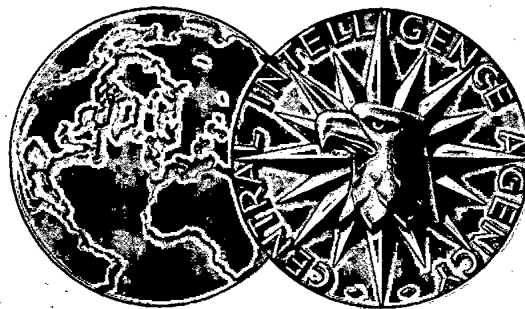


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WEEKLY SUMMARY



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H I G H L I G H T S

Events in China during the past week took rapid strides toward the final disintegration of the National Government. The decisive battle for Central China, which has already begun, will probably be marked by the collapse of the dispirited Nationalist forces in the Hsuchou-Nanking region (see page 11). Such a collapse will probably mean the end of all organized resistance by the Nationalist military forces. In the face of this imminent military disaster, Chiang Kai-shek has doggedly refused to accept suggestions from within his Government for abandoning the struggle (see page 11).

The initial Soviet reaction to the US presidential election suggests that the Kremlin has, in its surprise at the outcome, undertaken a hasty review of its tactics in foreign affairs (see page 5). Premier Stalin's vindictive interview before the elections indicated that the USSR may have planned to intensify political pressures during the expected period of indecision between the election and the inauguration of a new administration. Molotov's mild speech on 6 November, grudgingly complimentary to President Truman's administration, may therefore reveal a Kremlin desire to temporize while weighing the significance of this unexpected development.

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

A Queuille Government victory in the Communist-instigated coal strike appears imminent, but there has been no improvement in the prospect for solution of the wage-price disparity which continues as a basis for legitimate grievances of non-Communist labor. The leading non-Communist labor organizations have branded the recent price levels established by the Government as grossly inadequate. In countering these charges, the Government must reckon with the probability that: (1) business interests will continue their opposition to the Government's plan to reduce prices by narrowing profit margins; and (2) expected demands for additional wage increases, if granted, will further weaken the budget position of the Government. Unless the Government can achieve a reasonably satisfactory accommodation between economic capability and non-Communist labor demands, the back-to-work movement now undermining the Communist strike campaign can have no permanence and the General Confederation of Labor will be encouraged to drag out the coal strike as long as possible while continuing its appeal for sympathy walk-outs in other industries.

De Gaulle's triumph in the Council of the Republic elections of 7 November will enable him to exert direct pressure upon the French assembly to bring about its own dissolution and call for a general election. Although returns from French overseas possessions will not be known for several weeks, the already proved numerical strength of the Gaullist representation and other Rightist parties indicates that De Gaulle can soon form a working majority in the Council. De Gaulle thus has two means of increasing pressure on the French Assembly. First, he can instruct his supporters to

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SECRET**FRANCE**

obstruct legislation by amending or disapproving the Assembly's bills so that a majority of the Assembly will be necessary to override the amendments or objections. Second, De Gaulle can see that a consistent demand for Assembly dissolution and general elections emanates from the Council. Such tactics employed over a period of several weeks could effectively impair the functioning of the Queuille Government and will add to the pressure for the general elections by which De Gaulle hopes to regain leadership of France.

GERMANY

The inflationary wage-price spiral in western Germany now threatens to interfere seriously with the deliveries of foodstuffs and the production and distribution of industrial goods. De-controlled prices continue to rise, and, despite wage increases granted in key industries, workers' wages are inadequate to purchase the necessities of life. The situation is being aggravated by the reaction of farmers and manufacturers who, in increasing numbers, are withholding delivery of their products in the expectation of sharp price increases. Recent demonstrations in Stuttgart resulted in the first violent opposition to US troops since the occupation was begun, and a 24-hour general protest strike has been called for 12 November. Moreover, as part of the continuing Communist attack against European recovery, Communist agitators will exploit to the maximum continued dissatisfaction among German workers.

Increased Communist agitation in western Germany may be indicated by plans to reorganize Communist-dominated German youth organizations. Under these plans,

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GERMANY

the Free German Youth (FDJ) will be broken down into cells of 30 to 40 members, to be placed in factories and schools and linked to larger local groups to assure close relationships between the workers and the students. Simultaneously, following the pattern developing in Soviet Zone Germany, activist youth groups also are being established in factories. These "activists" will probably be trained to foment dissatisfaction within the plants and to capitalize upon public disturbances during strikes and demonstrations. The work of the FDJ and the activists, however, will be carefully integrated by instructions received from the Central Committee of the FDJ in Berlin.

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

Initial Soviet reaction to the US elections suggests that the Kremlin, which had expected a Republican Party victory, is hastily reviewing its plans and may be preparing for a tactical shift in its foreign policy. The vindictiveness of Stalin's pre-election PRAVDA interview indicated that the USSR was planning to intensify its political pressure against the US during the period of expected indecisiveness between the elections and the inauguration of the new administration. In contrast, Molotov's speech at the 6 November celebration of the 31st anniversary of the October revolution was mild, grudgingly complimenting the Truman administration. Moreover, by stating that US voters had rejected the clearly reactionary and aggressive program of the Republican Party, Molotov reversed the former Kremlin propaganda line which had been asserting that the Democratic and Republican parties were identical. Molotov's speech, therefore, was probably designed as a temporizing move while the Kremlin re-examines its foreign policy in the light of continued western unity and the demonstrated solidarity of US bi-partisan foreign policy. Although no fundamental change in Soviet policy is expected, Molotov's speech may be a prelude to limited "peace" overtures calculated to relax western vigilance and to sow the seeds of disunity among the western allies.

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SECRET**GREECE**

No drastic changes in the present Liberal-Populist coalition are likely to result from the resignation of Prime Minister Sophoulis. Sophocles Venizelos, the insurgent Liberal who has been chiefly responsible for the present crisis, has won little support in his campaign for a government which would be above party politics. He is probably too distasteful to the Populists to be brought into the Cabinet and has also lost favor with the Liberal party leadership. The Rightist bloc of Zervas and Gonatas could bring votes to a new coalition but will probably remain unrepresented because of Zervas' dubious international reputation. Thus, the task of forming a new government will probably fall again on the shoulders of Sophoulis and Populist leader Tsaldaris, who are likely to seek additional support from center elements in the National Assembly in order to increase the bare majority the coalition now possesses. Centrist leaders Papandreou and Canellopoulos command enough votes to insure continuation of the coalition, are free of unpleasant associations which would damage Greek prestige abroad, and could probably be persuaded to support present coalition policies.

The Greek Army's inability to maintain the offensive is enabling the guerrillas to create a maximum of internal disorder and to build up their reserves for the winter. About half of the army's effective combat strength is now committed to containing guerrilla border concentrations; the remainder, scattered thinly throughout northern and central Greece, is unable to protect adequately the communications, road reconstruction projects, and villages which the guerrillas select for sabotage raids and lightning attacks. The guerrillas have also intensified their forced recruiting drive, particularly in the Peloponnesus, with the objective of doubling their strength

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SECRET**GREECE**

by January. Now that the Greek question is before the UN, the guerrillas are also increasing their attacks in areas far from the northern borders so as to "prove" to the world that Greece's troubles are purely internal. Meanwhile, the Greek Government's plans for improving the military situation have bogged down. Although country-wide martial law was recently authorized, details for its implementation have yet to be worked out. The reorganization of army units necessary for new offensive action has scarcely begun. Discussions for the appointment of a supreme Commander in Chief have been postponed until after the current political crisis has been resolved.

ALBANIA

The political and economic situation in Albania has deteriorated steadily since Albania's violent break with Yugoslavia. Premier Hoxha is worried about the instability of his regime and the recent reshuffling of the Albanian Cabinet reflects his fear of growing public dissatisfaction. Yugoslavia, realizing the seriousness of this situation, may attempt to exploit it by strengthening pro-Tito elements in Albania. Nevertheless, Albania's economic position is likely to improve because the USSR and its Satellites will replace Yugoslavia as Albania's principal source of imports. Through trade pacts either concluded or being negotiated with the USSR, Bulgaria, and Poland, Albania will acquire grain, industrial equipment, and construction materials. Although Albania may soon be in a better position economically because of this Soviet-sponsored assistance, the Hoxha regime will remain politically weak because of continued internal opposition to totalitarian control from Albania's strong tribal chiefs.

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CZECHOSLOVAKIA

If Czechoslovakia's foreign exchange position continues to deteriorate at the present date, its imports from the west will decrease and Czechoslovak recovery will suffer a major setback during the first half of 1949. Czechoslovak foreign exchange assets are now insufficient to finance normal trade deficits, maturing short-term loans, and other international commitments. This deteriorating foreign exchange position is the result primarily of a shift in export trade to the USSR and of exclusion from the benefits of the European recovery program. Although the Czechoslovak Government has just received a \$6 million loan from the International Monetary Fund, it is seeking further loans from the west to bolster its foreign exchange position and to finance vital imports.

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

The vacancy left by the resignation of Prime Minister Hajir has been filled with unaccustomed promptness by the Majlis. This speedy action does not necessarily mean, however, that Mohammed Saed, the new prime minister, will continue to have the parliamentary support required to prevent a recurrence of the semi-stagnation which drove Hajir out of office. Although Saed is an experienced politician who appears to get along well with the Shah, he has only limited executive ability and has not demonstrated the high degree of political astuteness and forcefulness needed to wring legislation out of the Majlis as currently constituted. Although Saed may try to utilize his experience as Ambassador to the Soviet Union in an attempt to better Soviet-Iranian relations, he will probably continue Iran's policy of collaboration with the US. When he was prime minister in 1944, Saed flatly refused to grant the USSR an oil concession and in 1947, as a member of the Majlis, argued strongly against the proposed Irano-Soviet Oil Company.

AFGHANISTAN

A sharp appreciation of the danger of Soviet aggression is apparently displacing the outward unconcern with which Afghanistan formerly viewed the USSR. Although the Afghan Government has only partially resolved its differences with Pakistan over the Pathan tribesmen, the two Governments are now negotiating a reciprocal military agreement, directed primarily against the USSR, which would permit Pakistan to send troops into Afghanistan to help resist an invasion. Meanwhile, hitherto reserved Afghan military and gendarmerie officials have displayed a new spirit of cooperation toward

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AFGHANISTAN

US officials in Afghanistan. Also, Afghan representatives in Washington have been seeking US technicians for Afghanistan's development projects despite the suspicion with which the USSR regards US personnel already in the country.

PALESTINE

The prospects for an effective armistice in Palestine remain uncertain although the Security Council now appears ready to turn from its efforts to force an Israeli military withdrawal. Instead, in the hope that Israeli military successes have convinced the Arabs that their only salvation lies in an immediate settlement of the problem, the SC will probably request the Arabs and Jews to negotiate a truce leading to an armistice either directly or through the UN. The Arab leaders, fearing public outcry, may not dare to negotiate directly with the Jews but may possibly agree to negotiate through the UN mediator.

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F A R E A S T

CHINA

The decisive battle for Central China is beginning. At least 16 Communist columns are sweeping down both sides of Hsuehou in a pincer movement which can either destroy that vital Nationalist base or, by isolating it, drive directly against Nanking. The imminent collapse of the ill-trained and dispirited Nationalist forces in the Hsuehou-Nanking area will probably mark the end of all organized Nationalist military resistance. In North China, the present inactivity probably foreshadows a forthcoming Communist attack in the extremely vulnerable Peiping-Tientsin-Kalgan area. The eclipse of the Nationalists in Manchuria is complete, following Nationalist evacuations of Yingkou and Hulutao.

The imminent bankruptcy of the Chinese National Government, presaged by the panicky refusal to accept gold yuan in Shanghai and Nanking, may soon result in the lifting of foreign exchange controls to permit free dealing in US currency and bullion. In Shanghai, the price of rice has reportedly increased 80 times over the ceiling price prevailing last week, and the refusal of farmers to ship food to these cities has heightened the critical food shortages.

The National Government, beset by unprecedented military and economic debacles, continues to exert every effort to avert political collapse on the home front. Regardless of the refusal of several Kuomintang officials to serve on the Cabinet and the suggestions of some Cabinet members that a peace be negotiated with the Communists, Chiang Kai-shek appears determined, at the moment, to continue his fight against the Communists to the bitter end. A satisfactory

SECRET**CHINA**

solution of the Cabinet crisis is unlikely, however, in view of the hopelessness of the general situation and the unwillingness of prominent Nationalist leaders to accept responsibility for forming a new Cabinet.

A tremendously increased Soviet war potential in the Far East may result eventually from Communist control of Manchuria and north China. With the Communists controlling these areas, including Shanghai, the USSR would have a "strong voice" in the operation of both the extensive harbor facilities and the transportation net in this vast area. This greatly increased transportation potential, if developed by an aggressive rehabilitation program, could permit the USSR to undertake an ambitious industrial expansion in north China and Manchuria. Such an expansion in these areas would provide the USSR with an agrarian-industrial base capable of supporting a far more formidable military force in active combat than it can presently maintain there. The creation of a major industrial complex in Manchuria would enable a large Soviet military force to live almost entirely off local production and to depend upon the limited capacity of the vulnerable trans-Siberian railroad only for highly critical items. The self-sufficiency of any Soviet military establishment in the Far East would be further augmented by the utilization of the warm water ports along the north China coast. Shanghai has extensive dry dock and repair facilities which could be rapidly converted to the production of both merchant and naval vessels.

INDONESIA

The contradictory nature of Dutch policy on Indonesia has become more noticeable recently, and current discussions between Netherlands Foreign Minister Stikker and Republican Prime Minister Hatta may represent a last chance to reach a

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INDONESIA

negotiated settlement on Indonesia. Stikker does not have the complete support of his colleagues in Batavia who consider his attitude toward the Republic too generous. Meanwhile, although current negotiations are represented as an example of Dutch good will toward the Republic, Dutch propaganda on the subject of Republican truce violations suggests that the Netherlands is preparing to initiate police action in Indonesia.

BURMA

Burmese Communists have been instigating communal warfare between Karens and Burmans in an effort to create conditions favoring a Communist rise to power. Paradoxically, the Socialists have also capitalized on anti-Karen sentiment in order to strengthen their control of the Government. Although the Karen National Union blames the Communists for recent provocations, it has become increasingly incensed with the Government's failure to provide adequate protection. Failure of the Burmese Government to settle the Karen problem in the near future may result in an armed uprising by the Karens, who are militarily strong, especially within the Burmese Army. Such an uprising might lead to the formation of an independent Karen state but could hardly result in Karen control of the Burmese Government.

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WESTERN HEMISPHERE

CHILE

President Gonzalez may be using the alleged military conspiracy against the Government as a "scare" technique to frighten the Chilean Congress into extending his special executive powers. The Army has long been deeply discontented with old equipment and insufficient pay, but has been loyal to the Government in its intense anti-Communist campaign. The danger exists, however, that Gonzalez may alienate large sections of the armed forces if he is reckless enough to continue arresting alleged conspirators against the Government.

PARAGUAY

A successful coup against the weak government of President Gonzalez is imminent, but it is doubtful if any opposing faction in Paraguay is strong enough to replace Gonzalez with a government which will last. Either the police or the army may make the first move against Gonzalez. However, the police are not strong enough and the army not united enough to maintain a candidate in office. Moreover, a counterrevolt might then be staged by one of the factions whose leaders and following are still exiled in Argentina. Possible Argentine support for such a counter-revolt would add international complications to what is at present purely a domestic issue.

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SECRET**SOVIET-SATELLITE SUPPORT OF
CLANDESTINE AIR ACTIVITY TO PALESTINE**

Allegations of direct Soviet support of the Israeli military machine were contained in public charges recently made by a former pilot of the Israeli Air Transport Command. The pilot's statement, much of which is supported by evidence already available, gives a detailed account of the organization of the Israeli Air Force and the Israeli Air Transport Command and describes the methods used in secretly flying considerable quantities of aircraft and munitions from Europe into Palestine. The pilot's specific charges of direct Soviet support, however, cannot be substantiated at this time. His testimony confirms reports that Prague has been a major center for the procurement of airplanes and munitions for shipment to Israel. Coordinated government direction of these procurement and shipment activities is clearly indicated by the number of Czechoslovak government agencies already implicated. These agencies include: (1) Czechoslovak consuls who have been instructed to issue visas for Israelis and foreign volunteers enroute to Czechoslovakia for training; (2) the Czechoslovak Air Force which has conducted the pilot training program, issued Czechoslovak uniforms to the trainees, and placed military airfields at the disposal of foreign aircraft operators engaged in arms-running to Palestine; and (3) the Czechoslovak Communist security police who have protected these various activities to insure secrecy and prevent local interference. Moreover, the Communist Party in Czechoslovakia has organized a corporation, with Israelis holding a minority interest, for the express purpose of facilitating the sale and delivery of Czechoslovak munitions to Israel.

Although there is no indication of the precise role played by the USSR in the Czechoslovak arms traffic, these activities could have been undertaken only with the approval

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of the Soviet Union. The sale of arms and munitions to the Israelis certainly has served the Soviet desire to protract the conflict in the Near East. (Czechoslovakia has contracted to supply arms and munitions to Arab states as well as Israel.) At the same time, Czechoslovakia has been provided with much-needed hard currency. The same dual purpose probably inspired Yugoslavia to provide an airfield in southern Yugoslavia for clandestine air operations to Israel.

There is some evidence that Soviet and Czechoslovak enthusiasm for the support of Israel is diminishing. Israeli representatives in Prague have reported to the US Embassy that the Czechoslovak Government: (1) intends to discontinue the training of Israeli pilots and the recruitment of volunteers to serve in Israel; (2) is now exercising more rigid control over the movement of Jewish refugees through the country; and (3) is investigating the offices of the American Joint Distribution Committee which handles for Israel the distribution of Jewish DP's. These Prague reports may have been designed to deceive the US as a prelude to carrying on the operations in greater secrecy. The USSR and Czechoslovakia may simply believe that greater caution is needed in order to forestall charges of violating UN truce obligations. On the other hand, the USSR may be convinced that the Israelis have won their fight and that Soviet purposes will be better served by a closer balance of military power between Israel and the Arab states.

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