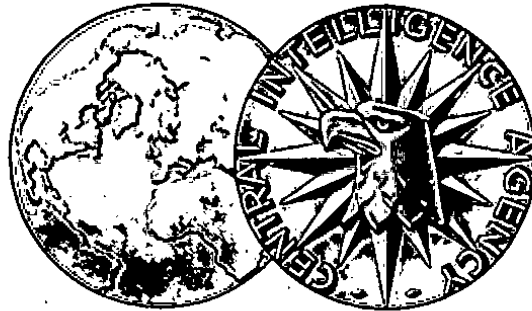


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WEEKLY SUMMARY



Number 96

31 MAR 1950

F-20

Document No. 001

NO CHANGE in Class.

DECLASSIFIED

Class. CHANGES: 55 S C

EXPIRES: 11 77

Auth: F.A. [unclear]

Date: 31-1-70 By: 013

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H I G H L I G H T S

The UK is currently facing two critical decisions which will have an important bearing on the future British role in Western Europe and the Far East. Present conditions advanced by the UK for entering the proposed European Payments Union again focus attention on the vital question of Britain's role in efforts to achieve full economic integration in Western Europe (see page 2). Meanwhile, evident British acquiescence in the removal of some former Nationalist aircraft and equipment in Hong Kong to Chinese Communist territory has evoked strong US protests which will force the UK to review certain aspects of its policy toward China (see page 11).

In Western Europe, the Communist offensive was characterized this week by a shift in emphasis by the Italian Communists from strike action to preparations for parliamentary attacks on the Government (see page 5); a threatened decline in the popular will to resist Communist pressure in Berlin in the face of mounting unemployment (see page 3); and continued emphasis by the USSR on the "Partisans for Peace" movement to achieve its ends (see page 6).

In the Near East, the forthcoming meeting between the Prime Ministers of India and Pakistan may lessen talk of the inevitability of war between the two countries, but the underlying factors making for a possible outbreak of hostilities remain strong (see page 8).

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WESTERN EUROPE

Payments Union Present terms offered by the British
 for participation in the proposed
European Payments Union (EPU) not only raise the question
as to whether British participation on this basis would pro-
mote the objectives of the EPU but once again focus attention
on the crucial question of Britain's role in efforts to achieve
the economic integration of Western Europe. The EPU as
presently conceived would be a major step toward liberalizing
trade and payments within the area and bringing about greater
coordination of financial and monetary policies of the member
countries. Fearing drains on gold and dollars and concerned
over possible weakening of the sterling area system, the
British have conditioned participation in the EPU on granting
sterling a special position. The UK would reserve the right
both to place exchange controls on sterling and to reimpose
quantitative restrictions on imports. Although the British
proposals would not necessarily hamper the full functioning
of the EPU on the continent, they would exempt the UK from
the very pressures to adjust trade policies which are the
heart of the EPU and might induce other countries to demand
the same privileges. Although it is too early to say how far
the UK will modify its position, the ERP nations are approach-
ing the crucial decision between a Western European economic
bloc with full British participation and the alternative develop-
ment of two non-dollar trading areas: continental Western
Europe and one based on sterling.

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GERMANY

Berlin Unemployed Popular will to resist Communist pressure in West Berlin will be further weakened unless prompt measures are taken to relieve unemployment which now stands at 30 percent of the labor force. Prospects for early or rapid economic recovery in Berlin are slight as long as the city remains a beleaguered pawn in the East-West conflict. An improvement in public morale to counteract such Communist pressure as the proposed 28 May Youth Rally must, therefore, depend primarily upon a public works program which would absorb the unemployed. The West Berlin government has insufficient resources for such a program. So long as grants from the Bonn Government and ECA continue to be received on an inadequate and piece-meal basis, long-range planning will be impossible, with a resultant loss of incentive either for maintaining financial stability or for constructive use of budgetary savings accruing from the elimination of unemployment.

FRANCE

Financial Stability With pressure for higher wages in the nationalized industries declining, the French Government has a fairly good chance of maintaining financial equilibrium during the next few months and is not likely to fall back on inflationary financing. Although a general increase in wages is being granted in the nationalized industries, it will probably be held to approximately 6 percent and be covered by price increases already authorized or now being considered. Over-all government economies may soon be effected, tax collections are encouraging, and public interest will probably increase in the expected government offerings in

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SECRET**FRANCE**

April of non-inflationary bonds. The danger exists, however, that later in the year the government may have to indulge in inflationary financing in order to meet unbudgeted military expenditures required for the Mutual Defense Assistance Program and operations in Indochina. It is not likely that the French can effect sufficient economies to cover increased production for defense, and expenditures for the war in Indochina will probably rise well beyond the limit presently set for them.

Tax Reform Progress toward economic and political stability in France is being aided by the government's expanding efforts to effect fiscal reforms. Although this program is severely handicapped by traditional and political considerations, reforms in the tax system will tend progressively to: (1) bolster public faith in the Government's financial position, thereby reinforcing the present hard-won stability of the franc; (2) lessen social discontent and stimulate business activity by distributing the tax burden more equitably; and (3) permit some non-inflationary increases in outlays for defense and higher wages in nationalized industries. Since 1948, tax reforms have substantially increased government revenues by raising the percentage of revenue derived from income taxes, providing for better enforcement, and introducing a single control system for auditing business tax records. Despite this auspicious start, fully effective fiscal controls and a sound fiscal program will be retarded by the politically powerful agricultural interests which have blocked the imposition of equitable taxes on farm income and by such factors as the prevalence of small, individually-owned enterprises, the backwardness of bookkeeping methods and the traditional use of cash instead of checks.

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ITALY

Communist Strategy Although local strikes and land seizures will continue in Italy, the brunt of the present Communist offensive will be temporarily shifted to the parliamentary arena. The Communists will launch a violent Parliamentary attack on the Government, not with any expectation of securing their major demands, but to lay the propaganda basis for renewed public disturbances. In addition to keeping the country in a state of ferment, the Communists hope to advance both their immediate objectives of discrediting Italy in US eyes as a stable ally and hindering effective implementation of MDAP, as well as their long range objective of retarding the economic and social progress which would remove the popular basis of Communist strength.

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SECRET**E A S T E R N E U R O P E****SOVIET UNION**

"Peace" Motif Soviet reaction to Secretary Acheson's recent public pronouncements on US-Soviet relations not only reflects a continuing lack of interest in negotiating a basic settlement with the West, but demonstrates the Kremlin's ability and intention to distort and exploit Western actions and propaganda in support of the Soviet "peace" campaign. The denunciations of Acheson's proposals for reducing international tension, although designed in part to counteract their world-wide impact, were not defensive in nature. On the contrary, they were a part of the continuing Kremlin offensive designed to raise doubt in the West concerning the sincerity of Western efforts toward peace and to intensify Soviet bloc hostility to and isolation from the "imperialists." Meanwhile, the Kremlin appears satisfied with the Partisans for Peace movement and will intensify its efforts to use the "peace front" technique. Eleven peace congresses are scheduled for 1950, attesting to Soviet success in maintaining at least a measure of non-Communist support and participation for this movement.

GREECE

Instability Likely The recent formation of a new government by Liberal leader Venizelos will have unfavorable repercussions in Greece and abroad. Having alienated the other center parties and a significant portion of his own following by withdrawing at the instigation of King Paul from his earlier promise to participate in a centrist coalition under General Plastiras, Venizelos now

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GREECE

heads a weak cabinet representing less than one fourth of the new Parliament and dependent for its existence on the tolerance of basically unsympathetic rightist parties. Under these circumstances, there is little likelihood of stable and effective government. Unless the broadly based centrist coalition can be reconstituted--a move for which there is now considerable pressure--Greece will probably have to face new elections soon.

The key role of the Palace in thwarting the formation of a new government accurately reflecting the election swing toward the center has not escaped popular notice and can scarcely fail to involve the King in charges of political favoritism and intrigue. In the event of a new election, the King would probably attempt to promote a royalist movement under Marshal Papagos in the hope of eclipsing the established political parties, including the new left-center group led by General Plastiras. Such a development would revive dissension over the monarchy and would probably divide Greece into rival republican and monarchist camps, thus severely damaging the stability of the nation and the effectiveness of the US aid program.

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NEAR EAST - AFRICA

INDIA-PAKISTAN

War Tendencies The announcement that the Prime Ministers of Pakistan and India will soon meet in New Delhi to discuss means of curbing the tension between their two countries emphasizes the fact that neither government wants war and may lessen spread of talk on both sides about the inevitability of a resort to hostilities. Nevertheless, the underlying factors making for a possible outbreak of hostilities remain potent. One of these is the possibility of a new wave of large-scale destruction of Hindu life and property in East Bengal--- possibly in retaliation for a similar outburst in West Bengal, now seething with anti-Moslem feeling. Such an outbreak might well create an irresistible popular demand for the sending of Indian troops across the border. While Pakistan might then rely on an appeal to the UN, the far greater probability is that it would initiate retaliatory action of its own. The possibility also remains that India's increasingly clear determination to hold on to the territory it occupies in Kashmir may lead to a popular invasion of Kashmir by Pakistani nationals, a move which would probably be followed by an Indian invasion of West Pakistan and a full-scale war. Meanwhile, the recent buildup of Indian troops and supplies near the West Punjab border intensifies the danger that one side of the other may attempt to anticipate what it regards as an imminent attack by the other.

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IRAN

The New Premier The sudden appointment of Ali Mansur as prime minister represents a severe blow to the hopes of many Iranians that the Shah could be counted on to replace the weak Saed at the head of the government with someone who would take energetic measures for needed social and economic reform. The designation of Mansur may possibly be a temporary measure reflecting the Shah's belief that a man of Mansur's shrewdness and political connections is needed to steer the new Anglo-Iranian Oil Company concession agreement through the Majlis; the Shah may contemplate replacing Mansur with a strongly reformist premier (perhaps even Chief of Staff Razmara) after the Majlis acts on the matter. Nevertheless, the appointment is an obvious gesture in the direction of the powerful elements in the ruling class which strongly oppose the Shah's social and economic reform program. Mansur himself has not only an unenviable reputation for corruptness but also a record of persistent obstruction with respect to the Seven Year Plan for economic development. Many progressive Iranians consequently will probably follow the lead of the two most prominent men in the planning program, Prince Abdor Reza and Minister of National Economy Nasr, in declining active participation in the Mansur Government.

ERITREA

Partition Sentiment Sentiment for partitioning Eritrea along the lines of the US-UK proposal at the last UN General Assembly is growing not only in the UN Commission of Inquiry but in Eritrea itself.

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ERITREA

Under this plan the bulk of Eritrea would be federated with Ethiopia and the West Province would be linked to the Anglo-Egyptian Sudan. Federation sentiment is apparently rising in Eritrea, with the Independence Bloc disintegrating and the former Moslem League climbing on the federation bandwagon. Of the five members of the UN Commission, Norway, South Africa and Burma are likely to favor a partition-federation scheme; Pakistan will back the Moslem view in Eritrea and only Guatemala is insisting on independence. Because Italy has renounced all hope for gaining direct control over Eritrea and is likely to accept the partition-federation scheme, success of the plan now depends primarily on whether Ethiopia can be persuaded to renounce its claims to the entire area and reach agreement with Italy.

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F A R E A S T

CHINA

Military Plans Despite repeated reports that the Chinese Communists are preparing for a large military campaign aimed at gaining control over all of Southeast Asia, it is unlikely that such a campaign will be launched in the near future. The primary objective of the Communists in China for 1950 continues to be the complete elimination of all Nationalist resistance and the extension of Communist control over all territories formerly held by the Nationalists. Present international Communist strategy, formulated and announced by the USSR and endorsed by the Chinese Communist Party, does not envisage the employment of the regular armed forces of a Communist nation for large-scale operations as a means of gaining control over non-Communist nations. Moreover, a military adventure by the Chinese Communists into Southeast Asia would contribute little to an early solution of the economic difficulties which derive at least in part from the Nationalist blockade and air attacks. Despite reported Communist dissension over such matters as the degree of subservience to the USSR, policy toward the West and methods to alleviate peasant unrest, there is no conclusive evidence of disagreement concerning the necessity for early occupation of Taiwan and Hainan and the elimination of the Nationalist Navy and Air Force.

British Dilemma US-British policy disagreements regarding China have been sharpened by evident British acquiescence in the removal to Chinese Communist territory of the former Chinese Nationalist aircraft and aircraft.

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CHINA

equipment in Hong Kong. Although litigation is still in process, some of the equipment has already left Hong Kong by road and sea and Communist counsel in one of the cases has categorically stated the intention of his clients to remove everything before completion of the court proceedings. The US has sent a strong protest to the UK Government, asking on security grounds for executive action in Hong Kong to deny this equipment to the Communists, and hinting that further withdrawals by the Communists might prejudice Britain's current prospects for US military and economic aid. This US action places the British in a dilemma. Having decided that the protection of their extensive interests in China required formal recognition of the Communist regime, the British have been trying for several weeks to establish normal diplomatic relations in Peiping. The Communists, however, have pointedly indicated to the British that disposition of Chinese Nationalist assets in Hong Kong is a significant factor in the establishment of normal relations at this time. Unless convinced that failure to take action in Hong Kong would have very serious effects on general Anglo-American relations, the UK is therefore unlikely to make any move which might strongly antagonize the Peiping regime at this critical moment.

AUSTRALIA

Labor Policy By acting vigorously to arrest the Communist-led waterfront strike, the recently-elected Australian Government has taken the first step in its campaign pledge to outlaw the Communist Party. Initial

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AUSTRALIA

labor reaction indicates that the Liberal-Country coalition Government will have greater support on the Communist issue from moderate trade union leaders than had been predicted. Continued support, however, will depend upon adroit handling of the government's labor policy including as little interference as possible in intra-trade union affairs.

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OUTLOOK FOR KOREA

Recent Korean advances against Communist guerrilla forces, while successfully containing the guerrilla threat for the immediate future and strengthening the young Republic's internal security, were made possible only at the expense of economic and political measures essential for the nation's long-term survival. President Rhee's nearly blind concentration on Korea's security, moreover, has produced economic and political difficulties which pose an immediate and serious threat to the new nation's existence.

President Rhee has consistently felt that his primary tasks have been to unify Korea and to counter the immediate Communist threats of subversion, guerrilla warfare and invasion from the North. In his approach to these tasks, Rhee has given top priority to the development of the Republic's armed forces and the forging of a unified, anti-Communist "national front" in political affairs.

In this process, the nation's economic welfare has been neglected to the point where the inflationary threat is critical. Korea's economic ills, in addition to being magnified by the extravagant and uncontrolled Army and Police requirements for funds, equipment and raw materials, can be traced directly to: (1) fiscal ineptitude on the part of Korean officials; (2) failure to collect taxes; (3) politically motivated large-scale government subsidies; and (4) continued government use of inflationary overdrafts with the Central Bank, in order to meet currency requirements. Although Rhee has made some effort to cure these basic ills, he and his advisers apparently still believe that Korea's inflation is merely seasonal and are not yet entirely convinced of the need for drastic and constructive measures to stabilize the Korean economy.

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In the political field, the threat to stability, while perhaps not so obvious as in the field of economics, is equally serious. Faced with the problem of Communist infiltration and subversion, Korea's Government has resorted to the only counter-measures familiar to the mass of its officials--Japanese police state methods. The Government has been successful in suppressing Communist activities and in ferreting out Communist cells in the Army, police, and Government. In the process, however, most of the human rights and civil liberties guaranteed by the Korean Constitution have been severely compromised. Although abstract ideas of human rights are understood by only a small minority of Koreans, the support of this influential group of intelligentsia is essential to the success of the Government. Furthermore, all Koreans, educated or not, understand and resent the physical violence and intimidation to which many innocents have been subjected in the course of the Government's program to "purify" thoughts and develop "unity."

The recent unsuccessful attempts by the National Assembly to reduce the powers of President Rhee and establish a "responsible cabinet" system of government, for example, was more than a mere power play on the part of the conservative, wealthy and relatively talented opposition Democratic-Nationalist Party. It was, rather, a measure of the Assembly's disgust with the Government's failure to curb inflation, and a protest against the excesses of the police.

The net result of Rhee's attempt simultaneously to eliminate both factionalism and the Communist threat has been to silence and intimidate practically all constructive critics of his regime, to alienate much of his popular support both in the provinces and in the Assembly, and to pave the way for a possible split in Korea's nationalist, anti-Communist camp. Such a schism would leave the young Republic hopelessly torn by internal dissension and an easy prey to Communist penetration.

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