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

SUMMARY

1. The European Communist Parties, with Soviet approval, appear to be reverting, at least temporarily, to electoral processes to obtain their immediate objectives. The targets are the forthcoming Italian and Czechoslovak elections.

2. There appears to be a justification for considering the possibility that the Kremlin may revise its policy (but not its ultimate objectives) and seek an accommodation with the west.

3. Assuming the implementation of the European recovery program, the production and distribution of essential commodities are likely to continue to improve in most countries in 1948. There is little prospect, however, that world trade can shift from rigid controls to multilateralism during the year.

4. Italy appears to hold the key to Communist prospects of disrupting the European recovery program. Here the Communists have the best chance of regaining admission to the Government by electoral processes or of overthrowing it through armed insurrection. The Communists in France will probably subordinate any plan for serious disruptive activities to the exigencies of the Communist program in Italy.

5. Only the timely approval by the US Congress of an adequate European recovery program will prevent a further weakening in both the domestic and international position of the UK.

6. Determined Arab resistance to partition, British refusal to facilitate any action not acceptable to both Arabs and Jews, and the actual state of disorganization in Palestine render the task of the United Nations Commission virtually impossible of fulfillment.

7. Unless the Interim Committee of the United Nations quickly instructs the UN Commission in Korea to proceed with elections in South Korea alone, the US Military Government may be faced with serious outbreaks of violence.

Note: The information in this report is as of 9 February 1948, at which time the report was submitted to the member agencies of the Interdepartmental Advisory Council for information and comment.

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

GENERAL

1. POLITICAL.

In our last report we reaffirmed the basic analysis of the world situation presented in CIA 1 (26 Sept. 1947). We also reiterated our previous estimate that the immediate and overriding objective of Soviet policy was to defeat the European recovery program without incurring the risk of war and estimated that the USSR, operating through local organizations of militant Communists, would resort increasingly to direct action in pursuit of this objective.

While there is as yet no clear justification for rejecting our estimate of immediate Soviet objectives and tactics, there have been indications which suggest that it should be modified, at least in part. There are also certain considerations bearing on the position of the USSR vis-a-vis the Western Powers, particularly the US, which might induce the Kremlin to revise its basic policy (not its ultimate objectives) toward the west and some indications that such a revision of policy may be under consideration.

Developments in recent weeks suggest that the Western European Communist parties are reverting to electoral processes and the exploitation of genuine economic grievances. The targets are the approaching Italian and Czechoslovak elections. Whether the USSR will permit the Communists to accept an unfavorable electoral verdict or will insist upon a subsequent resort to violence will probably depend upon what decision the Kremlin will have made at that time with respect to its basic policy toward the west.

The focal point of any major revision in Soviet policy toward the west will probably be the Soviet estimate of the prospects of the European recovery program. Assuming that the USSR concludes that the recovery program will be implemented and that it will have a reasonable chance of success, the following basic considerations might strengthen the Kremlin in the belief that its present tactics and policy are no longer realistic: (a) the unlikelihood—now admitted by the USSR—of an imminent economic collapse in the US or of US reversion to isolationism; (b) indications, such as the President's Air Policy Committee report and the statements before Congress concerning the alternatives to the European recovery program, that a continuation of present Soviet policies will lead to the rearmament of the US; (c) Bevin's proposal for a European union, with its implications of a western bloc, bound by military as well as economic ties and supported by the US; (d) the basic economic weakness of the USSR relative to the US in terms of military potential for a global war.

In choosing to pursue a policy of noncooperation with the US after the war, the Kremlin clearly committed the USSR to a substantially slower rate of economic recovery and development than would have occurred under a policy of cooperation. The Politburo, in making this choice, was taking a calculated political gamble on the possibilities

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of a general communization of Europe in consequence of post-war economic chaos and of a depression in the US that would induce US withdrawal from Europe. Under these circumstances, the USSR could afford to retard its economic recovery, even though its existing industrial potential was vastly inferior to that of the US. If, however, the Kremlin should estimate that its immediate post-war political objectives in Europe were incapable of achievement as a result of the European recovery program and that the USSR would shortly be faced with a rearmed and determined US with military bases in Europe and Africa, the fundamental economic weaknesses of the USSR might constitute the most compelling reason for a change in policy. It might appear to the Kremlin that, under these conditions, it would be imperative to attempt, by allaying US fears and suspicions, to stop US rearmament and obtain the economic assistance required to develop the Soviet Union's industrial potential.

The most significant indication that the Kremlin may actually be considering a basic change in policy is General Malinin's approach to Ambassador Murphy in Berlin, suggesting a conference between President Truman and Stalin to settle outstanding differences between the US and the USSR. This approach appears to have been an officially sanctioned "feeler." There have been other indications which tend, in varying degrees, to suggest an incipient modification of Soviet tactics and policy. These include: (a) failure of the Balkan states to recognize the Markos regime in Greece; (b) the substantial concessions made by the USSR in its new proposals on the Austrian treaty; (c) the announcement by Poland that the bulk of the anticipated increase in its coal production will be available to the western democracies; (d) PRAVDA's rebuke to Dimitrov, the leading Balkan Communist, for advocating a Danubian-Balkan Federation; and (e) the recent conciliatory attitude of Moscow toward the Czechoslovak and Polish Socialists.

It must be re-emphasized that there is as yet no conclusive evidence for rejecting the currently accepted estimate of immediate Soviet objectives and tactics, except insofar as it now appears probable that the USSR will support a Communist effort to win the spring elections in Italy and Czechoslovakia instead of immediately resuming the direct-action techniques of last December. However, there appears to be adequate justification to consider, for planning purposes, the possibility that the Kremlin may revise its policy and seek an accommodation with the west. It seems unlikely that the Kremlin will commit itself definitely in this respect until the US Congress approves the recovery program and until the Kremlin is convinced that the Communists cannot gain control of Italy either through legal means or armed insurrection.

2. ECONOMIC.

The production and the distribution of essential commodities are likely to continue to improve in most countries of the world in 1948, notwithstanding the probable recurrence of political and other disturbing influences such as those experienced during the past year. Increased supplies of most basic commodities, particularly rubber, fats, oils, and many of the metals, and the prospective increase in the harvest of the principal grains will bring a halt to the upward movement of prices which reached a peak early

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in 1948. In the absence of further inflationary monetary and wage influences in the major producing countries, moderate price declines during the year may be expected. Price declines, however, are not likely to be so severe as to disrupt post-war economic recovery which for the year as a whole should show definite improvement over 1947 in nearly all countries of the world. Implicit in this analysis of the economic outlook is the stabilizing influence of the adoption and implementation of the European recovery program.

The over-all world production of foodstuffs in 1948, assuming average weather conditions throughout the remainder of the growing and harvesting season, will be significantly greater than in 1947 and should reach the equivalent of the annual average for the period 1935 through 1939. Production on a per capita basis, however, will be somewhat below prewar levels. In Western Europe (the European recovery plan countries), cereal grain production is expected to increase more than 11 million metric tons, or 21% above the 1947 harvest. Considerable progress has been made in rehabilitating fishing fleets, particularly in Western Europe, which will result in larger fish catches in 1948 than in 1947.

The world outlook for minerals and metals presents a mixed picture. Lead and antimony will continue in very short supply while tin and asbestos will not meet all essential requirements. Reasonably adequate supplies of mercury, copper, zinc, aluminum, and mica are expected to be available. Steel production should continue to expand in all countries in 1948 as compared with 1947, but world-wide requirements for steel will continue to exceed availabilities.

World coal production, although expected to be larger than in 1947, will fall short of requirements. Moreover, bottlenecks in transportation will interfere with coal movement in some areas.

The extraordinary post-war demand for petroleum will continue through 1948. Crude oil production is expected to increase by as much as 10%, but availabilities, while probably adequate for most essential purposes, will fall short of total requirements.

Rubber supplies during 1948 will be sufficient to meet world demand. Recovery of crude rubber production is rapidly reaching the stage where continuation of synthetic production in the United States remains important only from national security considerations. Fertilizer nitrogen will continue in short supply throughout the year, but new facilities, which are expected to come into production during the year, should meet world requirements for other basic chemicals.

There is little prospect, however, that world trade can shift from rigid controls to multilateralism during the coming year. Most countries of the world have little or no gold or hard currencies and will be forced to restrict their imports to the amount of export earnings plus loans and gifts. The result will be smaller volume of US exports in 1948 as compared with 1947. The principal escape from an even greater degree of bilateralism lies in the possibility of increased US imports and the provision for off-shore purchases in the European recovery and other foreign aid programs.

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3. INTERNATIONAL LABOR.

The conflict between the Communist and non-Communist elements in the World Federation of Trade Unions (WFTU) is rapidly approaching a climax over the issue of the European recovery program. The British Trade Union Congress (TUC), until recently reluctant to force the Communists' hand, has now issued an ultimatum to the WFTU stating that if the Executive Bureau does not proceed immediately with the long-discussed meeting to consider its position on the European recovery program, the TUC will participate in the separate labor conference of the 16 ERP countries called by the Belgium Confederation of Labor. This ultimatum has been rejected by the WFTU. The Communist leadership of the WFTU has been trying to evade the issue in order to prevent the disruption of an organization which afforded the Communists an opportunity for influencing and infiltrating labor movements throughout the world. The disruption of the WFTU now seems inevitable.

THE SITUATION IN EUROPE

4. THE UNITED KINGDOM.

Bevin's proposals for a union of Western European powers and the genuinely forthright attitude of the UK Government toward the USSR reflect the disillusionment of all but the insignificant group of fellow-travelling back-benchers of the Labor Party with the possibility of cooperation with the USSR or of following a middle-of-the-road policy vis-a-vis the US and the USSR. As long as Soviet intransigence continues, Bevin should have no further difficulties in aligning UK foreign policy with that of the US.

Although industrial production figures continue favorable, UK official circles are increasingly concerned over the dollar amount of the European recovery program and the timing of its implementation. UK economic plans are based upon the assumption that US assistance will commence before UK's expendable gold and dollar reserves are depleted. The drain on UK gold and dollar reserves continues at an alarming rate, which may be accelerated by the recent devaluation of the French franc. Any substantial delay beyond 1 April in the US Congressional vote, or a serious reduction in the amount of aid, will leave the UK little choice but to initiate further retrenchments which would have seriously adverse effects on both the domestic and international position of the UK.

5. FRANCE.

The program of the Schuman Government for the devaluation of the franc and the establishment of a "free" gold market has brought to the surface the latent antagonisms between the economic policies of the Socialists and of the "liberals" in the Cabinet. The Cabinet probably survived the devaluation crisis only because neither the Socialists nor the Gaullists were prepared to face the consequences of an overthrow of the present Government. Under these circumstances, the life of the Schuman Government is peculiarly dependent upon the success of its financial measures and upon the timely passage by the US Congress of the European recovery program. The Communists still

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possess the capability of retarding French economic recovery through strikes and sabotage, but it now seems probable that they will subordinate any plan for serious disruptive activities to the exigencies of the Communist program in Italy, unless dissensions within the present French Cabinet should provide them with a fortuitous opportunity.

6. ITALY.

Italy appears to hold the key to Communist prospects of disrupting the European recovery program. Here the Communists have the best chance of regaining admission to the Government through the electoral process or of overthrowing it through armed insurrection. Following unsuccessful probing experiments with political strikes in France and Italy in December 1947, the Italian Communists abandoned political strikes and now appear to be making a determined effort to win a plurality for the "People's Bloc" in the April elections. Were the elections held today, the Communists would probably fail in this objective. A further reduction in rations or the failure of the US Congress to implement the recovery program prior to the expiration of the interim aid grant on 1 April might give the "People's Bloc" a plurality in the new assembly.

A Communist insurrectionary attempt remains a continuing possibility. It now seems probable that such an attempt, if made, will not take place until after an unfavorable election result, and, in any event, will occur only on orders from the Kremlin. The Government's capabilities for putting down a general insurrection remain uncertain, unless in the meantime the Italian armed forces are adequately equipped and supplied.

7. GERMANY.

The USSR has continued to consolidate its political, economic, and administrative control in the eastern zone of Germany and by March may have eliminated practically all overt opposition to the Soviet-installed regime. The strong control exercised by the Social Democratic trade union organization has prevented the Communists from using the widespread food demonstrations as occasions for inciting civil disorders or prolonging work stoppages beyond their scheduled duration. However, unless the food shortages are quickly alleviated, continued strikes may seriously affect industrial production in the western zones.

8. AUSTRIA.

The recent Soviet proposals for the settlement of the problem of German assets in Austria represent a substantial modification of the previous Soviet position and may indicate a genuine desire on the part of the USSR to effect a settlement of the main economic issues involved in the Austrian treaty. It seems probable, however, that the USSR will protract negotiations, at least until the prospects for the European recovery program are more clearly defined, and will seek to gain concessions on other outstanding issues from the western allies and the Austrian Government. In any event, the USSR will not agree to terms acceptable to the western powers unless: (1) it decides that present conditions of quadripartite occupation constitute a block to the communization of Austria; or (2) it makes a major policy change toward a general accom-

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modation with the western powers. The Austrian Government, in its anxiety to be rid of the Soviet occupation troops, will probably exert pressure on the western powers to reach agreement with the USSR even at the expense of permitting the USSR to retain considerable influence over the Austrian economy.

9. SATELLITE STATES.

There are increasing indications that Soviet policy in the Balkans and Central Europe does not envisage the establishment in the near future of either a Balkan or a Balkan-Danubian Federation. PRAVDA may have taken occasion to disavow Dimitrov's public announcement of the imminent formation of a Balkan-Danubian Federation (including Czechoslovakia and Poland) because the scope of the proposed federation might arouse the apprehension of the Czechs and the Poles. It seems likely, however, that the USSR will oppose any kind of federation whose leaders might develop a dangerous degree of independence and will continue, for security reasons, to exercise its control over the Satellites through direct economic and Party ties with each individual state. The recently concluded long-term trade agreements with Poland and Czechoslovakia and the tightening of direct Soviet economic controls in Hungary and Rumania indicate clearly that inter-Satellite trade is being subordinated to Soviet-Satellite trade. The system of Satellite mutual assistance pacts, therefore, appears to be designed primarily to coordinate and integrate the Satellites' armed forces with those of the USSR and to bind together the Satellite States for unified action in the event of war, rather than to provide the machinery for political federation.

THE NEAR AND MIDDLE EAST

10. GREECE.

It remains probable that the Satellite States will withhold formal recognition of the Markos "Government" until it is firmly established on Greek soil. Nevertheless, they are increasing their moral and material aid to Markos. Their support is openly manifested in vitriolic propaganda against the Athens Government and its "imperialistic" US supporters and in public drives to collect clothing and supplies for the "democratic" army. Meanwhile, there are further indications that greater Satellite military aid will be forthcoming, particularly with reference to the supply of technical equipment.

The guerrillas have made no recent attacks on the scale of the December Konitsa battle. However, they have retained the offensive and have made sharp attacks over wide areas. The army, hampered by winter weather and uncertainty resulting from recent changes in the high command, has remained on the defensive. Stronger guerrilla attacks may be expected before the Greek Army can begin a spring offensive.

In Athens intense partisanship, despite the continuing national danger, renders uncertain the stability of the existing coalition government.

11. PALESTINE.

Determined Arab resistance to partition, British refusal to facilitate any action not acceptable to both Arabs and Jews, and the actual state of disorganization in Palestine

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render the task of the United Nations Commission virtually impossible of fulfillment. The Commission, in its first report to the Security Council, has recognized that partition cannot be imposed without the use of an international armed force. It is doubtful that an effective force could be formed for this purpose, in view of the announced unwillingness of the US and the UK to participate and of their presumptive unwillingness to permit the Soviet Union to obtain a military lodgment in that area. The Commission may well find itself compelled to refer the problem back to the Assembly.

12. THE ARAB STATES.

The fall of the Iraqi Cabinet, as a result of popular outcry against the terms of the proposed Anglo-Iraqi treaty, is a sharp setback for British efforts to conclude a series of military agreements with the Arab states. British influence with the Arab governments, greatly enhanced by British policy with respect to Palestine, remains strong, however. Eventual completion of the projected series of agreements is still possible.

The incident in Iraq will make all Arab governments more sensitive to public opinion (or to the clamor of the mob). This consideration will tend to preclude compromise with respect to Palestine and to drive these governments eventually toward an aggressive solution of that problem.

13. IRAN.

Current developments—attempts to undermine the US gendarmerie mission, opposition to the acceptance of US arms credit, and agitation for the recovery of Bahrein—are the work of both Iranian Leftists and Nationalists hostile toward all foreign influences. Intensified Soviet propaganda is attacking the US missions and arms credit as dangerous to both Iranian independence and Soviet security. Soviet propaganda is also featuring the “deplorable conditions” in Azerbaijan. Under these pressures, the weak Hakimi Government, fearful of Soviet displeasure, is tending toward a policy of balance between the US and the USSR which may lead to a reduction of US influence and thereby to the promotion of Soviet objectives.

14. INDIA-PAKISTAN.

The immediate effect of Gandhi's assassination has been quieting rather than explosive. For the time being, the anger of the Hindu community is directed inward, against the extremist faction considered responsible for the tragedy. However, the basic causes of Hindu-Moslem antagonism have not been removed and the Kashmir dispute remains as a potential cause of general conflict. In the absence of Gandhi's moderating influence, an eventual renewal of tension between the Hindu and Moslem communities, and between India and Pakistan, must be expected. Meanwhile, factional disputes within the Congress Party and the Government of India are already developing and may in time seriously affect civil authority throughout the country.

15. CHINA.

The increasing insecurity of the National Government is reflected in the recent reports that some Nationalist officials have been considering the possibility of a nego-

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tiated peace in the Chinese civil war, perhaps through the good offices of the USSR. The prospects of a negotiated peace at this time, however, appear remote. It does not seem likely that the USSR would be willing to help negotiate a peace that might alter present trends in China which are favorable to Soviet interests. Moreover, the Chinese Communists would probably insist upon terms which the National Government would be unwilling to accept so long as a US aid program remains a possibility.

16. KOREA.

Unless the Interim Committee of the United Nations quickly instructs the UN Commission in Korea to proceed with elections in South Korea alone, the US will be subjected to an intensified propaganda attack from both the South Korean Left and Right for causing an "unwarranted" delay in the achievement of Korean independence, and the US Military Government may be faced with serious outbreaks of violence. An early election in the south will undoubtedly result in an overwhelming rightist victory, in spite of the recent formation of a coalition of moderates. It still seems improbable that any South Korean Government can maintain its independence after a US withdrawal.

17. INDONESIA.

The current political discussions between the Netherlands and the Indonesian Republic, which are based on principles laid down by the UN Good Offices Committee, may be jeopardized by renewed suspicions that have arisen between the parties to the dispute as a result of: (a) the premature, Dutch-inspired plebiscite on Madura; (b) the repeated violations by both sides of the recently signed military truce; and (c) the reservations of the Republic regarding its future conduct of foreign affairs and other attributes of sovereignty. If the discussions are protracted with little prospect of obtaining conclusive results, the Dutch will accelerate the formation of a United States of Indonesia, regardless of the attitude of the Republic.

LATIN AMERICA

18. GENERAL.

The majority of Latin American countries continue to oppose US trade objectives in the International Trade Organization meeting at Havana by insisting on complete freedom of action for underdeveloped countries with respect to preferential tariffs and quotas. At the same time, these countries tend increasingly to seek, or virtually demand as a right, US economic assistance, in spite of US commitments to the European recovery program. These attitudes are expected to persist at the forthcoming Inter-American Conference at Bogota.

The potentially revolutionary situation in the Caribbean—deriving largely from the armament purchases by the Dominican Republic—is not expected to develop into open revolutions in the immediate future. However, should the tension among the Caribbean republics lead to intraregional groupings, formalized by treaty, the effectiveness of the hemisphere military defense program might be impaired.

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