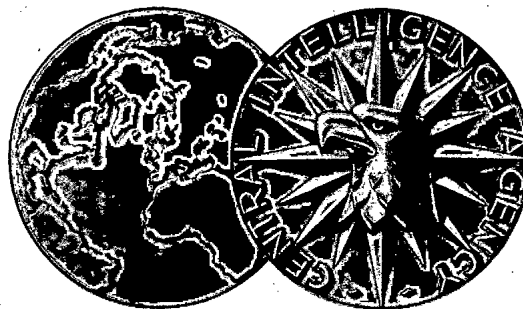


~~SECRET~~

# WEEKLY SUMMARY



Number 39

25 FEB 1949

Document No. ~~0~~ 1

NO CHANGE in Class.

DECLASSIFIED

Class. CHANGED TO: TS S C

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 2/2/78 By: 011

## CENTRAL INTELLIGENCE AGENCY

F18

~~SECRET~~

2350201

1. This publication contains current intelligence exclusively and therefore has not been coordinated with the intelligence organizations of the departments of State, Army, Navy, and Air Force.
2. This copy may be either retained, or destroyed by burning in accordance with applicable security regulations, or returned to the Central Intelligence Agency.

3 title pages  
2-3, 5, 5-6  
#39

**WARNING**

This document contains information affecting the national defense of the United States within the meaning of the Espionage Act, 50 U.S.C., 31 and 32, as amended. Its transmission or the revelation of its contents in any manner to an unauthorized person is prohibited by law.

**SECRET**

**C O N T E N T S**

	<b>Page</b>
<b>HIGHLIGHTS.....</b>	<b>1</b>
<b>WESTERN EUROPE.....</b>	<b>2</b>
<b>EASTERN EUROPE.....</b>	<b>5</b>
<b>NEAR EAST - AFRICA.....</b>	<b>8</b>
<b>FAR EAST.....</b>	<b>10</b>
<b>WESTERN HEMISPHERE.....</b>	<b>14</b>
 <b>ARTICLE</b>	
<b>    The Overseas Chinese in Southeast Asia.....</b>	<b>15</b>

**SECRET**

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

**The Israeli-Egyptian meetings at Rhodes, after six weeks of tortuous negotiations, have produced an armistice between the two most aggressive participants in the Palestine dispute. The conclusion of this armistice, which represents a considerable personal achievement for Acting UN Mediator Bunche, marks a solid advance toward stabilization of the Palestine situation (see page 8). However, because of the manifold practical problems yet to be solved, the achievement of a general settlement may be a long process.**

**The Dutch Government's latest plan for dealing with the Indonesian problem gives an appearance of partial compliance with the 28 January Security Council resolution but basically represents no change in Dutch policy on Indonesia (see page 11). Although the plan calls for Republican representation at a 12 March round table conference at The Hague, the Dutch significantly have made no provision for the restoration of Republican leaders to governmental authority before the formation of an all-Indonesian government, as required by the UN resolution. This failure will probably make the plan unacceptable to the Republicans.**

**Although the Argentine Government is apparently attempting to meet its continuing economic crisis by modifying its nationalistic economic policies, the time may have passed when such efforts can prevent a major political upheaval in the Peron Government (see page 14).**

**SECRET****WESTERN EUROPE****GERMANY**

**Growing Nationalism** The presence in western Germany of approximately eight million Germans expelled from the east is causing serious economic, social, and political problems. Most of these people, expelled from the Sudetenland and areas of Germany now under Soviet and Polish rule, are in the Bizone. Their treatment at the hands of the west German population and bureaucracy has embittered them and accelerated the formation of radical refugee pressure groups under irresponsible leadership. The original program laid down by the Allies for the incorporation of expellees into west German society provided for equal economic opportunity and proportionate representation in civil service. In practice, however, only inferior civil and private positions have been open to the newcomers and they have been the first to be discharged. Although all west German political parties are trying to win the votes of these disgruntled exiles, the expellees, rather than support any of the present political parties, including the Communists, are more likely to listen to the reckless promises of the embryonic nationalist groups. If such groups are permitted to operate as legal parties, expellee support might materially assist them in their drive for political leadership in the west German state of the future.

**ITALY**

**Communist Strength** The loss by the Italian Communist Party of nearly one-fifth of its members since the April 1948 elections may represent only a temporary set-back in Communist influence in Italy. Contributing to the decline in Communist strength have been: (1) the

**SECRET**

**SECRET****ITALY**

growing realization that national Communist parties are dominated by the USSR; (2) the loss of prestige and important financial backing following the poor showing in the 1948 national elections; (3) the reluctance of the workers to support the Communist-led strikes except on clear-cut economic issues; and (4) vigorous Vatican anti-Communist propaganda, recently made even more effective by the Mindszenty trial. Realizing that the Communist threat has lessened, conservative Italian elements may now feel less urgency in initiating economic and social reforms, a development which in turn would result in a stronger popular belief that these reforms will be implemented only by the Communists. Similarly, the increasing intransigence of organized industry toward labor demands may neutralize the potential effectiveness of the Free Confederation of Workers to combat the Communist-dominated Italian General Confederation of Labor, which still directs the trade union activities of most organized workers. In rural districts, many workers: (1) continue to support the Communist-led agricultural confederation because of the tangible benefits it has already brought them; and (2) regard the non-Communist agricultural unions with suspicion because they appear to be favored by both farm management and the national government. Thus, continued failure of the Government to fulfill its election promises for social and economic reform would threaten the currently high prestige of the Catholic Church and the Christian Democratic Party and tend to encourage the Italians to turn once again to the Communists.

**SPAIN**

**Economic Paralysis** The multiplying economic difficulties of the Spanish Government may lead to complete economic paralysis, and possibly political instability, before the end of 1949 unless foreign aid is forthcoming.

- 3 -

**SECRET**

**SECRET**

**SPAIN**

**A record drought has prolonged the severe hydroelectric power shortage which has afflicted the country since the fall of 1948. Most industries are operating only one day a week, and unemployment has increased steadily since September 1948. Lack of foreign exchange reserves precludes the purchase of the necessary equipment for rehabilitation of Spain's industry, particularly the deteriorated and inadequate transportation system. Moreover, continuance of the drought would threaten the current wheat crop and increase Spanish reliance on Argentine wheat. Argentina, however, faced with its own foreign exchange difficulties, may be reluctant to continue exporting wheat to Spain until the Franco Government can make good its \$109 million trade deficit under the Franco-Peron Protocol. Payment of this deficit now would impose a devastating drain on the financial resources of the Government.**

**- 4 -**

**SECRET**

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

**Soviet Wheat** The recent Soviet proposal at the International Wheat Conference that the USSR supply 20% of world wheat exports was probably made primarily for bargaining purposes. Such a proposition, however, indicates Soviet desire to reduce the participation of other wheat-producing countries such as Australia, Canada, and the US as well as to enhance Soviet ability to seek increased vital trade with western Europe. Moreover, the Soviet proposal made no mention of participation by Bulgaria, Hungary, Rumania, and Poland, countries which before the war exported 37 million bushels annually. Average prewar exports of wheat from the USSR were 22.8, and Soviet ability to commit the unusually large amount of 98.6 million bushels may be made possible by the inclusion of Satellite wheat. Thus, the Soviet bloc would be able to keep part of its exportable surplus of wheat free of international agreements. In a buyer's market, Satellite wheat could be sold under the guise of Soviet allocation or, during a world wheat shortage, this wheat could be sold openly at prices above the agreed international ceiling and in markets chosen for their maximum political advantage.

**Air Transport** Continuation of the present Soviet rate of production on medium and heavy air transports, now estimated to have surpassed the combined production of all other nations, would provide the USSR by 1952 with an air transport reserve far exceeding the requirements for normal expansion of civil air routes and other government programs. Replacement of the obsolescent PS-84 (DC-3) by the new twin-engine IL-12 on the principal Soviet air routes is now well advanced. This aircraft, placed in full production during 1948, is reported to be superior in all ways to the PS-84, having

**SECRET**



**SECRET****SOVIET UNION**

greater speed, range, and capacity. By 1952, unless production is curtailed, the fleet of IL-12's will constitute a formidable reinforcement to the transportation resources of the USSR. If line production is extended in 1949 to include the four-engine IL-18 or TU-70, civil air operations could be maintained or even extended with a smaller number of the new larger and faster types of aircraft, leaving a powerful fleet of transports in reserve for logistical use in an emergency.

**FINLAND**

**Increasing Stability** The Soviet war-of-nerves against Finland is being offset to a large degree by Finland's continued ability to maintain political and economic stability. The Social Democratic Government has maintained itself in power despite strenuous efforts by the conservative Agrarian Party and the Communist-led Democratic Union to overthrow it. In addition, although non-Communist Finns generally fear that Norwegian participation in the Atlantic Pact may bring added Soviet pressures on Finland (such as Soviet troop concentrations on the northern Finnish border, as already rumored), both the Finnish Government and its people appear determined to protect their prerogatives of independent action. Gradual improvement in the Finnish economy also is increasing Finnish resistance to Communist propaganda. Despite Communist charges that Finland needs closer ties with the USSR in order to offset the country's "insuperable economic difficulties," the Finnish Government has continued to improve internal economic conditions and is meeting its reparations payments to the USSR.

**SECRET**

**SECRET****GREECE**

**Economic Policy** The new coalition Government is proving more aggressive than its predecessors in facing financial problems. The Government has already: (1) announced a deadline for declaration by private citizens of their foreign assets; (2) tightened credit controls; and (3) imposed a capital levy, which is expected to yield an additional \$10 million for relief purposes. Despite the obvious need to find additional sources of revenue and foreign exchange, previous Greek governments under Populist domination hesitated to impose a capital levy or take steps to register foreign assets because of the drastic burdens these steps would impose on the Greeks who furnish the main financial support for the conservative parties. The decision to impose a capital levy reflects the weakened position of the Populists in the new coalition.

Although the Government is dealing more firmly with financial interests, it has been forced to yield to several recent labor demands for higher wages and may be forced to make further concessions during the scheduled renegotiation of other collective wage agreements. The cost of living rose 50% during 1948, and there are isolated indications that Communist influence in the trade unions is reviving. Consequently, the unions are less likely to accept compromises or mere promises and more likely to resort to strikes if their demands are not met.

**SECRET**

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

**Rhodes Armistice** The conclusion of an Israeli-Egyptian armistice at Rhodes, after six weeks of tortuous negotiations, represents a solid step toward stabilization of the Palestine situation, as well as a significant personal achievement for Acting UN Mediator Bunche. The possibility of renewed hostilities now appears remote. The Rhodes agreement will undoubtedly encourage Lebanon, Syria, and Transjordan (the latter is now authorized to negotiate for Iraq as well) to conclude similar armistice pacts with Israel.

Despite these auspicious signs, Arab reluctance to accord diplomatic recognition to Israel makes a de jure peace distant, and a variety of practical difficulties may well make implementation of a general settlement a long, drawn-out process. The joint armistice commission set up by the Israeli-Egyptian agreement must clarify a number of ambiguous terms in the armistice, and its work may be handicapped by adverse popular reaction in Egypt to the signing of the armistice.

The task of the UN Palestine Conciliation Commission in working out a general settlement will be complicated by conflicting territorial claims which, at least in theory, have not been prejudiced by the present armistice. (Although Israel remains in possession of Beersheba, for example, it is unlikely that either Egypt or Transjordan will abandon their claims to the town.) Another serious obstacle is presented by the insistence of the Arab governments that Israel permit the return of those Arab refugees who so wish and by Israel's disclaimer of any responsibility for them. Under these circumstances, achievement of a settlement will continue to require skillful mediation and the application of strong pressure by the major powers on the conflicting parties.

- 8 -

**SECRET**

**SECRET**

**Mediterranean Pact** Growing pressure for a Mediterranean counterpart of the Atlantic Pact may develop during the next six months from Greece and Turkey and other Near East states. Greece and Turkey, already recipients of substantial US aid, are concerned lest Atlantic Pact responsibilities should cause a slackening of US interest in the eastern Mediterranean. Because US-UK assurances of continued backing are unlikely to satisfy the Greeks and the Turks, they will probably attempt either to tie themselves to the Atlantic Pact or to obtain US-UK participation in a Mediterranean bloc. The Arab states and Iran have also recently shown greater interest in closer security ties with the US and the UK. Any efforts to conclude a Mediterranean pact, however, are sure to encounter strong Soviet opposition, including greater pressure against Iran, Greece, and Turkey.

- 9 -

**SECRET**

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

**Military Lull** Although the lull in the Chinese Communist military offensive may be partly caused by the necessity to rest and regroup, it is dictated primarily by the need to strengthen Communist political control over the newly-won territory north of the Yangtze River. Because the territorial gains of the past several months have greatly complicated the problems of administration, the Chinese Communists apparently do not wish to take over more territory until they have consolidated what they now hold. This consideration seems to have prompted Communist insistence on regional capitulation rather than a "national" settlement. Moreover, delaying the military campaign gives the Communists time to determine what military forces Acting President Li Tsung-jen can or will surrender to the Communists and what forces will remain at large and hostile. Although consolidation of their present position will absorb the energies of the Communists for weeks or perhaps months, there is no reason to believe that the Communists have altered their announced intention to push south of the Yangtze and proclaim a National Government of China before 1950.

**Possible Offensive** Despite the Communists' desire to consolidate their political control in North and Central China, they may be compelled to assume the offensive in Northwest China because of the threat to their eventual control of that area resulting from Nationalist-Soviet negotiations in Sinkiang. In a broadcast entitled "Calling Northwest Guerrilla Units," a new Communist radio station has called on all Nationalist forces in the northwest to surrender. General Peng Teh-huai, who commands the Communist troops around Sian, may take advantage of the withdrawal of Nationalist forces there to drive westward into eastern Kansu, aiming for Lanchou, gateway to the Northwest.

- 10 -

**SECRET**

**SECRET****CHINA**

**Nationalist Disunity** In the Nationalist ranks the split between the followers of "retired" President Chiang Kai-shek and Acting President Li Tsung-jen is accelerating the destruction of all semblance of unity in the National Government. Li's principal efforts are directed toward reducing Chiang's influence throughout Nationalist China. He may have won over General Ho Ying-chin, a close associate of Chiang during the past 20 years, who has suggested that Chiang's continued presence in China is interfering with Li's efforts to end the war. Meanwhile, Li's attempts to formulate a working agreement with the Cabinet in Canton are apparently proving fruitless, and he has been unable thus far to win the support of other prominent right-wing generals. There is only a slight prospect that Li will be able to consolidate his leadership over what is left of Nationalist China.

**INDONESIA**

**New Dutch Plan** Despite ostensible compliance with the Security Council resolution, the Dutch Government has not basically modified its policy on the Indonesian question during the past three weeks of Cabinet indecision. The Government's latest plan for dealing with the Indonesians, however, does represent a moderate gain for the more liberal ministers who have prevailed upon the Catholic Party not to reject the SC resolution flatly. Nevertheless, the Government still intends in practice to follow only those SC recommendations which coincide with its new plan. This plan calls for a 12 March round table conference at The Hague of all parties concerned with Indonesia. The Dutch hope to reach agreement on terms for the transfer of sovereignty to an all-Indonesian government shortly after

**SECRET****INDONESIA**

1 May, considerably ahead of the UN schedule. Those invited to participate in the discussions include the UN Commission for Indonesia and a delegation of Republicans selected by former President Soekarno. Although the Dutch have agreed to lift existing restrictions on the movement of Republican leaders, they have ignored the UN resolution by refusing to restore Republican leaders to governmental authority at Jogjakarta before the formation of an all-Indonesian government. This refusal will probably make the plan unacceptable to the Republicans and compel the UN Commission for Indonesia to issue an unfavorable report on Dutch compliance with the SC resolution.

**BURMA**

**Rice Crop** Burmese rice production and exports have diminished appreciably as a result of civil strife and a disintegrating economy. The decline will probably continue for some time despite efforts by the UK and the Commonwealth nations (India, Pakistan, Ceylon, New Zealand, and Australia) to find a means of restoring economic and political stability. Spurred by the prospect of economic dislocations throughout Southeast Asia which would ensue as a result of a stoppage of Burmese rice exports, the Commonwealth nations are considering plans to: (1) grant financial assistance to the near-bankrupt Burmese Government; and (2) halt the racial strife between Karens and Burmans as the first step toward attaining political stability in Burma.

A negotiated settlement of the fighting is a remote possibility at present in view of the great disparity in the demands of the conflicting parties, the confidence of the Burmans in their ability to win the civil war, and the pathological opposition of the Burmese to foreign interference.

**SECRET**

**SECRET**

**BURMA**

However, the Burmese Government may become more amenable to a negotiated settlement if, as is becoming increasingly possible, the war goes against it. Without a peaceful settlement, implementation of Commonwealth plans for bolstering the financial condition of the present government would at best be a temporary palliative designed to insure the movement of the current rice crop to Burman ports. Financial assistance alone would not produce the peaceful conditions essential for the planting and harvesting of subsequent rice crops.

**SIAM**

**National Emergency** By declaring a state of national emergency in Siam, Premier Phibul may be putting himself in a position to take the measures necessary to prevent the overthrow of his regime. Factional unrest is increasing within Siam's rival political groups; and the Government undoubtedly fears the spread of Communist disorders to Siam. In the event of a breakdown of the negotiations now presumed to be in progress with his principal rival, Pridi (lately returned from self-imposed exile), Phibul will probably again air the charge that Pridi has Communist tendencies. Meanwhile, the state of national emergency affords Phibul some measure of protection against any coup d'etat that the Pridi clique might engineer.



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

**Crisis Continues** Despite some signs that the Peron Government is changing its nationalistic economic policy in a last-minute effort to avoid overthrow, it is possible that these efforts have been delayed too long to prevent a major political upheaval. Moreover, the administration may find it impossible to retain sufficient support to accomplish the changes in economic policy necessary for obtaining a life-saving foreign loan. The increasing influence in the Peron regime of the advocates of a more international-minded economic policy is indicated by: (1) the recent request for US views on the advisability of accepting a Soviet offer to purchase--for dollars or gold--Argentina's entire exportable surplus of fats, oils, and hides; (2) tentative overtures toward joining the World Bank and International Monetary Fund; and (3) the dismissal of economic czar Miguel Miranda, who was the principal advocate of high export prices and a state-controlled economy. Peron's commitments in the past to a policy of Argentine economic independence and the influence of nationalist elements may frustrate these efforts to avert economic disaster. Argentina has withdrawn from the International Wheat Conference; has failed to accompany overtures for a US loan with satisfactory commitments for prompt repayment; and has made no promises either to reduce anti-US propaganda or accord more favorable treatment to US business. Meanwhile, the demand for Argentine exports is decreasing and internal inflationary pressures are being aggravated by reduced production and continuing strikes.

**SECRET**

**SECRET****THE OVERSEAS CHINESE IN SOUTHEAST ASIA**

The serious prospect of a Communist-dominated China brings into sharp focus the role which the overseas Chinese communities can be expected to play in the future. There are more than nine million overseas Chinese, and they comprise a prosperous and influential group in Southeast Asia. Their industry and quiet respectability as citizens give them wealth and prestige which is disproportionate to their numerical strength. However, their strong sense of nationality and their carefully-maintained ties with the homeland make them largely unassimilable. It is this combination of the successful colonizer and the unassimilable nationalist which makes the overseas Chinese potential instruments of an aggressive Chinese foreign policy. No government of China could be unaware of this potentiality.

Considering the relative wealth of the Chinese overseas community, Chinese Communist influence has made surprising inroads. Communism has spread to such an extent among the Chinese communities in Malaya as to make it the focal point for expansion throughout Siam, the Philippines, and Indonesia. Already a number of wealthy Chinese merchants in Malaya have identified themselves in some way with Communist Party interests. This tendency apparently can be explained only by a desire to be a part of the Communist movement when it assumes an expected ascendancy in Southeast Asia.

Although the Kuomintang organization and secret societies in Southeast Asia are strong and well entrenched, they appear to be losing influence to the Communists. Some of these Kuomintang elements may go underground following a Nationalist collapse, but in general the overseas Chinese

- 15 -

**SECRET**

**SECRET**

**communities will probably serve the interests of a Communist-dominated government in China. In the meantime, Chinese Communist elements in Southeast Asia are expected to continue their efforts to gain political control of the Chinese overseas communities and to cooperate with armed resistance movements now struggling for power with the various governments in the area.**

- 16 -

**SECRET**

**SECRET****DISTRIBUTION**

1. . . . . The President
2. . . . . Secretary of State
3. . . . . Chief of Staff to Commander in Chief
4. . . . . Secretary of Defense
5. . . . . Secretary of the Army
6. . . . . Secretary of the Navy
7. . . . . Secretary of the Air Force
- 8,70. . . . . Chairman, National Security Resources Board
9. . . . . Executive Secretary, National Security Council
10. . . . . Assistant Secretary of the Navy for Air
- 11,69. . . . . Chief of Staff, U.S. Army
- 12,13,14. . . . . Chief of Naval Operations
- 15,16,17. . . . . Chief of Staff, U.S. Air Force
18. . . . . Director of Plans and Operations, General Staff, U.S. Army
19. . . . . Deputy Chief of Staff (Operations) U.S. Air Force
20. . . . . Deputy Chief of Naval Operations (Operations)
21. . . . . Director of Plans and Operations, U.S. Air Force
- 22,23,24. . . . . Special Assistant to Secretary of State for Research  
and Intelligence
- 25,26,27,28,29, 30,31,32,33,34. . . . . Director of Intelligence, General Staff, U.S. Army
- 35,36,37,38,39, 40,41,42,43,44. . . . . Chief of Naval Intelligence
- 45,46,47,48,49. . . . . Director of Intelligence, U.S. Air Force
50. . . . . Director of Security and Intelligence, Atomic Energy Comm.
51. . . . . Executive Secretary, Military Liaison Committee,  
Atomic Energy Commission
- 52,53,54,55,56. . . . . Chief, Acquisition & Distribution Division, OICD, Dept. State
57. . . . . Director, Federal Bureau of Investigation
58. . . . . Secretary, Joint Chiefs of Staff
59. . . . . Chief, Policy Planning Staff, Department of State
60. . . . . Secretary of State (Attention: Chief, Policy Reports Staff)
61. . . . . Deputy Director, Joint Intelligence Group, Joint Staff
- 62,63. . . . . Secretary, Joint Intelligence Group, Joint Staff
65. . . . . US Air Force Representative on Joint Strategic  
Survey Committee
- 66,67. . . . . Secretary, State-Army-Navy-Air Coordinating Committee
68. . . . . Administrator, Economic Cooperation Administration

**SECRET**

~~SECRET~~