

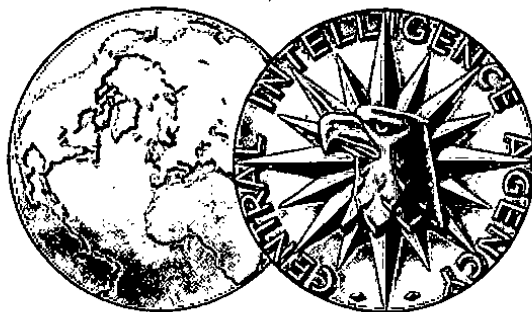
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WEEKLY SUMMARY



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H I G H L I G H T S

As the USSR stepped up its pressure to gain UN acceptance of the Chinese Communist regime (see page 8), the UK, pending further clarification of the international status of the Chinese Communist regime, is apparently not yet ready for a showdown over the issue of the Nationalist blockade of Shanghai. The decision of the British vessel Elsie Moeller to avoid the Nationalist-patrolled main Yangtze channel and proceed to Shanghai through the shallow north channel has had the effect of postponing a show of force with the Chinese Nationalist Navy.

In the Near East, the Syrian political situation still holds explosive potentialities. Syrian army factions continue to dominate the nominally civilian government, thus frustrating the hopes of the Populist Party--which won a plurality in the November election--for obtaining genuine control for itself (see page 5). Meanwhile, the impending transfer of administrative control of Italian Somaliland from the UK to Italy may produce Italian-Ethiopian difficulties (see page 6).

In Western Europe, the Bidault Government has survived a series of close-calls and now will enjoy a reprieve from votes of confidence until the end of January at least (see page 3). The next severe test will probably arise over the highly controversial French budget bills; the Government's survival will hang on its ability to command an absolute Assembly majority of 311 votes, 5 votes more than Bidault was able to obtain on any recent vote of confidence.

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WESTERN EUROPE

OEEC Strengthening The US-backed proposal for appointing an outstanding European personality to a full-time post in the Organization for European Economic Cooperation (OEEC) is apparently still meeting strong opposition. Opposition to the candidacy of Belgium's Paul Henri Spaak is particularly strong. Although the UK no longer openly opposes the plan, Britain appears to have had some influence on the reserved attitude of Portugal and the Scandinavian states. The UK fears that an aggressive proponent of European integration like Spaak would reduce Britain's present paramount influence in the OEEC and move too fast toward economic unification. The opposition to Spaak's appointment has thus far taken the form of proposing either that other candidates such as Dutch Foreign Minister Stikker or Sir Oliver Franks, be appointed or that existing high level OEEC officials and bodies be given a more active role. Although Spaak is still willing to take the post, the OEEC may well compromise on a less controversial choice.

GERMANY

Economic Prospects Industrial production in certain categories in Western Germany-- already at 1936 levels--will continue to increase in response to greater demand for steel products, but the development of a healthy economy is still threatened by the inadequacy of long-term investment funds, a high rate of unemployment,

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GERMANY

lack of foreign markets, and the consequences of currency devaluation. Already facing serious budgetary difficulties, the Adenauer government will probably attempt to solve the problem of the shortage of investment capital by pressing the Allied High Commission for the removal of obstacles to the investment of foreign private capital. Meanwhile, the unemployment problem cannot be solved without a substantial increase in pre-war production levels; the population of West Germany has increased by 9 million over pre-war years and the enlarged labor force is unlikely to be absorbed unless capital is found to launch new business enterprises. The West German economy is further threatened by price increases. The domestic price of coal will be raised soon, tending to force a general rise in industrial prices and railway rates; organized labor is stepping up its efforts for wage increases; and the upward trend in agricultural prices will probably not be reversed in the near future.

FRANCE

Political Outlook The Bidault Government, narrowly sustained by six recent votes of confidence during the first reading of the budget, will enjoy a reprieve at least until the end of January. Parliament, which began its ordinary session on 10 January, will be occupied for at least a week with the formation of committees and the election of officers, and is not expected during the remainder of January to debate any new matter which could provoke a political crisis. Although labor is pressing urgently for a bonus, pending the final return to collective bargaining, the Right is unlikely to threaten withdrawal from the coalition on this

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FRANCE

issue. The Government will face a severe test, however, as rightist opposition develops in the Council of the Republic to the controversial budget bill, and as the Assembly debates amendment to this bill made by the Council.

An absolute majority (311) will probably be necessary to override Council amendment of this bill, inasmuch as the Council itself is likely to pass the amendments by such a majority. Bidault was unable to obtain more than 306 supporters on any of the recent votes of confidence.

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

Israel-Jordan Talks The outcome of the deadlocked Israeli-Jordan negotiations will probably be determined at a projected meeting in Jerusalem between Samir Pasha and Ben-Gurion. The negotiations cannot continue to any purpose unless Israel is prepared to make further concessions and King Abdullah is able to find a Jordan leader willing to accept the onerous responsibility of signing a treaty with Israel. Israel may be softened by the realization that Palestine Arabs will be included in the Jordan Government after the spring elections and that negotiations will then become far more difficult. Even if the talks are resumed now, however, it appears unlikely that a comprehensive agreement between the two countries can be reached soon.

SYRIA

Volatile Situation The Syrian political situation remains potentially explosive. Although a nominally civilian government was formed after the latest coup, the government is apparently controlled by the Shishakli army clique, perpetrators of the coup. The Populist Party, which gained a plurality in the pre-coup November elections for the Constituent Assembly and which hoped to dominate the new government, actually has little power in the cabinet. Although the Populists hold five of the nine portfolios, no outstanding Populist is represented, and the two most important portfolios, National Defense and Interior, are held by independents, tools of the Shishakli group. The Populists evidently feel the sting of their defeat and are

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SYRIA

reportedly attempting to win over those army elements opposed to the Shishakli venture. Moreover, there are indications that Iraq is supporting the factions in the Syrian Army which oppose the Shishakli group and favor Iraqi-Syrian union. To counteract these moves and to strengthen his own position, Shishakli has in turn sought support from Egypt. The army will thus continue to be the determining factor in the political situation through the influence either of a particular group like the Shishakli clique or of other army factions which, in their opposition to Shishakli, may join forces to overthrow the existing regime and possibly to promote union with Iraq.

SOMALILAND

Transfer Problems Italy faces difficulties with Ethiopia in connection with the transfer of the administration of Italian Somaliland from the UK to Italy which is expected to take place when the UN Trusteeship Council completes the trusteeship agreement now being drafted. The Ethiopian Government has refused to accept the UN decision regarding Italian Somaliland and may submit the case to the International Court for an opinion on the competence of Italy, which is not a UN member, to conclude an agreement with the Trusteeship Council. The Ethiopians also resent the appointment of General Guglielmo Nasi as administrator of Italian Somaliland because he fought against Ethiopia in the Italo-Ethiopian war, was Governor of Harar Province during the Italian occupation, and formerly was on Ethiopia's list of war criminals. Relations between Italy and Ethiopia will be further complicated by an unsettled frontier

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problem. The Somali inhabitants of the Ethiopian frontier province of Ogaden refuse to recognize the sovereignty of Ethiopia and have been administered since the war by the British. If Italy attempts to enter and administer Ethiopian Ogaden in accord with a UK request, Ethiopia will almost certainly resist with force. Even if Italy does not occupy the Ogaden, the province will become a fertile area for intrigue and unrest. Ethiopian and Italian interests also conflict in Eritrea, the disposition of which will not be settled until the UN meets in September. The possibility that Italy may be made the trust power over Eritrea gives Ethiopia, which fears Italian encirclement, an additional reason to exert itself to undermine Italy's position in Somaliland.

IRAN

Shah's Plans The Shah has been busy since his return from the US. Greatly impressed by US military and economic power and evidently more determined than ever to bring about social and economic reform in Iran, he has called for a campaign against corruption, which he recognizes is hampering progress, and is apparently planning a government shakeup; his real hope is to obtain a prime minister strong enough to carry out the stringent measures which will be required. Additional evidence that the Shah wants speedy action is provided by reports that the Majlis is to be convened within a week, even before new elections to select deputies from Tehran.

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F A R E A S T

CHINA

UN Dispute Soviet threats to boycott the Security Council unless the Chinese Nationalist delegate (currently holding the SC presidency) is unseated are unlikely to be carried out and are largely propaganda moves being made in the hope of hastening UN acceptance of the Chinese Communist regime. The USSR may also hope to impress upon the Chinese Communists the contrast between vigorous Soviet support of the Peiping regime and the lukewarm attitude of other powers which have accorded recognition to the Communists. A majority vote in favor of the Soviet resolution is unlikely at this time; only five nations currently on the SC have recognized the Chinese Communist regime and even the UK and Norway may abstain at this time. In addition to defeating the Soviet proposal, the SC will almost certainly decide to continue in session regardless of whether the Soviet delegate attends. Under these circumstances, the USSR, well aware that the Chinese Communist regime will not be admitted to the UN until it is recognized by at least a majority of the SC members, will probably not absent itself indefinitely. If the SC takes up any question of importance to or involving the USSR, the Kremlin can scarcely afford the luxury of remaining absent.

Soviet Relations Mao Tse-tung's protracted stay in Moscow has aroused speculation regarding a deterioration in Sino-Soviet relations and Chinese Communist resistance to Soviet encroachment. Although the length of Mao's visit may be the result of difficulties in reaching agreement on a revised Sino-Soviet treaty, the treaty will probably

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be signed this month and it is unlikely that Mao is proving dangerously intractable. Mao is a genuine and orthodox Stalinist, is in firm control of the Chinese Communist Party, and is recognized as its head by all Party leaders and by the Chinese people generally. There is no evidence that any Communist faction is strong enough to succeed in an anti-Mao coup or that the USSR would be so rash as to replace Mao at this time. The Kremlin probably realizes that for some time its position in China will be best served by retaining the voluntary cooperation of the Chinese Communists rather than by using open or implied coercion.

Communist Navy The Chinese Communists are making strenuous efforts to build up the "People's Navy" and reportedly already have assembled sufficient miscellaneous vessels to transport to Taiwan an initial landing force of approximately 60,000 troops and to follow up with more than double that number once a beachhead has been secured. It is unlikely, however, that the Communists now possess trained personnel in sufficient numbers to man such an armada. Moreover, the Communists probably do not have adequate supplies of fuel and ammunition to support the operation of such a fleet. The rapid development of the Communist Navy greatly improves Communist prospects for an early and successful invasion of Taiwan. Moreover, the appearance of Communist naval units in support of an invasion force probably would seriously lower morale in the Nationalist Navy and increase the possibility of defections.

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CHINA

Dollar Transfers Orders to US banks to transfer dollar accounts held by former private banks in China to the account of the State Bank of USSR in New York, coupled with the extension of Soviet branch banking and trading agencies throughout China, may represent another step in the extension of Soviet control over Chinese foreign trade and finance, and possibly over the entire economic life of China. Within the last week at least \$7,000,000 worth of dollar balances held by Chinese Banks has been transferred to the Soviet account in New York City. Reasons why the Communists ordered these transfers may be: (1) to gain immediate possession of privately owned Chinese dollar balances in the US in the hope of expediting international exchange operations by using the Soviet bank; (2) to avoid the consequences of a possible US decision to freeze Chinese dollar accounts; (3) to pay the USSR in dollars for aid extended to the Communists in China; and (4) to supply to the USSR the external assets of private Chinese institutions as the Communist contribution to a joint Soviet-Chinese banking enterprise.

JAPAN

Communist Split A recent incident in the relationship between the Cominform and the Japanese Communist Party points to Soviet concern over retrogression in power and influence of the Japanese Communists during the past six months. In attacking the second-ranking leader of the Japanese Communist Party for his "bourgeois" attitude, the Cominform may have hoped to provoke a shake-up which would produce a more aggressive policy. Such a reaction is

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still a possibility, but the first reply of the Japanese was as conciliatory as possible without indicating acceptance of absolute dictation by the Kremlin. The USSR is unlikely to accept this reply and will now move to enforce complete Japanese Communist subservience. Although the Japanese Communists might accept Moscow control, continued Kremlin pressure could result either in a split in the Party, or in continued resistance against Soviet domination.

KOREA

Troop Build Up The continuing southward movement of the expanding Korean People's Army toward the thirty-eighth parallel probably constitutes a defensive measure to offset the growing strength of the offensively minded South Korean Army. The influx of Chinese Communist-trained troops from Manchuria, however, will partially solve North Korea's manpower shortage and will add materially to the combat potential of the North Korean Army. North Korean military strength has been further bolstered by the assignment of tanks and heavy field guns to units in the thirty-eighth parallel zone and by the development of North Korean air capabilities. Despite this increase in North Korean military strength, the possibility of an invasion of South Korea is unlikely unless North Korean forces can develop a clear-cut superiority over the increasingly efficient South Korean Army.

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