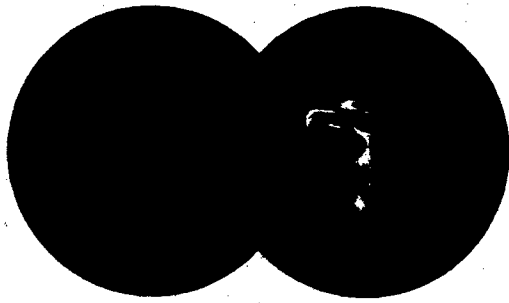


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WEEKLY SUMMARY



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

In the key points in the world where US security is most sensitively affected the situation was comparatively quiet during the lull following the ending of the Council of Foreign Ministers meetings in Paris. In Berlin, negotiations on the modus vivendi have made progress and Berlin communications have been largely restored. In Greece, a six-day government crisis following the death of Prime Minister Sophoulis has been temporarily resolved by the naming of Alexander Diomedes as head of the coalition (see page 6). The Palestine Conciliation Commission has recessed for several weeks, leaving prospects for an Arab-Israeli peace settlement still remote (see page 8). In Indonesia, the ultimate conclusion of a Republican-Dutch agreement has been furthered by the considerable progress now being made toward full restoration of the Republican Government to Jogjakarta (see page 12). In China, the Nationalists are making efforts to hamper the consolidation efforts of the Communists by blockading Shanghai, an operation which threatens to paralyze this key city (see page 11).

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WESTERN EUROPE

Communist Policy Widespread reports indicate that Communist Parties in Western Europe have for some time been in the process of re-evaluating their membership policies and eliminating unreliable elements. The Swedish Communist Party has reportedly abandoned the idea of obtaining mass membership and is concentrating on creating strong cadres in certain key Swedish areas. In France, the reduction in Party membership has recently been extended to include even veteran Communists as well as many Communist militants in the para-military groups. There is also evidence that similar reductions are being effected in the Communist Parties of Switzerland and western Germany.

Although the Tito defection has undoubtedly contributed to the disillusionment of many members of the Western European Communist Parties, they are more probably being reduced in size in response to changing conditions in Western Europe. With constantly decreasing opportunities for building a mass Party following, the Party leadership probably feels it necessary to build a Party core of enthusiastic and militant supporters who will unwaveringly hew to the Stalinist line. This reduction to a "hard core" will simplify Moscow's task of maintaining discipline during the present period of temporary Communist retreat in Western Europe. Despite the retrenchment, the Communist leadership will make an intensive effort to win popular support for its program through the use of front organizations such as "Peace Committees" and the World Federation of Trade Unions.

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GERMANY

Soviet Plans Although the Kremlin apparently decided at the recent Paris meeting of the Council of Foreign Ministers that Soviet objectives could best be achieved by continuing the division of Germany, there has been no relaxation in Soviet efforts to obtain a "neutral" or Soviet-oriented unified Germany. To meet this goal, the USSR is apparently developing a long-range plan to outbid the West for German support. As part of this plan, German Communists are emphasizing the theme of "national unity" and stressing Communist willingness to cooperate with all German elements which desire unification of Germany. Such propaganda campaigns will be ineffective, however, unless the USSR first reverses its present economic and political policies in the Soviet Zone and is prepared to risk losing control of eastern Germany. Nevertheless, the Kremlin probably believes that time favors the USSR in its campaign because: (1) the anticipated economic depression in the West will lessen west German resistance to the USSR and weaken the western position in Europe; and (2) west German desire and need for trade with the East will weaken East-West political barriers.

AUSTRIA

Treaty Prospects Soviet "concessions" on Austria at the recent Paris meeting do not necessarily assure the early conclusion of a peace treaty and may actually have been motivated only by a Soviet desire to relax East-West tension. In this connection, the USSR could afford the concessions made at Paris because they involved no relinquishment of material Soviet interests in Austria. The abandonment of Yugoslav territorial claims was a sacrifice

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of Yugoslav rather than Soviet interests, and the USSR retained the means to exert a considerable influence on the Austrian economy. Meanwhile, the unsettled issues passed to the Deputies for solution are sufficiently controversial to provide the USSR with ample opportunity to delay indefinitely agreement on the final treaty. These issues include: (1) the specific list of assets and booty which the USSR must turn over to Austria; (2) the terms governing Soviet withdrawal of profits from the interests it will retain in Austria; and (3) the question of whether disputes between the Soviet and Austrian governments, arising out of the treaty provisions, shall be settled on a bilateral basis. Soviet willingness to reach agreement on these matters will depend primarily on the success of current Soviet efforts to consolidate and strengthen Communist control in Soviet Zone Germany and the Satellites and to create increased opportunity for Communist influence in Austria.

BELGIUM

Election Results Failure of the Catholic Party to obtain a majority in the Chamber of Deputies in the recent Belgian national elections will probably result in the formation of another Catholic-Socialist coalition Cabinet. Extended negotiations will probably be necessary, however, before a Cabinet can be formed because: (1) the Liberal Party, which scored relatively large gains, will undoubtedly seek representation in the Cabinet; and (2) the Socialists will object to a Catholic-controlled coalition. The elections also demonstrated that the Catholic Party is not strong enough to force a referendum on King Leopold's return and that Communist strength has declined since 1946 by nearly 50%.

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EASTERN EUROPE

SOVIET UNION

Mass Deportations The Kremlin's recent mass deportation of unstable foreign populations from the southern borders of the Caucasus is indicative of the repressive measures increasingly required to enforce the Soviet brand of chauvinism. Similar drastic measures were taken in the Baltic area presumably to suppress resistance to agricultural collectivization and expressions of anti-Soviet sentiment. These border areas, for security reasons, have always been of concern to the Soviet regime and in the past the Kremlin has attempted a solution by replacing "unreliable" ethnic minorities with Great Russians. This particular wave of deportations may have been caused in part by the Kremlin's current emphasis on "Greater Russian" nationalism, which has served to arouse the equally nationalistic resentment of non-Russian peoples in the USSR, thus aggravating the security situation in sensitive border areas.

BULGARIA

Economic Plans Even though Bulgaria's Five Year Plan (1949-1953) for increasing industrial production must be jettisoned in large measure, the USSR has apparently decided that Bulgaria's role in the Soviet family of minions must remain that of a predominantly agricultural producer. This abandonment of Bulgarian industrialization plans was probably ordered by the Soviet-controlled Council for Economic Mutual Assistance (CEMA) which provides for the assignment in 1950 of a fixed economic function to be performed by each signatory. The implementation six months ahead of schedule of this agreement assigning specialized functions among the signatories may indicate the Kremlin: (1) realizes the need to achieve more effective integration

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BULGARIA

of the economic operations of the Satellite nations as soon as possible; and (2) finds it impossible to support industrialization of all Satellites simultaneously. As the first step in re-establishing Bulgaria as a primary agricultural producer, the Kremlin has ordered that work on five hydropower stations be stopped and that construction emphasis be transferred to irrigation dams, which are more in line with Bulgaria's future role as an agricultural Satellite.

GREECE

The New Premier The six-day government crisis resulting from the death of Prime Minister Sophoulis has been ended by the designation of the 74-year-old Alexander Diomedes to head the old coalition cabinet. For the time being, the business of the government will be carried on much as before or even slightly more effectively. (Some matters have been held up in recent weeks because of Sophoulis' growing infirmity and his reluctance to delegate authority.) Nevertheless, it is doubtful whether Diomedes will have more than temporary success in holding the old coalition together in the face of the intensified political and personal rivalries that have sprung up since the death of his predecessor. Diomedes is a respected financier and a Liberal without strong political coloration; he was finally accepted as a compromise candidate only after Vice Premier Tsaldaris, whose Populists form the largest bloc represented in the coalition, was refused the support of the second-ranking Liberal Party. Diomedes will probably soon find his task complicated by his relative inexperience in politics and by his inability to exercise a stabilizing influence comparable to that of the venerable Sophoulis. With no one on the scene apparently capable of commanding general approval

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and of restraining political factionalism, a new and more prolonged cabinet crisis might take place and the King may then be tempted to take matters into his own hands for the sake of the anti-guerrilla effort.

GENERAL

Sovietized WFTU By reorganizing the leadership of the World Federation of Trade Unions and by augmenting its financial support, the USSR has effectively converted the WFTU into a far more aggressive instrument of Soviet policy than was possible before the recent withdrawal of the western labor organizations. The frank transfer of central direction of the WFTU to Soviet and Satellite trade unionists makes it clear that the USSR is more intent upon gaining efficient control of the world organization than it is upon maintaining the pretense that the WFTU is a genuinely representative labor organization. Moreover, the creation of five "regional bureaus," paralleling the structure of the old Red Labor International, reflects Soviet determination to tighten its hold on the WFTU-affiliated national labor unions. To regain the contacts it lost when the western organizations withdrew, the USSR is now organizing among such strategic industries as metalworking, clothing, and leather.

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~~SECRET~~**NEAR EAST - AFRICA**

Palestine Outlook . As the Palestine Conciliation Commission announced a recess of several weeks in the negotiations at Lausanne, a permanent Arab-Israeli peace settlement still appeared remote. Limited progress, however, has been made toward local stabilization along the Syrian border and in Jerusalem. In the disputed Mishmar hay Yarden region just west of the Syrian-Palestinian border, both Syria and Israel have indicated their willingness to accept, as a basis for armistice discussions, Acting Mediator Bunche's proposal for withdrawal of Syrian troops to the border and demilitarization of the area between the two armies. Armistice negotiations will probably be blocked, however, by Israeli-Syrian disagreement over interim administration of the demilitarized area. The Israelis, who regard all territory on the Palestine side of the international border as theirs, are insisting upon their right to exercise civil authority over the entire region; the Syrians are demanding UN supervision of the area as well as the right of Arab civilians to return to it.

In Jerusalem, tension between Jordan and Israel over the disputed Government House region has relaxed somewhat, and the proposal of the UN Mixed Armistice Commission (MAC) that the area be divided between the two countries may settle the dispute temporarily. Meanwhile, Jordan has approved the US proposal that the Israeli-Jordan Special Committee established under the armistice agreement be abolished and its functions transferred to the MAC. Israel's refusal to approve this change apparently reflects Israeli determination to let the MAC handle only special local questions, on the grounds that decisions favorable to Israel on the larger problems of territorial changes in Jerusalem would be more difficult to achieve through the

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MAC than through bilateral negotiation with Jordan. Failure to agree even on this procedural matter underscores the difficulty the Arabs and Israelis face generally in trying to reach settlement of the basic issues.

TURKEY

Election Demands Although general elections in Turkey are not scheduled until 1950, the question of electoral reform has already agitated political leaders into heated controversy and political tempers are likely to remain high during the coming months. The opposition Democratic Party, hoping to prevent repetition of the governmental rigging of the vote which almost certainly took place in the 1946 elections, has been demanding that the judiciary supervise the electoral process, particularly with respect to secret casting and open counting of votes. When the government failed to present an electoral reform bill to the National Assembly before its adjournment until November, the reaction of opposition leaders was bitter and vociferous. Although the government has managed to evade the issue thus far, the recent flareup may persuade the diehards of the need for some relaxation of the government party's tight control over elections.

IRAN

Crisis Brewing Despite a relatively commendable record for its seven months in office, the Saed Government is presently under heavy attack and may fall unless some concrete action is taken to improve internal conditions. While the Shah has been devoting himself to building up a military establishment, dissatisfaction and

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IRAN

unrest have increased among the people of Iran. Riots, provoked by local bread shortages, have cropped out in the north; and Iranian merchants and religious leaders, probably as a result of the current decline of commercial activity in Iran and in protest against the concentration of power in the hands of the Shah and the army, are demanding an end to "political and economic anarchy" and threatening a general strike. Although Prime Minister Saed believes he can survive the present crisis by reshuffling his Cabinet, the multiplicity of economic problems facing the country and the developing opposition among influential groups as a result of the Shah's preoccupation with military matters suggest that pious proposals and Cabinet shifts may not be enough to save the Government. If the Government should fall, the Shah would be faced with a crucial internal situation because of the difficulty of finding a candidate for Premier who would be as capable as Saed.

PAKISTAN

Afghan Relations Relations between Afghanistan and Pakistan have again become critical as a consequence of a recent incident in which a Pakistan Air Force plane machine-gunned and bombed Afghan tribesmen in Afghan territory. Pakistan's failure to provide a satisfactory explanation of the affair has undoubtedly angered the Afghan Government; the real importance of the incident, however, lies in the resentment almost certainly aroused among border tribesmen who have hitherto responded only moderately to anti-Pakistan propaganda. Should the tribesmen's current resentment be aggravated by further Afghan propaganda or by other similarly unfortunate incidents, the natural restiveness and bellicosity of the tribesmen might flare into disturbances serious enough to involve Afghanistan and Pakistan in armed conflict.

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

Shanghai Blockade Although the Chinese Communists can bring adequate food supplies into Shanghai from the interior, a continuation of the present Nationalist blockade will bring economic paralysis to this third largest city in the world. Shanghai's fuel imports, normally 125,000 tons of coal and 35,000 tons of fuel oil per month, will be completely cut off, except for a trickle of coal from inland, and the resulting power shortages will reduce industrial production sharply. Moreover, as soon as stockpiles of chemicals, rubber, metal, and other raw materials have been depleted, industrial activity will be further decreased.

The Nationalists, observing that hysteria over the alleged mining of the Yangtze River entrance had virtually closed the Shanghai port, have also announced that all ports from Foochow north to Manchuria would be "temporarily closed" to foreign air and sea traffic. Although the Nationalists are not capable of effectively blockading the entire "closed" area, their air and naval forces are adequate for limited patrol action, and they probably will be able to continue isolating Shanghai from foreign commerce. Few foreign vessels are likely to risk the danger of entering the port under threat of Nationalist attack, and the Communists possess few ships capable of running the blockade. Six US ships have already dropped Shanghai as a port of call and virtually all foreign vessels in port left before the Nationalist deadline. Except for some avaricious Hong Kong shippers, who will run any blockade for anybody for a price, and a few Communist vessels, the port of Shanghai will probably remain closed for some time.

INDONESIA

Restoration Progress The full restoration of the Republican Government to Jogjakarta by the end of July now appears virtually certain provided Republican officials can consolidate popular political support, restore law and order, and implement a cease-fire order. Of these remaining problems, the most difficult will be to achieve cooperation between Republican and Dutch forces in carrying out the cease-fire order. Following a successful solution of these problems, Indonesian Republicans and Federalists and representatives of the UN Commission for Indonesia will attend a conference at The Hague to work out plans for the transfer of sovereign powers from the Netherlands to a federated United States of Indonesia. At The Hague, the widely divergent views of the Dutch and Republicans on the detailed delineation of powers and duties within the projected United States of Indonesia will place a severe strain on the recently adopted Dutch policy of conciliation and cooperation. However, an agreement will probably be reached because the Dutch: (1) will be subject to the same international pressures which produced agreement on Republican restoration; (2) are resigned to the necessity of granting substantial independence to the Indonesians; and (3) are convinced that agreement with moderate Indonesians is the only alternative to a Communist-dominated Indonesia. The outbreak of violence in Indonesia, however, would stiffen the Dutch attitude and threaten the success of The Hague conference.

JAPAN

Economic Troubles Japan faces a period of augmented austerity and Communist strife unless demand for Japanese exports improves during the next few months. Since April, a 50% drop in new export contracts has caused the Japanese serious concern; simultaneously

JAPAN

severe economic retrenchment is anticipated as a result of the US-sponsored rehabilitation program. Depressed world prices, import restrictions imposed by dollar-short countries, rumors of sterling devaluation, and generally unsettled conditions in Southeast Asia all presage difficulties for the attainment of Japan's recently reduced 1949-50 export goal of \$500 million. Moreover, progress in Japanese economic rehabilitation may be further retarded by labor unrest if unemployment caused by industrial rationalization becomes unmanageable. The Japanese Communist Party may thus be provided with fertile propaganda opportunities for its future program which appears to be switching from one of "peaceful revolution" to violence.

INDOCHINA

Reaction to Bao Dai The hesitancy of various Far Eastern countries to commit themselves regarding the US statement of 21 June, which welcomed the formation of a unified state of Vietnam, may be a portent of difficulties the new Bao Dai regime will encounter. Certain Asian governments apparently were not convinced by US efforts to emphasize that: (1) the agreement is only a preliminary step toward the solution of the Franco-Vietnamese problem; and (2) failure of the Bao Dai experiment could result in Communist control of Indochina. In both New Delhi and Bangkok, official reaction to the US statement indicated skepticism regarding Bao Dai's chances for success and uncertainty as to France's intention of eventually transferring sovereignty to the Vietnamese. The generally negative international reaction to the US declaration will weaken Bao Dai's chances for success and indicates a widespread lack of faith in both French intentions and the Bao Dai experiment.

AUSTRALIA

Coal Strike Australia's Labor Government is faced with a major political problem as a result of the current Communist-led coal miners' strike. Thousands of laborers in industry, which is virtually dependent on coal as a source of power, are unemployed; internal transportation has slowed down; and state governments have been forced to ration electricity and fuel. Although the miners apparently have some legitimate grievances in existing working conditions, the government is insisting upon their return to work pending federal arbitration of the strike, and the Attorney General plans to introduce legislation prohibiting relief to the miners from union contributions. If government insistence on arbitration fails and general paralysis overtakes Australian industry and commerce, the consequent loss of prestige to the Labor Party is likely to have serious repercussions in this election year.

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EXPANSION OF SATELLITE AIR OPERATIONS

Violations of the joint US-UK policy to exclude Satellite commercial air traffic from Western Europe are increasing and Western European nations are becoming more reluctant to conform to the policy rigidly in the face of western desire to expand commercial relations with the East and mounting Satellite pressure for air outlets. The ineffectiveness of the US-UK policy, combined with pressure for its relaxation or abandonment, particularly with regard to Yugoslavia, has again focused attention on the effects expanded Satellite air operations beyond the Iron Curtain will have on US security.

With the exception of Rumania and Bulgaria, all the Satellites have increased their air operations into Western Europe, and nearly every Western European country has been reluctant to comply with US requests that such operations by Soviet-controlled carriers be barred until the USSR permits western aircraft to operate to the USSR. Poland has concluded reciprocal air agreements with Denmark and Belgium. The Czechoslovak airline, on the basis of long-standing agreements, is operating regular flights to practically every Western European capital north of the Pyrenees. Hungary has made special flights to a number of points. Yugoslavia is negotiating with Italy and is about to open negotiations with the UK for reciprocal air agreements. Swiss-Yugoslav negotiations are in progress and Yugoslavia is also reportedly negotiating with the French for an exchange of air rights and for the delivery of French aviation equipment.

In attempting to expand their operations into Western Europe, most of the Satellites have indicated their willingness to grant reciprocal rights. In actual fact, however, the Satellites are unable to grant full reciprocity because Satellite airlines -- with the exception of the Yugoslav carrier -- are in practice controlled or owned in part by the USSR. Full reciprocity would thus mean granting western carriers permission to operate to the USSR.

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In seeking to expand to the West, the Satellites apparently hope to facilitate trade relations. In any future negotiations for an air agreement, they are thus likely to attempt to obtain western agreement to relax the current embargoes on export of aircraft and aircraft parts. Czechoslovakia, for example, is particularly anxious to obtain replacement parts and must procure long-range aircraft from the West if it is to re-establish regular air operations to the Middle East. Although the USSR could in the long term provide the Satellites with aircraft, the current shortage of air equipment in the Satellites would prevent any substantial early increase in Satellite air operations to the West in the event that the US-UK containment policy is abandoned. Moreover, if the Satellites were to receive air equipment from the West, the resulting increase in their civil air potential would be reflected largely in rehabilitation and extension of their domestic networks.

Yugoslavia has been the most active of the Eastern European nations in seeking to establish commercial air relations with the West. Unlike the Satellite companies, the Yugoslav airline is not controlled or owned by the USSR.

[redacted] the Soviet-controlled Yugoslav airline JUSTA has been dissolved.) Yugoslavia is particularly eager to obtain air agreements with western nations in order to: (1) improve the chances of attracting commercial representatives and technical experts to Yugoslavia; (2) establish closer western ties as a countermeasure to increasing Cominform pressure; (3) obtain a source of supply for aviation gasoline, the shortage of which has severely hampered Yugoslav air operations; and (4) secure the necessary equipment to restore domestic air operations.

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