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WEEKLY SUMMARY



Number 33

7 JAN 1949

Document No. ~~012~~ 1
 NO CHANGE in Class.
 DECLASSIFIED
 Class. CHANGED TO: TS S C
 DDA Memo, 4 Apr 77
 Auth: DDA REG. 77/1763
 Date: 1/2/78 By: 011

CENTRAL INTELLIGENCE AGENCY

F12

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H I G H L I G H T S

The Israeli offensive in the Negeb, which began on 22 December, has apparently been brought to a halt this week through the expressed willingness of Egypt and the Provisional Government of Israel to accept a cease-fire and begin negotiations for an armistice. Before indicating their acceptance of the cease-fire, however, the Jews had apparently achieved their major military objectives in the Negeb and had strengthened their bargaining position in the whole Palestine situation (see page 4).

While Chinese battle zones remained strangely quiet during the past week, military and political leaders made efforts individually to begin peace negotiations. Chiang Kai-shek's bid for peace, made in a speech on New Year's Day, was hedged by conditions entirely unacceptable to the Communists and represented an attempt to place the onus on the Communists for continuing the civil war (see page 6). Meanwhile, evidence continues to grow that the National Government is preparing for an eventual move to Taiwan (see page 7).

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SECRET**WESTERN EUROPE**

European Recovery Substantial progress in western European recovery is discernible at the conclusion of the first nine months of the European recovery program. Although the ECA countries may not be able to eliminate their abnormal trade deficit by 1952-53, four major accomplishments have already been attained: (1) since 1947, over-all production in ECA countries has risen substantially; (2) dollar aid requirements will be about a half billion dollars less in 1949-50 than in 1948-49; (3) an intra-European payments plan, based largely on conditional ECA aid, has been established and will increase trade between participating countries; and (4) a real though limited degree of economic cooperation has been achieved through the Organization for European Economic Cooperation. This progress has been achieved despite necessary initial emphasis both on problems of organization and on relief rather than on recovery. Several basic, long-range problems remain to be solved, if the European recovery program is to achieve its objectives. Many countries, especially France and Germany, have yet to reach monetary and fiscal stability. All ECA countries must exert greater effort to integrate their respective national four-year recovery plans into a coordinated whole. Finally, ECA nations must figure out a way to reduce a prospective trade deficit (mostly with the dollar area) of some three billion dollars in 1952-53.

FRANCE

Gaullist Strength De Gaulle's chances for returning to power soon on his own terms have been reduced by his recent public statements, which have disturbed both labor and business, and by his failure to capture control of the Council of the Republic. Moreover, his stand for state aid to Catholic

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SECRET**FRANCE**

schools revived a bitter controversy and has probably jeopardized his chances of winning over the majority of hitherto sympathetic Radical Socialists. His failure to muster an absolute majority in the Council of the Republic on any of three major issues (election of a President, the speed-up procedure for consideration of the budget, and the budget itself) has temporarily blocked his efforts to return to power by constitutional means.

UNITED KINGDOM

Foreign Trade The sizeable trade and financial agreements nearing conclusion between the UK and Yugoslavia and Poland constitute further moves toward the re-establishment of prewar European trade relations. The agreement with Poland, which calls for an exchange of goods totalling \$600 million during 5 years, is more important economically than the Yugoslav agreement which provides for \$60 million trade for 1 year. Moreover, Poland's willingness to meet British demands for settlement of nationalization claims indicates Poland's need for industrial equipment and raw materials which the USSR has apparently been unable to provide. The Yugoslav agreements, however, may have some political implications. Tito's difference with the Kremlin evidently contributed substantially to his willingness to meet British terms. Tito will receive some of the industrial goods which he needs to continue Yugoslavia's ambitious economic program. These agreements further illustrate the economic pressure on both sides for expanding trade relations across the Iron Curtain despite ideological differences.

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

Israeli Offensive International repercussions arising out of the UK's treaty obligations to Egypt will probably induce Israel to withdraw its task force from Egyptian territory. Nevertheless, the 22 December offensive in the Negeb has put the Israelis in a strong position to force the remaining Egyptian troops out of the Negeb entirely. Before accepting the UN cease-fire, the Jews had apparently achieved both of their major military objectives in the Negeb itself. Except for a narrow escape route, the Egyptian garrison at Gaza has been encircled and the main road from Beersheba south to the Egyptian border has been cleared. There appears to be little likelihood that Israel will accept in their entirety the provisions of the UN Security Council's 29 December resolution for a withdrawal to the 14 October positions in the Negeb. Moreover, if the Egyptian Government (which has now indicated its acceptance of a cease-fire) fails to negotiate the definitive armistice which the Israelis want, the Jews will probably resume the offensive to drive the remaining Egyptian troops out of the Negeb. With the Egyptian threat sharply reduced, Israel can next concentrate on the two remaining Arab forces in Palestine: the Iraqi Army and the Transjordan Arab Legion. Although international complications caused by the drive into Egypt may for a time deter the Israelis from undertaking a new offensive against these two armies, the Jews are likely to take matters into their own hands and drive the remaining Arab armies completely out of Palestine if Israel and the Arab states are unable to find a basis for negotiating a definite settlement.

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EGYPT

Cabinet Changes The Egyptian Government will be materially strengthened, if the new Prime Minister, Abdel Hadi, is successful in his efforts to broaden his Cabinet by including members of the Wafd (Egypt's largest party). At present the Cabinet is a minority party coalition like its predecessor, and the new Cabinet members (with the exception of Abdel Hadi) are little known. A number of prominent Wafdists, however, now appear willing to enter the government. For several years the Wafd has declined Cabinet positions largely because of a personal feud between King Farouk and Nahas Pasha, leader of the Wafd. Consequently the Wafd, as a strong opposition party, has frequently been able to prevent the government from taking effective action on important issues. Inclusion of Wafdists in the Cabinet, in addition to strengthening the country's internal security, would enable the government to present a united front in attempting to force the Egyptian people to accept a compromise on the two most critical foreign issues: a settlement in Palestine and re-negotiation of the Anglo-Egyptian Treaty.

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

Military Situation The focus of China's civil war shifted this week from the strangely inactive battle zones of North and Central China to the individual peace efforts of military leaders and politicians in Peiping, Tientsin, and Nanking. Although the superior Communist forces now surrounding Peiping and Tientsin remain inactive, recent Communist troop movements toward Tientsin indicate this North China industrial center may be seized in the near future. In Central China, the Nationalists have withdrawn nearly all their remaining forces south of the Yangtze River, leaving only an inadequate holding force between Pangfou and Pukou. Effective Nationalist resistance has been virtually eliminated and the Communists are capable of administering the coup de grace at any time. Despite this, both Nationalists and Communists appear to be awaiting the outcome of current peace feelers.

Chiang's Plans Chiang Kai-shek's New Year's speech indicates that he is reluctant to give up power despite his offer of peace to the Communists and the general expectancy that he would retire in favor of Vice President Li Tsung-jen. In making his bid for peace, which was hedged by conditions entirely unacceptable to the Communists, Chiang seized the initiative from the Communists and attempted to place upon them the onus for continuing the unpopular and destructive war. However, the peace movement in Nationalist China is now so strong that Chiang may attempt to appease political opposition and facilitate Nationalist-Communist negotiations by going into retirement, with the idea of subsequently returning to power, as he has done twice previously in his career.

Peace Rejected Recent Chinese Communist broadcasts have rejected Chiang's New Year's peace proposal and made clear the Communist view that the Kuomintang, as a party, will not be included in the coalition government which the

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SECRET**CHINA**

Communists plan for 1949. In addition, the Communists have declared that their armies will cross the Yangtze and carry their operations into South China. One of the broadcasts summarized an editorial "exposing the peace intrigues of the reactionary party" and calling upon "the Chinese people and the Chinese Communist Party" to work "hand in hand to eradicate all reactionary elements and to oust American imperialism from China."

Resistance Conference The Nanking conference of leading generals and governors, which Chiang called recently in an effort to obtain a vote of confidence for continued resistance to the Communists, has little chance for success. Fu Tso-yi, reliably reported to be negotiating with the Communists in North China, and Ma Hung-kwei, independent Moslem warlord of the northwest, declined to attend. Pai Chung-hsi, Central China commander prominent in current attempts to force Chiang to resign, also failed to appear. Apparently, none of the generals in threatened areas favor continued resistance, although Yen Hsi-shan, governor of Shansi, might drive a bargain with the National Government for supplies. Both Yen and Kwangtung Governor T. V. Soong have made personal inquiries regarding future US aid and support.

Taiwan Refuge The sudden appointment of General Chen Cheng, former Nationalist chief of staff, as governor of Taiwan is further evidence that the National Government is preparing a haven or a base for future operations there. General Chen is an able military administrator and fully loyal to Chiang Kai-shek. Also, Chiang Ching-kuo, the Generalissimo's son and former economic czar of Shanghai, has been appointed chairman of the Taiwan provincial Kuomintang headquarters. These appointments coincide with the arrival in Taiwan of many Nationalist officials (with their families), who are members of the Kuomintang right wing. Recent shipment to Taiwan of some of the Generalissimo's personal property also suggests that Chiang Kai-shek himself plans to go there.

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CHINA

Szechwan Autonomy Growing sentiment in Szechwan for autonomy may indicate the pattern for efforts by the western provinces to establish regional regimes as the complete collapse of the Nanking Government approaches. In Szechwan, the desire for autonomy is being manifested by failure to meet quotas of rice shipments, demands for the return of gold and silver released to the National Government under the 19 August measures, the issue of provincial auxiliary currency, and growing independence of provincial defense units. Virtual autonomy within the National Government orbit is apparently the first objective of the Szechwanese.

Sinkiang Governor The appointment of a new governor of Sinkiang, who is reported to be acceptable to the pro-Soviet Ili group in the province, will probably lead to increased Soviet influence throughout Sinkiang. Ili leaders withdrew in 1947 from the provincial government in protest against the appointment of the new governor's predecessor, and they refused to return so long as he remained in office. A reorganized provincial government, including Ili leaders, may also eliminate the threat of a new anti-Chinese rebellion.

INDONESIA

Security Council Although Asiatic bloc pressure will prevent the Security Council from dropping the Indonesian case, nothing more effective than a mild censure of the Dutch attitude is likely to occur. Any more positive action, such as the application of sanctions, is exceedingly unlikely. The UK and France are most unlikely to permit strong anti-Dutch action. Norway will probably join Argentina and Canada in abstaining from vigorous action and thus successfully block

SECRET**INDONESIA**

efforts by Egypt, China, and Cuba effectively to settle the Indonesian dispute and thereby restore UN prestige. Meanwhile, the USSR and Ukraine, despite their extreme anti-colonial stand, will probably abstain from any resolution on Indonesia in the hope of prolonging chaos in the Far East and further undermining the position of the western powers there.

Asiatic Reaction Public and official opinion in India continues to run high regarding Dutch military action in Indonesia on 18 December and the weakness of the UN Security Council's attempts to deal with the situation. India, which considers itself the champion of Asiatic interests, was persuaded to take no action on its threat to break off diplomatic relations with the Netherlands. Prime Minister Nehru, however, has now reaffirmed India's desire to act on the matter by calling a conference of sixteen Middle and Far Eastern governments to consider the Indonesian question. India has cancelled landing rights and transit privileges of the Royal Dutch Airlines, and, although they feel less strongly on the subject, Pakistan and Ceylon have done likewise. Ceylon has also closed its ports to Dutch ships bearing troops or arms to Indonesia.

Although the Dutch have naturally borne the brunt of popular indignation in the subcontinent, the UK and the US have also been under fire. India is out of sympathy with the UK's position on Indonesia. The Indians are less dissatisfied with the US performance, apparently having been convinced that the US is doing what it can in the Security Council. Nevertheless, the failure of the US to restrain the Dutch has discouraged both the Indians and their neighbors regarding the ability and willingness of the US to assist the Asiatic peoples.

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INDONESIA

Dutch Plans In an effort to allay world opinion and to win the cooperation of influential Indonesian nationalist leaders, the Netherlands Government has adopted an ostensibly more conciliatory attitude toward the Indonesian problem. Plans are being expedited to establish a Dutch-Indonesian interim government and the Dutch are reported to be considering the removal of High Commissioner Beel in a further attempt to win Indonesian support. There is nothing to indicate, however, that such conciliatory Dutch moves will have any success. Guerrilla resistance is continuing and the strong Asiatic support which the Republic has attracted will cause Indonesian leaders to hesitate before accepting positions under the Dutch.

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**DANGERS OF UNCONTROLLED NON-SCHEDULED
AIR OPERATIONS**

The lack of adequate international controls over non-scheduled air operators has permitted the development of evasive techniques for clandestine air operations which could conceivably place a fleet of transport aircraft at the disposal of a foreign power for a mission threatening the national security of the US. It is entirely possible that, under the present loose and laxly enforced regulations, some of these aircraft would be US-owned.

Numerous factors encourage clandestine air operations by unscrupulous individuals. Aircraft are frequently permitted to operate almost indefinitely in a virtual vacuum of sovereignty because of: (1) the poor coordination of aircraft controls at the international level; (2) the lack of uniformity in international regulations; and (3) the lack of enforcement machinery for even these inadequate regulations.

The principal clandestine air activity during the past year has been the ferrying of military aircraft and the transportation of arms, combat personnel, and even dismantled fighter planes. Other activities have included the evasion of immigration laws by covert passenger traffic; the smuggling of gold, securities, narcotics, and other valuable cargoes; and the maintenance of communications by dissident or rebellious factions with their agents and supporters in distant areas. Subversive agents, moreover, have been moved from one country to another for political or military sabotage.

An elaborate technique has been perfected for these clandestine air operations. The unscrupulous promoters have had no difficulty finding pilots and air crews willing to engage in illicit operations and they have been successful in bribing airfield and customs officials outside the US. For other illegal

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errands, these "promoters" have utilized highly specialized methods developed by underground resistance movements during World War II. The use of false passports, misrepresentation of true destinations, mislabeling of cargoes on manifests, and contemptuous disregard for local regulations have been standard practice. The intricacies of these operations are illustrated by the example of a C-54 which was chartered from a California owner by a US non-scheduled carrier in Philadelphia for use under contract with a Luxembourg Company (owned by a New Zealander) purporting to hold a subcontract with a British air travel concern acting on behalf of an agency responsible for transportation of displaced persons from France to Israel. Although the agency in question controls the movement of only 500 passengers, the US carrier has asked the French for permits for sufficient flights to carry 2,400 passengers or equivalent cargo. The principal European promoters of this operation actually include unscrupulous individuals with little financial backing and with disreputable connections throughout the continent.

Although other illicit operations have been organized in Central America and Southeast Asia during the past year, the principal clandestine air activity has been in the interests of Israel. Two transport aircraft are probably en route to or have recently arrived in Israel, in direct violation of the UN ban on the export of aircraft to the Near East. As opportunities for profits in the Israel traffic diminish, the "promoters" will certainly direct their energies into other channels. For example, implementation of the proposed policy by which the US and the UK hope to contain the Satellite air lines may provide an opportunity to develop a lucrative black market in aircraft and parts. If these specialists in clandestine air operations exploit this market to the full extent of their proven capabilities, this US-UK policy can be effectively nullified.

In the continued absence of adequate international controls over non-scheduled operators, even more serious developments could occur. For example, a fleet of transport aircraft presently

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available for charter operations in western Europe (including planes of US registry) could conceivably be obtained by clandestine promoters for agents pretending to be engaged in normal trade activities, but in reality representing a foreign power. Under such an arrangement, one flight each by forty planes could distribute a task force of one thousand trained saboteurs throughout western Europe without the nature of the operation becoming apparent until the mission was accomplished.

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