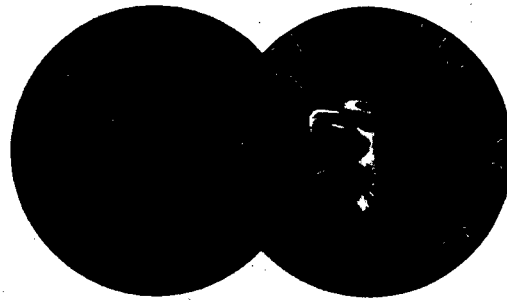


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WEEKLY SUMMARY



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

The rapidly deteriorating financial position of the UK was brought sharply to the attention of the world during the past week by Chancellor Cripps' statement to Parliament. Contrary to expectations, Cripps did not propose sweeping measures and a full-scale program designed to cure British economic ills (see page 5). This uncharacteristic indecision may be indicative of a policy split within the Cabinet or of an intention to delay decisive action until after comprehensive discussions have been held with US officials and Commonwealth finance ministers.

The recent action of Marshal Tito in incorporating the economy of the Yugoslav zone of Trieste into the Yugoslav economy will tend to delay an Italian-Yugoslav agreement on the disposition of the Free Territory of Trieste (see page 9). Tito's move, which may have been designed to strengthen his bargaining position for a settlement of the Trieste question, will make it even more difficult for him to accept any solution which does not assign part of the Free Territory to Yugoslavia. If, meanwhile, the USSR should desert Tito on this issue and accept the western proposal that all Trieste be returned to Italy, the western powers would be confronted with the problem of choosing between the claims of Italy and Yugoslavia.

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WESTERN EUROPE

Western Labor The substantial progress made by the Geneva Conference of Free Trade Unions toward establishing a new labor international to counter-balance the sovietized World Federation of Trade Unions (WFTU) was to some extent offset by dissension between the American Federation of Labor (AFL) and the British Trades Union Congress over organizational problems. One critical decision confronting the Western labor leaders is whether to admit non-Communist labor organizations from such countries as India and Argentina where the US-Western European concept of free trade unionism is little understood. They must also decide between the AFL proposal for a large, well-equipped international to deal aggressively with the WFTU and the British plan for a smaller, less costly organization. Finally, they are faced with the problem of selecting a Secretary General who would lead the new international effectively without seeking to dominate it in the interests of one or more of the big powers. Unless the Western trade unions can resolve these problems, the new international may be launched without united cooperation and support from all Western labor elements.

GERMANY

Rail Strike The recently concluded 38-day strike of the west Berlin railway workers, in addition to having a long-term effect on the Berlin economy, has laid the groundwork for future disagreement between the western powers and the USSR as well as for increasingly strained

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GERMANY

relations between the Berlin city government and the western zones of Germany. Immediate cost of the strike to the Soviet-controlled railway administration is approximately 10.8 million west marks. Moreover, the Soviet authorities claim that saboteurs damaged railway installations in the western sectors to the extent of 40 million west marks. Although the USSR may not demand immediate compensation for this damage, the claim may well furnish a pretext for future Soviet action preventing a permanent settlement of the Berlin traffic controversy. In Berlin, the strike not only has retarded economic improvement but has vastly complicated the already staggering financial problems facing the city government. According to preliminary estimates, 6.3 million west marks will be required to exchange the east mark wages of 14,000 west Berlin railway workers during the next three months. The city government has no funds to meet these demands, and even more funds will be needed if a similar demand from railway workers living in the Soviet sector but working in the western sectors is granted. In order to meet these demands, further subsidy from western Germany will be necessary. Such a subsidy will increase western German irritation over the continuing need to provide the assistance necessary to meet the crises that arise from Berlin's position in the East-West struggle.

Berlin Press Many west Berlin newspapers face early bankruptcy unless they can procure adequate working capital. Western newspaper circulation is only 44% of the pre-blockade level, a reduction caused by the blockade itself and the tight money situation since the 20 March currency changeover, as well as by the prohibition against western papers in the Soviet Zone. Any substantial reduction in the number of west Berlin newspapers would create a situation more favorable to Soviet-subsidized publications.

~~SECRET~~**BELGIUM**

The Royal Question **The failure of Catholic Party leader Van Zeeland to form a Belgian Government pledged to the return of King Leopold indicates that the Catholic Party will have to moderate its demands if the present Cabinet deadlock is to be broken. Combined Liberal and Socialist opposition to Leopold's return will probably force some compromise of the Royal question. One solution might be agreement that Leopold return long enough to abdicate in favor of his son. If some such solution is reached, another Catholic-Socialist coalition is the most likely eventuality, Catholic-Liberal differences being too great to make Liberal participation in the Government a strong possibility.**

PORTUGAL

Economic Troubles **The stability of Prime Minister Salazar's regime may be threatened by growing public awareness of Portugal's serious economic condition arising from the three year increase in adverse trade balances. Public confidence in Salazar has depended in large part on his achievement in establishing a sound currency; a strong reaction is likely if the currency should depreciate. Austerity measures greatly curtailing purchases of foreign luxuries have failed to compensate for the decline in Portuguese exports, and minimum import requirements have remained at a high level. Unless substantial foreign relief is received, Portugal's unencumbered balances of gold and dollar exchange will have vanished completely by the end of 1949.**

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UNITED KINGDOM

Financial Crisis In a widely-heralded declaration to Parliament on the critical financial condition of the UK, Chancellor of the Exchequer Cripps did not, as expected, prescribe sweeping draconian measures as the cure for the country's ills (other than postponing "wherever possible" further dollar purchases). Cripps failed either to recommend immediate drastic steps to check the rapid dwindling of British dollar reserves or to offer any concrete suggestions for the "positive long-term policies" he believes necessary for a solution of Britain's economic problems. In fact, Cripps declared emphatically that the Government did not intend to devalue the pound and that present import contracts would be honored until a new import program is drawn up in September in the light of ECA allocations for the coming year and the working of the new intra-European payments plan. The ban on future dollar purchases will have little immediate effect on the rate at which gold and dollar reserves (now at \$1,624,000,000) are being exhausted. Cripps reiterated his now familiar plea for greater productive efficiency and increased exports to the dollar area, and has now officially warned the British of the impending crisis. Cripps' uncharacteristic lack of decisiveness may reflect conflicting opinions within the British Cabinet, or he may have postponed the announcement of severe and immediate import restrictions out of: (1) fear of affecting US legislative action on European recovery, or (2) desire to wait until after the impending conferences with US officials and Commonwealth finance ministers.

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~~SECRET~~**E A S T E R N E U R O P E****C Z E C H O S L O V A K I A**

Attacks on Church The Czechoslovak Communists have apparently abandoned, temporarily at least, their frontal attack on the Catholic Church in favor of indirect tactics designed to weaken Catholic resistance to Communist control. Reluctant to arrest Archbishop Beran and thus create another Mindszenty incident, and fearing renewed outbursts of violence in predominantly Catholic Slovakia, government officials have been negotiating with various Czechoslovak church groups in order to insure adherence, or at least prevent violent opposition, to the new Czechoslovak Church Law. Under this law, scheduled to become effective on 1 August 1949, the Communists will have a legal basis for controlling the appointments and pay of Catholic clergy. Both the National Czechoslovak and Eastern Orthodox Churches have approved the new law, and the Protestant Church has indicated that it would not obstruct its passage. With Catholic-Protestant unity thus weakened, devitalization of the Catholic Church can then proceed through legal channels with reduced possibilities of publicity and violent resistance.

B U L G A R I A

Agrarian Policy As the first step in adjusting its internal policies to the Kremlin's plan establishing Bulgaria's primary role as an agricultural producer among the Satellites, the Bulgarian Communist Party is now

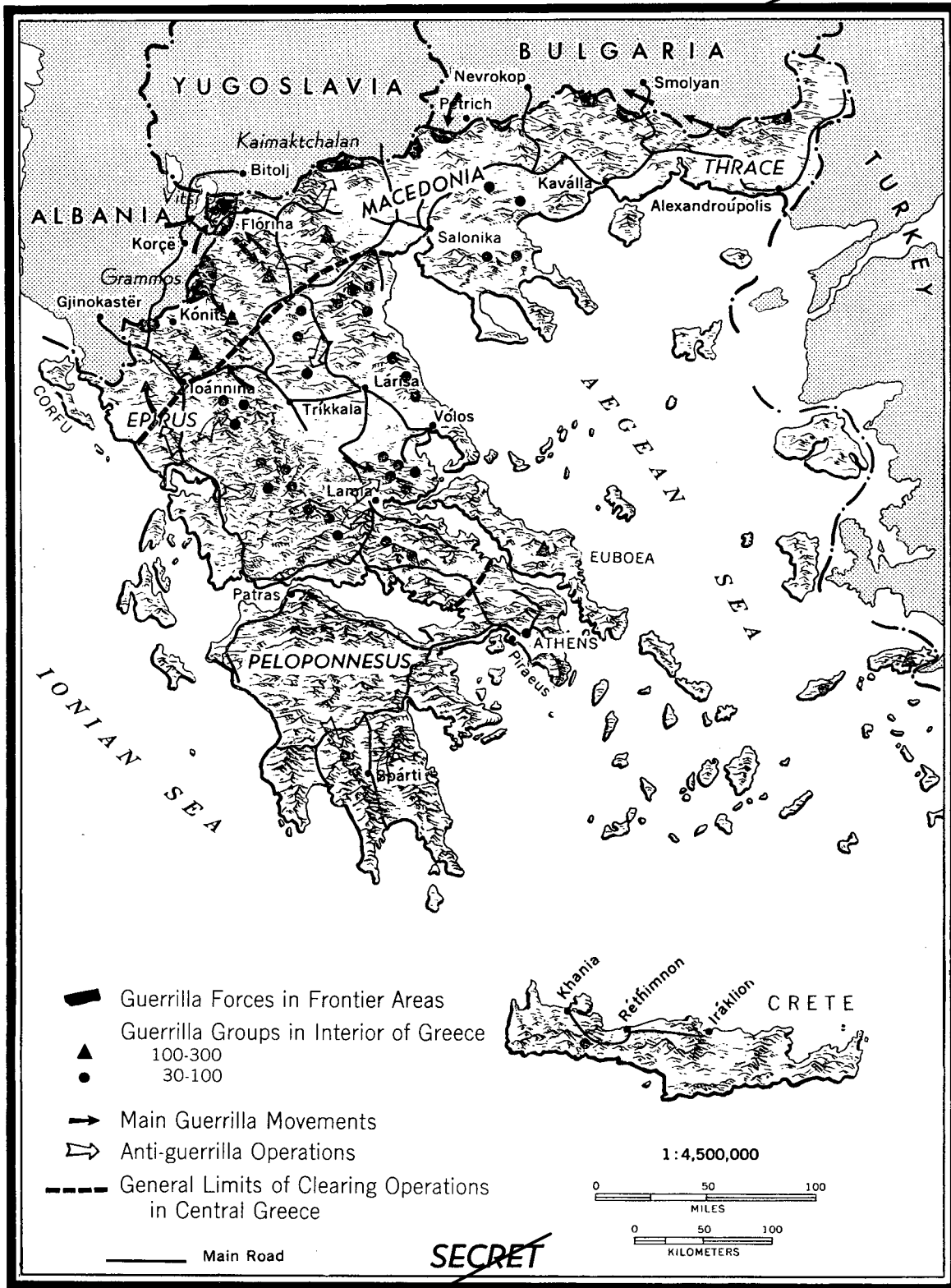
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GREECE: MILITARY SITUATION MAP

June 1949
(through 4 July 1949)

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~~SECRET~~**BULGARIA**

promising concessions to the hostile peasantry. Specifically, the Party recently guaranteed that: (1) abuses already committed in forming farm cooperatives would be rectified and future abuses avoided; (2) farmers would be permitted to sell a larger share of their grain at a higher price; and (3) farmers would receive more consumer goods in the future. Although this announcement may have been intended, in part, to prevent or minimize peasant sabotage during the present harvest, the Bulgarian Communist leaders were also probably motivated by a genuine desire to better relations with the peasants in the hope of increasing production.

GREECE

Guerrilla Prospects The Greek Communists apparently hope to prolong guerrilla warfare indefinitely despite the steady slow decline in rebel strength, now below 18,000 for the first time since October 1947. The guerrillas are currently making strenuous efforts not only to evade further losses in central Greece, where their strength has now been reduced by two-thirds to a total of less than 1,400, but also to effect a compensatory bolstering of their forces in the Vitsi-Grammos sectors on the Albanian frontier, where recent losses have been relatively light. Guerrilla leaders have been stressing the necessity of maintaining a strong defense, notably in the Vitsi area, possibly with the idea that by holding a strip of territory and by blunting any new anti-guerrilla operations they would create a better atmosphere for probable new Communist appeasement gestures in conjunction with the fall session of the UN General Assembly.

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GREECE

Although the somewhat diminished guerrilla forces have suffered in quality because of the increased proportion in combat units of women, boys, girls, and minority elements of dubious reliability, the high command is evidently counting on the improved supply of heavy weapons in the Albanian frontier sector to bolster guerrilla combat effectiveness.

These efforts to tighten up the guerrilla defenses are likely to be successful for some time to come. The numerous small bands of guerrillas remaining in central Greece will probably constitute a considerable threat to security for some months, particularly if plans are carried out to transfer sizable numbers of the Greek National Forces to other operational areas. Moreover, guerrillas in this area will undoubtedly attempt to regain some of their strength through small-scale local recruiting and possibly through some reinfiltration from the north. In the more critical northern areas of Greece, organized guerrilla forces will be able to maintain themselves against the Greek National Forces at least through the fall of 1949. If necessary, they will be able to take refuge across the border, provided the Soviets continue to support the guerrillas from Albania and, to a lesser extent, Bulgaria. Guerrilla capabilities are unlikely to be affected materially if Tito halts all aid to the guerrillas in return for economic concessions from the West because the already limited potential usefulness of Yugoslav bases is being reduced even further by the Greek Army's new offensive in the Kaimaktchalan border area.

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TRIESTE

Yugoslav Intentions Although Yugoslav requests for western guidance on the Trieste problem indicate that Tito may eventually cooperate with the western nations, the immediate effect of his recent incorporation of the Yugoslav sector of Trieste into the Yugoslav economy will be to delay any Yugoslav-Italian agreement on the disposition of the Free Territory. Among Tito's motives for this apparently precipitous "inclusion" of the Yugoslav sector of Trieste are: (1) a fear that the USSR would withdraw its support of Yugoslav claims for Trieste territory; and (2) a desire to strengthen his "bargaining position" for an eventual settlement with the Italians. If the USSR should desert Tito on this issue and openly accept the western proposal of March 1948 for the return of the entire Territory of Trieste to the Italians, Tito's prestige at home would be reduced and at the same time the onus for any further delay in solving the Trieste problem would be shifted to the western powers. Such a "surprise" move by the USSR would confront the western powers, now committed to supporting the Tito regime in Yugoslavia, with the alternatives of: (1) re-affirming their desire to have all of the Territory of Trieste returned to Italy and thus damaging Tito's prestige with his people; or (2) modifying their original position and accepting a division of the Territory of Trieste between Italy and Yugoslavia.

Although Italy would initially resist any suggestion for assigning part of the Territory of Trieste to Yugoslavia, such a division would probably be the only solution acceptable to Tito at this time. Yugoslav leaders have long since abandoned their aspirations for the city of Trieste which they realize would be a political and financial liability. Moreover, Tito has recently indicated that he might be interested in

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TRIESTE

negotiating a bilateral settlement of his Trieste claims provided such a settlement would be satisfactory to the western powers. The Italians, for their part, might accept after considerable discussion and delay the idea that it would be better to regain the larger part of the Territory of Trieste rather than have international administration of the territory continued indefinitely.

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F A R E A S T

JAPAN

Labor Unrest As Japanese labor unrest and demonstrations flared in the wake of the first large-scale layoffs under the new Economic Stabilization Program, the Japanese Government may be forced to declare a state of national emergency. Underscoring the critical need of the Government to find a solution to its steadily mounting unemployment problem is the recent arrival of 2000 Japanese prisoners of war from the USSR--the vanguard of 95,000 scheduled to arrive in 1949. The USSR probably timed its repatriation schedule to coincide with growing labor unrest under the government's retrenchment program. Although the majority of the returning prisoners will probably not have been fully converted to Communism by intensive Soviet indoctrination, they will certainly be more susceptible to Communist blandishments if they fail to find either food or jobs in a labor-glutted Japanese commercial and agricultural market.

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WESTERN HEMISPHERE

ARGENTINA

British Trade The new five-year trade agreement between the UK and Argentina, providing for much-needed expansion of trade between these two countries without exacting dollar expenditures, is another important example of bilateral agreements necessitated by the acute world dollar shortage. From the Argentine viewpoint, the agreement will have a generally stabilizing effect on the country's deteriorating economy, but will in no sense be a panacea for the nation's basic economic difficulties. Annual exports reportedly were set at \$500 million each way, but there is no guarantee that trade will actually reach that figure. The only firm commitments made to date are that: (1) all payments will be made in non-convertible sterling; (2) a one-year meat contract will be executed; and (3) the UK will make petroleum products available. The principal shortcoming of the agreement from the Argentine view is the low price agreed upon for Argentine meat exports; thus, the Government, already burdened by the need to subsidize meat packers, may be forced to assume the additional burden of a subsidy program for cattle raisers in order to avoid decreased production. Although Argentine trade with Britain will undoubtedly increase, the five-year non-convertibility sterling clause will prevent a return to the prewar triangular pattern of trade through which Argentina obtained its supplementary dollar requirements from the US. Thus, with US sales already reduced by the Argentine dollar shortage, Argentine imports of US petroleum and machinery, as well as other goods not in competition with British exports, will be even further reduced.

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~~SECRET~~**US-UK AIR AGREEMENT**

Growing pressures from Southeast Asia areas may force a modification of the liberal competitive principles of the US-UK Bermuda air agreement of 1946 which have since been generally adopted by the important international airline operators. Such a development would encourage the already marked trend in other countries toward restricting the operations of foreign carriers and be directly detrimental to US international air operations.

Australia's recently concluded air transport agreement with Pakistan calls for predetermined division of traffic, and a similar air agreement is reportedly pending between Australia and India. These two agreements will strengthen India's position in insisting upon a restrictive air agreement with the UK. The UK feels that some deviation from the liberal Bermuda principles may be required in view of the political necessity for maintaining Commonwealth lines of communication and avoiding any action which might strain the slender ties linking India to the Commonwealth. Meanwhile, the UK has agreed to postpone the air negotiations with India provided the US agrees to immediate discussions on a revision of the US-UK Bermuda agreements. Barring a US-UK compromise formula which would be acceptable to India, the UK and India will almost certainly sign a restricted air agreement. Such a deviation from the Bermuda pact by one of its two signatories could: (1) strongly influence the Philippine Government in its forthcoming negotiations with Pakistan, India, Thailand, Egypt, and Australia; and (2) strengthen the determination of the Arab states to seek restrictive provisions in the air agreements currently being negotiated with the US and the UK.

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