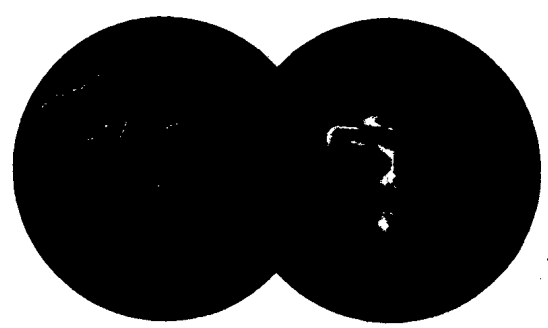


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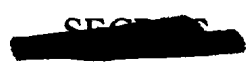
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H I G H L I G H T S

No developments of the first magnitude or significant new trends came to light during the past week. Decisive developments, particularly concerning the Berlin situation, were in the making but had not yet taken form.

In western Europe, the Berlin crisis was accelerating preparations among the Brussels Pact countries for a unified defense system (see page 4). An electric power shortage in the Soviet sector of Berlin has occurred as a consequence of the western powers' embargo on Ruhr coal shipments in retaliation to the Soviet land and water blockade on Berlin (see page 3). The new French Cabinet's chances of survival until the October elections will depend upon its ability to deal with the same serious economic and political problems which led to the fall of the Schuman Government. The disposition of the Italian colonies, upon which the US, the UK, France, and the USSR disagree, will probably be referred to the UN General Assembly in September (see page 7).

In Poland, industrial sabotage is growing concurrently with corruption, bribery, and embezzlement in the state-owned trading organizations. The Communist regime is unable to remove the cause of these acts by improving economic conditions and is turning to increased repression (see page 8). A political crisis is expected to develop in Greece soon after the end of the National Army's current Grammos operation, whether the campaign ends in victory or defeat (see page 9).

Fighting between Arabs and Jews in Palestine has almost completely stopped. To all external appearances, the situation is more conducive to a settlement than at any time since the UK mandate was abandoned on 15 May. On the other hand, there are indications that neither the

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Provisional Government of Israel nor several of the Arab states may be in a position to follow the dictates of reason and moderation. Chief among the basic considerations which may lead to new difficulties are the pressures of Jewish extremist groups and the acute Arab refugee problem (see page 11).

The outlook for peace in India continues to be uncertain. The monsoon has limited the fighting in Kashmir, and India and Pakistan apparently are accepting in principle the UN Commission's cease-fire order. At the same time, however, there are no strong indications that the Indians expect a peaceful settlement and there is a possibility that India may move its troops into Hyderabad to bring that state under its control before military action is resumed in Kashmir (see pages 12 and 13).

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WESTERN EUROPE

GERMANY

Recent Soviet "offers to feed Berlin" seem designed further to embarrass the western powers in the hope of ultimately forcing them either to quit Berlin or to negotiate on the broad German issues. Feeding all Berlin would offer the USSR several major advantages. It would enable the USSR to gain an economic stranglehold on the entire city, to pose as rescuers to the hungry Germans, to impress the Germans and the world with Soviet power, to claim the western air lift is no longer needed, and to speed Communist penetration of the western sectors of the city. For the immediate future, however, the Soviet offer to feed Berlin will have no major effect beyond propaganda value because it would be several weeks before the system could be put into operation. The arrival of winter and restricted flying weather for the air lift will probably strengthen the hand of the Soviet officials who could further bait the Germans with offers of coal for heating. Thus, the Soviet offer to feed Berlin has the double advantage to the USSR of embarrassing the western powers immediately and of furthering the possibility of eventual Soviet control of the city.

An electric power shortage in the Soviet sector of Berlin has resulted from the cutting off of Ruhr coal shipments by the western powers in retaliation to the Soviet land and water blockade of Berlin. Thus far the USSR has been unable to alleviate the Berlin coal shortage by coal from Poland, and unless sufficient Polish coal is made available, Soviet officials in Berlin may be faced with the necessity of offering to restore electric power to the western sectors in return for normal Ruhr coal shipments. Negotiations for some such arrangement took place between Berlin city officials and the Soviet Zone German Economic Commission, with the apparent consent of the Soviet Military Administration, but are without result as yet. Either the USSR is feeling the economic pinch in Berlin and is, therefore, willing to consider relaxing some of its pressure there, or their negotiations represent an effort to test allied reaction to Soviet overtures.

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GERMANY

Implementation of the western European union defense system is being speeded by the Berlin crisis just as the original signing of the Brussels Pact was expedited by the Czechoslovak coup in March. The development of the Berlin blockade into an international crisis made clear to the western union nations the immediate need for a unified defense system, ready to function at a moment's notice and assured of full US support. Emphasis on military needs will continue to overshadow the economic aspects of the Brussels Pact until some kind of working military arrangements have been made.

Recent Soviet propaganda on Germany indicates a desire to have the western powers initiate negotiations on the entire German problem, on the condition that the strength of Soviet political control in Berlin remains unchanged. TASS dispatches and the Soviet-licensed press in Berlin frequently discuss the possibility of four-power talks on the German problem. Although Soviet editorial comment on Berlin continues to be sparse, especially that for consumption within the Soviet Union, there have recently for the first time been references to the gravity of events in Berlin. The NEW TIMES notes the "incredible clamor that has been raised around the situation in Berlin" and charges that US and British leaders are encouraging "irresponsible politicians and pressmen to shout about the danger of war."

FRANCE

Premier Andre Marie's new French Government faces the same serious political and economic problems that led to the abandonment of the Schuman Government by the Socialists. The differences between the Socialists and the Marie Government are basic, inasmuch as the Socialists stand for controlled economy and the other parties in the coalition favor varying degrees of "free enterprise." Specific issues that will continue to plague the French, regardless of the party or parties in power, are the wage-price balance, the military budget, authorization

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FRANCE

of the Finance Minister to issue decree-laws, the enactment of a law to govern elections for the Council of the Republic, the possible postponement of the cantonal elections scheduled for October, approval of the Baie d'Along agreement for French Indochina, and the relationship between the resistance press and the prewar newspapers which have been cleared of charges of collaboration.

The delay encountered by Premier Marie in forming his Cabinet was caused mainly by Socialist opposition to Reynaud as finance minister. Only at the last minute did the Socialists agree, in the face of serious opposition from left-wing members of the party, to accept six posts in the Marie Cabinet and thereby commit themselves to support the new government. Although Socialist support of Marie's Government may not be wholehearted at times, the new Cabinet has a reasonable chance to survive until the October elections. Despite the opportunities provided by the needless overthrow of the Schuman Government and the difficulty of establishing the Marie Cabinet, De Gaulle apparently still intends to delay his bid for power until after the October elections. Not only is it necessary for De Gaulle to time his bid carefully, but he probably realizes that he would not now have the necessary broad base of support in the National Assembly.

An organization of exiled eastern European labor leaders has been formed secretly in Paris to serve as an international coordinating committee for free-trade unionists in exile. The committee presently is composed of representatives of labor organizations banned in Yugoslavia, Rumania, Poland, and Hungary; it will also include Czechoslovaks and Spanish Socialist trade union representatives. The committee expects to publish an informational bulletin on trade union conditions in Soviet-Satellite areas, maintain contact with US foreign language groups, and counteract Communist labor propaganda. The American Federation of Labor's sponsorship and strong support of this committee reflect AFL impatience with the slow progress of the 15-nation Trade Union Advisory Committee for the European recovery program and AFL determination to organize non-Communist European labor against the USSR.

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SECRET**ICELAND**

Russian fishing fleet activities in Icelandic waters have caused deep concern among high government officials in Iceland. When a Soviet ship docked in Iceland recently extraordinary precautions were taken to screen the few Icelanders allowed on board. Moreover, personnel aboard the 14 vessels of the Soviet fishing fleet operating near Iceland appear to have established excellent liaison with Icelandic Communists. Iceland has attempted for many months to negotiate a trade agreement with the USSR, and the only excuse the Icelandic Communists could offer to justify the presence of the Soviet fleet would be the fallacious claim that Iceland's anti-Communist government is unwilling to sell fish to the USSR.

EIRE

Ireland has abandoned its wartime isolationism, although in the event of war its non-isolationist coalition government would probably hesitate to discard a traditional neutrality policy if opposed by a large and determined sector of public opinion. Minister for External Affairs Macbride's recent official statement that Ireland's sympathies lie clearly with western Europe and that "isolationism is no longer possible" reflects a change in government policy brought on by shifting public opinion. Moreover, the threat to Catholicism implicit in a war between the USSR and the West could well cause an overwhelming popular demand for Irish participation. Deterrents to all-out Irish military and economic cooperation with the western powers still exist, however, in the lack of an immediate threat to Irish security and in partition which, it is claimed, prevents Ireland from taking its rightful place in European and world affairs.

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ITALY

The disposition of the Italian colonies -- upon which the US, the UK, France, and the USSR disagree-- will probably be referred to the UN General Assembly in September, even though the USSR may request further discussions before then as a preliminary to an overall European settlement. Because the Soviet Union's attitude favoring the return of the colonies to Italy was adopted in order to help the Italian Communists in the April elections, the Kremlin may no longer feel it necessary to maintain this stand. Soviet leaders may feel that their objective of denying strategic areas to the US and the UK can now be best served by favoring Libyan independence. They may reason that an independent Libya, even under British influence, would offer the USSR better possibilities for penetration than a trusteeship held by the US, the UK, or Italy. Moreover, by advocating Libyan independence the USSR could derive immediate propaganda benefit by pointing to its support of colonial freedom.

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

SOVIET UNION

Recent rumors of dissension within the Politburo appear exaggerated. Although differences of opinion regarding Soviet strategy undoubtedly exist among the members of the Soviet ruling body, it is unlikely that these men, who owe their present positions to Stalin, would find it possible to engage in serious disputes so long as Stalin remains the arbiter of Soviet policy. Whatever may be their personal differences and animosities, it seems certain that the members of the Politburo continue to work together as a team and confine their rivalry to jockeying for Stalin's favor or to competing for control of the Party machinery in order to hold the best possible position at Stalin's death. Until recently Andrei Zhdanov, chief Soviet ideological spokesman, seemed to have gained the upper hand over Malenkov in a contest for control of the Communist Party apparatus. Latest indications are that Malenkov has regained his powerful post as a secretary of the Central Committee, which transmits the decisions of the Politburo to lower Party organs. Zhdanov may have to bear the responsibility for the inept handling of the Cominform denunciation of Tito. Malenkov's resurgence may be a rebuke to Zhdanov for his handling of the Yugoslav situation and could foreshadow a lessening in his influence and prestige.

POLAND

An upsurge of industrial sabotage simultaneous with corruption, bribery, and embezzlement in the state-owned trading organizations reflects both the basic dissatisfaction of Polish managerial and working classes with their economic conditions and political opposition to the Communist regime. Because the regime finds itself unable to improve economic conditions or to modify its totalitarian power, it is obliged

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POLAND

to resort increasingly to repression. Consequently, there have been recent widespread arrests and other manifestations of a developing purge. Those arrested include many well-known and respected Polish commercial leaders. Although some of these arrests were political in motivation, most of them are attributable to the fact that salaries are so small and purchasing power so meager that executives are driven to dishonest practices in order to eke out an existence. Strikes are forbidden; workers therefore can express their discontent with low wages only by acts of sabotage.

CZECHOSLOVAKIA

Anti-Communist activities of Ukrainian guerrilla groups in Slovakia apparently continue to spread. Government concern is indicated by a recent decree which establishes virtual martial law in the 19 eastern districts of Slovakia. The area affected by the order is greater than that in which the Ukrainian guerrillas were known to be active in 1946-47--a probable indication of a new, heavy infiltration of Ukrainian malcontents.

GREECE

Prime Minister Sophoulis' submission of his resignation to King Paul was the result of intra-party differences rather than of Sophoulis' disillusionment over the record of the US-supported Liberal-Populist coalition government. Undoubtedly, Sophoulis was confident that the King would not accept his resignation and made the gesture as an object lesson to his own party deputies. The immediate cause of the move was the threat of nine Macedonian Liberals in Parliament to withdraw their support from the government unless the recently-abolished government wheat subsidy were restored. Sophoulis was thus expressing annoyance over this particular rebellion

SECRET**GREECE**

within his own party. Also, he was probably attempting to discipline the more serious opposition led by Venizelos, deputy head of the party.

Although these events do not constitute a government crisis, it is evident that parliamentary discontent with the government is growing and that a real crisis will probably occur soon after the present Grammos military operation has ended, regardless of whether that operation succeeds or fails. If the campaign is a success, opposition members will feel that the threat to the country has been dissipated and that they are therefore free to attack the government; if it is a failure, they will feel justified in censuring the government for mishandling the campaign. Meanwhile, public attention is focused on strictly military aspects of the battle in the Grammos area, where in the sixth week of operations the army is slowly compressing the guerrilla pocket with air and artillery attacks.

Greek press agitation for an increase in National Army strength and for more air force bombers has recently become insistent. This agitation, which is deliberate rather than spontaneous and political rather than military, recalls similar pressure last winter for increasing the size of the army and for providing it with mountain artillery. The materiel requested could not be used in the present phase of the guerrilla war; this suggests that Greek political leaders wish to build up the armed forces to a strength commensurate with the armies of other Balkan countries. Further, they probably feel that US reaction to their requests will reveal US long-range policy and the future role contemplated for Greece in the Mediterranean and the Balkans. Although Greek leaders may feel that they are justified in looking beyond the present guerrilla war, the immediate effect of this campaign for more materiel may be to discourage Greek soldiers by convincing them that they are at present fighting with inadequate equipment. It may also convince the uninformed public that the US has failed to support an embattled ally.

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NEAR EAST - AFRICA

PALESTINE

Fighting between Arabs and Jews has almost completely stopped with the arrival in Palestine of the first contingents of the UN teams to observe the truce. To all outward appearances, the situation is now more conducive to a settlement of the Palestine issue than at any time since the UK mandate was abandoned on 15 May 1948. The Jews are in a strong position militarily and politically, but because the success of their cause is based largely on UN support, they might presumably be expected under UN pressure to make certain concessions to the Arabs in order to consolidate what they have already gained. The Arabs, on the other hand, are in a very weak position. In accepting the truce extension, they admitted they were unable to defy the UN, and some of their leaders intimated that the Arab states would acquiesce in a solution of the Palestine issue imposed by the UN. It might be expected, therefore, that both Israel and the Arab states would be prepared tacitly to accept the status quo, which can be preserved if the cease-fire is rigidly enforced. In such an event, the Jews would consolidate their new state, and the Arab governments would concentrate on strengthening their authority over those extremist groups that wish to carry on a suicidal war.

There are, however, indications already that neither the Provisional Government of Israel nor several of the Arab governments may be in a position to follow the dictates of reason and moderation. Confident in the strength of its military and international position and egged on by the Irgun Zvai Leumi and the Stern Gang, Israel, by declaring Jerusalem an Israeli protectorate, has gone counter to the UN plan to demilitarize the city. Israel also has taken over the Haifa refinery against the objections of the UK and France as well as of the Arabs. The Arab governments have so far been able to control popular demonstrations against the truce. However, such provocative actions by Israel, in addition to several flagrant truce violations and the acute Arab refugee problem, will make it increasingly difficult for such states as Iraq, Syria, and Lebanon to maintain a moderate course.

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PALESTINE

Arab League solidarity is threatened by the Palestine issue--the tie which, until now, has bound the members of the League together. A rift has developed between Transjordan, which advocates peace and moderation in Palestine, and those states (notably Iraq, Syria, and Lebanon) which continue to maintain an uncompromising attitude toward the Palestine problem. Even before the League signified its official acceptance of the Security Council's cease-fire order, Transjordan (like Egypt) forwarded to the UN Mediator a separate acceptance. Transjordan has also indicated that it is prepared to reach a compromise with Israel on a realistic basis. The Iraqi Government, on the other hand, has asserted that it did not approve and will not support the League's decision to accept the cease-fire. Israel is in a position, by making concessions to the more moderate Arab states such as Transjordan and Egypt, to exploit this rift and possibly even to bring about the complete collapse of the League. However, it appears that Israel is too conscious of its strong military and international position to compromise with the Arabs.

INDIA

Although the UN Kashmir Commission's cease-fire proposal is apparently acceptable in principle to India and Pakistan, both dominions are unrealistic in the conditions which they have laid down as prerequisite to formal acceptance of the proposal. Pakistan has offered to withdraw its nationals from the fighting fronts if India also will withdraw its troops. India, in turn, demands the removal of Pakistan troops and insists that Indian units be allowed to continue occupation of the territory they now hold plus certain additional strategic points. The Commission expects to achieve a cease-fire, but India's recent successful negotiation for the loan of 10,000 Nepalese troops does not suggest Indian anticipation of a peaceful settlement.

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INDIA

Serious deterioration in the Hyderabad situation is indicated by recent events. Nehru, the Indian Prime Minister, has reiterated publicly that unless Hyderabad accedes to India, it may be necessary to initiate military operations against the state. Moreover, the Government of India has reacted sharply to a clash between Indian and Hyderabad forces in a strip of the state across which Indian troops have free passage as provided by agreement with Hyderabad. In view of the lull in the Kashmir operations (made necessary by the monsoon), it is possible that Indian forces will be ordered into Hyderabad with the expectation of bringing the state under Indian control before military action is resumed in Kashmir. Meanwhile, the Nizam of Hyderabad has indicated that he will refer the dispute to the UN. Pakistan, Hyderabad's most likely supporter, may not be willing to prejudice a favorable decision from the UN Kashmir Commission by sponsoring a new case at this time. However, another sympathetic Moslem country might take up the issue.

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F A R E A S T

Chinese influence on South Korean politics may continue to be substantial despite China's generally weakened international position. Chiang Kai-shek's influence with the present political leaders in South Korea stems from his long association with them through the exiled Korean Provisional Government in Chungking and from the present influential role of China's representative on the UN Temporary Commission on Korea.

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CHINA

Violent public and official Chinese reaction can be expected to the proposed increase in Sino-Japanese trade despite the benefits to China of such an increase. Under the terms of the proposed trade pact, China would provide Japan with coking coal and iron ore in exchange for finished products and fabricating materials needed by China for its economic rehabilitation. In addition to contributing to the immediate economic rehabilitation of Japan, increased Sino-Japanese trade would be beneficial to the Far East. China also would profit in the long run by receipt of products to be used in rehabilitation projects and in building up its industrial plant. However, the immediate effect of the trade, which would be to expand Japanese heavy industry, will probably add to the already active Chinese resentment against the US. This resentment has been aroused by the China aid program which many Chinese feel continues the civil war and the present unpopular government in power.

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CHINA

The insolvency of the Chinese Nationalist Government will become officially established with the arrival in Washington in the near future of its financial statement to the Export-Import Bank. Not only is China's foreign exchange exhausted, but there are stacks of bills which cannot be paid. The Chinese Nationalist Government, like any public bankrupt, will probably seek relief by offering to creditors settlement at less than the full value due.

JAPAN

SCAP's no-strike order for Japanese Government employees, issued in the face of inflationary and trade union pressures, affects particularly the government-operated transportation and communications industries where trade union leadership appears to be shifting toward the Communists. Most labor leaders can be expected to object to the no-strike order as a threat to newly-won freedoms established by allied occupation authority. Moreover, certain members of the Far Eastern Commission can be expected to charge SCAP with exceeding the authority which they consider has been delegated by FEC directive.

MALAYA

Malaya's rubber and tin production may be curtailed in the near future as a result of the continuing civil disturbances there. Despite stringent precautionary measures by the British, officials fear that the violence may soon spread to Singapore and further disrupt the Malayan economy. The undiminished seriousness of internal conditions is indicated by the transfer to Malaya of troops from Hong Kong, the outlawing of the Communist Party, the registration required of all Malaysians, and the promise of the British Labor Government to take all measures necessary to restore law and order.

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PHILIPPINES

The reluctance of Philippine dissidents to turn in their arms to the Philippine Government may necessitate an extension of the 31 July deadline and raises some doubts as to the success of the Philippine Government's amnesty declaration. The hesitancy of the rank-and-file Hukbalahap members to give up their arms and accept amnesty is probably attributable to Government inaction on measures to correct agrarian abuses and to fear of retaliation by private land-owner armies and the constabulary. Unless the Government finds some means of allaying these fears and dispelling Hukbalahap general distrust, the amnesty declaration may fail in its objective of furthering law and order in the Philippines.

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WESTERN HEMISPHERE

The Dominican Republic's air supremacy over its neighbors is now practically assured, and relationships in the Caribbean and Central American area may as a result be stabilized for a time. At present, Cuba's air superiority over the Dominican Republic is very slight, and the arrival of aircraft on order from the US and the UK will give the Dominicans absolute air superiority over Cuba and the other Caribbean and Central American republics. The superior air power of the other dictator governments resulting from their balance-of-power alignments with the Dominican Republic will probably be used primarily as a means of protection against military expeditions organized outside their territories and directed against them.

Peru's announced intention of appointing an ambassador to Spain reflects the effective use Spain has made both of cultural and linguistic ties with Latin America and of support from ultranationalist and conservative elements in obtaining resumption of normal diplomatic relations with Western Hemisphere countries. Eight Latin American countries -- Argentina, Bolivia, the Dominican Republic, El Salvador, Honduras, Nicaragua, and Paraguay -- have now arranged such representation. Even groups usually opposed to Franco's anti-democratic domestic policies now maintain that Franco constitutes an anti-Communist bulwark for the Western Hemisphere.

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