline with landing rights at air bases throughout the world and with consequent opportunities for covert activities of military significance.

- 2 -

TOP SECRET

CONFIDENTIAL CHINA: COMMUNIST CONTROLLED AREAS 1 MARCH 1948

10931



The international boundaries shown on this map do not necessarily correspond in all cases to the boundaries recognized by the U. S. Government. The province boundaries and capitals are as of May 1947.

0 100 200 300
MILES
0 100 200 300
KILOMETERS

U.S. ZONE OF OCCUPATION

U.S. ZONE OF OCCUPATION

Scale same as on main map.

10931 Map Branch, CIA, 3-48

U.S.

TOP SECRET**CURRENT MILITARY SITUATION IN CHINA**

With the conclusion of the Communist winter offensive in Manchuria, a general lull has come in the Chinese civil war. The last offensive, which lasted from mid-December to early March, was the longest the Communists have yet sustained and resulted in substantial Communist successes. In its course, Communist forces increased the economic isolation of Mukden by occupying the important rail centers of Hsinlitan and Liaoyang, the iron and steel center of Anshan, and the port of Yingkou. The Communists are also believed to have annihilated seven to ten Nationalist divisions.

During the coming several weeks, the Communists will be engaged primarily in regrouping and resupplying. Until this process is completed, they probably will not undertake offensive operations in Manchuria, except on a local scale. During this period, the Nationalists may be able to reoccupy all points along the Feiping-Mukden railway and to recapture some of the cities recently taken by the Communists on the periphery of the Mukden defense ring. However, because of Communist destruction, the Nationalists will not be able to operate the railway in the near future because it has been so severely damaged by the Communists. Moreover, the Nationalist position may not be improved by the reoccupation of these cities, because the necessary garrisons probably would have to be drawn largely from troops now defending Mukden. (The Nationalists lack a reservoir of trained manpower from which they can draw reinforcements for Manchuria.) These garrisons would be vulnerable to encirclement and piecemeal destruction in a major Communist offensive several weeks hence.

Despite the ever-weakening position of the Nationalists in Manchuria, Nationalist air strength and fire power have thus far deterred the Communists from undertaking all-out assaults on strongly-defended points such as Mukden. Future Communist offensives in Manchuria will probably continue to follow the pattern of encirclement and piecemeal annihilation of isolated

TOP SECRET

TOP SECRET

Nationalist units, and the destruction of railways. The Communists will probably not make a full dress attempt to capture Mukden unless they become convinced that the military potential of the National Government will be increased by US aid.

Although the Communists are generally inactive at present elsewhere in China, they are threatening their old capital, Yen-an, which was captured by the Nationalists almost a year ago. Advance Communist units in central China under the command of Liu Po-Cheng have dispersed into small groups throughout the countryside and are now being resupplied from Communist base areas farther north. Following this resupplying operation, Liu will be able to re-form his columns and embark on further campaigns. One very likely objective will be a crossing of the Yangtze River in force to drive into the rich provinces to the south, a drive which the Nationalists are not presently prepared to oppose successfully.

- 4 -

TOP SECRET

5U

70 MAR 1948

~~TOP SECRET~~

88

CONTENTS

	Pages
TERMS IN BRIEF	i - viii
ARTICLE	1 - 5
Transportation Aspects of the European Recovery Plan	1
The Palestine Crisis	3

Document No. 009
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1763
 Date: 27/01/78 By: 021

066
5

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

GENERAL

The whole transportation problem connected with the European recovery program is one of the basic questions which the Committee for European Economic Cooperation may have to face at the 15 March meeting in Paris (see page 1).

The urgent desire of the USSR to prevent the withdrawal of the CIO and the British Trades Union Congress (TUC) from the World Federation of Trade Unions (WFTU), and to block the formation of a new trade union international, became evident at a recent meeting in Moscow between leaders of the CIO and the Soviet All Union Central Council of Trade Unions. Soviet labor leaders assured the CIO representatives of their willingness to permit prompt discussion of the European recovery program in the WFTU executive committee and to support the right of national labor organizations within WFTU to adopt their own policies with regard to participation in the program. Such Soviet assurances emphasize the maneuvers of both Communist and non-Communist labor factions to shift responsibility for any future split in the WFTU.

The UK, France, and the Benelux countries have apparently accepted the US view that four-power agreement on the future of Germany is unlikely and that the economy of western Germany must be integrated into any effective European recovery program. Decisions made at the London Conference on Germany indicate that a trizonal constitutional convention may be convened later for the purpose of forming a provisional western German government capable of providing effective cooperation.

WESTERN EUROPE

Although the British Communists hope to contribute to the defeat of the European recovery program by inciting industrial unrest over the UK Government's wage stabilization policy,

TOP SECRET

TOP SECRET

no grave amount of labor trouble is expected in the next few months. During their recent annual conference in London, the Communists: (1) flatly opposed the Government's wage freeze, conditionally approved by the top trade union echelon as a necessary anti-inflation measure; and (2) urged labor not to "accept passively" the adverse decisions of wage arbitration boards, promising full Communist support for unions which strike on behalf of their claims. By such tactics the Communists may be capable of jeopardizing the high production goals set for certain industries because the wage freeze, inevitably unpopular among the ranks of labor, appears to be an exploitable issue. However, even though Communist influence is strong in several important unions, it has been diminishing generally within organized labor during the past year as a result of Soviet intransigence and a Labor Party-TUC anti-Communist campaign. The rank and file of British labor is generally loyal to the UK Government.

The recently announced 24% cut in the UK armed forces, scheduled for the fiscal year beginning April 1948, reflects Britain's pressing need to reduce expenditures and to return manpower to industry even at a time when the UK regards the international situation as grave. The military budget is also being reduced some \$828 million below 1947's \$3,596 million. By 1 April 1949, the army will have been reduced by 32% (from 527,000 to 345,000) and the air force by approximately 14% (from 263,000 to 226,000). The navy, which made a drastic reduction during the present year, will be reduced only from 147,000 to 145,000. The military research and development program is being shielded from serious retrenchment, however, and it is probable that the recently-announced reductions are the last that the Government will authorize until the international situation shows improvement.

Unless the Schuman Government's price reduction program effects a substantial decrease in food prices in the near future, the French Government will face a severe crisis before

- ii -

TOP SECRET

TOP SECRET

the end of March. Non-Communist labor unions have promised Schuman their full support, on the condition that the program succeeds. The Communist-dominated General Confederation of Labor (CGT) is encouraging peasant resistance to the Government's tax and food collections and has already begun agitation for industrial wage increases. "Warning" strikes, which may occur in mid-March, would further economic deterioration to the point where a determined strike program in April or May would appear to have economic justification. The non-Communist unions would then have to make demands at least as great as the CGT makes or lose membership. The Government, which still lacks the full confidence of the rural and middle classes, would not be able to withstand the added opposition of labor. Further wage concessions, however, would compromise Schuman's stabilization program, on the success of which he depends to remain in power.

The decline of Communist influence in Belgium since the Communists' withdrawal from the Government a year ago was emphasized recently by the Government's success in ending the February strikes. This decline indicates an increasing anti-Communist trend which will probably render unsuccessful any future Communist effort to disrupt the Belgian economy by political strikes and labor unrest. The Government's effective enforcement of its civil mobilization decree demonstrated that it has the ability and the determination to prevent by force Communist disruption of the country's economy.

Franco's continued desire to avoid political change in Spain is apparent in his recent appointment of proved totalitarian and high-ranking Falangists to the new Council of the Realm. Despite strong foreign opinion favoring liberalization of Spain's political structure, Franco apparently contemplates no such liberalization even though he is thereby inviting continued exclusion from the European recovery program. Franco is currently attempting to secure private US financial support in order to bolster the Spanish economy without obligating himself to relinquish any degree of totalitarian control.

- iii -

TOP SECRET

TOP SECRET

The Swedish Government's desire to maintain its position of strict neutrality and its unwillingness to extend Nordic collaboration into the military field are evident in the recent inconclusive discussions between the Swedish and Norwegian general staffs. The fact that the discussions were apparently begun without the Swedish Government's knowledge and were immediately halted when the Government learned of them indicates also that a cleavage of opinion exists between military and political leaders on this phase of Swedish foreign policy.

Public condemnation of the Norwegian Communist Party by Norway's Prime Minister has added governmental support to Norway's increasingly anti-Communist attitude. Heretofore, Norwegian officials have avoided a definite anti-Communist position, but this denouncement, which called attention to recent events in Czechoslovakia, indicates a new willingness on the part of Norway to openly align itself with the western powers.

In support of the Italian Communist pre-election charge that De Gasperi has deliberately turned away from the traditional Italian trade with eastern Europe which could assure Italy a healthy economy and full employment, the USSR and the Satellites are making and will continue to make favorable gestures toward Italy which serve materially to bolster the leftist cause. The USSR has already issued a declaration favoring Italian trusteeship for Italy's former colonies, Yugoslavia has suggested that Italy pay reparations out of current production and promises a solution of the Adriatic fisheries problem as well as hinting that it would consider sale of its share of the Brussels gold protocol allocation. The Yugoslavs have pointed out, too, that in response to Italian Communist representations, Italian nationals have been safely repatriated from Albania. Indications exist that Tito may be persuaded to agree to restoration of Trieste and the northern zone of the Free Territory of Trieste to Italy.

- iv -

TOP SECRET

TOP SECRET

EASTERN EUROPE

Confidential protocols contained in the Soviet-Rumanian mutual assistance pact disclose the extent to which Satellite economy and military strength are being integrated into those of the USSR. Beginning 1 March 1948, 2500 Soviet army, navy, and air force instructors are to be assigned to corresponding units of the Rumanian armed forces, and 600 Soviet technicians will serve as advisers to Rumanian enterprises capable of producing war materiel on short notice. The advice of these Soviet supervisors is designated as binding upon the Rumanian unit commanders and industrial managers. Approximately 300 Rumanian officers and 500 technicians will be sent to the USSR for "instruction."

NEAR EAST - AFRICA

A UN trusteeship for Palestine appears to be the only course of action which might be acceptable to both Arabs and Jews (see page 3).

The Greek National Assembly's decision to recess for three months has temporarily ended the violent and irresponsible partisan wrangling in the Assembly which was seriously affecting public morale and even threatening the continued existence of the Government. With the Assembly in recess, the Government should now be able to act with more dispatch in meeting new military or economic problems. Although the behind-the-scenes maneuvering of party leaders will continue and a shuffle of the Cabinet may result, such Cabinet changes will be made quietly, without disrupting the operations of the Government.

The Afghan decision to exchange ambassadors with Pakistan may facilitate settlement of the bitter Afghanistan-Pakistan dispute over the Pathan tribesmen and result in strengthening Pakistan's position vis-a-vis India. Land-locked Afghanistan, which desires better economic cooperation with

- v -

TOP SECRET

TOP SECRET

its coastal neighbor, has, until recently, refused to enter into diplomatic relations with Pakistan until the latter granted formal autonomy to the Pathans.

FAR EAST

The considerable difficulty in forming a new Japanese Cabinet which has been experienced by Hitoshi Ashida, conservative Democratic Party leader who was elected premier on 21 February, clearly indicates that Ashida lacks sufficient political backing to form a government that possesses any lasting stability. Ashida hopes to form his Cabinet from a coalition of the parties who supported his election--the Democrats, Socialists, and People's Cooperative Parties. The strong left-wing element of the Socialists, however, has publicly indicated that it would not become a part of Ashida's coalition. In an effort to win the support of these left-wing Socialists, who control as many as 70 of the 466 Diet seats and whose backing is absolutely essential if the coalition is to have even moderate success, Ashida may be forced to compromise enough to lose the support of the People's Cooperatives and some of his own Democrats. Because his election apparently had the tacit endorsement of SCAP, Ashida will probably succeed in forming a coalition Cabinet. This coalition will undoubtedly prove unstable, however, and will remain in office only long enough to pass some of the pending SCAP-sponsored legislation. In all probability, the political atmosphere in Japan will have to be clarified by a general election within three or four months.

Proclamation of a provisional government for all Korea is expected to follow closely upon the adoption of the "Draft Provisional Constitution of Korea" about 15 March. The North Korean People's Council will seek to justify this action by renewing its charges that the US is planning both to divide Korea permanently and to establish an American colony and military base in South Korea. Meanwhile, the USSR and

- vi -

TOP SECRET

TOP SECRET

its North Korean agencies are expected to intensify their attacks on US policy and to encourage widespread disorders in an effort to force the US to agree to the Soviet proposal of a simultaneous withdrawal of the occupation forces of the US and the USSR.

The new Siamese Cabinet under Premier Khuang Abhaiwong will encounter increasingly strong opposition from a group of Army and civilian dissidents, led by former-dictator Phibul, after world recognition has been granted the Government. If this opposition is successful, the political pliability of the Siamese public would then make it possible for Phibul, apparently possessing a "clear mandate from the people," to assume "reluctantly" the premiership of a legally recognized government. This pattern, or variations on it, will be pursued until the desired objective, the fall of the Abhaiwong Cabinet, is achieved, possibly within the next two to three months.

The growing political influence of Philippine guerrilla veterans who supported the US during World War II may develop into significant opposition to the Roxas government. Most recent evidence of guerrilla political influence is the proposed legislation before the Philippine Congress which would recognize guerrilla service in the military promotion system. If President Roxas should fail to secure Congressional passage of this legislation, which was drafted at his direction, and should he fail to satisfy guerrilla demands for the extension of amnesty, this opposition will be considerably increased.

WESTERN HEMISPHERE

Certain provisions of the recent Anglo-Argentine trade agreement appear so favorable to the UK as to suggest that the Argentine negotiators were aware that Argentina's bargaining position in 1948 may well be weakened by the promising world grain outlook. The most noteworthy concessions to the British are:

TOP SECRET

TOP SECRET

(1) the relaxation of Argentina's ban on non-essential imports to permit acceptance of 20 million pounds' worth of such merchandise as British rayon, automobiles, and whiskey; and (2) a preferential position with regard to Argentine purchases of industrial equipment. The second concession, which was made despite repeated indications of the preference of Argentines for US machinery, is particularly significant in view of the large amount of industrial equipment Argentina needs for its five-year plan.

A retaliatory move by Guatemala against British garrisons at Belize (British Honduras) seems unlikely in view of a widening political rift within Guatemala. President Arevalo and the radicals (PAR) have apparently lost control of the Congress to the moderates (FPL). The Chief of the Armed Forces, who is a moderate, will probably be reluctant to move troops out of Guatemala City toward the Honduran frontier and thus leave the capital in the hands of the PAR extremists, who would be in a position to regain control of the Government and oust him from office.

The possibility of serious civil conflict in Costa Rica appears to have decreased. The Government and the opposition have reportedly reached a last-minute compromise which may resolve the impasse created by the Costa Rican Congress when it declared void the recent presidential elections, in which the opposition candidate won by a large majority over the Communist-supported government candidate. The opposition agreed to call off a threatened civil disobedience campaign, while the Government consented to convene Congress on 4 March in order: (1) to enact legislation authorizing payment by the Treasury of the election expenses of both parties; and (2) to decide upon a "mutually satisfactory President" --who, presumably, will be neither of the recent candidates.

- viii -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**TRANSPORTATION ASPECTS OF THE EUROPEAN
RECOVERY PROGRAM**

One of the basic questions which may be faced at the forthcoming Paris meeting of the 16 member nations of the Committee for European Economic Cooperation will be the whole transportation problem connected with moving large quantities of goods to Europe under the European recovery program. Because of the inadequacy of European shipping and the impossibility of acquiring surplus US vessels, the participating nations must either further expedite their shipbuilding programs or--because of the high dollar cost of US shipping--accept in effect a reduction in the amount of recovery program goods.

Assuming no assistance is received from other fleets, the available cargo tonnage of member nations will fall short of estimated requirements by several million tons in 1948 and probably will not meet recovery program needs until 1952. Acquisition of US surplus vessels to fill the gap is legally excluded under the recent extension of the US Ships Sales Act. Moreover, the general world shipping situation precludes the finding of any substantial quantity of shipping elsewhere.

The Paris discussions will probably revolve around efforts to coordinate or pool existing fleets and efforts to intensify present shipbuilding and repair programs. Possible measures to forestall excessive freight-rate increases, which might result from the pressure of recovery program shipments, will probably also be studied.

Irrespective of the self-help measures which the participating nations may adopt, the shipping problem will limit the effectiveness of the European recovery program, particularly at the outset when it is planned to move the largest volume of goods. Moreover, the measures themselves will have a retarding effect on the overall recovery program,

- 1 -

TOP SECRET

TOP SECRET

because the immediate impact of the shipbuilding and repair program will be to divert substantial quantities of steel from other segments of the European economy. To the extent that this will interfere with the rehabilitation of inland transport and the building up of basic productive facilities, it will delay the overall objective of European economic recovery.

- 2 -

TOP SECRET

TOP SECRET**THE PALESTINE CRISIS**

Developments in Palestine and at Lake Success indicate that a crisis is rapidly approaching in the Palestine situation. It appears probable that the Security Council will be either unwilling or unable to organize an international force to send to Palestine. If, therefore, civil war is to be averted after the UK gives up the mandate on 15 May, a compromise or postponement of the issue must be arranged between the Arabs and the Jews.

A lasting compromise does not appear possible at the present time because of the fundamental differences between Arabs and Jews on the question of an independent Jewish state in Palestine. The Arabs will fight the establishment of such a state so long as Arab nationalism, now fully aroused, remains undiminished. The Jews, having already won a partial victory in the General Assembly's partition recommendation, will not now consent to any solution that does not give them an independent state. Secondary concessions, even though important, can have no bearing on the situation so long as this fundamental issue of a Jewish independent state remains unresolved.

If, however, resolution of the fundamental issue can be postponed, time will be provided for passions to cool and possibly for a compromise to be reached. Such a postponement appears most likely to be obtained through a temporary UN trusteeship which would make no stipulation regarding the ultimate political organization of the country and which would be maintained pending a decision by the International Court of Justice on the partition scheme or reconsideration by the General Assembly. Such a trusteeship could presumably be continued indefinitely if no solution acceptable to all parties concerned could be obtained. Moreover, under UN pressure for a trusteeship, responsible Arab and Jewish leaders might be willing to accept the principle of postponement. The Arabs have indicated their willingness to consider

- 3 -

TOP SECRET

TOP SECRET

almost any proposal not involving an independent Jewish state. Similar Jewish willingness may be indicated by the opposition of many Jews to the principle of partition and by the realization of the Jewish Agency that a Jewish state cannot be set up and defended without strong international support.

If such a UN trusteeship were established, other issues would be important, but secondary, in the terms of the trusteeship agreement. On the question of Jewish immigration, the Arabs could be expected to be less intransigent than in the past. They would probably be willing to permit the illegal immigrants on Cyprus to enter Palestine and to accept, in addition, an annual quota of Jewish DP's. Although internal security would still be threatened by both Arab and Jewish irreconcilable groups, full-scale civil war would be averted. Present disturbances in Palestine stem entirely from Arab opposition to partition, from Jewish retaliation to this opposition, and from Jewish terrorist attacks on the British. Once partition had been tacitly abandoned and the British troops withdrawn, Jewish and Arab terrorists would probably continue to attack one another, but they would not have the support of their respective communities, and their violence could be kept within bounds.

If the Security Council is unable to effect a postponement, the alternatives appear to be either the endorsement of partition or an attempt to establish some other kind of regime, excluding an independent Jewish state. If the Security Council endorses partition but is unable, as seems likely, to implement it by force, civil war in Palestine is inevitable. Moreover, both Arabs and Jews would solicit military assistance and alliances from outside powers. The USSR would be presented with an opportunity to exploit the situation, and the threat to international peace would be greatly intensified.

If Security Council action results in a regime which does not provide for an independent Jewish state in Palestine, civil war may still be expected. However, the violence would

- 4 -

TOP SECRET

~~TOP SECRET~~

be neither so intense nor so widespread. Jewish support within Palestine for partition is not whole-hearted nor so unanimous as Arab opposition to partition. Although nearly all Arabs would fight against partition, only a minority of the Jewish community could be expected to fight for partition if it were no longer recommended by the UN. Finally, the danger of unilateral intervention by outside powers would not be so great. The Arabs would not need outside help; the Jews could not get overt unilateral aid from other members of the UN for use in opposing a UN decision.

- 5 -

~~TOP SECRET~~

~~TOP SECRET~~

CONTENTS

	Pages
TRENDS IN BRIEF	1 - iv
ARTICLES	1 - 4
Communist Coup in Czechoslovakia	1
Communist Military and Political Outlook in Manchuria	3

Document No. 008
 NO CHANGE in CLASS. -
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1763
 Date: 27/01/78 By: 021

Feb 24

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

GENERAL

Strong British objections to the latest compromise proposals at the Havana Conference indicate the desire of the UK for a strong International Trade Organization charter. The UK objections state that: (1) the new US draft concerning quantitative trade restrictions is ambiguous and may require the UK to accept an obligation impossible to fulfill; (2) a provision which is designed to protect the industrial growth of undeveloped countries through the use of quantitative trade restrictions would be detrimental to British trade; and (3) the provision concerning preferential tariffs is designed to apply to a "single economic region" and therefore discriminates against the British Commonwealth. The UK declares that these further concessions to the undeveloped countries undermine the charter protection it requires, while the non-discriminatory provisions do not meet the urgent need of the UK for import restrictions during the postwar recovery period.

The establishment of a pool of European civil air facilities, services, and revenues has been proposed by European air officials and is under consideration by the UK Foreign Office. The British Ministry of Civil Aviation is favorably disposed toward the internationalization of commercial air operations through such a pool but is apparently prepared to veto the plan if US reaction is unfavorable. Although the proposed pool is consistent with the aims of the European recovery program, its implementation would require the adoption of arbitrary restrictions in international aviation which the US has heretofore opposed.

WESTERN EUROPE

A growing divergence of views among the Scandinavian states concerning the degree to which they should openly align themselves with the western powers has become evident at a

TOP SECRET

recent Nordic foreign ministers' meeting at Oslo. The foreign ministers therefore limited their public statement of results at the Oslo conference to a pledge of support of the European recovery program and the announcement of a committee to explore further economic collaboration. Norway, supported by Iceland, argued for positive pro-western policies, while Sweden, and to a lesser degree Denmark, advocated a continued neutral position between the East and the West.

Italian Communists are claiming that US aid to Italy and Italian participation in the European recovery program will not be jeopardized by a victory in the April elections for the Communist People's Bloc. The Communists cite as proof the statements of US officials that no "political strings" are attached to the recovery program and point out that the USSR and the Satellites were invited to participate in the Paris Conference. Because the De Gasperi coalition Government has derived considerable strength from the assumption that only De Gasperi can assure continued US aid to Italy, the outcome of the 18 April elections will depend in part upon the success the Communists have in gaining acceptance for their current propaganda line, particularly among the approximately 15 million voters who are not members of any Italian political party.

Further Vatican efforts to prevent a leftist victory in the April Italian elections are apparent in the issuance of a pastoral letter by Cardinal Schuster of Milan which instructs the clergy of north Italy to refuse absolution to Communists or to others involved in activities contrary to the tenets of the Church. Because the only action more drastic than refusal of absolution is excommunication (a weapon which the Vatican has considered and may yet use), this letter represents an even stronger step than that taken in the recent pastoral letter issued by the hierarchy in southern Italy which enjoined Catholics to defend the principles of the Church by "material force" if they were threatened by violent means.

- ii -

TOP SECRET

TOP SECRET

More hopeful prospects in France for staving off further inflationary wage increases and for achieving success in the stabilization program are indicated by recent figures which reveal that prices have risen an average of only 4% during January 1948, as contrasted with an average rise of 18% during the period of December 1947 to 8 February 1948. In view of the 33% wage increase effective on 1 January, the price rise is much less than expected.

EASTERN EUROPE

The Communist coup in Czechoslovakia will disrupt the Czechoslovak economy, at least temporarily, but will not appreciably affect its foreign policy which is already pro-Soviet (see page 1).

NEAR EAST-AFRICA

The discussion by Moroccan religious leaders of the religious aspects of the proposed partition of Palestine has serious implications for the peace of North Africa. As long as partition remained a political matter, little immediate danger existed of unified Arab action against either the Jews or the French. However, the religious considerations in the problem might cause the North African Arabs, who so far have been unable to unite on nationalist or political issues, to unite in a religious revolt against the French.

FAR EAST

The military situation in Manchuria, which grows steadily more unfavorable to the National Government, indicates that a Nationalist collapse in Manchuria is possible within the next six months. Following the assumption of control in Manchuria, the establishment of a Communist political structure similar to Communist governmental units elsewhere seems likely (see page 3):

- iii -

TOP SECRET

TOP SECRET

Burmese political stability is threatened by renewed agitation among the Karens (the largest indigenous minority in Burma) for the establishment of a sovereign independent state. Although the Government of Burma has been consistently conciliatory towards the Karens, it has offered them only a semi-autonomous state. No violence has yet occurred, but the Karens are known to have a considerable quantity of arms. The Burmese Army, 30% of which is Karens, is led by a Karen who has unequivocally stated that he will not lead the Army against his own people in case of revolt. The chaos resulting from an outbreak of violence would afford the Communists an excellent opportunity to increase their influence.

- iv -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET

factories, newspapers, radio stations, and virtually every important public or private institution in the country. The acceptance by President Benes of the new Communist cabinet, therefore, represented little more than a formal acknowledgment of a fait accompli.

The Communist Party can now stifle any remaining opposition in the country. The five representatives of the Moderate parties included in the new cabinet have been assigned minor positions and will act as willing Communist supporters. The Communists will liquidate all effective opposition through a series of "treason" trials and will rapidly complete the communization of the nation's economy.

Assumption of power by the Communists will have a disrupting effect, at least temporarily, on the nation's economy. For political reasons the Communists will be forced to liquidate many anti-Communists from key managerial and technical positions in industry, and substantial industrial and economic sabotage will undoubtedly develop. Because the nation's highly industrialized economy is dependent upon the import from the West of raw materials and machinery not obtainable in eastern Europe or the USSR, Czechoslovakia will continue to trade with western Europe, although possibly on a decreased scale because of the decrease in total production.

The Communist coup will have little effect upon Czechoslovak foreign policy which has consistently followed the lead of the USSR. The coup may, however, have political repercussions in western Europe. In France, Italy, and Germany, the existing political divisions probably will be intensified because the non-Communists will be more determined to prevent Communist participation in the governments of these countries. Meanwhile, Communist morale in western Europe will be improved by the Kremlin's success in Czechoslovakia.

- 2 -

TOP SECRET

TOP SECRET**COMMUNIST COUP IN CZECHOSLOVAKIA**

The establishment of a Communist police state in Czechoslovakia has further diminished the possibility of a compromise in Europe between the ideologies of the Kremlin and the principles of western democracy and individual freedom. Such a compromise had apparently been achieved in Czechoslovakia where Communists and non-Communists had nearly equal power in the coalition Government, where the majority of the people approved of many Communist economic policies, and all parties were willing to follow the lead of the USSR in matters of foreign policy. The compromise was shattered, however, by the refusal of the non-Communists to permit continued Communist control of the police and by the Communist realization that an electoral victory was impossible without this control. The coup, therefore, reflects the refusal of the Communists to settle for anything less than complete control and their conviction that such dominance could never have been achieved under a freely operating parliamentary form of government.

The ease with which the Communists effected the coup reveals the extent to which they had been paying only lip service to the freely-elected coalition Government which has been in power since 1945. Having won the key cabinet posts in the May 1945 elections (Premiership, Interior, Information and Finance), the Communists have since steadily extended their control of the positions necessary for seizure of the government. By gaining direction of the Ministry of National Defense through the appointment of General Svoboda, a willing Communist tool, the Communists were able to neutralize the army. Communist command of labor was effectively implemented through the National Trade Union Organization. Despite these basic prerequisites for a coup, the seizure of power by the Communists would have been more difficult if they had not already gained a majority position in provincial, city, and village local governing bodies and had not organized "action committees" composed of trusted Communist Party members. Through these organizations, the Communists were able to seize physical control of all national and local government offices,

- 1 -

TOP SECRET

TOP SECRET**COMMUNIST MILITARY AND POLITICAL
OUTLOOK IN MANCHURIA**

The Chinese National Government's military situation in Manchuria continues to grow more precarious. Present indications are that, without adequate supplies or reinforcements, the Nationalists cannot maintain their present garrisons in southern Manchuria which have been marooned for some time. Consequently, despite the recent reorganization of the Nationalist command in Manchuria, the Nationalist foothold centering around Mukden probably cannot survive for a period of more than six months without the delivery of substantial outside aid.

If Mukden falls, National Government influence in Manchuria will be destroyed and control will pass to the Communists who will then be able to move more troops to China proper. The imminent possibility of a Nationalist collapse in Manchuria has given rise to a new series of representations by National Government officials who hope to elicit prompt US aid.

Despite considerable speculation suggesting that the Communists intend to establish an independent Manchurian regime, with a separate government, such an autonomous state seems unlikely. Chinese Communist propaganda has insisted that Manchuria is an integral part of China and has represented the Communist program as a crusade for the "liberation" of China as a whole. The Communists will probably persevere in an aggressive strategy in China and will therefore seek to enlarge the area under their control rather than to make a piecemeal consolidation of their gains. The establishment of an autonomous Manchurian state would make the Communists more vulnerable to the accusation that they are puppets of the USSR; there are some indications of current Soviet interest in, and preparatory activity toward, the establishment of such a regime in Manchuria. Because of the intensely nationalistic spirit of the Chinese people, however, the Communists are most

- 3 -

TOP SECRET

TOP SECRET

anxious to protect themselves from the charge of Soviet
dominance.

The Communists in China are therefore more likely, following their assumption of full control in Manchuria, to establish a political structure which will be designed to become a component part of a Communist government of China but will have an almost free hand in managing its own regional affairs. Such a setup would harmonize with the Chinese Communists' present "border region" system, a loose governmental structure which has always allowed a considerable amount of local independence and thus has overcome many regional antagonisms.

- 4 -

TOP SECRET

52
~~TOP SECRET~~

88

C O N T E N T S

	Pages
TRENDS IN BRIEF	i - vi
ARTICLES	1 - 8
Dispute in the Antarctica	1
Significance of Soviet Treaty Proposals	3
The Return of Lend-Lease Tankers by the USSR	5
Soviet Expansionism in Korea	7

Document No. 007
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1763
 Date: 27/01/78 By: _____

Feb
20

This publication contains current intelligence exclusively and therefore has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and Air Force.

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

GENERAL

The recently reasserted Antarctic claims of Argentina and Chile are the latest phase of a long-standing disagreement with the UK over the question of sovereignty in Antarctica (see page 1).

Annual operating losses of more than \$40 million incurred by British civil aviation (due primarily to the lack of efficient aircraft of British manufacture) have confronted the UK Government with the need for drastic retrenchment and changes in operating policies. In order to reduce these losses, the UK might gradually depart from the liberal objectives of the joint US-UK air policy and seek restrictive agreements with other countries which would provide a better division of the traffic. The British Cabinet, however, will probably insist upon the retention of the joint US-UK air policy and may decide on: (1) greatly increased subsidies for UK airlines; and (2) the purchase of modern air transports from the US.

The formation of a western European union has been held back by disagreements among the UK, France, and the Benelux countries over preliminary steps in establishing such a union. The UK intends to propose to the French the immediate calling of a five-power conference. French Foreign Minister Bidault objects to such a conference at this time because of his view that preparatory diplomatic approaches to the separate Benelux countries are first necessary. Bidault also fears the possibility that Prime Minister Spaak of Belgium might dominate such a conference and win approval for his concept of a strong union based on regional pacts under the UN Charter. The Belgians agree with the French that an immediate conference would be unwise and fear that a premature meeting might break down with extremely unfortunate public repercussions.

TOP SECRET

WESTERN EUROPE

The Soviet proposals in the Austrian peace treaty negotiations are indicative of an intention to make Austria economically dependent upon the USSR (see page 3).

Labor unrest in the UK resulting from the Government's recently announced general wage freeze is not expected to reach serious proportions or to weaken labor's general support for the Government. Most labor leaders have become reconciled to the new measure by the Government's promise concurrently to control or lower prices and profits and by their recognition that the present critical state of the nation's economy required such action. It appears probable that, by and large, the rank-and-file of labor can be led to accept similar views.

The establishment of a new German economic commission in the Soviet Zone of Germany is not a departure from the previous pattern of Soviet control, although the commission is described as having more power than the previously existing one. This Soviet action has been taken in retaliation against the formation of the bizonal economic administration in western Germany. It is also consistent with previous Soviet efforts to transfer power and control from the Laender governments to a few reliable Germans.

Currency reform in Germany has been further delayed by Soviet insistence that a central finance administration be established to issue the new currency. Such an organization would be a move toward the central political government in Germany which the USSR has sought and which the West has opposed on the grounds that settlement of the overall economic unification problem should take precedence. Soviet interjection of this controversial issue, concurrently with ostensible conciliatory moves in the Allied Control Authority, indicates a desire to delay currency reform, to forestall bilateral monetary measures in the US-UK area, and to fix the blame for the delays on the western powers.

- ii -

TOP SECRET

TOP SECRET

The formation in Italy of the Union of Independent Socialists improves the prospects that De Gasperi will be able to form a postelection government without recourse to the extreme Right. The new union, formed by I. M. Lombardo and composed of moderates drawn from the left-wing Socialist Party, has made an electoral alliance with the right-wing Socialists and is expected to cooperate closely with the Republicans. Lombardo's group presents the only possibility to date that the democratic Left can develop sufficient unity and strength and attract enough votes in the spring elections to enable the Christian Democrats and themselves to form a government.

The Catholics in Italy are preparing for militant action in the event of a civil war. A current pastoral letter circulated in southern Italy, presumably with Vatican approval, enjoins Catholics to defend the principles of the church by "material force" if those principles are endangered by violent means. The Vatican and the clergy recently have been urging church members to be prepared to defend their faith by action if necessary. Catholic groups apparently are secretly arming themselves.

EASTERN EUROPE

The recent Soviet decision to return US lend-lease tankers probably indicates a desire by the USSR to conclude an overall lend-lease settlement (see page 5).

The recent tripartite meeting of the Polish, Yugoslav, and Czechoslovak foreign ministers in Prague, ostensibly arranged by Poland, considered Satellite problems connected with German reparations, demilitarization, and denazification, as well as the German policies of the western powers. The conference was probably ordered by the Kremlin as: (1) a countermove to the forthcoming tripartite conference of the western allies in London; (2) an attempt to strengthen the Soviet orbit by drawing Czechoslovakia closer; and (3) a means of delaying the recovery of Western Europe by obstructing the European recovery program.

TOP SECRET

TOP SECRET

Although the Hungarian Communists will attempt to preserve the semblance of a coalition government by allowing the Smallholders' and National Peasant Parties to exist ostensibly as before, Hungary is well on the way toward becoming a one-party state. The elimination of right-wing Social Democrats from governmental and party posts on 18 February appears to presage a merger of the Social Democratic and Communist Parties. The announcement of such a merger is expected following the convention of the Social Democratic Party early in March.

Concern over the condition of the Soviet economy is reflected in the recent appointment of a Politbureau member, A. N. Kosygin, to replace Minister of Finance Zverev. In the past, such appointments have been made so that a high Soviet official could take corrective measures with the complete backing of the Politbureau. The announcement of the new appointment was probably held until after the announcements of the devaluation of the ruble and the 1948 budget in order to prevent the attaching of any stigma resulting from these moves to a member of the Politbureau. Conversely, any favorable future announcements, such as an increase in the availability of consumer goods, will reflect credit upon the Politbureau member who made them.

NEAR EAST-AFRICA

Indian dissatisfaction with UN handling of the Kashmir dispute may induce India to call upon Soviet support (or to threaten to do so) to prevent Security Council action unfavorable to India. The Indian delegation to the UN has been called home for "consultation," evidently because of the fear that an adverse decision might be forthcoming, and Indian officials have criticized the UK and the US for "big power" politics in the SC. Such an attitude could foreshadow a calculated acceptance of the USSR's reported offer to use the veto on India's behalf. India's recent designation of Czechoslovakia as its representative on the three-power Kashmir

TOP SECRET

TOP SECRET

investigating board is a further indication that India may request Soviet support, either to secure favorable action by the US and the UK or to block any Kashmir decision at all.

The UN Palestine Commission's recent report requesting aid from the Security Council will compel the SC to consider the problem of sending a police force to Palestine. Even if the SC decides that an international force is necessary and overcomes the difficulties inherent in the creation of such a force, the partition plan recommended by the General Assembly apparently cannot be completely implemented (see "Possible Developments in Palestine," ORE 7-48, dated 20 February). An international force, if sufficiently strong, can establish and protect a Jewish state and an international zone, but no force of itself is capable of setting up an Arab state against the wishes of the Arabs or of bringing about economic cooperation between Arab and Jew. Moreover, the force will have to remain in Palestine indefinitely because the Jewish state will be subject to continuing Arab attack both from within and without Palestine.

FAR EAST

Recent developments in North Korea give further indication of a Soviet intention to extend political domination over all Korea (see page 7).

Prospects for a Netherlands-Indonesian political settlement have not been improved despite the fact that the 17 January military truce has been observed with few serious incidents. Both parties in the dispute have been further disaffected by recent developments: the Dutch by a misunderstanding concerning a UN Good Offices Committee press conference which indicated, the Dutch felt, a pro-Republican bias; the Indonesians by the announcement of a Dutch-sponsored

- v -

TOP SECRET

TOP SECRET

conference to be held in West Java on 23 February, which would-- in the Republican view--violate the Renville agreement of 19 January. These developments, in addition to the fundamental disagreement between the two parties concerning the organization of the proposed United States of Indonesia, presage protracted negotiations and possibly even a delay in the initiation of such negotiations.

A favorable Chinese market reaction to the US \$570 million aid plan had already occurred by the time the plan was submitted to Congress, because its formal announcement on 18 February had been anticipated in a series of well-founded press reports. Largely as a result of these reports, wholesale prices in Shanghai (a fairly accurate index of inflationary trends) did not advance in early February any more rapidly than in previous weeks, despite further military deterioration and the inflationary pressures that normally accompany the Chinese New Year debt settlement period. Whether the favorable effect on Nationalist China's economic and financial situation will be more than temporary depends largely upon the rate of progress made by the US aid plan through Congress and upon the extent to which that plan affects the course of China's civil conflict.

Continued political instability in Siam is probable despite the strong plurality gained by Acting Premier Abhaiwong's Democratic Party in the recent national elections. Royalist influence on Abhaiwong has induced the promoters of the 1932 coup to overthrow the absolute monarchy (Pridi, Thamrong, Phibul and others), to submerge their subsequent differences and again join in opposition to the Royalists. In order to curtail Royalist power, the 1932 coup leaders have put considerable pressure on Abhaiwong to include certain of their followers in the cabinet which he is expected to form in the near future. Abhaiwong appears willing to base his cabinet on a broader representation of political groups; he may not, however, be prepared to make sufficient concessions to satisfy the anti-Royalists. In such event, a strong leader acceptable to the 1932 coup group--such as General Adul, the former Commander-in-Chief of the Siamese Army--would probably be asked to form a government.

- vi -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**THE DISPUTE IN ANTARCTICA**

The recently reasserted claims by Argentina and Chile to territories in the Antarctic are the latest phase of an old controversy between those countries and the UK. The British claim a large area of Antarctica through discovery, occupation, and administration, and through the legal authority of the Letters Patent of 1908 with which the territory was formally annexed. Argentina and Chile claim segments of the same area, including islands extending some 600 to 1,000 miles southeast of Cape Horn, which the British call the Falkland Islands Dependencies. The two Latin American countries base their claim on inheritance of these areas from Spain and on the contention that the areas are extensions of the South American continent and hence are associated with the principle of "continental security."

Prior to the sending of a cruiser to the Falkland Islands, the UK had for some time contemplated taking firm action in order to protect its solid juridical position which was being damaged by the unauthorized landings of Argentine and Chilean official parties. When the two countries rejected formal British protests, the UK indicated that it would accept a decision on the issue of sovereignty from the International Court of Justice. Argentine and Chile then rejected this solution, probably because of uncertainty over their legal case. Because of its stand that the problem is not political but legal and because it hopes to avoid Soviet participation in the settlement, the UK is opposed both to a general conference as proposed by Argentina (and approved by Chile) and to the submission of the problem to the UN. The British hope, however, that the US and the UK can reach an agreement on a procedure for the settlement of the dispute prior to the Bogota Conference on 30 March. The UK desires that the US will later call a conference of all interested countries, including the Dominions which also claim and occupy certain stations in Antarctica and the southern Indian Ocean.

The British interest in settling the Antarctic controversy is conditioned by conflicting considerations. A passive or irresolute stand with Argentina and Chile might encourage

TOP SECRET

other Latin American claims to British territories in the Western Hemisphere, notably the British Honduras and the Falkland Islands themselves. Moreover, the UK must support the interests of Australia and South Africa, which have been encouraged by the UK to be active in the Antarctic regions. The sending of a British cruiser was intended as a demonstration indicating the gravity with which the UK regards the situation. Nevertheless, the economic and strategic value of Antarctica is still hypothetical, and the British have no wish to strain commercial relations with Latin America. In their need to subordinate secondary considerations to their critical economic problems, the British are therefore unlikely to engage in protracted bickering or to permit the outbreak of hostilities. They will seek some early general settlement of the whole Antarctic issue.

- 2 -

TOP SECRET

TOP SECRET

SIGNIFICANCE OF SOVIET TREATY PROPOSALS

The recently submitted Soviet treaty proposals on the crucial issue of German assets in eastern Austria are chiefly significant as the first definite indication of the nature of the Soviet demands on Austria. The proposals represent no fundamental change in Soviet aims, however, nor do they indicate conclusively that the USSR is likely to conclude a treaty settlement on any except its own terms.

The Soviet proposals definitely call for: (1) retention by the USSR of two-thirds of Austria's oil and one-fourth of its shipping properties; and (2) Austrian payment within two years of \$200 million in settlement of all other Soviet claims on German assets. The ambiguous wording of the proposals leaves it uncertain, however, whether the USSR, in return for these demands, has renounced its claims to enterprises which it has seized and which it now operates as alleged "German assets."

Even if these claims are renounced, the Soviet proposals in their present form would make Austria economically dependent on the USSR. The Soviet Union has maintained its demands for extraterritorial rights in Austrian oil and Danube shipping, the granting of which would put the USSR in a very strong position in controlling the Austrian economy. If these proposals are incorporated into the Austrian treaty, the USSR will then be in a position to weaken further the Austrian economy by placing high creditor claims against industries now held by the USSR, by retaining an indeterminate number of bonds and stock certificates seized during the liberation of Vienna, and by claiming Austrian property regarded as "war booty" and raw materials and equipment now located in Soviet-seized plants.

It is unlikely that the USSR will sacrifice its present hold over the economy of eastern Austria in order to reach a treaty settlement with the western powers. From the Soviet standpoint, the proposals regained the propaganda initiative for the USSR in the

- 3 -

TOP SECRET

TOP SECRET

Austrian press and radio. If the negotiations are prolonged, the Austrian Government's ardent desire to obtain a settlement and the withdrawal of four-power occupation will make it increasingly difficult to resist Soviet demands. It is probable, therefore, that the Kremlin will seek to prolong negotiations until its demands are met and the USSR is in a position to keep Austria economically dependent.

- 4 -

TOP SECRET

TOP SECRET

THE RETURN OF LEND-LEASE TANKERS BY THE USSR

The recent action of the USSR in submitting to US insistence that seven lend-lease tankers be returned is virtually without precedent in US-Soviet postwar relations and undoubtedly indicates a Soviet desire for an overall lend-lease settlement. The US has sought unsuccessfully for 2½ years to negotiate an overall lend-lease settlement, or at least to obtain a commitment with respect to lend-lease vessels. When the US insisted upon the return of the tankers, the USSR offered to purchase all lend-lease vessels in its possession. Following renewed insistence that the tankers be returned rather than purchased, the Soviet Union within 48 hours not only agreed to return them but offered a prompt delivery schedule.

Soviet reluctance to return these vessels was based in part on the use to which the USSR could put such ships. The US embargo on the export of bulk petroleum products to the USSR had released the seven tankers from the service to which they had long been assigned, but they could still be useful in meeting the petroleum requirements of the eastern USSR or in replacing vessels in the old and inefficient Soviet tanker fleet. Moreover, the USSR could have gained either political advantage by making the ships available to Soviet-dominated countries or economic advantage by putting them into commercial charter service for the purpose of creating dollar exchange.

Despite the interest of the USSR in retaining the tankers, no attempt was made to find legalistic grounds for rejecting the US request. The USSR could have demurred, for example, on the basis that the "emergency" as stipulated by the lend-lease master agreement still exists under US law and that the return of the vessels was therefore not yet obligatory. Furthermore, Soviet propagandists have not attempted to make political capital out of this important incident by suggesting that the Soviet concession was made in the interests of the strained US economy.

The secrecy with which the negotiations were conducted helped to make it possible for the USSR to submit without fear

TOP SECRET

TOP SECRET

of losing prestige. Also contributive was the Soviet realization that a flat refusal, coming when US fuel oil shortages were acute, would inflame public opinion and increase the chances of Congressional action prejudicial to US-Soviet trade. However, the basic explanation for Soviet willingness to comply with the US request lies in the fact that the USSR has recently become interested in securing a mutually satisfactory lend-lease settlement.

- 6 -

TOP SECRET

TOP SECRET**SOVIET EXPANSIONISM IN KOREA**

The intention of the USSR to establish an independent regime in North Korea and eventually to dominate all Korea has been further revealed by the following recent events: (1) the announcement by the North Korean radio of the completion of the "draft provisional constitution of Korea"; (2) the staging of a Communist-instigated strike in South Korea as a protest against the UN Commission's "illegal interference" with Korean independence; and (3) the review at Pyongyang in North Korea of the "Korean People's Army" and the subsequent propaganda announcements that this army would be the future liberator of the "oppressed" South Koreans.

Although the USSR has scrupulously avoided direct implication in these events, there is no doubt that the Kremlin has been engineering their development for many months. Since the beginning of the occupation, the USSR has been organizing a North Korean army, clandestinely trained by Soviet advisers and equipped with Soviet weapons. The "draft provisional constitution," which envisages a regime remarkably similar to that of the USSR, anticipates eventual incorporation of all Korea into the "People's Republic of Korea" and goes so far as to specify Seoul, capital of the present US zone, as the future capital of a united Korea.

The "draft constitution" probably will be acclaimed by "people's representatives" of both North and South Korea at a mass demonstration at Pyongyang on 1 March (a Korean patriotic holiday) and will be adopted by a special assembly of the North Korean People's Council in mid-March. The questions of whether to hold a plebiscite in order to secure "popular approval" prior to the adoption of the constitution and whether subsequently to extend formal recognition to the regime will probably be decided by the Kremlin in accord with political expediency.

Despite the relative complexity of these day-to-day tactical maneuvers, the underlying trend in Korea remains clear. Soviet intransigence and expansionism are driving

TOP SECRET

TOP SECRET

Korea into a complete division along the 38th parallel. If the UN is unable to effect a workable compromise and if no major change occurs in Soviet policy, there will soon be two independent Korean governments with a common frontier along the 38th parallel, each claiming sovereignty over all of Korea. Such an unresolved situation will be basically unstable and will therefore provide the USSR with an excellent opportunity to extend its domination over the entire peninsula.

- 8 -

TOP SECRET

TOP SECRET

CONTENTS

	Pages
TRENDS IN BRIEF	i - vi
ARTICLES	1 - 6
Arab Activities in Palestine	1
The Japanese Political Situation	3
The Military Situation in Manchuria	5

Document No. 006
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1763
 Date: 27/01/78 By: 021

Feb 13

This publication contains current intelligence exclusively and therefore has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and Air Force.

TOP SECRET

TOP SECRET

TRENDS IN BRIEF

GENERAL

Increased prospects for European economic cooperation are to be found in the agreement for concerted action which has been reached recently through consultations among the major countries in the Committee for European Economic Cooperation (CEEC). According to this program, a working party, which will probably include all sixteen members of the CEEC, will be established to: (1) prepare a charter for a continuing CEEC organization; (2) draft a multilateral agreement reaffirming undertakings of the CEEC at the Paris Conference; and (3) prepare for the next CEEC meeting. Meanwhile, the CEEC technical committees will meet to analyze the commodity reports prepared by the US in connection with the European recovery program.

Seeking to avert a final schism within the WFTU (World Federation of Trade Unions), CIO representatives will soon meet with representatives of the Communist-dominated General Confederation of Labor (CGT) of France in order to discuss a possible compromise arrangement whereby interested labor groups can lend their support to the European recovery program despite Communist opposition. This CIO decision follows the recently-announced refusal of the WFTU Secretariat to hold its scheduled February meeting to discuss labor's participation in the recovery program. The CIO is making a second attempt to send a representative to Moscow to consult with the Soviet All Union Central Council of Trade Unions in a final effort to avoid a WFTU split. If these attempts at compromise fail and the CIO and the British Trades Union Congress (TUC) withdraw from the WFTU, the present secretary general of the WFTU (a French Communist) intends to keep the WFTU functioning by retaining the support of continental unions and leftist labor elements in the US and the UK. This intention may indicate a Soviet plan to detach Communist elements from the CIO and the TUC and to incorporate them in the rump WFTU.

- 1 -

TOP SECRET

TOP SECRET

Inclusion of Germany and Japan in the proposed International Trade Organization (ITO) charter is being blocked by the UK, France, Poland, Czechoslovakia, Australia, New Zealand, and China. The US effort to bring the occupied areas under the free trade provisions and thus bind ITO members to grant most-favored-nation treatment to German and Japanese trade is opposed on the ground that the question of trade with these areas is also a political one which must be passed on first by the Berlin Allied Control Council and the Far Eastern Commission.

WESTERN EUROPE

Further clarification of Bevin's 22 January proposal for a Western European union reveals that Britain's Foreign Secretary envisages a series of varied pacts rather than a single, rigid plan embracing all the participating countries. This procedure will enable the UK to emphasize politico-strategic aspects in formulating treaties with the Benelux countries and France and to seek agreements with the Scandinavian countries on an economic basis alone. The first objective is a five-power pact, or a series of similar bilateral pacts between the UK, France, and the Benelux countries. The UK then expects to seek agreements with Portugal and Italy and, subsequently, with the Scandinavian countries. The negotiations are expected to progress slowly and their course will be strongly influenced by the European recovery program.

The rapprochement which General Franco seeks with the Middle East may have been retarded by police action in a recent Nationalist demonstration at Tetuan, Spanish Morocco. The Spanish police inflicted casualties in breaking up the demonstration, staged in protest against the Spanish High Commissioner's refusal to permit Nationalist leaders to enter Spanish Morocco. During the past year, Franco has established diplomatic relations with Transjordan and Iraq, and he has sought to avoid any antagonism among the Nationalists in Morocco which might hinder Spain's diplomatic program in the Middle East. The Nationalist loss of life in the Tetuan incident is not likely to increase Spanish popularity among the Arabs.

TOP SECRET

Italian Communists are unlikely to disarm even partially in the near future, despite a recent decree of the Government which provides prison penalties for membership in military organizations of political groups. Moreover, the Government probably could not compel the Communists to disarm in the limited time remaining before the April elections. Though the decree is clearly aimed at the Communist-dominated partisan organization, the impartial enforcement of the act would necessarily affect the rightist para-military groups, a circumstance which in itself may deter the Government from any large-scale action. The Government's decree will probably be mostly effective psychologically at present and will provide a future weapon to be used against possible strong-arm Communist threats during the election period.

The Portuguese Government may be uncooperative in implementing the US-Portuguese Azores agreement as a consequence of the sharp reaction in Portugal to the recently-published statement of US policy on blocked European assets. High Portuguese officials have interpreted as "an unfriendly act" the published statement that Portuguese assets in the US will remain blocked until a settlement has been reached on the problem of gold looted by the Germans. The Portuguese Foreign Minister declared that if the statement had been made prior to the signing of the Azores agreement, Portugal would not have signed.

NEAR EAST-AFRICA

An intensification of Arab resistance activities in Palestine appears imminent (see page 1).

King Ibn Saud's renewed request for US military aid and a US treaty reflects his growing fear that his refusal to cancel the US oil concession in Saudi Arabia has endangered his position in the Arab world. By consistently maintaining in Arab League councils that the Arabs should draw a distinction between their economic and political policies toward the

- iii -

TOP SECRET

TOP SECRET

US and by refusing to take punitive steps against the oil companies, the King has attracted severe Arab criticism, despite his attack on the US Palestine policy. He fears that such criticism may eventually encourage his Hashimite rivals of Iraq and Transjordan to attack Saudi Arabia.

The existence of the Greek coalition Government is threatened by developing criticism of the conduct of the civil war. The recent spectacular shelling of Salonika by the guerrillas has brought a storm of political criticism crystallized in centrist and extreme right-wing attacks on the Government. Within the Cabinet itself there is bitter friction over the retention in office of War Minister Stratos who, despite attacks from both Liberals and Populists, remains in the Government through the personal protection of Foreign Minister Tsaldaris, the Populist Party leader. (Both AMAG and the US Army Group Greece have also criticized Stratos for his uncooperativeness and defeatism.)

Syria's decision to sever its financial ties with France may strengthen British economic influence in the Levant. Syria will almost certainly need either sterling or dollar reserves to maintain its currency, particularly for foreign trade transactions. Although Saudi Arabia might be willing to provide dollar support, its own financial troubles make such a solution improbable, and Syria will probably have to secure its financial reserves from Egypt and other sterling bloc countries. This would inevitably steer Syria's foreign trade toward the UK and the sterling area countries. Despite Syria's desire to reduce its financial dependence on the western world, it may be merely turning from the franc to the pound, and the UK may thereby fall heir to France's former economic advantages in Syria.

FAR EAST

The 10 February resignation of the Japanese Cabinet reflects a popular shift to the Right which was largely the result of dissatisfaction with the Social Democrat group, the leading element in the coalition. The new Cabinet will undoubtedly be composed of Rightists, but its tenure will probably be brief (see page 3).

TOP SECRET

TOP SECRET

Current Chinese Communist military operations have completely sealed off Mukden, and the main Communist effort in Manchuria has now shifted southwest of that city (see page 5).

The recent South Korean disturbances, which were obviously Communist-instigated, have been utilized in Soviet-inspired propaganda as the occasion for announcing the existence of the "Korean Peoples Army" in North Korea. The propagandists have further used the disturbances as examples of spontaneous South Korean mass protests against the "illegal interference" of the UN Commission. The apparent objects of these two moves were: (1) to prepare the North Koreans for a future "war of national liberation"; and (2) to frighten the UN into inactivity. Such revealing indications of Soviet intentions in Korea may, however, help to persuade the Interim Committee that immediate elections to establish a South Korean government are necessary in order to achieve some political stability.

Burmese political stability is again threatened by the possible withdrawal of the People's Volunteer Organization (PVO) from the present Anti-Fascist League (AFL) coalition Government. The consequent disintegration of the AFL would lead to the formation of numerous small parties--a situation which the well-organized Burmese Communist Party could effectively exploit to increase its own strength and influence.

A determined Philippine effort to obtain a reassessment of US military plans for the Philippines is foreshadowed by President Roxas' recent assertion that the US is neglecting the strategic advantages of strong bases in the islands and by the projected visit of the National Defense Secretary to the US. While this Philippine effort reflects concern for Philippine defense, it may also indicate a desire for increased US military expenditures in the Philippines and the retention of US forces which could render effective support in any serious threat to internal Philippine stability.

- v -

TOP SECRET

TOP SECRET

WESTERN HEMISPHERE

The formation of a new labor front in Mexico by leaders who are anti-US may force the Mexican Government to relinquish some of its control over labor and to revise its policy with regard to the US. On 10 January, a pact of friendship and mutual aid was signed by the three largest labor groups in Mexico--the miners, petroleum workers, and railroad workers--which may launch a strong leftist movement within the new Partido Popular of Lombardo Toledano and will greatly reduce the effectiveness of the CTM (Confederacion Trabajadores Mexicanos), formerly a strong supporter of the Government.

- vi -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**ARAB ACTIVITIES IN PALESTINE**

Although an Arab offensive in Palestine (widely rumored to take place on 15 February) appears unlikely, an intensification of present Arab activities can be expected within the next few days. These new efforts would be designed to wipe out isolated Jewish settlements, cut off communications between the principal Jewish areas, and establish the long-heralded unified Arab military command in Palestine. The Arabs, however, will not launch their maximum effort to resist partition until the British withdrawal is further advanced and in the meantime will attempt to avoid direct clashes with British troops.

An early intensification of Arab activities appears probable because: (1) public opinion throughout the Arab states has been clamoring for increased Arab activities in Palestine; (2) the numerous Arab League volunteers in Palestine cannot long be held in check; (3) the Arab League is presumably anxious to take the initiative in Palestine as soon as possible to prevent the Mufti from assuming the title and functions of the leader of the Arab cause; and (4) the Arabs are anxious to convince the UN Security Council that even an international police force would face an overwhelming task and that therefore the entire partition question should be reconsidered.

Arab resistance activities in Palestine have hitherto been conducted by loosely organized groups under the direction of the Mufti's Arab Higher Committee and have received little direction from the Arab League, which has concentrated on the recruitment and training of volunteers and the collection of materiel. Arab League military leaders Kawukji and Safat are now expected to establish headquarters in the Nablus area of central Palestine which served as Kawukji's headquarters in the 1936-39 Arab revolt. Armed and uniformed volunteers from the Arab states, numbering at least 6,000 and possibly many more, are now believed to be in the area. Nablus, which is set in the hills, is defensible and is centrally located in relation to the three probable military areas of Arab-Jewish hostilities: Jerusalem, Tel Aviv, and Haifa. One of the early Arab objectives

- 1 -

TOP SECRET

TOP SECRET

will be to isolate these three Jewish centers from one another. Although the Arab forces will undoubtedly cause considerable damage to outlying communities, they will probably not be successful in isolating these centers until after the withdrawal of British forces in Palestine is substantially complete.

- 2 -

TOP SECRET

TOP SECRET**THE JAPANESE POLITICAL SITUATION**

The recent resignation of the Japanese Cabinet, formed last June through a coalition of the moderate Social Democrats and the conservative Democrats and People's Cooperative Parties, represents a popular swing to the Right produced by dissatisfaction with the Social Democrats, the leading element in the coalition. The Cabinet's fall cannot be interpreted as popular Japanese opposition to SCAP.

The immediate cause of the Cabinet's fall has been the growing disunity within the Social Democrat Party. While that party's right and center factions have together monopolized the party's Cabinet positions, the left-wing faction has been able to assume control over half the Socialist seats in the lower house of the Diet. These leftist elements, incensed by Socialist concessions to the conservative parties of the coalition, have been giving increased emphasis to the belief that it is more important to preserve the Socialist Party program than to maintain the coalition. Factional rivalry recently culminated in the left-wing's refusal to support the Cabinet's supplementary budget bill, which called for a balanced budget as insisted upon by SCAP.

Two combinations of rightist groups, both within and without the Government, have each been appealing separately to the small conservative elements in the Diet to join together in a large conservative party to take over the Cabinet. This political bargaining among the Rightists has further weakened the coalition and destroyed Katayama's working majority in the Diet.

In all probability, the next Japanese Cabinet will come from the Right; it will either be led by one of the two dominant conservative parties (the Liberals or the Democrats) or it will be a coalition headed by these two parties. Prospects of a coalition, however, are somewhat

TOP SECRET

TOP SECRET

weakened by the existing Liberal-Democrat rivalry and by the political ambitions of the two party leaders, Yoshida and Ashida.

Whatever its composition, a rightist government will tend to favor Japanese governmental traditions insofar as possible within the lines laid down by SCAP, and it will be sympathetic to business. However, it will have to combat increased labor unrest and, as in the case of past governments, will be exposed to chronic popular dissatisfaction. Therefore, the life of a rightist government is expected to be relatively brief. It is likely that within a year the political pendulum will swing back toward the Social Democrats.

TOP SECRET

CONFIDENTIAL

CHINA: COMMUNIST CONTROLLED AREAS 1 FEB. 1948



109



The international boundaries shown on this map do not necessarily correspond in all cases to the boundaries recognized by the U. S. Government.

TOP SECRET**THE MILITARY SITUATION IN MANCHURIA**

Chinese Communist forces in Manchuria (where deterioration in the Nationalist military position is most marked) have completely encircled Mukden, the largest of a half-dozen beleaguered Nationalist garrisons. The Communists have not yet launched all-out assaults against these positions where the Nationalist air force and fire power can be effectively employed against them. Instead, the focus of their operations has shifted to the area south and southwest of Mukden. The Communists have occupied all points on the Peiping-Mukden railroad between Hsinmin and Chinchou and a large segment of rich farm land to the southeast, and they are now pressing a major assault on the communications hub of Chinchou. These operations may represent initial efforts to seize control of the vital and vulnerable coastal corridor leading from Manchuria to the Tientsin-Peiping area of intramural China.

In addition to the areas and cities occupied, the Communists have attained significant successes in pursuit of their primary objectives: the destruction of Nationalist units and the disruption of the Nationalist economy. Since 1 January the Communists have annihilated six Nationalist divisions, and they have divided Nationalist holdings into a series of islands, completely isolated from each other and from China proper except by air. The capability of the National Government to defend these areas is sharply reduced by the fact that supplies or reinforcements cannot be sent in any substantial quantity. The ammunition shortage is reported to be particularly acute in US-equipped units.

At present the Nationalists still hold the industrial heartland of Manchuria, but Communist military operations have cut off the flow of power and fuel into industrial installations, all but completely paralyzing them. The food shortage has been made even more acute by the arrival of more refugees from Communist-held areas and by the fact that the food-producing hinterland is now largely in Communist hands. Continued lack of food and fuel will probably encourage discontent which, with Communist encouragement, can easily develop into

TOP SECRET

TOP SECRET

civil uprisings. Consequently, although Mukden appears militarily secure for the time being, the entire Nationalist military position in Manchuria is threatened by the danger of economic collapse.

- 6 -

TOP SECRET

~~TOP SECRET~~

CONTENTS

	Pages
TRENDS IN BRIEF	i - v
ARTICLES	1 - 6
The Reopening of the French-Spanish	
Border	1
Chinese Nationalist Hopes for Compromise	
Peace	3
Reactions to Bevin's "Western Union"	5

Feb.
6

Document No. 005
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1783
 Date: 27/01/78 By: 021

This publication contains current intelligence exclusively and therefore has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and Air Force.

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

GENERAL

Pressure on Italy for bilateral air agreements by several Satellite states may initiate a trend toward greater freedom for air transport between Eastern and Western Europe. By the terms of the Italian peace treaty, Italy may not deny to any UN member air rights which have been granted to another. The fact that a US-Italian air agreement on reciprocal terms is ready for signature gives an opportunity to Yugoslavia, Poland, and Rumania to demand similar traffic rights for their Soviet-controlled airlines in Italy. Such a development may make it possible for one of the two principal Italian airlines which are partly owned by the US and the UK to operate in Satellite areas.

WESTERN EUROPE

The reopening of the French-Spanish border, scheduled for 10 February, will have political repercussions in France and Spain but will bring relatively little economic advantage to either country (see page 1).

Realization of Bevin's "Western European Proposals" will be hindered by the present reluctance of the Italian Government to join a political bloc and by current differences between the UK and France (see page 5).

De Gaulle's apparent unwillingness to alter his concept of the future role of labor in France will impair his ability to win the support of non-Communist labor. Without such support, he probably cannot come to power by legal means or govern effectively thereafter. De Gaulle's St. Etienne proposals, which are viewed with open misgivings by a majority of labor leaders and with private regret by certain important members of his own entourage, envisage a form of corporative labor-capital-state organization and are ostensibly designed to appeal to the working classes which he believes are tired of class conflict, strikes, and fruitless wage increases. However,

TOP SECRET

De Gaulle has so far failed to convince any important segment of French labor that his proposals are not similar to the systems used by the Vichy and the Italian Fascist regimes.

Continued French fears of future German aggression have been revealed in recent quadripartite discussions of the mining of German approaches to France. The French still insist that all engineering works and bridges along the Rhine and in a considerable area east of the Rhine contain demolition provisions. The French hold to this view despite the opposition of the other three occupying powers and the US contention that such provisions are unnecessary with modern military methods and that actual circumstances would prevent the use of such devices.

NEAR EAST-AFRICA

The 2 February report of the UN Palestine Commission to the Security Council reflects a growing recognition of the impotence of the UN not only to implement the partition plan adopted by the General Assembly but to arrest the progressive deterioration of the situation in Palestine. The inadequacy of the measures taken thus far by the UN to fulfill this almost impossible task is steadily diminishing the prestige of the organization especially among the smaller powers. Such countries are becoming cynical over the issuance of pronouncements which they consider to be ineffective.

Grief over Gandhi's assassination and bitter anger against the extremist Hindu groups responsible for it have temporarily lessened Hindu-Moslem antagonism in India and have decreased the tension between India and Pakistan. Nevertheless, the Security Council discussion has failed thus far to evolve any solution for the Kashmir dispute, and the basic sources of friction between India and Pakistan remain. With the removal of Gandhi's moderating influence, factional disputes within the Congress Party and the Government of India can be expected to increase. These disputes will eventually result in a

TOP SECRET

TOP SECRET

hardening of the Indian Government's attitude toward Moslems remaining in India and in a serious deterioration in India-Pakistan relations. Moreover, as grief over Gandhi's death abates, the anger of the Hindu community, which is now directed toward itself, may be turned toward the Moslems whose insistence upon the division of India will be alleged to be the underlying cause of Gandhi's death.

Turkey's present concern over the European recovery program arises from fears that Turkey may be asked to use its dwindling dollar resources for the purchase of equipment and materials to be furnished it by the recovery program. Turkish officials strongly feel that their country will need additional foreign financial assistance in order to make a contribution to the recovery program; they also feel that Turkey deserves special consideration because it has continued to resist Soviet pressure at heavy cost to the national economy. If the financial problems arising from Turkey's military and economic needs can be resolved and if Turkey obtains the equipment and materials needed to increase agricultural and mineral production, Turkey will eventually be able to make an effective contribution to European recovery, particularly in bread grains and coal.

Renewed attacks by the USSR on US military activities in Iran, although primarily designed to support the Soviet offensive against US activities in other parts of the world, are meant to exploit Iran's lack of capable leadership, to increase the present tendency of the Iranian Government to adopt a balance of power policy toward the great powers, and to further the nationalist feeling which opposes US military aid. However, future Soviet threats aimed more directly at Iranian interests might arrest Iran's current nationalistic trend and strengthen its desire for continued US assistance.

Recent changes in the organization of the Greek Army General Staff will delay decisive action against the guerrillas and may endanger the success of the whole army campaign. The Chief of Staff has been replaced, the Commander of the

TOP SECRET

army has been forced to resign, and the army operational headquarters has been moved from Volos to Athens. These changes were effected by the Athens politicians because they feared the growing power and ambition of General Vendiris and the possible loss of their control over the army. As a result of these changes, there will be increased meddling in the army by the politicians. Lowered army morale and the increase of barriers to cooperation between the army and the US and UK military missions will be further consequences. Moreover, the guerrillas will undoubtedly learn of such disorganization through their excellent intelligence system and will probably take advantage of it by launching new major attacks.

FAR EAST

Increased hope among Chinese National Government officials that a compromise peace can be made with the Communists is more indicative of growing insecurity in the Government than it is of increased possibilities for such a settlement (see page 3).

The constitutions for the Colony of Singapore and the Federation of Malaya, which became effective on 1 February, assure the UK of continued complete control of Malaya through the retention of "full sovereignty and jurisdiction." The British High Commissioner of the Federation and the Governor of Singapore are invested with executive powers no less far-reaching than those of their prewar predecessors. Although some protest demonstrations may occur, no serious difficulties are anticipated in the implementation of the constitutions. The principal opposition to the constitutions springs from the large Chinese business community in Malaya and Singapore and from nationalist and left-wing groups which have strong Chinese memberships.

WESTERN HEMISPHERE

Most of the Latin American Republics will probably refuse to sign the proposed International Trade Charter because

TOP SECRET

it does not give them broad protection of their industrial development by permitting wide use of quantitative restrictions and preferential tariffs designed to protect their industrial development. Only a half dozen Republics--including Brazil, Colombia, Cuba, Costa Rica, and El Salvador--apparently support the US position that such limitation would impose major obstacles to free trade. The other nations clearly desire a charter which would restrict the industrialized nations and permit the undeveloped countries complete freedom of action. They are expected to take a similar position at the forthcoming Inter-American Conference in Bogota, and, while seeking or virtually demanding US economic assistance, most of them will strongly resist any limitations on their activities.

The Venezuelan Government's fears of an air attack appear exaggerated. Although anti-Government forces and weapons may be concealed somewhere near Trinidad, British West Indies, it is unlikely that these forces (plus the few known now to be in Nicaragua) are capable of any serious assault on Venezuela, unless they are assisted within Venezuela by a revolt headed by dissatisfied military leaders. The prospects of such an internal development appear to be declining.

The overthrow of the Somoza-controlled Nicaraguan Government has become increasingly unlikely, because of Guatemala's refusal to support the conspirators in Guatemala and the precautionary measures taken by Somoza in Nicaragua.

- v -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**THE REOPENING OF THE FRENCH-SPANISH BORDER**

The scheduled reopening of the French-Spanish border on 10 February will have implications which are more important politically than economically. General Franco will make every effort to convince both Spanish and world opinion that the re-opening of the border indicates that the Western Powers will no longer discriminate against his regime and will now include Spain in the European recovery program. If the French accede to Franco's wishes by sending an ambassador to Madrid following the opening of the border, Franco will be enabled to increase pressure on Latin American countries to ignore the 1946 UN recommendation not to send ambassadors to Spain.

In Spain, Franco's political position will be strengthened by the repercussions of this development. Non-Communist Spanish Leftists, concluding that no aid can be expected from France in the elimination of Franco, either will be drawn closer to the Communist camp or will become more apathetic in their opposition to the Government. Franco himself will be less inclined to surrender power voluntarily because of a renewed conviction that his regime is now on the way to winning international favor and approval.

The immediate political repercussions in France will be most pronounced in left-wing circles. The Communists will undoubtedly attack the reopening of the frontier. The Socialist Party will formally object but will probably take no further action. Other French political parties are not likely to oppose the Government's action, although they may issue statements declaring that this move does not indicate approval of Franco and is not a step toward the return of Spain to the community of Western European nations.

The French Government itself will endeavor to play down the political overtones of the agreement and will emphasize that the implications of the agreement are largely economic. The economic results to France, however, will be minor and will be little more to Spain. France will receive needed iron pyrites

TOP SECRET

and increased fruit supplies. French local commerce in the areas immediately adjacent to the Spanish border will benefit slightly. Spain will get French phosphates and will have access through France to the markets of countries like Switzerland. However, the Spanish shortage in foreign exchange and the poor condition of Spanish transport will prevent the extended use of the new transit rights across France.

- 2 -

TOP SECRET

TOP SECRET**CHINESE NATIONALIST HOPES FOR COMPROMISE PEACE**

The growing hope among Chinese National Government officials that a compromise peace can be effected with the Chinese Communists is more indicative of increased insecurity in the Government than it is of greater possibilities for such a compromise. The Nationalist officials presently disposed to a compromise settlement include some of the most progressive and sincere men in the Government. However, without the joint support of the Nationalist conservatives now in power, these elements will not be able to initiate action toward such a settlement.

Among the Nationalist officials who now hope for peace, the feeling seems to be prevalent that the Chinese Communists would be responsive to a proposal to resume negotiations similar in pattern to those conducted in 1946. This view ignores the fact that the Communists now have the upper hand in the civil war and are becoming stronger at a time when the Nationalist position has been weakened to such an extent that even such a stronghold as Shanghai is threatened by mob violence and Communist infiltration. It is unlikely that the Communists would agree to a peace which would not bring them considerable gains. Moreover, because Communist propaganda has consistently attacked Chiang Kai-shek, T. V. Soong, the CC Clique and others who constitute the nucleus of the present National Government, it is even less likely that the Communists would make an amicable settlement with this group.

The Nationalist officials who hope for a compromise peace also believe it may be possible to enlist the support of the USSR as mediator. It is improbable, however, that the USSR is willing to take an active part in a resolution of the civil war. The Soviet Union is probably not anxious to alter the present trends in China which are highly favorable to the Communists.

A compromise peace, or even a truce, in the Chinese civil war is most unlikely at the present time. Negotiations between the two parties may be arranged, but the outcome will probably not effect any real changes in the situation. The basic

TOP SECRET

principles of the two sides, which have faced each other with increasing bitterness for the past two decades, militate against such a settlement. Moreover, it is very doubtful that external influence--unless exercised to a much greater extent than seems probable at present--could make such compromise negotiations effective.

- 4 -

TOP SECRET

TOP SECRET**REACTIONS TO BEVIN'S "WESTERN UNION"**

The successful realization of Bevin's "Western European Union" proposal will be facilitated by the generally favorable reaction of the Benelux countries but hindered by the current positions of France, Italy, and the Scandinavian countries. The UK Government appears optimistic that Bevin's proposal can be carried out, initially through a series of treaties similar to the UK-French pact signed at Dunkirk in February 1947. Moreover, the British apparently believe that Western European political and military cooperation, despite the immediate conflicts of interest, will develop as a natural corollary of economic cooperation envisaged in the European recovery program.

The Benelux countries have officially welcomed the British lead and have thus clarified their postwar policy of alignment with the non-Communist powers. Earlier proposals for extension of the Benelux customs union to France alone have been received without enthusiasm because of Benelux's fear of French domination. Now, however, the Benelux countries have officially expressed their desire for concrete economic, political, and military cooperation. These countries desire more than a military defense treaty aimed at Germany (such as the Dunkirk pact); they want the establishment of a large-scale western bloc, including Italy, to check Soviet expansion.

The Italian Government, on the other hand, has received Bevin's proposal with qualified enthusiasm. Sensitive to leftist accusations of western "domination" of Italy and wary of involvement in a group in which Italian military weakness would reduce Italy's influence, the Government clearly wishes to continue its policy of maintaining good relations with Eastern and Western Europe. It can be expected to defer alignment with any political bloc at least until after the April elections and in the meantime to concentrate on promoting Western European recovery by economic means, including trade with Eastern Europe.

TOP SECRET

~~TOP SECRET~~

French support for increased political and economic cooperation with the UK, moreover, may be hindered by the economic problems which may arise from the devaluation of the franc, by traditional mutual suspicion, and by differences in policy regarding Germany.

Sweden--where most official, business, and trade union circles are unmoved by the critical situation confronting Western Europe--has officially discouraged indorsement of Bevin's proposal and has publicly declared that Sweden has no intention of associating itself with any bloc prior to the actual outbreak of hostilities in a new war. Denmark considers Bevin's proposal vague and does not favor a military alliance with other European countries. Norway is inclined to approve the British suggestion, but open indorsement by the Norwegians will probably be curbed by the attitude of the other Nordic countries. At the Stockholm Conference on 9 February, the prime ministers will presumably make their customary plea for greater Nordic collaboration and will probably indorse the European recovery program, but they almost certainly will refrain from supporting a "Western European Union" because of political and military implications.

- 6 -

~~TOP SECRET~~

~~TOP SECRET~~

This publication contains current intelligence exclusively and therefore has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and Air Force.

Jan 30

Document No. 004
NO CHANGE in Class.
 DECLASSIFIED
Class. CHANGED TO: TS S C
DDA Memo, 4 Apr 77
Auth: DDA REG. 77/1793
Date: 27/01/78 By: 021

~~TOP SECRET~~

TOP SECRET

CONTENTS

	Pages
TRENDS IN BRIEF	i - vii
 ARTICLES	 1 - 9
French Currency Stabilization	1
Economic Outlook for the Italian Worker	2
Soviet Policy in Eastern Europe	4
Pakistan's Relations with Afghanistan	6
Anti-US Sentiment in the Chinese Student Movement	8

TOP SECRET

TOP SECRET

TRENDS IN BRIEF

GENERAL

The embargo on transit traffic through Germany, announced by bizonal authorities for 5 February, may result in political repercussions disproportionate to the issue at stake. The decision culminates several months of dispute over freight-car exchanges between Bizonia and adjacent countries. The principal source of disagreement has been the arbitrary French demand that the Inter-Allied Reparations Agency declare as external assets those German freight cars which were in France at the time of the Nazi surrender, thus leaving them permanently under French control. Pending a decision, the French refuse to exchange German cars in France for French cars in Germany, even on a car-for-car basis. In addition to the political consequences of the embargo, its imposition at a time when maximum utilization of all transport facilities is vital to the European economy will have serious economic effects.

The internal crisis in the World Federation of Trade Unions (WFTU) (see Weekly Summary of 16 January, page 1) has been brought to a head by the virtual ultimatum which the British Trade Union Congress (TUC) has delivered to the Executive Bureau of the WFTU in requesting that the Bureau hold its scheduled meeting to consider endorsement of the European recovery program not later than the middle of February. The TUC threatens, if the WFTU fails to comply, to join trade unions in other countries in calling a labor conference on the recovery program. The CIO has adopted a parallel course of action, thus compelling the WFTU to choose between some form of approval of the European recovery program and the withdrawal of TUC and CIO. In the latter event, the Soviet All Union Central Committee of Trade Unions will probably seek to take over the remaining portion of the WFTU and convert it into a militant instrument of Soviet foreign policy.

TOP SECRET

WESTERN EUROPE

The French devaluation program is not expected in the long run to affect adversely France's political relations with other Western European states (see page 1).

Inflation and unemployment continue to present serious problems to the Italian Government (see page 2).

The Low Countries and Switzerland are showing increasing interest in trade with the USSR as a means of obtaining badly-needed grain. A Belgian-Soviet trade agreement, concluded on 21 January and containing provisions for Soviet grain shipments, awaits ratification by the contracting Governments. A Swiss delegation is now in Moscow, and the Dutch plan to send a trade mission to the USSR in about six weeks. Any diversion of capital goods from these countries to the USSR resulting from trade agreements obviously will prevent utilization of the diverted items in Western Europe, but the need for grain apparently is considered overriding. Undoubtedly, Switzerland and the Low Countries will make serious efforts to prevent their exports to the USSR from substantially limiting their contributions to the European recovery program.

Recent riots in Mogadiscio (Italian Somaliland) have aroused widespread indignation in Italy against the British who now administer Italian Somaliland. Some 50 Italians reportedly were killed in clashes between pro- and anti-Italian Somalis who were demonstrating before a commission sent by the "Big Four" powers to consider the future disposition of Italy's former colonies. The Italian Foreign Office, alleging that the UK shows insufficient willingness to investigate the rioting, may bring the matter before the UN. Meanwhile, Italian Communists are taking pre-election advantage of the incident to charge "Western imperialism" with brutality and callous disregard of Italian dignity and are also claiming that the incident demonstrates the subservience of De Gasperi's Government to the Western Powers.

TOP SECRET

Communist preparations for "unity of mass action," probably in early spring, continue in France; they consist largely of the establishment of "defense" committees (essentially "soviets") in all important trades and professions. At present, the only influential committees are in the film industry; but if the general political and economic situation should seriously deteriorate, "defense" committees in the aviation, automobile, and other industries, and among the peasants, would grow in importance. Communist propaganda in France is now directed primarily toward the peasants -- who are traditionally recalcitrant concerning tax measures; the propaganda contends that the Government's tax program is a US maneuver to eliminate French agricultural competition.

EASTERN EUROPE

The USSR continues to strengthen its control over the Satellites but, for the present, will avoid any steps leading to political or economic federation lest they jeopardize the Kremlin's direct control over each individual state or run counter to ultimate Soviet plans for absorbing the Satellites into the USSR (see page 4).

A new Soviet attempt to disrupt the European recovery program is apparent in Yugoslavia's proposal to convene a conference in Brussels in order to seek a more equitable distribution of reparations from the western zones of Germany. Although such a conference, which would include only the smaller nations which participate in the Inter-Allied Reparations Agency (IARA), would have little effect upon the policies of the IARA, the USSR may have instructed Yugoslavia to take this step in the hope of creating dissension among the nations participating in the recovery program and of directing dissatisfaction against the basic reparations policies of the US, the UK, and France. Meanwhile, in disclaiming official responsibility for the Yugoslav proposal, the USSR remains free to exploit any repercussions from it without compromising the previous Soviet position on German reparations.

TOP SECRET

Additional proof of Hungary's complete subjection to Soviet economic plans for the country is contained in a protocol, signed at Moscow on 9 December 1947, by which the Hungarian Government was forced to grant sweeping concessions and preferential treatment to jointly-owned Hungarian-Soviet companies and to Hungarian industrial enterprises in which Soviet capital is invested.

A mutual assistance pact between the USSR and Finland may be imminent. Reports that such a pact is under discussion have markedly increased since the appointment of Lieutenant General Savonenkov as the new Soviet Minister to Finland. The conclusion of such a pact would indicate the Kremlin's intention to control Finland directly rather than to force Finnish participation in the network of alliances binding the other Satellites.

NEAR EAST-AFRICA

Pakistan's lack of accord with Afghanistan, particularly over tribal issues, constitutes an added threat to its security during its current dispute with India (see page 6).

Gandhi's assassination (unofficially attributed to a Hindu extremist) may under the circumstances have a settling effect on the Indian political scene. The immediate reaction of all responsible Hindu leaders will probably be not only intense grief but also deep shame and humiliation that the act was committed by one of their own community. Thus, while Gandhi's death removes the strongest force in India for moderation and will eventually benefit those forces which advocate a harsh attitude towards Pakistan and the Moslems generally, the immediate response among Hindus will probably be that greater caution must be taken to avoid further shame for India.

The fall of the Iraqi Cabinet, which temporarily prevents ratification of the new Anglo-Iraqi treaty, will throw off British plans for a series of Arab alliances, particularly with Egypt. Nevertheless, Transjordan will probably accept a new alliance with the UK, and the independent-minded King Ibn Saud,

- iv -

TOP SECRET

TOP SECRET

with whom negotiations are current, may still accept some form of alliance for Saudi Arabia despite the resurgence of Arab nationalism which has been brought about by the UN Palestine decision and stimulated by Iraq's action. Despite the present difficulties of the UK in establishing Anglo-Arab military alliances, existing UK treaties with Egypt, Iraq, Transjordan, and Saudi Arabia help to maintain UK influence in the Near East, particularly in view of the prestige lost by the US and the USSR over the partition issue.

Iran's recent tendency toward a balance of power policy may make Iran a less effective bulwark against Soviet encroachment. A trend toward strict impartiality in dealing with foreign powers is reflected in: (1) a growing reluctance to involve Iran with foreign loans and the attendant foreign supervision; (2) efforts to reduce US authority over the gendarmerie; (3) pressure for revision of the British oil concession; and (4) irredentist agitation prejudicial both to British and US interests in Bahrein. The Iranian Government, which is confronted with agitation from leftists, the parliament, and the press against its advocacy of the US aid program, has reverted to the traditional Iranian courses of compromise, vacillation, and inaction.

FAR EAST

Anti-US sentiment in nationalist China is reflected in the current student agitation in China's large cities (see page 8).

Soviet preparations for establishing the North Korean People's Committee as the "independent" government of all Korea will probably be brought to completion during the fourth session of the North Korean People's Council, scheduled to convene 6 February. The Council is expected to provide a legal pretext for the Committee's claim by adopting formally the draft "Korean Constitution" and legal code. Although the establishment of a new "government" may provide the USSR with an opportunity to execute a unilateral withdrawal of

- v -

TOP SECRET

TOP SECRET

occupation forces, it is more probable that the new regime will "request" the Soviet forces to remain until US forces are withdrawn from South Korea.

Renewal of Chinese Communist-National Government peace negotiations is strongly favored by some high Nationalist officials whose views appear to be increasingly influential in Nanking. These officials believe that the Communists might respond to proposals of this nature. They also are optimistic that the USSR may assist in persuading the Chinese Communists to resume peace talks and perhaps provide its "good offices" to facilitate such negotiations. So long as these views are current in Nanking, the termination of the Chinese civil war by a compromise settlement cannot be completely ruled out.

A severe test of the "six principles" of the UN Good Offices Committee (GOC), which were accepted unconditionally by the Netherlands Government and the Republic of Indonesia, was provided by the recent holding of a plebiscite on the island of Madura. In carrying out this plebiscite the Dutch violated one of the six principles which provide that no plebiscites shall be held until six months after the signing of a political settlement. Although Dutch representatives in Batavia deny any knowledge of the plebiscite, Dutch forces have been in complete control of Madura and such a vote could not have occurred without Dutch consent and tacit support. The absence of popular discussion of the issues, the rapid execution of the plebiscite, and the large majority vote for autonomy cast suspicion on the validity of the popular decision. The plebiscite will increase the Republic's doubts as to the value of eventual agreement with the Dutch and may reflect upon the usefulness of the GOC as a means of obtaining an equitable settlement of the Indonesian dispute.

The Philippine Congress is expected to concur promptly in President Roxas' 28 January proclamation extending amnesty to all Filipinos accused of political and economic collaboration with Japanese during the occupation, except those who are found

- vi -

TOP SECRET

TOP SECRET

guilty of espionage or criminal acts in support of the Japanese or in opposition to the resistance movement. President Roxas' action apparently closes an issue which has been embarrassing to Philippine political parties since the liberation. The long-expected amnesty proclamation reflects: (1) a recent Supreme Court decision that merely holding office in the Laurel puppet government did not constitute treason; (2) the Government's inability to overcome technical difficulties in prosecuting the cases; and (3) general public and official indifference to the collaboration issue.

WESTERN HEMISPHERE

Political rivalry in Venezuela between the Chief of the General Staff, Perez Jimenez, and the Ministers of Defense and of the Interior has created a potentially dangerous situation. This enmity, the low morale of the Army, and the possibility of aid from Venezuelan dissidents in the Dominican and other Latin American Republics may diminish within the Army support for the Accion Democratica and its newly-elected Government.

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET**FRENCH CURRENCY STABILIZATION**

The objectives of the French Government's devaluation program are: (1) to make possible the stabilization of the franc at an economically sound level; and (2) to make more dollars available for buying essential goods from the United States. By lowering the value of the franc the French hope to attract dollar customers for their exports, eliminate diversion of dollars into the black market, and revive the tourist trade. By creating a free market in gold and dollars the Government expects to repatriate French capital held abroad and to bring hoarded gold and commodities into circulation. The French believe that the operation of the free market in gold and dollars will also enable the Government to determine within a few months the proper level for stabilization of the franc.

If it obtains Assembly approval of the free gold market proposal, the Government stands a good chance of success in achieving its aims. Although the establishment of a free market in gold and dollars in France may increase the need for further exchange controls in other countries, these repercussions will in the long run probably not affect adversely France's political relations with other Western European states or offset the benefits of the program to the French economy.

Socialist opposition to the French Government's economic program stems largely from the fact that the Government's policy is moving further away from the Socialist principle of a directed economy and in the direction of a free economy. Although a compromise between the Socialists and Schuman on the free gold market measure now before the Assembly seems likely, Socialist opposition to Schuman's liberal economic recovery program will probably persist and will weaken the present Government's ability to operate as a unified, effective coalition.

TOP SECRET

TOP SECRET**ECONOMIC OUTLOOK FOR THE ITALIAN WORKER**

Despite efforts of the Italian Government to combat inflation and unemployment, both problems continue serious and are incapable of solution without foreign aid and its effective use. Because the basic improvements which the Government's program have effected have not yet been reflected in the lives of the workers, establishment of public confidence in the European recovery program is the only method by which the Government can retain the confidence of the people between now and the national elections scheduled for April.

One of the measures adopted by the Government was the restriction on industrial credits. Budget Minister Einaudi hoped that this means would force the release of hoarded dollars and goods and thereby lower prices. These restrictions, in conjunction with favorable attendant factors, have in fact led to appreciable reductions in wholesale prices and to smaller reductions in retail prices. Because the basic shortage of consumers goods still exists, however, the cost of living cannot be lowered markedly. Moreover, the heavy expenditures of the government for aid to the needy and the unemployed are exerting additional inflationary pressure.

Employment for Italian surplus workers, except the relatively few who will emigrate, can be provided only by expanded exports. The Government lowered the exchange value of the lira to place Italian exports in a more favorable position in the world markets. The devaluation of the French franc, however, will sharpen the competition met by some Italian products, and the problem of further lowering the cost of Italian industrial production and exports is complicated by two factors: the efforts of the Communist-dominated trade unions to slow down production; and the legal difficulties in dismissing surplus employees.

Pressure to force retention of supernumerary employees, moreover, is exerted by the presence of a million and a half totally unemployed and a third as many partially employed. Potentially, these workers can make an important contribution

TOP SECRET

to the success of the European recovery program. Toward this end, the Italian Government has taken the initiative in the manpower conference of Western European nations now meeting in Rome. Ambitious plans for large-scale emigration of Italian surplus laborers to Europe and South America are not likely of immediate fulfillment.

US interim aid supplies if effectively used should permit the maintenance of Italian industry at its present level of production and employment. A resurgence of the sporadic strikes of the past months will not seriously affect industrial output. On the other hand, for some months to come, the employed workers can expect little improvement in their living conditions and the unemployed, little possibility of finding work. If bread grains are not available in sufficient quantity--a matter beyond the control of the Italian Government--all Italian workers will find their standard of living lowered still more. Only the assurance of the European recovery program, therefore, can give the Italian worker confidence in his economic future under the present Government.

TOP SECRET

TOP SECRET**SOVIET POLICY IN EASTERN EUROPE**

The USSR has recently intensified its efforts to obtain direct military, economic, and political control over the Eastern European Satellites. This intensification is revealed in the rapid conclusion of a series of mutual assistance pacts now linking nearly all the Satellites, the signing of long-range trade agreements by the USSR with Poland and Czechoslovakia, and the increasing emphasis on the Cominform as the principal organ for the implementation of Communist policy in the area. The USSR will continue to strengthen its controls over the Satellites but will take no action which will either: (1) weaken the direct ties binding each individual Satellite to the Kremlin; or (2) run counter to the Kremlin's plan for ultimate absorption of the Satellites in the USSR.

The immediate objective of the USSR is the organization of a unified military force in Eastern Europe for defensive purposes as well as for possible overt support of the Markos regime in Greece. The Rumano-Hungarian mutual assistance pact nearly completes such a system of intertwining alliances between the Satellites. The recent pacts have differed from those concluded prior to 1947 by the USSR with Poland, Czechoslovakia, and Yugoslavia, in that they are directed against any attacker rather than against Germany alone. Moreover, the USSR is not directly involved. The Soviet Union, therefore, has forged a military weapon which will insure united Satellite action in Greece should the occasion warrant but will simultaneously minimize the risk of direct conflict between the US and the USSR.

Although these pacts provide for sweeping economic coordination between the participating nations, they do not presage political or economic union in the near future. Rather, they represent a transitory stage in the development of the Satellites as members of the USSR. In addition to providing the machinery for the integration of the Satellite armed forces with the Soviet Army, these pacts can serve the USSR as basis for propaganda designed gradually to minimize the traditional rivalries which formerly divided the Eastern European nations.

TOP SECRET

TOP SECRET

The USSR is exercising its actual political and economic control over the Satellites through Communist Party channels. Although the Kremlin may originally have planned for an eventual Balkan federation, recent evidence indicates that this plan may now be abandoned or its implementation postponed for some time. The PRAVDA editorial of 28 January, which disavowed Bulgarian Premier Dimitrov's prediction of a Balkan-Danubian customs union and eventual federation, may have been prompted by the Kremlin's realization that the many practical difficulties obstructing consummation of such a plan made Dimitrov's speech premature. Moreover, the Kremlin may have feared that announcement of a Balkan federation would hasten acceptance of Bevin's proposal for western European union. More important, however, the USSR probably does not consider conditions in the Satellite states sufficiently secure to permit any loosening of the ties binding the Kremlin directly with each country. As long as the Kremlin exercises through the Cominform direct operational control over each Communist Party, unified Satellite action can be achieved more effectively than by delegating this authority to a federation head.

In obtaining economic control over the Satellites, the USSR can gain greater advantage by promoting direct Soviet-Satellite trade than it can by encouraging inter-Satellite trade through a formal federation. The recent long-term trade agreements signed by the USSR with Czechoslovakia and Poland indicate that the USSR does intend to integrate each Satellite economy directly with the USSR. Similarly, Soviet economic exploitation of Hungary and Rumania is indicative of the desire of the USSR to extract the maximum economic benefits from each country and thereby retard the growth of trade between the Satellites themselves. Such a policy, by insuring that each country's economy is meshed directly with that of the USSR, will facilitate eventual absorption of the Satellites into the Soviet Union.

- 5 -

TOP SECRET

TOP SECRET**PAKISTAN'S RELATIONS WITH AFGHANISTAN**

During the current dispute with India, Pakistan's security is additionally threatened by a dispute with Afghanistan. Despite the ties of a common religion and the dependence of Afghanistan upon Pakistan's facilities for essential foreign trade, the Afghan Government has championed the interests of the Pathan tribes in their dispute with the Pakistan Government and has demanded that Pakistan sign a treaty granting an autonomous "country" to the Pathan tribesmen in Pakistan as a condition to establishment of normal diplomatic relations between the two nations. Afghanistan has further sponsored the tribes by claiming the right to participate in any agreement concerning Kashmir which involves the Pathans.

The 4½ million Pathans, 3 million of whom live on the Pakistan side of the Afghan border, directly affect the vital interests of Afghanistan. Although the Pathans have traditionally disdained the peoples to their east, Moslems and non-Moslems alike, the Afghans fear that closer ties with a Moslem Pakistan may eventually impair Pathan bonds with the Afghans and thus diminish Afghanistan's military potential. Moreover, the Pathans are now exerting strong pressure for repayment of past favors, and have threatened violence against the Afghan Government, which they are probably capable of overthrowing. Despite official disclaimers of irredentist sentiment, the Afghan Government's sponsorship of the Pathans is probably also motivated by the possibility that a Pathan state, if created, might ultimately merge with Afghanistan.

For Pakistan, which has rejected Afghanistan's demand regarding Pathan autonomy, the situation is extremely embarrassing. If open warfare develops between Pakistan and India, the support of the 3 million tribesmen will be vital to the Government of Pakistan. If Pakistan is unable to maintain control over the tribal areas, the Pakistan northwest frontier would be incapable of defense. At present, it appears that religious sentiment will override other considerations and prevent an open break between Afghanistan and the tribes on the one hand and Pakistan on the other.

TOP SECRET

If the Government of Pakistan should seriously offend the tribes, however, an anti-Pakistan alliance among Afghanistan, the Pathans, and India is possible.

TOP SECRET

TOP SECRET**ANTI-US SENTIMENT IN THE CHINESE STUDENT MOVEMENT**

The student movement in nationalist China is at present strongly anti-US in sentiment, primarily because it has identified the US with the present Chiang Kai-shek regime. Students in China traditionally reflect the sentiment of a politically articulate segment of the Chinese people, and their influence is widespread. Not only was the attitude of the students a significant causal factor in the Chinese rejection of the Versailles Treaty, but student antagonism toward the Japanese was influential during the 1930's in shaping Chinese resistance to Japan. At present, the political position of the Chinese student movement has wide repercussions among Chinese intellectuals and members of the upper classes in China.

The student movement has consistently been intensely nationalistic in nature. In its recent stages, this anti-foreign sentiment has become directed largely against the US, and relatively little animosity has been expressed toward the USSR. In the students' opinion, the Soviet Union is not guilty, as is the US, of rendering support to a government from which the students have withdrawn all loyalty.

Student antipathy to the present regime springs largely from the Government's actions in disbanding student demonstrations by force, in suppressing politically active professors and students, and in failing to grant students financial support while continuing to expend money and men for a "criminal civil war." Because the students have concluded that anything which extends the life of the present regime is inimical to their interests and to the interests of China as a whole, they blame the US for enabling the National Government to extend its life span.

Even though most students are not Communists and have no real understanding of the meaning of Communism, or of its implications in the international conflict, they are sympathetic to any force which opposes the National Government. Consequently, they are ripe for Communist infiltration and propaganda, already effective in some aspects of the student movement.

TOP SECRET

In recent months, a more marked undercurrent of student unrest has led to constant agitation in China's large cities. The students eagerly accept any excuse for an anti-US demonstration. Incidents involving US troops have been greatly magnified and have served as the occasion for parades and threats of violence. The 16-18 January rioting in Canton, basically a demonstration against the British, rapidly took on an anti-US complexion when it spread through other major cities in China. Unless the National Government finds it within its power to take steps to appease student complaints, underlying discontent will probably continue and will be punctuated by periodic outbreaks. These outbreaks will continue to have strong anti-US overtones and will probably constitute a recurring strain on US-Chinese relations.

- 9 -

TOP SECRET

50

JAN 1948

~~TOP SECRET~~

82

CONTENTS

	Pages
TRENDS IN BRIEF	i - vi
ARTICLES	1 - 5
The Kashmir Situation	1
The New Korean National Council	3
Outcome of the Chinese Elections	4

207.
23

Document No. 003
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1763
 Date: 31/01/78 By: 021

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

GENERAL

Further disintegration in the international trade union movement is indicated by the recent decision of the International Metal Workers and the International Transport Workers to call their own conferences for the purpose of deciding their role in the European recovery program. These meetings, which will be held in March, represent a decision by these traditional craft organizations to proceed outside the framework of the World Federation of Trade Unions (WFTU). This decision follows closely the apparent breakdown of the two-year-long negotiations between the international craft organizations and the WFTU for amalgamation of the two organizations. This development will confront the WFTU Executive Bureau with one more critical situation in addition to the problems connected with the endorsement of the European recovery program and recognition of the new French organization, Force Ouvriere (see Weekly Summary of 16 January, page 1).

The position of the USSR on the Security Council veto continues to be adamant. Following the request of the General Assembly, the five permanent members of the SC met recently to consult on the question of the veto. All suggestions for modifying the use of the veto were rejected by the Soviet delegate, Gromyko.

WESTERN EUROPE

UK denials of reports of an imminent devaluation of the pound are probably valid. Although it is true that any government would deny such a step prior to its implementation, there are nevertheless sound reasons why the UK would not devalue its currency at this time. While devaluation would stimulate exports, present sales resistance abroad to high UK prices has not yet become very serious. Moreover, since the foreign-exchange earnings of each individual export would be less if the pound were devalued, sales abroad would have to be expanded to some extent merely to overcome the loss

TOP SECRET

consequent to devaluation. In addition, devaluation would produce an internal economic disturbance because it would increase prices of imported commodities in terms of the pound. When high British prices in competitive world markets become a serious obstacle to the achievement of export targets, the UK Government may be compelled to reconsider its present position.

French Communists and Gaullists may seize upon the food shortages anticipated in March to rouse popular sentiment against the Schuman Government. The expected sharp reduction in French cereal collections will coincide with the low point in French food supplies generally and may encourage De Gaulle to make a new bid for power and stimulate the renewal of Communist efforts to sabotage French recovery and the European recovery program.

Although Italian labor is split into Communists and anti-Communists over strikes based on political issues, the success of the Communist-led Italian Confederation of Labor (CGIL) in forcing compliance with most of its demands in the recent bank employees' strikes has demonstrated that Italian labor elements are still capable of substantial solidarity in support of strikes protesting adverse economic conditions. Thus, if the CGIL confines its activities to economic issues, it can remain a potent force, and its predominantly Communist leadership can increase its prestige by successfully exploiting the inevitable future opportunities to conduct economic strikes.

Italy's moderate Left (Republicans and right-wing Socialists), heartened by its recent inclusion in De Gasperi's broadened Government and by the successes of anti-Communist French labor, may attempt to form a political bloc which may increase the strength of the Italian anti-Communists. This new grouping, to be called the "Democratic League," could develop into an integrated force to fight Communist domination of labor and to oppose the Communist-led bloc in the April national elections.

- 11 -

TOP SECRET

TOP SECRET

EASTERN EUROPE

Although Soviet industrial production for 1947 has surpassed the production levels of 1946, the recent report of the Soviet State Planning Commission indicates that the total output is still below the 1940 level and continues to lag behind the average annual increases foreseen by the Planning Commission. Mining and manufacturing industries in general showed moderate progress during 1947, transportation somewhat less, while construction was poor.

Current Polish-Soviet trade negotiations in Moscow will probably result in a long-term trade agreement which will increase considerably the volume of Polish-Soviet trade and will represent another major step in the integration of the Soviet and Satellite economies. Any increase in Polish exports to the USSR in 1948 will probably not reduce the present volume of Polish exports to the West, but will come from expected improvement in Polish production in 1948. As a result of the new agreement, however, long-range Soviet demands on the Polish economy can be expected to grow. Such a development, by curtailing Poland's ability to purchase industrial machinery and equipment from the West, would retard the present rapid development of Polish industry. Moreover, it would seriously reduce Poland's future ability to send coal, food, and other exports to Western Europe.

Friction within the Greek Government has seriously jeopardized its stability and will probably result in the fall of the Cabinet. Although Prime Minister Sophoulis' left-centrist Liberals have attempted to cooperate in the US-sponsored coalition, Cabinet solidarity is being increasingly disrupted by the maneuvers of Vice Premier Tsaldaris' right-wing Populists (who hold a majority in Parliament). A break-up of the coalition would have serious implications for Greece and the US aid program. The Populist or Populist-controlled Cabinet under Tsaldaris, which would probably succeed the coalition, is likely to be short-lived,

- iii -

TOP SECRET

TOP SECRET

but while in power could be expected further to weaken popular morale by repressive measures against its political opponents, as well as the Communists, and to impair the US aid program through inefficiency and stubborn resistance to AMAG economic and administrative reforms.

NEAR EAST-AFRICA

Although India and Pakistan are again deadlocked over Kashmir, the threat of actual conflict appears to have lessened (see page 1).

The UN Palestine Commission, convinced that it cannot function or even move freely in Palestine without an international police force, will undoubtedly ask for armed support when it reports to the Security Council on 1 February but will have difficulty in obtaining such assistance. The establishment of a joint big-power police body is unlikely. Moreover, it is doubtful that a sufficient number of small countries could be found which are ready to contribute troops to an international police force and at the same time are sufficiently neutral to obtain US and Soviet approval.

The Iraqi Regent's sudden denunciation of the newly-signed Anglo-Iraqi Treaty is a severe, but not necessarily overwhelming, blow to UK diplomacy in the Near East. In stating that the treaty could not be ratified because it did not "represent the national aims," the Regent reflected the panic of Government officials over widespread rioting on the part of nationalist-inspired students. Although Premier Jabr appears confident that he still can obtain acceptance of the treaty, the Regent's statement will at least delay ratification for several weeks and may lead to the fall of the Jabr Cabinet and the indefinite postponement of British plans for a comprehensive series of similar treaties with Saudi Arabia, Egypt, and the other Arab states.

- iv -

TOP SECRET

TOP SECRET

FAR EAST

The formation of the Korean "National Council" represents an attempt by the extreme Rightists to establish a claim to the assumption of power in Korea following a breakdown of UN negotiations (see page 3).

Ultra-conservative control of the Chinese National Government has in no way been weakened by recent or current elections (see page 4).

Australian preoccupation with defense problems is indicated by the plans of the Government during 1948 to: (1) undertake a large scale mineral research program; (2) continue control of the strategic mica industry; (3) formulate a fuel control policy and investigate synthetic fuel production in the US, the UK, and South Africa; and (4) examine the state of Australian defenses against atomic attack, including the feasibility of dispersing key industries and replanning strategic centers.

The Chinese National Government is expected to react strongly and bitterly when it learns of the terms of a recently-completed surplus ammunition contract between the US and the Philippine Government. This contract, which covers the purchase by the Philippine Government of approximately 92,000 long tons of US surplus ground and aviation ammunition, stipulates that this ammunition cannot be delivered to any other government unless demilitarized.

WESTERN HEMISPHERE

Prime Minister Mackenzie King's retirement, scheduled for August, is not likely to affect the dominance of the Liberal Party nor to produce any major changes in Canadian foreign and Commonwealth policy. Mackenzie King's retirement is believed conditional upon the world situation; in the event of a serious crisis he could probably be prevailed upon to continue in office. Louis St. Laurent, the present Minister of External Affairs and a leading French-Canadian, is most

- v -

TOP SECRET

TOP SECRET

likely to succeed Mackenzie King both as Party and government leader.

The development of petroleum resources in the Western Hemisphere has been furthered by the recent action taken by the Argentine Government in encouraging long-term agreements (drilling, refining, and marketing) with privately-owned foreign and Argentine oil companies. Peron's action, in face of Nationalist attempts to force the Government to expropriate the privately-owned oil properties, shows cognizance of the need for foreign capital, equipment, and technical aid in the development of Argentina's state-controlled oil industry. Dominant factors in Peron's decision are: (1) Argentina's increasing demand for oil under the five-year plan; (2) the present policy of cooperation with the US; and (3) a desire to increase dollar reserves through participation in the European recovery program.

The gradual assumption of power in Peru by the military group presently dominant in the Peruvian Cabinet is an increasing possibility. The leader of this group has demanded that President Bustamante remove those mayors who are members of Apra (the non-Communist leftist party whose support brought about Bustamante's election to office in 1945). This development indicates an intensification of the political dispute between Apra and the military-supported conservative Alianza Nacional which made a quorum unobtainable during the six-month session of the Peruvian Congress in 1947. Apra, however, is unlikely to resort to armed force, even if Bustamante should agree to a curtailment of its influence.

Current activities of Nicaraguan revolutionaries in Guatemala indicate that anti-Somoza forces may have achieved a working unity. The group has acquired a US bomber and reportedly has received munitions from Cuba. The effectiveness of this new wave of anti-Somoza plotting, however, will probably be circumscribed by Somoza's continued control of the Nicaraguan National Guard and by the reluctance of the chief of the Guatemalan armed forces to permit official Guatemalan participation in revolutionary efforts to rid Nicaragua of General Somoza.

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET

THE KASHMIR SITUATION

Even though India and Pakistan are currently deadlocked over the Kashmir question, it is possible that UN jurisdiction in the Kashmir dispute will temporarily forestall armed conflict and perhaps permanently prevent it. The present impasse arises over India's insistence that a UN-sponsored plebiscite in the disputed state must not only come after the cessation of hostilities but also must follow the election of a popular government under a constitution to be drafted by a popularly-elected constituent assembly. Under such conditions, the outcome of any plebiscite would be heavily weighted in India's favor. Meanwhile, Pakistan continues to demand that the UN Commission make a complete investigation of all the issues between the dominions and now asserts that it may be forced to take military action against India if this much scope is not given the Commission.

The establishment of UN jurisdiction of the Kashmir dispute may provide both parties with a means of escape from an overcostly venture. Government of India leaders, who once appeared ready to attack Pakistan if their appeal to the UN did not bring favorable results promptly, now seem willing to make certain sacrifices in order to avoid conflict. Gandhi's unexpected fast, which might have proved fatal, thus making Government of India leaders morally responsible for his death, was instrumental in creating this willingness to negotiate. Pakistan's leaders, despite the bitterness of their current charges that India is guilty of genocide and of unjustified occupation of the princely state of Junagadh, undoubtedly realize that war with India would be suicidal and that both dominions would benefit by arbitration.

The ability of Pakistan to restrain tribal raids in Kashmir, pending a peaceful determination of Kashmir's future status, is crucial to any settlement. If firm promises that the Kashmir Moslems will have an opportunity to affiliate with Pakistan are backed by the recommendations of the UN Commission, the raiders may be persuaded to withdraw, particularly

TOP SECRET

TOP SECRET

since looting is becoming less remunerative and because the tribesmen are needed at home for spring harvesting. The establishment of a divided occupancy of Kashmir under UN auspices, with Pakistan troops in the north and Indian troops in the south, might help provide mutually acceptable conditions for a plebiscite.

- 2 -

TOP SECRET

TOP SECRET

THE NEW KOREAN NATIONAL COUNCIL

The probable aim of the recently-formed "National Council," a coalition of South Korean extreme Rightists, is to induce the UN Commission to hold immediate elections for South Korea alone, following an anticipated Soviet refusal to permit the Commission to operate in North Korea. The Council has therefore offered its support to the UN Commission, but it is clear that if Soviet obstinacy causes a protracted delay in obtaining a UN settlement, the National Council will constitute itself the legal government of South Korea and agitate for immediate recognition.

For this reason, and because the present political situation in South Korea is rapidly deteriorating, it is necessary that elections be held in the near future, with or without UN observation. In the absence of outside intervention, any election held in South Korea within the near future will bring a victory for the extreme Rightists and will legalize the National Council's claim to governmental authority.

Such a rightist government would probably be headed nominally by Rhee Syngman, while Kim Koo would wield effective control. Both men have extreme expansionist tendencies, and Kim is reportedly intriguing to obtain Chinese Nationalist support for the eventual annexation of North Korea. Kim is apparently offering Chiang Kai-shek immediate military aid in Manchuria in return for future Chinese assistance in the conquest of North Korea. Regardless of the practicality of these reported aims, it is quite certain that the future Rhee-Kim coalition will be characterized by corruption and dictatorial rule at home and military and expansionist adventures abroad.

- 3 -

TOP SECRET

TOP SECRET**OUTCOME OF THE CHINESE ELECTIONS**

Although recent elections for China's National Assembly and the current elections for the Legislative Yuan are ostensibly designed to give China a democratic government, they will not alter the basically unrepresentative character of the Chiang Kai-shek regime. These efforts to implement the new Chinese Constitution will result in de jure changes in the formal functions of the Government, but the same men who now exercise control, either in an official capacity or from behind the scenes, will continue to do so.

The recently-elected National Assembly (which is to hold its first session on 29 March and will have the power to elect the president and vice president of the Republic and amend the Constitution) will be dominated by the Kuomintang and will be unrepresentative of public opinion in China. The new Legislative Yuan will be similar in character. This situation may at least in part be attributed to the conditions under which the elections have been held. In large areas of China not under Nationalist control, no elections can be conducted. In Nationalist areas, widespread illiteracy, economic dislocation, and an overriding concern for local and family allegiances have affected the validity of the elections, and the Nationalist Government has capitalized heavily on Chinese unfamiliarity with democratic procedures. Despite the Government's claim that 150 million votes were cast in the November elections (a statement probably made in order to establish a right to stay in power during the six-year period for which the National Assembly's candidates were elected), there was considerable apathy among the people, and probably less than 50 million votes were actually cast. The voting returns on two-thirds of the seats indicate that over 90% of the Kuomintang's candidates were elected.

There is no indication that any substantial reform may be expected in China. Elements inimical to US interests, such as the CC Clique, have permeated most of the Government's economic and financial agencies; they dominate the Kuomintang machinery and control the secret police. The elections have in no way weakened or even challenged this control, which continues to grow

- 4 -

TOP SECRET

TOP SECRET

stronger and to stifle the progressive elements within and outside the Government. Any attempt to reform the Chinese Government, whether internal or external in origin, will meet with vigorous opposition from this dominant right-wing group.

- 5 -

TOP SECRET

~~TOP SECRET~~

CONTENTS

	Pages
TRENDS IN BRIEF	i - iv
ARTICLES	1 - 11
Internal Crisis in the WFTU	1
Italian Pre-Election Preparations	3
Soviet Political Maneuvers in Germany	5
Present British Relations with Arab Countries	6
The Military Situation in China	7
Civil Disorder in the Philippines	9
Interim Federal Government in Indonesia	10

030
10

Document No. 002
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 Auth: DDA Memo, 4 Apr 77
 Date: 31/01/78 By: 021
 DDA REG. 77/1763

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

GENERAL

The Soviet-Communist bloc within the WFTU may attempt to delay the CIO-TUC effort to force a decision on the questions of labor's forthcoming role in the European recovery program and the admission of the French Force Ouvriere to WFTU membership. Such a delay may lead to the formation of a rival international trade union organization when the labor delegates from the 16 CEEC nations meet in Brussels in April (see page 1).

WESTERN EUROPE

The spring elections in Italy, barring a Communist insurrection, are expected to be an inconclusive contest between the leftist bloc and the centrist Christian Democrats (see page 3).

Soviet political maneuvering in eastern Germany continues to be directed primarily at suppressing the Christian Democratic Union (see page 5).

The Soviet-controlled "German People's Congress for Unity and a Just Peace," originally organized by Soviet officials for propaganda purposes during the London CFM, appears to be taking on the appearance of a permanent political group with a nationalist platform. The increasing use of the organization by Soviet officials as a substitute for various "anti-fascist" blocs indicates that the USSR may plan to merge all political parties in its Zone into the People's Congress and thereby to eliminate the few civil liberties which are still permitted in the Zone.

Tension in Morocco has recently been increased by the activities of Arab nationalists in Cairo and Rabat. A "Committee for the Liberation of Arab Maghreb" (Morocco, Algiers, and Tunisia) has been formed in Morocco under Abd el Krim. Concurrently, the Sultan of Morocco has charged France with failure to carry out its obligations under the Protectorate Treaty and has officially raised with the French Government the issue of

TOP SECRET

independence. To prevent this tension from reaching dangerous proportions, France will be obliged to adopt either a more conciliatory or a more oppressive policy in Morocco and throughout French North Africa. The Liberation Committee has declared its loyalty to the Sultan who apparently has emerged as the top Nationalist leader. The announcement of the Committee that it hopes to avoid any direct action against France indicates that the Sultan will eventually appeal the Moroccan dispute to the UN Security Council.

Although Eire's policy of support for the European recovery program and of increased economic cooperation with the UK is not likely to undergo drastic changes, the continued existence of the De Valera Government will be threatened in the general election of 4 February. De Valera has announced that he will not participate in any new government unless his Fianna Fail Party is returned to power with a clear majority, and present indications are that the Party may achieve something less than a majority, although it will probably remain the strongest in Parliament. Thus, a coalition government of minority parties appears a possibility, but such a coalition would probably not be stable, and in the consequent new election De Valera would stand a good chance of returning to power.

NEAR EAST-AFRICA

The UK is taking advantage of the Palestine situation to strengthen its influence and prestige throughout the Arab world (see page 6).

The possibility that Gandhi may die during his current fast threatens to bring serious repercussions. Although his influence on the India masses has declined in the last few years, the 78-year-old nationalist leader still commands such veneration as to enable him to exercise a restraining influence in Indian politics. Gandhi's death would benefit the rivals of Nehru (whom Gandhi has supported), particularly Minister of Home Affairs Patel who has probably refrained from attempts to seize power mainly for fear of incurring Gandhi's wrath. More ominous,

- ii -

TOP SECRET

TOP SECRET

however, is the probability that reactionary and militant Hindu elements would proclaim Gandhi a martyr to the Hindu cause, thus seizing on his death to bring about exactly what Gandhi opposes--a new wave of communal massacres and the outbreak of the threatened war against Pakistan.

FAR EAST

In the Chinese civil war, the National Government at present does not appear to have adequate materiel or manpower to cope with the increased scope of Communist operations (see page 7).

The Philippine Government is meeting with substantial difficulties in its efforts to combat widespread lawlessness and agrarian discontent (see page 9).

The Netherlands Indies Government has completed the preliminary steps in the formation of a Dutch-sponsored United States of Indonesia (see page 10).

WESTERN HEMISPHERE

UK-Argentine trade agreement negotiations, under way since last summer, have made practically no progress, because of the inflexible bargaining position which Argentina has taken. In negotiations thus far, Argentina, whose financial condition has been rapidly deteriorating, has refused to accept the traditional British imports and has appeared to be temporizing in the hope that it might force the UK to pay for Argentine agricultural products at high prices in convertible sterling or that it might sell these products for dollars under the European recovery program. Although UK dependence on Argentina and the weakness of the British bargaining position require that the UK be conciliatory, it is clear that the British cannot pay Argentina in convertible sterling in the required amounts. The UK undoubtedly hopes that Argentina will eventually be dissuaded from expecting gold or dollars for its products.

TOP SECRET

A distinct gain for anti-Communist labor groups in Latin American was made by the organization of the Inter-American Federation of Labor (CIAT) during the recent conference at Lima. The new CIAT includes representatives of nearly half the organized workers of Chile, Cuba, and Peru who were formerly members of the Communist-dominated CTAL. The immediate effect of the CIAT will be: (1) to reduce the relative importance of the CTAL in international labor matters; (2) to give non-Communist labor in the Western Hemisphere greater influence in future meetings of the ILO; and (3) to improve the prestige and influence of local unions fighting Communism by supplying them with a valuable source of information and assistance. The future influence of the CIAT, which was formed with AFL support, will depend upon its ability to prevent Communist infiltration and to avoid AFL policies unpopular among Latin American workers.

- iv -

TOP SECRET

TOP SECRET

ARTICLES

TOP SECRET

TOP SECRET

INTERNAL CRISIS IN THE WFTU

A crisis in the international labor movement may be precipitated by two major questions which will come before the Executive Bureau of the World Federation of Trade Unions (WFTU) at its February meeting in Paris: whether to accept the CIO proposal that the WFTU endorse the European recovery program and whether to admit to membership Force Ouvriere (FO), the anti-Communist offshoot of the French CGT. These critical questions will require of WFTU the most far-reaching decisions it has been called upon to make since its inception in the fall of 1945. Until recently the Western European and US trade unions organizations, which have primarily emphasized trade union objectives, and the Soviet-dominated labor organizations, which have stressed the aims of the USSR in international politics, have preserved through uneasy compromises a facade of unity within the WFTU.

Although the British Trades Union Congress (TUC) and the American CIO are committed to the endorsement of the European recovery program at the WFTU meeting, their lack of a fully-coordinated plan may facilitate a Communist maneuver to sabotage the program within the WFTU. Present strategy among Communist members of the WFTU Executive Bureau is believed to consist of delaying a decision concerning participation in the recovery program until the WFTU Congress convenes in September.

Another complication connected with the endorsement of the European recovery program arises in the AFL proposal to hold an April conference of trade union organizations of the 16 CEEC countries, for the purpose of considering labor's share in the recovery program. If effective action is blocked at the February WFTU meeting, this later conference will provide Western non-Communist labor organizations with a new opportunity to endorse support of the recovery program. Moreover, this meeting (officially sponsored by Benelux) may result in the formation of a new international trade union organization. The possible emergence of a rival international trade union organization is extremely disturbing to European

- 1 -

TOP SECRET

TOP SECRET

Communist leaders who hope to preserve the WFTU as the only comprehensive international workers organization.

Whether to admit the newly-formed Force Ouvriere to membership presents the WFTU with a second major issue. Communist resistance to FO will be led initially by the French CGT which can be expected to resist bitterly any attempt to admit the new organization and to contest Jouhaux's right, as the leader of FO, to a seat in the WFTU Executive Bureau. Communist opposition will be tempered during the discussion, however, by the realization that the withdrawal of French Socialist Labor from the WFTU may encourage defections by other non-Communist labor elements. On this issue, as on the proposal to act on the European recovery program, the Soviet-Communist bloc within the WFTU will probably attempt to postpone final action until its biennial Congress meets in September. However, in view of the increasing tension between the USSR and the West, the possibility of working out a compromise between the WFTU Eastern and Western factions on this problem, as well as the endorsement of the European recovery program, becomes increasingly remote.

- 2 -

TOP SECRET

TOP SECRET

ITALIAN PRE-ELECTION PREPARATIONS

Italian Communists have recently been engaged in organizational activities and maneuvers which may be preparations for a general strike, for an insurrectionary attempt, or for a campaign to improve Communist prospects in the coming national elections. Barring a Communist attempt to seize power by force, the spring elections (which will probably be held in late April) are expected to be an inconclusive contest between the leftist bloc and the centrist Christian Democrats. Because both groups are fairly evenly matched, it is unlikely that either will gain a real majority in the Assembly, and it is probable that each will obtain 30-40% of the Assembly seats. The moderate Left (the Republicans and Saragat Socialists) will presumably make a poor showing. The rightist parties, however, may receive as much as 20-25% of the vote and thus hold the balance of power following the elections.

Under these circumstances, the Right would probably support a centrist government, but such an alliance would have as its only basis the common struggle against Communism. The innate differences between the Center and Right would lead to constant friction within the coalition. Progressive and clerical elements in the Christian Democratic Party would be under attack from the conservative or anti-clerical elements of the Right. Moreover, the alliance might alienate many moderate leftists who are now cooperating with the Christian Democrats and might cause them to join the Communist-led opposition.

The Left (Communists, Nenni Socialists, Labor Democrats, and the remnants of the Action Party) is making intensive political preparations for the elections. It has assumed the names of the People's Bloc and the "Popular Democratic Front for Liberty, Peace, and Employment." The coalition is sponsoring efforts to obtain for the factory workers and peasants a definite voice in management through the establishment of labor-management councils in industry and a "constituent assembly of the land." Leftist political power is being further consolidated by a new "league of all Communes" which have Communist or Socialist mayors and councilmen.

- 3 -

TOP SECRET

TOP SECRET

The Right, as a countermove, has attempted to unify its scattered parties into a "National Bloc" led by former-Premier Nitti. The rightist pre-election platform will be based upon a policy of protection of the middle class from leftist-sponsored radical measures. The Right has also declared itself in opposition to the Christian Democrats because of the latter's ties with the Vatican.

The Christian Democratic Party, which is in effect a coalition of conservative and progressive elements joined together principally by a common respect for the Church, is not attempting to form a bloc. It is campaigning against Communist political strikes and is strongly supporting US aid for Italy's rehabilitation. The moderate Left may not formally ally itself with the Christian Democrats in the elections but will certainly support these centrist objectives.

- 4 -

TOP SECRET

TOP SECRET

SOVIET POLITICAL MANEUVERS IN GERMANY

Using terrorist and pressure tactics, the Soviet Military Administration in Berlin is proceeding rapidly with the suppression of the Christian Democratic Union (CDU) in Germany's Eastern Zone. All CDU officials who refuse to endorse the Soviet-controlled People's Congress and to repudiate Jakob Kaiser (who, Soviet officials recently declared, is no longer chairman of the zonal CDU) are being summarily replaced.

If the USSR can complete its purge of party leaders before Kaiser, who is now in the US sector of Berlin, can convene a CDU zonal convention, the delegates to the convention will vote him out of office. If this action is taken, the CDU in the Western Zones would possibly repudiate the Eastern Zone group and thus end the present national character of the party. Such a repudiation would be a blow to the possibility of German unity.

The Soviet action may boomerang. Kaiser, himself, has dropped his previous attitude of diplomatic restraint and has openly and bitterly denounced the Soviet Military Administration. He has, furthermore, been supported by many able CDU leaders. Kaiser has been promised control of a newspaper by General Clay who has agreed also to double the paper's circulation. Because Kaiser is widely regarded as the most honest politician in the country, his exposes of Soviet duplicity could be most effective in counteracting Soviet propaganda. Kaiser may emerge as another Schumacher to plague the USSR and its representatives in Germany.

- 5 -

TOP SECRET

TOP SECRET

PRESENT BRITISH RELATIONS WITH ARAB COUNTRIES

Although Arabs have long felt that the dominant position of the UK in the Near East made the British the archenemy, many Arabs are now beginning to feel that the refusal of the UK either to support or to enforce partition in Palestine indicates that the British may prove valuable friends in the fight to prevent the establishment of a Jewish state. Meanwhile, the UK is quietly improving its relations with the Arab nations while outwardly maintaining a pretense of complete impartiality in Palestine.

Several recent developments have indicated improved understanding between the UK and Iraq, Egypt, and Saudi Arabia. An Anglo-Iraqi sterling agreement, providing that Iraq remain within the sterling bloc, was concluded in December. More recently, the Anglo-Iraqi treaty of alliance was renewed and, although no details have yet been published, UK peacetime military air rights in Iraq have almost certainly been retained. Egypt and the UK have recently concluded a mutually satisfactory financial agreement and may soon re-open negotiations on the Anglo-Egyptian treaty. British efforts to improve relations with Saudi Arabia are to be seen in the recent invitation extended to Prince Feisal, the Foreign Minister, to visit London in February and in Anthony Eden's current visit to Ibn Saud in Riyadh.

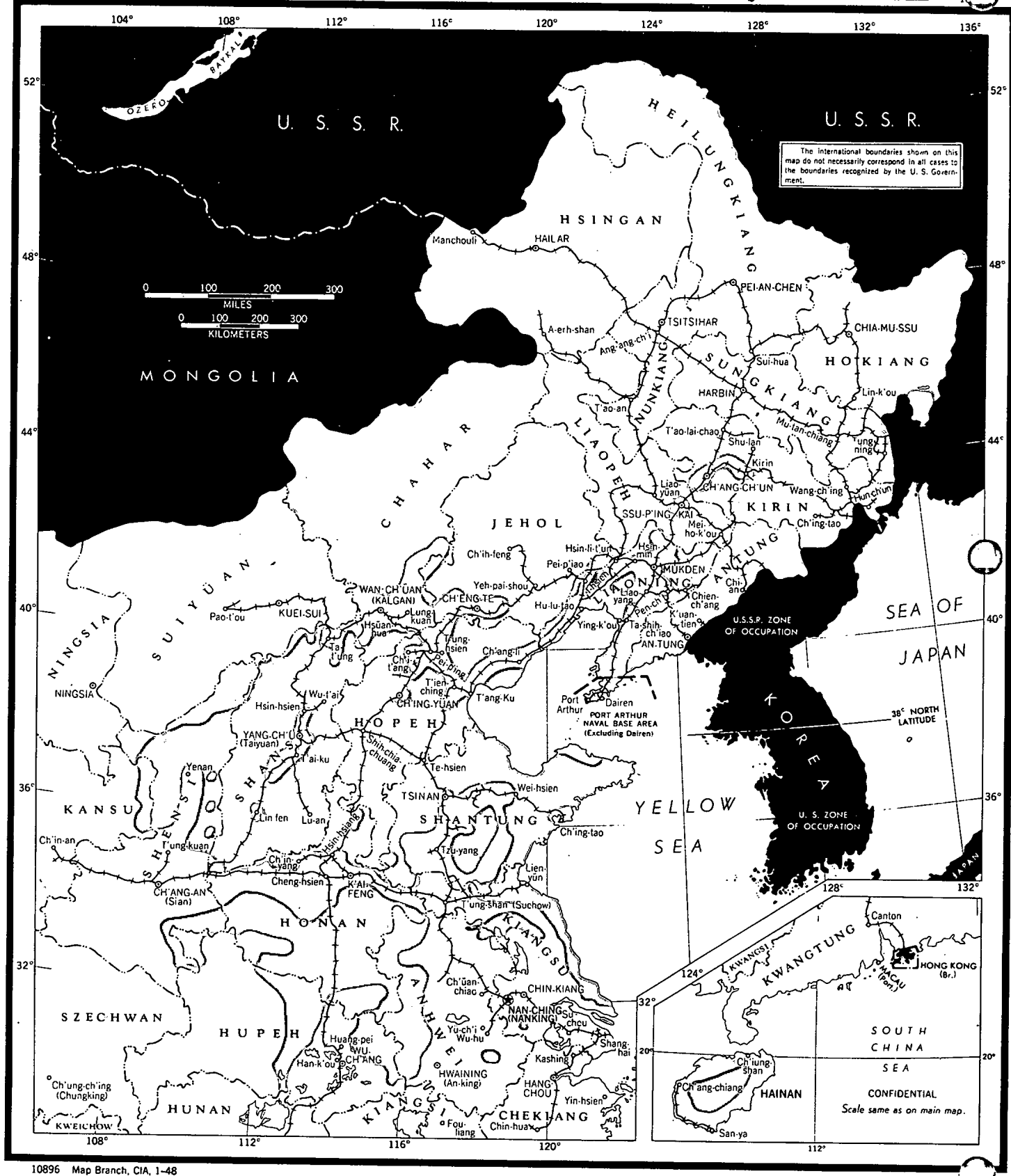
The UK is giving military aid to the Arabs by fulfilling its long-standing arms contracts with Iraq, Transjordan, and Egypt. The British in Palestine appear to be covertly selling arms and ammunition to the Syrian Government (possibly without the sanction of the UK Colonial Office). Several hundred British ex-army officers are reported to have volunteered for military service with the Arabs, and the Foreign Office has indicated that there is no effective means of preventing them from enlisting.

Despite sincere attempts by the UK to keep the peace in Palestine until the termination of the mandate, there is little doubt that the British have already decided that partition is a hopeless solution for the Palestine problem. They are, consequently, attempting to safeguard their vital economic and strategic interests by strengthening their influence with the governments and peoples of the Arab world.

- 6 -

TOP SECRET

CONFIDENTIAL CHINA: COMMUNIST CONTROLLED AREAS 1 JAN. 1948



The international boundaries shown on this map do not necessarily correspond in all cases to the boundaries recognized by the U. S. Government.

CONFIDENTIAL Scale same as on main map.

10896 Map Branch, CIA, 1-48

U. S. G.P.

TOP SECRET

THE MILITARY SITUATION IN CHINA

The current Chinese Communist offensive in Manchuria, seventh in a series which began a little more than a year ago, demonstrates strikingly the extent to which the Nationalist military position has deteriorated during the year. The focus of Manchurian operations has shifted gradually southward, with Communist forces driving deeper into Nationalist territory. Initial Communist offensives in the winter of 1946-47 were on a small scale and confined to the area north of the Manchurian capital, Changchun, but subsequent operations covered broader areas and extended over longer periods of time. The seventh offensive, launched in mid-December of 1947, has brought the civil war for the first time to the outskirts of Mukden, major Nationalist bastion in Manchuria, and has resulted in the interdiction of all rail lines into and within Manchuria. The recent declaration by the Communists of their intention to conquer all Manchuria during 1948 appears to be a realistic estimate of their capabilities.

Broad Communist strategy over the past year has been to contain Nationalist forces within separate geographic areas, to confine the Nationalist units in these areas to the large cities, and then to deny them sufficient supplies of food and fuel. Resultant military and economic attrition is reducing the amount of men and materiel which the Communists need to take these cities. Currently, this process of regional containment and attrition has reached a very advanced stage in Manchuria; it is well advanced in North China and is beginning to develop in Nationalist areas along the Lunghai railroad. If the Communist units in Central China succeed in isolating the Nationalists to the north, a Communist penetration into China south of the Yangtze can be expected to follow a similar pattern.

Current Communist military activity in North China, such as the recent attacks in the Peiping area, and on Kaifeng and Chenghsien, may be considered diversionary efforts designed to keep a maximum number of Nationalist troops occupied and on the move while causing the greatest possible damage to rail and water transport routes. Communist thrusts at the Yangtze River,

- 7 -

TOP SECRET

TOP SECRET

both to the east and west of Hankow, threaten to cut river shipping to the coast from agriculturally rich Szechwan Province and the Hankow industrial area. This activity along the Yangtze may also represent initial Communist efforts to move organizational cadres across the river and into the areas to the south. The Nationalists at this time do not appear to possess adequate materiel or manpower to cope with the increased scope of Communist operations.

- 8 -

TOP SECRET

TOP SECRET

CIVIL DISORDER IN THE PHILIPPINES

The recent refusal by Luis Taruc, leader of the central Luzon agrarian dissidents known as the Hukbalahap, to surrender his peasant "army" and President Roxas' declaration that he will not deal with Taruc or "any other bandit" have heightened the problem of establishing law and order in the Philippines.

Previous to this development, the Philippine Government has not only made an effort to combat widespread lawlessness by regular police measures but has also attempted to solve the specific problem of organized agrarian discontent through political as well as police measures. Thus far, the Philippine Government has achieved little success with either method. The current impasse, which has widened the rift between the Government and the agrarian dissidents, has apparently caused the Government to make its most determined effort to date to secure at least a temporary settlement of one element of the problem by liquidation of the Hukbalahap through police measures.

Such measures are unlikely either to solve the basic problems of agrarian unrest or to bring about the surrender of enough arms to reduce current lawlessness substantially. Nevertheless, the Government's efforts to liquidate the Hukbalahap may determine whether the Philippine disturbances are supported from Manila by US, Soviet, and Chinese Communists for the purposes of maintaining a state of terrorism, or whether a chronic situation and the presence of vulnerable US interests are being exploited by the Philippine Government in an attempt to gain additional US assistance.

- 9 -

TOP SECRET

TOP SECRET

INTERIM FEDERAL GOVERNMENT IN INDONESIA

Preliminary steps in the formation of a United States of Indonesia (USI) have been completed by the Netherlands Indies Government. Following the announcement by the NEI Government of the formation of an "Interim Federal Government," the Dutch authorities on 13 January installed a Provisional Federal Council composed of representatives from seven of the ten non-Republican administrations which have been established in Dutch-held territories. Four of these represented areas which the Dutch, prior to the "police action" on 20 July 1947, had recognized as under de facto Republican authority.

The Good Offices Committee, aware that the formation of separate states in former Republican territory would prejudice the Republic's position in its negotiations with the Dutch, had declared that these states should be formed only after both sides had withdrawn their forces and the civil administration which existed prior to 20 July 1947 had been restored. The Dutch refused to accept these views, and the GOC then recommended that plebiscites be held under GOC supervision after the signing of a Dutch-Republican political agreement. These plebiscites would determine whether these areas wished to join the Republic or to form another state in an eventual United States of Indonesia. The Dutch have acceded to these suggestions under strong US pressure which led the Dutch to fear that future US financial aid for the reconstruction of the Indies might be withheld. Concurrently, however, the Dutch are proceeding with the establishment of the interim government on the grounds that such a government has been requested by representatives of the non-Republican areas and that it would advance reconstruction, the restoration of order, and the revival of trade.

Because the Indonesians are inexperienced in electoral processes and will therefore tend to vote for the regime currently in power, Dutch establishment of an interim federal government in non-Republican Indonesia will insure a plebiscite decision favoring separation from the Republic and adherence

- 10 -

TOP SECRET

TOP SECRET

to the USI. Such an outcome will establish by legal means the limitation of the Republic's area of control which has been brought about by the Dutch "police action." The Republic is now faced with the alternatives of joining the USI as one of eleven states or of remaining apart but drastically reduced in size. The Republic will maintain that its recognized de facto authority over areas of Sumatra, Java, and Madura has been infringed and will resist the perpetuation of the new regimes under their pro-Dutch leadership. This development will tend to convert the basic Dutch-Republican dispute into one between pro-Dutch Indonesians and those favoring the Republic as the vehicle for Indonesian nationalism. Consequently, the Dutch will be better able to argue to the UN that the Indonesian question is purely internal in nature and that Security Council intervention would be improper. The exclusion of the UN on these grounds would give the Dutch more freedom to promote the formation of the USI under non-Republican Indonesians and thereby to retain influence in the Indies.

- 11 -

TOP SECRET

30

~~TOP SECRET~~

80

CONTENTS

	Pages
TRENDS IN BRIEF	i - iv
ARTICLES	1 - 11
UK Dependence upon the European recovery program	1
British Policy toward the USSR	2
Effects of Economic Deterioration in Spain ...	3
The Financial Crisis in Trieste	4
Establishment of the Rumanian Republic	5
The Arab Legion's Role in Palestine	7
Danger of War Between India and Pakistan ...	9
Problems Facing Independent Burma	10
Critical Phase of NEI Negotiations	11

RP

*1483
2
Jan*

Document No. 001
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 Auth: DDA Memo, 4 Apr 77
 Date: 31/01/78 By: 021
 Date: DDA REG. 77/1763

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

GENERAL

Application for membership in the WFTU by Force Ouvriere (FO), the newly-formed offshoot of the French CGT, will add another controversial issue to those already tending to split the WFTU. Although final action may be taken only by the WFTU Congress which meets in Brussels in October, its Executive Bureau can admit new members provisionally, and FO is expected to win admission with the support of the members representing the CIO, the British, Dutch, Chinese, and French labor movements in the WFTU. Leon Jouhaux, sponsor of FO, still casts France's vote in the WFTU Executive Bureau.

Although Force Ouvriere has been strengthened recently by the adherence of 200,000 members of autonomous unions, basic political differences have already begun to cause friction between the more radical newcomers and the Jouhaux-led group of former CGT non-Communist leaders. The new adherents advocate for FO a stronger leftist position, decreased control of the economy by the state, and more direct trade union participation in management.

WESTERN EUROPE

Present economic planning of the UK Government indicates that the UK is relying on substantial benefits from the European recovery program. The only alternative to such benefits will be further retrenchments, which will have grave consequences to UK domestic stability and foreign policy (see page 1).

UK foreign policy will probably undergo no substantial change in the near future, but the UK will stiffen its attitude toward the USSR and cooperate more fully and openly with the US (see page 2).

Accelerated economic deterioration in Spain is confronting Franco with some difficult political decisions and may cause him to reshuffle his Cabinet (see page 3).

- 1 -

TOP SECRET

TOP SECRET

EASTERN EUROPE

US-UK ability to curb Yugoslav infiltration of Trieste will be crippled unless the impending financial crisis in the US-UK Zone of the Free Territory of Trieste is resolved by 15 January (see page 4).

The forced abdication of King Michael and the establishment of the Rumanian Popular Republic culminate a two-year drive for power by the Communist Party and foreshadow further action by the Party to consolidate its position fully (see page 5).

Soviet economic pressure on Austria has recently been heavy and sustained. The USSR is presumably preparing the ground for bilateral negotiations with the Austrian Government, in the event that quadripartite agreement on the Austrian treaty is not reached. It is possible that the Austrian Government, in its anxiety to obtain a definitive settlement, may prove susceptible to such an approach.

Evidence in the Moscow press of growing Soviet interest in China may foreshadow a more active Soviet role in Chinese affairs. The USSR, however, is not likely at this to establish a closer relationship with the Chinese Communists. It has given renewed indications that it is not ready to abandon its "correct" attitude toward the Nanking Government in favor of open aid to the Communists in China's civil war. Increased Soviet activity could, however, be directed toward obtaining concessions from the Chinese, including Chinese cooperation with the USSR on Japanese peace treaty issues, or the extension of Soviet influence in China's border regions.

The Soviet press and radio have reacted violently to a recent series of Voice of America broadcasts comparing the real wages of US and Soviet laborers. This is the first occasion on which Soviet propagandists have specifically refuted Voice of America assertions, and the vigor of the reaction reveals that US propaganda has found a sensitive target. The extent of Kremlin concern is indicated by the fact that Soviet leaders, in deciding

TOP SECRET

TOP SECRET

upon such a counter-offensive, have assumed the calculated risk of widely publicizing Voice of America broadcasts.

NEAR EAST-AFRICA

The Transjordan Arab Legion will be the strongest military force available to the Arabs in Palestine even if it loses its UK subsidy and its British officers following the ending of the British mandate. The possibility that King Abdullah of Transjordan may seize the Legion for his own use is causing some concern among the members of the Arab League (see page 7).

The danger of war between India and Pakistan has arisen once again over the Kashmir issue. India threatens to invade Pakistan unless its demands are met and unless the Security Council acts promptly to rectify the situation (see page 9).

Revision of the 1930 Anglo-Iraqi Treaty of Alliance is entering the final stage of negotiations, with only the wording of clauses permitting the British peacetime use of the RAF bases at Shaiba and Habbaniya still at issue. Prime Minister Saleh Jabr, who left for London 6 January with a large Iraqi delegation, is reconciled to granting British demands concerning the bases but wishes to avoid any phrasing which exposes him to charges of subservience to the UK. If the treaty is signed, the Government-dominated Iraqi parliament will probably ratify it, although a large number of Iraqis, particularly the students, oppose it as not granting Iraq a sufficient measure of effective independence.

FAR EAST

The recent achievement of independence by Burma presents the provisional Burmese Government with the problems of establishing a strong central government and of meeting the economic difficulties involved in reconstructing wartime devastation (see page 10).

The UN Good Offices Committee is faced with possible failure in its attempt to obtain peaceful settlement of the Dutch-Republican dispute (see page 11).

TOP SECRET

The French offensive in northern Indochina has ended without achieving any of its major objectives. The border between Indochina and China has not been closed, and the French do not appear to have captured large stocks of Vietnam ammunition or to have successfully engaged Vietnam forces. Meanwhile, Vietnam counteraction against French communications in southern Indochina are continuing and have compelled the diversion of considerable French forces from the north to Cochin China. French forces plan to begin operations in the lowlands west and south of Saigon about 20 January, but they probably will not succeed in eliminating the Vietnam guerrillas. X

Recent reports from Siam of a counter-coup to be led by ex-Premier Thamrong against the Abhaiwong regime, which seized power on 9 November 1947, are part of a "war of nerves" engaged in by Thamrong and certain associated groups of the Free Thai movement to discredit the provisional Abhaiwong government and to weaken its international status. If Thamrong can thereby forestall foreign recognition of Abhaiwong, he will be enabled to continue such harrasing tactics in the hope that some break will eventually occur in the provisional government. If Abhaiwong's government receives international recognition, however, Thamrong and his group will be placed in the position of rebelling against a duly-constituted government, and the possibility of their eventual return to power will be greatly decreased.

Thamrong

- iv -

TOP SECRET

TOP SECRET

**UK DEPENDENCE UPON THE EUROPEAN
RECOVERY PROGRAM**

Without dollar aid under the European recovery program, the expendable gold reserves of the UK will probably be exhausted before the end of 1948, and perhaps as early as next summer, even if the Cripps production and export plan is fulfilled. The UK is entering 1948 with gold and dollar reserves of some \$2 billion. Additions from all available sources during 1948 (excluding the European recovery program) may reach some \$1 billion. Of this total reserve of \$3 billion, something over \$1 billion must be retained as a minimal working balance for the sterling area.

Although the rate of outflow of these reserves at the end of 1947 was more than \$200 million per month, the monthly dollar deficit is scheduled under the Cripps plan to be scaled down from \$160 million at the beginning of 1948 to \$80 million by year's end. On the basis of these planned rates, which may well be too low, it is clear that during August the total reserves will fall below \$2 billion and by the end of 1948 to some \$1½ billion. This figure is very close to the absolute minimum needed to support the pound sterling and to conduct the trade of the sterling area.

Thus, sometime during the latter half of 1948, in the absence of substantial aid through the European recovery program, the UK will face another dollar crisis. Even if the Cripps export plan is achieved and an overall balance of payments is attained by the end of 1948, there will be a continuing dollar drain of \$80 million monthly, and no expendable reserves will remain to close that gap. The UK Government is therefore apparently relying on the European recovery program to provide direct grants of dollars and to enable other countries to pay dollars for some of their purchases from the UK. The only other alternative available to the UK will be to make further retrenchments in imports, overseas commitments, and domestic living standards. Such retrenchments would be likely to have grave consequences with respect to foreign policy and domestic stability.

- 1 -

TOP SECRET

TOP SECRET

BRITISH POLICY TOWARD THE USSR

Despite recent speculation that UK foreign policy is to undergo a change, the UK can be expected to maintain substantially its present policy, to take a firmer position with the USSR, and to collaborate more fully and openly with the US. In recent months Bevin's policies have found greater support within the Labor Party, largely as a result of British reaction to Soviet intransigence and expansionism. Notwithstanding the reluctance of the UK to undertake an adventurous policy at this time, especially in view of its economic straits, recent Soviet tactics have apparently convinced Laborites, even the more radical members, that Soviet friendship and cooperation are unattainable at present. Growing awareness of UK economic dependence on the European recovery program has moderated leftist criticism of the US, except by an isolated group of fellow-travelers.

Consequently, the Government has been able to assure the retention of UK troops in Greece and is no longer under serious public pressure to reduce further the strength of the services. Bevin was enabled to provide strong support for the US in the recent CFM meeting, and on 3 January Attlee delivered a strongly anti-Soviet speech. Concerning the sale of military equipment to the USSR, the UK recently decided to halt the shipment even of non-secret items; likewise, the UK is no longer permitting Soviet military specialists to visit strategic industrial plants. (A similar policy is being worked out for the Satellites.) These developments foreshadow an increasingly firm attitude toward the USSR and greater cooperation with the US.

- 2 -

TOP SECRET

TOP SECRET

EFFECTS OF ECONOMIC DETERIORATION IN SPAIN

Accelerated economic deterioration in Spain is confronting Franco with some difficult political decisions and may cause him to reshuffle his Cabinet. Franco has hitherto given strong support to the efforts of his Minister of Industry and Commerce, Juan Antonio Suances, to check economic disintegration by tightening government controls over all forms of national production. Suances' actions have been unpopular and increasingly criticized, even in the hitherto docile Cortes which recently hissed him when, at Franco's direction, he attempted to defend the Government's economic policy.

Franco consequently is faced with a dilemma. If he continues to support Suances' policies, the industrialists might check-mate him by stopping production. (By making use of the clandestine anti-Franco labor movement and exploiting Basque and Catalan separatist sentiment, the industrialists could bring Spanish production to a standstill in a short time.) On the other hand, if Franco sacrifices Suances and loosens economic controls, he will be obliged to revise extensively the national syndicalist state on which he has built his power. Franco is also presumably aware that, as domestic distress increases, the Army and the Falange (by whose consent he has governed so far) will determine their support of his regime on the basis of self-interest rather than loyalty. Some of the generals might even try to seize the initiative and seek to forestall a complete collapse by obtaining a foreign loan upon the condition that Franco would be removed.

In the past, Franco has skillfully met somewhat similar situations. He may be able to retain his initiative now. The national economic problem, however, is currently as serious as at any time during his regime. Exports have fallen to 50% of normal. Even the UK is holding off its usual orders because of Spanish prices. Food supplies in Spain are short. The amount and quality of wheat received from Argentina have been disappointing and the credit extended by Argentina for purchase of meat and wheat is apparently being used up more rapidly than anticipated. Moreover, the lack of foreign exchange, curtailing imports of gasoline, has intensified the food problem by limiting truck transport.

- 3 -

TOP SECRET

TOP SECRET

THE FINANCIAL CRISIS IN TRIESTE

US-UK ability to maintain order in Trieste will be crippled and UN control of the Free Territory of Trieste (FTT) will be seriously endangered unless the impending financial crisis in the US-UK Zone can be averted. Present funds for the operation of the Allied Military Government will be exhausted by 15 January. Current negotiations between AMG and the Italian Government for an advance by Italy to meet the 15 January deficit may prove fruitless, despite the peace treaty provisions which specify that, until a separate currency has been established for Trieste, the currency for FTT is to be the Italian lira and Italy is to supply FTT its currency and foreign exchange needs.

Failure of the negotiations would deprive AMG of funds with which to maintain the local police force, continue the public works program, or maintain even the present low standard of living. Moreover, the UN could probably not supply the necessary funds in time to forestall Yugoslav exploitation of the weakened US-UK position. Thus the deterrent effect of US-UK troops on Communist intentions toward Italy would be largely nullified.

Italy's reluctance to supply the currency needs of the US-UK Zone is motivated primarily by fear of unbalancing its own precarious financial position. The Italian Government is therefore attempting to exploit the desperate need of the AMG in order to obtain economic controls over Trieste as a means of protecting its economic commitments there. The Italians also hope to force the US and UK, rather than the Government of the FTT, to guarantee repayment of Italy's currency advances. The Italians maintain that granting AMG such large amounts of lira (three billion for the first quarter of 1948) has an inflationary tendency within Italy if spent for Italian products, and is a drain on limited Italian foreign exchange resources if spent for imports from hard currency countries. Moreover, Italy fears that if the AMG request for lira is granted, such action will establish a precedent for similar requests by Yugoslavia for use in its Zone.

TOP SECRET

ESTABLISHMENT OF THE RUMANIAN REPUBLIC

The forced abdication of King Michael and the establishment of the Rumanian Popular Republic culminate a two-year drive for power by the Communist Party. To the predominantly anti-Communist population, Michael represented an even more powerful symbol of hope than Peasant Party leader Maniu, whom the Communists recently imprisoned. The long-expected elimination of the King demonstrates that the Communists now consider themselves sufficiently strong to compel public acquiescence to any measure, however unpopular. The Communists can consequently be expected to take such further political and economic measures as they believe necessary to consolidate their position fully.

The Communists have already passed a law calling for the election of a Constituent Assembly. The new constitution will probably be modeled on the Bulgarian Constitution, which ostensibly vests the power in the people but in practice permits a Communist dictatorship. Elections will probably be postponed, however, until the Socialist and Communist Parties have been merged into a Communist-dominated United Workers' Party. This merger will give Rumania's Communists control of the only remaining party of any significance and will permit them to discard the fiction of a National Front Government. Premier Groza and his Ploughman's Front Party, therefore, can be expected to meet the same fate as that already suffered by Maniu's National Peasant Party, Bratianu's Liberal Party and Tatarescu's Dissident National Liberals. Rumania then will have joined the USSR and Yugoslavia as a one-party state.

The Communists will also move rapidly to complete their control of the nation's economy. The new constitution will probably provide for nationalization of the country's resources and means of production. Foreign-owned business, such as the extensive British and US oil interests, will probably be expropriated and the last vestiges of private capital will be eliminated. Peasant resistance to collectivization, however, will force the Communists to proceed more slowly in communizing the country's agriculture.

With political and economic control assured, the Commu-

- 5 -

TOP SECRET

TOP SECRET

nists will intensify their efforts to strengthen the Rumanian Army, from which most of the "unreliable" members have already been purged. The Army will be maintained at full peace treaty strength and will be equipped and trained by the USSR.

- 6 -

TOP SECRET

TOP SECRET

THE ARAB LEGION'S ROLE IN PALESTINE

Continued use by the UK of large contingents of the Trans-jordan Arab Legion to help maintain order in Palestine has intensified speculation among Jews and Arabs concerning the role of the Legion following the dropping of the British mandate in April or May of 1948. Although its strength is estimated to be no more than 10,000, the Legion is nevertheless the strongest and most efficient single military force available to the Arabs in Palestine. The armored cars, artillery, and antitank guns of its mechanized brigade give it superior firepower and mobility. Moreover, it has been trained, officered, and subsidized by the British and is currently led by an able British Brigadier, Glubb Pasha.

The Zionists fear that the Arab Legion will take advantage of its presence in Palestine to seize the country for the Arabs. Hagana has already initiated armed attack on Legion detachments, and Jewish Agency officials have put strong pressure on the British Palestinian Government to withdraw the Legion to Trans-jordan. The Arabs, however, have mixed feelings about the Legion. ~~The semi-independent attitude toward the Arab League~~ ~~of King Abdullah of Transjordan~~ has induced widespread fear that the Legion will become the tool of Abdullah in seizing all or part of Palestine for Transjordan (with or without a secret deal with the Jews). Recently, however, Palestinian Arabs have tended to favor use of the Legion for the seizure of Palestine following the British withdrawal, and leading members of the Arab Higher Executive now appear confident that they could curb any attempts by Abdullah to act alone.

The UK will be compelled to make a decision regarding its support of the Legion, which it has spent years in building up. If Abdullah orders the Legion to occupy Palestine (either unilaterally or for the Arab League), the UK will almost certainly feel obliged to withdraw the British Army officers who occupy key positions and, more important, to cancel its annual 2 million pound subsidy. Such action would present Abdullah with an insuperable financial problem over any considerable period of time and might therefore restrain him from acting alone. Accordingly, it is more

- 7 -

TOP SECRET

TOP SECRET

likely that the Arab League would attempt to assume the subsidy. The League would have difficulty in maintaining the Arab Legion's present strength over a period of years (the present UK subsidy runs to about half the Iraq Army budget), but over a shorter time the Legion would provide the League with a fighting force of major importance. Further, some of the British officers now serving with the Legion might possibly be induced to resign from the British Army in order to remain with the Legion.

- 8 -

TOP SECRET

TOP SECRET

DANGER OF WAR BETWEEN INDIA AND PAKISTAN

Relations between India and Pakistan have again become seriously strained, and there is a distinct possibility of a devastating war between the two dominions in the near future. The source of the current trouble is Kashmir, a Princely State, with a predominantly Moslem population whose Hindu ruler acceded to India in October. Immediately following Kashmir's accession, the Indian Government dispatched troops to the State to maintain order and to halt invasions of Moslem tribesmen who were entering Kashmir through Pakistan. Because of the fear that Indian troops may be annihilated by the increasing number of tribesmen entering Kashmir, the GOI has demanded that Pakistan refrain from giving material aid to the tribesmen and take immediate steps to prevent them from entering Kashmir. Concurrently, the Indian Government has referred the matter to the Security Council.

The immediate danger in the situation between the two dominions arises from India's fear that a serious military reversal in Kashmir would be disastrous to the Indian Government's prestige. The GOI therefore threatens to invade Pakistan unless the latter meets its demands and unless the Security Council takes speedy action to rectify the situation. Moreover, the Sikhs, possibly seeing in the present situation an opportunity to regain Sikh lands allotted to Pakistan, may take advantage of this opportunity to invade Pakistan. Large numbers of Sikhs are now reportedly concentrated near the Indo-Pakistan border.

War between India and Pakistan, which might also involve Afghanistan, would result in the complete prostration of one or both dominions. Although such a development would constitute an invitation to the USSR to expand southwestward, the USSR is at present so extended elsewhere that the Soviet Union would probably not assume responsibilities in Afghanistan or India at this time. The possibility that war may be averted rests on the action taken by India in referring the matter to the Security Council and on the sensitivity of the GOI to world opinion and its consequent reluctance to take provocative action which might brand it as an aggressor nation.

TOP SECRET

TOP SECRET

PROBLEMS FACING INDEPENDENT BURMA

The peaceful achievement of independence by Burma on 4 January 1948 places upon Burma, for the first time in over 100 years, the responsibility for the solution of the pressing problems of statehood. The most important of these problems is the establishment of a strong central government and an effective administration. Because the present provisional Government of Burma is the most capable and honest government in Burmese history, its continuation in power will be an important factor in enabling Burma to achieve economic and political stability.

The development of a central government generally acceptable to the Burmese people depends upon the maintenance of internal cohesion within the Anti-Fascist League (AFL), the dominant political organization in Burma and the party which led the struggle for independence. Since the assassination of Aung San in July, which deprived the AFL of strong leadership, the AFL has experienced considerable internal friction. The disintegration of the AFL would bring on a period of political chaos in Burma and struggles for power among numerous small factions, ~~among~~ which the Burmese Communists might emerge as the strongest group. *from*

Burma now faces a grave economic problem in reconstructing the extensive devastation resulting from World War II. Steady progress so far in achieving economic stability now enables Burma to meet current financial obligations from receipts derived largely from the export of rice. The fundamental economic policy of the present government of Burma is avowedly leftist and calls for the socialization of land and industry. Despite considerable advocacy of drastic measures by some elements, it appears at present that the process of socialization will be carried out gradually, legally, and with full compensation for expropriated property.

~~TOP SECRET~~

CRITICAL PHASE IN NEI NEGOTIATIONS

After two months of discussions with Dutch and Republican representatives, the Good Offices Committee (GOC) of the UN Security Council is faced with possible failure in its attempts to obtain a peaceful settlement of the Dutch-Republican dispute. The Dutch have compared the present crisis to that of 15 July 1947, five days before Dutch forces initiated "police action" against the Republic. In the current critical situation, however, the prestige of the UN and of the US (through its key position on the GOC) is also closely involved. An adverse outcome of this crisis, such as the collapse of the Republic, will seriously jeopardize future UN intervention in disputes elsewhere and will handicap other US efforts to mediate.

The present crisis arises from the Dutch counter-proposals to the GOC's "Christmas Program" --an overall program for the implementation of the Security Council's cease-fire order of 1 November and for the settlement of the basic political dispute. In their counter-proposals, the Dutch rejected the GOC's suggestions for an indefinite armistice and proposed a truce, renewable each fortnight, unless terminated by notification to the GOC that violations were occurring. The Dutch also insisted on including a larger area of Republican territory in the demilitarized zone proposed by the GOC, and they refused to suspend political discussions aimed at forming states within disputed territory. These Dutch counter-proposals were presented as a final offer and with a warning that, if they were rejected by the Republic, the Netherlands would "reserve liberty of action." Dutch troops are concentrating at forward positions in possible preparation for a drive to capture the Republican capital of Djocjakarta.

The US delegation to the GOC regards the Dutch counter-proposals as being so generalized as to offer the Republic no hope of recovering the status envisaged in the Linggadjati Agreement, or even any assurance of continued existence. For these reasons, the Republic is unlikely to implement the truce, and its failure to do so might readily invite Dutch attack. Although Republican rejection of the Dutch counter-proposals would invite Dutch military action, acceptance would seriously weaken the

~~TOP SECRET~~

~~TOP SECRET~~

position of moderates in the Republican Cabinet and encourage extremists to resort to violence. The US delegation is convinced that failure to achieve modification of the Dutch terms would lead to the collapse of the Republic and consequent impairment of UN and US prestige. In order to prevent such a development, the US delegation has prepared new proposals which: (1) offer the Republic an opportunity to prove its popular support and its capacity to exercise responsibilities of government; and (2) grant the Dutch time to prepare for the end of their sovereignty in the NEI. X

- 12 -

~~TOP SECRET~~