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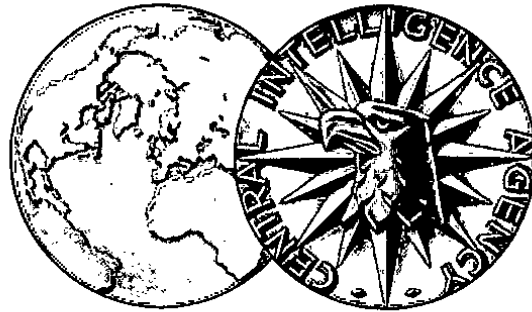
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WEEKLY SUMMARY



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H I G H L I G H T S

As Western Europe entered the year which will be critical in determining to what extent its long-term economic problems can be solved before the expiration of the European Recovery Program (see page 2), the French Communist Party was making plans once again to marshal its still considerable strength behind a political strike program designed to undermine French national defense efforts and the Military Defense Assistance Program (see page 5).

The sudden end of the uneasy Populist-Liberal Government in Greece has spurred the establishment of a pre-election "service" government and has increased speculation concerning the future role of the immensely popular Marshal Papagos (see page 6).

The almost certain appointment of a completely Wafdist Cabinet in Egypt, as a result of the recent elections, will give Egypt a more stable government than under the minority coalition regimes of the past five years (see page 8). The new government will continue its pro-West alignment, but will jealously guard against any threat to Egypt's dominant role in the Arab world.

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WESTERN EUROPE

Economic Prospects As Western Europe enters the second half of the European Recovery Program, it is clear that 1950 will be the critical year for the solution of Europe's long-term economic problem. With production restored and monetary stability well on the road to accomplishment, the basic remaining problem is one of trade expansion, both within Europe to increase productivity through greater competition; and to the dollar area to close the dollar gap. A fundamental redirection of the ECA program is already in process and is aimed at reconstructing Europe's international economic position by creating a single mass market in Western Europe and at least some central economic institutions. This is the last year that US aid will be sufficient to provide a potent incentive for the far-reaching liberalization of intra-European trade and payments essential as the groundwork for such economic integration. If this trade and payments liberalization can be substantially achieved in 1950, Western Europe will have taken great strides toward the creation of a single market economy by 1952, although the extraordinary European dollar deficit will still be far from eliminated.

The struggle for trade and payments liberalization will therefore be the crucial development in 1950, with numerous obstacles remaining to be overcome. These obstacles include the incipient revival of traditional European cartel practices as key shortages disappear; the autarchic protectionist attitudes of some ECA participants; and the concern of such countries as the UK and the Scandinavian nations that premature trade and payments liberalization will interfere with their

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more carefully controlled economic programs. The role of the UK in European economic integration will also be crucial, particularly with respect to whether the British will provide the leadership or even the wholehearted participation which the continental powers need. For the UK itself, 1950 will continue to be a time of trouble although no crisis of the magnitude of last summer is expected. Great Britain will probably manage to keep its head above water financially and to continue its outstanding productive and export effort despite some rise in cost of living resulting from devaluation. The key British problems, those of the dollar gap and the sterling balances, are extra-European and will not be solved by the freeing of intra-European trade.

GERMANY

Export Controls With West Germany's export position at a critical stage since devaluation of European currencies, the area will probably become increasingly important as a source of strategic materials for the USSR and its Satellites. West Germany already exports more strategic materials (particularly those on the 1-B list) to the Soviet area than any other Western European country because: (1) such goods are available in greater quantities in West Germany; (2) existing controls can be easily evaded; and (3) there are few controls on Berlin and interzonal trade. Export controls are now administered by German authorities and apply to materials on the 1-B list as well as those on the 1-A list. Because the other Western European nations place few controls over the export of 1-B materials, the Germans are feeling increasingly discriminated against. German authorities may, therefore, succumb to the growing pressure from

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GERMANY

German industrialists for greater exports to the East and become even more lax in their enforcement of export controls.

AUSTRIA

Treaty Prospects Resumption of Austrian peace treaty talks on 9 January in London is unlikely to result in an early treaty, in view of the probable continuation by the USSR of its stalling tactics. Always reluctant to withdraw from an area once occupied, the USSR is under no particular compulsion to conclude a treaty at this time and, in fact, can derive important advantages from indefinite postponement. In the absence of a treaty, the USSR has a legal basis for maintaining troops in Rumania and Hungary to exert pressure on Yugoslavia and can avoid the international censure which would result from the artifice of having these Satellites formally request them to remain. Moreover, Soviet occupation of eastern Austria provides an opportunity for economic exploitation and entrenchment and prevents the full economic integration of the Soviet zone with the rest of Austria. As long as treaty negotiations continue, the Kremlin probably also hopes to exploit Austrian and Western desire for a treaty to gain a few more concessions, not only on the treaty provisions themselves, but in its dealings with the Austrian Government.

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FRANCE

Communist Plans In pursuit of one of its major objectives for 1950--the undermining of French national defense and the Military Defense Assistance Program (MDAP)--the French Communist Party intends once again to resort extensively to the political strike. Although relatively unsuccessful during the past year in its efforts to promote labor unity of action and to gain support for economic strikes, the Communist-controlled General Confederation of Labor is still the most powerful single organization of trade unions, with a large following of workers who could obstruct French defense production through work stoppages in key industries. The Communists will also be able to call upon sizeable sympathetic forces both to form picket lines during port strikes against the delivery of MDAP equipment and to stage mass disturbances to impress non-striking workers and the authorities. The Communist attack on France's defense program would become critical if the French Government attempted to defeat the legitimate demands of organized labor for higher wages, and thus itself provided the stimulus for a unity action program by labor under Communist leadership. Such a result, however, may be avoided by the appreciable concessions the Government and management will probably grant to labor following the imminent return to collective bargaining.

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

FINLAND

Electoral Prospects Finland's presidential election on 15 and 16 January will be held in an atmosphere clouded by Soviet threats and a wage policy controversy imminently threatening Premier Fagerholm's Social Democratic Cabinet. In an attempt to prevent Paasikivi's re-election, the USSR on 1 January accused the Finnish Government of violating the Peace Treaty and the Finnish-Soviet Treaty of Friendship and Mutual Aid by failing to deliver 300 alleged war criminals to the USSR. Instead of frightening the Finns, this Soviet action will virtually assure the re-election of Paasikivi by bringing to the polls many voters who might have abstained because they considered his election certain. Meanwhile, the Government's decision to grant a 7 percent general wage increase, even if it should result in the overthrow of the present Cabinet and the appointment of an interim government of experts, will act in President Paasikivi's favor by assuring labor support for the Social Democrats, who are backing Paasikivi's re-election, and by lessening the appeal of the Communist Party.

GREECE

Cabinet Crisis The resignation on 5 January of Premier Diomedes, following the sudden withdrawal of the Liberals from the government, marks the end of the uneasy Populist-Liberal coalition. The King has already called upon John Theotokis, the independent Populist President of

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GREECE

Parliament, to form a "service" government with authority to dissolve parliament and proclaim a general election; even in the event the Theotokis fails in this task, the lively increase in political maneuvering which culminated in the present crisis will probably preclude any attempt to return to a party coalition.

One major result of the current crisis is to increase speculation concerning the future role of the immensely popular Marshal Papagos. Although Papagos has withdrawn his resignation as Commander in Chief, he is a favorite of the King, who recently asserted that he wanted to hold the Marshal in reserve for a possible political crisis. It is unlikely that circumstances will force the King to name Papagos as Premier before the elections (which may be scheduled for March), but the Marshal would be a popular choice for the premiership if--as is possible--none of the established political leaders is able to command a majority in the new parliament.

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NEAR EAST - AFRICA

IRAN

Discontent Growing The Shah, who returned from his US tour on 2 January, is confronted by a serious internal situation. During his two-month absence, the economic situation has been allowed to grow steadily worse and threatens to become even more critical during the spring. This general economic deterioration has overshadowed the modest gains thus far made by the seven-year development program, and many Iranians are being tempted to regard the program as just another device for lining the pockets of the ruling classes. Moreover, the outlawed pro-Soviet Tudeh Party is apparently benefitting by the economic distress which is developing. Despite the arrest of ten to twelve suspects a day and the threat of three to ten year prison terms for those involved in the distribution of Tudeh leaflets, additional issues of Tudeh Party publications have recently appeared in large numbers both in Tehran and the provinces, and there are indications that this stepped-up propaganda effort is being received more favorably than previous ones. Soviet encouragement of the party's revival is suggested by the return to Iran of a Soviet diplomat who has widespread contacts in political and newspaper circles and who was reportedly involved in the organization of the Azerbaijan Democratic Party.

EGYPT

Election Results The overwhelming victory of Egypt's major party, the Wafd, in the parliamentary elections, opens the way for the establishment of the first popularly-supported Egyptian Government since the war. In addition to being a definite setback to the

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EGYPT

political prestige of King Farouk, who has indirectly controlled Egypt's governmental affairs since 1944 through a succession of minority coalition cabinets, the election results leave Farouk little alternative except to appoint a completely Wafdist cabinet.

The chief significance of the return to power of the Wafd is that Egypt will have greater stability in the handling of both internal and external problems than under the minority coalition governments of the past five years. Because the Wafd Party, like the other major Egyptian parties, is generally rightist, Egypt will continue its pro-West alignment. The Wafd will probably reopen negotiations with the UK to revise the Anglo-Egyptian Treaty of 1936 and with the US for a general treaty of commerce, navigation, and friendship. The new government will also probably attempt to strengthen the Arab League and to confirm Egypt's leading position therein. Possibly even more than its predecessors, the Wafdist Cabinet will jealously guard against any threat to Egypt's dominant role in Arab affairs generally, such as would be offered by an enlarged Hashimite Syria. The government will probably be willing to cooperate with the UN toward a settlement of the Palestine issue but will be reluctant to enter direct negotiations with Israel. In domestic affairs, the Wafdist Government will probably initiate mild reforms but will make little effort to weaken the dominant position of the wealthy land-owning minority. Because the election results indicate that the Wafd may even have the support of the fanatic Moslem Brothers, the government should have little trouble in maintaining internal security for some months to come.

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F A R E A S T

CHINA

Coastal Mines The Chinese Nationalist announcement that the mouth of the Yangtze River has been mined has effectively closed Shanghai to ocean-going traffic. There is reason to believe that mining operations have actually been carried out, although there has been no positive confirmation. In any case, the Communists are planning mine-sweeping operations in the Yangtze estuary, possibly to enable the US Flying Arrow now at Hong Kong to reach Shanghai. The Nationalist Navy is believed to have a small supply of mines, but is probably incapable of effectively mining the approaches to all the major Chinese ports. Even the presence of a few mines, however, accompanied by vigorous publicity, will serve to prevent most shipping from entering the major China ports from Shanghai south. The Nationalists, however, will remain powerless to interfere seriously with shipping activities to and from the major North China city of Tientsin.

INDONESIA

New Government The Government of the new United States of Indonesia has gotten off to an auspicious start. Composed of the ablest of Indonesia's conservative and moderate leaders, the new Government has demonstrated its ability to maintain law and order during the critical period of transfer of sovereignty from the Netherlands and has shown that it has the support of the majority of the populace. No really serious outbreaks of violence are expected in the near future, and any disturbances by dissident elements such as the fanatic Moslem

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INDONESIA

Darul Islam can probably be controlled, if not by political means, by the army and police forces under the Minister of Defense. In addition, general confidence in the Government has already had a favorable effect on economic conditions, and black market prices have dropped appreciably. Despite this auspicious beginning, however, the new Government faces many trying problems. Although the Government is capably led, there are too few trained and experienced administrators on the lower levels to fill the vacuum created by the departure of Dutch officials and administrators. Economic rehabilitation and development will not be easy. Moreover, the advance of Communism to Southeast Asia will pose fresh political and economic problems for the new state as it seeks to establish itself.

INDOCHINA

Transfer of Power The eleventh-hour transfer of powers from the French to the Bao Dai regime in Indochina falls far short of the sovereignty demanded by the Vietnamese. Some thirty conventions were signed, reportedly covering transfer of power in the fields of justice, armed forces, economics, finance, public works, culture, public health, information, and personnel. Vietnamese sovereignty even in these fields has been limited by provisions in the judicial convention for special rights for Frenchmen, the retention in altered form of the French Surete, and the subordination of the Vietnamese educational establishment to the University of Paris. Moreover, full French military authority is to continue "until peace and order are restored," despite liberal terms providing for

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INDOCHINA

French military bases in Vietnam. Meanwhile, Vietnamese participation in international affairs has apparently not been discussed further and French, Vietnamese, Cambodian, and Laotian representatives will not meet to discuss such vital subjects as currency, immigration, customs, and communications until late in January.

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