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# WEEKLY SUMMARY



Number 42

18 MAR 1949

Document No. ~~01~~ 1  
NO CHANGE in Class.   
 DECLASSIFIED  
Class. CHANGED TO: TS S C  
DDA Memo, 4 Apr 77  
Auth: DDA REG. 77/1763  
Date: 2/2/78 By: OK

## CENTRAL INTELLIGENCE AGENCY

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

At several points along the perimeter of the Soviet orbit the USSR applied pressure and stimulated tension during the past week. In the north, the flood of rumors concerning the movement of Soviet troops along the Finnish border continued as the USSR maintained its attempt to hamper Scandinavian participation in the Atlantic Pact and to intimidate border-line countries elsewhere who may wish to form closer ties with the West (see page 7). In the Balkans, Kremlin-controlled propagandists have been laying heavy emphasis upon the question of an autonomous Macedonian state, primarily to further the Soviet program leading to the overthrow of Tito (see page 7). In Iran, the serious deterioration in Soviet-Iranian relations has continued and will probably prompt an increase in Soviet pressure (see page 9).

Despite a continuing Arab fear of further territorial grabs by the Israelis, the Palestine situation will probably maintain its present trend toward military settlement (see page 9). The Arab states recognize their inability to stop the Israelis by force and doubt the ability of the UN to restore territory they have lost. They will therefore be more eager to conclude armistice agreements in the hope of stopping further seizures by Israel.

**SECRET****WESTERN EUROPE****FRANCE**

**Cantonal Elections** The French cantonal elections of 20 and 27 March will probably show increased public support for all the Third Force parties and reaffirm the strength and prestige of the present coalition government. The electoral system will give the Third Force parties a decided advantage over the Communist and Gaullist opposition. In the 20 March balloting only candidates receiving a majority will be elected; on 27 March, those communities which had failed to give a majority to any person will hold new elections in which a simple plurality will elect a candidate. The first ballot will therefore provide the different parties an opportunity to test their relative strengths. In the second ballot, the tendency of the center parties to unite behind single pro-government candidates will confront the Gaullists and the Communists with a handicap in electing their representatives. In comparison with the 1947 municipal elections, the balloting is expected to reflect a substantial decline (except in a few isolated areas) in popular support for De Gaulle's Rally of the French People as well as a somewhat smaller loss in Communist Party following.

**ITALY**

**One Party Rule** Christian Democrat aspirations to be the only governing party in Italy may result in eventual dissolution of the coalition Cabinet and the formation of a single-party government. Premier De Gasperi, long under pressure from his party to exercise the prerogative of the majority group and operate a one-party Cabinet, is replacing moderate Socialist Tremelloni with Christian Democrat Pella

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**SECRET****ITALY**

in the important Cabinet post for administration of aid from the European recovery program. Although the premier is expected to appoint another Christian Democrat as Treasury Minister, he apparently intends to make Pella responsible for the government's entire economic and fiscal program. In addition, a third Christian Democrat is reportedly under consideration for the post of Foreign Trade Minister, now vacant as a result of the resignation of a Liberal Party member. Although De Gasperi recently repeated his opinion that maintenance of the coalition Cabinet was "desirable" to demonstrate the homogeneity of the non-Communist forces and to prevent defection to the Communists, he also pointed out that the coalition was not essential. If the Premier yields to the demands of his party's left wing that its members be appointed to replace the moderate Socialist ministers, the leftist parties would have strong basis for attacking the De Gasperi Government as unrepresentative of the working people of Italy.

**SWEDEN**

**Military Policy** Despite continued Swedish neutrality, recent public statements demonstrate that top Swedish military leaders favor a policy of technical cooperation with the West in military matters. Technical cooperation, as explained by these men, must include key military equipment and supplies as well as planning for swift and effective military support of Sweden in case of a Soviet attack. The materiel deemed essential includes electronics equipment, aircraft, and petroleum products. Although all the reasons for giving frank and public recognition to Sweden's requirements for adequate defense are not yet clear, one obvious

**SECRET****SWEDEN**

object is to gain increased support in the Swedish Parliament for the military budget. Other aims may be to sell the western powers on the advantages of providing aid to a "neutral" Sweden and to sell the Swedish public on the advantages of alignment with the West.

**UNITED KINGDOM**

**Commonwealth Plans** The sudden dispatch of four high-level officials from London to the dominion capitals, though not yet explained by the UK Government, suggests that the Foreign Office has accelerated its timetable for marshalling Commonwealth support against the advance of Communism in Asia. The problem of Communism in Asia is of increasing direct concern to the UK and its Asian dominions, as well as to New Zealand and Australia, and was extensively discussed at the Commonwealth conference in October 1948. One possible subject currently being discussed by these British officials is the development of a regional defense pact, either similar to the Atlantic Pact or confined to political warfare. Such a pact would have important implications for Commonwealth relations and hence would need to be considered at another conference of the Commonwealth leaders. Thus, a Commonwealth conference may be called at an earlier date than previously planned.

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

**Molotov-Mikoyan Shift** No basic change in Soviet policy toward the West can be expected as a result of recent personnel changes in the Soviet hierarchy. These changes were probably designed to increase the efficiency of party and state mechanisms, both politically and economically. The relatively rapid consolidation of the West, as currently exemplified by the Atlantic Pact, is the immediate reason for the personnel changes. The realignment of personnel simultaneously presages intensified efforts to consolidate and strengthen the Soviet orbit politically, economically, and militarily.

The cold war can be expected to continue undiminished in intensity. Recent speeches by western European Communist leaders suggest that subversion and sabotage, in addition to more conventional tactics, eventually will play a more important role in Soviet-Communist strategy against the West. Responsibility for formal political and economic relations with the West has passed from Molotov and Mikoyan to Vishinsky and Menshikov, both technical executives without policy function who can be expected to adhere religiously to policies established by the Politburo.

The relief of Molotov, Mikoyan, and Voznesensky from operational responsibility will leave them free to concentrate on pressing problems of political and economic policy of the entire Soviet orbit. Molotov, as heir apparent to the Soviet throne, would be the logical choice to assume over-all command. Such responsibility would bring him one step closer to eventual assumption of complete power in the event of Stalin's retirement or death.

Mikoyan and Voznesensky are the best-qualified Soviet leaders to deal with the economic consolidation and strengthening of the Soviet bloc. Mikoyan is apparently the leading figure in the Soviet-inspired Council of Economic Mutual Assistance (CEMA) which has already begun to assume the function of economic planning for the entire Soviet bloc.

One of the first results of this Soviet realignment will probably be shown in the handling of the case of Tito. Tito's defection, with its ramifications, is undoubtedly the most pressing internal problem of the Soviet sphere and demands a drastic solution to prevent the further spread of nationalistic deviation.



**SECRET****SOVIET UNION**

**The New Budget** The provisions of the 1949 budget adopted by the Supreme Soviet reflect increased Soviet emphasis on industrial and military production. Although the allocation to national economy represented only a nominal increase over the 1948 total, a substantial expansion in heavy industry is planned. Compared with 1948, the appropriation for capital construction rose from 57 to 80 billion rubles, and investments from industry profits were set at 26 instead of 9 billion rubles. Moreover, the 60% increase in the amount allocated for agricultural mechanization suggests that some of these funds may be diverted to the production of mechanized equipment suitable for military use. A preliminary analysis of strictly military appropriations (announced and concealed) indicates a possible increase from 1948's 125 billion rubles to approximately 165. This is the first announced increase in military appropriations since 1945. The total military allocation represents about 40% of the total budget and about 30% of the national income of the Soviet Union. Moreover, these figures do not include such additional military accruals as: (1) Satellite military production for Soviet account; (2) military plants being received as reparations; and (3) requisitions for the maintenance of occupation forces.

**Role in UN** Despite recent shifts in high-level Soviet personnel, there is no indication that the Kremlin is planning an early Soviet withdrawal from the UN. The USSR will continue its aggressive obstructionist tactics and will remain in the UN in order to: (1) prevent it from becoming a body exclusively oriented toward the West; (2) use it as a sounding board for Soviet propaganda; and (3) veto any enforcement measures which threaten Soviet interests. Meanwhile, however, the USSR's fundamental hostility to the UN's developing economic, scientific, and social activities is becoming more apparent. The USSR, realizing that the struggle between East and West will for the next few years

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**SECRET****SOVIET UNION**

be largely in the economic and social sphere, is increasingly concerned that the UN will become a structure of international cooperation inimical to Soviet aims. Soviet propaganda with increasing vehemence is attacking such agencies as the International Bank, World Monetary Fund, World Health Organization, International Refugee Organization, Food and Agricultural Organization, and International Labor Organization--all of which are being branded as US-dominated and as serving the interests of western imperialists. The vigor of the attacks also reveals the Kremlin's appreciation of the role these agencies can play in implementing the Truman program for aid to backward areas.

**Pressure on Scandinavia** The many rumors of increases in the number or movement of Soviet troops along the Finnish border are believed to be deliberately inspired by the USSR as part of a war-of-nerves against the Scandinavian countries. This war-of-nerves has the twin goal of: (1) preventing Scandinavian participation in the Atlantic Pact, or at least lessening the effectiveness of such participation; and (2) intimidating border-line countries throughout the world who may wish to form closer ties with the West. It is unlikely that the USSR is preparing for armed intervention in Finland or the other Scandinavian countries, although the Kremlin will probably increase its economic and political pressure against Finland.

**YUGOSLAVIA**

**Macedonian Question** Increased emphasis on the Macedonian question in Soviet-inspired propaganda represents primarily a Kremlin attempt to exploit this issue as an additional weapon against Tito. The Kremlin may hope to

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**SECRET****YUGOSLAVIA**

undermine Tito's control over the Macedonians within Yugoslavia and to thwart Tito's deep-seated ambitions for a Macedonian state under Yugoslav control. The present Communist line suggests that the USSR is planning more positive pressure against Tito than the diplomatic and economic reprisals of the past six months. The re-opening of the Macedonian question is actually a part of the Kremlin's anti-Tito program which has recently become more actively hostile. It is unlikely, however, that such a program can be successful without resort to direct military action.

Because this Soviet-inspired agitation over Macedonia largely reflects an inter-Communist quarrel, it may temporarily detract from Greek guerrilla efforts. However, any incident arising from this agitation or any serious efforts to dislodge Tito by means of military action in this area will actually increase the potential danger to northern Greece. Moreover, should the various Communist factions involved achieve a common Macedonian policy, their united efforts would constitute a much more serious threat to Greece than that posed by present guerrilla forces.

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**SECRET****N E A R E A S T - A F R I C A****PALESTINE**

**Prospects for Peace** Despite Israel's abrupt action in occupying the southern Negeb and the threat of further territorial grabs by the Israelis, the trend toward settlement of the military situation on Israel's terms will probably continue. The key Arab states, unable to stop the Israelis by force and doubting the ability of the UN to regain for them territory already lost, will be more anxious than ever to conclude armistice agreements in the hope of preventing the seizure of more territory by Israel. Despite Israel's military moves in the Negeb, Transjordan is still prepared to convert the present cease-fire into an armistice. Lebanon wants to conclude an armistice in order to stabilize the situation in the north; failure by Syria and Iraq to follow suit will not have serious consequences. Meanwhile, Israeli military activities in central Palestine, the weakening of Arab forces in the area, and Israeli propaganda accusations of Arab attacks on Jewish communities suggest that Israel is planning a military move in central Palestine -- the last big area of Palestine still under Arab control. Even if Israel should make such a move, before concluding an armistice with Transjordan or Iraq, the trend toward stability, though checked, would not be permanently reversed, and the prospect of eventual peace on Israel's terms would be improved.

**IRAN**

**Soviet Relations** Intensified Soviet pressure against Iran is expected as a result of the recent serious deterioration in relations between the two countries. Principal factors causing this deterioration have been: (1) the suppression

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**SECRET****IRAN**

of the pro-Soviet Tudeh Party in Iran; (2) far more belligerent anti-Soviet Iranian propaganda; (3) the shipment of US arms to Iran; and (4) public reference to the possibility of Iranian participation in a Mediterranean or Near Eastern pact. The USSR probably sees in these developments a further threat to its principal immediate aims in Iran: gaining control over Iranian oil and blocking closer military ties between Iran and the West. Increased Soviet pressure will probably not take the form of overt military intervention. Instead, the USSR will probably renew its demands that Iran maintain "friendly" relations with the USSR and build up Soviet troop concentrations on the Iranian border. The Soviet Union may also attempt to incite uprisings in Azerbaijan. In order to counteract such measures, Iran will probably inform the UN Security Council of the deterioration in Soviet-Iranian relations and press for a US denial of Soviet charges that Iran is being turned into an offensive base against the USSR.

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

**Peace Prospects** The prospect for successful peace negotiations in China's civil war has improved slightly as a result of the appointment of General Ho Ying-chin as Premier and Defense Minister. Ho's appointment has increased the prestige of Acting President Li Tsung-jen and will decrease opposition within Nationalist circles to Li's efforts to conclude a peace agreement. Because Ho has an anti-Communist record and is on the Communist war criminal list, the Communists will probably make formal objection to his appointment. However, the Communists may be even more willing than heretofore to enter peace negotiations in the hope that, through Ho's influence over Nationalist military leaders, Li will have enough authority to carry out the terms of a peace treaty. Meanwhile, Communist propaganda suggests that, regardless of the outcome of peace negotiations, the Chinese Communists will convene a Political Consultative Conference (PCC) within the next few months. The purpose of such a conference would be to establish a government claiming sovereignty over all China.

**INDONESIA**

**Guerrilla Activity** No apparent progress has been made toward resolution of the deadlock in the Indonesian dispute, the principal obstacle continuing to be Dutch refusal to restore the Republican leaders at Jogjakarta. Meanwhile, guerrilla resistance to Dutch forces in Java and Sumatra is increasing and, despite heavy Indonesian casualties, it is becoming more apparent that the Dutch will be unable to

**SECRET****INDONESIA**

settle the Indonesian problem by force. In fact, the Dutch military position is actually deteriorating. There has been fighting in West Java, an area firmly under Dutch control since 1947; the regular Republican Army is launching frequent attacks in the Jogjakarta area; saboteurs are increasingly active in East Java; and in Sumatra the Dutch only control the urban areas.

**KOREA**

**Cabinet Change** President Rhee's reported intention to remove the Korean Republic's Prime Minister, Lee Bum Suk, from his concurrent post as Defense Minister is apparently another indication of Rhee's desire to eliminate Lee, his foremost rival. Rhee recently abolished Lee's control over the semi-military Korea National Youth organization and this new step, if implemented, would leave Lee without any military influence and probably result in his eventual removal as premier. One of the few able Korean military leaders whose record is free of the charge of Japanese collaboration, Lee is well-versed in those guerrilla warfare techniques which are most suitable to the Republic's military needs and capacities. His removal at this time would jeopardize the Republic's ability to withstand any invasion by Soviet-backed North Korea forces.

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**SECRET****WESTERN HEMISPHERE**

**Peru-Colombia** No immediate solution appears possible in the continuing Peruvian-Colombian impasse over the refusal of the Peruvian Government to grant safe conduct to outlawed APRA leader Haya de la Torre. An exchange of notes between Colombia and Peru has failed to alter the stand of either government. Colombia has as yet made no move to refer this matter to the Council of the Organization of American States, although such a move would probably receive considerable support from the other American states. At the same time, however, it would almost certainly result in Peru's breaking off diplomatic ties with Colombia and in further exacerbation of feeling between the two countries. In the meantime, as long as Haya de la Torre remains in asylum at the Colombian Embassy in Lima, there is a distinct possibility of an attack on the Embassy; if such an attack were made, it would certainly lead to retaliatory measures by Colombia, and possibly to acts of war.

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**SECRET****ARGENTINE ECONOMIC POLICY**

The next few months will probably prove crucial in determining both the stability of the Argentine economy and the future pattern of US-Argentine relations. By agreeing to revise its economic policies and to stress improvement in economic relations with the US, the Government has gained only a temporary respite from the threat of army control, inasmuch as the next few months will probably be used by army leaders as a probation period to determine whether the present administration can successfully implement the new economic policies. Meanwhile, the Government is showing a new realism in attempting to carry out its promises. Although inflation and disruption of Argentine foreign trade have developed to a point where an economic collapse may be unavoidable, the Government is taking steps to modify destructive postwar trading practices by relaxing state controls on foreign trade and by adopting an internationally competitive price policy which may be expected to lead to expanded production of exportable food surpluses. At the same time, by emphasizing prompt liquidation of Argentina's outstanding obligations to the US, Argentine leaders have taken an important step toward restoring the country's international credit position. Despite long-repeated and vehement denials by Peron that Argentina would seek foreign assistance, approaches have been made to the US on the possibility of concluding a commercial agreement with Argentina, including reciprocal credit arrangements which, in effect, would constitute a US loan. Government leaders have also for the first time approached the issue of ECA aid in a realistic manner by requesting a clear definition of ECA policy, with particular reference to Argentine participation in European dollar trade.

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**SECRET****SOVIET-INSPIRED PEACE CONGRESS**

The impending Cultural and Scientific Conference for World Peace in New York is only one of a series of similar peace congresses in different countries projected by the Soviet-oriented World Congress of Intellectuals to bolster Soviet "peace" propaganda. Plans for the New York meeting were formulated by the Paris headquarters of this organization, which has called for peace congresses in France, the UK, Mexico, Italy, and Rumania. These meetings will be climaxed in April by a "World Congress of Partisans of Peace" in Paris, for which the USSR is already seeking the widest possible support. The broad professional representation planned for the Paris Congress (as well as for the New York meeting, though on a smaller scale) will include trade unions, cooperatives, women's and youth movements, religious and peasant groups, and organizations of scientists, writers, newspapermen, artists, and "democratic politicians." Increasing Soviet emphasis on these peace congresses reveals the Kremlin's determination to use its many front organizations in an all-out campaign to convince western populations of the USSR's peaceful intentions.

The importance which the USSR attaches to the New York conference is suggested by the anticipated presence of a large Soviet delegation headed by the Secretary General of the Union of Soviet Writers. Designation of this official, who led the Soviet-directed World Congress of Intellectuals at Breslau in August 1948, demonstrates the close relationship between the New York conference and other Soviet moves in this field. The central themes which the Communists will develop at New York will probably include: (1) denunciation of the increasing "militarization" of the US; (2) the desire for peace by all peoples "irrespective of race or economic and social regime"; and (3) the need for "free research" in an "urgent" effort to end "atomic secrecy."

**SECRET****IMPLICATIONS OF IMPENDING RUBBER CONFERENCE**

Representatives of the natural rubber producing nations at the 28 March meeting of the International Rubber Study Group in London will probably seek US assistance and support in working out an international agreement for regulating the production and price of natural rubber at profitable levels. These nations are becoming increasingly concerned over their ability to sell their natural rubber in sufficient quantity and at prices high enough to prevent severe economic hardships and political instability. This concern is caused primarily by: (1) the continued use of synthetic rubber in the US--and the fear that its use may increase if the new "cold" process for synthetic rubber production is adopted; (2) the realization that increased use of synthetic rubber by the US would have an immediate effect on the price of the natural product because the US purchases nearly half the world production of natural rubber; (3) the fear that the US will curtail its purchases for stockpiling purposes; and (4) the increasing surplus of natural rubber production over consumption.

Indonesia and Malaya currently produce nearly three-fourths of the world's natural rubber. Even a two or three cent drop per pound in its price would bring economic hardship to the European plantation operators and possibly to native small landholders and plantation workers. In Indonesia, such a development would worsen the Dutch position. In Malaya, a decrease in economic stability could increase the Communist potential for guerrilla activity against the British authorities.

Over-all US strategic interests in the Far East would therefore be adversely affected by any decrease in the price of natural rubber because of the resulting unrest and increased opportunity for Communist infiltration. Moreover, a substantial decline in the export of Far East rubber to the US would facilitate the purchase of rubber by the USSR for stockpiling purposes. (Soviet natural rubber purchases in 1948 were large and are reported to be larger so far in 1949.)

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