

~~SECRET~~

~~SECRET~~

~~SECRET~~

COPY NO. 90

# WEEKLY SUMMARY



Number 65

**26** AUG 1949

*F-18*

Document No. 00/  
NO CHANGE in Class.   
 DECLASSIFIED  
Class. CHANGED TO: TS S C  
EDA M.No. 4 Apr 77  
Auth: DDA R.G. 77/1763  
Date: 01-02-78 By: 013

## CENTRAL INTELLIGENCE AGENCY

*Archival Record  
Return to Archives & Records Center  
Immediately After Use*

STAT

~~SECRET~~  
ARCHIVAL RECORD  
PLEASE RETURN TO  
AGENCY ARCHIVES,

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.

**W A R N I N G**

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.

**S E C R E T**

**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>11</b>
 <b>A R T I C L E S</b>	
<b>European Cooperation .....</b>	<b>13</b>
<b>Soviet Aims in Manchuria .....</b>	<b>15</b>

**S E C R E T**

## S E C R E T

## H I G H L I G H T S

The heated propaganda battle between Tito and the Kremlin continued to hold the world's attention during the past week as the Yugoslav Government shrewdly invited the USSR to discuss all outstanding problems but firmly restated its own national sovereignty. Meanwhile, the Finnish Communists have encountered energetic governmental resistance to their campaign of crippling strikes (see page 5). The Communists have thus far hampered Finnish production and shipping at a crucial time, but they will be unable either to unseat the Social Democratic Government or to bring the national economy to a standstill.

The Palestine Conciliation Commission, in tacit admission of the failure of the Arab-Israeli talks at Lausanne, has taken a new tack in its search for a solution to the Palestine problem by accepting a US suggestion that an economic survey group be established to find answers to the focal economic difficulties in the situation (see page 8). The time required by the group to design a program for re-settlement of the Arab refugees and for raising the economic level of the area will probably prevent detailed consideration of the Palestine question during the September session of the UN General Assembly. However, prospects for solution of the Italian colonies question at the forthcoming GA session have recently been improved by the shift of all major western powers, except France, to the support of early independence for Libya (see page 9).

In China Communist military forces moved on successfully in the northwest, slowed down somewhat on the south central front, and maintained a steady pace along the southeast coast (see page 10). Present indications are that the Communists will gain control of the mainland coastal area opposite Chiang Kai-shek's stronghold on Taiwan within the next few weeks.

- 1 -

S E C R E T

S E C R E T

## W E S T E R N E U R O P E

**WFTU Tactics** Recent wage and hour demands by Communist labor in France and Finland reflect a major shift in World Federation of Trade Union strategy, as a result of the failure to arouse sufficient worker support of last year's "political" strikes. In its efforts to retard production and stimulate inflation in non-Soviet countries, the WFTU is now apparently concentrating on the exploitation of traditional trade union grievances. National Communist affiliates of the WFTU are evidently abandoning their previous programs for political agitation and are concentrating on "legitimate" wage and hour increase demands, to be coordinated as far as possible with non-Communist labor elements. The broad strategy will be to extend initial strikes of Communist unions within individual industries to a walk-out of all Communist unions, while attempting to gain sufficient non-Communist support to develop a general strike. In order to achieve such widespread strike action, the interested WFTU trade departments will probably supply financial and organizational aid whenever the investment promises substantial returns.

## G E R M A N Y

**Ruhr Coal Production** Unless Ruhr coal production is increased, German industrial production targets for 1949-50 will be met with difficulty. Ruhr coal production for the 1949-50 period is now expected to total 3.4 million tons less than requirements. This shortage can be met either by the import of high-priced coal from Poland and the UK or by the imposition of additional economies among

- 2 -

S E C R E T

**S E C R E T****GERMANY**

secondary coal consumers. Only the use of a greatly-augmented labor force has maintained total coal production at its present level inasmuch as the daily output per man-shift is appreciably below that of the prewar period. This poor showing in daily individual output can be traced in part to low living standards, particularly poor housing, and to worn and obsolete equipment. A planned increase in subsidies for new equipment, as well as an impending reorganization of the mining industry, may somewhat increase individual productivity.

**FRANCE**

**Wage Raise** The growing capabilities of the General Confederation of Labor (CGT) for launching a powerful strike offensive will probably force the French Government to grant some form of wage concession by early fall. Any material wage relief, in addition to weakening considerably the CGT's present campaign for "unity of action" among non-Communist labor leaders, would reduce labor's hostility to the Government's firm wage control policy. The Labor Minister's recent arbitrary grant of a vacation bonus to social security employees has aggravated labor's antagonism toward the Government as well as making universal wage demands more difficult for the Government to resist. Although the CGT has demanded the raising of basic wage rates, prompt approval by the Government of a modest bonus would probably check the growing trend of non-Communist labor toward support of the CGT's strike plan for the coming fall.

**S E C R E T****THE NETHERLANDS**

**Roundtable Conference** The advocates within the Netherlands Government of a conciliatory Indonesian policy are in a moderately strong position at the roundtable conference on Indonesian independence which got under way this week. Support of the Government's Indonesian policy in Parliament was surprisingly strong from the parties represented in the Cabinet, and no evidence of active opposition developed. Although participation in the conference by a Dutch delegation including parliamentary leaders representing all political parties except the Communists may prolong negotiations, such general representation will also probably assure parliamentary approval of any settlement resulting from the conference.

**ICELAND**

**General Elections** Although general elections scheduled for October will probably not result in a government strong enough effectively to cope with Iceland's political and economic problems, an improvement over the former three-party coalition can be expected. The solution of the present economic problems, growing out of a wartime-encouraged high standard of living and an inflated wage scale, proved too difficult for the last government. The new Parliament will face the necessity of instituting an austerity program designed to lower the standard of living and to ease inflationary conditions. Communist prospects for participation in the new government are nil.

**S E C R E T****E A S T E R N E U R O P E****FINLAND**

**Finnish Strikes** Although the Finnish Communists have succeeded in interfering with production and shipping at the height of Finland's export season, the Communists will be unable either to unseat the Social Democratic Government or to bring the economy to a standstill. The Government has demonstrated its determination to meet force with force and has taken emergency measures to insure the continued movement of foreign trade. Many striking workers have already returned to work and in several unions the rank and file have indicated strong opposition to projected strikes. The refusal by several Communist-dominated labor unions to call off their strikes has led to their expulsion from the Finnish Federation of Labor (SAK) and these Communist-led dissidents will probably set up a separate labor federation to compete with the SAK. Although the Communists have been successfully exploiting the understandable anxiety of the workers following devaluation of the finmark, the Finnish Communists are incapable of forcing the Social Democrats out of office and, without the aid of Soviet forces, they are certainly incapable of the forcible overthrow of the Government at this time. Other than to quote via radio the Finnish Communist charges that the Government's anti-strike measures violate their peace treaty, the USSR has remained aloof from the strike situation.

**HUNGARY**

**New Constitution** The new Soviet-type constitution adopted 18 August by Hungary's National Assembly provides the basis for future measures necessary to create a completely Socialist state. Heretofore, all the "Peoples"



**S E C R E T****HUNGARY**

Democracies" (except Poland and Hungary) have had constitutions which retained such concessions to the bourgeois elements in their governments as recognition of private ownership of certain means of production and guarantees of land ownership by those who tilled the soil. In the Communist system, these provisions are recognized as merely temporary until complete nationalization of industry and complete collectivization of agriculture can be achieved. The new constitution legalizes previous governmental decrees and makes further changes, which bring the governmental structure at both national and local levels closer to the Soviet pattern. Although the constitution provides for separation of Church and State, its purpose is undoubtedly to eliminate the Church's influence in government affairs. Moreover, the facility with which the constitution can be amended to restrict basic human rights will make Hungary's forced approach to communism through socialism a routine matter.

**GREECE**

**Greek-Albanian Tension** Although the question of Albanian support for the Greek rebellion will assume new importance as the current Greek army offensive develops in the Grammos area, the Greek Government will probably avoid any rash action against Albania so long as Greece is preoccupied with major guerrilla concentrations within its borders. The number of Greek guerrillas harbored in Albania may now total more than 10,000 as the result of the recent withdrawal of some 5,000 rebels from the Vitsi sector, and flagrant Albanian support for new guerrilla attempts at large-scale border crossings may therefore inflame Greek popular resentment. The Greek press, however, has thus far

## S E C R E T

## GREECE

largely avoided the inflammatory issue of old territorial claims against Albania; Greek officials are waiting to see whether the General Assembly in its September session will make any move to control hostile frontier traffic; and the Greek Army is unlikely to make sizable forays into Albania unless provoked more than during the recent Vitsi battle by action originating from Albania. Although the Greeks would still be tempted to take part in the overthrow of the relatively weak pro-Soviet regime in Albania if the development of the Tito-Soviet quarrel provided a suitable opportunity, Greece would still be concerned over the uncertainties of the Balkan situation and would remain basically distrustful of Tito. Thus, unless the Greeks feel that they can rely upon US-UK acquiescence in specific measures against Albania, they will, however reluctantly, maintain a cautious attitude until they can better appraise the course of the Tito-Soviet quarrel and until they are more certain of their own progress in anti-guerrilla operations.

S E C R E T

## S E C R E T

## N E A R E A S T - A F R I C A

## P A L E S T I N E

**US Plan** With the Lausanne talks of the Palestine Conciliation Commission (PCC) an admitted failure, the Commission has now accepted a US suggestion for a new approach to the Palestine problem, a suggestion based on the hope that the adoption of an economic development plan for the entire Arab-Israeli area might indirectly bring about a political settlement. While the PCC itself takes a back seat, an economic survey group responsible to it is to be sent to the Near East, where it will attempt: (1) to work out measures leading to resettlement of the Arab refugees; and (2) to plan a long-term development program to raise the economic level of the area. In attempting to solve the refugee problem, the economic survey group will probably concentrate on Jordan, Syria, and Israel, the three countries likely to absorb the great majority of the Arab refugees. By implying that additional refugee relief funds might not be forthcoming from UN members, primarily the US, unless a compromise were reached, the economic survey group could put pressure on both Arabs and Jews. The establishment of the economic survey group and the time required to make its study and report will probably enable opponents of a full discussion of the Palestine problem in the General Assembly to delay a general debate on Palestine until at least the middle of the session. Thus, although the Arabs will undoubtedly find some earlier opportunities for airing their views before the UN, the GA may have little time in which to attempt a definitive Palestine settlement before the end of the fall session. The development of an acceptable aid program by the survey group might lead to a solution of the refugee problem and thus facilitate a political

**S E C R E T****PALESTINE**

settlement. Such a program, however, would require substantial material aid to both Israel and the Arab states and, unless the necessary dollars and pounds sterling are assured, the economic survey group's blueprint is likely to share the fate of its many predecessors.

**ITALIAN COLONIES**

**GA Action** Early independence for a united Libya will probably be supported by all the major western powers, except France, at the fall session of the UN General Assembly. The US and the UK will probably continue to support the cession of the bulk of Eritrea to Ethiopia and the establishment of Italian trusteeship over Somaliland, which Italy would enthusiastically accept. The French, however, fear the probable repercussions of premature Libyan independence on nationalist elements in French North Africa. Consequently, although the French may reluctantly accept limited independence for Cyrenaica, they will strongly oppose a similar status for Tripolitania or the unification of the two under the Senussi whose religious influence in French North Africa the French claim to fear. Hoping to capitalize on a favorable Arab reaction and to gain a preferred economic position in Tripolitania, Italy has abandoned its efforts to acquire a Tripolitanian trusteeship and now favors early Libyan independence.

**S E C R E T**

## S E C R E T

## F A R E A S T

## C H I N A

**Military Scene** The Communist military advance in China last week continued successfully in the northwest, slowed somewhat on the south central front, and maintained its steady pace along the southeast coast. In remote Kansu, where the two rabidly anti-Communist Mas had promised to put up stiff resistance, the vanguard of Communist forces reached the outskirts of the provincial capital of Lanchow without encountering any real opposition. Ma Pu-fong, commander of the largest force in the area, has reportedly ordered a withdrawal of his troops to positions nearer the capital city of Hsining in his home province of Tsinghai. Ma Hung-kuei, the other Moslem guardian of the northwest, is reported to have advised Chiang Kai-shek that his forces are reduced to twelve rounds of ammunition per man. Chiang's reply--that Ma should fight until down to six rounds per man and then revert to guerrilla tactics--indicates that the Nationalist leader has written off the Mas. Strong resistance by Nationalist Commander Pai Chung-hsi has slowed the Communist advance against his positions in Hunan. Meanwhile, the Communists have captured Foochow, the capital of Fukien Province and a major port opposite Taiwan, and are now moving down the coastal highway towards the port of Amoy. The Communists will probably gain control of all the mainland coastal area opposite Chiang's Taiwan stronghold within the next few weeks.

**S E C R E T****W E S T E R N H E M I S P H E R E****PARAGUAY**

**Government Crisis** Although the present Paraguayan one-party government has been functioning since 26 February 1949 with relative smoothness, a serious split now developing will probably result in the forceful overthrow of the present regime. The breach began in rivalry between the chief of the Colorado Party and the President, each of whom aspires to control of both the government and the party, and now extends through the Cabinet, the party, and into the army. Army leaders, who were instrumental in installing the present civilian government but who are now dissatisfied with their subservient role in President Molas Lopez' administration, are taking sides in the political struggle and will probably be the deciding factor in the contest for power. Thus far, most of the Army appears to support Chaves, the Colorado Party leader, but the balance of power is held by the dominant First Cavalry Division which has not indicated, as yet, which faction it will support. Should the cavalry refuse to act, a reconciliation between the major contenders is still possible. A more likely development, however, would be the forceful expulsion from the Government of one group by the other. In either event, there is slight likelihood of long-term political stability.

**CHILE**

**Labor Unrest** The present labor crisis in Chile appears to be easing somewhat, but the government is still confronted with a difficult situation. Recent student-labor rioting in Santiago over increased transit fares

**S E C R E T**

**S E C R E T****CHILE**

was immediately exploited by Chilean Communists, who succeeded in converting the disturbances into serious Communist-instigated strikes and similar disturbances in the future might easily develop into a general strike. If a general strike takes place, President Gonzalez may be forced to decide between: (1) drastic repressive measures, which would further alienate labor and play into the hands of the Communists and other administration opponents; and (2) already-proposed reforms, which might pacify labor but which would also estrange conservative supporters of the President. If Gonzalez were to reject both alternatives, the only course would be to retire in favor of a junta probably including the present Ministers of Interior and National Defense. Even though such a junta would be capable of restoring order, it could do little to solve the basic political and economic problems of: (1) declining revenue from copper exports; (2) spiralling cost of living; and (3) a great need for agrarian reforms which have been blocked by conservative elements.

**S E C R E T**

S E C R E T

## EUROPEAN COOPERATION

The recent change in the Belgian Government and the present critical stage in the distribution of the European recovery aid through the Organization for European Economic Cooperation (OEEC) may provide the opportunity for the elevation of former Premier Spaak of Belgium to a position of eminent leadership in postwar Europe. The post of director general of OEEC has not yet been created, primarily because of British opposition to a truly strong OEEC secretariat, and Spaak, who is a recognized political leader from a small European nation, an energetic champion of European cooperation, and the recently elected president of the European Consultative Assembly, in many ways possesses the experience to head the OEEC. Moreover, the present political atmosphere in Western Europe is much more promising for the establishment of a strong OEEC than it was last fall when stubborn British opposition resulted in the compromise appointment of a Consultative Group of Ministers as OEEC leaders. An intensified dollar shortage in Western Europe, plus the prospect of sharp reductions in the European recovery funds from the US, will probably force the recipient nations to accept greater strengthening of OEEC leadership during the period ahead. Furthermore, the UK, already confronted with a critical dollar shortage and seeking an increase in its share of European recovery aid, will be in no position to object to a strengthening of OEEC powers and leadership.

The appointment of an international figure as OEEC director general with broadened powers could contribute substantially toward the establishment of increased economic cooperation in Western Europe and at the same time provide OEEC with greater prestige for facilitating the allocation

- 13 -

S E C R E T



**S E C R E T****SOVIET AIMS IN MANCHURIA**

Soviet efforts to gain military and economic control over Manchuria have been motivated by Soviet ambitions to become a dominant power in the Pacific and by the realization of Manchuria's strategic protecting position in relation to eastern Siberia. Overall Soviet strategy is based upon the maintenance of a separate military establishment in the Far East which, even during World War II, was kept at full strength. Largely to provide support for this separate military establishment, Soviet leaders have given high priority to the development of the economic self-sufficiency of the Soviet Far Eastern areas. Control over Manchuria will also shorten the Moscow-Vladivostock railroad route by seven hundred miles and provide the USSR with a year-round, warm-water port for the development of naval power and commerce in the Pacific. Moreover, Manchurian raw materials can be used to supply industries in west Siberia and the Soviet Far East, to acquire foreign exchange, and eventually to exert strong economic pressure on Japan, North Korea, and China.

The USSR is now in an excellent position to exploit Manchuria's great military and economic potential. Under the terms of the Sino-Soviet Treaty of 1945 (concluded with the National Government), the USSR legally acquired extensive extraterritorial rights in Manchuria and joint ownership with China of the Changchun railway. The Chinese Communists, in publicly endorsing the special position of the USSR in Manchuria recently, hailed it as being in the best interests of the Chinese people and as a protection against "american imperialism." After the Communist capture of Peiping, the Chinese Communist Party transferred its headquarters and top personnel from Manchuria. Although the Chinese Communists have established a government in Manchuria, it is

**S E C R E T**

S E C R E T

subservient to Soviet "advisers." The recent conclusion of a Soviet-Manchurian trade agreement gave de facto Soviet recognition to the Manchurian Communist regime and officially established a precedent for direct Soviet-Manchurian relations. Presumably in an attempt to conceal the conflict between the special Soviet position and Chinese sovereign rights in Manchuria, the Chinese Communists have acclaimed the pact as evidence of Soviet friendship and a forerunner of Soviet assistance in industrializing China.

- 16 -

S E C R E T

## S E C R E T

## DISTRIBUTION

1. . . . . The President  
 2,64. . . . . Secretary of State  
 3,4 . . . . . 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  
 9,71. . . . . Executive Secretary, National Security Council  
 10. . . . . Assistant Secretary of the Navy for Air  
 11,69. . . . . Chief of Staff, US Army  
 12,13,14. . . . . Chief of Naval Operations  
 3 15,16,17. . . . . Chief of Staff, U.S. Air Force  
 18. . . . . Director of Plans and Operations, General Staff, US 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, Director of Intelligence, General Staff, U.S. Army  
 30,31,32,33,34  
 35,36,37,38,39, Chief of Naval Intelligence  
 40,41,42,43,44  
 5 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, OCD, 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  
 68. . . . . Administrator, Economic Cooperation Administration

S E C R E T

Document No. 001  
 NO CHANGE in Class.   
 DECLASSIFIED  
 Class. CHANGED TO: TS S C  
 DDA Memo, 4 Apr 77  
 Auth: DDA REG. 77/1763  
 Date: 01-02-78 By: 013

~~SECRET~~