

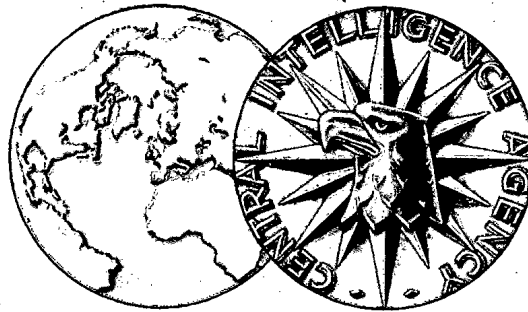
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WEEKLY SUMMARY



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H I G H L I G H T S

While US and British leaders were meeting in Washington during the past week in an effort to arrive at an understanding concerning the United Kingdom's acute dollar shortage, there was little change in those situations elsewhere in the world where US security is most sensitively affected. Indications continue to grow that the economy of Yugoslavia is being oriented toward the West, a development which will be greatly accelerated by the conclusion of the billion-dollar British-Yugoslav trade agreement now being negotiated (see page 12).

The possibility that the Kremlin may seriously strive to reach a settlement of the Greek problem at the forthcoming UN General Assembly meeting has been strengthened by the recent marked reduction in the capabilities of the Greek guerrillas and the impact of the Soviet-Yugoslav dispute on the Greek policy of the USSR (see page 5). Meanwhile, the Greek Government has been taking steps to bolster its position in anticipation of General Assembly consideration of the matter at this session (see page 6).

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

F R A N C E

Political Crisis The current wage and price program of the Queuille regime is not expected to forestall a political crisis, which will probably come to a head by November. Farmers as well as workers are becoming increasingly dissatisfied with both rising prices and the Government's program. Hence the Cabinet's measures may actually serve to promote serious farm and labor unrest instead of averting it. The Government hopes to: (1) bring some reduction in the pressure for higher wages by permitting limited emergency food imports in order to lower prices; (2) benefit farmers by removing import quota restrictions on certain industrial items; and (3) halt inflation by directing the Bank of France to tighten credit. Food imports are unlikely to lower prices rapidly enough to prevent labor unrest from developing into widespread strike action; the Cabinet's decision to retain import duties will diminish the effectiveness of increased imports in reducing prices; and, although the directive on credit will discourage stockpiling of scarce goods, Bank of France officials may well continue to circumvent such Government orders. As economic groups become more hostile toward the Government and one another, the Government's prestige will be weakened as it approaches the greatest parliamentary test of the year in October.

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ITALY

Delay in Reforms The policies of the dominant groups in the majority Christian Democratic Party are jeopardizing the achievement of much-needed social and economic reforms in Italy. If Premier De Gasperi maintains the present coalition--which he is anxious to do as long as it serves to support his party--he will be forced to avoid action which might arouse strong political opposition. He will, therefore, not be in a position to achieve an adequate solution of Italy's major social and economic problems. Such a solution would also be delayed if DeGasperi succumbs to increasing pressure from both the right and left wings of his party to govern alone. Such a single-party government would presumably be controlled by the Christian Democratic Party's right wing, which is closely associated with conservative and wealthy Italian elements, and would oppose any legislation appreciably altering the economic status of the underprivileged.

ITALIAN COLONIES

Independence Move The disposition of the former Italian colonies of Eritrea and Somaliland may be complicated in the forthcoming session of the General Assembly by the rapid growth of the independence movement in the area. In Eritrea, the loosely-organized Independence Bloc (Moslem) now apparently represents at least two-thirds of the population and has replaced the Union With Ethiopia Party (Coptic) as the largest single political group. Italy, hoping to recapture a favored position in an independent Eritrea, is encouraging the Independence Bloc. The Bloc may send a delegation to the heard at the UN, thus embarrassing the US and the UK,

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ITALIAN COLONIES

which are committed to the cession of most of Eritrea to Ethiopia. Meanwhile, the violently anti-Italian Somali Youth League is advocating immediate independence for Italian Somaliland, or, if that is not feasible, a UN trusteeship from which Italy would be excluded. It has been estimated that between 50 and 70 thousand Somalis would resort to violence if the Italians returned and that if their effort proved initially successful, they would be supported by an additional 250 thousand Somalis.

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

Grain Production While drought conditions in Western Europe have had a generally adverse effect on cereal crop production, the grain harvest in the Soviet orbit is expected to show a moderate increase over 1948 production. Total cereal production in the orbit will still be below prewar, however, and any real improvement in the individual bread rations will be precluded by: (1) population increases; (2) export commitments, dictated by political policy or economic expediency; and (3) stockpiling, regardless of normal requirements. The USSR has shown the largest increase in bread grain production while Albania, Hungary and Yugoslavia are actually exceeding prewar. Rumania alone will fail to exceed 1948 production. Lack of fertilizers and equipment continue to keep the crop in the Soviet Zone in Germany substantially below prewar level.

G R E E C E

GA Action Faced by a marked reduction in Greek guerrilla capabilities and the impact of the Tito-Cominform struggle on Soviet policy toward Greece, the USSR may be seriously considering the desirability of achieving a settlement of the Greek problem at the forthcoming General Assembly meeting. In any such settlement maneuvers, Albania would figure prominently because of: (1) Soviet interest in maintaining firm control over this Satellite outpost; (2) the presence in Albania of the largest remaining guerrilla-manpower pool; and (3) the potential explosiveness of Greek-Albanian relations. Current Soviet threats to charge Greece and Yugoslavia with hostile designs against Albania may, in fact, be the beginning

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GREECE

of an attempt by the Kremlin to seal the Greek-Albanian border and to call off the ill-fated guerrilla war without losing face. Abandonment of the Greek venture might enable the USSR to regain some initiative in Balkan affairs and would leave it freer to concentrate its efforts against Yugoslavia. Even if the USSR does take steps at the GA to settle the Greek problem, however, it is extremely unlikely that the Kremlin would associate itself with any UN proposal regarding Greece which did not provide in some way for: (1) a declaration of a wide amnesty, including the extension of political rights to most if not all guerrillas; (2) a commitment by the Greek Government to hold free parliamentary elections soon; and (3) establishment of a border commission, including the USSR, to control Greece's northern frontiers.

Greek Moves Greece is preparing for GA consideration of the guerrilla issue by: (1) taking steps toward the solution of domestic aspects of the problem; and (2) re-emphasizing the importance of international action to seal Greece's northern borders. The Greek Government will soon announce a broad program which may provide re-education and amnesty for all guerrillas except the hard core and leadership, stays of execution for crimes connected with the rebellion, and an early date for national elections. To prevent Communist political resurgence, however, the government will reaffirm the illegal status of the Greek Communist Party and will probably deny civil and political liberties to Communists and former guerrillas for some time. On the other hand, the Greek Government, the press, and the radio are giving wide publicity to the crucial role Albania played in preventing the annihilation of guerrillas in the Vitsi and Grammos areas, and Foreign Minister

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GREECE

Tsaldaris has said that recent Albanian orders to disarm and intern guerrillas are no more to be trusted than similar assurances given a year ago. With guerrilla strength inside Greece reduced to about 5,000 by successful Greek Army action in the Vitsi, Grammos, Beles, and other areas, and with the Yugoslav border closure largely effective, it is apparent that continuation of an organized guerrilla movement within Greece will depend primarily on Albanian support in reorganizing, equipping, and committing the estimated 12-15,000 guerrillas now in Albania. By stressing this fact and by setting up a framework for internal pacification, the Greek Government apparently hopes to encourage the UN to make every effort to solve the border problem but to keep out of Greek domestic affairs.

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

P A L E S T I N E

Economic Mission The Palestine Conciliation Commission's establishment of an economic survey mission has had a mixed reception in the Near East. Israel, which welcomes the mission as providing a basis for delaying or averting General Assembly discussion of the Palestine issue, has promised to assist the mission and to give "full consideration" to any proposal it may make. The Arab states, on the other hand, are likely to give the mission only half-hearted cooperation at best. They regard the new emphasis on the economic approach to the Palestine dispute as involving tacit recognition of Israel's de facto political position. In addition, they are generally suspicious of still another investigating group and, with some cynicism, expect Israel to get the lion's share of any benefits of the mission's work. The Lebanese Foreign Minister has gone so far as to charge that the mission was really set up to help Israel settle its current economic difficulties, while Iraq wants the mission to confine itself to innocuous questions of economic development, excluding even the refugee problem as too controversial.

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F A R E A S T

CHINA

Current Situation As the Communist-controlled Political Consultative Conference reportedly met to form a "coalition government" which will proclaim its authority over China from Taiwan to Tibet, the various military fronts in China either moved slowly or were temporarily stabilized, and the Nationalist military situation was made even more untenable by a reported revolt in Yunnan. Although apparently settled without bloodshed, the revolt probably is preliminary to an eventual accommodation between Yunnan and the Communists. According to late dispatches, the differences between Chiang Kai-shek and Governor Lu are in process of amicable negotiation which may defer for some time a genuine break between the Nationalist Government and the provincial authorities. The situation in Kunming, capital of Yunnan, remains quiet but tense.

Meanwhile, the Communist forces of Chen Yi, advancing on the south-central front, reached Amoy bay and are now within ten miles of Amoy. Communist irregulars are active in the entire sweep of Kwangtung northeast of Canton and are within 35 miles of the present Nationalist capital. The regular Communist forces advancing on Canton, however, restricted their movements to probing actions along the railway south of Hengyang. In the far northwest, the forces of Ma Pu-fang continued their "strategic withdrawals" and reportedly relinquished Hsining, capital of Tsinghai, to the Communists.

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INDOCHINA

Ho's Defiance Recent defiant statements by Ho Chi Minh's resistance government in Indochina have virtually eliminated the prospect of Ho's agreeing to a compromise settlement for "independence" within the framework of the French Union. The Ho regime has flatly denied that Bao Dai has won more concessions for Vietnam than were embodied in earlier agreements between Ho and the French. Moreover, the Ho regime is demanding unqualified independence for Indochina, offering no concessions to the French and demanding none. Meanwhile, Ho's relationship with the Kremlin and the Chinese Communists remains obscure. His present defiant stand was at least in part the result of his encouragement over Communist victories in China, and Ho has stated his willingness to accept military equipment from the Chinese Communists. On the other hand, Ho still maintains that neutrality between the US and the USSR is both possible and desirable, and his repudiation of the French Union is inconsistent with recent pleas by Radio Moscow for Franco-Vietnamese conciliation within the Union.

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W E S T E R N H E M I S P H E R E

BOLIVIA

Revolt Suppressed The revolt staged by the Bolivian National Revolutionary Movement (MNR) is now virtually ended, with calm restored in all but two remote cities in Bolivia's southeastern section. The Government's success in suppressing the MNR threat can be attributed to failure of Party of the Revolutionary Left (PIR) leaders to support the rebels, to luke-warm backing by labor unions, and, most importantly, to the continued loyalty of the majority of the army. Although the Government has increased its chances of survival by gaining this temporary advantage over the MNR, the revolt undoubtedly has aggravated Bolivia's serious economic situation, has been a serious setback for the important tin industry, and, as a result of charges and counter-charges as to foreign intervention, has increased tension among Latin American nations.

VENEZUELA

Underground Movement An uneasy but not yet critical situation is developing in Venezuela as a result of reportedly more effective subversive activities of the Accion Democratica underground movement among enlisted personnel of the Venezuelan Army. Instances of army insubordination resulting in officer and enlisted deaths have been reported, but thus far no proof exists of a split in the army. The alerted Government junta, realizing that its existence is dependent upon the unity and discipline of the armed forces, is taking progressively greater precautionary measures against subversion and is considered capable of handling the present situation.

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YUGOSLAV TRADE PATTERN

The rapidity with which the Yugoslav economy is being oriented toward the West now assures Yugoslavia of adequate imports of essential commodities and indicates that Soviet economic sanctions have been a failure as a weapon to overcome Yugoslavia's intransigence. Although Yugoslavia's postwar political alignment required a complete integration of the Yugoslav economy with the economies of the Soviet sphere, economic orientation was neither advantageous nor natural for Yugoslavia. Aside from non-ferrous metals, the USSR had little need for such Yugoslav products as rough timber and foodstuffs. Moreover, economic integration was further impeded by the Kremlin's reluctance to supply Tito with the industrial products which would have strengthened his ability to resist Soviet domination.

Development of trade with western nations, however, was a natural and comparatively easy shift to make in the Yugoslav economy. France, Italy, and western Germany, all of which can use Yugoslav products as well as offer the manufactured goods and industrial equipment needed for Yugoslav industrial expansion, have already signed pacts increasing their trade with Yugoslavia. Moreover, a billion-dollar trade agreement between the UK and Yugoslavia covering the next five years is now pending, and Yugoslav trade with the US, as now projected, will probably total 30 million dollars for 1949, approximately 5 times the 1948 level.

The US and the UK are the most important sources of imports now becoming available to Yugoslavia. The UK can supply essential industrial equipment and raw materials, such as crude oil, natural rubber, wool, and tin; the US can supply

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cotton, motor vehicles, and modern industrial installations. Both nations, moreover, are primary sources for spare parts for the more than 50 million dollars worth of industrial and transport equipment supplied to Yugoslavia by UNRRA. Thus, although Tito may have to forego in the immediate future part of his ambitious postwar industrialization program for making Yugoslavia more nearly self-sufficient, he will find it a relatively simple matter to orient the Yugoslav economy further toward the West.

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