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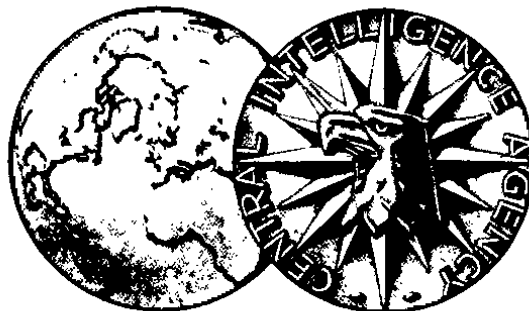
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WEEKLY SUMMARY



Number 91

FEB 1970

F-15

Document No. 001

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H I G H L I G H T S

As the French Government hastened its preparations to deal with Communist sabotage of US arms shipments, the Communists, in a tactical maneuver designed to conceal the political objectives of their anti-MDAP campaign, appeared to be concentrating on exploiting the legitimate economic grievances of workers in defense industries (see page 2). In this effort, the French Communists will take full advantage of the return to collective bargaining by promoting industry-wide and local strikes which may have serious political and economic consequences (see page 4).

The break in US-Bulgarian relations, which reflects the importance attached by the USSR to sealing off the Satellite peoples from contact with the US, is one more manifestation of the greatly increased pressure being exerted against US missions throughout the Satellites and particularly in Hungary and Rumania (see page 9). Meanwhile, Yugoslavia recognized the Ho Chi Minh regime in Indochina in an attempt to foster the spread of national Communism, particularly in the Far East, and to refute Cominform allegations that Yugoslavia had sold out to the West (see page 10).

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WESTERN EUROPE

Anti-MDAP Campaign Communist recognition of the probable failure of open and direct attempts to interfere with the shipment of arms to Europe under the Mutual Defense Assistance Program (MDAP) has led to a marked change in Communist strategy. In an apparent attempt to conceal the political objectives of its anti-MDAP campaign, the Communist high command now seems to be working toward its goal by concentrating on building up popular war fears and exploiting the legitimate economic grievances of workers engaged in defense, transport, and port activities. Communist labor is also shifting from attempted direct interference with MDAP deliveries to efforts to impair production in armament plants. The Communists evidently hope that these indirect tactics will be equally effective in delaying Western European defense preparations but less offensive to Western European peoples than direct strikes against the national defense. Meanwhile, in France, where the major Communist effort is centered, the French Government will take sufficiently strong measures against the Communist campaign to prevent serious interference with the unloading and distribution of MDAP equipment.

GERMANY

Economic Policy The serious economic problems facing West Germany, combined with mounting criticism of the Government's failure to take positive measures to alleviate them, may force the Adenauer regime to reimpose regulations over the domestic economy and foreign

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trade. With unemployment at the two-million mark and industrial expansion leveling off (except in the steel industry), Adenauer is being criticized for his "laissez faire and defeatist attitude" toward steps which would alleviate unemployment, stimulate exports, and encourage deficit spending for investment and public works projects. This criticism has emanated not only from the opposition parties in the Bundestag but from the social reform wing in Adenauer's own Christian Democratic Union. Although Adenauer is likely to resist any permanent alliance with the Social Democratic Party, he will probably make more concessions to the left wing in his party. Such concessions will probably take the form of greater controls over the economy and more aggressive efforts to alleviate the country's economic ills. Adenauer will continue, however, to oppose any move toward outright socialization or nationalization of industry.

Steel Embargo The West German embargo on steel deliveries to the Soviet zone will inconvenience West German iron and steel producers, but long-term maintenance of the embargo will have far more serious effects on the economy of East Germany. West Germany could probably have found ready markets in areas outside the Soviet sphere for approximately 80 percent of the steel products shipped in 1949 to the Soviet zone, and the steadily rising domestic and foreign demand for West German steel should eliminate any temporary dislocations caused by the embargo. On the other hand, the steel embargo has already so aggravated the metal shortage in the Soviet zone that authorities have issued an order confiscating all present and future iron, steel, and non-ferrous scrap metal. Moreover, unemployment

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has grown to such an extent that plans are being completed for shifting manpower within the zone. The Soviet zone iron and steel industry is also suffering from a shortage of metallurgical coke, scrap, and iron ore, and unless these critical shortages are alleviated in the near future, the Soviet iron and steel industry cannot hope to meet the scheduled 1950 production requirements.

FRANCE

Labor Strife The return to collective bargaining in France threatens to have serious political and economic consequences. With the level of wages virtually unchanged since 1948 despite a 17 percent increase in the cost of living, the stage is set for the Communist-dominated General Confederation of Labor (CGT) to exploit the new situation in a campaign which will be unintentionally abetted by both the Government and management and which will probably lead to industry-wide and local strikes. The Government will probably attempt to set the new minimum wage as low as possible, while management will probably play into the CGT's hands by encouraging local rather than regional or national contract negotiations and by spurning the assistance of the Force Ouvriere (FO) in combatting the CGT's tactics. Meanwhile, if the CGT is successful in gaining wage increases from local strikes, the FO may also be forced to adopt more aggressive strike tactics. In any event, a 15 to 20 percent rise in general wage levels is anticipated during the coming months. Moreover, an increase in strikes would retard progress toward increased industrial production

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FRANCE

and act as a strong impetus to existing inflationary pressures. Such a trend would in turn hamper French export efforts and therefore tend to discourage further French agreement to proposals for Western European trade liberalization.

ITALY

Reform Program The Italian Government will have difficulty financing the reform and investment program currently being planned. The total program as now envisaged would require an investment equal to almost 20 percent of the estimated national income. The Government will be unable to raise this sum without resorting to inflationary financing and is unlikely to take such a course at this time. It is thus probable that primary emphasis will be placed on those aspects of the program which have the greatest socio-political urgency, namely: (1) agrarian reform; (2) public works to alleviate conditions in southern Italy and Sicily; and (3) expansion of the low-cost housing program. With available funds concentrated on these projects, the Government will probably be forced to slight the investment program that is needed in the industrial and associated fields to reduce industrial unemployment, to increase the availability of capital and consumer goods, and to absorb the increased consumer spending power injected into the economy by the socio-political reforms.

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UNITED KINGDOM

Wages and Prices Despite efforts by the Trades Union Congress to delay demands for wage increases, the UK Government may soon be faced with renewed wage controversies. Although the cost-of-living index, based on retail prices, must reach 118 (it is now 113) before widespread demands can be expected, sharp increases in wholesale prices since devaluation in September should soon be reflected in higher retail prices, especially since the Government is not inclined to increase subsidies. Food is up 20 percent and prices for wool, cotton, and hides have risen sharply and will affect the retail price of clothing and footwear. The price of industrial materials and manufactures may also increase as existing stocks become exhausted and purchases reflect higher world prices.

IRELAND

Defense Policy Growing realization of Ireland's vulnerability in the event of war is leading the Irish Government to re-assess the possibilities of strengthening Ireland's defenses. Defense Minister O'Higgins recently consulted two retired British general officers and apparently concurred in their view that Ireland's inadequate military defense imperils British and Western European security. Although the Irish are still unwilling to enter into a direct alliance with the UK while the partition question remains unsolved, they are probably now willing to: (1) enter with the US, or the US and Canada, into a formal alliance paralleling the North Atlantic Pact; (2) seek allocation of military equipment from the US and additional equipment and training from the UK; (3) expand the Irish Army by

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IRELAND

40 percent and increase military expenditures; and (4) refrain from raising the partition issue during the negotiations. Strong disapproval by opposition leader De Valera would probably discourage the Costello Government from entering such negotiations. De Valera, however, influenced by strong Catholic support for Irish participation in Europe's defense, is apparently no longer as adamantly neutrality-minded as he was during World War II.

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

Trade Controls By channeling East-West trade through Soviet-controlled middlemen in Western Europe, the USSR is facilitating the acquisition of strategic goods in contravention of Western export controls, obtaining supplementary funds for Communist parties in Western Europe, and establishing a net for economic espionage. To an increasing extent, all East-West trade must be handled through agents designated by the USSR. The great majority of these agents are either Eastern European nationals operating primarily for their respective countries or local Communists directed through the regular international Communist apparatus. This type of international commercial operation not only provides a large measure of control over East-West trade channels but permits the realization of large profits. Thus, the Italian Communists have been able to support a program well beyond that which would have been possible from domestic resources or direct assistance from the USSR. Similarly, in Switzerland, profits realized by such Communist-controlled firms as Intra Handels, which has a preferred position in trade with the Balkans, have been used in part to finance such operations as the French strikes and Italian Communist electoral campaigns.

FINLAND

Economic Stability If current Soviet stalling tactics in trade negotiations with Finland culminate in Soviet refusal to conclude a 1950 trade pact, Finland's economy would be temporarily affected, but

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FINLAND

Finland's economic and political independence would not be jeopardized. Finland relied on the USSR in 1949 for more than half its petroleum imports and for substantial quantities of wheat. (The greater part of Finland's non-ferrous ores and metal requirements were supplied by Western Europe.) Finland could probably switch fairly easily to non-Soviet suppliers for its petroleum requirements, and the country's grain problem has been eased somewhat by the prospect that 1950's grain crops will be 16 percent above 1949's production. Some of the foreign exchange required for shifting Finland's imports to non-Soviet sources would be met by increasing the export of wood products to Western Europe and the US. A major shift to non-Soviet sources because of Soviet refusal to negotiate a trade treaty, however, may force Finland to ask for some financial assistance from the West to compensate for the unfavorable balance of payments which will last until 1952, when Soviet reparations payments are concluded.

BULGARIA

US Relations The formal break in US-Bulgarian relations, when viewed in the light of an increase in pressure against US missions in the other Satellites, marks the furthest advance in the USSR's campaign to seal off the Satellite peoples from the West. An immediate effect of the break has been the initiation of a ruthless extermination in Bulgaria of those accused of collaborating in espionage activity with the US legation. By permitting an open rupture in US-Bulgarian relations, the USSR has apparently indicated its belief that maintaining US-Satellite relations is less

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BULGARIA

important than overcoming the serious obstacles to complete consolidation of Soviet control represented by the presence of US missions. Moreover, in the case of Bulgaria, as may also be the case in Hungary and Rumania, the USSR may have been anxious to expel US personnel in order to prepare with greater secrecy for further anti-Tito operations. Although anti-US moves have already increased in Poland and Czechoslovakia as well, the USSR may move more slowly toward forcing a break in relations between the US and these Satellites, which not only are members of the UN but still have more exploitable trade and diplomatic channels with the West than do the other Satellites.

YUGOSLAVIA

Ho Recognition Yugoslav recognition of the Ho Chi Minh regime in Indochina was a carefully considered move designed both to foster the spread of national Communism, especially in the Far East, and to refute current Cominform allegations that Yugoslavia has sold out to the West. The Yugoslav Government, convinced that Mao Tse-tung will eventually break free of Moscow, has long been anxious to establish contact with the Chinese Communists, and Tito apparently believes that contact with Ho will enable Yugoslavia to establish closer ties with Mao. Through such ties, Yugoslavia probably hopes eventually to win adherents to the Yugoslav brand of independent Communism and end Yugoslavia's isolation as the only "national" Communist state.

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F A R E A S T

CHINA

TREATY WITH USSR

Secret Protocols The recently announced treaty between China and the USSR was almost certainly accompanied by secret protocols designed to provide for a stronger Soviet position in the Chinese military organization, in strategic segments of the Chinese economy, and in China's border regions. It is not likely that protracted negotiations would have been necessary to reach agreement on the published text of the treaty.

Military Agreements Unpublished military agreements probably provide for: (1) Soviet assistance to the Chinese Communist ground and naval forces and their embryonic air force; (2) Soviet access to Chinese naval and air bases; (3) the "joint" development of such bases using Soviet equipment and technicians; (4) the exchange of military and technical personnel; and (5) the dispatch of a Soviet military mission to China. The USSR will probably give special attention to the development of the Chinese Communist air arm, which it will be in a position to dominate from the outset; to Chinese Communist service schools; and to the selection of reliable Chinese Stalinists as political and intelligence officers.

Economic Terms In the economic field, the USSR has probably obtained secret rights to maintain its preferred position in Manchuria, establish Soviet trading firms, assign Soviet advisers and technicians to strategic segments of the Chinese economy, extend Soviet air privileges in the border regions and to China proper, and

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engage in preclusive buying of strategic minerals. One economic pact may deal specifically with Sinkiang; an arrangement for the joint development of that province, together with provision for Soviet advisers with the provincial government, would make it unnecessary for the USSR to seek territorial concessions in Sinkiang at this time.

Possible Friction Meanwhile, friction will probably develop between China and the USSR over implementation of the published \$300 million credit agreement. As in the case of similar Soviet credits to the European Satellites, the USSR may use the agreement as a lever to extract concessions from the Chinese. The USSR will not only tend to overrate the value of Soviet goods but may insist on deducting from the credit any costs of technical advisory assistance, on receiving credit for the return of equipment originally obtained in the dismantling of Manchurian industrial installations, and on charging exorbitant transportation costs.

JAPAN

Strike Threat The strike of government workers threatened for early March still finds the Yoshida regime firm in its refusal to grant wage increases. In answer to mass demonstrations in preparation for the "illegal" strike, the Government has warned that strong action will be taken and maintains that its efforts to reduce the cost of living will eventually result in real wage increases. The Socialists, however, in an attempt to hold trade union support, state that wage increases could be made from funds now proposed for debt

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JAPAN

retirement in the Government's "over-ambitious" 1950 budget, and blame the present labor crisis on the Yoshida regime. Although the Socialists have petitioned SCAP to intervene on behalf of the government workers, no action by the occupation authorities has thus far been indicated. Meanwhile, the present crisis tends to undermine the current moderate leadership of the Japanese trade union movement, and labor may become increasingly susceptible to Communist influence.

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SECRET**US-UK DIVERGENCE ON CHINA ISSUE**

Recent developments in connection with shipping and civil aviation in the Far East have clearly demonstrated that despite general agreement in over-all policy on containment of Communism in Asia, the UK will continue to differ with the US on specific issues and that the UK is in general reluctant to cooperate fully with the US on issues where there is a serious risk of antagonizing the Chinese Communist Government.

This reluctance by the UK has been reflected in the attitude of most of the British Empire courts in which repossession action was instituted in respect to the Chinese-flag ships on which the US has held defaulted mortgages. Although the US is still pressing the issue, the UK is clearly not prepared to take any positive steps to prevent such shipping from falling under Communist control. With respect to approximately 60 transport aircraft at Hong Kong, which had been purchased by Chennault interests from the Chinese Nationalists while the UK still recognized the Nationalist Government, a Hong Kong court has now rendered a decision which would appear to permit the aircraft shortly to be flown to the mainland of China for integration into the Communist civil and military air fleets. Although the UK may detain the aircraft at Hong Kong on technical grounds pending further appeal, continued British reluctance to antagonize the Chinese Communists offers little assurance of full British cooperation with the US on similar issues in the future.

Meanwhile, the British must soon decide officially whether to apply to Communist China the existing joint US-UK policy for restriction of Satellite international aviation activities. The UK will probably decline for the

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present the US request that it support the representations already made by the US in Bangkok and Jakarta to refuse any requests for landing rights for Chinese Communist aircraft.

Although the UK is as anxious as the US to prevent Communist expansion into Southeast Asia, the desire to protect its valuable holdings in China and its position in Hong Kong will cause the British to move with caution in matters concerning Chinese Communist civil aviation. Any pressure by the UK on Bangkok and Jakarta, furthermore, would conflict with the British objective of cultivating trade relations with the Chinese. Pending the establishment of satisfactory diplomatic relations with China, therefore, expediency will govern British decisions with respect to Chinese Communist aviation activities. When full diplomatic status has been accorded the UK's representative at Peiping and when the future course of British-Chinese relations seems clearer, the UK may then find it possible to take a more positive attitude. In any case, the UK will seek to conceal as far as possible any alignment with the US in actions prejudicial to Communist Chinese interests in air transport operations.

Over-all British policy toward Communist China will probably be largely shaped for some time by desires to protect the British commercial position in China and to retain Hong Kong. The British will hope that their actions will coincide substantially with those taken by the US, but preoccupation with what the UK conceives to be its major interests will lead to further situations in which the actions of the two nations differ. For example, British representatives in China who have assumed the protection of US citizens and property may not in all cases be able to defend US interests vigorously.

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