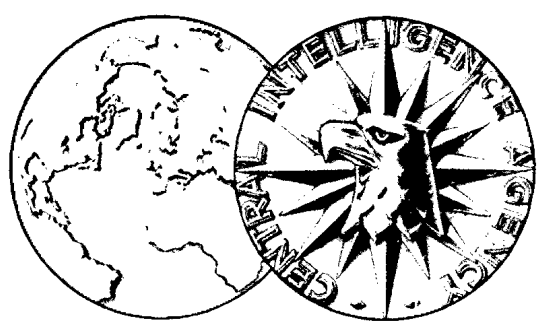


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# WEEKLY SUMMARY



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

**Soviet concern over "unreliability" within the Satellites has been finding expression in the current wave of arrests in Czechoslovakia. These arrests, which appear to be striking mostly at the Czechoslovak middle class, are designed to reduce popular resistance to the Communist regime and to displace government officials of uncertain loyalty to the Kremlin (see page 5). Kremlin awareness of an increasing Czechoslovak hostility to Communism, aggravated by the reduced standard of living since the 1948 coup, may lead the USSR to develop the present terrorist campaign into a purge of the Czechoslovak Communist Party.**

**While the Chinese Communists continue to exert every effort to win recognition for the new regime, their military forces are moving into the last phase of the battle for the Chinese mainland (see page 8). With Canton no longer in Nationalist hands and with the last effective Nationalist Army in full retreat under the leadership of Pai Chung-hsi, Communist forces are now released for an offensive against the Chinese provinces in the west.**

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## WESTERN EUROPE

### ITALIAN COLONIES

**Compromise Necessary** With the US proposal to cede the bulk of Eritrea to Ethiopia virtually certain to be defeated in the UN General Assembly, the US and UK will probably be forced to seek a compromise solution that will secure as much as possible for Ethiopia while protecting US interests in the area. A compromise suggested by some Latin American delegates as likely to command general GA support would be confederation of Ethiopia and Eritrea assuring adequate safeguards for Eritrean autonomy. Both Italy and Ethiopia have indicated they might accept such a proposal. Short of some such compromise, postponement of any action until a UN commission visits the territory in dispute may be the eventual decision of the General Assembly. Meanwhile, although the Latin American decision to tie Libyan independence to Italian trusteeship for Somaliland strengthens Italy's position, the increasingly vocal hostility of the native population to Italian return provides a strong deterrent to such a solution.

### FRANCE

**Labor Outlook** The bargaining position of French labor has been strengthened as a result of the collapse of the Queuille Government on the issue of labor's demands, and any Third Force Government will probably make a prompt concession to labor in the form of a cost-of-living bonus to all workers. Serious labor unrest, however, is likely to be prolonged throughout this fall until basic wage levels are substantially raised and a return to collective bargaining is begun.

## FRANCE

The movement toward "unity of action" initiated by the General Confederation of Labor (CGT) will be only temporarily slowed by the granting of a bonus and the promise of a gradual return to collective bargaining. Although in the past the CGT has found it necessary to modify its strike program in view of the firm opposition of leaders of the Force Ouvriere (FO) to "unity of action," increased pressure among the rank and file of labor for higher wages may provide the CGT with an improved opportunity for strikes. The FO, still opposed to unity of action with the CGT, has recommended the reconstitution of the labor union "cartel," composed of FO, the Christian Labor Confederation, and the Technicians Union, for joint action on the labor problem.

## THE NETHERLANDS

**The Hague Conference**    The Dutch Cabinet is not expected to fall during the current Round Table Conference at The Hague over any of the issues now being disputed. Following the withdrawal of the financial proposals made by the US representative (over which the Cabinet threatened to resign), the Dutch presented a proposal to establish an arbitration committee which would attempt to ascertain the extent to which the Indonesian debt could be attributed to Dutch military action. Initially, the Dutch were strongly opposed to such a course of action, and the Dutch reversal apparently indicates that they are now willing to compromise rather than see the Conference end without a settlement of the financial issue.

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

**Currency Devaluation** Although western currency devaluations will not have any immediate significant effects upon East-West trade relations, commerce between the East and West will probably fail to expand to the extent possible prior to devaluation. The immediate impact of western devaluations will be cushioned to some extent by the existing East-West bilateral trade and barter agreements which are expressed in terms of western currencies. Any necessary price adjustments can be made under the present flexible system of state export subsidies and price controls. Success of the western devaluations, however, will pose a long-range problem for Eastern European states, especially Czechoslovakia, Poland, and Hungary, because of their dependence upon increased trade with the West to maintain productive economies. If the trade barriers between Western European nations are lowered as planned, or eliminated, the increased economic health of Western Europe will make it more difficult for Eastern European states to earn much needed foreign exchange to purchase western industrial equipment and raw materials. Moreover, the establishment of more realistic values for Western European currencies will reduce Eastern European opportunities to engage in black market exchange operations.

## S O V I E T U N I O N

**Production Difficulties** Soviet difficulties in obtaining certain strategic raw materials and in achieving satisfactory production of anti-friction bearings are symptomatic of the industrial supply and production problems with which the USSR will be confronted for some time to come. Even though

## **SOVIET UNION**

**an original agreement for the production of leather-working machinery by a Czechoslovak firm provided that Soviet bearings would be delivered for inclusion in the machinery, the USSR has now specified that only Swedish bearings may be used, giving as explanation that experiments with machinery equipped with Soviet bearings indicated bearing wear after only 72 hours running time. In the field of strategic raw materials, the USSR is experiencing difficulties in obtaining adequate amounts of tungsten and molybdenum, both of which are used in producing high-speed cutting tools and heat-and corrosion-resisting alloys. With most sources of these strategic minerals in Western Europe closed or restricted, the USSR may be forced to rely upon Korea, Manchuria, and South China to supply these metals.**

## **CZECHOSLOVAKIA**

**Police Action** The current wave of arrests in Czechoslovakia, apparently striking primarily at middle-class elements and at some government and Communist Party personnel, is probably designed to reduce popular resistance to the present regime and to displace government officials considered "unreliable" by the Kremlin. Moreover, the present campaign will strengthen the position of Stalinists in the Party and prepare for bringing Czechoslovakia under the degree of control now exercised by the Kremlin over other Satellites. The pro-Stalinists may later attempt to exploit the situation by purging the Party.

Because of economic difficulties and general dissatisfaction, the population of Czechoslovakia has become increasingly hostile to Communism, and much of the government



## CZECHOSLOVAKIA

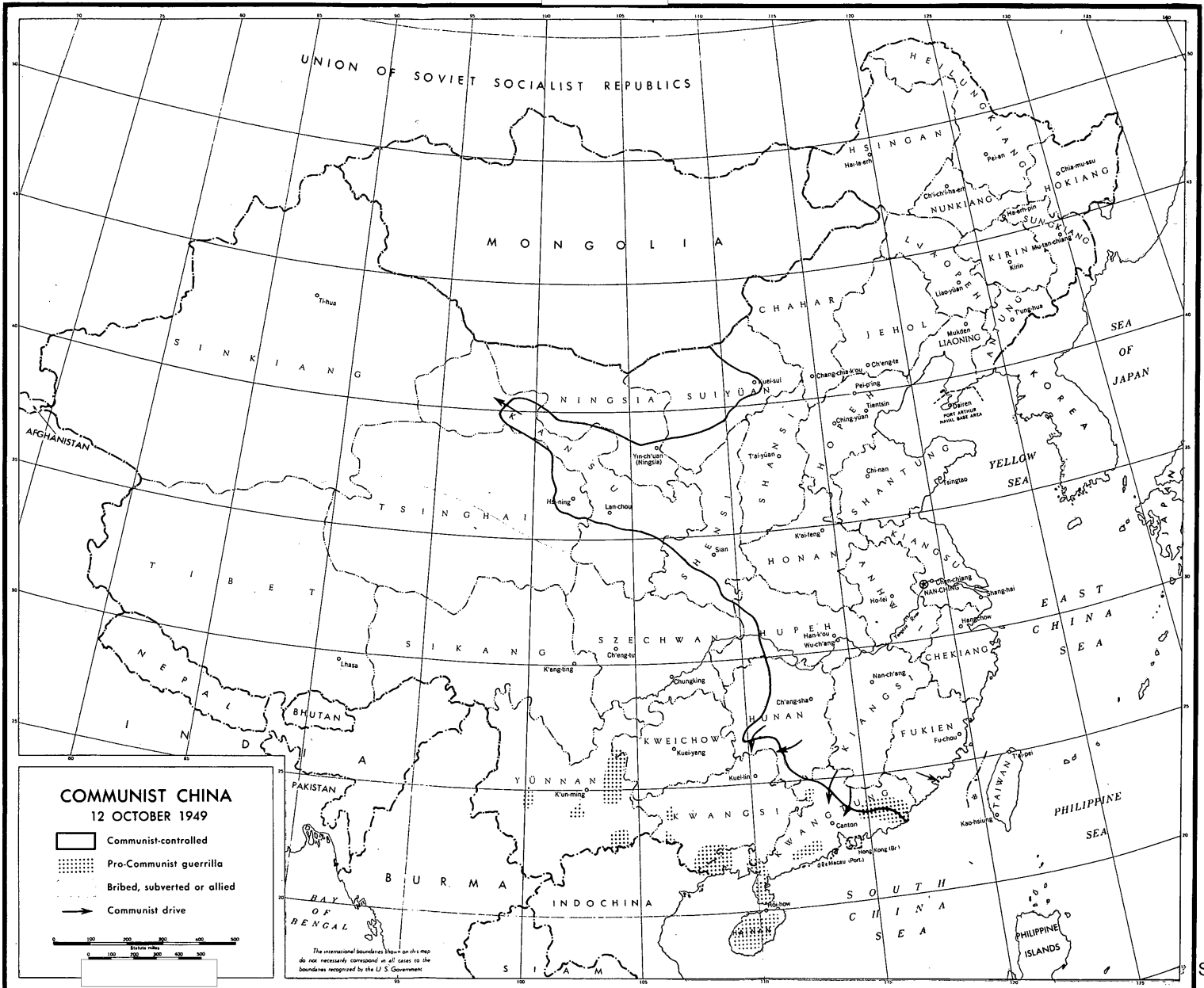
administration, particularly the army and police, is considered by the Kremlin to be unreliable. The standard of living, already sharply reduced since the Communist coup, will probably be further reduced, thus aggravating popular dissatisfaction with both the economic situation and the Communist policies considered responsible. The growth of unrest in labor ranks in a country so highly industrialized has likewise been of major concern to the Communists. Moreover, the over-sized and ideologically weak Communist Party has never had a real purge to reduce it to a Stalinist "hard core," and such a purge might develop from the current terrorist campaign.

## BULGARIA

**New Economic Role** In an attempt to counterbalance both a rebellious Yugoslavia and a re-vitalized Greece, nearly victorious over the guerrillas, the USSR is apparently singling out Bulgaria for a key economic role in the Balkans. The USSR and other Cominform nations reportedly agreed at the August meeting of the Council for Mutual Economic Assistance (CEMA) that CEMA should channel special economic aid to Bulgaria in return for continued adherence to the Cominform line, which Bulgaria has already demonstrated by recently severing trade agreements with Yugoslavia. More than compensating for any possible ill effects from this step, however, are the benefits promised or already accruing from CEMA's agreement to provide Bulgaria with: (1) economic specialists and technicians for guidance in implementing increased industrial production; (2) stepped-up shipments of machinery, (including aviation

## BULGARIA

equipment already received, motor vehicles, and spare parts for trucks); (3) increased credits, (which, if providing sufficient investment capital, will eliminate one of the major obstacles to the Five Year Plan); and (4) 125,000 tons of Soviet wheat before the end of 1949. Bulgaria's first mission as the new Balkan leader for the USSR is to provide support for Albania's economic program.



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

**Recognition** The Chinese Communists will continue to exert every effort to break the present western "united front" on recognition, and current western unity probably cannot be maintained for long unless the various western nations come to understand more fully that no special advantage can be derived from hasty recognition of the Communist regime. The Chinese Communists appear aware that: (1) most of the independent governments of the Far East are presently inclined to follow the lead of the US and the UK; (2) Australia, New Zealand, Thailand, Burma, and the Philippines will not accord recognition hastily; and (3) India, though retaining freedom of action, will not recognize the Communist regime without prior discussion with the west. In general, however, those nations near China and exposed to physical and psychological pressure will probably maintain their present attitude toward recognition of Communist China only to the extent that they feel assured of western backing both for their own political aspirations and for their economic and military development. Among the nations in the Western European area, the UK apparently favors a policy of recognition in order to foster trade and to assure protection for UK properties and nationals, and possibly because it believes recognition might provide the most effective method now available of exerting influence upon the Chinese Peoples Republic.

**Military Situation** With Canton no longer in Nationalist hands, Pai Chung-hsi, Central China commander, is now retreating into his native Kwangsi in order to avoid Communist encirclement. Pai, cut off from outside sources of bulk materiel and short on arms and ammunition, will be unable to conduct a static defense at any point. He must necessarily

**SECRET****CHINA**

avoid contact with superior Communist forces and will therefore be forced from Kwangsi's larger cities and more productive areas. Pai will soon be impelled either to revert to guerrilla warfare or to make a deal with the Communists; therefore, his early removal as a significant anti-Communist leader is a strong possibility. In consequence of their recent occupation of the port of Swatow, the Communists now control the entire stretch of the Chinese coast north of the Hong Kong area, except for minor Nationalist offshore positions on Amoy Island and in the Chushan group. Communist amphibious troops have already landed near these positions and threaten quick reduction of both. Although no large scale troop movements have been reported in northwest China, Communist forces which participated in the recent Kansu offensive apparently are returning to their original positions in Shensi. The sudden collapse of Nationalist resistance throughout the Northwest, achieved by a judicious use of Communist threats, cajolery, and silver, releases Communist forces for an attack on Szechwan. Peiping radio has advised Nationalist General Hu Tsung-nan, guarding the northern frontier of that vital west China province, to prepare to "atone for his misdeeds"; such warnings have often preceded Communist offensives in the past.

**THE PHILIPPINES**

**Coming Elections** Although the Philippine Republic will probably continue its generally pro-US orientation regardless of the 8 November election results, the degree of cooperation with the US will depend upon which candidate wins the presidency. Pro-US President Quirino, if re-elected, will probably continue his cooperative attitude toward the US, consulting with the US on matters pertaining

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## THE PHILIPPINES

to the general interests and security of both nations. Candidate Jose Laurel, anti-US and an opportunistic nationalist, is in favor of "full" freedom for the Philippine Republic. He would cooperate with the US probably only to the extent necessary to assure continuation of present US financial commitments. Quirino's greatest political strength stems from his present control of the Government machinery and from his claim to credit for the current US rehabilitation expenditures in the islands;

Laurel's greatest political asset is his strong personality and his eloquent campaign oratory; his greatest weakness lies in his known record of collaboration during the last war and his anti-US attitude, which causes widespread fears that US rehabilitation expenditures will be reduced if he is elected.

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## THAILAND

**Political Instability** Internal disunity and a general tendency toward political opportunism continue to hamper the Thailand Government's attempts to halt the expansion of Chinese Communist activity. Premier Phibul recently cautioned all Chinese in Thailand to curtail their political activity and warned that the Government was prepared to take any measures necessary to preserve peace and order. Reports that the Thailand Chinese are planning a series of strikes have led to increased security measures and may result in a general roundup of known Communists. In addition to the problem of restricting Communist activity, Phibul faces the difficult tasks of improving his political position in Parliament, strengthening his Cabinet, and overcoming disunity in the armed forces. In the hope of

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**THAILAND**

stabilizing his position, Phibul is attempting both to merge all pro-Government elements into one party and to attract opposition politicians to his Cabinet. Regardless of the success of these maneuvers, however, Phibul probably will not be able to alter the basic alignments and schisms which contribute to Thailand's continued political instability.

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**SECRET****EUROPEAN PYRITES SITUATION**

Recent changes in world demand and distribution of sulphur and pyrites (a compound of iron and sulphur) will materially affect the economies of Eastern and Western Europe, both of which operate under a huge deficit of these essential raw materials which are used alternately in the manufacture of sulphuric acid, fertilizers, explosives, some metal products, many chemicals, rayon, and paper. Eastern Europe's economic and military potential will be sharply reduced as a consequence of the Yugoslav-Soviet split which has deprived Cominform countries of Yugoslav pyrites. Western Europe's pyrites supply, on the other hand, will be somewhat increased by additional amounts available from Spain, Portugal, and Cyprus and by the probable shift of Yugoslav exports to the West.

Large sectors of the industrial complexes in Czechoslovakia, Hungary, Poland, and the Soviet Zone of Germany are especially dependent upon imports of pyrites; the chemical and allied industries in Czechoslovakia and Hungary have already been seriously affected by the virtual cessation of Yugoslav shipments of this material. Moreover, the US, which is the principal exporter of sulphur and which has proved sulphur reserves for only 15 years at the present rate of demand, has for some time restricted shipments to the Satellite nations. Barring the unlikely event that the Satellites can make up their pyrites deficit through increased shipments from Portugal and Cyprus, they will encounter extreme difficulty in maintaining their present level of industrial and farm production. Because of transportation bottlenecks and insufficient supplies of pyrites, it will be impossible for the USSR to make up the Satellite deficit for a long period of time.

Although Western Europe presumably will profit by the availability of pyrites from Yugoslavia, it will still have a sulphur and pyrites deficit in 1949-50 because neither US exports of sulphur nor increased production of pyrites in Spain, Portugal, and Cyprus will be adequate.

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