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CENTRAL INTELLIGENCE AGENCY

**Review of the World Situation
as it Relates to the Security
of the United States**

CIA 4-48

Published on

8 April 1948

COPY NO. 44

**FOR THE ASSISTANT DIRECTOR
FOR REPORTS & ESTIMATES**

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

SUMMARY

1. The vigor of Western reaction to the developments reviewed in our last report (CIA 3-48, 10 March) has probably surprised and possibly alarmed the Kremlin.
2. Recent threatening gestures on the part of the USSR are probably not a response to this reaction, but rather implementation of plans previously adopted (infra, p. 2).
3. It is still improbable that the USSR has any present intention of provoking war. Its most provocative conduct, that in Germany, is actually evidence that war is not intended (infra, p. 2).
4. If confronted with a certain prospect of Western European recovery and of US rearmament on a formidable scale, the Kremlin would reconsider its policy, weighing the alternative of a general peace settlement or a preventive war. Its present margin of safety is such, however, that it would be under no compulsion to make so fateful a choice during 1948 and would probably defer a decision pending further development of the situation (infra, p. 2).
5. The current Soviet purpose in Germany is to demonstrate the superiority of Soviet military power in Europe. A long term purpose is to compel the withdrawal of the Western Powers from Berlin. Such a withdrawal would constitute for the Western Powers a major political defeat with world-wide repercussions (infra, para. 7).
6. The political trend in Italy has been reversed by effective Western support of the anti-Communist parties (infra, para. 9).
7. Full scale civil war in Palestine is apparently inevitable in the absence of unequivocal UN action (infra, para. 11).
8. An intensification of Communist diversionary activity in the Far East is to be anticipated (infra, para. 14).

Note: This estimate has not been coordinated with the intelligence organizations of the Departments of State, the Army, the Navy, and the Air Force, but information copies were distributed to them on 7 April. The information herein is as of 6 April.

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

GENERAL

1. POLITICAL.

At the time of our last report (CIA 3-48, 10 March) the trend in Europe and Asia was universally unfavorable. Since then the vigor of Western reaction has probably surprised and possibly alarmed the Kremlin. The rapid succession and cumulative effect of such developments as the President's message to Congress, the Brussel's Pact, Western agreement regarding Germany, effective support of anti-Communist elements in the Italian electoral campaign, and emphatic Congressional action on foreign aid betoken an aroused and determined spirit of resistance which the Kremlin may well regard as dangerous not only to its immediate purposes but also to its ultimate security.

Subsequent and concurrent threatening gestures on the part of the USSR, while apparently in response to the foregoing developments, are probably not so in fact, but rather the implementation of plans previously adopted. For example, recent Soviet conduct in Germany is fundamentally the consequence of decisions taken months ago, although its timing is related to recent events. The general purpose of simultaneous threats in Germany and toward Scandinavia, Greece, and Iran is evidently to develop and exploit the panicky apprehension of further Soviet aggression referred to in CIA 3-48.

Effective resistance to direct Soviet political aggression inevitably involves risk of a collision the accidental consequence of which might be war. It is still improbable, however, that the USSR has any present intention of provoking war. Its most provocative conduct, that in Germany, is actually evidence that war is not intended. If early military aggression in Europe were planned, devious efforts to compel Western withdrawal from Berlin would be pointless. Such efforts presuppose a quasi-permanent partition of Germany at the existing western boundary of the Soviet Zone.

If, however, the Kremlin were to become convinced that there was definite prospect of stabilization and recovery in Western Europe and of actual rearmament of the United States on a formidable scale, it would have occasion to reconsider its current policy of aggression by means short of general war. The basic choices before it in that case would be: (a) to continue its existing policy and activities, which would prolong international tension in the face of diminishing returns and increasing risks; (b) to seek a general peace settlement on terms that would guarantee its existing holdings; or, (c) to resort to preventive war, taking advantage of its still preponderant military capabilities and relying upon the strength of the defensive position it might establish to guarantee its security against counterattack. The Kremlin would probably be predisposed to follow the first course until diminishing returns and increasing risks indicated that the time had come to choose between the second and third. It would then probably prefer to seek a general settlement unless convinced that war on Western initiative

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was in prospect and inevitable as soon as the rearmament of the United States and of Western Europe had been accomplished.

In any case, the existing Soviet margin of safety is so great that the Kremlin can afford to wait upon actual developments (as distinguished from verbal expressions of intention, however firm) before coming to a decision in so fateful a matter. A basic policy choice as between general settlement or preventive war is therefore unlikely during 1948. Preliminary consideration of those alternatives, however, is presumably already in progress as a result of the developments of the past month.

2. ECONOMIC.

Economic conditions in most of the world showed moderate improvement during the first quarter of 1948. Further gains are probable, but will come only slowly in view of actual civil disorder in some areas and the prevailing apprehension of war in others. In the aggregate, however, when viewed over a period of several months, improvement in the economic situation is clearly evident.

For further discussion of this development see the Appendix (page 10).

PARTICULAR SITUATIONS IN EUROPE

3. THE BRUSSELS PACT.

The speed with which the representatives of the United Kingdom, France, and "Benelux" were able to agree upon a mutual defense pact was surprising even to them and a measure of the sense of common danger pervading Western Europe. The Pact is significant as the potential basis for a larger grouping which, with adequate US support, could serve to stem the westward expansion of Communism. It can have little psychological or material effect, however, except to the extent that it is supported by convincing assurances of US military reinforcement on an effective scale.

4. THE UNITED KINGDOM.

Great Britain's gold and dollar position continues to deteriorate, but the Government does not presently contemplate further measures of retrenchment such as would impair the United Kingdom's industrial capabilities or its international political position. The Government's domestic propaganda is increasingly frank in revealing that Great Britain is dependent on US financial support and that the European Recovery Program promises only economic survival, not an improvement in the standard of living. It is significant that, despite the stringent economic situation, Parliamentary criticism of the defense budget omitted appreciable reference to costs and was directed primarily against the Government's failure to develop an over-all strategic plan.

5. FRANCE.

The adjournment of the National Assembly until 20 April has granted the Schuman Government a month's respite from parliamentary crises. Meanwhile the economic situation has begun to show definite improvement, with consequent improvement in the Government's political prospects. A sign of the trend is a newly apparent disposition on the part of certain Gaullists to seek a rapprochement with the moderate parties. The position of the Government is apparently stronger than at any time since its inception.

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6. SCANDINAVIA.

The Scandinavian countries are united in their determination to reject any treaty proposals such as those which the USSR is currently forcing upon Finland. The Swedish Government clings to an attitude of neutrality which has served that country well for 133 years, but Norway and now even Denmark tend cautiously toward a realignment with the Atlantic community. A positive development of this tendency, however, is dependent on assurances of effective military support.

7. GERMANY.

Recent Soviet conduct in Germany results from Soviet realization, at least since the London session of the CFM, that an extension of Soviet authority into Western Germany could not be accomplished through the mechanism of quadripartite control. Since then the USSR, while decrying the partition of Germany and maneuvering to put the onus for that situation on the Western Powers, has concentrated on the development of the Soviet Zone as a political entity for the time being and as a nucleus for the eventual unification of Germany from the East. Further development along this line would be facilitated by the expulsion of the Western Powers from Berlin. An obvious prerequisite to that end would be to do away with the quadripartite agencies in Berlin, on the ground that they had been rendered meaningless by the acts of the Western Powers themselves in the Western Zones. The practical means of securing Western withdrawal without resort to the direct use of force would as obviously be an intensification of restrictions and deprivations such as would actually render it impracticable for the Western Powers to maintain an isolated position in Berlin.

Recent Soviet actions directed toward disruption of the quadripartite agencies in Berlin and toward isolation of the Western Sectors were presumably planned in advance of those events of the past month which indicate a stiffening of Western resistance. Their precise timing was apparently determined by the occasion afforded by the London conversations on Germany and by the general need for a demonstration of Soviet power to counteract the adverse trend of events. Not intending an actual resort to force, the USSR, confronted by Western firmness in Berlin and further evidence of increasing determination on the part of the Western Powers, may well give way tactically pending a new estimate of the situation. Even without forcing the issue at Berlin, however, the USSR has gained a major propaganda victory by (a) blanketing news of the passage of the Foreign Aid Bill with a reminder of superior Soviet military capabilities in Europe, and (b) precipitating a war scare that is a confession of Western weakness unnerving to wavering elements in Europe, especially in Italy.

Even though the present tension may subside, the USSR will probably resume its efforts to force a Western withdrawal from Berlin. While the maintenance of an isolated position there would be manifestly difficult and even dangerous, a Western withdrawal under Soviet compulsion would constitute a political defeat of the first magnitude. Maintenance of the position is of value for the same reasons that cause the USSR to seek to eliminate it: the psychological and practical effects of the presence of an island of Western security in the heart of the Soviet Zone, the implicit assurance of an eventual unification of Germany from the West. Its abandonment, constituting

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the final concession of eastern Germany to Communism and implying that unification could thereafter be accomplished only from the East, would have a profound effect throughout Germany. The direct surrender of the three principal Western Powers to Soviet coercion would have a profound effect throughout the world.

8. AUSTRIA.

On the eventual breakdown of the Austrian treaty negotiations, the USSR may act to compel a Western withdrawal from Vienna as from Berlin, the event depending on the degree of Soviet success with respect to Berlin. Concurrently the USSR would attempt to force changes in the Austrian Government leading to its eventual subversion.

Under the pressure of events the principal Austrian parties (the People's Party and the Socialists) have compromised their differences and reaffirmed their coalition. They will offer a united opposition to Communism and the USSR. The Austrian Communists, numerically insignificant, have however been effectively organizing armed groups under Soviet direction. These Communist groups are possibly capable of seizing control in the Soviet Zone.

9. ITALY.

The political trend in Italy has been reversed by effective Western support of the anti-Communist parties.

In the ten days remaining before the election the USSR could attempt to influence the outcome by (a) concession of Trieste, on condition of a "democratic" victory; (b) similarly conditional offers to reduce reparations and to return its share of the Italian fleet; (c) revival of the colonial issue; or (d) a timely offer of wheat. The most effective appeal remaining available to the Communists, however, is their representation that a vote for the Popular Democratic Front is a vote for peace. This line, played straight and also as an implicit threat of Communist resort to violence in the event of defeat, touches a very responsive chord in the universal apprehension lest Italy again become a battleground. Every war scare propagated by the USSR, however remote (e. g., Soviet propaganda against the Scandinavian countries), supports this theme. A first class war scare regarding the situation at Berlin would be most effective.

On present showing, however, it is likely that the Communist-dominated Popular Democratic Front and the Christian Democrats will run a dead heat with about 35 percent of the vote apiece. In this case, De Gasperi would be able to form a majority coalition representing up to 65 percent of the electorate. All parties outside of the Popular Democratic Front would support the Christian Democrats against Communism; the Communists could combine with none not already included in the Front. It is even possible, though not probable, that the Nenni Socialists, once the returns were in, could be induced to desert the Communists. Their loyalty, however, would be suspect; they might prove to be an avenue of Communist infiltration.

The Communists, foreseeing defeat, may seek to invalidate the election by widespread disorder on election day, or may even resort to armed insurrection. (They have been predicting a neo-Fascist coup on that date, possibly as justification for Communist "counteraction".) Already there is increasing violence in Italy, so far predominantly anti-Communist in motivation, with a mounting threat of retaliatory Communist

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strikes and violence. The Government, however, appears to be well prepared to cope with an emergency.

THE NEAR AND MIDDLE EAST

10. GREECE.

The prospect in Greece is not encouraging, despite improvement in the political situation in Athens and a creditable Greek Army victory over the guerrillas in the Pieria area. Economic recovery is hindered by fear of a general war in which Greece would be overrun by Soviet forces. Fear of ultimate Communist domination renders many Greeks reluctant to commit themselves in the present struggle. Moreover, the increased capabilities of the Greek Army will probably be offset by increased Satellite aid to Markos, advanced preparations for which are apparent in southern Yugoslavia and Albania. In the circumstances it is improbable that the Greek Army will be able to win a decisive victory over the guerrillas this summer.

11. PALESTINE.

Large-scale civil war in Palestine is apparently inevitable in view of the unwillingness of either Arabs or Jews to accept a truce without prejudice to the ultimate political solution and of the improbability of effective action by the United Nations.

The initially favorable Arab reaction to the US proposal for trusteeship has given way to suspicion that it is merely a device for the surreptitious imposition of partition. The Zionists reject any plan which does not guarantee partition; they propose to establish a Jewish state on 16 May and to attempt to defend it, regardless of the circumstances and the consequences. Meanwhile members of the United Nations are increasingly reluctant to adopt any plan which does not include a categorical US commitment to assume major responsibility for its enforcement. There is an apparent possibility that, in default of positive UN action, anarchy may ensue in Palestine after 15 May, with dire consequences throughout the Near East.

The only formula which could possibly avoid the determined resistance of one or both communities in Palestine would be an unequivocal revocation of the partition plan and the concurrent establishment of a clearly disinterested trusteeship well able to guarantee the security of both communities. The Arab majority in Palestine, and the Arab world outside as well, would probably accept this as an interim measure. Whatever may be said by Zionist spokesmen, it is probable that a majority of the Jewish community in Palestine would also prefer this solution to the present appalling prospect. It would be resisted, however, by extremists of the Irgun and Stern Gang type (who were not satisfied by partition either, for that matter).

12. IRAN.

The USSR has been subjecting the Iranian Government to intense pressure, accusing it of conniving in the establishment of US military control of the country. Ominously, the Soviet Government has likened the presence of US missions to the presence of Germans in 1941 and has suggested that the Soviet-Iranian Treaty of 1921 is applicable to the situation. (This Treaty authorizes Soviet military intervention in Iran to prevent the use of that country as a base of operations against the USSR. It was invoked in 1941 on the ground that the presence of numerous Germans in Iran con-

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stituted a threat to Soviet security.) Iranian resistance to this pressure will be in direct proportion to Iranian confidence in US support. The Government may refer the matter to the UN Security Council, which is still seized of the Iranian case.

13. INDIA - PAKISTAN.

Relations between the two Dominions have generally improved, with responsible leaders on both sides increasingly conciliatory. The Kashmir dispute, although still unsettled, no longer involves imminent danger of open war. India has, at least temporarily, the military advantage in Kashmir itself. Pakistan is now apparently aware of India's overall military superiority.

THE FAR EAST

14. GENERAL.

A central mechanism to coordinate the policies and activities of the Far Eastern Communist Parties is believed to have been established at a conference held at Harbin in January. Although the Far Eastern Parties presumably retain a considerable degree of local autonomy in comparison with their European comrades, the very existence of such a coordinating mechanism implies increased Kremlin direction and control.

While the Far Eastern Communist Parties are likely to attach primary importance to the pursuit of local objectives, there is evidence that, in the global view of the Kremlin, their activities are essentially diversionary in relation to the decisive struggle for control of Europe. It is also indicated, however, that the Kremlin has called for an intensification of diversionary activity in the Far East as the struggle for Europe approaches its climax.

15. CHINA.

Continuing deterioration in the military, economic, and political position of the National Government is reflected in the spreading loss of morale in Nationalist China.

The Chinese presidential election may affect the course of political development under the new constitutional regime. Although Chiang Kai-shek has recommended the election of a scholar (supposedly Hu Shih) rather than a soldier to the presidency, he may yet be drafted. In any event he is likely to remain the dominant figure in the regime, and is committed to prosecution of the war against the Communists to a military decision. Chiang's candidate for vice-president is the incumbent, Sun Fo. General Li Tsung-jen, however, has persisted in his candidacy. Li's election over Sun might initiate a chain of developments leading to Chiang's eventual displacement.

Renewal of aggressive Communist military operations during the coming weeks may be complemented by a Soviet diplomatic offensive designed to bring about a "compromise" settlement of the civil war on terms favorable to Communist and Soviet purposes.

16. KOREA.

United Nations refusal to postpone the South Korean election from 9 to 24 May is advantageous to well prepared arch-Rightist Rhee Syngman in that it restricts the

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time available to Moderates and independent Rightists to organize and contest the election.

The USSR, meanwhile, has arranged for a conference of North and South Korean political leaders at Pyongyang on 14 April as a device to win South Korean acceptance of the "Korean People's Republic" as the basis for a unified and "democratic" Korean state regardless of the South Korean election. The conference may well succeed in drawing into the Soviet camp all political elements in Korea except the following of Rhee Syngman. Rhee's probable victory in the South Korean election would then be a hollow one, the resulting regime manifestly unrepresentative. The USSR might then withdraw from North Korea, demanding US withdrawal also and UN recognition of the more representative Korean People's Republic as the government of all Korea.

The USSR is also manufacturing a Korean war scare based on the supposed aggressive intentions of US "imperialists" and South Korean "reactionaries." This propaganda would seem to be preparatory to "defensive" action by the "Korean People's Army", if necessary, to overthrow an unrepresentative Rhee regime on the withdrawal of US forces from South Korea.

17. JAPAN.

High Japanese officials have recently shown an increasing spirit of independence apparently attributable to their appreciation of a US need for Japan as a strong point in East Asia in view of the state of US-Soviet relations and of the deteriorating prospects in China and Korea. It is to be expected that the Japanese will exert their bargaining power to the utmost in relation to US aid in the rehabilitation of Japan.

18. INDOCHINA.

Pessimism is increasing among French officials as a result of the apparent impossibility of achieving a military decision and the continuing stalemate in negotiations with Bao Dai. The French may come to welcome any face-saving solution, including mediation by the United Nations or the United States.

19. BURMA.

Newly independent Burma is beset by three critical problems, any one of which could result in open civil conflict. They are: (a) dissension within the ruling party, the Anti-Fascist League; (b) vigorous Communist activity in the form of strikes and of the establishment of insubordinate Communist administrations in central Burma; (c) continued agitation for a separate state on the part of a large portion of the Karen ethnic minority. The Government's adoption of strong repressive measures may avert an immediate crisis without relieving the basic causes of political instability.

LATIN AMERICA.

20. THE BOGOTA CONFERENCE.

The fundamental problem at the Bogotá Conference is that of presenting the projected strengthening of the Pan American system in such terms as to win the support of the larger Latin countries. The United States on one hand, and the smaller states on the other, have much to gain and little to lose by such a development. Argentina, Brazil, Chile, Peru, and Mexico, however, have some reason to fear a possible curtailment

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of their political freedom of action without compensatory advantage. Argentina and Mexico have already indicated opposition. Some concessions may have to be made to these countries to secure their adherence.

A related matter of considerable delicacy is that of persuading the Latin American nations to accept the priority of Western Europe in the distribution of US economic assistance.

The US desire to forestall prejudicial action in relation to territorial disputes between the United Kingdom and Argentina, Chile, and Guatemala respectively is likely to receive sufficient support to prevent the matter from becoming a serious problem.

21. THE CARIBBEAN.

The civil conflict in Costa Rica is significant chiefly because of its bearing on emergent balance of power alignments in the Caribbean. Nicaragua and Guatemala are disposed to intervene in support of the opposing sides. Honduras, El Salvador, and the Dominican Republic are loosely aligned with Nicaragua; Cuba, Haiti, and Venezuela with Guatemala. The issue has ceased to be one of Costa Rican internal politics and has become a matter of the future alignment of Costa Rica in this situation. The existence of such antagonistic intraregional alignments is prejudicial to Hemisphere solidarity.

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APPENDIX

DEVELOPMENT OF THE WORLD ECONOMIC SITUATION
DURING THE FIRST QUARTER OF 1948

GENERAL

Economic conditions in most of the world showed moderate improvement during the first quarter of 1948. Further gains are probable, but will come only slowly in view of actual civil disorder in some areas and the prevailing apprehension of war in others. In the aggregate, however, when viewed over a period of several months, improvement in the economic situation is clearly evident.

Weather conditions continue to be favorable for good yields of agricultural crops in all areas. The moderately upward trend in mining and manufacturing and in domestic trade has continued in recent months, particularly in Western Europe. The assurance of early United States economic assistance has already given courage to friendly peoples. It will also probably release productive forces and some hoarded commodities and should further stimulate internal and foreign trade. It will probably permit France, the United Kingdom, and other industrial countries to overcome without serious interruption the effects of the shortages of raw materials which until recently threatened industrial operations in these countries.

The rapid price increases which were widespread in 1947 appear to have been arrested in recent months: in Italy in October; in the United States in February; and in France in March. The declines in France appeared first in food prices; more recently the Government has reported an agreement with manufacturers for reductions up to 10 percent for important manufactured products such as shoes, woolen fabrics, and agricultural equipment. Recent fiscal policies of the French Government, reflected in a reduction in the volume of money in circulation, is an important influence in the decline in prices. Temporary stability rather than marked increases or marked declines appear to characterize world prices at the present time.

The conclusion of an agreement to set up a customs union between France and Italy, although limited in its probable practical results, is symbolic of the increasing appreciation that economic cooperation is essential to survival in Western Europe. The celerity with which the countries of Western Europe appear to be reaching agreement upon trade, financial clearing, and other matters of a common economic interest is further evidence of the appreciation of the necessity of active cooperation on economic matters.

Civil disorder which exists throughout nearly all of the Asiatic countries has in some cases interrupted production and export of commodities and essential raw materials in which the United States and Western Europe are interested. This is particularly true in China where low production of tungsten, antimony, and tin have greatly restricted the export of such commodities. Exports of manganese, jute and mica, at

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present irregular and in reduced volume from India, appear somewhat uncertain for the future. The production and export of tin and rubber from Malaya and the Netherlands East Indies has increased and is much more promising than exports of essential materials from other parts of Asia.

The policies which appear to be developing in Czechoslovakia and other Satellite countries indicate a possible reduction in east-west European trade. For the time being, however, exports of coal, some cereal grains, and lumber from the Soviet Union, Poland and other Satellite countries to Western Europe appear to be continuing.

Somewhat greater improvement in economic conditions appears to have taken place in Western European than in Eastern European countries. In Western Europe (excluding Bizonia) only Italy has failed to surpass prewar production. Conversely, in Eastern Europe, Poland has experienced substantial increases over prewar production. The downward trend of production in Italy, begun in September 1947, appears to have been arrested in February at about 60 percent of the 1938 level. A considerable portion of Satellite production has been syphoned off to the USSR. A further spread between the production levels of the two areas may be expected as a result of Western cooperation and United States aid and lack of Soviet capability to provide the necessary and agreed assistance in raw materials and capital facilities to the Satellite countries.

FOOD

It now seems probable that reduction of the bread ration in Western Europe during the next few months will not be necessary. Some general improvement in rations may, indeed, be expected to result from greater availabilities of other foods, especially vegetables. The outlook for cereal grain production in Western Europe (21 percent above the 1947 harvest) given in CIA 5 (12 February 1948) continues probable as a result of continued good weather.

COAL

If not unduly prolonged, the United States embargo of coal shipments occasioned by the present strike is not likely to affect Western Europe seriously. United States deliveries overseas are ahead of schedule, and the inventory position in nearly all countries is better than it was a year ago. Coal production in the United Kingdom, the Ruhr, Poland and France also continues ahead of the rates necessary for the achievement of annual targets.

STEEL AND NONFERROUS METALS

Steel production outside the United States continues to increase, although hampered by scrap shortages. World production, however, is far short of requirements. In Europe collection of scrap from war-devastated countries has fallen short of expectations.

Nonferrous metals have been in short world supply and there appears to be no prospect of alleviation of this shortage in the near future. During the first quarter of 1948 metal and other raw material stocks in some of the ERP countries declined to dangerously low levels. Prospect of a possible serious development, however, is reduced by the timely passage of the foreign aid legislation.

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CHEMICALS

Increasing coal and steel output in Europe gives promise of increases in production of much needed nitrogen fertilizer and industrial compounds and alkalies, as well as coal-tar crudes and industries dependent on them.

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The slow, but definite, improvement in economic conditions in the Western European countries during the past two years and the prospects for further advances are among the strong stabilizing influences in that part of the world. Economic recovery cannot stand alone without reasonable military security and civic order, but in the West it continues to be an element of strength in the total picture.

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