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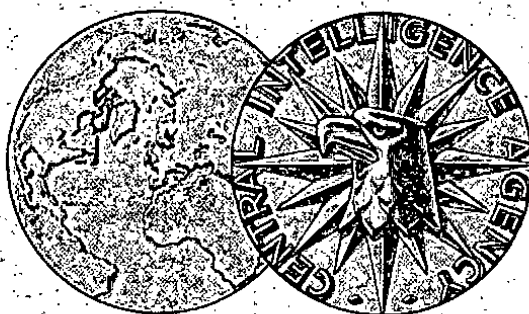
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H I G H L I G H T S

Nearly two weeks after the attack on South Korea, world attention is still being focussed almost exclusively on the outcome of the fighting there and on its global implications. Although the Soviet Union has not yet provided the Western world with any firm clue as to its intentions beyond the immediate objective of bringing the South Korean campaign to a speedy and successful conclusion, anxiety has increased lest the USSR seize the present opportunity to launch military moves in other "soft spots" on the Soviet periphery.

Despite this anxiety, there is no evidence to warrant a change in the estimate that the USSR will make every effort to avoid actions at this time which would, in the Kremlin's estimation, lead to global war (see page 2). The principal danger lies in a Soviet miscalculation of Western reaction to steps the USSR may feel impelled to take in support of the Korean venture. Thus, Soviet pressure in such sensitive areas as Southeast Asia, Germany, Yugoslavia, and Iran, while increasing, is not expected to result in overt military action at this time (see pages 3,5, and 6).

Meanwhile, the reaction of the non-Soviet world to the Korean affair remains one of unity and enthusiasm toward the vigorous steps taken by the United Nations (see page 7), although the Arab states still show more concern for their own affairs than for stopping Soviet aggression in other areas.

SECRET**THE KOREAN SITUATION****Soviet Intentions and Capabilities**

Two weeks after the beginning of hostilities in Korea, the world was still waiting for some firm indication of Soviet intentions regarding not only Korea but other countries on the Soviet periphery. It became clear, however, that the North Koreans were not to be intimidated by US involvement in the fighting and that the all-out effort to overrun South Korea would continue unabated. As long as the North Korean advance continues, the USSR can remain aloof; the crucial moment will come when and if the battle turns in favor of US and South Korean forces. At that time, the USSR must decide whether to permit a North Korean defeat or to take whatever steps are necessary to prolong the action.

Soviet Intentions At the moment, the Soviet and Communist propaganda line offers no clue regarding Soviet intentions. Soviet propagandists would have no difficulty in using the present line as a basis either for withdrawal from South Korea or for prolongation of hostilities, even including armed action in other areas. The key to the fateful Soviet decision will be the extent to which the USSR desires to risk instigating global war. All evidence available leads to the conclusion that the USSR is not ready for war. Nevertheless, the USSR has substantial capabilities, without directly involving Soviet troops, for prolonging the fighting in Korea, as well as for initiating hostilities elsewhere. Thus, although the USSR would prefer to confine the conflict to Korea, a reversal there might impel the USSR to take greater risks of starting a global war either by committing substantial Chinese Communist forces in Korea or by sanctioning aggressive actions by Satellite forces in other areas

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of the world. The decisiveness of the US reaction to the Korean invasion will thus cause the Kremlin to move cautiously, but the danger still exists that the USSR, as it did two weeks ago, will again miscalculate the Western reaction to any future moves it may feel are necessary.

The Far East The Korean invasion has had its most immediate and compelling impact on the Far East, particularly as it has affected international Communist intentions to speed the expansion of Communism throughout the area through the instrumentality of the Peiping regime. Pending clarification of the Soviet position, the Peiping regime has not yet committed itself and, as far as Korea is concerned, will probably not take any action at least as long as North Korean forces continue to advance. Meanwhile, Chinese Communist troop strength and dispositions would permit military aggression in a number of places with little or no warning, and the Peiping regime can be expected to give strong support to guerrilla activities and subversion throughout Southeast Asia.

Military Potential The Korean invasion has produced a deluge of reports of Chinese Communist troop movements indicating a Chinese intent to support the North Korean invasion. Most of these reports, however, have emanated from Chinese Nationalist sources and are merely propaganda for US consumption. Actually, the Communists are apparently still strengthening their forces opposite Taiwan, and possibly Hong Kong, and no significant changes have occurred in troop dispositions along Southeast Asian frontiers. Reported movements of large troop formations from South and Central China toward the Northeast are largely discounted. Communist troops already in North China and Manchuria are sufficient to provide substantial support to the North Koreans and of these approximately 40-50,000

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are of Korean nationality. Despite these reported troop movements and Chinese Communist capability to launch simultaneous and successful military actions in Korea, Hong Kong, Macao, and Indochina, no immediate action is expected. With regard to Taiwan, the US commitment to defend the island has almost certainly delayed the invasion timetable if only because it will make occupation of the island too costly an operation for the Peiping regime to undertake without outside assistance.

Non-military Action Meanwhile, the Chinese Communist regime will continue and probably increase its efforts short of military aggression to further the spread of Communism throughout Southeast Asia. Political support and military supplies will be granted Ho Chi Minh's forces in Indochina, efforts will be made to strengthen the insurgent movement in Malaya, and the tempo of organizational activity among labor and political groups will be stepped up. In this campaign, efforts by the Peiping regime to use the nine million Overseas Chinese will be impeded by its recent loss of popularity at home and a growing anticipation in Overseas Chinese communities that the spread of Communism may be reversed as a result of US action in Korea. An intensification of Peiping's efforts to gain control of the Overseas Chinese may well lead to a split which, while reducing the exploitability of the Overseas Chinese as instruments for extending Chinese Communist influence, may also result in the adoption of more militant tactics by the pro-Communist faction. An immediately explosive situation in Southeast Asia, however, derives from the presence in northern Burma of approximately 2,000 Chinese Nationalist troops. The Peiping regime has demanded their internment, the Burmese Government is apparently incapable of doing so, and the Chinese Communists thus have a legal "excuse" for carrying out local or major military operations in Burma.

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German Policy The Korean invasion has emphasized to West Germans the similarity of their position to that of the South Koreans and their anxiety has been increased by current Soviet tactics in Berlin. These Soviet tactics, however, are not characterized by any unusual aggressiveness, and, in fact, appear to be little more than part of the usual Soviet war-of-nerves against West Berlin. For example, the refusal of East Berlin to renew contracts to supply electric power and water to West Berlin was apparently prompted by West Berlin rejection of a water supply payment claim and by East Berlin desires to obtain higher rates and to have the Berlin utilities question included in the East-West trade agreement. Although the USSR seems to be laying the groundwork for "justification" for interference in the Berlin subway system, serious interference, such as a power cut-off of long duration, appears unlikely as it would harm East Berlin as much as West Berlin. The long and vociferous propaganda campaign accusing the US of ruining East German potato crops, climaxed by a formal Soviet note to the US, was probably prompted by the need for an excuse for the failure of the current crop and the opportunity offered to vilify the US. Although the USSR can be expected to continue and probably intensify these harassing tactics, a reinstatement of the Berlin blockade in the near future is not likely. The USSR probably estimates that the US, with British and French aid, would: (1) immediately institute a partial airlift to augment West Berlin's approximate five-month supply of coal and three-month supply of food; and (2) take the necessary steps to increase US air power sufficiently both to maintain the airlift and fulfill its commitment in Korea. Moreover, the USSR cannot entirely discount the possibility of the US forcing an immediate showdown by use of an armed convoy.

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Pressure on Yugoslavia Although the Korean pattern of a Soviet-inspired attack by non-Soviet forces could be repeated against Yugoslavia, such an attack is not likely at the present time. The flurry of recent reports notwithstanding, Soviet-Satellite troop strength in the area is not yet believed to be sufficient for a successful attack on Yugoslavia. Moreover, the Korean venture has unquestionably increased the Kremlin's fear that an attack on Yugoslavia would provoke a vigorous Western reaction which might lead to war. Nevertheless, with the US heavily committed in the Far East and with Soviet prestige at stake, the USSR will probably step up its efforts to overthrow the Tito Government by all means short of war, principally through creating internal disorder and organizing guerrilla incursions. Widespread peasant and labor disaffection with the Communist regime in Yugoslavia would favor the Soviet effort to create internal disorders, but strong popular resentment against the USSR would provoke equally strong reaction against any guerrilla activity emanating from Yugoslavia's Satellite neighbors. Moreover, Yugoslav security forces are believed capable of quelling both Soviet-inspired internal disorders and attempts at guerrilla activity.

Moves Toward Iran As in the case of Yugoslavia, the USSR is apparently taking advantage of the Korean fighting to step up its war of nerves against Iran. While there is no specific evidence that the USSR will overtly attack Iran, recent reports of increased border activity strengthen the possibility of Soviet-instigated border incursions by non-Soviet guerrillas. It seems more likely, however, that these activities and reports, timed to coincide with the recent strong Soviet notes to Iran and with the outbreak of open warfare in Korea, are more immediately designed to intimidate Iran. The USSR has steadily increased its propaganda outlets in Iran, and the clandestine Azerbaijan radio is now openly advocating revolution.

SECRET**Non-Soviet Reaction**

In general, the non-Soviet world continues to give its enthusiastic support to the UN and US action in Korea, and even sober second thoughts regarding the possibility of further aggressive Soviet moves have not substantially dampened the original enthusiasm. The events of the past two weeks, while complicating the relationship between the USSR and the UN, have increased the stature of the United Nations. Moreover, the Soviet action in Korea has forced several neutrality-minded countries, however reluctantly, to take a more positive stand in the cold war.

The UN By sanctioning the use of military force to resist aggression, the UN has demonstrated its ability to respond to vigorous leadership under a flexible interpretation of the Charter and in the absence of Soviet obstruction. The UN action has thus changed what might have been considered unilateral US armed intervention into a collective international effort for the maintenance of peace. In an attempt to add further prestige to the UN, some members are considering steps to formalize the UN's role by authorizing forces aiding South Korea to display the UN flag and by establishing a Security Council Coordination Committee to screen offers of military aid and receive reports from the field forces. Meanwhile, the Soviet UN walkout has been extended indefinitely; the USSR has reiterated its determination to stay out until the Chinese Communists are seated, and prospects that the Peiping regime will be seated have diminished. It is unlikely, however, that the USSR will permanently withdraw from the UN at this time. The Kremlin would prefer to take such a step over an issue likely to destroy the UN as an international force rather than over one which has united the Western world in support of the UN. The USSR meanwhile probably considers that it can be more effective in obstructing the UN by continuing its boycott than by a formal withdrawal.

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Arab States Egypt's refusal to support the UN resolution calling for armed sanctions against North Korea indicates the extent of Arab preoccupation with regional problems. Although Saudi Arabia, because of its close ties with the US, may follow the lead of British-supported Jordan in adopting a more constructive attitude toward the Korean situation, initial reaction from the other Arab states suggests that they will probably follow Egypt's lead. The initial Arab reaction indicates that: (1) the Arabs are not yet reconciled to the establishment of Israel; (2) they are dissatisfied with the Near Eastern policies of the US and the UK; (3) they somehow believe they are in a position to bring pressure on the US and UK to change their Near Eastern policies; and (4) the US-UK-French declaration did little to improve relations between the Arabs and the Western Powers. If Soviet aggression were transferred from the Far East to the Near East, for instance to Iran or Turkey, the views of the Arabs might undergo a decisive change. It is also possible that the feeling that they are out of step with the rest of the world may induce them to modify their present attitude of aloofness. At present, however, the Arabs are in general far more interested in humbling Israel and ridding themselves of all vestiges of US and UK political influence than in stopping Soviet aggression in other parts of the world.

South Asia Although none of the South Asian countries has opposed the UN action in Korea, there has been a wide variation in the degree of support and approval expressed by the several nations. Afghanistan, fearful because of its exposed position, has refrained from openly proclaiming its privately expressed support for the US position. Ceylon, not a UN member, views itself as perforce a spectator whose expressed attitude should follow the lead set by the Commonwealth generally; its approval of the UN action is, however, certain.

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Pakistan wholeheartedly supports the UN action at the government level, reflecting both an apparently firm conviction that further extension of Soviet influence is contrary to Pakistan's interest and the Pakistani Moslems' basic belief in the efficacy of force. Pakistan's support on this issue may have an effect on the attitudes of the Arab states and the Egyptian position.

Although India supported the resolution reluctantly, the decision is nevertheless a firm one, and India's moral support of combined military efforts to repulse the North Koreans is assured. Although no financial or military assistance is expected from India, the country's influence with many South Asian countries renders its moral support alone invaluable. India's decision in this instance, however, does not necessarily mean support for actions which the US or the UN might take in other Asian areas to forestall or counteract future Communist moves. Moreover, US actions regarding Formosa and Indochina may evoke Indian expressions of strong displeasure. By establishing a precedent, however, for India's association with those elements of the UN willing to use force against overt acts of Communist aggression, India's decision has implications which extend far beyond the current situation.

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SECRET**THE SCHUMAN PLAN**

The French, acting vigorously and boldly, went straight to the heart of the Schuman Plan in the opening discussions when they presented the draft of a treaty which provided the framework of the proposed supra-national authority and related executive and operating bodies. The drastic and forthright nature of the treaty alarmed the other negotiators and required consideration of the project at governmental level. The suggestion for inter-parliamentary control, as well as the extensive powers to be conferred on the high authority, is a radical departure from Europe's traditional pattern of political behavior and will not meet with ready acceptance. The treaty received strong backing from the Germans, who have the most to gain from any positive change in their international status, but it is stimulating resistance elsewhere, and most of the nations involved will, therefore, probably attempt to pare down the infringements on national sovereignty implicit in the French Plan. Although the French have asked for the maximum, they are probably ready to accept something less in order to reach eventual agreement.

Of the six powers, Germany has the most to gain in accepting the French terms. The Germans have no sovereignty to lose and under the Schuman plan the Federal Republic stands to gain an increased degree of control over its own affairs. Moreover, the importance of Germany's material contributions to the plan will determine the influence exerted by the German delegation on the control mechanism and may, in time, give Germany a preponderant voice in the new organization. The French as well as the Germans will attach great importance to the financial independence conferred upon the international authority, which, as proposed,

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may raise money and grant loans to facilitate the reconversion of industries displaced by the creation of a single market or doomed because of uneconomic production. For Western Germany, crippled by lack of investment funds and consequently facing possible future curtailment of industrial output, the investment features of the plan will provide a badly needed source of foreign funds. The public service objectives of the French proposal are likely to mollify European Socialist or labor elements suspicious of an ordinary cartel arrangement which might reduce employment or wage levels.

The dynamic techniques adopted by Schuman in presenting his ideas annoyed industrial circles in France and governmental circles abroad, and there has been widespread criticism in Western Germany of Chancellor Adenauer's decision to keep the threads of the negotiations entirely in his own hands and to make a political issue out of the situation. The Schuman Plan is the cornerstone upon which French hopes of European leadership are based, and, given reasonable political stability in France and Germany, some compromise arrangement can probably be worked out to the satisfaction of all participating nations.

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FRENCH CABINET CRISIS

As President Vincent Auriol continues his unsuccessful efforts to form a French cabinet, the danger grows that the political confusion created by the present crisis will be prolonged and will weaken France's growing international prestige and influence among Western European nations. Nevertheless, the crisis has not yet hindered negotiations on the Schuman Plan or prevented strong French support for the UN stand on Korea.

President Auriol is making strenuous efforts to find a Premier-designate who will be able to secure some sort of working agreement between the squabbling Socialists and Radical-Socialists, both of whom have been unable to reconcile their differences. Disagreement is intense concerning domestic economic policies, principally over wage concessions to labor. Developments in the present crisis have seriously increased Auriol's concern and he might well call on the parties to bury their differences in order to participate in a government of National Union. Such a government would not, however, include the Communists and the Gaullists. If the middle-of-the-road political parties are unable to agree upon either a Centrist coalition or a government of National Union, dissolution of the National Assembly and subsequent national elections are possible. National elections are not likely in the immediate future, however, because of both the tense international situation and the fact that the problem of reform of the electoral law has not yet been resolved.

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