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WEEKLY SUMMARY



Number 71

7 OCT 1949

F-29

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

CENTRAL INTELLIGENCE AGENCY

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H I G H L I G H T S

The USSR made vigorous efforts on several fronts to regain the cold war initiative during the past week. In the UN, the 5 October announcement that the USSR intends shortly to place a new proposal for international arms control before the UN Security Council points to a Kremlin attempt to seize quick advantage of the assumed Soviet possession of an atomic weapon. The Kremlin may hope that by winning acceptance of some such proposal as an international convention outlawing atomic weapons, similar to the 1925 Geneva Protocol on poison gas, present US superiority in atomic weapons can be neutralized (see page 7).

In continuing its energetic pursuit of the Tito controversy, the Kremlin directed several Satellites during the past week to abrogate their mutual assistance pacts with Yugoslavia (see page 7). This move, which will probably not lead to a complete break in diplomatic relations, appears largely to be a continuation of the Soviet effort to seal Cominform countries off from the Tito virus. Meanwhile, direct Soviet military action against Yugoslavia remains at present unlikely despite a recent rise in Soviet military strength in neighboring countries.

In Germany, the USSR has sought to regain the initiative through its 7 October proclamation of a German Democratic Republic in East Germany (see page 2). By establishing this new regime with a capital in Berlin and with claims to sovereignty over all Germany, the USSR hopes to counteract the unifying effect of the Bonn Government and may be preparing to exact increased political pressure for a western withdrawal from Berlin.

Meanwhile, rising political instability in France has found expression in the fall of the Queuille Government, the most stable and long-lived French regime in the postwar period (see page 3). The present political uncertainty, which will probably last for a minimum of two months, is being aggravated by growing French fears about national security, particularly in relationship to Germany (see page 4).

WESTERN EUROPE

GERMANY

East Zone Government Formation on 7 October of the Soviet-sponsored German Democratic Republic in East Germany is a logical Soviet reaction to developments in West Germany and represents a Soviet effort to regain the initiative in Germany. The new regime, by claiming sovereignty over all Germany, will enable the USSR to counter the attraction of the Bonn Government as the focal point of German unity. Moreover, establishment of the new regime with its capital in Berlin may result in increased Soviet pressure for the withdrawal of the western powers from Berlin. In an attempt to obtain the maximum political advantages from the East German state, the USSR will grant the new regime the appearance of greater independence than the West German Government through such propaganda devices as promises of early troop withdrawal, a separate peace treaty, and diplomatic recognition by the USSR and the Satellites. It is unlikely, however, that the USSR will risk early withdrawal of its troops from the Soviet Zone. Moreover, the Kremlin is unlikely to propose seriously a merger of the East and West governments until the Soviet position throughout Germany is considerably stronger.

FRANCE

Cabinet Crisis The fall of the Queuille Cabinet, France's most stable and long-lived postwar regime, was caused primarily by disagreement among the coalition parties over wage-price policy. Right-of-center ministers would neither accede to labor's wage demands, except to liberalize an indemnity to part-time workers, nor consent to a return to collective bargaining, except in particular industries showing increased productivity. Labor, however, exerted sufficient pressure on the Socialist and to a lesser extent Popular Republican ministers to precipitate the government crisis.

Parliament has reportedly been recalled to meet during the week of 9 October. The political complexion of the next Government will be almost identical to that of its predecessor, although possibly with a somewhat smaller rightist representation. Both Communists and Gaullists will seek to exploit the crisis, but their political appeals will have little direct influence. Meanwhile, the unions are in a position to win at least immediate payment of a cost-of-living bonus for all workers. However, labor unrest and economic and political instability will remain serious until basic wage levels are raised, and labor has been assured of at least a gradual return to collective bargaining. This instability will probably last for a minimum of two months and this could lead to increased Gaullist demands for dissolution of Parliament and advancement of the date for national elections, now two years distant.

Security Fears Meanwhile, regardless of the outcome of France's internal crisis, French officials are reassessing the role of France in the Atlantic Pact community in the light of recent US-UK trade and monetary

FRANCE

decisions and the announcement of an atomic explosion in the USSR. Within French official circles and among the population generally there is growing conviction that the US and the UK are tending increasingly to act bilaterally in economic matters without consideration for the interests of the Western European nations. The French generally are deeply disturbed by France's exclusion from the recent monetary talks, the drastic, unilateral devaluation of the pound by the UK, reported US economic concessions to the UK, and, finally, the pressure exerted by the US for devaluation of the West German mark. French concern for the possible adverse effect of these developments upon national security will undoubtedly be increased by Soviet possession of an atomic weapon. The French will thus feel even more strongly that only US guarantees of immediate, large-scale military intervention will provide France with adequate protection in the event of war with the USSR.

German Policy Growing French fears that France's security is being jeopardized are finding practical expression in French policy toward implementation of the German occupation statute. The French are taking advantage of the broad and vague terms of reference of the statute to restrict wherever possible the exercise of independent authority by the west German government. This obstructionist attitude of the French was emphasized by the tension generated between France and Germany during negotiations on German currency devaluation. French opposition to German independence has also been manifest in refusal to: (1) permit the German Republic to become a direct participant in the Organization for European Economic Cooperation; and (2) allow the Berlin city government to make direct arrangements with the Bonn authorities

FRANCE

concerning the Berlin ECA program. The French are also attempting to thwart the decartelization program and substitute Franco-German cartels and will probably make difficulties when the International Authority for the Ruhr begins to function and the status of the German delegation on the board requires clarification. The French attitude is particularly embarrassing to the US. As the dominant occupation power, the US will be held responsible by the Germans for all vetoes, even those due to French efforts. At the same time, US pressure on Paris would bolster the French conviction that the US places German interests above those of the Continent.

UNITED KINGDOM

British Elections The impending national election is primarily responsible for the failure of either Labor Party or opposition leaders, during the recent 3-day session of Parliament, to propose a clear-cut economic program to supplement Britain's monetary devaluation. Concerned for their standing among the electorate, the Conservatives merely repeated their several criticisms of the Labor administration, and Government spokesmen resorted to counter-criticism and familiar exhortations to labor and management for increased industrial efficiency. Because the debate was confined principally to electioneering, public expectations of an early election have increased; the British public feels that political maneuvering must cease before economic measures essential to obtain the full benefits from devaluation can be instituted. Although Prime Minister Attlee and Deputy Prime Minister Morrison are thought

UNITED KINGDOM

to prefer a spring election, public opinion and pressure from other influential Laborites and Cabinet members may move Attlee to seek a new mandate before December.

NORWAY

Election Forecast Norway's Labor Party is assured of a plurality in the 10 October elections and can be expected to form the new government. There is some doubt, however, as to the Party's ability to retain its one-vote majority in the Norwegian Parliament. The Communist Party is expected to lose about half of its eleven mandates, and the Labor Party will benefit from the Communist losses although dropping some votes to the rightist parties. The advantage which the Labor Party hoped to achieve by abolishing combined lists (pooling of votes after an election) may be counteracted by the joint lists already submitted in certain districts by two or more of the bourgeois parties.

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

SOVIET UNION

Arms Proposal The USSR has indicated that a new Soviet proposal for international arms control will be put before the UN Security Council next week. The timing of this Kremlin proposal, which will almost certainly include some provision for control of atomic weapons, points to an attempt to take quick advantage of the assumed Soviet possession of an atomic weapon. The Soviet proposal may take the form of an international convention outlawing the use of atomic weapons in war. Such a convention, which presumably might resemble the 1925 Geneva Protocol outlawing the use of poison gas and which would probably permit the manufacture and possession of atomic weapons without international inspection, might be regarded by the Kremlin as favorable to Soviet interests because of its estimate that: (1) the US would be forced by public opinion to abide by the convention until a Soviet atomic attack had been made, thus neutralizing present US atomic superiority; and (2) the USSR could then attempt to equal the US potential both for atomic and non-atomic war. Obviously, the USSR would also hope to reap great propaganda advantages from making such a proposal.

YUGOSLAVIA

Anti-Tito Moves The Tito-Cominform dispute stayed in high gear this week with the abrogation of mutual assistance pacts binding Yugoslavia to the USSR and several Satellites. This Soviet-inspired move, although

YUGOSLAVIA

unlikely to lead to a complete break in diplomatic relations between the two disputing groups, will probably result in the mutual expulsion of numerous diplomatic personnel. A complete diplomatic rupture would not only deprive the Kremlin of its overt contact with internal Yugoslav developments but weaken its ability to exert pressure on Tito through diplomatic channels. Tito, on the other hand, is expected to react moderately to the Soviet action, refusing to be provoked into any rash action. Thus this new diplomatic attack by the Kremlin appears to have been designed more to seal-off the Cominform area from the Tito heresy than to subvert the Tito regime. Meanwhile, Soviet-inspired sabotage activities are reportedly increasing somewhat in Yugoslavia; estimates of Soviet military strength in neighboring countries have been increased from five divisions to seven, or possibly even nine divisions. Direct Soviet military action is still considered unlikely, however, and in any event would not occur until the Soviet Union had exhausted all other available means of pressure.

SC Bid Meanwhile, Yugoslavia's bid for a seat on the UN Security Council, along with China's complaint against the USSR and Soviet acquisition of the atom bomb, is contributing markedly to the increase in tension at the current session of the General Assembly. In response to Soviet assertions that Yugoslavia's bid and US support thereof constitute the most serious development in the UN since its inception, some attempt is being made to find a compromise formula which would give Yugoslavia greater prestige in the UN but would at the same time not antagonize the USSR. Voting on the SC election has been postponed in the meantime, and Yugoslav chances of obtaining the necessary two-thirds majority remain uncertain.

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

Canton's Fall Canton, Nationalist mainland capital in the southern province of Kwangtung, will probably fall to the Communists within the next thirty days, either by military conquest or defection. Nationalist plans for the construction of defenses for the city reportedly never progressed beyond the talking stage and there are indications that the Nationalist clique of Cantonese generals is prepared to effect an accommodation with the Communists. Two key Nationalist leaders, Hsueh Yueh, governor of Kwangtung Province, and Yu Han-mou, military commander at Canton, are known to have strong ties with Li Chi-shen, leader of the left-wing Kuomintang Revolutionary Committee and one of the recently appointed Vice Chairmen of the newly-formed Peoples' Republic of China. The two Kwangtung leaders are believed to be engaged in negotiations with Communist representatives for a turnover of Kwangtung Province in the hope of obtaining positions in the new government. These preparations for a peaceful turnover may be one explanation for the puzzling lack of a major Communist offensive against Canton.

Following Canton's loss--a more deadly blow than the loss of Nanking--the remnants of the National Government will be further scattered, part under Chiang Kai-shek on Taiwan, and part on the mainland in Szechuan and Kwangsi provinces where they will be unable to offer effective military resistance to the Communists. The fall of the Nationalist capital, moreover, will strengthen the Communist claim that the Peiping government is truly representative of the people of China, and will be an important factor inclining countries outside the Soviet bloc toward recognition of the Communist

CHINA

regime. In addition, Canton's fall would add weight to anticipated Soviet demands that the Chinese Communist regime replace the Nationalist Government on the UN Security Council. Although such a development is unlikely during the present session of the General Assembly, the UN will undoubtedly find some means of overcoming the legal obstacles to removing the present Chinese delegation once a majority of UN members have recognized the Communist regime.

INDONESIA

Hatta Under Fire Growing dissatisfaction among Republican delegates to The Hague Conference with Premier Hatta's conduct of the negotiations, if unchecked, will diminish the possibilities for an Indonesian settlement. Attacks on Hatta's policy are being made by members of both leading political parties in Indonesia as well as by the Republican representative to the UN Security Council. Republican President Sukarno is thus faced with the urgent problem of convincing dissatisfied party leaders in Indonesia that Hatta's stand in the negotiations will not in fact compromise Indonesia's sovereignty. If this disunity continues within the Republican delegation at The Hague, and among Republican leaders in Indonesia, the Dutch may point to Hatta's lack of support as justification for demanding more comprehensive safeguards, thus imperiling the difficult negotiations. Regardless of the effect on The Hague Conference, continued opposition to Premier Hatta will undermine the ability of the Republican Government to deal with the many crucial problems it will face after it achieves independence.

WESTERN HEMISPHERE

Devaluation Results The devaluation of European currencies increases the probability of devaluation in several Latin American currencies; will have a deflationary effect in most Latin American countries; and will produce some changes in present trade patterns and trade volume. Latin American countries whose exports to the UK and Western Europe are considerable will be under the greatest pressure to devalue their currencies. Argentina, which exports large quantities to the UK and Western Europe, has already made a selective alteration in its exchange rates. Uruguay, Chile, and Peru are under considerable pressure to devalue their currencies. Colombia and Ecuador, while only slightly affected by the European devaluations, may now find it more politically expedient to devalue their currencies, a move they have been considering for some time. Mexico (which devalued its currency several months ago), Cuba, and Venezuela will be only slightly affected by the European currency devaluations; the latter two are not likely to devalue at this time. Unless adequate countermeasures can be taken in Latin America, the devaluation of European currencies will tend to have a deflationary effect in the Latin American countries: Latin American imports from Europe and the UK, constituting about one-third of all Latin American imports, will be cheaper; Latin American exports to the devaluing countries will tend to decline, and the decline will be especially felt where competition with suppliers in the devaluing area is greatest. During the past several years, Latin American countries have established various trade-control mechanisms designed to shift import orders from dollar areas to soft-currency areas and to increase exports to the dollar areas. Although these trade control mechanisms may be modified, the European devaluations will provide additional incentive for Latin American purchasers to import from Europe, thus helping to maintain present trade trends.

ISRAELI-US ZIONIST FRICTION

Cooperation between Israeli and US Zionists has diminished with the establishment of comparatively normal conditions in Palestine. The Jew who immigrated to Palestine and fought to defend it now has a certain contempt for the armchair Zionist abroad. Meanwhile, the US Zionist, who considers his political and financial activity largely responsible for the existence of Israel as a state and who until May 1948 shared in the development and direction of the Palestine Jewish community, now finds that he has little say in the management of Israeli affairs, although he is expected to maintain and even to increase his financial support.

Ideologically, a conflict exists between the secular nationalism of the Israeli and the emotional and religious views of the non-Israeli Zionist. These differences, generally submerged during the common struggle to save Israel from the Arabs, have been emphasized by the failure of the United Jewish Appeal (UJA) campaign to approach its \$250 million target in the US. The belief is widespread in Israel that the transportation of immigrants is the responsibility of Jews abroad. Moreover, the UJA failure has been attributed by the Israeli press to the negligence of US Jews, and the Israelis urge that Zionist policy in the US be revamped and that US Jews be reawakened to their responsibilities toward Israel.

Meanwhile, current Israeli criticism of US Zionists might well increase the difficulty of obtaining the financial support so essential to Israel's economic existence. Many Israelis, therefore, are urging that a hard-headed effort to get US capital invested in Israel will accomplish more than continued emotional appeals to US Jewish philanthropy. Israeli success in attracting US capital, however, will depend in large part on whether the Israeli Government removes enough of the present restrictions to assure a fair margin of profit to the investor and can create confidence in Israel's political and economic future.

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