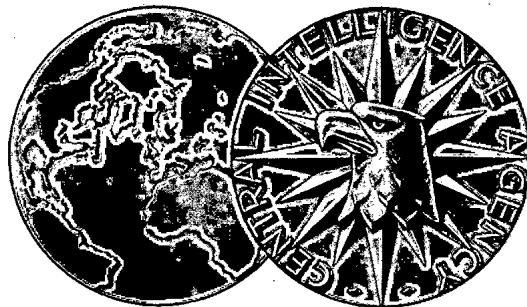


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WEEKLY SUMMARY



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

Despite agreement by Egypt and Israel to a cease-fire order, armistice talks between the two nations have reached a deadlock. The Israelis, strongly confident following their military victories, are unwilling to sacrifice their recent gains in the Negeb (see page 8). If the UN Acting Mediator can find no working basis for Israeli-Egyptian agreement in the near future, hostilities may break out in Palestine once again.

The last major engagement of China's civil war appears to have been concluded and the Chinese Communist armies are awaiting orders momentarily to cross the Yangtze River. Once south of the Yangtze, the only major obstacles in the path of the Communist forces will be those of distance, terrain, and communications (see page 10). Following the collapse of peace negotiations, anti-Communist resistance, probably under the leadership of Chiang Kai-shek, will continue in southeast China and Taiwan. Despite Chiang's retirement, the Communists still regard him as their principal enemy and remain genuinely concerned over his prospects, with US aid, for delaying the realization of the Communist program for establishing control over all China (see page 11).

The Security Council will probably adopt the US-approved resolution on Indonesia. Although the Dutch have heretofore strongly resisted all pressure to recognize the Republic's existence, increasing political pressure in the Netherlands and the deteriorating Dutch economic and military position in Indonesia may force the Dutch to modify their opposition to such a UN resolution (see page 9). Even if the US-approved resolution is passed and the Dutch accept it, the Asian-nations who attended the New Delhi Conference will probably apply greater economic and political pressure against the Dutch.

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SECRET**WESTERN EUROPE**

European Unification Despite British opposition to the majority proposals of the Brussels Pact study group on European unification, a compromise solution will probably soon be achieved. The UK, which has agreed to a Council of Ministers, appears ready to modify its views and accept as well some form of consultative assembly, thus partially meeting the views of the other four Brussels Pact powers. In another field of European cooperation, the ECA countries, anticipating early review by the US Congress of their recovery progress, will probably soon take steps on a high political level to strengthen the Organization for European Economic Cooperation. The UK, also the chief stumbling block on this issue, has now reportedly agreed to this need.

International Labor The secession of the US, British, and Dutch delegations from the World Federation of Trade Unions (WFTU) in protest against Communist domination of that body, has left a vacuum in the world labor movement which the Soviets are attempting to fill immediately. The WFTU, which still has 64 national labor organizations as members, will continue to exert considerable influence. At the same time, a Cominform directive, stressing the need for obedience to Moscow by local Communist parties, suggests that the USSR is attempting to meet in advance the challenge of the proposed western-oriented labor international by strengthening its hold on national Communist trade unions. Such efforts apparently reflect the Kremlin's determination to forestall Soviet losses in the labor field. Soviet success in this endeavor will depend largely upon how quickly and effectively a western-oriented international labor organization can be established. The development of such an organization is being retarded by the

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inability of the AFL and the CIO to agree on the terms of US labor participation and a joint international labor program. In addition, the AFL is attempting to block the selection of a veteran Belgian trade unionist as Secretary of the fifteen-nation ERP Trade Union Advisory Committee. Until these differences between the two leading US labor groups are resolved, other non-Communist national labor organizations will be reluctant to join a western counterpart to the WFTU.

FRANCE

Government Prestige The Queuille Government is now restoring the prestige of the moderate Third Force to at least the level attained by the first Schuman Government in the summer of 1948. Materially aided by US release of ECA counterpart funds, the Government has taken the initiative in its fight against inflation by tackling the wage-price disparity and the budget deficit. Such steps could turn the tide against inflation which, by late 1948, had threatened to put the Third Force at the mercy of Communists and Gaullists. The Government's realistic and vigorous approach to economic problems, to the Ruhr negotiations, and to the Atlantic Pact, is showing favorable political results, which may lead to an increase in the voting strength of the moderate parties in the March local elections.

ITALY

Colonies Question Increased support for the return of Tripolitania to Italy may result from recent discussions on the Italian colonies question between Foreign Ministers Bevin and Schuman and from continued Italian pressure to regain its colonial possessions. Although

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SECRET**ITALY**

Schuman urged restoration of both Tripolitania and at least the Massawa-Asmara portion of Eritrea to Italy, Bevin adhered firmly to the US-UK position for cession of the bulk of Eritrea to Ethiopia. Bevin did reveal, however, a willingness to consider the return of Tripolitania to Italy, although he seriously doubted Italy's ability to control the colony and questioned the French view that the De Gasperi Government would fall if Italy were denied its former colonies. Meanwhile, the question of Italy's participation in the Atlantic Pact has made Italian reaction to the colonies issue important to the security interests of the western powers. If Italy were denied both Eritrea and Tripolitania, De Gasperi's efforts to win popular support for Italian association with the west would suffer a severe setback. Such a trend would be less pronounced in the event of return of either Tripolitania or Eritrea.

Communist "Moderation" Continuation of the recent moderate propaganda line by the Italian Communists may prove more of a threat to the Government than the previous Communist policy of head-on opposition. There is considerable danger that the strong conservative element in the Government's dominant Christian Democratic Party may take advantage of the Communists' new approach to delay further long-overdue action on critical economic problems. In such an event, the Communists, having gained prestige by ostensibly conciliatory behavior, would be in a strong position to undermine public confidence in the intention of the Government to fulfill its promises to the people.

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

Communist Dictatorships **The Kremlin apparently feels that the Communists of Bulgaria, Rumania, and Hungary are strong enough to dispense with the fiction that these countries are democratic states. Communist leaders in the three Satellites have recently declared that the Soviet-sponsored regimes are now "dictatorships of the proletariat." Matyas Rakosi, Secretary General of the Hungarian Communist Party, has also stated that these "dictatorships" represent one type of government necessary to the transition from a capitalist to a socialist state. The frank admission that the Communist Party is the controlling power in Hungary indicates the early establishment of a National Front government, another basic type of Soviet regime which has already appeared in Bulgaria and Rumania.**

Satellite Economy **The formation of the Council of Mutual Economic Assistance by the USSR at this time indicates that it is a defensive measure designed to offset the successes of the European recovery program. This Soviet-directed Council will attempt to coordinate further the economies of Poland, Hungary, Rumania, Czechoslovakia, and Bulgaria as a major step toward their eventual integration with the economy of the USSR. Although this latest Soviet move is undoubtedly part of a long-range plan, the immediate Kremlin objectives are to counterbalance the adverse effects on eastern European morale of the relatively rapid economic recovery in western Europe and to prevent the spread of nationalistic-economic heresies, such as Tito's. The Council's formation may have some propaganda value by renewing hope within the satellite countries that mutual cooperation may improve the low standard of living. The Council will result in some improvements in the Satellite economies by providing for more effective planning and more efficient distribution. Despite the fiction of economic equality, the Council's formation will inevitably result in tightened control of the eastern European economies by the Kremlin.**

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SOVIET UNION

Wheat Conference A reversal of Soviet tactics is apparent in the Soviet decision to attend the current International Wheat Conference in Washington. The USSR has thus far refused to join most UN economic organizations (except the Economic Commission for Europe) and ignored similar wheat conferences in 1947 and 1948. The new Soviet tactic may reflect concern over the possible loss of western European markets as an outlet for Soviet wheat in exchange for strategic materials in short supply throughout the orbit areas. The USSR may also hope to use participation in international meetings to prove the sincerity of its "peace offensive."

HUNGARY

Mindszenty Arrest There are indications that the Hungarian Government may have been shaken by the strong protests originating in the US and the Vatican concerning the arrest of Cardinal Mindszenty. Apparently the Government is undecided whether or not to carry out its announced program, which would be climaxed by the execution of the Cardinal; there are already indications that certain elements in the Government believe that such extremist measures may boomerang. This belief is most apparent among rank-and-file Communists. It is as yet unknown how much of a moderating influence they will have on some of the top Moscow-trained leaders whose obstinacy may actually have increased as a result of western reaction.

GREECE

New Government Although another Sophoulis coalition government is all that emerged from the Cabinet crisis that has been convulsing Athens during

SECRET**GREECE**

recent weeks, the new combination embodies some changes which may enable it to govern more effectively than its predecessor. The supporters of Populist Leader Tsaldaris, formerly holding a dominant position in the Cabinet, have lost key posts to the Liberals and have been relegated to relatively minor ministries. Tsaldaris himself, although still Foreign Minister, has been stripped of his title of Deputy Prime Minister. Prime Minister Sophoulis, accordingly, may feel free to proceed more vigorously with his social, economic, and military program. Moreover, although the plan to bring the Papandreu Centrist bloc into the Cabinet has fallen through, the Government has been strengthened by the addition of the energetic Markezenis, the only new political leader to emerge since the war, and of the brilliant but vacillating Centrist, Canellopoulos, as Minister of War. With the latter's aid, General Papagos, who has finally accepted the new post of Commander-in-Chief of the Army, may be able to prevent politics from interfering with military operations. The Government, nevertheless, remains susceptible to its old ailments. Despite assurance of ample support when Parliament reconvenes on 1 February, the combination is an unstable one. Composed of traditionally incompatible elements, it was brought together only after the palace had issued a peremptory statement hinting at an imposed, non-parliamentary government if the warring politicians did not get together. When the shock of the King's ultimatum wears off, political rivalries within the Cabinet are likely to emerge once more to hamper the effective execution of a coherent policy.

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

Armistice Deadlock The Israeli-Egyptian armistice talks have reached a deadlock, apparently over occupation of the Negeb during the projected armistice period. The Egyptians insist that the Israelis, in compliance with the Security Council resolution of 4 November 1948, withdraw their forces in the Negeb north to the lines held when the Israeli offensive began on 14 October 1948. The Israelis, on the other hand, seem determined to hold on to the greater part of their military gains. As a result of this dispute, the Israelis now refuse to release the Egyptian garrison trapped at Faluja, despite an apparent accord previously reached on this matter by Israeli and Egyptian representatives. Mutual recriminations have ensued: the Egyptians accuse the Israelis of broken promises, and the Israelis maintain that the Faluja release is contingent on the conclusion of an armistice. Thus the Negeb boundary dispute exemplifies the difficulty of establishing a firm basis for negotiating an armistice. The Israelis, strongly confident from their military victories, are willing to negotiate only if their chief demands are substantially met. The Egyptians, on the other hand, have already demonstrated that they will not accept Israeli terms indiscriminately. If the UN Acting Mediator can find no working basis for Israeli-Egyptian agreement in the near future, hostilities may break out in Palestine once again.

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

SC Resolution Confronted with a choice between four competing resolutions on the Indonesian case, the Security Council will probably adopt the joint US-Norway-China-Cuba proposal. Despite strong pressure from the New Delhi Conference of 19 Asiatic nations, which exhorted the SC to take drastic action against the Dutch, it is unlikely that the four-power resolution can be materially strengthened without sacrificing some of the seven votes required for passage. The resolution attempts to apply the maximum practical pressure on the Dutch to carry out their stated intention to establish a United States of Indonesia and specifically instructs the Dutch to deal with the Republic. Because of increasing pressure from the Dutch Labor Party and the rapidly deteriorating Dutch economic and military position in Indonesia, the Netherlands Government may be forced to modify its original stand against any SC resolution which materially restores the former position of the Republic. Any resolution capable of passing the SC is almost certain to be unsatisfactory to the nations which attended the New Delhi Conference. In such an event, or if the Dutch persist in their intransigence, these nations will probably exert greater economic and political pressure against the Dutch.

Resistance to Dutch Dutch military forces are now meeting considerable resistance in key areas of Java. On 18-19 January, the Dutch were forced to use aircraft and armored equipment to repel attacks by the Republican Army (TNI) at Jogjakarta, the Republican capital. In East Java, an area to which the Dutch have access only by air, well-armed guerrilla bands have been attacking large estates. TNI forces are also a threat to Dutch control over

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some sections of West Java. The Dutch commander in that area, under special powers given to him during the emergency, has arrested four pro-Republican leaders in the Pasundan (West Java) Party and has threatened more stringent action against those who continue to resist. In an effort to reduce growing resistance by the TNI, the Netherlands forces will probably employ stronger measures which, however, will only lead to increased violence.

CHINA

Military Situation With the completely demoralized and defeated armies of Chiang Kai-Shek retreating southward, the last major engagement of China's civil war appears to have been concluded. The Chinese Communist armies have reached the Yangtze and are awaiting orders momentarily to cross the river. Once south of the Yangtze, the only obstacles in the path of the Communist forces will be those of distance, terrain, and communications. Meanwhile, the capitulation of the ancient North China capital of Peiping on 22 January gave the Communists complete control of North China. The peaceful surrender of this city, as well as of Kalgan and Tientsin, has set a pattern which will probably be followed by the defenders of the Nationalist-held cities of Nanking, Shanghai, Hankow, Tsingtao, Sian, and possibly Taiyuan.

Continued Resistance Chiang Kai-Shek's "retirement" has left the Nanking Government under Acting President Li Tsung-jen so little bargaining power for the negotiation of a peace settlement that he will actually be forced to the unconditional surrender of a phantom government. Following this development, there

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SECRET**CHINA**

will be renewed resistance by the large number of Nationalist leaders who have little chance of surviving under a Communist regime. All evidence indicates that some of these leaders will form a new Nationalist center of anti-Communist resistance in South China and that Chiang Kai-shek will probably emerge from "retirement" to provide the necessary leadership. Such a development is suggested by: (a) the large-scale withdrawal of Nationalist military supplies and material resources to southeast China and Taiwan; and (b) the re-shuffling of key officials in the area in order to place authority in the hands of persons definitely loyal to Chiang. The probable re-emergence of Chiang, who would still retain the title of President as well as the support of many officials in the present National Government, would permit his regime to claim continuing international recognition. This Nationalist group, convinced that World War III is inevitable, would continue to hope for sufficient foreign aid to resist the Communists.

Communist Program Despite Chiang's "retirement," the Communists still regard him as their principal enemy. Current Communist propaganda accuses the US and the Kuomintang of plotting to build up South China and Taiwan as bases from which "to destroy the revolution." Communist denunciation of Chiang's retirement as a tactical maneuver inspired by the US also reveals the genuine concern of the Communists over Chiang's prospects, with US aid, for delaying the realization of the Communist program for establishing control over all China.

JAPAN

Election Results Both the extreme right and left made extensive gains at the expense of the center parties in the recent Japanese elections. Premier Yoshida's conservative Democratic-Liberal party won

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JAPAN

majority control of the Diet by taking 264 of 466 seats, a gain of 100. The present strong Democratic-Liberal position has eliminated the necessity for indecisive coalition governments, which have plagued the Japanese since the war, and promises increased governmental stability for the future. On the extreme left, the Communists jumped from the tenth largest Diet party to the fourth largest by adding 31 seats to the 4 which they had previously held. In comparison with 1947, however, the Communists only increased their popular vote from 3.7% to 5.7%, this increase being concentrated almost entirely in urban areas. Although the Communists will have little power in the Diet, their increased prestige will materially enhance Communist capabilities outside parliament.

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