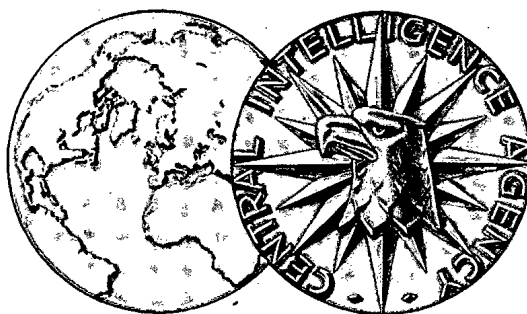


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WEEKLY SUMMARY



Number 66

2 SEP 1949

F-19

Document No. 001
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Class. CHANGED TO: TS S C
F A R. 3, 4 Apr 77
Auth: L.A. R. 77/1763
Date: 01-02-78 By: 013

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S E C R E T**H I G H L I G H T S**

The tension between Yugoslavia and the USSR has not abated during the past week as reports of Soviet troop movements in the Satellite countries continued. Although it remains unlikely that the USSR will resort to direct military action against Tito, an intensification of the Soviet war-of-nerves may include such action as increased sabotage and guerrilla forays in Yugoslav Macedonia (see page 5). Meanwhile, no slackening can be expected at present in the Kremlin's anti-Tito propaganda campaign or its economic pressure. If Tito can maintain his present cautious but unyielding attitude toward the USSR, he will probably be able to resist present Soviet efforts to overthrow him.

Current trade negotiations between Yugoslavia and the UK are encountering difficulties because the British are confronted with a hard choice between furthering Yugoslav ties with the West and meeting British economic requirements. Negotiations are presently stalled by disagreement concerning the amount of nonferrous metals and other commodities Yugoslavia should ship to the UK in exchange for machinery, crude oil, rubber, and wool and what limits should be placed on Yugoslav credit in the UK. Meanwhile, British leaders are probably approaching the forthcoming Washington conference hopeful only of obtaining short-term relief for the United Kingdom's economic dilemma during the present short session. They may, moreover, view this conference as the first of a series aimed at evolving a new long-term program for achieving recovery.(see page 15).

S E C R E T

S E C R E T**W E S T E R N E U R O P E****FRANCE**

Grain Shortage Increased grain imports, which the French Government will probably authorize in order to ease the grain shortage resulting from the present drought, will drain French dollar exchange and interfere with imports and exports necessary to the French economic program. Because more than half the grain imports will probably have to be paid with dollars, reductions in imports of raw materials and industrial equipment will be necessary. Even a small decrease in equipment imports would interfere seriously with vital portions of the investment program and similarly affect industrial production and exports. Moreover, a reduction of raw material exports to the overseas possessions would delay a development of these possessions considered vital to the eventual achievement of equilibrium in the French balance of payments. Increased grain imports, however, would facilitate the Government's long-term efforts to overcome labor unrest by avoiding the necessity to reimpose the politically-dangerous bread ration. The imports of grain are essential chiefly for the attainment of pressing political goals of the present French Government, and although the consequences of these imports would be grave, substantial economic progress during 1949-50 would still be possible.

ITALY

Communist Prestige When Parliament reconvenes in September, Italian Communists will improve their prestige by proposing the nationalization of Italy's electric power industry. Although Communist claims that the current electric

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S E C R E T**ITALY**

power crisis stems from the failure of private industry to keep pace with demand will be rejected by the majority of the people, the Communists will profit from the general public dissatisfaction with high costs and poor services of public utilities. They will also exploit the inadequacy of the planning to meet the drought situation which has intensified the current shortage of electric power.

UNITED KINGDOM

General Election A British general election in October or November is a distinct possibility if no acceptable program for arresting the fall in Britain's gold and dollar reserves emerges from the tripartite Washington conference or if deflationary reforms in the domestic economy appear inevitable. The decision to hold an early election would come from Prime Minister Attlee and would be based on the desire of Labor Party leaders to seek re-election before their prestige declines further or before unavoidable deflationary measures exert painful pressure on the British population. Until recently, everything indicated that the Party did not intend to call the next General Election before spring 1950, at which time a steady advance toward economic recovery was expected to be evident and the Labor Government's present legislative program (including iron and steel nationalization) would have been accomplished.

THE NETHERLANDS

Hague Difficulties The differences between Dutch and Indonesian leaders on the completeness and finality of the current Indonesian settlement probably will cause major difficulties in negotiations at The Hague conference, which

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S E C R E T

S E C R E T**THE NETHERLANDS**

began 23 August and is now discussing substantive matters. The Dutch Government is reluctant to transfer sovereignty until agreement is reached on all issues, and especially until receipt of specific guarantees that its present and future economic and financial interests will be protected. Indonesian Republican leaders, for their part, feel that the complicated economic and financial problems can be negotiated after an independent Indonesia is set up and desire a rapid agreement in principle on the main issues. The apparent determination of the Dutch to hold out for specific guarantees protecting their interests makes the Indonesian hope of concluding the conference within two months appear unduly optimistic at this time.

SWEDEN

Improved Trade Position Sweden's foreign trade position improved to such an extent during the early half of 1949 that the Government now believes its credit surplus with Western European countries will exceed its trade deficit with the Western Hemisphere. Although Sweden, in common with other countries participating in the European recovery program, has not yet found a solution for its shrinking dollar receipts, Sweden was able to reduce its import-over-export surplus sufficiently during the first half of 1949 so that invisible earnings undoubtedly covered the small deficit. Sweden, which requested only conditional aid when submitting its original 1950 fiscal program to the Organization for European Economic Cooperation, now believes itself entitled to unconditional aid for some fraction of the excess of its European surplus over its Western Hemisphere deficit.

S E C R E T

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

Communist Journalism Recent circulation losses in the Communist press, particularly in Western Europe, Scandinavia, and Latin America, may prove a serious handicap to local efforts to "sell" the Party line. Although circulation figures for Communist publications were high immediately following the war, popular support has been dwindling steadily during the past two years. The present decline appears to reflect: (1) popular dissatisfaction with the constant support given Soviet policies often in conflict with national interests; (2) a dearth of impersonal and accurate reporting; and (3) a lack of journalistic talent for organizing and directing the various publications. The loss of circulation revenue is not likely to be regained in the near future.

YUGOSLAVIA

Tito-Kremlin Conflict Although the USSR is unlikely at this time to use military force against Yugoslavia, [redacted] Soviet military pressure against Tito indicate the Kremlin's growing readiness to resort to stronger measures to liquidate the Tito heresy. The Kremlin's intensified war of nerves may take the form of: (1) further planted reports of troop movements apparently directed against Tito; (2) a program of increased sabotage and subversive activities; (3) continued propaganda blasts designed to undermine Tito's internal and world position; (4) further economic pressure; (5) harassment by guerrilla forays, particularly in Yugoslav Macedonia; and (6) severance of diplomatic relations by various members of the Cominform bloc. If Tito pursues his present cautious but

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S E C R E T**YUGOSLAVIA**

firm policy toward the USSR, however, he will probably be able to withstand the current phase of Soviet efforts to overthrow him and at the same time deny the Kremlin any basis for justifying the use of "more effective measures."

UK Trade Pact The breakdown of current Yugoslav-UK trade negotiations would seriously impair western efforts to support the Tito regime. A basic problem confronting the UK is whether the political alignment of Yugoslavia with the West should be given precedence over UK economic requirements. Any decrease in shipments of machinery, crude oil, natural rubber, and wool from British sources will prove most injurious to the Yugoslav economy, and British economists maintain that the UK is unable to absorb the increased amounts of maize, timber, and miscellaneous commodities proposed by Yugoslavia in lieu of increased shipments of nonferrous metals. In addition, the UK has offered a credit limit of 7 million pounds in contrast to the 18 million pounds sterling credit which Yugoslavia insists is necessary to counteract the effects of the Cominform economic boycott.

FINLAND

Labor Split The successful stand taken by the Finnish Labor Federation (SAK) against Communist-sponsored strikes is producing a serious split in the Finnish labor movement. Although some Communist-directed unions have indefinitely postponed their strikes under pressure from Social Democratic majorities, Communist-dominated unions in five other vital industries have been expelled from the Federation for ignoring SAK's back-to-work ultimatum. The strikes called

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GREECE: MILITARY SITUATION MAP

29 August 1949

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S E C R E T**FINLAND**

by the five expelled unions were not supported by the total membership, indicating the split in the labor movement will be along party rather than union lines, with competing Social Democrat and Communist unions being formed in some industries. Following recent unsuccessful attempts to wrest control of the SAK from the Social Democrats, the Communists now probably plan to create constant friction in key industries in an effort to force the Government to abandon wage and price controls which have protected Finland from a spiralling postwar inflation. By continuing the strikes in important export industries, the Communists may succeed in obtaining concessions from the Government which they could exploit in an attempt to recover some of their lost influence among the workers.

GREECE

Military Prospects The success of Greek National Forces in driving the guerrillas out of the Grammos salient, following a similar operation in the Vitsi area in mid-August and lesser governmental gains along the Yugoslav border and in the Beles area, represents a severe setback to the rebels, but the end of organized guerrilla activity is not yet necessarily in sight. In Albania alone, up to 12,000 guerrillas are available for recommitment, and the guerrilla command is still capable of infiltrating them in units as large as 1000 or more across the Greek border to supplement destructive guerrilla bands in central Greece, whose strength has remained relatively unchanged since early summer in the absence of government troops needed for the major border offensives. Nevertheless, by losing the Vitsi and Grammos areas, the guerrillas have not only been

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S E C R E T**GREECE**

deprived of their two major fortified positions in Greece but have also lost control of the territory best suited for the infiltration of supplies and personnel into central Greece. Provided the Greek Army can strike a proper balance between efforts to control the Albanian frontier and anti-guerrilla operations in the interior, the prospects for steadily reducing the guerrilla movement during the coming months are relatively good.

Guerrilla Plans Under present circumstances, the guerrillas and their Soviet sponsors may well decide against an attempt in the immediate future to resume large-scale military operations. There are already some indications that the Soviet bloc may become slightly more circumspect in providing support to the movement. Both the Tirana radio and Moscow have quoted an Albanian order to intern armed Greeks, "monarcho-fascists and democrats alike," on Albanian soil, and while no special preparations have been made to resume guerrilla peace maneuvers at the General Assembly session, Moscow has alluded to coming elections in Greece as if more nearly normal times might soon return to the country. Because of the grave loss of prestige involved, the Kremlin is unlikely to go so far as to agree to end the fighting in Greece unless the Greek Communist Party were unexpectedly offered some major concession, such as the right to participate in the next elections. The guerrilla command may therefore make some propaganda gestures toward peace and then settle on a program of minor sabotage and terrorist activity. Meanwhile, the guerrillas would husband the bulk of their strength until next spring, in the hope that new major efforts might then be justified by termination of the Tito affair and an increase in their own relative strength.

S E C R E T

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

Political Instability The conspiratorial ferment aroused by Syria's two coups d'etat during the past six months is threatening not only the stability of various Arab Governments but also the lives of several Arab leaders. A number of Syrian Army officers, who were at one time members of the Syrian Popular Party and were directly involved in the liquidation of President Zaim and Prime Minister Barazi last month, have now joined with remnants of the Lebanese branch of the Syrian Popular Party (whose leader was recently executed by the Lebanese Government) in a plot to assassinate the President, the Prime Minister, and other high officials of the Lebanese Government. However, these same Syrian officers, to whom the present Syrian Government is indebted for its position, are themselves in danger of being assassinated by relatives and tribal followers of Zaim and Barazi. It is possible, therefore, that tribal and political feuding will invade the highest political realms in both Syria and Lebanon and disrupt indefinitely the stability of both countries.

P A L E S T I N E

Arab Resettlement The first attempt at Arab refugee resettlement is now taking place in the Jordan Valley near Jericho under the guidance of Musa Alami, leading Arab intellectual and head of the London Arab office. King Abdullah of Jordan has approved rent-free use of state lands, and the first wells have been dug for the mud-hut villages where 3,000 refugees will be housed. According to plan, houses and land should be ready for the refugees by October of 1950. Musa Alami is using money originally

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S E C R E T**PALESTINE**

donated by Iraq for the Arab Office, but exchange currency to buy US equipment is needed as well as services of irrigation and agriculture experts. Although this project is limited in scope, it may prove useful in the future as a guide for eventual resettlement of the 800,000 Arab refugees.

IRAN

Border Disputes Two new "incidents" have recently taken place on the Irano-Soviet frontier. Four members of the Iranian Army, who reportedly crossed the border on 25 July in response to a Soviet invitation, are apparently being held as hostages until three soldiers who escaped from the Soviet Army are turned over by Iran. In addition, eleven Iranian soldiers were abducted during an armed attack 20 August against an Iranian post in the disputed Atrek River area east of the Caspian Sea. It is unlikely, however, that Iran can be forced by such methods to repatriate the Soviet escapees. Moreover, although negotiations between the two countries at the local level will probably be protracted and thus provide the USSR with further opportunities to harass Iran, the USSR will probably wish to avoid having the matter brought before the UN, as threatened by the Iranian Minister of War. Such an eventuality would embarrass the USSR by focussing world attention on the Soviet defections and on the unsuccessful Soviet efforts to influence Iranian policy through coercion and intimidation.

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S E C R E T

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F A R E A S T

C H I N A

Appeal to UN Nationalist China's eleventh hour decision to lodge a complaint against the USSR before the UN General Assembly is probably calculated to procure the public support of the US and various Southeast Asian states for the National Government. By clinging tenaciously to Taiwan and promoting the formation of a Pacific Union, projects which both would require active US support, Chiang Kai-shek has been trying desperately to postpone US abandonment of the National Government. In 1948, the Nationalists lacked sufficient evidence or stimulus to present its case against the USSR to the UN, but statements in the recent US White Paper, as well as the conclusion of a Soviet-Manchurian trade agreement, have bolstered the Nationalist charge that the Kremlin has violated the Sino-Soviet treaty many times since 1945. This Nationalist move in the UN would be almost entirely for purposes of propaganda because the GA lacks the enforcement powers to arrest the Communist sweep through China. If such a resolution comes before the GA, not only the US and the UK but also the Southeast Asian countries would probably find it difficult to take a stand.

Military Fronts While the military situation on the Hengyang front in south-central China was being stabilized for the moment by Nationalist action under Pai Chung-hsi, Communist forces under Peng Teh-huai captured Lanchow in the northwest and the Communist advance maintained a steady pace on other fronts. Meanwhile, Communist forces have penetrated northeast Kwangtung and threaten to break through to the environs of Canton within the immediate

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S E C R E T**CHINA**

future. Along the Fukien coast, Chuanchow and Amoy should soon fall to the Communists. Further north, Communist armies have taken an island in the Chusan group and will probably assault the main island of the group in the near future. Loss of these Nationalist bases, however, will not end the Nationalist blockade of Shanghai, because both air and sea patrols can continue with curtailed efficiency from Taiwan.

THAILAND

Uneasy Phibul The uneasy political situation in Thailand was newly emphasized by the recent statement of Premier Phibul that the development of internal and external Communist pressures upon Thailand required an immediate strengthening of northern Thai military forces and the extension to Thailand of foreign aid. Moreover, Phibul's surprise announcement at the same time that the Thai Government was considering convening a Southeast Asian conference in Bangkok to examine the problem of Communism is not only a reversal of an earlier stand which cold shouldered Philippine overtures for a similar conference but is also a departure from traditional Thai policy. Although Phibul is apparently becoming genuinely concerned with the threat of Communism, his proposal to call a regional conference and his preoccupation with the Communist issue probably remain largely efforts to discredit his growing opposition by implying that they and the Communists are joining forces.

S E C R E T

S E C R E T

W E S T E R N H E M I S P H E R E

B O L I V I A

Continuing Rebellion The outcome of the revolution in Bolivia led by the National Revolutionary Movement (MNR) is still in balance, and the success of the Government's efforts to suppress the revolt will probably depend largely upon the loyalty of the army troops to the Government. There have already been some defections among army units, as well as indications of armed participation by pro-MNR miners' groups. The Government, however, in acting promptly to control the situation and re-establish order, has extended the state of siege, mobilized all men between the ages of 19 and 50, attacked rebel-held centers by air and land, and requested additional fighter and bomber planes from the US to facilitate the attack on remote centers of opposition.

S E C R E T

PROBABLE SOVIET PROPAGANDA IN THE UN GA

The Soviet approach to the September session of the United Nations General Assembly will probably be a continuation of the 1948-49 effort to contrast western "aggressive intentions" with Soviet championship of "world peace." In its role of peace-loving nation, the USSR will hope to allay western suspicions of Soviet intent and retard further economic and military cooperation among the nations of the West. The western nations, especially those included in the North Atlantic Treaty and those receiving aid under the US military aid program, will probably be accused of preparing to wage an "aggressive war." As a culminating attack, the USSR may call for the General Assembly to declare "aggressive alliances" in violation of the UN Charter. The Kremlin may hope that such strong attacks in the international forum will delay the formation of other regional defense agreements similar to the North Atlantic Treaty.

While furthering this general line, Soviet tactics at the UNGA will probably be designed to focus attention on the economic difficulties of the western nations, which the Kremlin considers to be the primary weakness of the West. In attempting to exploit the western economic situation, the USSR will probably single out the UK as a special example of "US dollar imperialism" and point to dissension among other recipients of US economic aid in Western Europe as proving that capitalism can only lead to disastrous international economic rivalries. The USSR, which is on the defensive in Western Europe and anxiously awaiting the collapse of western capitalism, will ostensibly favor some sort of "economic cooperation" between East and West for contributing to a more stable and peaceful world situation. As a basis for such cooperation or working agreement between the East and West, the USSR is likely to point to the recent Paris CFM agreements as proof of Soviet willingness to enter into international agreements.

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S E C R E T

S E C R E T**SEPTEMBER CONFERENCE BETWEEN
THE US, THE UK, AND CANADA**

Because of the complexities of the issues involved in the forthcoming economic and financial conference between the US, the UK, and Canada, the British delegation will probably enter the conference hopeful of obtaining an early solid agreement only on short-term measures designed to reduce the rate of outflow of Britain's gold and dollar reserves and to relieve the tense atmosphere in London. During this short session, the British can expect to make no more than a beginning toward comprehensive long range plans for economic recovery, and they may, therefore, view this conference as the first of a series.

The British delegates may hope to obtain such assistance as: (1) increased purchases of sterling area raw materials; (2) greater US use of natural rubber; (3) the easing of some tariffs and customs procedures; (4) certain concessions in the use of ECA funds; (5) some commitment regarding investment in the Empire under the Point Four program; and (6) possibly some dollar support for the Empire's strategic overseas commitments. The UK will not, however, request any substantial, direct new grants or loans. For its part, the British delegation will not repudiate the fundamentals of the socialist, welfare state, but the delegates may indicate a willingness to modify the UK's current application in order to reduce internal inflationary pressures; the British may even be willing to program further import cuts. The British delegation may also be prepared to discuss devaluation, although any action along this line would be taken through the International Monetary Fund and would probably be conditioned upon

S E C R E T

S E C R E T

similar action by other European nations. The British delegates will certainly point out that their production record is excellent, and that the UK is the only OEEC country earning more dollars than in prewar years. Moreover, the delegates will probably assert that the fundamental problem of hemispheric economic imbalance can not be solved simply by action within the UK. In addition to discussing technical, financial, and economic matters, the British representatives will probably relate the economic problem to broad political and strategic matters, such as the future stability and strength of the western allies, the question of giving aid and comfort to the USSR, the burden of Britain's overseas commitments, and the value to the western world of an economically strong UK. In addition, the British delegates will certainly point to the contribution the British are making to maintain the common opposition to Communist expansion. The Canadian representatives will probably try to bridge US-UK differences, if need be. The Canadians may help pressure the British to initiate internal reforms and may urge the US to make concessions helpful to the UK.

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R 1000, 4 Apr 77
Auth: DDA REG. 77/1763
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