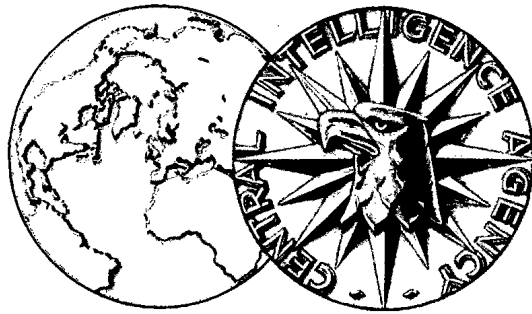


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# WEEKLY SUMMARY



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

The Berlin dispute remained in the center of the world's attention during the past week as the UN Security Council's "little six" (Argentina, Belgium, Canada, China, Colombia, and Syria) strove for a compromise formula which would lift the blockade and turn the whole German question over to the Council of Foreign Ministers. By countering with the proposal that East-West negotiations be resumed on the basis of the 30 August "agreement," the USSR has once again made it clear that its price for ending the Berlin blockade is higher than a western agreement to "re-open" the German question (see page 2). Meanwhile, the blockade has drastically curtailed industry in western Berlin and has confronted the western powers with the possible necessity of placing additional thousands of Berliners on the dole (see pages 2 and 3).

General De Gaulle's return to power in France now appears inevitable. Barring a grave domestic or international crisis which could precipitate his return at any time, it is likely that De Gaulle will be legally installed some time this winter, following the anticipated dissolution of the National Assembly and the call for new national elections (see page 5). Although De Gaulle's strident nationalism will complicate French international relations, his intransigence will be mitigated by his awareness of France's dependence on the US. De Gaulle's will to resist Soviet aggression, his desire for a strong western European union, and his determination to build a strong France will further US security objectives in Europe.

Chinese Communist forces are continuing to sweep through North China virtually unchecked and seven more Nationalist cities appear doomed to fall (see page 11 and map). The stubborn Dutch refusal to agree to the basic provisions of the US plan for the resumption of Dutch-Indonesian negotiations has prolonged the stalemate; meanwhile, the Netherlands Government has been making plans for setting up an Indonesian government composed of non-Republican representatives (see page 12).

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**SECRET****THE BERLIN DISPUTE**

The Berlin question continued to plague the Security Council during the past week, with the so-called neutral members (Argentina, Belgium, Canada, China, Colombia, and Syria) attempting to devise a compromise formula which would provide for a simultaneous lifting of the blockade and reference of the entire German problem to the Council of Foreign Ministers. This attempt by the SC "neutrals" has thus far had little success. The Soviet proposal for resumption of direct negotiations on the basis of the 30 August agreement would merely return the discussions to their status prior to UN consideration of the matter. This Soviet proposal also emphasizes the likelihood that the USSR, in return for lifting the blockade, will continue to demand a more substantial concession than western agreement to "re-open" the German problem. The minimum Soviet demands will probably be either temporary suspension of plans for a western German government or western agreement to the Kremlin terms for the use of Soviet currency in all sectors of Berlin. Meanwhile, the USSR may reason that, following SC action on the Berlin question, discussion in the Assembly will be prolonged. Such a delay would enable the USSR to: (1) observe the effect of winter upon the western airlift and upon the resistance of the Berlin people to Communism; (2) weigh the effects of its attacks on the European recovery program; and (3) confuse further the Berlin issue by additional "conciliatory" proposals designed primarily for tactical or propaganda value.

Soviet delaying tactics on the Berlin question may also be prompted by the bleak industrial outlook for western Berlin, which is not likely to improve until the blockade is lifted and normal transportation restored. The food processing industry has been closed by military government order to conserve coal and power, and the major industries (chemicals, textiles, machines and machine tools) continue to operate at about 50% of the pre-blockade level. The continued depletion of fuel and raw material

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blocks will soon necessitate a drastic reorganization of industrial production in the western Berlin sectors, in order to restrict production to supplies available by airlift. Moreover, disposal of this reduced industrial output could only be effected by airlifting the products to western German zones or by distributing them to the Soviet sector of Berlin. A drastic reorganization of industrial production in the western sectors will force the western powers to place thousands of Germans on the public dole or "WPA" cleanup projects and will further impair the presently weakened economic and currency position of the western sector economy. The industries in the western sectors are already so heavily handicapped that, even with the blockade lifted, several months would be required to restore them to pre-blockade strength. Meanwhile, in an attempt to hasten the collapse of the western sector economy, Soviet occupation authorities are preparing for a price war with the western sectors. By successfully undercutting the prices prevailing in the western sectors, the USSR could further reduce the already seriously short supply of currency available in the western sectors.

Soviet propaganda concentrated primarily upon the Berlin blockade during the past week. In sharp contrast to a previous dearth of information to the Soviet people, the Soviet press has published the texts of several Soviet notes and statements on the Berlin problem. All were carefully selected to support the Soviet line that: (1) the western powers are responsible for the breakdown of the Berlin negotiations in Moscow; (2) the Security Council is not competent to discuss the Berlin question; and (3) a blockade of Berlin does not exist. Apparently the Kremlin is concerned lest the western airlift's success in feeding, clothing, and fueling western Berlin have an adverse effect on the Soviet people. Recent press and radio commentaries for domestic consumption

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have stated that the airlift has failed, that the western sectors of Berlin are being supported by 900 tons of food sent from the Soviet zone daily, and that the failure of the airlift has forced the western powers to request the Soviet Government to reopen negotiations on the Berlin question.

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## SECRET

## WESTERN EUROPE

## FRANCE

De Gaulle's return to power now appears inevitable. Although he may become the successor to the Queuille Government, De Gaulle is more likely to succeed a transitional Cabinet headed by a Gaullist sympathizer. Neither the present moderate coalition government nor rebellious labor is likely to win a clearcut decision in the deteriorating strike situation, and inflation will soon have progressed to the point where the propertied class of France (the peasantry and lower middle-class) will become rebellious against the increased taxation. The stage will then be set for serious social disintegration as two roughly equal groups, labor and small capital, face each other in uncompromising defiance. The late October election for the Council of the Republic will certainly give De Gaulle a working majority of followers and sympathizers. Following the seating of the Council, this majority will be in position to add its pressure to the demands of other groups that the National Assembly dissolve itself and call for new national elections. These elections could return De Gaulle to power. This lengthy process could be hastened by a grave domestic or international crisis which would force the French President either to ask De Gaulle to form a Cabinet or to arrange for an "interim" Cabinet sympathetic to De Gaulle.

De Gaulle's program for the future of France is designed to re-form and re-integrate French institutions by: (1) granting sweeping powers to the executive; (2) suppressing Communist violence, strikes, or "disobedience"; (3) reducing the power of organized labor by the substitution of worker-employer "associations"; (4) saving the economy by a "forceful approach" designed to restore confidence; and (5) increasing the size and morale of the French Army in order to permit France to restore its colonial empire and take a leading



**SECRET****FRANCE**

position in the western European union. This program will probably subordinate the improvement of the national standard of living to the strengthening of French economic and military reserves. Large sectors of the middle and working classes in France fear this prospect and also fear that De Gaulle may be tempted to short-cut parliamentary processes in order to achieve this ambitious program. However, compromises with various political leaders to assure their support will probably restrict opportunities for De Gaulle to abuse his power. Moreover, De Gaulle's ability to arouse French patriotism will probably enable him to retain sufficient popular support for his program to end present French instability without resorting to outright dictatorship.

The Communist-inspired strikes in France are designed primarily as an additional and timely weapon with which to further the Kremlin's primary goal of defeating the European recovery program. Consequently, the fate which befalls the French Communist Party as a result of the strikes is a secondary consideration to the USSR. The current Communist attack in France reflects the Soviet belief that such action, if taken before western aid restores French political and economic stability, would seriously dislocate the French economy and dissipate the beneficial effects of the European recovery program throughout western Europe. However, in choosing France as the first major battleground in its fight against European rehabilitation, the Kremlin has run the risk of precipitating De Gaulle's return to power and of possible outlawing of the Communist Party. Regardless of the outcome of the strike offensive in France, the Communists can be expected to resort to similar direct tactics in other ECA countries.

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**SECRET****UNITED KINGDOM**

A revival of treaty negotiations in the Middle East may be indicated by current conversations between British and Arab officials. The Iraqi government has approached Foreign Secretary Bevin with specific suggestions for British cooperation in the defense of Iraq, thus improving the prospects for a new treaty comparable to that which Iraq repudiated last January. The Syrian delegate is expected to be sympathetic to a British suggestion that defense against the USSR be organized. Moreover, there are indications that Iran may be equally sympathetic to such a suggestion. Saudi Arabia has lately shown a new interest in military cooperation with the British, despite the announced Saudi intention of granting valuable Persian Gulf oil rights to a US company instead of a British company. Arab initiative in these Middle East conversations may reflect increasing Arab realization of a need for a powerful friend. The Arabs may feel that the apparent pro-Israeli policy of the US and USSR makes the UK the most acceptable candidate.

British Government spokesmen are taking the hopeful line that the present moderate rearmament program will not unduly strain the recovery program. However, it seems clear that any diversion of men, material, and machinery to rearmament will inevitably postpone restoration of a sound economy and that rearmament may also lead to additional austerity measures. Present Government optimism on the costs of rearmament is poorly preparing the British public for such measures.

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

**The continuing East-West struggle for control of international labor forces is accelerating the alignment of labor in opposite camps. During the past week, exiled labor leaders of eastern Europe formed a central committee in Paris to represent their banned organizations. The new committee, strongly supported by the AFL and by the French Force Ouvriere, is attempting to organize European workers against Communism and in support of the European recovery program. Simultaneously, in Mexico, the drive to organize the world's oil workers against the US was advanced by the decisions of the Communist-dominated Petroleum Workers Conference to form a World Federation of Petroleum Workers and a new federation of Latin American petroleum workers. The conference had previously voted to deny Latin American oil to the US and UK in the event of war. These decisions parallel Soviet efforts to organize European and Far Eastern labor against the US and the West.**

**FINLAND**

**The USSR continues to harass the Finnish Government with official protests and with unfounded charges in the Soviet press and radio. Since August, the Kremlin has complained a number of times to Finland's Social Democratic Government because of alleged violations of the Finnish peace treaty, and the Soviet press has accused Finnish Prime Minister Fagerholm of carrying on secret negotiations with the US minister. Although these protests are designed to create Finnish apprehension over the ability of the Social Democratic Cabinet to handle Finnish relations with the USSR, Fagerholm received a strong vote of confidence in the Diet when his policy vis-a-vis the USSR was questioned recently.**

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

**CHINA**  
**COMMUNIST-CONTROLLED AREAS**  
**12 OCTOBER 1948**

- COMMUNIST CONCENTRATION
- COMMUNIST-CONTROLLED AREA
- COMMUNIST DRIVE
- COMMUNIST MOVEMENT
- NATIONALIST CONCENTRATION
- NATIONALIST MOVEMENT

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 SCALE 1:16,000,000

0 100 200 300 400  
 MILES

0 100 200 300 400  
 KILOMETERS

**SECRET****CZECHOSLOVAKIA**

Despite repeated rumors of a Czechoslovak underground plan for a coup d'etat against the Communist Government on 28 October, the national independence day for Czechoslovakia, such a coup is unlikely. The army and police are under close surveillance by the Communists, and no coup could be successful without active participation by large blocks of both army and police units. In addition, any anti-Communist coup would encounter strong Soviet counteraction before a new government could consolidate its position. If the USSR wishes to occupy Czechoslovakia, however, the Communists may actually attempt to provoke local disorders between now and 28 October as a pretext for requesting armed Soviet assistance to eradicate the underground.

**YUGOSLAVIA**

The establishment of a "dissident" Yugoslav government in Prague might be the next move by the Kremlin to harass Tito and prepare for his eventual displacement. For the time being, this "shadow" government need not be recognized by the USSR or the Satellites, but it could be used in the future as a device for severing diplomatic relations with Tito's Government. A dissident government in Prague could also serve as a rallying point for all anti-Tito elements in the Balkan area and assure control of Yugoslavia by Soviet-dominated Communists in event of Tito's downfall.

**GREECE**

The Greek refugee problem resulting from the guerrillas' campaign of terrorism is having grave economic repercussions in Greece. The Greek Army's summer operations have not improved security conditions and the number of refugees has grown from 600,000 to 700,000 (approximately one out of every ten

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**SECRET****GREECE**

people in Greece). It costs the Greek Government and the European recovery program about 5½ million dollars each month to care for the refugees. Moreover, the enforced idleness of the refugees represents a large indirect loss to the Greek economy. Plans to use the displaced persons on reconstruction projects have proved abortive; the idle men are so dependent and so fearful of guerrilla reprisals that few will accept jobs. For one European recovery project, only 150 out of 11,000 able-bodied men responded to recruitment; on a US military job, all the workers resigned following a guerrilla raid on their town. Many of the men who are removed from public relief rolls because of their failure to work will undoubtedly join the guerrilla ranks. This situation will continue as long as the Greek Army is unable to clear guerrilla areas or to provide adequate security for individual reconstruction projects.

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**SECRET****F A R E A S T****CHINA**

Communist forces may soon occupy seven more principal Chinese cities: long-isolated Changchun in Manchuria, Chefoo in Shantung, Chenghsien and Kaifeng in Honan, Taiyuan in Shansi, Sian in Shensi, and Chihhsien in Liaoning. Communist attacks of renewed intensity have been resumed in the strategic Chihhsien corridor. Despite the National Government's efforts to reinforce this vital sector with troops evacuated from the Shantung port of Chefoo and with most of the defending forces from the important Kailan coal mine region, the fall of Chihhsien is considered imminent. If Chihhsien falls, the Communists will gain a major base for future operations as well as possession of this large government supply depot. In Manchuria, Nationalist countermoves have been limited to minor offensive operations, involving the re-occupation of Anshan to the south of Mukden and a northwest movement in the direction of Changwu. The latter move, executed in an effort to relieve Communist pressure on Chihhsien, apparently failed. There are indications, moreover, that one or more of the armies defending Changchun may have deserted to the Communists, and that Changchun is currently ripe for Communist occupation through attack, widespread defection, or Nationalist evacuation.

Nationalist fear of impending attacks on the Hsuehou area in Central China have prompted the evacuation of Chenghsien and Kaifeng, important rail junction and capital of Honan, respectively. The main Nationalist strength has also been withdrawn from the area south along the rail line between Hsuehou and Nanking into the Hsuehou perimeter. Although temporarily strengthening the Nationalist position at Hsuehou, these maneuvers may hasten the isolation of that strategic base, thereby setting the stage for its eventual reduction by the Communists.

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**SECRET****CHINA**

In Central Honan, elements of Communist General Liu Po-cheng's troops have moved south toward Hankow as a result of a minor drive to the west by Government forces under Pai Chung-Hsi. In Shansi, the Communists have renewed their attacks on Yen Hsi-shan's restricted holdings around Taiyuan, and the Nanking Government expects its early capture. Communist General Peng Teh-huai in Shensi is leading at least four columns in attacks on the weak Nationalist lines north of the provincial capital of Stan.

**JAPAN**

The new Japanese government, headed by ex-Prime Minister Yoshida of the conservative Democratic-Liberal Party, will probably be only an interim, caretaker regime. Yoshida has announced that he will dissolve the Diet and call for new elections after passage of the SCAP-endorsed revision of the National Public Service law. Conservative strength in the Japanese Diet will probably assure passage of this legislation. However, fear of Yoshida's increasing popular support in the coming elections will prompt his opponents to seek to obstruct formation of a new Cabinet and passage of a Democratic-Liberal wage stabilization program.

**INDONESIA**

The Netherlands Government may announce the formation of an interim Indonesian Government at this crucial period when the UN Good Offices Committee (GOC) is attempting to resume Dutch-Republican negotiations. "Federalist" representatives from non-Republican areas of Indonesia are reported to have reached a basic agreement with officials at The Hague on the structure of an interim government which will precede establishment of a United States of Indonesia. This interim government

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**INDONESIA**

will become an instrument of Dutch authority if, after the refusal of the Republic to join the new interim government on a "take-it-or-leave-it" basis, the Netherlands decides to bypass the GOC completely and to arrive at a solution in Indonesia by military means.

**KOREA**

The Soviet decision to send a delegation to the UN General Assembly representing the Democratic Peoples' Republic of (North) Korea is designed: (1) to forestall UN recognition of the Rhee regime as the government for all Korea; and (2) to support the fiction, by including three South Koreans in the five-member delegation, that the Soviet puppet regime in North Korea is a truly national government. The USSR and its Satellites will have accorded de jure recognition to the North Korean government before the Korean case is considered by the GA. In a final attempt to forestall decisive UN action on Korea, the USSR may counter US efforts to secure UN recognition of the Rhee government as the only legitimate Korean regime by a "conciliatory" proposal for federation of the two governments.

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**WESTERN HEMISPHERE**

**MEXICO**

The stability of the Aleman Government is temporarily enhanced by its settlement of four serious labor disputes, and the long-standing labor problem appears to be solved. Mexican federal labor authorities within the last two weeks have: (1) terminated two railway strikes without meeting the workers' demands for expropriation of the railroads; (2) obtained acceptance by steel strikers of the wage increases originally offered them; and (3) ended a textile strike by declaring it to be illegal.

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