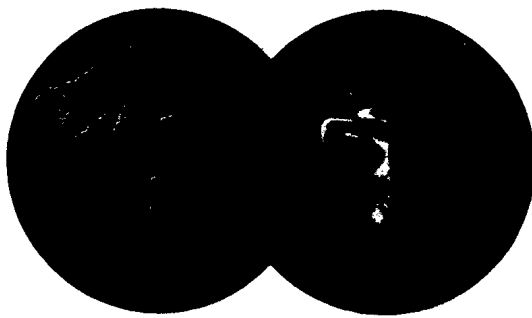


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WEEKLY SUMMARY



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SECRET**H I G H L I G H T S**

Germany held a pre-eminent position in this week's developments, as the nations of the world awaited the outcome of the Moscow talks. A far-reaching political and economic reorganization is under way in the Soviet Zone that might lead to the establishment of an east-German Satellite state. In any event, the implementation of this extensive reform program would present severe difficulties to any future economic integration of the eastern zone with that of the western zones (see page 3). In the western zones, the Berlin crisis appears to be unifying non-Communist political parties in a feeling they have a common responsibility to strengthen western Germany and thus ultimately to help the eastern zone. Concurrently, however, a growing money shortage, resulting from the recent monetary reform and a developing desire to reduce occupation controls have led to increased western German agitation to reduce occupation costs.

In France, the life of the Marie Government is in the balance while the Assembly debates Reynaud's economic program (see page 4). Italy continues reluctant to align itself wholly with the western powers (see page 5).

At the Danube Conference, the USSR is employing bullying tactics which make clear the Soviet aim to utilize this conference to establish the legalistic right of the Soviet bloc to control Danube shipping (see page 9). Within the Soviet Union, responsibility for internal security is gradually being shifted to the Ministry of State Security (MGB) and away from the Ministry of Internal Affairs (MVD); in particular, the MGB will apparently assume intelligence functions, while the MVD will be charged with purely administrative controls over the Soviet population and the use of the forced labor pool (see page 7). Elsewhere in Eastern Europe, the Greek Army made important gains against stubborn guerrilla resistance.

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In Palestine, Zionist intransigence is greatly complicating the existing difficulties in evolving a solution to the Arab-Jewish issues (see page 10).

The strike ban for Japanese Government workers may seriously weaken popular and party support for the Ashida Cabinet (see page 13). In Mukden, increased agitation for a Manchurian regional government offers further evidence of the disintegration in Nationalist China (see page 14).

In Latin America, Argentina's reported expansionist designs have alarmed its neighbors, especially Brazil; concurrently, Soviet influence in Argentina has been increased by recent commercial agreements between Argentina and certain of the Satellites (see page 15).

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WESTERN EUROPE

GERMANY

A far-reaching political and economic reorganization now is under way in the Soviet Zone. The German Popular Front, the original Soviet-sponsored political organization, is being abandoned in favor of a group of political parties completely loyal to Communism and backed by reliable Communist police. Leaders of the Christian Democrats and Liberal Democrats, both members of the Popular Front, are being liquidated or eliminated. Members of these two parties are being herded into the National Democratic Party and the Farmers' Party, both headed by Moscow-trained German Communists. The Socialist Unity Party (SED), upon which the USSR will rely to control an eastern German Satellite state, is being reduced to a compact organization responsive to Cominform direction. The economy of the eastern zone, with its arrangements for Soviet control and exploitation, now resembles that of the Satellites. The former German Central Administration concerned with economic affairs is being subordinated to the SED-dominated German Economic Commission. Industrial combines, which are responsible to zonal authorities instead of to officials of various states in the zone, will direct nearly all industrial activities. The dominance of state-owned or controlled enterprises will spell the eventual elimination of effective competition from privately-owned business and will simplify central control of the economy. Control in the agrarian field will be effected through the politically-sponsored peasant cooperative movement, which operates to the disadvantage of the independent farmer. When these extensive reforms are completed, integration of the eastern zone economy with that of the western zones can be accomplished only with extreme difficulty.

Increased western German agitation to reduce occupation costs is based upon a growing money shortage resulting from the recent monetary reform. Western German politicians, who

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GERMANY

complain of an "intolerable burden" in occupation costs of 5 billion Reichsmarks, maintain that solving economic problems resulting from the currency reform is more important than accepting the London Agreements for a western German government. While some of the agitation may be discounted as being directed toward the German population for political purposes and toward the occupation authorities for bargaining purposes, the rising criticism is also being fed by a strong German desire to reduce occupation controls.

FRANCE

The life of the Marie Government will be in balance when the French Assembly deliberates on Reynaud's economic program. Reynaud's request for sweeping economic powers for an 18 month period meets with the approval of Marie, although both the Socialists and the MRP fear that Reynaud will probably not favor labor at the expense of other sectors of the economy. If the economic powers requested by Reynaud are not granted, he has said he would resign, which would probably precipitate another government crisis. If Reynaud is given the economic powers he feels are necessary, the main danger to survival of the Marie Government would be the possibility of renewed Socialist intransigence, which may arise as a part of preparations for the elections in the fall. The greatest factor favoring the Marie Government is the general realization that the fall of another coalition government would greatly strengthen the position of De Gaulle.

Assembly debate on the Franco-Vietnamese Agreement will probably be delayed until after the August recess in order to avoid an early and risky test of government support. The Socialists have recently demanded that broad concessions be made to the Vietnamese and, in order to avoid any Socialist interference at this time, Premier Marie might present the agreement to President Auriol for "ratification" soon after

SECRET**FRANCE**

the Assembly recesses. High Commissioner Bollaert, who negotiated the agreement and who has insisted that the Assembly approve the projected inclusion of Cochin China in the unified Vietnam state, might reluctantly accept the presidential "ratification" until Assembly action can be obtained. Although a presidential "ratification" could give temporary prestige to the provisional Central Vietnam Government in Indochina, effective implementation of the terms of the agreement can be achieved only after Assembly approval.

ITALY

Italy's reluctance to align itself with the western powers is not surprising in view of the fact that in the recent national elections only about half the vote actively endorsed the pro-US stand of the De Gasperi Government. The Italian people feel that they are helplessly caught in the machinations of two competing powers jockeying for position, either one of which would sacrifice Italy's interests to gain a strategic advantage over the other. Most Italians consider Italy is culturally a western nation; however, many of them think neutrality is preferable to an alliance with what they are convinced can be only "token" western forces opposed by the concrete might of the USSR. Now that Italy is assured of benefits from the European recovery program, many Italians believe that Italy should take pains to establish advantageous economic and political relations with the USSR. Also, the European recovery program has generated opposition in the extreme right because of dissatisfaction with East-West trade controls. Although Republicans and democratic Socialists have staunchly defended the European recovery program, they have shied away from economic strings or military commitments.

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SECRET**UNITED KINGDOM**

As a result of the Bevin crisis, British demobilization may be halted and Britain's entire military position is presently being re-examined. Although the UK intends to stand firm in its negotiations with the USSR, implicit in Foreign Secretary Bevin's recent statement concerning re-examination of Britain's military position is an acknowledged state of unpreparedness which could scarcely be remedied in time to meet an early crisis. The Government's preoccupation with UK economic problems has led to the reduction of military forces below the levels considered adequate for strategic requirements by military leaders. An appreciable increase in British troop strength, however, and diversion of industrial capacity to the production of military equipment would involve a drastic revision of the British economic program. For this reason, the government would undertake to remedy present military deficiencies only with the utmost reluctance.

SCANDINAVIA

Communist strength in Scandinavian labor unions, especially in Norway and Denmark, has declined as a result of the anti-Communist campaign conducted by Social Democratic government leaders. In Sweden, however, Social Democratic victories in recent union elections have been won by only scant majorities, with small percentages of union membership participating. Anti-Communist successes in Sweden appear to have been caused chiefly by a resurgence of Russophobia attributable to recent events in Eastern Europe, but the sluggish non-Communist vote still reflects the Swedish labor movement's generally lethargic attitude toward the Communist menace.

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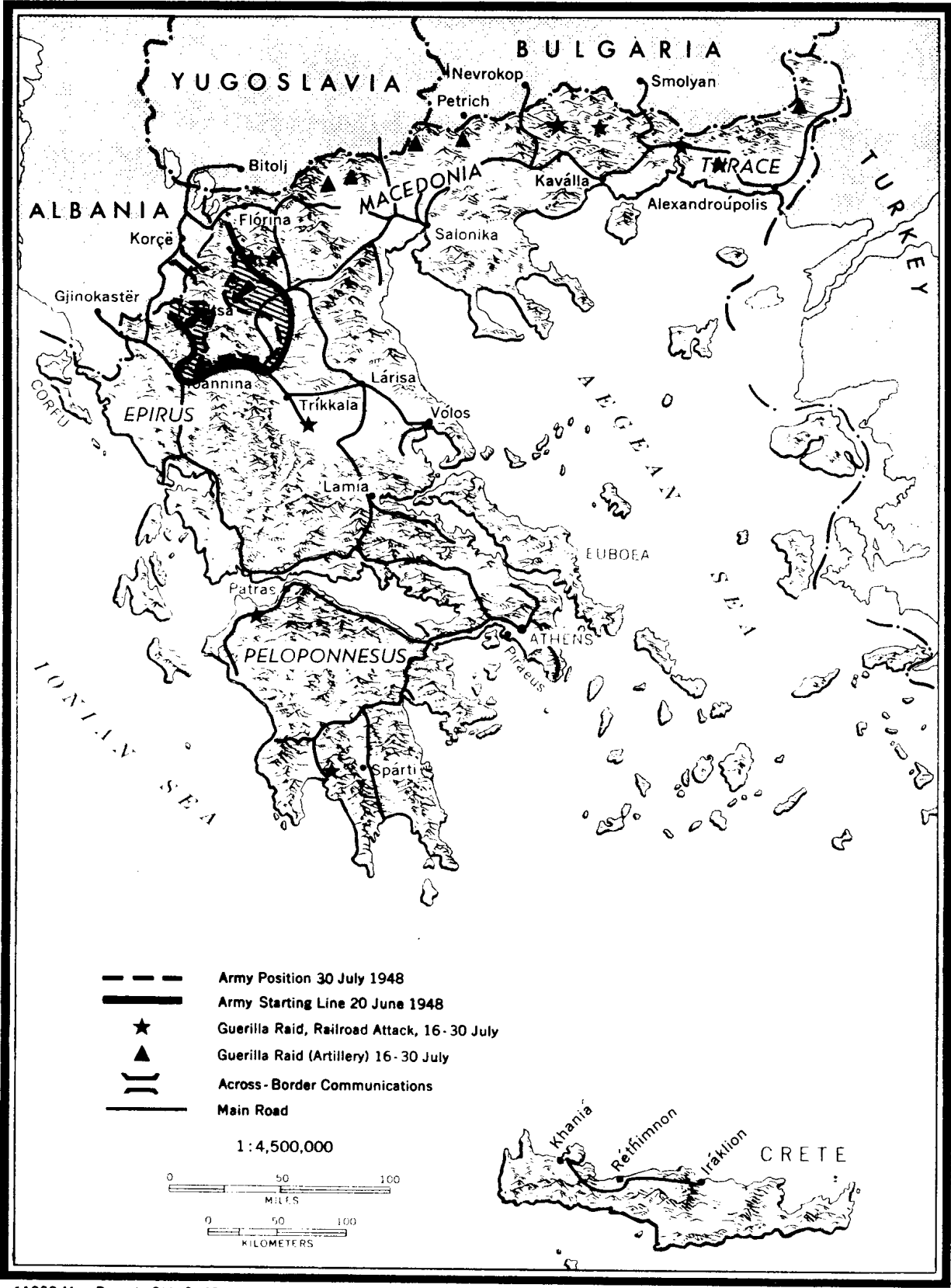
SECRET**E A S T E R N E U R O P E****SOVIET UNION**

Responsibility for the internal security of the USSR is being shifted gradually to the Ministry of State Security (MGB), and away from the Ministry of Internal Affairs (MVD) which will be charged with purely administrative controls over the Soviet population and the use of the great pool of forced labor in the USSR. Since 1943, the MGB and the MVD have operated as nominally separate organizations, although quite often their operations overlapped, and they frequently cooperated on the same assignment. Apparently, purely intelligence functions will be transferred to the MGB while the MVD will retain within its jurisdiction the militia or police, the fire-fighting forces, state archives, and the recording of vital statistics, as well as administration and direction of large industrial and construction projects using forced labor.

Soviet propaganda on Berlin and Yugoslavia remains at its previous volume, while other areas are receiving slightly increased attention. Propaganda for the Near East and the Far East has been stepped up slightly and for the first time in many weeks Sweden has been given unfavorable mention. The lack of a new theme in the Berlin and Yugoslav propaganda may be explained by an absence of diplomatic developments which could be used for propaganda. In the Near East and the Far East, the USSR is simply taking advantage of economic and political disturbances that offer excellent fields for exploitation. In mildly criticizing Sweden by contrasting Swedish-Soviet trade with the "growing" trade between the USSR and other Scandinavian countries, the USSR may be hoping to speed delivery on Sweden's commercial and industrial commitments and, at the same time, to discourage any Swedish drift toward the western camp.

GREEK ARMY GRAMMOS OFFENSIVE — 30 JULY 1948

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SECRET**SOVIET UNION**

The future course of Soviet-Yugoslav relations may be clarified during the forthcoming Security Council discussion of Yugoslavia's charge that the US and the UK are seeking to incorporate Trieste into Italy by means of economic agreements that violate the Italian Peace Treaty. In pursuing its recently-announced "independent foreign policy," Yugoslavia may be trying to force the USSR to take a stand regarding the Trieste issue. The Kremlin may attempt to avoid a showdown with Yugoslavia on this issue by using the Yugoslav complaint for a propaganda attack against the US and the UK. However, the discussion in the Security Council will reveal the Soviet attitude toward Tito, at least in part, because the Kremlin must support Tito, attack him, or ignore him.

GREECE

The Greek Army in the seventh week of the Grammos offensive made important gains against stubborn guerrilla resistance. The most notable achievement of the week was the recapture of a key height northwest of Konitsa which had been one of the army's initial objectives. The possession of this height has enabled the army to complete a pincer movement halving the guerrilla pocket. Encircling forces have moved forward slowly, however, and most of the guerrillas will be able to escape from the trap and take up new defensive positions in the remaining section of the pocket, adjacent to the Albanian border. Guerrillas within this sector will probably continue desperate resistance until forced to withdraw into Albania. (In this connection, the treatment accorded the retreating guerrillas by Albania will furnish UN observers the first concrete indication of Albania's present role in the Greek war.) Within Greece, strong guerrilla detachments will continue to attack the army lines of communication. The assignment of the Greek Deputy Chief of Staff to command all forces in the Grammos battle may, however, furnish the

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extra impetus needed for successful completion of the army's operations. Also, the over-all efficiency of the army may be increased if the reorganization recommended by US military advisers is put into effect. This reorganization would place in the field 160,000 men, as against the 132,000 presently operating. The additional combat strength would be drawn from the National Defense Corps (static village defense forces) which, because of ineffectiveness, would be abolished.

BALKANS

Soviet tactics at the Danube Conference make it obvious that their primary objective is to establish a legal basis for Soviet control of the Danube while simultaneously demonstrating to the world the "impotence" of western powers in eastern European affairs. The USSR at last has found itself in an international conference which it can dominate and is making the most of its opportunities. The chief of the Soviet delegation, Vyshinsky, has gone out of his way to try to place the western delegations in an undignified light. Having succeeded in excluding English from official use, he introduced a Soviet draft convention that would bar the western powers from any participation in Danube control and would even repudiate the financial obligations of the prewar Danube Commission. The USSR, by shutting off debate, can prevent discussion of US or other western proposals and can obtain speedy adoption of its draft. In such event, the western powers may be forced to withdraw from the conference and, after declaring the new convention illegal, consider the establishment of a new regime to control the upper Danube. Meantime, the UK has proposed to submit the issue of the status of the prewar Danube Convention to the International Court of Justice. The only chance for a Danube agreement, which in some measure satisfies the western powers, appears to be the outside possibility of dragging out the conference until the Danube issue can be considered as a part of an over-all agreement on European problems.

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SECRET**NEAR EAST - AFRICA****PALESTINE**

The difficulty of evolving a satisfactory solution for the Palestine problem is being greatly increased by Zionist intransigence. The Arabs, formerly unwilling to consider a negotiated settlement, have now been forced into a position where they are ready to compromise. The Provisional Government of Israel (PGI), however, appears determined to take advantage of its strong military and propaganda position to extend its claims and is in no frame of mind to accept a compromise solution at this time. Believing that the Israeli Army is capable of driving the Arabs out of Palestine, that the UN Mediator is incapable of preventing truce violations, and that both the US and the USSR are committed to pro-Zionist policies, Israeli leaders are steadily expanding and vehemently justifying their claims in the UN and to the world at large. The PGI asserts that Arab aggression has invalidated the UN partition recommendation and states that Israel will demand more territory than was allocated the Jews by the General Assembly. Similarly, the PGI claims that the Mediator's proposal to give Jerusalem to the Arabs invalidates the UN plan to internationalize the city; therefore, the PGI now reserves the right to incorporate Jerusalem into Israel. Having once renounced the UN partition recommendation, there is little to prevent Israel from claiming all of Palestine and evicting those Arab forces still in the country. A further indication that Israeli leaders are feeling increasingly less dependent on the UN is found in their attitude toward the 300,000 Arab refugees from Palestine. Despite the plea of the Mediator that the refugees be allowed to return to their homes, the PGI has adopted a policy that probably will exclude them permanently from Israel. In the light of these developments, it appears that the PGI is no longer firmly committed to the UN partition plan and is, instead, veering strongly toward the expansionist policies of the Jewish extremists, who demand all of Palestine for Israel.

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SOUTH AFRICA

Recent changes in the South African defense establishment indicate that the Nationalist government's policy will probably minimize military cooperation with the UK and limit the effectiveness of the South African Army. Afrikaners is to replace English as the working language of the army, the exchange of service personnel with the UK is being obstructed, and officers of British background are being discriminated against. Although Prime Minister Malan (in contrast to his party's former isolationist stand) has declared that South African troops would be available, with some reservations, in any struggle against Communism, the fighting value of the defense establishment will be seriously curtailed by present and contemplated changes.

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SECRET**CHINA**

Despite mounting Chinese criticism of the US aid program, the National Government continues to insist that additional aid is necessary. Many articulate Chinese feel that continued US aid, as presently constituted, will only serve to continue the war. Merchants and businessmen, except those affiliated with government-controlled agencies, resent the US aid program because they feel it will be handled to benefit the "four families" who exercise near-monopoly control over Chinese economic activities. Chinese laboring people, who are in desperate economic straits as a result of the runaway inflation, grasp for any explanation of their present plight. In the north, Nationalist leaders charge that the government is discriminating against their area because it has already been written off as lost.

Increased agitation in Mukden for a Manchurian regional government provides further evidence of the disintegration in Nationalist China. This discontent could develop during the next few weeks into a movement to establish an "emancipated regional government." Prospects for a forceful overthrow of the present city administration are strengthened by the fact that the Nationalist troops defending the city could not quell serious street fighting without risking Communist seizure of the city.

SECRET**WESTERN HEMISPHERE****ARGENTINA**

Soviet influence in Argentina has been increased by the recent commercial agreements between Argentina and certain of the Satellite states. Although these negotiations are relatively unimportant from an economic point of view, the USSR has profited by Argentine disappointment concerning prospects of ECA purchases, and the Communists have used the period of the negotiations to increase organizing and proselytizing activities. Closer contact between Soviet Satellite representatives and Argentine policy makers will provide the USSR with other opportunities to intensify its propaganda concerning US economic imperialism directed against Argentina, and to encourage Argentine efforts to dominate a South American bloc (consisting of Bolivia, Chile, Paraguay, and Uruguay) which the USSR believes would be fatal to hemisphere solidarity, whether or not Argentina succeeds.

Reports concerning Argentine expansionist designs are proving alarming to neighboring countries, especially Brazil. Many of these reports probably arise from developments in the traditional rivalry between Argentina and Brazil and from Brazilian concern that the recent visits to the US of the Argentine Minister of War and Chief of Naval Operations may presage extensive procurement of equipment from the US. The Peron administration, however, is in such a tight spot financially and economically, that it might conceivably, in desperation, undertake some overt action against its neighbors in the hope of unifying Argentine public opinion. Although Argentina's efforts to consolidate its influence are expected to consist mainly of economic penetration and of covert support to pro-Peron elements, the following expansionist steps also have been predicted: (1) attempts to

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ARGENTINA

interfere with the inauguration in Paraguay on 15 August of President-elect Gonzalez and to replace him with an Argentine sympathizer; and (2) intimidation of Brazil, timed to take advantage of Brazil's "weakness" in relation to its neighbors and of US preoccupation with the USSR,

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A P P E N D I X

PROSPECTS FOR A NEGOTIATED PEACE IN CHINA

The prospects for an early negotiated peace between the Chinese National Government under its present leadership and the Chinese Communists appear remote. However, early cessation of hostilities in some of the presently active military theaters, as a result of regional arrangements between opposing commanders, is not improbable. War-weariness and defeatism are widespread throughout Nationalist China, and no Nationalist leader can afford to ignore them, even though they have not yet crystallized sufficiently to operate as a strong force politically. Compromise between the National Government and the Communists appears virtually impossible as long as Chiang remains in office, because both Chiang and the Communists are opposed to negotiating with the other. Chiang's position, however, is steadily deteriorating, as is that of his Government which could collapse or be overthrown at any time.

The ultimate fall of the Generalissimo apparently is inevitable, but the prospects are remote that any single leader will succeed him with comparable power. In order to promote and secure peace, any successor to Chiang would have to possess the leadership and military support necessary to hold the central government together; at the present time, no such leader has appeared. In addition, Chiang's successor will have to be willing to negotiate on Communist terms. Assuming that there is no effective successor to Chiang and that there is further deterioration in the National Government's position, the Government will probably be split into regional factions, each being forced to capitulate separately to the Communists before any peace negotiations can be undertaken. Because they hold the military initiative and are certain of final victory, the Communists would probably insist on terms that would ensure their ultimate control of China, even though a negotiated peace would offer very real advantages to them.

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