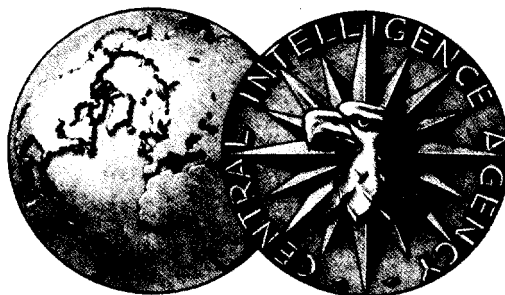


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REVIEW OF THE WORLD SITUATION



CIA 8-48

Published 19 August 1948

CENTRAL INTELLIGENCE AGENCY

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY
OF THE UNITED STATES

SUMMARY

1. Four US security problems are coming to a head: Germany, Southeastern Europe, the US-UK position in the Mediterranean-Near East, and the implementation of the European Recovery Program. (Infra. paras. 1, 2.)

a. In the case of Germany, even if the USSR makes the concessions needed to resolve the Berlin issue, differences in fundamental objectives will still offer serious obstacles to the preparation and successful conclusion of a subsequent Four-Power Conference. Failing a compromise of these differences, the USSR would probably renew its determined pressure in Berlin and bring the Western Powers closer to the ultimate choices that appear to face them there—resort to force or planned withdrawal. (Infra. para. 3.)

b. The Danubian Conference appears to be moving toward a consolidation of the strategic pattern at which the USSR has aimed in Southeastern Europe. (Infra. para. 4.)

c. A breakdown of the Palestine Truce would offer more possibilities than at any time previously for widespread political disorder throughout the Near and Middle East. (Infra. para. 5.)

d. There are signs of economic difficulties in areas under USSR control. Comparable difficulties in Western Europe are being reduced by the European Recovery Program. The obstruction of ERP is accordingly given a high priority by the USSR. (Infra. para. 6.)

2. Particular situations bearing on the problems noted in para. 1 are: the economic weakness of the United Kingdom, the political instability of France, the Italian desire for a neutral position between East and West, and the disposition of the Italian colonies. (Infra. paras. 7-10.)

3. In the Far East, Communist activity and the response of Western European powers is focussing the conflict between local nationalism and the colonial pattern of control. In addition, the position of the Chinese Nationalist Government is reaching the critical point. (Infra. para. 11.)

4. In Latin America, economic difficulties increase and fears of Argentinian expansion are being expressed. (Infra. para. 12.)

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and Air Force, though information copies were circulated on 17 August. The information herein is as of 16 August 1948.

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY
OF THE UNITED STATES

GENERAL

1. A number of situations that have been for some time developing are coming to a head in Europe and the Mediterranean-Near East region. They bear directly on the long-run distribution of influence and power as between the United States and the Soviet Union. No matter how they are resolved, there is little doubt, that their outcome will set the stage for the next period in US-USSR relations. They are:

a. The "Berlin crisis", which clearly focuses the conflicting objectives and policies of the United States and the Soviet Union with respect to Germany as a whole; and, more remotely, with respect to the long-term balance of power in Europe.

b. The Danubian Conference, which focuses the conflicting objectives and policies of the United States and the Soviet Union with respect to Southeastern Europe; and, more remotely, with respect to the long-term balance of power in Europe and the Eastern Mediterranean.

c. The Palestine Truce, which focuses, in terms of the internal stability of the Near and Middle East, the conflict between a Soviet policy of expansion and a United States interest in containing that expansion.

d. The contrast between the increasing economic stability of Western Europe and the growing economic instability of Eastern Europe focuses the conflict between the Soviet aim of expanding the economic capabilities of the USSR and Satellites and the United States' interest in retarding such expansion.

2. The positions of Western European countries, with the exception of the United Kingdom, in respect to these issues are shifting and often contradictory. Basically, American objectives call for uniformity of action from the countries of Western Europe; but this is not in fact obtainable, and American policy is obliged to work with the degree of uniformity that can be secured in any given instance. There is a possibility, however, that USSR-Satellite solidarity is being similarly weakened. The struggle between the Yugoslav Communist Party and the Politburo in Moscow, particularly the undercurrent of national feeling that has appeared as part of this struggle, suggests this possibility. The present picture, however, is still one of "correct" relations and of a uniform front to the West.

3. BERLIN-GERMANY.

Previous estimates to the effect that the purpose of the blockade of Berlin was to force the resumption of Four-Power negotiations about Germany under conditions largely favorable to the USSR appear to have been justified. The USSR apparently concluded that the Western Powers had made a firm decision to stabilize the economy

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of their zones in relation to the European Recovery Program and to set up a separate German Government there. The Soviet reaction accordingly took the form of an action—the blockade of Berlin—aimed at weakening this firm decision. To delay the implementation of a program for Western Germany offered the USSR a hope of returning the German issue to a state of fluid uncertainty and of throwing the Western Powers back into the dilemma from which they had partly emerged. The Berlin blockade has led to the conversations now taking place in Moscow.

It remains uncertain whether or not the USSR will make sufficient concessions to resolve the question of the blockade to the satisfaction of the Western Powers. Without satisfactory resolution, the Western position in Berlin is untenable in the long run. Success in maintaining by air the food supply of the city's western sectors has not prevented the steady deterioration of its economy. Nor is this method likely to be successful in maintaining the city as a going concern. The "squeeze" on the position of the Western Powers in Berlin has developed more rapidly than the effects of their counter-measures on the general economy of the Soviet zone. Although there is some evidence of economic dislocation in the USSR and Satellite States, it is estimated that the USSR can afford—without losing its initiative—to outwait the Western Powers in Berlin.

Even if the Berlin situation is favorably resolved, essential differences will still underlie the Four-Power discussions that are presumed to follow. The US definition of Western Germany as an integral part of the European Recovery Program, and the Soviet intention of reaching to the West from an Eastern Germany that has been integrated with USSR-Satellite economy, represent positions that cannot be substantially modified without changing larger political and strategic objectives. Barring significant change on the Soviet part, it is likely that a deadlock will once more develop in Berlin and that the Western Powers will ultimately be obliged to choose between two basic alternatives with respect to their position there.

Irrespective of intermediate alternatives that might be developed, in the final analysis the Western Powers will have the following courses open to them, (a) to resort to force, or (b) to withdraw from Berlin and to implement to the full the stabilization and recovery of Western Germany. The first, from the Soviet point of view, must appear an unlikely choice. The second, from the Soviet point of view, must seem inevitable. If the Soviet aim of preventing the orientation of Western Germany toward the West cannot be achieved, their obvious second course is to accept, at least temporarily, the division of Germany as an established fact and then to ensure that no Western authority remains within the Soviet zone and to exploit by every device of "cold war"—propagandistic, economic sabotage, and political penetration—the doubts and loss of prestige that would accompany a Western withdrawal.

4. THE DANUBIAN CONFERENCE.

While the United States and Western Europe can at best exert only a very limited positive influence in the Danubian region it is obviously desirable to keep the pattern

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of Soviet political control and economic reorganization from being confirmed by international agreement. From the Soviet point of view, the value of freezing by international accord the favorable situation that has been developed since the end of the war is clearly indicated. Vishinsky's handling of the Conference suggests steam-roller tactics designed to this end; and the position taken will leave the USSR and the Satellites in solid agreement even if what emerges from the Conference is not formally agreed by the United States, Great Britain, and France. Subject to later modification by other factors, such as economic weakness and internal resistance, this action will tend to consolidate the strategic pattern at which the USSR has consistently aimed in Southeastern Europe.

The steady uniformity with which Yugoslavia has supported the Soviet line in this Conference does not suggest that the rift with the Kremlin has been closed but that the United States and Western Europe will derive no immediate advantages from the controversy. If possible advantages are discovered, they will presumably show as part of a longer term nationalistic development and will be linked with the pressure of economic necessity in Eastern Europe.

5. THE PALESTINE TRUCE.

The truce arranged less than a month ago is being maintained with increasing difficulty. A growing number of reports indicate the growth of intransigence on the part of Israel and a willingness to take forceful advantage of a situation that is judged favorable for expansion. Currently, neighboring Arab States, having barely weathered the pressures of domestic opinion and kept some minimum political stability, are now involved in a large scale refugee problem and faced with a large question of maintaining public order.

If hostilities are renewed in Palestine, the possibility of a chain reaction of social tensions and political upsets working rapidly through the Near and Middle East must be taken into account. The Arab League is less well placed to prevent this happening than at any time since the war, and the United Kingdom is less sure of its relations with the Arab-Moslem world and less able to exercise a restraining influence. The total situation, plainly approaching a major climax, raises a diversity of problems. The basic one is the possible formation of a broad power vacuum in this strategically important region. The immediate consequence of such a development would be to present the United Kingdom with a problem that is insoluble in terms of existing British economic, diplomatic, and military resources. Its longer range consequence would be to challenge the security of the entire US-UK position in the Eastern Mediterranean.

In addition, existing Soviet activities would be quick to seize upon the new opportunities offered by growing tensions and spreading instability. Direct intervention would not be called for, since the maximum opportunities would be generated by the situation itself. The loosening of authority in the Arab States and a search for ex-

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ternal aid and support by both Jews and Arabs would provide an adequate foundation for expanding covert activities and intensifying overt propaganda.

The situation in Iran is linked with this general problem. For the moment a firm stand is being taken against renewed Soviet demands for a reduction of American influence and the army continues alert to Communist infiltration. Popular discontent, however, is growing in the face of half-hearted attempts at internal reform. A concentration of Soviet pressure in conjunction with a general wave of instability in the Near and Middle East would uncover marked elements of weakness for exploitation.

6. ECONOMIC PRESSURES.

There are indications that economic needs are also becoming increasingly important and that economic considerations have measurably come into both the German and Danubian issues. These pressures are felt by the Soviet Union and the eastern Satellites on the one hand and, to a less immediate degree, by the countries of Western Europe on the other. In general, Eastern Europe is finding it ~~hard~~^{hard} to meet its schedules of rapid industrialization, and Western Europe is conscious—perhaps over-conscious—of its need for certain bulk commodities from the East. The possibility of exchange between Eastern and Western Europe on these terms is, however, interfered with by political considerations and by the American interest in slowing up a rapid development of the industrial capabilities of the USSR and the Satellites.

The pressure on the USSR is mounting. Aside from the requirements of its own economy, it is a target for the economic dissatisfactions of the Satellites who have been kept out of participation in the European Recovery Program without receiving a satisfactory equivalent in commodities from the Soviet Union. In addition, the eastern zone of Germany, marked for integration with the economy of Eastern Europe, is being adversely affected by the interruption of its commercial relations with the western zones. The conflicting demands of immediate consumer needs, plans for industrialization, communist doctrine about agricultural collectivization, and Soviet commodity requirements seem to be building up towards a general problem of maintaining effective political control through the machinery of the Satellite Communist Parties. While this is a possibility to be watched and not a firm evaluation, Western Europe and the western zones of Germany and Austria are, in comparison, cushioned against the more immediate and severe effects of economic dislocation by the operation of the European Recovery Program.

This program is clearly a matter of primary concern to the USSR. Its interruption, or, failing that, its retardation has become a major short-term objective, for the consequences of its success can flow into neighboring areas of Soviet influence and adversely affect that influence.

PARTICULAR SITUATIONS BEARING ON THE GENERAL ISSUES

7. UNITED KINGDOM.

The part that the United Kingdom can play as a free agent in connection with the issues described above is being steadily limited by continuing economic weakness.

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The export drive, though in itself an achievement, has its benefits consistently undercut by such factors as unfavorable terms of trade, the lowering of gold reserves to the irreducible minimum needed to operate the sterling area, and the fact that there is almost no margin left for the further reduction of imports. Although these factors are partly checked by the operation of ECA, a weakness remains that is of primary importance in relation to the growing instability of the Near and Middle East, where any gap that forms between British capabilities and commitments can only be filled, directly or indirectly, by the United States. Meanwhile, the United Kingdom intends to maintain its position in the region to the full extent of its capabilities, and is seeking as a first step to restore British prestige in the Arab States.

8. FRANCE.

France's part in resolving these issues is confused by the influence of its traditional policies as a great power. This leads to the statement of objectives that are unrealizable in terms of France's present power capabilities. In addition, the French contribution is still further limited by the uncertain political base on which any French Cabinet now stands. The Schuman Cabinet fell on a trivial issue. The Marie Cabinet, inheriting in unchanged form the same problems of production, wages, and inflation that frustrated its predecessor, is subject to the same danger.

9. ITALY.

There are indications that in Italy there is a strong public sentiment for maintaining a position of neutrality as between the US-Western Europe and the USSR-Eastern Europe. This conception grows naturally from the still ambiguous balance of political power in Italy, from the overwhelming pressure of social tensions within Italy, and from the failure of the DeGasperi Government to take any important steps to resolve these tensions. It includes the hope that ERP benefits can be combined with the development of economic relations with Eastern Europe. The concept poses still further problems for the maintenance of an effective American position in the Mediterranean and suggests that the recent Italian elections did no more than momentarily consolidate that position.

10. THE DISPOSITION OF THE ITALIAN COLONIES.

With the exception of Somaliland, this problem is proving intractable and efforts are being made to defer action on it. In particular, the cases of Tripolitania and Cyrenaica raise long-term strategic and political issues between the USSR and the United States and Great Britain, between the major Western Powers and Arab nationalism, between the Western Powers themselves and Italy, and between the security interests of the United States and the resistance of American opinion to solutions that imply colonial commitments. It remains a primary concern of the United States to find a satisfactory solution since the US position in the Mediterranean, the relations of the United States with the Arab League, and the degree of influence which the

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United States can exert in Italy are all directly affected by the answer. If the question reaches the General Assembly of the United Nations, where a small-nation sentiment for independence is strongly developed, it will add to the difficulty of securing a solution adequately covering these diverse interests.

THE FAR EAST

11. SOVIET-COMMUNIST ACTIVITY.

Of immediate interest to US security is the stepped-up Soviet effort to exploit indigenous nationalist groups throughout Southeast Asia and to identify these groups with Communist elements.

In the Philippines, the apparent failure to find a common ground between the Government and Communist-led Hukbalahap opens a fertile field for Soviet exploitation.

In Malaya, disorders have spread to an extent requiring a fully developed military and police operation on the part of British authorities.

In Burma, the expulsion of a large faction of the People's Volunteer Organizations from the Government Party, desertions from the Burmese Army, and an apparent attempt by at least two Army battalions to overthrow the Government have built up into a genuinely serious situation. The immediate prospect, in view of the breakdown of authority in large areas, is widespread and prolonged turmoil.

While Burma offers little scope for external counter-measures, and the French are obliged by their domestic political uncertainties to hold off in Indochina, the British are taking determined action in Malaya and the Dutch are suggesting that they may be obliged to reopen their military effort in Indonesia. These efforts, while they may succeed in controlling present disorders, bring into sharp focus the critical restlessness of the region and tend to fix it in a pattern of persistent conflict. This increases the difficulty of maintaining a favorable US position *vis-a-vis* the USSR in the Far East. The difficulty is illustrated by the description given by Soviet-Communist propaganda of the struggle as one for freedom from imperial colonial overlords. In addition, the conflict affects adversely the economy of Western Europe and the strategic interests of the United States.

12. CHINA.

The position of the National Government has reached a point where a major military defeat, or a significant political defection might precipitate the final breakdown. A spirit of defeatism and a profound war weariness in Nationalist China is producing a drift towards a negotiated peace, though this spirit cannot become effective as long as Chiang Kai Shek retains any semblance of authoritative control. It cannot be assumed that a collapse will be sudden, spectacular, and total. It is more likely to show as a reversion to regionalism, in which the present Nationalists will be reduced to one among many *de facto* authorities.

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13. There are increasing indications that the previously noted political and institutional difficulties of Latin America generally are coming closer to a point of crisis. Economic pressures are intensifying as the consequences of a long maladjusted situation with respect to foreign trade become more unmistakable. Currency devaluations have taken place or are planned, but constitute only a palliative, not a solution. Current fears of Argentine expansion by intrigue and *coup d'etat* are more widely and loudly voiced. The immediate consequences are likely to be requests from Argentina's neighbors for US aid in the form of military equipment and general demands for economic support.

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2899—S—1948