

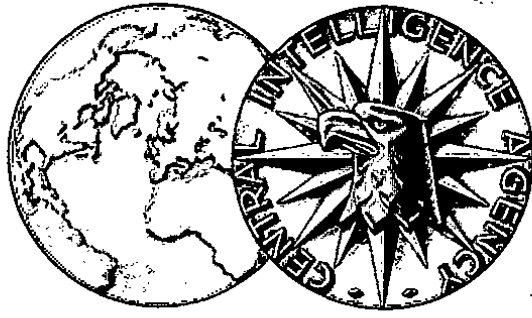
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# WEEKLY SUMMARY



Number 88

3 FEB 1950

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C O N T E N T S

	Page
HIGHLIGHTS.....	1
WESTERN EUROPE.....	2
EASTERN EUROPE.....	6
FAR EAST.....	8
WESTERN HEMISPHERE.....	12
ARTICLES	
The Saar Problem.....	14
Inadequate French Economic Progress.....	16
Possible Czech-China Air Cooperation.....	18

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H I G H L I G H T S

During the past week, the USSR continued to press forward against the Western position at every opportunity. In the UN, the Soviet walkout left that organization virtually hamstrung (see page 6); the on-and-off "blockade" of Berlin by Soviet soldiers kept the West wondering what would happen next; and the Mao-Stalin talks in Moscow went on in deepest secrecy (see page 9).

Meanwhile, the West remained preoccupied with major problems connected with the economic and political rehabilitation of Western Europe. Old German and French rivalries promised to complicate final settlement of the Saar issue (see page 14); British reluctance to take the steps necessary to assure Western European economic integration again made it impossible for the Organization for European Economic Cooperation to formulate a program for aggressive and constructive action (see page 5).

In the Far East, an invasion of Tibet by Chinese Communists appears imminent (see page 10); and extension of Soviet recognition to Indonesia and the Ho Chi Minh regime in Indochina further complicates the problems confronting Western leaders in halting the advance of Communism throughout Southeast Asia (see page 11).

- 1 -

SECRET

## WESTERN EUROPE

**MDAP Shipments** Communist efforts to mobilize Western European labor to resist the delivery of MDAP arms will probably increase in the next few weeks but will have only limited success. These efforts will be directed primarily toward the port and railway workers in Cherbourg, the principal port for MDAP deliveries, and may be supported by scattered work stoppages in Belgian, Dutch, and Italian ports. In France, where the maritime workers may receive financial help from the World Federation of Trade Unions, the success of the Communist campaign will be limited by : (1) the need for work among the Cherbourg dockers; (2) the lack of decisive Communist influence among the laborers on the main railway line serving the port; and (3) the readiness of French military authorities to suppress any Communist-led disruptions. In Antwerp, Socialist dock chiefs are confident that the first MDAP cargoes will be unloaded after initial disturbances and work stoppages not exceeding 24-48 hours. In Italy, Communist orders for port strikes on arrival of the MDAP shipments may be effective in some northern ports but will not be generally supported in southern Italian ports. Despite the reported allocation to the WFTU of a \$250,000 "solidarity" fund for use in the event of a prolonged strike, a major Communist financial effort is unlikely unless the local "action committees" obtain wider support among the rank-and-file workers.

## GERMANY

**Unemployment Critical** Unemployment in Western Germany has become a major problem which, if not checked during 1950, will probably threaten the economic progress made thus far by the Federal Republic. Although during the past three months the number of unemployed rose by half

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**SECRET****GERMANY**

a million to total more than 14 percent of the working force; the number of employed has remained relatively constant at 13,555,000. Industrial production has virtually attained prewar (1936) levels, but the total population of West Germany has increased by at least 9 million, primarily as a result of the influx of expellees and refugees from Eastern Europe. Thus, industrial production per capita in the Federal Republic is actually no more than 80 percent of that in 1936. Augmented by new refugees from the east, as well as by new working age groups, the labor force will probably continue to increase. With present levels of individual productivity, therefore, the number of jobs available must be expanded by about 35 percent if the labor force is to be fully occupied by the end of 1950.

The Federal Government expects unemployment to reach more than 2 million during February 1950, but has thus far not developed a large-scale program for increasing employment. Although the Federal Government is planning the construction of 250,000 housing units, which would create about 200,000 new jobs, it is doubtful whether this plan, together with other limited measures now contemplated by the Federal Government, will have any appreciable effect in reducing unemployment.

**ITALY**

**Communist Plans.** Although the Communists will probably be unable to interfere seriously with MDAP deliveries, their general campaign to cripple Italy's military rehabilitation may have local success. The announced Communist intention to prevent or impede the unloading of US

- 3 -

**SECRET**

**SECRET****ITALY**

arms and the transformation of industries from peace to war production indicates that the Communist plan of action will stress disruption of port and railroad traffic and the output of heavy industries. The Communists do not effectively control the port workers in south Italian ports, but they may be able to interfere seriously with the unloading of MDAP shipments to northern ports. The Communist-controlled port workers in Genoa, La Spezia, Savona, and Ancona have already pledged themselves not to handle such cargoes, and strike orders have probably already been issued in all other ports. Among the workers of the north Italian heavy industries, who have valid economic grievances, the Communist efforts to impede production of military supplies and equipment are likely to achieve a substantial degree of success. Widespread "sympathy" strikes and sabotage may take place under the direction of Communist-dominated "committees for defense of peace," which have already pledged that they will not produce any war materiel.

**SCANDINAVIA**

Scandinavian Defense      Despite the breakdown of Scandinavian joint-defense negotiations early in 1949, some military cooperation still exists and will probably continue. Sweden's top military men, who believe less strongly than their government in the wisdom of neutrality, will go to great lengths to obtain military advice and materiel for Sweden's forces. Instances of such cooperation during the past year include: (1) flights of aircraft to and from Sweden, with radar exercises utilizing Norwegian equipment; (2) visits by Swedish naval units to Danish and Norwegian ports with warships of the

- 4 -

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### SCANDINAVIA

respective countries present; (3) joint Swedish and Norwegian command exercises in northern terrain where the borders of those countries join; and (4) high-level exchange of intelligence information between the countries. Norway and Denmark will safeguard information and materiel received from participation in the Atlantic Pact, but some leakage of intelligence will probably occur as a result of cooperation with Sweden.

### GENERAL

**OEEC Prospects** Due largely to British opposition, US hopes for marked progress this year toward European economic integration have suffered a sharp blow. At the recent Paris session, the Organization for European Economic Cooperation (OEEC) Council: (1) failed to select Paul Henri Spaak, the most outstanding candidate, as high-level "political conciliator" and instead named Dutch Foreign Minister Stikker; (2) agreed to aim at only a further 10 percent reduction of intra-European import quotas by mid-1950, far less than is felt necessary for European rehabilitation; (3) postponed action on general elimination of dual pricing practices; and (4) failed to progress with plans for a new European Payments Union. Largely responsible for OEEC inability to act decisively was British hesitation either to approve any further trade liberalization or new payments system which might interfere with the UK's own recovery planning or to risk further loss of precariously depleted monetary reserves. Britain's blocking of OEEC action re-emphasizes one of the most critical problems facing the US in its drive for European integration: how to overcome British reluctance to take the action necessary to achieve substantial progress toward economic integration by 1952.

- 5 -

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## E A S T E R N E U R O P E

**Soviet Walkout** One major purpose of the Soviet UN walkout was probably to contribute to the Soviet effort to isolate China from Western influence by making it as difficult as possible for the US to reverse its China policy. The dramatic Soviet boycott of the UN, along with abuses of US officials and property in China, makes US recognition of the Peiping regime increasingly difficult in the face of opposition in the US Congress and press. The USSR is, therefore, encouraging a situation in which US recognition of the Chinese Communist regime could be widely construed and propagandized as an outright surrender to Soviet pressure. The walkout, although ostensibly designed to force the early unseating of Nationalist delegates, may actually have delayed the shift to Communist Chinese representation in the UN.

Although Chinese and Soviet recognition of Ho Chi Minh (Communist leader in Indochina) is primarily aimed at fostering revolutionary activity in Southeast Asia, this action may also be parts of the Soviet effort to minimize contacts between China and the West. Such Soviet moves which effectively postpone the establishment of US and French relations with China correspond to the general Soviet policy of discouraging Western contacts with the Soviet Satellites in Europe.

## P O L A N D

**Air Policy** The US-UK policy of preventing the USSR and the Satellites from obtaining airplanes or spare parts is again being circumvented. During 1949, licenses for the export to France of over \$800,000 worth of aircraft parts were granted to Air Union, a firm located

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**POLAND**

in Bethesda, Maryland. In a recent transaction, Air Union shipped some parts to Polish firms located in Paris and incorporated as French companies. The orders for spare parts originated with the Paris representative of the Polish airline LOT, and delivery was made from the US to Le Havre and transshipment aboard Polish vessels from Le Havre via Antwerp to Poland.

- 7 -

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

**US-UK Difficulties** A recent statement by a UK Foreign Office representative to the effect that the UK considers itself unable to interfere with the movements of Chinese-flag merchant ships on which the US holds defaulted mortgages indicates that the UK will probably take no executive action which might assist the US in repossessing the vessels and that redress for the US in British courts is unlikely. Moreover, the UK attitude may influence the disposition of 82 transport aircraft now grounded at Hong Kong pending establishment of ownership. The total number of merchant vessels involved represents a tonnage of approximately 250,000 deadweight tons. Some of the merchant vessels are in Japan, under control of the US military authorities, but the remaining vessels, if released for Communist use, would more than double the large-vessel tonnage of the present Communist merchant fleet and represent a proportionately greater increase in the Communist strategic potential. Possession of the fleet of transport aircraft now at Hong Kong would provide the Chinese Communists with enough aircraft to institute air transport operations within China and outside its borders on a considerable scale in the very near future. The UK attitude is probably due to the fear that the British court action requested by the US would cause the Chinese Communists to retaliate against the UK's valuable but highly vulnerable possessions in China. This UK reluctance to cooperate with the US probably also reflects the basic decision by the UK that British over-all interests would be best served by recognizing the Chinese Communists and as far as possible establishing normal relations with them. More important, the British attitude will probably influence other Commonwealth nations and even other countries where

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the Chinese vessels may call. The UK stand, furthermore, may be an ominous indication that the aircraft grounded at Hong Kong will be turned over to the Chinese Communists.

CHINA

**Mao-Stalin Talks** Although no reliable information on the progress of the Moscow talks between Mao and Stalin is available, the pattern of Sino-Soviet relations suggests that a new treaty which will probably strengthen the position of Stalinists in the Chinese Communist Party will be signed in the near future.

Neither Soviet nor Chinese Communist leaders would attempt to force a transparently "unequal" treaty on the Chinese people, who are openly suspicious of Sino-Soviet "friendship." Any protocols damaging to Mao's position, such as the joint use and development of Chinese military facilities, will be secret, and the published provisions of the treaty will be innocuous. The treaty, or a separate agreement, probably will provide for Soviet credits sufficiently extensive to be impressive paper evidence of Soviet aid to China. The number and quantity of commodities to be exchanged between the two nations under the new trade agreement will be increased, and the agreement will appear, superficially, to be mutually beneficial.

Although special political arrangements with Manchuria and Sinkiang and provisions for "joint development" of those areas will bring the border regions further under Soviet domination, the treaty will camouflage the process by which Soviet influence in China may become Soviet control.

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**CHINA**

**Tibet Invasion**      **Statements by Chu Teh and other high Chinese Communist military leaders indicating that the Tibetan operation will be given high priority, coupled with the current propaganda campaign against Tibet, point to an imminent invasion attempt. The Chinese Communists have already achieved some degree of penetration into Tibetan groups and institutions by infiltration of Inner Tibetan lamaseries and by the exploitation of political differences within Tibet. In addition, the Communists have established a provisional Tibet government in Tsinghai. Meanwhile, Communist propaganda emphasizing the fear that an "imperialist conspiracy" is plotting to seize Outer Tibet is probably part of preparations for justifying an invasion for "protective" purposes.**

**INDONESIA**

**Guerrilla Troubles**      **High Dutch officials in Indonesia probably will be able to obtain the reluctant cooperation of Dutch military leaders with the efforts of Indonesia to eliminate the guerrilla activities of former Captain Westerling of the Netherlands Indonesian Army (KNIL). The Netherlands Government is thoroughly supported by Dutch public opinion in its desire to assist the Indonesians in eliminating Westerling and his followers, many of whom are Indonesian deserters from the KNIL. The Dutch forces will probably not be called upon to act directly against the Westerling group, but they may be asked to assume more extensive guard duties and other non-combat functions, in order to release more of the Indonesian Army for measures against Westerling and other guerrilla groups. If the Dutch take stern measures against**

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INDONESIA

KNIL deserters and if the Indonesian Army program to incorporate volunteers from the KNIL is successful, Westering's attraction for KNIL troops will probably be counteracted.

SOUTHEAST ASIA

**Soviet Pressure**      The extension of Soviet recognition to the United States of Indonesia and to Ho Chi Minh (Communist leader opposing the Bao Dai Government in Indochina) may presage greatly increased Soviet pressure against the Western position in Southeast Asia. In Indochina, support from the USSR and the Chinese Communists will probably strengthen resistance to Bao Dai and may turn the balance in favor of Ho. Moreover, the extension of Soviet recognition to Ho will: (1) counteract the expected political impact of Western recognition of Bao Dai; and (2) probably increase the reluctance of neighboring countries to follow the Western lead in recognizing Bao Dai. In Indonesia, where political leaders are attempting to maintain a neutral position between the US and the USSR, Soviet recognition will arouse little suspicion that the USSR may eventually use its mission to work with subversive groups. Near the Chinese border in the Burmese hill state of Kengtung, Chinese "Communist" freebooters are creating enough trouble to arouse some apprehension in Rangoon.

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WESTERN HEMISPHERE

PANAMA

**Political Instability** The continuing struggle for power between President Arnulfo Arias and Police Chief Remon threatens to create a new political crisis in Panama. To date President Arias has not been sufficiently strong to oust top police officials, who have threatened to force him out of office and install a governing junta. Arias' weakness has resulted in an increasing amount of plotting both by his political opponents and by his former supporters. An attempt to oust the President is now possible, and since Arias has armed his supporters, the ensuing struggle could be more bloody than the coup of November 1949 which brought Arias to power.

CHILE

**New Strikes** The current outbreak of strikes in Chile, ostensibly a protest by certain segments of labor to the administration's proposed economic program, is not likely immediately to imperil the stability of the government but will add to the serious problems facing the Gonzalez Videla regime. The government's policy of intervention in the initial stages of labor difficulties has been a fairly effective measure to date, but the basic problem of continued deterioration of the economic situation remains unsolved. Moreover, disagreement among members of the government coalition will probably hinder the institution of necessary basic economic reforms, and the current strikes may thus foreshadow more serious difficulties such as general labor and political disturbances.

- 12 -

SECRET

**SECRET****BRAZIL**

**Manganese Exports** US imports of manganese ore from Brazil are unlikely to increase substantially for the next several years because of legal obstacles raised by the Brazilian Government to US participation in mining operations and because of technical and transportation difficulties. The Brazilian Government has denied the US Steel Corporation permission to mine the Urucum deposits (largest in the Western Hemisphere) on legal grounds. Although the legal problems may be ironed out during the next year, at least two more years will be required before substantial imports can be realized from this source. Despite expected early establishment of a joint US-Brazilian company to operate the Amapa concession, technical problems in this second area will probably keep production below 100,000 tons annually until 1953. Imports from the Minas Gerais area fell far below the figure estimated as possible by US officials due to inefficiency of the Central Railroad. Although the Brazilian authorities have promised to improve the railroad service, there is little evidence to indicate that shipments will increase during 1950.

- 13 -

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## THE SAAR PROBLEM

In the forthcoming negotiations with the Saar authorities, the French are likely to arrive at an agreement which will make it politically possible for Chancellor Adenauer to lead the German Federal Republic into the Council of Europe. This agreement will be of an interim nature and will represent some modification of the original French intention to conclude long-term leases on the Saar coal mines. Such a solution to the current Saar controversy, however, is not likely to simplify the task of determining the final status of the Saar when the German peace treaty is written. The basic interests of France and Germany are clearly in conflict, and there is some danger that in future negotiations over this territory, the Germans may be less amenable to compromise than at present.

French officials appear intent on proceeding unilaterally with their plans for negotiating agreements with the Saar Government covering leases of the coal mines, the integration of the railroads, and the establishment of French economic rights in the Saar. The French Foreign Office justifies France's right to continue with these tasks on the grounds that they were requested by the Saar leaders and that an accord with the Saar would parallel agreements by which the Western Powers granted greater autonomy to West Germany.

The West German Federal Government, in strongly opposing the negotiations, contends that: (1) ownership of the mines rests with the German Federal Republic; and (2) any interim agreement would prejudice the ultimate disposition of the Saar in the peace treaty. French Foreign Minister Schuman has stressed, however, that any conventions

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concluded at this time will be of an interim nature, to be superseded by the decisions laid down in the peace treaty; he has also said he will endeavor to work out a formula for the mine leases which will meet some of the objections raised by the Germans.

- 15 -

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## **INADEQUATE FRENCH ECONOMIC PROGRESS**

French economic progress in 1949 fell far short of the necessary French contribution to Western European rehabilitation, and any remedial actions which the US might propose to the French would not receive effective support in France in 1950.

During 1949, the French did expand industrial production, improve financial stability, and reduce the deficit in the non-dollar foreign payments account. A far greater effort, however, will be necessary in order to hold these gains and to increase agricultural output, private investment, and housing construction, and to improve the dollar account. Moreover, a revolution in the thinking of those influential in government and private enterprise must take place before more lasting results can be obtained.

The expansion of production in 1949 was largely due to factors which were probably temporary, including large-scale US aid, a seller's market, broad protection against foreign competition, steady wages, and the relative stability of the Queuille Government. Production was not aided by any important departures from restrictive customs or prejudices, or by any great imaginative efforts on the part of government, business, or labor. All economic groups were obsessed with their own security, and there was little enthusiasm for sacrifice and cooperation to achieve long-term goals. The French were vulnerable to the charge of taking advantage of ECA aid to postpone essential, basic decisions.

In view of the stubborn psychological blocks among various French groups and the outlook for prolonged governmental weakness, there is little likelihood that any of the

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policies recommended by the ECA mission in France, even if adopted by the French, would achieve important results in 1950. Any efforts the French might make would be seriously hampered by the imminent increase in the general wage level, the growing and widespread fears of foreign competition, the government's sacrifice of agriculture to industrial investment needs, the inadequacy of private investment, and the anticipated long-term labor unrest.

- 17 -

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## POSSIBLE CZECH-CHINA AIR COOPERATION

The European Satellites and Communist China may soon succeed in establishing air connections entirely through non-Communist territory, and thus facilitate the political and economic exploitation of the Near East and Southeast Asia by Communist agents.

The Chinese Communists not only have the aircraft and equipment to expand air operations beyond their own borders but also have a number of US-trained airline personnel experienced in international operations. While an extensive Chinese air network outside China is not anticipated, certain scheduled or non-scheduled operations might well be initiated for commercial, political, and prestige reasons. Routes which would be flown by Chinese Communist air carriers would not pass over countries cooperating with the US, and there is little possibility that such traffic could be prevented. China, furthermore, is a member of the International Civil Aviation Organization (ICAO), and the new Communist Government may be expected, like that of Czechoslovakia, to take full advantage of the air rights it automatically enjoys through its membership. Article 5 of the Chicago Convention provides the right for non-scheduled flights between ICAO member states.

Meanwhile, Czechoslovakia is making determined and persistent efforts to reach the Near East and Southeast Asia, and the frustration of this ambition thus far has been accomplished by the US and UK only through: (1) denial to Czechoslovakia of Western-manufactured long-range aircraft; and (2) vigorous and continued high-level representations to many countries en route. Israel, however, occupies a key geographic position in that four-engine aircraft can reach Karachi from Europe

- 18 -

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with a single refueling stop at Lydda, and is the only eastern Mediterranean state which has not been asked to cooperate with the US-UK Satellite aviation containment policy.

The attitude of India and Pakistan may be a determining factor in the accomplishment of Chinese and Czechoslovak objectives with respect to air expansion. India, which permitted the Chinese Nationalist Government airline CNAC to operate to Calcutta for many years, extended this right last October to include transit across India to Pakistan for scheduled services terminating at Karachi. The Chinese Communist Government, which claims title to CNAC and which holds a number of CNAC air transports that defected to Peiping, will probably maintain that as the internationally recognized Government of China, it already possesses trans-Indian operating rights originally secured by the Nationalists. The Chinese Communists may also claim the right to restore the air services formerly provided by CNAC through Burma en route to India.

India is determined not to take sides in the East-West conflict but may be willing to permit transit for Czechoslovak aircraft. Pakistan, so far as is known, has not rejected Czechoslovak overtures for entry of an air caravan to promote Czechoslovak exports, and, in conformance with its ICAO obligations, may feel obliged to grant permission. If the Czechoslovaks succeed in bridging the Middle East with four-engine aircraft, arrangements will be made with Chinese Communist airlines for the onward carriage to South Asia of Czechoslovak propaganda agents and labor organizers, as well as for Czechoslovak manufactured goods including ammunition and weapons.

- 19 -

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**SECRET**

If the Czechoslovaks are unable to obtain long-range aircraft and necessary landing rights, they will attempt, as a stopgap measure, to employ aircraft chartered from some European carrier already in possession of these rights. Such operations on a charter basis would be far less effective and would not diminish the determination of Czechoslovakia to establish air connections with the Far East on a more permanent and secure basis.

- 20 -

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