



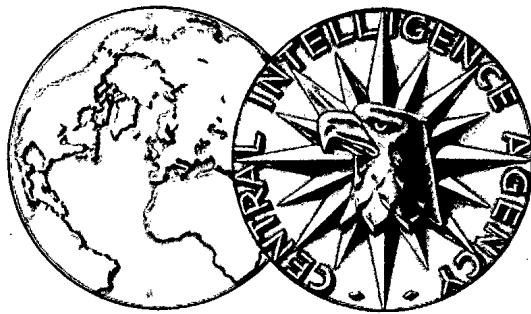
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WEEKLY SUMMARY



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

The renewed outbreak of fighting in Palestine during the past week temporarily deflected the attention of the UN from the Berlin dispute. Israeli thrusts against the Egyptian armies in the Negeb area are motivated primarily by a desire to gain control of the Negeb, which the Bernadotte plan allots to the Arabs, and thus present the UN with a fait accompli (see page 7 and map). Meanwhile, the grave Arab refugee problem has been accentuated by the renewal of hostilities (see page 7).

While the Security Council continued to seek a compromise acceptable to the East and West parties in the Berlin dispute, Communist electoral strength in western Germany gave evidence of waning as German indignation over the blockade heightened (see page 3). As the six "neutral" members of the Security Council offered their latest compromise proposal at the 22 October SC meeting, there remained a possibility that the USSR would modify its stand and eventually accept some compromise formula.

The Chinese Communist offensive continued unchecked during the past week, though the Nationalist forces scored minor local successes in Manchuria and Shensi (see page 10 and map). The total collapse of Nationalist military power in Manchuria has been made an imminent possibility by the rapid capitulation of Ching-sien and subsequent Communist control of this strategic base and Nationalist supply center (see page 11). Despite Communist success in politically consolidating their gains in North China, Soviet recognition of the North China government does not appear likely at present (see page 12).

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WESTERN EUROPE

ITALY

The De Gasperi Government's stability and the ultimate success of the European recovery program in Italy will be seriously endangered by the continued failure of the Italian government to implement its campaign promises of economic and social reforms. The outstanding issues on which the De Gasperi Government pledged constructive action are: (1) gross inefficiencies and inequalities in the tax system; (2) agrarian reform; and (3) the acute housing shortage. The Government's reform program continues to be hampered by ideological differences, technical difficulties, and business pressure groups. Failure of the De Gasperi Government to overcome these obstacles promptly will alienate the support of the moderate leftist coalition members as well as popular support; the loss of moderate leftist support would weaken the parliamentary strength of the De Gasperi Government, and loss of popular confidence would play into the hands of the Communist propagandists. Even though De Gasperi's party remains in power, a delay in the promised reform measures would broaden opposition to all government proposals. In addition, widespread popular dissatisfaction with the De Gasperi Government would increase the Communist potential to nullify the European recovery program in Italy.

FRANCE

The Queuille Government is now apparently seeking to contain the Communist-led strike offensive on the gamble that French opinion will eventually be aroused sufficiently to force the General Confederation of Labor (CGT) to abandon its rotating strike tactics. By making moderate concessions to the strikers throughout France and by capitalizing upon public revulsion to widespread unemployment and economic hardship,

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FRANCE

the Government will probably halt the offensive by mid-November. Even this success would, however, remove merely the most direct threat to the Government's survival. The trend toward political and economic instability is likely, in the long run, to be continued.

A pronounced swing to the right is indicated by the recent elections for the French Council of the Republic. Whether this swing to the right will produce a Gaullist majority in the Council, however, will not be known until after the 7 November balloting. Despite the comparatively poor showing of De Gaulle's Rally of the French People (RPF), an RPF working majority in the Council remains a definite possibility because: (1) Rightists and Rightist sympathizers comprise 50% of those elected and will at least be sympathetic to the RPF; and (2) the Independent delegates, who are free to support the candidates of other parties, are predominantly Rightist and may swing their votes to De Gaulle.

GERMANY

Communist strength in western Germany appears to be waning, probably as a result of German indignation over the blockade of Berlin and of a clarification of differences between the western German political parties. Communist Party strength is apparently lessening despite intensified political agitation by the Party organization throughout the western zones of Germany. Scattered returns from the August works council elections in the Bizone, although reaffirming the leadership of the Social Democratic Party, show the Christian Democratic Union as having made the greatest party gains. The gains of both these non-Communist parties were made mostly at the expense of the German Communist party.

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UNITED KINGDOM

The British Conservative Party emerged from its recent convention without formulating a detailed platform on domestic or foreign issues which would provide the voters with a clear-cut alternative to the Labor Party program. Instead, the Party is apparently confident that popular dissatisfaction with the Labor Government and a strengthened Party organization and treasury will assure a Conservative victory in the general elections which must be held before mid-1950. Although the Conservatives generally endorsed the Labor Government's foreign policy, a minor split was apparent between advocates of an "empire-first" policy and of an internationalist policy.

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

A Kremlin decision to impose a blockade of Vienna is not likely during UN discussions on the Berlin question. Such a decision will await further development of East-West relations and will depend primarily on the Kremlin's estimate of US susceptibility to further pressure and secondarily on the Kremlin's evaluation of the probable effect of a blockade of Vienna on Soviet objectives in Austria. Indefinite continuation of the East-West impasse may induce the USSR to disregard completely the possible consequences of further Soviet aggression and to extend its blockade to Vienna. The immediate objective of such a move would be to force the western powers out of the city. Such a maneuver would also reflect the Kremlin's intention to freeze the present line dividing Europe, to partition Austria, and to eliminate western political influence east of these lines. Although a temporary settlement of the Berlin dispute would tend to reduce the likelihood of a Soviet blockade of Vienna, the threat of a blockade would continue in the background until basic, over-all East-West differences had been settled. Moreover, this threat will exist until the Kremlin decides that its objectives in Austria can be best achieved through successful conclusion of the Austrian treaty and withdrawal of allied occupation forces.

YUGOSLAVIA

Soviet-directed Satellite political moves against Yugoslavia have deepened the Tito-Cominform rift, although the USSR apparently does not intend to interfere with Yugoslavia's economic relations with the East. Poland has recently recalled its cultural group from Yugoslavia and the Yugoslav Peoples' Front Party has been dissolved in Bulgaria. Meanwhile, the Yugoslavs have countered by recalling students from Poland and by renewed press attacks against the Cominform countries. Despite this mounting political tension, the USSR and its Satellites are maintaining trade relations with Yugoslavia in an

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SECRET**YUGOSLAVIA**

attempt to continue to receive the advantages of Yugoslav trade and to prevent the development of economic ties between Yugoslavia and the West. Negotiations for a new Soviet-Yugoslav trade agreement are proceeding in Moscow, and the Poles apparently intend to renew their trade agreement with Yugoslavia in November.

SOVIET UNION

The USSR has apparently begun to exploit Caspian Sea oil reserves in the Baku archipelago. Prospecting of these deposits is under way to determine potential reserves for additional exploitation. Although the extent of present development is unknown, the USSR may be planning to develop these Caspian reserves in order to increase the supply of crude oil to the partially idle Baku refineries.

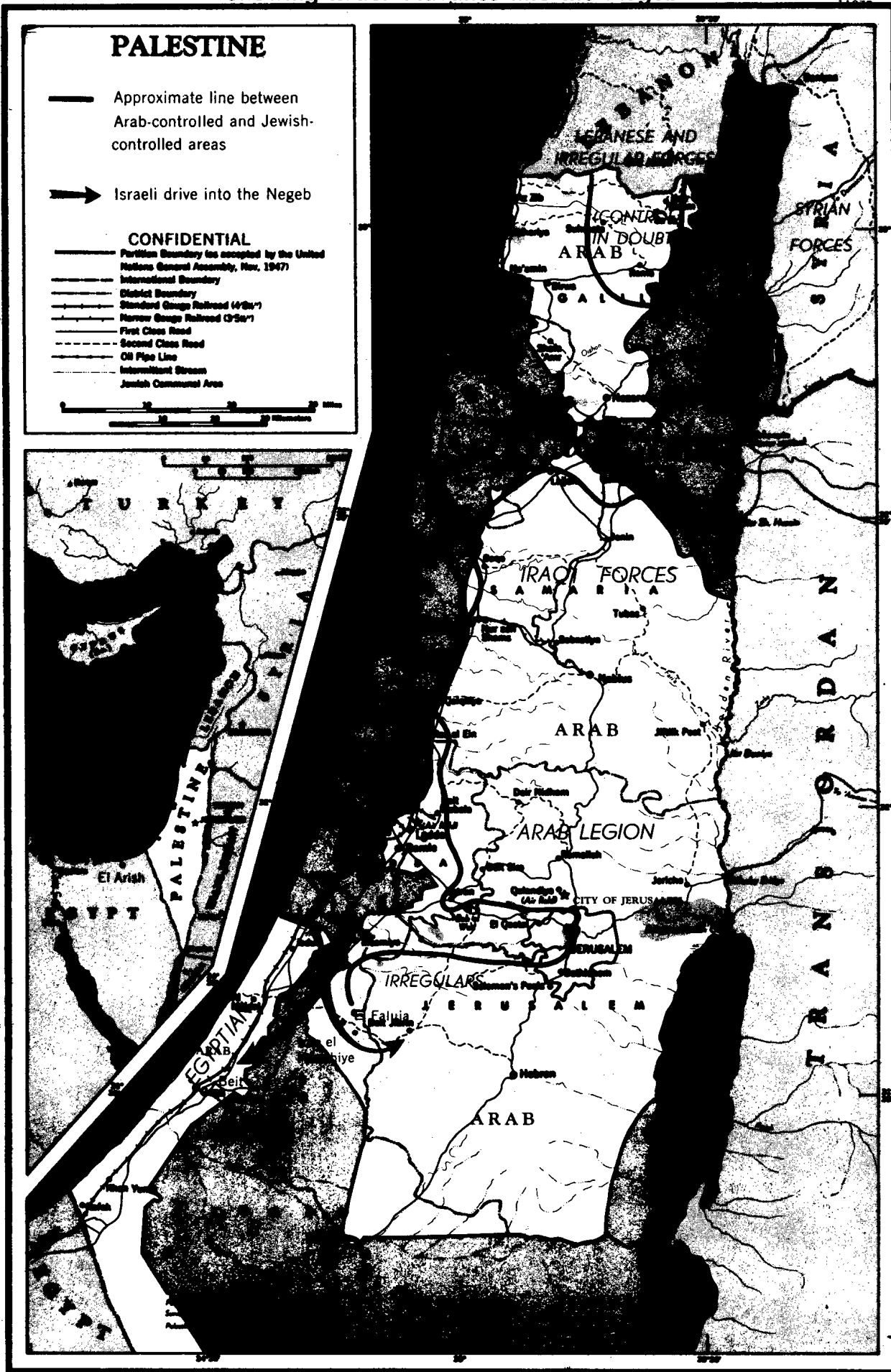
HUNGARY

The arrest of Hungary's Roman Catholic Cardinal Mindszenty on trumped-up "economic" charges appears imminent. Mindszenty, who has been branded as "reactionary," is unwilling to jeopardize church interests by compromising with the present government, and his long-time critic, Archbishop Czapik, would willingly fill any role created by Mindszenty's removal. Czapik believes that, by granting certain concessions to the state such as recognition of the present government, the church could regain its former prerogatives of governing itself, acquiring property, and maintaining a church press. Moreover, Czapik may hope to promote the re-establishment of relations between Hungary and the Vatican.

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MILITARY SITUATION—18 OCTOBER 1948

Showing Israeli Advance into the Negeb



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

The problem of the Arab refugees is one of the most serious arising from the Palestine war. Almost half a million of these destitute Arabs are living in sprawling, open encampments--in Syria and Lebanon, in Transjordan and Iraq, and in various parts of Palestine itself. The lack of sanitation, medical supplies, and adequate nourishment has already made camp epidemics a strong possibility, and about one-fourth of the refugees may die of exposure during the winter months. The relief which has reached the refugees, to date, has come primarily from the Arab countries, which are now nearing the end of their available financial resources. Unless UN relief agencies, an international relief organization like the Red Cross, or the western powers themselves act forcefully, the refugee problem will soon reach calamitous proportions.

PALESTINE

The Israeli thrust against the Egyptian armies on the southern front suggests that the Israelis not only feel it necessary to control the routes supplying the isolated Jewish settlements in the Negeb but also wish to present the UN with the fait accompli of Israeli dominion over the Negeb, which would be awarded to the Arabs under the Bernadotte plan. Israeli tanks and armor have made a thrust southward across the Majdal-Faluja road leading to Hebron, and Israeli aircraft have bombed Egyptian supply centers at Majdal, Gaza, and El Arish. Israeli forces have also reached the vicinity of Gaza. These initial operations assure the opening of the supply routes to the Negeb settlements. Moreover, the Israelis, by

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SECRET**PALESTINE**

cutting the Majdal-Hebron and the Gaza-Beersheba roads, have split the Egyptian Army. The Egyptian units along the coast are thus dangerously isolated and may be forced to withdraw southward to the Egyptian frontier. Although the Security Council's renewed "cease-fire" order may halt the fighting, only further determined SC action (involving the threat of sanctions) can make Israel relinquish the areas it has conquered during the past week.

Israeli efforts to control the extremists in the new state have not been altogether effective. The Provisional Government of Israel (PGI) apparently has not apprehended Count Bernadotte's assassins. Many members of the Stern Gang are still at large and a number of those arrested shortly after the assassination have managed to escape. The PGI ordered the disbanding of the Irgun Zvai Leumi (IZL) but has taken no punitive action against the leaders. Although IZL members of military age have been assimilated by the Israeli Army, youths under the age of eighteen remain free and will probably form the nucleus of a future para-military organization. Even if the military potential of the extremists has been dissipated, a large proportion of the Israeli population will continue to support the extremist plan to drive the Arab Armies out of Palestine and to take over the whole country. Terrorist leaders will seek to increase their political power in the right-wing parties and may even attempt to replace the more moderate leaders now controlling the PGI. The outbreak of hostilities on the southern front and the apparent determination of the Israelis to conquer the Negeb in defiance of the UN truce may reflect the influence which the extremists are already exerting on the PGI.

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PALESTINE

Soviet efforts to prevent any lasting Palestine settlement will probably now take the form of championing the original UN partition plan of 1947. By insisting that the UN reject the Bernadotte plan, the USSR will hope to prolong the present chaos in the Near East and further complicate US-UK relations with the Arab countries. In an attempt to capitalize upon Jewish and Arab opposition to the Bernadotte proposal, the USSR probably will: (1) press for an independent Arab state in the non-Jewish areas of Palestine; (2) charge the US and UK with responsibility for dragging out the conflict; (3) protest exclusion of the USSR from the Truce Commission; and (4) oppose any proposal to incorporate the Arab areas of Palestine into Transjordan.

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

The Indonesian Republic will probably eventually refer its complaints over Dutch truce violations to the UN Security Council despite US success up to this time in delaying such action. Republican reaction to the latest Dutch modifications of the US delegation's proposed solution to the problem is expected to be negative. The fourth report of the UN Good Offices Committee (GOC) is expected, moreover, to substantiate Republican claims in the dispute, at least in part. Because of its preoccupation with the Berlin and Palestine issues, the Security Council may try to lighten its crowded agenda by referring the matter back to the GOC in order to encourage another attempt at a Dutch-Republican settlement.

CHINA

Although the Communist offensive in North China continued unabated through most of the civil war areas, Nationalist forces scored minor local successes in Manchuria and Shensi. Manchurian Nationalists pushed northwest from Mukden and occupied Changwu and several points near Hsinmin. These minor gains, however, were more than offset by the loss of Chinkien and Changchun and Nationalist elements can progress no further without engaging large Communist forces. In Shensi, Nationalist reinforcements in the Tali sector are credited with halting temporarily the southward advance of Peng Teh-huai. In North China, Communist troops are active along the Peiping-Suiyuan railway both east and west

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SECRET**CHINA**

of Kaihan, as well as south of Peiping near Chohsien. They continued their assault on Taiyuan, capital of Shansi, where they are reported to have breached the city's outer defense walls. All regular Nationalist forces have been withdrawn from Chenghsien and Kaifeng and the evacuation of Chefoo is under way.

The total collapse of the Nationalist effort in Manchuria may be presaged by the recent fall of Chihhsien to the Communists after an unexpectedly short siege. Control of this strategic Manchurian anchor has enabled the Communists to block the Nationalist corridor to Manchuria and seal off the Nationalist armies to the north. Chihhsien also provides the Communists with an excellent base for future military operations to the south against the Peiping-Tientsin area. As a result of the rapid capture of Chihhsien, the Communists probably obtained intact most of the vast Nationalist supplies there. Moreover, Nationalist airlift facilities are insufficient either: (1) to supply Nationalist forces in the Mukden area; or (2) to extricate all of the first-class troops (US-equipped) from Manchuria. Any attempt to remove the Nationalist troops by land would result in severe losses en route.

The Nationalist economic reform effort continues to weaken under the combined hammering of major military reverses and increased inflationary pressures. The pre-reform inflationary pattern of rising prices, black market operations in both commodities and US currency, and under-the-counter dealings above the fixed-price level is becoming more apparent day by day. There is now a sizeable volume of black market US currency transactions in Shanghai, with rates rising to between gold yuan (GY) \$6 and \$7 to US \$1, compared to the official exchange rate of GY \$4 to US \$1. In Peiping and Tientsin, where police surveillance has been only nominal,

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the exchange rate reached GY \$16 to US \$1, a 100% increase over the preceding week. Food shortages, high prices, and labor troubles are contributing to an explosive atmosphere in Tientsin. Although the adverse military developments in the field will make it impossible for the National Government to halt this inflationary trend, the Government can hardly afford to abandon publicly the reforms upon which so much was so recently staked. Enforcement activities will probably slacken while the Government yields to what appear to be uncontrollable economic forces.

Soviet recognition of the North China government is unlikely at this time. Such a step would impair Soviet efforts to establish a coalition government for all of China as a prerequisite for Communist domination of the entire Chinese nation. Soviet recognition of the North China regime would not only violate the Chinese-Soviet Treaty of Friendship and Alliance, but would probably cause a break in diplomatic relations with the Nationalist Government. In such circumstances, the USSR could hardly hope to offer its good offices for mediation between the North China Communists and the National Government.

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WESTERN HEMISPHERE

The reaction of Argentina's neighbors to Peron's extreme nationalist policy may further complicate US relations in that area. In varying degrees, the neighboring states are exaggerating the threat of imminent Argentine aggression as a pretext for demanding US military and economic aid. This trend is most pronounced in Uruguay, where the danger exists that the Government may misjudge the extent of US receptiveness to Uruguay's alarmist anti-Argentine propaganda and, confident of US support, recklessly compromise its relations with Argentina.

CUBA

The expected outlawing of the Cuban Communist Party, through the probable passage of a bill by the House of Representatives, will lessen Communist effectiveness in influencing Cuban public opinion but will not eliminate the Communists as a potential sabotage threat to US interests in Cuba. The Cuban Communists have formed an organization of "militants" within the Party, apparently in preparation for clandestine underground activities.

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